**CSRD – The Corporate Sustainability Reporting Directive**

The EU is bringing sustainability reporting in line with financial reporting, with the introduction of the Corporate Sustainability Reporting Directive (CSRD). The new framework will be rolled out in a phased approach from 2024. It will require companies to report on how sustainability issues, such as climate change, impact their business and how their operations, in turn, affect people and the planet – a unique principle called 'double materiality'.

The new regulation updates previous corporate sustainability reporting under the 2014 Non-Financial Reporting Directive (NFRD), which some companies will already have been following. CSRD is much more ambitious than NFRD and pitches Europe as a frontrunner in this space due to its advanced rules that extend beyond the continent.

**Who needs to comply?**

Almost 50,000 companies are expected to be impacted by CSRD, making up some three quarters of business in the European Economic Area. CSRD will apply to all:

- Companies listed on regulated markets in the EU (apart from listed micro-enterprises), and large companies. The CSRD classifies a large company as one that meets two out of three of the following criteria: more than 250 employees, a turnover of over €40 million and over €20m total assets. These companies will also have to take into account information at subsidiary level.
- Listed SMEs, although there will be a transitional period when SMEs can opt out until 2028. However, there are big benefits for SMEs to comply with the reporting.
- Non-EU companies with a net turnover of €150 million in the EU, and with at least one subsidiary or branch in the union.

**How will the changes affect businesses?**

Companies will need to be more detailed in their sustainability reporting, covering issues such as environmental, social and human rights, plus governance factors.

Companies must publish their information in a dedicated section of their company management reports, usually included in their annual report. Reports must cover:

- Environmental matters – including science-based targets, EU Taxonomy and climate risk-related reporting.
- Social matters and treatment of employees.
- Respect for human rights.
- Anti-corruption and bribery.
- Diversity on company boards (in terms of age, gender, educational and professional background).

Companies will need to provide information that is:

- Qualitative and quantitative.
- Forward-looking and retrospective.
- Based on the short, medium, and long-term.

The CSRD also features mandatory assurance for reporting by an independent assurance service provider against sustainability reporting standards. This is to make sure information is accurate and reliable.

These standards are being developed by the European Financial Reporting Advisory Group (EFRAG), with additional technical advice from other European agencies. The standards will be shaped to EU policies, but also feed into and incorporate global initiatives. The first set of standards are expected from June 2023.

Better accessibility of information is also part of the new directive and companies will need to make sure their information feeds into a digital open access database[1].

According to the European Commission (EC), CSRD aims to lower companies' reporting costs over the medium to long term. The EC has said that while there might be increased costs initially, 'most companies will face an increase in costs anyway because of the growing demand from investors and other stakeholders for corporate sustainability information.'

**Preparing your business for the Corporate Sustainability Reporting Directive (CSRD)**

The Corporate Sustainability Reporting Directive (CSRD) arises from the European Green Deal's climate change action objectives, to further enhance the disclosure by companies on climate and environmental data.

**CSRD scope and timeline**

Ireland and other member states have until mid-2024 to transpose the directive, with a view to mandatory requirements commencing for financial years on or after:

- 1 January 2024 for public interest entities in the scope of EU non-financial reporting rules (greater than 500 employees)
- 1 January 2025 for other larger companies and public interest entities (greater than 250 employees)
- 1 January 2026 for listed SMEs, with an 'opt-out' possible until 2028

Companies in scope will be required to report on a double materiality basis. This means that companies will have to disclose not only the risks they face from a changing climate and other ESG matters (financial materiality) but also the impacts they themselves may have on climate and society (impact materiality). Companies will also have to provide information on their value chain. To assist companies with the transition to the new requirements, for the first three years of reporting, where information on the value chain is not available, they may elect to explain their inability to obtain the information[2].

[1] https://www.carbontrust.com/news-and-insights/insights/corporate-sustainability-reporting-directive-csrd-explained

[2] https://enterprise.gov.ie/en/what-we-do/the-business-environment/corporate-sustainability-reporting/#:~:text=The%20Corporate%20Sustainability%20Reporting%20Directive%20(CSRD)%20arises%20from%20the%20European,on%20climate%20and%20environmental%20data.