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# GCD Forum - CSRD in a nutshell

Everything you need to know about the CSRD for banks in under an hour

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# Agenda

1	Introduction to CSRD (Susanne)
2	Double materiality: value chains and time horizons (Matthew)
3	Transmission channels (Susanne)
4	Opportunities and greenwashing risks (Matthew)
5	The Human Rights perspective (Matthew)
6	Data availability and ESAP (Susanne)

# AdviseSense is a leading governance, risk and compliance firm, offering best-in-class services and tech solutions to the European industry

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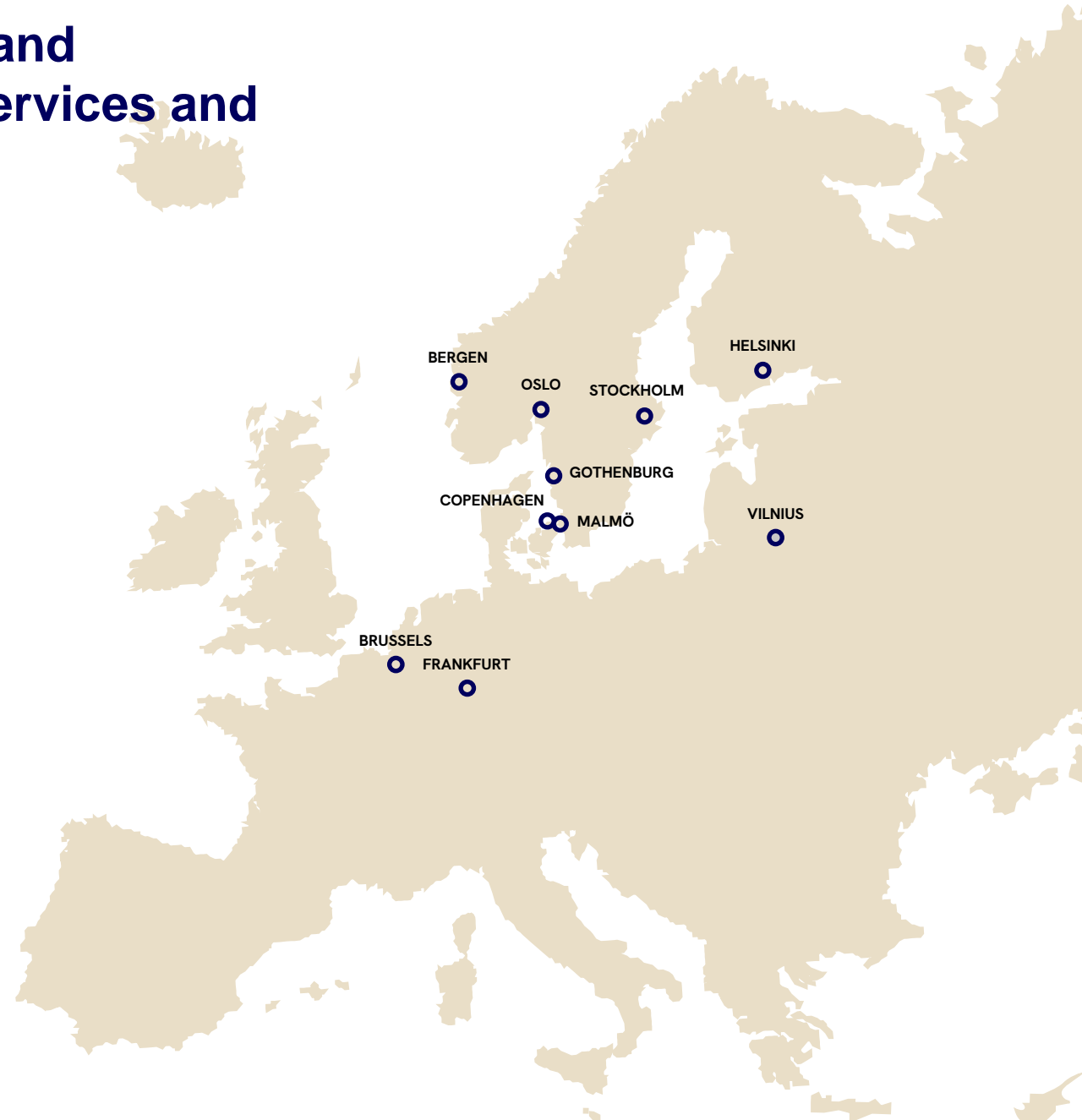
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# Intro till CRSD

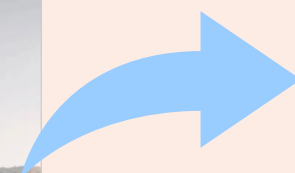
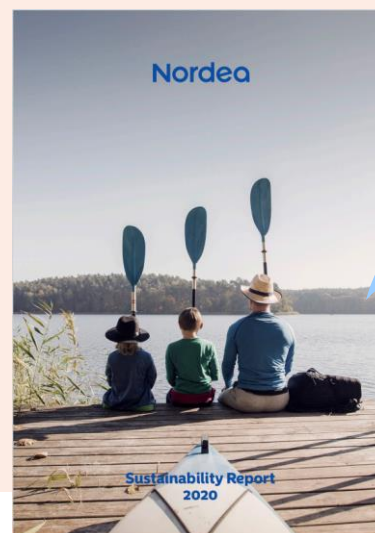


# Corporate Sustainability Reporting Directive - CSRD

## Annual Report - Increased reporting requirements

Companies shall through a dedicated section of the management report include the sustainability report.

The purpose is to understand the company's impact on environmental, social and governance matters and how these matters affect the company's development, performance and market position.



# Companies required to report on sustainability



## Large companies or Large groups

- More than 250 employees on average
- Balance sheet: more than 20 million EUR
- Net turnover: more than 40 million EUR

*A company is defined to be a large company if at least two of the three criteria is exceeded*



## Small- and medium-sized companies

and small and non-complex institutions and captive insurers

- More than 10 employees on average
- Balance sheet: more than 350 000 EUR
- Net turnover: more than 700 000 EUR

*A company is defined to be a small or medium-sized company if at least two of the three criteria is exceeded*

CSRD only applies to **publicly traded** small- and medium-sized companies



# From when the requirements are applicable and to whom

Financial year 2024	Financial year 2025	Financial year 2026	Financial year 2028
Large companies with more than 500 employees.	Large companies with more than 250 employees.	Publicly traded small- and medium-sized companies	Large non-EU companies with at least one subsidiary with substantial activity in the EU

Companies that already today are required to disclose a sustainability report according to the Non-Financial Reporting Directive



# When assessing a company's impact, the double materiality concept should be used



**Climate & Environment  
Society**

**Impact**  
Positive and Negative

Company's  
impact on  
people and  
planet

Inside-Out perspective

Outside-In perspective

Financial  
effects on the  
company



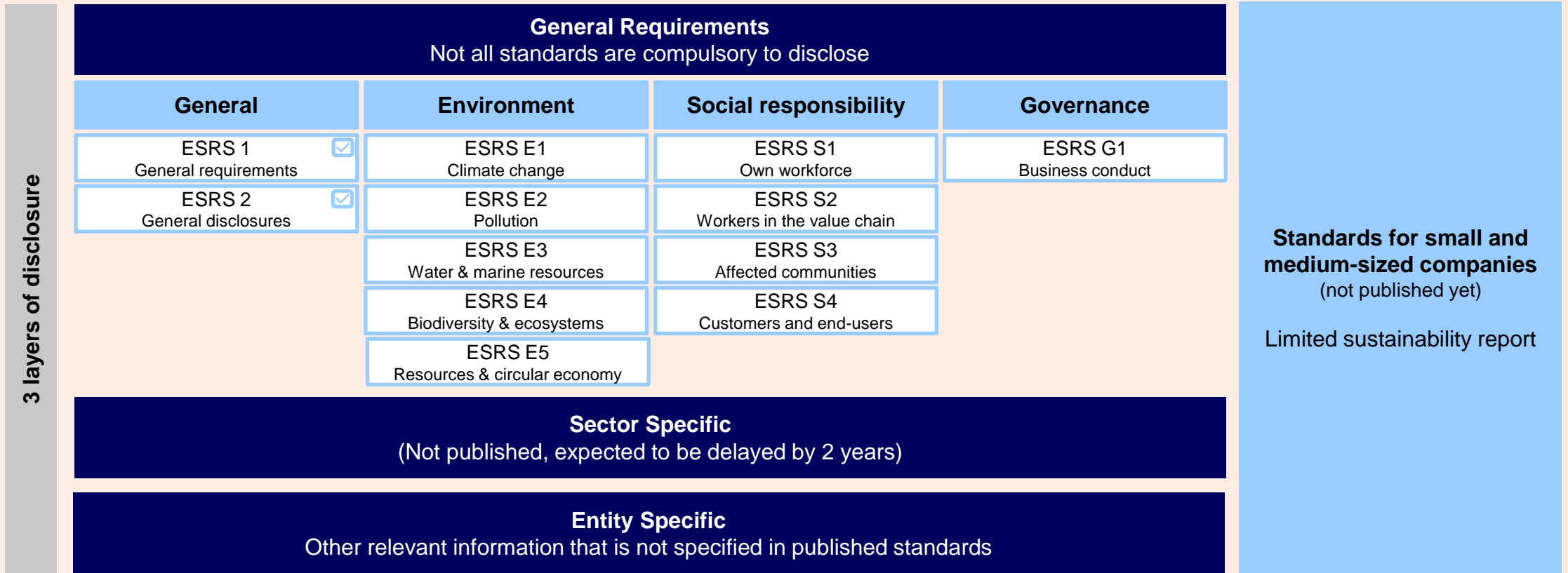
Company

**Risks and Opportunities**  
Financial impact



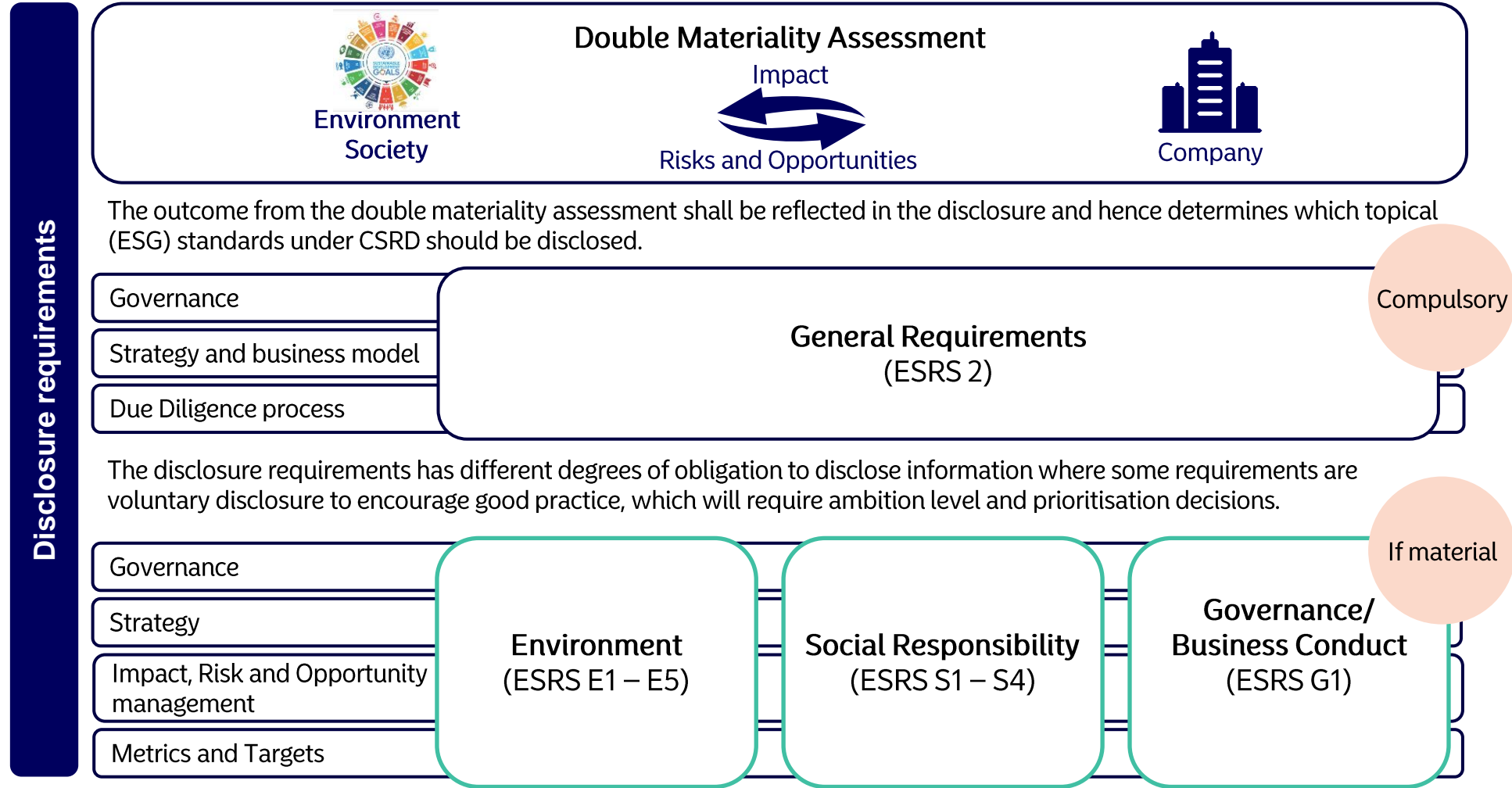
# European Sustainability Reporting Standards - ESRS

The information that should be included in Sustainability Report, as part of the annual report, defined in 12 standards (more is coming)

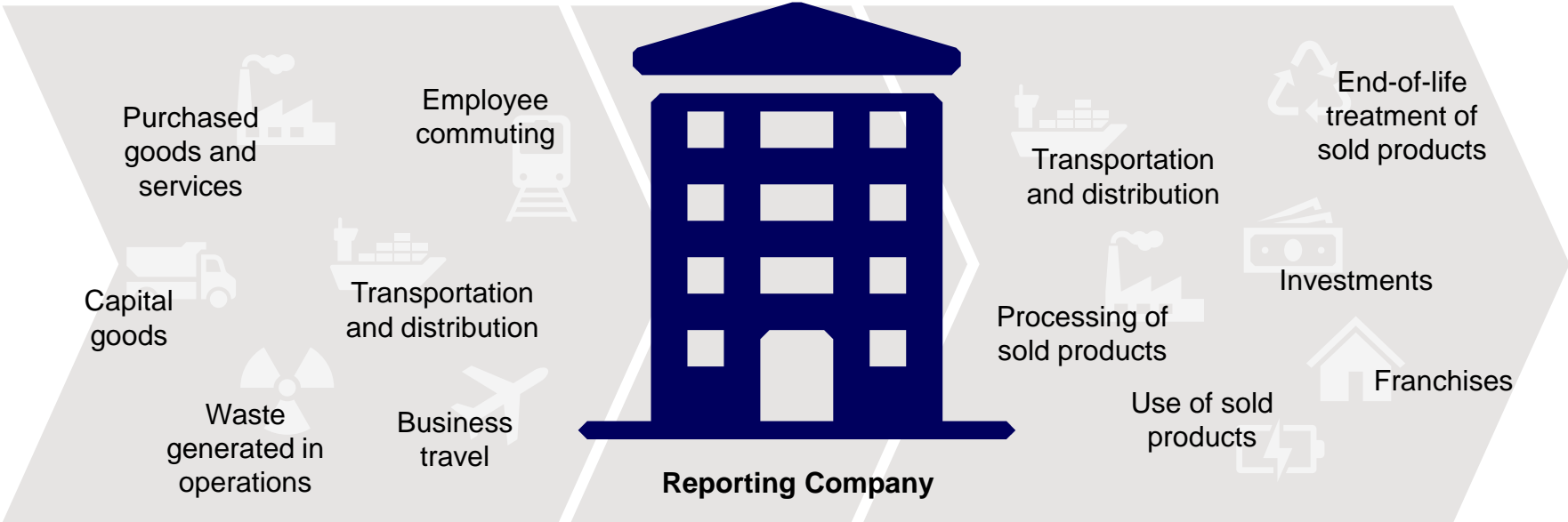


9  Mandatory standards. The other standards are subject to double materiality assessment.

# Disclosure requirements



# The disclosed sustainability information should cover the company's value chain



## Consequences

Small- and medium-sized companies without reporting requirements might be asked to provide information such as Green House Gas emission or diversity and human rights policies if the company is part of a CSRD-company's value chain.

EU Voluntary Sustainability Reporting Standard for non-listed SMEs that are outside the scope of CSRD

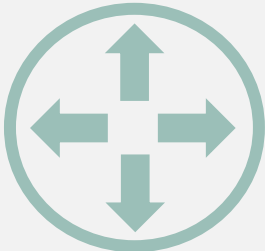
# Double Materiality

Value chains and time horizons

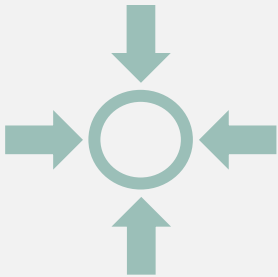
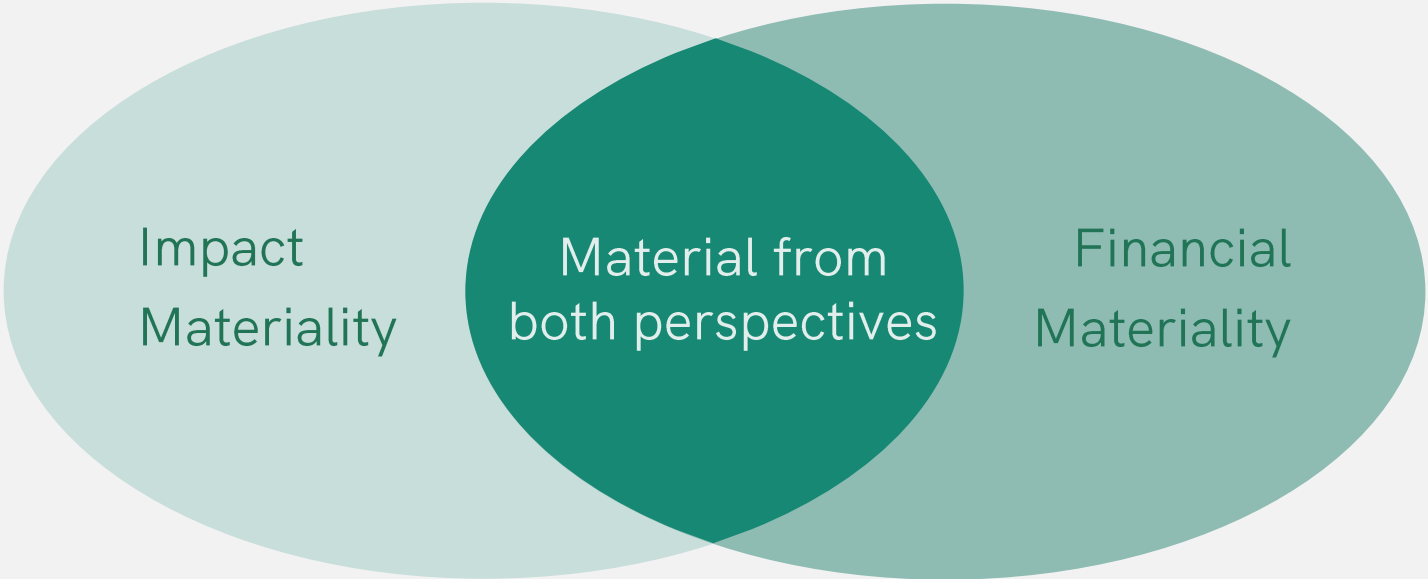


# Double Materiality

The single most important concept to understand in ESG reporting

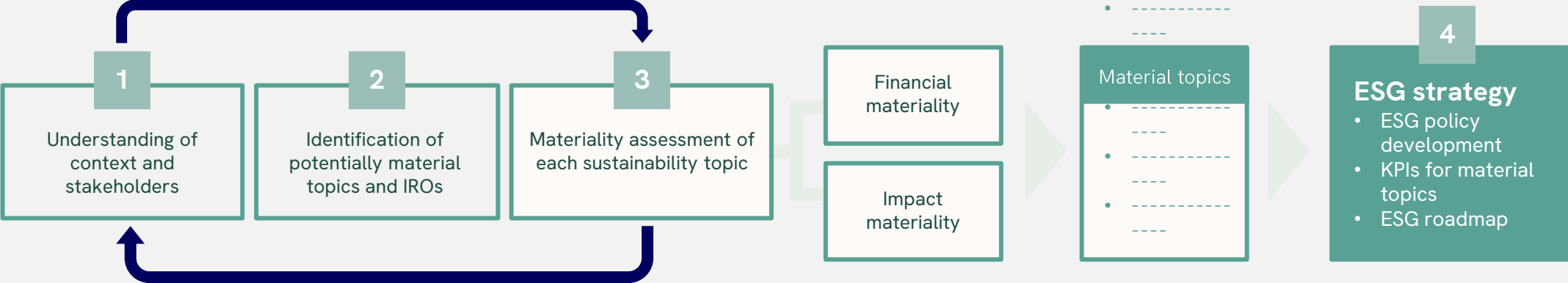


Inside-out



Outside-in

# Process for Double Materiality assessment



# Why Perform a Materiality Assessment?



## Meet Stakeholder Expectations

Involve owners, employees and clients in the materiality assessment process to align with their expectations and concerns.



## Effective Resource Allocation

Facilitate better decision-making when allocating resources, address the most important issues and prioritize the most impactful actions.



## Ensure ESG compliance

All main ESG reporting frameworks & regulations (including the upcoming CSRD) expect and rely on Materiality assessments.



## Identify Risks and Opportunities

Identify the most material risks and opportunities and enable timely risk mitigation and opportunity enhancement strategies.



## Better Reporting and Communication

Prepare for compliance with evolving reporting regulations and ensure that all external ESG communication and information is consistent



## «Double materiality» understanding

Impact materiality refers to effects on people, society and the environment, while financial materiality looks at how ESG factors development, financial performance and market position.

# Value chain & Time Horizon

To identify material impacts risks and opportunities the company needs to:



## Assess the value chain

Value chain includes actors **upstream and downstream** from the undertaking.



## Consider several time horizons

**Short-term:** Current financial year  
**Medium-term:** end of short-term and up to 5 years.  
**Long-term:** More than 5 years.



## Engage with affected stakeholders

Central to the undertaking's on-going due diligence process, and sustainability materiality assessment.



## Perform scenario/forecast analysis

Identifying and assessing **potential financial effects** of future events under conditions of uncertainty.



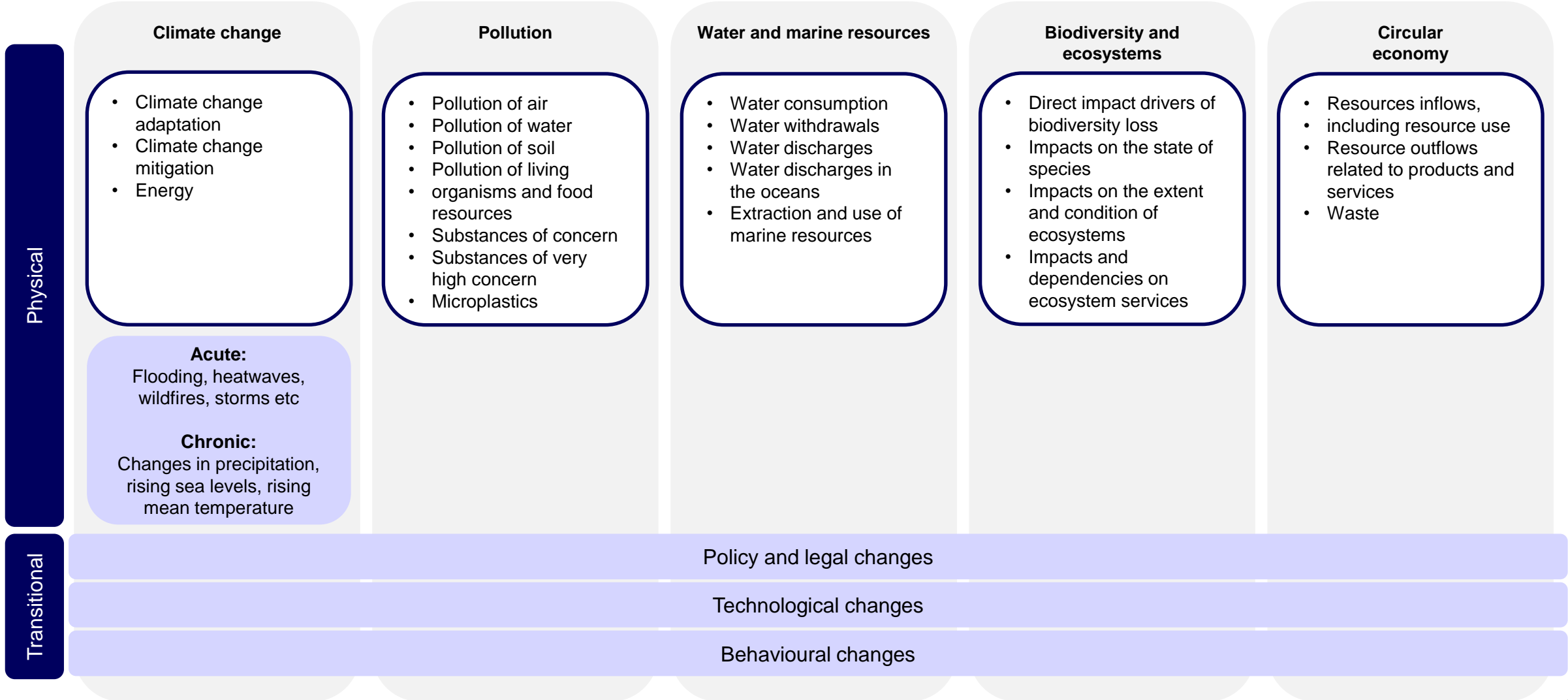
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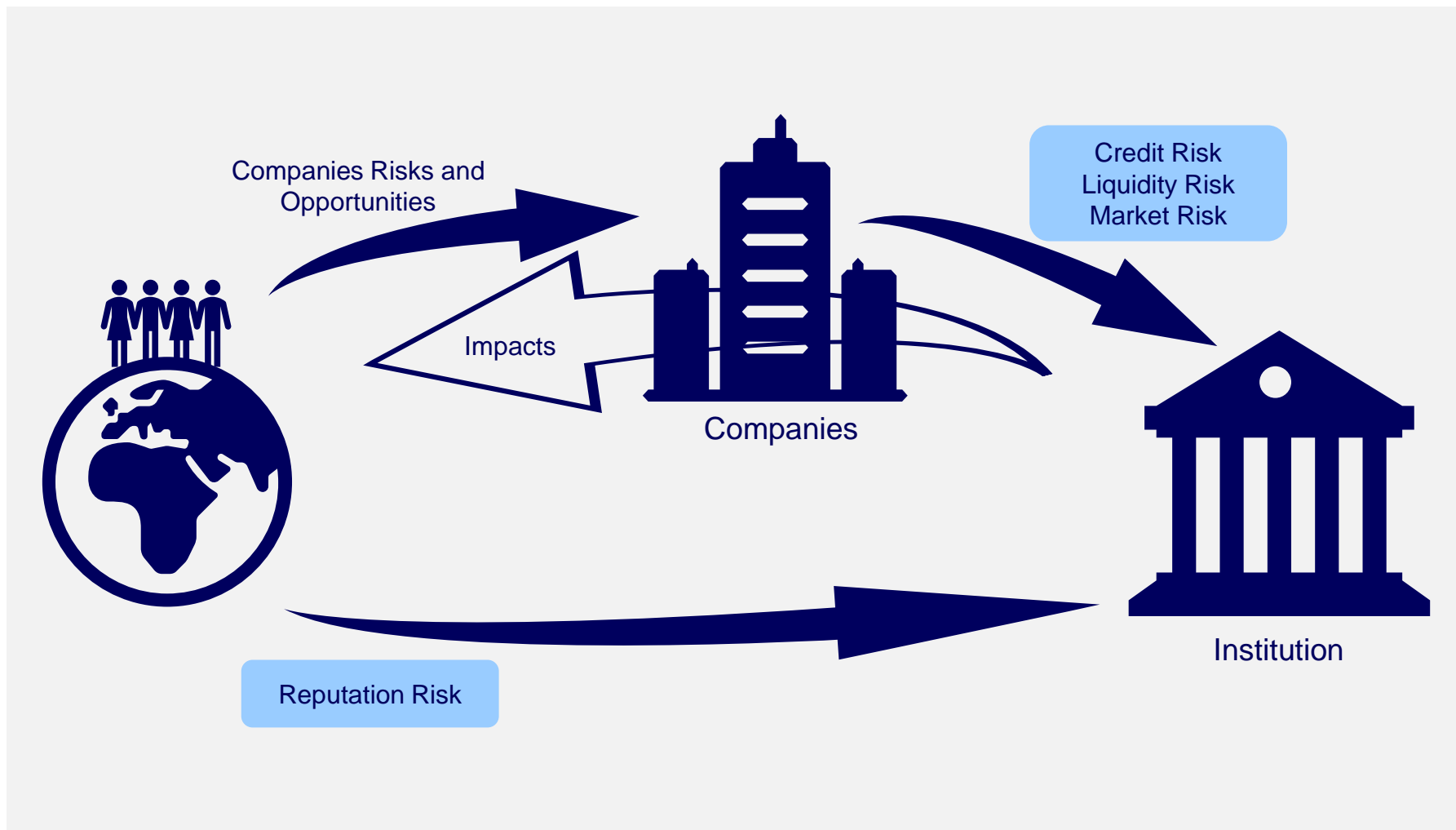
# Transmissions channels



# CSRD and supervisory expectation – Environmental matters



## Transmission channels - Negative impacts and risk assessment are closely linked



Credit institutions and other Financial institution has the largest impacts through counterparties and invested assets

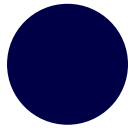
The identified negative impacts identified could thereof increase the reputational risk

While companies own impact, risk and opportunity management could potentially drive e.g. credit risk, liquidity risk and market risk.

# Opportunities & Greenwashing risks



# Greenwashing defined



## MiFID II/IDD and SFDR Level 2

*“THE PRACTICE OF GAINING AN UNFAIR COMPETITIVE ADVANTAGE BY RECOMMENDING A FINANCIAL INSTRUMENT AS ENVIRONMENTALLY FRIENDLY OR SUSTAINABLE, WHEN IN FACT THAT FINANCIAL INSTRUMENT DOES NOT MEET BASIC ENVIRONMENTAL OR OTHER SUSTAINABILITY-RELATED STANDARDS.”*



## CSRD

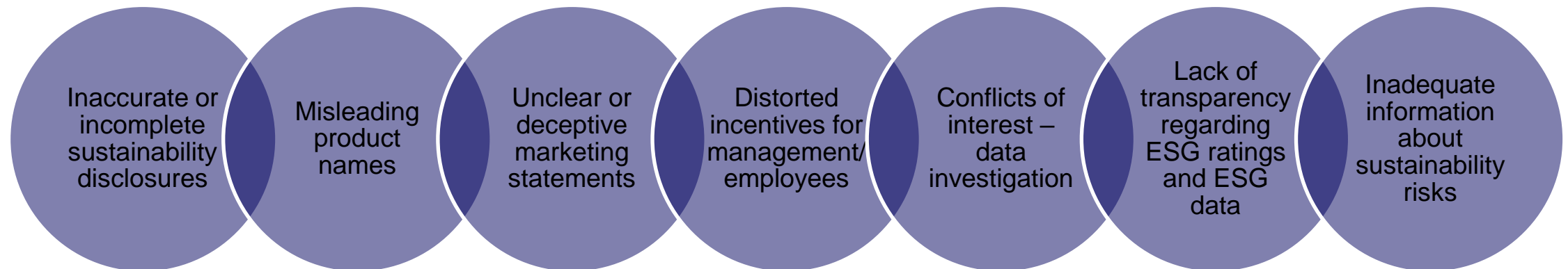
- *“financial products that unduly claim to be sustainable”*



## Taxonomy Regulation

- *“greenwashing refers to the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact basic environmental standards have not been met.”*

# Examples of greenwashing risks



Examples of greenwashing risks:

# Unclear or misleading representations in marketing communications

## Description of greenwashing risk

### A. Marketing that contradicts sustainability disclosures

Marketing and sustainability disclosures that lack serious commitments.

*Example:* non-binding exclusion criteria

### B. Marketing with non-qualified or verified environmental claims

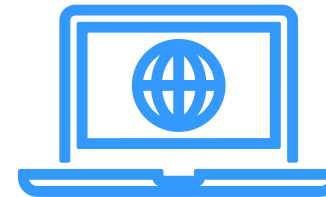
*Example:*

*"Make an impact in the future - choose from several sustainable funds/portfolios."*

*"When you invest in the ethical funds/portfolios, you can choose between three funds/portfolios with different risk profiles. The funds/portfolios we offer meet our high standards of sustainability."*

## Proposed preventive measures

- Make sure that you only say things in your marketing that the product is bound to follow according to your investment policy.
- Do not use environmental claims that are misleading even if they are factually correct.
- The qualification should be clear, prominent and easy to understand.



### *The consumer agency*

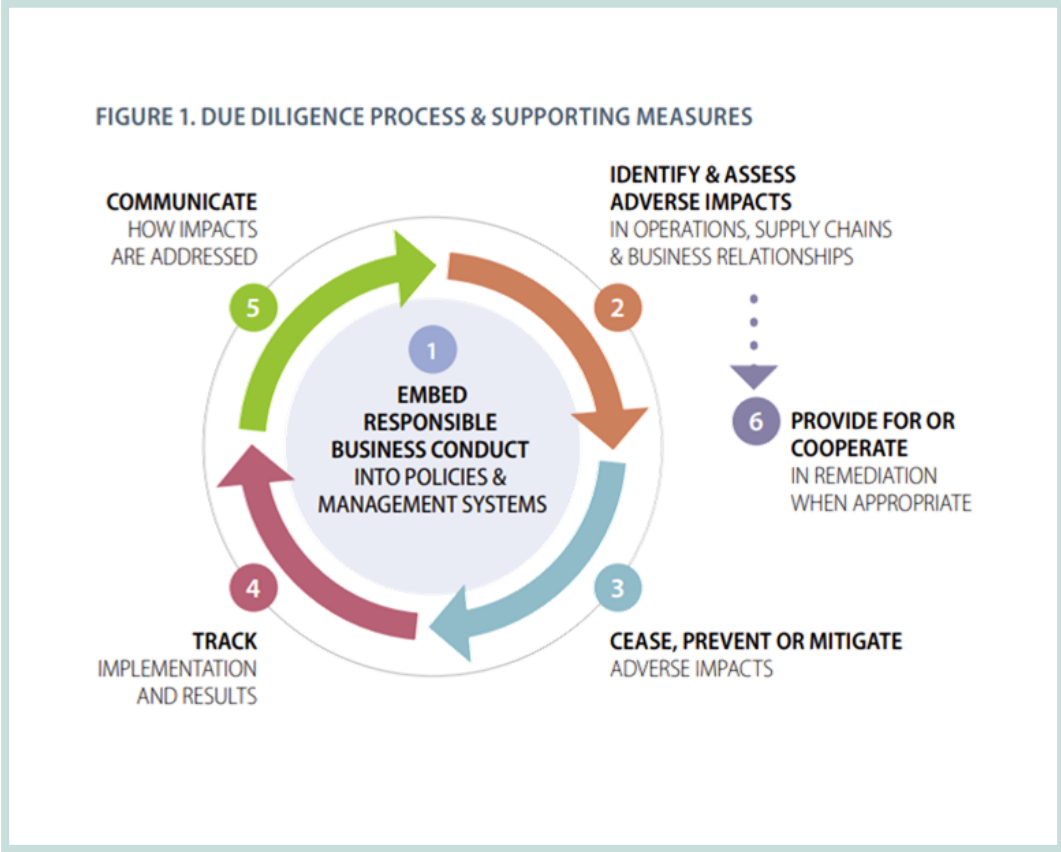
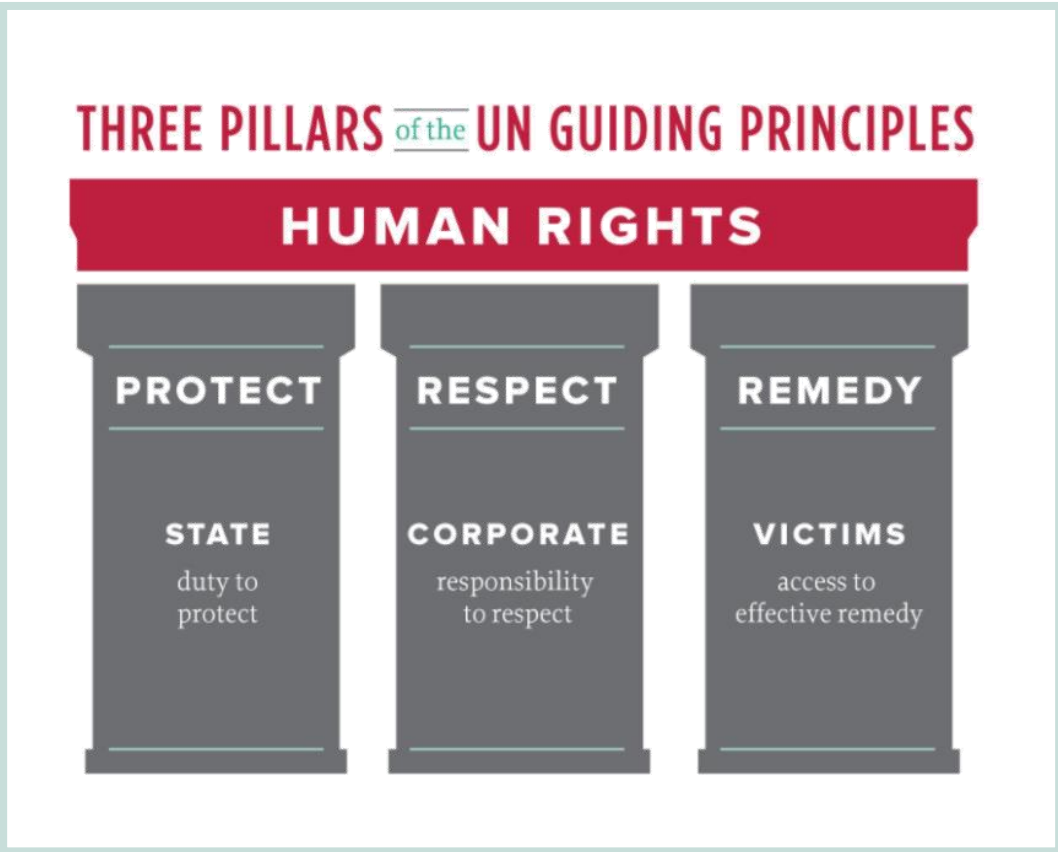
*It is not enough for a clarification to be found "one click away" on a website.*

# The Human Rights perspective

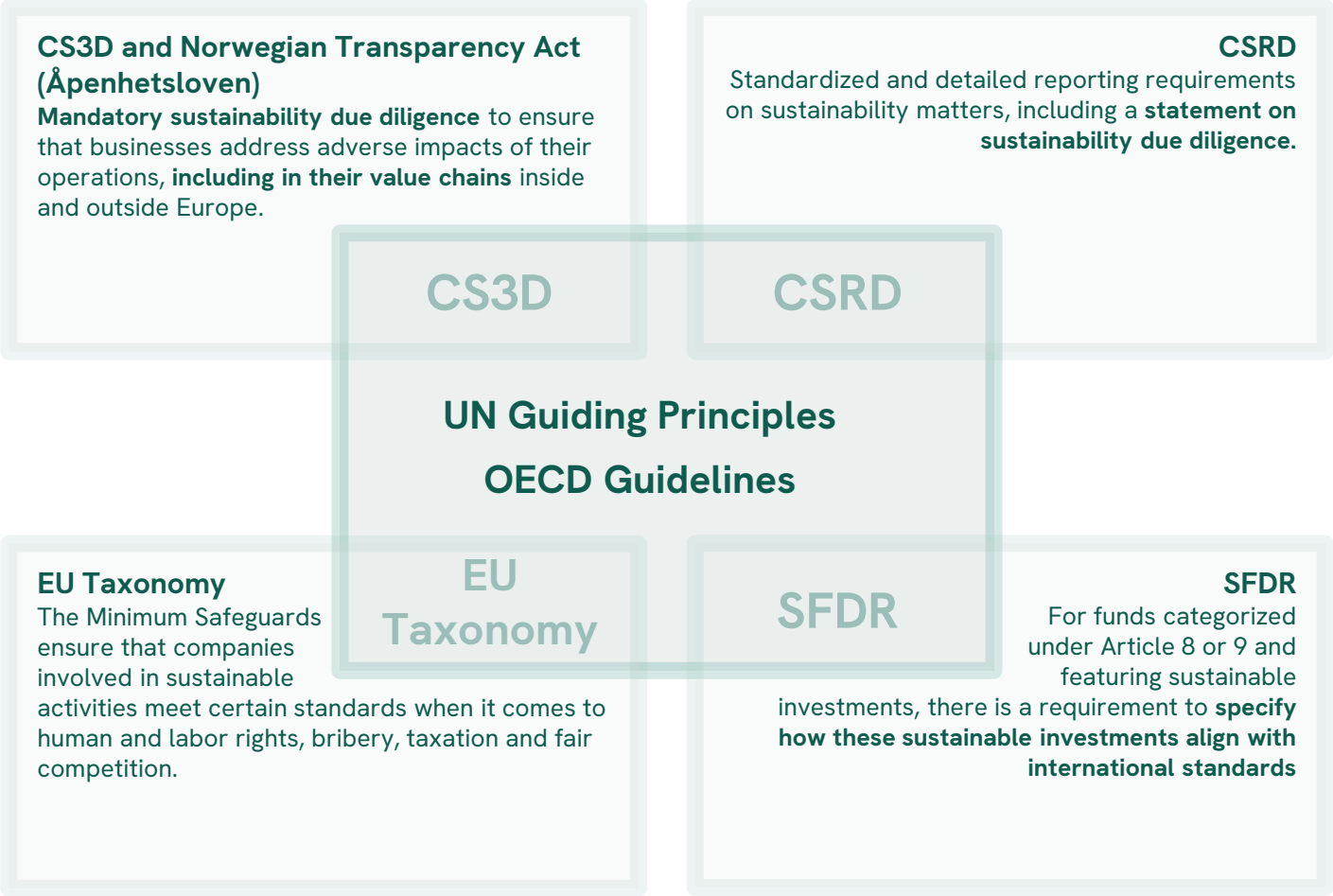




# UN Guiding Principles & OECD Guidelines



# All Roads Lead to Rome



## The main principles in Human Rights monitoring



Risk-based approach



Proportionality



Transparency

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# Data availability and ESAP



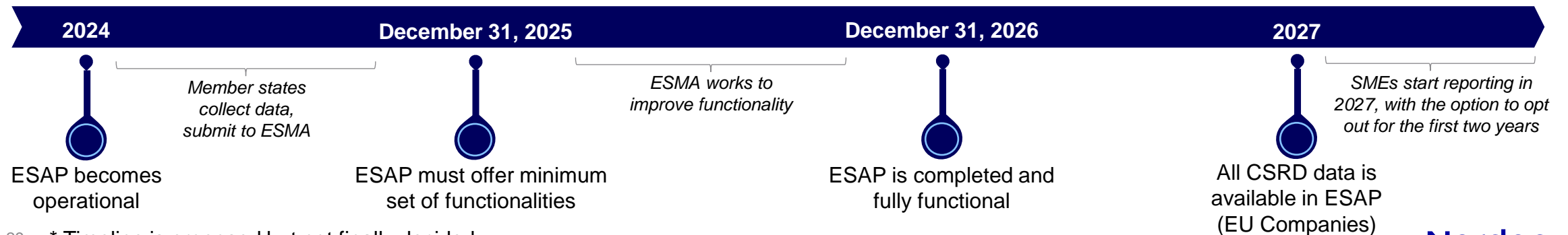
# Data availability from the European Single Access Point (ESAP)

CSRD data from clients will be available in an open database, ESAP. However, the database will not be available at initiation of disclosure, calling for an interim solution.

ESAP (European Single Access Point)
<ul style="list-style-type: none"> <li>The ESAP is an initiative to consolidate <b>financial</b> and <b>sustainability-related information</b> on EU companies and financial products.</li> <li>ESAP will create a single, free, and <b>public source</b> of information, accessible to all within EU.</li> <li>Data submitted as part of <b>EU mandatory public disclosure</b> will be included.</li> <li>It is expected that <b>necessary ESG data will not be available</b> in ESAP during the <b>initial period of CSRD</b> disclosure, calling for an interim solution for portfolio data.</li> </ul>

Option for interim solution	Upside	Downside
External vendors	<ul style="list-style-type: none"> <li>Time-saving</li> <li>Data quality</li> <li>Great scalability</li> </ul>	<ul style="list-style-type: none"> <li>Data integration needs</li> <li>Dependency risk</li> </ul>
Manual collection	<ul style="list-style-type: none"> <li>Direct control of collection process</li> <li>Customization</li> </ul>	<ul style="list-style-type: none"> <li>Labor intensive</li> <li>Limited scalability</li> </ul>
Estimations	<ul style="list-style-type: none"> <li>Time saving</li> <li>Less labor intensive</li> <li>Timely insights</li> </ul>	<ul style="list-style-type: none"> <li>Lower accuracy</li> <li>Limited granularity</li> <li>Inaccurate predictions</li> </ul>

## Timeline for ESAP\*



29 \* Timeline is proposed but not finally decided.

## Breaking News: EBA recommends enhancements to the Pillar 1 framework to capture environmental and social risks

The European Banking Authority (EBA) has recently published a Report on the role of environmental and social risks in the prudential framework of credit institutions and investment firms. In particular, the EBA is proposing to:

1. Include environmental risks as part of **stress testing programs** under both the internal ratings-based (IRB) and the internal model approaches (IMA) under the Fundamental Review of the Trading Book (FRTB).
2. Encourage inclusion of environmental and social factors as part of **external credit assessments** by Credit Rating Agencies.
3. Encourage the inclusion of environmental and social factors as part of **due diligence requirements** and **valuation of immovable property collateral**.
4. Require institutions to identify whether environmental and social factors constitute **triggers of operational risk losses**.
5. Progressively develop environment-related concentration **risk metrics** as part of supervisory reporting.

## The CSRD assists banks in capturing ESG risks in Pillar 1 by raising the bar for corporate clients



Increases **portfolio-wide** risk data coverage towards 2028 including SMEs; **more risk metrics** on more corporates (but significant gaps remain)



Strengthens **Double Materiality concept** through focus on IRO (Impact, Risks & Opportunities). If it isn't material, it isn't included



CSRD reporting must be externally audited increasing its quality and allowing data to be used **more confidently** in stress testing & credit risk assessments