TRANSPARENCY INTERNATIONAL UK
fighting corruption worldwide

PREPARING FOR THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

“CORRUPTION AND BRIBERY” AND “POLITICAL ENGAGEMENT” DISCLOSURES

Transparency International is the world's leading non-governmental anti-corruption organisation. With more than 100 chapters worldwide, Transparency International has extensive global expertise and understanding of corruption.

Transparency International UK is the UK chapter of Transparency International. We raise awareness about corruption; advocate legal and regulatory reform at national and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in the UK.

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Report 1: ***Understanding Anti-Corruption Reporting***, published with the International Federation of Accountants with the support of the World Economic Forum's Partnering Against Corruption Initiative (May 2023)

Report 2: ***Mapping Anti-Corruption Metrics in Sustainability Reporting and Benchmarking Initiatives*** (May 2024)

Report 3: ***Preparing for Corporate Sustainability Reporting Directive: "Corruption and Bribery" and "Political Engagement" Disclosures*** (this report)

Report 4: *Coordinating Governance and Risk Management for an Integrity-Centred Approach to Sustainability* (provisional title, forthcoming)

Report 5: *Driving Integrity in Sustainability Reporting and Communications* (provisional title, forthcoming)

GLOSSARY

ANTI-CORRUPTION	Policies and procedures to detect, prevent and respond to corruption in all its forms. Comparable terms are "anti-bribery and anti-corruption" and "anti-bribery and corruption".
CORRUPTION	Transparency International defines corruption as the abuse of entrusted power for private gain. "Corruption" is an umbrella term to describe a range of illegal and unethical practices including bribery, inducements, bid rigging, kickbacks, embezzlement, collusion, nepotism, trading in influence, abuse of position, undue influence and unmanaged conflicts of interest. The European Sustainability Reporting Standards (ESRS) refer to "corruption and bribery".
BRIBERY	Transparency International defines bribery as the offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. For Transparency International, so-called "facilitation payments" are a form of bribery.
BUSINESS RELATIONSHIPS	As defined in the ESRS, business relationships include direct contractual relationships and indirect business relationships in the company's value chain beyond the first tier (i.e. suppliers) and shareholding positions in joint ventures or investments.
DOUBLE MATERIALITY	The double materiality principle provides the basis for sustainability reporting under the European Union Corporate Sustainability Reporting Directive (CSRD).[1] According to the ESRS, "Double materiality has two dimensions, namely: impact materiality and financial materiality" (see definitions below).[2]
DOUBLE MATERIALITY ASSESSMENT	A materiality assessment is the process through which companies determine their material sustainability information. A double materiality assessment is a process conducted in line with the ESRS, i.e. matters are assessed from an impact and/or financial materiality perspective.
FINANCIAL MATERIALITY	As defined in the ESRS, a sustainability matter is material from a financial perspective if it generates or may generate risks or opportunities that have a material influence (or are likely to have a material influence) on the company's cash flows, development, performance, position, cost of capital, or access to finance over the short, medium or long term. This can also be termed an "outside-in" perspective.[3]
IMPACT MATERIALITY	As defined in the ESRS, a sustainability matter is material from an impact perspective when it relates to the company's actual or potential positive or negative impacts, in turn linked to the company's operations, products, and services through its business relationships, on environmental, social and governance (ESG) matters over the short, medium or long term.[4] This can also be termed an "inside-out" perspective.
MATERIALITY	The quality of being relevant or significant. The concept of materiality determines the information a company should report in its financial or sustainability reports.

POLITICAL ENGAGEMENT

"Political engagement" is an umbrella term that describes channels of political influence including political contributions (financial and in kind), lobbying, and the movement of personnel between the public and the private sectors (the "revolving door"). Political engagement by companies is a legitimate activity that can help governments to design laws that work for business and protect the public interest. However, there is a risk of undue influence on the political process and policy making where corporate political engagement is not conducted responsibly and transparently.[5]

STAKEHOLDERS

The ESRS identify two groups of stakeholders "who can affect or be affected by" the company: "affected stakeholders" (those who are actually or potentially affected by the company's operations and business relationships) such as employees, suppliers, customers and local communities; and "users of sustainability statements," including investors, business partners, non-governmental organisations, governments and analysts.[6]

SUSTAINABILITY MATTERS

"Sustainability matters" is the collective term used in the ESRS for sustainability topics, sub-topics and sub-subtopics. This report uses the terms "matter" and "topic" interchangeably.

UNDUE INFLUENCE

Undue influence in the context of political engagement occurs when individuals or groups gain an unfair advantage over public decision-making at the expense of the public interest. This can particularly occur when decision-making is opaque or when access to the political system is skewed in favour of select interests.[7]

VALUE CHAIN

According to the ESRS, the value chain is "The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates …. Value chain includes actors upstream and downstream from the undertaking."[8]

EXECUTIVE SUMMARY

Sustainability reporting is fast evolving and high on the agenda of company boards and global investors. The different approaches to materiality and the scope of environmental, social and governance (ESG) factors covered in different reporting standards, however, can present challenges for companies and their stakeholders alike.

The European Union (EU) Corporate Sustainability Reporting Directive (CSRD) is set to transform sustainability reporting by establishing common disclosure standards covering a wide range of ESG topics, including “corruption and bribery” and “political engagement”, which are included in the European Sustainability Reporting Standards (ESRS) topical standard ESRS G1: Business conduct.

Companies subject to the CSRD will need to disclose detailed and audited information in accordance with the ESRS. Conducting a double materiality assessment to identify which sustainability matters are material from an impact and/or financial materiality perspective is a key starting point for sustainability reporting and embedding sustainability in strategic planning.

This report aims to help anti-corruption and ESG/sustainability professionals to better understand “corruption and bribery” and “political engagement” in the context of the CSRD/ESRS and, using “corruption and bribery” as an example, to identify potentially material impacts, risks and opportunities when performing a double materiality assessment.

With CSRD reporting on the horizon for some UK companies, Transparency International UK reviewed the sustainability reports and Global Reporting Initiative (GRI) disclosures of 190 UK FTSE listed companies to understand whether they identify anti-corruption or political engagement, or comparable terms, as material sustainability matters. For any UK companies subject to the CSRD, determining these to be material matters could trigger topic specific ESRS disclosures.

KEY FINDINGS FROM THIS REVIEW:

1. Most companies in our sample (139/190; 73 per cent) conducted some form of materiality assessment. Of these companies, the majority (110/139; 79 per cent) consulted with their stakeholders in some way during the process. 31 (22 per cent) of these companies referred to “double materiality,” indicating that this approach is an emerging consideration for UK listed companies.

2. One third of companies (67/190; 35 per cent) across different industries identified anti-corruption as a material sustainability topic or matter covered within the scope of a material topic in their annual or sustainability report or GRI disclosures.

3. Across different industries, 23 per cent of companies (44/190) identified public policy as a material topic for their GRI disclosures. Of these, four companies also identified political engagement as a material topic in their annual or sustainability report.

4. 44 per cent of companies (83/190) reported against GRI Standards, which support reporting on material impacts. Of these, 71 per cent (59/83) identified anti-corruption as a material topic and reported against GRI 205: Anti-Corruption, and 53 per cent (44/83) identified public policy as a material topic and reported against GRI 415: Public Policy.

5. There is a lack of consistency in how companies assess and define their material sustainability matters. The overarching transparency objective of sustainability reporting could be undermined if users of sustainability information cannot readily understand which issues have been prioritised.

Sustainability reporting offers a clear opportunity for companies to communicate information to their investors and other stakeholders on their corruption-related risks and impacts and anti-corruption performance (through corresponding policies, procedures and targets).

The CSRD/ESRS requirements should help to bring greater consistency and clarity in companies' approach to identifying material sustainability matters, including how they engage with stakeholders during the process. The direction of travel for sustainability reporting is towards more granular information on material matters. This should positively impact corporate transparency by increasing the amount and quality of sustainability information that companies disclose, including on corruption and political engagement risks and impacts.

RECOMMENDATIONS:

RECOMMENDATION 1

Explicitly assess whether corruption/anti-corruption and political engagement are material matters from an impact and financial materiality perspective, regardless of the company's sector or whether it is subject to the CSRD. If they are not determined to be material matters, consider providing an explanation of why not.

RECOMMENDATION 2

Involve internal (cross-functional) and external stakeholders in the materiality assessment process, including those with anti-corruption and compliance expertise, and consult with stakeholders in line with international standards. By seeking a broad range of insights, companies can gain a more complete picture of their sustainability impacts, risks and opportunities.

RECOMMENDATION 3

Commit to transparency by reporting comprehensive sustainability information, definitions for material topics and a description of the methodology used to assess materiality. This will help a company's stakeholders to more clearly understand its sustainability priorities and how these connect to the company's business strategy. If appropriate, companies could refer to the ESRS definitions for guidance.

ABOUT THIS REPORT

This report aims to support anti-corruption and ESG/sustainability professionals to better understand "corruption and bribery" and "political engagement" as sustainability matters in the context of the European Union (EU) Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS).

In doing so, it considers how potentially material impacts, risks and opportunities linked to "corruption and bribery" could be identified when performing a materiality assessment in line with the ESRS.

The report also summarises the findings of Transparency International UK's review of the sustainability reports and Global Reporting Initiative (GRI) disclosures of 190 UK FTSE listed companies to understand whether they identify anti-corruption or political engagement, or comparable terms, as material sustainability matters. For any UK companies subject to the CSRD, determining these to be material matters could trigger topic specific ESRS disclosures.

This report is structured as follows:

Section 1

Provides background to this report and the CSRD and ESRS.

Section 2

Considers "corruption and bribery" and "political engagement" as sustainability matters under the ESRS.

Section 3

Presents the findings of our review of UK FTSE companies' materiality assessments.

Section 4

Outlines considerations for identifying impacts, risks and opportunities linked to "corruption and bribery" during a double materiality assessment.

Section 5

Sets out our conclusions and recommendations.

Section 6

Provides a list of resources.

SECTION 1 BACKGROUND

Sustainability reporting is fast evolving and high on the agenda of company boards. A 2023 survey of global investors highlights that investors want clear, consistent and comparable information on the material issues that companies face, including the impact of their actions on the environment and on society.[9] From a reporting company's perspective, disclosing comprehensive environmental, social and governance (ESG) information is a strategic way to build trust with stakeholders and demonstrate a commitment to sustainability and transparency.

An investigation by non-governmental organisation (NGO) Global Witness into lithium mines in Zimbabwe, Namibia and the Democratic Republic of Congo found that the emerging market for lithium is linked to corruption and a range of other ESG issues.[10]

Corruption – which encompasses a range of illegal and unethical practices, including bribery, kickbacks and undue influence – is a core ESG topic typically assessed as part of the "Governance" ("G") pillar. Unmanaged corruption risk can affect companies' financial and sustainability performance. For example, companies involved in corruption scandals face the prospect of reputational harm and legal fines which can add up to hundreds of millions of pounds.[11] Equally, corruption can result in adverse ESG impacts,[12] such as undermining access to healthcare,[13] impeding climate solutions[14] and preventing fair business opportunities. Relatedly, the impact of corporate lobbying on social and environmental policy, in particular, highlights the risk of undue influence on policy development.[15]

In the so-called "Fishrot scandal" in Namibia, allegations of corruption were made against public officials and businesses, including of kickbacks and collusion by a foreign company to secure access to fishing quotas at below the market price. The scandal harmed the local fishing industry and had a significant impact on the livelihoods of local fishers.[16]

In recent years, there has been a proliferation of reporting standards and guidelines intended to help companies communicate relevant sustainability information to their stakeholders. However, the different approaches to materiality and different scope of ESG factors covered can make it challenging for companies to determine which standards to report against, and for users of sustainability information to meaningfully compare companies' performance. In the context of corruption-related sustainability disclosures, for example, whereas the GRI system contains specific disclosures for organisations to report on material corruption-related impacts,[17] the Sustainability Accounting Standards Board (SASB) Standards do not include corruption metrics for all industries, including those which could be considered to present higher corruption risk.[18]

Ultimately, this can limit stakeholders' ability to compare companies' corruption-related disclosures. Transparency International UK's 2023 research with the International Federation of Accountants (IFAC) found that while 98 per cent of the 40 largest UK companies disclose some information relating to corruption/anti-corruption in their sustainability reports, there is wide variety in the information reported.[19]

The CSRD (in force from 1 January 2024) is set to transform ESG reporting by establishing "common sustainability reporting standards to ensure that information is comparable and that all relevant information is disclosed,"[20] covering "as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters."[21] Companies subject to the CSRD will need to disclose detailed and audited sustainability information in line with the ESRS.

The CSRD clarifies the concept of double materiality[22] (see Diagram 1) which requires companies in scope to assess the materiality of sustainability matters from an impact ("inside-out") and financial ("outside-in") perspective. Conducting a double materiality assessment is then a crucial starting point for sustainability reporting in accordance with the ESRS, as well as for embedding sustainability into strategic planning.

Notably, in order to fulfil the new sustainability reporting requirements, companies may look to involve internal functions who have not been involved previously, including Compliance, Legal and Risk, in the materiality assessment, data collection and reporting process.

> **It will therefore be necessary to involve skills that are not necessarily all coordinated around the issue of sustainability reporting, such as risk management, management control, operational functions and corporate strategy.[23]**
>
> Company interviewee, PwC EU Newsletter

The number of companies directly impacted by EU sustainability reporting rules will increase under the CSRD, from 11,700 under the EU Non-Financial Reporting Directive[24] to now around 50,000 companies globally.[25] Companies listed on EU markets, including some UK companies, are in scope from financial year 2024/25, while non-EU companies with substantial activity in the EU will need to comply from 2028.[26]

More companies are likely to be indirectly affected as a result of the ESRS requirement for companies to report on sustainability matters covering their direct and indirect business relationships in their upstream and downstream value chain. In addition, companies not in scope may face pressure from stakeholders (including investors, shareholders and NGOs) to meet ESRS disclosure expectations.[27]

Diagram 1: The concept of 'double materiality' as defined by the ESRS

Financial materiality

"A sustainability matter [which] triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates risks or opportunities that have a material influence … on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital." (ESRS 1, paragraph 49)

+

Impact materiality

"A sustainability matter … pertains to the undertaking's material actual or potential,positive or negative impacts on people or the environment [including] those connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships."
(ESRS 1, paragraph 43)

Double materiality

"A sustainability matter is 'material' when it meets the criteria defined for impact materiality … or financial materiality … or both."
(ESRS 1, paragraph 28)

SECTION 2

ESRS SUSTAINABILITY MATTERS “CORRUPTION AND BRIBERY” AND “POLITICAL ENGAGEMENT”

The ESRS contain 12 Standards (see Diagram 2):

- “ESRS 1 General Requirements” sets out the general principles for reporting according to the ESRS.
- “ESRS 2 General Disclosures” contains mandatory disclosure requirements irrespective of the company’s assessment of materiality.
- Ten topical ESRS set out topic specific disclosure requirements which are subject to the outcome of the company’s materiality assessment. Each topical standard is structured using a topic, sub-topic and sub-sub-topic (together, “sustainability matters”) taxonomy.

> **“The effects of corruption are serious and widespread. Corruption acts as a drag on economic growth, by creating business uncertainty, slowing processes, and imposing additional costs while impacting the EU as a whole by lowering investment levels, hampering the fair operation of the Internal Market and reducing public finances. As an enabler for crime and terrorism, it also constitutes a threat to security.**
>
> European Financial Reporting Advisory Group

ESRS disclosure requirements relating to “corruption and bribery” and “political engagement” are covered in topical standard ESRS G1 Business conduct (see Table 1). The European Financial Reporting Advisory Group (EFRAG), the body which prepared the ESRS exposure drafts, considered the harmful societal impact of corruption and the risk of undue influence by businesses on the political process in its summary of the context and reasons for ESRS disclosure requirements:[28]

> **“Business undertakings and their representatives have an interest in the political landscape that shapes the business environment in the form of taxes, incentives, rules and regulation … However, this may create the potential for undue influence especially through constant interaction, exchange of personnel and financial contributions.**
>
> European Financial Reporting Advisory Group

Companies which identify material impacts, risks and opportunities linked to “corruption and bribery”, related sub-subtopics, and/or “political engagement” will need report on what policies, actions and targets they have in place to manage these matters. This reporting will need to reference the corresponding ESRS G1 disclosure requirements (see Diagram 3) and to disclose relevant data points (see Diagram 4).[29]

Diagram 2: Overview of the ESRS standards

2 Cross-cutting Standards

ESRS 1 General Requirements
General principles for reporting according to the ESRS

ESRS 2 General Disclosures
Mandatory disclosure requirements regardless of the company’s materiality assessment, and specifies the structure and content for the ESRS topical standards

10 Topical Standards
Topic specific disclosure requirements that map to ESRS 2 across four disclosure areas – governance, strategy, management of impacts, risks and opportunities, metrics and targets – as well as disclosure requirements on specific matters

Environment
ESRS E1 – E5

Social
ESRS S1 – S4

Governance
ESRS G1
Business conduct

Table 1: Overview of ESRS GS1 Business conduct

ESRS	**G1**	
Topic	**Business conduct**	
Sub topic	Corporate culture Protection of whistle-blowers Animal welfare Political engagement Management of suppliers including payment practices	Corruption and bribery
Sub-subtopic	(No sub-subtopics)	Prevention and detection including training Incidents

Diagram 3: Overview of ESRS G1 Business conduct

8 ESRS G1 Business Conduct Disclosure Requirements

Disclosure Requirement G1-1
Business conduct policies and corporate culture

Disclosure Requirement G1-2
Management of relationships with suppliers

Disclosure Requirement G1-3
Prevention and detection of corruption and bribery

Disclosure Requirement G1-4
Incidents of corruption or bribery

Disclosure Requirement G1-5
Political influence and lobbying activities

Disclosure Requirement G1-6
Payment practices

Diagram 4: Example (draft) ESRS data points

DISCLOSURE REQUIREMENT G1-3
PREVENTION AND DETECTION OF CORRUPTION AND BRIBERY

ESRS 2 General disclosures

- Information about procedures in place to prevent, detect, and address allegations or incidents of corruption or bribery (narrative)
- Percentage of functions-at-risk covered by training programmes (per cent)
- Information about nature, scope and depth of anti-corruption or anti-bribery training programmes offered or required (narrative)

Appendix A: Application Requirements

- Disclosure of an analysis of its training activities by, for example, region of training or category (narrative)

DISCLOSURE REQUIREMENT G1-5
POLITICAL INFLUENCE AND LOBBYING ACTIVITIES

Metrics and targets

- Information about financial or in-kind political contributions (narrative)
- Disclosure of main topics covered by lobbying activities and undertaking’s main positions on these topics (narrative)
- Amount of internal and external lobbying expenses (monetary)training or category (narrative)

Key

- mandatory (“shall”) data points;
- voluntary (“may”) data points, according to the ESRS wording.

Companies will need to report “Metrics and targets” data points if these are assessed to be material to the objective of the disclosure requirement.

Download: Draft EFRAG IG 3 ESRS data points

Transparency International UK has mapped the disclosure metrics, indicators and principles relating to anti-corruption and political engagement in select voluntary ESG reporting standards, benchmark initiatives, ESG ratings and disclosure principles, to help companies identify what information they may already be collecting and reporting as they prepare for CSRD disclosure or generally look to increase their level of transparency on corruption-related matters.

SECTION 3

CURRENT STATE OF PLAY – DO UK LISTED COMPANIES IDENTIFY "CORRUPTION AND BRIBERY" AND "POLITICAL ENGAGEMENT" AS MATERIAL MATTERS?

With CSRD reporting on the horizon for some UK companies, Transparency International UK reviewed the materiality assessment results of a sample of 190 UK FTSE listed companies to understand the extent to which they identify anti-corruption and/or political engagement as material sustainability matters,[30] in consultation with their stakeholders. For details on our methodology for this review, see Annex 1. Our key findings are summarised in the graphic.

1. Most (139/190; 73%) companies in our sample conducted some form of a materiality assessment. Of these companies, 79% (110/139) consulted stakeholders during the process; 31 (22%) referred to 'double materiality' in their annual or sustainability report.

73% of companies conducted a materiality assessent

96% reported their material topics publicly

79% consulted with stakeholders as part of the assessment

22% explicitly referred to double materiality

2. One-third of companies (67/190; 35%) identified anti-corruption as a material matter in their annual or sustainability report and/or GRI disclosures, across different industries (see Diagrams 5 and 6 in Annex 2; and see Diagram 8 in Annex 2 for the variety of terms companies used).

35% of companies identified anti-corruption as a material matter

Telecommunication, basic materials, energy and industrials in particular

17 was the number of different terms used to identify a material topic which covers anti-corruption

3. 23% (44/190) of companies in our sample identified public policy as a material topic for their GRI disclosures. Of these, four companies also identified political engagement as a material topic in their annual or sustainability report (see Diagram 8, Annex 2).

23% of companies identified public policy as a material topic

Energy, financials and basic materials companies in particular

4. 44% (83/190) of companies reported against the GRI Standards. Of these, 71% (59/83) identified anti-corruption as material and reported against GRI 205: Anti-corruption; 53% (44/83) identified public policy as material and reported against GRI 415: Public Policy (see Diagrams 6 and 7 in Annex 2).

44% of companies in our sample reported in line with GRI

53% reported against GRI 415: Public Policy

71% reported against GRI 205: Anti-corruption

SECTION 4

ASSESSING "CORRUPTION AND BRIBERY" DURING A DOUBLE MATERIALITY ASSESSMENT

When performing a double materiality assessment in accordance with the ESRS, companies will need to, at a minimum, evaluate the sustainability matters listed in ESRS Annex I Application Requirement (AR) 16, and they could additionally consider entity-specific matters.

This section outlines considerations, using "corruption and bribery" as an example, for identifying potentially material impacts, risks and opportunities during a double materiality assessment. It does not aim to provide a how-to guide; it is for companies to decide what is an appropriate process for their circumstances.[31]

EFRAG's Implementation Guidance: Draft EFRAG IG 1 Materiality Assessment outlines four suggested steps and provides guidance on the process:

STEP 1

Understand the context

Companies could start by mapping their activities and business relationships, the regulatory landscape and stakeholders to help identify their sustainability impacts, risks and opportunities in subsequent steps.

While corruption risk is present in all business sectors, some are more exposed than others.[32] For example, the likelihood of corruption is higher if the company has significant government interactions (such as government contracts and licence applications), relies on third parties and intermediaries, or has operations or business partners in high-risk jurisdictions.

Companies could consider the following:

- Who are the company's third parties and intermediaries (e.g. agents, consultants, distributors)? Mapping these parties is particularly important because their actions of could attract legal liability to a company under certain anti-corruption laws (e.g. the UK Bribery Act 2010).
- Where do the company and its business partners have operations? Jurisdictions which score low in Transparency International's Corruption Perceptions Index are at higher risk for public sector corruption and, relatedly, for doing business.[33]
- Does the company operate in a sector that generally faces a high risk of corruption?[34]
- Does the company's value chain include sectors or jurisdictions that present a high risk of corruption?
- Has the company received reports of actual or suspected breaches of anti-corruption laws in its operations or value chain?
- Does the company engage with government officials, e.g. to obtain licences through engagement with customs/tax authorities, or to bid for public contracts?
- Who are the stakeholders the company could involve? This could include personnel in different internal functions, critical business partners, local communities affected by company projects, or NGOs.
- Does the company have a system in place to identify and manage anti-corruption risks? This might include anti-corruption policies, a whistleblowing mechanism, embedding provisions on anti-corruption in contracts with business partners, or anti-corruption training.
- Involving internal expertise across different functions – e.g. legal, ethics and compliance, sustainability, finance, risk – could help the company to better map business partners and relevant regulations and standards, collect data, and assess materiality.[35]

STEP 2

Identify actual and potential material impacts, risks and opportunities related to sustainability matters

Based on the mapping exercise during Step 1, companies could create a list of potentially material impacts, risks and opportunities to be assessed in the next step.

To identify sustainability impacts related to corruption and bribery (impact materiality), companies could consider the following:

- Is the company aware of any allegations of non-compliance with applicable anti-corruption legislation or standards by employees or business partners? This non-compliance could increase the likelihood of adverse human rights and environmental impacts.[36]
- Does the company rely on social or environmental certifications from business partners in countries where the risk of corruption is higher?
- Does the company source from jurisdictions which score low on Transparency International's Corruption Perceptions Index?
- Do company operations or projects involve land acquisitions in countries where the risk of corruption is higher?

For example:

- Company identifies the lack of anti-corruption training for employees as a negative impact on workforce professional development.[37]
- Company identifies a corruption risk (bid rigging) among potential suppliers that could impact adversely on the quality and cost of critical health care that it supplies.
- Company discovers that a bribe was paid to secure an environmental permit relating to a project it had invested in.
- Company transports goods across borders, requiring frequent engagement with customs where facilitation payments (small bribes) are routinely requested. This practice can put employees at risk and contribute to social harm by entrenching a corrupt bureaucracy.[38]
- Company's third party anti-corruption measures impact positively on the company's business partners and wider operating environment: for example, by adding anti-corruption provisions to its contracts and requesting that business partners have an anti-corruption policy.

To identify sustainability risks and opportunities related to corruption and bribery (financial materiality), companies could consider:

- What is the likelihood of an employee, agent or direct business partner paying a bribe on the company's behalf?
- Does the company operate in a sector that generally faces a high risk of corruption?
- Do the company or its affiliates bid for large-scale projects funded by the World Bank or other development banks?[39]
- Does the company have business partners that do not have anti-corruption policies and procedures in place?
- Does the company take part in public sector procurement processes?

For example:

- Company conducts an internal investigation into bribery allegations which could result in regulatory action and a potential fine.
- Company's business model depends on agents, posing an increased risk of corruption and related legal risk due to lower degrees of control.
- Company identifies allegations of corruption against a joint venture partner in an extractive project which has affected community relations, with a potential financial effect as a result of disrupted business.
- Company identifies a corruption issue (bid rigging) among potential suppliers, which could affect future business opportunities.
- Company is under investigation by the regulator for bribery and fails to win work it has bid for because of the investigation.[40]
- Company is able to attract investment thanks to its good reputation on anti-corruption and strong anti-corruption governance practices.

STEP 3

Materiality Assessment

The financial materiality and impact materiality perspectives are "inter-related,"[41] given that a company's sustainability impacts, as well as the decisions taken to manage these, can trigger risks and opportunities and become financially material over time.[42] EFRAG recommends starting by assessing impact materiality, but notes that the company will also need to consider matters that are material only from a financial perspective.[43]

Conducting a double materiality assessment is likely to be a significant evolution for many companies. However, companies can leverage existing processes. For example, within the GRI system, the GRI 3: Material Topics (2021) standard follows similar steps to those

26%
of companies in our sample use GRI 3: Material Topics to identify material topics from an impact perspective

of the ESRS to identify and assess materiality from an impact perspective.[44] Companies could also leverage insights from their human rights due diligence processes conducted in line with international standards.[45]

The International Financial Reporting Standards (IFRS) and tools such as the SASB (now part of the IFRS Foundation) Materiality Map could help companies to identify financially material factors on an industry-by-industry basis.[46]

IMPACT MATERIALITY

Determining the materiality of negative and positive impacts requires an assessment of severity and, for potential impacts, likelihood.

Severity takes into account scale (how grave the impact is for affected stakeholders and/or the environment) and scope (how widespread the impact is in terms of the number of individuals affected or the extent of environmental damage[47]). For negative impacts, it also takes into account how irremediable the impact is.

Engagement with affected stakeholders is central to companies' ongoing due diligence processes and can inform their assessment of materiality.[48] In particular, companies should aim to consult with stakeholders who are actually or potentially affected by their operations and business relationships (e.g. employees, customers and local communities) to assess the severity and likelihood of impacts.[49]

FINANCIAL MATERIALITY

Determining the materiality of sustainability risks and opportunities requires assessing the potential magnitude of the financial effects on the company in the short, medium and long term.[50]

Companies could similarly engage with stakeholders, particularly shareholders, investors and lenders, to inform the assessment process.[51]

STEP 4

Reporting

Companies will need to prepare a sustainability statement according to ESRS requirements and have their sustainability disclosures audited by an independent third-party auditor before they are filed with the relevant authority.

ESRS Annex I Appendix E provides a flowchart for determining disclosures under ESRS.[52]

For example, the sustainability statement would need to include information on:

- The company's material impacts, risks and opportunities relating to sustainability matters and how these interact with the company's strategy and business model.[53]
- The company's process for identifying material impacts, risks and opportunities, including stakeholder engagement and thresholds for materiality.[54]
- The company's policies, actions and targets for material sustainability matters with reference to the corresponding disclosure requirements. If the company has no policies, actions or targets, it must state this and report a timeframe for putting them in place.
- "Metrics and targets" disclosure areas relating to material sustainability matters where the company assesses these to be material for meeting the objective of the disclosure requirement.[55]

SECTION 5 CONCLUSION AND RECOMMENDATIONS

Companies within the scope of the CSRD will need to assess the materiality of “corruption and bribery” and “political engagement” from an impact and financial materiality perspective regardless of their industry or sector. As this report finds, UK FTSE-listed companies in a range of industries identify these as material topics for the purpose of sustainability reporting.

However, our study also reveals a current lack of consistency in how companies assess potential sustainability topics and define their material topics. The overarching transparency objective of sustainability reporting could be undermined if the scope of a company’s identified material topics is unclear, as this would make it harder for stakeholders and users of sustainability information to understand which issues have been prioritised by the company when setting its strategy.

Performing a materiality assessment in line with the ESRS is an opportunity for companies to consult with stakeholders, both external and internal (across different teams), and gain a more complete picture of their sustainability impacts, risks and opportunities. Complying with the CSRD will then require companies to be transparent about their methodology for determining materiality, including how they engage with stakeholders, which should lead to greater consistency and clarity in how companies approach their materiality assessments.

The direction of travel for sustainability reporting is towards more granular information on material matters. Ultimately, CSRD and ESRS requirements should positively impact the level of corporate transparency on ESG matters and the quality of information disclosed, including for companies which are not in scope of the CSRD but which are indirectly affected by the new sustainability reporting rules.

It remains to be seen how the CSRD and ESRS will impact companies’ materiality assessment and disclosure practices, particularly for companies not subject to the new rules. Revisiting this study after the first company reports are filed under the CSRD would be a valuable area in which to consider future study.

RECOMMENDATIONS

Transparency International UK encourages companies to take the following action:

✓ RECOMMENDATION 1

Explicitly assess whether corruption/anti-corruption and political engagement are material matters from an impact and financial materiality perspective, regardless of the company’s sector or whether it is subject to the CSRD. If they are not determined to be material matters, consider providing an explanation of why not.

✓ RECOMMENDATION 2

Involve internal (cross-functional) and external stakeholders in the materiality assessment process, including those with anti-corruption and compliance expertise, and consult with stakeholders in line with international standards. By seeking a broad range of insights, companies can gain a more complete picture of their sustainability impacts, risks and opportunities.

✓ RECOMMENDATION 3

Commit to transparency by reporting comprehensive sustainability information, definitions for material topics and a description of the methodology used to assess materiality. This will help a company’s stakeholders to more clearly understand its sustainability priorities and how these connect to the company’s business strategy. If appropriate, companies could refer to the ESRS definitions for guidance.

SECTION 6 RESOURCES

European Commission	
Implementing and delegated acts – CSRD and ESRS (Annex I and Annex II)	The text of the CSRD (Directive (EU) 2022/2464) and the ESRS, adopted by Delegated Act on 31 July 2023 ESRS Annex I contains the 12 Standards ESRS Annex II contains the Glossary and Acronyms

EFRAG (The European Financial Reporting Advisory Group)	
[Draft] EFRAG IG 3 ESRS Data Points (December 2023)	Microsoft Excel workbook including list of the data points (draft) contained in each Disclosure Requirement in the ESRS topical Standards; this list is subject to change
[Draft] Implementation Guidance Draft EFRAG IG 2 on Value Chain (December 2023)	Non-authoritative draft guidance which accompanies the ESRS to help companies subject to CSRD/ESRS to assess sustainability matters in the context of their business relationships in the upstream and downstream value chain
[Draft] Implementation Guidance Draft IG 1 Materiality Assessment (December 2023)	Non-authoritative draft guidance which accompanies the ESRS to help companies subject to CSRD/ESRS to assess the materiality of sustainability matters
Draft European Sustainability Reporting Standards ESRS G1 Business Conduct: Basis for Conclusions (November 2022)	Guidance summarising the considerations of the EFRAG Sustainability Reporting Board and the references to other standard-setting initiatives or regulations used in developing the proposed contents of ESRS Business Conduct standard

Transparency International	
Transparency International UK, *Open Business* (2020)	Guidance to help companies disclose meaningful information across core anti-corruption areas, including anti-corruption policies (including gifts and hospitality and conflicts of interest), training, whistleblowing protection, political engagement and beneficial ownership transparency
Transparency International UK, *Wise Counsel or Dark Arts? Principles and Guidance for Responsible Corporate Political Engagement* (2015)	Guidance for companies on the management of responsible corporate political engagement, covering political contributions, lobbying, memberships of trade associations, exchanges of people between the public and private sectors, and political activities in the workplace
Gabriela Camacho, *Transparency International Anti-Corruption Helpdesk Answer: Anti-Corruption in ESG Standards* (2022)	Resource assessing the extent to which corruption is currently addressed as part of existing ESG reporting standards and initiatives

The Principles for Responsible Investment (PRI) and UN Global Compact	
PRI, *Engaging on Anti-Bribery and Corruption* (2016)	This paper sets out the PRI's views on the investor case for engaging on anti-bribery and corruption
PRI, *The Investor Case for Responsible Political Engagement* (2022)	This paper sets out the PRI's views on the investor case for responsible corporate political engagement

ANNEX 1: METHODOLOGY FOR SECTION 3

Transparency International UK reviewed the sustainability reporting and GRI disclosures of 190 companies listed in the UK FTSE 100 and 250 indices during quarter 3 in 2023 to determine the extent to which these companies identify anti-corruption or political engagement, or comparable terms, as material sustainability matters, and whether they consulted with external stakeholders to determine materiality. We tried to ensure cross-industry representation within our sample based on the Industry Classification Benchmark (ICB) system (see Table 2),[56] although some industries have a limited number of FTSE constituents.

Our review covered:

1. The company's description of its materiality assessment process, and whether the company consulted with its stakeholders to inform its determination of its material sustainability matters.

2. The company's material sustainability topics as identified in its annual, integrated or sustainability report, as relevant, in a materiality matrix[57] (for an example, see Diagram 5 below) or listed in the report.

3. Where the company did not identify anti-corruption or political engagement as specific material topics, whether these matters were covered within the scope of an identified material topic, assessed by reviewing accompanying definitions or explanations, if provided.

4. The company's GRI disclosures, as relevant, to determine whether the company reported against GRI 205: Anti-Corruption (2016) and/or GRI 415: Public Policy (2016) standards (Diagram 3 and Table 2 respectively). We took reporting against a relevant standard to indicate that the company considers the topic material.

In terms of the limitations of our review, the findings on UK companies' materiality assessment outcomes are limited to the companies in our sample and are based on reasonable assumptions after drawing on companies' published reports.

Table 2: Industry breakdown of companies in our sample (ICB classification)

Industry (ICB classification)	FTSE 100	FTSE 250	Total
Basic Materials	7	8	15
Consumer Discretionary[58]	13	19	32
Consumer Staples[59]	8	7	15
Energy	2	7	9
Financials	12	27	39
Health Care	7	4	11
Industrials	12	18	30
Real Estate	3	12	15
Technology	2	9	11
Telecommunications	3	3	6
Utilities	5	2	7
Total	**74**	**116**	**190**

ANNEX 2: GRAPHS FOR SECTION 3

Diagram 5: Percentage of companies, by industry, identifying anti-corruption as a material matter in their annual or sustainability report

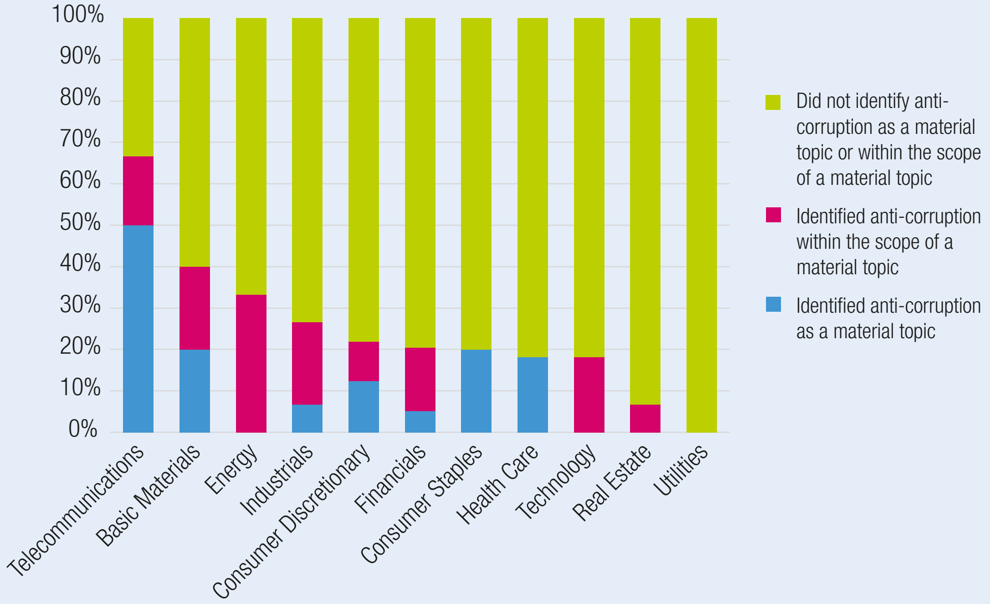
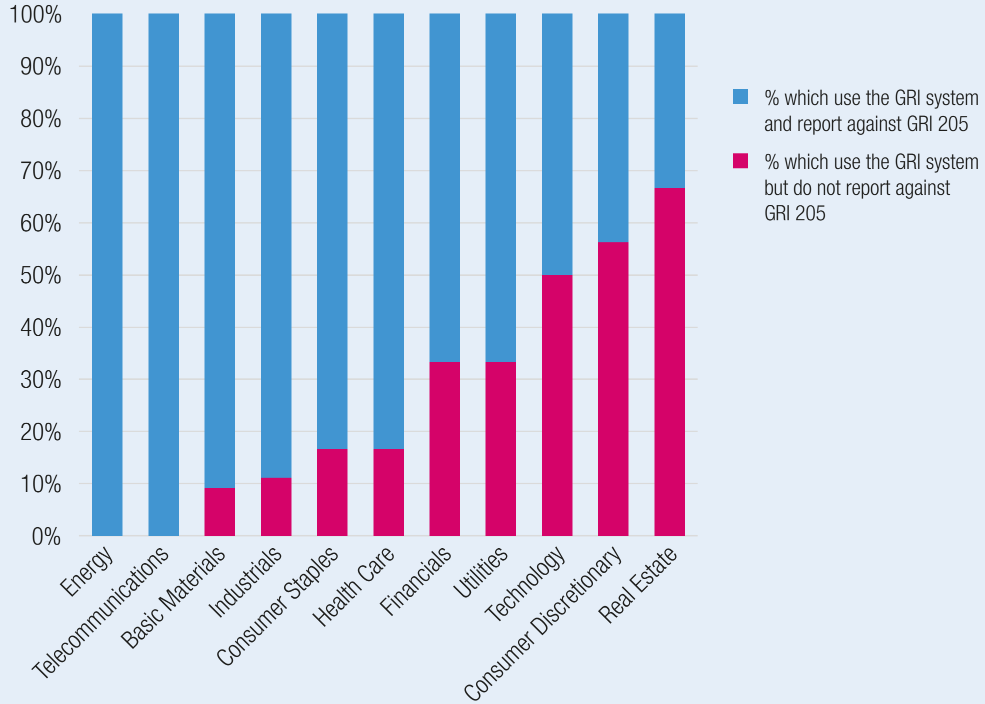


Diagram 6: Percentage of companies identifying anti-corruption as a material topic for their GRI disclosures (GRI 205: Anti-Corruption)



Note: 44 companies out of 190 identified anti-corruption as a material matter in their annual or sustainability report. 8 of these companies did not disclose against GRI 205: Anti-Corruption. Therefore, a total of 67 companies (including the 59 which reported against GRI 205: Anti-Corruption) identified anti-corruption as a material matter in their annual or sustainability report and/or GRI disclosures.

Diagram 7: Percentage of companies identifying public policy as a material topic for their GRI disclosures (GRI 415: Public Policy)

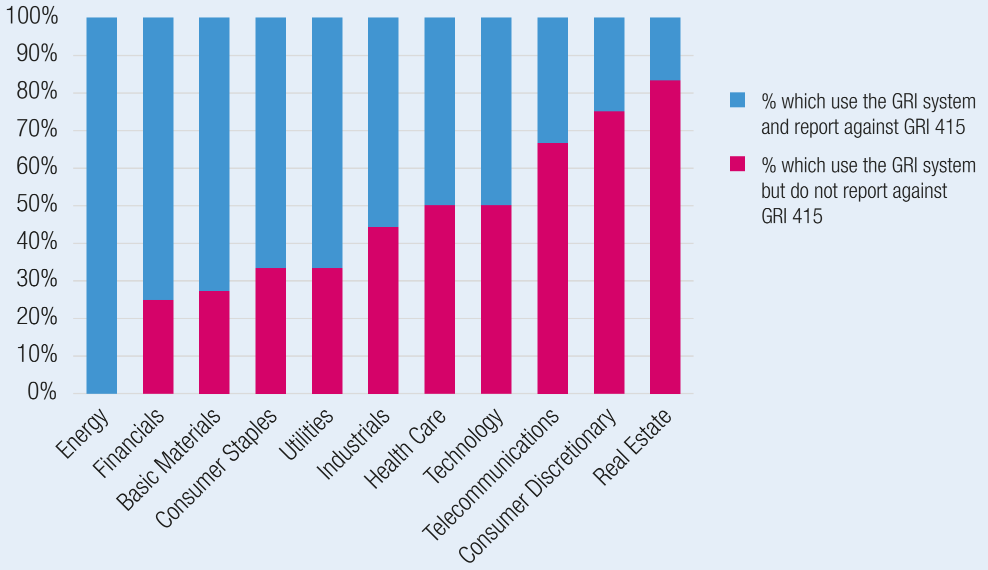


Table 3: The terms used by the four companies identifying political engagement as a material topic in their annual or sustainability report

Company industry (ICB classification)	Identified material topic
Consumer Discretionary #1	Political transparency
Consumer Discretionary #2	Government relations and lobbying
Consumer Staples	Lobbying
Energy	Public policy

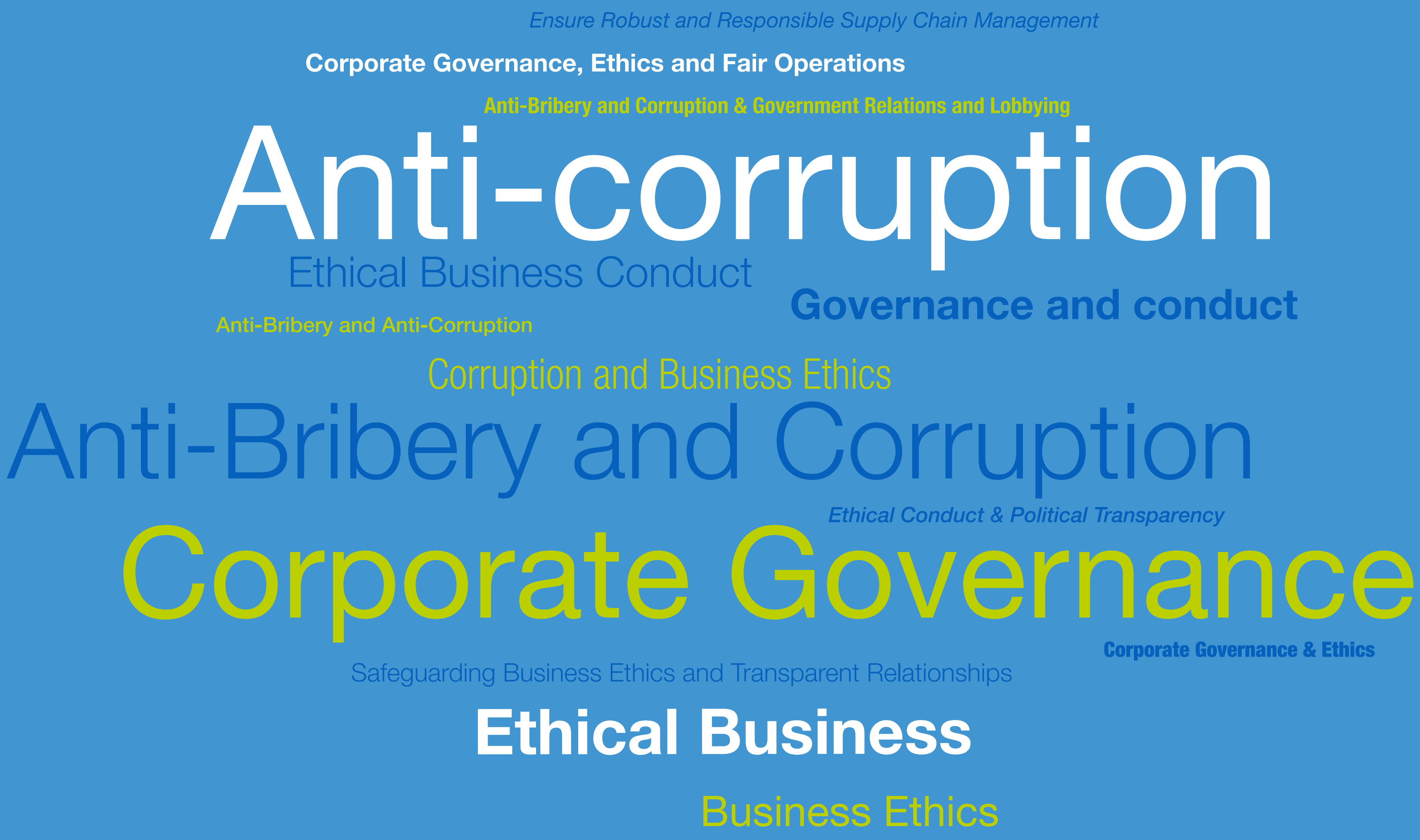


Diagram 8: Word cloud visualisation of the variety of terms used by companies in our sample to identify material sustainability topics relevant to anti-corruption. The terms in larger fonts are those used more frequently.

ENDNOTES

1 The CSRD (Directive (EU) 2022/2464) entered into force on 5 January 2023 and amends the EU Accounting Directive (Directive 2013/34/EU), which was amended previously by the EU Non-Financial Reporting Directive (Directive (EU) 2014/95). The European Commission adopted the ESRS, which set out the reporting requirements for in-scope companies, by a Delegated Act to the CSRD on 31 July 2023.

2 ESRS 1, paragraph 37.

3 ESRS 1, paragraph 49.

4 ESRS 1, paragraph 43.

5 Transparency International UK, "12. Political Engagement", Global Anti-Bribery Guidance.

6 ESRS 1, paragraph 22.

7 Transparency International EU Office, *EU Legislative Footprint: What's The Real Influence of Lobbying?* (Brussels: TI EU Office, 2015.

8 ESRS, Annex II.

9 PwC, "Trust, Tech and Transformation: Navigating Investor Priorities", PwC's Global Investor Survey 2023, 5 November 2023.

10 Global Witness, "A Rush for Lithium in Africa Risks Fuelling Corruption and Failing Citizens", 14 November 2023.

11 PRI (Principles for Responsible Investment) and UN Global Compact, *Engaging on Anti-Bribery and Corruption: A Guide for Investors and Companies* (2016).

12 Transparency International EU and Global Witness, *The Prevention of Corruption as Part of Mandatory Due Diligence in EU Legislation* (2021).

13 Shalni Arora, "The Impact of Corruption in the Pharmaceutical and Healthcare Sector on Society", Transparency International UK, 30 July 2015.

14 Tiffanie Chan, Laura Ford, Catherine Higham, Shirley Pouget and Joana Setzer, *Corruption and Integrity Risks in Climate Solutions: An Emerging Global Challenge* (London: LSE, 2023).

15 OECD and PRI, *Regulating Corporate Political Engagement: Trends, Challenges and the Role for Investors* (Paris: OECD Publishing, 2022), www.unpri.org/download?ac=15729.

16 Johannes Dell, "Fishrot: The Corruption Scandal entwining Namibia and Iceland", BBC News, 27 February 2023.

17 GRI (Global Reporting Initiative), GRI 205: Anti-Corruption 2016 and GRI 415: Public Policy 2016 (Amsterdam: GRI, 2016).

18 World Economic Forum, *Investing in Integrity in an Increasingly Complex World: The Role of Anti-Corruption amid the ESG Revolution* (Geneva: World Economic Forum, 2022).

19 IFAC (International Federation of Accountants) and Transparency International UK, with the support of the World Economic Forum's Partnering Against Corruption Initiative, *Understanding Anti-Corruption Reporting* (New York: IFAC, 2023).

20 CSRD, paragraph 37.

21 CSRD, paragraph 7.

22 CSRD, paragraph 29.

23 Company employee quoted in PwC, "Sustainability Reporting", EU Newsletter 8, November 2023.

24 European Union, "Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014".

25 European Parliament, "Sustainable Economy: Parliament Adopts New Reporting Rules for Multinationals", Press Release, 10 November 2022.

26 European Commission, "Questions and Answers on the Adoption of European Sustainability Reporting Standards", 31 July 2023. This includes companies listed on regulated markets in the EU (apart from listed micro-enterprises) and other large EU companies. Non-EU companies that generate over €150 million (US$160.8 million) per year in the EU and with a turnover exceeding €40 million (US$42.9 million) or a subsidiary that is a large company or a listed small or medium-sized enterprise (SME) will have to disclose at the group level from financial year 2028.

27 PwC UK, "Wake Up and Smell the CSRD".

28 EFRAG (European Financial Reporting Advisory Group), *Draft European Sustainability Reporting Standards. ESRS G1 Business Conduct: Basis for Conclusions* (Brussels: EFRAG, 2022).

29 ESRS 1, Appendix E: Flowchart for determining disclosures under ESRS.

30 The companies in our sample which identified anti-corruption as a material matter used a variety of terms (see Diagram 8, Annex 2). We use the term "anti-corruption" to group comparable terms (including, for the purpose of this study, "corruption') as this is the term used in GRI Standards.

31 EFRAG, *Implementation Guidance Draft IG 1 Materiality Assessment*, paragraph 5.

32 See, for example, Jocelyne Landu Gombo, "How to Tackle Bribery and Corruption Risks in Africa", Grant Thornton, 11 July 2022. See also Financial Crime Academy, "FCPA: A 1-Stop Guide to The Foreign Corrupt Practices Act", 28 February 2024.

33 Transparency International, "Corruption Perceptions Index: 2023".

34 Gombo, "How to Tackle Bribery"; Financial Crime Academy, "FCPA".

35 PwC NL, "CSRD: Double Materiality Assessment".

36 TI EU and Global Witness, *Prevention of Corruption*.

37 Adapted from EFRAG, *Draft EFRAG IG 1*, p. 46.

38 Transparency International UK, "8. Facilitation Payments".

39 For an example of a corporate group debarment due to misconduct (bribery), see World Bank "World Bank Debars SNC-Lavalin Inc. and its Affiliates for 10 Years", 17 April 2013.

40 For an example, see Transparency International UK, *Open Business* (TI UK, 2020).

41 ESRS 1, paragraph 38.

42 EFRAG, *Draft EFRAG IG 1*, paragraph 35

43 EFRAG, *Draft EFRAG IG 1*, paragraph 63.

44 EFRAG, *Draft EFRAG IG 1*, section 4.1.

45 Specifically, the *UN Guiding Principles on Business and Human Rights* (UNGPs) and the *OECD Guidelines for Multinational Enterprises*; ESRS, 1 paragraph 45.

46 SASB (Sustainable Accounting Standards Board), "Exploring Materiality".

47 EFRAG, *Draft EFRAG IG 1*, paragraph 113.

48 ESRS 1, paragraph 24.

49 For more information on the role of stakeholders in the materiality assessment process, see EFRAG, Draft EFRAG IG 1, section 3.5.

50 ESRS 1, Appendix A: Application Requirements AR 15.

51 EFRAG, *Draft EFRAG IG 1*, section 3.7.

52 See also EFRAG, *Draft EFRAG IG 1*, paragraph 13 and the visual on p. 12.

53 ESRS 2, paragraphs 46–49.

54 ESRS 2, paragraph 53.

55 ESRS 1, paragraph 34.

56 FTSE Russell, "Industry Classification Benchmark" (ICB).

57 A materiality matrix presents a company's material sustainability topics in order of their relative ranking or score. In the company reports reviewed for this study, the matrix typically mapped the topics which are material for the company on one axis and those material for the company's stakeholders on the other axis. The top-right quadrant in the matrix contains the topics which are material from both perspectives. For an example, see NYU Stern, *Sustainability Materiality Matrices Explained* (New York: NYU Stern, 2019). This type of materiality matrix differs from a materiality matrix which presents the company's sustainability topics from a double materiality perspective, where one axis maps topics which are financially material and the other maps those which are material from an impact perspective. For an example, see, BSR (Business for Social Responsibility), "Why Companies Should Assess Double Materiality", Blog, 9 February.

58 According to the ICB, Consumer Discretionary "Contains companies that provide products and services directly to the consumers, and their purchasing habits are non-cyclical in nature (discretionary)." "The services segment includes hotels, restaurants, retail/e-retail, passenger transportation, and other leisure facilities."

59 According to the ICB, Consumer Staples companies "provide products and services directly to the consumers, and their purchasing habits are cyclical in nature." This definition includes companies that manufacture, distribute and/or retail food, beverages and non-durable household goods, and drug-retail, agriculture, fishing, ranching and milling companies.

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