VinciWorks

Guide to the
EU CSRD

What you need to know about the Corporate Sustainability Reporting Directive and this new era in sustainability disclosures

Contents

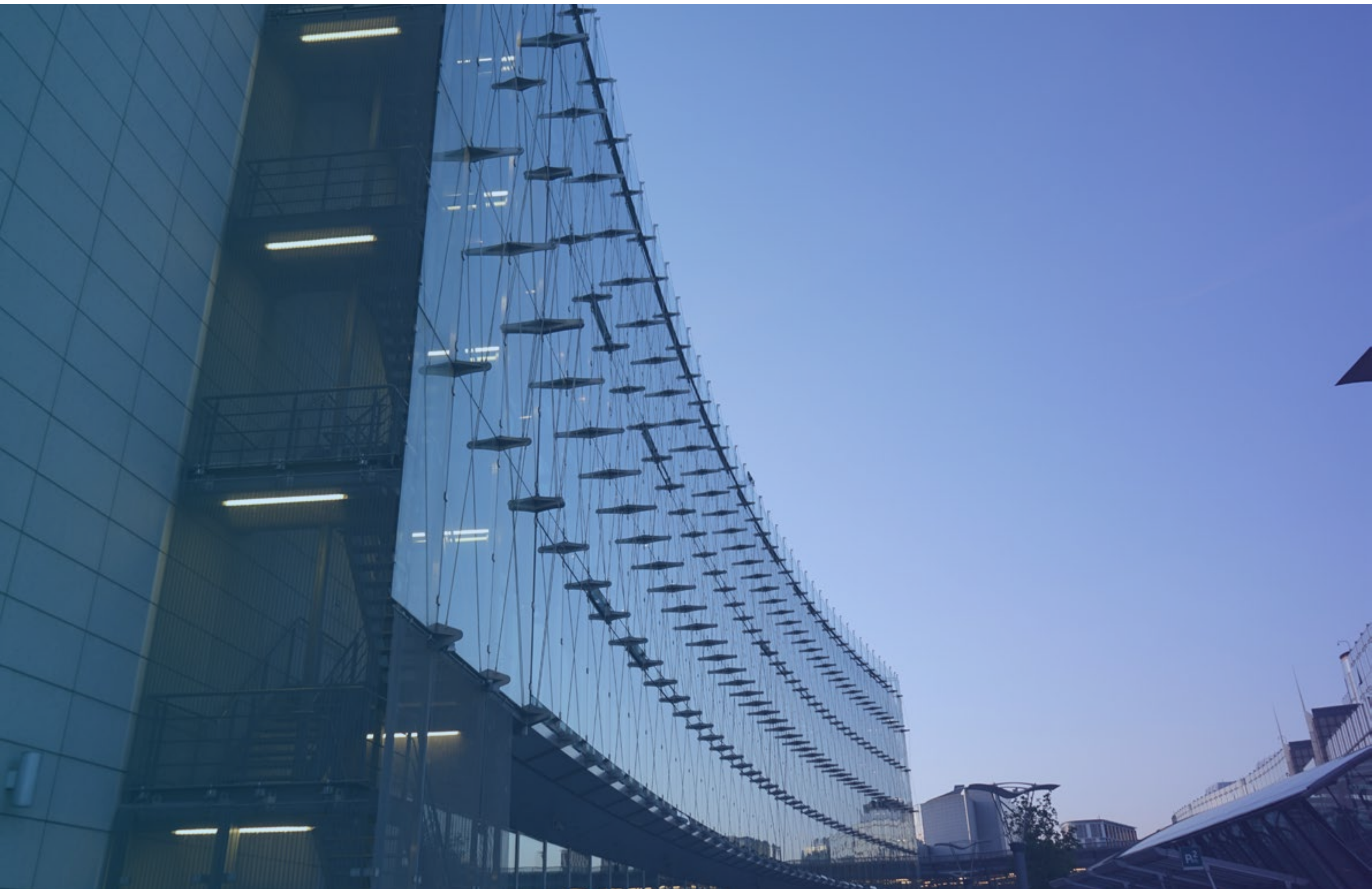
Introduction

The Corporate Sustainability Reporting Directive (CSRD) is new EU legislation that requires all large and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment. It aims to help investors, consumers, policymakers and other stakeholders evaluate non-financial performance and encourage a more responsible approach to business.

The EU sees CSRD as an important part of delivering its European Green Deal - an ambitious effort whose ultimate goal is a carbon-neutral Europe. Part of that effort involves putting sustainability reporting "on the map" so it becomes an issue of significance for companies. CSRD defines - for the first time - a common reporting framework for non-financial data, encompassing not just climate change but broader Environmental, Social and Governance (ESG) metrics.

CSRD will dramatically increase the number of businesses that are subject to mandatory ESG disclosures from 15,000 to over 50,000. It will also impact non-EU companies, called third-country companies, that have substantial activity in the EU. Businesses need to prepare now as successful reporting will require a holistic approach that involves the entire organisation.

And this is where we come in. Our guide will explain to you what this directive is, what you need to know, what it means for your company now and, significantly, what you need to do to get ready.



What exactly is CSRD?

"The Directive will strengthen the rules on the environmental and the social information that companies have to report. For the first time – and this is how significant this debate and this Directive is – we are putting sustainability reporting on an equal footing with financial reporting. And this is hugely significant...We need accurate and reliable information to ensure that investments are being made towards a more sustainable future."

- Opening remarks by Commissioner Mairead McGuinness at the European Parliament plenary debate on CSRD

The Corporate Sustainability Reporting Directive (CSRD) is an EU ESG (environmental, social and governance) 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.

What can we look forward to? The plan is for CSRD to:

- Apply to a broader set of large companies, as well as listed small and medium enterprises
- Provide stakeholders with access to the information they need to assess investment risks arising from climate change and other sustainability issues
- Create a culture of transparency about the impact of companies on people and the environment
- Reduce reporting costs for companies over the medium to long term by coordinating the information that needs to be provided

The directive went into force in January 2023. The first companies will have to apply the new rules for the first time in the 2024 financial year, for reports published in 2025.

Why the new rules?

The purpose of the 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.

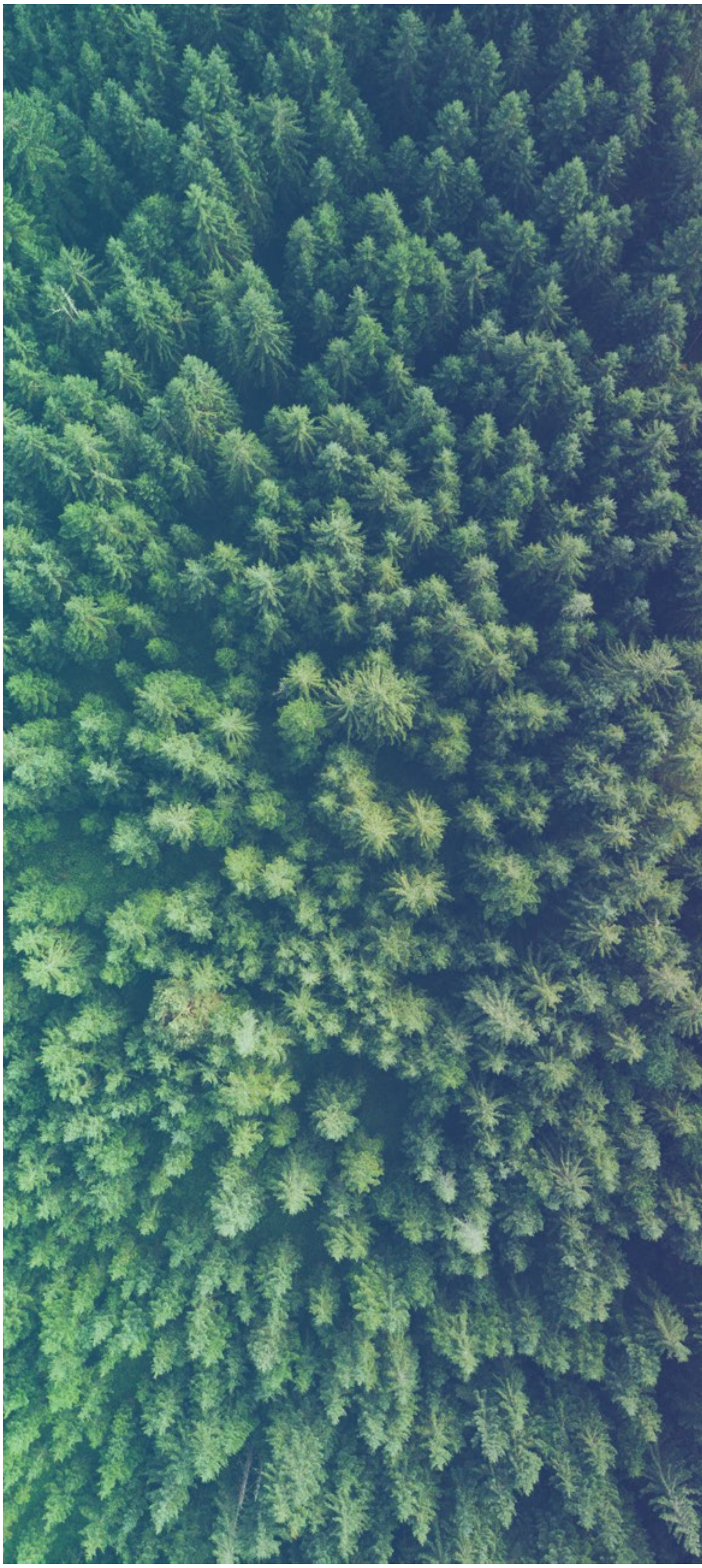
The EU also has its eye on the European green deal and its aim of a carbon-neutral Europe. As part of that, it wants all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they see as the risks and opportunities arising from social and environmental 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.

How it all began

The current and new reporting requirements have their roots in the development of ESG (environmental, social and governance) principles.

Adopting ESG principles means that corporate strategy focuses on those three concepts and develops a set of standards to measure their business' impact on society and the environment and how robust and transparent its governance is in terms of company leadership, executive pay, audits, internal controls and shareholder rights. The goal of ESG is to capture all the non-financial risks and opportunities inherent in a company's day-to-day activities.

ESG measures how a business integrates environmental, social, and governance practices into operations, as well as its business model, its impact, and its sustainability. This means taking measures to lower pollution, CO_2 output and reduce waste. It also means having a diverse and inclusive workforce, at the entry level and all the way up to the board of directors.



1870 - 1914	Second industrial revolution - Growing concern for the worker - Corporate social responsibility as a concept takes root
1929	The Great Depression - spearheads business philanthropy and public trustees
1950s and 1960s	The rise of social and environmental movements
1970s and 1980s	Corporate citizenship as a concept gains prominence, with a focus on the social and ethical responsibilities of businesses
1990s and 2000s	Focus on sustainability and creating shared value for all stakeholders
2004	First mainstream mention of ESG in a UN report encouraging business stakeholders to embrace its principles
2014	Non-Financial Reporting Directive (NFRD) is adopted by the EU and is enacted three years later
2021	EC announces that Corporate Sustainability Reporting Directive (CSRD) will replace NFRD

A brief history: A modern approach with deep roots

While this modern concept of ESG took shape in the mid-2000s, its principles are decades, if not centuries, old.

Starting from the push to improve basic labour conditions during the industrial revolution up to the campaigns throughout the 20th century to pressure companies into fairer, more sustainable business practices, the concepts of corporate social responsibility (CSR) and ESG have been evolving.

From efforts to stop the exploitation of workers to the funding of oppressive regimes, it became clear that corporate entities had the power to shape the world around them and governments, investors and consumers could exert some pressure on how the world would be shaped.

During the industrial revolution, a growing concern for worker well-being and industrial productivity started to take shape. Practices for corporate social responsibility originated amid growing criticism of the emerging factory system, the employment of women and children and as working conditions came to light. Most reformers at the time noted that the existing employment practices contributed to social problems, including labour unrest and poverty.

The Great Depression in 1929 is partly responsible for strengthening the trend with the introduction of public trusteeship management. Businesses also began to engage in philanthropy and charitable giving, spearheading the development of CSR into the concept it is today.

In the 1950s and 1960s, the concept of social responsibility was further strengthened, with the rise of social and environmental movements. During the 1970s and 1980s, the idea of „corporate citizenship" began to gain prominence, emphasising the social and ethical responsibilities of businesses. This led to a shift towards a focus on sustainability and creating shared value for all stakeholders during the 1990s and 2000s.

A 2004 report from the United Nations – titled *Who Cares Wins* – has what is widely considered the first mainstream mention of ESG. This report encouraged business stakeholders - managers, directors, investors, analysts, brokers - to embrace ESG principles long-term. At the same time, there was increased international attention on these issues. People began to think more about issues of sustainability, respect and diversity in the workplace.

ESG and beyond

ESG are three factors which businesses can use to measure their net impact on the world. Broader than profit and loss, more detailed than corporate social responsibility (CSR), ESG reviews, details and documents how a company impacts the environment, society and people, and their own corporate governance.

A myriad of factors can make up an ESG report. Some stretch to over 1,000 individual data points, from carbon emissions to the proportion of women on the board to how frequently a company undertakes bribery training. Many businesses are no longer working on environmental, social and governance issues in a silo. They are bringing them together under the banner of ESG to demonstrate the positive impact their existence is having on the world.

Bringing these disparate risks together helps a company prioritise their impact on the world. It helps them understand the risks they face, and it shows stakeholders they are taking the time to conduct due diligence and mitigation measures on those risks.

COP 26 and 27: Summits that played a role

COP stands for Conference of the Parties, and the summits are attended by the countries that signed the United Nations Framework Convention on Climate Change (UNFCCC) – a treaty that came into force in 1994.

The 26th and 27th COP summits were held respectively in Glasgow, Scotland in 2021 and Sharm El Sheikh, Egypt in 2022. In COP26, an environmental reporting framework that helps companies report consistent climate risks and opportunities was adopted and was part of a broader effort to standardise ESG reporting. In COP27 greater collaboration between nations was addressed and to start implementing the outcomes from COP26.

Another effort to demonstrate ESG commitments was for companies to undertake B corp certification, which stands for benefit corporations. These are for-profit businesses that commit themselves to considering the impact of business decisions on their people, customers, suppliers and the environment.

Leading with NFRD

The EU emerged as a leader in ESG with its Non-Financial Reporting Directive (NFRD) which was adopted in 2014. When the NFRD was passed, large European businesses were asked to undertake non-financial reporting on ESG matters for the first time.

NFRD required large public-interest companies with over 500 employees to provide non-financial disclosure documents along with their annual reports - sometimes known as 'sustainability reports.' Companies were allowed to rely on various frameworks to produce their non-financial statements and report on a "comply or explain" basis.

The downside of this has become apparent: The lack of disclosure alignment is often cited as a major challenge.

NFRD began as a natural extension to annual financial reporting requirements, providing companies with guidelines on how to disclose their approach to managing environmental and social challenges and include them in their annual reports, along with their financial reporting.

It is acknowledged that the reporting rules introduced by the NFRD established important principles for certain large companies to report sustainability information on an annual basis. It introduced a **double materiality perspective**, which means that companies have to report how sustainability issues affect their business and their own impact on people and the environment.

But it's become increasingly clear that the information that companies report in the NFRD is not sufficient. Reports often omit information that investors and other stakeholders think is important. Reported information can be hard to compare from company to company, and users of the information are often unsure whether they can trust it.

Investors need to know about the impact of companies on people and the environment so they are aware of the sustainability impact of the companies in which they invest. Without such information, money cannot be channelled towards environmentally friendly activities. They also need to meet their own disclosure requirements under the Sustainable Finance Disclosure Regulation (SFDR) which became applicable in March 2021 and imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants.

The European Commission (EC), the EU's executive arm, determined that quality and reliable public reporting by companies will help create a culture of greater public accountability.

In April 2021, the EC announced the CSRD that will ultimately replace NFRD.

Next stop - CSRD. Why NFRD was replaced:

- A lack of comparability, reliability and relevance of non-financial information provided by companies
- Uncertainty around the reporting requirements for companies due to overlaps between different pieces of legislation on sustainability reporting
- A demand for common reporting standards, digitalisation of non-financial information, and stricter audit requirements
- Stakeholders wanted companies to disclose their materiality assessment process
- Needed more consistency in transparency
- Scope was not sufficient and needed to be expanded to include a wider subset of companies

What to know about CSRD now

April 2021	CSRD proposal is issued
May 2022	European Financial Reporting Advisory Group (EFRAG) opens the first draft European Sustainability Reporting Standards (ESRS) for public comment
June 2022	European legislative bodies reach a provisional agreement on CSRD
September 2022	EFRAG sends the ESRS reporting standards to the EU Commission
November 2022	CSRD is approved by the EU Parliament and the EU Council
December 2022	EU Member States adopt the EU Directive into law. Its provisions will have to be integrated into member states' national laws after 18 months
January 1, 2024	CSRD first goes into effect, with first reports due in 2025

What does CSRD do?

CSRD dramatically extends the scope of reporting requirements to tens of thousands of additional companies, including all large companies and all listed companies. CSRD also applies to large companies not in the EU, but who have an EU subsidiary which meets the criteria. It is estimated that the number of companies required to report will increase from around 11,000 under NFRD to nearly 50,000 as part of CSRD.

As well as the expansion in the number of companies who must report, what those reports must include is also significantly different.

- Create binding sustainability reporting standards that set scope and content
- Require the inclusion of taxonomy-aligned data
- Require third-party verification of reported sustainability data
- Integrate sustainability reporting with all required management reporting
- Publish all management reports in electronic format, with digitally tagged sustainability data
- Establish collective, active management responsibility for sustainability reporting

The EC intends for CSRD to establish a baseline for global sustainability reporting standards, which will be overseen by the Sustainability Standards Board being formed by the International Financial Reporting Standards (IFRS) Foundation, a nonprofit organisation that oversees financial reporting standard-setting.

Companies subject to CSRD will have to report according to European Sustainability Reporting Standards (ESRS). The draft standards are developed by the European Financial Reporting Advisory Group (EFRAG), an independent body bringing together different stakeholders. The standards will be tailored to EU policies and contribute to international standardisation initiatives. The first set of standards is slated to be adopted in mid-2023, based on the draft standards published by EFRAG in November 2022.

CSRD also makes it mandatory for companies to have an audit of the sustainability information that they report.

This third-party assurance means that organisations reporting under CSRD will also be required to seek "limited" assurance of the sustainability information they disclose from a neutral, trusted, and experienced third party who reviews the data. "Limited" assurance is less strict than a financial audit but still requires working with an independent sustainability reporting partner organisation or auditor.

In addition, it provides for the digitalisation of sustainability information. Companies must prepare their financial statements and management statements in XHTML format in accordance with the European Single Electronic Format (ESEF) regulations and the EU sustainability taxonomy, then digitally 'tag' their reported sustainability information according to a digital categorization system specified by CSRD regulation.

The new rules will ensure that investors and other stakeholders have access to the information they need to assess investment risks arising from climate change and other sustainability issues. They will also create a culture of transparency about the impact of companies on people and the environment. Reporting costs will also be reduced for companies over the medium to long term by harmonising the information to be provided.

The first companies will have to apply the new rules for the first time in the 2024 financial year, for reports published in 2025.

The ESRS, brought in by CSRD, will officially require double materiality assessment and reporting practices from thousands of EU companies—including some European subsidiaries of US companies, which may decide to incorporate the concept for the entire organisation as well.

When does my company have to comply with CSRD?

If your large company is already subject to NFRD:

January 1, 2024

The date your company has to comply with CSRD. The Directive's reporting requirements are obligatory in the annual reports over the 2024 financial year. This means that the first annual report compliant with CSRD will be published in 2025.

If your large company is not currently subject to NFRD:

January 1, 2025

The date your company has to comply with CSRD. The Directive's reporting requirements are obligatory in the annual reports over the 2025 financial year. This means that the first annual report compliant with CSRD will be published in 2026.

If your company is a small or medium-sized enterprise (SME):

January 1, 2026

The date that your small-to-medium-sized company with securities listed on regulated markets will have to start complying with CSRD. But listed SMEs will have simpler standards for reporting than large companies. Non-listed SMEs can choose if they want to use CSRD's reporting standards on a voluntary basis. The reporting standards for SMEs will be adopted on the 30th of June 2024

Note: It is anticipated that SMEs will increasingly receive requests for sustainability information from stakeholders who have to comply with CSRD. They can also use this information as a core in their business model to grow or operate and prepare for the future.

If your company is outside of the EU (or a "third country") company:

January 1, 2028

The date that your non-EU company will have to start complying with CSRD if it generates a net turnover of over €150m in the EU **and** has either an EU branch office with a net turnover of at least €40m in the EU or has a large or listed EU subsidiary.

Who has to comply with CSRD?

All entities with securities listed on EU-regulated markets (other than micro-undertakings) must comply with CSRD. Non-EU companies that generate a net turnover of more than €150 million and with a subsidiary in the EU that follow the criteria applicable to EU companies.

In addition, companies meeting two of the following three conditions for definition of a large company will also have to comply with CSRD:

1. €40 million in net turnover
2. €20 million in assets
3. 250 or more employees

CSRD ✓

Company 1

Large EU company
Turnover >€40 m
Assets >€20 m
Over 500 employees
Listed in the EU
Required to comply with NFRD

CSRD ✓

Company 2

Medium EU company
Turnover <€40 m
Assets >€20 m
Over 500 employees
Privately held in the EU
Not required to comply with NFRD

CSRD ✓

Company 3

Medium EU company
Turnover <€40 m
Assets <€20 m
Less than 250 employees
Listed in the EU
Not required to comply with NFRD

CSRD ✗

Company 4

Small EU company
Turnover <€40 m
Assets <€20 m
Less than 250 employees
Privately held in the EU
Not required to comply with NFRD

CSRD ✓

Company 5

Large Non-EU listed company
Turnover >€150 m
With an EU subsidiary which is listed in the EU
Not required to comply with NFRD

CSRD ✗

Company 6

Medium Non-EU privately held company
Turnover <€150 m
With a small, non-listed EU subsidiary
Not required to comply with NFRD

Expanding the scope of required reporting

CSRD is introducing changes in which companies will need to report, how companies will report, what data they will need and what processes they are required to have in place. It will extend the scope of sustainability reporting and make a more comprehensive set of reporting standards based on globally recognised guidelines and principles.

The pre-CSRD scope of reporting requirements included:

- Environmental protection
- Social responsibility and treatment of employees
- Human rights
- Anti-corruption and bribery
- Diversity on company boards

The expanded scope of requirements under CSRD will include:

- Disclosure of information about intangibles (including social, human and intellectual capital)
- Additional forward-looking information
- Reporting that is consistent with the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy
- Double-materiality concept, which expands the consideration of sustainability beyond a company's capital market value to include the company's wider effects on society and the environment
- Third-party assurance will be mandatory

What will have to be reported under CSRD?

Adoption of standards

The information that companies will have to report on will be clarified in the first set of ESRS, developed by EFRAG that are slated to be adopted by the European Commission in mid-2023. These will be followed by ESRS sector-specific standards mid-2024. Some companies will need to apply the standards as early as 2024, for their sustainability reports to be published in 2025.

According to the proposed standards, it will involve guidelines on:

1. Double Materiality: Identifying all potential negative and positive impacts on people and the environment connected with a company's operations and its value chain.
    - Impact materiality: All environmental-related matters that are affected by your business or affect your business. There will be an emphasis on environmental data from your value chain.
    - Impact materiality: Social considerations such as working conditions, human rights and equal opportunities that you need to take into account in your value chain and culture.
    - Financial materiality: All sustainability/ESG issues that can affect your company's financial health and performance.

2. Quality of information: Standards on how you can provide quality sustainability information and an explanation of the standards for general reporting and important sub-topics.

The second set of standards will help companies finetune their reporting. It involves:

1. Four concepts that will
    - Help companies connect financial reporting to sustainability reporting.
    - Focus on the importance of the value chain in measuring and reporting social and environmental impact.
    - Assess sustainability targets and indicators set by companies as well as the progress towards achieving them.
    - Provide required standards for alignment and consistency between EU reporting standards and public policy agreements, goals and regulations.

2. Requirements for a company's sustainability strategy and its resilience towards sustainability-related risks and climate scenarios. This includes:
    - Stakeholder engagement
    - Strategic approach to climate targets
    - Description of sustainability policies
    - Governance processes
    - External and internal control and risk management

Reporting requirements: Non-financial information gets its due

In accordance with the binding sustainability reporting standards being developed by EFRAG, companies will have to disclose:

- A description of their business model and strategy
  - Its resilience to risks related to sustainability matters
  - The opportunities related to sustainability matters
  - Its ability to be compatible with the transition to a sustainable economy and with the limiting of global warming
  - How it takes into account the interests of their stakeholders
- A description of the company's policies on sustainability matters
  - The due diligence process implemented on sustainability matters
  - The impacts connected with the company's value chain, including its own operations, its products and services, its business relationships and its supply chain
  - Actions taken to prevent, mitigate or remediate adverse impacts
- A description of the risks to the company on sustainability matters
  - How the company manages those risks
- Information on social and relationship capital
- Information on the company's value chain

So what is new in CSRD?

- Mandated reporting from companies of all sizes — Approximately 50,000 large, medium, and small-sized companies in the EU will need to comply with CSRD between 2024 and 2029.
- International companies with subsidiaries located in the EU will need to comply with CSRD if they conduct significant operations there.
- Impact on society and climate is part of CSRD — A double materiality approach, which requires businesses to disclose climate change-related risks as well as the impacts that such risks have on society and climate, will be required.
- A supply chain information mandate — CSRD requires the collection of sustainability information across a company's value chain or supply chain.
- Third-party verification for assurance — Verification by an independent assurance service provider is required to assess the processes that a company has in place for gathering data.
- Digital data - Companies will be required to invest in technology to ensure reliable data-gathering processes and a reliable data trail.

EU member states and CSRD

The next step is for every one of the 27 EU Member States to enact the terms of CSRD into national legislation. This enactment is required because, under EU law, a directive (such as the CSRD), does not automatically enter into effect in national law, and must be transposed into domestic legislation by national legislatures within 18 months from January 2023.

This process will be crucial for companies with subsidiaries in multiple EU Member States to observe, as national governments have the ability to "gold plate" EU legislation when adopting it into their own legal system. Gold plating refers to the act of a national government amending the requirements of the EU Directive to make them more strict. In the context of CSRD, gold plating could involve initiatives such as bringing forward the timeline, or lowering the thresholds at which companies are considered to be in scope. Such actions could have significant impacts and will be a key area to monitor.

Generally, France and Germany are the largest EU states likely to go beyond the basic EU rules of CSRD and gold-plate their requirements. The current political leadership of these two countries suggests this is likely to happen, and there are no scheduled elections in either France or Germany within the 18 months set to transpose CSRD into national law.

Ireland and Luxembourg, being headquarters for many large non-EU enterprises, tend to attempt less strict requirements when transposing EU law.

Who will be transposing CSRD?

As with GDPR and other EU regulations which are required to be transposed by national governments, the strength of the legislation often depends on the political makeup of the specific government in power. EU countries must enact CSRD legislation from January 2023 until July 2024.

National elections and changes in government during that time can also have an impact, particularly given the relatively contentious nature of company reporting on environmental and social issues.

We can expect that countries which include green, centre-left or socialist parties in government will adopt a more strict or 'gold-plated' version of CSRD, and those with a more liberal or centre-right government will have a less expansive interpretation of CSRD.

However this is dependent on changes and national legislation should be consulted for each Member State's final version of CSRD.

EU country	Date of next scheduled election	Before CSRD deadline? (as of June '23)	Current political makeup	Parties currently in power
Austria	Autumn 2024	Possibly	Centre right + Green	ÖVP, Greens
Belgium	9 June 2024	Yes	Liberal + Socialist + Green + Christian democrats	MR, Open VLD, PS, Vooruit, Ecolo, Groen, CD&V
Bulgaria	2027	No	Centre-right + Liberal / Anti-corruption	GERB-SDS, PP-DB
Croatia	2024	Probably	Centre-right + Nationalist	HDZ, SDSS
Cyprus	May 2026	No	Centrist + Nationalist + Centre-left	DIKO, DIPA, EDEK
Czechia	2025	No	Centre-right + Centrist	Spolu, Pirates and Mayors
Denmark	2026	No	Centre-left + Free Market + Liberal	A, V, M
Estonia	2027	No	Centrist + Centre-left + Liberal	Reform, SDE, E200
Finland	2027	No	Centre-left + Centrist + Green + Left + Nationalist	SDP, Centre, VIHR, Left, RKP
France	June 2027	No	Centrist	Ensemble
Germany	2025	No	Centre-left + Liberal + Green	SPD, FDP, Green
Greece	2028	No	Centre-right	ND
Hungary	2026	No	Right / Nationalist	Fidesz-KDNP

Ireland	2025	No	Centre-right + Liberal + Green	Fianna Fail, Fine Gael, Green
Italy	2027	No	Centre-right + Right + Nationalist	Right-wing coalition
Latvia	2026	No	Centre-right + Nationalist + Green	Unity, NA, AS
Lithuania	6 October 2024	Possibly	Centre-right + Conservative + Liberal	TS-LKD, LRLS, LP
Luxembourg	8 October 2023	Yes	Liberal + Centre-left + Green	DP, LSAP, DG
Malta	2027	No	Centre-left	Labour
Netherlands	2025	No	Centre-right + Christian democrats + Centrist + Conservative	VVD, CDA, D66, CU
Poland	12 November 2023	Yes	Right	NP
Portugal	2026	No	Socialist	PS
Romania	December 2024	Possibly	Centre-right + Centre-left + Nationalist	PNL, PSD, UDMR
Slovakia	30 September 2023	Yes	Technocratic	None
Slovenia	2026	No	Liberal + Centre-left + Green / Socialist	GS, SD, Levica
Spain	23 July 2023	Yes	Socialist + Left	PSOE, UP
Sweden	13 September 2026	No	Centre-right + Christian democrat + Liberal	M, KD, L

EU Sustainable Finance Framework

As part of the European Green Deal, the EU outlined the Sustainable Finance Framework, which is intended to help embed sustainability factors at various levels of the economy. The Sustainable Finance Framework includes the application of new EU regulations on corporate transparency. The three most important are:

- EU Taxonomy
- Sustainable Finance Disclosure Regulation (SFDR)
- Corporate Sustainability Reporting Directive (CSRD)

EU taxonomy sets criteria to determine if an economic activity can be considered sustainable. The reporting requirements started in the financial year 2021 and came into effect over a period of several years.

The EU Sustainable Finance Disclosure Regulation (SFDR) is a set of rules which requires financial market participants to provide information about how they deal with negative environmental and social impacts and risks of their investments. The EU officially introduced the SFDR in 2019, with mandatory disclosure of sustainability data from March 10, 2021.

These regulations are closely interlinked. While the EU Taxonomy provides the classification framework for sustainable activities, the CSRD regulates sustainability reporting and the SFDR defines the disclosure requirements for selling financial products. These regulations affect all major players along entire investment value chains, from companies that demand capital to investors that provide funding to those companies, and everyone in between.

CSRD will ensure alignment with SFDR and the Taxonomy Regulation. The aim is to reduce complexity and the potential for duplicative reporting requirements. The EC's ultimate intention is to proactively integrate all EU sustainability regulations - including CSRD, the EU Taxonomy and SFDR.

Will my company have to file?

CSRD will apply to all companies with:

- Over 250 employees
- More than €40 million in annual revenue
- More than €20 million in total assets
- Publicly-listed equities and have more than 10 employees or 20€ million revenue
- International and non-EU companies with more than 150€ million annual revenue within the EU and which have at least one subsidiary or branch in the EU exceeding certain thresholds

Non-EU companies

One significant addition of CSRD is to extend the scope of the reporting obligations to include international companies. A subsidiary company with a parent based outside of the EU may be required to report under CSRD. In this case, the non-EU parent company will also have to report. It can choose to report alongside its subsidiary or separately. If reporting separately, the subsidiary or branch would report alongside the group of European companies of its size. The directive also states that subsidiaries are responsible for publishing the sustainability report of the parent company.

If the non-EU parent company does not provide the necessary information for its EU subsidiary or branch to report on behalf of the global group, the subsidiary or branch is required to publish a report containing all of the information that it has access to, and issue a public statement indicating that its parent did not make the full extent of the necessary information available to them.

Even before the reporting requirements begin to apply, non-EU headquartered companies with a number of EU subsidiaries will be required to ensure that processes are in place for their subsidiaries such that they can meet their obligations.

Different types of entities will face different reporting requirements under CSRD, with such reporting requirements phased in at different stages. Therefore, companies should not only identify whether they will be within the scope of CSRD, but also which specific reporting requirements they will be subject to.

Non-EU companies: Who needs to report and when?

All non–EU companies in the scope of the NFRD:

This includes large EU-listed companies, banking institutions, and insurance companies with over 500 employees and an annual balance sheet above €20 million or a net turnover above €40 million.

✅ These companies will need to first report on FY 2024 in 2025

All non-EU companies that are listed on an EU-regulated market and considered large companies

This includes entities or parent entities of a consolidated group which meet at least two of the three following criteria:

- balance sheet total exceeding €20 million,
- net turnover exceeding €40 million, and
- average number of employees during the financial year exceeding 250.

✅ These companies will need to disclose their FY 2025 in 2026

All non-EU companies that have securities listed in the EU and fall under the definition of a small and medium-sized enterprise

✅ These companies will need to disclose their FY 2026 financial year in 2027

*Possibility of an opt-out until 2028 through the simplified ESRS to be adopted in June 2024.

A company outside of the EU with a net turnover over €150 million in the EU for each of the last 2 consecutive financial years and fulfilling one of these conditions:

- At least one subsidiary in the EU is considered a "large company"
- At least one subsidiary that is listed in an EU-regulated market
- A branch in the EU with a net turnover the previous year of over €40 million

✅ These companies will need to disclose on a consolidated global group level their FY 2028 in 2029 through the (international) ESRS that is planned to be adopted in June 2024

*These disclosures are expected to be less extensive than those applied to EU group companies.

US companies

US companies with operations in Europe are paying close attention to CSRD for good reason. It goes far beyond the sustainability data many US companies now track and report – and beyond the rule changes proposed by the US Securities and Exchange Commission (SEC) for climate-related disclosures. It will create additional ESG reporting requirements for US-based companies with European operations.

US companies required to report under CSRD will have to disclose how sustainability risks and opportunities affect financial performance, position, and development and also how the company's performance, position, and development affect people and the environment. Conversely, the SEC's proposed rule emphasises investor materiality - a financial perspective - only, not double materiality. For US-based companies this likely means that steps they take to comply with the SEC rule, once it is finalised, might not be sufficient to meet CSRD requirements.

UK Companies

For UK companies with substantial European operations, post-Brexit, a question could arise in relation to equivalence. The UK has enacted mandatory climate reporting pursuant to the Task Force on Climate-related Financial Disclosures (TCFD) and has a suite of specific ESG-related reporting requirements - such as modern slavery, broader stakeholder considerations and gender pay gap information. Still, the UK has not enforced a comprehensive set of mandatory non-climate-related reporting requirements like CSRD.

The issue of equivalence in the UK and non-EU companies

UK companies with a large presence in the EU or non-EU companies from countries with reporting requirements could have to report consolidated sustainability information on a subsidiary-by-subsidiary basis if equivalence with the non-EU country's sustainability reporting requirements is not determined. This could have implications for non-EU parent companies with significant subsidiary operations in the EU, not just in relation to the compliance burden of increased reporting costs across multiple entities, but also the compliance challenge and associated risks of ensuring relevance, accuracy and consistency across multiple reports.

Examples:

* A Brazilian company that has a subsidiary in France, listed on the Euronext index, is already reporting under the NFRD. Under CSRD, this company will need to collect the French sustainability data in FY 2024 with the ESRS and make its disclosure in 2025.
* A Chinese bank is listed on the Luxembourg Stock Exchange. In 2025 in the EU, it has a balance sheet of €200 million and a net turnover of €400 million. The Chinese bank will have to report on its FY 2025 activities in 2026.
* A South African company listed in CME Amsterdam, with 300 employees and an annual balance sheet of €15 million in the Netherlands will need to collect the data in the Netherlands in FY 2026 and disclose it in 2027.
* A Japanese company that is not listed has a subsidiary in Poland that is considered a large company. The parent company will have to collect all the data of its EU activities in 2028 to do its disclosure under the international ESRS in 2029.
* A Saudi company has two subsidiaries listed in Germany. The parent company may start collecting data in 2025 and disclose in a consolidated level in 2026.

What does CSRD mean for smaller companies?

CSRD will not put any new reporting requirements on small companies, except for SMEs with securities listed on regulated markets. To limit the burden on listed SMEs, they will be allowed to report according to standards that are simpler than the standards that will apply to large companies. The reporting requirements would also not apply to SMEs with transferable securities listed on SME growth markets or multilateral trading facilities (MTFs).

The reporting requirements would also not apply to listed micro-enterprises if they have at least two of the following:

- 10 or fewer employees on average during the financial year
- Less than € 700K in net turnover
- Less than € 350K in total assets

What is good for companies about CSRD?

Increased insights into the company
Thanks to ESRS, a company will get concrete indicators and information to report on. This will enable them to better understand their performance and enable them to identify developments and patterns. Also, CSRD's double materiality principle pushes companies to get a stronger hold on their impact on society and the impact of ESG topics on their company, providing new insights in risks and opportunities.

Ability to attract capital
Many investors already use ESG information to help make funding decisions. CSRD improves the consistency, reliability, and comparability of information on ESG risks and opportunities, increasing transparency and trust in your company and demonstrating to investors that your company is aware and in control of risks.

Reduced costs and more clarity in reporting
With CSRD's standardisation of sustainability reporting, your company won't have to provide ESG information to different parties in various reporting frameworks. Administrative costs might increase, but companies will save as additional information requests will be eliminated.

Better company image

Compliance with CSRD can enhance a company's reputation and give it a competitive advantage. A company's ESG data is public and customers are increasingly more aware and more interested in doing business with companies that focus on ESG. It is anticipated that this will become more significant as reporting on ESG in a company's supply chain could become mandatory soon.

Shared value business collaboration in supply chains

The supply chain often accounts for more than 80% of a company's or product's environmental footprint. CSRD's required environmental footprint insights will enable valuable collaboration with suppliers that can lead to improved products and/or services.

What to know for now

The rules introduced by NFRD remain in force until companies have to apply the new rules of CSRD. Under the NFRD, large companies have to publish information related to

- Environmental matters
- Social matters and treatment of employees
- Respect for human rights
- Anti-corruption and bribery
- Diversity on company boards (age, gender, educational and professional background)

When should I start thinking about CSRD?

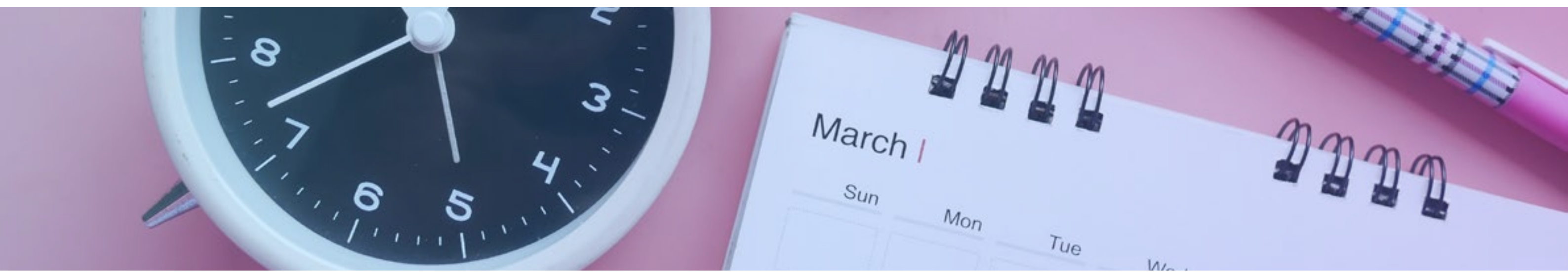
As noted, the first companies will have to apply CSRD in the 2024 financial year, for reports published in 2025. But early compliance with CSRD offers some advantages. Beyond the new insights on non-financial indicators, companies could find new opportunities for cost savings, such as energy reduction, and innovations in the production process.

The EU plans to introduce more stringent legislation on ESG over the coming years, affecting both large companies and SMEs. Early anticipation of how this affects your corporate activities and drawing up strategic plans to reduce any negative impact can help your company be more agile and ready to face these challenges. Actively focussing on ESG provides you with a competitive advantage over companies that have no reporting obligation yet.

In addition, early compliance with ESG reporting offers scope for streamlining your own production and supply chain from a sustainability point of view. In this way, you can enter into strategic partnerships and identify future bottlenecks at an early stage. This guarantees the continuity of the supply chain at the time the directives enter into force.

What to do now:

- Start by assessing the double materiality of your sustainability topics and check that they align with the proposed CSRD framework
- Keep your eye on CSRD reporting standards released in mid-2023 so you can apply them to your preparation work
- Start talking to a third-party assurance provider - CSRD mandates limited assurance by a third party
- Measure your baseline environmental KPIs and start monitoring your progress
- Assess social considerations in your value chain
- Set clear environmental reduction targets and targets on how to improve the social aspects of your business
- Assess your environmental, economic, and social impacts and start monitoring your progress



How will companies report the CRSD?

Companies will be required to prepare their CSRD report in XHTML format. The reported information has to be easily accessible to investors and other stakeholders in the European Single Access Point (ESAP) database.

Companies will have to 'tag' their reported sustainability information according to a new digital categorization system. This system is under development and will be announced together with the two sets of Reporting standards.

CSRD will have to be reported on in the management report rather than a separate sustainability report. This means financial and sustainability information will be disclosed at the same time. Companies also need to tag their sustainability information digitally to make it available in the upcoming ESAP database.

What's next?

2025 may feel far away but the sooner your company begins planning for meeting CSRD requirements, the easier it will be for you when they go into effect.

The fact is that many governing bodies are considering mandatory sustainability reporting. It makes sense to take some time now to prepare your reporting so you can stay ahead of the curve as new regulations are put in place.

Glossary of terms

CDSB: Climate Disclosure Standards Board

CSR: Corporate Social Responsibility

CSRD: Corporate Sustainability Reporting Directive

EFRAG: European Financial Reporting Advisory Group

ESAP: European Single Access Point

ESG: Environmental, Social, Governance

ESEF: European Single Electronic Format

ESRS: European Sustainability Reporting Standards

GRI: Global Reporting Initiative

IFRS: International Financial Reporting Standards

IIRC: International Integrated Reporting Council

MTFs: Multilateral Trading Facilities

NFRD: Non-Financial Reporting Directive

SASB: Sustainability Accounting Standards Board

SFDR: Sustainable Finance Disclosure Regulation

SMEs: Small and Medium-sized Enterprises

SSB: Sustainability Standards Board

TCFD: Task Force on Climate-related Financial Disclosures

VinciWorks' sustainability and ESG 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
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