



ESG Reporting Guidelines

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MAKING BUSINESS WORK FOR SOCIETY

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Foreword by BVB



Adrian Tănase
CEO,
Bucharest Stock Exchange

The integration of the ESG criteria in the decision-making process of the institutional investors has been a dominant theme in the capital markets landscape for the past years. In general, investors take more and more into consideration non-financial criteria such as the impact of the corporate activity on the environment, the relationship with the employees, suppliers and other partners or the implementation of the highest standards in terms of corporate governance into the research and the capital allocation process in their investment universe.

Bucharest Stock Exchange promoted several local initiatives aimed at supporting the implementation of the ESG standards locally and helping the local issuers to improve their ESG reporting. This guide will represent a valuable additional tool to support the local issuers in their drive to align to the expectations of their investors and partners in terms of ESG reporting.

Stock Exchanges have a key responsibility in promoting the transition towards a green economy by encouraging and developing sustainable investments frameworks and viable green financing platforms. In context pursuant to the Paris agreement and on the back of upcoming EU regulation targeting improved sustainability reporting in the capital markets, we expect these tendencies to accelerate further in the coming years. Bucharest Stock Exchange will focus its efforts to increase the visibility and the competitiveness of the Romanian capital market by implementing the best practices in terms of sustainability and, in this manner, will bring a valuable contribution towards the green transition of the Romanian economy.

In the last years, the Romanian capital market went through an accelerated

development, proven particularly by surging number of companies financed and listed on our platforms. In 2021 alone, 23 companies raised more than EUR 230 mn and got listed on the BVB markets, a record in the history of the local capital market. Equally important, the recent promotion to Emerging Market status by FTSE Russell brought the Romanian market on the radar of a significant number of foreign institutional investors. These recent developments showcase the high potential of the local capital market and we believe that they are only an initial step on our growth curve. Without a doubt, improvements in the ESG reporting of the local issuers and, generally, a more sustainable corporate universe, will play an essential role in this development process.

These guidelines have been prepared together with our partners from the European Bank for Reconstruction and Development (EBRD) and the sustainability focused consultant Steward Redqueen and they represent a practical and coherent approach aimed at supporting mainly the Bucharest Stock Exchange issuers.

Bucharest Stock Exchange is grateful to all its partners, issuers, investors and other private and public institutions for their contribution to the development of the Romanian capital markets and for involvement in this significant project aimed at developing a green capital market in Romania. We also want to show our appreciation towards our partners in this project, EBRD and Steward Redqueen for their involvement and expertise. Their work will certainly have a major contribution towards the success of the Romanian capital markets and the development of the local ESG segment.

Foreword by EBRD



Harry Boyd-Carpenter
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The shift towards green and sustainable assets is the most important development in finance in the last few years. A combination of government policies, stakeholder pressure and increasing scrutiny from institutional investors is driving more and more capital to this sector. This shift depends critically on additional and more detailed Environmental Social and Governance (ESG) data to inform investors' decision-making. As a result, reporting has become an essential tool for measuring how companies manage climate and sustainability risks. Taking actions to mitigate global challenges such as climate change, supply chain risks or biodiversity loss has never been more critical.

Environmentally sound investment and sustainable development lie at the heart of the EBRD's mandate. The EBRD is a signatory to the UN Principles for Responsible Investment and contributes to initiatives such as the EU Platform on Sustainable Finance and the Task Force on Nature-related Financial Disclosures. In this respect, we are committed to align all our investments with the goals of the [Paris Agreement](#) by 2023 and in 2021 already met our ambitious target to become a majority green bank by 2025.

We continue to support Romania in its transition to a low carbon and climate resilient economy, in line with the EU sustainable finance agenda. In 2021, 83% of our investment in Romania was in line with our [Green Economy Transition approach](#) and we continue to evolve our unique business model, which combines investment, policy dialogue and advisory to promote a green transition. We support policy initiatives that help our partners assess and integrate material ESG factors into the investment decision-making process.

These ESG Reporting Guidelines for issuers are intended to be a crucial tool



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for companies that are determined to contribute to Romania's low-carbon transition, provide clear and comparable information to investors and ensure that they are well placed to comply with forthcoming EU reporting requirements under the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainable Reporting Directive (CSRD).

The leadership of our partner, the Bucharest Stock Exchange (BSE), in developing these ESG Reporting Guidelines for listed companies is key to the success of this approach. The guidelines reflect the increased demand from investors for harmonised and comparable ESG data reporting while integrating the key principles of the [EU sustainable finance policy framework](#) (including the CSRD, SFDR) aimed at supporting the transition to a climate-neutral, green, competitive and inclusive economy.

Exchanges have a powerful role to play in facilitating ESG data flow between companies and investors by fostering transparency, providing guidance, services and awareness-raising to their clients and wider stakeholders. These innovative Guidelines are a testament to BSE's commitment to both help companies effectively identify and manage ESG risks and opportunities, and develop an attractive market where investors can better assess the drivers of value creation. The Guidelines will contribute to the development of a well-functioning, increasingly resilient and liquid market, while steering investment towards climate and sustainable products.

We hope that this timely work provides companies, investors and other market participants in Romania with a clear and practical guide in their journey towards a more sustainable economy.

1. Introduction



Recognising significant growth perspectives, the Romanian capital market has embarked on an ambitious development journey. As part of this journey, the Bucharest Stock Exchange (BVB) has taken the initiative to leverage on the opportunities of integrating environmental, social and governance (ESG) aspects. International capital markets are embracing this multi-faceted ambition as an expanding body of research shows^{1 2 3} that long-term value creation is driven by the quality of ESG management. In view of this global trend, BVB's effort to take ESG to a next level is timely.

In these Guidelines, the ESG business case is explained in a broad context. ESG management is often considered to be a proxy for operational excellence. Reporting and offering transparency to stakeholders is part of an integrated ESG management cycle. Understanding how societal developments, environmental impacts and the governance responses can be both a risk as well as an opportunity to business is a starting point. By identifying and prioritising material aspects, a company board can design an action plan that is linked to its core processes. Subsequently, designated employees will be capable of dealing with social and environmental risks. Consumption patterns are changing and the market for sustainable products is expanding. In international supply chains, the demand for sustainable alternatives is more dominant and only

those business partners that can produce these alternatives will secure their position. Companies' preparedness to manage material ESG risks is likely to improve both access to capital and the cost of finance. Reporting about such ESG developments facilitates a broader dialogue and supports the potential for long-term value creation by business.

These ESG Reporting Guidelines are designed to support Romanian listed companies and the wider business community. They aim to contribute to better, more consistent, comparable and reliable sustainability reporting in a way that meets local and global market needs. The Guidelines are the result of an intensive process which included engagement sessions with Romanian businesses and financial institutions. Moreover, extensive desk research was focused on both the Romanian as well as the international regulatory context, ongoing sustainability reporting developments and companies' best practices. The EU is a major force for making ESG integration 'business as usual'. Experiences from many countries have shown that the diversity and the sheer number of initiatives in this area can be overwhelming to both issuers and financial institutions. By offering this roadmap and providing practical guidance for meaningful and effective ESG reporting in Romania, these Guidelines can be a relevant tool.

¹ The International Finance Corporation (IFC): *The business case for sustainability*, https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/business-case

² Harvard University's Law School: *"The business case for ESG"*, <https://corpgov.law.harvard.edu/2019/06/04/the-business-case-for-esg/>

³ Stanford University's Graduate School of Business: *"The business case for ESG"*, <https://www.gsb.stanford.edu/faculty-research/publications/business-case-esg>

1.1 What is the purpose of these Guidelines?

These Guidelines provide an overview of the latest international developments in the area of ESG reporting. EU regulatory measures such as the Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD), the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation are covered prominently. Moreover, the Task Force on Climate-related Financial Disclosure (TCFD) and other globally used sustainability reporting standards and frameworks are discussed in this report.

It is important to stipulate that these Guidelines do not replace these international developments. Rather, they offer a compass to navigate the rapidly evolving sustainability reporting landscape that is becoming more and more demanding for companies.

The main objectives of the Guidelines are therefore as follows:

1) Support Romanian companies in addressing their ESG reporting challenges

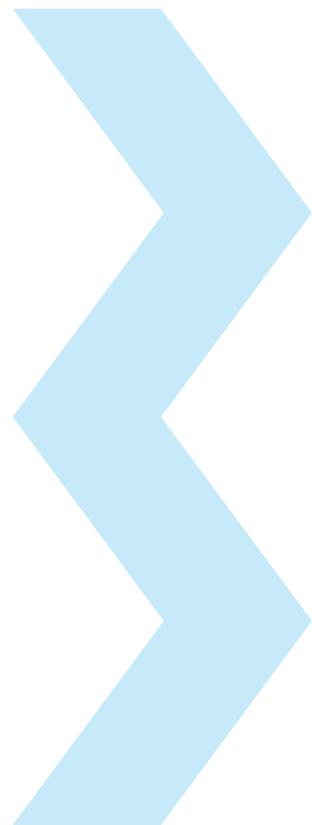
By offering a practical roadmap these Guidelines aim to offer the Romanian business community an efficient process to align with international standards and best practices and reap the benefits of high quality ESG management communication.

2) Support the development of the Romanian capital markets

On a more macro level, the ESG Reporting Guidelines are a timely response to the needs of international capital providers and policy makers. In this respect, better understanding and linking of ESG aspects to corporate value will help build trust and strengthen the reputation of the local capital markets.

3) Facilitate the ongoing ESG dialogue

The ESG journey will remain a long-term ongoing learning process for all the capital markets stakeholders. How can cooperation and investment support the protection of the natural habitat that supports life on earth as well as contribute to a just and inclusive economy? This immense challenge will continue to drive the international business agenda. Transparency and dialogue will be building blocks that support wellbeing and long-term value creation, both in Romania as well as internationally.



1.2 Who should use these Guidelines?

The Guidelines have been developed to support BVB listed firms yet private companies may also find these helpful and are encouraged to use them to mitigate and reflect ESG issues in an effective manner.

The Guidelines will be of particular assistance to first-time reporters and companies that are in the early stages of

their reporting journey. For such companies, the list of minimum recommended disclosures has been provided (**Appendix A**) and can serve as a starting point from which further capacity can be developed. More advanced companies can use additional references included throughout the report to further enhance their reporting process and take it to the next level.

1.3 How should the Guidelines be used?

The Guidelines do not introduce new reporting requirements but are rather intended to be used by the companies on a voluntary basis. They provide a useful context on the ongoing regulatory developments, existing sustainability reporting standards and frameworks and international best practice. By offering a comprehensive overview of what ESG is, why it is relevant and what are the elements of effective ESG communication, they aim to equip users with necessary knowledge to start (and improve) their ESG reporting process.

Additionally, a set of minimum disclosures (**Appendix A**) considers current topics under the NFRD and anticipate the requirements of the CSRD and the European Sustainability Reporting Standards (ESRS) developed to complement the directive. As such, the Guidelines should help companies in Romania to better prepare for the upcoming regulatory reporting obligations.

1.4 What you will learn from these Guidelines?

What is ESG and why does it matter?

- What does ESG mean?
- How governance is understood in the context of broader ESG topics?
- How the Guidelines interact with the BVB Corporate Governance Code?
- What are the main benefits of improved ESG management and disclosure?

How regulations shape the ESG reporting landscape?

- Which EU directives and regulations require disclosure of sustainability-related information?
- What will be expected from the companies under the Corporate Sustainability Reporting Directive?
- What ESG disclosure requirements are in place in Romania?

What to consider when developing the content of an ESG report?

- What are some of the most popular voluntary sustainability reporting standards and frameworks?
- Will there be one harmonised sustainability reporting standard?

How to report on climate-related issues?

- Why it is vital for companies to report on climate-related information?
- How can the TCFD framework guide companies' climate-related reporting?
- What climate-related risks companies may be faced with?
- How to set up a staggered approach to climate-reporting?

How to kick start the ESG reporting process?

- What is materiality and how to determine which ESG issues are material for your company?
- How to collect feedback from your stakeholders?
- What elements you should include in your sustainability report?
- How to align ESG reporting with investor needs and expectations?

Other useful resources

- Recommended disclosures
- ESG ratings explained

2. What is ESG and why does it matter?



In this chapter you will learn:

- What is ESG and how is it different from CSR?
- How is Governance understood in the context of broader ESG topics?
- How the Guidelines interact with the BVB Corporate Governance Code?
- What are the main benefits of improved ESG management and disclosure?

2.1 ESG – what does it mean?

ESG refers to a broad range of environmental, social and governance factors that can be used to evaluate how companies are managing their sustainability performance and impact. Those factors can be evaluated either from the inside-out

perspective (how the company operations affect certain ESG issues) or an outside-in perspective (how certain ESG issues affect the company). Examples of different ESG issues are provided in **Figure 1**.

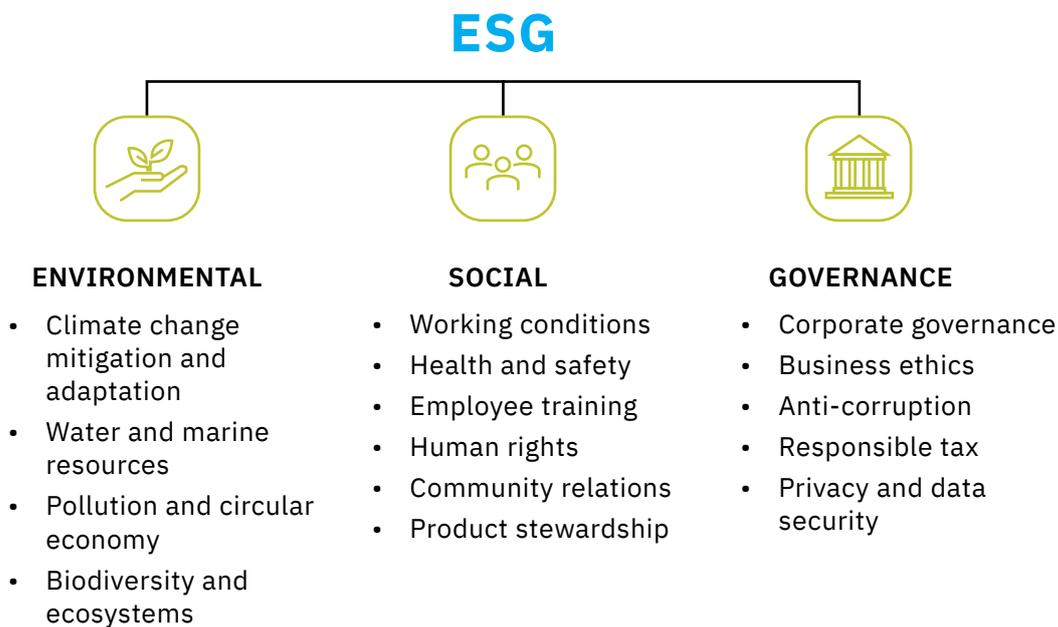


Figure 1 – Examples of different ESG issues

ESG vs. CSR

In these Guidelines ESG and sustainability are used interchangeably as they broadly refer to similar concepts. These are nowadays more part of the business lingo than corporate social responsibility (CSR). Sustainability professionals increasingly agree that CSR has a somewhat other meaning than sustainability and ESG. First, CSR refers only to social matters, whereas ESG also covers environmental and governance considerations. Second, CSR focuses on community and external relations whereas ESG also considers internal social matters like health and safety, working conditions, and training, both in the company's own operations and in the supply chain. Third, CSR is often used in relation to philanthropic activities, or at least those activities that are not related to the core business processes. This may be the reason that CSR budgets are typically comparatively small, whereas the scope of ESG work requires a substantial budget and internal resources to be carried out adequately.

ESG issues vs. ESG risks and opportunities

While there is a broad range of ESG issues, not all issues will translate into a material risk for each company. Water is an example of sustainability issue that is important to everyone. However, it only poses significant risks to certain companies (i.e. those that use considerable amounts of water or have operations in water-scarce regions). Another example is health and safety, which is an issue that permeates all sectors and industries. However, in some companies it poses a substantial and probable risk that may threaten licenses to operate or lead to unplanned and costly interruptions and reputational impacts. Conversely, it can also constitute a real opportunity in retaining and attracting employees where competitors have tarnished safety track records. There are many other ESG topics which depending on the industry, the company and the local context may be analysed from several angles – as risks, opportunities, or merely basic issues which need to be managed to some, limited, degree.

2.2 Governance and ESG

Governance encompasses the system by which an organisation is managed and operates, and the mechanisms by which the firm and its staff are held to account.

Typically, in the context of the broader ESG, governance can be broken down into two main areas: corporate governance and business ethics (or responsible business conduct). The first one deals with issues such as: ownership structure, board structure (one or two tiers) and composition, management compensation, compliance and risk management procedures, and communication with shareholders, among others. Business ethics on the other hand, refers to a set of principles that the company stands for and has adopted, explicitly as

well as implicitly, to manage its business in a responsible way in line with applicable laws and accepted norms and standards.

These Guidelines do not discuss Corporate Governance in greater detail but rather refer to the [BVB Code of Corporate Governance](#). The Code, which is in force since 2015, outlines corporate governance principles that companies listed on the BVB should observe in line with the “comply or explain” principle. These Guidelines are intended to help companies understand ESG in the broad sense and to start applying it within the context of their operations and reporting. Hence, those two documents, while complementary, should be considered separately.

2.3 Benefits of improved ESG performance and disclosure

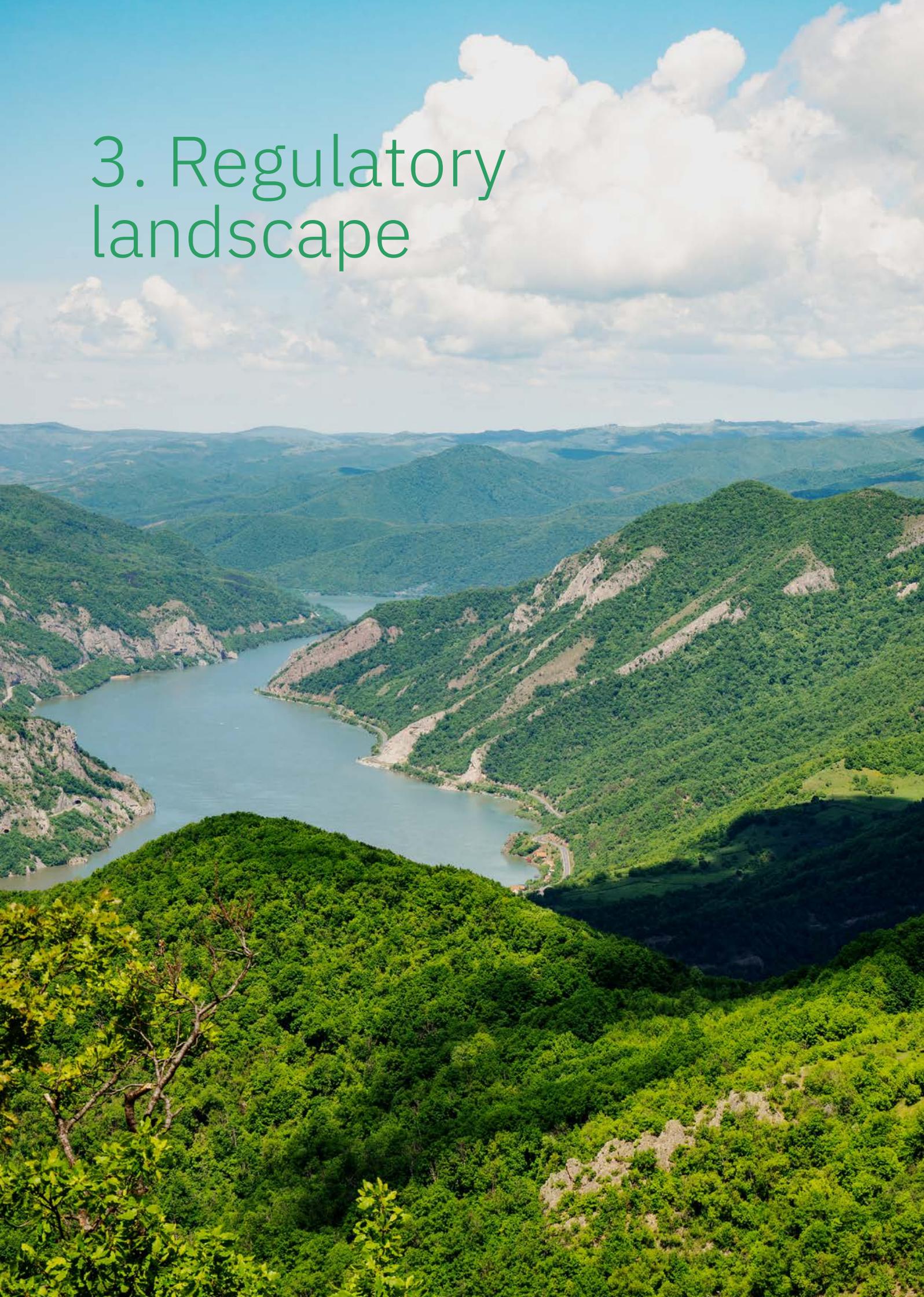
ESG is not a discreet set of considerations separate from all other operational and strategic matters. Rather it is an integral part of how companies function and how they remain operationally relevant. ESG aspects are increasingly quantifiable which helps

capturing them in financial terms. The below table is a way of structuring common ESG matters across few categories, which in some companies may also overlap with departments or divisions.

RISKS		OPPORTUNITIES
<ul style="list-style-type: none"> License to operate withheld or withdrawn Regulatory fines and penalties 	 <p>RISK MANAGEMENT</p>	<ul style="list-style-type: none"> Value preservation Improved consistency across operational processes Better long-term investment planning
<ul style="list-style-type: none"> Costs resulting from operational inefficiencies Waste disposal cost resulting from weak waste management practices Heightened risk of labour unrest, and lower employee productivity Higher staff turnover rate 	 <p>OPERATIONAL PERFORMANCE</p>	<ul style="list-style-type: none"> Cost savings resulting from energy, resource and material efficiencies Greater operational resilience and improved productivity
<ul style="list-style-type: none"> Weakened competitive position as competition strengthen approach to sustainability Inability to compete for contracts due to sustainability requirements 	 <p>NEW BUSINESS OPPORTUNITIES</p>	<ul style="list-style-type: none"> Comparative B2B advantage (e.g. where supply chain ESG risks matter) Potential B2C opportunities (new and expanding markets for sustainable products and services)
<ul style="list-style-type: none"> Loss of customers Difficulties attracting employees Protest by stakeholders, such as NGO's 	 <p>REPUTATION</p>	<ul style="list-style-type: none"> Client loyalty Attracting and retaining talent Brand value
<ul style="list-style-type: none"> Loss of financing Higher financing costs due to ESG risk premium 	 <p>ACCESS TO CAPITAL AND FINANCING</p>	<ul style="list-style-type: none"> Improved access to capital, including international and long-term institutional investors More favourable financing terms and conditions
<ul style="list-style-type: none"> Low ESG performance assessment by ESG rating providers affecting investors' perception of the company Defensive dialogues 	 <p>STAKEHOLDER ENGAGEMENT</p>	<ul style="list-style-type: none"> Improved understanding of stakeholder needs Enhanced investor relations and engagement Stakeholder support in challenging times

Figure 2 – ESG risks and opportunities

3. Regulatory landscape



In this chapter you will learn:

- Which EU directives and regulations require disclosure of sustainability-related information?
- What will be expected from companies under the Corporate Sustainability Reporting Directive?
- What ESG disclosure requirements are in force in Romania?

3.1 ESG disclosure regulations at the EU level

Over the last few years, the European Commission has adopted new strategies and regulations in an effort to tackle climate change and other sustainability challenges. New and amended legislation demand greater transparency from companies and financial institutions on their sustainability impacts and the way they are managing related risks. These regulations include:

- The legislative proposal for the CSRD⁴ that will amend the NFRD⁵ currently in force;

- The SFDR⁶ applicable to financial market participants and financial advisors; and
- The Taxonomy Regulation⁷ setting forth a common classification system to identify environmentally sustainable economic activities.

Together these three regulatory measures constitute the cornerstones of the ESG reporting requirements underpinning the EU's sustainable finance strategy.

⁴ Proposal for a Directive of the European Parliament and of the Council, amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (Publ. 21 April 2021) <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0189>

⁵ Official Journal of the European Union. Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Publ. 15 November 2014). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

⁶ Official Journal of the European Union. Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability related disclosures in the financial services sector (publ. 27 November 2019). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088>

⁷ Official Journal of the European Union. Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Publ. 18 June 2020). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

3.1.1 NFRD/CSRD

The NFRD (Directive 2014/95/EU) is the single most important regulation that introduced sustainability reporting obligations for certain large companies in the EU. It was adopted in 2014 and entered into force in 2018.

The NFRD requires companies in scope to publish an annual non-financial statement containing information related to environmental, social and employee matters, respect for human rights, and anti-corruption and bribery. Disclosure should cover:

- A brief description of company business model;
- Description of relevant policies and their outcomes with respect to the above-mentioned topics;
- Principal ESG risks & due diligence processes;
- Relevant key performance indicators (KPIs); and
- Diversity policy with respect to the company governance bodies.

Accompanying guidelines

To help companies disclose non-financial information in a more consistent and comparable way, the European Commission has published additional guidelines, listed below. The guidelines are not legally binding, and companies can use them on a voluntary basis.

- [Guidelines on non-financial reporting](#) (published in June 2017);
- [Guidelines on non-financial reporting: Supplement on reporting climate-related information](#) (published in June 2019) providing additional information on reporting climate-related matters and integrating TCFD recommendations (more on these in paragraph 4.2).

Proposal for a Corporate Sustainability Reporting Directive (CSRD)

While the NFRD has helped to increase the supply of ESG data, many investors and other stakeholders have still found the information disclosed by the companies insufficient and difficult to compare from one company to the other. Furthermore, there was an increasing need to align the NFRD requirements with subsequent sustainable finance initiatives introduced by the EU, notably the SFDR and the Taxonomy Regulation. Consequently, in April 2021, the European Commission adopted a legislative proposal for the CSRD, which will amend the NFRD requirements currently in force. Under the proposal, the Commission plans to:

- Extend the scope of the reporting obligations to all large companies and all companies listed on the EU regulated markets;
- Introduce more detailed reporting requirements and mandatory third-party assurance of reported information.

A detailed overview of all anticipated changes is provided below.

	NFRD	CSRD
 <p>Who is in scope?</p>	<ul style="list-style-type: none"> • Large public interest entities with >500 employees and meeting 1 out of 2 financial criteria (total assets >EUR20 million or net turnover >EUR40 million) 	<ul style="list-style-type: none"> • All large companies (meeting 2 out of 3 criteria: >250 employees, total assets >EUR 43 million or turnover >EUR 50 million) • All companies with securities listed on the EU regulated markets (except micro-companies⁸)

⁸ The European Commission defines micro companies as those with fewer than 10 employees.

Source: "Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises" - http://publications.europa.eu/resource/ellar/6ca8d655-126b-4a42-ada4-e9058fa45155.0004.01/DOC_1

 <p>What should be reported?</p>	<ul style="list-style-type: none"> • Business model • Policies and their outcomes regarding environmental, social and employee matters, human rights, and bribery and corruption • Principal risks and due diligence procedures in relations to the above-mentioned issues • Relevant KPIs • Diversity on company board (in terms of age, gender, educational and professional background) 	<ul style="list-style-type: none"> • Business model and strategy • Targets and progress achieved against them • Role of the board and management • Policies and their outcomes • Principal risks and due diligence procedures • Relevant KPIs • Adverse impact • Intangibles (social, human and intellectual capital) • Process of defining the content of the report (double materiality)
 <p>Where to report?</p>	<ul style="list-style-type: none"> • Management Report or separate report 	<ul style="list-style-type: none"> • Management Report
 <p>Format of reporting</p>	<ul style="list-style-type: none"> • Online or PDF 	<ul style="list-style-type: none"> • Reported information has to be in the XHTML format and it has to be digitally 'tagged' to be machine readable
 <p>Assurance</p>	<ul style="list-style-type: none"> • External third-party assurance not mandatory in most countries (including Romania) 	<ul style="list-style-type: none"> • Mandatory external audit (limited level of assurance) confirming compliance with the EU sustainability reporting standards, process of identifying the content of the report, digital tagging and compliance with the Taxonomy indicators

Figure 3 – NFRD and CSRD overview

EU sustainability reporting standards

To facilitate disclosures required by the CSRD and increase consistency and comparability of reported information, the European Commission has tasked the European Financial Reporting Advisory Group (EFRAG) with the development of the mandatory EU sustainability reporting standards. The first set of core standards is expected to be adopted by October 2022. A second set of standards providing further details is expected to be available by October 2023. These standards will be applicable to large companies. Listed SMEs will be allowed to report according to simplified standards. The standards will build on and contribute to standardisation initiatives at the international level.

Timeline for implementation

The CSRD along with the complementing sustainability reporting standards are expected to be formally adopted by the end of 2022. Subsequently, large companies will be expected to start applying the standards for the first time to reports published in 2024, covering financial year 2023. From January 2027, all companies listed of the EU regulated markets (with more than 10 employees) will have to start reporting according to the new CSRD requirements. **Figure 4** below provide further details on the expected timelines.

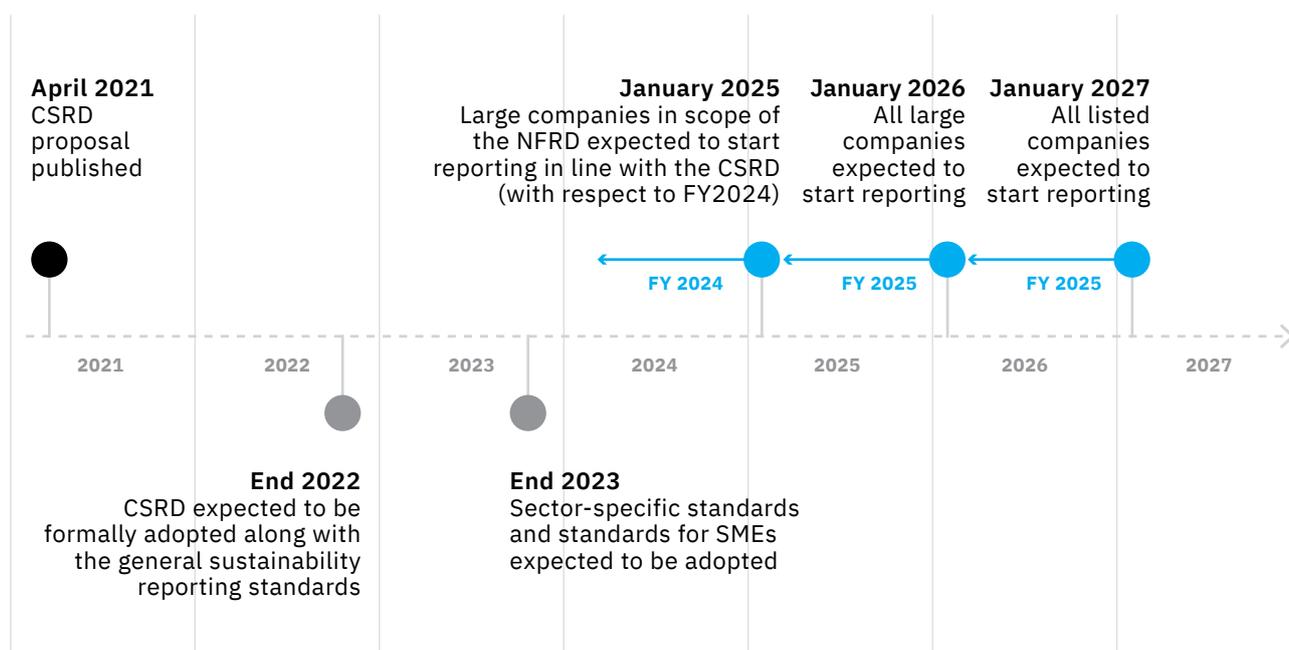


Figure 4 – CSRD timeline

3.1.2 EU Taxonomy

The Taxonomy Regulation (Regulation (EU) 2020/852) establishes a common classification system to help define environmentally sustainable activities. It applies to:

- Financial and non-financial companies within the scope of the NFRD/CSRD;
- Financial market participants offering financial products on the EU market within the scope of the SFDR. Notably, those offering products with sustainability

objectives or promoting environmental and social characteristics (Article 8 and 9 funds).

To be classified as environmentally sustainable, an economic activity must make substantial contribution to at least one of the six environmental objectives outlined in the **Figure 5**, whilst not harming any of the others. It must also comply with the minimum social safeguards such as [OECD Guidelines](#), [United Nations Guiding Principles on Business and Human Rights](#) and [ILO core conventions](#).

SIX ENVIRONMENTAL OBJECTIVES OF THE EU TAXONOMY	TO BE ALIGNED WITH THE EU TAXONOMY AN ACTIVITY MUST MEET THE FOLLOWING CRITERIA:
1 Climate change mitigation	✓ SUBSTANTIALLY CONTRIBUTE to at least one of the six environmental objectives
2 Climate change adaptation	+
3 Sustainable use and protection of water and marine resources	✗ DO NO SIGNIFICANT HARM (DNSH) to any other objectives
4 Transition to a circular economy	+
5 Pollution prevention and control	👍 Comply with MINIMUM SAFEGUARDS (OECD Guidelines, UN Principles, ILO core conventions)
6 Protection and restoration of biodiversity and ecosystems	

Figure 5 - EU Taxonomy classification criteria

The assessment whether an activity contributes to or harms the environmental objectives is made based on the harmonized performance thresholds called the *Technical Screening Criteria (TSC)*. These are outlined in the Taxonomy Delegated Acts, which provide technical guidance on the practical implementation of Taxonomy Regulation. The TSC for the first two objectives related to climate change were published in June 2021. TSC related to the remaining four objectives will be published in the first half of 2022.

Although the EU Taxonomy is not intended to be a reporting framework, it introduces

certain reporting obligations for companies and financial market participants it applies to. Specifically, Article 8 of the Taxonomy Regulation requires companies to disclose three KPIs: the percentage of turnover derived from green products or services, and the percentage of CAPEX and OPEX related to green assets or processes. Financial companies in scope will be required to report equivalent KPIs.

Figure 6 below summarises the expected implementation timeline and associated reporting obligations for the companies.

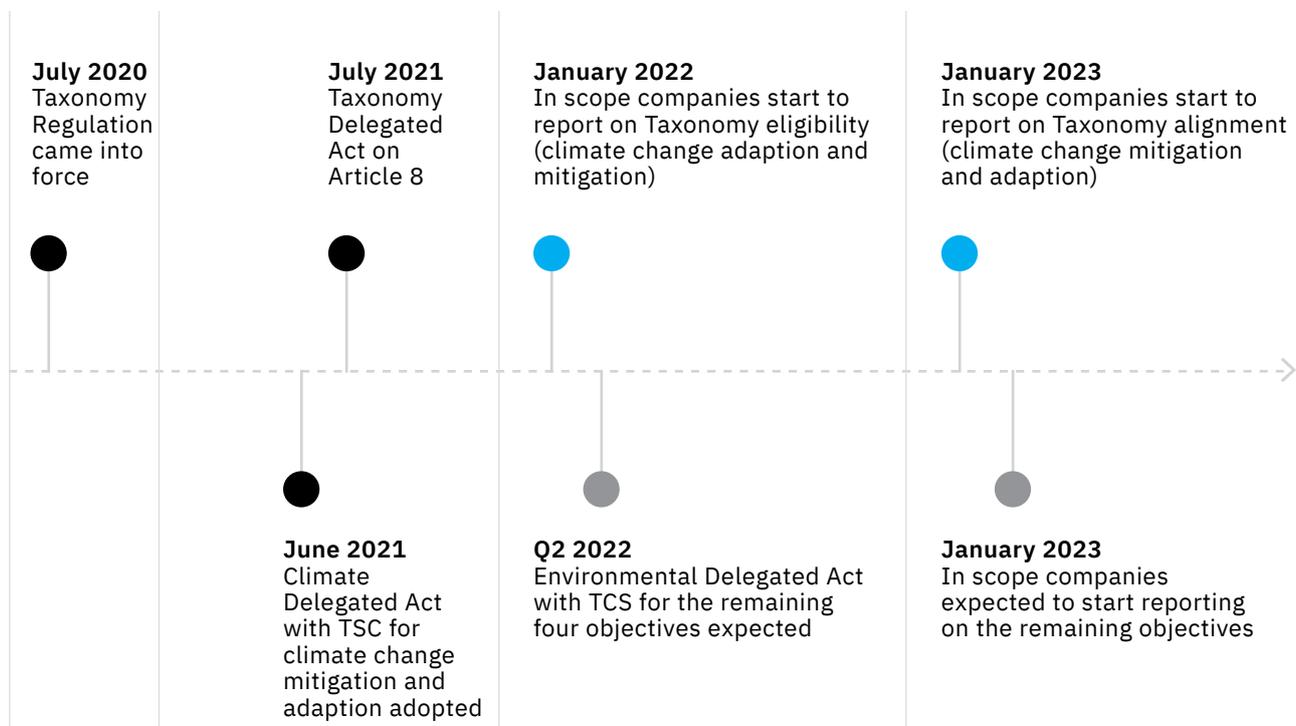


Figure 6 – EU Taxonomy timeline

Appendix C provides additional guidance on determining Taxonomy eligibility and alignment.

3.1.3 Sustainable Finance Disclosure Regulation (SFDR)

The SFDR or Regulation (EU) 2019/2088) was introduced in 2019 and came into effect in March 2021. It imposes mandatory ESG disclosure obligations for financial markets participants that manufacture and sell financial products and perform portfolio

management services (i.e., asset managers, pension fund providers, banks and insurers) and financial advisors.

The SFDR aims to prevent greenwashing and increase transparency on the European capital markets by requiring funds to report more accurately about their ESG risks. Subsequently, this should make the sustainability profile of funds more comparable and easier to understand by end-investors.

Companies in scope of the SFDR must make both entity-level and product-level disclosures in relation to sustainability risks and the consideration of adverse sustainability impacts in their investment processes. They must also disclose sustainability-related information with respect to the financial products they offer (stricter disclosure rules apply to products that promote environmental or social characteristics or have a sustainable investment objective – so called

Article 8 and 9 products). Required information must be disclosed on the company website, in pre-contractual documents and in periodic reports.

Content, methodologies and presentation of the sustainability-related disclosures required under SFDR is further specified in the Regulatory Technical Standards (RTS)⁹. The RTS also contain specific reporting templates to facilitate the reporting process.

3.2 ESG disclosure regulations in Romania

Mandatory disclosure of non-financial information by certain companies in Romania was introduced as a result of transposing NFRD into the Romanian law. Specifically, two orders were issued by the Romanian Ministry of Public Finances, amending the legislation on the annual financial statements and consolidated financial statements Order No. 1802 (OMPF 1802/2014). These are:

- Order No. 1938/2016 (OMPF No. 1938/2016) published in September 2016, and
- Order No. 3456/2018 (OMPF No. 3456/2018) published in November 2018.

Accordingly, all companies that individually or on a consolidated level have on average more than 500 employees (whether they are a public interest entity or not) are required to disclose material ESG information as part of their annual reporting¹⁰. This includes European companies with headquarters in Romania and subsidiaries of foreign companies officially registered in Romania.

Disclosure should have a form of a non-financial statement included in the management report. It should cover a brief description of the company business model; policies and their outcomes regarding: environmental matters, social and employee matters, human rights and anti-corruption; principal risks and due diligence procedures; and relevant KPIs. If the company does not have a policy on issues specified above, it should disclose this fact in accordance with the “comply or explain” principle.

Additionally, companies must disclose information on their diversity policy in relation to the administrative, management and supervisory bodies covering aspects such as age, gender, educational and professional background. The disclosures should include the objectives of the policy, how it is applied, and the results obtained during the reporting period. If the company did not adopt a diversity policy, its corporate governance statement should provide a clear explanation as to why this is the case.

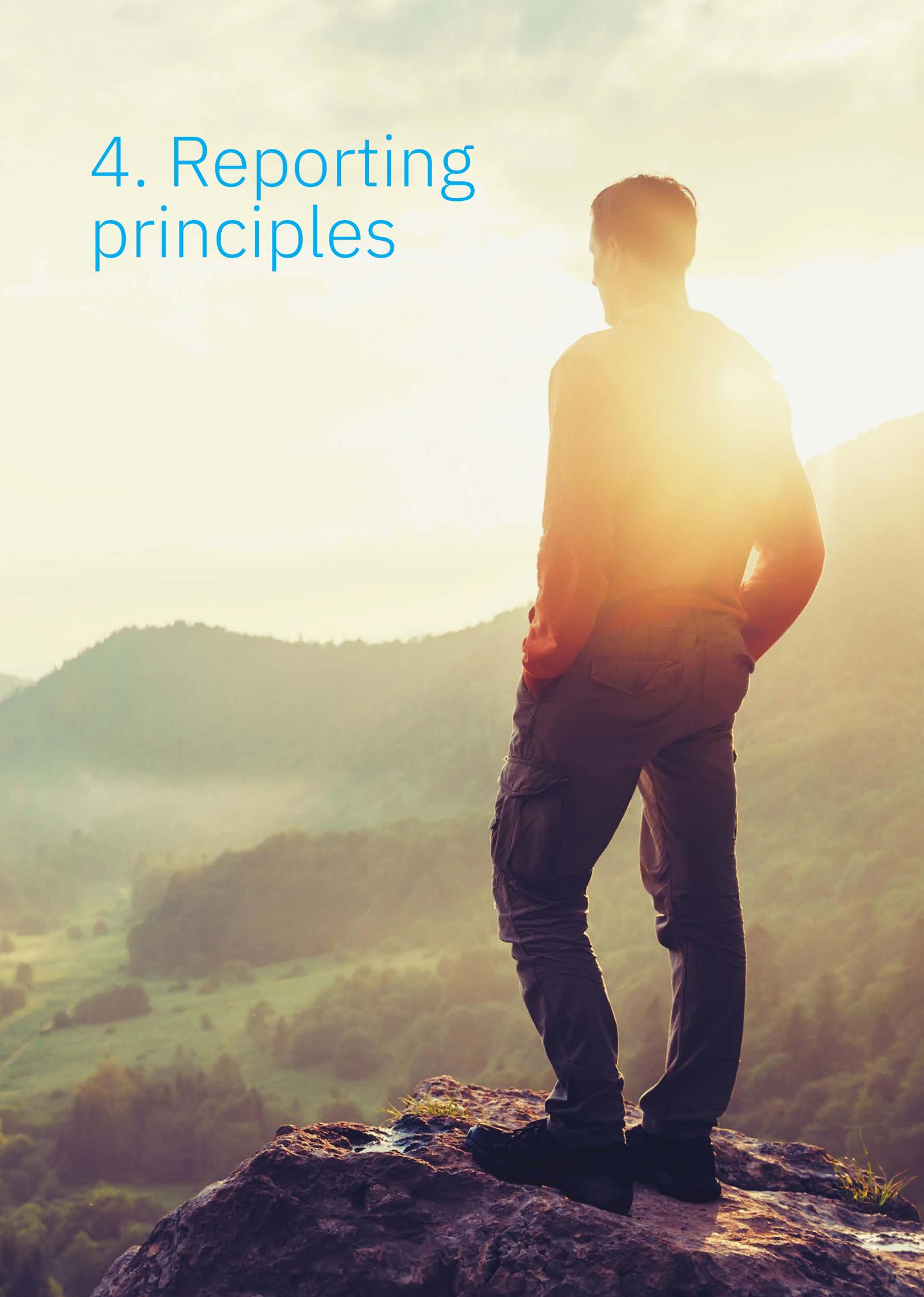
Emerging initiatives

The Romanian Department of Sustainable Development is currently in the process of developing Romanian Sustainability Code to increase transparency and accountability among companies and to facilitate monitoring of the implementation of the Romania's Sustainable Development Strategy 2030. The code will draw inspiration from the German Sustainability Code which is in force in Germany since 2011. It is expected to be published by the end of 2022.

⁹ https://www.esma.europa.eu/sites/default/files/library/jc_2021_50_-_final_report_on_taxonomy-related_product_disclosure_rts.pdf

¹⁰ Similar requirements have been introduced by The National Bank of Romania and Romanian Financial Supervisory Authority for the credit institutions and private pension funds providers. These are specified in the NBR Order No. 7/2016 and ASF Norm No. 1/2017.

4. Reporting principles



In this chapter you will learn:

- What are some of the most popular voluntary sustainability reporting standards and frameworks?
- Will there be one harmonised sustainability reporting standard?
- What reporting format should you choose?

4.1 Sustainability reporting standards and frameworks

Over the years, several voluntary sustainability reporting standards and frameworks have been developed to facilitate the disclosure of ESG information. Some of them can be used to report on a broad set of ESG issues (for example GRI or SASB Standards) others have been designed to help companies report on specific topics, such as climate change (for example TCFD recommendations). This section provides an overview of the main globally recognized ESG reporting standards and frameworks.

Before diving into their key characteristics, it is important to note the difference between standards and frameworks. Frameworks provide principles-based guidance on how the information should be structured and which broad topic should be covered. Standards on the other hand are much more specific and detailed. These typically include specific metrics to ensure that provided disclosures are consistent and comparable between companies.

Leading standards and frameworks to report on a broad range of ESG issues

Global Reporting Initiative (GRI) was one of the first organisations to provide companies with guidance on sustainability disclosure. Established in 1997, GRI offers sector-agnostic standards for reporting on economic, environmental, and social impacts to a broad range of stakeholders. GRI Standards are among the most commonly used standards in Europe and are considered a golden standard of

sustainability reporting. They can be used to support disclosure on selected topics or to produce comprehensive reports.

Sustainability Accounting Standards Board (SASB) was founded in 2011 to develop sustainability accounting standards to help companies in the US disclose financially material sustainability information in the mainstream financial reporting. Contrary to GRI Standards, SASB Standards take an industry-based approach (specific guidance is provided for 77 industries) and have been designed predominantly with the investors in mind, rather than being multi-stakeholder inclusive. Although historically, SASB Standards were mainly used by the companies in the North America, nowadays they are increasingly adopted in Europe and other regions.

International Integrated Reporting Council (IRRC) framework was launched in 2013 to aid companies in preparing integrated reporting that connects financial and sustainability disclosure. The framework is designed to support concise, investor-oriented disclosure based on the concept of six capitals essential to the value creation process: financial, manufactured, intellectual, human, social and relationship and natural.

In June 2021, SASB and IRRC have merged into one organisation – the Value Reporting Foundation (VRF). Despite the merger SASB Standards and IR Framework will remain separate and can be used as complementary tools.

While the Guidelines do not recommend one standard over the others, it is advised that companies adopt a globally recognized sustainability reporting standard as a basis for the preparation of their report. Companies in scope of the NFRD/CSRD may consider reporting according to the GRI Standards until the mandatory European sustainability reporting standard is developed by EFRAG, given the close cooperation between the two organisations¹¹ and similarities they share in terms of the approach to materiality.

Leading frameworks to report on issues related to environment

CDP (formerly Carbon Disclosure Project) helps companies, cities, and governments to disclose information on their environmental impacts through standardized questionnaires. Topics covered include climate change, water management and deforestation. The information provided by the respondents are scored by the CDP to drive environmental leadership. In 2020, over 9,600 companies with over 50% of global market capitalization disclosed environmental data through CDP platform, making it a leading environmental research provider for investors and other stakeholders.

Climate Disclosure Standards Board (CDSB) was founded in 2007 to provide companies with a framework for disclosing

environmental and climate change information in their annual and integrated reports with the same rigor as financial information. CDSB also hosts [TCFD Knowledge Hub](#) – an online platform that gathers relevant resources and tools to help companies implement TCFD recommendations.

TCFD was created by the Financial Stability Board in 2015 to help companies disclose information on their approach for managing climate-related risks and opportunities. In 2017, TCFD published its recommendations within four areas: governance, strategy, risk management, and metrics and targets. TCFD recommendations emerged to be a leading global framework for disclosure of climate-related information, and its adoption has been encouraged by different regulatory bodies. For more details on climate reporting and TCFD see also **Section 5.2**.

Emerging initiatives

Taskforce on Nature-related Financial Disclosures (TNFD) is a new global initiative that will develop risk management and disclosure framework for corporate reporting on a broad range of nature-related risks and opportunities (including risks from biodiversity loss and ecosystem degradation). The framework will build on the TCFD model and will provide companies with a set of recommendation for disclosure on environment-related risks and opportunities. The TNFD plans to launch the framework in 2023.

Other initiatives

Sustainable Development Goals (SDGs) are a set of 17 aspirational goals (and 169 associated targets) adopted by United Nations member states in 2015, as part of the 2030 Agenda for Sustainable Development. While SDGs are not a reporting framework per se, they provide a useful

framework that companies can use to prioritise their sustainability efforts to maximise positive contributions while at the same time managing and mitigating negative impacts that may hinder the achievement of the SDGs. Many companies have been mapping SDGs to their business strategy and planning and referencing them in their sustainability reporting.

¹¹ <https://www.efrag.org/News/Project-516/EFRAG--GRI-landmark-Statement-of-Cooperation>

UN Global Compact is a leading sustainability initiative that encourages the adoption of responsible business practices. As of 2020, there are over 12,000 participating companies and

3,000 institutions. Signatory companies are required to report annually on ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Did you know?

Different sustainability reporting standards and frameworks can complement each other, and companies can use them together. For example, some companies that publish integrated reporting use both the IR Framework and GRI Standards. Other companies, including ArcelorMittal, Diageo, and Nike are using different set of standards, notably GRI and SASB, to respond to different needs of their stakeholders. In July 2020, SASB and GRI published [A Practical Guide to Sustainability Reporting Using GRI and SASB Standards](#), to provide further guidance on using both standards.

Towards greater harmonisation

While over the years different reporting standards and frameworks have emerged to help companies disclose ESG information, the number of existing standards and initiatives have led to the confusion among less experienced companies as to which standard or framework to use. The lack of standardised reporting was also challenging for the investors. In an effort to harmonise existing approaches, five leading standard and framework setters – GRI, SASB, IIRC, CDSB and CDP, announced a shared vision in November 2020 for a comprehensive corporate reporting system that considers both financial and sustainability disclosure connected via integrated reporting.¹² Later in 2021, SASB and IIRC have merged to form a Value Reporting Foundation.

Further convergence is expected with the establishment of the International Sustainability Standards Board (ISSB) by the IRFS Foundation¹³, in November 2021. The ISSB will develop a harmonised global reporting standard for disclosing ESG information that meets the needs of the financial stakeholders. It will also consolidate by June 2022 the Value Reporting Foundation and the CDSB.

Finally, at the EU level the work is underway to develop the EU sustainability reporting standards for the companies subject to regulatory requirements of the NFRD/CSRD. The standards are expected to build on and contribute to international standardisation initiatives.

4.2 Reporting formats

ESG information can be presented in an annual report, a stand-alone sustainability report or in an integrated report, which combines the two approaches by interconnecting company sustainability

and financial performance. Companies can select a reporting format that best suits their needs as long as it satisfies all regulatory requirements.

¹² <https://www.integratedreporting.org/news/a-shared-vision-for-a-comprehensive-globally-accepted-corporate-reporting-system/>

¹³ The IFRS Foundation is the international body that governs the setting of global accounting standards that have been adopted by hundreds of jurisdictions around the world, including Romania.



Figure 7 – Reporting formats

Annual report

The primary goal of the annual report is to present the company's financial performance during the reporting year. As material ESG risks and opportunities may have a direct impact on the company financial positions and its ability to create enterprise value over the short-, medium- and long-term,

more and more companies decide to supplement their financial disclosure with ESG information and data. This disclosure tends to be succinct to match the style of the financial reporting. However, the pressure on companies to provide more ESG information as part of their regular financial filings is expected to increase in the future.

Reporting in line with the NFRD/CSRD requirements

In Romania companies that fall under the scope of the NFRD have currently the possibility to disclose required ESG information either in the management report or in a separate report that is not part of the management report (for example, a sustainability report) provided that the publication of such report does not exceed 6 months after the balance sheet date. However, once the CSRD is enforced, this option will no longer be available, and required ESG information will have to be published in the management report. Furthermore, companies will have to prepare their financial statements and management report in the XHTML format and digitally 'tag' reported information, so it is machine readable and feeds into the European Single Access Point (ESAP), currently under development.

Sustainability report

The sustainability report allows companies to present relevant ESG information in one dedicated document. This option gives companies the most flexibility in terms of the report structure and content. It is recommended that companies use

a recognized global sustainability reporting standard, such as GRI or SASB to develop the content of their reports and increase consistency and comparability of reported information. External, third-party assurance can further help to enhance credibility of reported ESG information and data.

Reporting period

Best practice stipulates to publish the sustainability report and the annual report around the same time to allow the users to read them together as a complete package of information.

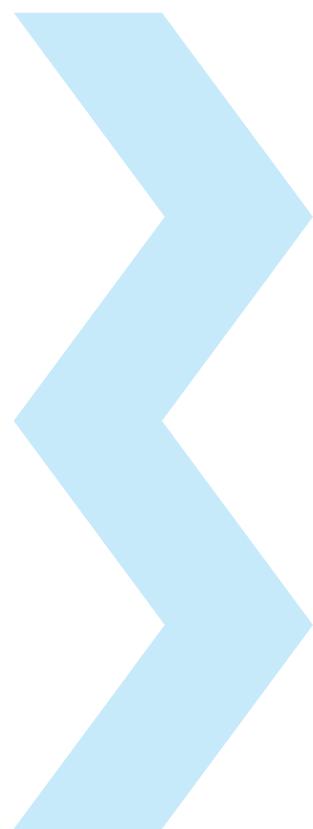
Ensuring connectivity between annual and sustainability reports

Companies should also make sure that the information reported in the sustainability report is consistent and comparable with the information provided in the annual report (i.e., that it covers the same period). It is a good practice to cross-reference within the two documents to increase connectivity of information.

Integrated report

Integrated reporting interlinks financial and sustainability reporting in one document. The goal of the report is to demonstrate how ESG issues are connected to the company business model and

strategy to drive value. This format is often chosen by larger companies with established ESG management systems. Integrated reporting is promoted by IIRC and offers further guidance for companies that want to use this format.



5. Reporting on climate change



In this chapter you will learn:

- Why it is vital for companies to report on climate-related information?
- How the TCFD framework can guide companies' climate-related reporting?
- What climate-related risks companies may be faced with?
- How to set up a staggered approach to climate-reporting?

5.1 Climate in the context of broader ESG issues

As climate change continues to dominate the agenda of politicians, civil society and regulators, it is critical for companies to reduce their carbon footprint and communicate transparently how they are managing their climate-related impacts.

Extreme weather events and the lack of action on climate change have been identified as the top risks facing the society by the World Economic Forum's Global Risks Report.¹⁴ The political momentum to accelerate the transition to low-carbon economy has been increasing, propelled by the regulatory measures aimed at curbing GHG emissions and increasing market transparency on climate-related risks. This has significant implication for companies and investors.

The financial sector will play a critical role in mobilising capital to facilitate the transition to net-zero. Already, many investors globally prioritise climate change and carbon emissions when making decisions on funds allocation. These investors increasingly shift away from companies with unmanaged climate risks towards those that have put in place clear decarbonisation strategies and targets, and clearly communicate their approach for managing related risks.

While it is important for companies to disclose information on all material ESG issues, the urgency to address the climate crisis has led to the increased demand from the investment community for high quality, decision-useful climate disclosure.

¹⁴ <https://www.weforum.org/reports/the-global-risks-report-2021>

5.2 TCFD recommendations

TCFD was established in 2015 by the Financial Stability Board to address financial markets' needs for increased and consistent climate reporting. In 2017, it presented its recommendations in four key areas: governance, strategy, risk management,

targets and metrics, outlined in the **Figure 10** below. These recommendations provide a common framework that companies and investors can use to develop effective climate-related disclosure, and to evaluate and manage their exposure to climate risks.

GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRICS AND TARGETS
Disclose the organisation's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a. Describe the organisation's governance around climate-related risks and opportunities.	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	a. Describe the organisation's processes for identifying and assessing climate-related risks.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b. Describe management's role in assessing and managing climate-related risks and opportunities.	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	b. Describe the organisation's processes for managing climate-related risks.	b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Figure 8 – TCFD Recommendations¹⁵

¹⁵ TCFD. *Recommendations of the Task Force on Climate-related Financial Disclosures. Final report (Publ. June 2017).* <https://www.fsb-tcfd.org/recommendations/>

Since its publication, TCFD recommendations have received the support of some 2,700 signatory organisations worldwide representing both public and private sector. Their adoption is also encouraged by regulators. For example, the European Commission’s Non-Binding Guidelines on Reporting Climate-Related Information (supplementing NFRD) refers to the TCFD

recommendations as “widely recognised authoritative guidance on the reporting of financially material climate-related information.”¹⁶ The CSRD is expected to further embed the TCFD framework into the EU legislation. Some governments, including United Kingdom, has already introduced mandatory TCFD reporting.¹⁷

5.3 Understanding climate-related risks and opportunities

As transparency on corporate exposure to climate-related risks is a cornerstone of the TCFD framework, it is important that companies develop a thorough understanding of potential climate risks they may be faced with. Climate risks refer to

any potential negative impact resulting from climate change. They can be divided into risks associated with the transition to low carbon economy (transitional risks) and risks related to physical impacts of climate change (physical risks), as presented in the **Figure 9**.

TRANSITIONAL RISKS		PHYSICAL RISKS
Risks associated with the transition to a low-carbon economy		Physical impacts of climate change
Policy / legal risks	Technology risks	Acute risks
Risks resulting from current and emerging regulations; litigation risks	Costs associated with investments in climate-friendly technologies	Risks driven by extreme weather events, such as droughts, floods or fires
Market risks	Reputation risks	Chronic risks
Risks resulting from changing consumer preferences; increased cost of raw materials	Risks associated with stakeholders’ perception of an organisation as a climate laggard	Risks resulting from long-term shifts in climate patterns, such as temperature rise or sea-level rise

Figure 9 - Examples of transitional and physical climate risks

Both physical and transitional risks can affect the company financial position (i.e. asset, liabilities, revenues and costs) as well as access to capital and financing. For those reasons, investors and other capital providers are increasingly interested whether and how companies are evaluating and managing those risks.

Climate-related opportunities are any potential positive impacts resulting from climate change, such as potential efficiency gains and cost-savings or development of innovative technologies.

¹⁶ *Guidelines on non-financial reporting: Supplement on reporting climate-related information*, p. 4 (Publ. 20 June 2019). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52019XC0620%2801%29>

¹⁷ <https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law>

5.4 The importance of getting started

Once the company identifies climate-related risks it is exposed to, it can start integrating them into its strategy development and risks management process. It is important for the board and senior management to be involved in this process to signal leadership commitment and managing this issue. Investors and other stakeholders are interested to know what is the highest governance body that oversees climate-related issues and how related responsibilities are assigned throughout the organisation. Providing transparency on climate governance helps readers understand if climate-related issues receive appropriate board and management attention. The TCFD framework and resources available on the [TCFD Knowledge Hub](#) provide guidance on how to set up an effective risk management approach and what elements it should entail.

While TCFD recommendations provide a useful framework for assessing, managing and reporting on climate-related risks, the level of detail required may seem overwhelming to those companies that have not yet reported comprehensively on their approach to climate change. This however, should not discourage companies to start implementing TCFD recommendations. The following suggestions may help companies to start implementing the TCFD framework for the first time:

1. Tailor the level of reporting to your exposure to climate-related risks

The larger and the more exposed to climate-related risks the company is, the more information investors will seek on its approach to managing them. Typically, companies operating in sectors with significant exposure to climate-change, such as extractives, electric utilities, steel

and cement manufacturing, agriculture and transportation are expected to provide detailed climate-related disclosure that comply with the TCFD recommendations regardless of their size.

2. Indicate your commitment to implementing TCFD recommendations

Company size and available resources are important considerations when deciding whether to implement the TCFD recommendations and how detailed the reporting should be. Many smaller companies may feel that they lack sufficient resources to onboard TCFD recommendations in full. However, this process can be broken down into stages and companies can gradually increase their climate-related reporting as they build capacity. Informing your stakeholders that you intend to follow TCFD framework and proving a timeline for its implementation is a signal that the company recognises the importance of increasing transparency on climate-related issues.

3. Disclosure carbon-related performance metrics

All companies regardless of their size should disclose information on their operational GHG emissions and actions taken to reduce them. Setting quantitative targets for reducing its GHG emissions and/or increasing the use of renewable energy sources can help to further strengthen the company carbon management efforts. More and more companies globally set their carbon emission targets in line with climate science (so called science-based targets). Companies interested in exploring science-based target setting are encouraged to consult [Science Based Targets initiative](#) website for further details.

6. Step-by-step process to ESG reporting



In this chapter you will learn:

- What is materiality and how to determine which ESG issues are material for your company?
- How to collect feedback from your stakeholders?
- What elements you should include in your sustainability report?
- How to align ESG reporting with investor needs and expectations?

The flow chart below presents five steps that companies should consider when drafting their sustainability reports.

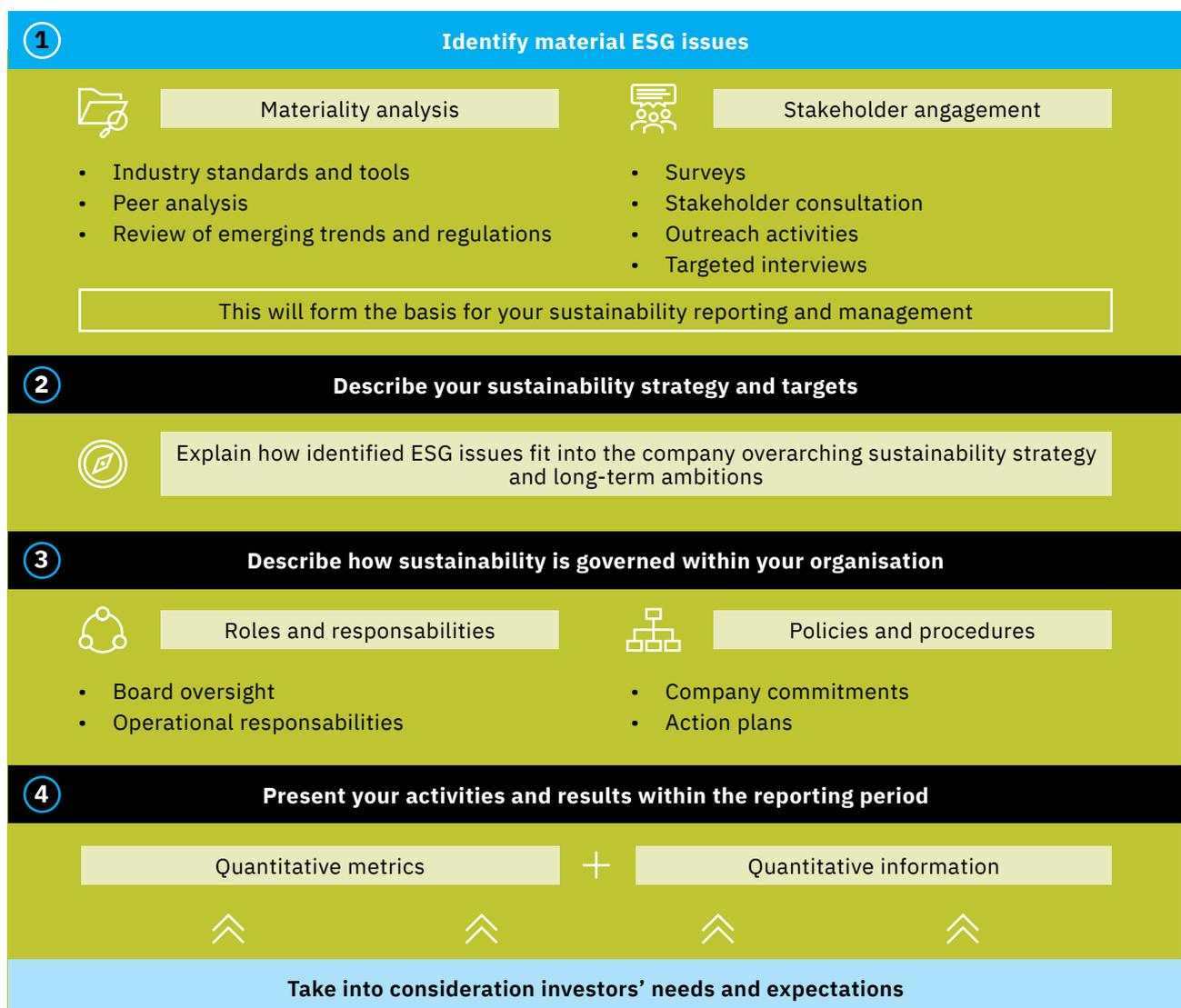


Figure 10 – Step-by-step process to build a sustainability report

6.1 Identify material ESG issues

Companies may be exposed to a wide range of ESG issues. Using materiality to identify and prioritise those that might have significant impact on the success of their business is vital for effective strategy development and stakeholder communication.

The process of defining the content of the sustainability report should start with the materiality analysis and stakeholder engagement. These two exercises should provide companies with input for determining which ESG issues are relevant to their business operations and their stakeholders and prioritize them accordingly.

What does materiality mean?

The concept of materiality originates from financial accounting and disclosure. There, information is considered to be material if omitting, misstating or obscuring it could influence the economic decisions of users of the financial statements.¹⁸ In the context of sustainability, materiality can be evaluated from two angles, making the definition somewhat broader:

- **Financial materiality**, which refers to the potential impact (either positive or negative) sustainability issues may have on the financial performance of an organisation, and
- **Environmental and social materiality**, which refers to the impact the company operations may have on the environment and society.

When considered together those two perspectives create a **double materiality perspective**. The EU regulations, specifically the upcoming CSRD, ask companies to apply a double materiality perspective when defining

the content of their reports. This means that companies must disclose how ESG risks and opportunities may impact their operations (the 'outside-in' perspective) and how these impact the environment and society at large (the 'inside-out' perspective).

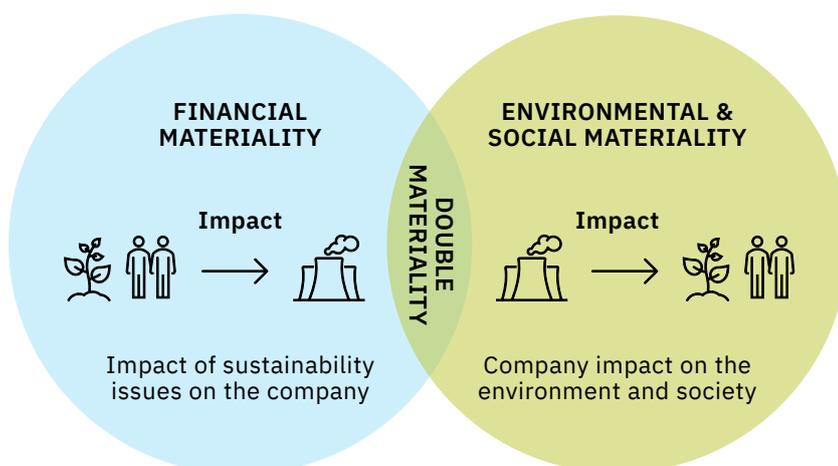


Figure 11 - Double materiality perspective

Most sustainability reporting standards and frameworks use their own definition of materiality, which depends on the type of audience they are catering to. For example, GRI definition of materiality emphasize the impact of a company on its stakeholders (such as customers and employees) and the environment. IIRC, SASB and TCFD on the other hand, have a focus of financial materiality, as they were designed to facilitate disclosure to investors and other financial stakeholders.

How to identify material ESG issues?

There is no universal approach to materiality assessment and companies should adopt one that best suits their needs and unique business circumstances. That being said, there are some steps that companies can take to identify material ESG issues.

¹⁸ International Accounting Standards Board, <https://www.ifrs.org/news-and-events/news/2018/10/iasb-clarifies-its-definition-of-material/>

1. Use industry standards and tools to determine which ESG issues are considered material in your industry.

Companies within the same industry are likely to be exposed to similar ESG risks and opportunities. Tools such as [SASB Materiality Finder and Materiality Map](#) can be a good starting point for developing a list of topics that may be relevant to your organisation. Reviewing sustainability reports of your competitors can provide additional information on what is considered relevant by your peers.

2. Evaluate identified ESG issues through the prism of your business model and company-specific circumstances.

Once a broad list of potentially material ESG issues is established it should be reviewed against issues such as: company business strategy, its values and goals, as

well as operational structure and principal risks within the value chain.

3. Seek input from your stakeholders.

The needs and expectations of your stakeholders (including investors) are important issues to consider. Regular engagements with stakeholders will allow you to better understand what is relevant to them and factor that in your materiality assessment process.

4. Prioritise. The issues that you have identified using the steps above will likely not have the same importance relative to each other. It is thus important that companies decide which issues are the most relevant from the perspective of their business strategy and stakeholders' expectations and prioritise efforts accordingly.

When determining importance of different ESG issues, companies may find it useful to ask themselves the following questions:

- Does the issue have a material financial impact on the company?
- Is it regulated by legislation or industry-specific standards and codes?
- Is it strategically important to the company?
- How is it perceived by stakeholders?

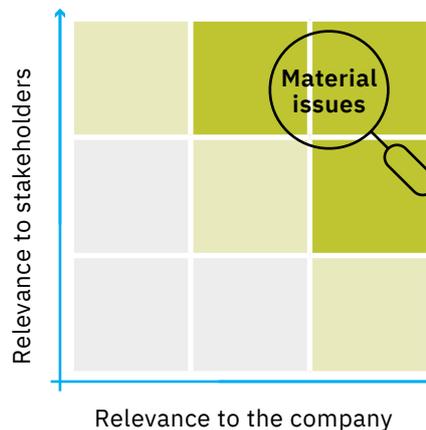


Figure 12 - Example of a materiality matrix

Finally, it should be noted that the materiality assessment is a dynamic process and should be viewed as an ongoing exercise. The environment in which companies are operating is changing rapidly and so are the expectations of the company

stakeholders. Companies should therefore regularly review identified ESG topics, to ensure that they are not missing important issues and that the reported information continues to be material.

The importance of stakeholder engagement

As part of their materiality assessment process, companies are expected to engage with relevant stakeholders to understand their expectations and concerns.

Companies may use different avenues to engage with key stakeholders and proactively seek their feedback. Some common examples include:

- Outreach activities with investors and ESG analysts (i.e., investor meetings and roadshows)
- Stakeholder consultation panels
- Surveys (employee satisfaction surveys, customer satisfaction surveys, etc.)
- Targeted interviews

Within its sustainability report a company should outline material ESG issues and explain why these are relevant not only to its business but also to various internal and external stakeholder groups. It is also recommended to describe the materiality assessment process as well as identified key stakeholders and how the company is engaging with them.

6.2 Describe sustainability strategy and targets

SUSTAINABILITY STRATEGY

- Defines company ESG ambitions
- Considers material ESG risks and opportunities as well as stakeholder expectations
- Is compatible with the broader corporate strategy

TARGETS

- Are vital for tracking and monitoring performance in key ESG areas
- Help to drive improvements through regular performance reviews

Sustainability strategy clarifies the ESG ambitions of the company and facilitates the communication of these to both internal and external audiences. It should be linked to material ESG risks and opportunities and explain the main actions and response to address each of these issues. Finally, there should be a description of how these actions fit into, or are integrated with the broader corporate strategy.

Additionally, for each of the identified key ESG issue, relevant KPIs or metrics

should be set to evaluate performance and drive progress. Where applicable, targets should also be set, while how they are set can differ. In some cases it is a matter of maintaining a performance, such as ensuring through audits a continued adherence to a human rights policy in the supply chain, or maintaining a zero-accident level in site operations. In other cases, time-bound quantitative targets can be set to reduce emissions, or waste, or to increase resource efficiency.

It is recommended that the company explain how identified materials ESG issues fit into its sustainability strategy and what targets have been set to drive further progress in those areas.

6.3 Describe sustainability governance

ASSIGNED ROLES AND RESPONSIBILITIES

- Are essential for effective implementation of sustainability strategy
- Signal whether there is a top-down approach for managing sustainability issues
- Should specify board oversight responsibilities as well as responsibility for daily implementation of sustainability strategy

POLICIES AND PROCEDURES

- Are necessary for operationalisation of sustainability strategy
- Outline company commitments within key ESG areas
- Specify guidelines and rules for implementations of the strategy
- Provide action plans for management of ESG risks in a consistent way

Assigned roles and responsibilities

Accountability is essential to ensure effective strategy implementation. The ultimate responsibility and oversight for ESG matters should be established at the board level, which should also receive regular reviews and updates on general performance as well as material incidents. This guarantees proper attention, signals to all parties that the company takes these issues seriously and provides support to address more difficult questions. It also helps to increase accountability and can serve as a yardstick by which the leadership commitment to sustainability is measured.

The daily responsibility for the implementation and management of the ESG ambitions should sit with an individual person or a team. There should be formal job descriptions along with clearly assigned ESG-related tasks to ensure that the nominated person has the mandate and is given the time to carry out the work.

Resources should also be considered. This includes not only assigning responsibilities, but also ensuring that selected individuals have adequate qualifications and competences as well as a financial budget for the work to be carried out.

Policies and procedures

Policies outline company commitments in key ESG issues and provide guidelines and rules that determine how the strategy should – and should not – be implemented. As ESG matters permeate many aspects of a company's operations – including supply chain management, procurement, internal work environment, health and safety, marketing, communications, community relations and compliance – it may well be that ESG is integrated into several different policies. For example:

- an environmental policy outlines the company approach to management of environmental aspects, including GHG emissions, energy use, water use, pollution and waste and impacts on biodiversity;
- a human rights policy outlines the company position vis-à-vis human rights in its own operations as well as the supply chain and distribution channels;
- a business ethics policy (also called code of conduct or code of ethics) defines the standards of ethics and business conduct to which the company commits itself, and the behaviour and conduct it expects or requires from its employees and contractors.

Furthermore, written and formalised ESG procedures are necessary to guarantee that these matters are treated in a consistent, continuous and reliable manner over time. They should be adapted to the size and the complexity of the ESG risks and opportunities faced by the company.

The procedures can be structured in different ways and could be defined by the key activities, markets, products or services of the company. It is particularly

relevant to describe how the key ESG risks and opportunities are identified, assessed or evaluated, managed, and integrated into the company's overall risk management processes and procedures. Embedding environmental and social risks into company overall risk management processes helps to further anchor sustainability in business operations and strategic decision-making. Internal reviews and audit procedures should also be defined, as well as external audit process in applicable cases.

6.4 Present activities and results

ESG reporting is a final step in a management cycle, summarising the ESG work and performance over a period of time. As such, ESG reporting should be a reflection of that process, not a goal in itself.

In its sustainability report the company should present what actions it has

undertaken within the prioritised ESG areas and how it has performed against its targets or objectives. Providing relevant quantitative metrics along with the qualitative narrative helps to illustrate progress and provide additional context to the presented data.

6.5 Meeting investors' expectations

Investors are important users of the company sustainability disclosure. Companies should therefore pay attention to their information needs. The below recommendations offer additional guidance on how to present ESG information in a manner that meets the expectations of investors and ESG analysts.

1. Prioritise material information

Investors and ESG analysts are primarily interested in those ESG issues that are material. This means issues that are likely to have a significant impact on the company's financial performance and its ability to create value over the short-, medium-, and long-run. Companies should therefore centre

their reporting around material ESG risks and opportunities and areas of significant economic, environmental, and social impact. It is also recommended to keep the reporting focused and concise and avoid reporting excessive, irrelevant information as it may lead to confusion or obscure key messages.

2. Make sure that key information is easy to find

Investors prefer reporting that is well-structured and allows to easily find relevant information and data. Companies should consider including in their report an executive summary highlighting company sustainability performance within prioritised ESG areas as well as associated targets and KPIs.

Summarizing key messages in form of a bullet points and presenting related performance indicators in a tabular form will further enhance search-ability of the report. Finally, companies should ensure that links are included to all referenced policies and other materials that might help to provide additional context on the strength of the company's commitments and management programmes.

3. Prioritise quantitative data

Many investors tend to have a preference for quantitative data as it is easier to compare between companies. It is recommended to provide such data in form of tables or charts. Companies should also include a narrative description to help readers understand any significant changes from one reporting year to another as well as progress against implemented targets. Finally, it is a good practice to aggregate all sustainability-related KPIs in one table covering the last three reporting years. Typically, such a table is included at the end of the report.

4. Provide an outlook of future performance

Beyond past performance and historical data, investors are also interested in the direction the company is heading. Disclosing measurable targets in key ESG areas along with associated action plans for achieving them will help investors to gauge the level of ambition

the company has with regard to managing sustainability issues. Companies should also be transparent about the anticipated challenges, opportunities and industry trends and how they are going to address them.

5. Present your performance in an objective and balanced way

Disclosures should be objective and balanced, including both positive and negative developments. Omitting or obscuring material ESG information may lead to the impression that the company is hiding something and affect the credibility of the company disclosure. Companies should explain the scope and boundaries of the reported information, especially when certain information pertains only to some of its activities or subsidiaries.

6. Add credibility by externally assuring reported data

Investors seek data that is reliable and of high quality. Just as with financial reporting, independent external assurance of sustainability reporting can help to increase readers' confidence in the credibility of reported information. While in Romania this practice is only used by a handful of companies, globally more and more companies engage independent assurance provider to evaluate credibility of reported information.¹⁹

Levels of external assurance

External assurance can be provided either at a reasonable or limited level. The level of assurance reflects the extent and depth of the assurance process. Reasonable level of assurance indicates a more comprehensive process that can be compared to a financial statement audit. Limited level of assurance on the other hand is less detailed and thus provides a lower degree of confidence.

Anticipating regulatory developments

Currently, companies in Romania under the scope of the NFRD do not have to externally assure reported sustainability information. This is likely to change with the adoption of the CSRD, which will require companies to seek limited assurance of sustainability disclosure.

¹⁹ <https://home.kpmg/xx/en/home/insights/2020/11/the-time-has-come-survey-of-sustainability-reporting.html>

Appendices

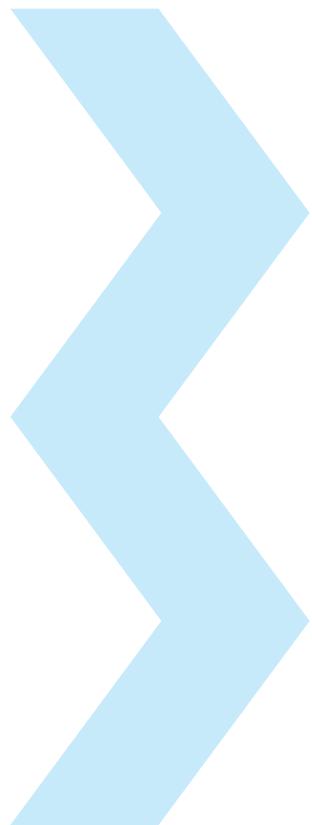


Appendix A

Recommended disclosures

To facilitate communication with investors and other stakeholders, a list of recommended disclosures and KPIs have been provided below. They are divided into five areas: General Information, Corporate Governance, Business Ethics Standards, Social Issues and Environmental Issues. A set of basic qualitative and quantitative metrics have been provided in each area. Those metrics take into consideration current and anticipated regulatory requirements of the NFRD/CSRD. Furthermore, they are based on existing international sustainability reporting standards, and refer to relevant frameworks and resources companies may consider additionally. For mapping of indicators against regulatory frameworks and sustainability reporting standards, please refer to **Figure 14**.

Several metrics have been marked as possibly not relevant to all companies. Companies should therefore decide individually whether they are material to their businesses and merit associated disclosure. **Figure 13** below provides an overview of the recommended metrics and their relevance across sectors. Finally, it should be emphasized that the Guidelines do not provide a comprehensive list of metrics and disclosure topics. Companies are thus encouraged to go beyond the recommended disclosures and identify and disclose additional ESG issues and KPIs material to their operations and company specific circumstances.



Disclosure metric		Consumer goods	Healthcare	Financials	Extractives	Utilities	Industrials	Communications	Trade & Services
Gen.	Business model	<i>Considered relevant across all sectors</i>							
	Sustainability integration	<i>Considered relevant across all sectors</i>							
	Sustainability governance	<i>Considered relevant across all sectors</i>							
Governance	Compliance with the CG code	<i>Considered relevant across all sectors</i>							
	Gender diversity of the board	<i>Considered relevant across all sectors</i>							
	Board independence	<i>Considered relevant across all sectors</i>							
	Code of ethics	<i>Considered relevant across all sectors</i>							
	Anti-corruption policy	<i>Considered relevant across all sectors</i>							
	Whistle-blower procedure	<i>Considered relevant across all sectors</i>							
	Employee turnover	<i>Considered relevant across all sectors</i>							
Social	Freedom of association	<i>Considered relevant across all sectors</i>							
	Employee health and safety	●	●	●	●	●	●	●	●
	Human rights policy	<i>Considered relevant across all sectors</i>							
	Human rights due diligence	<i>Considered relevant across all sectors</i>							
	Environmental policy	<i>Considered relevant across all sectors</i>							
Environmental	GHG emissions	<i>Considered relevant across all sectors</i>							
	Energy consumption	<i>Considered relevant across all sectors</i>							
	Climate change	●	●	●	●	●	●	●	●
	Water consumption	●	●	●	●	●	●	●	●
	Waste management	●	●	●	●	●	●	●	●
	Adverse environmental impacts	●	●	●	●	●	●	●	●

Figure 13 - Overview of recommended disclosures

GENERAL INFORMATION	
Business model	<p>What should be disclosed:</p> <ul style="list-style-type: none"> Short description of the company business model <p>Companies may consider including the following characteristics when describing their business model:</p> <ol style="list-style-type: none"> Economic activities Offered products and services Markets of operation Company size (in terms of workforce, business locations, revenue, etc.)

Sustainability integration	<p>What should be disclosed:</p> <ul style="list-style-type: none"> • Whether the company is integrating sustainability risks and opportunities (including those related to climate change) into its business strategy and risk management process • Narrative explaining resilience of the company business model and strategy to risks related to sustainability matters • Plans the company has to ensure that its business model and strategy are compatible with the transition to low-carbon economy and the objectives of the Paris agreement to limit global warming 1.5 °c
Sustainability governance	<p>What should be disclosed:</p> <ul style="list-style-type: none"> • Description of the role of management and supervisory bodies with regard to sustainability matters

ENVIRONMENTAL ISSUES

Environmental disclosures relate to issues that arise from, or impact the natural environment. They cover topics such as climate change mitigation and adaptation, use of natural resources, and impacts on the environment. As exposure to environmental issues may differ between companies some disclosure recommendations outlined below may not be applicable to all issuers.

Environmental policy	<p>Environmental policy is a formal document outlining the company commitments and approach in relation to managing environmental aspects of its operations.</p> <p>What should be disclosed:</p> <ul style="list-style-type: none"> • whether the company has an environmental policy. <p>It is recommended that the policy cover the following areas:</p> <ul style="list-style-type: none"> • compliance with relevant environmental laws and regulations • commitment to manage negative environmental impacts • commitment to protect environment and continually improve management of environmental issues • implementation of environmental management system • monitoring of environmental performance • reporting on environmental issues • company's expectations of its suppliers and business partners with respect to the management of environmental issues.
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<p>GHG emissions</p>	<p>GHG emissions are understood as total direct and indirect emissions. As per the GHG Protocol Corporate Accounting and Reporting Standard they can be further categorised into Scope 1, Scope 2 and Scope 3 emissions as follows:</p> <ul style="list-style-type: none"> • Scope 1 Emissions: direct emissions from owned or controlled sources, including: stationery combustion (fuels and heating sources), mobile combustion (vehicles), fugitive emissions (resulting from refrigeration or air conditioning leakages), and process emissions from industrial processes. • Scope 2 Emissions: indirect emissions from purchased or acquired electricity, heat or steam. • Scope 3 Emissions: other indirect emissions that occur in the value chain of reporting company both “upstream” and “downstream” of its operations. <p>What should be disclosed:</p> <ul style="list-style-type: none"> • methods and assumptions used for calculation of the emissions; • Scope 1, Scope 2 and Scope 3 (if relevant) GHG emissions for the last three reporting years to facilitate performance assessment over time; • explanation of significant changes in performance (whether negative or positive). <p>It is recommended to use internationally recognised standards for the corporate accounting and reporting of GHG emissions such as the GHG Protocol.</p>
<p>Energy consumption</p>	<p>Energy consumption is the total amount of energy consumed within an organisation. It includes purchased and self-generated energy sources.</p> <p>What should be disclosed:</p> <ul style="list-style-type: none"> • methods and assumptions used for calculation of the energy consumption; • total amount of energy consumed within the organisation (in MWh); • percentage (%) of energy consumed by type of energy (i.e., renewable and non-renewable energy sources).
<p>Climate change (if relevant)</p>	<p>It is recommended that companies with significant exposure to climate change (i.e., those with carbon-intensive operations) strive to fully implement TCFD recommendations (or provide a roadmap with timeline for their implementation).</p> <p>For further details please refer to the TCFD website and TCFD Knowledge Hub. Good practice examples can be also found in the TCFD Good Practice Handbook.</p>
<p>Water consumption (if relevant)</p>	<p>What should be disclosed:</p> <ul style="list-style-type: none"> • total amount of water consumed within the organisation (in m3); • <i>(for companies with water-intensive operations):</i> activities to reduce water use, increase water circularity (through water reuse and recycling) and preserve water resources.

<p>Waste management (if relevant)</p>	<p>What should be disclosed:</p> <ul style="list-style-type: none"> total amount of hazardous and non-hazardous waste generated (in tonnes); waste by type of treatment (e.g. recycled, landfill) in percentage (%); narrative explaining what activities are undertaken to manage/ reduce waste and ensure regulatory compliance.
<p>Adverse environmental impacts (if relevant)</p>	<p>What should be disclosed:</p> <ul style="list-style-type: none"> does the company have significant impact on the environment and natural resources either directly or indirectly through its supply chain (for example impact on biodiversity)? what policies and strategies have been implemented to manage and mitigate negative environmental impacts? <p>For additional resources please refer to the TNCD website.</p>

SOCIAL ISSUES

Social disclosures relate to the rights, well-being and interests of people and communities. As a minimum it is recommended that the companies report on the issues outlined below.

<p>Employee turnover</p>	<p>Employee turnover measures the proportion of employees that have left an organisation (either voluntary or as a result of employer choosing to end a contract with an employee) during the reporting year.</p> <p>What should be disclosed:</p> <ul style="list-style-type: none"> turnover rate (in %). <p>The turnover rate is calculated by dividing the number of employees that left the company during the reporting year by the average number of employees within that year.</p> <p>High turnover may signal employee dissatisfaction with the work environment, remuneration or health or safety conditions at the workplace.</p>
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<p>Freedom of association and collective bargaining</p>	<p>Collective bargaining and freedom of association is the right for workers to join workers' organisations of their own choosing and to negotiate their terms of employment.</p> <p>What should be disclosed:</p> <ul style="list-style-type: none"> • The percentage of the active workforce covered by collective bargaining agreements, calculated as the number of active workforce employees covered by a collective bargaining agreement within the reporting year divided by the total number of active workforce members in that year. • Measures taken by companies to support workers' rights to exercise freedom of association and collective bargaining (both in their own operations and in their supply chain).
<p>Employee health and safety (if relevant)</p>	<p>Employee health and safety is a set of activities and procedures to prevent accidents and injuries in the workplace.</p> <p>What should be disclosed:</p> <ul style="list-style-type: none"> • whether the company has implemented a health and safety management system, what elements it includes and the percentage of operations covered • relevant performance indicators (for example, number of fatalities, work-related injuries, etc.) for the last three reporting years to facilitate performance assessment over time, broken down by fulltime employees and contractors.
<p>Human rights policy</p>	<p>Human rights policy is a formal document outlining the company's position on human rights. It can have a stand-alone format or be integrated into a wider set of company standards such as a Code of Ethics or Supplier Code of Conduct.</p> <p>What should be disclosed:</p> <ul style="list-style-type: none"> • whether the company has a human rights policy that extends to suppliers and business partners. <p>It is recommended that the policy:</p> <ul style="list-style-type: none"> • makes reference to internationally recognised human rights standards the company commits to respect (i.e. International Bill of Human Rights and ILO's Declaration on Fundamental Principles and Rights at Work); • sets out the company's expectations of its employees; • sets out the company's expectations of its suppliers and business partners; • describes a process for its implementation; • is communicated internally and externally. <p>For further guidance please refer to United Nations Global Compact, Guide on How to Develop a Human Rights Policy.</p>

Human rights due diligence

Human rights due diligence is a set of activities to identify, mitigate and act on actual and potential risks of human rights violations.

What should be disclosed:

- whether the company conducts human rights due diligence throughout its value chain to assess risk exposure to human rights issues, including child labour and forced labour.

It is recommended that the company discloses whether its human rights due diligence includes:

- identification of activities within own operations at risk of human rights violations;
- identification or mapping of suppliers/raw materials with high exposure to human rights risks;
- human rights risks assessment of new suppliers;
- incorporation of human rights provisions into procurement contracts;
- audit and monitoring of suppliers' operations;
- corrective action in case of identified non-compliance.

CORPORATE GOVERNANCE

Corporate governance is a system of controls and procedures by which an organisation is operated. A company with strong corporate governance structures is defined by professional management, a well-structured board, and organised systems and processes. These in turn reduce and mitigate risks, and ensure decisions are aligned with the company's and the shareholders' interests.

As a baseline companies should refer to the Bucharest Stock Exchange [Code of Corporate Governance](#) for details on recommended actions and disclosure requirements on corporate governance issues, as they relate to:

- Responsibilities (Section A)
- Risk management and internal control system (Section B)
- Fair rewards and motivation (Section C)
- Building value through investors' relations (Section D)

Additionally, it is recommended that the companies disclose the following metrics:

Gender diversity of the board	What should be disclosed: <ul style="list-style-type: none"> • percentage of female board members in the management board and supervisory board.
Board independence	What should be disclosed: <ul style="list-style-type: none"> • percentage of independent board members in the management board and supervisory board.

BUSINESS ETHICS STANDARDS

Business ethics standards refer to organizational principles that guide how a business conducts itself and its operations. They define the extent to which a company conducts business ethically, in line with applicable laws and accepted norms. It is a critical component of long-term value creation.

Code of ethics

Code of Ethics (also called code of conduct) is a formal document outlining standards of ethical business conduct to which the company commits itself. It clarifies the company's values and principles and provides guidelines of behaviour for employees (and third parties). The Code should be communicated internally and externally.

What should be disclosed:

- whether the company has adopted a Code of Ethics, and what steps has been taken to ensure compliance.

Anti-corruption policy

Anti-corruption policy is a formal document outlining the company's position on bribery and corruption. It can be a stand-alone document or a part of a wider set of company standards of conduct such as a Code of Ethics.

What should be disclosed:

- whether the company has an anti-corruption policy that extends to suppliers and business partners, and what steps has been taken to ensure compliance.

It is recommended that the policy:

- outlines the company position regarding bribery and corruption, conflict of interest and facilitation payments;
- defines what is understood by each of the terms above;
- provides a clear explanation and examples of what is acceptable and non-acceptable behaviour;
- is communicated internally and externally.

Whistle-blower procedure

A whistle-blower procedure (also called a grievance mechanism) is a system that enables reporting of suspected or actual breaches of law, violations of rules and other misconduct. It can be internally operated by a company (e.g., a dedicated email address) or managed by an independent third-party.

What should be disclosed:

- whether the company has a whistle-blower procedure in place;
- methods for reporting a violation or concern (e.g., dedicated email, reporting hotline, etc.) and the process for handling of the reports.

It is recommended that the whistle-blower procedure:

- allows reporting of violations anonymously and without a fear of retaliation;
- is available to suppliers and third parties;
- is communicated to employees internally as well as externally on the company's website.

Indicator	Type	Alignment with regulations		Alignment with standards	
		NFRD	SFDR	GRI	SASB
GENERAL INFORMATION					
Business Model	Description	✓	-	102-1 - 102-9	-
Sustainability Governance	Description	✓	-	102-20, 102-29	partially
CORPORATE GOVERNANCE					
Alignment with the CG code	-	-	-	-	-
Female representation	%	✓	✓	405-1	-
Board independence	%	-	-	102-22	-
BUSINESS ETHICS STANDARDS					
Code of Ethics	Policy	✓	✓	102-16	✓
Anti-corruption policy	Policy	✓	✓	205	✓
Whistle-blower procedure:	Description	✓	✓	102-17	✓
SOCIAL ISSUES					
Employee turnover	%	✓	-	401-1	✓
Freedom of association and collective bargaining	%	✓	-	102-41 407	✓
Employee health and safety	Description	✓	-	403	✓
Human rights policy	Policy	✓	✓	412-1	✓
Human rights due diligence	Description	✓	✓	412-1 414	✓
ENVIRONMENTAL ISSUES					
Environmental policy	Policy	✓		103-2	✓
GHG emissions	Tons CO2 eq	✓	✓	305	✓
Energy consumption	MWh	✓	✓	302	✓
Climate change	Description	✓	-	Various	✓
Water consumption	m3	✓	-	303	✓
Waste management	Description	✓	✓	306	✓
Adverse environmental impacts	Description	✓	✓	304	✓

Figure 14 – Mapping of the recommended disclosures

* Proposed indicators are based on the existing sustainability reporting frameworks and standards as well as developments relevant to the Romanian issuers. Organisations including [World Federation of Exchanges \(WFE\)](#) and [Sustainable Stock Exchange \(SSE\) Initiative](#) have also developed frameworks that stock exchanges can use to guide their issues ESG reporting.

Appendix B

Sustainability disclosure regulations in the EU

THE EUROPEAN GREEN DEAL	FINANCING SUSTAINABLE GROWTH ACTION PLAN	
NFRD (Directive 2014/95/EU) / CSRD (proposal)	EU Taxonomy (Regulation (EU) 2020/852)	SFDR (Regulation (EU) 2019/2088)
<p>Who: Large companies with more than 500 employees.</p> <p>What: Disclosure should cover relevant policies, main risks (incl. due diligence processes) KPI, and the company business model.</p> <p>The disclosure requirements will be expanded as NFRD is replaced by CSRD.</p> <p>When: CSRD (legislative proposal adopted in April 2021).</p>	<p>Who: Large financial market participants and non-financial companies under the scope of NFRD.</p> <p>What: The EU Taxonomy is a classification system used to define “environmentally sustainable” business activities six environmental objectives.</p> <p>Disclosure should indicate to what extent carried out activities meet the criteria of the EU Taxonomy.</p> <p>When: July 2020</p>	<p>Who: Financial market participants and financial advisers.</p> <p>What: Disclosure should cover integration of sustainability risks in investment decision-making process, principal adverse impacts, as well as additional disclosure on green funds.</p> <p>When: March 2021</p>
<p>Additional guidelines:</p> <ul style="list-style-type: none"> • Non-binding Guidelines on non-financial reporting (2017) • Non-binding Guidelines on reporting climate-related information (2019) integrating TCFD recommendations 	<p>Delegated Acts will define Technical Screening Criteria (TSC) to facilitate practical implementation.</p> <ul style="list-style-type: none"> • TCS for climate mitigation and adaptation (April 2021) • TSC for the remaining objectives (to be published in H1 2022) 	<p>Regulatory Technical Standards (RTS) provide further clarity for companies with respect to their sustainability disclosures:</p> <ul style="list-style-type: none"> • Legally binding with the SFDR Regulation • Metrics, templates and methodologies
<p>Covered topics:</p> <p>Environmental matters Social & employee matters Human rights Corruption and bribery Board diversity</p>	<p>Covered topics:</p> <p>Climate change mitigation & adaptation Use & protection of water and marine resources Transition to a circular economy Pollution prevention & control Protection & restoration of biodiversity & ecosystems</p>	<p>Covered topics:</p> <p>Sustainability risks Principal adverse impacts as they relate to: climate, environment, social and employment issues, human rights, anti-corruption & bribery Green assets</p>

Appendix C

Additional guidance on Taxonomy implementation

Companies in scope of the Taxonomy Regulation (i.e. those that fall under the NFRD/CSRD) must disclose if and to what extent their activities are associated with environmentally

sustainable economic activities as defined in to the Taxonomy Regulation.

Figure 15 helps to determine whether the company activities are Taxonomy-eligible and Taxonomy-aligned.

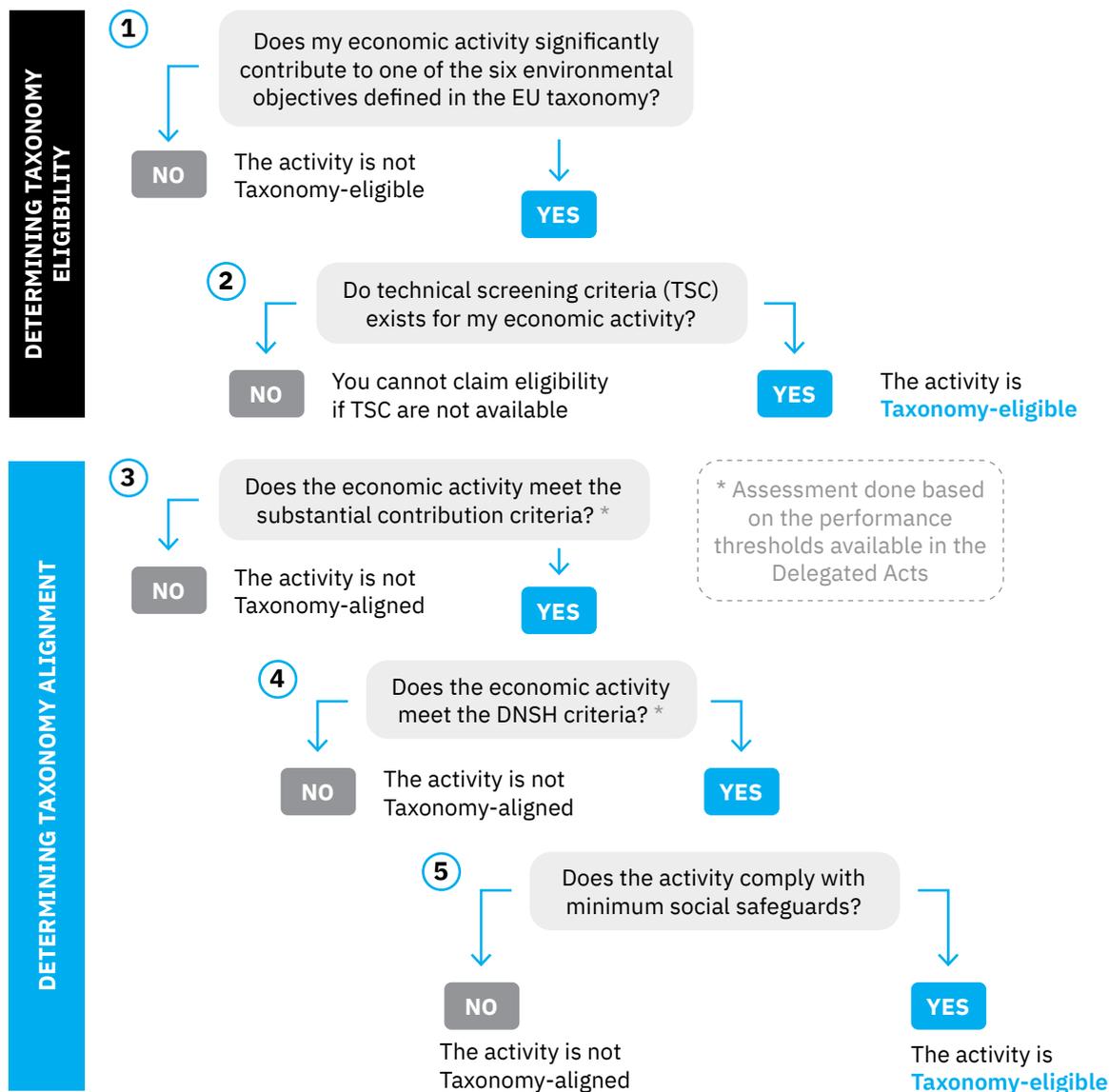


Figure 15 – Process for determining Taxonomy eligibility and alignment

Useful resources: [EU Taxonomy Compass](#)

Appendix D

Understanding ESG ratings

Investors and other capital providers are increasingly interested in how companies manage different ESG risks and opportunities including those related to climate, water, biodiversity, labour practices, human rights, community relations and business ethics, among others. ESG ratings are among the tools investors can use to better understand companies' performance on material ESG issues and identify leaders and laggards within different industries. However, they are not the only one. Other sources of ESG information include: direct company engagement, in-house research and companies' sustainability disclosure.

As the sustainable investing grows rapidly, the demand for ESG data follows suit. Leading global ESG research and ratings providers include: MSCI, Sustainalytics, ISS and Refinitiv, among others. Traditional investment data providers and credit rating agencies are also entering the space, leading to further market consolidation. Recent examples include Moody's acquisition of a majority stake in Vigeo Eiris and S&P Global's acquisition of the ESG business of RobecoSAM, which manages the Dow Jones Sustainability Index.

How investors use ESG ratings?

ESG ratings can be used by investors for different purposes, including fundamental and quantitative analysis, portfolio construction and management, active ownership, benchmarking and construction of index-based products. The research shows²⁰ that while the investors with fewer internal resources or limited ESG expertise

tend to rely more heavily on the ESG ratings, investors with more sophisticated ESG integration approaches often use raw data and company analysis rather than the final ESG rating to inform their own research and view of the company. For those investors, ESG rating is just a starting point and not the final measure of the company ESG performance.

How are ESG ratings calculated?

Most of the ESG rating providers use their own methodologies to evaluate companies' performance on ESG issues. While the specific assessment criteria may differ among the rating providers, the assessment process typically starts with determining company exposure to sector-specific material ESG risks based on its business activities, size and the location of its operations. Then ESG analyst reviews publicly available resources such as annual reports, sustainability reports and other disclosed materials to evaluate how the company is managing those risks. After that, company performance on relevant ESG risks (also referred to as key ESG issues) is scored and weighted are assigned based on the potential impact and probability of each risk. To final overall ESG rating is an aggregation of the scores on each of the ESG issues (weighted according to their relevance). ESG ratings may be adjusted down if the company has experienced in the past negative events or controversies which may indicate failure of existing management approaches or systemic risks that are not adequately addressed.

²⁰ <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/sustainability-ratetheraters2020-report.pdf>

What issues are taken into consideration during the ESG assessment process?

Most ESG rating providers consider governance to be the backbone of the strong ESG management and assess it universally across all companies. Specific issues that are evaluated include: company ownership structure and shareholder rights, board composition, management compensation, accounting practices, and management of business ethics issues and corruption risks.

Companies are also assessed on their management of material environmental and social risks. This includes companies' policies and commitments and targets to manage key ESG issues and how those

are implemented through management programmes, and other initiatives.

Finally, the company actual performance is evaluated based on the specific KPIs, such as carbon emission and carbon intensity, water use intensity, health and safety performance metrics, etc. This may also involve assessment of the company historic involvement in controversies or incidents that negatively impacted company stakeholders and the environment or violated international norms. Examples include bribery and corruption scandals, toxic spills to the environment or incidents involving violation of workers or human rights.

GOVERNANCE	MANAGEMENT OF ESG ISSUES	PERFORMANCE
How is the company governed?	How is the company managing material ESG risks and opportunities?	What is the company's performance track record?
<ul style="list-style-type: none"> • Corporate governance • Business ethics standards 	<ul style="list-style-type: none"> • Policies and commitments • Programmes and initiatives • Targets 	<ul style="list-style-type: none"> • KPIs • Controversies

Figure 16 – Key elements of the ESG assessment process

How can issuers interact with the ESG rating providers?

As the investors interest in ESG data continue to grow, companies should regularly review their ESG ratings and engaging with the rating providers if needed. Most rating providers have feedback mechanisms to allow companies to review their ESG profiles once they are updated

by the analysts. If you have identified any incorrect data or information that have not been taken into account during the assessment process, reach out to the rating company by email or phone call to point out those mistakes. Some rating providers have also established dedicated channels issuers can use to access their ESG profiles and share they feedback.

Disclaimer

This report is informed by the Romanian and European legislative landscapes and international standards and frameworks on sustainability reporting available by the cut-off date of the publication (31 March 2022). As the relevant ESG reporting standards and legal framework develop over time, the contents of these guidelines may have to be updated in the future.

This publication has been produced by Steward Redqueen with the assistance of the European Bank for Reconstruction and Development (EBRD) and the Bucharest Stock Exchange (BVB). The contents of this document do not necessarily reflect the views of the EBRD. Whilst every effort was taken to avoid errors, EBRD, BVB and Steward Redqueen cannot accept responsibility for the accuracy of any statement or information contained within the report, nor for any decision made on the basis of any statement or information included herein.

The document has been prepared in the English language. If any text of the original edition in English is inconsistent with the text of the Romanian translation, the original edition in English shall govern.

Project execution

The project team included: Magdalena Krzysztofik, Niclas Düring, Sybren Fennema and Wouter Scheepens.

Steward Redqueen is an independent consultancy that works across the globe advising organisations on impact and sustainability (ESG). Its mission is to make business work for society. Key areas of work include integrating sustainability, private sector development, quantifying impact and facilitating change. The company's offices are in Amsterdam (the Netherlands), Singapore and Washington DC. The company is also represented in Spain, Sweden and Poland. Clients of Steward Redqueen include multinational corporations, (development) financial institutions and non-profit organisations across the globe.

For more information: www.stewardredqueen.com

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For more information: <https://www.theazores.ro/>

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