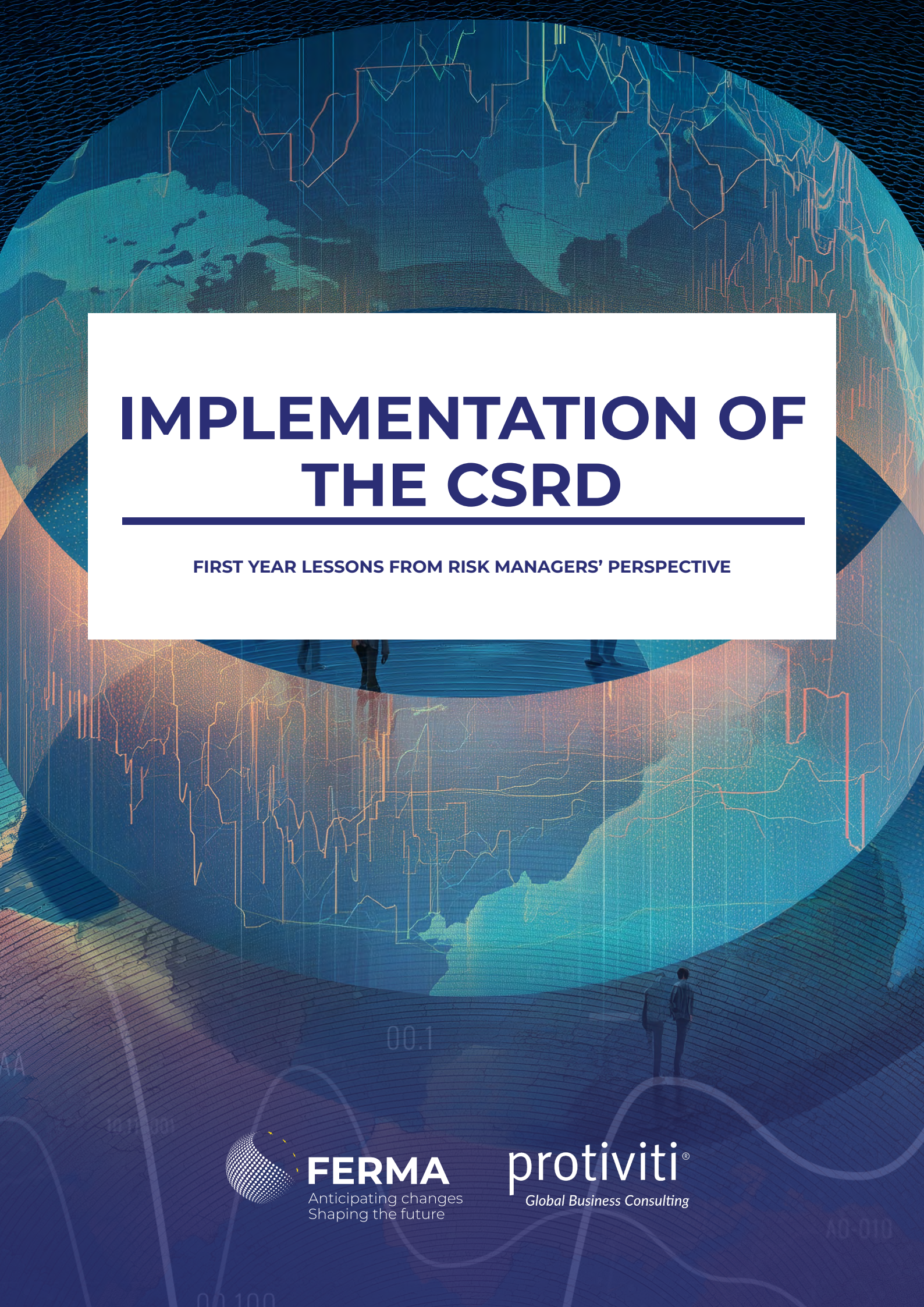

IMPLEMENTATION OF THE CSRD

FIRST YEAR LESSONS FROM RISK MANAGERS' PERSPECTIVE

FERMA
Anticipating changes
Shaping the future

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CONTENT

1 INTRODUCTION

The entry into force of the **Corporate Sustainability Reporting Directive (CSRD)** marked a pivotal moment in the evolution of the European regulatory landscape for sustainability disclosure. Building on the foundations laid by the Non-Financial Reporting Directive (NFRD), the CSRD introduced a **more comprehensive and rigorous framework** aimed at enhancing the quality, consistency, and comparability of sustainability information disclosed by companies operating within the European Union.

In 2024, large companies already subject to the NFRD published their first Sustainability Statements aligned with the CSRD requirements. These reports reflected a significant shift in expectations, as the new directive imposed stricter obligations regarding, for example, the mandatory topics to be reported, the disclosure of a massive set of data, the new governance requirements, and the assurance of sustainability data. It also introduced the **principle of Double Materiality.** This transition posed a considerable challenge for all companies included in the so-called wave 1, which comprises large undertakings with more than 500 employees.

At the heart of the CSRD reporting framework are the **European Sustainability Reporting Standards (ESRS)**, developed by the European Financial Reporting Advisory Group (EFRAG). These standards consist of two cross-cutting standards and 10 topical standards, covering environmental, social, and governance (ESG) topics. Together they provide the methodological backbone for sustainability disclosure, with the overarching goal of fostering comparability, reliability and relevance of sustainability information across EU companies.

In February 2025, the European Commission introduced the so-called **Omnibus Simplification Package** as part of a broader strategy to enhance Europe's competitiveness. This package included measures aimed at simplifying both the CSRD and the ESRS. Specifically, **Omnibus I postponed reporting obligations** for wave 2 and wave 3 companies by two years, granting them additional time to collect and prepare the required sustainability information. In parallel, **Omnibus II mandated a simplification of the ESRS framework**, with the technical support of EFRAG.

In response to Omnibus II, EFRAG published an **Exposure Draft of the simplified ESRS** in July 2025, which, at the time of the drafting of this report, is out for public consultation. The proposed revisions introduce substantial changes, including a **57% reduction in mandatory datapoints**, a streamlined structure and language, and a more pragmatic approach to the Double Materiality Assessment (DMA). Furthermore, the draft clearly distinguishes binding disclosure requirements from non-binding guidance, introduces relief mechanisms for sensitive data and value chain estimates, and strengthens interoperability with International Sustainability Standard Board (ISSB) standards. These adjustments aim to alleviate the reporting burden while preserving transparency, comparability, and alignment with international frameworks.

The simplification initiative seeks to address widespread concerns raised during the first year of CSRD implementation, which highlighted the **complexity and administrative burden** associated with collecting and reporting sustainability data in compliance with ESRS. However, these efforts also sparked debate: while many stakeholders welcome the reduction in complexity, others fear that excessive simplification could undermine the quality and comprehensiveness of sustainability disclosures.

In this evolving regulatory landscape, analysing the main challenges encountered by companies during the initial reporting cycle is essential. Such an analysis not only helps identify areas where ESRS have been effective or overly burdensome but also provides valuable insights for companies that will benefit from the extended timeline, enabling them to prepare more efficiently for future reporting obligations. This paper aims to examine the **practical implications of the CSRD implementation in the first year**, focusing on how companies responded to the new requirements, the challenges encountered, and emerging trends in Sustainability Reporting under the ESRS framework.

The research combines an in-depth review of a selection of CSRD reports published in 2024 by large European companies (representative of a panel of European Countries and a panel of companies in the industrial and energy & utility industry sectors) with one-to-one interviews conducted with selected Risk and Sustainability Managers. The objective is to assess **how existing risk practices supported CSRD compliance** - particularly in grounding the Double Materiality Assessment (DMA) - while also observing methodological developments, the interaction between risk and sustainability functions, and the key challenges and lessons learned during this initial phase. Particular attention was given to the evolving **collaboration between Risk and Sustainability Managers**, who played a pivotal role in putting the Double Materiality Assessment into operation.

Risk Managers, in particular, assumed a significant role in the reporting process by leveraging their expertise in risk identification, evaluation, and management – now integral to the Sustainability Reporting framework. Building on established Enterprise Risk Management (ERM) methodologies, they were tasked with developing approaches to support sustainability-related analysis. This positions Risk Managers not only as compliance enablers but also as strategic contributors to corporate sustainability objectives.

The paper addresses three core dimensions of CSRD reporting:

- **Double Materiality Assessment:** Analysis of how companies approached Impact and Financial Materiality, including methodologies applied, integration with ERM frameworks, governance structures, and the processes "activated" for the identification of risks and opportunities.

- **Climate Change Risk Assessment:** Examination of methodologies used, key functions involved, and the main challenges encountered in assessing climate-related risks.

- **Internal Control Systems for Sustainability Reporting:** Evaluation of the maturity of Internal Control Systems designed to ensure the accuracy and reliability of sustainability data.

This study, developed by Protiviti with the organisational support of FERMA[1], aims to provide actionable insights into the interplay between Risk Management and Sustainability Reporting, highlighting best practices and areas for improvement as companies navigate the evolving regulatory landscape.

1 Federation of European Risk Management Associations

2 KEY ANALYSIS RESULTS

2.1 DOUBLE MATERIALITY ASSESSMENT

2.1.1 – Interaction between the Enterprise Risk Management (ERM) process and the Double Materiality Assessment

The Double Materiality Assessment introduced the so-called **double perspective for the materiality analysis,** requiring companies to analyse not only impacts from an inside-out perspective (Impact Materiality), but also risks and opportunities from an outside-in perspective (Financial Materiality).

This new mandatory approach created a **potential area of synergy for organisations** with already existing ERM frameworks. Companies that had developed robust ERM processes over time could leverage their existing methodologies, practices, and expertise as a foundational input for conducting Financial Materiality, particularly extracting benefit from their prior experience in risk identification and analysis activities with structured assessment approaches.

At the same time, in some cases, the DMA required the adaptation, strengthening, or slight revision of these well-established ERM processes and methodologies, in order to ensure alignment with the CSRD requirements.

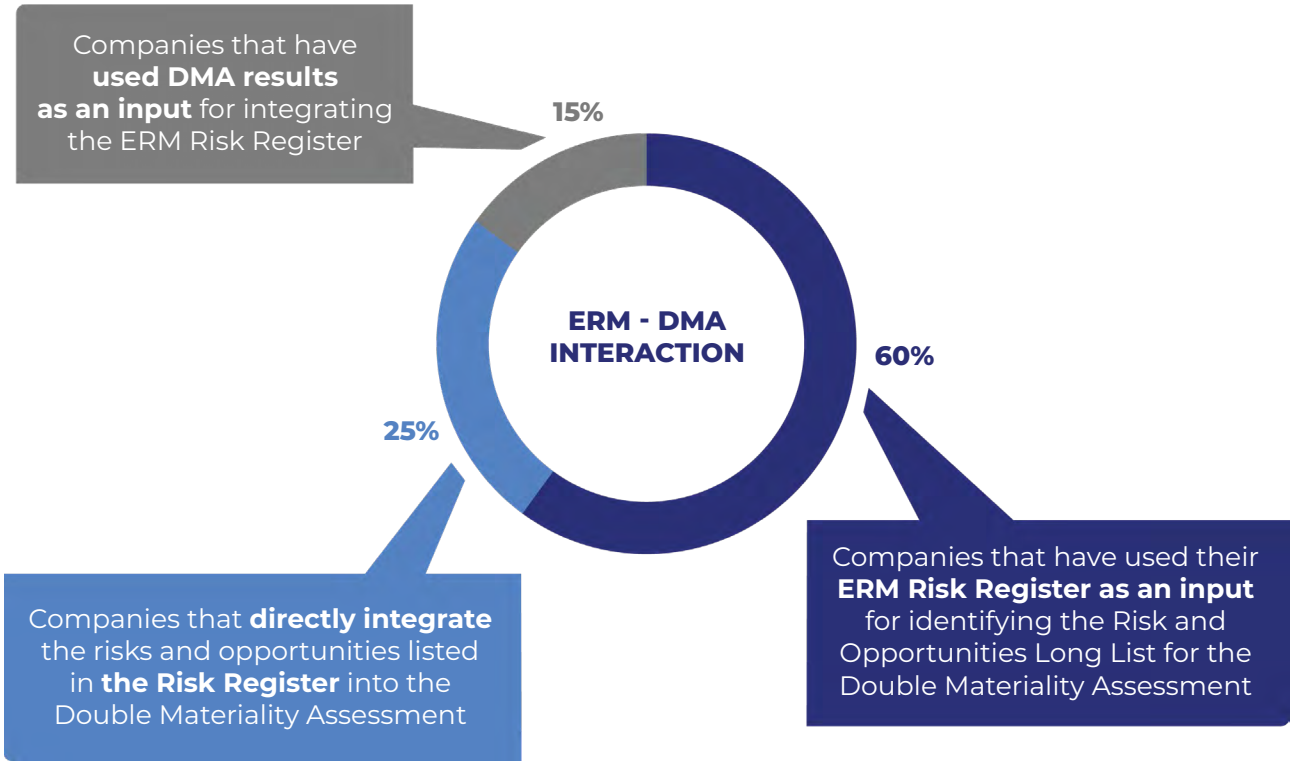
In this context, a collaboration between the company's Sustainability function, which can offer valuable insights and inputs on impact materiality and stakeholder-engagement processes, and the company's Risk Management procedures on risk evaluation was essential to enhance compliance with the CSRD, but it also allowed organisations to **address sustainability challenges more effectively** while reinforcing their overall risk management capabilities.

To understand how companies actually implemented this collaboration between functions and the interaction of processes, the analysis reviewed public CSRD reports and deepened knowledge via one-to-one interviews with Risk and Sustainability Managers.

The analysis highlighted that a significant majority of the companies examined, leveraged their **ERM processes as a foundation for conducting the DMA** (Figure 1). Specifically, 60% of companies used their ERM Risk Register as a key input to develop the initial long list of risks and opportunities to be evaluated within the DMA framework. It is worth noting that the list of risks was more developed than that of opportunities, which required some further steps for identification. Furthermore, 25% of companies directly incorporated the risks identified in the ERM Risk Register into the DMA process. Conversely, only 15% of the companies analysed, adopted the opposite approach, using the insights gained from the DMA to integrate ESG risks into their ERM process.

The results show that in the majority of cases, **the already existing ERM process primarily served as an input for the DMA process,** rather than the other way around. This interaction can be explained by the different granularity of the two processes. While ERM focuses on the identification and management of those risks that could hinder the achievement of the company's strategic objectives, the DMA adopts a broader perspective, assessing ESG risks and opportunities with both high and low business priorities, the latter generally falling outside of the scope of ERM. As a result, the most significant ESG risks already captured in ERM registers were incorporated into the broader DMA, whereas ESG topics deemed less material through the DMA were generally not integrated back into the ERM framework.

Figure 1: Interaction approach between ERM and DMA



2.1.2 – Time horizons and evaluation methodologies

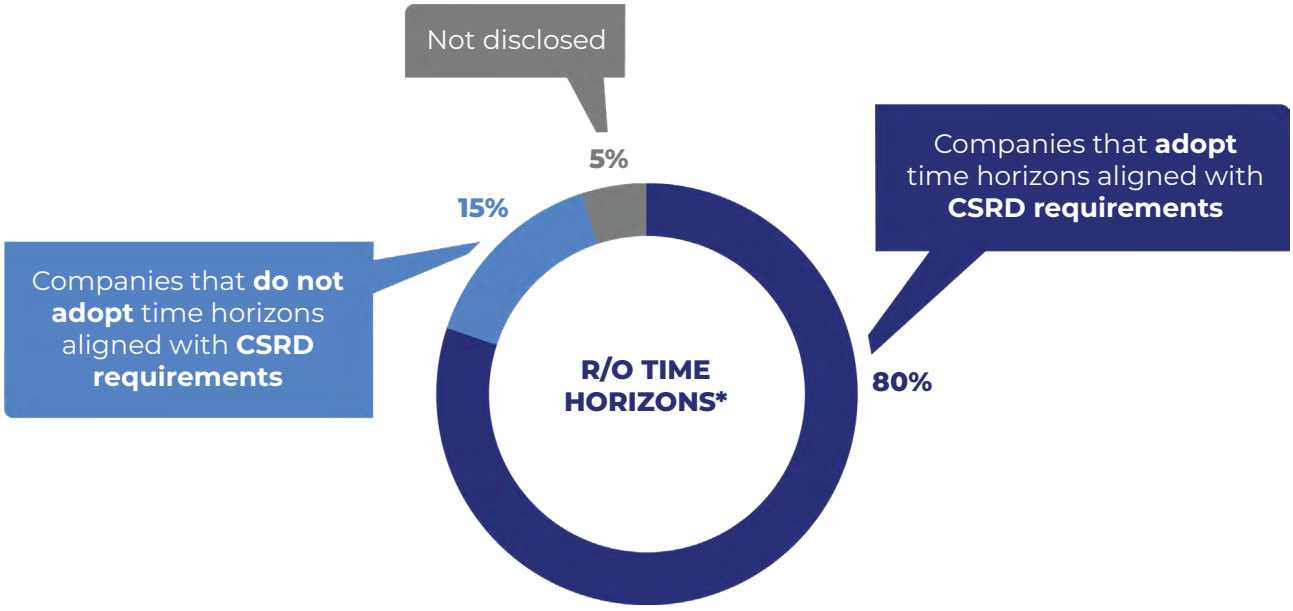
Time horizons applied for evaluation

The research also analysed the use of time horizons to understand if and how existing methodologies of the Risk Management process were already aligned with the time horizons suggested by the CSRD or whether adjustments were needed.

The European Directive suggests that when preparing the Sustainability Statement, companies should adopt the following time intervals: i) short term - reporting period, ii) medium term - from the end of the short-term up to five years, iii) long term – more than five years. Nonetheless, companies have the possibility to use different definitions for medium- and/or long-term time horizons for their analysis.

The research showed that **only 15% of companies used different time horizons** from those suggested by the CSRD, most of the time choosing time horizons aligned with, for example, their strategic/industrial plans. On the other hand, 80% of the companies used the intervals suggested.

Figure 2: Time horizons alignment with CSRD



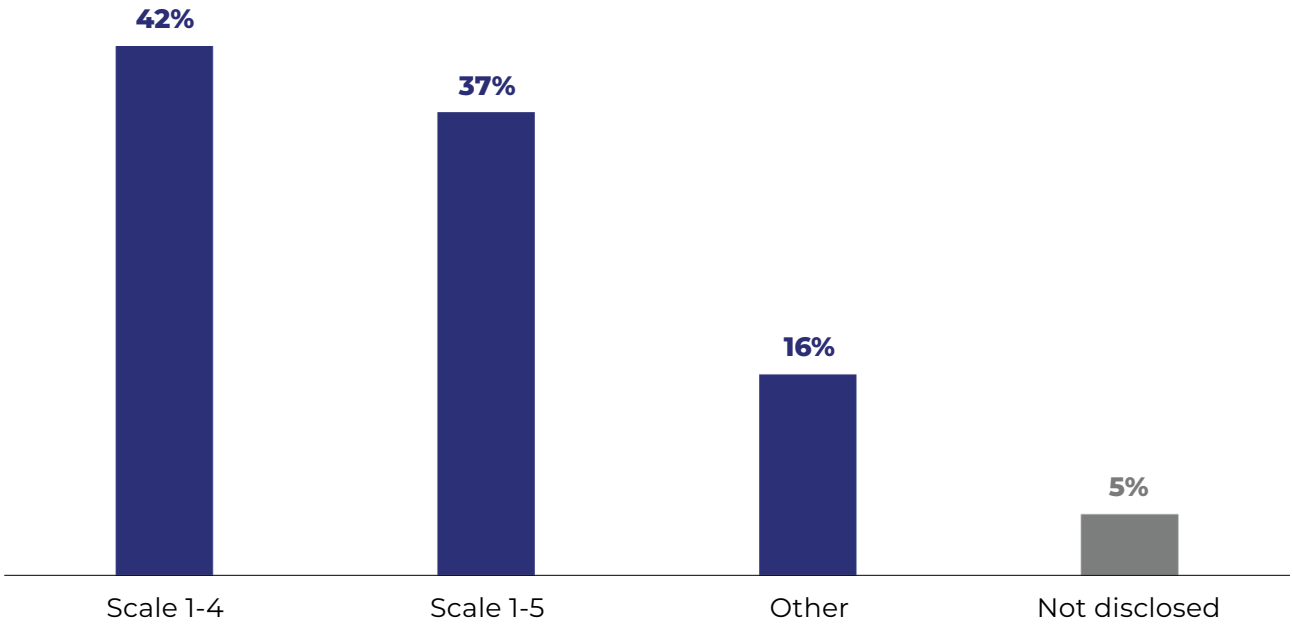
Risk and Opportunities evaluation scales

Expanding further on the methodological approaches observed among the companies, particular attention was given to how risks and opportunities were evaluated and disclosed in Sustainability Reports. Apart from one company that used a 1-4 scale for likelihood and a 1-5 scale for magnitude, the benchmark revealed that **42% used a 1–4 scale** for both magnitude and likelihood, while **37% adopted a 1–5 scale;** the remaining **16% employed alternative scales** (such as 1-3 or 1-6 – but the same for magnitude and likelihood).

Heterogeneity was also observed in the language used to describe risk severity, particularly in the labels assigned to different scoring levels. For instance, while some companies labeled level 1 as "Low," others used this label for level 2, applying terms such as "Remote" to describe level 1 instead, hindering comparability among different exercises.

Moreover, the analysis found out that the magnitude scales applied were primarily quantitative or semi-quantitative, thereby ensuring greater objectivity and consistency in the assessment of risks and opportunities. In addition to generally describing their scoring-scales, 50% of companies went a step further by disclosing the specific **economic-financial metrics applied** in their risk and opportunity assessments. Metrics such as **EBIT, EBITDA, Capex, Net Debt, and Cash Flow** were commonly referenced. However, the specific economic thresholds associated with the scoring scales were rarely disclosed, making it difficult to clearly understand what each company considered economically material within its assessment framework.

Figure 3: Risks and opportunities likelihood and magnitude scoring scale

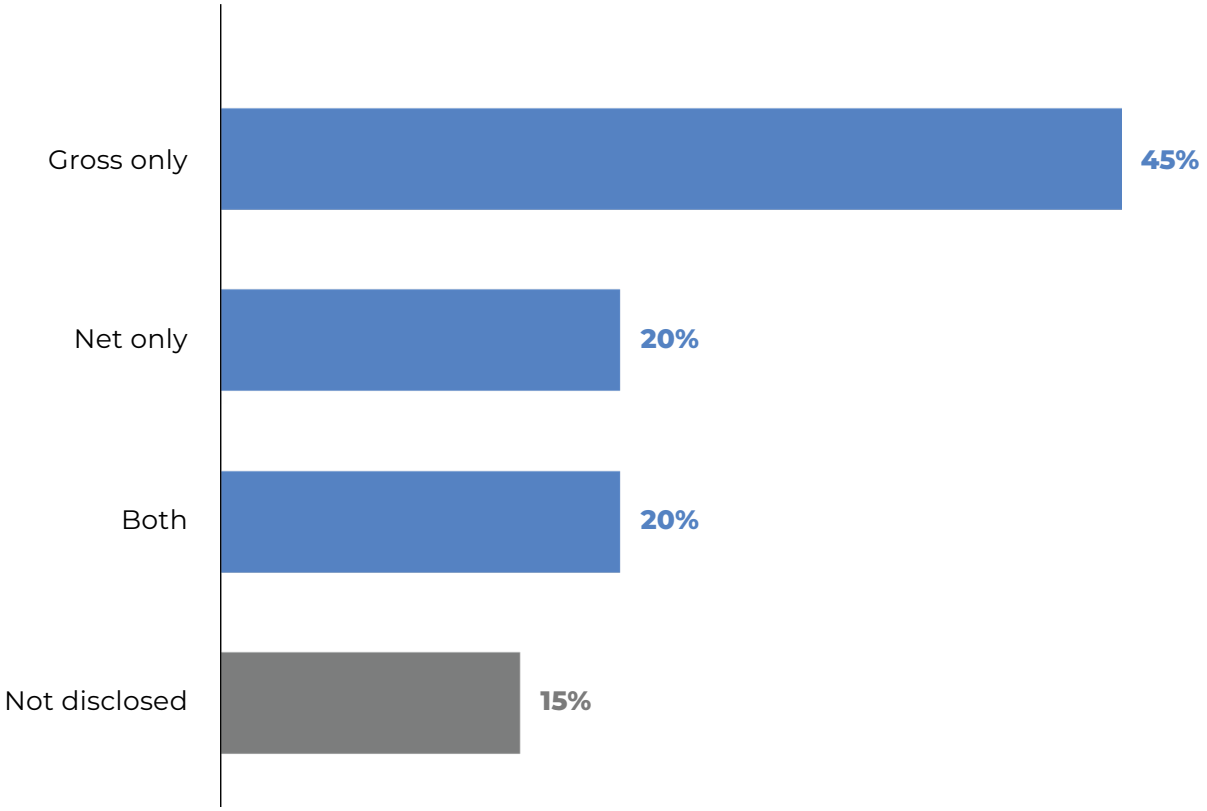


Gross vs. net approach in Risks and Opportunities evaluation

Another critical aspect examined in the analysis was whether companies assessed risks and opportunities on a gross or net basis. Specifically, this refers to whether evaluations were conducted without considering mitigation actions or whether such factors were included in the assessment. The benchmark revealed that **45% of companies conducted gross evaluations** only, **20% performed net assessments**, and another **20% reported both gross and net evaluations**. Meanwhile, **15% of companies did not disclose** this information.

Conducting a gross evaluation of risks can be challenging, due to the difficulty and impracticability of isolating the effects of existing controls that mitigate the severity of those risks. This challenge is particularly pronounced for companies operating in highly regulated industries, such as pharmaceuticals, where numerous controls and mitigations are regulatory driven. One approach that emerged during the interviews to address this issue is to perform a gross evaluation while considering the specific context in which the company operates, meaning that when performing a gross evaluation of risks, mandatory mitigation actions and regulations can be considered, while voluntary actions implemented by the company to strengthen its control measures are not considered.

Figure 4: Risks and Opportunities evaluation (Gross vs Net approach)

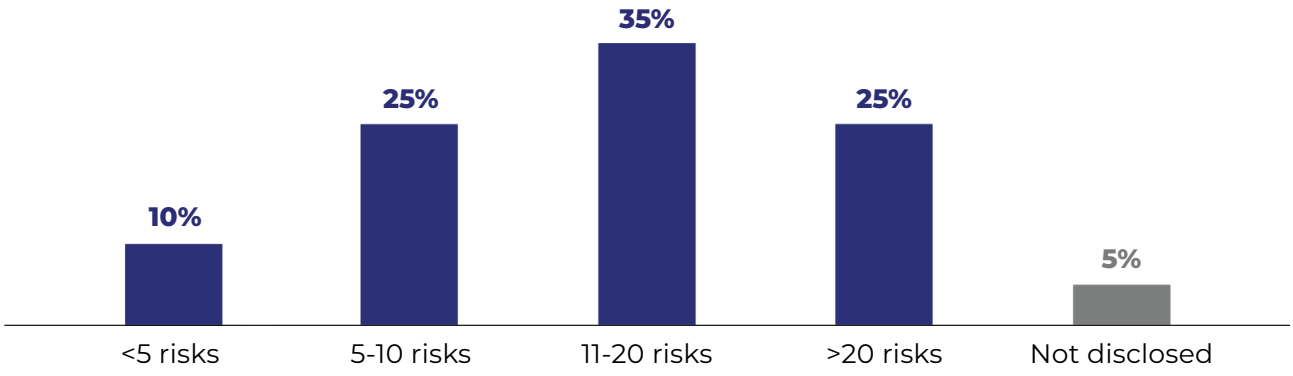


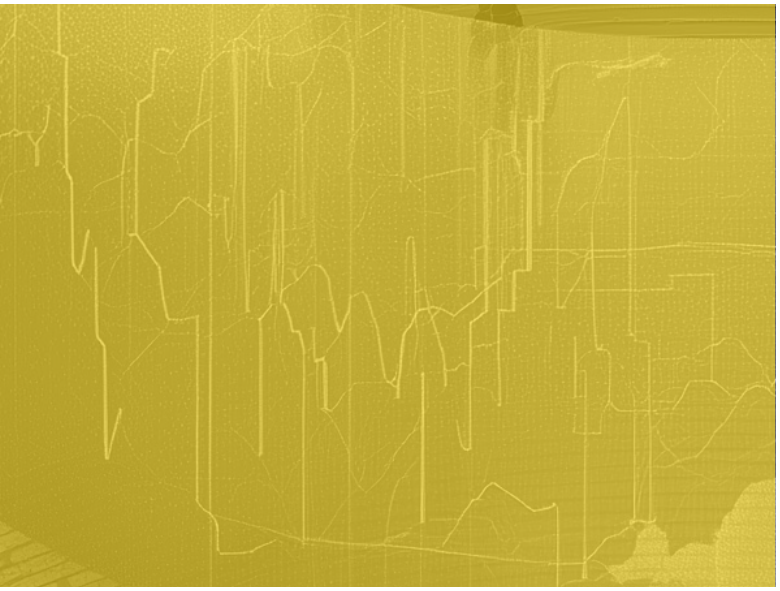
2.1.3 – Material risks and opportunities

Focusing on the core content disclosed in Sustainability Reports - the material risks and opportunities identified and communicated by companies - the main findings of the analysis consider the quantity and the breadth of the information disclosed.

Regarding the **number of material risks identified,** 10% of companies reported fewer than five risks, 25% identified between five and ten risks, the majority (35%) reported between eleven and twenty risks, while 25% disclosed more than twenty risks. The remaining 5% did not disclose the full list of material risks.

Figure 5: Number of material risks identified



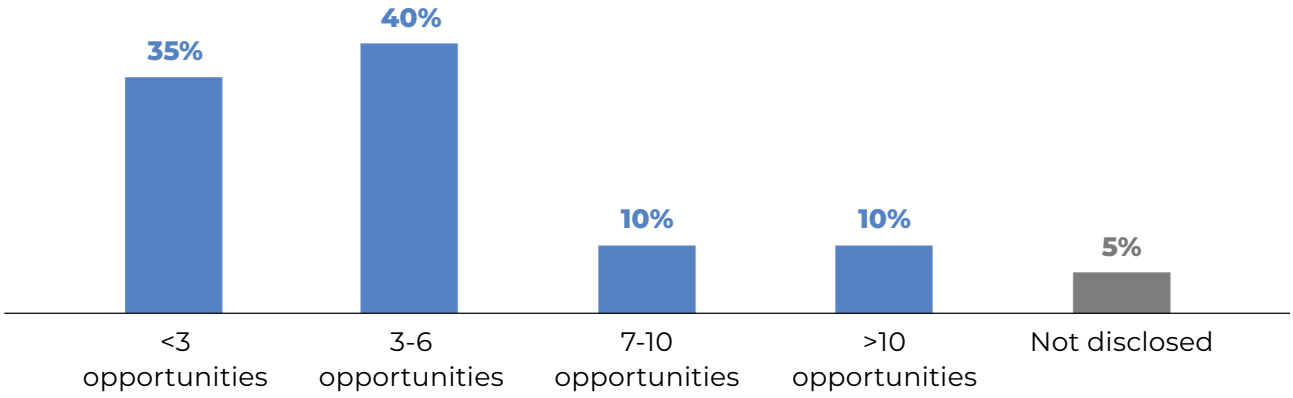


When it comes to **opportunities, the numbers were considerably lower compared with risks** — a common and understandable trend given the natural focus of Risk Management on mitigating threats rather than prioritising opportunities. Even though some companies had begun to integrate opportunity assessments into their Risk Management activities before the introduction of the DMA, this area remains less developed overall. The analysis revealed that 35% of companies identified fewer than three material opportunities, 40% reported between three and six, 10% disclosed between seven and ten, and only 10% identified more than ten material opportunities. The remaining 5% did not disclose the list of material opportunities.

The findings provided additional granularity about the scope of reported risks and opportunities. Among the companies that disclosed the location of risks and opportunities in the Value Chain or Own Operations, the research showed that **on average, companies identified slightly more material risks and opportunities within their Own Operations than in their Value Chain,** while risks and opportunities located in both Own Operations and Value Chain were the least common.

An important aspect to consider is that the number of risks and opportunities deemed material is influenced by the materiality threshold established by the company. This threshold — used to determine which risks and opportunities from the preliminary long list are classified as material — is generally derived from existing criteria adopted to prioritise critical risks within ERM processes. In turn, these criteria typically reflect the organisation's specific risk appetite, which is shaped by internal strategic priorities as well as external factors, such as the industry context in which the company operates.

Figure 6: Number of material opportunities identified



Most disclosed risks and opportunities

The analysis delved deeper into identifying the types of risks and opportunities that were most frequently disclosed in Sustainability Reports, meaning those considered material for the majority of companies.

Starting with the top ten disclosed risks (Table 1), the **most frequently reported risks pertain to climate change and air pollution.** The number one risk is associated with operational disruptions caused by severe weather events, while the second most disclosed risk relates to non-compliance with, or tightening of, air pollution regulations, including measures such as carbon taxes and Emission Trading Systems. The prominence of these two risks underscores the significant concern of Risk and Sustainability Managers about environmental issues.

The third most disclosed risk refers to the social dimension, focusing on the **risk of non-compliance by business partners along the value chain with ethical and social standards** (including human rights). This risk carries severe reputational implications, emphasising the importance of supply chain-related risks. It highlights companies' concerns about their ability to oversee, monitor, and influence the behavior of business partners within the value chain.

Health and Safety (H&S) risks emerge as the fourth most disclosed risk, specifically concerning the company's own workforce. H&S risks related to workers in the value chain also appear in the top 10 ranking, but at a lower position (eighth place).

The fifth most disclosed risk reflects a critical concern for many companies regarding their consumer and investor base: the risk of changing consumer or investor preferences due to heightened sensitivity to ESG factors.

Lastly, other frequently disclosed risks include labour market issues, challenges in compliance with regulatory requirements, raw material cost increases, and cybersecurity threats.

Table 1: Ten most frequently disclosed risks

#	TOP 10 DISCLOSED RISKS
1	**Operational disruptions** caused by **weather** events that could damage assets
2	**Non-compliance** and/or tightening of **pollution regulations,** related to e.g., carbon tax / emissions trading, leading to increased costs (e.g., prices of carbon offset credits)
3	Risk that **business partners** along the **supply chain may not fully comply with ethical and social standards** (including human rights), leading to potential reputational impacts and penalties, also due to ineffective control over third parties
4	**Health and safety risks (own workforce)** with potential impact on operations, costs and reputation due to an inadequate safety culture
5	Risk related to **changes in consumer preferences,** due to increased sensitivity to climate/ESG issues, and in the perception of stakeholders (e.g., investors) regarding the company's approach to such issues
6	Personnel-related risks, including the **lack/loss of key people,** the ability to fill key positions, and **to attract and manage talent**
7	**Failure to comply** with **corporate laws** and other applicable regulations (focus on **anti-corruption** regulations)
8	Legal and reputation risk in the event of damage to the **health and safety** of **employees** along the **value chain**
9	**Increased operating costs** due to the higher **cost of materials and utilities** needed to comply with government requirements related to climate change
10	Increasing number of **cyber-attacks / cybersecurity risk** (e.g., due to increased use of technology and acceleration towards digitisation)

Shifting focus to the five most disclosed opportunities (Table 2), the leading opportunity is related to the **development of new services, offerings, and products tailored to evolving customer behaviour,** which closely aligns with the fifth most disclosed risk. These represent two sides of the same coin: while companies fear changes in consumer preferences due to growing ESG sensitivity, they also recognise the potential to capitalise on these shifts. By promptly adapting their offerings to meet new demands, companies can transform a perceived threat into a significant competitive advantage.

The second most disclosed opportunity revolves around the development of a **sustainable value chain.** Similar to the supply chain risks mentioned above, this opportunity demonstrates that while companies are concerned about unethical practices spreading along poorly managed value chains, they also acknowledge the benefits of proactively ensuring the sustainability of the value chain, both socially and environmentally. Such efforts can yield reputational advantages that translate into economic gains, such as improved outcomes in tenders.

Ranking third is the opportunity related to the **ability to attract, retain, and develop top talent by prioritising employee satisfaction.** This opportunity mirrors the sixth most disclosed risk, again illustrating how potential threats, if effectively addressed, can evolve into strategic advantages.

Finally, the fourth and fifth most disclosed opportunities are both linked to the **energy transition,** demonstrating the focus on achieving the European Union's emission reduction goals and sustainability requirements. These include leveraging expected market growth and trends and strengthening and modernising infrastructure to support the energy transition.

Table 2: Five most frequently disclosed opportunities

#	TOP 5 DISCLOSED OPPORTUNITIES
1	Development of **new products/services aligned with evolving customer behaviour** and related financial benefits
2	Development of a **sustainable value chain** sensitive to ESG issues (e.g., with positive effects on tenders)
3	**Employee attraction, retention & development** through policies and practices related to employees (e.g., adequate wages, training, and development of employees)
4	**Capitalisation of market evolutions** (such as technological and/or natural resources availability - e.g., for energy companies, heating and cooling systems from local resources such as geothermal)
5	**Strengthening and modernisation of the infrastructure** (e.g., electricity grids) to support the energy transition

2.1.4 – Main corporate functions involved in the Double Materiality Assessment

The DMA represents a complex process that requires companies to deal with extensive lists of Impacts, Risks, and Opportunities (IROs) and subsequently evaluate them to determine their materiality while ensuring consistency with other stakeholder engagement or risk-assessment processes carried out by the organisation. Given the breadth of activities involved, as well as the need to ensure that disclosed information is complete, accurate, meaningful, and transparent, the DMA process necessarily involves **multiple organisational functions at different stages.**

The analysis highlighted the central role of **Risk and Sustainability functions** in leading the entire DMA process, from the identification and assessment of IROs to their final validation, which is often entrusted to dedicated Risk or Sustainability Committees. It also became clear how often the two streams (Impact and Financial Materiality) run in parallel; nevertheless, they follow two different processes, mostly in terms of the stakeholders involved and partial/pre-approval steps. Once the two streams have reached their final results (list of material IROs) those results are then combined and shared for their final validation.

The **Strategy function** also frequently contributed, particularly in the initial phase of IRO identification, and played a more prominent role in supporting the assessment of opportunities.

Finally, in most cases, the ultimate approval of the list of material topics lies with the **Board of Directors,** whose point of view helps ensure alignment between DMA outcomes and the company's overall strategic direction.

2.2 CLIMATE CHANGE RISK ASSESSMENT

2.2.1 – Identification of climate related risks and opportunities

The CSRD further increased the attention companies must dedicate to climate change and its implications for business. Indeed, ESRS E1 – Climate Change requires companies to identify, assess, and disclose climate-related risks and opportunities.

The most commonly noted practice developed to identify climate-related risks is a dedicated Climate Change Risk Assessment (CCRA) designed to systematically evaluate both physical risks (such as extreme weather and long-term environmental shifts) and transition risks (such as regulatory, market, or technological changes). These assessments analyse potential financial and strategic impacts and support the integration of adaptation and mitigation measures into corporate governance, strategy, and long-term planning. The research showed that **90% of companies had already conducted a CCRA before the entry into force of the CSRD.**

Time horizons in assessing climate risks and opportunities

The methodologies employed for the CCRAs varied among companies, particularly regarding the time horizons considered in their analysis.

In most cases, companies used different time horizons for climate-related assessments compared with the DMA, for which timeframes suggested by the CSRD were employed. This reflects the need to **capture the long-term impacts of climate change,** as also suggested by the TCFD.

The research showed that generally companies considered short-term horizons ranging from one to two years, or in a few cases up to 2030. For medium-term projections, many extended their analyses to approximately 2030 (about a five-year horizon), while a subset of companies considered slightly longer horizons, reaching up to 2035 or 2040. However, it is in the long-term projections where the greatest heterogeneity was observed. Some companies maintained shorter time frames, spanning five to eight or sixteen years, while others extended their outlooks significantly further, with projections reaching as far as 2050 or even 2070.

Physical risks, transition risks and opportunities in Own Operations and Value Chain

Another area of difference between companies in the development of a CCRA comes in the evaluation of transition and physical risks. Transition risks and opportunities were typically identified and assessed for both the company's operations and its broader value chain. In contrast, the assessment of physical risks predominantly focused on the companies' own operations, with only a limited number of companies extending the analysis to the rest of the value chain, focusing primarily on climate hazards affecting suppliers.

For example, transportation firms face unique challenges as they must evaluate the impacts of climate hazards on assets that have precise geographical locations – such as stations - and linear assets - such as railways and highways - that can span entire countries. The vastness of their operations necessitated a concentrated approach to understanding how climate change may affect their infrastructure, service delivery, and overall operational resilience. This complexity hindered the capability of these companies to extend analyses beyond their own operations.

Conversely, manufacturing companies, which typically operate with a more limited number of production facilities, often have the capacity to conduct more comprehensive analyses, also assessing risks for their upstream value chain. In some cases, these companies were able to investigate not only their direct supplier plants but also critical logistical hubs that could cause supply-chain disruption during extreme weather events.

Climate scenarios

Another critical component of climate analyses lies in the use of climate scenarios. These scenarios are structured projections that illustrate potential future climate conditions based on varying assumptions regarding human activities and natural processes. They typically incorporate two key perspectives:

- **Socioeconomic Pathways:** these encompass assumptions about population growth, economic development, technological advancements, and policy choices, ranging from high fossil fuel dependency to rapid transitions towards clean energy.
- **Climate Model Projections:** these reflect how the Earth's climate system might respond to different levels of greenhouse gas emissions, providing insights into potential future climate states.

The CSRD requires companies to consider at least one high-emission scenario to assess physical risks and at least one scenario in line with the limitation of global warming to 1.5°C (in line with the 2015 Paris Agreement target[2]) to evaluate

2 https://unfccc.int/process-and-meetings/the-paris-agreement

transition risks and opportunities. The CCRA analysis showed that the majority of companies considered **multiple scenarios in their analyses.** This trend underscores the growing maturity of climate-change assessment capabilities and reflects a proactive approach to understanding and mitigating climate-related risks.

The climate scenarios most commonly referenced were closely aligned with established pathways from the **Intergovernmental Panel on Climate Change (IPCC) and International Energy Agency (IEA)** frameworks. Overall, the choice of scenario applied by companies when undertaking sustainability reporting was generally coherent with the objective of the different assessments within CCRA frameworks.

For physical risks, companies generally relied on scenarios centered on greenhouse gas concentration pathways and directly linked to the potential evolution of climate change. Most commonly, they adopted the Representative Concentration Pathways (RCP) 1.9 (best-case), 4.5 (intermediate) and 8.5 (worst-case).

For transition risks, companies employed scenarios with a broader scope, incorporating socioeconomic trends, regulatory changes, and technological advancements. The most frequently used were the IEA's Net Zero Emissions by 2050 (NZE), Announced Pledges Scenario (APS), and Stated Policies Scenario (STEPS).

Quantification of financial effects from climate risks and opportunities

While there are various sources available for analysing exposure to climate hazards and incorporating relevant scenarios, translating theoretical exposures into tangible economic impacts constituted one of the major challenges faced by companies. This is particularly evident in the context of the CSRD reporting requirement, where the Disclosure Requirement E1-9 – mandating companies to disclose anticipated financial effects of climate-related risks – received a very limited number of responses. Most companies (80%) chose to take **advantage of the phase-in option,** to refrain from reporting on this specific disclosure requirement for 2024. This trend highlights a critical gap in the current CCRA frameworks, indicating a pressing need for a shift toward a more quantitative approach in assessing and reporting climate-related financial impacts.

Developing methodologies that facilitate a clearer understanding of how climate risks translate into financial implications is crucial not only to improve compliance with CSRD requirements but also to empower companies to make informed strategic decisions in response to climate change, ultimately fostering greater resilience.

2.2.2 – Disclosure of risk responses for climate-related risks

As part of the Sustainability Statement disclosures, companies are also required to disclose their primary adaptation and mitigation actions aimed at reducing exposure to material risks and capitalising on material opportunities. While CCRA frameworks were generally mature in terms of meeting CSRD standards, the quality and clarity of disclosures regarding risk responses varied significantly among organisations.

The analysis revealed that 65% of the benchmarked companies offered a moderate disclosure on their adaptation & mitigation actions, however only covering some of the material risks and opportunities identified and in a very general way. **Only 20% reported an exhaustive set of actions and plans in response to each of their material risks and opportunities identified,** while 15% did not disclose any pertinent information at all.

Concerning **physical risks,** the research showed how organisations exhibited **a higher level of maturity in their risk management systems** and disclosure practices related to adaptation measures for acute climate hazards affecting their own operations. Companies are increasingly disclosing a wide array of measures aimed at enhancing resilience for both existing and planned infrastructure. These measures encompass both physical adaptations - such as infrastructure upgrades – as well as intangible measures, with a strong emphasis on the importance of climate assessments and meticulous planning.

Chronic risks, on the other hand, received less attention than acute risks, with limited disclosure both in terms of assessment results as well as adaptation measures.

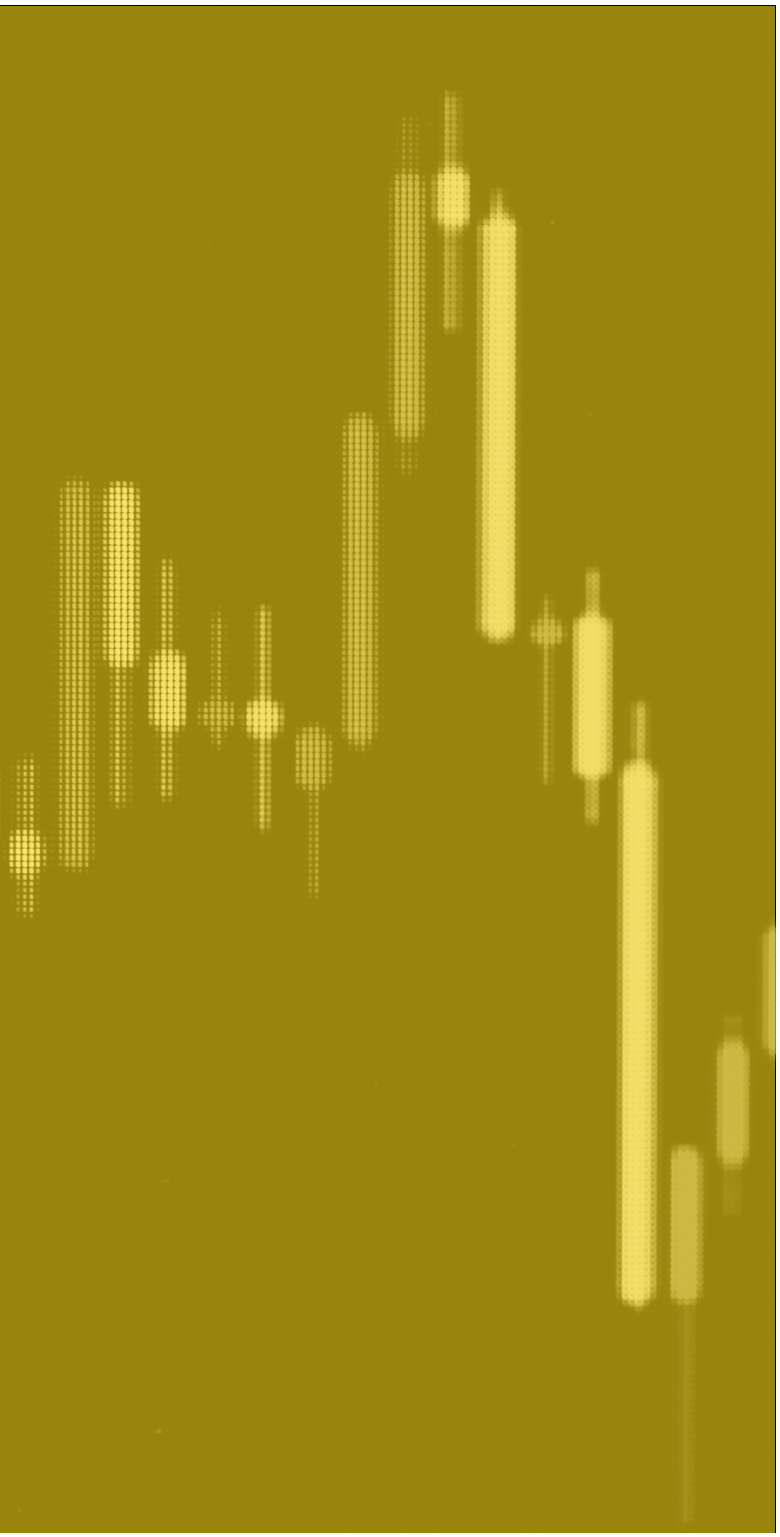
Figure 7: Clarity in the disclosure of mitigation and response actions

Furthermore, disclosures regarding measures taken to counteract climate hazards within the supply chain remain limited. This gap highlights the need for a deeper understanding of the interconnections between companies and their suppliers. As emphasised by the CSRD, fostering more collaborative planning and communication is essential for developing comprehensive strategies that address climate-related challenges across the entire value chain.

The following table provides the list of the main physical risks identified and the mitigation actions adopted in response.

Table 3: Three most frequently disclosed physical risks and related mitigation actions

TOP 3 PHYSICAL RISKS	MAIN RELATED MITIGATION ACTIONS
Increased severity of **extreme weather events** (acute risks) in the company's **Own Operations,** compromising **infrastructure** and **asset integrity** and disrupting **business continuity**	1) **Climate resilience planning** that includes protective infrastructure and adaptation of critical equipment 2) **Adoption of international standards** (e.g., ISO) for site selection, design adaptation, and asset management under climate stress 3) **Regular climate risk assessments** and emergency simulations at site level 4) **Insurance coverage** 5) Implementation of robust **Business Continuity Management Systems, Emergency Response Plans, Loss Prevention investments**, and **Disaster Recovery Agreements** to reduce expected property loss
Climate-related impacts within the **Value Chain**	1) **Diversification** of **sourcing locations** and long-term engagement with suppliers 2) **Joint climate risk monitoring** with key suppliers, with co-developed mitigation roadmaps and contingency plans for supply continuity
Climate change-related **chronic risks** (e.g., increase in temperature) affecting **Own Operations**	1) Integration of c**limate projections into strategic planning** 2) **Adaptation measures** for heating, cooling, and ventilation systems 3) **Assessment of new and existing sites for chronic risks** with dedicated long-term adaptation plans (aligned with standards like ISO 14090).



In contrast to physical risks, the level of disclosure regarding transition risks was notably higher across all categories of risks and opportunities (e.g., regulatory, technological, reputational). This can be attributed to the fact that transition risks - such as regulatory changes, market shifts, and technological advancements - closely resemble traditional risks typically addressed within ERM processes. Their familiar nature enables companies to leverage and / or eventually integrate (mostly regarding scenario analysis and long-term assessment) existing risk management frameworks more effectively, resulting in more robust and transparent reporting.

Companies disclosed a broad spectrum of measures to mitigate transition risks and capitalise on associated opportunities. These range from high-level strategic initiatives, such as the establishment of decarbonisation targets and commitments to net-zero emissions, to actions like developing sustainable product portfolios and implementing energy efficiency improvements within operations. The scope of these actions extends beyond the boundaries of the companies' own operations. Many organisations are actively engaging with their value chains, both upstream and downstream, in their climate strategies. Upstream, companies - especially those in sectors like food - are promoting the adoption of sustainable and regenerative practices among suppliers, leveraging their influence to drive positive change. Downstream, firms are fostering broader stakeholder engagement, aligning with CSRD expectations for holistic and inclusive climate action.

Table 4: Three most frequently disclosed transition risks and related mitigation actions

TOP 3 TRANSITION RISKS	MAIN RELATED MITIGATION ACTIONS
Regulatory pressure and policy volatility - Evolving and uncertain climate-related regulations leading to increased compliance costs	1) Strengthened **regulatory monitoring** and compliance governance 2) **Decarbonisation** of operations and energy sourcing 3) Integration of **climate targets** and **low-carbon materials** across the value chain
Operational Costs and decarbonisation challenges - Financial risks arising from increased volatile energy and carbon pricing, higher costs of raw materials and services due to climate mitigation measures, and potential supply-chain disruptions	1) **Energy Efficiency** and Renewable Energy Deployment 2) **Decarbonisation of Supply Chain** 3) **Strategic Energy** and **Carbon Management Plans**
Market dynamics and **consumer expectations** - loss of market share due to shifts in consumer demand and preferences toward more sustainable products	1) Development and consolidation of a **sustainable portfolio** 2) **Innovation** and **adaptation** of the **product offering** aligned with consumer preferences 3) **Strategic positioning** and **stakeholder engagement**

2.3 INTERNAL CONTROL SYSTEM ON SUSTAINABILITY REPORTING

The Internal Control System (ICS) plays a critical role in ensuring the reliability, accuracy, and transparency of Sustainability Reporting. As companies increasingly disclose environmental, social, and governance (ESG) information, robust internal controls are essential to manage risks, prevent errors, and support effective decision-making by stakeholders.

For this first year of Sustainability Reporting in line with the CSRD requirements, it was possible to explore whether and how companies implemented such internal control systems. Most companies disclosed general information on their ICS, and of these **74% adopted** a formal **Internal Control System on Sustainability Reporting** for the first year of CSRD reporting.

On a step further, **55%** of the companies also disclosed the **main risks related to Sustainability Reporting.** The risks that were more frequently reported by the companies analysed are as follows:

A structured and formalised Internal Control System — characterised by clearly defined roles, responsibilities, data governance, and oversight — naturally leads to **more reliable, transparent, data-driven, and consistent Sustainability Reporting,** as required by the CSRD. The analysis highlighted that most companies were already on the road to an ICS on Sustainability Reporting, even before the CSRD requirement, while other companies started to implement control over sustainability data in response to the CSRD.

Two main approaches were noted. Some companies established processes focused exclusively on sustainability data that run parallel to, but remain separate from, the Internal Control Systems for Financial data. Others instead sought to integrate both financial and non-financial reporting within a unified Internal Control framework.

The research clearly showed that all companies are actively working to enhance their internal control systems and tools, often seeking to transition towards more digitalised solutions that strengthen controls and reduce the risk of reporting errors and human oversight.

1 - **Delays and Incompleteness** in Information Flows

2 - **Data Errors** and **Poor Information Quality**

3 - **Weaknesses in Data Collection** and Entry Processes

4 - **Regulatory Non-Compliance** due to Misinterpretation

5 - **Organizational and Internal Coordination Gaps**

3 LESSONS LEARNED AND NEXT STEPS

3.1 COMMON PRACTICES

Risk Management as a foundation for Financial Materiality: one of the most significant enablers in the CSRD implementation journey was the pre-existing Enterprise Risk Management (ERM) framework. Established methodologies, thresholds, and risk-scoring scales provided a solid foundation for assessing financial materiality. These elements allowed organisations to quickly adapt their risk-based approaches to the CSRD context, ensuring consistency and comparability in evaluating financial impacts for relevant ESG risk and opportunities.

Stakeholder Engagement practices enabled by previous Impact Materiality: for impact materiality assessment, prior stakeholder engagement processes proved instrumental. Many organisations had already developed structured approaches to identify and prioritise stakeholder concerns, which eased the integration of social and environmental dimensions into the DMA. This continuity reduced the need for entirely new engagement mechanisms and accelerated the initial phases of the analysis.

Maturity of Climate Change Risk Assessment: Climate-related risk management was another area of relative maturity. Organisations that had previously aligned with the Task Force on Climate-related Financial Disclosures (TCFD) requirements, in response to the European Taxonomy Requirements, found complying with CSRD Climate Assessment requirements a smoother process than those that had not. Existing scenario analyses, governance structures, and disclosure practices minimised the need for significant methodological overhauls, making the identification of climate-change risks and opportunities less of an area of concern in the CSRD reporting process.

3.2 MAJOR CHALLENGES AND AREAS FOR IMPROVEMENT

Different scope and objective between ERM and DMA: despite leveraging ERM as a starting point for the Financial Materiality, the inherent differences between ERM and DMA created notable challenges. While ERM primarily focuses on risks directly affecting the core business operations and strategic objectives, the DMA extends its scope to encompass environmental, social, and governance considerations, reflecting a broader perspective on sustainability and stakeholder expectations. This divergence in the objective of the processes complicated the straightforward adoption of the ERM methodology to the Financial Materiality process, requiring frequent adaptations of ERM tools, thresholds, and processes.

The DMA process requires a broader and more qualitative lens, notably in two areas: the granularity of risks and opportunities (linked to the topic, sub-topics, and sub-sub-topics suggestions); and the time horizons considered (short – medium – long). ERM assessments are typically tied to business planning cycles (about five years' duration at most), whereas DMA often considers long-term horizons (longer than five years), particularly for environmental and social impacts. This discrepancy led to many challenges in the assessment of risks and opportunities in the long term, mostly regarding their quantification impact on such a long vision. Furthermore, ERM commonly evaluates business risks in terms of significant revenue / cost impacts on the company, while the assessment of ESG risks, such as cases of discrimination, is primarily grounded in reputational considerations, whereas the quantification of impacts in financial terms has often proven to be a challenging exercise for companies, which frequently lack the appropriate tools and competencies to conduct such assessments effectively.

Identification of opportunities: the process of identifying and then assessing opportunities proved to be one of the major challenges for companies. Indeed, while some companies relied on opportunities already embedded in strategic plans, others struggled to identify new, sustainability-driven opportunities beyond existing initiatives already underway. The lack of clarity in the DMA methodology or guidelines in this regard emerged as a frequent bottleneck. Organisations reported significant difficulties in interpreting and putting the requirements into operation, resulting in inconsistent practices and a **high degree of variability across companies.** This ambiguity underscores the need for standardised and clear guidelines to ensure comparability and reliability in the identification of opportunities and reporting.

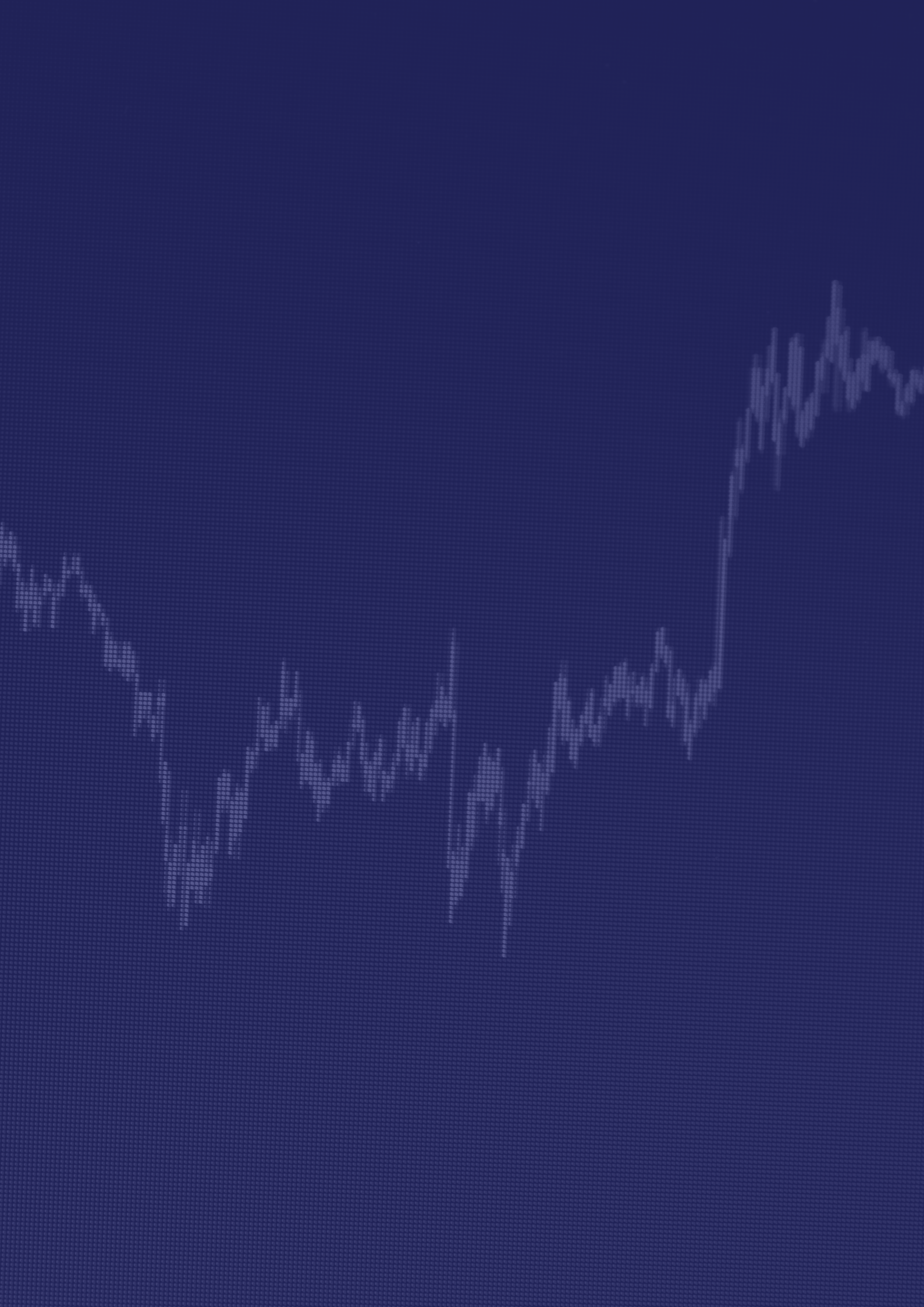
Financial quantification of risks and opportunities: the quantification of the financial impacts associated with risks and opportunities - particularly over long-term horizons - was considered one of the most complex aspects of the process. While most companies are generally able to estimate economic effects over shorter timeframes, typically aligned with their Strategic or Industrial Plans, extending such assessments to longer periods proved significantly more challenging. This difficulty stems from the limited visibility into future scenarios and the limited forecasting capability in highly volatile contexts, combined with the inherently intangible nature of certain risks, such as those related to reputation and compliance. Even large, well-structured organisations encountered notable obstacles in this regard, whereas smaller companies - often lacking robust medium-term planning processes and capabilities - faced even greater difficulty.

Internal Process and Governance Gaps: finally, the research highlighted how structuring an internal process with clear roles, responsibilities, and consolidation mechanisms proved difficult. Indeed, while temporary cooperation and synergies between functions arose, mostly during the identification of risks and opportunities, **companies faced a challenge in implementing a well-defined governance model,** the absence of which often led to inefficiencies and duplication of efforts. This highlights the importance of formalising internal workflows, which could also be strengthened by digitalisation and artificial intelligence, to support DMA execution effectively.

3.3 OPPORTUNITIES FOR FUTURE DEVELOPMENT

In conclusion, although the first implementation of the CSRD undoubtedly presented significant challenges for companies - ranging from the interpretation of regulatory requirements to the operational burden of new reporting practices - it should also be seen as a **strategic opportunity rather than a mere compliance exercise.** By integrating DMA into their processes, organisations can better align sustainability disclosures with both stakeholder expectations and long-term business priorities, ultimately enhancing the relevance and credibility of their reporting. At the same time, leveraging Enterprise Risk Management frameworks allows companies to systematically connect sustainability issues with broader risk and performance considerations, fostering a more **holistic approach to decision-making.** This new approach may require further refinement to establish a structured interaction, evolve existing ERM processes by integrating a clear assessment of opportunities alongside risks, ensuring precise definitions of opportunities to reduce the risk of misinterpretation and incorporate evaluations across multiple time horizons, with particular attention to the long term.

On a final note, the internal control environment can be reinforced by capitalising on existing tools and methodologies already developed for financial reporting, thereby avoiding duplication and promoting efficiency. Taken together, these efforts lay the foundation for an **integrated reporting and control system that not only ensures regulatory compliance but also supports effective risk management and value creation.** The evolution towards such a system represents a critical step for companies aiming to strengthen their resilience, improve stakeholder trust, and position sustainability as a driver of competitive advantage in the years to come.



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