



ÅRL Regnskabsundersøgelse 2023

Delmodul om
bæredygtighedsrapportering

AQT, februar 2024

Agenda

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01

Overview of ESG regulations and the philosophy behind

- International
- US
- EU including the EU Green Deal



02

Corporate Sustainability Reporting Directive

- NFRD (current ESG reporting)
- CSRD (future ESG reporting)
- Implementation into Danish law



03

European Sustainability Reporting Standards

- Introduction
- Double materiality assessment
- Value chain
- Content and structure



04

EU Taxonomy

- Economic activities and KPI's
- Technical screening criteria
- Do no significant harm
- Minimum safeguards



05

Potential effects on the financial statement

- Consistency
- Effects based on commitments

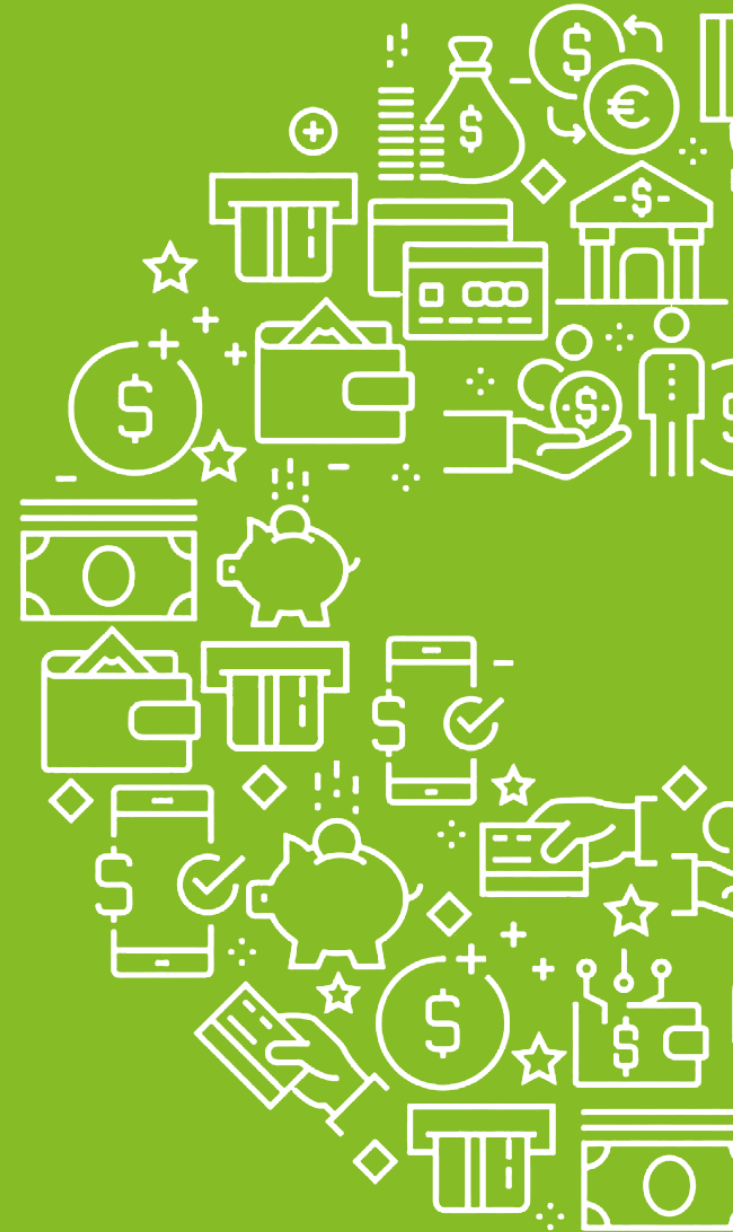


06

What is next step from here?








- Timeline of processes

Overview of ESG regulations and the philosophy behind



Sustainability Reporting Standards

Comparing Sustainability Reporting Regulation

	 <p>European Union</p>	 <p>International</p>	 <p>USA</p>
Standard setters	<p>European Commission + EU Parliament + EU Council</p>   <p>European Financial Reporting Advisory Group</p>	<p>International Sustainability Standards Board (ISSB)</p> 	<p>US Securities and Exchange Commission (SEC)</p> 
Standard	<p>December 16, 2022: Corporate Sustainability Reporting Directive (CSRD) – to be transposed in local law before 6 July 2024 .</p> <p>July 31, 2023: Reporting in accordance with European Sustainability Reporting Standards (ESRS) developed by EFRAG.</p> <p>Includes also reporting on EU Taxonomy.</p>	<p>June 26, 2023: International Sustainability Standards Board (ISSB) released IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information IFRS S2 Climate-related Disclosures.</p> <p>ISSB will continue to develop additional standards on environmental and social matters.</p>	<p>March 21, 2022: The SEC released its proposed rule on climate-related disclosure.</p> <p>October 7, 2023: The California Governor signed bills collectively require certain public and private US companies doing business in California to provide both quantitative and qualitative climate disclosures.</p>
Frameworks	<p>GRI, TNFD, Value Reporting Foundation - VRF (SASB and IIRC merger), GHG Protocol, etc...</p>		

The EU Green Deal

A new regulatory landscape for ESG disclosure

The larger regulatory landscape being developed by the European Commission is designed to incentivize corporations and financial market players towards more sustainable and transparent ways of operating and financing their business and their investments across the value chain.

1 **THE AMBITION**
The EU aims to become climate neutral by 2050 and make progress towards a more equitable and sustainable society

2 **THE APPROACH**
To do that, the European Commission is developing several regulations for integrating sustainability into how companies and investments are managed



3 **THE OBJECTIVES**

- Redirecting capital flows towards sustainable companies and investments
- Accelerate transparency, reducing greenwashing, and promoting a long-term perspective
- Systematically integrating sustainability into risk management

Corporate Sustainability Reporting Directive (CSRD)



Current ESG reporting requirements – NFRD and EU Taxonomy

Reporting requirements for FY23

NFRD - 2017 till 2023

Non-Financial Reporting Directive – 2014/95/EU – Became mandatory in Denmark from 2015 as ÅRL §99a

Scope

- ✓ Public interest companies AND
- ✓ > 500 employees
- ✓ Exceeds one of below criteria (Denmark):
 - Turnover > 313 Mio DKK
 - Total assets > 156 Mio DKK
 - Employees > 250 employees

Topics

- ✓ Diversity
- ✓ Environmental, Social & Employee matters
- ✓ Respect for human rights
- ✓ Anti-corruption and bribery

Aspects

- Policy
- Results
- Risks
- KPIs

- **Flexible** choice in use of reporting framework or standards
- **No assurance** obligation

EU Taxonomy

FY23: disclosure of taxonomy alignment (% of green turnover, CapEx and OpEx) and eligibility for the remaining for objectives (please refer to [slide 21](#) for more)

Future ESG reporting requirements – CSRD

Reporting requirements going forward

CSRD - As from 2024

Corporate **S**ustainability **R**eporting **D**irective – adopted by the European Commission in December 2022 and applicable as from 2024

FOR WHICH COMPANIES?



As from 2024: Public interest companies and state owned companies > 500 employees

As from 2025: all large companies, incl. commercial foundations, cooperative companies etc., exceeding 2 of the criteria

- Turnover > 313 Mio DKK
 - Total assets > 156 Mio DKK
 - >250 employees.
- } Potential increase of thresholds by 20-25%

As from 2026: all listed SMEs

Exemption possibility for subsidiaries when ESG information is reported at consolidated level (not for listed subsidiaries!)

As from 2028:

- for non-EU groups that realize > 150 Mio EUR in the EU during 2 last accounting years; AND
- that have a subsidiary or branch in EU; AND
- have at least one large EU subsidiary or branch with > 40 Mio EUR turnover; THEN **consolidated sustainability information**

of the non-EU group should be prepared as per the CSRD.

WHICH CONTENT?



- Use of mandatory ESRS, which includes information about
 - Environmental, Social and Governance matters
 - Strategy and resilience
 - Stakeholders and materiality assessment
 - KPI's, targets and progress
 - Risks and risk management
 - Role of the board
 - Process to identify reported ESG information
 - Etc...
- Reporting of **green financial indicators (EU Taxonomy)**.
 - % of green Turnover
 - % of green CapEx
 - % of green OpEx

OTHER REQUIREMENTS



01 Double materiality

*Companies should report information necessary to understand how sustainability matters affect them, **and** information necessary to understand the impact they have on people and the environment.*

02 Value chain

Scope is extended to include information on the material IROs connected with the entity through its direct and indirect business relationships in the upstream and/or downstream value chain

03 Format of reporting

*Part of the **management report** and the format needs to be a machine-readable format (**digital tagging**).*

04 Assurance requirement

Mandatory limited assurance on 1) Reporting, 2) DMA process, 3) EU Taxonomy and 4) tagging.

Transposition of the CSRD into Danish law

Public hearing ended and next step is to be parliament approved no later than 6 July 2024

The transposition of the CSRD into Danish laws was in public hearing and ended 24 November 2023. The Danish Business Authorities are currently analyzing the comments letters from the public hearing. After this, they will issue the final version of the Danish laws for parliament approval. The CSRD needs to be transposed into Danish law no later than 6 July 2024.

Udkast til

Forslag

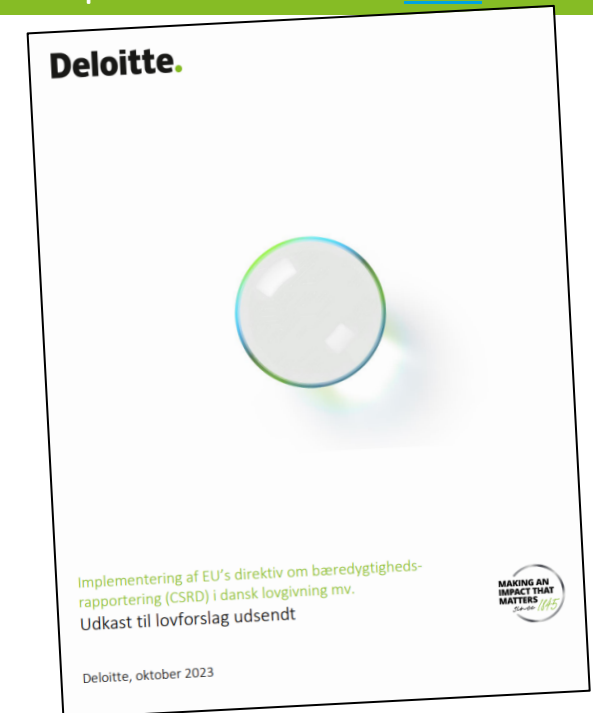
til

Lov om ændring af årsregnskabsloven, revisorloven og forskellige andre love¹
(Gennemførelse af EU-direktiv om virksomheders bæredygtighedsrapportering og EU-direktiv om forhøjelse af størrelsesgrænser i regnskabsdirektivet)

§ 1

I årsregnskabsloven, jf. lovbekendtgørelse nr. 1441 af 14. november 2022, som ændret ved lov nr. 735 af 13. juni 2023, foretages følgende ændringer:

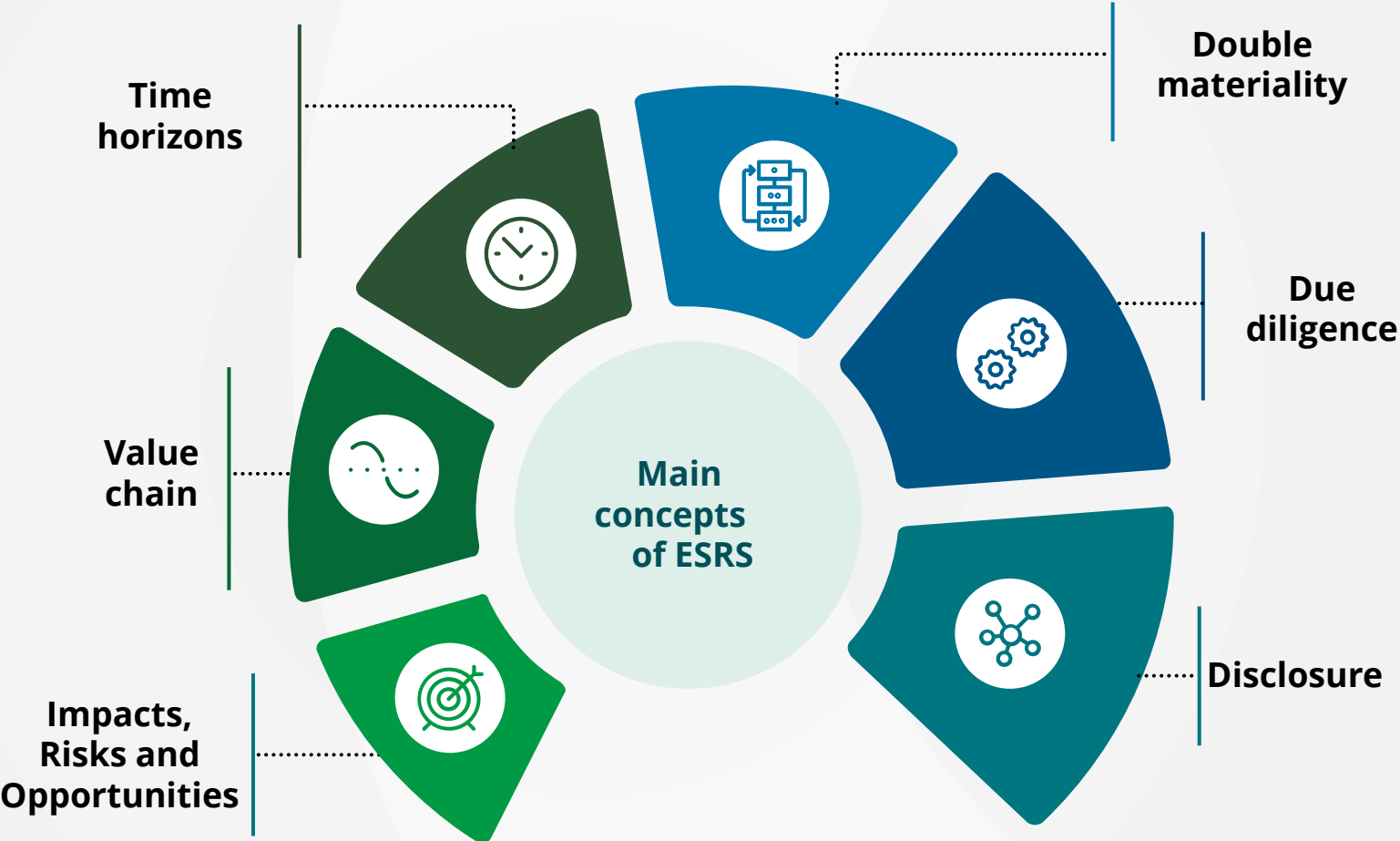
Deloitte has combined all you need to know about the transposition in a publication. Find it [here](#).



European Sustainability Reporting Standards (ESRS)



Main concepts of ESRS

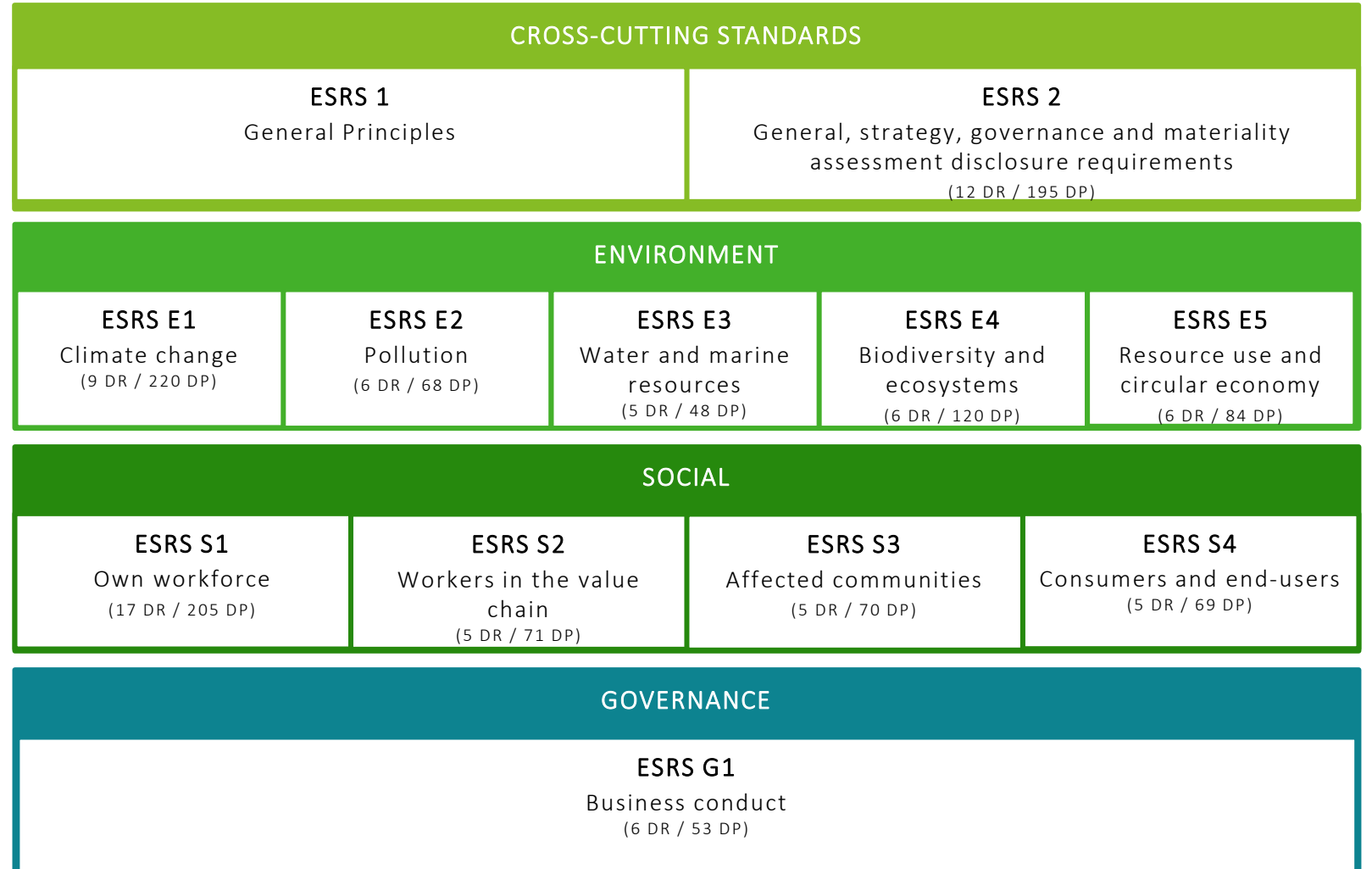


European Sustainability Reporting Standards (“ESRS”)

General Overview

- **12 « ESG » STANDARDS:**
2 cross-cutting, 5 on Environment, 4 on Social, 1 on Governance
- **82 DISCLOSURE REQUIREMENTS (DR)**
(qualitative or quantitative information)
- **Over 1.100 DATA POINTS (DP)**
- **4 REPORTING AREAS (TCFD pillars)**
 - Governance
 - Strategy
 - Impact, Risk & Opportunity Management
 - Metrics & Targets

Subject to companies’ assessment of materiality.

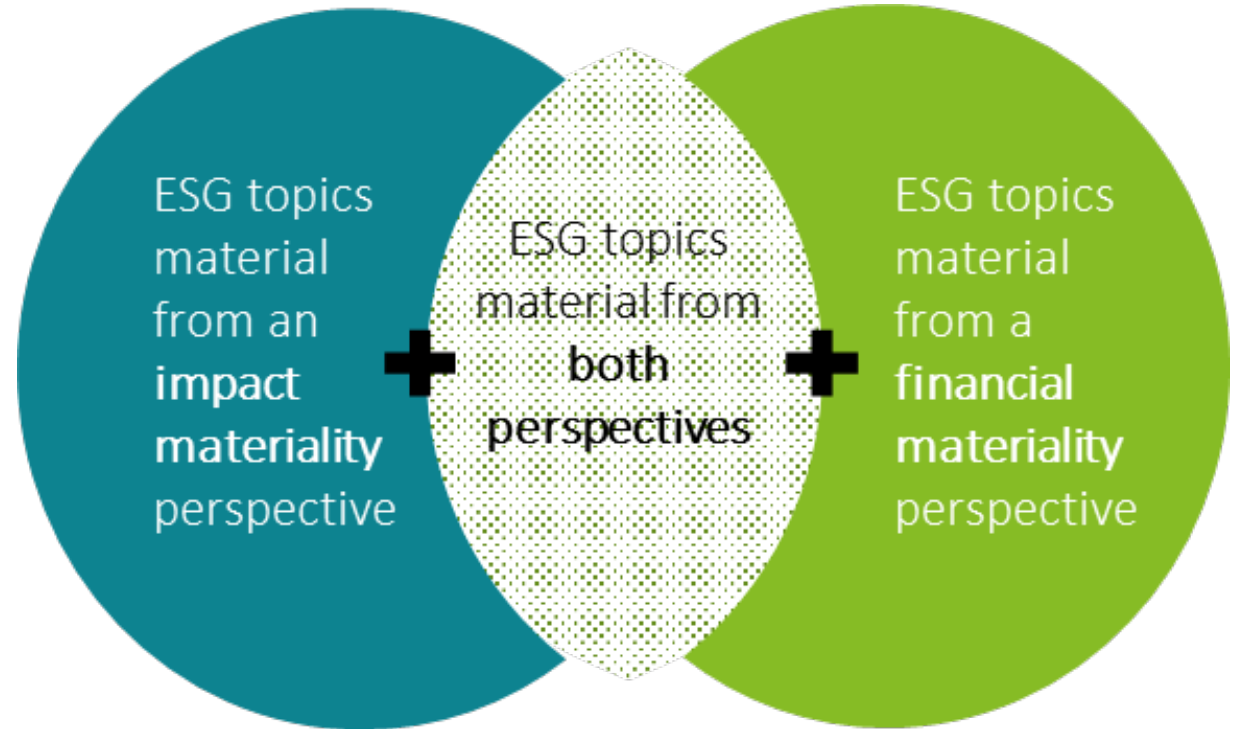
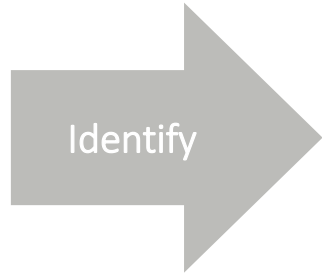


Understanding double materiality

ESG matters are material from either the impact perspective or the financial perspective or both

Multiple Stakeholder Perspectives

- **Affected stakeholders:** Those that have interests that are affected by the undertaking's activities across its value chain
- **Users of sustainability reporting:** Those with an interest in the undertaking (investors, lenders, business partners, regulators, employees, civil society organisations etc.)



Impact materiality (inside-out)

An ESG topic or information is material from an impact perspective if the organisation is connected to **actual or potential significant impacts on people or the environment** over the short, medium or long term.

Financial materiality (outside-in)

An ESG topic is material from a financial perspective if **it potentially triggers financial effects on organisations**, i.e., generates risks or opportunities that influence or potentially influence the future cash flows and therefore the enterprise value of the organisation in the short, medium or long term.

Components of a double materiality assessment

The DMA is a complex and comprehensive assessment

Materiality of a Sustainability Matter

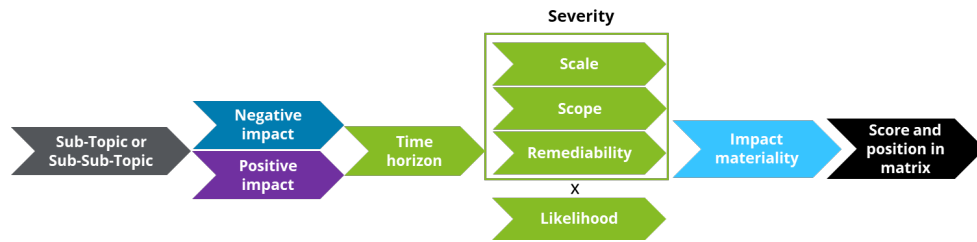
Impacts

Risks

Opportunities

Impact Materiality = Severity x Likelihood

Financial Materiality = Effect x Likelihood



Multiple dimensions to consider all at once:

Negative impact

Positive impact

- High impact
- Medium impact
- Low impact
- L Long-term (>5 years)
- M Medium-term (1-5 years)
- S Short-term (0-1 years)
- Very likely
- Likely
- Very unlikely
- High remediability
- Medium remediability
- Low remediability
- Large effect
- Some effect
- Immaterial effect

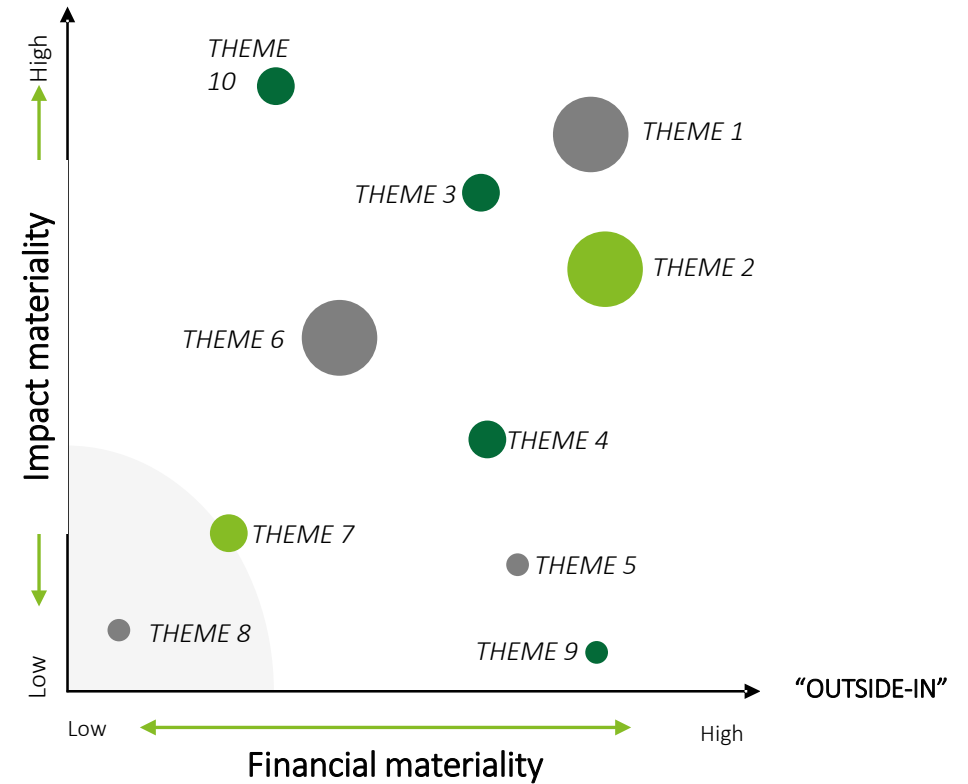
Disclosing outcome of double materiality assessment

Different ways to disclose impact and financial materiality

Key elements to consider



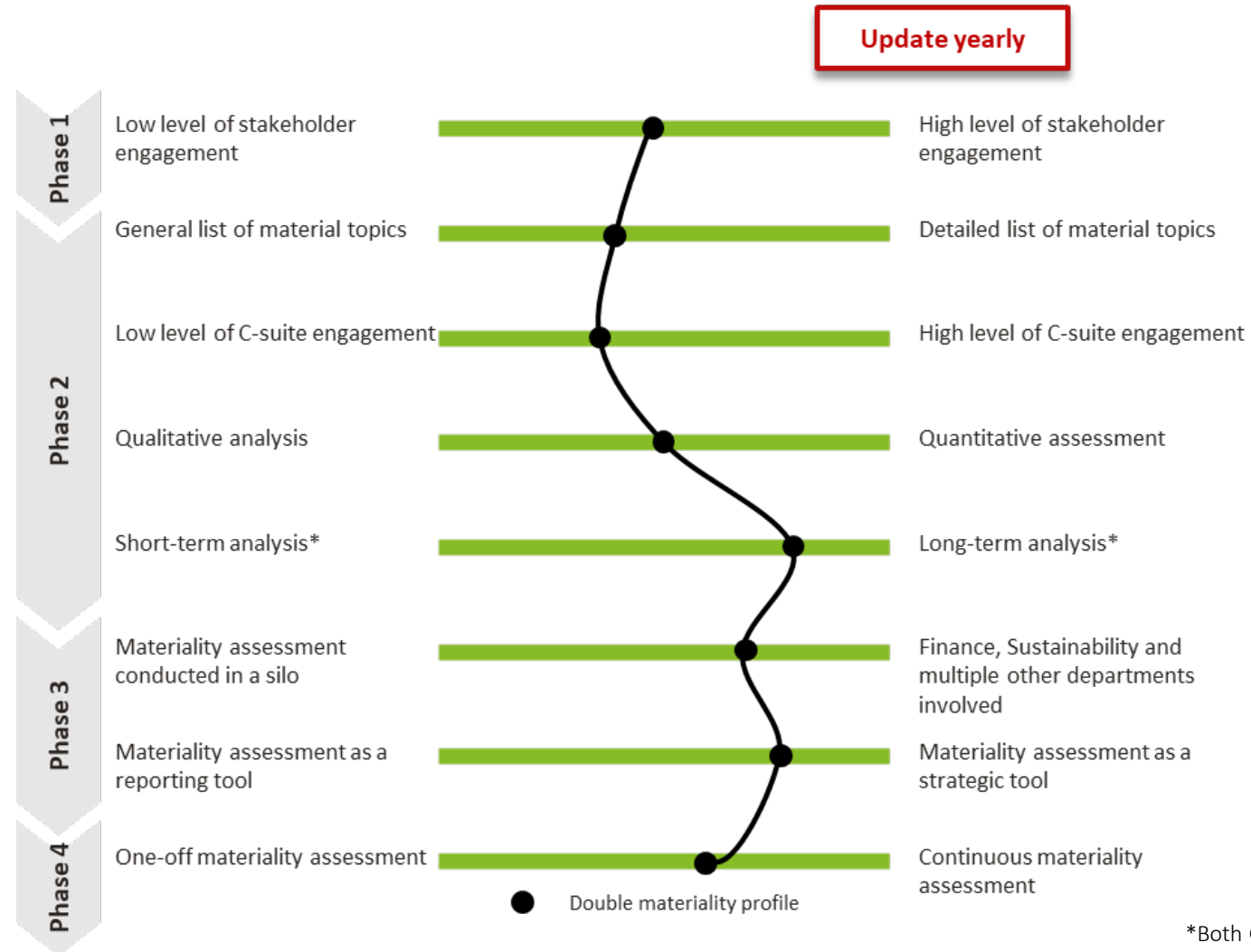
"INSIDE-OUT"



● Social ● Environment ● Governance

Align the expectations for the assessment, before starting the process

A double materiality assessment requires balance and tailoring



*Both GRI and CSRD(ESRS) recommend long-term analysis.

Value chain

New concept that significantly broadens the boundaries



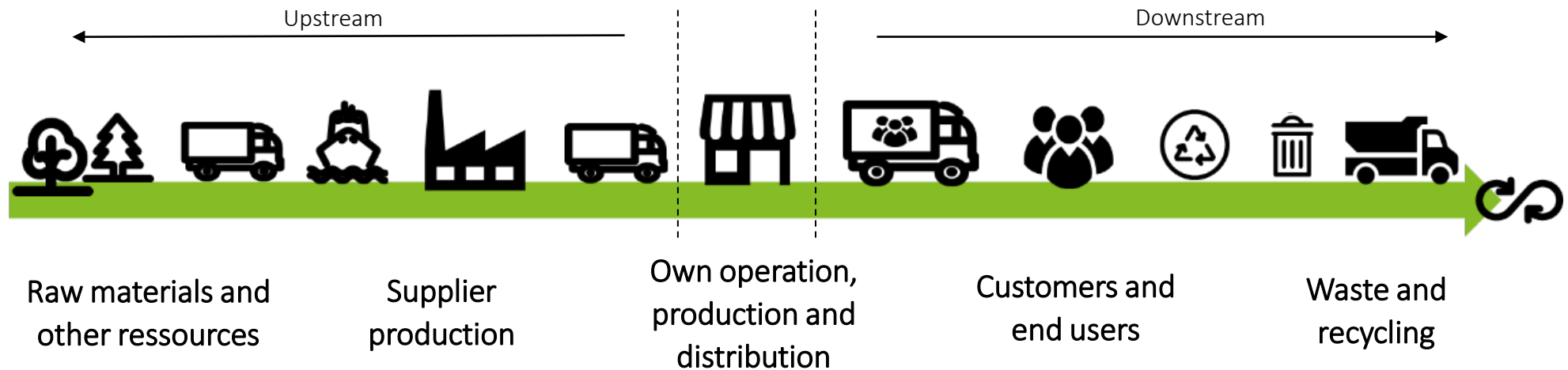
Impacts, risks and opportunities can arise in the entity's own operations and in its value chain.

Value chain encompasses the activities, resources and relationships an entity uses and relies upon to create products or services from conception to delivery, consumption and end-of life.

Upstream includes suppliers and any other provider of products or services that are used in the development of the entity's own products or services.



Downstream includes those who receive products or services from the entity, such as distributors and customers.



ESRS 1 – General requirements

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-
- | | |
|--|--|
| 1. Categories of standards and disclosures under ESRS | 6. Time horizons |
| 2. Qualitative characteristics of information | 7. Preparation and presentation of sustainability information |
| 3. Double materiality as the basis for sustainability disclosures | 8. Structure of sustainability statements |
| 4. Sustainability due diligence | 9. Linkages with other parts of corporate reporting and connected information |
| 5. Value chain | 10. Transitional provisions |
-

Appendix A: Application Requirements

Appendix B: Qualitative characteristics of information

*Appendix C: List of **phased-in** Disclosure Requirements*

*Appendix D: **Structure** of ESRS sustainability statements*

*Appendix E: **Flowchart** for determining disclosures to be included*

*Appendix F: **Example of structure** of ESRS sustainability statements*

*Appendix G: **Example of incorporation by reference***

ESRS 2 – General disclosures

Table of content

Basis for preparation



BP-1: General basis for preparation of the **sustainability statements**

BP-2: Disclosures in relation to specific circumstances

Governance



GOV1: The role of the **administrative, management and supervisory bodies** (AM&SB)

GOV2: Information provided **to** and sustainability matters addressed **by** the undertaking's AM&SB

GOV3: Integration of sustainability-related performance in **incentive schemes**

GOV4: Statement on sustainability **due diligence**

GOV5: **Risk management and internal controls** over sustainability reporting

Strategy



SBM1: **Strategy, business model** and value chain

SBM2: Interests and views of **stakeholders**

SBM3: **Material** impacts, risks and opportunities and their interaction with **strategy and business model(s)**

IRO management



DISCLOSURE ON THE MATERIALITY ASSESSMENT PROCESS

IRO1: Description of **processes to identify and assess** material IROs

IRO2: **Disclosure requirements** in ESRS covered by the undertaking's sustainability statements

MINIMUM DISCLOSURE REQUIREMENTS ON POLICIES AND ACTIONS

MDR-P: **Policies** adopted to manage material sustainability matters

MDR-A: **Actions and resources** in relation to material sustainability matters

MINIMUM DISCLOSURES REQUIREMENTS ON METRICS AND TARGETS

MDR-M: **Metrics** in relation to material sustainability matters

MDR-T: **Tracking effectiveness** of policies and actions through **targets**

ESRS E1 – Climate change

Table of content

General disclosures



- ESRS 2 GOV-3: Integration of sustainability-related performance in **incentive schemes**
- E1-1: **Transition plan** for climate change **mitigation**
- ESRS 2 SBM 3: **Material** impacts, risks and opportunities and their interaction with **strategy and business model(s)**

IRO management



- ESRS 2 IRO-1: Description of **processes to identify and assess** material **climate-related** IROs
- E1-2: **Policies** related to climate change mitigation and adaptation
- E1-3: **Action plans** and **resources** in relation to climate change policies

Metrics and targets



- E1-4: **Targets** related to climate change mitigation and adaptation
- E1-5: **Energy consumption** and mix
- E1-6: Gross Scopes 1, 2, 3 and Total **GHG emissions**
- E1-7: **GHG removals** and **GHG mitigation** projects financed through carbon credits
- E1-8: Internal **carbon pricing**
- E1-9: **Anticipated financial effects** from material physical risks, material transition risks and potential climate-related opportunities

ESRS S1 – Own workforce

Table of content

General requirements



- ESRS 2 SBM-2: Interests and views of **stakeholders**
- ESRS 2 SBM-3: **Material** impacts, risks and opportunities and their interaction with **strategy and business model(s)**

IRO management



- S1-1: **Policies** related to own workforce
- S1-2: Processes for **engaging** with own workers and workers' representatives about impacts
- S1-3: Processes to **remediate negative impacts** and channels for own workers to raise concerns
- S1-4: **Taking action** on material impacts on own workforce, and approaches to **mitigating** material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions

Metrics and Targets



- S1-5: **Targets** related to managing material negative impacts, advancing positive impacts, and managing material risk and opportunities
- S1-6: Characteristics of the undertaking's **employees**
- S1-7: Characteristics of **non-employee workers** in the undertaking's own workforce
- S1-8: **Collective bargaining** coverage and social dialogue
- S1-9: **Diversity metrics**
- S1-10: **Adequate wages**
- S1-11: **Social protection**
- S1-12: Persons with **disabilities**
- S1-13: **Training** and skills development metrics
- S1-14: **Health and safety** metrics
- S1-15: **Work-life balance** metrics
- S1-16: **Compensation** metrics (pay gap and total compensation)
- S1-17: **Incidents, complaints** and **severe human rights** impacts

ESRS G1 – Governance

Table of content

General requirements



- ESRS 2 GOV-1: The role of the **administrative, management and supervisory bodies** (AM&SB)

IRO management



- ESRS 2 IRO-1: Description of **processes to identify and assess** material IROs
- G1-1: Corporate culture and business conduct **policies** and corporate culture
- G1-2: Management of relationships with **suppliers**
- G1-3: Prevention and detection of **corruption** and **bribery**

Metrics and Targets



- G1-4: **Confirmed incidents** of corruption or bribery
- G1-5: **Political influence** and **lobbying activities**
- G1-3: **Payment practices**

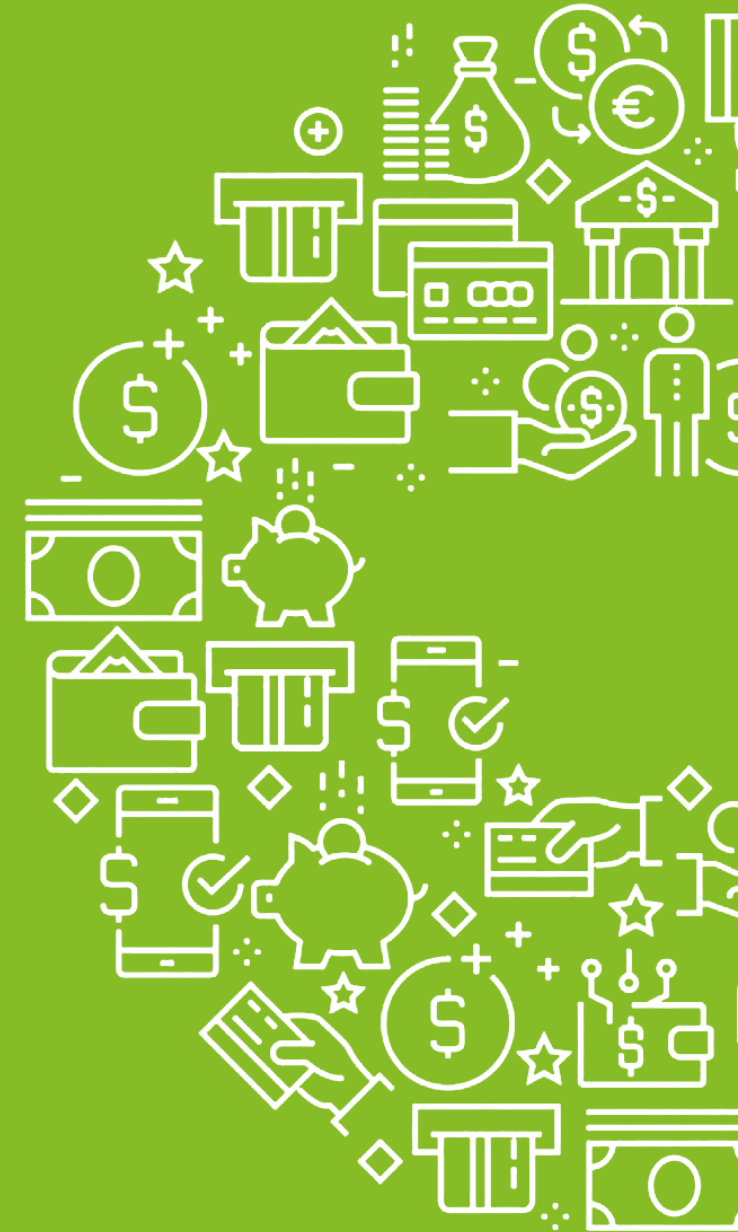
Introduction to CSRD and ESRS (in Danish)

Relevant Deloitte publication

Deloitte has published a Danish publication introducing the reader to the CSRD and ESRS. Find it [here](#) for you and your clients.



EU Taxonomy



Reminder - EU Taxonomy in a nutshell – What?

Uniform classification system that defines which activities are “green”, and a methodology to calculate the “greenness” of the company’s activities - it is a tool to say what is environmentally sustainable and how to calculate it



Harmonized classification system

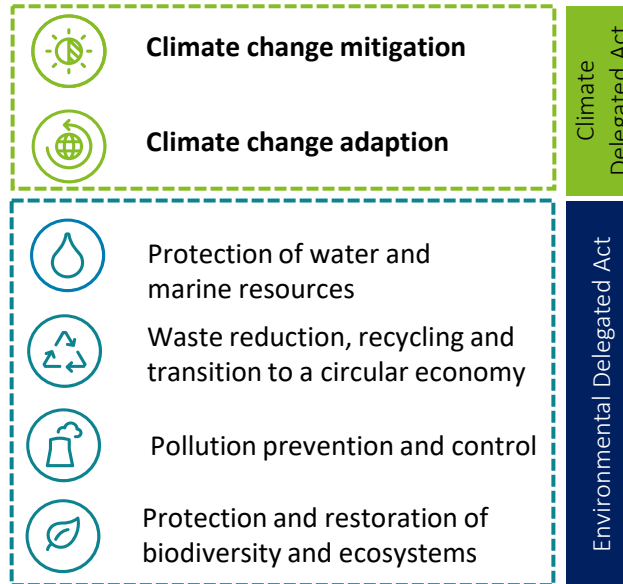
- A “dictionary” of environmentally sustainable economic activities
- Covering > **100+ economic activities** – across over 13 sectors – jointly responsible for > **90% of Scope 1 & 2 GHG emissions** in the EU

1. Forestry
2. Environmental protection and restoration activities
3. Manufacturing
4. Energy
5. Water supply, sewerage, waste management & remediation activities
6. Transport
7. Construction and real estate activities
8. I&C technologies
9. Professional, scientific and technical activities
10. Financial & insurance services
11. Education
12. Human health and social work activities
13. Arts, entertainment and recreation etc.

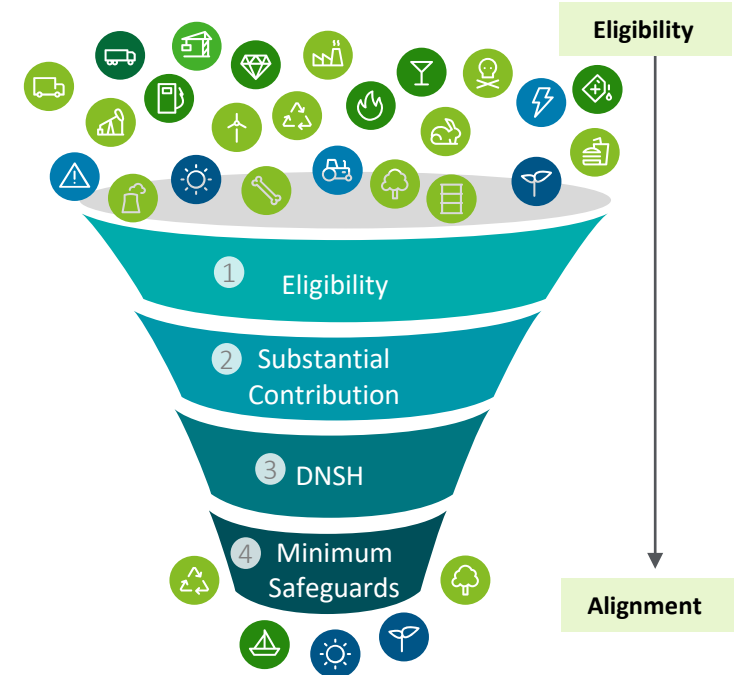


- **Science based**
- With **6 Environmental Objectives**

Environmental objectives of the Taxonomy



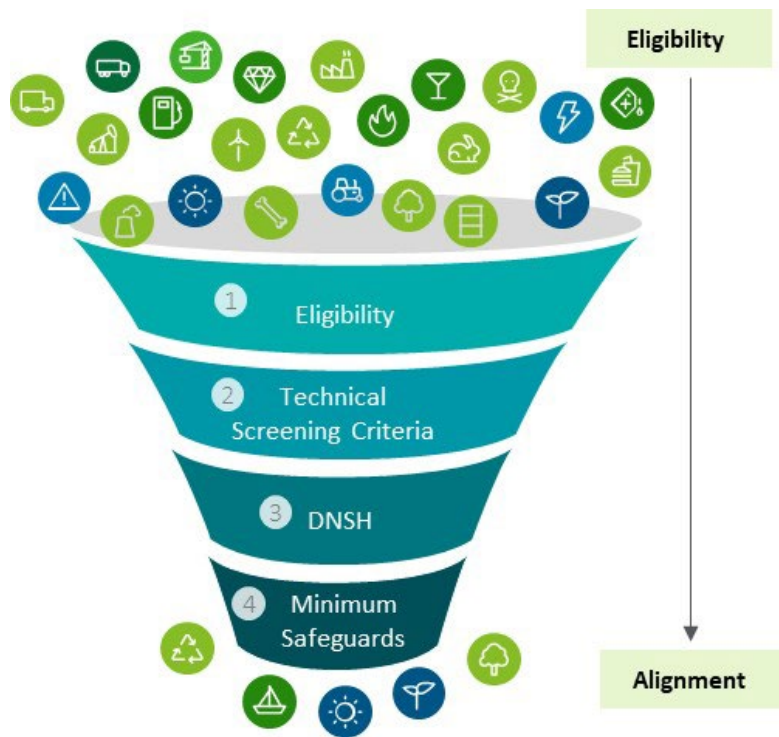
- With detailed **Technical Screening Criteria (TSC)** for an activity to substantially contribute to one of the environmental objectives
- And a set of **Do No Significant Harm (DNSH)** and **Minimum Social Safeguards (MSS)** requirements



Dynamic tool – with criteria reviews expected; with other sectors (latest added Gas/Nuclear) and later a tool for Social Taxonomy.

Reminder - EU Taxonomy in a nutshell – How?

How to assess eligibility and alignment of economic activities – the 5 steps approach



Analysis

Check Eligibility – Identify Taxonomy covered activities by mapping company’s activities against the Taxonomy

Check Technical Screening Criteria - Verify compliance with relevant substantial contribution technical screening criteria (TSC) for the activities identified

Check DNSH - verify compliance with Do No Significant Harm (DNSH) criteria with other 5 environmental objectives

Comply with Minimum safeguards - carried out in compliance with minimum social safeguards including OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human rights

Report

Report on required disclosures – calculate and report the proportion of Taxonomy aligned KPIs:

Turnover

KPI

$$= \frac{\text{Taxonomy Aligned Turnover}}{\text{Total Net Turnover}}$$

CapEx

KPI

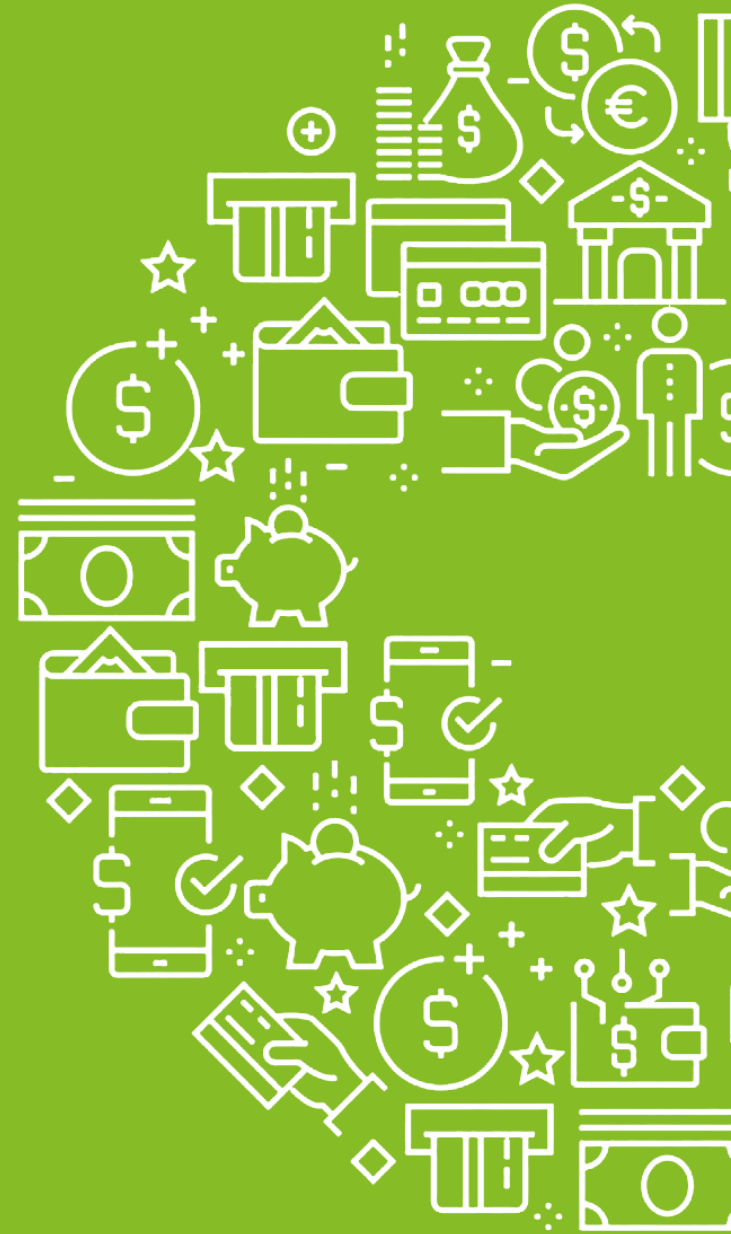
$$= \frac{\text{Taxonomy Aligned CapEx}}{\text{Total CapEx}}$$

OpEx

KPI

$$= \frac{\text{Taxonomy Aligned OpEx}}{\text{Total OpEx}}$$

Potential effects on the financial statement




Consistent and comprehensive reporting

Consistent reporting



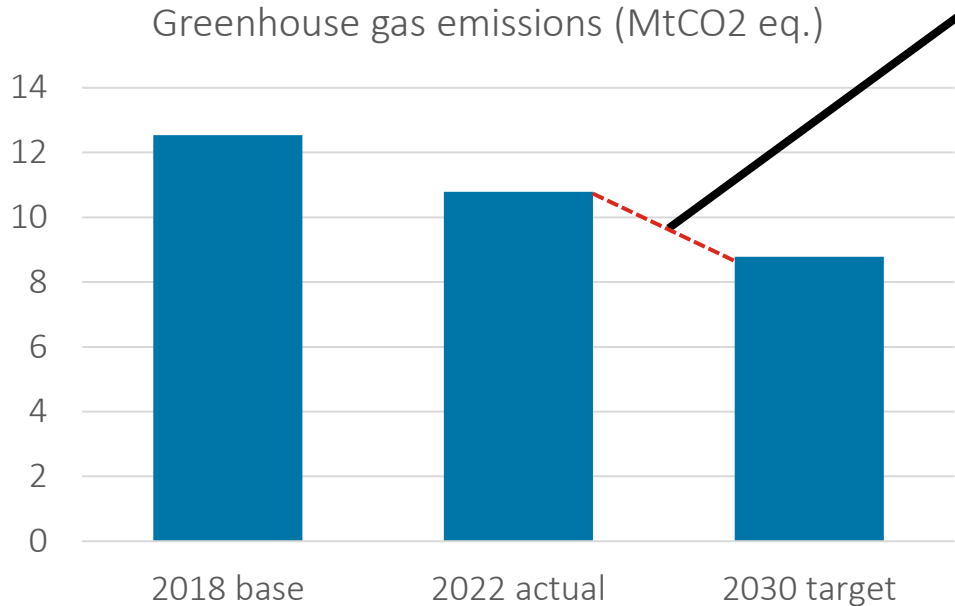
Consistent and comprehensive reporting

Consistent reporting



Outside of financial statements

E.g., Reduce greenhouse gas emissions **by 30% by 2030**



What is the action plan to achieve this target?



What are the financial consequences of that plan?

- E.G.
- Carbon intensive assets being impaired
 - Intangible assets recognized for carbon offset schemes
 - Capital expenditure for new technologies with fewer emissions

Financial statements

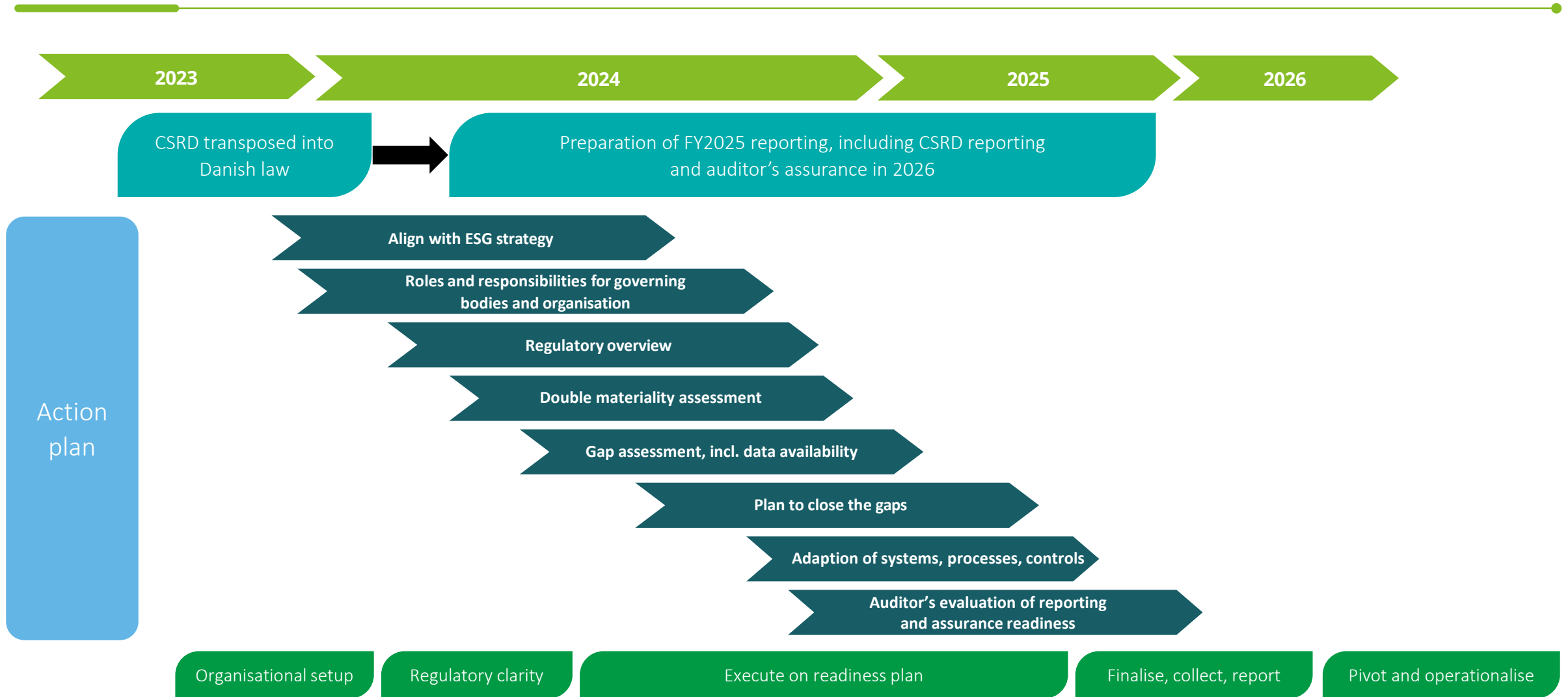


What is next step from here?



Readiness and roadmap towards CSRD reporting and assurance

Perspectives on readiness for the upcoming requirements for a class C (large)



Links and contact persons

Below is a list of the most relevant regulations, guidances and contact persons

CSRD directive – [here](#)

CSRD iGAAP in Focus – [here](#)

CSRD transposed into Danish law – [here](#)

ESRS standards – [here](#)

ESRS iGAAP in Focus – [here](#)

ESRS introduction in Danish - [here](#)

EU Taxonomy regulation – [here](#)

Climate delegated act – [here](#) and additionally economic activities [here](#)

Environmental delegated act – [here](#)

Disclosure delegated act – [here](#)

