Sustainability Reporting – ESRS Content Package

msg global

Table of Contents

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msg global solutions has created a Sustainability Reporting – ESRS Content Package to be used as an optional tool on the SAP Sustainability Control Tower (SAP SCT) platform with the aim to facilitate the process of structuring the report according to the European Sustainability Reporting Standards (ESRS) for companies to comply with the current European Corporate Sustainability Reporting Directive (CSRD).

1. Introduction

For a broader scope of companies in Europe, starting from 2024, the way in approach how to manage their sustainability reports will increase in scale, demanding them to evaluate their impacts even beyond their core business operations to every part of the value chain.

The European Corporate Sustainability Reporting Directive (CSRD - 2022/2464) requires large companies, listed small and medium-sized companies (SMEs), and parent companies of large groups to include information on the company's impacts on sustainability matters in their management reports. This information aims to understand how sustainability affects the company's development, performance, and position. Information requested must be reported by the European Sustainability Reporting Standards (ESRS).

The European Commission adopted the first set of sustainability reporting standards (ESRS), and the first group, large companies, are requested to produce and issue their Reports in 2025., reflecting on FY2024. In line with this, the European Sustainability Reporting Standards also set up requirements for comprehensive sustainability reporting from many companies within the EU, but also globally based on their existing operations within the EU.

Figure 1. Sustainability Reporting – it is estimated that more than 50,000 companies within EU only will have the obligation to report on ESRS and to comply with CSRD.

The scope of regulatory requirements introducing the ESRS will affect the broader number of companies under the CSRD regulations since ESRS requires observing and reporting on impacts across the value chain. Therefore, it is estimated that an even more significant number of companies, beyond CSRD regulation, will closely observe the development of ESRS. Even if they are not required for such compliance, they may follow the structure of data models to collect data and be able to provide data for larger companies being a part of its value chain.

In addition, it is expected that the current form of ESRS will become more extensive over time in scale, considering additional mandatory standards for listed SMEs and voluntary standards for non-listed SMEs, as well as the development of sector-specific standards on top of sector-agnostic standards being already introduced.

2. Challenges

In comparison to the currently most used sustainability reporting frameworks, the ESRS represents a significant increase in the scope of data required and data quality, adding complexity by mandating companies to oversee the entire value chain rather than focusing on operations within the company. Also, compared to previous reporting requirements concerning the Non-Financial Reporting Directive (NFRD) and other voluntary globally accepted reporting frameworks, ESRS demands more interconnectivity between the performance and policies, as well as more interdependence from non-financial and financial data, as this overall brings more complexity to manage and produce integrated sustainability reporting.

To meet all requirements from the ESRS, companies will need to (re)design and streamline reporting processes to manage the increased scope of requirements, among all other challenges that sustainability reporting is placing:

- **Data complexity:** Collecting data from different sources from inside and outside the company and applying different, inconsistent methodologies or measuring units may negatively impact the overall accuracy of reporting. As companies expand their scope of data, methodologies, and data sources, it becomes imperative to integrate robust quality checks, clearly identifiable data sources, and comprehensive data processing tracking. It will ensure accurate calculations and enhance overall data integrity.
- **Data sources under the company's control:** Sustainability data is often generated in different parts of the organisation, such as production, supply chain, human resources, and more. Integrating this information in a consistent way can be challenging and requires close collaboration between departments.
- **Data sources outside the company's control:** Since ESRS mandates measuring impacts outside the Company by screening and collecting data from relevant and the most impactful points of the Company's value chain, some companies may face the challenge of collecting and relying on validated data outside their direct management to be used in calculations and to report on.

- **Data quality:** Errors in sustainability data can significantly impact the accuracy of reporting. This includes human error, data collection problems, and inconsistency issues. Maintaining data quality requires continuous verification and cleaning processes.
- **Extensive volume of data:** With the growing awareness of sustainability, companies are collecting and managing more data than ever before. This can overwhelm existing data management systems and require investments in infrastructure for storing and processing large volumes of information.
- **Constantly evolving standards:** The ESRS will evolve based on the announcements of growing expectations from the EU to increase the scope of regulatory obligations and introduce sector-specific disclosures to apply when complying with CSRD. Companies must be aware of these changes and ensure their data complies with the latest standards, and it may require ongoing investment in training and updating.
- **Verification and Auditing:** Many companies undergo third-party verification and auditing processes to ensure the credibility of sustainability reporting. Audit of Sustainability Reports is a requirement defined by CSRD, and preparing the documentation and data required for these reviews can be an intensive process and requires detailed and transparent documentation.
- **Appropriate technology and tools:** Choosing the right tools and technologies for sustainability data management is critical. This includes data management systems, data analysis software, and visualisation tools that can handle the complexity and volume of sustainability data.
- **Organisational culture:** Changing organisational culture to focus on sustainability and data management can be a challenging process. This involves education and commitment from all levels of the organisation to adopt sustainable practices and collect data effectively.
- **Associated costs:** Sustainability data management involves investments in systems, technology, and trained staff. Companies must carefully weigh the long-term costs and benefits of these investments, considering the benefits in terms of improved reputation, efficiency, and attracting investors committed to sustainability.

Once the CSRD regulation becomes applicable for many companies, mainly in the European Union and broader, it will require monitoring and reporting on sustainability performance consecutively in the following years. Therefore, companies can rethink their current strategies and challenge business models to establish more sustainable operations by implementing regular processes to manage, improve, and report on their sustainability actions.

But for most companies, even such a first step in obtaining relevant data as a baseline to calculate their direct impact may be challenging. In addition, data inputs may diversify in demand depending on industry-specific requirements, and such specific requirements may put additional burden and complexity in identifying what data to collect and what to disclose. At some point, even companies with established sustainability management teams as a central spot may need support in establishing processes across the company to support their purpose. In many companies, responsibility lines for sustainability reporting have been shifted from corporate management and communications to financial executives, requiring them to build new expertise and skills in developing environmental, social, and governance metrics and producing

consolidated sustainability reports. With ESRS bringing much more interdependence of non-financial and financial data, an interdisciplinary approach will be a fundamental requirement for companies to design efficient sustainability management processes and to produce meaningful disclosures and sustainability reports quickly.

To underline – the overall sustainability data collection and management to comply with demanding regulatory requirements may be a complex process involving many challenges. The ability to create relevant, accurate, and audit-ready Corporate Sustainability Reports as a response to the current regulation demands fast action in the redefining and redesigning processes across the company to successfully meet comprehensive data management and reporting and comply with CSRD.

3. Solution

The msg has created the ESRS Content Package for companies to accelerate processes to build Sustainability Report faster and to comply with the current EU regulation. By using ESRS Content Package, Clients will identify data needed quickly, facilitate reporting processes and requirements in responding to the European Sustainability Reporting Standards, and, therefore, easily comply with the European Corporate Sustainability Reporting Directive. The ESRS Content Package comprises from non-sector specific, topical disclosures included in the first set of ESRS, and following recommendations and requirements as described in cross-cutting standards from general disclosers defined in ESRS 2.

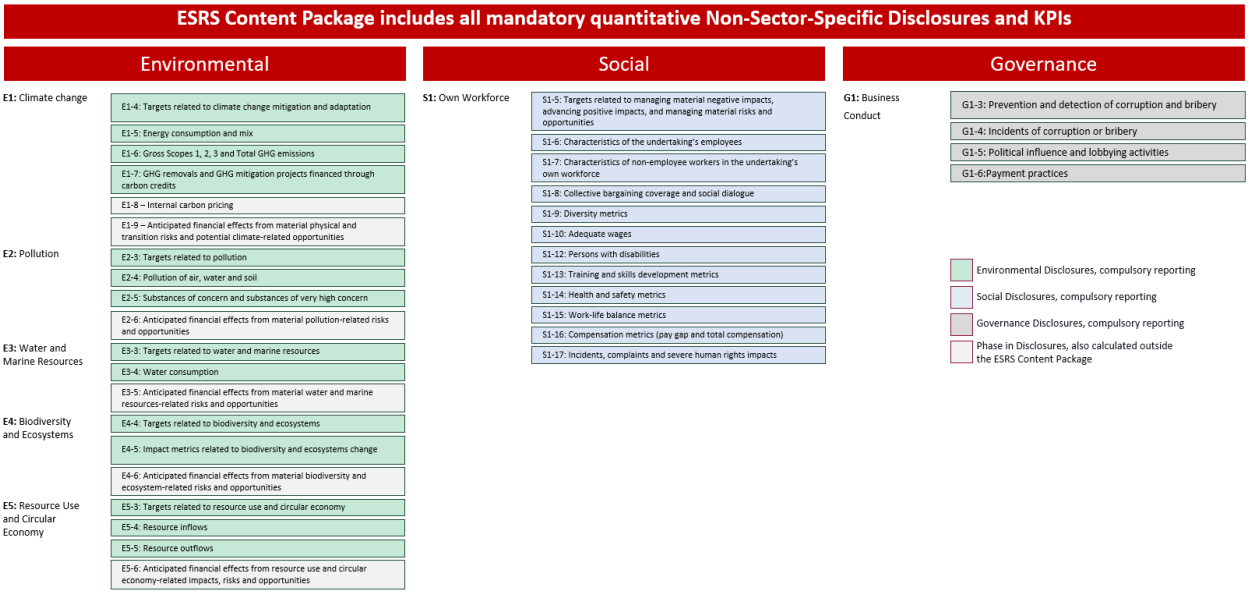

Figure 2. The ESRS Content Package from msg – covers all compulsory quantitative Disclosures and KPIs to facilitate all mandatory reporting obligations for companies to comply with CSRD.

Due to the nature of moving trends toward global standardization in sustainability reporting, many companies that used previously one of the most recognizable reporting frameworks globally, the ESRS Content Package may support them in mapping more easily ESRS-related disclosures and KPIs and use data from previously used frameworks while reporting on their environmental, social and governance performance. The mapping part of the tool may support Clients to facilitate the process and even more easily adjust and respond to ESRS requirements in producing their Sustainability Reports in compliance with CSRD.

The **ESRS Content Package can be used as optional content on SAP Sustainability Control Tower (SAP SCT)** and as an **end-to-end solution to comply with the EU most comprehensive regulatory framework** in a simple, fast, and effective way, optimizing internal resources and time significantly. The ESRS is built upon the foundation of combining non-financial data and financial data, usually managed within different teams across the company, as it makes it challenging to collect and manage.
The ESRS Content Package has been designed to secure simple data models, following ESRS requirements, presented in ready-to-use tables. Upon providing all data based on data models presented via tables - flat files, based on all data being collected, all quantitative Disclosures and KPIs are calculated automatically in SAP SCT, following methodologies and reporting requirements as described in ESRS. Once all KPIs are calculated, they are instantly presented within the report template, available for use in SAP SCT. Therefore, to facilitate alignment with ESRS, the ESRS Content Package can be deployed following the simple 4-step process:

1 – Adjusting the data models to the Clients' organizational structure and reporting requirements

When selecting the use of ESRS Content Package to facilitate and optimize the sustainability reporting process, at the beginning of the project, the content and format of the data model templates will be discussed with the Clients and aligned in the overall structure, teams, type of data available, and other requirements if necessary.
The purpose of the data model templates will be to facilitate and improve the data upload and reduce the potential mistakes that usually appear in this process by using master data, having shortcuts, and containing relevant information among other features, also containing, as an initial requirement, the name, department, and contact of the person responsible for collecting and verifying data used for calculations. All data model templates will be provided to the Clients by msg global solutions.

2 – Collecting data following ESRS Content Package's data models

For Clients to understand what data to collect and in what format to collect, all templates contain explanations aligned with the ESRS, providing an initial context, definitions, a list of KPIs, further disclosure requirements, and a clear and summarized explanation of each field to fill in. Each of the templates follows a consistent format, featuring tables that can be customized with master data. These data model templates provide introductory information about the specific KPI being addressed and a list of explanations related to the KPI and field definitions.
Within the introductory sheet is a list of fields in each model table of the template. Here, users can find the names of each field, instructions indicating whether they require master data, and additional information to

understand their purpose in the tables. An example image illustrating how to complete the templates is included, and additional information to assist users in completing it can be found for each column.

3 – Importing and calculating collected data into the SAP SCT

Once Clients collect all input data, this information is uploaded via data model templates to the SAP SCT system to facilitate the calculations defined in the tool. As an alternative to manual data uploads, SAP SCT can be connected to the client's Business Technology Platform (BTP) or other data-source systems to automate data collection.
The process used to upload data into the SAP SCT system is called the "Process Template." Within this process template, Clients can upload data, establish connections, execute calculations, review data, define team members dedicated to uploading, managing, and verifying certain data sets, and provide access to other related features from SAP SCT.

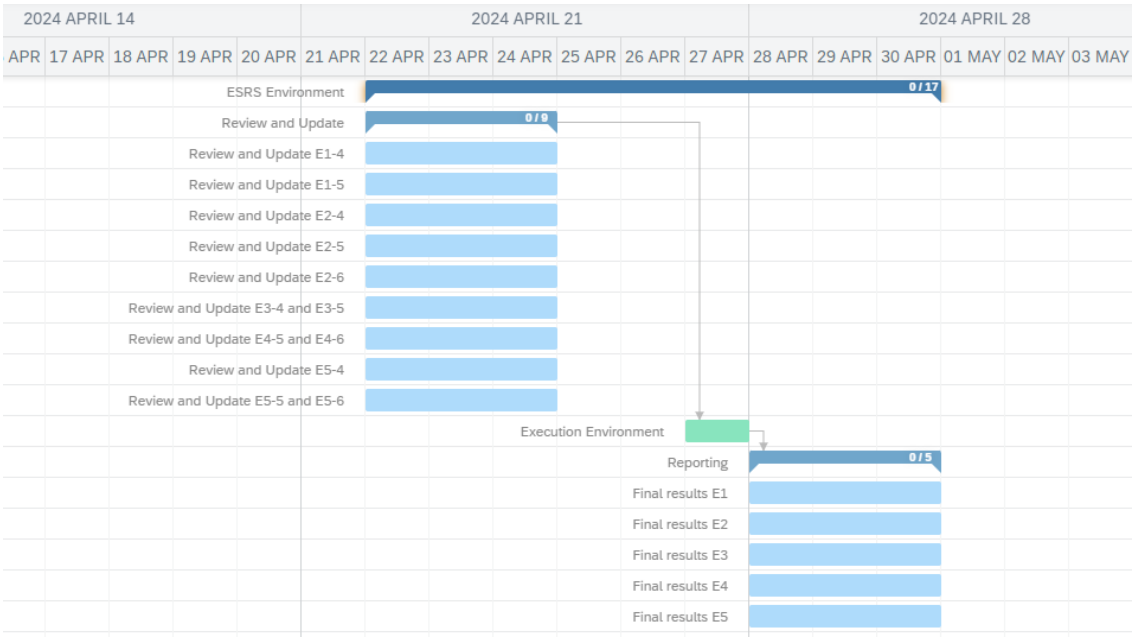

Figure 3. The ESRS Content Package - Process Template, example for E1: Climate change

The structure of the process templates for the ESRS Content Package is predefined but can always be adapted to the Client's needs by creating **different teams and workflows supported by roles: performer** and **reviewer.** The performer is responsible for uploading data or executing activities, while the reviewer is responsible for reviewing the information. Once the performer uploads data manually or completes the activity, the SAP SCT will automatically notify the reviewer to review and verify the uploaded data.

4 – Creating the ESRS Report

Once the definition of the process template structure is completed and the information is uploaded, reviewed, and approved, the third and final step of the project involves creating the report with all the desired information.

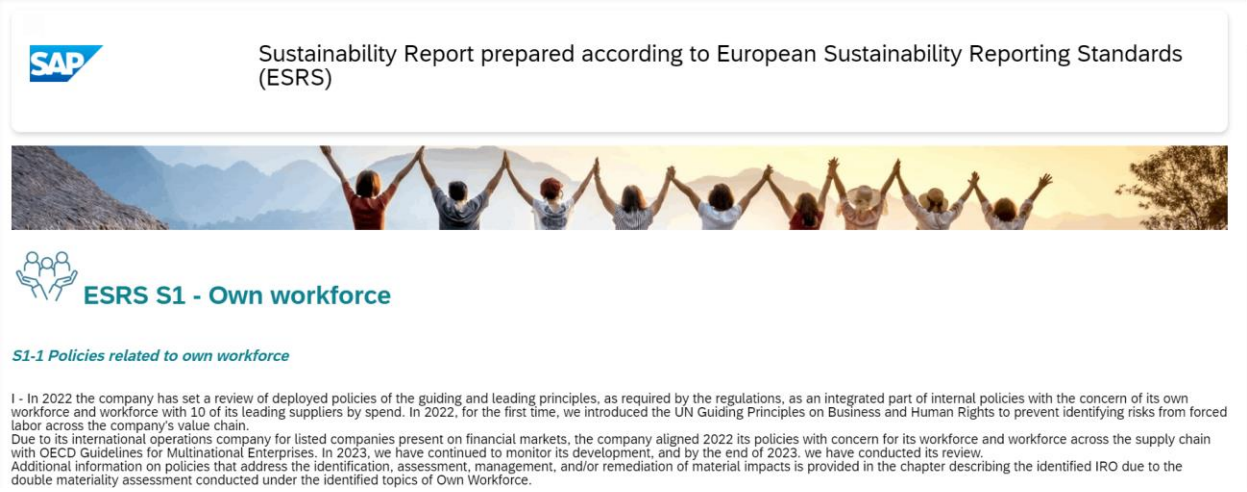

Figure 4. The ESRS Content Package - Report

The ESRS Content Package provides a predefined report structure, encompassing a variety of graphs and charts to depict all mandatory quantitative Disclosures and Key Performance Indicators (KPIs) based on ESRS. It also includes detailed examples illustrating how to present the information for each quantitative KPI effectively. The Report structure also provides examples of where within the ESRS Report to include qualitative KPIs. Our reporting interface facilitates incorporating qualitative KPIs by directly allowing text modification on the solution and building tables within the Report.

Just like in the previous steps, the structure of the presented Report can be entirely adjusted and customized for the Client's purposes and by the Client himself. Besides adding different graphs and charts to support other KPIs outside the scope of ESRS, as well as descriptive text content, Clients may copy, insert images, videos, and icons, adjust the font type and size, company's logo, and many more to create customized and unique ESRS report.

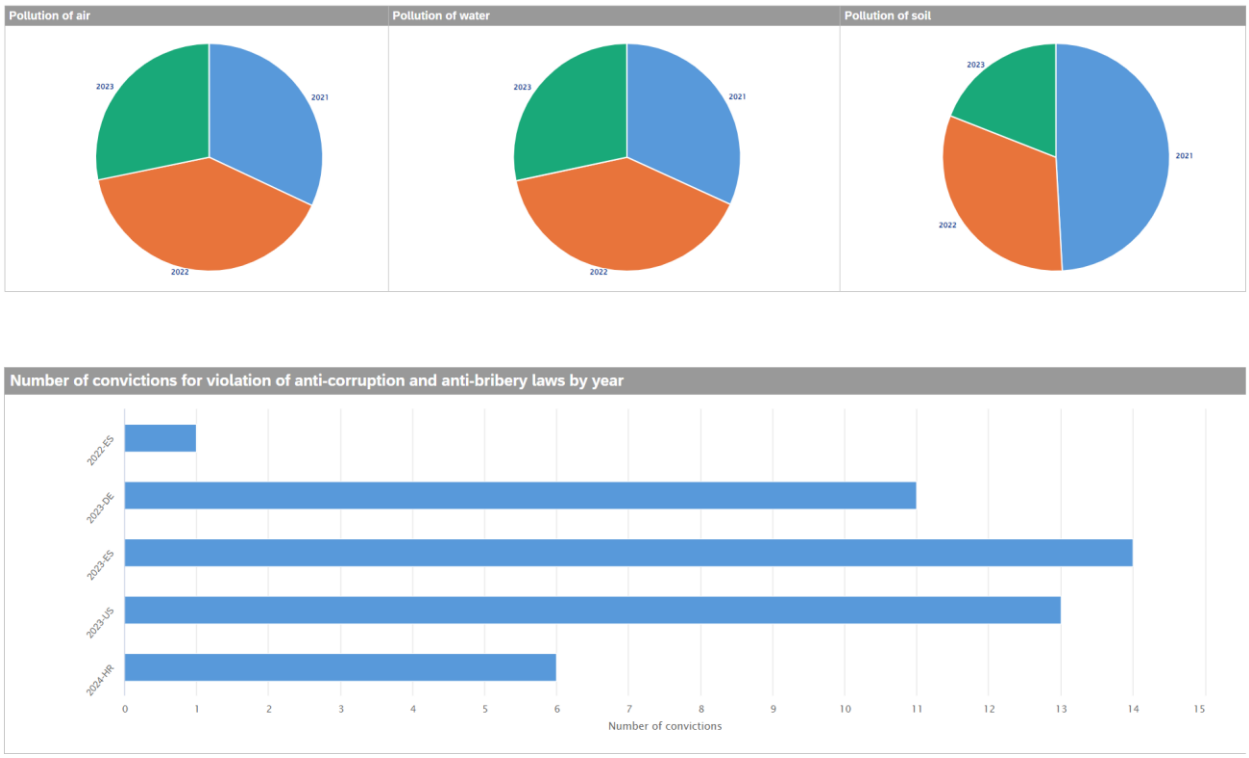

Figure 5. The ESRS Content Package – Reporting graphs

Like many elements that can be added and modified within the report structure, all data presented within the report can be directly edited and managed here. Each chart or graph offers a dropdown feature, allowing Clients to present information with as much granularity as needed, ensuring that the company's data can be effectively represented and explained in the ESRS report. Clients may add input data for the additional year. By running the process in the system, charts and graphs will be automatically updated in the report page, presenting also results for the additional year. Once completed, the ESRS report can be exported to PDF or copied into another format.

4. Conclusions

Once the Client identified material topics by performing a Double Materiality Assessment, as a first step to apply ESRS, it can map identified topics with topical standards available in msg ESRS Content Package to facilitate disclosures on compulsory requirements and build its own ESRS report within three* months.

By applying the ESRS Content Package developed by msg global solutions, Clients can simplify managing and reporting according to the latest European Sustainability Standards considering all compulsory requirements - Disclosures and KPIs to be covered, led by developed data models aligned with regulatory requirements. Besides covering compulsory quantitative requirements, the ESRS Content Package

comprises all relevant methodologies to calculate KPIs, including the most demanding ones to report on all three Scopes of GHG emissions based on the most used golden standards to report climate impacts across the company's value chain and aligned with regulatory requirements.

Therefore, the ESRS Content Package has been designed to successfully address all challenges companies face today by enabling support along the entire end-to-end process, from collecting the raw data to producing auditable Corporate Sustainability Reports, overcoming the challenges, and responding to regulatory requirements as Corporate Sustainability Reporting Directive mandates.

*The average estimated duration of the end-to-end process from collecting raw data to producing the ESRS report and disclosing compulsory quantitative requirements from the European Sustainability Reporting Standards.