CSRD in Focus:

Empowering Real Corporate Impact and Addressing Impact Washing

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CSRD in Focus: Empowering Real Corporate Impact and Addressing Impact Washing

The publication "CSRD in Focus: Empowering Real Corporate Impact and Addressing Impact Washing" examines the EU's Corporate Sustainability Reporting Directive (CSRD) and its transformative potential for corporate sustainability and impact investing practices. It highlights how the CSRD's focus on transparency and double materiality can reveal new material sustainability issues, enhance internal learning, and drive more effective sustainability and impact investing strategies. Through a case study of Ageas Group, the publication illustrates both the challenges and opportunities of CSRD implementation, especially for Corporate Social Investors (CSIs). The publication also discusses how the CSRD can accelerate the corporate impact journey by integrating and enhancing positive impact reporting under CSRD while ensuring authenticity and impact integrity.

Evolving Corporate Reporting for a Sustainable Future

With its Action Plan on Financing Sustainable Growth (2018) and the European Green Deal (2019), the European Commission introduced comprehensive measures to:

- Reorient capital flows towards sustainable investment,
- Manage financial risks associated with climate change, resource depletion, environmental degradation, and social issues, and
- Foster transparency and long-term sustainability in financial and economic activities.

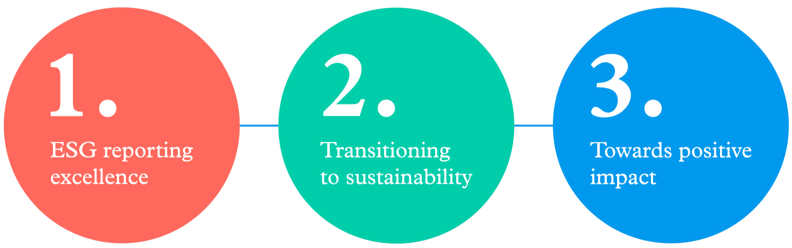
The disclosure of relevant, comparable, and reliable sustainability information by companies is essential to achieving these objectives. The EU Corporate Sustainability Reporting Directive (CSRD) was developed specifically to address this need, establishing a framework that goes far beyond merely considering how sustainability impacts corporate financial performance. Instead, it promotes transparency and accountability to investors, stakeholders, policymakers, and society as a whole by requiring companies to disclose their impacts on the environment and society. A key strength of the CSRD is its reinforced double materiality principle, which ensures that both financial risks from, and impacts on, sustainability matters are comprehensively assessed.

The three levels of the CSRD Strategy

With the CSRD now in force, large companies are preparing to publish their 2024 sustainability reports by 2025. That's why Impact Europe's "Capital Ideas & Business of Impact" event, held on June 12th and 13th in the Hague, provided a crucial and timely platform to learn from companies' early experiences and explore the CSRD's impact on the corporate impact ecosystem.

When setting the stage, Impact Europe's Jana Bour outlined three strategic approaches for leveraging the CSRD's implementation. While the increased reporting requirements bring an added compliance burden, experienced leaders can transform this challenge into a competitive advantage, positioning their companies as sustainability frontrunners. Jana identified three possible journeys toward achieving excellence:

Table 1: The three levels of the CSRD Strategy



1. Strategy Level 1: ESG Reporting Excellence

The CSRD offers an opportunity for companies to showcase their expertise in ESG reporting. In this approach, a company becomes a master at disclosing material ESG information according to the latest regulations. This can be a strategic objective for many CSR[1]/ESG teams within large corporations.

2. Strategy Level 2: Transitioning to Sustainability

Moving beyond reporting excellence, the CSRD can drive companies to actively pursue greater sustainability. For instance, companies might align their activities with the EU Taxonomy, thereby enhancing their sustainability credentials. Depending on their alignment, these companies could be categorised under sustainable or transition investment strategies by their investors.

3. Strategy Level 3: Corporate Journey Toward Positive Impact

The CSRD also presents an opportunity for companies to focus on generating positive impact. This directive is valued by impact-driven professionals as it encourages large companies to explore where and how they can create a positive impact. With a strong

[1] Corporate Social Responsibility.

CSR/CSI[2] team, companies can leverage the CSRD not only to excel in ESG reporting and transition to full sustainability but also to lead in generating positive impacts.

While streamlining the corporate impact ecosystem, we took a closer look at Strategy Level 3: The Corporate Journey Toward Positive Impact. What might such a journey look like? To explore this, Impact Europe's Stephanie Brenda Smialowski interviewed an inspiring and talented sustainability leader, **Katrien Buys, Director of Strategy, Innovation & Sustainability at Ageas Portugal and Board Member of the Ageas Foundation**. Let's see what we can learn from Katrien's experience.

Case Study: Ageas Portugal

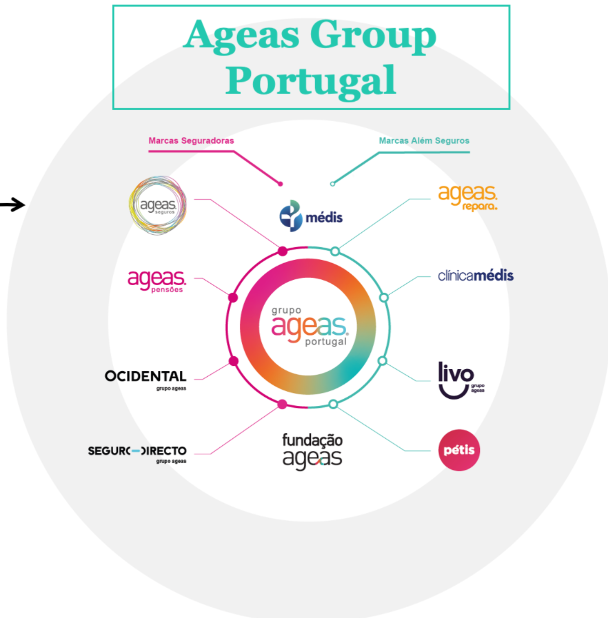
With affiliates in Europe (Portugal, Belgium, Turkey, and the UK), and a presence in nine Asian countries, **Ageas Group** provides a multifaceted perspective on CSRD reporting. Focusing on **the Ageas Portugal Group**, which encompasses more than ten different legal entities – including insurance entities, non-insurance entities as well as the foundation- Katrien Buys shared valuable insights from CSRD reporting. She specifically highlighted the challenges, opportunities, **and learnings from preparing a local sustainability report in addition to the international group's report.**

Table 2: Ageas Group structure

Ageas Group International

Europe
Ageas Europe is active in Portugal, Belgium, Turkey, and the UK.

Asia
Ageas operates in 9 Asian countries including China, Malaysia, Thailand, India, the Philippines Vietnam, Laos, Cambodia, and Singapore.



[2] Corporate Social Investors.

Reporting local: unveiling opportunities for sustainability and impact

Although Ageas Portugal, as part of a larger group, could be exempt from CSRD reporting, they opted to conduct a local double materiality assessment (DMA). This process involves evaluating the company's impact on society and the environment (impact materiality) and identifying ESG factors that present financial risks or opportunities (financial materiality).

As Katrien explains, aligning the local assessment with the larger group's schedule was challenging. However, the insights gained from the DMA proved invaluable. They not only guided reporting under the CSRD but also helped Ageas Portugal uncover material sustainability issues unique to the local context. These insights enabled the development of locally tailored policies and informed the strategic focus of their upcoming long-term sustainable growth strategy, as Impact 24, launched in 2022, concludes this year.

Revealing negative impacts can make corporate boards uneasy, often leading to reluctance to disclose them. Like many large organisations during the DMA phase, Ageas Portugal identified challenges related to Diversity & Inclusion and Human Dignity in the workplace through an employee survey. Despite the discomfort this might cause, Ageas is committed to reporting transparently these findings in its CSRD disclosures to prevent social washing. Additionally, Ageas views these results as an opportunity to improve internal processes and platforms that empower employees to speak up. This approach reinforces Ageas' commitment to human rights and dignity and strengthens its stance against such negative impacts.

The local assessment also highlighted the distinctive characteristics of the Portuguese subsidiary, which is the only one with a corporate foundation and a commitment to impact investing. **The Ageas Foundation**, established in 1998, has engaged in venture philanthropy[3] since 2022, focusing on health, ageing, and social exclusion. Additionally, Ageas Portugal invested in the **Mustard Seed Maze VC Fund**, an impact fund based in Portugal. Together with its foundation, the Ageas Portugal Group is the main holder and board member of **Maze X**, an accelerator and early-stage funding programme for impact-driven startups. The positive impacts of engaging in impact investing and with the corporate foundation, which might not have been visible in the larger group's report, become evident through this localised assessment.

These local initiatives, which might not have been fully recognised in the broader group's report, were brought to light through the local DMA. As Katrien emphasised, these insights are crucial for developing a sustainability management strategy that addresses specific local issues, thereby enriching the overall sustainability and impact strategy of Ageas Group Portugal.

[3] Venture Philanthropy (VP) is a high-engagement and long-term investment approach whereby an investor for impact supports social purpose organisations to maximise social impact, through three core practices: Impact measurement and management, non-financial support to maximise its social impact and financial sustainability, and tailored financing. Impact Glossary.

Ensuring Authentic Positive Impact in CSRD Reporting

During the interview, we also discussed how to better represent the positive impact of corporate social investors (CSIs) in CSRD reporting while avoiding risks of misleading information or impact washing. in the case of Ageas Portugal, the foundation has a high level of independence and is not included in the financial consolidated report. However, this independence can result in the CSI's activities not being captured as material under the Group's DMA, potentially leading to their exclusion from the sustainability report.

Despite this, the close collaboration between the CSI and the parent company, which often mutually enhances their activities, means that their partnership's positive impact remains significant and should be reflected in the consolidated sustainability report.

Ageas Group offers a potential solution: representing the CSI and its activities among partners in the value chain rather than in consolidated group reporting. This approach could promote transparency about the CSI's positive impacts and ensure accurate attribution of responsibility for these impacts.

Key takeaways from the workshop discussion

As we continued to raise questions and debate about the potential of the CSRD in catalysing real corporate impact, several key foundational takeaways emerged, which are listed below:

1. Yes, the CSRD can catalyse Corporate Sustainability and Impact Investing.

The Ageas Group case study sparked valuable discussions among workshop participants, highlighting how the CSRD can play a pivotal role in identifying new material sustainability issues, uncovering previously unknown negative impacts, and enhancing internal learning. This process is essential for shaping more robust sustainability and impact investing strategies for the future.

Additionally, the transparency of a company's sustainability practices directly influences its brand reputation and license to operate. This transparency empowers CSR teams and Corporate Social Investors (CSIs) – including corporate foundations, impact funds, and CSR departments – to advocate for stronger sustainability strategies within parent companies and to introduce or reinforce commitments to impact investing initiatives. As a result, the CSRD can serve as a catalyst for shifting corporate attitudes toward sustainability and impact investing, particularly when viewed not merely as a compliance requirement but as a strategic opportunity. Embracing this perspective can help companies gain a lasting competitive advantage while fostering genuine positive impact.

2. The CSRD's Potential Double-Edged Sword for Corporate Impact Investors

Discussions show that the identification of **non-material sustainability issues** in the double materiality assessment, such as biodiversity, or the positive impacts of Corporate Social

Investors (CSIs), raises important questions about their inclusion in CSRD reporting in view of their general importance.

Several factors can lead to CSIs activities being considered non-material for the CSRD reporting of the parent company. These include legally independent foundations or funds separate from the parent company and financial activities not consolidated in the corporate report (as illustrated in the case study). Other contributing factors might include a lack of alignment with the parent company's core business or relevant sustainability issues, or the fact that an emerging sustainability issue – like biodiversity- has yet to be fully understood, including its environmental impact.

This presents a potential concern: if the impact of corporate impact investment initiatives is deemed non-material, they may be excluded from CSRD reporting. As a result, parent company management and boards might deprioritise these initiatives due to their perceived lack of direct relevance to the core business, potentially leading to reduced corporate funding for their foundations.

A potential solution was proposed during the discussion:

1) Aligning the CSI's positive impact activities with the negative impact on the environment or society identified by the parent company through the Double Materiality Assessment (DMA). By doing so, the positive impact generated by the CSI would directly address the company's material sustainability issues.
2) Furthermore, even non-material sustainability issues like biodiversity can play a vital role in a company's sustainability or impact investing strategy. Ageas Portugal has integrated this topic into their Corporate Social Investment framework, aiming to build awareness and deepen their understanding by collaborating with expert partners. This approach creates a win-win scenario: the partners receive essential funding to advance their work, while Ageas gains valuable insights and knowledge to inform and enhance its business practices.

3. Enhancing Sustainability Reporting and Support for SMEs in the Value Chain

Participants raised concerns about requesting data from small-impact enterprises within the value chain without imposing undue burdens. Discussions highlighted the importance of implementing practical data collection methods that do not overwhelm smaller enterprises. Furthermore, the potential role of labels (e.g., B Corp) was explored in decreasing the reporting burden.

The development of the European Financial Reporting Advisory's (EFRAG) new voluntary sustainability reporting standard tailored for non-listed SMEs was presented as a potential solution. Mandated by the EU, EFRAG has been drafting a standard to streamline reporting for SMEs at various stages of sustainability maturity. The goal is to help SMEs provide essential data to stakeholders, gain access to sustainable finance, and support their transition to sustainable practices. One key feature of this standard is a value chain cap, which protects SMEs from excessive data demands by ensuring that stakeholders cannot request more information than what the standard requires.

Recently, Impact Europe, together with the Global Alliance of Impact Lawyers (GAIL), and Euclid Network - the European Social Enterprise Network, along with other signatory organisations, have published a joint statement. We commended EFRAG's commitment to making sustainability reporting more accessible for non-listed SMEs and offered key recommendations to align the standard with the needs of the impact and social economy ecosystems.

Next steps

The consensus among corporates is clear: there is a strong need to share best practices, learnings, and challenges in implementing the new CSRD rules. As large companies begin their CSRD implementation, with the first reports due in 2025, they will face challenges and opportunities that will refine future reporting and ESG data. Impact Europe is closely monitoring this phase to understand the CSRD's impact on the ecosystem. Our goal is to support corporations and CSIs in ensuring transparency and accountability in sustainability reporting, while also showcasing their impact investing efforts to inspire others.

If you are a corporate engaged in impact investing and interested in sharing your learnings and experience with CSRD implementation, please reach out to Impact Europe's Policy team: **Jana Bour**, Head of Policy, and **Stephanie Brenda Smialowski**, Senior Policy Advisor. Your insights could become our next best practices case study, helping to inspire and guide other corporates.

Moreover, Impact Europe is launching a **Corporate Impact Investing Policy Hub.** This platform will facilitate discussions with members on advocacy priorities, share insights, and explore best practices relevant to the policy landscape. The inaugural in-person meeting will take place during Impact Week in Bilbao. Stay tuned for details on how you can join and contribute to shaping policies in this field.

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