VinciWorks

Skill Boosters | EssentialSkillz | DeltaNet | Compliance Office

CSRD and the UK

What do UK organisations need to know about the EU's Corporate Sustainability Reporting Directive?

Why this guide can help?

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. Among those impacted by this new directive are non-EU companies, or third-country companies, that have substantial activity in the EU. Obviously, this includes UK organisations.

But how exactly will they be impacted? This is where we come in. Our guide will explain what this directive is, what you need to know, what it means for your UK company now and, significantly, what you need to do to get ready. Because the one thing that is clear is this: You need to prepare now as successful reporting will require a holistic approach that involves the entire organisation.

What is CSRD?

CSRD is an 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.

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

- Apply to a broader set of large EU and non-EU 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

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.

How does CSRD impact 'third country' or non-EU companies

A significant addition of CSRD is the extension of the scope of the reporting obligations to include international companies. But how exactly will that be applied?

Non-EU companies that are listed on an EU-regulated market and considered large companies will have to comply with CSRD. This involves all non–EU companies currently in the scope of the Non-Financial Reporting Directive (NFRD) which was adopted by the EU in 2014. It's important to note that when the NFRD was passed, large European businesses were asked to undertake non-financial reporting on ESG matters for the first time.

But non-EU companies outside the scope of the NFRD could also be required to report. This involves entities or parent entities of a consolidated group which meet (either as a single entity or on a consolidated basis) the criteria for a large company.

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 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.

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:

- €40 million in net turnover
- €20 million in assets
- 250 or more employees

These companies will need to disclose their FY 2025 in 2026

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.

What are current sustainability reporting obligations in the UK?

For UK companies, sustainability reporting is nothing new. The UK currently has some of the world's most advanced and complex corporate and investor sustainability laws and reporting requirements in the world. Sustainability is an important economic and cultural topic in the UK and the government is adapting additional policy steps to support its Net Zero 2050 targets, which has a goal of decarbonising all sectors of the UK economy by 2050.

UK sustainability reporting: A roundup

Task Force for Climate-Related Financial Disclosure (TCFD) -

The UK Financial Conduct Authority (FCA) requires companies with UK-listed shares and FCA-regulated asset managers and asset owners to complete mandatory annual Task Force for Climate-Related Financial Disclosure (TCFD)-aligned climate disclosure reporting. This involves completing mandatory annual climate-related risk disclosure around an established set of 11 climate-related questions.

Climate-Related Financial Disclosure (CRFD) -

This past February, UK Prime Minister Rishi Sunak created a new Department for Energy Security and Net-Zero. Its mission is to focus on easing the cost of living and delivering financial security by bringing down energy bills and keeping them down, better insulating consumers from external impacts. Longer term objectives include ensuring properly functioning energy markets, coordinating net zero objectives across government and bringing external delivery expertise to bear on its portfolio of major projects. Public and private UK companies with over £500M in annual turnover or over 500 employees are required to complete annual climate-related risk disclosure around an established set of 8 TCFD-aligned questions.

Streamlined Energy and Carbon Reporting (SECR) -

This requires large UK companies to disclose their energy use, carbon footprint, and greenhouse gas (GHG) emissions in their annual financial reporting.

Energy Savings Opportunity Scheme (ESOS) -

This mandatory energy assessment scheme is for organisations in the UK that meet the qualification criteria. The assessment, which must be carried out every 4 years, involve audits of energy used by company buildings, industrial process and transport to identify cost-effective energy saving measures.

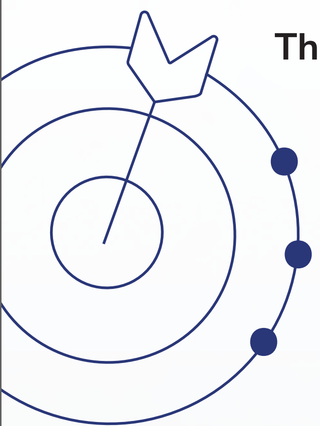
Sustainability Disclosure Requirements (SDR) -

A set of measures aimed at reducing greenwashing and unifying UK sustainability reporting. The goal is to centralise the UK's climate, sustainability and ESG reporting, disclosure and communications requirements. It is anticipated that it will institutionalise and unify SECR, TCFD, and ESOS reporting into an overall, annual set of sustainability reporting requirements. It may also introduce a UK Green Taxonomy.

UK social sustainability and diversity reporting

In addition to environmental and climate risk reporting, companies listed on the London Stock Exchange now have to disclose progress toward diversity targets. Rules enacted by the Financial Conduct Authority (FCA) require listed companies to report information against targets regarding the representation of women and ethnic minorities on their boards and executive management. These rules apply to premium and standard listed companies.

Requirements involve a statement in the company's annual report setting out whether they have met specific board diversity targets at a chosen reference date within their accounting period and if they have not met these targets, explain why.



The specific targets are that:

- at least 40% of the individuals on the company's board of directors are women
- at least one of the company's senior board positions is held by a woman
- at least one member of the company's board is from a minority ethnic background

These companies are now also required to disclose in its corporate governance statement a description of the diversity policy applied to its remuneration, audit and nomination committees and how its diversity policies address wider diversity characteristics such as ethnicity, sexual orientation, disability and socio-economic backgrounds.

Ethnicity and gender pay gap reporting

Employers with over 250 employees are required to publish gender pay gap figures. Employers are not required to collect, analyse or publish information on ethnicity pay but many choose to do so as a positive measure to improve workforce progression. The government recently committed to issuing guidance to support employers to calculate their ethnicity pay and to take meaningful action on the findings.

While ethnicity pay gap reporting is not currently mandatory for employers, movement has been building towards far greater transparency and disclosure on ethnicity pay as part of a business's ESG reporting, just as it did around gender pay.

An issue of equivalence

For UK companies with substantial European operations, post-Brexit, there is an issue of equivalence around CSRD. The UK has arguably been a global leader in relation to mandatory climate reporting, with TCFD and the suite of specific ESG-related reporting requirements. Still, the UK has yet to introduce a comprehensive set of mandatory non-climate related reporting requirements set forth by CSRD.

UK companies 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.

A guide to the new requirements

CSRD introduces extensive sustainability-related disclosures, with variations depending upon the size of the company.

Companies will now need to report:

- Specific details about the business model and strategy, with a focus on sustainability-related opportunities, resilience and plans to ensure compatibility with the transition to a climate-neutral economy
- Sustainability targets, including, where appropriate, greenhouse gas emission reduction targets and a description of relevant progress
- The role, expertise and skills of the administrative, management and supervisory bodies for sustainability, and incentives offered to members
- Relevant business policies
- The due diligence process implemented for sustainability matters
- The principal actual or potential adverse impacts connected with the business operations and value chain
- Any actions taken to prevent, mitigate, remediate, or end the identified adverse impacts and their results
- Principle sustainability risks and how they are managed

All relevant disclosures will now extend to the company's value chain, including products and services, business relationships, and supply chain.

Additionally, the reports will have to be accompanied by a limited assurance opinion: this is the first time there is a general EU-wide audit requirement for sustainability information, and this is likely to set the direction that other jurisdictions may follow.

Steps to take now to prepare

Determine in-scope status of your group entities

- Identify entities within your group, which are incorporated in the EU or entities with turnover generated in the EU and consider whether the scope criteria set out in the regulations are met.

Undertake a double materiality assessment

- This will help gauge your CSRD readiness and enable you to determine for which topics additional disclosure requirements will arise ahead of your first reporting period. This may include policies, KPIs and targets. This will provide helpful insight into your strategy.

Compare disclosure requirements

- Compare the new disclosure requirements to your current state. This will help identify gaps you'll need to address to ensure your organisation will be able to comply with the regulations.

Build an implementation roadmap

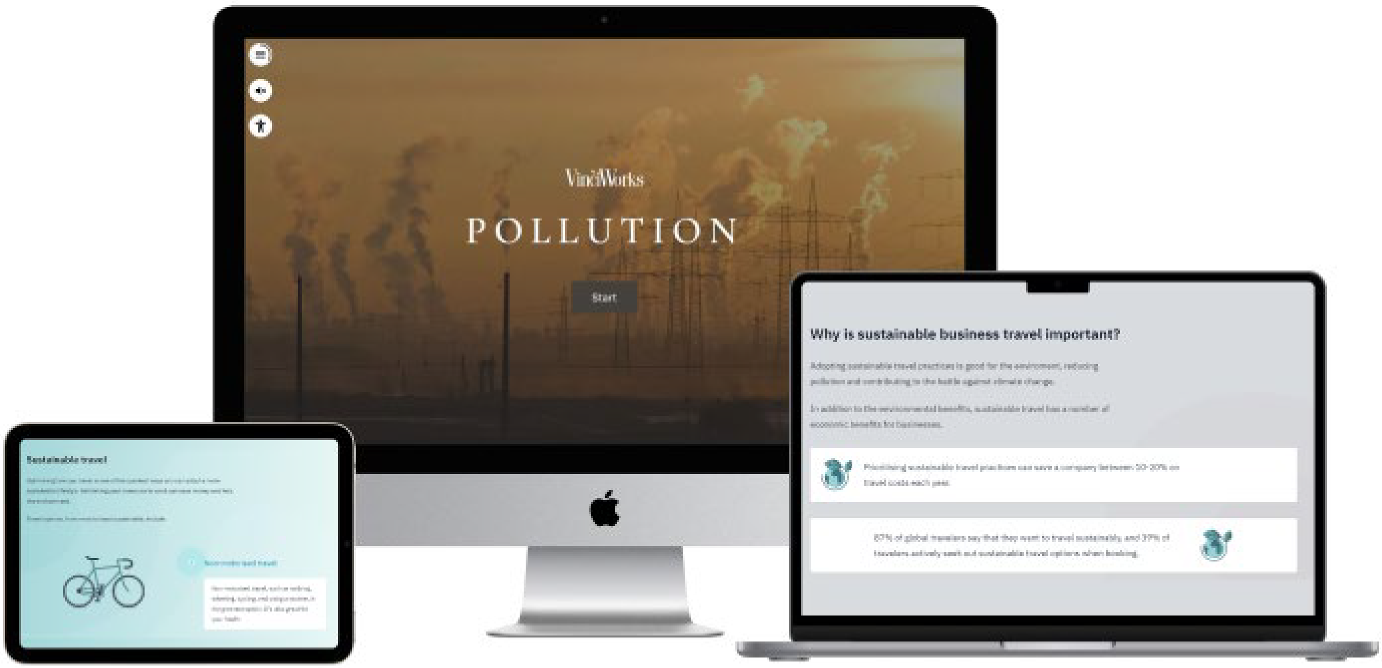
- Your roadmap determines how the gaps you discovered will be addressed. Identify who within your organisation will be responsible for this and how it will be done.

What's next?

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

The truth 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.

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
- Sustainable Travel

Proud member of the VinciWorks Group incorporating:

Contact us

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