

Beyond compliance: Ensuring the EU's CSRD catalyzes progress

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New EU regulation around sustainability reporting is tightening compliance standards, writes Colm McDaid, Interregional Engagement Environment Lead at Fujitsu. But will the effects of the Corporate Sustainability Reporting Directive (CSRD) be wholly positive?

Is there a risk that the EU's new sustainability stick will actually result in less concrete action?

The EU's new Corporate Sustainability Reporting Directive (CSRD), taking effect in January 2024 for those companies within scope of the Non Financial Reporting Directive (NFRD), aims to significantly expand transparency around companies' environmental, social and governance (ESG) impacts. CSRD builds on the momentum of the UN's Sustainable Development Goals (SDGs), an indispensable framework for addressing the world's most pressing challenges by 2030.

However, the reporting requirements of CSRD are so extensive that many worry organizations will devote all their resources to compliance, rather than driving real progress on sustainability.

Too complex to handle?

The CSRD is a landmark regulation that aims to make sustainability reporting mandatory for all large companies and some SMEs in the EU. It covers various ESG topics, such as climate change, human rights, diversity, anti-corruption, etc. While the CSRD is a welcome step towards greater transparency and accountability, it poses significant challenges for organizations that must comply with its requirements.

One main challenge is the sheer volume and complexity of the data that needs to be collected, verified and disclosed. The CSRD requires organizations to report on more than 100s of indicators across 12 standards. This means they will need to invest considerable time, resources and expertise to ensure the quality and reliability of their sustainability data. Moreover, the CSRD will apply not only to the organizations themselves but also to their subsidiaries, suppliers and business partners, leading to the creation of additional pressure to monitor and manage their entire value chain.

Materiality is center stage

The EU has, of course, anticipated this. It frames the CSRD in the concept of materiality, which is critical to determining what gets reported. In the context of ESG, Materiality refers to a specific measure's effectiveness and financial significance as part of a company's overall ESG analysis. Materiality encourages organizations to pay attention to factual items and events that potentially have significant implications for their business and its stakeholders.

The CSRD adopts a double materiality approach, encompassing financial and impact materiality. Financial materiality refers to the potential effect of ESG issues on the company's enterprise value. In contrast, impact materiality refers to the possible outcome of the company's activities on society and the environment. This means that organizations must report on how ESG issues affect their business performance and how their business performance affects ESG issues.

There may be a trade-off between compliance and impact. The CSRD is designed to provide consistent and comparable information to stakeholders, such as investors, regulators, customers and civil society. However, this does not

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necessarily mean the information reported will reflect actual contributions to sustainability. There is a risk that organizations will focus more on meeting the minimum standards of the CSRD rather than on addressing the most material issues for their business and society – which could undermine the effectiveness and credibility of their sustainability efforts.

This trade-off is also relevant in the context of the UN's SDGs, a set of 17 global goals that aim to end poverty, protect the planet, and ensure peace and prosperity for all by 2030. Widely recognized as the most ambitious framework for sustainability, the SDGs also present severe challenges in terms of implementation and delivery. According to a recent report by the UN, the world is “nowhere near” on track to achieve most of the SDGs by 2030. The COVID-19 pandemic has further exacerbated the situation, causing many unprecedented disruptions and setbacks.

A way ahead

Compliance alone will not catalyze progress. Companies must complement exhaustive CSRD reporting with a strategic focus on the ESG issues most relevant to their business. In other words, organizations mustn't lose sight of the bigger picture when complying with the CSRD. They should not treat sustainability reporting as a box-ticking exercise but as an opportunity to demonstrate their commitment and leadership in advancing the SDGs.

Yes, but how? What's needed is a holistic and strategic approach to sustainability, taking into account the interconnections and trade-offs among different ESG issues. Leaders here will prioritize the most relevant and material issues for their business and stakeholders and align their actions with the best available science and standards.

Fujitsu has proactively engaged with the CSRD and other sustainability regulations, such as the Task Force on Climate-related Financial Disclosures (TCFD) and the EU Taxonomy. We aim to integrate sustainability into every aspect of our business operations.

To help customers with meaningful, material CSRD responses, we have assembled a team of experts from various disciplines, such as legal, supply chain, risk, finance, sustainability, and others. Using data-driven insights and innovative solutions, this team works together to identify and address the most material ESG issues for Fujitsu and its stakeholders.

I believe in the necessity and urgency of the SDGs and the CSRD, but I also want to help re-position corporate agendas in the context of ESG materiality. Sustainability reporting is not a burden or a constraint but a catalyst and a driver for positive change. Organizations can comply with the CSRD and make a material difference for themselves and society.

Colm McDaid

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Colm joined Fujitsu in 2008 providing Technical Design Solutions for Public Sector and Commercial clients. Inspired by Fujitsu's Purpose to "Make the world more sustainable by building trust in society through innovation" he gained expertise in a wide range of Sustainability fields.

A Chartered environmentalist he has held many leadership roles including Sustainability Lead for Europe and Leader of sustainability management, sales and consultancy.

In his role, Colm is responsible for ensuring that, as a global company, Fujitsu is unified under the framework for our sustainability management, "GRB (Global Responsible Business)". That we work in a harmonised way to promote and proactively accelerate initiatives that prioritise a positive impact upon the environment. Helping to deliver on our purpose and create valuable outcomes for People, Planet and a Prosperous future.