



Financial & ESG Reporting Execution Point of View

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Financial & ESG Reporting Execution

How ESG reporting demands can fit in your existing financial reporting architecture

The urgent demand to fight climate change by drastically reducing greenhouse gas emissions is driving both regulatory requirements as well as an increasing public awareness. However, these external requirements are not limited to emission reporting, but extend to a whole orchestra of sustainability-related reporting demands that are typically summed up under the ESG umbrella. The European Commission is developing several regulations for integrating sustainability into financial policy frameworks.



What needs to be reported?

Increasing regulatory requirements – such as the Corporate Sustainability Reporting Directive (CSRD), amongst others – call for a broader set of KPIs across all ESG dimensions of an organization and their integration into financial reporting. Capital markets rate ESG information next to financial performance. And increasing public awareness demands management decisions based on ESG imperatives and climate impact.



Why to enhance reporting capabilities?

External reporting to regulators and financial markets, as well as internal management reports require ESG information with accuracy and reliability in accordance with today's financial reporting. An organization's ESG reporting capabilities demand audit assurance, process reliability, data management and integration as well as the availability a "single source of truth".

This document outlines the execution of the required integrated Financial & ESG reporting and elaborates on the "How to?" in enterprise organizations.

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01 | Obligation & Opportunity

Why does ESG Reporting matter?



The case for integrated Financial & ESG reporting execution

Different external and internal requirements all point towards an overarching use case of Integrated Financial & ESG reporting

Regulatory Pressure



EU Taxonomy

Requirement to **classify financial KPIs due to sustainability criteria** defined by the European Union



CSRD¹ & ESRS²

Obligation to **follow specific rules and frameworks with regard to ESG reporting**. Scope of non-financial reporting is extended drastically.



LKSG³ & CSDDD⁴

Extension of data availability beyond the scope of the own company. Focus on Supply Chain Transparency is gradually extended.

– Not exhaustive –



Strategy & Market Dynamics

Voluntary ESG Reporting

Desire to **differentiate your company with, e.g., special purpose reporting** for SBTi or ESG Ratings, investor communication or to provide transparency for stakeholders on sustainability efforts

Sustainability Steering

Pressure to follow-up on already **communicated sustainability targets** and **allocate capital** to most pressing sustainability actions

Sustainability Strategy

Develop business models which are also viable in the future and increase reputation and brand value

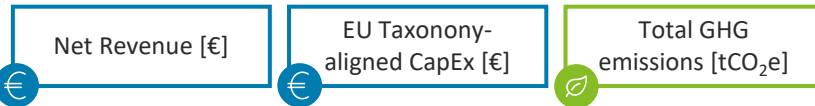
¹ Corporate Sustainability Reporting Directive. ² European Sustainability Reporting Standards. ³ Lieferkettensorgfaltspflichtengesetz. ⁴ Corporate Sustainability Due Diligence Directive.

Variety of reporting occasions and KPIs

A multitude of expectations towards your ESG reporting arises that all need to be fulfilled during different reporting occasions – each of these has typically an individual scope of required KPIs

Selected reporting occasions and required example KPIs

Annual Integrated Reporting



Target Group: Regulators, Society

ESG Top Management Dashboard



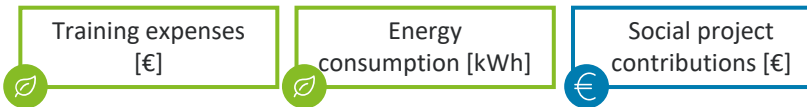
Target Group: Top Management

ESG Rating Reporting



Target Group: Investors

Operational ESG Management



Target Group: Operational Management Employees



Further reporting occasions may include risk reports, country-by-country reports, etc.



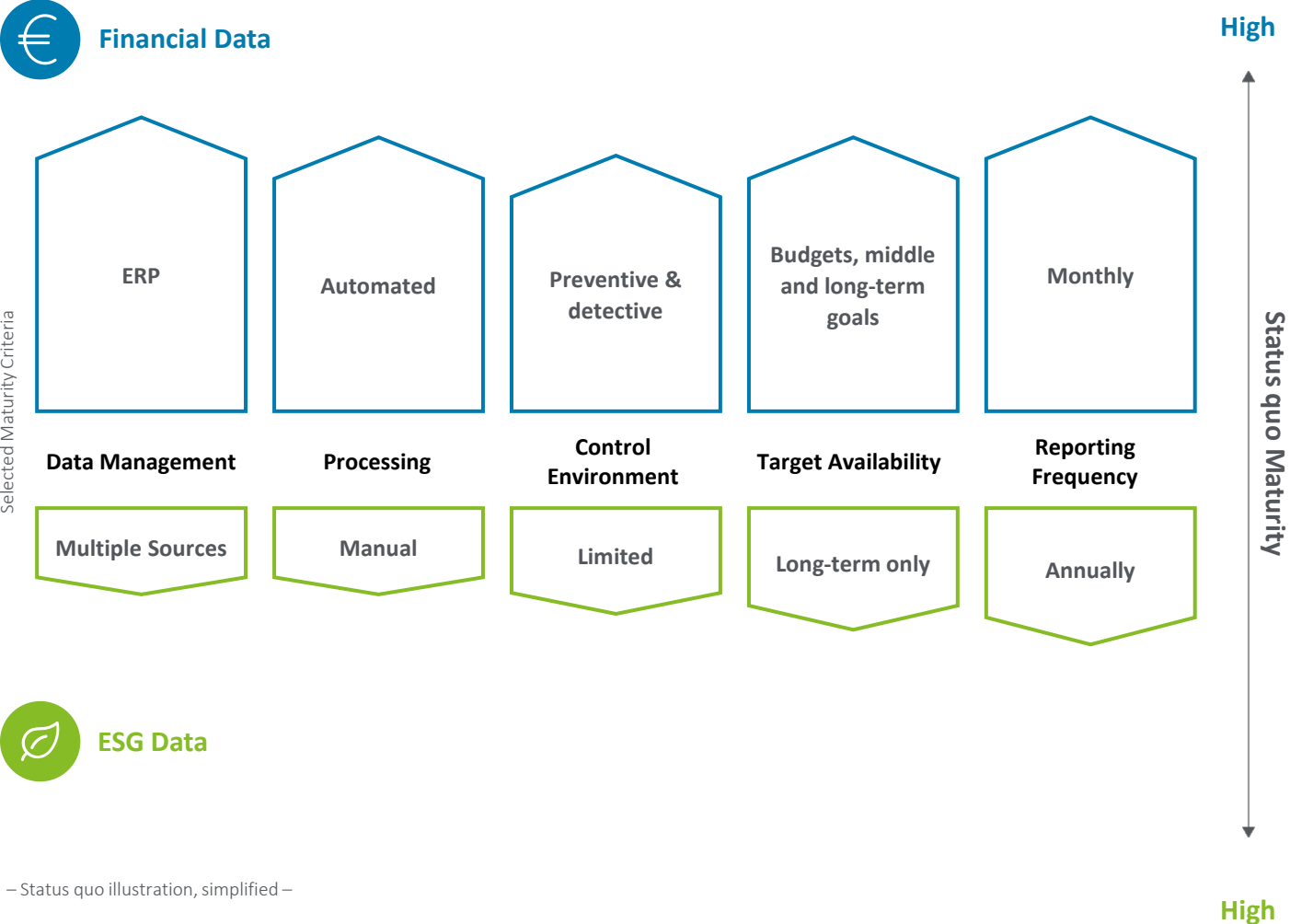
02 | Data Archetypes & System Architecture

What needs to be considered for an Integrated Reporting Target Picture?



Levels of maturity in Financial and ESG Data Archetypes

ESG data does not yet have the same maturity level as financial data, since challenges in data reliability, reporting frequency and established controls stand in the way of audit readiness



We need the same rigor used for financial data in an integrated reporting landscape

The processing and control of financial information is well established, due to the need to **provide reliable, consistent and comparable financial reporting data to stakeholders.**

Experiences from systems for financial data and reporting should be applied to ESG information to make sustainability reporting assurance-ready and **shape the integrated reporting landscape of the future.**

– Status quo illustration, simplified –

Functional Requirements

To bridge the gap in maturity of as-is ESG data management and enable an integrated reporting, several functional requirements need to be ensured

Data Collection

- ✓ **Manual and semi-automated data entry** with possibility to connect with source systems
- ✓ **Communication and data transfer** with existing systems (via interfaces)
- ✓ **Maintenance of data** on the dimensions/level of detail specified for each KPI

Data Harmonization, Validation & Visualization

- ✓ **Traceability of data origin and data changes**
- ✓ **Integrated data validation and quality checks** on brand and group level
- ✓ **Workflow capabilities**, e.g., digital 4-eyes-principle digital release

Data Usage

- ✓ **Multifunctional dashboards** for data analysis & presentation
- ✓ **Pre-defined reporting packages** incl. the possibility to enter permanent comments
- ✓ **Linking to external data sources and information**

General Requirements

- ✓ **High tool performance and low computing times** as requirement for „real time“ calculation of data models
- ✓ **Flexibility to make adjustments** based on new requirements
- ✓ **Cloud-based technology** (in line with cloud-first technology at many companies)

Operationalization of these requirements is best ensured through a close alignment with the financial architecture.

In the short-term, dedicated **sustainability tools can help to structure a heterogeneous data foundation** and advance the maturity of ESG data management.

In the long-run, only **fully integrated reporting can satisfy regulatory and assurance requirements and unlock new opportunities** a for sustainability strategy steering and capital allocation.

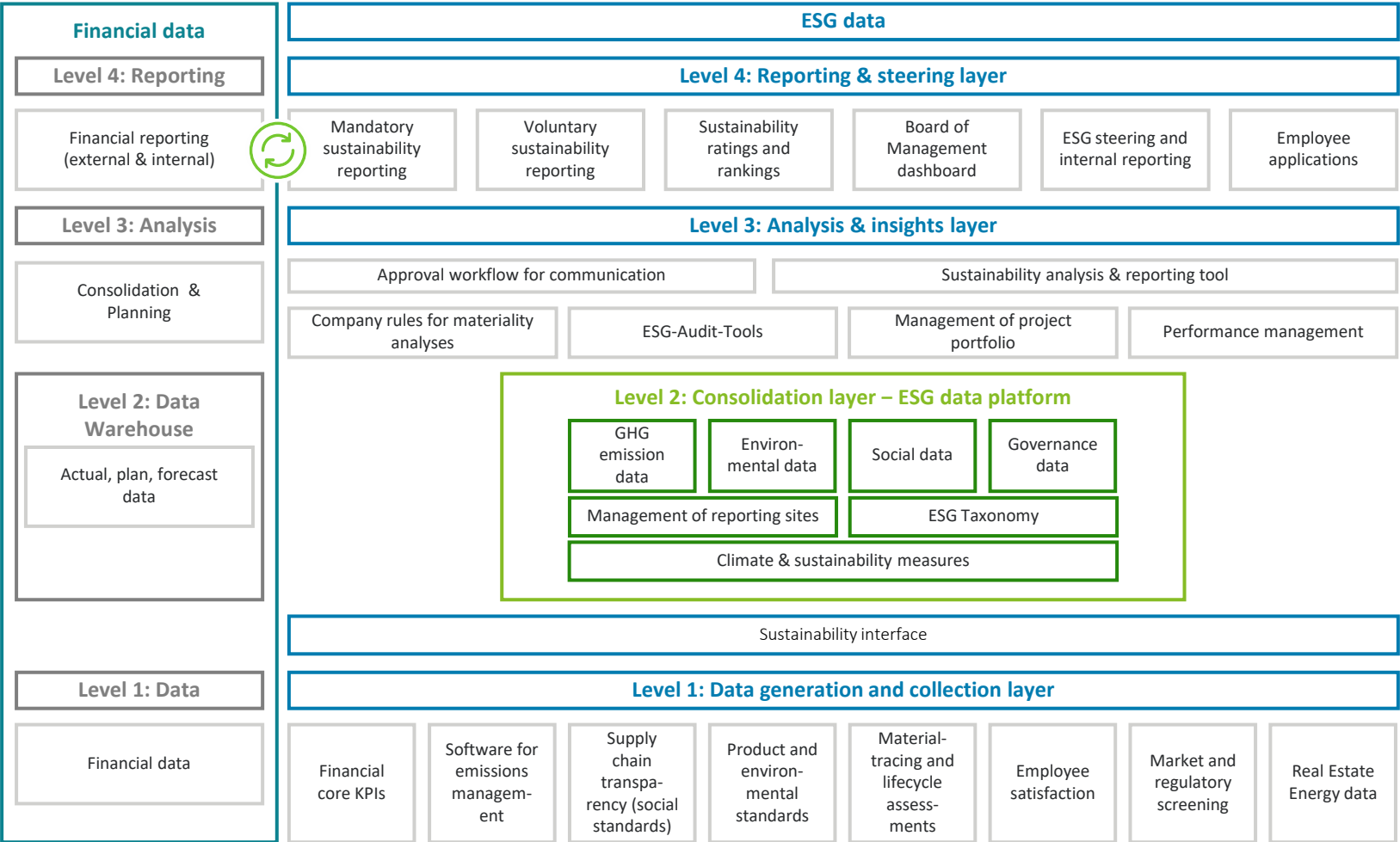
Integrated Reporting Target Picture

An Integrated Reporting Landscape is able to meet the aforementioned requirements and can ensure a future-proof data and system landscape

Architecture level

- 4 Reporting & steering**
(Integrated) financial and non-financial reporting & ESG KPI framework
- 3 Analysis & Insights**
Performance management and financial consolidation
- 2 Consolidation & Data Platform**
Data aggregation and storage
- 1 Data generation and collection**
Company-specific data and information from entire ecosystem and supply chain

Integrated architecture for financial and non-financial reporting



03 | Getting Started

How can you start your Integrated Reporting journey?



Action Steps

The materiality assessment can be the starting point of your integrated reporting execution – based on this, you can identify your ESG KPI and information model requirements, and reflect them in your target architecture model

What's next?

Developing and implementing integrated financial and ESG reporting execution capabilities requires transparency of the targets.

Following that, set up a finance and sustainability reporting concept for strong sustainability awareness within the whole organization. Based on a differentiated specification of technical and functional requirements, suitable software solutions can be evaluated and a target picture for a system architecture (incl. processes and interfaces to be mapped) is developed.



1 Outline the current ESG environment through **materiality assessment** and **regulatory analysis** and identify relevant **ESG stakeholders**.



2 Derive relevant action fields, **ESG KPIs and measures** from the analyses, combine all in an overarching integrated sustainability strategy.



3 Set up an **ESG reporting and information model**, which includes the definition of the reporting concept, processes and data management as well as IT tool requirements.



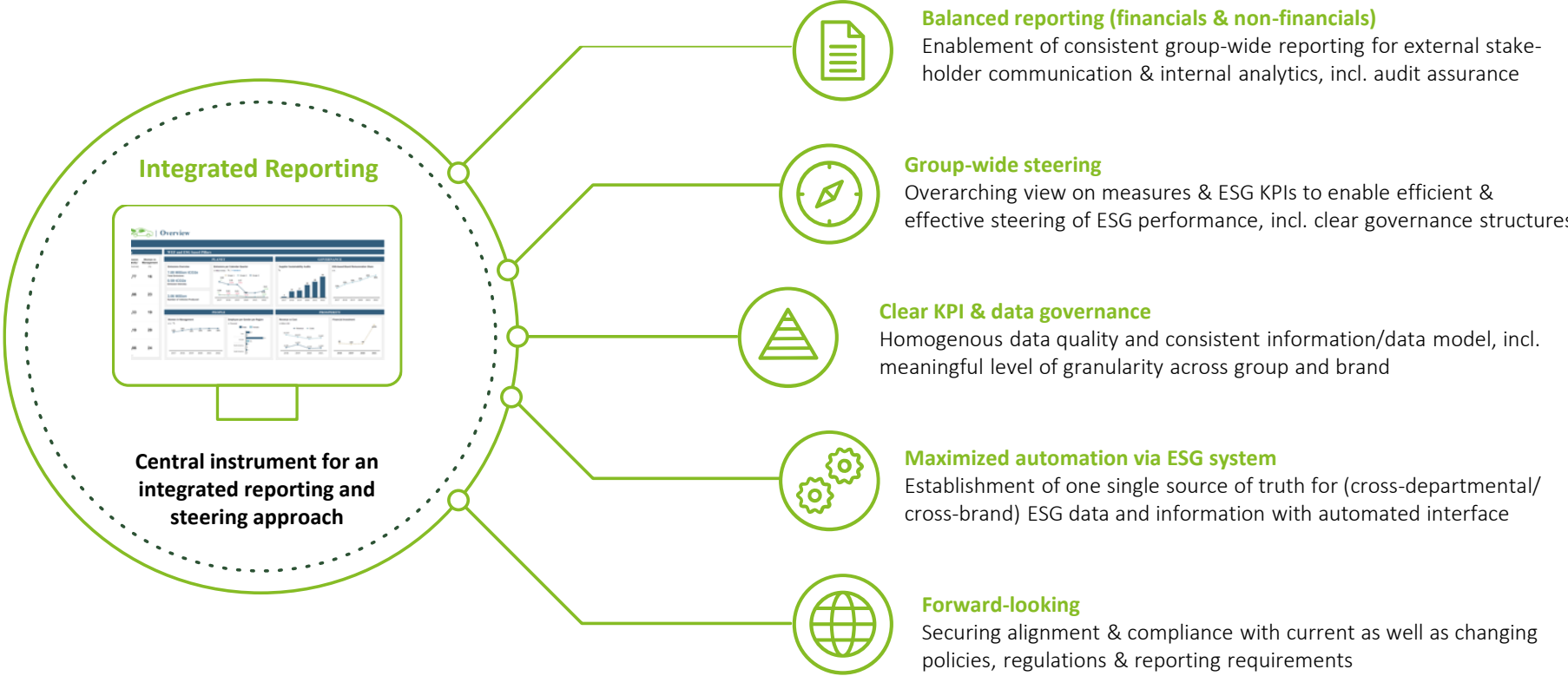
4 Develop a **corresponding integrated data architecture** and embed your sustainability data into the overall finance landscape of the enterprise.

From Integrated Reporting to Integrated Performance Management

The enterprise, finance and sustainability departments need to align the steering model and prepare enablers like the operating model, data, and systems to provide the overarching foundation



Develop a **corresponding integrated data architecture** and embed your sustainability data into to the overall finance landscape of the enterprise.



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How can we help?

In light of new sustainability regulations and increasing demand on ESG reporting from various stakeholders, it is crucial for companies to understand the associated external requirements. From there, companies should promptly adjust and develop a sustainability strategy and prepare reporting capabilities to not just fulfill, but to embrace them. Only an **Integrated Financial & ESG Reporting Architecture** is able to achieve this.

Deloitte can be a valuable accelerator to your project and develop a customized concept which is based on our extensive project experience in designing and implementing finance and sustainability reporting concepts, as well as on our expertise in reporting execution capabilities.

Our team is happy to engage in the specific challenges and opportunities that await your company!



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