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Corporate Sustainability Reporting Directive Road to Compliance

2024

Executive summary

What is the scope of the CSRD?

- The Corporate Sustainability Reporting Directive (‘CSRD’) makes sustainability reporting as important as financial reporting. The legislation has a phased approach, starting from 2025 (FY 2024).
- Individual-level or consolidated reporting may be required depending on whether the businesses within the group itself meet the thresholds defined by the European Sustainability Reporting Standards (‘ESRS’).

What are entities required to report?

- The ‘Sustainability Statement’ must be included in the management report, covering disclosures on mandatory standards and topical standards. These topical standards are selected through a double materiality assessment, considering both financial materiality and impact materiality.
- Assurance for sustainability reporting starts with limited assurance, potentially transitioning to reasonable assurance.

How do entities prepare for the CSRD?

- Preparing for the CSRD involves a step-by-step approach: (1) conducting a double materiality assessment to inform the scope of reporting, (2) making disclosures per material topic, (3) performing a gap analysis, and (4) developing a roadmap to ensure compliance for reporting in the relevant year.
- This report serves to provide initial insights and guide the CSRD process.

The CSRD makes sustainability reporting as important as financial reporting

What is the CSRD?

The Corporate Sustainability Reporting Directive (CSRD) expands the existing Non-Financial Reporting Directive (NFRD), making sustainability reporting as important as financial reporting.

What does it require?

Under the CSRD, companies must report sustainability-related information following the new EFRAG European Sustainability Reporting Standards (ESRS) in a dedicated section of their management report.

What does ESRS cover?

The ESRS cover general standards that apply to all companies and sector-specific standards. There is also a mandatory audit and assurance process to ensure data reliability and prevent greenwashing.

Source: EU Commission

The phased approach to report on non-financial aspects begins in 2025

Timelines & scope of the CSRD

2025 *FY 2024*

European listed companies with >500 employees, and one of the following criteria:
- >40 EURm revenue, and/or;
- >20 EURm balance sheet total.

2026 *FY 2025*

Large companies that meet two out of the three criteria:
- >250 employees;
- >40 EURm revenue, and/or;
- >20 EURm balance sheet total.

2027 *FY 2026*

Listed SMEs that meet two out of three criteria:
- >50 employees;
- >8 EURm revenue, and/or;
- >4 EURm balance sheet total.

Source: EU Commission

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Reporting may be required on individual-level or consolidated

Individual-level reporting

- Entities, including parent companies and subsidiaries, must report individually if they meet scoping thresholds unless exempt, such as through inclusion in a consolidated report.
- Large listed entities must always report individually, even if part of a consolidated report.
- A group with a non-EU parent and multiple subsidiaries meeting the thresholds can use the temporary non-EU parent exemption to reduce the number of individual reports required.

Consolidated reporting

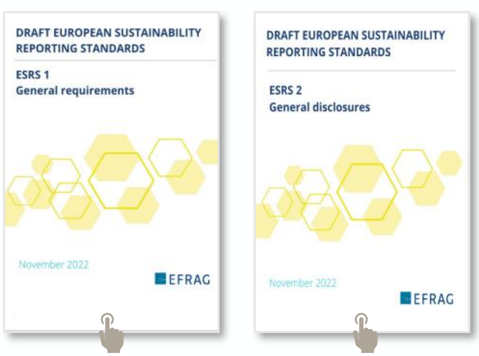
- EU-based parent companies of large groups will report for their consolidated group and can claim an exemption from separate sustainability reporting, unless they are large publicly listed entities.
- Non-EU entities with listed securities on EU markets may need to report individually or on a consolidated basis.
- Starting in 2028, non-EU parent companies with significant activity in the EU must report at the global group level.

Source: EU Commission

Disclosure requirements are provided in cross-cutting and topical ESRS

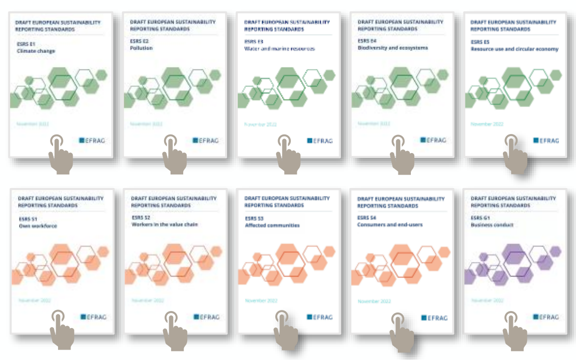
Two cross-cutting ESRS

Provide an overview of the implementation of the CSRD and outline the disclosure requirements that apply to all topics, including governance, strategy, impact, risk and opportunity management, as well as metrics and targets.



Ten topic-specific ESRS

Provide topic-specific disclosure requirements on governance, strategy, impact, risk and opportunity management. Establish metrics and explain how to disclose related targets for each topic.



Sector-specific ESRS

These standards apply to sectors with high sustainability risks or significant impacts on the environment and society. Various sectors are awaiting the reporting standards for clearer guidance.

Source: EU Commission

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Content disclosed will comprise mandatory and material information

Mandatory information set out in ESRS 2

- **Basis for Preparation**: How the entity has compiled its sustainability statement.
- **Governance**: Details on management and board composition, roles, responsibilities, and member diversity.
- **Strategy**: Key aspects of the overall strategy that relate to or influence sustainability matters.
- **Impact, Risk, and Opportunity (IRO) Management**: Explanation of the process for identifying IROs, and information on topics excluded from the report following the materiality assessment.

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Information subject to materiality

Disclosure requirements relating to impacts, risks and opportunities covering the:

- **Policies**
- **Actions**
- **Metrics**
- **Targets**

Entities can determine materiality at the level of topical standards or specific disclosure requirements and data points. Information can be omitted if deemed not material. If a material sustainability issue is not covered by an ESRS topical standard, the company must provide company-specific disclosures related to that issue.

Source: EU Commission

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Double materiality assessment determines what is considered material

Entities perform a double material assessment on sustainability-related matters (incl. topic, sub-topic, and sub-sub-topic) listed by the ESRS 1 AR16.

The concept of double materiality

Impact materiality
Impacts of the entity on society or the environment

Financial materiality
Impacts of society or the environment on enterprise value

Source: EU Commission

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A double materiality assessment is a step-by-step process

Step-by-step approach to double materiality

1 Value chain mapping

Understand the entity's context by providing an overview of activities, business relationships, and relevant information to identify sources of impacts, risks, and opportunities.

2 Stakeholder engagement

Assess entity impact on stakeholders, engage with them, and disclose how their interests and views are integrated into the strategy and business model.

3 Initial assessment

A data-driven approach to identify initial ESG impacts across the value chain by evaluating top sales industries and supplier expenditures using SASB and MSCI ESG databases.

4 Severity assessment

Determine the severity of impacts by evaluating scale, scope, and irremediable character against topics and (sub-)sub-topics. Financial magnitude of risks and opportunity and nature of financial effect are weighed.

5 Impact, risk & opportunity

Explain the rationale behind the material topic, including its interaction with the strategy and business model, and, if applicable, describe any associated risks and opportunities.

6 Stakeholder validation

Revisit stakeholders to discuss the outcomes of the double materiality assessment and verify if their interests and views have been accurately incorporated. Stakeholders thereby also obtain ownership over sustainability topics.

7 Continuous monitoring

Establish a process for regular updates to reflect changes in the business environment, stakeholder expectations, and regulatory requirements.

> The double materiality assessment (DMA) is extensive and forms the foundation for entity CSRD reporting. Typically, it takes ~10 weeks to complete the DMA.

Source: EU Commission

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Sustainability-related information needs to be presented in certain ways

Steps to present the sustainability statement

Labelled in management report

The 'sustainability statement' must be in a clearly labelled section of the management report, following a specific order: general information, then environmental, social, and governance details. Any additional or externally sourced information should be presented separately with appropriate references.

Permitted cross-reference

To avoid redundancy between the sustainability statement and other reports with sustainability content, cross-referencing is allowed to:

- Another section of the management report
- The financial statements
- The corporate governance report
- The remuneration report

Formatted machine-readable

The report ought to be in a format machine-readable; meaning both humans and computer-based systems can understand and access the information. Entities need to create their reports in line with the European Single Electronic Format (ESEF)[1] and, thus, need to provide electronic identification.

[1]Additional information of the European Single Electronic Format (link).
Source: EU Commission

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A sustainability statement needs to be presented in a specific order

Management report

Analysis of company's development and performance and its position

Description of the principal risks and uncertainties

The company's likely future developments

Corporate governance statement

Sustainability statement

General information (ESRS 2)

- Specific topical disclosures
- Sector-specific disclosures (expected 2026)
- List of disclosure requirement applied
- Table of all datapoints deriving from other EU legislation[1]

Topical standards

Environmental | Social | Governance

- Impact, risk and opportunity management and metrics and targets
- Additional sector-specific disclosures (expected 2026)
- Additional company-specific disclosures
- Disclosures in line with Article 87 of the EU Taxonomy regulation (under Environment only)

[1]Please see Appendix B: list of datapoints in cross-cutting and topical standards that derive from other EU legislation (link).
Source: EU Commission, KPMG

Entities need to include disclosures required by the EU Taxonomy

What is the EU taxonomy?

The EU Taxonomy is a classification system that provides a framework for **defining sustainable activities**. The EU Taxonomy defines the extent to which a company's activities are sustainable.

What are the objectives?

The EU taxonomy regulation currently focuses on six environmental objectives:

- **Climate change mitigation**
- **Climate change adaptation**
- **Water and marine resources**
- **Circular economy**
- **Pollution prevention**
- **Biodiversity and ecosystems**

What does it require?

Companies must report on how their activities are:

- **Eligible**: This means that the activities have the potential to be sustainable according to the definitions provided by the EU Taxonomy regulation.
- **Aligned**: This indicates that the activities meet specific criteria established by the EU Taxonomy regulation.

Source: EU Commission

Disclosure in line with the EU Taxonomy is a step-by-step process

Step-by-step approach to EU Taxonomy disclosures

Steps

1. **Select and screen entity activities**
2. **Assess eligibility with objectives**
3. **Assess alignment with objectives**
4. **Report key performance indicators**

Description

Economic activity A	Sustainable activity A	Evaluate:	Report:
Economic activity B	Eligible activity B	• Substantial contribution • Do no significant harm • Minimum safeguards of the eligible activities	• Turnover (%); • CapEx (%), and; • OpEx (%) of eligible and aligned activities.
Economic activity C	Non-eligible activity C		

Source: EU Commission

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Entities must undergo assurance for their sustainability reporting

Phased approach to assurance

2025 *FY 2024*

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2028 *FY 2027*

Initial limited assurance

The initial assurance will be at a limited level, offering moderate confidence to users. This typically results in a negative assurance statement, indicating that no issues were found suggesting the information is materially incorrect.

Adopt reasonable assurance

The plan is to move to reasonable assurance by 2027, requiring the assurance provider to gather enough evidence to confirm that the sustainability information is accurate, leading to a positive assurance conclusion.

Source: EU Commission

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Preparing for the CSRD is a step-by-step approach

Step-by-step approach to preparing for the CSRD

1 Materiality assessment

Based on the previously selected key material ESG areas, &BLOOM will identify the CSRD themes that the entity likely has to report on

2 Disclosures per material topic

Following the European Sustainability Reporting Standards, &BLOOM shall highlight the general requirements/disclosures for each CSRD theme

3 Gap analysis

Building on the disclosures per material topic, we perform a gap analysis based on the entity's current reporting practices

4 Roadmap to compliance

Based on the gap analysis, &BLOOM and the entity create a roadmap towards CSRD compliance in preparation the relevant reporting year

Source: EU Commission

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