What does ESG really mean for business centers and their competitiveness?

Presentation by **Erika Vitálošová**
27 September 2022

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Regulation &
compliance

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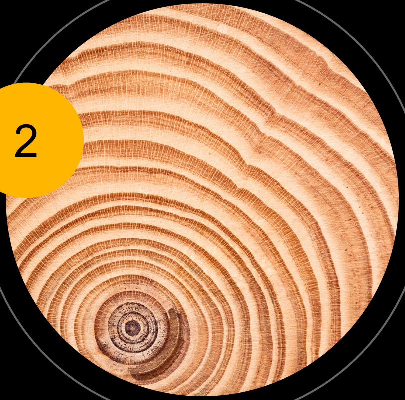
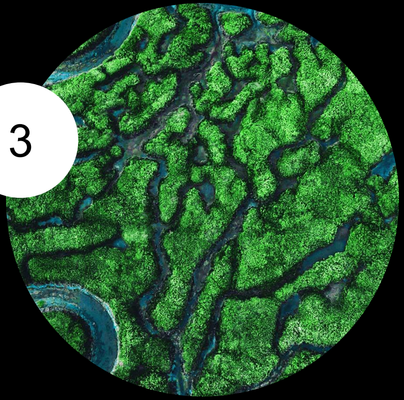


Opportunity for new
talents / CoE

3



Climbing up the ladder
of value

1

What is ESG?

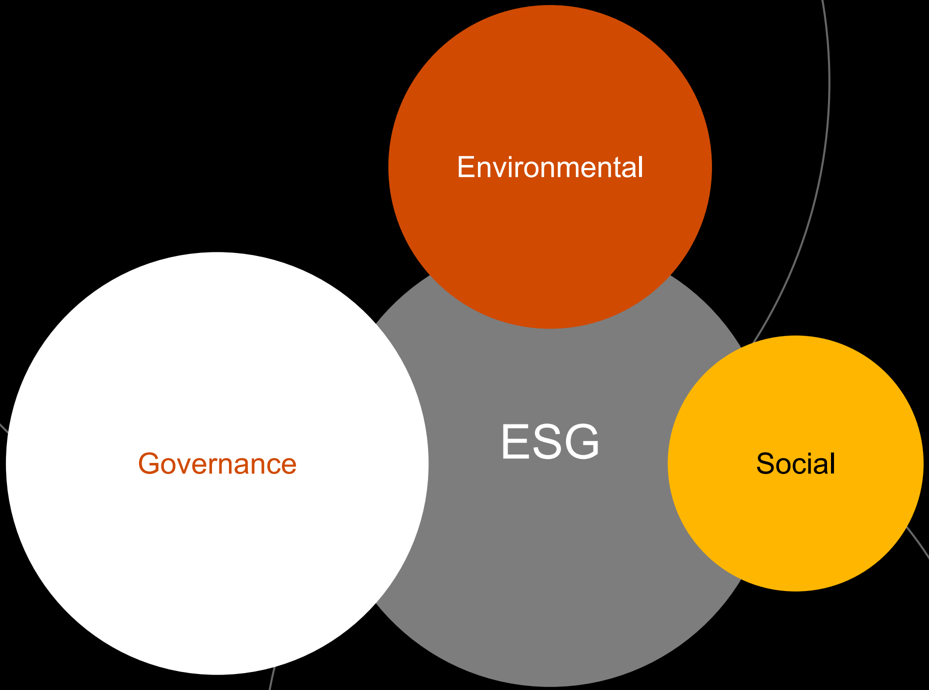
What is ESG?

ESG
stands for Environmental, Social, Governance.

ESG refers to numerous non-financial factors, with many of them having demonstrable financial impact. Companies have been increasingly incorporating these factors into their risk management and decision-making.

Even though ESG is becoming an increasingly common term, a number of other terms may be used when referring to ESG.

Corporate responsibility, sustainability, sustainable development etc.



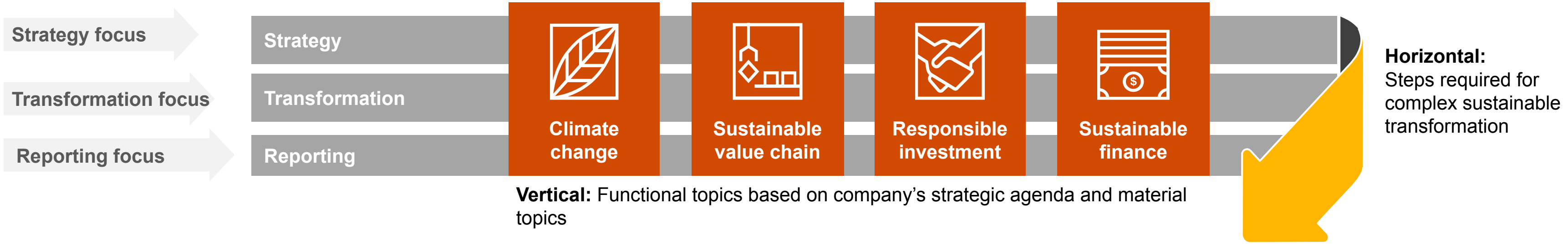
Three pillars of ESG and materiality matrix

Environmental pillar				Social pillar				Governance pillar	
Climate change	Natural resources	Pollution and waste	Environment opportunity	Human capital	Product liability	Stakeholder opposition	Social opportunity	Corporate governance	Corporate behavior
Carbon emissions	Water stress	Toxic emissions and waste	Opportunities in clean tech	Labor management	Product safety and quality	Controversial sourcing	Access to communication	Board diversity	Business ethics
Product carbon footprint	Biodiversity and land use	Packaging material and waste	Opportunities in green buildings	Health and safety	Chemical safety	Community impact	Access to finance	Executive pay	Anti-competitive practice
Financing environmental impact	Raw material sourcing	Electronic waste	Opportunities in renewable energy	Human capital development	Financial product safety		Access to healthcare	Ownership	Corruption and instability
Climate change vulnerability		Waste-related taxes and fees	Tax and financial incentives, subsidies	Supply chain labor standards	Privacy and data security		Opportunities in nutrition and health	Accounting	Financial system instability
				Social benefits	Responsible investment			Legal ability	Tax transparency
				Equal remuneration	Health and demographic risk				

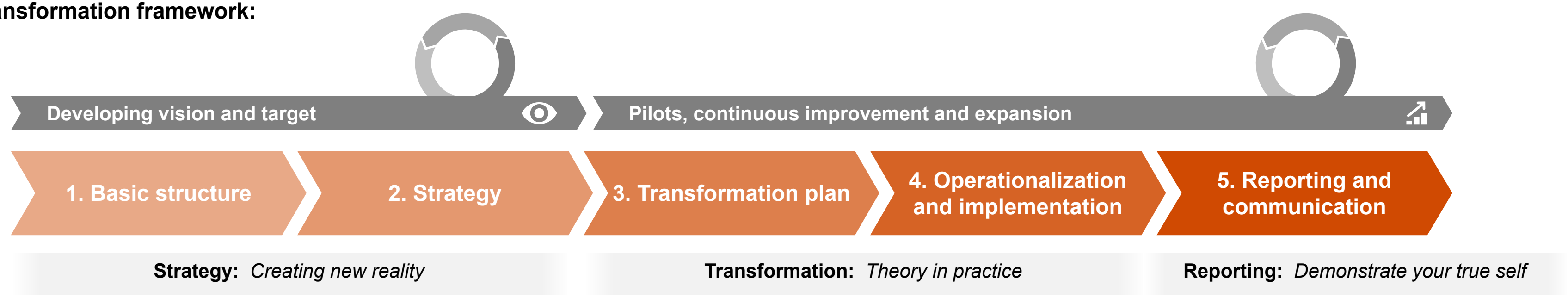
2 ESG business transformation

ESG transformation framework

PwC approach:



ESG transformation framework:



3 Non-financial reporting

Non-financial reporting

Why is non-financial reporting important?

Growing importance of non-financial disclosures

- Access to finance
- Regulatory pressure
- Demand from stakeholders and clients

ESG reporting regulations around the world

United States

- SEC climate disclosures (proposal)

European Union

- Non-Financial Reporting Directive (NFRD)
- EU Taxonomy
- Corporate Sustainability Reporting Directive (CSRD)
- Sustainable Finance Disclosures Regulation (SFDR)

others

- None or
- Mandatory for listed companies or
- High requirements
- Based on national law

Non-financial reporting: EU - General Overview

In force	In force	Proposal
Non-financial Reporting Directive (NFRD)	**EU Taxonomy**	**Corporate Sustainability Reporting Directive (CSRD)**

Non-financial Reporting Directive (NFRD)

In force

- Non-financial information reporting directive
- Mainly **qualitative information**
- **Assurance is NOT mandatory**
- No binding standards for non-financial information reporting
- Directive transposed to national legislation: its **transition and additional requirements vary** from country to country

Large Public Interest Entities
> 500 employees and:
Turnover > 40 mil. EUR or
Total Assets > 20 mil. EUR

Existing obligation to report on non-financial information

EU Taxonomy

In force

- Sets the **regulatory framework** and principles for Taxonomy
- Sets **6 environmental objectives**:
  1. Climate change mitigation
  2. Climate change adaptation
  3. The sustainable use and protection of water and marine resources
  4. The transition to a circular economy
  5. Pollution prevention and control
  6. The protection and restoration of biodiversity and ecosystems
- Determines the conditions under which economic activities are classified as "supporting sustainability" or not
- Approximates **content and presentation** of mandatory published information

Simplified reporting in the Annual Report for the year 2022. For non-FS full reporting mandatory for 2022 and following years. For FS full reporting starting from 2023.

Corporate Sustainability Reporting Directive (CSRD)

Proposal

- Directive - must be implemented to the national legislation. Its **transition and additional requirements may vary** from country to country. **Amends NFRD**.
- Requires mandatory reporting of classification of economic activities in line with EU Taxonomy, also as other obligations for "large companies" and all listed companies (except micro entities)
- Expects **mandatory assurance** and use of European Single Electronic Format (**ESEF**)
- Mandatory European Sustainability Reporting Standards (**ESRS**)

All listed and large companies {2 out of 3):
Turnover > 40 mil. EUR
Total Assets > 20 mil. EUR
Employees > 250
Companies outside EU, if turnover > 150 mil Eur and min 1 subsidiary in EU
SMEs in next phases

First mandatory reporting in 2025 for 2024 + comparatives for 2023

Non-financial reporting: EU requirements

timeline

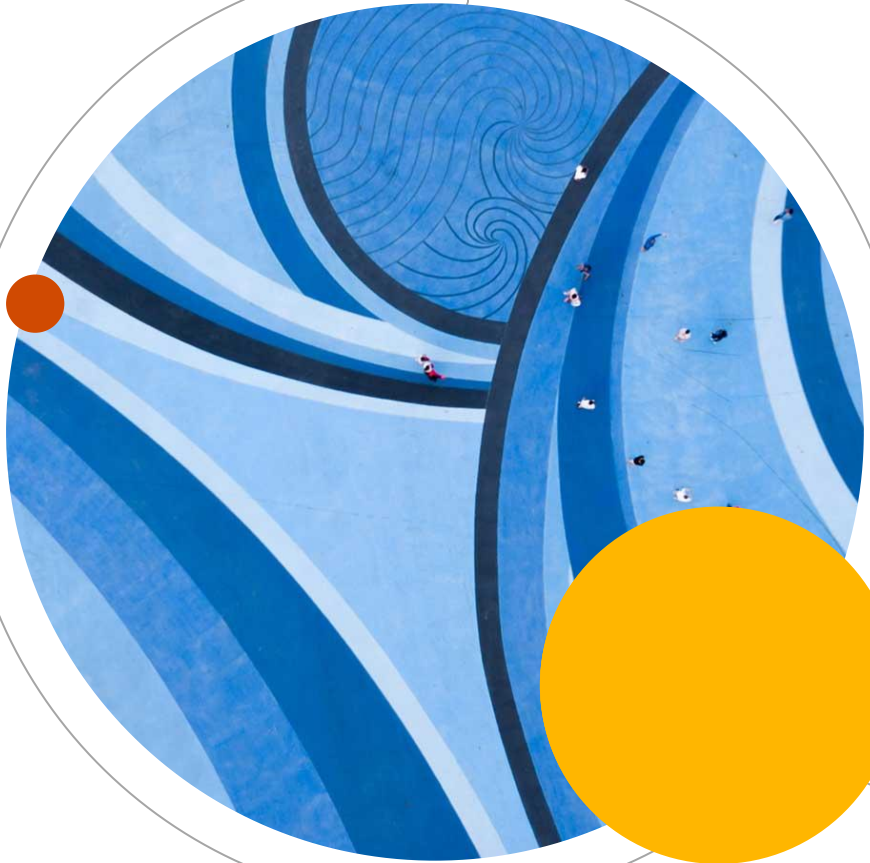
- **2017** – Mandatory NFRD reporting
- **3/2019** – SFDR for FS - financial market participants or financial advisors
- **7/2020** – EU Taxonomy regulation comes into force
- **1/2021** – Mandatory Taxonomy reporting (simplified)
- **4/2021** – CSRD proposal published
- **1/2022** – Mandatory Taxonomy reporting (full)
- **12/2023** – CSRD transposed into national law
- **1/2024** – CSRD comes into force; CSRD mandatory reporting for companies already reporting under NFRD
- **1/2025** – CSRD mandatory reporting for large companies not under NFRD
- **1/2026** – CSRD mandatory for listed SMEs, small and non-complex credit institutions and captive insurance
- **1/2028** – CSRD mandatory for non-EU entities

Large PIEs > 500 employees and:
Turnover > 40 mil. EUR or
Balance sheet > 20 mil. EUR

Plus:
All large companies:
Turnover > 40m EUR
Balance sheet > 20m EUR
Employees > 250
(2 out of 3)

***Plus*:**
Listed SMEs, small and non-complex credit institutions, captive insurance

***Plus*:**
non-EU entities with turnover > 150 mil. Eur in EU and min. 1 subsidiary in EU



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What does ESG mean for SSC?

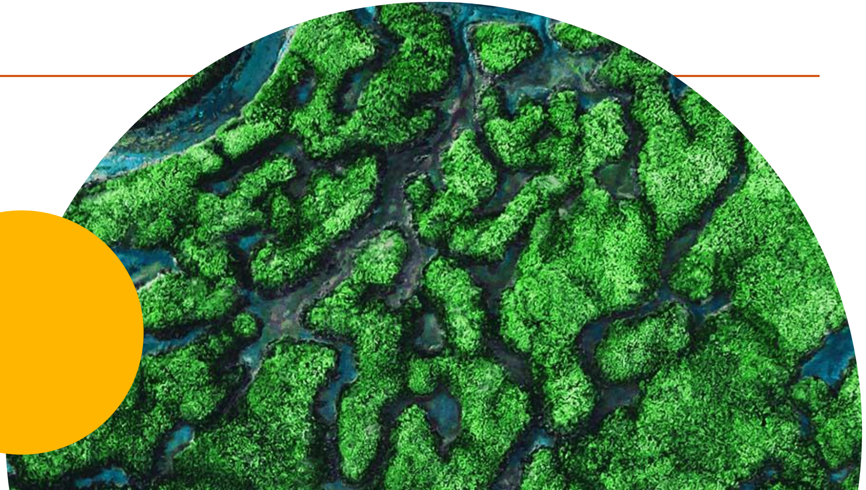
Role of SSCs in ESG

Non-financial reporting

- Single data access point
- Centralized ESG data management and automation (e.g. ESG Management Solution)
- Standardized and centralized reporting

- End-to-end process and impact tracking (supplier-employee-customer)
- Sustainable sourcing of vendors and suppliers

- Internal and external communication
- Awareness-building and upskilling



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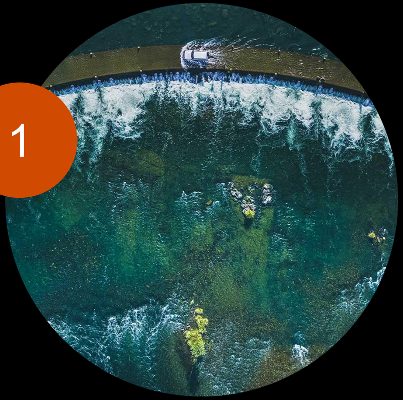

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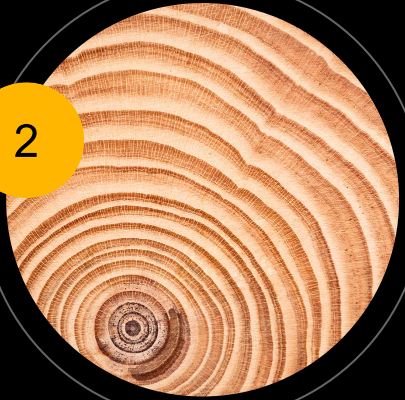

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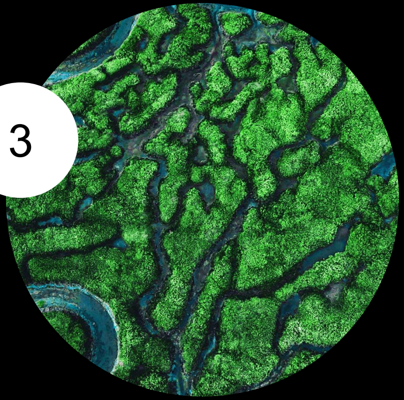

Regulation & compliance

Opportunity for new talents / CoE

Climbing up the ladder of value

Thank you

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