GOVERNANCE INSIGHTS

Grant Thornton

Corporate Sustainability Reporting Directive (CSRD)

Edition 2.0

Introduction

In our first edition of 'Governance Insights' we touched upon the topic of draft legislation which the Government of Aruba has communicated that it intends to introduce to improve the governance within public and semi-public (e.g. publicly owned or funded) entities. In this edition we zoom out a bit and elaborate on European Union (EU) legislation which is already in place: Corporate Sustainability Reporting Directive (CSRD). One might ask: Why this zooming out? Well, it's because the CSRD touches upon a shift currently taking place in corporate governance world, namely, an increasing emphasis on stakeholder value.

What is the CSRD?

To highlight the link between these two topics, we first elaborate on the CSRD. What is it? It's EU legislation that requires companies to report on their impact on people and the environment in their annual report. This new European legislation is part of the European Green Deal and is intended to encourage companies to pay more attention to their sustainability ambitions and performance. In a sustainability report, the company provides insight into its sustainability strategy and policy, how it implements this and how it scores on the relevant standards.

The aim of the CSRD is to provide investors and other stakeholders with the information they need to assess the impact of companies on people and the environment and for investors to assess financial risks and opportunities arising from climate change and other sustainability issues. Nowadays, some companies report on these topics in their management report, which means that no auditor's report is included. The CSRD requires that a separate report be drawn up with a separate statement from the accountant.

For more information click on these links:

1. Corporate sustainability reporting
2. CSRD reporting: Frequently asked questions

What does the CSRD require?

- Report annually on material sustainability topics, relating to, as a minimum, environmental, social and employee matters, diversity in company board, respect for human rights, anti-corruption and bribery matters.
- Double materiality concept: potential financial impact on the company as a result of sustainability risks and opportunities + impact of company on people and planet.
- Disclose information about sustainability risks and principle adverse impacts, including in your value chain.

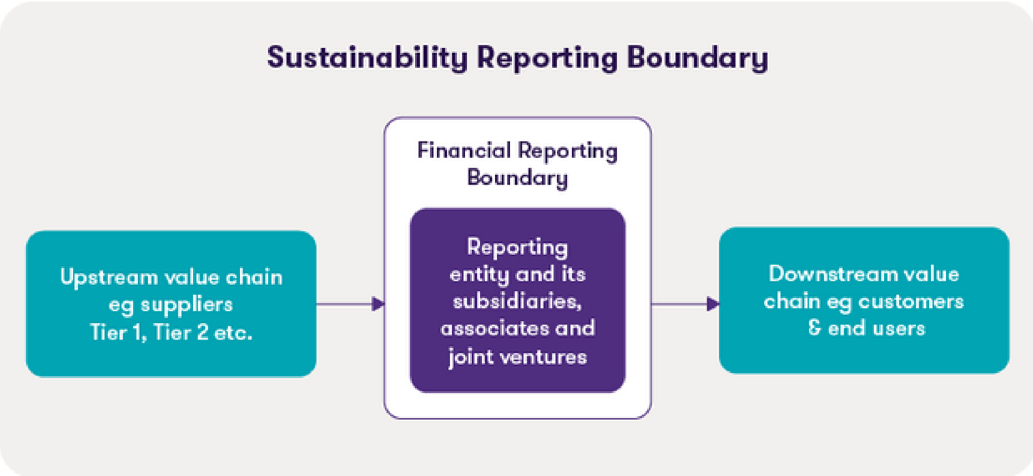
Stakeholder Value

Secondly, stakeholder value. What is that? It is a way of thinking on governance that recognizes the interest of all those affected by the decisions of an organization. This includes customers, employees, and managers, partners in the supply chain, bankers, shareholders, the local community, broader societal interests, and the state. Stakeholder value differs from traditionally more prevalent thinking that emphasize the responsibility of boards to maximize shareholder value. It places a new emphasis on the organization as a member of society.

The challenge to adopting a stakeholder approach is that boards no longer have a single constituency, the shareholders, to satisfy, but need to balance the potentially conflicting interests of a diverse set of stakeholders. A balancing act which, if neglected, can negatively affect the organization's reputation and in turn result in serious financial woes.

Impact on Aruba:

CSRD does not directly apply to Aruban companies. However, CSRD legislation expands the reporting boundary for undertakings beyond their own operations to include both upstream and downstream value chain activities. That is to say, for example, if an Aruban company is a supplier of a company falling under the CSRD, the Aruban company will most likely be requested to provide information on its sustainability, since it forms a part of the value chain of a company in the EU that does need to comply with the CSRD.



The impact of the CSRD therefore not only lies in the topic which the legislation aims to tackle, in this case, disclosure of sustainability related risks and opportunities. One could argue that an even bigger impact of the CSRD is the shift in mindset that the legislation is trying to bring about, which is: to include the impact of an organization's stakeholders when measuring an organization's overall performance, instead of just solely looking at that organizations' own activities.

Contact

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