ARE YOU READY FOR ESG AS A CRITICAL BUSINESS IMPERATIVE?

Shaping an ESG-driven organisation to navigate risk and optimise opportunity

OCTOBER 2022

Table of contents

Foreword

ESG – environmental, social and governance factors – has become a major focus for organisations which are under growing pressure to demonstrate they are doing the right thing and executing their commitments to sustainable business. Organisations are now expected to demonstrate *how* their business is being conducted in an ethical manner, *what* they are doing to reduce their carbon footprint and to mitigate ethical risks in their value chain, and *how* they are fostering a purpose-led culture built on trust and integrity.

Faced with these challenging expectations and increasingly stringent legal reporting requirements, business leaders need to start preparing to integrate ESG into their corporate strategy and develop tools to monitor and measure their ESG performance.

Navigating ESG regulatory and legal developments is a significant undertaking. However, organisations are mistaken if they think that this is merely a compliance issue. ESG is a transformative opportunity for an organisation to grow, gain competitive advantage and create value through long-term decision-making and strategic vision. Integrating ESG into the DNA of a business will help organisations reduce their legal and reputational risk, carve out new markets, win customer loyalty and attract top talent.

The far-reaching and multi-disciplinary impact of ESG factors that impact a corporate's business strategy calls for significant changes to the way businesses are being led and how they operate. If change is to be embedded, measured and sustained it requires a shift in culture and re-design of traditional organisational processes and procedures.

Balancing financial and non-financial growth targets is not easy. To drive a sustainable and prosperous future that services the three components of the triple bottom line (people, planet and profit) equally, companies may well have to reset and reconsider what their purpose is and the impact they have across a wider ecosystem.

Helping business to understand ESG

In the first half of 2022, Dechert and StoneTurn held a series of virtual and live events exploring the future impact of ESG across business and the evolving regulatory and legal environment for organisations and their management.

We examined the importance of a purpose-driven culture, the role of leadership, and how organisations can integrate ESG into their business strategy, policy and operations. This in turn will help to mitigate and prevent ESG legal and regulatory risk. In these events, we used live online polling in a pulse survey to capture data around how far down the line organisations are in their ESG journey. 114 people were polled over a two month period.

This paper summarises the key discussion points emerging from the series and aims to assist organisations to develop their understanding of ESG, including the practical steps businesses can take to integrate ESG as a critical business imperative.

Key speakers and paper contributors

- Julia Arbery, Partner, StoneTurn, Frankfurt
- Matthew Banham, Partner, White Collar, Compliance and Investigations, Dechert LLP, London
- Andrew Boutros, Regional Chair of the U.S. White Collar practice, Dechert LLP, Chicago and Washington, D.C.
- Sean Geraghty, Corporate Partner, Dechert LLP, London
- Tracey Groves, Partner, StoneTurn, London
- Sarah Keeling, Partner, StoneTurn, London
- David Kelley, Partner and Global Co-Leader of the White Collar and Securities Litigation practice, Dechert LLP, New York
- Anthony O'Reilly, Founder, O'Reilly Advisors LLC, Former PwC Partner and Chief Ethics Officer at State Street Corporation, former Head of Professional Practices, Internal Audit, Siemens, AG

The transformative role of ESG

The range and complexity of ESG reporting is increasing, and expectations in terms of organisational conduct, decision-making and behaviours are rising. Examination by stakeholders and regulators of not just what organisations are *saying* about ESG, but what they are *doing*, and the *impact* their operations have on it, is shining a light on these transformational factors like never before. Arguably, these assessments are fast replacing the traditional leading indicators of what "good" looks like when it comes to business performance.

> The poll survey during our discussion highlighted the different nature of ESG and the transformational opportunities it offers.
>
> **43%** of participants said that the single biggest driver of ESG strategy was 'to do the right thing', the highest response to this survey question. This was closely followed by **33%** of participants identifying regulatory compliance as a key driver.

New laws are driving change

Initiatives such as the EU's Corporate Sustainability Reporting Directive (CSRD)[1] will soon require large companies to publish annual audited reports on how their activities impact environmental and social factors, with other mandatory and voluntary standards emerging around the world. The CSRD has a long reach, requiring certain non-EU companies active in the EU to also report on their ESG footprint. This highlights the need for organisations to have a global overview of up-and-coming regulation.

Laws imposing a duty on directors to ensure that corporates meet their ESG objectives and integrate supply chain due diligence into their corporate strategy are on the horizon and are likely to become law in the EU.[2] Activist shareholders are becoming more vocal in demanding change and are bringing ESG legal cases against companies and their directors for failing to meet statutory duties and adequately mitigate ESG risks. Keeping up with emerging regulations – and reporting on impacts like Scope 3 emissions and modern slavery – remains a challenge.

Culture is key

Business culture is under more and more scrutiny, and stakeholders now expect higher standards of corporate behaviour. According to the Edelman Trust Barometer, 88% of institutional investors subject ESG-related factors to the same scrutiny as operational and financial considerations.[3] Companies are feeling the heat: in its October 2021 ESG Investor Survey, PwC found that almost half of investors surveyed – 49% – expressed a willingness to divest from companies that aren't taking sufficient action on ESG issues. More than half, 59%, also said lack of action on ESG issues makes it likely that they would vote against an executive pay agreement, while a third said they had already taken this action. A large majority, 79%, said the way a company manages ESG risks and opportunities is an important factor in their investment decision-making.[4]

ESG as a value driver

ESG metrics, compliance and due diligence are becoming more important in M&A and equity and debt finance, with ESG covenants more frequently included in debt and financing agreements, and poor ratings translating into higher borrowing rates. Lenders who fail to account for such ratings may themselves incur the wrath of regulators.

A failure to embrace and embed ESG into an organisation has serious financial and reputational consequences: litigation, regulatory action and the loss of or restriction of access to capital. Ratings agencies will scrutinise any identified correlation between share price and poor ESG performance, with a corresponding impact on their overall credit rating.

1 European Commission: Corporate sustainability reporting

2 EU Proposal for Directive on Corporate Sustainability Due Diligence

3 Edelman 2021 Trust Barometer Special Report: Institutional Investors.

4 ESG Investor Survey, published by PwC, October 2021

The downside risks relating to ESG are just one side of its multi-faceted nature. There are several significant upsides. Integrating sustainable, purposeful business practices can drive cost reduction, productivity and growth, as well as reducing regulatory and legal intervention to bring greater strategic freedom.

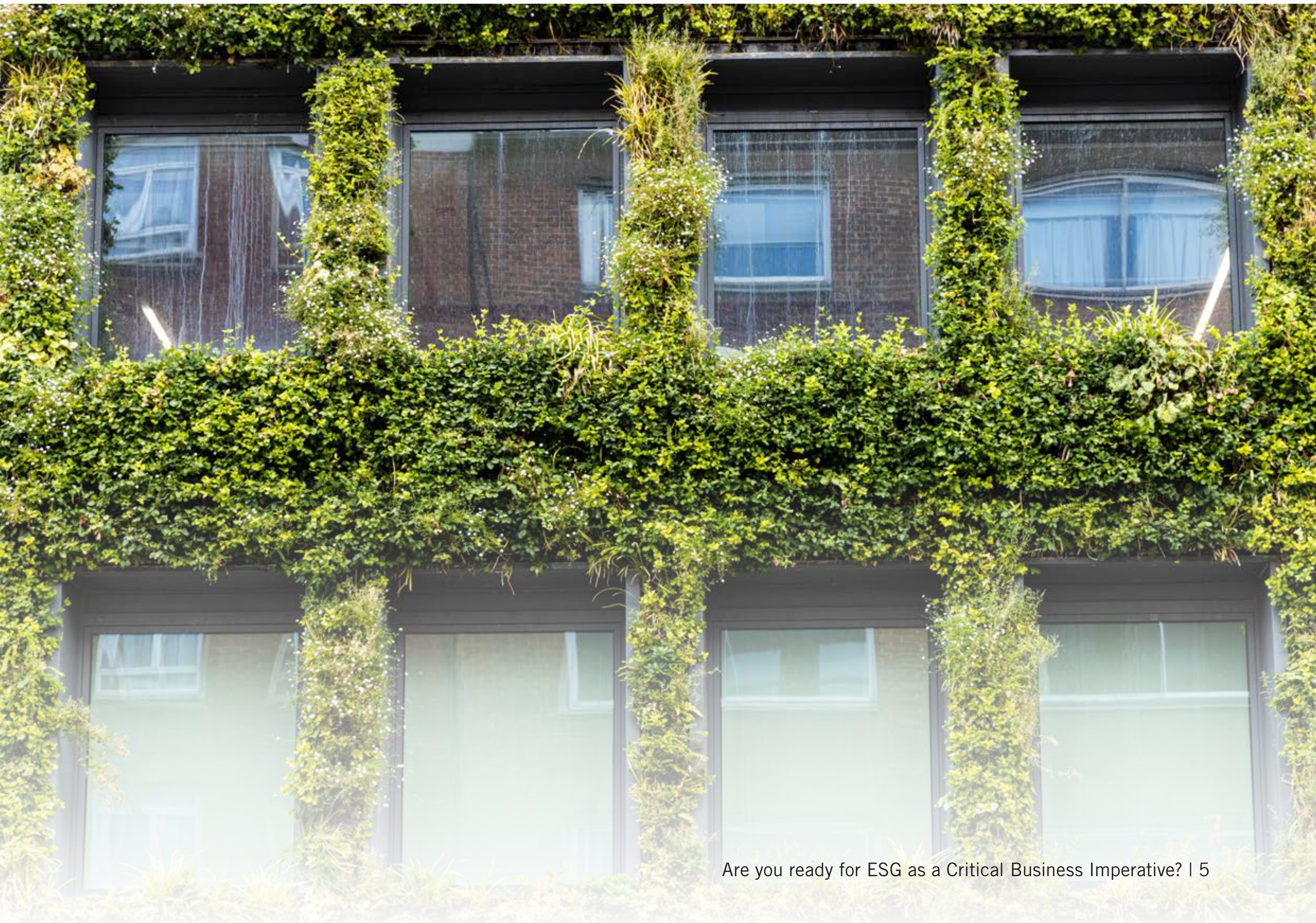
Admittedly, achieving profit aligned with purpose is not easy. In a June 2021 survey of business leaders by PwC, ‘balancing ESG with targets’ was considered the top barrier to ESG effectiveness.[5]

Despite these recognised challenges, ESG has become an imperative for business. The companies that create integrated, multi-functional and cross-disciplinary frameworks to embed an ESG-led business strategy, supported by effective compliance, are likely to be more viable, valuable, resilient and competitive over the long-term.

It is for these reasons that it is important for organisations to identify the right ESG metrics so they can accurately demonstrate and report on their ESG progress.

5 Are you ready for the ESG Revolution? published by PwC, June 2021

“Boards and senior management teams should focus on embedding ESG into existing business practices. Compliance is no longer a cost, but a driver of value. It is these companies that will reap the benefits of integrating ESG into corporate performance.” **Matthew Banham**



Culture as a lever of change

The prevailing leadership and culture of an organisation has a significant and decisive influence on its ability to adopt ESG-related practices. Poor culture can amplify and indeed exacerbate inherent weaknesses in controls and worsen standards of behaviour. When leaders are visibly committed to a value-based corporate purpose and promote positive behaviours, business strategy is more likely to be led by sustainable ESG priorities with decision-making underpinned by integrity. Conversely, a less value-enabled culture can significantly limit the ability of an organisation to integrate ESG factors into their business.

Cultural dynamics, reinforced by the behaviour of senior business leaders, influence the ethical decision-making processes and the ability for employees to 'do the right thing'. There have been many incidents of high-profile misconduct cases and inappropriate behaviours that have highlighted the critical need for strong direction and ethical commitment from leaders, allied with robust corporate governance.

Organisations should rethink business purpose, so that everyone is clear about what is the 'right thing' to do. Corporate purpose must align with commercial priorities and, where these conflict, individuals should be equipped with the right values-based decision-making tools so that a balance can be struck between competing priorities. Regular measurement and monitoring are required to inform, motivate and inspire the sort of cultural transition that will 'stick' in the long term.

"In changing culture, it's vital to look beyond 'soft' skills and implement strong ESG controls and disciplines, to align financial and non-financial objectives, embed purpose across the organisation and engage employees in the ESG story. It's vital to empirically measure culture, gathering qualitative feedback outside of employee surveys." **Anthony O'Reilly**

Navigating the evolving ESG regulatory landscape

There is a growing consensus that ESG reporting is critical to both assessing corporate risk and performance, as well as engaging with investors, companies and other stakeholders, in order to compete in consumer, business-to-business (B2B) and capital markets. The flow of funds into ESG-related funds is rising exponentially and set to reach US$50 trillion by 2025, according to estimates from Bloomberg Intelligence.[6]

As at October 2022 the European Parliament forecast more than 50,000 companies, including those with European subsidiaries, are affected by the EU's CSRD, which will apply to financial accounts for the financial year ending 2023.[7] The CSRD is worth close scrutiny as it has the potential to become a global game changer for sustainability reporting by businesses and a blueprint for international standards. The CSRD is part of the EU's larger legislative package on sustainability reporting, other complementary measures include the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR).

In the U.S., the SEC is proposing rules to enhance and standardise climate disclosures, including consideration of environmental issues and diversity.[8] Also in the U.S., there are proposals to open up ESG investments to pension funds,[9] while NASDAQ-listed companies must now provide details on their board composition in a push to increase diversity.[10]

The scope of reporting is widening to cover areas such as impact on the environment, human rights, anti-corruption and bribery, and diversity – both within the organisation itself and across its supply chain. The CSRD demonstrates this trend, with a mandatory requirement to conduct a 'double materiality' risk assessment to ascertain the impact the business has on society and how sustainability impacts its own financial viability.

Organisations must put in place policies and controls and have evidence to support what they are actually doing to mitigate and remediate poor ESG practices within their organisation and value chain. All this will be disclosed and publicly available and will come under intense scrutiny from auditors and stakeholders. Businesses will need to demonstrate that they have adequate controls if they are to comply with ESG-related regulatory requirements and drive value.

"Directors of larger European companies now have a positive duty to integrate civil liberties and environmental considerations into high-level decisions, while due diligence must identify adverse potential or actual impacts in the supply chain, and gain assurance from business partners to adopt their code of conduct."

Sean Geraghty

6 ESG by the Numbers: Sustainable Investing Set Records in 2021

7 European Parliament: Corporate Sustainability Reporting Directive (CSRD)

8 SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors

9 EDF: Public comments overwhelmingly support U.S. Labor Department proposal to allow environmental, social and governance considerations in retirement plans

10 NASDAQ's Board Diversity Rule: What NASDAQ-listed companies should know

Many organisations have some way to go to meet these demands.

> In a pulse survey of executives attending our sessions, fewer than a third said their organisation has carried out a risk assessment to identify ESG risks in their supply chain in the past two years, while just **40%** have integrated ESG due diligence into wider due diligence activities and compliance measures. Just over half of survey respondents **(53%)** stated that ESG risk is integrated into their compliance programme – there is a lot more work to be done.

Supply chain reporting

Supply chain reporting on discrete ESG issues is not new but has, until now, consisted of a patchwork of legislation across various ESG issues and jurisdictions. For example, the California Transparency Act makes companies responsible for identifying and disclosing human trafficking and forced labour anywhere in the value chain. Similar requirements can be found in the UK's Modern Slavery Act 2015, which obligates companies to disclose the steps that have been taken to ensure that modern slavery and human trafficking are not taking place in their businesses and supply chains. Until now, companies have been able to adopt largely voluntary due diligence processes with rather limited reporting requirements and no remediation obligations. That will soon change.

In early 2022, the European Commission adopted a proposal for a draft Directive, the Corporate Sustainability Due Diligence Directive (CSDDD), to make comprehensive supply chain due diligence and corresponding reporting mandatory. The CSDDD is likely to be transposed into member states' laws around 2024, following approval by the European Parliament and Council.

Under the CSDDD, responsibility and accountability for sustainability impacts, mitigation and remediation will lie with the directors of relevant companies operating in the EU. The CSDDD will introduce a new duty for directors to establish and oversee the implementation of corporate sustainability in their due diligence processes, including consideration of adverse impacts on human rights and the environment arising from their operations.

The CSDDD has a broad scope, capturing both EU-based and non-EU companies operating in the EU. It will apply to EU-based companies according to turnover and employee thresholds, and to non-EU companies based on turnover generated within the EU (see the Appendix for relevant thresholds). The thresholds are significantly lower for defined 'high risk' sectors within manufacturing, extraction and trade.

Crucially, in addition to being required to comply with formal due diligence processes, a company within the CSDDD's scope will be obliged to prevent or adequately mitigate against potential adverse impacts caused by it or by related parties with a direct 'established business relationship'. By this, the CSDDD aims to capture all direct and indirect relationships within a company's supply chain that are not 'negligible or merely ancillary'.

The CSDDD will obligate a corporate to conduct supply chain due diligence across the whole value chain, identify and monitor adverse environmental and human impacts, and implement corresponding remediation actions, all of which must be reported.

Litigation risks

The ESG spotlight must be shone on all relationships: parent, subsidiary, contracting third parties and customer. Although courts are traditionally reluctant to 'pierce the corporate veil' and find a parent company liable where it was not a party to the contract in question, recent case law indicates willingness to hold a parent company to account for the environmental damage and human rights abuses of its subsidiary if certain conditions are met. In *Vedanta Resources*,[11] the UK Supreme Court found that a London-based parent company could be liable for negligence, even when the torts were committed by a partial-owned subsidiary in Zambia.

ClientEarth, an NGO and shareholder in Shell plc, has initiated legal action in the UK aimed at holding Shell's board of directors personally liable, alleging they have breached their directors' duties under the Companies Act by failing to act in a way that promotes Shell's success and to exercise reasonable care, skill, and diligence when managing Shell's climate risk.[12] The risk of this type of litigation will only likely increase once the CSDDD and CSRD, outlined above, is in force across the EU.

Lack of commitment or carelessness around the accuracy of ESG disclosures can bring accusations of greenwashing and leave organisations vulnerable to the excesses of inherent (sometimes toxic) cultural traits. Regulators are already sharply focused on the practice of greenwashing, and robust enforcement action against misstatements is growing by both governmental authorities and stakeholders. By contrast, good ESG principles tend to indicate a healthy culture, happier workforce and better performance.

11 *Lungowe v Vedanta Resources plc* [2019] UKSC 20

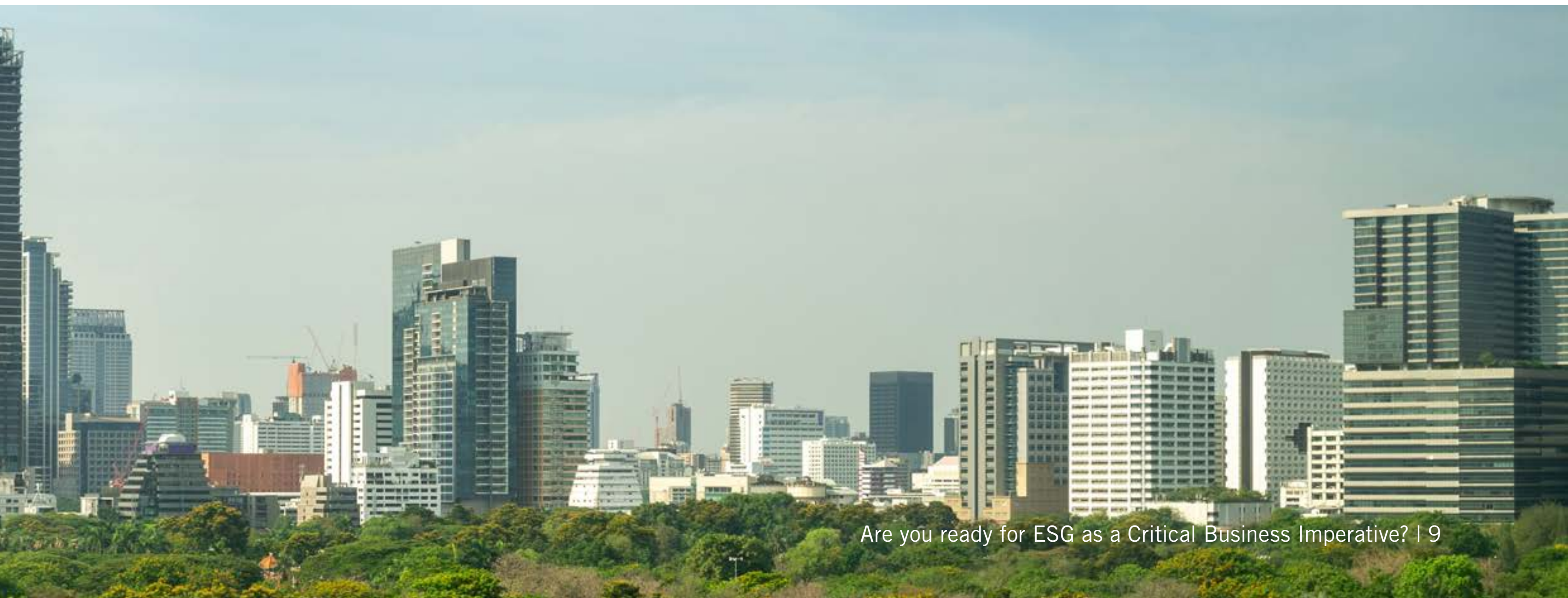
12 ClientEarth: Redirecting Shell

"Companies face a significant data collection exercise: they need to check whether supply chain partners are breaching sanctions, contributing to climate change, pollution or deforestation, and practising energy efficiency. Then there's board composition, diversity and the need to reinforce individual rights and freedoms in their value chain. Don't underestimate how much effort is required to access reliable data and measure it."

Matthew Banham

Adapting controls to manage risk and drive value

It is vital to look both upstream and downstream when carrying out ESG due diligence to identify potential, and in particular adverse, impacts. This is critical not just for organisations in their routine operations but when conducting due diligence on acquisition targets and when managing ESG obligations in third-party agreements.



Effective ESG due diligence and risk assessments will help price the deal right and build long-term value. A McKinsey survey found that M&A buyers would be prepared to pay a 10 per cent premium for a company with an overall positive record on ESG issues.[13]

Although conducting effective ESG risk assessments and building an ESG compliance programme may seem an enormous task, the key is to adapt existing risk management processes to avoid reinventing the wheel. For instance, existing anti-bribery and corruption programmes can be adapted to include ESG risk factors, some of which are likely to already be part of existing controls, such as; workplace conditions, sourcing of materials and impact on local communities. Organisations whose compliance teams adopt a holistic view of their operational risk controls will be best placed to manage their ESG risk factors.

As part of building ESG into existing risk management processes, it is important to establish a reliable data gathering process for measuring essential ESG-related metrics. Investment in technology can also assist with monitoring and reporting ESG risk.

13 McKinsey Sustainability Report 2020 – The ESG premium: new perspectives on value and performance.

The pulse survey results indicated that work has started on integrating ESG into existing risk management processes for our attending executives, with **40%** reporting that they have integrated ESG due diligence into wider due diligence activities and compliance measures, and **47%** have conducted an initial assessment of likely regulatory and legal obligations for ESG reporting in their prime reporting territories. However, this means that over half of the survey respondents for each of these questions have yet to make a start on building ESG into their existing risk and governance frameworks.

Operationalising ESG commitments effectively and efficiently will enable sustainability to act as a catalyst for strategic growth. Organisations need to act now to integrate human rights and environmental standards into core business practices and to embed sustainability into the heart of the operating model. Preventive steps will lead to better oversight of supply chains and ensure compliance, governance and litigation risks are effectively mitigated. ESG compliance is always evolving as emerging risks are identified and is a critical component of any due diligence procedures.

Call to action

In a sustainable, equitable, net-zero world, profit and shareholder value can no longer be the sole aim for businesses, and the notion of prosperity must be redefined. With ever-greater pressure to meet ESG goals and reporting requirements, corporate leaders must determine how they can measure and address ESG risks to avoid penalties and negative publicity. Societal leadership is now perceived to be a core function of business. For example, when considering a new job, 60% of employees want their CEO to speak out on controversial issues they care about, and 80% of the general population want CEOs to be personally visible when discussing public policy with external stakeholders or the work their company has done to benefit society.[14]

ESG can be a catalyst for high ethical standards, sustainable operations and supply chains, which should ensure better access to capital, talent and customers. Rather than a logistical burden, ESG can be viewed as an opportunity to create value and future-proof your business. However, without good governance, ESG policies are likely to fail. Culture matters, and ESG policies and controls must be more than just window-dressing.

14 Edelman 2021 Trust Barometer Special Report: Institutional Investors.

"When it comes to effective implementation of an ESG strategy, companies should focus on progression rather than perfection, and on moving ESG considerations to the heart of strategy, away from compliance. Using the principles of good governance, firstly ensure ESG is right up there on the board agenda. Secondly, identify the ESG risks most material to your business, and thirdly, prioritise your commitments to managing those risks based on your ability to execute and measure change in a transparent and evidence-based way." **Tracey Groves**

We have outlined some practical steps below that organisations can undertake to optimise the opportunities that developments in ESG matters bring, as well as address the challenges they offer. As with any transformation, no one size fits all, and each of these should be interpreted in the context of your business, including your strategic aspirations, your core operations and your desired organisational culture.

Set a strategy for a future sustainable business

- Engage with your board to encourage support for ESG.
- Build a clear vision of risk-based ESG commitments and considerations into the business model with prioritised targets.
- Understand and quantify the strategic ESG risks and opportunities facing you.
- Define the ESG reporting and performance standards you need to meet.
- Keep up-to-date with evolving regulations.

Integrate ESG into your existing risk and compliance frameworks

- Conduct a materiality assessment to identify and prioritise the ESG risk areas applicable to your business. Remember ESG compliance can drive value.
- Dedicate sufficient resources to integrating ESG into current compliance programmes as part of your evolutionary approach.
- Establish appropriate governance, policies and controls, which must be tested regularly to ensure that compliance is not just a tick-box exercise.
- Foster and design an ESG-oriented culture, where rewards are aligned with purposeful performance, and people consider the ESG impact of key strategic decisions.
- Integrate ESG considerations into business processes and supply chain management.

Create a roadmap for transformational change

- Conduct a baseline analysis of your current position and identify key remedial activities that will move the business from your starting point to your desired end point in a measurable way.
- Identify and connect the interdependencies and relationships across the multi-functional aspects of ESG to optimise marginal gains and synergies.
- Put in place the capabilities and processes to transform into a purpose-driven organisation, including measurement and reporting.

Reporting

- Introduce processes for ESG data gathering (internally and across the supply chain) and regulatory reporting.
- Ensure your ESG reporting and underlying data is accurate.
- Identify the core audiences (regulatory, shareholders, stakeholders) to address in your ESG reporting.
- Be clear about how you will measure success. Have you defined what success looks like for your company in the new world? Is there a vision with clear targets and metrics to judge effectiveness? If not, it will be hard to maintain momentum.

A new beginning

ESG factors are dynamic and evolutionary, transformational and not transactional. It can act as a catalyst for change across business and drive sustainability across all disciplines and functional processes. It is unique in that it touches and connects all parts of a business operating model and the approach to it will be subject to development and variation as strategic priorities shift and change.

The impact of an organisation's ESG strategy should be continually assessed to see whether there are further opportunities to create value and to enable ESG factors to be the powerful business force for good that it has the potential to be.

Which leads us back to our opening question at the top of this paper – are you ready to fully embrace ESG as a critical business imperative?

Thought leadership

- Dechert OnPoint: Global Impact of the European Commission ESG Draft Directive on Corporate Sustainability Due Diligence.
- Dechert Publication: Adapting Anti-Bribery and Corruption Tools to Manage ESG Risks (April 22, 2022).
- Dechert OnPoint: The Growing Importance of ESG-related Supply Chain Due Diligence.
- Dechert OnPoint: Litigation and Enforcement Risks for Corporates arising from Enhanced ESG Obligations and Stakeholder Pressure.
- StoneTurn: The Human Spirit of ESG.
- StoneTurn: 5 Critical Steps for Ensuring ESG Transparency.
- StoneTurn: Winning a Seat at the ESG Table.
- StoneTurn: The Ethical Stickiness of ESG.
- StoneTurn: Creating a Positive Culture: Corporate Purpose and ESG Reporting.

Appendix: Overview of EU reporting and ESG due diligence requirements

<table>
<tr><th></th><th>Corporate Sustainability Reporting Directive (CSRD)</th><th>Draft Corporate Sustainability Due Diligence Directive (CSDDD)</th></tr>
<tr><td>Summary</td><td>Amends the EU Non-Financial Reporting Directive (‘NFRD’) on obligations for companies to report according to mandatory ESG reporting standards.</td><td>Introduce mandatory environmental and human rights corporate due diligence on supply chains, with related reporting and remediation, under the direct responsibility of company directors.</td></tr>
<tr><td>In force from</td><td>Phased implementation by company size:
2024 for all companies currently subject to NFRD.
2025 for companies not currently subject to NFRD but within enlarged scope of CSRD.
2026 for EU-listed SMEs (unless opt-out applies until 2028), EU small and non-complex credit institutions and captive insurance undertakings.</td><td>No date set but likely around 2024, subject to European Parliament and Council approval. Member states will have two years following approval to transpose the CSDDD into national law.</td></tr>
<tr><td>Application</td><td>All large companies operating in the EU meeting at least 2 out of 3 criteria:
+250 employees and/or
+€40 million turnover in prior year and/or
+€20 million total assets.
All EU-listed companies, including small and medium enterprises.
Non-EU companies generating a net turnover of more than €150 million in the EU and which have one large or listed EU subsidiary or a EU branch generating a net turnover of more than €40 million.</td><td>EU-based companies with:
+500 full-time equivalent employees (FTEE) and + €150 million in annual turnover worldwide in prior year; or
+250 FTEE and + €40 million in worldwide annual turnover in prior year, with at least 50% of worldwide turnover derived from operations in at least one defined ‘high impact’ sectors. Obligations in respect ‘high impact’ sector operations only.
Non-EU based companies with:
+€150 million in annual turnover generated in EU in prior year; or
+€40 million in annual turnover generated in EU in prior year with at least 50% of worldwide turnover derived from operations in at least one defined ‘high impact’ sectors. Obligations in respect ‘high impact’ sector operations only.</td></tr>
</table>

Key requirements	Qualifying companies must: ■ Identify and gather sustainability data, manage ESG risks, design tailored ESG policies, and set KPIs. ■ Disclose both (1) the sustainability risk and opportunities of their business and (2) the ESG impact of their business on people and the environment ("Double Materiality"). ■ Prepare a non-financial statement which explains the non-financial KPIs relevant to the business including: • a description of the policies, outcomes and risks related to those matters; • information on the due diligence processes implemented including supply and subcontracting chains; • controls to identify, prevent and mitigate existing and potential adverse material impacts; and • adverse impacts including own activities or linked to its operations, and, where relevant and proportionate, its products, services and business relationships, including its supply and subcontracting chains.	Qualifying companies must: ■ Integrate due diligence practices into all corporate policies and designate authorised representatives. ■ Identify the actual and potential environmental and human rights impacts of their operations and those in their supply chain. ■ Prevent or adequately mitigate potential adverse impacts and take remedial steps to address adverse impacts. ■ Carry out periodic assessments and monitor the effectiveness of their due diligence policies and measures. Introduces new duties on directors to: 1. Consider the human rights, environmental and climate change impact of their decisions in the short, medium and long term; and 2. Implement, integrate and oversee the above due diligence within corporate strategy. Certain large companies must also have a plan to ensure their business strategy is compatible with limiting global warming to 1.5 degrees.
Key differences compared to NFRD	■ Applies to a greater number of companies than NFRD. ■ Mandatory reporting standards will apply (European Sustainability Reporting Standards). ■ ESG disclosures will be externally audited. ■ Audit committees will have enhanced responsibilities.	N/A
Enforcement	■ As with the NFRD, Member States have discretion to decide sanctions. ■ Criminal sanctions for non-compliance with NFRD in some Member States, e.g. Germany, expected to apply to CSRD.	■ Financial sanctions from Member States. ■ Stop Orders, and civil damages for compensation unless the company has taken appropriate measures to prevent, end or mitigate such risks.

Julia Arbery
Partner, StoneTurn
jarbery@stoneturn.com
+49 175 683 8679

Tracey Groves
Partner, StoneTurn
tgroves@stoneturn.com
+44 20 7898 3426

Sarah Keeling
Partner, StoneTurn
skeeling@stoneturn.com
+44 20 7427 0417

Anthony O'Reilly
Founder, O'Reilly Advisors LLC
anthony@oreillyadvisorsllc.com
+1 617 270 8085

Matthew Banham
Partner, Dechert LLP
matthew.banham@dechert.com
+44 20 7184 7687

Andrew Boutros
Partner, Dechert LLP
andrew.boutros@dechert.com
+1 312 646 5803

Sean Geraghty
Partner, Dechert LLP
sean.geraghty@dechert.com
+44 20 7184 7540

David Kelley
Partner, Dechert LLP
david.kelley@dechert.com
+1 212 698 3580

Dechert LLP | StoneTurn