

Bird & Bird

Why is ESG important for your company?

Legal news

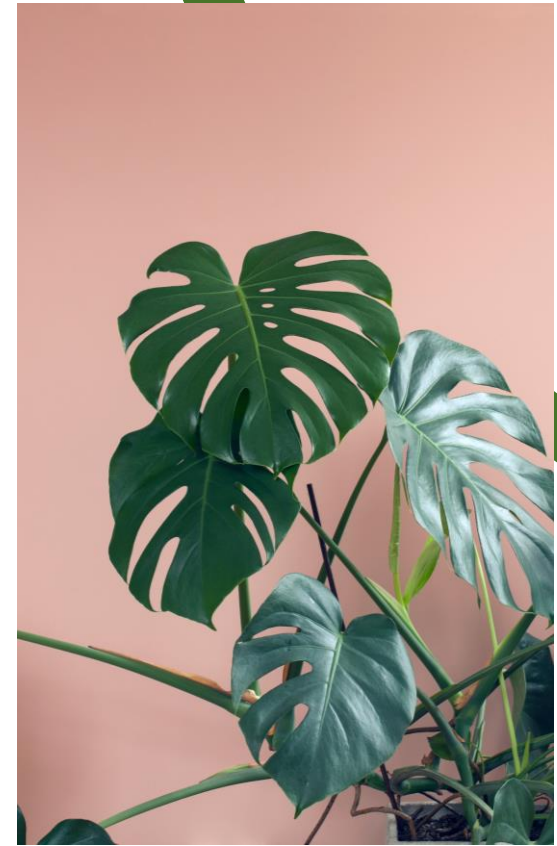
July 2024



ESG – what is it?

Over the past few years, the EU has stopped focusing exclusively on the financial side of companies' business operations and has started to pay attention to the other impacts of their activities. Closely linked to this trend is the acronym ESG (“Environmental, Social, and Governance”).

- ESG is an umbrella term for sustainable and responsible business practices and associated requirements in the areas of corporate social responsibility, corporate governance, and environmental sustainability.
- ESG requires companies to report selected data in accordance with the European Commission’s Uniform European Sustainability Reporting Standards (ESRS).
- This information indicates how a company approaches its collective responsibility from the angle of social and environmental factors.



ESG – what is it?

- Each of the three letters in the ESG acronym represents one group of data that is monitored under the ESG policy, and which then serves as the basis for assigning a company an ESG score.

E
“Environmental”

- Includes a company’s impact on the environment by assessing criteria such as carbon footprint or water consumption.

S
“Social”

- Includes criteria assessing corporate social responsibility.
- These criteria include diversity, respect for human rights and anti-discrimination.

G
“Governance”

- Criteria for evaluating the systems by which a company is managed and controlled.
- These include the composition, structure and independence of statutory bodies, executive remuneration, audit processes, internal controls, shareholder rights and transparency.

- By evaluating this data, it is possible to determine how responsible and sustainable a company is.
- A favourable ESG score brings several benefits, such as **better relations with investors and business partners, increased brand awareness and a reduced risk of engaging in unsustainable business practices.**
- Companies with higher ESG scores may also have easier access to public financial resources in the future.

Legal framework

- Companies are obliged to collect and publish selected ESG data under European legislation.
- ESG is intended to serve the EU as one of the many tools to fulfil the commitments it made in the Green Deal for Europe.
- The ESG legal framework is complex and consists of several different rules and regulations in all the (ESG) areas concerned.

Key ESG regulation

- In the context of ESG regulation, two directives are particularly significant:
 - the older 2014 **Non-Financial Reporting Directive (NFRD)** and
 - the newer **Corporate Sustainability Reporting Directive (CSRD)**, which amends the previous directive and significantly expands the original range of obligated entities.

Non-Financial Reporting Directive (NFRD)

- Was the first to impose an obligation on large companies to publish selected information about their activities to foster transparency and give the public an opportunity to assess the impact of companies on the environment and society.

Legal framework

Corporate Sustainability Reporting Directive (CSRD)

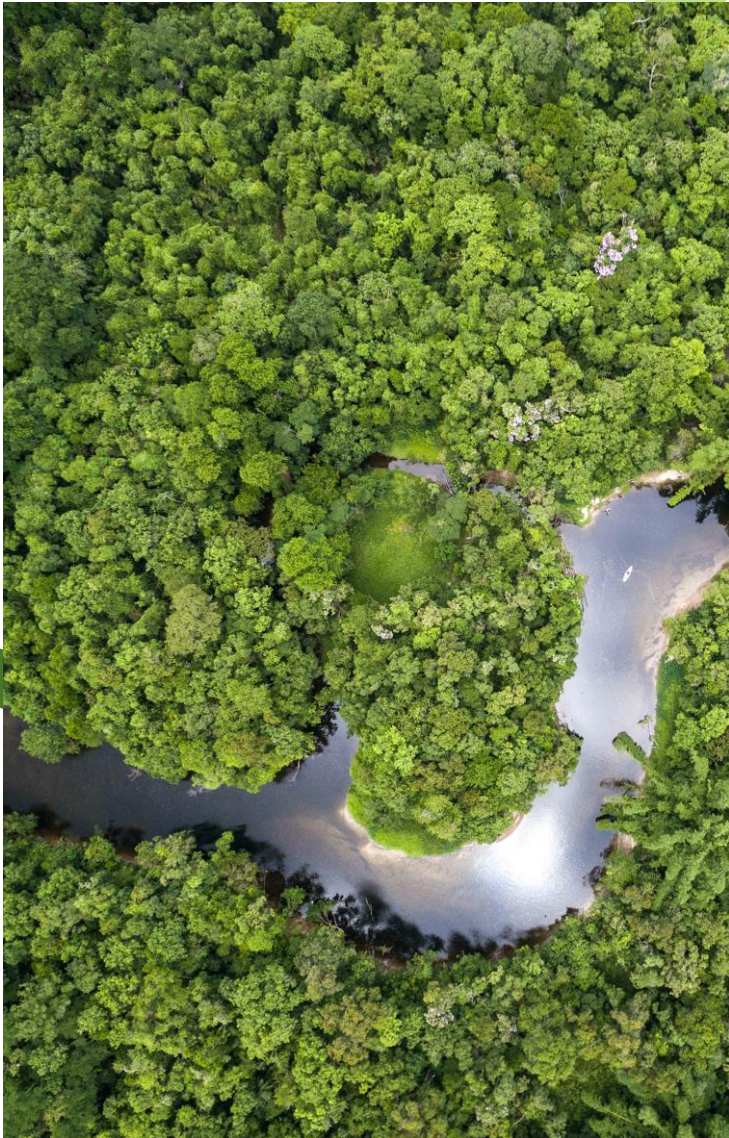
- Significantly expanded the scope of mandatory non-financial reporting entities and introduced more detailed requirements.
- These requirements will be applied in four main phases:



*

1. net turnover of at least CZK 1 billion
2. more than 250 employees
3. assets exceeding CZK 500 million

** if they generate a net turnover in the EU of more than EUR 150 million and have at least one subsidiary or branch in the EU



Legal framework

Corporate Sustainability Due Diligence Directive (CSDDD)

- In addition to the NFRD and CSRD directives, a third directive has been added – the **Corporate Sustainability Due Diligence Directive (CSDDD)**.
- This directive was adopted by the EU Council on 24 May 2024.
- Member States now have two years to transpose the Directive into national law.
- The Directive aims to prevent companies' activities from having a negative impact on human rights and the environment along their entire supply chains.
- The new obligations under the CSDDD will apply to **large companies and their subsidiaries**.
- Companies with more than 1,000 employees and turnover of more than EUR 450 million should pay particularly close attention.

Are you curious about those regulations which may affect your company?

Try our ESG Navigator to help you identify the regulations that affect your business.



What obligations does this entail for companies?



Internal ESG audit and ESG reports

- Companies affected by the new obligations will be required to file so-called **ESG reports** – public reports on sustainability factors and the impacts of their activities.
- These reports must be aligned with the Sustainability Reporting Standards (**ESRS**).
- Companies should therefore first conduct an **internal ESG audit** to determine what ESG regulations apply to them and how to ensure compliance with these regulations.



Beware of the following

- Although your company currently is not subject to the reporting obligations under the above-stated rules, if you are **a part of a supply chain** of an entity that is an obligated party, presumably you will still need to collect and report data and comply with ESG rules in the future.
- It is therefore advisable to start preparing for reporting early.
- Some companies in the Czech Republic already **voluntarily** provide non-financial reporting to gain more credibility in the eyes of clients and business partners.

Any questions?

Join us for an enlightening series of **ESG educational seminars**, specially crafted to provide you with insights into ESG topics and their profound impact on various critical areas such as HR, labour and corporate law, transactions and many more. Our first seminar kicks off this September. Stay tuned for more details and get ready to enhance your knowledge and skills in these pivotal areas!

Do you have any questions now? Contact us and let us help you keep track of evolving ESG regulatory requirements.



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