

REPORTING ON HR RELATED TOPICS – THE IMPACT OF CSRD ON THE HR PRACTICE

What is the rationale for reporting on sustainability?

Sustainability reporting aims to provide a company's stakeholders with information on what it sees as the risks and opportunities arising from ESG issues, including the impact of its activities on people and the environment. The [Corporate Sustainability Reporting Directive](#) (CSRD) is expected to increase the quality of the information and the ability to better compare companies on ESG-related impact. CSRD has amended the [Non-financial Reporting Directive](#) (NFRD) and introduces mandatory [European Sustainability Reporting Standards](#) (ESRS) that expand upon the NFRD reporting requirements and bring additional companies in scope.

In this briefing we highlight the importance of HR in relation to CSRD reporting obligations and share some observations that are relevant to the HR practice.

What is the relevance of HR in the CSRD context?

Reporting pursuant to CSRD may at first sight not be regarded primarily as an HR task. However, as many of the ESRS focus on 'people' related issues in respect of the company's own work force (ESRS S1) and workers in the value chain (ESRS S2) e.g. working conditions, equal treatment, gender pay gap and so on, there is a significant role for HR to play when it comes to the relevant corporate disclosures. We believe that this role for HR also extends to the assessment of the impact of the required disclosures to the wider company strategy (as further set out below under 'Wider Impact'), and as such requires a strategic approach.

Why now?

Putting in place relevant structures for collecting the necessary data for reporting pursuant to CSRD requires time and investment. The first tranche of companies that are required to report in 2025 in relation to the 2024 financial year will clearly need to address this; however, companies not initially in scope for CSRD reporting may nevertheless be confronted with CSRD reporting in their capacity as suppliers in the value chain of in scope companies, and, as such receive requests for relevant data to facilitate the reporting of these companies.

It is recommended that existing internal infrastructures for retrieving data are assessed to determine whether they can satisfy the reporting needs.

Key issues

- What is the rationale for reporting on sustainability?
- What is the relevance of HR in the CSRD context?
- Why now?
- What?
- Data points relevant to HR
- Wider impact

Timing

CSRD reporting over 2024, with reports due in 2025, will initially be mainly relevant to large public-interest companies (especially listed companies with over 500 employees). However, reporting on the information specified in the disclosure requirements in respect of the company's own workforce or workers in the value chain (ESRS S1 and ESRS S2) may be omitted for the first year of preparation of the sustainability statement for companies not exceeding the average of 750 employees (on a consolidated basis where applicable).

What?

The ESRS set out specific disclosure requirements and more granular data points. The ESRS are mandatory, however the individual disclosure requirements and datapoints within the ESRS are subject to a *double materiality* assessment. This means that the company will report only relevant information and may ignore the information that is not material for its business model and activity. The materiality must be assessed both from an impact perspective, e.g. when it pertains to the undertaking's material impacts on people or the environment ("inside-out"), and from a financial perspective, where these matters trigger or could reasonably be expected to trigger material financial risks or opportunities for the company ("outside-in"). The company's materiality assessment process is subject to external assurance, meaning that an external auditor will have to provide (initially, limited) assurance on the report. Companies will need to identify material data points and put in place processes to facilitate their tracking.

Data points relevant to HR

Set out below are (just) some of the ESRS disclosure topics that will require the involvement of HR in order for a company to meet the relevant 'Own Workforce' (ESRS S1) disclosure requirements and to monitor the possible impact of such disclosures on the company's relevant strategy.

- Policies related to own workforce
- Processes for engaging with own workforce and workers' representatives about impacts
- Processes to remediate negative impacts and channels for own workforce to raise concerns
- Taking action on material impacts on own workforce, and approaches to managing material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions
- Characteristics of the company's employees
- Characteristics of non-employees in the company's own workforce
- Collective bargaining coverage and social dialogue
- Adequate wages
- Social Protection
- Persons with disabilities
- Training and skills development metrics

- Health and safety metrics
- Work-life balance metrics
- Remuneration metrics (pay gap and total remuneration)

The concept of 'own workforce' for these purposes is broader than just regular employees and includes non-employees such as self-employed people; relevant data of the latter may be less readily available.

The report should provide stakeholders with insights on the company's related material impacts, risks and opportunities. Risks on e.g. the matter of equal opportunities may relate to discrimination in hiring and promotion against women, which can reduce the company's success to qualified labour and harm its reputation. Conversely, policies to increase the representation of women in the workforce and in upper levels of management can have positive effects, such as increasing the pool of qualified labour and improving the company's reputation (examples mentioned as part of the 'objective' to ESRS S1). The identification of those risks and opportunities may have financial effects and actions will need to be formulated to address relevant risks.

Many of these disclosure topics are the subject of EU directives, which have been, or will be, implemented in member states e.g. on whistleblowers, gender and other diversity, pay transparency/pay gap and adequate wages. Aside from potential local law sanctions for not meeting statutory requirements, the ESRS reporting obligations and potential stakeholder questions arising from the sustainability report may provide companies with additional incentivization to improve in these fields.

Wider impact

A specific area of the ESRS focus is employee representation (works councils/trade unions) and (direct) employee engagement, e.g. the requirement to disclose how the interests and views of a company's own workforce inform its strategy and business models. At the same time, information must be provided on employee numbers per country, numbers of employees covered by collective bargaining agreements and whether there are works councils for the various companies/ businesses.

Publication of this data in combination with the enhanced rights for employee representatives on a wide range of topics (additional rights follow from e.g. the directive on pay transparency) may prompt demands for the establishment of local works councils, and/or a European Works Council. Also other stakeholders than employees may comment on and/or question the absence of an employee representative body. This requires a strategic approach, where HR is to consider how this focus on further co-determination rights relates to the company's existing employee representation structure and strategy of the company.

Reports may trigger questions including in relation to absent or inadequate complaints or whistleblower procedures, or with regard to related actions and/or targets. The ESRS also impose disclosure requirements in relation to 'Business Conduct', for example the company may need to disclose its policies with respect to business conduct matters and how it fosters its corporate culture.

HR will be in the driver's seat when it comes to collating the data related to these social topics. By 'reading' and analyzing relevant data, HR will be in a position to assess what is required to meet the company's relevant ESG goals. HR is also likely to be pivotal in any arrangements to secure necessary employee engagement and alignment with the company's ESG goals.

But above all, **HR will play a key role when it comes to assessing and steering the impact of such disclosures to the wider company strategy.**

We believe that topics that so far have had limited visibility for the outside world, will now get enhanced attention from e.g. investors, and require a place on the boardroom's agenda. It is time for companies to focus and engage with HR to take the necessary preparatory steps.

For the avoidance of doubt: the role for HR as are we are seeing it, should be integrated into the wider reporting exercise. When it comes to 'people' issues in a CSRD context, a multifunctional approach is desired to prevent the company dealing with topics originating from the same international labour rights as separate matters, depending on whether these impact the 'own workforce' or people outside of the organisation and workers in its value chain. This could for example be covered by having the company's HR and human rights functions coordinating their output.

Practical steps to kick-off the process for HR:

- Assess whether the company is in scope of the CSRD reporting requirements and when?
- Undertake a data status materiality assessment to determine what data will be reported
- Perform a gap analysis to identify data gaps
- Audit current processes to assess if they can track the required data
- Consider whether a uniform approach is possible where multiple jurisdictions are in scope
- Assess whether any new data collection/collation processes will be compliant with data protection and other legal obligations
- Identify what engagement and communication is required with works councils and employee representatives to facilitate and/or optimise existing and new collation processes
- Consider impact of 'HR' disclosures to wider company strategy

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