INITIATING THE CSRD REPORTING PROCESS

(Corporate Sustainability Reporting Directive)

#15 – February 2024

THE CONTEXT

A new European regulation to standardize and enhance transparency when measuring the environmental and societal impacts of companies, from 2024 onwards

The European NFRD (Non-Financial Reporting Directive), which currently governs the non-financial performance disclosures of European companies, will soon be replaced by a more ambitious directive: Directive (EU) 2022/2464, known as "**CSRD**." This development, spearheaded by the EFRAG (European Financial Reporting Advisory Group) under the auspices of the European Commission, will be gradually implemented starting January 1, 2024.

The European Commission aims to **regulate the non-financial indicators to be disclosed and how they are measured**, moving from voluntary disclosure to a standardized calculation method that will allow stakeholders to compare different companies. CSRD is designed to:

- Improve corporate **transparency** in terms of sustainability: Reporting and its content are mandatory.
- Facilitate **comparability** between companies (through European transversal and sector-specific standards).
- Prevent **greenwashing**: Companies will no longer be able to cherry-pick topics for reporting or opt out altogether…

Commenté [DA1]: Alternative si jamais vous trouvez ça difficile à comprendre par des non-natifs : Companies will no longer be able to choose whether or not to report, or select specific topics that suit them.

CSRD will therefore impact how businesses measure their performance. All business lines will gradually be called upon to reduce the environmental impact of their activities.

Between 2024 and 2028, European and non-European companies will gradually be required to comply with CSRD regulations based on their size and revenue. An external audit vouches for information reliability.

Actions will be prioritized based on the results of the **double materiality analysis**, which combines the calculation of the financial materiality of Environmental, Social, and Governance (ESG) issues on the company's economic performance while considering the impact of the company's activities on the environment and society. Until now, this second dimension has not been taken into account when measuring a company's performance. Companies could be deemed highly financially successful, even if they were highly polluting or produced products that were dangerous for the environment or people's health.

Ultimately, the European Commission plans to create an online platform providing access to the non-financial impact information of all companies operating in the 27 EU countries. CSRD will thus engage the responsibility of companies towards a broad audience, ranging from business partners to investors and citizen consumers, some of whom no longer hesitate to scrutinize activity reports to verify the overall coherence of the company's strategy.

INSTITUT DU COMMERCE MEMBERS' REQUEST

Assisting in the implementation of CSRD

The CSR Committee of the Institut du Commerce, which brings together retailers and brands that are members of the association, is keen to support all businesses in the retail sector as they prepare for this significant change in measuring both:

- the environmental impacts of their activities
- the influence of environmental criteria on their performance.

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To do so, the committee suggests:

- Raising awareness among CSR and finance departments, as well as general management.
- Sharing best practices with teams to facilitate the transition.

In response, the Institut du Commerce has organized dedicated CSRD webinars in 2023. It is also offering this educational document co-developed with our partners (Zei and Les Nouveaux Géants) and our members. Accompanied by an infographic, it is available in both English and French.

Note: Around 20 member companies are experimenting with part of the ZEI tool to familiarize themselves with CSRD indicators. This initiative is part of the "federate" package (accessible to all members) established by the Institut du Commerce in collaboration with ZEI to measure its impact and that of its members.

ZEI'S RESPONSE[1]
3 steps to initiate the CSRD reporting process

The core framework of CSRD consists of 12 pillars or ESRSs (European Sustainability Reporting Standards), encompassing four main domains:

- **Transversal Standards**: General Principles, Information - Strategies, and Materiality Analysis.
- **Environment**: Climate Change, Pollution, Water and Marine Resources, Biodiversity and Ecosystems, Resources and Circular Economy.
- **Social**: Employees, Workers within the Value Chain, Affected Communities, Consumers and end users.
- **Governance**: Governance, Risk Management, and Internal Control – Business Management.

The number of indicators per pillar varies. The architecture and structure remain common across several ESRSs, with numerous data connections between them. Each pillar will contain 30 to 60 pages of legal text in PDF format. Companies already calculate some requested indicators as CSRD aligns with existing international standards. However, most companies will need to add at least 200 to 300 additional indicators. For now, reporting will be at the group level, not the subsidiary level, but consistency must be ensured.

To grasp the logic and meet expectations, it's crucial to maintain a macro-strategic perspective without compartmentalizing the various pillars. This involves:

- Clearly integrating sustainable development goals into the company's strategy, with active involvement from executive teams in defining, implementing, and overseeing this strategy.
- Demonstrating a solid commitment with thorough communication with all stakeholders (consumers, supply chains, clients, employees, investors, associations/NGOs, local communities) regarding your sustainable development strategy and performance.
- Ensuring the organization, relevance, and quality of information reporting, especially in relation to upcoming standardized sustainable indicators.

Our partner ZEI suggests following these three steps to initiate the reporting process.

1. **Step 1: Establish a double materiality analysis focusing on impact and financial materiality**

The CSRD requires companies to perform this analysis to pinpoint issues that are material, meaning they have a significant impact on the environment or people and/or pose a major risk or opportunity for the company.
The analysis encompasses:

[1] *Zei is a tool to evaluate and manage CSR approach, designed for reporting and communication with your customers and employees. Zei is the partner chosen by Institut du commerce since 2022 to measure the impacts of the association of its members on a voluntary basis*
https://institutducommerce.org/articles/741/gt-diagnostic-dimpact-esg-et-mise-en-oeuvre-de-la-csrd

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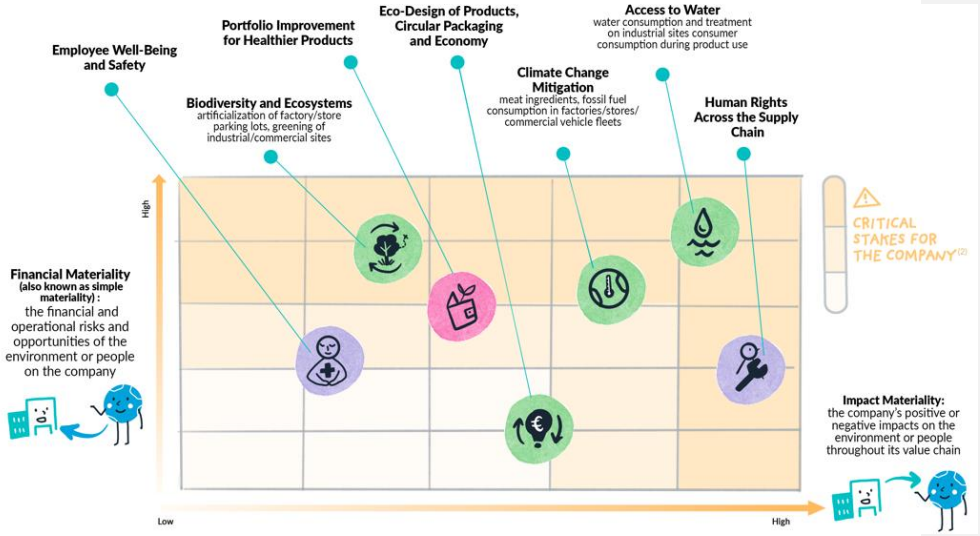
- Impact materiality ("Inside-Out"): the company's positive and negative impacts on the environment or people—throughout its value chain.
- Financial materiality ("Outside-In"): the financial and operational risks and opportunities posed by the environment or people to a company.

The outcome of this analysis is central to the CSRD, enabling the identification of issues, topics, and indicators that are most crucial (material) for the company and will require disclosure according to the methodology outlined on the following page.



2. **Step 2: Identify the ESRSs, topics, and material indicators among the thematic ESRSs and 550 data points to prepare your data structure**
   CSRD is built on 550 standardized indicators encompassing a diverse range of issues. Impacts are assessed based on their severity, occurrence, scope, and irreversibility.

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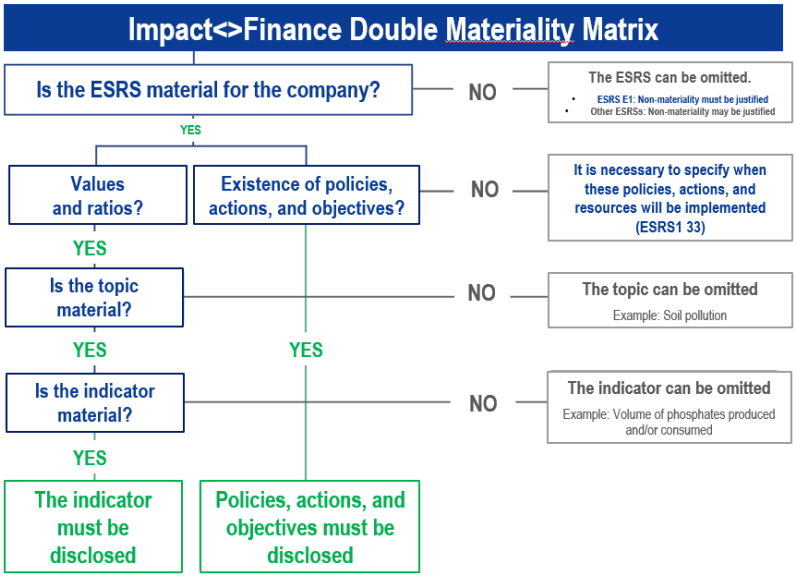

3. **Step 3: Establish a gap analysis between ESG Data already managed by the company and data required for publication**

Companies will be required to submit quantitative data (KPIs) along with qualitative data, including how issues are addressed in corporate governance, the IRO (Impacts, Risks, Opportunities) management policy, as well as the strategies and action plans implemented.

Not all current frameworks align with CSRD indicators. Some frameworks, such as the Global Reporting Initiative (GRI), the European SFDR (Sustainable Finance Disclosure Regulation), or Zei, have more in common with CSRD than sustainability certifications and specific ISO standards, including EcoVadis or B CORP.

Concordance des DR	TOTAL	GRI	SFDR	Bilan carbone	IFRS S2	ECOVADIS	B CORP
ESRS E1 Changement climatique	61	**38** 62%	**13** 21%	**26** 42%	**11** 18%	**5** 9%	**3** 5%
ESRS E2 Pollution	30		**4** 13%			**1** 3%	
ESRS E3 Eau et ressources marines	24	**5** 20%	**5** 21%			**5** 20%	
ESRS E4 Biodiversité et écosystèmes	58	**4** 7%	**7** 12%	**1** 2%		**1** 2%	
ESRS E5 Ressources et économie circulaire	78	**25** 32%	**5** 6%			**4** 5%	
ESRS S1 Employés	203	**32** 16%	**13** 6%			**3** 1%	
ESRS S2 : Travailleurs au sein de la chaîne de valeur	27		**6** 22%				
ESRS S3 : Communautés affectés	27	**2** 8%	**4** 15%				
ESRS S4: Consommateurs et utilisateurs finaux	25	**1** 4%	**4** 16%				
ESRS G1 : Conduite des affaires	45	**4** 9%	**4** 9%			**2** 4%	

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Source: ZEI.

LES NOUVEAUX GEANTS' RESPONSE[2]
Four tips for organizing your team around CSRD

The previous task may seem colossal. That is why **being organized is key** to implementing CSRD confidently.

1. **Involve the Finance, Performance & Risk departments in managing non-financial indicators, and even make them (co-)leaders on the subject**

Many companies currently rely on external consulting firms to establish and update their environmental, social, and governance indicators. While this may initially seem more convenient, this solution is not sustainable in the long run for several reasons:

- Cost: Given that CSRD indicators need to be updated at least annually, outsourcing can be financially burdensome.
- Control: The challenge of CSRD is not only to describe performance but also to improve it. Understanding how indicators are constructed, the assumptions made, and the improvement levers are crucial. This understanding can be challenging when the exercise is outsourced.

It is therefore crucial to internalize managing non-financial performance and reporting.

While traditionally, non-financial indicators were primarily managed by the CSR and HR departments—given their direct access to data—the stringent requirements of CSRD are leading more companies to entrust this responsibility to the Finance, Performance & Risk departments.

Les Nouveaux Géants recommends leveraging the skills of existing Finance teams to manage performance and non-financial reporting. This includes anticipating risks, measuring and tracking results, driving performance with objectives and decision-making support tools, and securing funding—applying these skills to new values and data.

2. **Include the IT & Data Department early in the process**

The difference between non-financial reporting and financial reporting lies mainly in the data collection phase. **Non-financial data** is:

- **Scattered**: It needs to be sourced from various departments within the company (HR, operations, procurement, etc.) and even externally, from suppliers, for instance. Therefore, the data acquisition chain is longer.
- **Much Less Familiar**: For many, the collection of non-financial data either doesn't exist or is only partially known.

Considering the reliability expectations set by CSRD, it is crucial to **ensure the reliability** of the non-financial data flow by:

- Mapping the data to be collected and the entities capable of providing it.
- Establishing a **systematic collection** process.
- **Integrating non-financial collection with existing collection tools**.

Data teams are the experts in corporate data and data architecture! They are essential contributors at the table to ensure that the collection of non-financial data seamlessly integrates into existing processes and tools without overburdening the architecture.

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[2] *Les Nouveaux Géants, partner of l'Institut du Commerce since 2023, propose innovative training programs to acquire ecological competences adapted to each profession.* *https://www.lesnouveauxgeants.com*

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3. Equip your organization with a data collection and reporting tool

The CSRD's requirement for reliability means that non-financial data can no longer be collected through Excel files via email. Some ERPs have developed a non-financial data collection extension; others have created APIs with external collection tools. In any case, you need to equip your organization with a tool that enables you to collect non-financial data reliably and on a recurring basis, like Zei.

4. Quickly test indicators and data collection processes/tools with operational staff

The operational teams typically collect the data. To ensure the **feasibility** and **practicality** of the collection/reporting processes and tools, test them early on with end users.

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- **To go further**:
- *One hour to understand the CSRD*, replay from March 20, 2023: https://institutducommerce.org/articles/790/la-csrd-la-nouvelle-directive-sur-le-reporting-de-durabilite-des-societes-quels-impacts-pour-vous-et-comment-vous-y-preparer-au-plus-tot
- *Steps to initiating the CSRD Process,* replay available: https://institutducommerce.org/articles/873/les-etapes-pour-initier-la-demarche-de-reporting-csrd
- *How to organize your team to get the CSRD reporting process started, replay available* https://institutducommerce.org/articles/874/quelle-organisation-humaine-pour-initier-la-demarche-de-reporting-csrd

About the Institut du Commerce

- The Institut du Commerce strives for a **prosperous, fair, and sober market, both environmentally and socially sustainable**, with an ecologically and socially regenerative outlook.
- The Institut du Commerce **encourages open and efficient collaboration among various stakeholders in the retail sector**—including retailers, manufacturers, service providers, and institutions (federations, associations, academic world) and **across different industries**, notably food, cosmetics/perfumery, DIY, household appliances, and toys.
- The Institut du Commerce works with its members to transform retail practices. **These solutions take various forms,** including **issue mapping, collective publications, and events**. They help **raise awareness, measure impact, facilitate dialogue, amplify efforts, and mobilize ecosystems**. These solutions are designed for General Management and Retail, Supply Chain, HR, and CSR professionals.
- The Institut du Commerce is a **non-profit association**, allowing us to pursue a work approach strongly oriented towards the common good within a framework of shared trust.

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https://institutducommerce.org/categories/215/lessentiel-de-linstitut-du-commerce

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