

Lecture 19 – Sustainability, CSRD, and ESG in Occupational Health and Safety

Student Notes

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Chapter 1: The Link Between Workplace Safety and Sustainability

Introduction




In the modern workplace, occupational health and safety (OHS) and sustainability are no longer separate concerns but are deeply interconnected. Both concepts aim to protect valuable resources, whether it is human capital, environmental integrity, or long-term business viability. A workplace that prioritises safety is also fostering sustainability, reducing accidents, improving operational efficiency, and ensuring compliance with environmental and social responsibilities.


The integration of workplace safety with sustainability reflects a shift in corporate thinking: safe working environments contribute to sustainable business models, while sustainable practices enhance employee well-being. This chapter will explore how ensuring workplace safety supports broader sustainability goals, from protecting workers and reducing waste to enhancing corporate reputation and economic resilience.

Safety as the Foundation for Sustainability

Workplace safety serves as the bedrock upon which sustainable practices are built. A company cannot claim to be sustainable if it neglects employee health and safety. A safe, secure work environment reduces risks, improves efficiency, and ensures the longevity of both human and natural resources.

Key connections between safety and sustainability:

-  **Worker well-being ensures long-term workforce sustainability.**
-  **Preventing accidents reduces waste and resource consumption.**
-  **Safe and healthy work environments enhance social responsibility goals.**


 **Example:** A company that prioritises ergonomic workstations not only reduces injuries but also improves productivity and employee retention, fostering economic sustainability.

Protecting Our Most Valuable Asset: Human Life

At the core of workplace safety is the protection of human life and well-being. Each worker contributes unique skills, talents, and experiences. Companies that invest in safety measures uphold an ethical responsibility while also ensuring business continuity.

Workplace Safety Measures That Support Sustainability

- **Personal Protective Equipment (PPE)** – Essential in hazardous work environments, PPE protects employees while minimising injuries and medical resource usage.
- **Safety Technology & AI Monitoring** – AI-powered PPE detection ensures compliance with safety standards, reducing workplace incidents and promoting a safer work culture.
- **Ergonomic Designs** – Workspaces designed for comfort reduce strain-related injuries, improving long-term workforce sustainability.

 **Example:** A construction company implementing **AI-based PPE monitoring** ensures real-time compliance with safety standards, minimising accidents and reducing environmental and economic costs.

How Safety Enhances Sustainability Goals

1. Resource Efficiency

A safer workplace leads to fewer injuries and medical interventions, reducing demand on:

- ✓ **Healthcare resources** (less emergency care, fewer hospital visits).
- ✓ **Workplace materials** (reduced need for replacing damaged equipment due to accidents).

2. Waste Reduction

Companies with strong safety policies experience fewer equipment failures and product damage, reducing overall waste.

- ✓ Fewer workplace incidents mean **less discarded PPE, damaged materials, and medical waste.**
- ✓ Sustainable safety investments, such as **longer-lasting protective gear**, reduce **waste production.**

3. Economic Sustainability

Reducing workplace injuries lowers costs associated with compensation claims, legal cases, and absenteeism.

- ✓ **Lower insurance premiums and legal expenses.**
- ✓ **Increased workforce productivity.**
- ✓ **Savings redirected to sustainable initiatives** (e.g., renewable energy, eco-friendly infrastructure).

💡 **Example:** A manufacturing firm reinvests savings from reduced accident rates into a solar energy project, aligning OHS and environmental goals.

✦ Enhancing Corporate Reputation Through Safety and Sustainability

Companies known for **strong safety measures and sustainability efforts** attract:

- ✓ **Top talent** looking for ethical, responsible employers.
- ✓ **Investors prioritising ESG and sustainable business models.**
- ✓ **Consumers who prefer ethical brands.**

✦ Research companies that

- Reduced CO₂ emissions by improving workplace safety protocols.
- Developed sustainable PPE with longer lifespans, reducing waste.
- Trained employees on safety & environmental responsibility, improving compliance.

✦ Emotional and Practical Synergies Between Safety and Sustainability

1. Building Trust and Commitment

A safe workplace fosters trust and morale, encouraging workers to engage in sustainable initiatives. Employees in secure environments are more likely to propose innovations, reduce waste, and support eco-friendly initiatives.

2. Empowering a Sustainable Work Culture

When companies integrate safety and sustainability, they:

- ✓ Attract **employees who value ethical practices.**
- ✓ Foster a **proactive workforce** that embraces **continuous improvement.**
- ✓ Encourage **collaborative problem-solving** between OHS and sustainability teams.

💡 **Example:** A logistics company involving workers in OHS and sustainability discussions led to a 30% increase in employee engagement and 15% reduction in fuel usage.

✦ **Global and Community Impact of Safety and Sustainability**

1. Environmental Stewardship

Strong safety measures reduce risks of **environmental disasters**, such as:

- ✓ **Chemical spills and hazardous material leaks.**
- ✓ **Air and water pollution caused by workplace incidents.**
- ✓ **Energy waste due to inefficient operations.**

2. Economic Resilience

- Lower accident rates reduce long-term costs, allowing companies to invest in renewable technologies.
- Businesses known for workplace safety and sustainability gain credibility, fostering better partnerships and increasing investment opportunities.

💡 **Example:** A pharmaceutical firm adopted stringent chemical handling protocols, preventing workplace accidents while reducing emissions by 40%.

✦ **Conclusion: The Link Between Safety and Sustainability**

✦ Workplace safety and sustainability are inseparable elements of a successful, forward-thinking business. A company that invests in safety is also investing in long-term sustainability, ensuring:

- ✓ **Healthier employees and a more engaged workforce.**
- ✓ **Lower operational and environmental costs.**
- ✓ **Improved corporate reputation and compliance with ESG principles.**

🗨️ **Final Thought:** How can companies balance **OHS compliance, sustainability, and profitability** in today's evolving business landscape?

Adapted from:

1. Green City Times: Workplace Safety and Sustainability.
2. **Ivascu, L. et al. (2019).** *OSH - Sustainability Connection: Innovation, Education, and Benefits*. MATEC Web of Conferences.

Chapter 2: The Corporate Sustainability Reporting Directive (CSRD)

Introduction

The Corporate Sustainability Reporting Directive (CSRD) is a European Union (EU) regulation that came into effect on 5 January 2023. It mandates companies operating within the EU, including subsidiaries of non-EU parent companies, to disclose their environmental and social impacts. Additionally, businesses must report on how environmental, social, and governance (ESG) factors influence their financial performance and business strategy.


The CSRD aims to enhance transparency, standardisation, and reliability in sustainability reporting, ensuring that investors, consumers, regulators, and other stakeholders have access to comparable sustainability data. This directive expands on its predecessor, the Non-Financial Reporting Directive (NFRD), by increasing the number of companies required to report and introducing more detailed disclosure obligations.

Purpose of the CSRD

The CSRD was introduced to address key weaknesses in the NFRD, particularly the lack of consistency, comparability, and reliability in sustainability data. Previously, under the NFRD, businesses reported their sustainability impacts voluntarily or with limited standardisation, making it difficult for stakeholders to evaluate sustainability risks and investment opportunities.

By introducing **uniform reporting requirements**, the CSRD:

- ✓ **Supports investors** in making informed sustainable investment decisions.
- ✓ **Enhances corporate accountability** on environmental and social issues.
- ✓ **Promotes the EU's broader environmental and social goals**, including:
 - **The European Green Deal** (EU's commitment to climate neutrality by 2050).
 - **The EU Sustainable Finance Agenda** (aligning investment with sustainability objectives).

 **Example:** A multinational energy company must now **report on its climate-related risks, carbon reduction strategies, and worker safety measures** to comply with CSRD requirements.

Who Must Comply with the CSRD?

The CSRD is being introduced **in a phased approach from 2024 to 2029**, depending on company size and listing status. It applies to:

📌 1. Listed Companies

Any organisation listed on an EU-regulated market, except micro-enterprises. To qualify as a micro-enterprise, a company must not exceed two of the following thresholds:

- ✓ Total assets of **€450,000**.
- ✓ Net turnover of **€900,000**.
- ✓ A workforce of fewer than **10 employees**.

📌 2. Large Companies (Listed or Non-Listed)

A company is considered **large** if it meets **at least two of the following conditions**:

- ✓ Total assets of **€25 million or more**.
- ✓ Net turnover of **€50 million or more**.
- ✓ A workforce of at least **250 employees**.

📌 3. Non-EU Parent Companies (Third-Country Undertakings)

Even non-EU companies are subject to the CSRD if they generate annual EU revenues exceeding €150 million in two consecutive years and meet at least one of the following conditions:

- ✓ They **own a large subsidiary** in the EU.
- ✓ They **own an EU-listed subsidiary**.
- ✓ They operate an **EU branch with a net turnover of at least €40 million**.

💡 **Example:** A **US-based retail company** with multiple stores across the EU **must comply** with CSRD if its **EU revenues exceed €150 million**, even if its headquarters remain outside the EU.

CSRD Compliance Timeline

The CSRD will be implemented gradually, with reporting obligations applying at different times:

Reporting Year	Companies Affected
2024 (Reporting in 2025)	Companies already subject to NFRD (500+ employees).
2025 (Reporting in 2026)	Large companies not previously covered under the NFRD .

Reporting Year	Companies Affected
2026 (Reporting in 2027)	Listed small and medium-sized enterprises (SMEs) .
2028 (Reporting in 2029)	Non-EU companies meeting the criteria.

💡 **Reflect:** How should companies prepare for upcoming CSRD compliance deadlines?

CSRD Reporting Standards and Disclosure Requirements

The European Financial Reporting Advisory Group (EFRAG) developed the European Sustainability Reporting Standards (ESRS) to define what companies must report under the CSRD.

📌 Key Reporting Areas:

- ✅ **General Disclosures** (Applies to all companies).
- ✅ **Environmental Factors** – Climate risks, pollution, resource efficiency, biodiversity.
- ✅ **Social Factors** – Employee well-being, human rights, workforce conditions, community impact.
- ✅ **Governance Factors** – Business ethics, corruption prevention, transparency in reporting.

📌 The Double Materiality Principle

Under CSRD, companies must report on:

- ✓ **Impact Materiality** – How the company **affects people and the environment** (e.g., workplace emissions, social responsibility, diversity policies).
- ✓ **Financial Materiality** – How sustainability risks **impact the company's financial performance** (e.g., operational costs, legal risks, investment decisions).

💡 **Example:** A construction company must report not only on its carbon emissions but also on how climate change affects its business costs and supply chain disruptions.

Additional Disclosure Requirements Under CSRD

Under the new directive, businesses must also **report on the following sustainability areas:**

- ✅ **Sustainability policies and due diligence** – Including **environmental protection strategies and employee welfare policies**.
- ✅ **Sustainability targets and progress tracking** – Companies must disclose their

progress towards net-zero emissions by 2050.

✔ **Value chain and supply chain risks** – Identifying **sustainability risks across the company’s supply chain**.

✔ **Sustainability risks and business resilience** – Assessing **potential financial impacts** of environmental and social risks.

✦ **All sustainability disclosures must be publicly accessible and externally audited** for accuracy.

💡 **Example:** A manufacturer must report on its supply chain sustainability, ensuring that its raw materials are sourced ethically and responsibly.

CSRD vs. NFRD: Key Differences

The **CSRD** replaces the **NFRD**, bringing significant **changes** in corporate sustainability reporting:

Feature	NFRD (Old System)	CSRD (New System)
Scope	Applies to approx. 11,000 companies .	Covers over 50,000 companies across the EU.
Audits	Voluntary assurance of reports.	Mandatory third-party audit for verification.
Reporting Format	Flexible reporting structure.	Standardised reporting in digital format (ESEF/XHTML).

💡 **Reflect:** How does mandatory auditing improve sustainability transparency?

Penalties for Non-Compliance

✦ **EU Member States** will enforce compliance and impose **penalties** for breaches of CSRD obligations.

✦ **Potential Sanctions for Non-Compliance:**

✗ **Financial penalties** based on company size and severity of the breach.

✗ **Public disclosure of violations**, harming corporate reputation.

✗ **Possible trading restrictions** for serious or repeated non-compliance.

💡 **Example:** A European car manufacturer that **fails to disclose its workplace safety policies and emissions data** may face **hefty fines and public scrutiny**.

Conclusion: Why the CSRD Matters for OHS

The CSRD represents a major shift towards greater corporate accountability and transparency in sustainability reporting.

✓ **Aligns sustainability with financial performance**, allowing businesses to identify risks and improve **long-term resilience**.

✓ **Supports the EU's climate and social goals**, including the **Green Deal and carbon neutrality by 2050**.

✓ **Requires proactive preparation**, including **ESG strategy development, data collection, and compliance audits**.

👉 **Final Thought:** What steps can companies take **today** to ensure compliance with CSRD reporting requirements?

📌 Chapter 3: Understanding Environmental, Social, and Governance (ESG) in OHS

Introduction

In today's business landscape, Environmental, Social, and Governance (ESG) factors have become essential metrics for assessing corporate responsibility and long-term sustainability. ESG refers to a structured framework used to measure an organisation's commitment to environmental protection, social responsibility, and ethical governance.

While traditionally associated with investment and financial performance, ESG principles extend beyond boardrooms and stock markets—they directly impact workplace safety, employee well-being, and compliance with OHS (Occupational Health & Safety) regulations. Companies that align ESG with OHS practices create safer, more sustainable workplaces, reduce risks, and enhance their corporate reputation.

This chapter explores the three dimensions of ESG, why ESG matters in OHS, how ESG performance is measured, and what regulations and frameworks guide ESG disclosures.

📌 What is ESG?

ESG stands for Environmental, Social, and Governance three critical dimensions that determine a company's sustainability and ethical impact. These factors affect not only investment decisions but also corporate strategy, compliance, and workplace operations.

📌 Key differences between ESG, CSR, and Sustainability:

- ✅ **Sustainability** – A broader **philosophy** focusing on long-term environmental and social balance.
- ✅ **Corporate Social Responsibility (CSR)** – A **voluntary** approach to ethical business practices.
- ✅ **ESG** – A **data-driven** framework that **measures and reports** sustainability efforts, particularly in financial decision-making.

💡 **Example:** A logistics company integrating sustainable fuel alternatives (E) with fair wages and diversity policies (S), while ensuring transparent supply chain management (G).

The Three Dimensions of ESG in Workplace Safety and Sustainability


1. Environmental (E) – Managing Workplace Environmental Risks

This component assesses whether an organisation is a responsible steward of natural resources and evaluates:

- ✓ **Climate change risks** – How extreme temperatures, air quality, and disasters impact worker safety.
- ✓ **Carbon emissions & pollution** – Reducing workplace air, water, and chemical contamination.
- ✓ **Energy efficiency** – Sustainable resource management in production, logistics, and operations.
- ✓ **Waste reduction** – Safe disposal of hazardous materials, PPE, and industrial waste.
- ✓ **Sustainable sourcing** – Using ethically and environmentally responsible materials.

Link to OHS:

- ✓ Reducing exposure to **hazardous chemicals** enhances workplace safety.
- ✓ Investing in **clean energy reduces respiratory risks** for workers.
- ✓ Proper **waste disposal minimises fire, explosion, and health hazards**.

 **Example:** A manufacturing plant switching to non-toxic paint reduces worker exposure to harmful fumes while lowering environmental emissions.

2. Social (S) – Worker Safety, Well-being, and Ethical Responsibility

This dimension evaluates how a company interacts with people—employees, consumers, and communities. It includes:

- ✓ **Diversity, equity, and inclusion (DEI)** – Ensuring equal opportunities and fair treatment.
- ✓ **Human rights & fair labour practices** – Protecting workers from exploitation.
- ✓ **Health & safety policies** – Providing safe working conditions and mental health support.
- ✓ **Supply chain responsibility** – Ensuring ethical treatment of workers at every production stage.

Link to OHS:

- ✓ A diverse and inclusive workplace enhances **psychosocial safety**.
- ✓ Strict **anti-bullying and anti-harassment policies** prevent toxic work environments.
- ✓ Mental health initiatives reduce **stress, burnout, and absenteeism**.

💡 **Example:** A construction firm implementing **ergonomic lifting training** reduces worker injuries while promoting **healthier working conditions**.

3. Governance (G) – Ethical Leadership, Compliance, and OHS Standards

Governance refers to how a company is structured, managed, and held accountable. It evaluates:

- ✓ **Leadership accountability** – Ensuring ethical decision-making and safety commitments.
- ✓ **OHS compliance** – Adhering to **ISO 45001, EU, and national safety laws**.
- ✓ **Whistleblower protections** – Encouraging workers to report unsafe practices.
- ✓ **Board diversity & oversight** – Transparent policies on executive responsibility.

🔗 **Link to OHS:**

- ✓ A strong **corporate safety culture** reduces workplace accidents.
- ✓ Regular **audits and risk assessments** ensure compliance with **legal OHS frameworks**.
- ✓ **Transparent OHS reporting** builds trust with employees and stakeholders.

💡 **Example:** A logistics company integrating driver fatigue management policies as part of their OHS and ESG compliance strategy.

🔗 **Why is ESG Important for Workplace Safety and Business Resilience?**

The importance of ESG has grown due to:

- ✓ **Increased global awareness** of sustainability issues.
- ✓ **Stricter EU regulations** on corporate accountability.
- ✓ **Investor demand** for responsible business practices.
- ✓ **Workforce expectations** for ethical employment.

Benefits of ESG Integration in OHS:

- ✓ **Reduces operational risks** – Proactive safety policies prevent injuries, lawsuits, and reputational damage.
- ✓ **Attracts top talent** – Employees prefer ethical companies with strong safety cultures.
- ✓ **Improves financial stability** – Fewer accidents mean lower insurance costs and legal liabilities.
- ✓ **Enhances reputation** – Consumers and stakeholders trust companies with ethical business models.

💡 **Example:** A European airline adopted an ESG-aligned OHS policy that reduced carbon emissions, improved crew safety, and strengthened passenger trust.

✦ **ESG Investing vs. Other Investment Strategies**

- ✦ **1. ESG Investing** – Focuses on both **financial returns and sustainability factors**.
- ✦ **2. Socially Responsible Investing (SRI)** – Excludes industries based on ethical concerns (e.g., fossil fuels, arms production).
- ✦ **3. Impact Investing** – Prioritises investments that **generate measurable social or environmental benefits**.

💡 **Example:** An investment fund focusing on renewable energy companies with strong worker safety policies.

✦ **How ESG Metrics Are Measured and Reported**

Companies **must report their ESG performance** using **established frameworks**, including:

- ✓ **European Sustainability Reporting Standards (ESRS)** – Guides EU sustainability disclosures.
- ✓ **Task Force on Climate-related Financial Disclosure (TCFD)** – Climate impact reporting.
- ✓ **Global Reporting Initiative (GRI)** – Standardising sustainability reporting for global transparency.

✦ **ESG Metrics Used in OHS Reporting:**

- ✓ **Lost Time Injury Frequency Rate (LTIFR)** – Measures workplace accident rates.
- ✓ **Carbon footprint analysis** – Tracks a company's environmental impact.
- ✓ **Diversity and inclusion statistics** – Evaluates social responsibility in hiring and employment.

💡 **Example:** A construction company reporting OHS accident rates, gender diversity data, and emissions reductions in its annual ESG report.

✦ **ESG Regulations and Compliance Frameworks**

✦ **Key ESG Laws in the EU:**

- ✓ **Corporate Sustainability Reporting Directive (CSRD)** – Requires companies to report ESG performance, including OHS impact.

✓ **Sustainable Finance Disclosure Regulation (SFDR)** – Standardises sustainability data in financial reporting.

✓ **Carbon Disclosure Project (CDP)** – Helps businesses disclose environmental data to stakeholders.

✦ **Challenges in ESG Compliance:**

✗ Risk of **greenwashing** (false sustainability claims).

✗ **High data collection costs** for small companies.

✗ **Complexity of aligning with multiple frameworks.**

💡 **Example:** A Maltese SME struggles with **ESG compliance costs but benefits from improved investor trust and market reputation.**

✦ **Conclusion: ESG as a Roadmap for Sustainable Workplace Safety**

✦ **ESG is more than an investment strategy**—it is a framework for building **safe, sustainable, and ethical workplaces**. Companies that integrate **environmental, social, and governance principles into OHS strategies** experience:

✓ **Improved compliance with EU safety laws.**

✓ **Lower workplace injury rates and increased workforce morale.**

✓ **Stronger investor confidence and public trust.**

🗨️ **Final Thought:** How can companies **balance OHS, ESG compliance, and long-term profitability?**

Source - Chapters 2 and 3 were adapted from: IBM Corporate Sustainability Reporting Directive Overview and ESG Overview & Sustainability Regulations (2024).

Chapter 4: Comparing CSRD and ESG – Differences and Similarities

Introduction

As sustainability and corporate responsibility gain prominence in business and regulatory frameworks, Corporate Sustainability Reporting Directive (CSRD) and Environmental, Social, and Governance (ESG) reporting have emerged as key tools for assessing and disclosing sustainability performance.

But how do they differ, and where do they overlap?

✓ **CSRD** is a **regulatory requirement** imposed by the **European Union (EU)**, mandating companies to **report on sustainability-related impacts** following a structured framework.

✓ **ESG**, on the other hand, is a **broader, market-driven concept** used to evaluate an organisation's sustainability performance, often **for investment and stakeholder decision-making**.

This chapter explores the similarities and differences between CSRD and ESG, highlighting their scope, reporting requirements, applicability, and key objectives.

Key Similarities Between CSRD and ESG

While CSRD and ESG serve different purposes, they share several commonalities:

1. Focus on Sustainability and Corporate Responsibility

✓ Both CSRD and ESG promote transparency, accountability, and responsible business practices.

✓ They aim to enhance corporate sustainability efforts by addressing environmental, social, and governance factors.

2. Integration into Business Strategy

✓ CSRD and ESG require companies to embed sustainability into their corporate strategy and decision-making.

✓ Both frameworks push organisations to assess and mitigate sustainability-related risks and opportunities.

3. Overlap in Reporting Metrics and Disclosures

✓ CSRD and ESG reporting **share key disclosure areas**, including:

- **Climate risks & carbon emissions** 

- **Social impact & worker safety** 🧑
- **Governance and ethical leadership** ⚖️
 - ✓ Many companies that comply with CSRD also align their ESG reporting with it for consistency.

4. Stakeholder-Driven Transparency

- ✓ Both CSRD and ESG reporting frameworks aim to inform investors, regulators, employees, and the public about a company's sustainability efforts.
- ✓ Transparency in workplace safety, ethical practices, and environmental impact is a shared goal.

📌 Key Differences Between CSRD and ESG

While they share common themes, CSRD and ESG differ significantly in their purpose, scope, and applicability:

1. CSRD is a Legal Requirement, ESG is Market-Driven

- ✓ CSRD is mandatory for companies operating within the EU, enforcing standardised sustainability reporting.
- ✓ ESG reporting is voluntary, used primarily by investors, rating agencies, and corporations to measure sustainability performance.

📌 Key Difference:

- ✓ CSRD compliance is legally enforceable and non-compliance may result in penalties.
- ✓ ESG reporting is flexible, with companies choosing their own disclosure frameworks.

2. CSRD Covers More Detailed and Standardised Reporting


- ✓ CSRD requires companies to follow the European Sustainability Reporting Standards (ESRS), ensuring structured, comparable, and verifiable sustainability data.
- ✓ ESG reporting lacks a single global standard, with companies using different frameworks like:

- **Global Reporting Initiative (GRI)**
- **Task Force on Climate-related Financial Disclosures (TCFD)**
- **Sustainability Accounting Standards Board (SASB)**

 **Key Difference:**

✓ CSRD provides a legally binding, standardised reporting system for all applicable EU companies.

✓ ESG reporting varies based on industry preferences and investment priorities.

 **Example:** A multinational corporation in the EU must follow CSRD requirements but may also publish ESG reports tailored to investors.

3. Applicability: Who Needs to Report?

 **CSRD applies to a broader range of companies in the EU:**


- Large companies (250+ employees, €50 million+ turnover, or €25 million+ assets).
- Publicly listed SMEs (from 2026 onwards).
- Non-EU companies with significant EU operations (€150 million+ turnover).

 **ESG reporting is primarily used by publicly traded companies, investors, and financial institutions** as part of risk assessment and investment decision-making.

 **Key Difference:**

✓ **CSRD is EU-centric and applies to specific companies based on size and impact.**

✓ **ESG reporting is more universal and adopted by companies worldwide, regardless of legal mandates.**

 **Example:** A US-based tech company voluntarily publishes ESG reports but must comply with CSRD regulations if it operates a subsidiary in the EU generating over €150 million in revenue.

4. The Reporting Scope: Double Materiality vs. Financial Materiality

 **CSRD uses the Double Materiality Principle**, meaning companies must **report on:**

- How sustainability issues impact financial performance (financial materiality).
- How a company's operations impact the environment and society (impact materiality).

✔ **ESG reporting traditionally follows a financial materiality approach**, focusing on how sustainability risks affect **investments and business operations**.

✦ **Key Difference:**

✔ **CSRD requires broader sustainability reporting on both company impact and financial risks.**

✔ **ESG reporting primarily assesses risks and opportunities from an investor perspective.**

💡 **Example:** A European oil company must disclose its environmental impact under CSRD but may also provide ESG reports focused on how climate risks affect profitability.

5. ESG Scores vs. CSRD Audited Reports

✔ **CSRD requires third-party verification of sustainability reports** to prevent greenwashing.

✔ **ESG reports often receive ‘ESG scores’** from rating agencies like **MSCI, Sustainalytics, and Morningstar**, but these ratings vary based on methodology.

✦ **Key Difference:**

✔ **CSRD reports are externally audited and legally accountable.**

✔ **ESG scores are subjective and vary across rating agencies.**

💡 **Example:** A European firm **must have its CSRD disclosures verified by external auditors**, while its ESG rating may differ depending on the agency evaluating it.

✦ **Summary: CSRD vs. ESG – Key Differences and Similarities**

Feature	CSRD	ESG
Mandatory?	✔ Yes, legally required for EU companies	✗ No, voluntary but widely used
Scope	✔ Structured, detailed reports (ESRS framework)	✗ Flexible, varies by company/industry
Applicability	✔ Large companies, listed SMEs, and non-EU firms with significant EU operations	✗ Used by investors, financial analysts, and corporations globally

Feature	CSRD	ESG
Reporting Standard	✔ European Sustainability Reporting Standards (ESRS)	✘ Multiple frameworks (GRI, TCFD, SASB)
Materiality Focus	✔ Double Materiality (financial + impact)	✘ Financial Materiality (investment risk focus)
Audit Requirement	✔ Yes, must be externally verified	✘ No legal requirement, but often assessed by rating agencies
Investor Focused?	✔ Yes, but primarily regulatory	✔ Yes, used for investment decision-making

✦ **Conclusion: The Complementary Roles of CSRD and ESG**

✦ While **CSRD** and **ESG** serve different purposes, they are interconnected:

✓ **CSRD ensures regulatory compliance** in the EU, while **ESG provides a broader sustainability assessment**.

✓ **Many companies align ESG reporting with CSRD requirements** for consistency.

✓ **Both frameworks drive corporate transparency, risk management, and long-term sustainability goals**.

🗨️ **Final Thought:** How can companies balance regulatory compliance with voluntary ESG initiatives to enhance long-term sustainability?

End