All Hands on Deck:

CSRD reporting as the accelerator for sustainable business transformation

European Sustainable Finance Series

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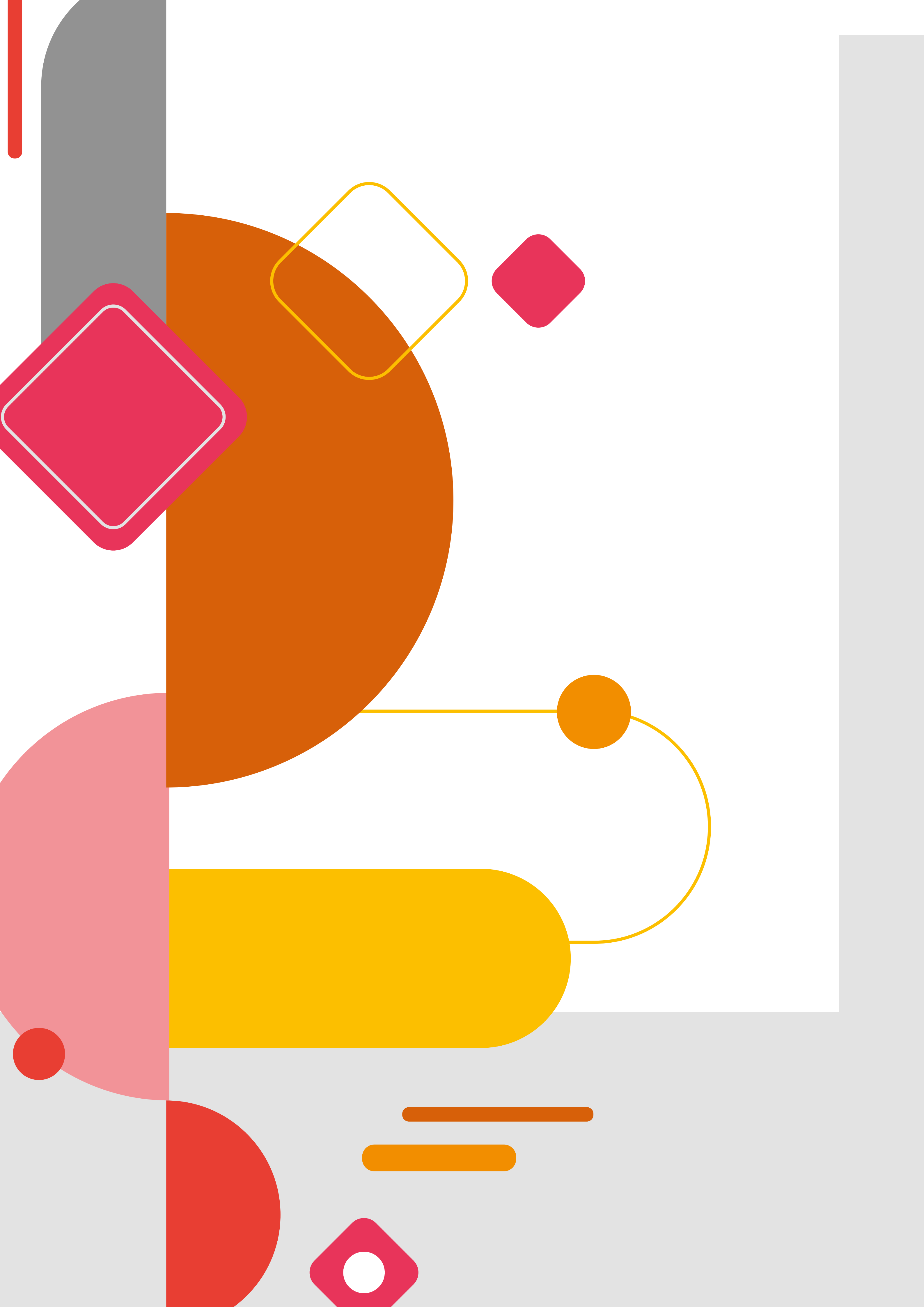

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Foreword

The European financial services landscape is evolving at an unprecedented pace, driven by far-reaching and forward looking regulatory and policy developments – such as the landmark European Green Deal and all its related implementing measures. This coincides with shifting expectations from society and from within the entities on sustainability and ESG.

When the Non-Financial Reporting Directive (NFRD) came into force close to a decade ago, many hoped that it would have a transformative impact and lead to a new era of corporate social responsibility. Alas, this was not to be. With the benefit of hindsight, we now know that the directive did not go far enough.

The Corporate Sustainability Reporting Directive (CSRD) – a significant overhaul of the NFRD – is setting a new standard both in terms of entities in scope as well as in terms of disclosure sophistication and transparency on sustainability-related matters.

Firstly, it encompasses a large swathe of entities – over 60,000 by some estimates – across and outside the EU. Secondly, it requires in-scope entities to carry out a double materiality assessment. In other words, entities must not only understand how sustainability matters can be a risk or a business opportunity for themselves, but they must also understand how their operations and their value chains are impacting society and the environment. Moreover, to protect investors and other stakeholders, the directive sets forward assurance requirements which strive to ensure that sustainability disclosures are accurate, credible, and comparable.

We expect CSRD to have a transformative impact on the European business landscape.

While the barrage of regulatory developments in recent years may be seen by some as a hamper to the EU's growth and competitiveness, we firmly believe that the CSRD can sow the seeds of business transformation, reinvention, and long-term resilience and success. Just like our previous report on the Digital Operational Resilience Act, this report offers the C-Suite of the European business world a practical guide on how to implement the CSRD – in line with recent EU-level recommendations to take a pragmatic approach. In addition, this report is enriched by insights gleaned from a survey we conducted earlier this year, which highlights how in-scope financial market participants and operating companies across the European Economic Area are handling their CSRD journeys.

Ultimately, we hope this report will put you on the right path and help you leverage the CSRD for long-term growth and resilience, turning a regulatory requirement into a significant opportunity for success.

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Executive summary

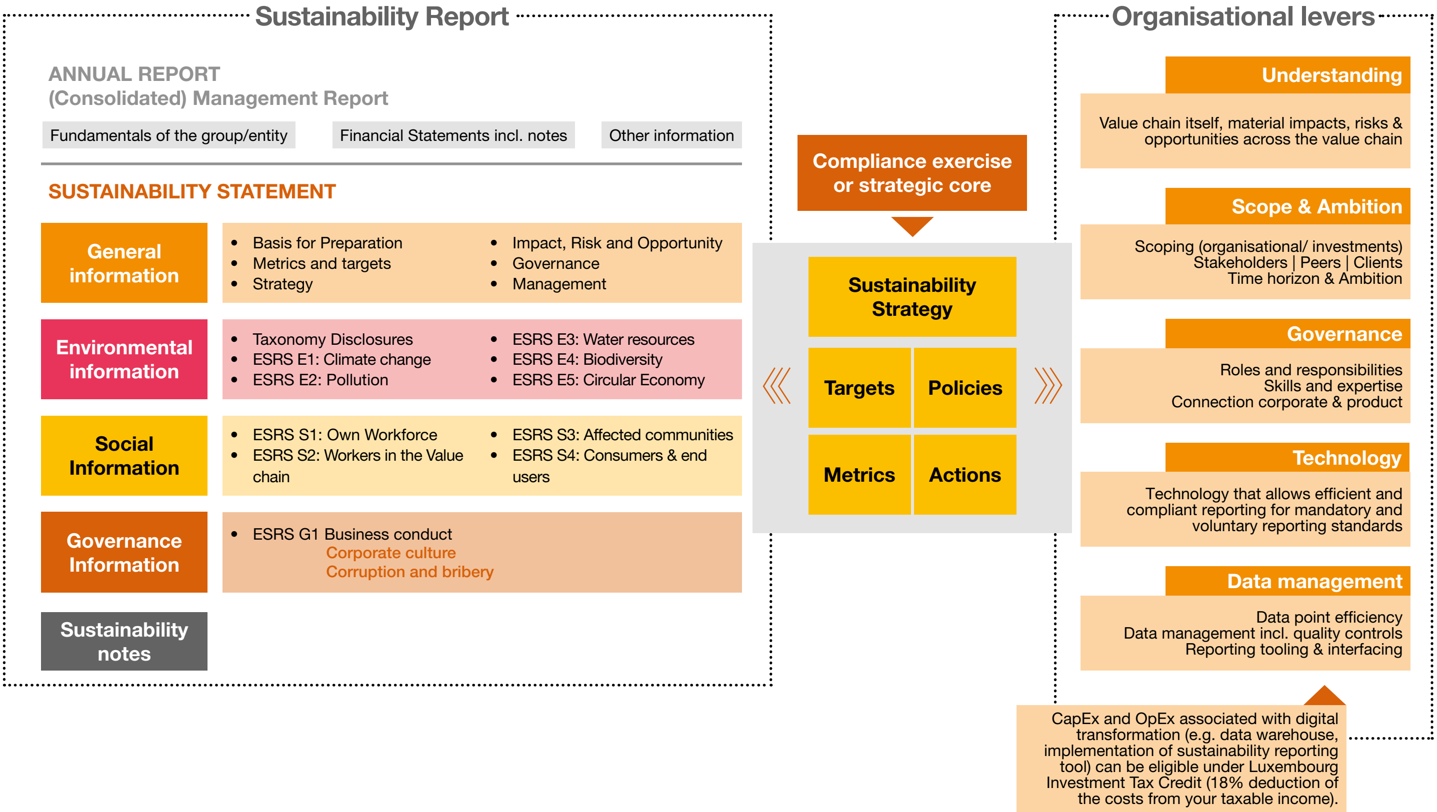
The European Union's [Corporate Sustainability Reporting Directive] (CSRD) is a cornerstone of the "European Green Deal" which seeks to transform the Union into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases by 2050 and where "Union citizens participate in a socially just transition to a sustainable economic system whereby no person and no place is left behind." With net zero at its heart, CSRD does not stop there but is designed to contribute to other Union objectives and strategies within the wider Green Deal, such as the "[EU Biodiversity Strategy for 2030: Bringing nature back into our lives]."

Underpinned by the European Sustainability Reporting Standards (ESRS), the CSRD will elevate sustainability reporting to the importance and rigour of financial reporting, with external assurance as a key driver ensuring that sustainability information disclosed is accurate, reliable, and consistent.

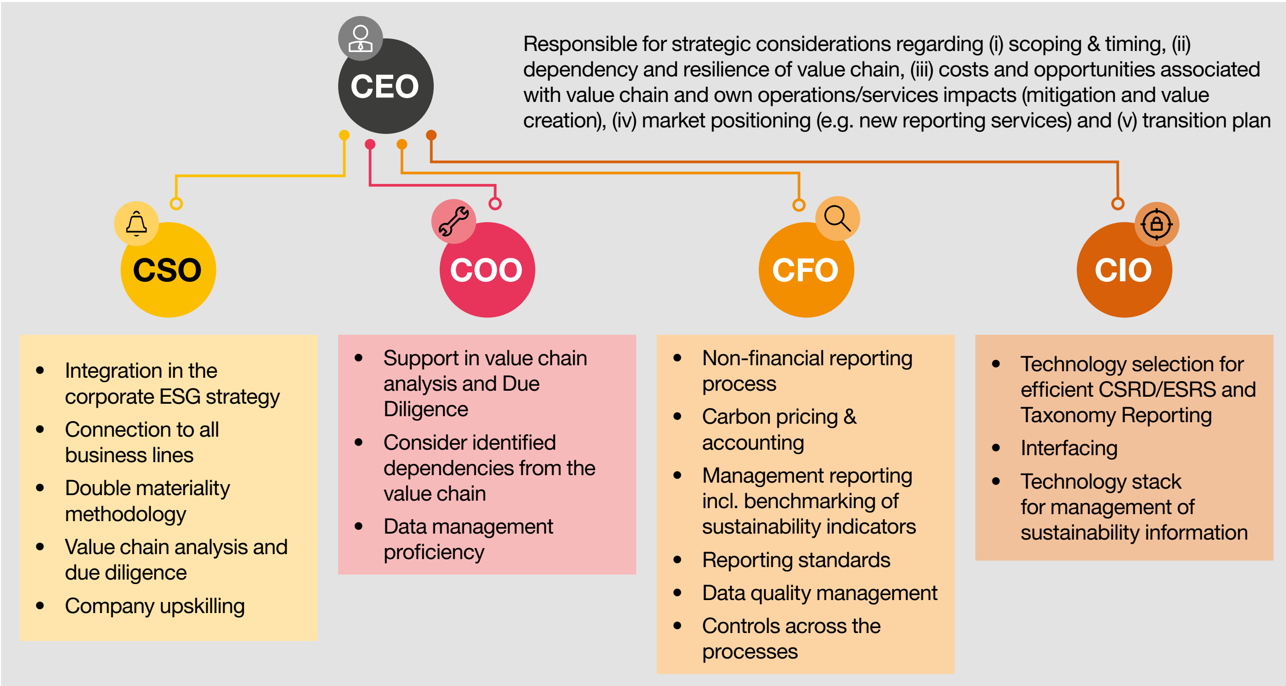
CSRD will likely be a gamechanger when it comes to understanding how entities' business models impact environmental, social, and governance (ESG) topics (sustainability matters) and what impact sustainability matters have on entities' financial performance and outlook. This requires an understanding of the end-to-end value chain, as the CSRD mandates connecting the dots between the supply chain (upstream value chain), the entity's own operations, and the delivery and sale of its products and services (downstream value chain) through marketing and distribution channels. Business relationships, geographical, financial, and regulatory considerations must be taken into account as they provide further context to the individual business model and value chain.

This understanding is the key starting point to identify which sustainability matters are material within that end-to-end environment, allowing the entity to focus on the most important sustainability matters assessing the current state, defining targets for the short-, medium- and long-term, actions required to meet those targets and implementing monitoring systems to track the achievement of set targets. Next to these, questions related to organisational levers (understanding, scope and ambition, governance – who is responsible for what – as well as technology and data management) may materially impact the positioning and the sustainability report of the entity.

Multiple policy objectives, new and challenging topics and concepts and detailed disclosure requirements make it inevitable to complement the perspective regarding

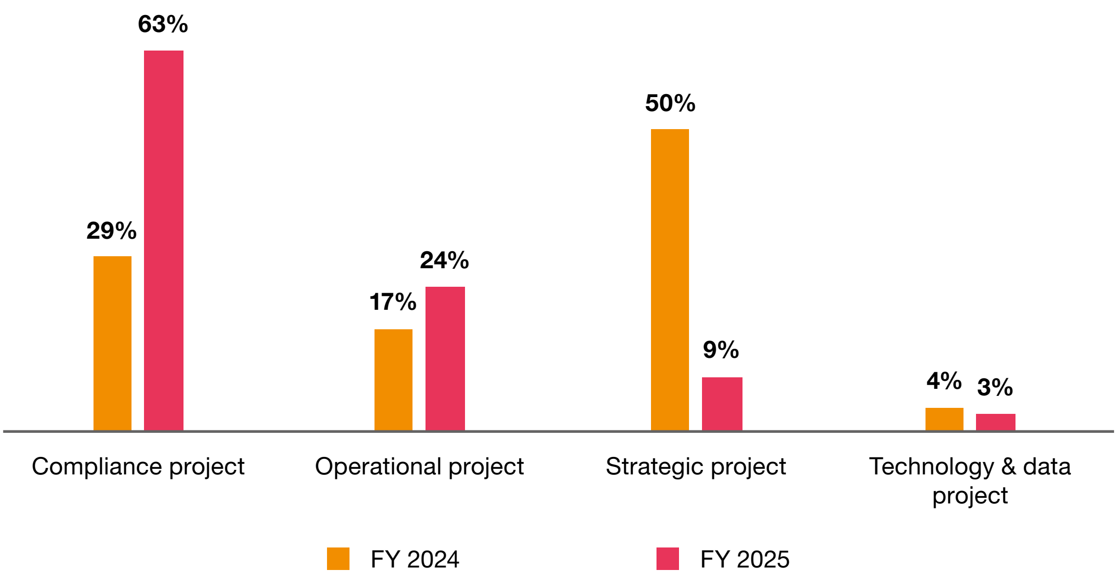


the understanding of the entity, its products/services, value chain and business relationships to include the ESG dimension (more systematically): it is evident that the inaugural CSRD report can only be the first step for most concerned entities in a long journey that requires all hands on deck, from the C-Suite down with the following overarching focus areas not limited to the reporting exercise:



Entities reporting on CSRD consider projects to be strategic and value creating

Almost 50% of 1st Wave reporting entities are approaching CSRD as a strategic project whereas 63% of 2nd Wave adopters understand CSRD as a compliance project, as the graph below shows. The focus on compliance aspects is understandable appreciating that (i) the CSRD report is subject to mandatory external assurance as of the 1st year of reporting and (ii) this marks for a majority of entities in the 2nd Wave the dawning of a new age as it is the first corporate sustainability reporting.

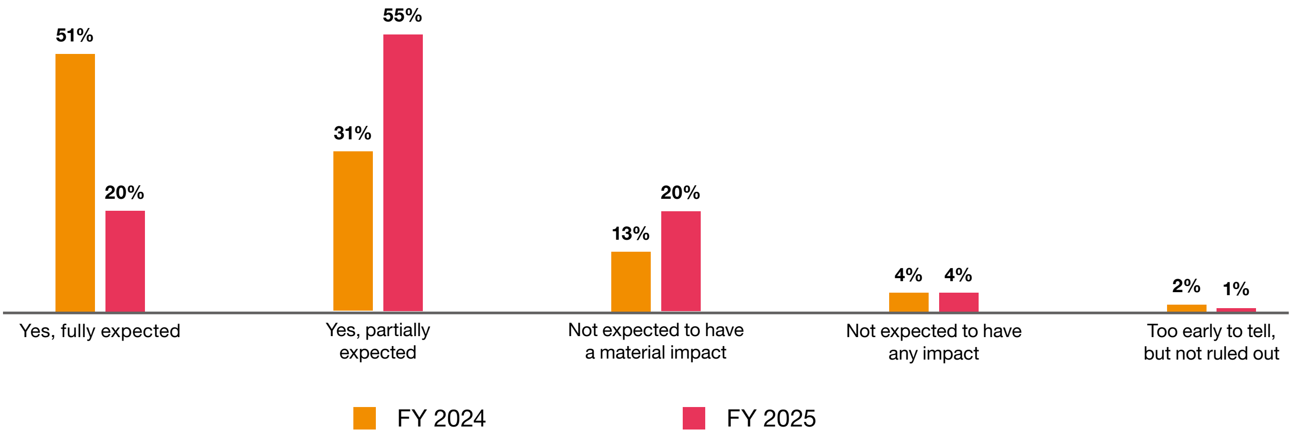


Source: PwC Global AWM & ESG Research Centre

Throughout CSRD implementation projects, we observe in the market that the focus begins shifting to incorporate strategic angles as the understanding of potentially required changes to the business model and strategy evolves. Further, the re-positioning of peers, suppliers and clients as well as evolving expectations of other stakeholders such as policymakers, employees and NGOs serve as catalysts to adopt a strategic mindset towards CSRD. This strategic angle is supported by the fact that 51% of entities reporting on FY2024 fully expect CSRD reporting to be materially relevant for value creation.

Moreover, over half (55%) of entities reporting on FY2024 anticipate challenges related to data quality and consistency when processing and managing increasing volumes of sustainability information, while 45% anticipate resource constraints.

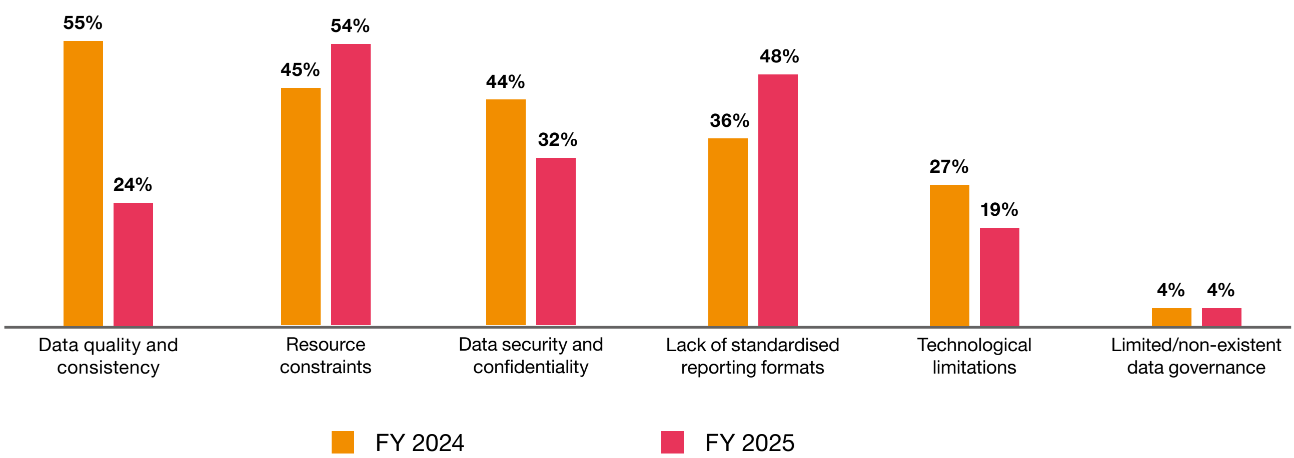
Do you expect that CSRD reporting will be materially relevant to create value for your company?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

What challenges do you anticipate for processing and managing the increased volume of sustainability information?



Note: Multiple choice question.

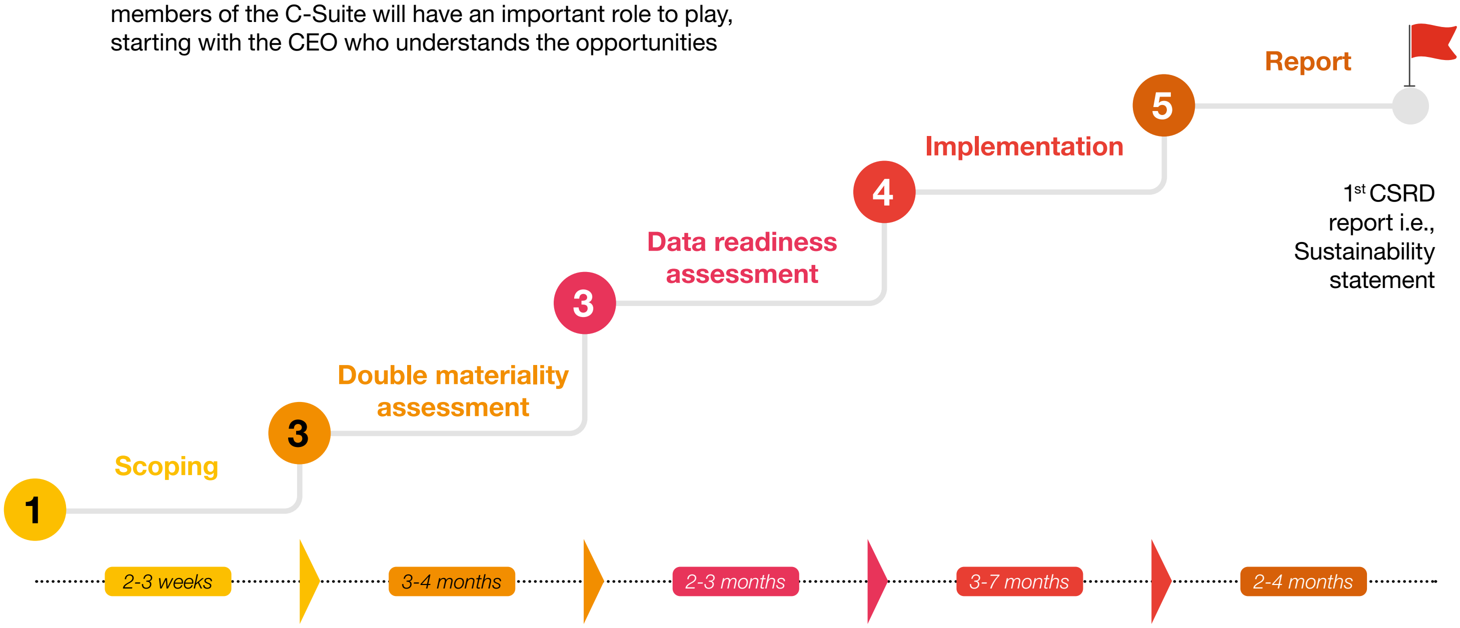
Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

CSRD implementation roadmap – Practical steps forward

This report offers a high-level CSRD implementation roadmap for the first year of reporting to all concerned entities, with a focus on the roles assumed by different members of the C-Suite: Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), Chief Information Officer (CIO), and Chief Sustainability Officer (CSO).[1] In many organisations, the CSO role might not be established (yet). As such, these obligations then rest mainly on the CFO's shoulders. The C-Suite responsibilities in the different phases of the CSRD implementation roadmap are detailed in the respective sections of the report.

The roadmap is a cross-cutting exercise in which all members of the C-Suite will have an important role to play, starting with the CEO who understands the opportunities embedded in the CSRD and who sets the agenda and tone of the whole CSRD endeavour. The agenda should refer to the entity's overall long-term goals and how ESG is incorporated within all facets of the business, and the CEO must communicate to all internal and external stakeholders how ESG is a key part of the entity's DNA, what realistic and measurable targets are set, and how it plans to reach its targets. Consistency and accountability are paramount.

The CSRD implementation roadmap for the first year of reporting can be divided into five distinct phases underpinned by ongoing education to allow for better understanding of the evolving requirements and market practice on the one hand, and business implications on the other hand.



Key considerations from experience:

- Even if exempted from CSRD, consider stakeholder expectations and reputational implications if not doing so.
- ESRS are an opportunity to focus your sustainability strategy and performance while maintaining interoperability with other standards.
- Governance is key in delivering and for later reporting – onboard a dedicated team with support from Finance, Risk, and Operations to prepare for the CSRD at least 1 year in advance.
- Be aware that an 18% Investment Tax Credit (Luxembourg) may be applicable for digital and environmental transformation-related costs.

- DMA is the foundation of your sustainability strategy and reporting – ensure it is done properly.
- Be pragmatic – involve a small subset of experts and focus on the 'in the middle' IROs.
- Prepare a DMA Assurance Memo that (1) focuses your exercise and (2) documents your methodology, assumptions, and outcomes.
- Ensure a full understanding of phase-in options for ESRS requirements.

Specific to asset management:

- Investments are not descoped – start a pragmatic portfolio analysis ASAP as your most significant IROs will come from your investment and financing activities.

- Assess your 'holistic' readiness across data and organisation – most focus purely on data and miss preparing for the people, process, and tool requirements when they have to report.
- CSRD is 70% qualitative and 30% quantitative – qualitative data gaps take much longer to prepare and need to be started ASAP. The data spans across material topics identified from operations and value chain (incl. financial assets).
- Leverage ESRS data provisions – allows 3-year phase and also explain when not available.

- Create clear organisation with a report owner, ESRS owners, data validators, data owners etc.
- Classify data types and controls to standardise data collection and data quality.
- IT reporting tools save time and costs, and ensure auditability – in practice, we see 1-2 FTE savings when implementing a tool with ROI after 1-3 years (depending on the solution).
- Do a dry-run if possible – by starting 1.5 years in advance to allow for an iterative implementation and involve the auditors early to ensure compliance.

- Prepare the board and management for review and sign-off cycles.
- Inform early regarding use of transition ESRS options and compliance gaps, incl. remediation plans.
- Ensure ongoing coordination with auditors.

Evolving experience

Note: Average duration per step is an indication only and is subject to change depending on the company's size, complexity etc.

[1] In case a Chief Human Resources Officer exists, the sustainability matters associated to own staff and workers are allocated accordingly. Otherwise, these topics are attributed according to the division of work within the C-Suite.

Step 1: Scoping – Who needs to report when

CSRD and ESRS reporting standards are phased in over several years. Around 11,000 entities will have to publish their first CSRD report (1st Wave) as early as in 2025 (covering FY2024), whereas 35,000+ further entities (2nd Wave) will be in scope for their FY2025, reporting in 2026.[2]

2024 (reporting in 2025)	2025 (reporting in 2026)	2026 (reporting in 2027)*	2028 (reporting in 2029)
Large public interest companies with 500+ employees	**Large companies**	**Listed SMEs**	**Third country undertakings**
• EU-domiciled insurance companies • EU-domiciled banks • EU-domiciled companies designated by Member States	• **EU**-domiciled company • Meets **2 out of 3** criteria over the **last two years**: i. > EUR 50mn net turnover ii. > EUR 25mn total assets iii. > 250 employees	• All SMEs listed on an EU regulated market	• Non-EU-domiciled company • Total EU net turnover (revenue) > EUR 150mn for each of the last consecutive financial years and either: i. One "large" subsidiary in the EU or subsidiary listed on an EU-regulated market; or ii. One EU branch that generates ≥ EUR 40mn in the preceding year
• EU and **Non-EU**-domiciled companies with securities listed on an EU regulated market	• EU and **Non-EU**-domiciled companies with securities listed on an EU regulated market		

Note: *SMEs have the option to opt out from FY2026 to FY2028

Time is of the essence as already evidenced by the challenges observed for 1st Wave adopters and the number of clarifications and further guidance provided by the EU institutions over the last months.

Within group settings, the scoping assessment may turn out as a more challenging exercise when it comes to the level at which the CSRD report is to be prepared and published.

Different reporting options

Reporting Approach	Entity Set-Up	Implications
1a. Stand-alone reporting	Each legal entity that is in scope for CSRD reports individually.	Every single legal entity that is in scope for CSRD reporting, publishes separate CSRD reporting within their management report.
1b. EU Group Reporting	The EU parent publishes a group report on behalf of its subsidiaries.	Each EU parent company prepares a consolidated sustainability report that includes all of its subsidiaries (EU and non-EU). There is no double reporting requirement (i.e. the EU parent company does not need to also prepare a CSRD report as a single entity. The subsidiaries of the EU holding companies which fall under the scope of the CSRD are exempted from their own sustainability reporting.
2. Artificial consolidation	An artificially chosen parent company publishes a group report on behalf of the in-scope EU subsidiaries.	All entities in scope of CSRD could form an artificial consolidation and prepare one consolidated sustainability report. The EU subsidiary with the greatest amount of turnover in the EU (at least one of the preceding five FYs, on a consolidated basis) would prepare the consolidated report – the "artificial parent." Every other subsidiary would be exempt as covered by the artificial group reporting. This scenario is only applicable for a transition period of 7 years after entry into force of the CSRD (2030 reporting on FY2029 data).
3. Global Reporting	The ultimate parent reports on a consolidated basis for the entire group (incl. EU and non-EU legal entities).	The ultimate parent reports in accordance with CSRD or in a manner equivalent, including Taxonomy Regulation disclosures, on a consolidated basis for the entire group (including EU and non-EU legal entities, regardless of whether they are in scope of CSRD). All individual subsidiaries are exempt from doing their own reporting.

The exemption option for subsidiaries covered by a group reporting option does not apply to any undertaking that is large and listed on an EU regulated market. This undertaking must always report on a stand-alone basis.

[2] By 2028, CSRD will extend to small and medium sized enterprises (SMEs) listed on a EU regulated market and to companies not domiciled in the EU but breaching certain criteria including a minimum EU net turnover of more than EUR 15mn for each of the last two consecutive financial years. In total, it is expected that around 55,000 entities will be in scope of CSRD reporting as of FY2028.

Step 2: Double materiality assessment

In-scope entities must perform a double materiality assessment. This means assessing sustainability matters through two different lenses allowing the entity to understand, identify, assess, and determine for the entity's end-to-end value chain:

(i) **Impact materiality** – i.e., potential and actual impacts the entity has on sustainability matters, through its own operations, products and services but also through its upstream and downstream value chain as well as business relationships; and

(ii) **Financial materiality** – i.e., potential and actual risks and opportunities of sustainability matters on the entity's development, financial position, financial performance, cash flows, access to finance, or cost of capital.

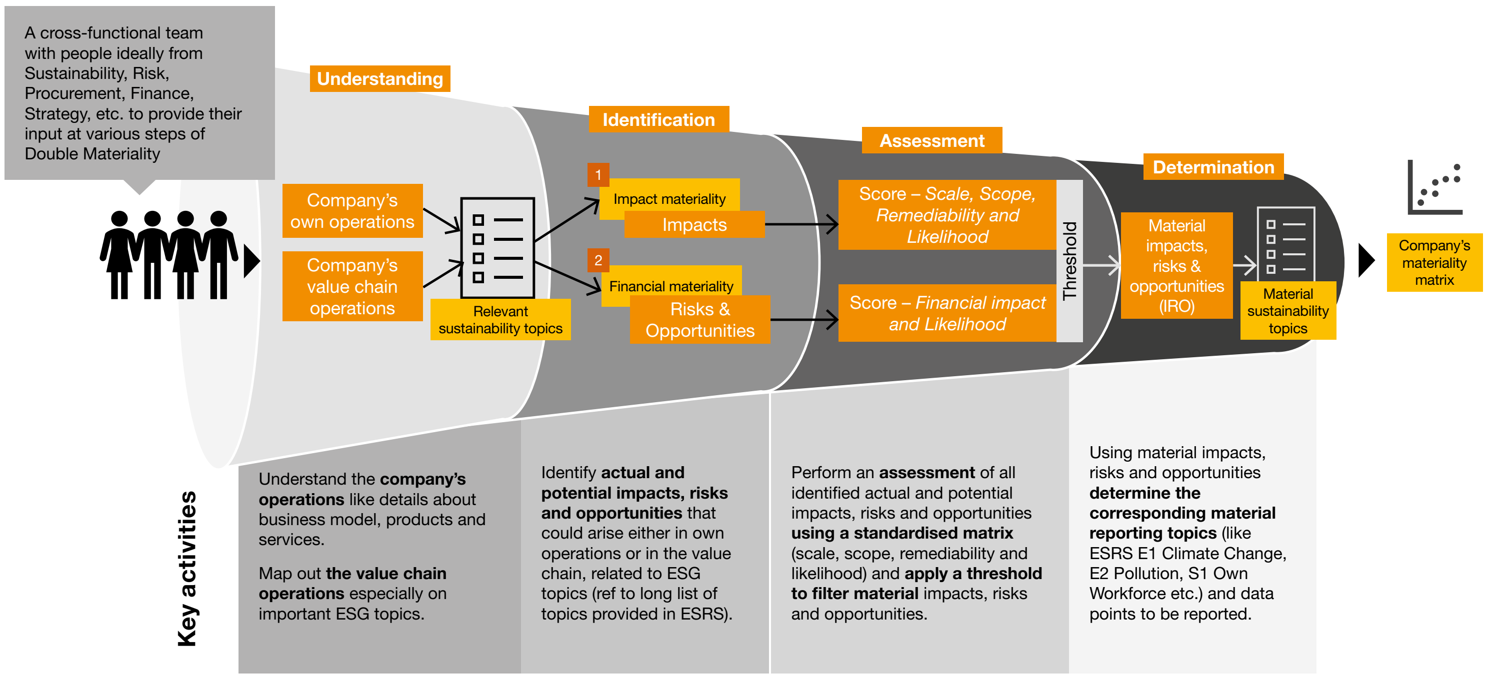
The double materiality assessment requires significant collaborative efforts from different members of the C-Suite and their teams. This is to ensure that the whole entity is aligned on the end-to-end value chain scope to be considered, the methodology used, the stakeholders to be consulted, and the potential sustainability matters that have a material impact on the entity.

- The results of the double materiality assessment:

Drive CSRD implementation	Drive understanding of disclosures	Identify business objectives & strategy	Identify opportunities & risks	Subject to external review
Will drive the scope of the sustainability statement and therefore the implementation efforts to reach CSRD compliance (i.e., the more sustainability matters are material as a result of the double materiality assessment, the more disclosure and change are potentially required). In case sustainability matters under ESRS are not material, a disclosure to that effect and explanation is required nonetheless.	Will allow to understand how the entity can make most sensible use of the phased-in disclosure requirements – appreciating the clients and financiers might require related information, irrespective of ESRS transition options.	Shall be assessed in relation to the entity's business objectives and strategy for the near-, mid- and long-term for alignment.	Can be used to identify risks and opportunities for the business model (e.g., supplier mix, geographical risks, dependencies from natural resources for material components of products, changing client preferences, GHG results and contribution of the entity to clients GHG balances). This provides complementary information for business strategy and objectives looking forward.	Should be reviewed by the external assurance provider allowing for early enough feedback in the process to adjust as relevant.

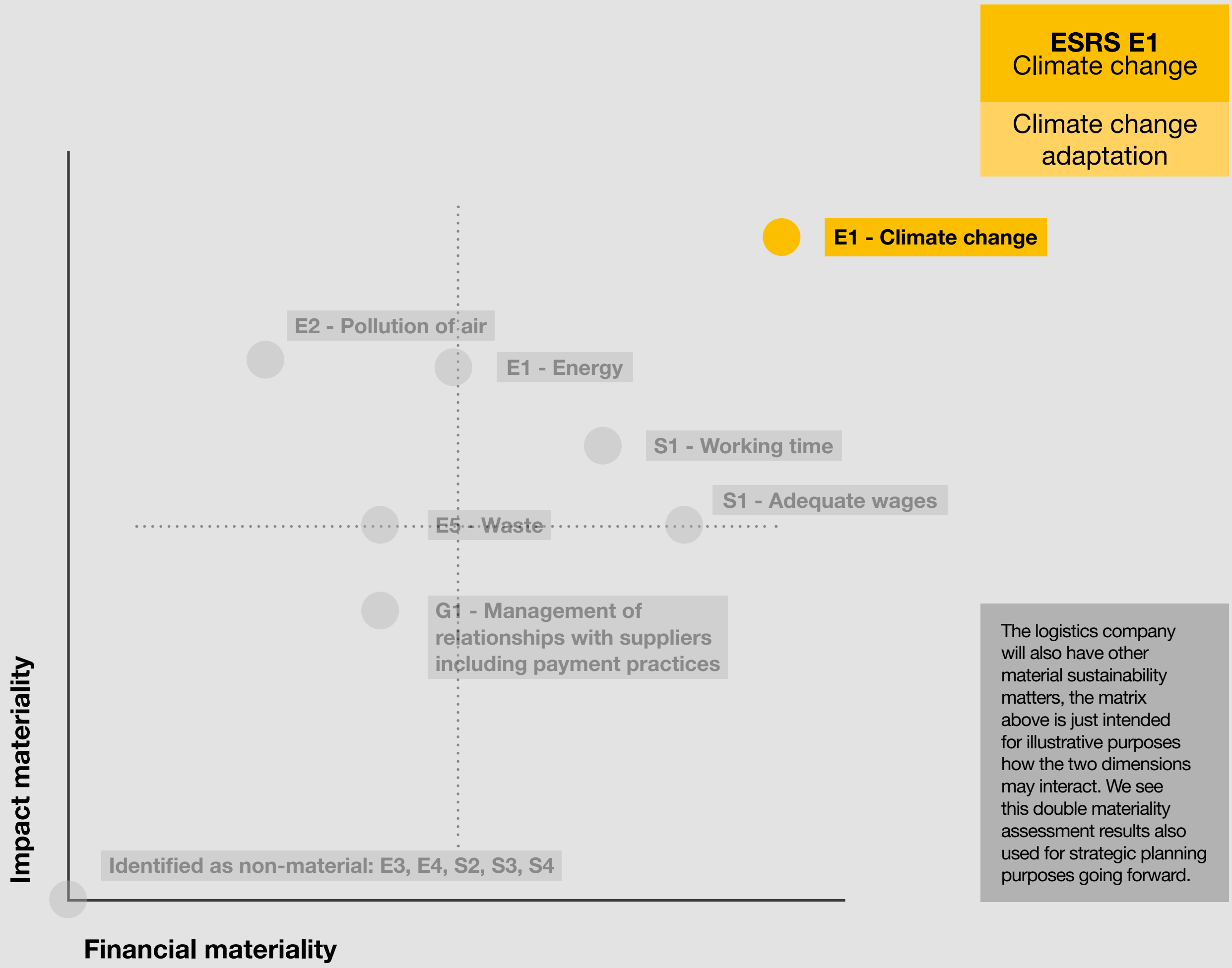
CSRD value chain and business impacts

The value chain considerations and practical steps within the double materiality analysis are detailed below and illustrated for an operating company as well as for an asset management company:



CSRD and operating companies

A logistics company in scope of CSRD is today providing transportation services to different clients across Europe with an extensive fleet of fossil fuel powered vehicles. The first step of the double materiality assessment is informed by the understanding and documentation of the value chain, from its suppliers (upstream) to its own operations and clients (downstream). In essence, greenhouse gas emissions will be a relevant topic both for the entity (Scope 1 and 2 GHG emissions) as well as for its clients (Scope 3 GHG emissions).The logistics company as well as its clients – in case they are in scope of CSRD – are required under ESRS E1 (climate change mitigation) to establish and disclose in the report (i) a baseline of GHG emissions, i.e. status today, as well as (ii) a formulated plan forward how to reduce these emissions over time with a firm target. The clients may ask the logistics company to reduce their GHG contribution over time. This will require the company to assess available options for its own operations as well as in its upstream value chain that can deliver on the required emission reductions in line with the entity's as well as its clients expectations. Topics regarding fleet management and sourcing, energy supply and security as well financing and cost implications for services provided may arise in that context.



The logistics company will also have other material sustainability matters, the matrix above is just intended for illustrative purposes how the two dimensions may interact. We see this double materiality assessment results also used for strategic planning purposes going forward.

Note: Please see page 34 for a complete representation of this graph.

CSRD and asset management

Focus on asset management and consideration of investments as part of the value chain in the double materiality assessment

A. SFDR as an enabler for the double materiality analysis in ESRS

Since March 2021, when the Sustainable Finance Disclosure Regulation (SFDR) came into force, the European asset management industry (e.g. investment entities and credit institutions providing portfolio management, management companies, alternative investment fund managers, insurance companies making available insurance-based investment products) has been subject to sustainable finance disclosure regulation. It established baseline sustainability concepts such as sustainability risk and principal adverse impacts.

From a methodological point of view, these baseline concepts are reflected in the double materiality requirement (financial materiality, impact materiality) put forward within ESRS. As a consequence, we observe that asset managers who have already embraced these SFDR requirements in the management of their investments tend to have a good understanding of the main concepts and potential implications of their investments in relation to sustainability matters.

B. Value chain for asset management – inclusion of investments for the double materiality assessment

The concept of value chain as a fundamental building block for the double materiality assessment – how can it apply to asset managers?

- To perform the double materiality assessment in line with ESRS requirements, the value chain of the entity in scope must be considered. According to the ESRS, the value chain is “the full range of activities, resources and relationships related to the undertaking’s business model(s) and the external environment in which it operates.” It comprises “the activities, resources, and relationships the undertaking uses and relies on to create its products or services from conception through delivery, consumption, and end of life.”
- The double materiality assessment shall identify and assess impacts, risks and opportunities in the entity’s value chain. Appendix A, ESRS 1, application requirement 12 (b) illustrates this value chain and how investments can be connected via business relationships: “if the undertaking provides financial loans to an enterprise for business activities that, in breach of agreed standards, result in the contamination of water and land surrounding the operations, this negative impact is connected with the undertaking through its relationships with the enterprise it provides the loans to.”
- The financial materiality concept, which together with the impact materiality concept constitutes the double materiality assessment in ESRS, requires entities to identify, assess and qualify sustainability matters that trigger or could reasonably be expected to trigger material financial effects on the undertaking. Material financial effects can be understood with respect to the general development of the entity, its financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium or long-term – i.e. a longer-term view including climate modelling expectations are required to be considered. The financial materiality is thereby not constrained to matters that are within the control of the entity but includes information that is attributable to business relationships beyond the scope of consolidation used in the preparation of financial statements. A consideration of an aggregated view of investments (e.g., sectors, geographies) to perform the financial materiality seems evident, as these are the drivers of the financial success and solidity of an asset manager – and in turn also for their clients and investors.

- Complementing the above, ESRS 1 also considers stakeholder interests that must be considered when performing the double materiality assessment. For example, the entity must consider the needs of primary users of general-purpose financial reports (e.g., analysts, investors, creditors, regulators) and ensure that material information is included. Information is considered material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the entity's sustainability statement. Not considering the entity's primary business activity in the double materiality assessment leads by design to potentially omitting material information.
- Further guidance from the European Union focused on non-financial reporting for climate related information (2019/C 209/01) goes back as far as 2019 and clearly requires business activities (i.e., investment, lending, etc.) to be considered if material – i.e., requiring a consideration in the double materiality assessment to be able to make this determination of materiality. No differentiation between investments on own account or on behalf of investors/clients is made.
- EFRAG's Implementation Guidance 2 addresses in a general context how investments should be considered and qualified within the value chain consideration. Reference 66 clarifies that investments form part of the entity's business relationship and may give rise to impacts, risks or opportunities that are connected to the undertaking and that are to be considered in the double materiality assessment and reported when material confirming the ESRS requirements.
- Besides these CSRD provisions, Article 8 of the EU Taxonomy Regulation (Regulation (EU) 202/852) stipulates that asset managers are required to consider all investments as inputs in the required EU Taxonomy reporting.

Voluntary sustainability reporting standards and the consideration of investments

- Over the last years, leading asset managers have systematically endorsed more and more voluntary sustainability reporting standards.
- This endorsement partially goes hand in hand with commitments to support the goal of net zero GHG emissions by 2050 or sooner. This includes support that investing is aligned with net zero emissions.
- Voluntary sustainability reporting standards need to be reconciled and rendered consistent with PAIs consideration methodology as well as ESRS methodology. Any investor disclosure on either methodology and impact/adverse impact results is to be consistently managed by the CSO jointly with the CFO.

Step 3: Data readiness assessment

The results of the assurance-proof documented double materiality assessment are the basis for the entity to identify the disclosure requirements that are applicable – i.e., what sustainability matters and which ESRS requirements must be respected. This leads to the identification of the most material data points that must be disclosed. Data points can be quantitative (around 30% of all ESRS data points) or qualitative in nature. The entity needs to carry out a data readiness assessment to understand the current state of affairs and the road ahead considering which data points will be phased-in over time as detailed by ESRS 1, Application Requirements, Appendix C. For example, for most entities, ESRS E1 Climate Change will be applicable leading to disclosures related to GHG emissions for own operations as well as the value chain.[3]

The CFO may take charge of setting up the mechanics, including the processes, controls, and documentation requirements related to the sustainability reporting, ensuring that they also take into account related and developing standards for the identified sustainability matters such as GHG accounting standards and climate risk assessments and modelling.

The entity's procedures should be aligned with the standards in the ESRS, the EU Taxonomy, and, if relevant, other international standards such as the IFRS Foundation's International Sustainability Standards Board's (ISSB) reporting standards or other voluntary reporting standards such as Global Reporting Initiative (GRI) or topical standards related to nature (Taskforce on Nature-related Financial Disclosures).

The data readiness assessment requires different functions to provide qualitative and quantitative inputs and to put the existing pieces of an evolving puzzle together for the first time. This state of play provides informed and practical insights for the target operating model for sustainability reporting and operational implications.

Different key stakeholders shall provide their inputs for a practical, scalable and assurance-proof sustainability reporting target operating model.

CSO	CFO	CIO	COO
• Methodological baseline for qualitative and quantitative data points • Design of policies, targets, actions and transition plans • Selection of relevant standards for GHG accounting and climate risk modelling • Sustainability data quality management • Handling of estimates and proxies	• Responsible for processes, controls, and documentation required for sustainability reporting • Robust and aligned with financial reporting standards • Documentation standards (completeness, accuracy, neutral, comparable, verifiable, understandable) • Computation and aggregation rules • Audit-proof	• Responsible for technology and data architecture (from data ingestion to sustainability reporting) • Data collection (sources – internal/external, data integration, automation) • Data cleaning and transformation • Data storage and management • Applications and interfaces • AI use cases	• Responsible for workload allocation and operational data allocation • Responsible for operational data collection • Enabling the organistion to provide timely and relevant data from its own operational activities • Integration of results in risk management and reporting

- By the end of the data readiness assessment, the senior management has determined what ESRS-related data it has, where the data gaps are, and has further refined the sustainability reporting target operating model including roles and responsibilities to ensure adequate CSRD reporting.
- This is a crucial point within the project as the foundation for a successful implementation and reporting is based on the results of the data gap assessment, from a pure reporting but also operational and process perspective. The project starts materialising and likely includes a wider

[3] GHG Scope 3 emissions may be omitted for the first year of CSRD reporting for entities or groups not exceeding the average number of 750 employees during the financial year.

group of functions within the entity, with an evolved understanding of efforts, complexities and required decisions.

- The results are recommended to be tied back to the initial objectives set in the beginning of the project, and a forward-looking view spanning over more than the first reporting period, including concrete business impacts, should be taken.
- This phase will be concluded by a concrete implementation plan considering short-term reporting focused considerations such as:
  - The design and validation of a concrete multi-year implementation roadmap allowing for maximum flexibility considering phased-in disclosure requirements;
  - The calibration of the sustainability reporting target operating model;
  - The extension of the project into technology and data management;
  - The resources required.

In addition, mid-to-long-term business related questions, such as dependencies from other contributors or future financing eligibility, will also become apparent by the conclusion of this phase.

Step 4 and 5: Implementation and Reporting

Depending on the material sustainability matters identified, the implementation and reporting requirements will differ from entity to entity.

As the CSRD requires in-scope entities to have their sustainability reports assured by a qualified independent sustainability assurance provider, the CFO must ensure that CSRD disclosures are made with the same precision and rigour used for financial reports, and that benchmarking of sustainability indicators is taken into account. To this end, support from the CSO, the COO, and the CIO is necessary.

The CEO needs to oversee the whole finalisation stage and determine how the findings of the CSRD roadmap can be incorporated in the entity's overall strategy and decision-making. The CEO in effect provides an additional layer of quality control for the CSRD, which is particularly necessary given that the initial limited assurance required will gradually have to become reasonable assurance.

As mandatory sustainability reporting requirements evolve and become ever-more robust, the CSO's role will be bolstered and they will come to increasingly occupy a leadership position when it comes to setting and implementing the entity's ESG strategy. As for the CEO, given that the CSRD will likely shed light on previously unexplored areas of the business and the value chain, they can make use of CSRD disclosures to better assess their entities compared to their peers within the same industry and to gain a sustainability-oriented strategic edge over its competitors.

In conclusion, the CSRD implementation requires tight collaboration across the C-Suite. If implemented properly, it can bring about substantial long-term benefits and serve as a catalyst for meaningful business transformation in an era where sustainability considerations are paramount. Rather than being yet another compliance requirement, the CSRD should be seen as a chance to take the lead in sustainability and reimagine business models and operations for the better, which is imperative to ensure prosperity and continued growth.

ESRS – a more detailed reporting view

Sustainability matters

- ESG topics to be considered based on double materiality assessment ▸ ESRS differentiates between Topic, Sub-Topic and Sub-Sub-Topics ▸ ∑ sustainability matters
- Example ESRS S1:
  Topic = Own workforce
  Sub-topic 1 = Working conditions
  Sub-sub-topic 1 = Freedom of association

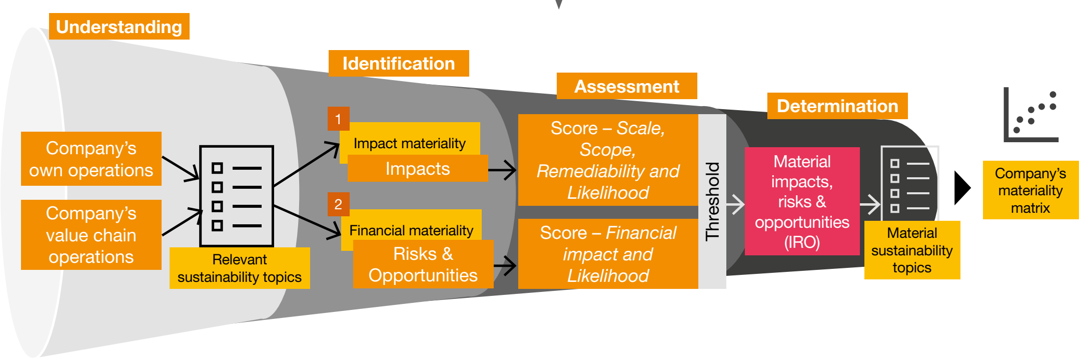
Policies

- Defines strategy in relation to a material sustainability matter; allocated to a responsible person
- Each policy includes one or more objectives (when applicable linked to measurable targets)
- A policy is implemented trough actions or action/transition plans

ESRS Topic		# of sustainability matters	Policies	Targets	Actions	Transition Plans	Selected Metrics
E1	Climate change	3	✓	✓	✓	✓	GHG Scope 1-3
E2	Pollution	7	✓	✓	✗	✓	Pollution of air and water
E3	Water & Marine Resources	2/5	✓	✓	✗	✓	Water consumption
E4	Biodiversity & ecosystems	4/16	✓	✓	✓	✓	
E5	Resource use & circular economy	3	✓	✓	✗	✓	Resource in-/outflows
S1	Own workforce	3/17	✓	✓	✗	✗	
S2	Workers in the value chain	3/18	✓	✓	✗	✗	
S3	Affected communities	3/11	✓	✓	✗	✗	
S4	Consumers & end-users	3/9	✓	✓	✗	✗	Channels to raise concerns
G1	Business conduct	6/2	✓	✗	✗	✗	Anti-corruption Tax

Targets and actions

- Target = measurable, outcome-oriented and time-bound goals in relation to material sustainability matters
- Actions = execute to deliver against targets sets and decisions to support with financial, human or technological resources



Introduction

First presented by the European Commission in December 2019, the European Green Deal is a landmark paradigm shift that seeks to overhaul the economy of the European Union through sustainability and make Europe the world's first climate-neutral continent by 2050. The Deal has spawned a wide array of legislations and action plans to bring about such ambitious objectives, such as the European Climate Law, the EU Biodiversity Strategy, and the Green Deal Industrial Plan, to name a few.[4]

However, achieving such ambitious goals and objectives is moot without access to high-quality data on the environmental, social, and governance (ESG) practices of the private sector. Up until recently, sustainability reporting in the EU had been scattered across a patchwork of regulations.

The Non-Financial Reporting Directive (NFRD), adopted in 2014, requires large public-interest companies in the EU to disclose information related to their ESG practices in a bid to enhance accountability and transparency in corporate social responsibility, in-line with the EU's Corporate Social Responsibility Strategy of the early 2010s.[5] But the NFRD failed to have a meaningful impact on ESG efforts in Europe due to its limited scope, and lack of granularity and guidance in relation to the disclosure requirements.

The NFRD was followed by the Sustainable Finance Disclosure Regulation (SFDR), which establishes sustainability reporting standards for the financial sector, and the EU Taxonomy which defines what are environmentally sustainable economic activities. Yet, financial market participants have thus far found it difficult to adequately comply with these two regulations due to the inadequate availability of ESG data and evolving understanding of regulators and the market regarding how the key concepts are to be understood and implemented, which has led to ESG fatigue and frustrations for some.

This is where the Corporate Sustainability Reporting Directive (CSRD) comes in.

Published in the Official Journal of the European Union in December 2022, the CSRD is a significantly expanded and improved version of the NFRD and will be the driver for all mandatory sustainability reporting in Europe. It will allow stakeholders to evaluate the ESG track record and performance of a very large number of entities operating in Europe – estimated to be around 50,000 – as they will be required to produce annual reports on their sustainability performance.

To avoid the lack of standardisation and insufficient information on specific metrics which hampered the NFRD, the European Commission adopted the European Sustainability Reporting Standards (ESRS) in July 2023 to underpin the CSRD.[6] The ESRS Regulation requires entities subject to the CSRD to use common metrics to sustainability information. These standards outline all the possible ESG areas that entities may affect, and how to measure them. In total, the ESRS contain over one thousand separate data points which entities may need to disclose on (see Appendix 2).

To comply with the CSRD and determine which sustainability topics are material to them and therefore which ESRS they must disclose on, in-scope entities must carry out a double materiality assessment. This entails considering the end-to-end value chain approach, the entity's products and services, as well as the associated business relationships, which positive or negative impacts sustainability matters are having on entity from a financial perspective (financial materiality), as well as the impact on the environment or people (impact materiality). This assessment must incorporate a short-, medium- and long-term perspective.

In addition to the precise picture that entities must provide of their sustainability performance through the double materiality assessment and the ESRS, entities must also set future sustainability targets. In effect, this will allow stakeholders to review entities' sustainability reporting over time and track their progress on their targets while comparing them to their peers. Finally, the CSRD ensures that sustainability reporting will gradually be carried out at the same level as financial reporting by requiring CSRD reports to receive an assurance opinion from a third-party. This will ensure that stakeholders can trust the information put forward by entities and that all future sustainability decisions can be made based on sound science.

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[4] An overview of the European Green Deal and the wide array of legislations, policies, and action plans that have come out of it so far can be accessed here: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

[5] A renewed EU strategy 2011-2014 for Corporate Social Responsibility. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011DC0681

[6] European Commission. 'The Commission adopts the European Sustainability Reporting Standards.' July 31, 2023. https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en

In short, the CSRD will elevate sustainability reporting to the importance and rigour of financial reporting. It will require entities to consider how sustainability performance affects financial performance, and help entities transform their operating models and deliver on their ESG strategies. By requiring data points that had previously never been reported on to be quantified and disclosed, the CSRD also has the potential to reveal areas where entities can improve their value chain and create new forms of value, ultimately leading to a more prosperous and sustainable Europe.

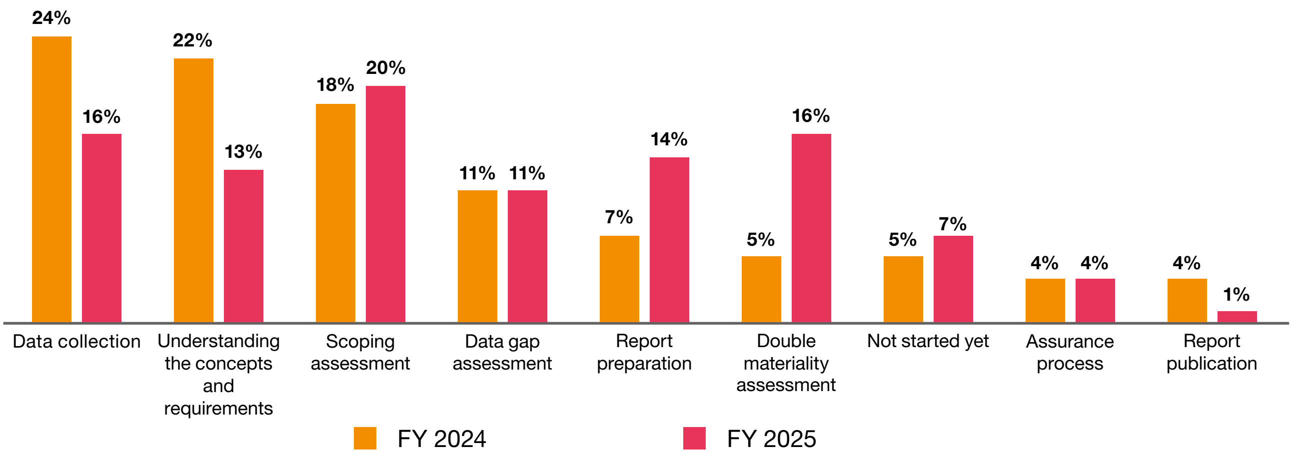
Given that certain in-scope entities will have to publish their first CSRD report as early as 2025 (covering FY24), time is of the essence. This report seeks to offer a high-level CSRD implementation roadmap to all concerned entities, whereby the precise roles of different members of the C-Suite are highlighted. This roadmap is enriched by a survey of 215 entities (financial market participants and operating companies), conducted in the first and 2nd quarters of 2024, scattered across multiple jurisdictions, whereby respondents provided their views on a wide array of CSRD-related matters.

CSRD implementation roadmap

To be fully compliant with the CSRD and reap all the potential benefits it can provide, an implementation roadmap must be set in place, which can be a very challenging exercise and take well over a year to be successfully carried out.

As a matter of fact, only 4% of the entities we surveyed required to disclose as of FY2024 are ready to have their CSRD report published. A little over one-fifth (22%) are still understanding the concepts and requirements, while 5% have not yet started (Exhibit 1). In addition, almost half (44%) are still in the process of familiarising themselves with the CSRD and the ESRS (Exhibit 2).

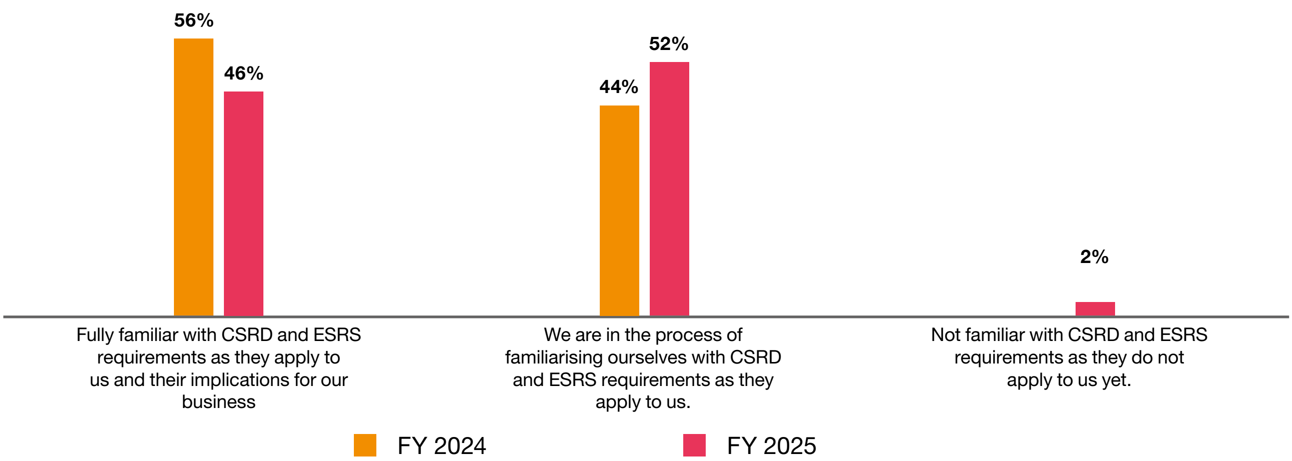
Exhibit 1. At which stage of the CSRD implementation are you currently?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

Exhibit 2. How familiar are you with the CSRD and the ESRS?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

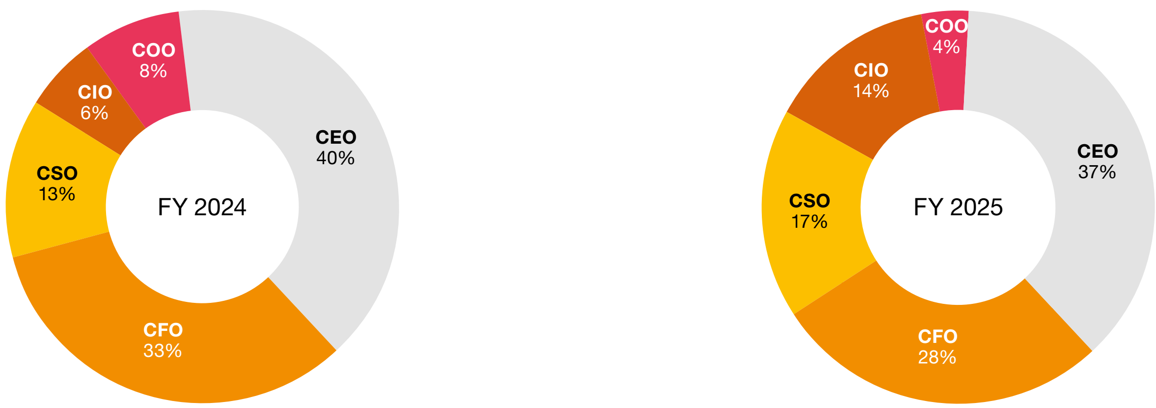
The implementation roadmap is a cross-cutting exercise in which all members of the C-Suite will have an important role to play. Their overlapping duties require collaboration and building off each other's strength.

The entity's C-Suite must be brought up to speed with respect to the CSRD reporting requirements and the sustainability matters put forward by ESRS and how this may impact the entity going forward.

As the most knowledgeable member of the C-Suite when it comes to sustainability matters, the Chief Sustainability Officer (CSO) drives the topic within the C-Suite and provides background, context, education, and insights within the organisation for all key stakeholders, from the board of directors to the senior management, to enable them to understand the journey ahead and allow for informed decision-making throughout.

However, among our survey respondents, there is no unanimous agreement over which member is the most involved in the process. Indeed, the CEO and the Chief Financial Officer (CFO) appear to be the most crucial actors, with almost three-quarters (73%) of entities required to report as of FY2024 considering them the key players in the CSRD process. Among entities required to report as of FY2025, the CSO and the Chief Information Officer (CIO) are seen as slightly more prominent, although the CEO and CFO maintain their leading positions (Exhibit 3).

Exhibit 3. Who of the following members of the C-Suite is the most involved in the CSRD reporting?



Note: Numbers may not add up due to rounding.

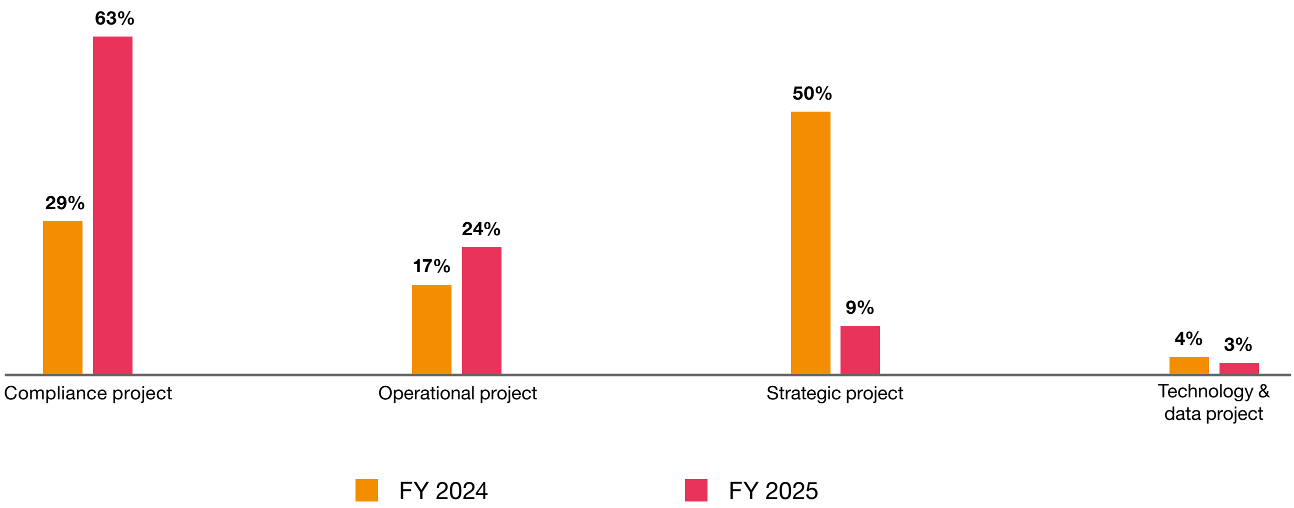
Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

The **CEO plays a crucial role in setting the agenda and tone of the whole CSRD implementation roadmap**, which ultimately decides the extent to which the CSRD, sustainability reporting, and benchmarking will become part of the entity's DNA. Based on the CEO's agenda setting, the other members of the C-Suite will be able to better determine how they should implement the CSRD throughout the whole process.

As a matter of fact, survey respondents have very different views on how to classify the CSRD implementation plan and the overall agenda. Among entities required to report on FY2024, half consider it a strategic project, while 29% and 17% consider it a compliance or operational project, respectively.

As for the entities required to report starting for FY2025, the views are significantly different: almost two-thirds (63%) view CSRD reporting as a compliance project, with only 9% considering it a strategic project (Exhibit 4). This likely reflects the fact that such entities have not yet started reflecting on how CSRD could have potential implications on their long-term operations, as they may see the compliance date as still far off in the distance. In addition, the entities required to disclose as of FY2024 have already been disclosing sustainability data in-line with the NFRD and likely have more experience when it comes to using sustainability data for strategy- and agenda-setting.

Exhibit 4. Within your entity, how would you classify CSRD reporting?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

The CSRD implementation roadmap requires a 360° view considering sustainability matters and implications from different vantage points, opening up a multi-dimensional canvas encompassing:

- The current business model,
- The entity's value chain, including its main suppliers and clients,
- Staff, competitors, policymakers, NGOs,
- The entity's incentive schemes and how they are linked to ESG results; and
- Access to capital markets and financing.

The entity should establish the governance of the CSRD implementation project including key stakeholders required in the different phases at the outset of the project, allowing for periodic feedback cycles as the understanding of the requirements and implications evolves within the project. Depending on the sustainability matters at hand, for different subject matter related topics (e.g., climate change, own staff, governance), dedicated sponsors are allocated at the level of the C-Suite.

Overall, the roadmap can be divided into five distinct phases:

1. Scoping
2. Double materiality assessment
3. Data readiness assessment
4. Implementation
5. Reporting

The agenda which the CEO sets does not only apply to that year's sustainability strategy and CSRD report. It refers to the overall long-term goals of the entity and how ESG is incorporated within all facets of the business. Afterall, the CSRD is about setting targets as much as it is about reporting on current practices. As such, **the CEO must keep an eye on the future when designing the entity's ESG agenda and communicate to all stakeholders how it plans to reach its targets**.

Once the agenda has been set, the CSRD implementation roadmap can begin.

Scoping

The very first phase of the CSRD implementation roadmap is the scoping phase, which entails assessing whether an entity or its subsidiaries fall within the scope of the CSRD. This is based on the entity's size, balance sheet, and revenues (see Appendix 3). **The diagram below shows the different reporting timelines for in-scope entities:**

2024 (reporting in 2025)	2025 (reporting in 2026)	2026 (reporting in 2027)*	2028 (reporting in 2029)
Large public interest companies with 500+ employees	**Large companies**	**Listed SMEs**	**Third country undertakings**
• EU-domiciled insurance companies • EU-domiciled banks • EU-domiciled companies designated by Member States	• **EU**-domiciled company • Meets **2 out of 3** criteria over the **last two years**: i. > EUR 50mn net turnover ii. > EUR 25mn total assets iii. > 250 employees	• All SMEs listed on an EU regulated market	• Non-EU-domiciled company • Total EU net turnover (revenue) > EUR 150mn for each of the last consecutive financial years and either: i. One "large" subsidiary in the EU or subsidiary listed on an EU-regulated market; or ii. One EU branch that generates ≥ EUR 40mn in the preceding year
• EU and **Non-EU**-domiciled companies with securities listed on an EU regulated market	• EU and **Non-EU**-domiciled companies with securities listed on an EU regulated market		

Note: *SMEs have the option to opt out from FY2026 to FY2028

Within group settings, the scoping assessment may be a more challenging exercise as different options may exist at which level the CSRD report can be prepared and published. The table below highlight the different reporting options that may exist for in-scope entities:

Different reporting options

Reporting Approach	Entity Set-Up	Implications
1a. Stand-alone reporting	Each legal entity that is in scope for CSRD reports individually.	Every single legal entity that is in scope for CSRD reporting, publishes separate CSRD reporting within their management report.
1b. EU Group Reporting	The EU parent publishes a group report on behalf of its subsidiaries.	Each EU parent company prepares a consolidated sustainability report that includes all of its subsidiaries (EU and non-EU). There is no double reporting requirement (i.e. the EU parent company does not need to also prepare a CSRD report as a single entity. The subsidiaries of the EU holding companies which fall under the scope of the CSRD are exempted from their own sustainability reporting.
2. Artificial consolidation	An artificially chosen parent company publishes a group report on behalf of the in-scope EU subsidiaries.	All entities in scope of CSRD could form an artificial consolidation and prepare one consolidated sustainability report. The EU subsidiary with the greatest amount of turnover in the EU (at least one of the preceding five FYs, on a consolidated basis) would prepare the consolidated report – the "artificial parent." Every other subsidiary would be exempt as covered by the artificial group reporting. This scenario is only applicable for a transition period of 7 years after entry into force of the CSRD (2030 reporting on FY2029 data).
3. Global Reporting	The ultimate parent reports on a consolidated basis for the entire group (incl. EU and non-EU legal entities).	The ultimate parent reports in accordance with CSRD or in a manner equivalent, including Taxonomy Regulation disclosures, on a consolidated basis for the entire group (including EU and non-EU legal entities, regardless of whether they are in scope of CSRD). All individual subsidiaries are exempt from doing their own reporting.

! The exemption option for subsidiaries covered by a group reporting option does not apply to any undertaking that is large and listed on an EU regulated market. This undertaking must always report on a stand-alone basis.

While these options can enable reporting efficiency at a consolidated level, **some drawbacks may surface:**

Scope, value chain and methodology

Complexity may be materially increased from a technical perspective for aggregated reporting as more entities, different value chains, and a multitude of sustainability matters may be considered. Expected further guidance on implementation of the standards as well as sector specific standards that are expected within the next few years are recommended to be also factored in.

Governance and steering

Governance layers within larger organisations may potentially slow down decision making and limit the steering within group entities required to improve sustainability performance over time.

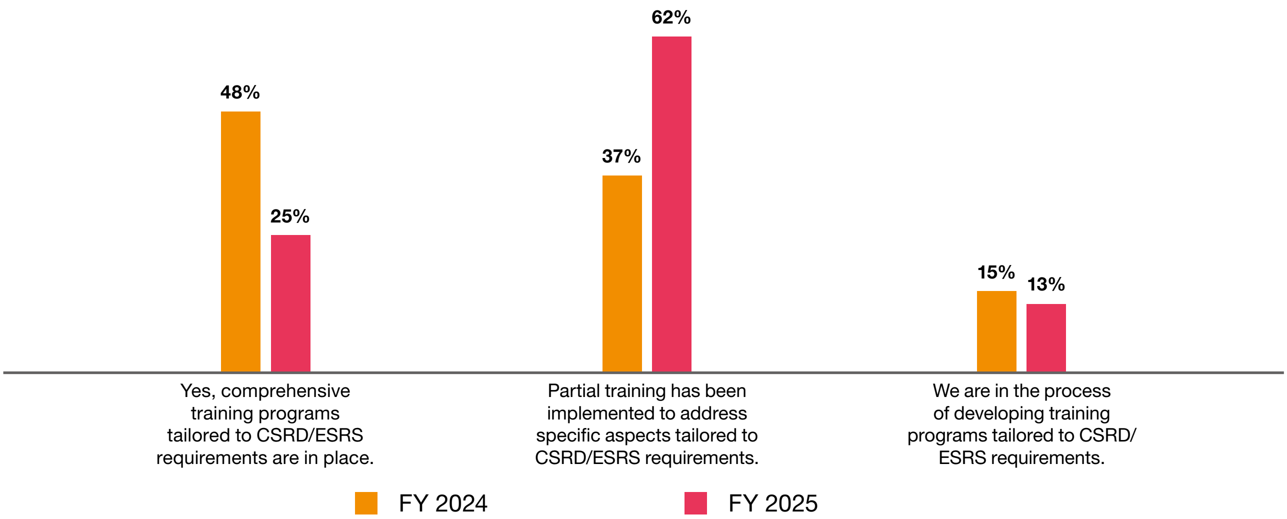
Market positioning and distortion

Irrespective of complexity, sustainability results from smaller group entities may get distorted or even vanish within the consolidated reporting. Suppliers, clients, and stakeholders may still expect disaggregated information on sustainability matters to understand the sustainability performance, the sustainability contribution to their own reporting (e.g., GHG scope 3 emissions), or may see them as pre-requirements for new business relationships.

While this scoping may seem straightforward at first glance, the exercise is inherently complicated as an entity's subsidiaries and all of their specificities need to be taken into account. As such, CSRD-specific training is highly recommended at the very start of the scoping phase.

As Exhibit 5 beside highlights, all of our respondents have either implemented training programs or are in the process of developing them. Among the entities required to report as of FY2024, almost half (48%) have already implemented comprehensive training programs tailored to CSRD and ESRS requirements, while over a third (37%) have implemented partial training programs. The latter kind of programs are more prevalent among entities required to disclose as of FY2025 – which should come as no surprise, as they have slightly more time than their FY2024 peers to prepare themselves for CSRD reporting (Exhibit 5).

Exhibit 5. Have you implemented training to educate your staff on CSRD/ESRS requirements?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

The CSO is the most knowledgeable member of the C-Suite when it comes to sustainability matters, and they need to **ensure that the training programs implemented in this early stage fully cover scoping-related matters of the CSRD and that all key stakeholders within the entity – from the board of directors to the senior management – have received CSRD training**.

Once the training has been finalised, the CFO – with their wide view of the entity's numbers and figures – **should take the lead in determining whether the entity falls under CSRD, and starting in which financial year it should begin making disclosures in-line with the law**.

If the entity does not pass the thresholds set by the CSRD, **the CFO should nonetheless consider whether it will be in-scope in the coming years based on company projections and forecasts**. But irrespective of being in scope of CSRD, the entity should assess (i) how competitors are positioning themselves and (ii) the expectations of own (reporting) requirements of material suppliers and clients specifically in case the entity is a material contributor to environmental (e.g., CO2) or social (e.g., workers in the supply chain) issues. The CFO should validate the findings with the rest of the C-Suite members.

By the end of the scoping phase, the senior management has determined that (i) the entity indeed falls under the CSRD, (ii) the options regarding reporting scope (stand-alone vs. group) including an assessment of potential up- and downsides considering the phased in reporting requirements until 2028 for third country undertakings as well as evolving guidance on the existing sector-agnostic and forthcoming sector specific ESRS, (iii) the year in which the CSRD report has to be first published, and (iv) competitor positioning as well as expectations from material suppliers and clients.

Now that the senior management has determined that the entity indeed falls under the CSRD and the year in which the CSRD report has to be published has been pinpointed, the next phase of the implementation plan can begin.

Double materiality assessment

Double materiality is by far one of the most important concepts to grasp in the CSRD because the outcome of the double materiality assessment will define what information is disclosed in the final report.

In short, an in-scope entity must identify what and how are sustainability matters impacting the business (financial materiality), as well as the impacts its operations have on ESG factors (impact materiality). Once determined, these impacts will determine which ESRS the entity must disclose on, and which factors are immaterial to its operations.

To do so, a double materiality assessment must be carried out, divided into four steps:

1 Understanding

- Map out own operations and value chain, including the full range of activities and business relationships the firm undertakes, including geographical locations.
- Define the time horizon to be considered (short, medium and long term) and identify relevant stakeholders.
- Start with a long list of sustainability matters and consider qualifying information provided by peer benchmarking, stakeholder engagement, materiality maps and secondary research to perform a first filtering allowing you for a tailored step 2.*

2 Identification

- List actual and potential sustainability matter-related impacts, risks, and opportunities (IROs) that could manifest from the entity's own operations, value chain and business relationships, including through engagement with stakeholders (surveys, interviews etc.).
- ESRS 1, Appendix A, details all sustainability matters covered within the topical ESRS and forms the minimum baseline for this step.

3 Impact assessment

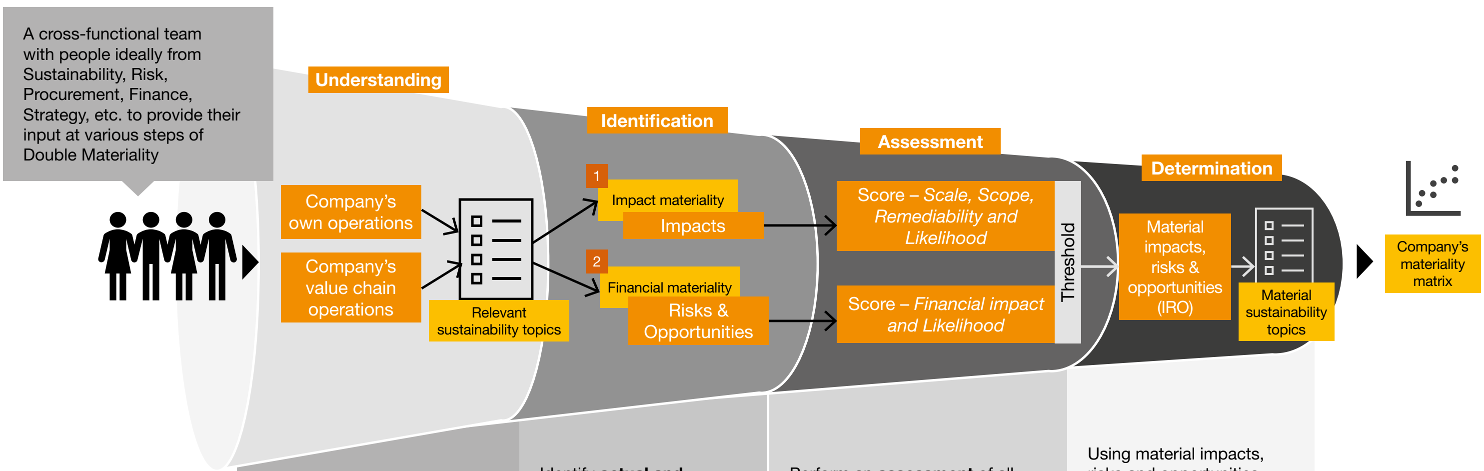
- Define an assessment mechanism with clear criteria (e.g., scoring metric) and apply it to each IRO in order to classify them as either financial materiality or impact materiality.
- Impacts are assessed based on severity (scale, scope, irremediable character of a negative impact) and likelihood of occurrence.
- Risks & opportunities are assessed based on a combination of magnitude of the potential financial effects and likelihood of occurrence.
- Consider results of stakeholder engagement.

4 Determination

- Determine which ESRS correspond to the material IROs identified, which will allow the firm to understand what it needs to disclose in its sustainability report.
- Determine which sustainability matters are not covered by existing ESRS requiring firm-specific disclosures.
- Determine which applicable ESRS disclosure requirements are phased-in (transitional provisions) over time allowing for a differentiated implementation timeline.

This assessment is one of the most complex parts of the whole CSRD implementation plan, as it entails significant collaborative efforts from different members of the C-Suite to ensure that the whole entity is aligned on the methodology used, the stakeholders to be consulted, and the potential sustainability topics that have a material impact on the entity, to name a few.

Double materiality assessment in practice



Key activities

Understand the **company's operations** like details about business model, products and services.

Map out **the value chain operations** especially on important ESG topics.

Identify **actual and potential impacts, risks and opportunities** that could arise either in own operations or in the value chain, related to ESG topics (ref to long list of topics provided in ESRS).

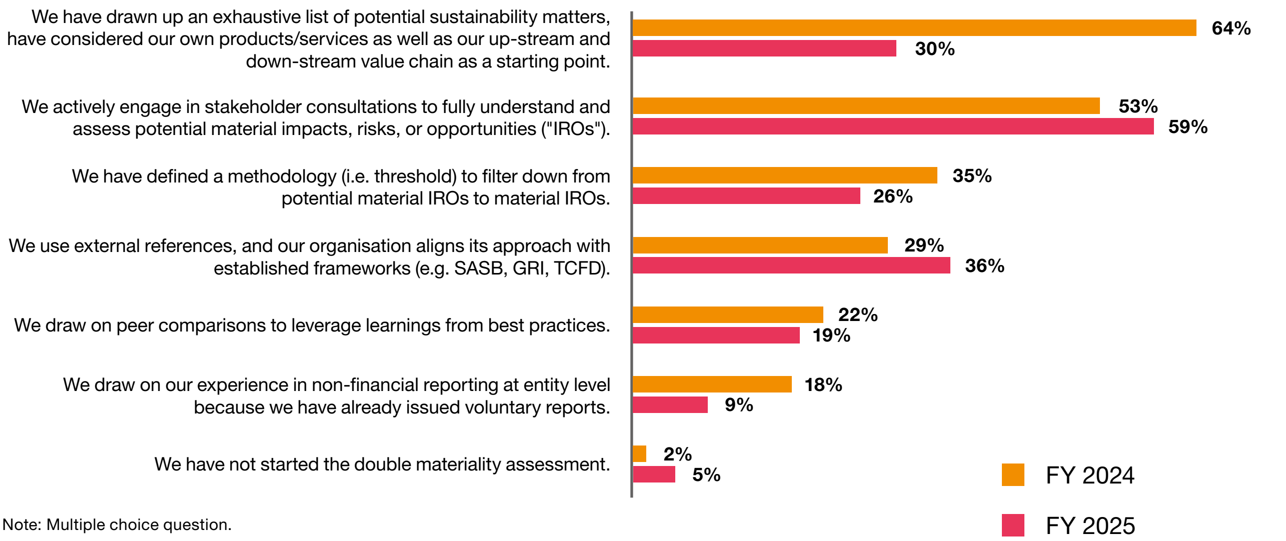
Perform an **assessment** of all identified actual and potential impacts, risks and opportunities **using a standardised matrix** (scale, scope, remediability and likelihood) and **apply a threshold to filter material** impacts, risks and opportunities.

Using material impacts, risks and opportunities **determine the corresponding material reporting topics** (like ESRS E1 Climate Change, E2 Pollution, S1 Own Workforce etc.) and data points to be reported.

This complexity is reflected in our survey. Among respondents who are required to disclose as of FY2024, almost two-thirds (64%) have already drawn up an exhaustive list of potential sustainability matters and have considered their own products and services as well as their upstream and downstream value chain as a starting point to their double materiality assessment. In addition, a little over half (53%) actively engage in stakeholder consultations to fully understand ass the potential material impacts, risks, and opportunities.

In addition, it is apparent that both entities required to disclose as of FY2024 and FY2025 are struggling with defining a methodology and thresholds to filter the material impacts, risks, and opportunities, as barely a third of the former (35%) and a quarter of the latter (26%) have managed to develop such a methodology (Exhibit 6).

Exhibit 6. How is your organisation addressing the concept of double materiality in the context of the CSRD/ESRS?



Note: Multiple choice question.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

To help visualise the double materiality assessment throughout the steps below, we will use the example of an illustrative in-scope EU-based company active in the logistics sector to showcase, in a simplified manner, how the different steps can be implemented.

Step 1: Understanding

During the understanding step, the entity must map out its operations and its value chain. The CSRD considers a value chain to be the full range of activities and relationships that an entity undertakes to create, deliver, and consume a product or service. This includes how a product is disposed of after consumption, if applicable. This holistic approach therefore also considers any outsourced operations the entity may have. The entity also defines the time horizon to be considered (short, medium and long-term), and identifies the relevant stakeholders who must be consulted.

The CSO and the CFO drive the process. The former **is responsible for designing the double materiality methodology which will be used to determine what the entity will report on and what its impacts on sustainability matters are**. Both then are responsible for stakeholder management, alongside other members of the C-Suite depending on the stakeholders chosen, and they **should propose a time horizon to be considered – which the CEO evaluates and validates.**

The methodology should include the initial long list of sustainability matters to be considered as well as further qualifying inputs based on peer benchmarking, stakeholder feedback, materiality maps alongside secondary research differentiating between sustainability matters applicable to own operations and value chain.

The **Chief Operating Officer (COO)** has a highly detailed understanding of non-financial processes in the entity. They **are responsible for mapping out the value chain together with the CFO**, while the latter uses their background to design the overall needs and standards of the reporting process. The COO implements that vision using their in-depth knowledge of supplier and customer operations.

As the CFO is more likely to be focused on the entity's financial materiality, the CSO is necessary to provide complementary insights on impact materiality. Together, the two design the entity's sustainability key performance indicators (KPIs). Meanwhile, the **CIO deploys technology for information collection and mapping**.

Alongside the CSO, **the COO is responsible for analysing the value chain and conducting adequate sustainability due diligence**. Overall, the COO acts as the link between the reporting and operations teams.

1. Recap of the understanding step:

	Understanding			
CFO	• Drive the process, ensuring that the CFO functions is embedding the established rigour and documentation from financial reporting processes. • Propose the time horizon to be considered.	Stakeholder management (incl. other C-Suite members based on chosen stakeholders).		
CSO			Determines **methodology** and results reporting to C-Suite.	Responsible for execution of methodology from a process perspective which includes the preparation of an overview of relevant stakeholders to be considered in the DMA process.
COO	Maps operations, value chain and business relationships (with CFO).	Analysing the value chain and conducting adequate sustainability due diligence (with CSO).		
CIO	Deploys technology for information collection and mapping.			
CEO	Decides on the time horizon to be considered (after proposal by CFO and CSO).	Stakeholder management (incl. other C-Suite members based on chosen stakeholders).		

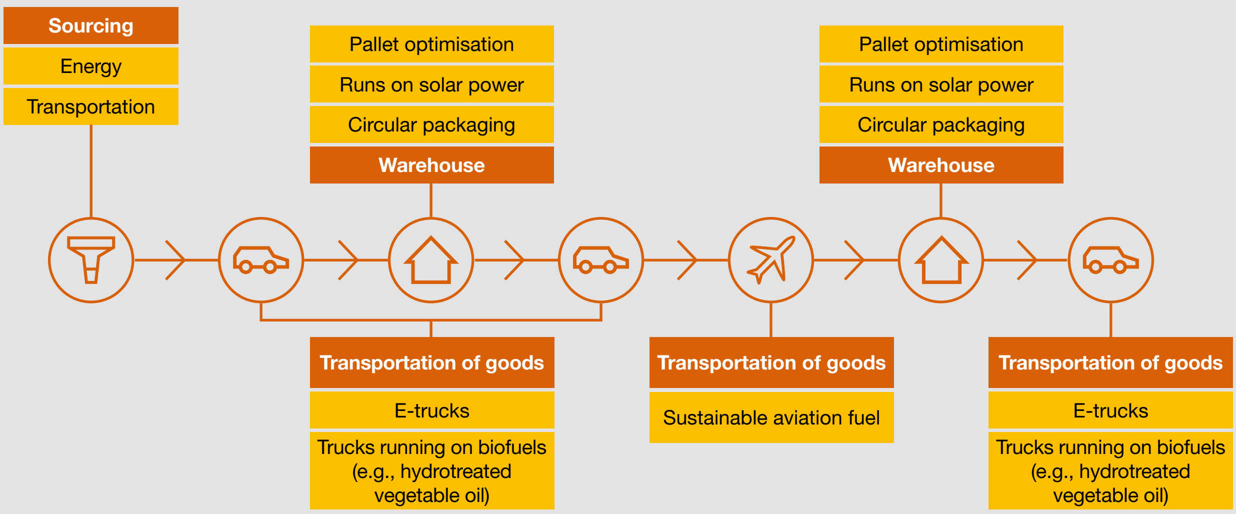
The methodology should include the initial long list of sustainability matters to be considered as well as further qualifying inputs based on peer benchmarking, stakeholder feedback, materiality maps alongside secondary research differentiating between sustainability matters applicable to own operations and value chain.

Result of the understanding step

The entity concludes with a first reporting boundary, identifying sustainability matters relevant for its own operations and/or value chain and which form the basis for the identification and description of impacts, risks and opportunities.

Double materiality assessment: an illustrative example

In this step, as the simplified diagram below illustrates, our illustrative in-scope company would first have to look at its whole value chain and determine how it can become more sustainable:



Then, once this is done, the company will seek to find the numerous sustainability topics and points of interest (the long list of industry-agnostic topics provided in ESRS 1 can serve as a guide). Be it the energy it consumes or where it is sourced from, to the materials delivered and the emissions of its fleet, the list can be extensive.

Logistics company

Delivery of materials to other businesses

Delivery of products to end consumers (households)

Different ESG-related points of interest

Environmental

- Transition risks associated with GHG emissions of the fleet
- Physical climate risks for facilities and key suppliers (including carbon pricing)
- Energy sourcing and consumption for operations and managed warehouses (including energy security)
- Transportation of substances of (very high) concern such as hazardous waste and associated pollution of soli and air
- Direct drivers of biodiversity loss
- Waste generation and recycling

Social

- Working conditions (working time, adequate wages, health and safety)
- Transportation of substances of (very high) concern such as hazardous waste and associated risks for workers
- Diversity, equity and inclusion (DEI)

Social

- Corporate culture
- Protection of whistleblowers
- Supplier management and payment practices
- Corruption and bribery

Step 2: Identification

The identification step entails outlining the potential ESG-related impacts, risks, and opportunities (IROs) that could manifest from the entity's value chain and operations, based on the different points of interest that came out of the value chain mapping.

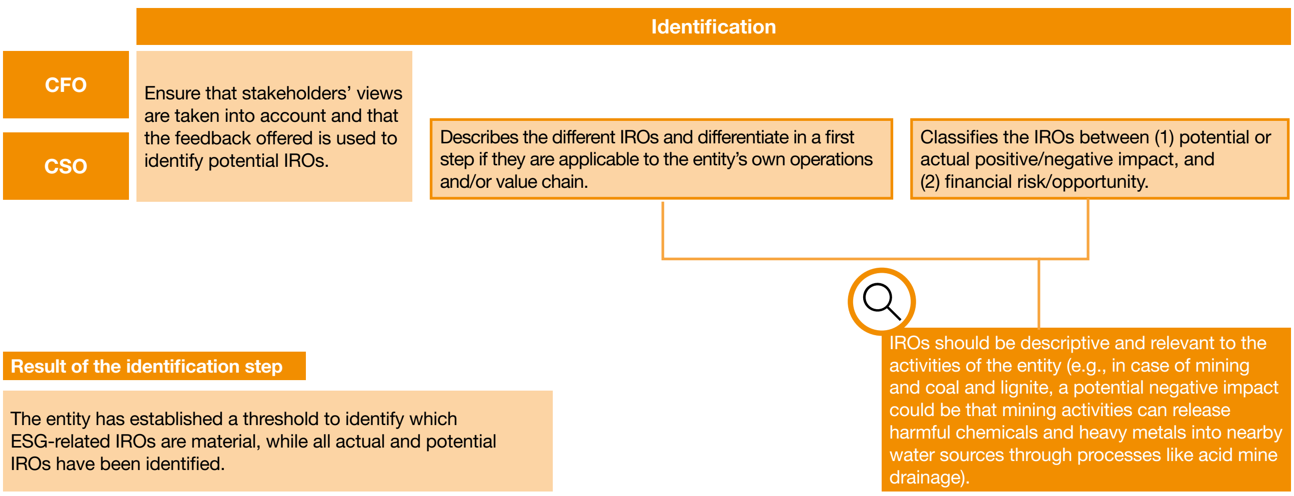
The IROs should be descriptive and relevant to the entity's activities. For instance, in case of mining and coal and lignite, a potential negative impact could be that mining activities can release harmful chemicals and heavy metals into nearby water sources through processes like acid mine drainage.

To adequately carry out the identification this step, engaging with stakeholders will be necessary. This can be done through surveys, interviews, focus group discussions, and public consultations. **The CSO, with the support of the CFO, should play a key role in ensuring that stakeholders' views are taken into account and that the feedback offered is used to identify potential IROs.**

The knowledge gathered from the preceding step is key for **setting benchmarks, targets, and thresholds** on operations such as decarbonisation and transformations of the production process, as well as key climate-related metrics such as carbon pricing and carbon accounting. The **CFO and the CSO should coordinate together to establish them** based on their overall relevance to the CSRD process. When possible, the thresholds should ideally be based on scientific evidence and international standards. In addition, the thresholds should essentially be a standardised matrix that takes into account the scale, scope, remediability, and likelihood of the identified IROs. This matrix should be based on the benchmarks and targets that have already been set by the CFO and the CSO.

When the actual ESG-related IROs which can arise either from the entity's own operations or from its value chain have been identified, **the CEO should review them and provide feedback to the CSO and the CFO**. The CEO should also review and **validate the methodology used to set benchmarks, targets, and thresholds for the IROs.**

2. Recap of the identification step:



Double materiality assessment: an illustrative example

Given that virtually all entities will be impacted by climate change in one way or another, we can take ESRS E1 – Climate change as an example for our illustrative logistics company. In this case, as the diagram below highlights, the GHG emissions of the company's fleet has been noted as a point of interest within ESRS E1, and a non-exhaustive list of IROs associated has been established.

ESRS E1 – Climate Change

Logistics company

GHG emissions of fleet

Financial materiality

Risks	**Opportunities**
The company faces regulatory and financial risks due to stricter EU regulations on carbon emissions under the CSRD. If the fleet's emissions remain high, the company could face fines, increased taxes (e.g., carbon pricing), or restrictions, leading to higher operational costs.	By investing in a more sustainable fleet (e.g., electric or hybrid vehicles), the company has the opportunity to reduce fuel costs over time, benefit from potential government incentives, and strengthen its market position by appealing to environmentally-conscious clients.
Failure to reduce emissions could harm the company's reputation, leading to potential loss of clients who are increasingly favouring eco-friendly suppliers.	Lower emissions would also reduce the company's exposure to future regulatory risks, giving it a competitive edge as sustainability becomes a key differentiator in the logistics sector.

Impact materiality

Negative impact

The company's fleet generates significant GHG emissions, contributing to air pollution and climate change. This negatively impacts communities by worsening air quality, which can lead to health issues such as respiratory problems.
It also contributes to global warming, affecting **ecosystems, biodiversity**, and weather patterns.

Note: This negative impact also covers ESRS E2 - Pollution.

In this instance, when it comes to the GHG emissions of its fleet, the company is facing material risks looming on the horizons: Its reputation could be adversely impacted and could push some of its customers to seek alternative service providers if the fleet remains heavily reliant on traditional combustion engine vehicles; moreover, its fleet could rapidly become outdated and inoperative in the coming years, as the vehicles it uses become increasingly out of fashion at the expense of electric vehicles.

Yet, there are also opportunities which cannot be discounted. By electrifying its fleet, the entity would not only significantly reduce its carbon footprint, but could also reap in reputational benefits which could help attract new business opportunities and better financing opportunities from financial institutions eager to make their lending portfolios more green.

Step 3: Impact assessment

Now that the IROs have been identified and the quantitative and/or qualitative thresholds have been established, the entity must assess the extent to which these will affect its operations based on each IRO's scope, scale, likelihood of manifesting, and how easy it is to address.

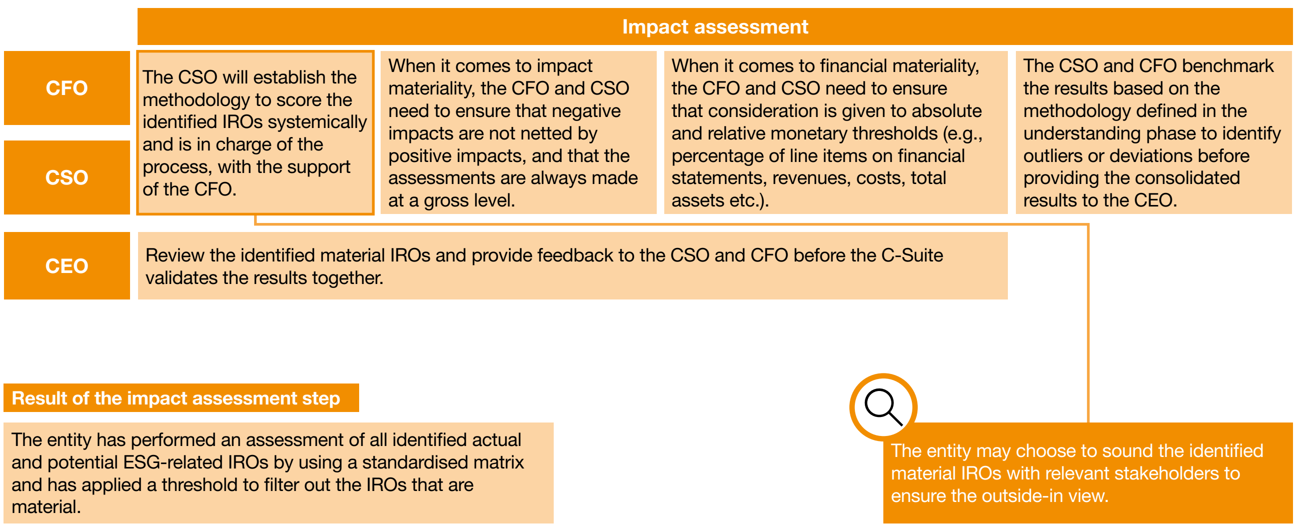
To be able to carry the assessment in an adequate and satisfactory manner, an assessment mechanism with clear criteria must be defined. **The CSO should establish the methodology to score the identified IROs systemically and is in charge of the process, with the support of the CFO**.

This methodology can take the form of a scoring metric on a scale from 1 to 5 or 1 to 10. The assessments will need to be done separately for the impacts, the risks, and the opportunities, and they will allow the entity to classify each one as either financial materiality or impact materiality.

In this step, **the CSO and the CFO need to coordinate closely together to make the assessments necessary, and they need to keep the CEO updated on all developments**. When it comes to impact materiality, they need to ensure that negative impacts are not netted by positive impacts, and that the assessments are always made at a gross level. As for financial materiality, they need to ensure that consideration is given to absolute and relative monetary thresholds (e.g., percentage of line items on financial statements, revenues, costs, total assets etc.).

Before providing consolidated results to the CEO who is responsible for reviewing the identified material IROs and to provide feedback on them, **the CSO and the CFO should benchmark the results based on the methodology defined in the understanding phase to identify outliers or deviations**. The CEO then reviews the identified material IROs, and the whole C-Suite validates the results together.

3. Recap of the impact assessment step:



Double materiality assessment: an illustrative example

As the diagram below highlights, our illustrative company has established the assessment mechanism and the thresholds to determine which one of the IROs have a material impact.

When it comes to the GHG emissions of its fleet, the company found that the failure to transition to an electric fleet is a risk that passes the threshold as it will likely have severe repercussions on its revenues in the coming years. Not only will the entity's reputation be harmed and it might be associated with high polluting companies – and hence would drive businesses and consumers away from its services – it would also struggle to keep its vehicles in top shape as the parts needed for maintenance would gradually no longer be available on the market as internal combustion engine vehicles get phased out throughout the EU.

Step 4: Determination

Based on the outcome of the previous three steps, the entity must now determine which ESRS correspond to the material IROs it has identified. This will allow it to understand what it needs to disclose in its final sustainability report.

The CSO, the CFO, and the COO should carefully evaluate the material IROs that have been determined and highlight under which ESRS each one falls. They should also prepare a visualisation of the impact materiality and financial materiality of the different ESRS which are materially relevant to the entity. Once this is done, **the CEO will need to review it and approve it.**

4. Recap of the determination step:

	Determination	
CFO CSO COO	The CSO, the CFO and the COO should evaluate the material IROs that have been determined and highlight under which ESRS each one falls.	The CSO, the CFO and the COO should prepare a visualisation of the impact materiality and financial materiality of the different ESRS which are materially relevant to the entity (either own operations or the value chain).
CEO	Once the evaluation and visualisation done by the CFO, CSO and COO are finished, the CEO will need to review them and approve them.	

Result of the determination step

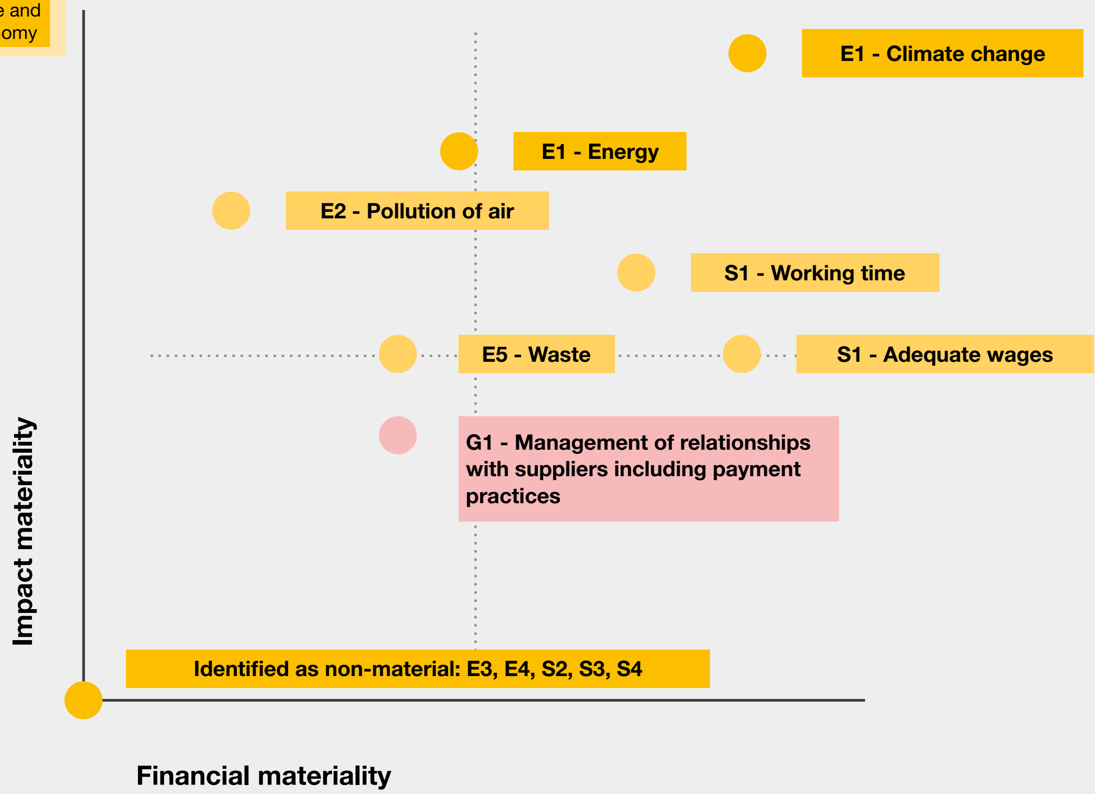
The entity has used the methodology and the threshold to determine under which ESRS the material IROs fall and has visualised how each material sustainability topic will have a financial impact on the entity, and how the entity is impacting the sustainability topic itself.

Double materiality assessment: an illustrative example

In our illustrative case study, the logistics company has now determined what are the ESRS it will have to report on, and how impactful each will be. For instance, when it comes to ESRS E2 – Pollution, the entity has determined that the sub-topic ‘pollution of air’ could have a non-negligible impact on revenues in case taxes or penalties on emissions get implemented in the jurisdictions in which it operates. In addition, the entity has determined that sub-topic ‘waste’ within ESRS E5 – Circular economy could also have a financial impact, as the entity could find itself faced with new costs to dispose of the waste in an eco-friendly manner. These are just some of the potential topics and sub-topics which the company would have to report on.

Logistics company ▶ **Thresholds** ▶ Material IROs ▶ **Material sustainability topics**

Sector-agnostic standards			
Cross-cutting standards	**Environment standards**	**Social standards**	**Governance standards**
ESRS 1 General requirements	**ESRS E1** Climate change	**ESRS S1** Own workforce	**ESRS G1** Business conduct
ESRS 2 General disclosures	**ESRS E2** Pollution	**ESRS S2** Workers in the value chain	
	ESRS E3 Water and marine resources	**ESRS S3** Affected communities	
	ESRS E4 Biodiversity and ecosystems	**ESRS S4** Consumers and end-users	Materiality-driven ESRS
Mandatory ESRS	**ESRS E5** Resource use and circular economy		



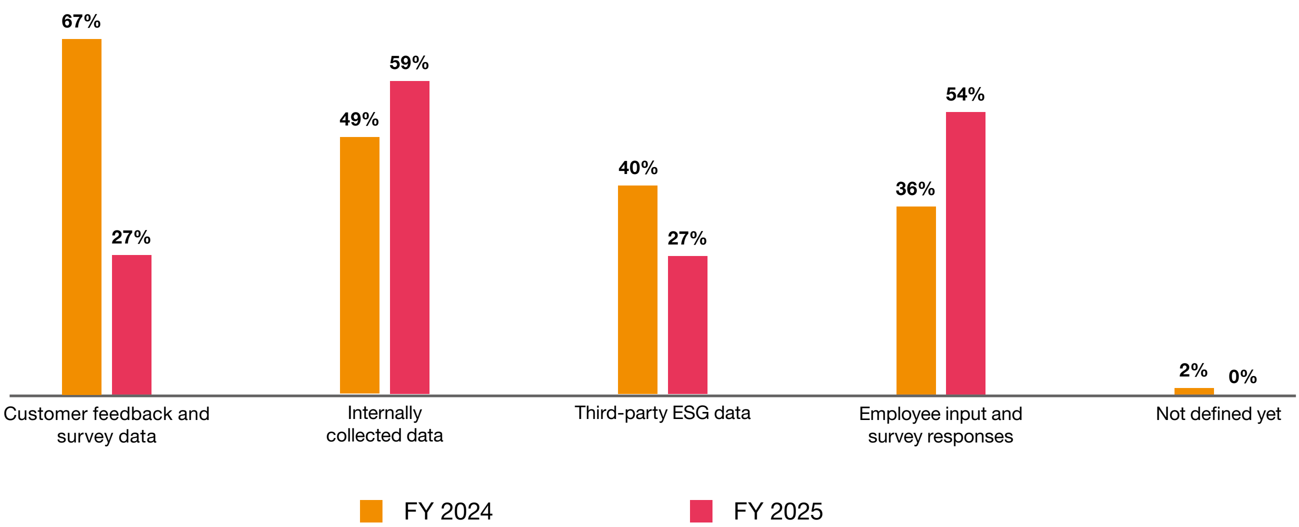
Data readiness assessment

Now that the complex double materiality has been completed and the entity has determined what are the ESRS under which it should report, the data readiness assessment can begin.

In a nutshell, based on the ESRS, the entity needs to understand what data it already has, what data it needs, the quality of the existing data, and what should be done to ensure that the data needed is available.

The data can come from a plethora of sources. Among entity that will report as of FY2024, over two-thirds (67%) obtain the data from customer feedback and surveys, while almost half (49%) collect the data internally. In addition, 40% have recourse to third-party ESG data (compared to 27% among entities required to report as of FY2025) (Exhibit 7).

Exhibit 7. What sources will your company use to collect sustainability information?



Note: Multiple choice question.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

The **CFO is responsible for setting up the whole sustainability reporting standards and processes**, ensuring that they are not only fully aligned with the CSRD and the ESRS, but also take into account carbon pricing and accounting. They should align the entity's procedures with the standards in the ESRS, the EU Taxonomy, and, if possible, other international standards such as the International Sustainability Standards Board's (ISSB) reporting standards (IFRS) or Global Reporting Initiative (GRI) standards.

Ultimately, the **CFO is ultimately responsible for creating the controls that will allow the entity to collect data and check if they are fulfilling their sustainability targets**. The controls which must be set up include controls on:

- Data completeness and accuracy,
- Data treatment,
- Subsidiary and group reporting,
- How estimates are made, when relevant,
- ESG targets and benchmarks, and
- Complex calculations (e.g., carbon emissions, carbon capture, carbon pricing etc.).

However, **the CFO will need support from the CIO and COO** to ensure that the data being collected is of a high calibre. Indeed, the **COO is responsible for data collection**, while the **CIO is responsible for data aggregation, consolidation and management**. The latter also needs to ensure that there is a centralised and well-connected data solution linked with external sources, and that the technology used for the management of sustainability information is appropriate for the entity.

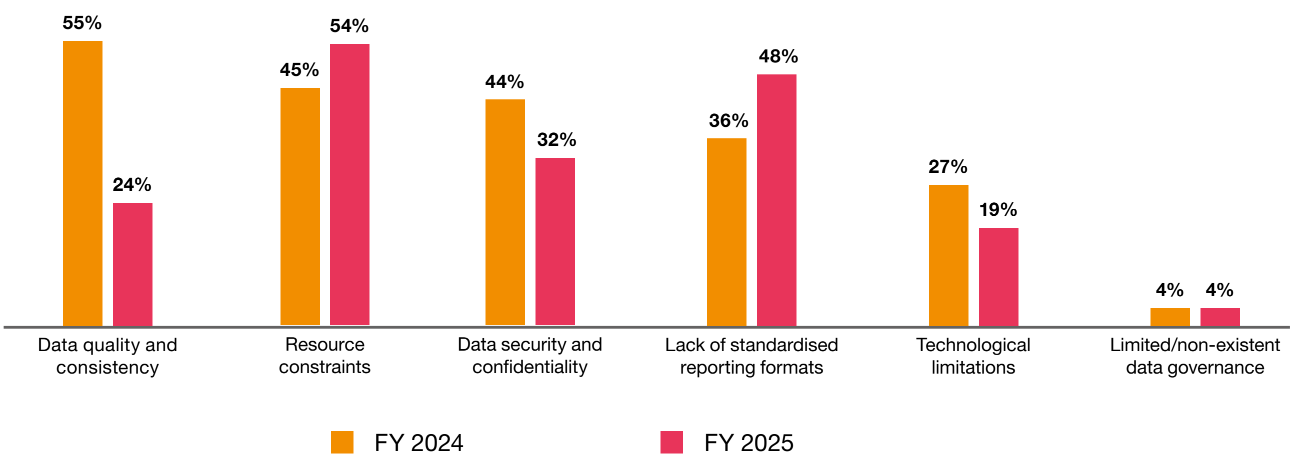
CSO	CFO	CIO	COO
• Methodological baseline for qualitative and quantitative data points • Design of policies, targets, actions and transition plans • Selection of relevant standards for GHG accounting and climate risk modelling • Sustainability data quality management • Handling of estimates and proxies	• Responsible for processes, controls, and documentation required for sustainability reporting • Robust and aligned with financial reporting standards • Documentation standards (completeness, accuracy, neutral, comparable, verifiable, understandable) • Computation and aggregation rules • Audit-proof	• Responsible for technology and data architecture (from data ingestion to sustainability reporting) • Data collection (sources – internal/external, data integration, automation) • Data cleaning and transformation • Data storage and management • Applications and interfaces • AI use cases	• Responsible for workload allocation and operational data allocation • Responsible for operational data collection • Enabling the organistion to provide timely and relevant data from its own operational activities • Integration of results in risk management and reporting

But doing so is far easier said than done, and in-scope entities are bound to encounter a whole host of challenges during the data readiness assessment.

For instance, over half (55%) of respondents required to disclose as of FY2024 highlight data quality and consistency as a challenge when it comes to processing and managing the increased volume of sustainability information, while 45% highlight resource constraints. In addition, 44% highlighted data security and confidentiality as an anticipated challenge.

The figures differ slightly among respondents required to disclose as of FY2025, with less than a quarter (24%) considering data quality and consistency as a stumbling block. This is likely due to the fact that they have more time than their FY2024 peers to ensure that they have advanced data controls and processes (Exhibit 8).

Exhibit 8. What challenges do you anticipate for processing and managing the increased volume of sustainability information?

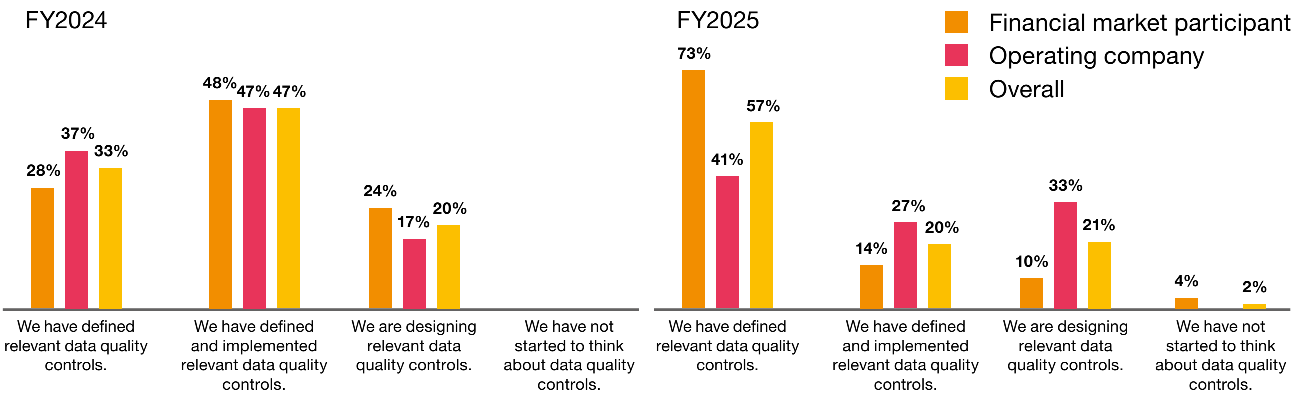


Note: Multiple choice question.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

As a matter of fact, as Exhibit 9 below shows, FY2025 entities are far more likely than their FY2024 peers to have already defined the relevant data quality controls, although the latter are more likely to have already started implementing – which is understandable, given that they need to start reporting earlier (Exhibit 9).

Exhibit 9. Have you defined data quality controls for sustainability information to ensure the reported information in your CSRD/ESRS reporting is complete, accurate, and up to date?

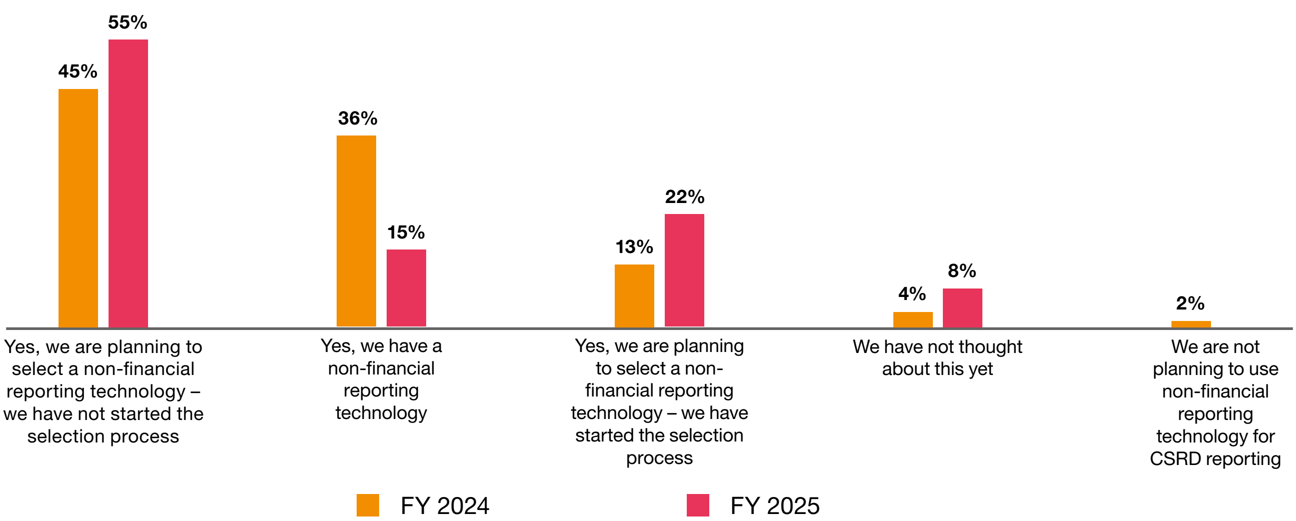


Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

Our survey also found that over 80% of respondents – be it among entities required to report as of FY2024 or FY2025 – are planning on implementing new technological solutions for CSRD reporting or have already implemented such a solution. FY2025 entities (55%) are more likely than their FY2024 peers (45%) to not have started the selection process of the new reporting technology (Exhibit 10). **The CIO will need to play a crucial role in this regard to ensure that the technological solution adopted aligns with the entity's needs**, and that all relevant stakeholders within the entity have been briefed and trained on how to use it.

Exhibit 10. Are you considering or implementing any technology solutions for CSRD reporting?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

By the end of the data readiness assessment, the senior management has determined what ESRS-related data it has, where the data gaps are, and has further refined the sustainability reporting target operating model including roles and responsibilities to ensure adequate CSRD reporting. This is a crucial point as the foundation for a successful implementation and reporting is based on the results of the data gap assessment, from a pure reporting but also operational and process perspective. The project starts to take more form and likely includes a wider group of functions within the entity, with an evolved understanding of efforts, complexities and required decisions.

The results are recommended to be tied back to the initial objectives set in the beginning of the project, and a forward-looking view spanning over more than the first reporting period, including concrete business impacts, should be taken.

The data readiness assessment will be concluded by a concrete implementation plan considering short-term reporting focused considerations such as:

- The design and validation of a concrete multi-year implementation roadmap allowing for maximum flexibility considering phased-in disclosure requirements;
- The calibration of the sustainability reporting target operating model;
- The extension of the project into technology and data management;
- The resources required.

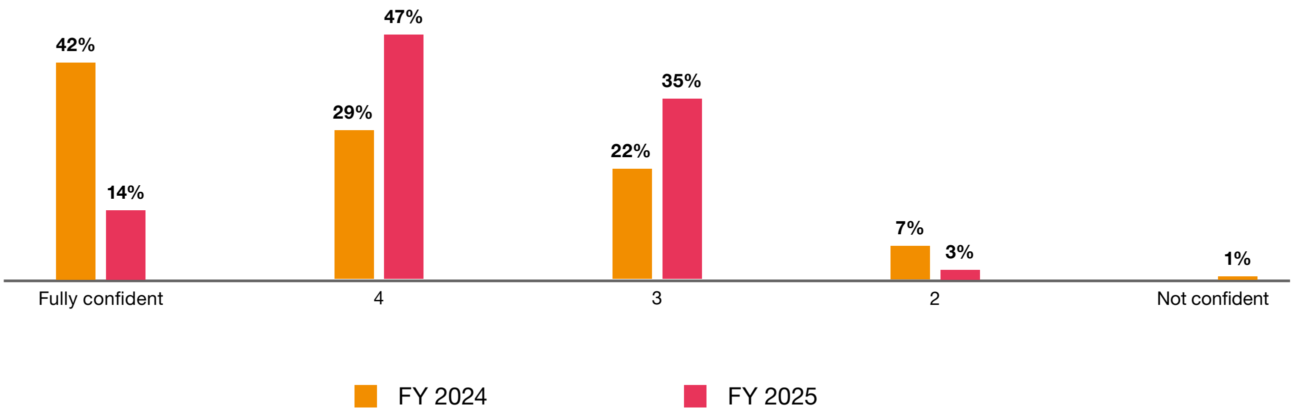
In addition, mid-to-long-term business related questions will also become apparent by the conclusion of the data readiness assessment. These include:

- Dependencies from other contributors to the entity's sustainability results from a value chain perspective and impacts for future vendor and supply chain sourcing and management;
- Contributions of the entity's current business model to the sustainability results of key suppliers and clients and potential changes required to remain relevant and competitive;
- Implications on future financing eligibility and conditions;
- Opportunities for positioning within the market and attractiveness of the entity from an employment perspective.

Implementation

Among our survey respondents, less than half (42%) of entities required to disclose as of FY2024 are fully confident that they can successfully implement the CSRD, while only 14% of their FY2025 peers are fully confident (Exhibit 11).

Exhibit 11. On a scale from 1 to 5, how confident is your organisation that it can successfully implement the CSRD?



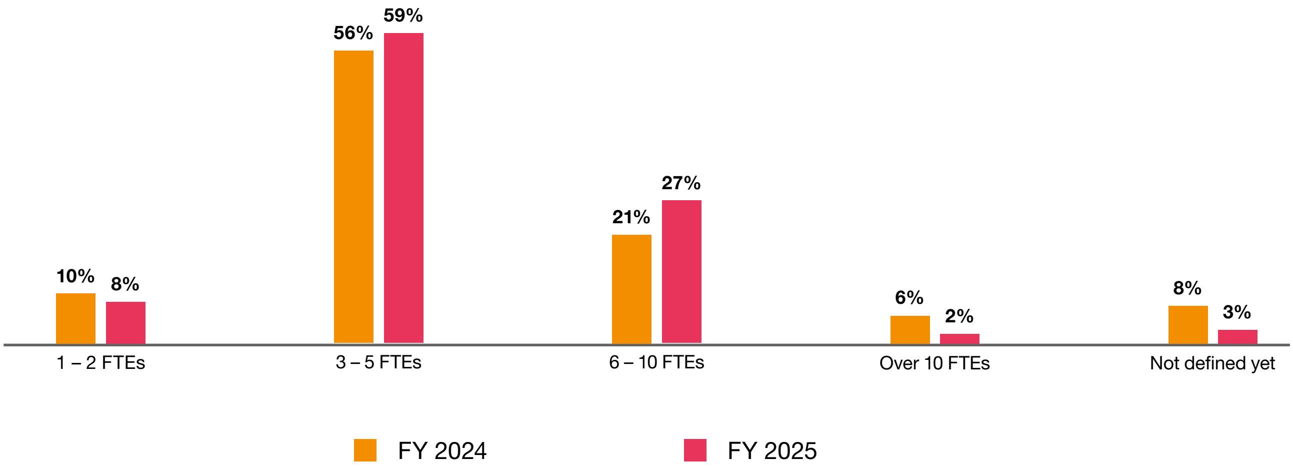
Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

In this stage of CSRD implementation roadmap, the in-scope entity needs to start closing the data gaps by reaching to a wide array of stakeholders – internal and external – to obtain the necessary information, and set up processes to enable it to ensure continued reporting on its ESG metrics, KPIs, and targets. In addition, the entity should determine how much resources need to be devoted to the implementation roadmap.

As Exhibit 12 below illustrates, respondents generally believe that between 3 and 10 full time employees should be allocated to the CSRD implementation roadmap, without any significant divergence between the type of respondent.

Exhibit 12. How much of your staff is allocated to your CSRD project?

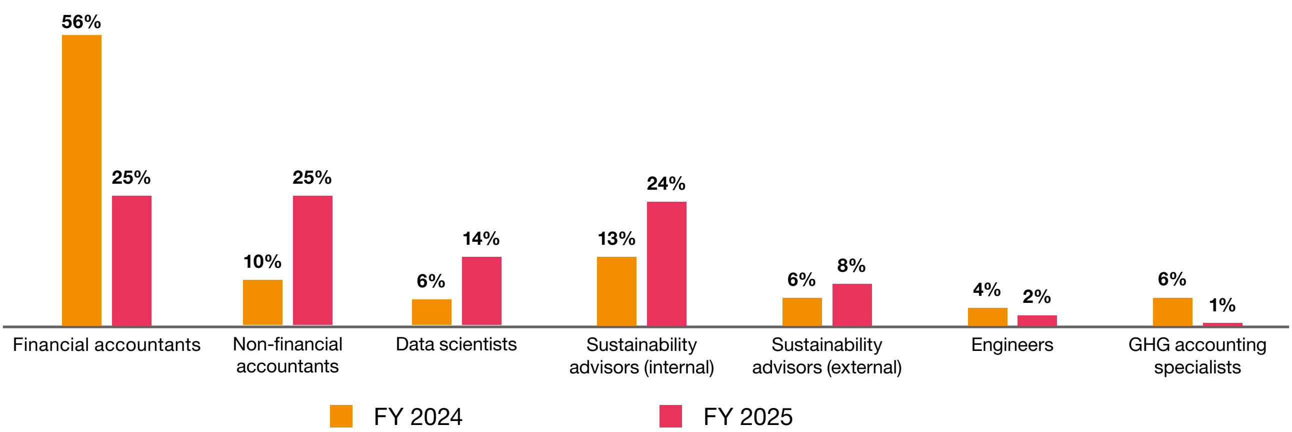


Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

However, when it comes to the profile and expertise of the staff involved, there are some divergences. For instance, FY2024 respondents are far more likely to have financial accountants involved than their FY2025 peers, while the latter are more likely to have internal and external sustainability experts involved (Exhibit 13).

Exhibit 13. What is the most common profile or expertise of your staff involved in the CSRD implementation roadmap?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

Within this phase of the roadmap, the **CSO, the CFO, and the COO need to ensure that the team responsible for managing and implementing the CSRD roadmap have all the resources needed**, be it internal or external. The CSO should not hesitate to prepare CSRD-related upskilling programs for the team, should they be deemed necessary.

In addition, **one of the CSO's most important tasks is ensuring all stakeholders are reporting on time**. This means **coordinating with the COO and CIO to ensure that the necessary procedures for collecting data and implementing sustainability plans are being properly managed or correctly built when necessary**. This oversight extends beyond the entity to all its stakeholders, from suppliers to end-users.

The entity should prepare a dry-run report 6-9 months before the sustainability statements must be provided to the external independent sustainability assurance provider to understand if the implemented target operating model for the sustainability reporting and the provided results and quality of documentation is appropriate for the first year of reporting. This dry-run report with feedback from the external independent sustainability assurance provider will inform the remaining focus areas for the sustainability reporting in the first year.

By the end of the implementation phase, the senior management has begun gathering and collating the data, and has ensured that a dedicated and well-resourced team within the entity has been set up to ensure proper implementation. The management team will ensure the relevance of the policies designed to address the sustainability matters, the targets and actions set as well as transition plans – as relevant – prepared in that respect.

These consolidated results will inform (1) the update of the multi-year reporting implementation plan, specifically for the first year of reporting, and the (2) forward-looking plan to understand and identify changes in the business and operating model required to ensure competitiveness and relevance in the marketplace. To that effect, the CSO monitors peers, material suppliers, and clients related to their sustainability reporting efforts as well as market trends and sentiments relevant for other stakeholders such as employees and financiers.

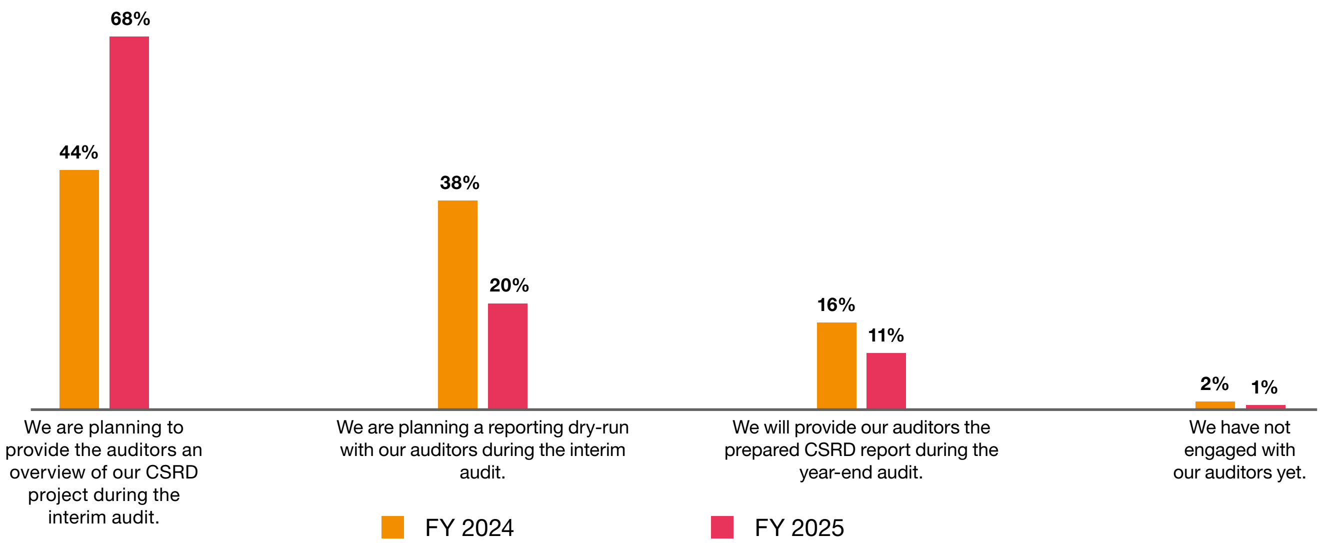
Reporting

The CSRD is a uniquely impactful legislation because it requires in-scope entities to have their sustainability reports assured by a third party, beginning with limited assurance before reaching reasonable assurance.

The **CFO must ensure that CSRD disclosures are made with the same precision and rigour used for financial reports**, and that benchmarking of sustainability indicators is taken into account. To this end, they **need to be supported by the CSO, COO, and CIO**.

As the CSRD report is required to be externally assured, over one in four (44%) FY2024 entities are planning on providing their auditors with an overview of their CSRD project during the interim review – a figure which rises to 68% among FY2025 entities. In addition, FY2024 entities are more likely than their FY2025 peers to plan a reporting dry-run with their auditors during the interim review (Exhibit 14).

Exhibit 14. How do you integrate your assurance provider in your CSRD reporting timeline?

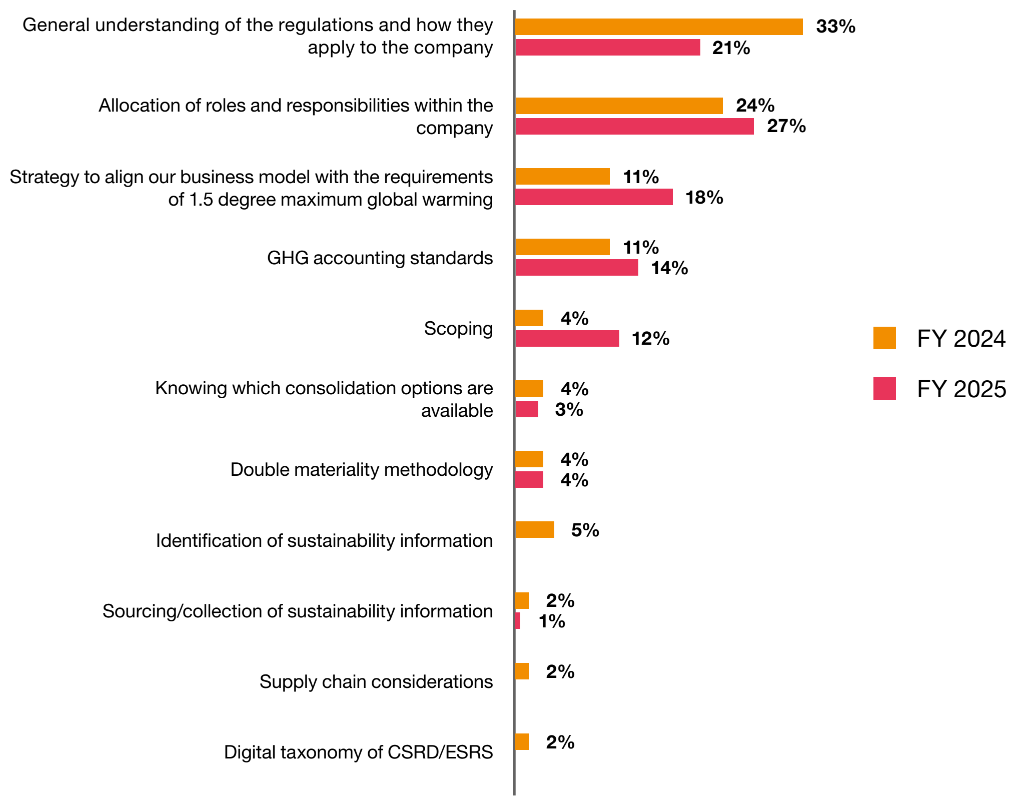


Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

Yet the assurance process is far from being the biggest challenge that entities are facing when it comes to their CSRD implementation roadmap. As Exhibit 15 below highlights, entities are somewhat struggling to allocate CSRD-related roles and responsibilities within the company, with 24% of FY2024 entities and 27% of FY2025 entities citing this as their biggest challenge. In addition, one-third of FY2024 entities are struggling to develop a general understanding of the CSRD and how it applies to their companies, citing it as their biggest challenge, while one in ten of FY2024 entities (11%) and FY2025 entities (14%) are struggling with GHG accounting standards.

Exhibit 15. What is the biggest CSRD/ESRS challenge you have faced until now?



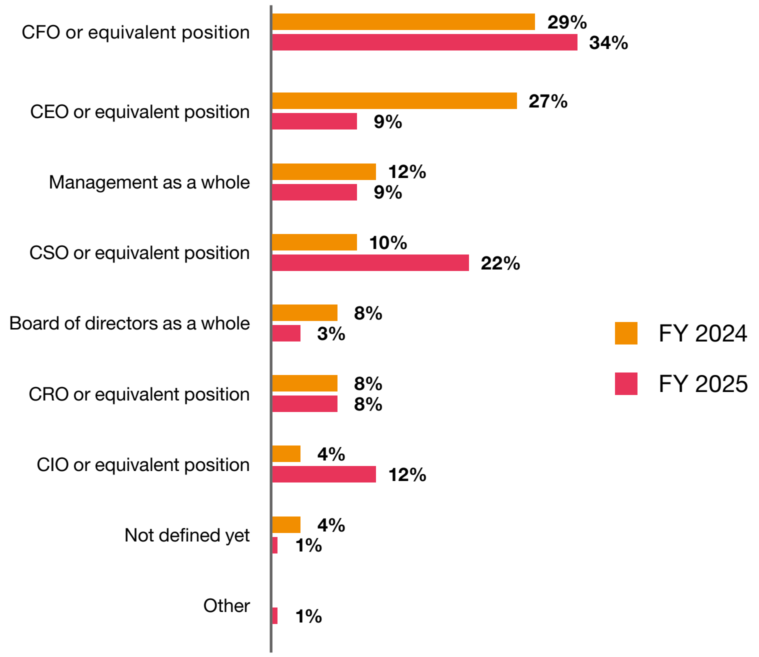
Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

The **CEO needs to oversee the whole finalisation stage and determine how the findings of the CSRD roadmap can be incorporated in the entity's overall strategy and decision-making**. The CEO in effect provides an additional layer of quality control for the CSRD. However, among our survey respondents, there is no agreement on who is responsible for the ultimate sign off.

Among respondents who are required to disclose in FY2024, they tend to believe that the responsibility falls on the CFO (29%) or the CEO (27%). Meanwhile, FY2025 entities tend to think that the CFO (34%) or the CSO (22%) should be responsible (Exhibit 16).

Exhibit 16. Who do you believe is responsible for signing off the CSRD report?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

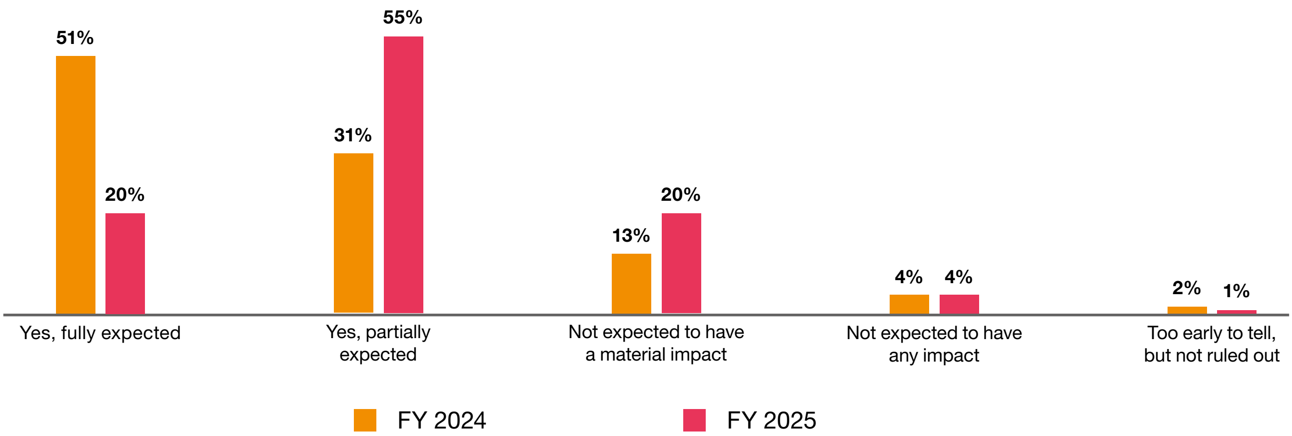
As mandatory sustainability reporting requirements evolve and become ever-more robust, the **CSO's role will be bolstered and they will come to increasingly occupy a leadership position when it comes to setting and implementing the entity's ESG strategy**. As for the CEO, given that the CSRD will likely shed light on previously unexplored areas of the business and the value chain, they can make use of CSRD disclosures to better assess their entities compared to their peers within the same industry and to gain a sustainability-oriented strategic edge over its competitors.

Towards effective sustainability reporting

While voluntary disclosures on ESG topics have been around since the 1990s, the CSRD and the ESRS underpinning it elevate sustainability reporting to the next level, particularly given the mandatory assurance process embedded within the law.

However, views on what kind of material impact that CSRD will have are mixed. As a matter of fact, entities required to disclose in FY2024 are more likely than their FY2025 peers to fully expect that CSRD reporting will be materially relevant to create value (51% vs. 20%) (Exhibit 17).

Exhibit 17. Do you expect that CSRD reporting will be materially relevant to create value for your company?



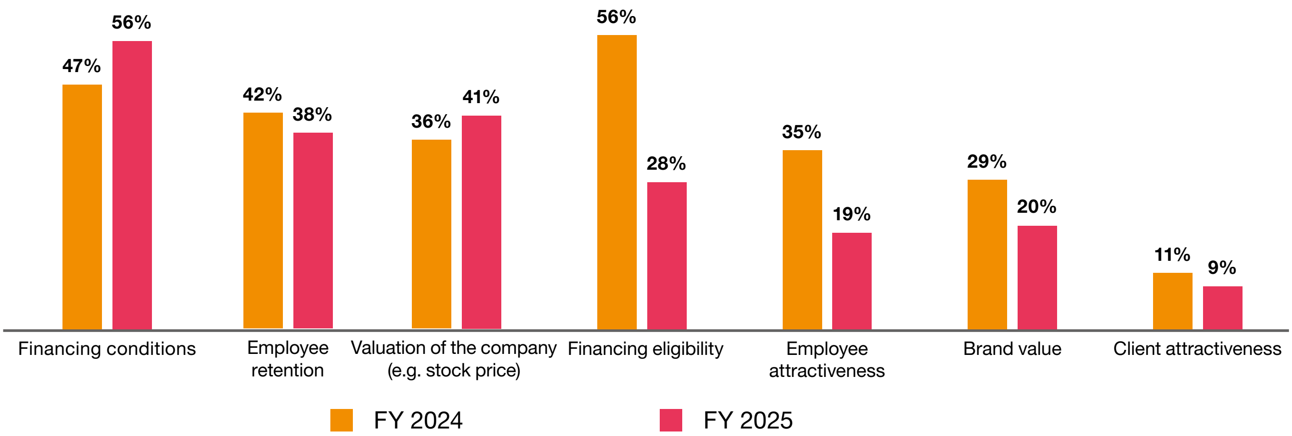
Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

In addition, almost half (47%) of FY2024 entities expect CSRD reporting to materially impact their financing conditions, while 56% believe that it will impact their financing eligibility. This is particularly crucial as financial institutions are facing increasing pressure to divest from financing entities that have a less than stellar record on sustainability matters. In addition, 42% believe that CSRD reporting will have an impact on employee retention – in other words, some respondents are concerned that an inadequately implemented CSRD process with little to show for could negatively impact their ability to attract and retain employees.

Entities required to disclose in FY2025 appear less concerned about financing eligibility, however they are more concerned than their FY2024 peers when it comes to financing conditions and the valuation of the company (Exhibit 18).

Exhibit 18. Do you expect CSRD reporting to have a material impact on the following matters?

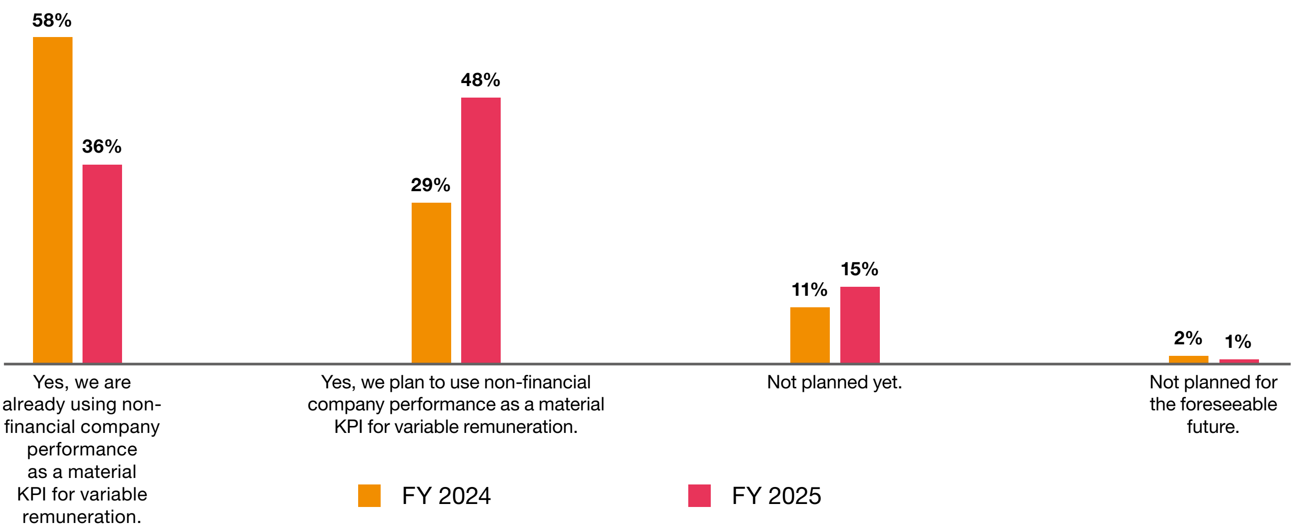


Note: Multiple choice question.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

In all cases, our survey shows that KPIs based on CSRD data will affect the remuneration of the entities' senior management. As Exhibit 19 below shows, over half (58%) of FY2024 entities are already using non-financial company performance as a material KPI for the variable remuneration of the C-Suite members or the C-1 members, while 29% are planning on doing so. Among FY2025 entities, the figures stand at 36% and 48%, respectively. Only a negligible number of entities are not planning on doing so (Exhibit 19).

Exhibit 19. Do you plan on using sustainability data from CSRD as a material KPI when determining variable remuneration for your C-level and C-1 members?



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

As sustainability reporting requirements evolve, so will the role of the CSO. The onset of mandatory sustainability reporting is likely to bolster the CSO's role and elevate them to a leadership position when it comes to setting and implementing the entity's ESG strategy.

As for the CEO, their role as chief strategist will evolve as they will have to incorporate the findings of the CSRD, as well as its requirements, into the overall entity structure and decision-making process. This means that a CEO should constantly verify the quality of the information collected throughout the CSRD process to determine how resilient their entity and its value chain are with regards to sustainability matters. In fact, the CSRD will likely shed light on previously unexplored areas of the business and the value chain. Indeed, in the long run, CSRD disclosures will likely lead to the establishment of ESG KPIs across specific industries, and entities operating in the same industry will likely be compared to one another on their financial as well as their sustainability performance. The CEO's role is to assess how their entity is responding to the CSRD and the broader ESG landscape compared to their peers, which will allow them to be more competitive in terms of sustainability. It is up to the CEO to decide how CSRD disclosures can be used to leverage the entity's competitiveness and help it gain a sustainability-oriented strategic edge over its competitors.

In conclusion, while implementing a CSRD roadmap is a complex, multifaceted process that requires diligent preparation and tight collaboration across the C-Suite, the potential long-term benefits are substantial. If implemented properly, the CSRD can serve as a catalyst for meaningful transformation, enabling in-scope entities to thrive in an era where sustainability considerations are paramount. Instead of seeing it as a yet another compliance requirement, entities have a chance to truly take the lead in sustainability and reimagine their business models and operations. This is imperative to ensure prosperity and continued growth amidst an ever-evolving macroeconomic and geopolitical landscape.

Appendix 1

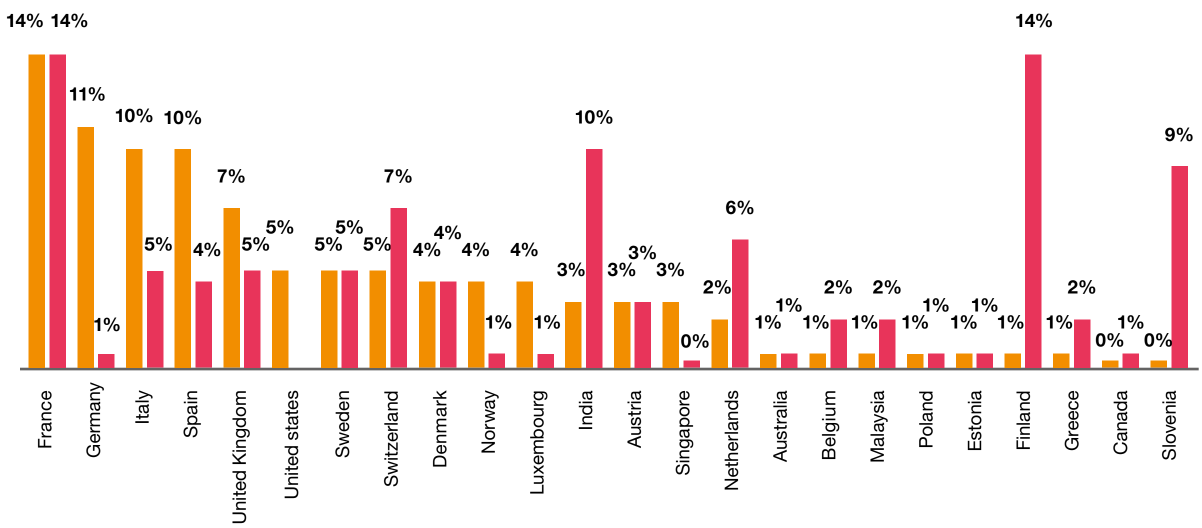
Survey methodology

The survey was conducted in the first and second quarters of 2024. The respondents are characterised as follows:

	European Economic Area (EEA)	United Kingdom	Asia Pacific	North America	Total
Financial Market Participant	80	5	10	7	102
Operating company	88	11	9	5	113
Total	168	16	19	12	215

As Exhibit 20 below highlights, although most respondents are understandably based in or headquartered in the EEA, several respondents came from non-EU countries, as CSRD will also impact non-European entities that have substantial activities in Europe.

Exhibit 20. Respondents' location



Note: Numbers may not add up due to rounding.

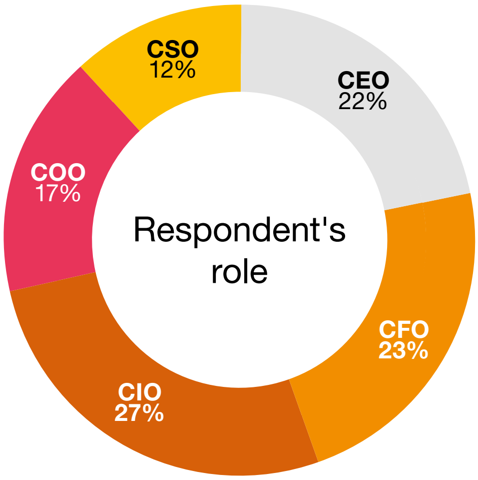
Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

HQ

Office Location

Survey respondents were also well-distributed among the C-Suite, with no category taking dominance over the other.

Exhibit 21. Respondents' position within the C-Suite



Note: Numbers may not add up due to rounding.

Source: PwC Global AWM & ESG Research Centre; survey conducted in Q1 and Q2 2024

Appendix 2

The ESRS

The sector-agnostic ESRS were formally adopted by the European Commission in July 2023. They were prepared by the European Financial Reporting Advisory Group (EFRAG) and take account the ISSB and the GRI to ensure interoperability between European and global standards, hence facilitating the sustainability reporting process for multinational entities with substantial activities in Europe.

The diagram below presents the sector-agnostic standards, while sector-specific standards are expected to be published in June 2026.

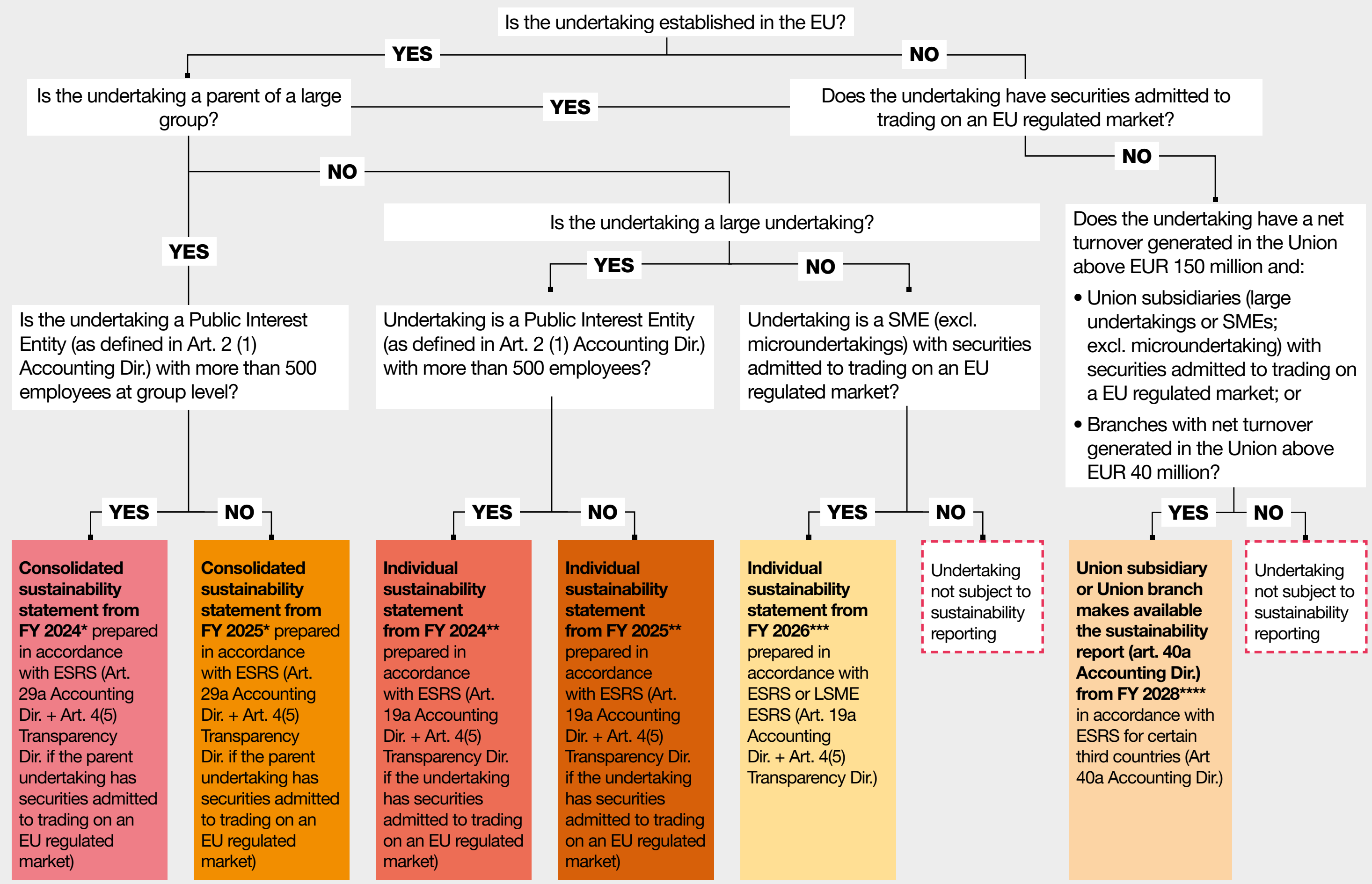
Sector-agnostic standards

Cross-cutting standards	Environment standards	Social standards	Governance standards
ESRS 1 General requirements	**ESRS E1** Climate change	**ESRS S1** Own workforce	**ESRS G1** Business conduct
ESRS 2 General disclosures	**ESRS E2** Pollution	**ESRS S2** Workers in the value chain	
	ESRS E3 Water and marine resources	**ESRS S3** Affected communities	
	ESRS E4 Biodiversity and ecosystems	**ESRS S4** Consumers and end-users	
	ESRS E5 Resource use and circular economy		
Mandatory ESRS	**Materiality-driven ESRS**		

Appendix 3

Scoping criteria

As per a Frequently Asked Questions (FAQs) document published by the European Commission in August 2024, the flowchart and table below identify the CSRD reporting requirements for different types of in-scope entities as well as their application date:



* *Possible exemptions:* if the parent undertaking is itself a subsidiary undertaking (except for large listed undertakings), an exemption is possible under Art. 29a(8) Accounting Dir.
** *Possible exemptions:* if the undertaking is a subsidiary undertaking (except if it is listed), an exemption is possible under Art. 19a(9) Accounting Dir.
*** *Possible opt out for FYs 2026 and 2027 > Possible exemptions:* if the undertaking is a subsidiary undertaking, an exemption is possible under Article 19a(9) Accounting Dir.
**** *Alternative option:* the third-country undertaking prepares a consolidated sustainability statement in accordance with ESRS. In this case exceptions apply for the Union subsidiaries under Art. 19a(9) and 29a(8) Accounting Dir. (except for large undertakings).

Appendix 4

Reporting timelines and approaches

	Financial year 2024 (reporting in 2025)	Financial year 2025 (reporting in 2026)	Financial year 2026 (reporting in 2027)	Financial year 2027 (reporting in 2028)	Financial year 2028 (reporting in 2029)
Large undertakings which are PIEs (including third-country issuers) > 500 employees on average during the financial year	(ESRS)	(ESRS)	(ESRS)	(ESRS)	(ESRS)
PIEs (including third-country issuers) that are parent undertakings of a large group > 500 employees on average on a consolidated basis during the financial year					
Large undertakings (including third-country issuers) that are not "PIEs > 500 employees on average during the financial year"	N/A	(ESRS)	(ESRS)	(ESRS)	(ESRS)
Parent undertakings of a large group (including third-country issuers) that are not "PIEs > 500 employees on average on a consolidated basis during the financial year"	N/A				
Listed SMEs, SNCIs, captive (re) insurance undertakings (including third-country issuers)	N/A	N/A	* (ESRS/LSME ESRS)	* (ESRS/LSME ESRS)	* (ESRS/LSME ESRS)
CSRD subsidiaries (or, in the absence, EU branches with net turnover in the Union > EUR 40 million) of third-country non-listed undertakings with net turnover in the Union > EUR 150 million	N/A	N/A	N/A	N/A	Sustainability report (ESRS for certain third-country undertakings or ESRS)

* May opt out

Individual sustainability statement

Consolidated sustainability statement (ESRS)

Glossary

Corporate Sustainability Reporting Directive (CSRD)	A significantly amended version of the NFRD, the CSRD expands and strengthens sustainability reporting requirements by mandating more comprehensive disclosures of sustainability impacts.
European Sustainability Reporting Standards (ESRS)	Set of guidelines developed under the CSRD which define the specific requirements in-scope entities must follow when disclosing their sustainability impacts and performance.
Financial materiality	Information or factors which could influence the financial performance of an entity or the decisions made by stakeholders (e.g., investors).
Impact materiality	The significance of an entity's operations (and its value chains) on the environment and society.
Non-financial Reporting Directive (NFRD)	An EU regulation passed in 2014 which requires certain large entities to disclose non-financial information on how they manage ESG matters. It sought to increase transparency and accountability around sustainability practices.
Sustainable Finance Disclosure Regulation (SFDR)	An EU regulation which requires financial market participants to disclose how they integrate ESG factors into their investment decisions. It is a transparency regime which seeks to combat greenwashing and protect investors from potentially misleading claims.
Sustainability matters	According to the ESRS, sustainability matters are environmental, social and human rights, and governance factors, including sustainability factors defined in Article 2 of the SFDR.
Value chain	According to the ESRS, the value chain is the full range of activities, resources and relationships related to an entity's business model and the external environment in which it operates.

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