CSRD

The FAQ Edition

Everything you wanted to ask about the Corporate Sustainability Reporting Directive, answered

VinciWorks

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the Corporate Sustainability Reporting Directive, answered

The Corporate Sustainability Reporting Directive (CSRD) is an EU ESG standard enacted by the European Union. It is designed to make corporate sustainability reporting more common, consistent and standardised like financial accounting and reporting.

The new directive's impact is far-ranging and essentially modernises and strengthens the social and environmental information that companies have to report.

In this CSRD: FAQ edition, understand the key things your business needs to know about the EU's flagship sustainability directive and ensure compliance, and a more sustainable world.

FAQs

Why the new rules?

The purpose of CSRD is to revise and strengthen the existing requirements of the Non-Financial Reporting Directive (NFRD), to ensure that companies report reliable and comparable sustainability information that investors and other stakeholders need.

The EU also has its eye on the European green deal and its aim of a carbon-neutral Europe. As part of that, it wants all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment. In this way, investors, consumers and other stakeholders can more effectively evaluate the sustainability performance of companies.

When does CSRD start to apply?

Here are some dates to know:

- ✓ The Directive entered into force on **July 25, 2024.**
- ✓ EU member states have until **July 26, 2026** to transpose the Directive into national law.
- ✓ On **26 July 2027**, the rules will start to apply to companies, with a gradual phase-in between 3 and 5 years after entry into force:

July 26, 2027

EU companies with over 5 000 employees and €1.5m worldwide turnover.

non-EU companies with over €1.5m turnover generated in the EU.

July 26, 2028

EU companies with over 3 000 employees and €900 million worldwide turnover.

non-EU companies with over €900 million turnover generated in the EU.

July 26, 2029

All other companies in scope.

How are small and medium-sized businesses (SMEs) affected by the CSRD?

SMEs do not fall under the scope of the CSRD. However, they may be impacted as direct or indirect business partners in the supply chains of larger companies that are in scope and subsequently, may receive requests to collect and share information on actual or potential impacts.

In order to protect SMEs and minimise their burden, there are some provisions in the CSRD that are intended to safeguard against the shifting of compliance burdens. For instance, in-scope companies need to direct their information requests to business partners at the level of the chain of activities where impacts are most likely to occur. Also, they have to adapt their purchasing practices (where these contribute to negative impacts), make investments in their chain of activities, build capacity and provide support to the SME partner under certain conditions.

Which business activities require due diligence?

Global ‘chains of activities’ where most adverse human rights and environmental impacts occur require due diligence. Under the CSRD, the concept of ‘chains of activities’ covers the activities of both upstream and downstream business partners. For instance, for a clothing manufacturer the upstream business partner would be a textile factory that produces fabric. The downstream business partner would be a retail store that sells the finished clothing products. Companies are also required to identify adverse impacts linked to their own operations, and make the necessary modifications.

What is the meaning of risk-based due diligence?

It means that companies can prioritise their actions when they cannot address all impacts, taking into account their severity and likelihood. But they do have to adopt appropriate measures when identifying and addressing adverse impacts. That's from their own operations or those of their subsidiaries and, where related to their chains of activities, those of their business partners.

What practical measures do companies need to adopt to prevent, mitigate and end adverse impacts?

Companies need to take the following measures (where relevant):

- ✓ develop and implement prevention and corrective action plans
- ✓ obtain contractual assurances from direct business partners
- ✓ make any necessary investments, including in their chains of activities
- ✓ providing support to their SME business partners where necessary
- ✓ providing financial support to their SME business partners if compliance would jeopardise the viability of the SME
- ✓ adapt their business plans, strategies and operations
- ✓ collaborate with other entities to resolve issues

Are companies required to disengage?

Companies should prioritise engagement with business partners in their chain(s) of activities. Disengagement is only required in case of severe impacts and only as a last resort measure. Before disengaging, the company has to assess whether the negative impacts of disengagement will be more severe than the adverse impacts to be addressed. In case of disengagement, the company needs to take steps to prevent or at least mitigate the adverse impacts of disengagement, and to give reasonable notice to the business partner before termination.

What are companies' obligations regarding the transition plan for climate change mitigation?

Companies need to adopt a transition plan for climate change mitigation which aims to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming in line with the Paris Agreement and the objective of achieving climate neutrality. If a company fails to adopt a transition plan with the required content, or to update the plan, it may face administrative sanctions.

How will the administrative enforcement regime work?

Administrative enforcement includes injunctions and sanctions, including fines, by the national supervisory authorities. CSRD requires that sanctions are effective and dissuasive, but also proportionate. Non-compliance with the CSRD obligations will also qualify as an environmental or social aspect that contracting authorities may take into account as part of the award criteria for public contracts. A European Network of Supervisory Authorities will ensure a coordinated approach among national authorities and allow for cooperation in enforcement cases and information sharing.

How will the civil liability regime work?

If companies intentionally or negligently fail to prevent, mitigate, end or minimise adverse impacts, and this failure causes or contributes to damage, they can be held liable for the damage suffered. They will not be liable if only the business partner(s) in their chain of activities caused the damage.

If the company is liable, it will have to provide full compensation to the victim for the damage suffered. Injured parties could authorise a trade union, a non-governmental human rights or environmental organisations based in a Member State to bring actions on their behalf, under the conditions set out in national law.

How will the rules be enforced with respect to third-country companies?

If the non-EU company does not have a subsidiary/branch in any Member State, the supervisory authority will be the Member State where the company generates most of its turnover in the EU. The supervisory authority may take enforcement action against a non-EU company and take any measures available under national law for their execution. If the company fails to comply with a decision, the authority could issue a public statement on the responsibility of the company. Non-compliance with the obligations in the CSRD qualifies as an environmental or social aspect that contracting authorities may take into account as part of the award criteria for public contracts.

What are the costs for companies?

To comply with the new rules, companies may incur costs related to establishing and operating due diligence processes and procedures. Companies may also incur additional transition costs, including expenditure and investments to adapt a company's own operations and value chains to comply with the due diligence obligation.

How is compliance facilitated and the burden reduced for companies?

- ✓ The risk-based approach to due diligence allows companies to limit in-depth assessments of adverse impacts to those areas identified as high risk.
- ✓ Resource and information sharing within corporate groups and with other legal entities allows for burden sharing.
- ✓ Guidance will be issued on fitness criteria for industry schemes, multi-stakeholder initiatives and third-party verifiers.
- ✓ Termination of the business relationship is only required as a last resort and under strict conditions.
- ✓ No new reporting requirements are created for companies already reporting under the CSRD.
- ✓ The use of digital tools and technologies will facilitate due diligence.
- ✓ Member States may take a company's due diligence performance into account as part of the award criteria in public procurement contracts.

What are the safeguards in place for companies' business partners?

A series of provisions ensure that during the data gathering and the impact mitigation process the compliance burden cannot be offloaded to business partners in the chain of activities, and that these partners will be supported in their transition:

1. Companies are required to **focus information requests** on business partners at the level of the chain of activities where the adverse impact is most likely to occur, which relieves other business partners of unnecessary requests.
2. Companies are required to **make the necessary modifications** to their business strategies and operations to address related impacts and use fair and non-discriminatory terms when seeking contractual assurances from their SME business partners. (Guidelines will be issued on these aspects, including for model contract clauses that ensure a fair allocation of tasks and avoid burden shifting to business partners.)
3. Companies are required to provide **targeted and proportionate support** to their SME business partners
4. Companies are required to bear the **costs of the independent third-party verification**, while the SME may decide to bear (part of) the costs and will then be able to use the verification report vis-à-vis other business partners.
5. Member States will provide **information and support** through dedicated websites, platforms or portals, with specific consideration for SMEs, and may also provide financial support.

How will companies be supported in fulfilling their obligations?

General and sector-specific guidelines will be issued on:

1. risk factors
2. how to conduct due diligence in accordance with the CSRD
3. model contractual clauses for the relationship with business partners
4. a methodology for companies to assess the fitness of industry and multi-stakeholder initiatives as well as third-party verifiers
5. data and information sources as well as digital tools that could support compliance
6. climate transition plans

Member States are expected to set up, individually or jointly, dedicated websites, platforms or portals to disseminate this guidance. They are expected to adopt measures to accompany the implementation of CSRD, including providing access to information or financial support. This could also include supporting tools such as hotlines, databases, capacity-building, training, and funding. A dedicated EU helpdesk related to CSRD will be established to assist companies and stakeholders.

What is the role of industry and multi-stakeholder initiatives?

Industry and multi-stakeholder initiatives are expected to play an important role in facilitating compliance with companies' obligations under CSRD. They will allow companies to pool resources, act jointly, and increase their leverage to effect positive change across their value chains. But companies will still be responsible for compliance with their own due diligence obligations. Guidance will be issued on fitness criteria and a methodology for companies to assess the fitness of industry and multi-stakeholder initiatives.

What are the impacts on individuals?

The main benefits for individuals are:

- better protection of human rights
- contribution to a healthier environment for present and future generations, including climate change mitigation
- involvement in corporate decision-making through meaningful stakeholder engagement. More rights to hold companies to account
- better access to remedy for victims of human rights or environmental abuses, through judicial and non-judicial mechanisms

What are the impacts on companies?

For the first time ever, companies operating in the EU market will have common and clear rules on corporate sustainability due diligence. The main benefits will be:

- ✓ harmonised legal framework in the EU, creating legal certainty and a level playing field
- ✓ greater customer trust and employee commitment
- ✓ better awareness of negative human rights and environmental impacts
- ✓ better risk management, enhanced resilience, increased innovation and competitiveness
- ✓ increased attractiveness for employees who prioritise sustainability performance, sustainability-oriented investors and in public procurement procedures

How will CSRD ensure that EU companies remain competitive?

Companies' competitiveness increasingly relies on their ability to ensure sustainable practices all along their value chains. Consumers are more and more aware of the choices they make with their purchases, raising demands for sustainable and responsibly sourced products and services. Employees are sensitive to the sustainability performance of their employer. At the same time, investors are also increasingly considering sustainability issues when looking for investment opportunities. By creating a level playing field and requiring companies to better address the impacts in their value chains, CSRD will not only improve companies' competitiveness, but also their efficiency and financial performance, preparedness for potential shocks or resource shortages and long-term resilience.

What is the impact on developing countries?

The new rules are expected to bring multiple benefits for partner countries in which entities that are part of the chains of activities of companies in scope operate, such as:

- ✓ better protection of human rights and the environment
- ✓ more sustainable business operations
- ✓ increased take-up of international standards
- ✓ investment from EU companies, capacity building and support for business partners
- ✓ financial support for SMEs
- ✓ improved living conditions for people
- ✓ better access to justice and remedy for victims of adverse impacts

These benefits can substantially be amplified through mutually reinforcing initiatives, including strengthening the rules and enforcement framework regarding human rights and environmental protection in third countries, the development of sustainability standards, support for multi-stakeholder alliances and industry coalitions, or accompanying support provided through EU development policy and other international cooperation instruments.

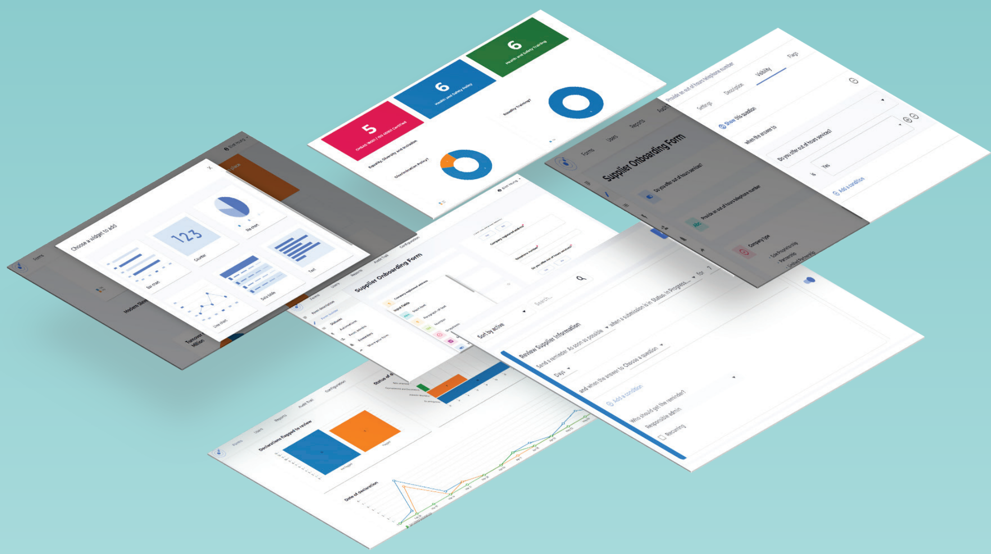
VinciWorks' environmental sustainability training suite

By providing your team with comprehensive sustainability training, you empower them to become change agents within your organisation. Our [sustainability courses] go beyond mere theoretical knowledge; they delve into practical strategies and actionable insights that can be implemented across departments and levels. From understanding the principles of sustainable development to integrating sustainability into daily operations, our training equips your staff to identify opportunities for positive change, drive efficiency, and foster innovation.

Our courses

- ESG: The Basics
- ESG: Fundamentals
- Climate Change
- ESG: Practical Applications
- What is Sustainability?
- Eco-driving
- Saving Energy and Water
- Pollution
- Working Towards Zero Waste
- Non-Recyclable Waste
- Supply Chain Due Diligence
- Business Sustainability Management
- Sustainable Travel

Our centralised supplier onboarding solution



New suppliers carry with them a unique set of challenges and risks. Increased suppliers mean more people with access to your employees, premises, systems and data. Managing this process requires diligence and efficiency. Risks of not putting in place a compliant system include both financial and reputational damage, something all organisations want to avoid.

Our software solution can be accessed from anywhere and at any time. Omnitrack provides a streamlined solution for supplier onboarding. Onboarding questions are tailor-made to fit all types of suppliers. The automated system generates reminder emails to ensure completion, saving you from chasing suppliers. Internal review can take place by different admins allowing real-time collaboration from different internal parties.

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Contact us

www.vinciworks.com
enquiries@vinciworks.com
+44 (0) 208 815 9308

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