Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
DRSC

# EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

## DRSC's Survey on the Implementation of ESRS at the German DAX 40 Companies

September 2023

## Contents



# 1 Executive Summary

1 At **almost half** of the DAX 40 companies (19), the company's **CFO/finance department** is **responsible** for the **ESRS implementation project**. In some of the DAX 40 companies (7), **various departments** are **jointly responsible**.

2 **Almost all** of the companies surveyed (37) have started the **ESRS implementation project**. **Half** of the DAX 40 companies **started in 2022**, the others in the first half of 2023.

3 The initial **materiality analysis**, as the core of the ESRS implementation project, has already been **completed (20)** or is **in progress (9)** at around **75% of the DAX 40 companies**. The **reporting processes** for selected (23) or all (5) sustainability topics **have been established** at almost as many companies.

4 **Approximately 80% of the companies** see **major difficulties** in the **"lack of clarity regarding ESRS requirements"** (to which the unfinished legislative process/lack of availability of the final ESRS contributes) as well as in the **"data quality/verifiability"**. Other difficulties for the vast majority of companies are "data availability", "human resources" and "time challenges".

5 **Almost all** of the companies surveyed are considering and/or using (at least two) **other reporting standards in addition to the ESRS**. The **GRI** is currently of **particular importance** (for 29 companies); it is currently the basis for a stand-alone sustainability report at many companies. **More than half** of the DAX 40 companies consider and/or use the **SASB standards** and the **ISSB standards**, neither of which are mandatory.

## 2 The new European Sustainability Reporting Requirements

6 Another milestone of the European Sustainable Finance strategy was accomplished with the adoption of the Corporate Sustainability Reporting Directive (CSRD)[1] on 14 December 2022. This is based on the European Commission's "Action Plan: Financing Sustainable Growth" of 2018, which the European Commission prominently continued with its "European Green Deal" in 2019.[2] It aims to transform the European Union into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases (GHG) by 2050. For this transformation to be achieved, capital flows are to be reoriented towards sustainable investments. The disclosure of relevant, comparable, and reliable sustainability information is a prerequisite for meeting those objectives.

7 The core of the CSRD is the expansion of the scope and content of sustainability reporting as set out in the Accounting Directive[3] compared with the non-financial statement according to the 2014 Non-Financial Reporting Directive (NFRD). Under the CSRD, not only large public-interest entities with an annual average of more than 500 employees, but all large limited liability companies, certain banks and insurance companies as well as publicly traded small and medium-sized enterprises will prepare a comprehensive sustainability report as part of the management report. This sustainability report will be subject to a mandatory audit (initially with limited assurance).

8 Through the CSRD, Articles 19a and 29a of the Accounting Directive set out disclosure requirements in relation to sustainability matters. These requirements address, each in relation to sustainability matters, a) a description of the business model and strategy, b) targets, c) the role of the administrative, management and supervisory bodies, and d) the existence of incentive schemes for the members of these bodies, e) policies, f) a description of: the due diligence process implemented, principal actual and potential adverse impacts connected with the company's own operations and with its value chain, actions taken to prevent, mitigate, remediate or bring to an end such adverse impacts, as well as the result of such actions, g) a description of principal sustainability risks and h) indicators relevant to the aforementioned disclosures.

9 The requirements laid out in the CSRD are further specified in the European Sustainability Reporting Standards (ESRS). The European Commission adopted the Delegated Act on the first set of ESRS, as mandated in the CSRD, on 31 July 2023, thereby giving direct legal effect to these ESRS once published in the Official Journal of the European Union[4].

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[1] See Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting, OJ EU L 322/15 of 16.12.2022.

[2] See European Commission, "Action Plan: Financing Sustainable Growth", COM(2018) 97 final of 8.3.2018 and "European Green Deal", COM(2019) 640 final of 11.12.2019.

[3] See Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, OJ of 29.6.2013, L 182, 19, in the version amended by the CSRD.

[4] ESRS will be published in the Official Journal of the European Union after completion of the scrutiny period.

The first set of ESRS comprises 12 ESRS, which include two ESRS on cross-cutting issues as well as ESRS on environmental, social and governance matters. ESRS need to be implemented by companies in the scope of the CSRD according to the relevant initial application date. A total of an estimated 15,000 German companies will successively prepare sustainability reports in accordance with the Accounting Directive and ESRS. Those German companies (estimated to be approx. 500) that have been required since 2014 to prepare a non-financial statement under NFDR will be part of the first group of companies to provide sustainability reports, starting in financial year 2024. Accordingly, the DAX 40 companies will have to include in their management report such a sustainability report in accordance with ESRS already for the financial year 2024.

10 How the DAX 40 companies are tackling this challenge and what difficulties the implementation of the ESRS is currently causing is the subject of this short survey by the DRSC.

# 3 The DRSC's Survey of the DAX 40 Companies

## 3.1 Design and Content of the Survey and Responses

11 The DRSC conducted an online survey of the companies that were members of the DAX 40 index at the time of the launch of this survey, 23 June 2023. This index comprises the 40 largest and most liquid German companies trading on the Frankfurt Exchange. The objective of this survey was to gain insights about the status and the difficulties of the ESRS implementation project at these major German companies.

12 The following five questions were asked in this survey:

(1) Where is the Project Management Office located for your ESRS implementation project? (Multiple answers possible)

(2) When did you start your ESRS implementation project?

(3) How far along is your implementation project? (Multiple answers possible)

(4) Which implementation aspects are currently causing the greatest difficulties? (Multiple answers possible)

(5) Are you currently considering/using other sustainability reporting standards in addition to the ESRS implementation? If yes, which ones? (Multiple answers possible)

13 A total of 39 responses were received by 13 July 2023, representing a 98% response rate.

14 At the time of the survey, the draft ESRS submitted by EFRAG to the European Commission in November 2022 and the ESRS published by the European Commission for consultation on 6 June 2023 were available to the companies. The Delegated Act, which resulted in the publication of the final ESRS, was adopted on 31 July 2023 and thus after this survey had been conducted.

## 3.2 Survey Results

### 3.2.1 Organisational Embedding of the ESRS Implementation Project

15 When asked about the organisational embedding of the ESRS implementation project, almost half of the DAX 40 companies[5] (19) stated that project responsibility lies with the Chief Financial Officer (CFO) or the finance department at the company. At 16 companies, ESRS implementation project responsibility lies with the Chief Executive Officer (CEO), and at 3 companies, it lies with the Chief Human Resources Officer (CHRO). Companies that referred to an "Other Department" being in charge of this implementation project named the following departments: Corporate Sustainability/Chief Sustainability Officer (CSO, 4 companies), the Corporate Reporting Board (interdisciplinary project team, 1 company), the Chief Digital Transformation Officer (CDTO, 1 company), Legal/Compliance (1 company) and Operations (1 company). They are not necessarily members of the executive board.

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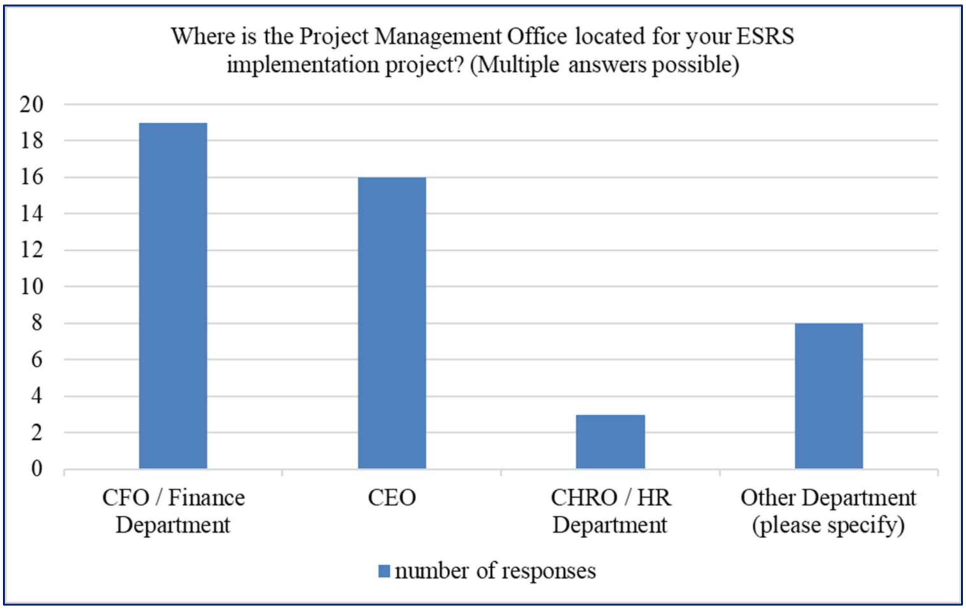



Figure 1: Organisational Embedding of the ESRS Implementation Project (n=39, responses=46, double responses=7)

„Other Department"
(8 companies, 8 responses)

- Corporate Sustainability/CSO (4 responses)
- CR Board (interdisciplinary project team) (1)
- CDTO (1)
- Legal/Compliance (1)
- Operations (1)

17 At 7 companies, two functions rather than a single function were jointly assigned responsibility for ESRS implementation. This type of cross-functional project responsibility is assigned to the CEO together with the CFO at 3 companies. At another 3 companies, the following cross-functional project responsibilities are assigned to the CFO together with

[5] *Note:* The results refer to the percentage/proportion of DAX 40 companies if explicitly mentioned (i.e. “half of the DAX 40 companies”, 20 companies). If not explicitly referenced the percentage/proportion refers to the 39 companies that participated in the survey.

the following other board member: CFO/CHRO, CFO/Operations and CFO/CDTO. At one company, the CHRO and the Chair of the Sustainability Council jointly lead the implementation project.

| Joint Project Responsibility<br>(7 companies)<br>• CEO & CFO (3 companies)<br>• CFO & CHRO (1)<br>• CFO & Operations (1)<br>• CFO & CDTO (1)<br>• CHRO & Chair Sustainability Council (1) |
|---|

18 At almost all companies (with the exception of 3 companies), the CEO or a board member is responsible for and engaged in the ESRS implementation project. This indicates the importance attached to these new requirements for sustainability reporting by the companies. In addition, it can be assumed that the finance department is entrusted with ESRS implementation at so many companies in order to use the existing knowledge about reporting processes and financial reporting for the development of sustainability reports, which will be part of the (group) management report in the future.

19 In some cases (7 companies), project responsibility is divided between two Board Members, which reflects the particular requirements of ESRS implementation. Sustainability aspects have to be integrated into all areas of the company and, at the same time, all areas of the company have to generate and provide the information and data needed for the sustainability report. It can be assumed that the various company units are involved in the reporting process regardless of which department is assigned ESRS implementation project responsibility.

20 Ultimately, it remains to be seen where responsibility for the sustainability report will be located once the initial implementation phase is completed. At most companies (19), the CFO or the finance department was assigned responsibility for ESRS implementation. It can be assumed that the lead for sustainability reporting will be assigned even more frequently to the finance department due to the aforementioned competence in developing reporting processes and the need to concert efforts for a timely delivery of the management report. In terms of governance, it will have to be seen how this might affect the specific allocation of sustainability reporting matters among the members of the executive board.[6]

### 3.2.2 Start of the ESRS Implementation Project

21 Almost all companies (37 companies) have started implementing ESRS. Half of the DAX 40 companies (20) initiated ESRS implementation in 2022. The other companies started in 2023.

[6] *Note*: DRSC research shows that the topic of sustainability is assigned to members of the executive board at 16 companies (at 9 companies, the topic is assigned to the CEO, at 6 companies to other Directors. and 1 company has implemented a Chief Sustainability Officer, CSO, in the executive board).

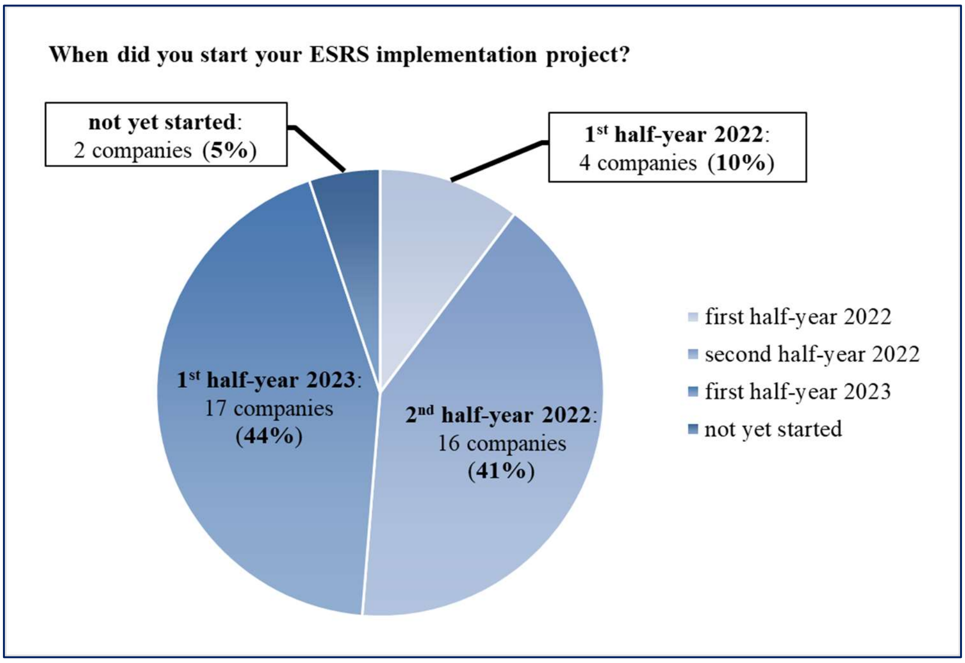
22 


Figure 2: Start of the ESRS Implementation Project (n=39)

### 3.2.3 Progress of the ESRS Implementation Project

23 The 37 companies that are in the implementation phase of the project show varying degrees of progress. The project has kicked off at almost all companies surveyed (35 companies). [7] Half of the DAX 40 companies (20) state that the initial materiality analysis for the implementation of the ESRS has been completed. A further 15% of the companies surveyed (6 companies) state under "Other" that the materiality analysis is currently "in progress". For another 3 companies, "all topics are in progress" which includes the materiality analysis being "in progress".

24 70% of the DAX 40 companies (28) have established reporting processes either for selected sustainability reporting topics (Environment, Social, Governance: ESG, 23 companies) or for all of these reporting topics (5 companies). 30% of the DAX 40 companies (12 each) have "linked the sustainability topics with risk management" and "addressed digitalisation in the ESEF format". The corresponding internal control system (ICS) was set up in 5 companies.

25 Numerous companies (13) indicate "Other" project steps (in some cases multiple other project steps). These include, as mentioned above, the materiality analysis (6 companies) that is currently in process or has been partially completed; the gap analysis (4 companies) completed or currently in process on the basis of the available draft ESRS; the development of reporting requirements on the basis of the materiality analysis (2 companies); the establishment of governance cornerstones (1 company) or the development of ESG KPIs relevant for management purposes (1 company). 3 companies state that they are currently working on all topics listed in the survey but have not yet completed them.

[7] *Note*: 2 companies did not acknowledge a "kick-off". They did, however, confirm other – more advanced – project phases. Therefore, the lack of a (formal) kick-off is not informative of the project progress.

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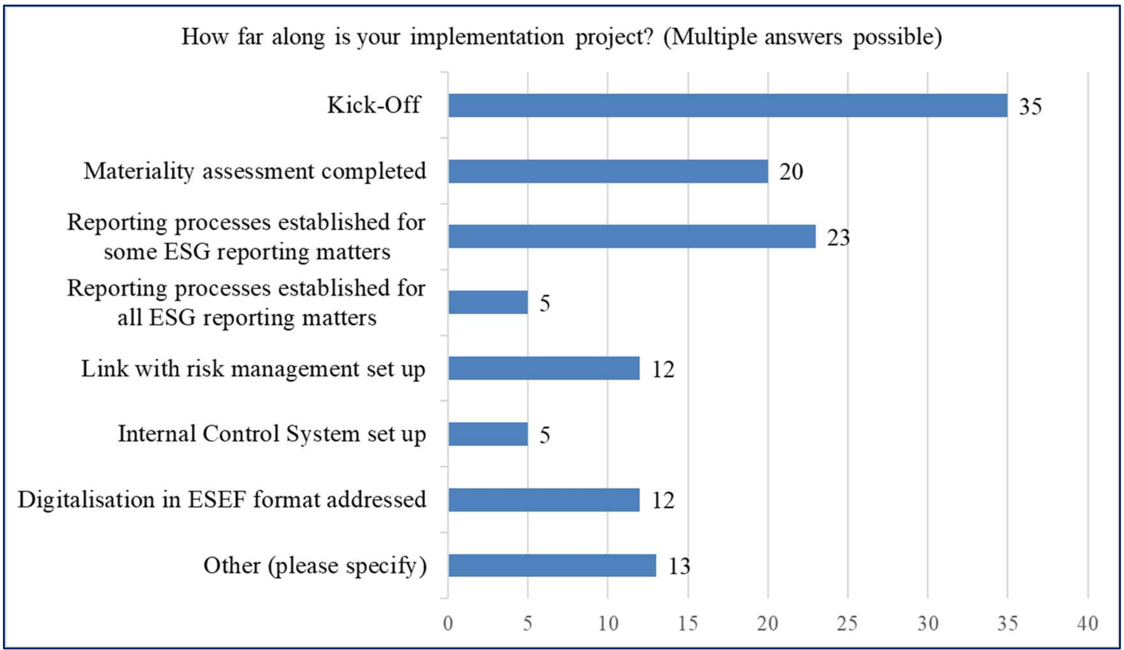



Figure 3: Progress of the ESRS Implementation Project (n=37, 125 responses)

„Other“
(13 companies)

- Materiality assessment in progress/ or parts completed (among other reasons due to incomplete legal process) (6)
- All topics are “work in progress” (3)
- Gap analysis in progress or completed, based on ESRS Drafts (4)
- Development of company-specific reporting requirements in progress (based on materiality assessment) (2)
- Cornerstones of governance established (1)
- Preparation of quantitative accounting manual (1)
- Focus so far on ESG Key Performance Indicators from management perspective (1)

27 The survey shows that the initial materiality analysis as the core of the ESRS implementation project has been completed (20) or is in progress (9) at approx. 75% of the DAX 40 companies. It should be emphasised that those companies that identify their materiality analysis as "in progress" often refer to pending changes expected after the finalisation of the underlying legal requirements (ESRS). The final ESRS were published on 31 July 2023 (after the completion of this survey).

28 For the same reason (pending finalisation of ESRS), the companies point out that their gap analysis is still in progress. A slight distortion of the survey (to the disadvantage of project progress) might therefore result from companies explicitly reporting the materiality analysis or the gap analysis as “in progress” (instead of “completed”), as well as reporting “identification of reporting requirements”/“establishing necessary processes” as “in progress” (instead of “completed”) due to the pending final ESRS. These circumstances apply to all companies. The proportion of project steps “completed” (i.e. based on existing findings) could therefore be higher than presented in the study.

### 3.2.4 Difficulties in implementing ESRS

29 All companies surveyed see various major difficulties in implementing ESRS (multiple responses from 38 companies). The biggest challenges are the "lack of clarity regarding ESRS requirements" and the "quality and verifiability of data”, both of which are mentioned by about 80% of the companies. For 74% of the companies, "data availability" and for 70% of the companies, limited "human resources" and limited "time resources" also pose major difficulties.

30 Under "Other", companies repeatedly point out (3 companies) that the incomplete legislative process (i.e. pending publication of the final ESRS by the European Commission) and thus the unclear legal situation and possible changes to the final ESRS are seen as a major difficulty. It is possible that other companies also see these difficulties but refer to them under the category "lack of clarity regarding ESRS requirements". The same applies to the difficulty of "identifying specific requirements in relation to the materiality analysis", which one company mentions under "Other".

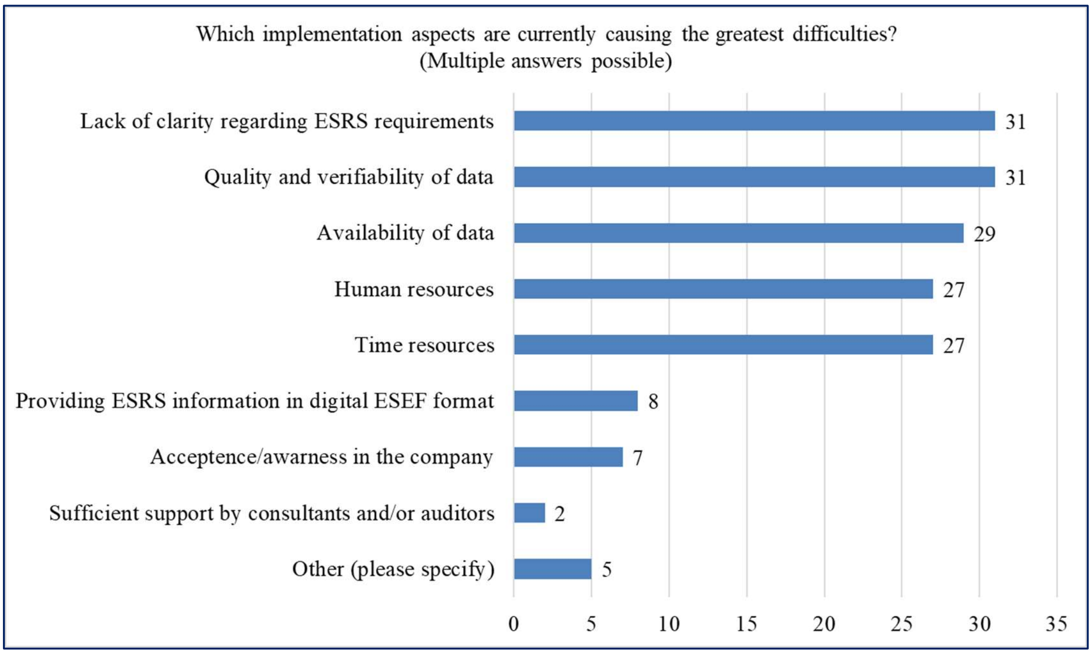
31 


Figure 4: Difficulties in implementing ESRS (n=39, 167 responses, 38 companies with multiple responses)

„Other“
(5 companies)

- Pending conclusion of the legislative process/unclear legal situation/changes between draft and final requirements (3)
- Identifying specific requirements in relation to materiality analysis (1)
- Ambiguity with regard to audit requirements (1)
- Divided topic responsibility as well as developing/optimising a uniform reporting process (1)

32 As a result, the responses of the DAX 40 companies suggest that the implementation of the ESRS is associated with a variety of challenges. This is typically the case for new

reporting requirements. It should be noted, however, that companies started their ESRS implementation projects before the final ESRS were available and that the resulting unclear legal situation posed a particular challenge. On a positive note, "acceptance and awareness" is problematic at comparatively few companies (7). In addition, the "support provided by consultants and auditors" does not currently represent a bottleneck.

### 3.2.5 Other Relevant Reporting Standards

33 Finally, the companies were asked about other reporting standards that they are currently considering and/or using in addition to ESRS implementation. Based on the feedback, most companies (29) are also considering and/or using the GRI standards. More than half of the companies (23) are considering and/or using the industry-specific SASB standards. A similar number of companies (22) are considering the ISSB standards, IFRS S1 and IFRS S2.[8]

34 In addition, under "Other reporting standards", companies refer to the EU Taxonomy Regulation (7 companies), the reporting recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD, 7 companies), the Carbon Disclosure Project (CDP, 4 companies) and national and European supply chain requirements (LkSG/CSDDD, 3 companies). The Task Force on Nature-related Financial Disclosure (TCND), sustainability ratings and the guidelines of the World Economic Forum (WEF) were each mentioned by one company.

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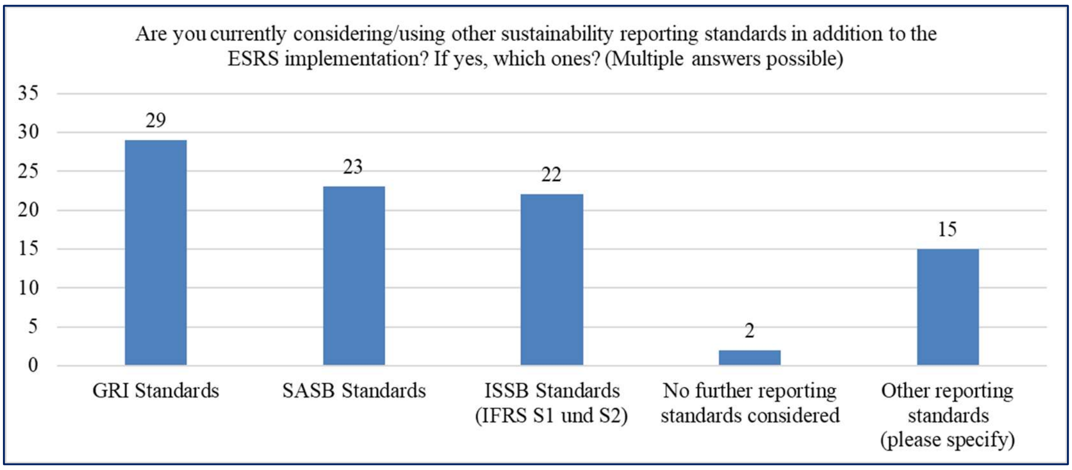


Abb. 5: Other relevant Sustainability Reporting Standards (n=39, 91 responses, 34 companies with multiple responses)

"Other reporting standards"
(15 companies, 24 responses)

- EU Taxonomy (7)
- TCFD (7)
- CDP (4)
- National LkSG/European CSDDD (3)
- TCND (1)
- Sustainability ratings (1)
- WEF (1)

[8] *Note*: Of these companies, 14 are considering and/or using both ISSB standards and SASB standards.

36 Of the 37 companies that are considering and/or using other reporting standards in addition to ESRS, 34 companies checked multiple answers (i.e. multiple additional reporting standards). Of these, 18 companies state that they are considering and/or using two other reporting standards (mostly a combination of GRI standards/ISSB standards or GRI standards/SASB standards). 9 companies are considering and/or using three further reporting standards (mostly GRI standards/ISSB standards/SASB standards, 6 companies) and 7 companies are considering and/or using at least four further reporting standards. In addition to GRI, ISSB and SASB standards, these companies refer to the EU taxonomy, the TCFD or supply chain reporting requirements (LkSG/CSDDD), for example.

37 The large number of multiple responses mirrors the diversity of reporting standards that DAX 40 companies still considers and/or uses. A major challenge is therefore likely tracking the developments and thus the changes and differences in the reporting requirements, and to reflect and explain these changes in sustainability reporting. However, shifts are likely to be expected regarding the reporting standards that DAX 40 companies focus on. For example, during the time of this survey, i.e. in 2023, GRI standards were of particular importance as the companies surveyed often prepare a separate sustainability report in accordance with GRI. This report provides the non-financial statement in accordance with the NFDR requirement. In light of the mandatory application of ESRS, DAX 40 companies are likely to reconsider their use of GRI in the format of a separate report. The ISSB and SASB standards are not mandatory, but more than half of the DAX 40 companies consider/use these reporting standards. The coming years will give a clearer picture on how quickly international standards will be established and to what extent the success story of IFRSs for financial reporting can be repeated. The interest of the DAX 40 companies had already manifested itself in their support for bringing the ISSB headquarters to Frankfurt am Main.

### 3.2.6 Other Comments from the Companies

38 Six companies emphasised further aspects. Especially companies with multiple stock exchange listings strongly demanded the harmonisation of the various reporting requirements. Although only 10% of the DAX 40 companies are dual-listed, this aspect is likely to be highly relevant for other companies as well, given the large number of reporting standards that the companies are considering/using. In addition, the simultaneous use of the various reporting standards, in this case for example the enhanced EU Taxonomy, increases the burden on the companies. Furthermore, the companies point out that for some topics (e.g. biodiversity), there are still no recognised or established assessment methods.

39 They also point out that the central questions regarding XBRL tagging of the ESRS still need to be addressed. They expect an enormous implementation and audit effort, while the benefits of this exercise are not yet seen.

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