

MODULE 1 | PART 2  
SUSTAINABLE BUSINESS DEVELOPMENT

# ESG & LEGAL COMPLIANCE



THE SOCIAL  
BUSINESS  
ACADEMY

LEARN MORE | DO BETTER

# STRATEGY | CLEAR PURPOSE

## PART 1

### WHY-WHAT

#### THE SUSTAINABLE BUSINESS MINDSET

- Global megatrends
- Sustainable market drivers
- Key concepts & definitions
- Sustainability phases

## PART 2

### HOW

#### SUSTAINABLE BUSINESS DEVELOPMENT

- ESG & legal compliance
- Guest contributor: Birgitte Kofod, CARVE
- Linking CSR & business
- The business case

## PART 3

### HOW

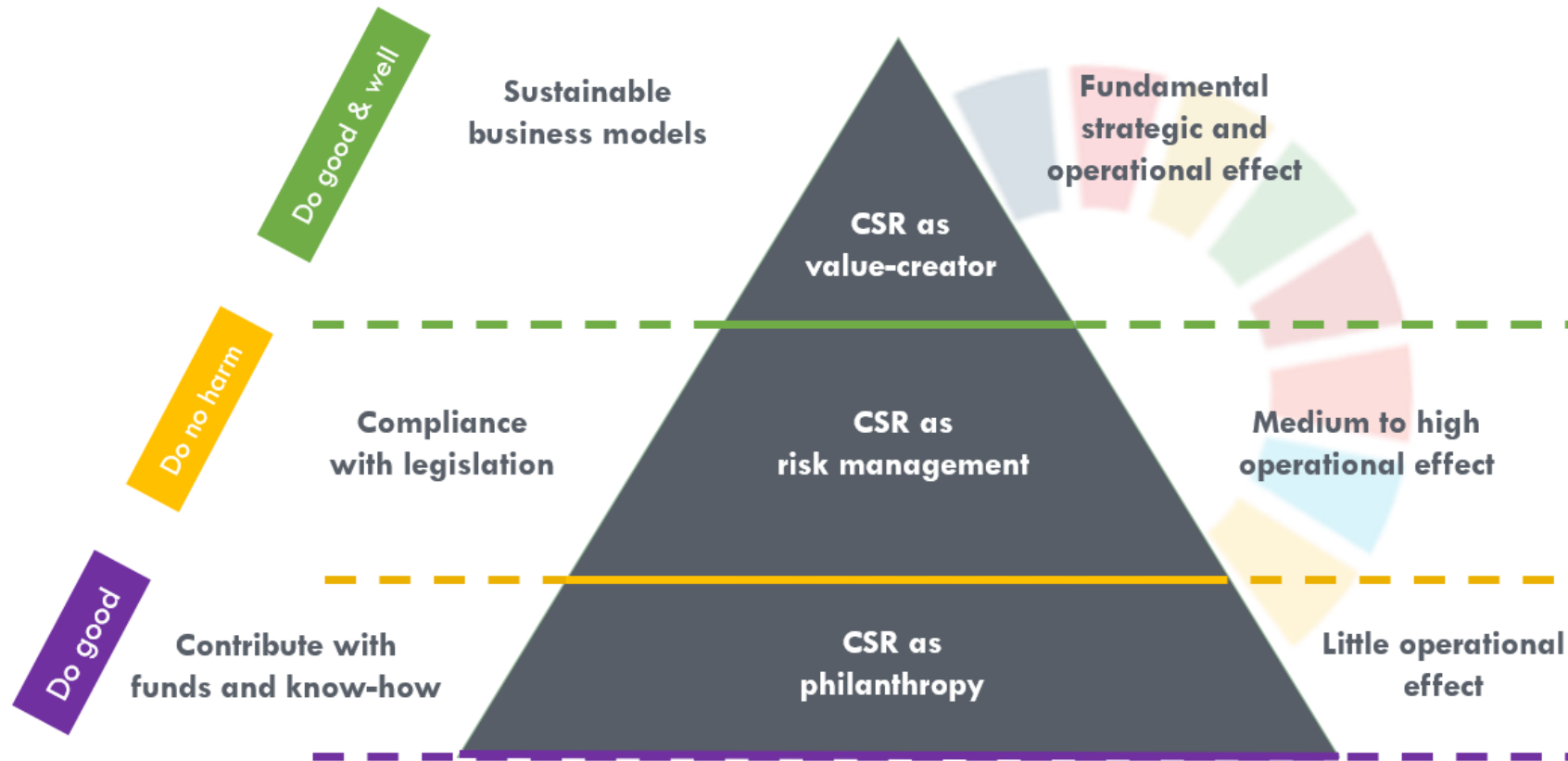
#### THE STRATEGIC FOUNDATION

- The analytical toolbox:  
6 analytical steps



# HOW?

## THE CSR JOURNEY I MODEL



Model: The CSR Journey. TANIA ELLIS – The Social Business Company®



## HOW

# ESG & LEGAL COMPLIANCE

A precondition for sustainable business development is that the company operates on a sound and responsible foundation.

A company must comply with both international and national legal requirements and obligations, in order to ensure that sustainable business risks are addressed and minimized – but also to capture business opportunities.

### Purpose:

Understand the basics of ESG-related legislation and how to work with legal compliance in a systematic and business-strategic way.



**WHAT-HOW-WHY**  
ESG & LEGAL  
COMPLIANCE



**HUMAN RIGHTS ADVICE**  
BIRGITTE KOFOD OLSEN



## WHAT YOU WILL LEARN... §

WHY



Overview of voluntary commitments & legal obligations

WHAT



The link between EUs CSRD, CSDDD and Taxonomy

HOW



A review of EUs reporting standards & topics (ESRS)



Value chain due diligence for identification of impacts



Double materiality assessment for strategic prioritization



A short roadmap on how to get started with ESG compliance



Sustainable Business Change Manager

# ESG & Legal compliance

An overview

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# Birgitte Kofod Olsen – LLM, Ph.d.



Researcher & Research coordinator  
Director of National Department  
Executive Vice Director  
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CSR Director 2009-14



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## Expert & author

Human Rights Expert Consultant, UNICRI Center for AI and Robotics

Human rights, data protection, privacy, data ethics, CSR & sustainability



## Chairperson and Committees

- Fonden Democracy X
- DataEthics.eu
- Youth Town Copenhagen
- Member of the Danish Equality Committee
- Member of the Danish Data Ethics Council





# ESG & Legal compliance in practice

1

VOLUNTARY  
COMMITMENTS &  
LEGAL OBLIGATIONS

CATEGORIZED INTO PPP & ESG

2

ESG RISKS & DUE DILIGENCE:  
3 KEY ESG LEGAL  
FRAMEWORKS

LINKING CSRD, CSDDD, EU TAXONOMY

3

OVERVIEW OF TOPICS:  
REPORTING  
STANDARDS  
(ESRS)

4

OVERVIEW OF IMPACTS:  
VALUE CHAIN  
DUE DILIGENCE  
(CSRD+CSDDD+TAXONOMY)

5

STAKEHOLDER ASSESSMENT & PRIORITIZATION:  
DOUBLE  
MATERIALITY  
(CSRD)

6

GETTING STARTED:  
A ROADMAP FOR  
ESG COMPLIANCE  
(WITH A BUSINESS STRATEGIC LINK)

# VOLUNTARY COMMITMENTS & LEGAL OBLIGATIONS

CATEGORIZED INTO PPP & ESG

# CSR compliance – voluntary commitment & legal obligations

Moving toward more legal obligations within the EU

The collage includes the following elements:

- Sustainable Development Goals (SDG) logo:** A grid of 17 colorful icons representing goals such as No Poverty, Zero Hunger, Good Health and Well-being, Quality Education, Gender Equality, Clean Water and Sanitation, Affordable and Clean Energy, Decent Work and Economic Growth, Industry, Innovation and Infrastructure, Reduced Inequalities, Sustainable Cities and Communities, Responsible Consumption and Production, Climate Action, Life Below Water, Life on Land, Peace, Justice and Strong Institutions, and Partnerships for the Goals.
- CSR logo:** The letters 'CSR' in a stylized green font, with 'CORPORATE SOCIAL RESPONSIBILITY' written in smaller green letters below it.
- UN Global Compact logo:** A globe with the text 'UN GLOBAL COMPACT' around it.
- ESG logo:** The letters 'ESG' in large blue font, with 'Environmental, social and corporate governance' below it. To the right is a graphic of a person in a suit pointing at a classical building, with 'E', 'S', and 'G' in colored circles above the building.

### International obligations for states

The slide displays two logos on a blue background:

- United Nations logo:** A white globe surrounded by a laurel wreath.
- International Labour Organization (ILO) logo:** A white gear with 'ILO' in the center, surrounded by a laurel wreath.

### European obligations for member states and companies

The slide displays two images on a blue background:

- European Union flag:** A blue field with twelve yellow stars arranged in a circle.
- European national flags:** A collection of various national flags from European countries, including Belgium, France, Denmark, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom.

# ESG compliance - overview

| Sustainability                              | Expectations  | Legal obligations  |
|---|---|--|
| (E)nviro<br>Climate & environment<br>PLANET | Climate change & adaptation<br>Greenhouse gas emissions<br>Water and marine resources<br>Circular economy<br>Pollution prevention & control<br>Biodiversity<br>Nature<br>Planetary boundaries | UN Kyoto Protocol and UN Paris Agreement<br>UN High Seas Treaty<br>EU Sustainable Finance Taxonomy Regulation<br>EU Deforestation Regulation (EUDR)<br>EU Nature Restoration Law<br>EU Regulation on Carbon Border Adjustment Mechanism (CBAM)<br>EU Waste Framework Directive + national law transposing EU legislation (directive on chemicals, environmental protection, plastic SUP, extended producer responsibility, EPR)<br>EU Directive on empowering consumers for the green transition - Green Claims<br>EU Environmental Crime Directive<br>EU Regulation on Ecodesign for Sustainable Products (ESPR) (draft)<br>EU Corporate Sustainability Due Diligence (CSDDD) |
| (S)ocial<br>PEOPLE, PEACE, PARTNERSHIP      | Human rights  | UN Human Rights Conventions<br>EU Charter on fundamental rights<br>EU General data protection regulation<br>EU Corporate Sustainability Due Diligence directive (CSDDD)<br>National law transposing EU legislation (non-discrimination, work conditions)   |
|   | Labor rights  | ILO conventions<br>EU Charter on fundamental rights<br>EU Directives on non-discrimination in the labor market<br>EU Directive on improving the gender balance among directors of listed companies and related measures<br>EU Minimum Wage Directive<br>National law transposing EU legislation (non-discrimination, work conditions)  |
| (G)overnance<br>Economic<br>PROSPERITY      | Anti-corruption   | UN Convention against corruption<br>EU Whistleblowing Directive<br>EU Procurement Directives<br>EU Sustainable Finance Disclosures Regulation (SFDR)<br>EU Sustainable Finance – ESG ratings and sustainability risks in credit ratings (Draft)  |
|   | Tax   | National law   |
|   | Good governance   | EU Directive on corporate sustainability reporting (CSRD) and reporting standards (ESRS) incl. ESRS for listed SMEs (LSME) and voluntary ESRS for non-listed SMEs (VSME)<br>EU Corporate Sustainability Due Diligence Directive (CSDDD)  |

ESG RISKS & DUE DILIGENCE:

# 3 KEY ESG LEGAL FRAMEWORKS

LINKING CSRD, CSDDD, EU TAXONOMY

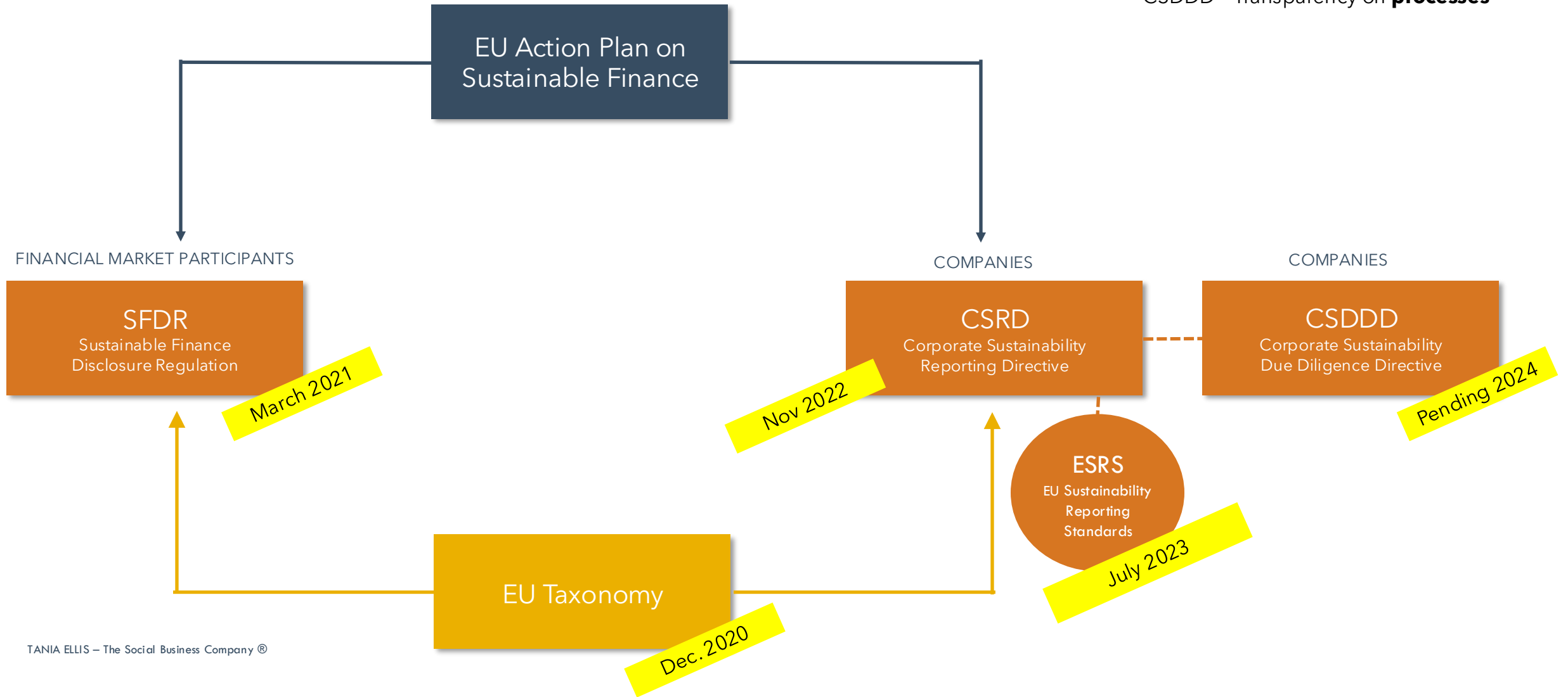
# From voluntary commitment to legal obligations





# CSRD, ESRS, CSDDD, SFDR, TAXONOMY...

Taxonomy - Transparency on **activities**  
CSRD (ESRS) - Transparency on **topics**  
CSDDD - Transparency on **processes**



# What is the purpose of the new rules?

## CSRD

Effective January 2023

- Modernises and strengthens rules on the social and environmental information to be reported
- Ensures that investors and other stakeholders have access to the information they need to assess investment risks stemming from climate change and other sustainability issues.
- Creates a culture of transparency regarding the impact of companies on people and the environment.
- Reduces reporting costs for businesses in the medium to long term
- Make it mandatory for companies to have audits carried out
- Provides for the digitisation of sustainability information.

## CSDDD

Adopted by EU Parliament – final April 2024

- Promotes sustainable and responsible business conduct in all global value chains
- Creates legal certainty and a level playing field for businesses
- Creates greater transparency for consumers and investors
- Promoting the green transition and protecting human rights in Europe and beyond

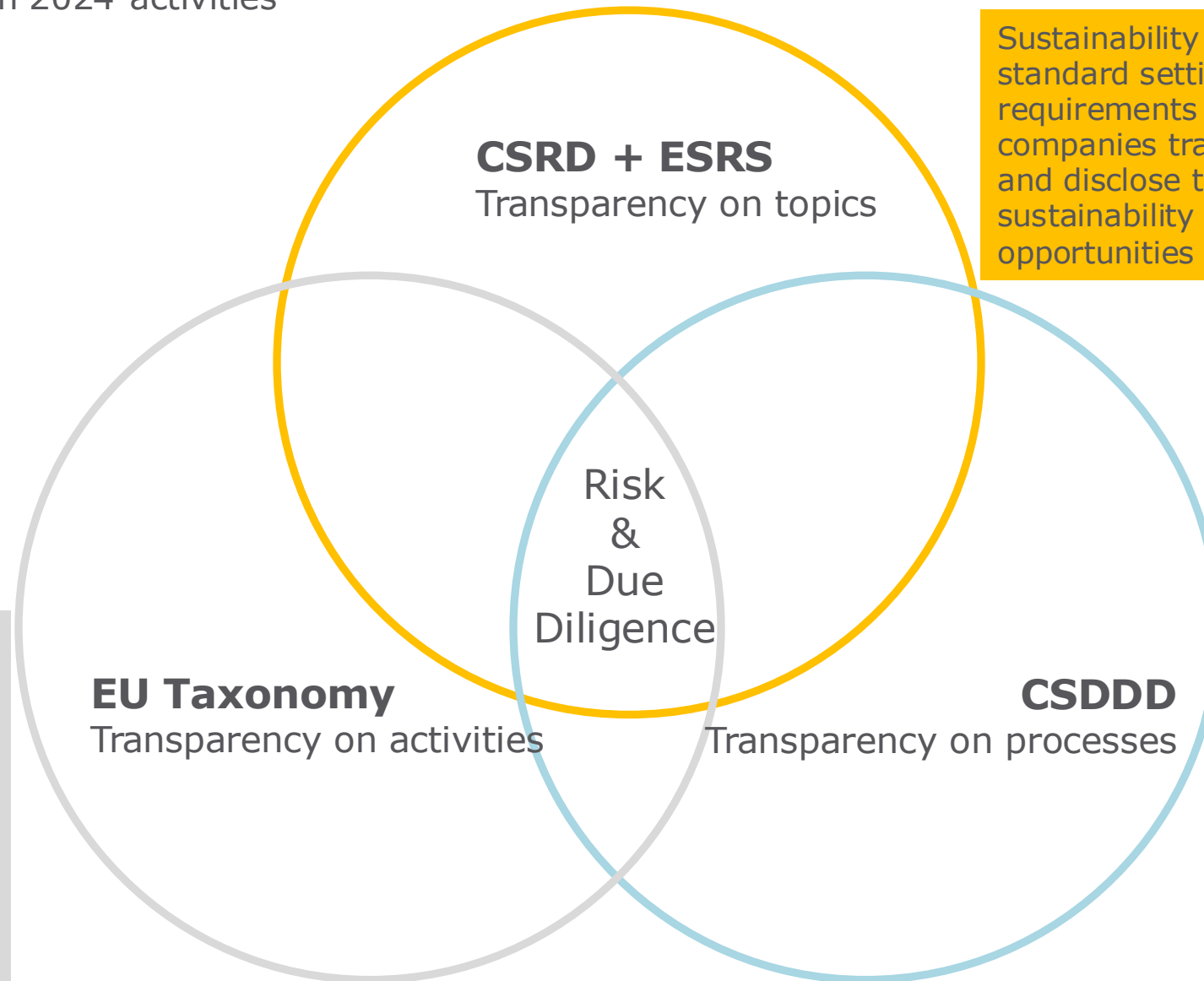
## Taxonomy

Effective July 2020

- Promotes investment in environmentally sustainable economic activities.
- Basically regulates a number of financial companies, but its scope is to a large extent also other companies such as trading, manufacturing and service companies (non-financial companies).
- Defines a number of disclosure requirements that non-financial companies will have to meet if their activities are to qualify as environmentally sustainable
- Establishes a classification system for which of your economic activities qualify as sustainable

# New standards for risk assessments and due diligence processes

- Reporting from 2025 on 2024-activities



Sustainability reporting standard setting new requirements for how companies track, account for and disclose their sustainability risks, opportunities and impacts.

Substantive requirements to how companies are managing, mitigating adverse impact on human rights and environment in the value chains

Determining the conditions under which an economic activity qualifies as contributing substantially to a sustainability objective through technical criteria:

- Substantial contribution
- Do no significant harm
- Minimum safeguards.

Reporting requirement on how much of revenue, CAPTEX and OPEX are eligible and aligned with the taxonomy.

# Overview of CSRD, draft CSDDD and Taxonomy

2024

| Regulation      | Purpose  | Topics  | Scope   | References  | Disclosure   | Timeline   |
|-----------------|--|---|---|---|--|--|
| <b>CSRD</b>     | To improve comparability, availability and quality of corporate sustainability related information   | Climate change<br>Pollution<br>Water & Marine<br>Circular economy<br>Biodiversity<br>Own workforce<br>Workers in value chain<br>Affected communities<br>Consumers & end-users<br>Governance<br>Business conduct | Financial statement expanded to its upstream and downstream value chain   | UN Guiding Principles on Business and Human Rights<br><br>OECD Guidelines for Multinational Enterprises | Sustainability Statement as part of management report                            | Data collection 2024<br><br>Reporting 2025   |
| <b>CSDDD</b>    | To impose substantial requirements to identify, prevent, mitigate and remediate actual and potential adverse impacts from the company's activities.  | Human rights<br>Environment   | Own operations and value chain operations with whom the company has established business relationships  | UN Guiding Principles on Business and Human Rights<br><br>OECD Guidelines for Multinational Enterprises | Sustainability Statement   | Adopted 15 March 2024  |
| <b>Taxonomy</b> | A classification scheme to identify sustainable business activities through 6 environmental objectives and 3 technical screening criteria:<br>- Significant contribution<br>- Do No Significant Harm<br>- Minimum Safeguards | Climate change mitigation<br>Climate change adaptation<br>Water and Marine Resources<br>Circular economy<br>Pollution<br>Biodiversity and Ecosystems  | Own significant activities with risk for significant harm and minimum safeguards and value chain<br><ul style="list-style-type: none"><li>Human rights</li><li>Workers' rights</li><li>Bribery/corruption</li><li>Taxation</li><li>Fair competition</li></ul> | UN Guiding Principles on Business and Human Rights<br><br>OECD Guidelines for Multinational Enterprises | Presentation in Sustainability Statement (NFRD/CSRD) by using specific templates | Data collection ongoing<br><br>Reporting ongoing<br><br>All objectives from 01.01.2023 |

500+: Data collection 2024  
Reporting 2025

250+: Data collection 2025  
Reporting 2026

Listed SMVs:  
Data collection 2026  
Reporting 2027

1000+ employees  
450+ million  
2029

Subject to NFRD/CSRD  
500+ employees

Reporting 2023 Two topics  
Reporting 2024 All topics

# CSRD requirements

## REPORTING

- Business model and strategy
- Time bound targets (GHG 2030 + 2050)
- Role of top management, their ESG expertise and skills
- Policies
- Incentive schemes for top management
- Due diligence procedure and materiality assessment
- Risk management
- Key indicators

### **The management report shall contain information necessary to understand:**

- The company's impact on sustainability issues
- How sustainability issues affect the company's development, performance and situation.

# CSDDD requirements

CSDDD introduces a risk based human rights and environmental due diligence

Due diligence processes should be integrated in:

- Company policies - internally and towards business partners
- Risk management systems.

The due diligence process encompasses:

- Identification and assessment of actual adverse impacts
- potential adverse impacts
- prioritizing potential and actual adverse impacts
- preventing and mitigating potential adverse impacts,
- bringing actual adverse impacts to an end and minimizing their extent
- Consultation with employees and their representatives

The directive aims to ensure that companies active in the EU contribute to sustainable development and the sustainability transition of economies and societies through the identification and prioritization, prevention and mitigation, ending, minimization and remediation of potential and actual adverse human rights and environmental impacts from their own operations, subsidiaries and business partners.

# Sanctions

Political pressure, fines and imprisonment

International cooperation within UN, ILO, and OECD can only be sanctioned through criticism of States and political pressure for not fulfilling obligations in international conventions or agreements.



Within the EU, fines may be imposed on companies if a legal basis is found in the directive or regulation. For example, the GDPR introduced fines up to 2% and 4% of annual turnover. CSRD is not sanctioned.

In national law we find a variety of sanctions within labour law, anti-discrimination law, human trafficking - from fines to imprisonment. CSR reporting is not sanctioned.

# 3 STRATEGIC COMPLIANCE APPROACHES

ESRS + VALUE CHAIN DUE DILIGENCE + DOUBLE MATERIALITY

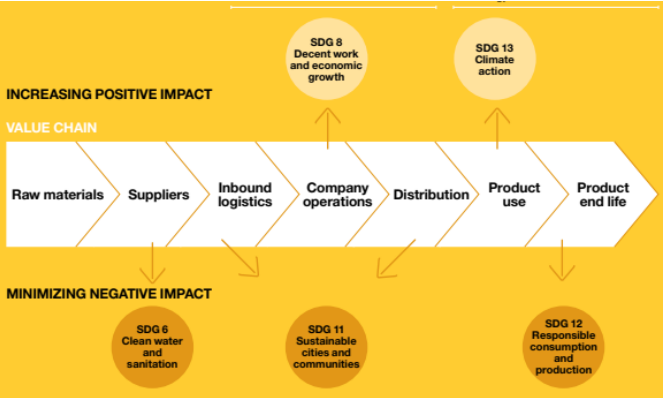
# Three key compliance & strategy approaches...

1

| General                        | Environment                                  | Social                                | Governance                  |
|--------------------------------|--|---------------------------------------|-----------------------------|
| ESRS 1<br>General requirements | ESRS E1<br>Climate change                    | ESRS S1<br>Own workforce              | ESRS G1<br>Business conduct |
| ESRS 2<br>General disclosures  | ESRS E2<br>Pollution                         | ESRS S2<br>Workers in the value chain |                             |
|                                | ESRS E3<br>Water and marine resources        | ESRS S3<br>Affected communities       |                             |
|                                | ESRS E4<br>Biodiversity and ecosystems       | ESRS S4<br>Consumers and end-users    |                             |
|                                | ESRS E5<br>Resource use and circular economy |                                       |                             |

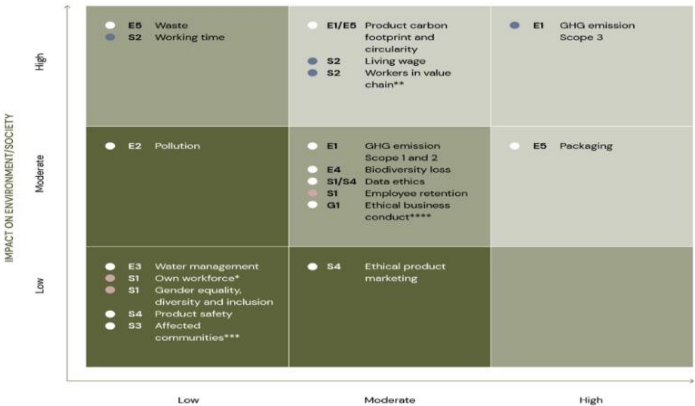
ESRS provides overview of business-relevant **topics** seen from a risk and opportunity perspective

2



Value chain due diligence process gives an overview and **map** of positive and negative **impacts**

3



Double materiality process provides a systematic approach to assessment and **prioritisation** of positive and negative impacts seen through a **stakeholder & business perspective**.

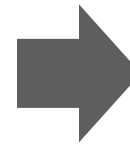
OVERVIEW OF TOPICS:

# REPORTING STANDARDS (ESRS)

# European sustainability reporting standards

Material demands and governance demands

| General                               | Environment   | Social                                       | Governance                         |
|---------------------------------------|---|--|------------------------------------|
| <b>ESRS 1</b><br>General requirements | <b>ESRS E1</b><br>Climate change                    | <b>ESRS S1</b><br>Own workforce              | <b>ESRS G1</b><br>Business conduct |
| <b>ESRS 2</b><br>General disclosures  | <b>ESRS E2</b><br>Pollution                         | <b>ESRS S2</b><br>Workers in the value chain |                                    |
|                                       | <b>ESRS E3</b><br>Water and marine resources        | <b>ESRS S3</b><br>Affected communities       |                                    |
|                                       | <b>ESRS E4</b><br>Biodiversity and ecosystems       | <b>ESRS S4</b><br>Consumers and end-users    |                                    |
|                                       | <b>ESRS E5</b><br>Resource use and circular economy |  |                                    |



## GOVERNANCE REQUIREMENTS

- Materiality assessment Negative and positive impacts, risks and opportunities (Transition plan)
- Policies
- Stakeholder involvement
- Redress
- Risk management
- Efficient processes
- Measures of impact, risks and opportunities

# EXAMPLE: Reporting on energy consumption

ESRS E1-5 – EU Delegated Act, 23 July 2023

## E1 - CLIMATE CHANGE

E1-5 – Energy consumption and mix

E1-6 – Gross greenhouse gas emissions under scope 1, 2, 3 and total greenhouse gas emissions

E1-7 – GHG removals and greenhouse gas mitigation projects financed by CO2 credits

E1-8 – Internal CO2 pricing

E1-9 – Expected financial impact of material physical and transition risks and potential climate-related opportunities

| Energy consumption and mix  | Comparative | Year N |
|---|-------------|--------|
| (1) Fuel consumption from coal and coal products (MWh)  |             |        |
| (2) Fuel consumption from crude oil and petroleum products (MWh)  |             |        |
| (3) Fuel consumption from natural gas (MWh)   |             |        |
| (4) Fuel consumption from other fossil sources (MWh)  |             |        |
| (5) Consumption of purchased or acquired electricity, heat, steam, and cooling from fossil sources (MWh)  |             |        |
| (6) Total fossil energy consumption (MWh) (calculated as the sum of lines 1 to 5)   |             |        |
| Share of fossil sources<br>in total energy consumption (%)  |             |        |
| (7) Consumption from nuclear sources (MWh)  |             |        |
| Share of consumption from nuclear sources<br>in total energy consumption (%)  |             |        |
| (8) Fuel consumption for renewable sources, including biomass (also comprising industrial and municipal waste of biologic origin, biogas, renewable hydrogen, etc.) (MWh) |             |        |
| (9) Consumption of purchased or acquired electricity, heat, steam, and cooling from renewable sources (MWh)   |             |        |
| (10) The consumption of self-generated non-fuel renewable energy (MWh)  |             |        |
| (11) Total renewable energy consumption (MWh) (calculated as the sum of lines 8 to 10)  |             |        |
| Share of renewable sources<br>in total energy consumption (%)   |             |        |
| Total energy consumption (MWh) (calculated as the sum of lines 6, and 11)   |             |        |

# Policy mapping

| SOCIAL                                   |  | Covered by adopted policy                        | Need for new or amended policy   |
|--|--|--|--|
| <b>S1-1 Own workforce</b>                | 17. The undertaking shall describe its policies adopted to manage its material impacts on its own workforce, as well as associated material risks and opportunities.   | Yes<br>Wage policy<br>Health and security policy | Yes<br>Gender pay gap policy   |
| <i>Forklarende note</i>                  | 18. The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of material impacts on the undertaking's own workforce specifically, as well as policies that cover material impacts, risks and opportunities related to its own workforce.  |  |  |
| <i>Krav til indhold</i>                  | 19. The disclosure required by paragraph 17 shall contain the information on the undertaking's policies to manage its material impacts, risks and opportunities related to its own workforce in accordance with ESRS 2 MDR-P Policies adopted to manage material sustainability matters. In addition, the undertaking shall specify if such policies cover specific groups within its own workforce or all of its own workforce.   |  |  |
| Human rights policy                      | 20. The undertaking shall describe its human rights policy commitments that are relevant to its own workforce, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises. In its disclosure it shall focus on those matters that are material in relation to, as well as its general approach to:<br><br>(a) respect for the human rights, including labour rights, of people in its own workforce;<br>(b) engagement with people in its own workforce; and<br>(c) measures to provide and/or enable remedy for human rights impacts.<br>21. The undertaking shall disclose whether and how its policies with regard to its own workforce are aligned with relevant internationally recognised instruments, including the UN Guiding Principles on Business and Human Rights. |  | Yes<br>Policy on redress mechanism<br>Policy on consultation with stakeholders |
| Trafficking, forced labour, child labour | 22. The undertaking shall state whether its policies in relation to its own workforce explicitly address trafficking in human beings, forced labour or compulsory labour and child labour.   |  |  |
| Accident prevention                      | 23. The undertaking shall state whether it has a workplace accident prevention policy or management system.  | AMO  |  |
| Discrimination                           | 24. The undertaking shall disclose:<br><br>(a) whether it has specific policies aimed at the elimination of discrimination, including harassment, promoting equal opportunities and other ways to advance diversity and inclusion;<br><br>(b) whether the following grounds for discrimination are specifically covered in the policy: racial and ethnic origin, colour, sex, sexual orientation, gender identity, disability, age, religion, political opinion, national extraction or social origin, or other forms of discrimination covered by Union regulation and national law;<br><br>(c) whether the undertaking has specific policy commitments related to inclusion or positive action for people  |  |  |

# ESRS for SMEs

LSME: LISTED SME's (MANDATORY)



VSME: NON-LISTED SME's (VOLUNTARY)

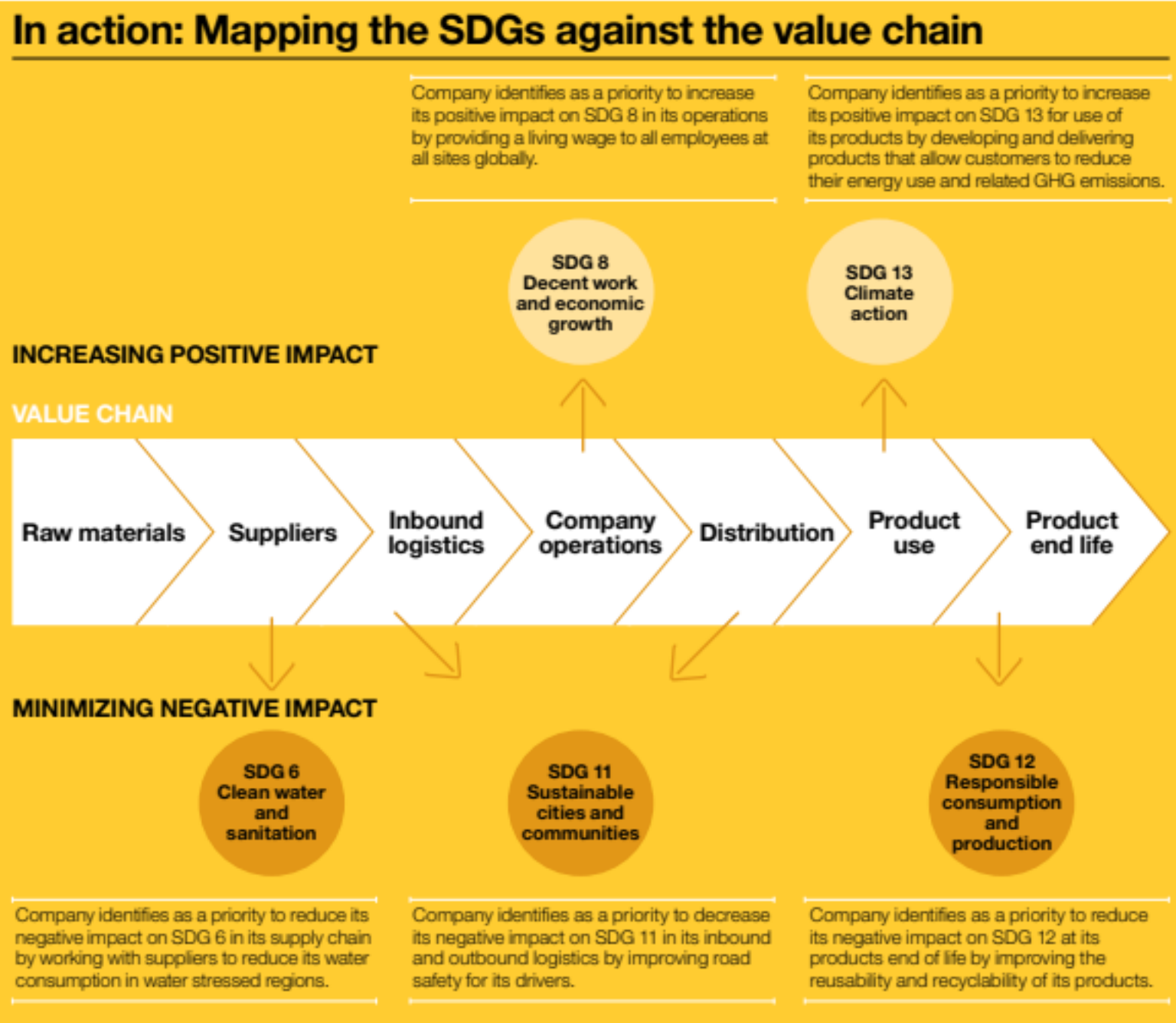


OVERVIEW OF IMPACTS:

VALUE CHAIN  
DUE DILIGENCE  
(CSRD+CSDDD+TAXONOMY)

# Value chain due diligence

Apply SDG and/or ESG topics to assess positive & negative impacts



# Recommendations for Due Diligence processes

UN and OECD

## OECD Guidelines for Multinational Enterprises

II.A. Enterprises should:

10. Carry out risk-based due diligence, for example by incorporating it into their enterprise risk management systems, to identify, prevent and mitigate actual and potential adverse impacts [...] and account for how these impacts are addressed. The nature and extent of due diligence depend on the circumstances of a particular situation.

## OECD Due Diligence Guidance for Responsible Business Conduct

### BOX 1. UNDERSTANDING RISK UNDER THE OECD GUIDELINES FOR MNES

For many enterprises, the term “risk” means primarily risks to the enterprise – financial risk, market risk, operational risk, reputational risk, etc. Enterprises are concerned with their position in the market vis-à-vis their competitors, their image and long-term existence, so when they look at risks, it is typically risks to themselves. The Guidelines however refer to the likelihood of adverse impacts on people, the environment and society that enterprises cause, contribute to, or to which they are directly linked. In other words, it is an outward-facing approach to risk.

Enterprises can identify risks on RBC issues by looking for divergences between what is recommended in the OECD Guidelines for MNEs on the one hand, and the circumstances associated with their operations, supply chains or business relationships on the other. ▶see Annex Q1

## UN Guiding Principles for Business and Human Rights

17. In order to identify, prevent, mitigate and account for how they address their adverse human rights impacts, business enterprises should carry out human rights due diligence. The process should include assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed. Human rights due diligence:

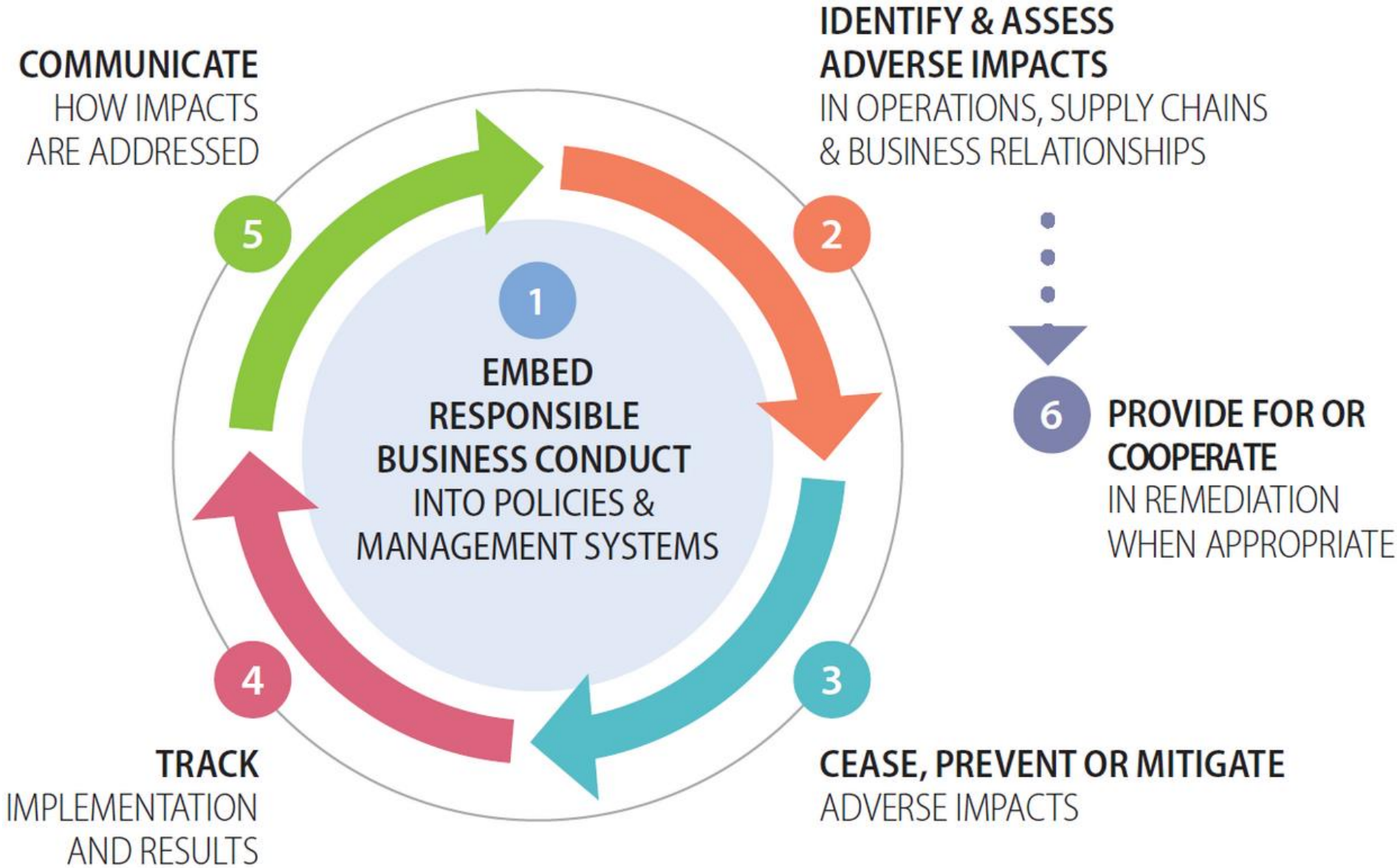
- (a) Should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships;
- (b) Will vary in complexity with the size of the business enterprise, the risk of severe human rights impacts, and the nature and context of its operations;
- (c) Should be ongoing, recognizing that the human rights risks may change over time as the business enterprise’s operations and operating context evolve.

18. In order to gauge human rights risks, business enterprises should identify and assess any actual or potential adverse human rights impacts with which they may be involved either through their own activities or as a result of their business relationships. This process should:

- (a) Draw on internal and/or independent external human rights expertise;
- (b) Involve meaningful consultation with potentially affected groups and other relevant stakeholders, as appropriate to the size of the business enterprise and the nature and context of the operation.

# The due diligence process

OECD GUIDELINES



STAKEHOLDER ASSESSMENT & PRIORITIZATION:

# DOUBLE MATERIALITY (CSRD)

# Double materiality assessment according to CSRD

Double-materiality has two dimensions:

- Material materiality
- Financial materiality
- 

Materiality and financial materiality assessments are interlinked and the interdependence between these two dimensions must be taken into account. In general, the starting point is an assessment of the effects. A sustainability impact can be economically significant from the outset or become economically significant when it becomes investor-relevant.

A **sustainability issue is material** when it concerns the company's:

- Significant actual or potential, positive or negative effects on humans or the environment
- In the short, medium and long term.
- The impact is caused by the company, either as directly linked to its own activities, products or services, or through its business relationships.
- Business relationships include the company's upstream and downstream value chain and are not limited to direct contractual relationships.

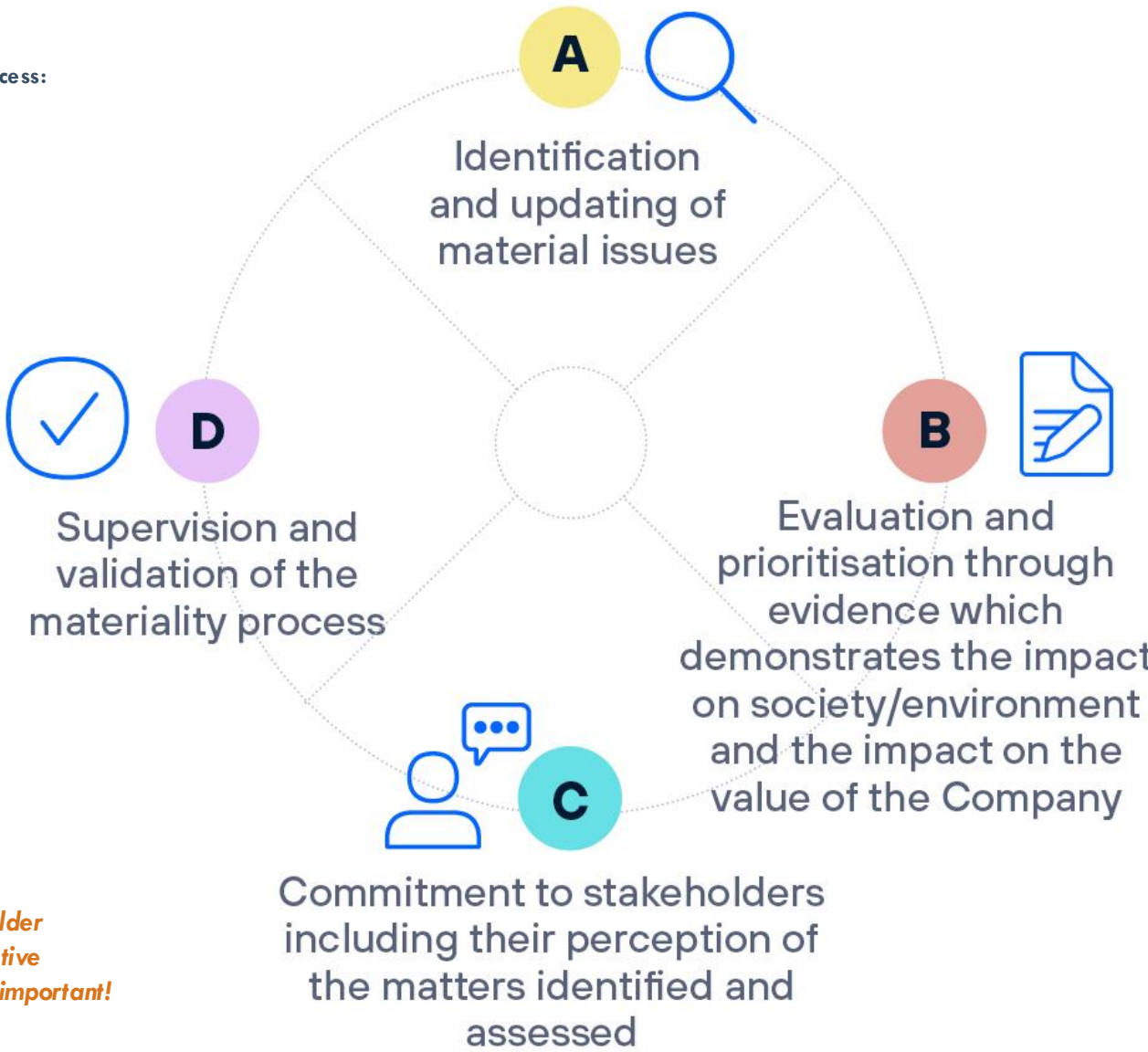
The **financial materiality** assessment process includes, but is not limited to:

Identification of information useful to investors, lenders and other creditors

when assessing, as primary users of general purpose financial reporting, the impact of sustainability issues on the company's cash flow, development, performance, position, cost of capital or access to finance.

# The materiality assessment process

Example of Telefonica's materiality assessment process:



*Stakeholder perspective is (still) important!*

## STAKEHOLDER EXAMPLES

- Employees
- Unions
- NGOs
- Sustainability-related institutes and organisations
- Governmental organisations
- Municipalities
- Academia
- Customers
- Suppliers
- Investors
- Online communities
- Media
- Specialist consultants
- Social entrepreneurs

# Step 1: Assessment of the severity of the **negative** impact on people and the environment & business

| Scope of the effect             |         |
|---------------------------------|---------|
| Impact/significance for climate |         |
| 5                               | Total   |
| 4                               | Large   |
| 3                               | Medium  |
| 2                               | Low     |
| 1                               | Minimal |
| 0                               | None    |

| Scale of effect           |              |
|---------------------------|--------------|
| Affected areas and people |              |
| 5                         | Global       |
| 4                         | Regional     |
| 3                         | National     |
| 2                         | Concentrated |
| 1                         | Limited      |
| 0                         | None         |

| Remediation  |   |
|--|---|
| Mitigation/restoration of affected climate-related areas |   |
| 5  | Cannot be remedied/irreversible             |
| 4  | Very difficult to remedy or long term       |
| 3  | Difficult to remedy or medium term          |
| 2  | Time and cost to remedy                     |
| 1  | Relatively easy to remedy in the short term |
| 0  | Easy to remedy                              |

# EXAMPLE: materiality assessment

| ESRS | Topic          | ESRS Sub | Subtopic                                 | Sub sub | Kommentarer  |                            |   |             |   |                  |                                       |
|------|----------------|----------|--|---------|--|----------------------------|---|-------------|---|------------------|---------------------------------------|
|      |                |          |  |         | Scope  | Scale                      | Remidation  | Achievement | Probability                             | Finansiel impact | Probability                           |
| E1   | Climate change | E1-4     | Climate change adaptation and mitigation |         |  |                            |   |             |   |                  |                                       |
| E1   | Climate change | E1-5     | Energi - Energi mix                      |         | LAERGE 4<br>Large impact due to use of coal and fuel | NATIONAL 3<br>Impcat in DK | DIFFICULT/LONG TERM<br>Planned transition to renewable energy |             | POSSIBLE<br>Decision on transition plan | LARGE 50 mio. +  | POSSIBLE<br>Board and investor demand |
| E1   | Climate change | E1-6     | GHG emissions - Scope 1-3                |         |  |                            |   |             |   |                  |                                       |

# Step 2: Assessment of the potential for **positive** impacts on humans and the environment & the business

| The scope of the effect         |                |
|---------------------------------|----------------|
| Impact/significance for climate |                |
| 5                               | <b>Total</b>   |
| 4                               | <b>Large</b>   |
| 3                               | <b>Medium</b>  |
| 2                               | <b>Low</b>     |
| 1                               | <b>Minimal</b> |
| 0                               | <b>None</b>    |

| Demarcation               |                     |
|---------------------------|---------------------|
| Affected areas and people |                     |
| 5                         | <b>Global</b>       |
| 4                         | <b>Regional</b>     |
| 3                         | <b>National</b>     |
| 2                         | <b>Concentrated</b> |
| 1                         | <b>Limited</b>      |
| 0                         | <b>None</b>         |

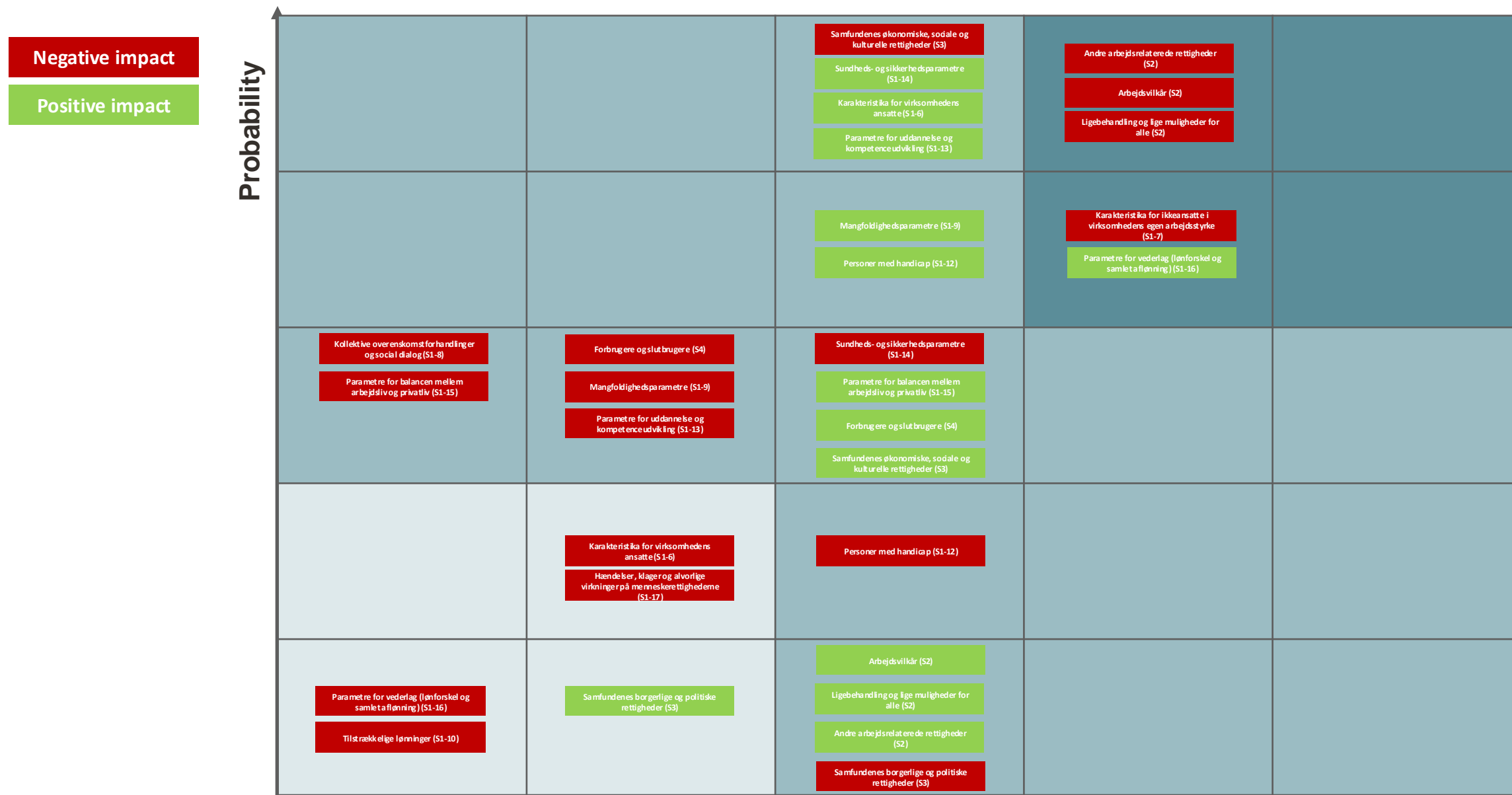
| Benefits achievement                                  |   |
|---|---|
| Achieving benefits for affected climate-related areas |   |
| 5   | <b>Easy to achieve benefits</b>                       |
| 4   | <b>Relatively easy to achieve short-term benefits</b> |
| 3   | <b>Time and cost-heavy to achieve benefits</b>        |
| 2   | <b>Difficult to achieve medium-term benefits</b>      |
| 1   | <b>Very difficult to achieve benefit or long-term</b> |
| 0   | <b>Benefits cannot be obtained</b>                    |

# Step 3: Overall assessment of the severity of the adverse effect, the possibilities for positive effect and the likelihood of the effect occurring

| Impact on humans and the environment |   |   |   |  |                     |
|--------------------------------------|---|---|---|--|---------------------|
| Score                                | Severity and opportunity                                  |   |   |  | Probability         |
|                                      | Scope<br><i>The impact on the environment and society</i> | Demarcation<br><i>Affected areas/people</i> | Remedy<br><i>In relation to negative impact</i> | Recovery<br><i>In terms of positive impact</i> |                     |
| 5                                    | Total   | Global                                      | Cannot be remedied/irreversible                 | Easy to benefit                                | Very likely         |
| 4                                    | Large   | Regional                                    | Very difficult to remedy or long term           | Relatively easy to benefit in the short term   | Likely              |
| 3                                    | Medium  | National                                    | Difficult to remedy or medium term              | Time and cost-heavy to achieve benefit         | Possible            |
| 2                                    | Low   | Concentrated                                | Time and cost to remedy                         | Difficult to create medium-term benefit        | Low probability     |
| 1                                    | Minimal   | Limited                                     | Relatively easy to remedy in the short term     | Very difficult to achieve benefit or long term | Minimal probability |
| 0                                    | None  | None  | Easy to remedy                                  | Benefit cannot be obtained                     | No probability      |

The levels of severity and probability are aligned with the company's general approach to risk assessment

# Step 4: Material materiality assessment - example of **social** impact assessment



Social impacts

# Step 5: Financial materiality assessment

| Impact on:                |             |         |          |              |                   |
|---------------------------|-------------|---------|----------|--------------|-------------------|
| Liquidity                 | Development | Results | Position | Capital cost | Access to finance |
| <i>Calculated in EUR.</i> |             |         |          |              |                   |

The financial impact of the sustainability impact shall be quantified.

Example: The assessment includes how high the costs of recruitment and employee turnover (development) are estimated to be if salaries are not sufficient (S1-10).

Example: The assessment includes the economic effect of bad media coverage (position) due to the use of child labour by a supplier (S-2)

| Financial materiality |                                   |                     |
|-----------------------|-----------------------------------|---------------------|
| Score                 | Financial significance            | Probability         |
| 5                     | Total<br>>100 mio.                | Very likely         |
| 4                     | Large<br>50-100 mio.              | Likely              |
| 3                     | Medium<br>25-50 mio.              | Possible            |
| 2                     | Low<br>10-25 mio.                 | Low probability     |
| 1                     | Minimal<br>0-10 mio.              | Minimal probability |
| 0                     | None<br>No financial significance | No probability      |

The levels of financial significance and probability are aligned with the company's general approach to risk assessment

# Step 6: Overall assessment of double materiality

Impact on people and the environment as well as financial impact

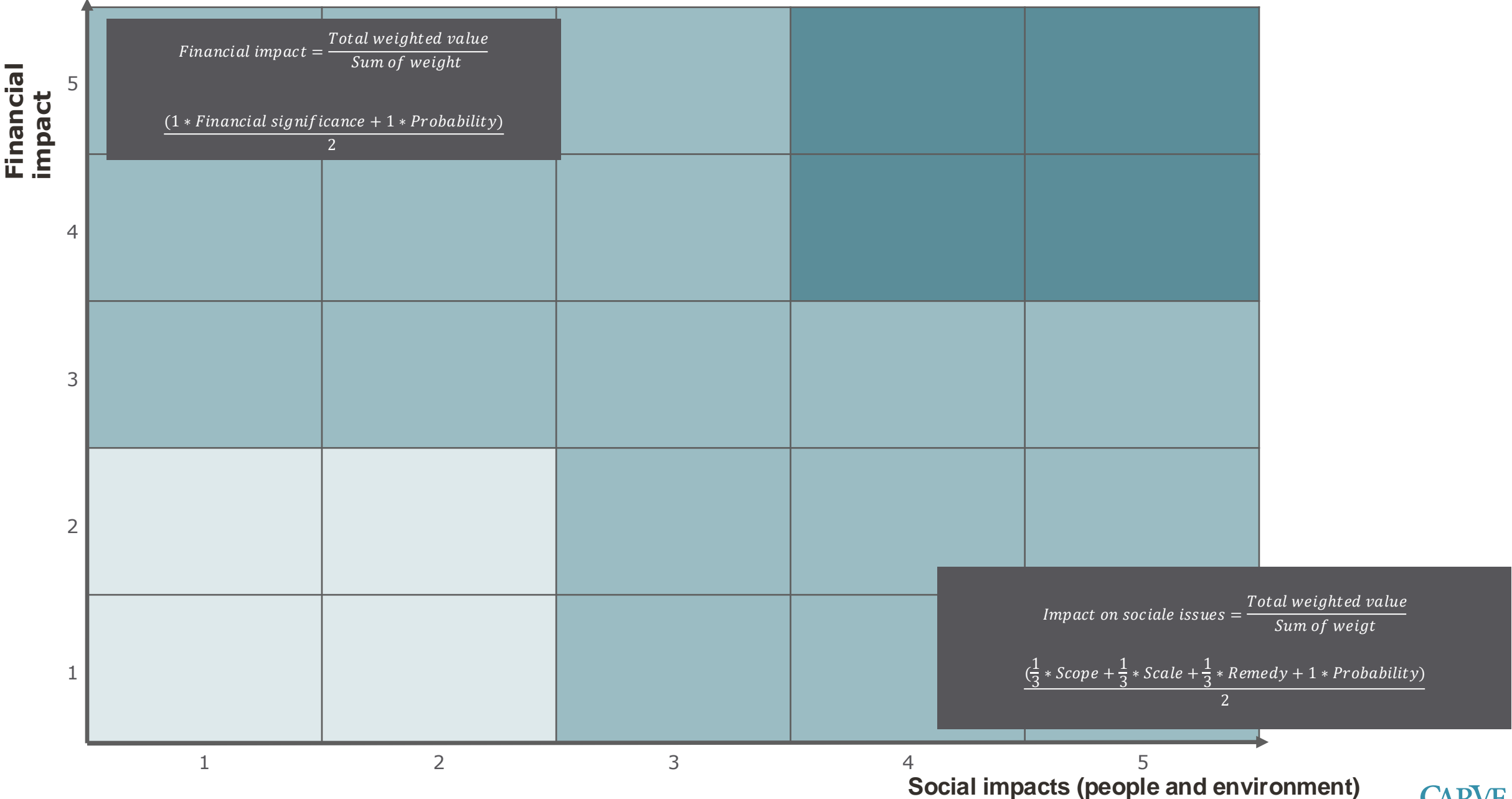
| Impact on people and the environment |   |   |   |  |                     |
|--------------------------------------|---|---|---|--|---------------------|
| Score                                | Severity and opportunity                                  |   |   |  | Probability         |
|                                      | Scope<br><i>The impact on the environment and society</i> | Demarcation<br><i>Affected areas/humans</i> | Remedy<br><i>In relation to negative impact</i> | Gain achievement<br><i>In terms of positive impact</i> |                     |
| 5                                    | Total   | Globalt                                     | Cannot be remedied/irreversible                 | Easy to benefit  | Very likely         |
| 4                                    | Large   | Regionalt                                   | Very difficult to remedy or long term           | Relatively easy to obtain short-term benefit           | Likely              |
| 3                                    | Medium  | Nationalt                                   | Difficult to remedy or medium term              | Time and cost-heavy to obtain benefit                  | Possible            |
| 2                                    | Low   | Koncentreret                                | Time and cost to remedy                         | Difficult to achieve medium-term benefit               | Low probability     |
| 1                                    | Minimal   | Begrænset                                   | Relatively easy to remedy in the short term     | Very difficult to obtain long-term benefit             | Minimal probability |
| 0                                    | None  | Ingen                                       | Easy to remedy                                  | Benefit cannot be obtained                             | No probability      |
| <b>Weight</b>                        | <b>1/3</b>  | <b>1/3</b>                                  | <b>(1/3)</b>                                    | <b>(1/3)</b>   | <b>1</b>            |

| Financial impact |                           |                     |
|------------------|---------------------------|---------------------|
| Score            | Financial significance    | Probability         |
| 5                | Total<br>>100 mio.        | Very likely         |
| 4                | Large<br>50-100 mio.      | Likely              |
| 3                | Medium<br>25-50 mio.      | Possible            |
| 2                | Low<br>10-25 mio.         | Low probability     |
| 1                | Minimal<br>0-10 mio.      | Minimal probability |
| 0                | No financial significance | No probability      |
| <b>Weight</b>    | <b>1</b>                  | <b>1</b>            |



Den korrekte vægtning sikrer sammenhæng med væsentlighedsmatrixen

# The double materiality formula



# Aasted materiality assessment



Aasted – manufacturer of equipment and machines for the chocolate, bakery and confectionery industry

Financial risks & opportunities

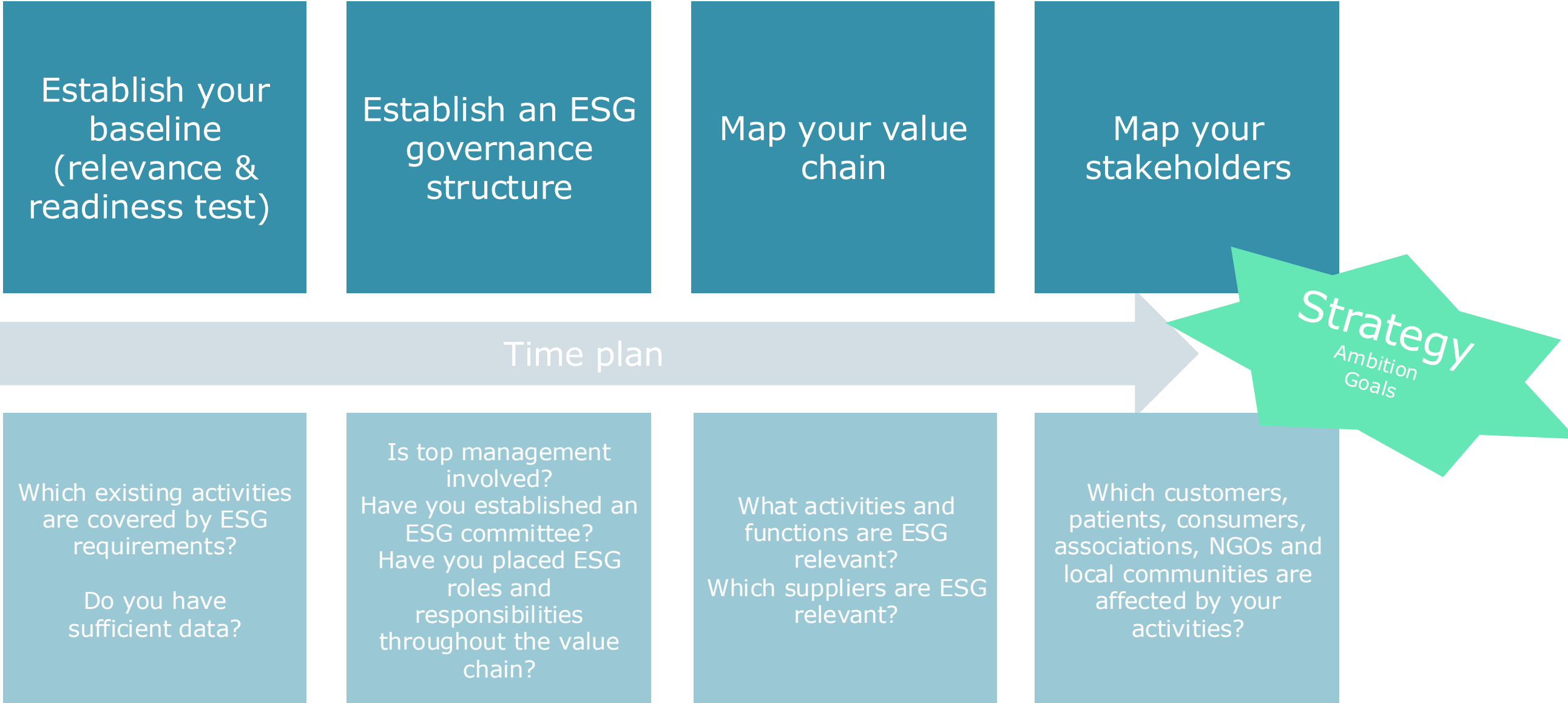
|  |   |                      |                         |  |   |
|--|---|----------------------|-------------------------|--|---|
|  |   |                      |                         |  | Climate emissions scope 1-2-3                       |
|  | Dependency on ecosystem services            |                      | Labor rights & dialogue | Corporate culture<br>Diversity & inclusion | Energy consumption<br>Training & skills development |
|  |   |                      | Adequate wages          | Supplier management                        | Ressources & circularity<br>Health & safety         |
|  |   | Waste                |                         | Privacy                                    | Corruption & bribery                                |
|  | Pollution<br>Water consumption              | Political engagement | Substances of concern   | Work-life balance                          | Anti-harassment                                     |
|  | Forced and child labor<br>Biodiversity loss |                      |                         |  |   |

Sustainability impact

GETTING STARTED:

A ROADMAP FOR  
ESG COMPLIANCE  
(WITH A BUSINESS STRATEGIC LINK)

# A roadmap to get started



# Frameworks and tools

ESG

## Strategic goals

Sustainable Development Goals 

The Paris Agreement COP 26 

EU Green Deal 

## Thematic areas

UN Global Compact Principles 

SDG Targets

GHG Corporate Protocol 

Net-zero target

EU Taxonomy

## Indicators

SBTi Science based targets Initiative 

LCA Life cycle analysis   
Upstream/down stream

GRI   
Global Reporting Initiative

ESRS   
European Sustainability Reporting Standards

## Reporting

UN Global Compact COP

OECD Guidelines for multinational enterprises

Directive on Corporate Sustainability Reporting CSRD 2022

# Sustainability strategy

Action plans & KPI's

Data basis

Governance structure

Roles & responsibilities

Policies

Due diligence process

Risk assessment

Stakeholder involvement

Relevance assessment

Materiality assessment

The sustainability strategy is a prerequisite for framing efforts and meeting compliance requirements. In addition, the strategy ensures management support for the work with sustainability.

Initiatives that translate the strategy into concrete activities. These are described in action plans together with relevant KPIs, just as data basis is established.

Translating strategy/policy into actions with associated KPIs constitutes compliance requirements in the Danish Financial Statements Act

Prerequisites for realising a sustainability strategy. The requirements for the five pillars are set out in the Danish Financial Statements Act, the EU Reporting Directive and the EU Due Diligence Directive.

The foundation for assessing where you need initiatives in response to negative impacts on human rights and to promote positive impacts

# An example



# Contact information



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## WHAT YOU HAVE LEARNT ... §

WHY



Overview of voluntary commitments & legal obligations

WHAT



The link between EUs CSRD, CSDDD and Taxonomy

HOW



A review of EUs reporting standards & topics (ESRS)



Value chain due diligence for identification of impacts



Double materiality assessment for strategic prioritization



A short roadmap on how to get started with ESG compliance



## REFLECTIONS ON ESG & LEGAL COMPLIANCE



Which legal obligations are relevant for my company now?



Which may be relevant in the (near) future?



What could risks of non-compliance be for my company?



How could the compliance process be a business-strategic lever?



#module1 #regulations

# MORE ABOUT REGULATIONS

**Deloitte Insights** SPOTLIGHT TOPICS INDUSTRIES MORE FROM DELOITTE INSIGHTS

## Sustainability regulation outlook 2024

*Leveraging EU regulation to conquer sustainability reporting, drive decarbonisation and prevent greenwashing*

**REUTERS EVENTS™**

### LEGISLATIONS DIRECTORY: INSIGHTS ON ALL MAJOR SUSTAINABILITY LEGISLATIONS (2023 EDITION)

By Simran Kaur Chana, David Odhiambo and Oliver Pike

**workiva | ESG**

## The Current State & Bold Future of ESG Regulations Around Europe

- Regional ESG guides
- European Union
  - Austria
  - Belgium
  - Denmark
  - Finland
  - France
  - Germany
  - Ireland
  - Italy
  - Netherlands
  - Norway
  - Portugal
  - Spain
  - Sweden
  - Switzerland
  - United Kingdom



MORE ABOUT  
REGULATIONS

DK

 virksomhedsguiden**Nye og eksisterende lovkrav til virksomheders bæredygtighed****CSRD – Virksomheders rapportering om bæredygtighed i årsrapporten****Taksonomiforordningen – Ny klassifikation af bæredygtige økonomiske aktiviteter****Disclosure-forordningen – Regler for bæredygtig finansiering****CSDDD – Due diligence for bæredygtighed bliver lovpligtigt****Ecodesign-forordning – Nye krav til miljømæssigt design af produkter på vej****Emballage - Nye krav på vej fra 2025****Green Claims – Direktivforslag om grønne anprisninger**



#module1 #regulations #tools

# COMPLIANCE TOOLS



ESG Profilen
Do

## | ESG Profilen

Få det digitale overblik over alt det, I gør, og det der kræves af jer inden for miljø, sociale forhold og ledelse. ESG Profilen er skabt af Lederne med involvering af organisationens medlemmer og i samarbejde med eksperter fra Deloitte og Danske Bank.

**Introduktion til værktøjet:**  
[SE VIDEO →](#)

### Indsatser 1

Måske tænker du ikke over det, men I har sikkert allerede indsatser inden for ESG.

→

### Interessenter 2

Få overblik over de krav og forventninger, jeres vigtigste interessenter har til jer.

→

### Fokusområder 3

Brug væsentlighedsanalysen til at vælge og prioritere de vigtigste ESG-områder.

→

### Nøgletal 4

Sæt tal på jeres påvirkning af og bidrag til miljø, sociale forhold og ledelse.

→

Brug for at vide mere? →

Lederne **Deloitte.** Danske Bank



WWW.ESGPROFILEN.DK



## MORE LEGAL GUIDES & RESOURCES (MODULE 1 TOOLS)

[www.sbcm-certificate.com/risk-compliance](http://www.sbcm-certificate.com/risk-compliance)  
[www.pinboard.in/u:SBCM/t:regulations](http://www.pinboard.in/u:SBCM/t:regulations)

### Guides Risk & Compliance

#### Upcoming sustainability legislation overview

Guide (pdf)  
Click on image to download



Last update: 18.05.2022

#### Legislations directory

Guide (pdf)  
Click on image to download



Last update: 18.05.2022

#### Lovkrav til virksomhedens bæredygtighed (DK)

Guide (Link)  
Få adgang ved at klikke på billedet.



Last update: 23.05.2023



# HOW SUSTAINABLE BUSINESS DEVELOPMENT

MODULE 1 | DEVELOPMENT | COMPLIANCE & RISK | LINKING CSR & BUSINESS | THE BUSINESS CASE

## HOW COMPLIANCE & RISK §

**Formål:**  
Understanding of CSR-relevant legal frameworks and requirements and how to work with risk management and compliance in a sustainable way.

A precondition for sustainable business development is that the company operates on a sound and responsible foundation.

To ensure that sustainable business risks are addressed and minimized, the company must comply with both international and national legal requirements and obligations.



MODULE 1 | DEVELOPMENT | COMPLIANCE & RISK | LINKING CSR & BUSINESS | THE BUSINESS CASE

## HOW LINKING CSR & BUSINESS ♥

**Formål:**  
Foreslåelse for, hvordan du kan skabe en strategisk og systematisk tilgang til udvikling af en bæredygtig forretningsmodel.

Bæredygtighed rummer mange aspekter. Så hvis I foreslår at gøre det hele på den gamle, kan det komme til at blive tabt på den, som måske alligevel afbrydes for virksomhedens væsentlige forretningsmodel.

Tagler til at skabe en bæredygtig forretning er derfor en systematisk og strategisk tilgang.



MODULE 1 | DEVELOPMENT | COMPLIANCE & RISK | LINKING CSR & BUSINESS | THE BUSINESS CASE

## HOW THE BUSINESS CASE 📊

**Formål:**  
Foreslåelse for, hvordan du kan opbygge en business case for at opnå høj ROI i forbindelse med en strategisk eller ved beslutninger om implementering.

For mange handler en business case om at præsentere et kvantificeret resultat, men kan være to sider af samme mønt. Men at opbygge en business case handler ikke kun om at bevise finansielle resultater.

Det handler om at bevise en både rationel og emotionel argumentation, der opbygger troværdighed omkring din forretningsplan, og som skal stå i både hjerte og hjerne.






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