CSRD Snapshot

EU Regulation Series for Companies

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LEADERS ARENA

What do Companies Need to Know About the EU's Proposed Corporate Sustainability Disclosure Regulation?

What is the CSRD?

The Corporate Sustainable Reporting Directive (CSRD) is the proposed **new directive on corporate sustainability reporting** to be applied to companies listed or operating within the European Union (EU).

The EU is in the process of revising its current corporate sustainability reporting requirements for companies **to be more robust, whilst linking it to the European Sustainable Finance package**. The planned transition from the Non-Financial Reporting Directive (NFRD) to the CSRD framework will bring a **broadening of the scope for companies reporting on sustainability**, with the expected number of companies covered increasing to 49,000 from 11,000, representing 75% of EU company turnover.

What are the key points of the CSRD?

Timing

EU standards publishing 2022-23
First company report **in calendar year 2025 covering FY2024.**

Scope

Large entities with 2/3 criteria:
- >250 employees
- >€40m in net turnover
- > €20m in total assets

SMEs with 2/3 criteria:
- 50-250 employees
- €8m- €40m in net turnover
- €4m- €20m in total assets

Reporting Changes

New EU ESG Standard:
- Embeds double-materiality
- TCFD-integrated
- More forward-looking information, targets & goals
- Paris & 1.5°C alignment
- Value chain & intangibles

Auditing

Limited assurance audit of ESG data/reporting required

What does the CSRD say on materiality?

Double materiality is when companies report on material issues that affect the business, and how the business impacts the world around it. The EU considers corporate adoption of double materiality as an important element in meeting the ambitions of the Sustainable Finance package. Double materiality has been in the NFRD since 2014; however, the EU believes companies have not adopted it effectively. The CSRD approach will remove ambiguity by making companies incorporate double materiality into management reports, which may make materiality assessments and disclosure more challenging.

Does the CSRD link to other elements of the EU Sustainable Finance package?

A key feature of the CSRD is that the new reporting standards will not only have to be consistent with both the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy Regulation but also will actively seek to compliment and reflect the considerations of both. Companies can follow SFDR and Taxonomy developments, which will inform the style of the new EU sustainability reporting standards. Moreover, it is expected that CSRD reporting will be the key source of SFDR inputs for asset managers.

Will the CSRD affect non-EU companies?

The CSRD will impact non-EU companies listed in the EU and subsidiaries of non-EU companies. These entities, alongside asset managers, are required by the CSRD and SFDR respectively to align reporting for EU businesses & investments. The only exception is for subsidiaries where its parent company publishes 'equivalent' disclosure to the new EU standards.

What can companies do to prepare?

To best prepare for new reporting standards, companies can lay the groundwork on key areas, including Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, materiality analysis, and climate scenario planning with Net-Zero aligned goals. Contact Leaders Arena to learn more.