WHITE PAPER

How should companies prepare for Norway's adoption of CSRD/ESRS

June 2024

By Robert Hjorth, Ingrid Cornander, Lorenzo Fantini, Jannik Leiendecker, and Marcus Bruns

Executive Summary

We believe ESG reporting should be on every CEO's agenda, starting now. Faced with increasing ESG disclosure obligations, many companies will perceive this as a "compliance only" exercise. However, there is an opportunity to take a pragmatic implementation approach to ESG reporting which additionally acknowledges the strategic implications. With reporting requirements for companies in Norway as early as FY2024, businesses should view the rapidly evolving ESG regulation landscape as a driver for change.

The Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) are considered the most stringent of ESG regulations, with adoption by Norway in the first half of 2024. The implementation of the regulation goes beyond Norway's current Accounting Act (Endringslov til regnskapsloven 2013) and impact not just listed companies and financial institutions but also large enterprises and SMEs. Moreover, with CSRD requiring greater coverage of ESG topics, including disclosures on target setting, policies and metrics, the level of complexity and volume of ESG-related data requirements will significantly increase.

Stakeholders in the Norwegian market have had an increasing focus on ESG topics, but so far, most disclosure has been voluntary. With the adoption of CSRD by the EU's Delegated Act in August 2023, incorporating CSRD/ESRS directly into Norwegian law, will impose extensive ESG reporting obligations and drive the harmonization of sustainability data in the EU. Covering 100 ESG disclosure requirements (DRs), companies reporting under CSRD will be obliged to not only adjust reporting processes, but also to review and update their ESG strategies, governance, and data capabilities.

Presented with new, fast-approaching compliance obligations, companies in Norway should take a pragmatic implementation approach to ensure timely compliance. The resulting strategic implications of ESG reporting should then be considered accordingly.

Corporate Sustainability Reporting Directive (CSRD)

- Extends and strengthens the existing Non-Financial Reporting Directive (NFRD) as uniform sustainability disclosure standard
- Expands scope to include more companies than the NFRD and requires corporates to report on a wider range of sustainability-related issues
- Improves data availability on companies' sustainability risks and the effects of their activities on the environment
- Based on the principle of "double materiality" as introduced by the NFRD, obliging companies to report on how their business is affected by sustainability issues, and how their activities impact society and the environment
- In October 2023, Norway's Minister of Finance confirmed the intention to align the introduction of the CSRD with the EU's timeline. In June 2024, The Norwegian Parliament announced that CSRD will be taken into Norwegian law
- EU timeline and scope:

— From 2024 onwards: large entities of public interest with more than 500 FTE already subject to NFRD. First reporting in early 2025

— From 2025 onwards: large entities, which are currently not subject to the NFRD. First reporting in early 2026

— From 2026 onwards: Listed small and medium-sized enterprises (SMEs) and small, non-complex credit and captive insurance undertakings. First reporting in early 2027 with a postponement option to 2029

— Non-EU companies from third countries will also become subject to the CSRD if certain revenue and FTE criteria are met

European Sustainability Reporting Standards (ESRS)

- Developed by the European Financial Reporting Advisory Group (EFRAG) as an independent, European-specific standard which supports the continents 2050 Net Zero ambitions
- Builds on CSRD requirements, and can be viewed as the operational guidance for companies
- Standards aim to synchronize underlying methodologies and therefore harmonize ESG reporting while also aligning with existing standards, e.g., the Global Reporting Initiative (GRI)
- ESRS covers 12 different standards (ESRS 1-2, E1-5, S1-4, G1), including climate change, biodiversity as well as social and governance
- Draft Delegated Act published by the European Commission allows

— more flexible and voluntary disclosure of certain data points

— phase-in of data points after the first year's disclosure

- Applies to companies within the EU and to non-EU companies, both as defined as per the CSRD

Growing urgency to prepare for CSRD/ESRS reporting

The deadline for CSRD/ESRS implementation is imminent

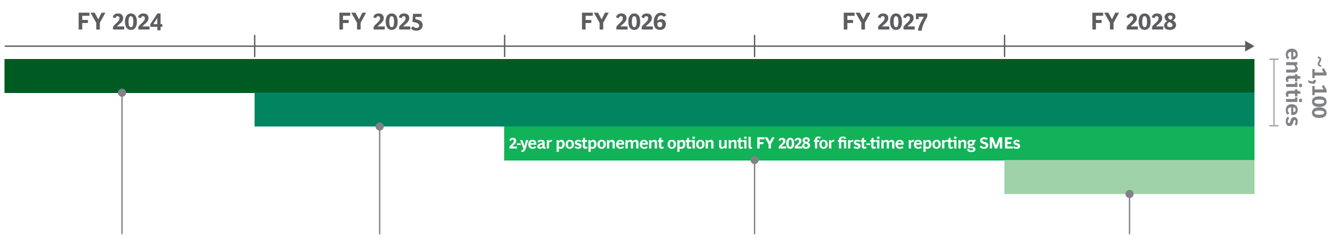
The deadline for the implementation of CSRD/ESRS is fast approaching, as Norway has adopted CSRD reporting obligations from FY2024. In October 2023, Norway's Minister of Finance confirmed the intention to align the introduction of the CSRD with the EU's timeline. In June 2024, The Norwegian Parliament announced that CSRD will be taken into Norwegian law.

CSRD and ESRS will be implemented in multiple stages – first focusing on large public-interest entities and large undertakings (>1,000 Norwegian entities), and later moving to cover small and medium-sized entities. For large public-interest entities already subject to Norway's Accounting Act (Endringslov til regnskapsloven 2013) which incorporated the requirements of the NFRD as of 2021, CSRD/ESRS requirements will apply from financial year 2024 onwards. For these in-scope entities, timely and accurate CSRD/ESRS reporting will be of significant strategic importance. It is vital, therefore, that such companies make immediate preparations for the 2024 requirements by devising and institutionalizing the relevant processes.

For other large entities that are currently not subject to the Accounting Act (Endringslov til regnskapsloven 2013), reporting obligations will start a year later, with data to be captured for financial year 2025 onwards and initial reports to be prepared in 2026. Starting from financial year 2026, listed SMEs will also be required to report, but with an option for first time reporting SMEs to opt out until financial year 2028.

Exhibit 1 - CSRD/ESRS will apply progressively to entities in Norway from Financial Year (FY) 2024 onwards

CSRD reporting requirements for in-scope entities (FY)



Large public-interest entities (PIEs)[1]:
- Including listed companies and other PIEs[1] only
- Reporting under social responsibility in the Accounting Act
- With > 500 FTE

Large undertakings:
- Listed & unlisted companies
- Meeting at least 2 criteria:
  > 250 FTE
  > NOK 290M total assets[2]
  > NOK 580M net revenue[2]

Small and medium-sized enterprises (SME) and financial institutions with assets under NOK ~60Bn:
- Listed SMEs and other PIEs[1] only
- Meeting at least 2 criteria:
  > 10 FTE[2]
  > NOK 5M total assets[2]
  > NOK 10M net revenue[2]

Third-country undertakings (Non-EU companies):
- >~ NOK 1700M net revenue in EU + Norway
- Meeting at least 1 criteria: EU or Norway Branch (>~ NOK 475M net rev.) AND/OR EU or Norway subsidiary

Complete DR Phase-in

All entities may omit reporting in the first year:
- Anticipated financial effects related to non-climate environmental issues (pollution, water, biodiversity, and resource use)
- Certain datapoints related to their own workforce (social protection, persons with disabilities, work-related ill-health, and work-life balance)

Entities with <750 employees may omit reporting:
- Scope 3 Emissions (E1–6) & Disclosure requirements related to own workforce (S1) in the first year
- Disclosure Requirements for the first two years in the standards of Biodiversity (E4), Value-chain Workers (S2), Affected Communities (S3) and Consumers & End-users (S4)

Partial DR Phase-in

Source: BCG analysis.

Note: CSRD = Corporate Sustainability Reporting Directive; FY = Financial Year; DR = Disclosure Requirements.

[1]Public-interest entities include listed companies, as well as banks and credit institutions, insurance companies, and other companies designated by national authorities to be of public interest.

[2]Per updated Norwegian Accounting Act, 2024.

CSRD/ESRS require a large amount of ESG data

The CSRD/ESRS regulations involve granular qualitative and quantitative disclosure requirements a number of topics, covering all the dimensions of ESG – for example, climate change, pollution and biodiversity for "E", workers in the value chain for "S", business conduct for "G", and interests and views of stakeholders for "GD. The types of disclosure requirements that companies need to submit across all dimensions follow a certain pattern - including descriptions of policies, targets, action plans, transition plans and potential financial impact. The proportion of quantitative or qualitative disclosure requirements per thematic category varies and depends on the type of information required.

Exhibit 2 - CSRD/ESRS specifies qualitative and quantitative disclosure requirements across categories

ESG topic areas from CSRD/ESRS	DR type[1]	Governance	Strategy	IRO[3] mgnt. (incl. Policies, Processes, Actions)	Metrics	General disclosures	Targets	(Sample of DR per topic, not exhaustive)	DR Metrics[2]
E	Climate change	✓	✓	✓	✓	✗	✓	• Gross Scopes 1–3 GHG Emissions • GHG removals and mitigation	5/12
E	Pollution	✗	✗	✓	✓	✗	✓	• Pollution of air, water and soil	3/7
E	Water & marine resources	✗	✗	✓	✓	✗	✓	• Water consumption	2/6
E	Biodiversity & ecosystems	✗	✓	✓	✓	✗	✓	• Impact metrics related to biodiversity and ecosystems	2/8
E	Resource use & circular economy	✗	✗	✓	✓	✗	✓	• Resource outflows • Resource inflows	3/7
S	Own workforce	✗	✓	✓	✓	✗	✓	• Social protection • Health and safety metrics	12/19
S	Workers in the value chain	✗	✓	✓	✗	✗	✓	• Policies related to value chain workers	–/7
S	Affected communities	✗	✓	✓	✗	✗	✓	• Processes for engaging with affected communities about impacts	–/7
S	Consumers & end-users	✗	✓	✓	✗	✗	✓	• Interests and views of stakeholders	–/7
G	Business conduct	✓	✓	✓	✓	✗	✗	• Payment practices	3/8
GD	ESRS 2	✓	✓	✓	✗	✓	✗	• Statement on due diligence	–/12

✓ DR Required ✗ DR not Required

DR Metrics/ Total DR

Source: BCG analysis.

Note: ESRS = European Sustainability Reporting Standards; CSRD = Corporate Sustainability Reporting Directive; DR = Disclosure Requirements.

[1]The overview shown represents a rough classification of Disclosure Requirements - within the categories, individual DRs can vary per topics.

[2]CSRD/ESRS contains 100 DRs of which 30 DRs of metrics type can be scoped out of reporting requirement through the information materiality filter in addition to the materiality filtering.

[3]Impacts, Risks and Opportunities management.

Assurance of CSRD/ESRS requirements must be effectively managed

With ESG requirements expanding rapidly, companies in Norway should be aware of the consequences if they do not comply. These could potentially include legal consequences, or damage to reputation and business relationships.

The CSRD is a much broader directive than its predecessor, the NFRD or the current Norwegian Accounting Act (Endringslov til regnskapsloven 2013). It has introduced an audit requirement, for which companies need to prepare accordingly. This statutory audit requirement applies for three main reasons: 1) more companies are affected by CSRD; 2) the CSRD/ESRS regulations demand additional information; and 3) CSRD/ESRS requires limited (and in the future, reasonable) assurance on sustainability information when undergoing report auditing.

Key hypotheses for companies operating in Norway to consider when setting out their CSRD/ESRS reporting objectives

Companies operating in Norway will need to integrate CSRD/ESRS requirements into their existing operations. This involves not only strategy and steering, but also governance and risk management as well as quantification and enablers. One of the main challenges for companies is that CSRD/ESRS requirements have been written as sector-agnostic standards. EFRAG had originally pledged to develop sector-specific standards as early as 2024, however development has been postponed by 2 years in favour of prioritising the current standard implementation.

As a result, we have identified three critical hypotheses that companies in Norway will need to consider when incorporating CSRD/ESRS reporting into their target operating model:

1. **Drafting a transition plan: target disclosure requirements and how to reach them will go beyond solely climate topics**

   As part of ESRS, companies should disclose time-bound transition plan, and provide a high-level explanation of how it will adjust their strategy and business model to ensure compatibility with the transition to a sustainable economy. Companies are required to state the target of global warming to 1.5°C in line with the Paris Agreement (or an updated international agreement on climate change). Moreover, they need to present the target of achieving climate neutrality by 2050. Although CSRD/ESRS does not explicitly require companies to achieve the targets discussed above, companies are required to detail the investments and funding supporting the implementation of the transition plan to reach the targets.

   ESG targets have not previously been a mandatory requirement for disclosure, even for those listed Norwegian companies required to report against Norway's Accounting Act (Endringslov til regnskapsloven 2013). The introduction of CSRD will change this, requiring companies to explicitly report ESG targets. Current CSRD/ESRS requirements will only require companies to publish those ESG targets that have already been set. Although companies will not need to initially formulate new targets, the increasing ESG momentum among other competitors may compel them to do so. Any new targets will need to be aligned to existing initiatives and reporting obligations, such as Norway's Transparency Act (Åpenhetsloven) and adoption of EU Taxonomy via the Taxonomy Ordinance and the Publication Ordinance.

   The potential for new targets as a result of the increasing ESG topic landscape, with CSRD/ESRS going significantly beyond climate, further emphasizes the need for harmonization between ESG reporting and strategy.

2. **Establishing governance and process structures: to institutionalize ESG reporting, ESG reporting structures need to be critically reviewed**

   For the implementation of CSRD/ESRS reporting, departments across the entire organization (including group sustainability, human resources, compliance, and finance) will be involved. In comparison to a fragmented and siloed approach by individual business units, views on all ESG topics from across the entire organization should be gathered. As the ESG landscape has evolved beyond climate for CSRD/ESRS reporting, sustainability teams will similarly need to enrich their current DR ownership outside of Environmental topics towards a coordinated role including Social and Governance. A suitable governance structure which sees the Chief Sustainability Officer's responsibilities (or those of another similar-level executive) expanded across all ESG topics will be vital to manage the organization's reporting and allow for comprehensive steering.

   In addition, regulators are also moving towards integration of ESG reporting with current financial reporting processes, including associated auditing requirements. Hence, qualitative quantitative disclosure requirements (DRs) provided in the ESG report will need to be traceable and verifiable across the organization. However, many companies currently rely on manual processes for ESG data acquisition and disclosure which are not aligned with financial reporting. Both finance and ESG reporting processes require inputs from all business operations; thus, integrating ESG into financial reporting is a key vehicle to ensure adequate quality.

   A close alignment between the Chief Sustainability Officer, the Chief Financial Officer and the rest of the executive management will be required to ensure the strategic implications of CSRD/ESRS reporting are considered.

3. **Expanding data capabilities: To meet CSRD/ESRS requirements, companies must dramatically boost their IT capabilities**

   To fulfil CSRD/ESRS requirements, current IT capabilities will need to be significantly upgraded to create a holistic ESG perspective. Given the expectation of initially limited and eventually reasonable assurance requirements for CSRD/ESRS reporting, the traceability of data when reporting will be crucial. This is not dissimilar to the tagging of data currently required as part of the EU Taxonomy. Thus, companies will need to evaluate their current data and reporting capabilities to meet disclosure requirements.

   The initial starting point for evaluating data capabilities is to understand what ESG data is available, where it is being created and to what extent it is already managed in an IT system. Typically, an ESG report will contain data collected from many different IT systems. CSRD/ESRS data collection processes, and IT systems landscapes should ideally follow the same structure and processes as financial reporting. There should be an established organizational structure, risk management and internal controls to support the reporting process, which will require workforce upskilling. Companies will also need to address data collection outside their own operations with the requirement for upstream and downstream value chain reporting. EFRAG acknowledges the complexity of collecting data outside of own operations, so associated disclosure requirements will be on a disclose or explain basis for the first 3 years of a company reporting.

Practical implementation: our recommended approach

To assess CSRD/ESRS readiness and build a future ESG reporting target picture, we suggest a three-step approach, which involves carrying out a gap analysis, conducting a materiality assessment and defining an implementation roadmap for execution.

Gap analysis to assess CSRD/ESRS readiness and develop a target picture

To assess CSRD/ESRS readiness and derive a clear view of the maturity of companies' ESG reporting, the latest sustainability report – if available – should be examined against upcoming CSRD/ESRS requirements. The aim of this analysis is to identify reporting gaps and determine whether the current availability of data and the system landscape meets future CSRD/ESRS reporting requirements. For a first outside-in assessment, disclosure requirements can be systematically analyzed from an operations perspective and then cross-checked against published sustainability reports. After the initial gap assessment, companies should develop concrete measures to resolve potential issues. This would include devising internal and external system solutions to support ESG reporting. To gauge readiness, the company should design a future governance model based on the ESG target picture and define an implementation roadmap.

Double materiality assessment

Companies are obliged to conduct a double materiality assessment as part of CSRD/ESRS reporting, which can also be leveraged as a tool to capture stakeholders' perspectives on ESG. Furthermore, such an assessment can inform ESG strategies and indicate where future investment may be required. The double materiality assessment involves reporting from two angles: how ESG-related issues affect the company; and how the company's own actions affect people and the environment. The double materiality assessment can be used to focus companies' reporting approach on the most relevant disclosure requirements, optimising the requirements for ESG reporting.

BCG has developed a proven approach to effectively conduct a double materiality assessment for CSRD/ESRS in-scope companies, which alleviates the need for lengthy, time consuming, stakeholder engagement. Instead, BCG operates an objective methodology driven by quantitative and qualitative data followed by stakeholder validation to assess the compliance requirements:

- Key Design Choices: Decide on key design choices to shape Double Materiality Assessment incl. topic selection, time horizon, value chain definition amongst others

- Data-driven Assessment: Identify material ESG topics from an impact and financial perspective leveraging quantitate indicators for severity and likelihood

- Stakeholder Engagement: Validate initial list of material ESG topics with relevant stakeholders across the value chain

- Results & Documentation: Consolidate DMA results incl. detailed documentation of methodology and approach

The assessment findings should inform the scope of material disclosure requirements to be reported and inform the implementation roadmap for the coming years.

Implementation roadmap

With the evolving ESG landscape, BCG understands the importance of the relationship between ESG reporting regulations and company strategy.

A roadmap to implementation is recommended which takes a pragmatic approach to reporting readiness. The roadmap will detail how to enrich a company's current reporting capabilities, optimise reporting readiness based on disclosure timelines and future-proof against the evolving ESG landscape. Through the double materiality assessment and gap analysis results, companies can focus their reporting remediation effort on those topics and corresponding disclosure requirements most urgently in need of reporting, i.e. those material to the company and within own operations. Those disclosure requirements upstream and downstream of the value chain will only need to be published as a disclose or explain for the first 3 years of CSRD/ESRS reporting. Given companies operating in Norway will need to start preparing for reporting as early as FY2024, optimising the effort required now is key.

The implementation roadmap will also consider reporting capabilities and synergies between ESG reporting and strategy. While project governance is highly dependent on company size and type, we recommend that companies characterized by complex organizational structures establish a matrix project organization that includes a strong central team and content owners. This matrix project organization would, for example, handle target setting and data computation in a consistent way across the group ensuring harmonisation between ESG reporting and strategy. An ESG committee should also be set up as the ultimate decision-making body and highest escalation authority for ESG issues. The committee should be supported by a coordination group that provides updates on ESG progress, as well as by a CSRD/ESRS steering committee that has the mandate to make rapid decisions based on reporting needs and execute any relevant iterations.

Conclusion: anticipating requirements

To take advantage of the strategic opportunity presented by ESG reporting regulations, ESG must be a board-level topic. Building a relevant ESG strategy requires a clear understanding of ESG reporting, accounting for a holistic transformation, incorporating multiple stakeholders, technology, and data capabilities. A transformation of this nature is driven by impending reporting obligations but requires board-level initiation. ESG reporting readiness is the first building block towards an ESG strategy which drives company direction.

Given the likely adoption of CSRD/ESRS by Norway coupled with the complexity of the regulation, ambiguity of individual value-chain disclosure requirements and continuously evolving disclosure requirements, companies in Norway should start thinking about a ESG reporting readiness now.

It is even more important, therefore, for companies to begin liaising outside the value chain and anticipate additional requirements and commitments well in advance so that they are well prepared for any eventuality. To respond to the upcoming regulatory changes, companies will need to incorporate new ESG reporting requirements in their strategic approach by:

- Evaluating current reporting capabilities through gap analysis to determine how to meet future reporting requirements
- Conducting a double materiality assessment that strategically optimises reporting scope
- Defining an implementation roadmap which prioritises reporting disclosure requirements based on company capabilities

As financial disclosure requirements have long been an inherent part of board level discussions, ESG reporting disclosure requirements will similarly become a cornerstone of company strategy. Boards who treat their ESG reporting targets with the same significance as financial metrics will not only minimize risk but drive company direction.

About the authors

Robert Hjorth – Managing Director & Partner, Oslo

Ingrid Cornander – Partner, Stockholm

Lorenzo Fantini – Managing Director & Partner, Milan

Jannik Leiendecker – Partner & Associate Director, Munich

Marcus Bruns – Consultant, Oslo

For further contact

If you would like to discuss this report, please contact the authors.

Acknowledgments

The authors would like to thank Santony Assamoi and Rhiannon Heard for their contribution to this white paper.

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

For information or permission to reprint, please contact BCG at permissions@bcg.com. To find the latest BCG content and register to receive e-alerts on this topic or others, please visit bcg.com. Follow Boston Consulting Group on Facebook and X (Formerly Twitter).


BCG
CENTER FOR
Sustainability
Policy & Regulation