EU POLICY NOTE

#FERMAFOCUS #SUSTAINABILITY

September 2024

Corporate Sustainability Reporting Directive (CSRD)

And the European Sustainability Reporting Standards (ESRS)

Background

On 5 January 2023, following its publication in the Official Journal of the European Union, the Corporate Sustainability Reporting Directive (CSRD, EU Directive 2022/2464) came into effect. Replacing the previous Non-Financial Reporting Directive (NFRD, Directive No. 2014/95), the CSRD has introduced new corporate reporting requirements and broadened the spectrum of impacted companies.

The CSRD is a cornerstone of the European Green Deal and aims to guide companies in the adoption of a development model supporting the transition towards sustainable environmental and social goals.

This new Directive introduces a requirement for in-scope organisations to take a view over the short, medium, and long-term. It also goes beyond performance reporting and introduces disclosure obligations on governance, strategies and objectives to advance more sustainable business models. Specifically, companies will be required to provide information on the management of impacts, risks, and opportunities (IROs) related to sustainability matters relevant to their business and value chain.

The CSRD will apply to the *public-interest entities* already subject to the NFRD (large, listed companies, banks, and insurance companies) and its scope of application will progressively be extended to all large companies, and all listed small and medium-sized companies (except micro-enterprises). Furthermore, non-European companies with significant business in the EU will be subject to the Directive, based on the type and size of their European subsidiaries.

Large companies already subject to the NFRD will be the first to be impacted, with their first CSRD-compliant annual report to be published in January 2025 (based on the fiscal year 2024); large companies not subject to the NFRD will need to publish their first annual CSRD-compliant annual report in January 2026 (based on the fiscal year 2025); listed SMEs will begin publishing their CSRD-compliant annual report in January 2027 (based on the fiscal year 2026).

Key dates

- ***14 December 2022:*** publication of the Corporate Sustainability Reporting Directive in the Official Journal of the EU
- ***22 December 2023:*** publication of the European Sustainability Reporting Standards (ESRS) in the Official Journal of the EU
- ***8 February 2024:*** political agreement on postponing the deadlines for certain ESRS

- ***7 August 2024:*** publication of the frequently asked questions on the implementation of CSRD
- ***Tbc in 2025:*** full year reporting with 2024 financial year data, for undertakings with more than 500 employees
- ***Tbc in 2026:*** other issuers that are large undertakings
- ***Tbc in 2027:*** SMEs, small and non-complex institutions and captive (re)insurance undertakings

The main innovations of the CSRD

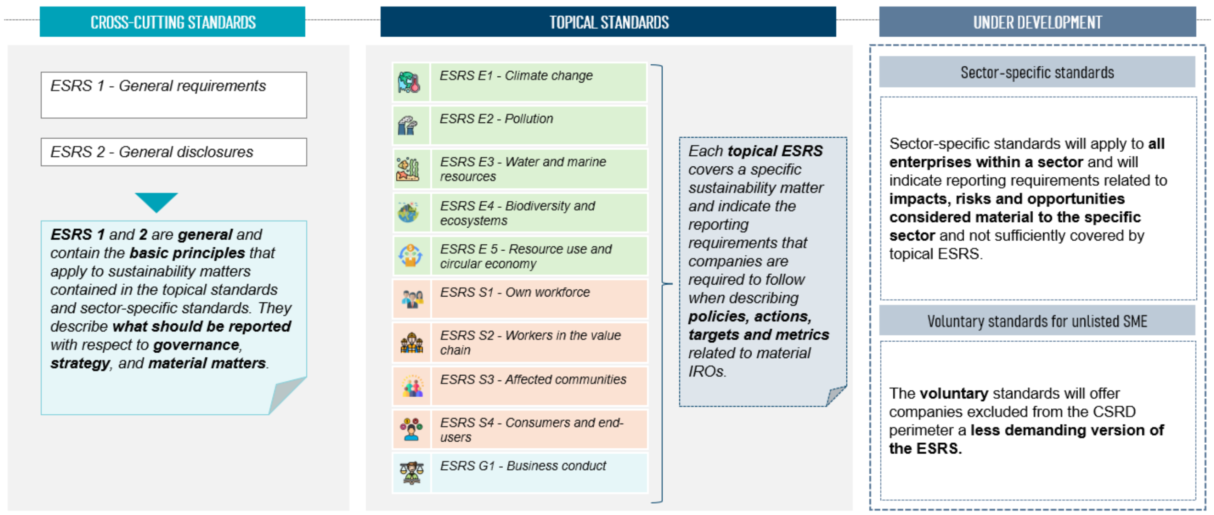
With the introduction of the CSRD, risk management emerges as a newfound focus area for sustainability reporting. This increased scrutiny is, in part, the result of increasing investor awareness of the financial impacts linked to sustainability-related risks.

As stated in the Directive: "*there has been a very significant increase in demand for corporate sustainability information in recent years, especially on the part of the investment community. That increase in demand is driven by the changing nature of risks to undertakings and growing investor awareness of the financial implications of those risks. That is especially the case for climate-related financial risks. There is also growing awareness of the risks and opportunities for undertakings and for investments resulting from other environmental issues, such as biodiversity loss, and from health and social issues, including child labour and forced labour. The increase in demand for sustainability information is also driven by the growth in investment products that explicitly seek to meet certain sustainability standards or achieve certain sustainability objectives and to ensure coherence with the ambition of the Paris Agreement under the United Nations Framework Convention on Climate Change adopted on 12 December 2015 (the 'Paris Agreement'), the UN Convention on Biological Diversity and Union policies*".

More innovative factors introduced by the Directive include the integration of sustainability reporting within the annual management report, mandatory third-party assurance, the requirement to consider the whole value chain, and the introduction of the new European Sustainability Reporting Standards (ESRS) aimed at standardising reporting for the nearly 50,000 companies affected by the CSRD, thus enhancing the possibility for interested stakeholders (financial institutions, investors, and the general public) to evaluate and compare companies against their peers.

The ESRS are structured as follows: two cross-cutting standards, outlining the general reporting requirements applicable to all companies, and 10 topical standards, providing disclosure requirements pertaining to specific sustainability matters to companies for which those matters are relevant.

Overview of ESRS



Source: Protiviti, based on the ESRS structure

The dual perspective of the double materiality assessment

A crucial innovation introduced by the regulation is the double materiality assessment – a key process in guiding sustainability reporting towards strategically relevant matters. Through the double materiality assessment, companies must identify their relevant IROs to both draft their own reporting and define a solid sustainability strategy. The analysis consists of two complementary approaches: impact materiality assessment and financial materiality assessment.

The impact materiality assessment is based on an inside-out perspective and concerns the impacts generated by companies and their value chain on people and the environment.

The financial materiality assessment is based on an outside-in perspective, focusing on the risks and opportunities arising from social and environmental developments capable of generating economically significant effects on companies. These effects are those affecting companies' financial position, economic result, cash flows, access to financing, or the cost of capital.

Both materiality assessments must consider multiple time horizons (short, medium, and long-term) and examine companies' entire value chains and business relationships.

The impact materiality assessment must consider magnitude (how severe or beneficial the impact is), scope (how widespread the impact is), and the likelihood of occurrence over the three time-horizons. For negative impacts, impact materiality must also consider irremediability, meaning whether and to what extent it is possible to remedy the impacts incurred.

The financial materiality assessment must consider the magnitude of the economically significant effects they generated by risks and opportunities and their likelihood of occurrence over the three time-horizons.

Considering these criteria, companies must develop an assessment methodology to assess the significance of each impact, risk, and opportunity. They should also establish a materiality threshold to identify those that are most relevant – the material IROs – and any related material sustainability matters.

Companies are required to address the material IROs in their reporting in accordance with the disclosure requirements of the cross-cutting ESRS and the topical ESRS associated with material sustainability matters.

A risk management approach to sustainability reporting

In order to navigate the complex system of sustainability matters and comply with the new regulatory requirements, companies are required to innovate upon their pre-established materiality assessment processes (such as the impact materiality assessment conducted in accordance with GRI) and to enhance the role of Risk Managers in identifying and assessing the IROs associated with sustainability matters. As highlighted in the Directive, where the word "risks" occurs with a rate comparable with that of the term "impacts", the risk assessment plays a key role within the new framework of sustainability reporting. Skills and field experience in Risk Management thus become essential to effectively manage the double materiality process: the financial materiality assessment, in fact, requires the application of an evaluation methodology typical of the Enterprise Risk Management (ERM) systems.

Companies within the Directive's scope that are not yet equipped with an ERM system will be required to introduce structured risk management programmes for the first time. Companies already equipped with an ERM system will be required to extend the scope of the risk analysis and management processes to the new areas of inquiry: risks associated with sustainability matters; opportunities that social and environmental developments offer for business growth; and impacts on society and the environment arising from the management of relevant risks. Furthermore, the assessment methodology adopted in the ERM system can be leveraged and adapted to define the materiality threshold and evaluate sustainability-related impacts, risks and opportunities in accordance with the criteria outlined by the ESRS.

In addition to double materiality, Risk Managers' contributions may be required to fulfil a variety of ESRS disclosure requirements. In summary, Risk Managers could contribute to provide disclosure on:

- the administrative, management and supervisory bodies responsible for the oversight of risks (impacts and opportunities);
- the processes adopted by these bodies to oversee and address relevant sustainability-related risks (impacts and opportunities), including due diligence processes
- the risk management and internal control system specifically related to the sustainability reporting process.
- the interaction between the material risks (impacts and opportunities) and the company's strategy and business model, including the financial effects resulting from them.
- the policies adopted and actions taken to address material risks (to prevent, mitigate and remediate actual and potential material impacts and pursue material opportunities), and the targets set by companies to meet the policies' objectives.

The CSRD from a risk management perspective

The CRSD places a greater focus on the role of risk management in sustainability reporting, driven by both the changing nature of the risks to undertakings and increasing investor awareness of those risks. Risk managers are likely going to play a critical role in the process of identifying and mitigating the impacts and risks, as well as identifying and helping to make the most of opportunities.

The double materiality assessment, one of the key innovations of the CRSD, is the key process for guiding sustainability reporting towards strategically relevant matters. Risk management expertise will be necessary to help companies identify their relevant IROs, which will help both to draft companies' reporting and to shape solid sustainability strategies. They should also establish a materiality threshold to identify the most relevant ones – the material IROs – and the related material sustainability matters. Enterprise Risk Management processes and experience might prove critical to organisations in this area.

In addition to double materiality, Risk Managers' expertise and input will likely be required to fulfil a variety of ESRS disclosure requirements. For example, Risk Managers might be ideally placed to contribute to the reporting on the interaction between the material risks (impacts and opportunities) and their company's strategy and business model, including the financial effects resulting from them. In addition, Risk Managers will also be very familiar with the policies adopted and actions taken to address material risks.

Risk Management-specific reporting

In this paper, a selection of the most critical elements of CSRD-ESRS for Risk Managers is presented in a table. This list is not exhaustive. However, the table can help to guide Risk Managers towards noteworthy areas as a first step. In the table, a column entitled 'actionable insights' is used to provide some ideas for Risk Managers to work through within their organisational approach to CSRD.

Based on the mapping exercise contained within this Regulatory Note, the major high-level areas where Risk Managers can have strategic involvement could be:

- Stakeholder identification and evaluating IRO for stakeholders
- Materiality processes and thresholds
- Linking the risk quantification through Enterprise Risk Management processes to sustainability reporting
- Linking reporting to value-chain due diligence requirements, stemming from the Corporate Sustainability Due Diligence Directive (CS3D)
- Integrating list of key actions taken in remediation plans in the overall ERM process

And, based on the exercise carried out in this Policy Note, FERMA has the following reflections for policymakers:

- The European Commission in collaboration with the European Financial Reporting Advisory Group and industry stakeholders should consider developing a simplified Risk Management guidance to double materiality and IRO reporting, aimed at facilitating the reporting requirements for newly in-scope reporting entities.
- In implementing documentation or further guidance to be issued, the European Commission and EFRAG might consider making explicit reference to the role of Risk Manager, or labelling Enterprise Risk Management processes as being 'good practice' in sustainability reporting.

Annex

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ESRS 1 Chapter 3.1 Stakeholders and their relevance to the materiality assessment process	An effective double materiality assessment greatly relies on the inputs of stakeholders who can affect and be affected by companies' activities. In order to ensure inclusiveness of all relevant stakeholders, stakeholder identification and engagement are key pillar processes to implement. **Open points:** The ESRS leave it to companies to identify which stakeholders to involve in the double materiality assessment. The ESRS do not provide explicit requirements on how to consider stakeholder views in the dual materiality assessment: at what stage of the assessment companies should involve them and to what extent they should consider their assessment of impacts, risks, and opportunities. **Suggested actions:** *Can Risk Managers support in the identification and engagement of stakeholders?* Yes, by drawing on their understanding of the business environment and potential risk factors, they can help identifying the so-called "users of sustainability statements", meaning the stakeholders who are interested in the economic and financial performance of companies, and can provide valuable insights with respect to risks and opportunities related to sustainability matters. This category of stakeholders includes existing and potential investors, lenders and other creditors, including asset managers, credit institutions, and insurance companies. By supporting the stakeholder identification and engagement, Risk Managers will be involved from the early stages of the double materiality assessment.
ESRS 1 Chapter 3.4 Impact materiality	The impact materiality assessment is based on an inside-out perspective and concerns the impacts generated by companies and their value chains on people and the environment. The impact materiality assessment must consider magnitude (how severe or beneficial the impact is), scope (how widespread the impact is), and the likelihood of occurrence over three time-horizons (short, medium and long-term). For negative impacts, impact materiality must also consider irremediability, meaning whether and to what extent it is possible to remedy the impacts occurred. Considering these criteria, each company must define a methodology to assess the impacts generated from its business operations and value chain and a materiality threshold to identify the most relevant of those impacts. **Open points:** The ESRS provide the criteria to be considered in the impact materiality assessment. However, companies are responsible for defining suitable methodologies to effectively evaluate both positive and negative impacts based on these criteria. Additionally, they also need to define a materiality threshold required to identify the most relevant impacts, those that are "material". Furthermore, currently there are not many industry benchmarks and shared metrics to rely on for assessing the relevance of impacts. The ESRS require companies to conduct the impact materiality assessment

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	also considering impacts on society and the environment arising from the value chain (see also suggested actions for ESRS 1 chapter 5) The ESRS require companies to conduct the impact materiality assessment over three timeframes ◊ see Suggested actions for ESRS 1 chapter 6.4 **Suggested actions:** *Can Risk Managers support in developing the impact assessment methodology?* Yes, they can offer support by adapting the evaluation methodology used in the Enterprise Risk Management system (ERM) to define scoring scales / ranking methods and materiality thresholds to assess the impacts' scale, scope, irremediable character and likelihood of occurrence over the considered time horizons.
ESRS 1 Chapter 3.5 Financial materiality	The financial materiality assessment is based on an outside-in perspective and concerns the risks and opportunities arising from social and environmental developments that are capable of generating economically significant effects on companies. The aforementioned effects are those affecting companies' financial position, economic result, cash flows, access to financing, or the cost of capital. The financial materiality assessment must consider the magnitude of the economic and financial effects generated by the risks and opportunities and their likelihood of occurrence over the three time-horizons. Considering these criteria, each company must define a methodology to assess the risks and opportunities arising from social and environmental developments and a materiality threshold to identify the most relevant of them. **Open points:** The ESRS provide the criteria to be considered in the financial materiality assessment. However, companies are responsible for defining suitable methodologies to effectively evaluate both risks and opportunities based on these criteria. Additionally, they also need to define a materiality threshold to identify the most relevant risks and opportunities, those considered "material". Furthermore, the ESRS do not clearly state whether to assess inherent risks or residual risks. While the identification and evaluation of risks (although not necessarily associated with sustainability matters) is an activity included in the current ERM systems, the assessment of opportunities might be a new field of analysis for many. The ESRS require companies to conduct the financial materiality assessment also considering risks and opportunities arising from the value chain (see also Suggested actions for ESRS 1 chapter 5) The ESRS require companies to conduct the financial materiality assessment over three timeframes (see also Suggested actions for ESRS 1 chapter 6.4) **Suggested actions:** *Can Risk Managers help identify risks and opportunities arising from social and environmental developments?* Yes, they can leverage the most recent ERM assessment to identify risks influenced by social and environmental developments, and they can leverage their knowledge of scenario analysis and external context to identify other ESG-related opportunities. Analysing the social and environmental dependencies of the current business model (e.g. specialist employees or clean and abundant water) can

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	help identify relevant risks and opportunities. *Can Risk Managers support in developing the financial assessment methodology?* Yes, they can leverage the ERM methodology to assess the potential magnitude of the economic and financial effects (such as on financial position, operating results, cash flows, access to financing, or cost of capital) of ESG-related risk and adapt it to approach the assessment of opportunities for the first time. In light of the ESRS requirement to conduct the assessment over three timeframes, the ERM methodology should also be adapted to evaluate the likelihood of occurrence of risks and opportunities over the timeframes considered.
ESRS 1 Chapter 3.6 Material impacts or risks arising from actions to address sustainability matters	Companies' double materiality assessments may reveal situations where the actions taken to address certain impacts or risks, or to capitalise on certain opportunities related to a sustainability matter, could have significant negative impacts or pose material risks concerning other sustainability matters. For instance, actions taken to mitigate a potential negative impact may give rise to risks with substantial financial implications for the companies. The ESRS require companies to disclose such instances. **Suggested actions:** *Can Risk Managers help identify such critical situations?* Yes, they can leverage their expertise in identifying countermeasures and remediation actions for business-related risks resulting from the ERM assessment, to identify the potential negative outcomes of the actions companies take in the attempt to address material impacts or risks and leverage opportunities.
ESRS 1 Chapter 5 Value Chain	The double materiality assessment must consider impacts, risks and opportunities connected with the companies through their direct and indirect business relationships in the upstream and/or downstream value chain ("value chain information"). Different sustainability matters can be material in relation to different parts of companies' upstream and downstream value chains. Consequently, the sustainability report shall include value-chain information only in relation to the parts of the value chain associated to material impacts, risks or opportunities. **Open points:** The ESRS do not provide guidance on how companies can effectively assess impacts, risks and opportunities related to their value chain, for which there is usually limited availability and reliability of information and data. However, in light of these difficulties, the ESRS provide transitional provisions to limit the effort necessary to obtain information and data from business partners of the value chain.
ESRS 1 Chapter 6.4 Definition of short, medium and long term for reporting purposes ESRS 2 BP-2 Disclosures in relation to specific circumstances	The ESRS prescribe that both the impact materiality assessment and the financial materiality assessment should consider: a short-term horizon (matching the period adopted as the reporting period in the company's financial statements), a medium-term horizon (from the end of the short-term period up to five years); and long-term horizon (more than five years). However, the predefined medium- or long-term horizons may not be appropriate for all companies. For instance, in cases when companies use different timeframes for their processes of identification and management of material impacts, risks and opportunities or for the definition of actions and targets. These circumstances may be due to industry-specific characteristics, such as

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	cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of sustainability statements conduct their assessments, or the planning horizons typically used in a particular industry for decision-making. In these circumstances, companies may adopt a different definition of medium- and/or long- term time horizons. **Open points:** The ESRS require companies to assess IROs over the short, medium and long-term horizons. But they can decide whether to use the definition of short, medium and long-term provided by the ESRS or different ones, provided that they disclose the definitions and the reason for using them. **Suggested actions:** *Can Risk Managers help define the time horizons considered for the double materiality assessment?* Yes, since the ESRS state that companies can use the timeframe adopted in their processes of identification and management of material impacts, risks and opportunities for the double materiality assessment, Risk Managers should ensure the time horizons used in the double materiality assessment are aligned with those employed to identify and manage risks in the ERM system.
ESRS 1 Chapter 7.2 Sources of estimation and outcome uncertainty ESRS 2 BP-2 Disclosures in relation to specific circumstances	In cases where quantitative metrics and monetary amounts provided in the sustainability statement are estimated, the ESRS require companies to disclose necessary information for users to understand the most significant uncertainties affecting the metrics and amounts reported, in accordance with ESRS 2 BP-2. To comply with this requirement, assumptions and estimations, including scenario or sensitivity analysis, should be accurately described and explained. This also applies to the potential financial effects of risks and opportunities that are considered in the financial materiality assessment and required for disclosure in many ESRS data points. **Open points:** The ESRS do not provide information about scenario analysis to employ to assess the potential financial effects of risks and opportunities related to sustainability matters (with the sole exception of climate-related risks), leaving it to companies to define them. **Suggested actions:** *How can Risk Managers support the disclosure of quantitative metrics and monetary amounts when they are estimations?* Risk managers can help to develop quantitative metrics and define monetary amounts related to the financial effects of the risks and opportunities considered in the financial materiality assessment. Having supported the identification and assessment of financially material risks, they can provide information about the sources of measurement uncertainty related to these values and describe the scenario analysis, assumptions, approximations and judgements made in their calculation, which should be consistent, to the extent possible, with the corresponding financial data and the assumptions used in the company's financial statement.
ESRS 2 GOV-1 The role of the administrative, management and	The ESRS require companies to provide significant information on their own administrative, management and supervisory bodies in accordance with ESRS 2 GOV-1 and related topical ESRS.

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supervisory bodies ESRS G1 paragraph 5	Specifically, the requirement is to describe the roles and responsibilities of the administrative, management and supervisory bodies in exercising oversight of the process to manage material impacts, risks and opportunities, including management's role in these processes and the expertise and skills of these bodies on sustainability matters. **Open points:** Companies might need to refine their current governance to accommodate the new CSRD emphasis on managing sustainability issues, including ESG risks. To this end, the role of Risk Managers could be integrated with responsibilities related to CSRD compliance. **Suggested actions:** *How can Risk Managers support the disclosure of information on the administrative, management and supervisory bodies' role over the process to manage material risks and opportunities?* Risk Managers can contribute to the description of: • the structure of the administrative, management and supervisory bodies responsible for oversight of risks (impacts and opportunities). • how the responsibilities of such bodies are reflected in companies' terms of reference, board mandates and related policies. • management's role in the governance processes, controls and procedures used to monitor, manage and oversee risks (impacts and opportunities), including information about the reporting lines to the administrative, management and supervisory bodies. • the dedicated controls and procedures applied to the management of risks (impacts and opportunities) and how they are integrated with other internal functions. • how the administrative, management and supervisory bodies and senior executive management oversee the setting of targets related to material risks (impacts and opportunities), and how they monitor progress towards them. • the skills and expertise available to oversee sustainability-related risks (impacts and opportunities) and/or the plan to provide/enhance those skills.
ESRS 2 GOV-2 Information provided to and sustainability matters addressed by companies' administrative, management and supervisory bodies	The ESRS require companies to disclose how the administrative, management and supervisory bodies are informed about sustainability matters and how these matters were addressed during the reporting period, in accordance with ESRS 2 GOV-2. **Suggested actions:** *What support can Risk Managers provide in disclosing information about the mechanisms to inform these bodies about sustainability matters and how to address them?* Risk Managers can contribute to the description of: • whether, by whom and how frequently the administrative, management and supervisory bodies responsible for oversight of risks (impacts and opportunities) are informed about material risks (impacts and opportunities), the implementation of due diligence, and the results and effectiveness of policies, actions, metrics and targets adopted to address them. • how the administrative, management and supervisory bodies consider risks (impacts and opportunities) when overseeing the company's strategy, its decisions on major transactions, and its risk management process, including whether trade-offs associated with those impacts, risks and opportunities were considered. • the material risks (impacts and opportunities) addressed by the administrative, management and supervisory bodies, or their

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	relevant committees throughout the reporting period.
ESRS 1 Chapter 4 Due diligence ESRS 2 GOV-4 Statement on due diligence	The ESRS require companies to facilitate an understanding of companies' due diligence with regard to sustainability matters, meaning the processes by which companies identify, prevent, mitigate and account for how they address the actual and potential negative impacts on the environment and people connected with their business (as described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises). **Suggested actions:** *How can Risk Managers facilitate understanding and disclosure of companies' due-diligence processes with regard to sustainability matters?* To the extent of their involvement in the due diligence process, Risk Managers can help describe its main aspects and steps and provide insight into how the due-diligence process informs the identification, prevention, and mitigation of material risks (impacts and opportunities).
ESRS 2 GOV-5 Risk management and internal controls over sustainability reporting	The ESRS require companies to disclose the main features of their risk management and internal control systems in relation to the sustainability reporting process, in accordance with ESRS 2 GOV-5. **Suggested actions:** *What support can Risk Managers provide in relation to the sustainability reporting process?* They can help by identifying sustainability reporting related risks and ensuring they are integrated in the current ERM. *How can Risk Managers disclose the main features of the risk management and internal control system?* They can provide essential information such as: • the scope, main features and components of the risk management and internal control processes and systems in relation to sustainability reporting. • the risk assessment approach followed, including the risk prioritisation methodology. • the main risks identified and their mitigation strategies including related controls. • how companies integrate the findings of their risk assessment and internal controls related to the sustainability reporting process into relevant internal functions and processes; and • The findings of periodic reporting to the administrative, management and supervisory bodies.
ESRS 2 GOV-5 Risk management and internal controls over sustainability reporting	The ESRS require companies to disclose the main features of their risk management and internal control systems in relation to the sustainability reporting process, in accordance with ESRS 2 GOV-5. **Suggested actions:** *What support can Risk Managers provide in relation to the sustainability reporting process?* They can help by identifying sustainability reporting related risks and ensuring they are integrated in the current ERM. *How can Risk Managers disclose the main features of the risk management and internal control system?* They can provide essential information such as: • the scope, main features and components of the risk management and internal control processes and systems in relation to sustainability reporting.

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	• the risk assessment approach followed, including the risk prioritisation methodology. • the main risks identified and their mitigation strategies including related controls. • how companies integrate the findings of their risk assessment and internal controls related to the sustainability reporting process into relevant internal functions and processes; and • the findings of periodic reporting to the administrative, management and supervisory bodies.
ESRS 2 SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model ESRS E1 (paragraphs 18-19) ESRS E4 (16-19) ESRS S1 (13-16) ESRS S2 (10-13) ESRS S3 (8-11) ESRS S4 (9-12) ESRS E1-9 Anticipated financial effects from material physical and transition risks and potential climate-related opportunities ESRS E2-6 Anticipated financial effects from pollution-related impacts, risks and opportunities ESRS E3-5 Anticipated financial effects from water and marine resources-related impacts, risks and opportunities ESRS E4-6 Anticipated financial effects from biodiversity and ecosystem-related risks and opportunities ESRS E5-6 Anticipated financial effects from resource use and circular economy-related impacts, risks and opportunities	The ESRS require companies to disclose their material impacts, risks and opportunities (IROs), those resulting from the double materiality assessment. Companies are required to disclose how the material IROs interact with their strategy and business model – meaning how they originate from and trigger adaptation of the company's strategy and business model, including its resource allocation - in accordance with ESRS 2 SBM-3 and related topical ESRS. **Suggested actions:** *How can Risk Managers help in disclosing companies' material risks?* They can provide the following information: • a brief description of the material risks (impacts and opportunities) resulting from the materiality assessment, including a description of where in the business model, the company's operations and upstream and downstream value chain these material impacts, risks and opportunities are concentrated. • the current and anticipated effects of the material risks (impacts and opportunities) on the business model, value chain, strategy and decision-making, and how companies have responded or plan to respond to these effects, including any changes they have made or plan to make to their strategy or business model as part of their actions to address particular material risks (impacts, or to pursue particular material opportunities). • the current financial effects of the material risks (and opportunities) on the company's financial position, financial performance and cash flows and the material risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the assets and liabilities reported in the related financial statements. • the anticipated financial effects of the material risks (and opportunities) on the company's financial position, financial performance and cash flows over the short, medium and long-term, including the reasonably expected time horizons for the effects to occur. This shall include how the company expects its financial position, financial performance and cash flows to change over the short, medium- and long-term, given its strategy to manage risks (and opportunities), taking into consideration: its investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans the company is not contractually committed to, and the planned sources of funding to implement its strategy; • information about the resilience of the company's strategy and business model regarding its capacity to address their material risks (impacts, and to take advantage of their material opportunities). Companies shall disclose a qualitative and, when applicable, a quantitative, analysis of this resilience, including how the analysis was conducted and the time horizons applied. • changes to the material risks (impacts and opportunities) compared with the previous reporting period.

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	• a specification of the risks (impacts and opportunities) that are covered by ESRS Disclosure Requirements as opposed to those covered by additional entity-specific disclosures.
ESRS 2 IRO-1 Description of the process to identify and assess material impacts, risks and opportunities ESRS E1 (paragraph 20 to 21) ESRS E2 (paragraph 11) ESRS E3 (paragraph 8) ESRS E4 (paragraph 17 to 19) ESRS E5 (paragraph 11) ESRS G1 (paragraph 6)	The ESRS require companies to disclose the process adopted to identify their impacts, risks and opportunities and to assess which are material on the basis of their double materiality assessment, in accordance with ESRS 2 IRO-1 and related topical ESRS. **Suggested actions:** *How can Risk Managers support the disclosure about the process of risk identification and assessment?* Risk Managers can describe the methodologies and assumptions applied in the financial materiality assessment. The information they can provide includes: • an overview of the process used to identify, assess, prioritise and monitor risks (and opportunities) that have or may have financial effects, including: how the company has considered the connections between its impacts and dependencies with the risks (and opportunities) that may arise from those impacts and dependencies; how the company assesses the likelihood, magnitude, and nature of effects of the identified risk (and opportunities), such as the qualitative or quantitative thresholds and other criteria used; how the company prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools; • a description of the decision-making process and the related internal control procedures. • the extent to which and how the process to identify, assess and manage material risks (and impacts) is integrated into the company's overall risk management process and used to evaluate the company's overall risk profile and risk management processes. • the input parameters used (for example, data sources, the scope of operations covered and the degree of detail in assumptions). • whether and how the process has changed compared with the prior reporting period, when the process was last modified and future revision dates of the materiality assessment.
ESRS 2 MDR-P Policies adopted to manage material sustainability matters ESRS E1-2 Policies related to climate change mitigation and adaptation ESRS E2-1 Policies related to pollution ESRS E3-1 Policies related to water and marine resources ESRS E4-2 Policies related to biodiversity and ecosystems ESRS E5-1 Policies related to resource use and circular economy	The ESRS require companies to disclose information on the policies adopted to prevent, mitigate and remediate actual and potential material impacts, to address material risks and/or to pursue material opportunities (collectively, to "manage material sustainability matters"), in accordance with the minimum disclosure requirements defined in ESRS 2 MDR-P and related topical ESRS. **Suggested actions:** *How can Risk Managers support the disclosure about the policies adopted to manage material sustainability matters?* Leveraging their expertise in identifying countermeasures and remediation actions for risks resulting from the ERM assessment, they can provide the following information regarding policies adopted to address material risks (prevent, mitigate and remediate actual and potential material impacts and/or to pursue material opportunities): ○ a description of the key content of policies, including their general objectives and which material risks (impacts or opportunities) the policies relate to, and the process used to monitor them; ○ a description of the policies' scope, in terms of activities, upstream and/or downstream value chain, geographies and if relevant, affected stakeholder groups. ○ the most senior level in the company's organisation that is accountable for implementation of the policies. ○ a reference, if relevant, to the third-party standards or initiatives the

REFERENCE	ACTIONABLE INSIGHTS
ESRS S1-1 Policies related to own workforce ESRS S2-1 Policies related to value chain workers ESRS S3-1 Policies related to affected communities ESRS S4-1 Policies related to consumers and end-users ESRS G1-1 Business conduct policies and corporate culture	company commits to respect through implementation of the policies. ○ if relevant, a description of the consideration given to the interests of key stakeholders in setting the policies. ○ if relevant, whether and how the company makes the policies available to potentially affected stakeholders, and stakeholders who need to help implement them.
ESRS 2 MDR-A Actions and resources in relation to material sustainability matters ESRS E1-3 Actions and resources in relation to climate change policies ESRS E2-2 Actions and resources related to pollution ESRS E3-2 Actions and resources related to water and marine resources ESRS E4-3 Actions and resources related to biodiversity and ecosystems ESRS E5-2 Actions and resources related to resource use and circular economy ESRS 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 ESRS S2-4 Taking action on material impacts on value chain workers, and approaches to managing material risks and pursuing material opportunities related to value chain workers, and effectiveness of those	The ESRS require companies to disclose information on the actions taken and/or planned to prevent, mitigate and remediate actual and potential material impacts, to address material risks and/or to pursue material opportunities (collectively, to “manage material sustainability matters”), and where applicable achieve the objectives and targets of related policies, in accordance with the minimum disclosure requirements defined in ESRS 2 MDR-A and related topical ESRS. **Suggested actions:** *How can Risk Managers support the disclosure on the actions taken and/or planned to manage material sustainability matters?* Leveraging their expertise in identifying countermeasures and remediation actions for risks resulting from the ERM assessment, they can provide the following information regarding the actions taken and/or planned to address material risks (prevent, mitigate and remediate actual and potential material impacts, and/or to pursue material opportunities): ○ the list of key actions taken in the reporting year and planned for the future, their expected outcomes and, where relevant, how their implementation contributes to the achievement of policy objectives and targets. ○ the scope of the key actions (i.e., coverage in terms of activities, upstream and/or downstream value chain, geographies and, where applicable, affected stakeholder groups). ○ the time horizons under which the company intends to complete each key action. ○ if applicable, key actions taken (along with results) to provide for and cooperate in or support the provision of remedy for those harmed by actual material impacts. ○ if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods. ○ If applicable, information on the type and amount of current and future financial and other resources allocated to the action plan, including if applicable, the relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans, the environmental or social objectives, and whether the ability to implement the actions or action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments;

REFERENCE	ACTIONABLE INSIGHTS
action ESRS S3-4 Taking action on material impacts on affected communities, and approaches to managing material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions ESRS S4-4 Taking action on material impacts on consumers and end-users, and approaches to managing material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions	
ESRS 2 MDR-T Tracking effectiveness of policies and actions through targets ESRS E1-4 Targets related to climate change mitigation and adaptation ESRS E2-3 Targets related to pollution ESRS E3-3 Targets related to water and marine resources ESRS E4-4 Targets related to biodiversity and ecosystems ESRS E5-3 Targets related to resource use and circular economy ESRS S1-5 Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities ESRS S2-5 Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities	The ESRS require companies to disclose information about the targets they have set with regard to each material sustainability matter, in accordance with the minimum disclosure requirements defined in ESRS 2 MDR-A and related topical ESRS. **Suggested actions:** *How can Risk Managers support the disclosure about the targets of material sustainability matters?* Leveraging their expertise in identifying countermeasures and remediation actions for risks resulting from the ERM assessment, they can provide the following information on the targets set with respect to material risks (impacts and opportunities): o whether and how companies track the effectiveness of their actions to address material risks (impacts and opportunities), including the metrics used to do so. o the measurable time-bound outcome-oriented targets set by companies to meet the policy objectives, defined in terms of expected results for people, the environment or the companies, regarding material risks (impacts and opportunities). o the overall progress towards the adopted targets over time. o For each target, the disclosure shall include the following information: o a description of the relationship of the target to the policy objectives. o the defined target level to be achieved, including, where applicable, whether the target is absolute or relative and in which unit it is measured. o the scope of the target, including the company's activities and/or its upstream and/or downstream value chain, where applicable, and geographical boundaries. o the baseline value and base year from which progress is measured. o the period to which the target applies and if applicable, any milestones or interim targets. o the methodologies and significant assumptions used to define targets, including where applicable, the selected scenario, data sources, alignment with national, EU or international policy goals and how the targets consider the wider context of sustainable

REFERENCE	ACTIONABLE INSIGHTS
ESRS S3-5 Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities ESRS S4-5 Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities	development and/or local situation in which impacts take place. o whether the company's targets related to environmental matters are based on conclusive scientific evidence. o whether and how stakeholders have been involved in target setting for each material sustainability matter. o any changes in targets and corresponding metrics or underlying measurement methodologies, significant assumptions, limitations, sources and processes to collect data adopted within the defined time horizon. This includes an explanation of the rationale for those changes and their effect on comparability. o the performance against the disclosed targets, including information on how the target is monitored and reviewed and the metrics used, whether the progress is in line with what had been initially planned, and an analysis of trends or significant changes in the performance of the company towards achieving the target.

FERMA

The Federation of European Risk Management Associations brings together 23 risk management associations in 22 European countries, representing over 5600 risk managers active in a wide range of organisations. FERMA provides the means of co-ordinating risk management and optimising the impact of these associations outside their national boundaries on a European level.

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