Guide

Guide to the 2024 Corporate Sustainability Reporting Directive (CSRD)

A guide for all businesses in Europe

CSRD Guide 2024

If you're part of a company operating in the EU, chances are you've heard of the Corporate Sustainability Reporting Directive (CSRD).

It has two key goals:

1. **Improved sustainability reporting:** To create a more comprehensive disclosure framework
2. **Increased transparency:** For investors seeking a clear image of company sustainability

CSRD will come into effect in **early 2024**, so it's become a priority for many companies.

What do you need to know?

We've put together a short guide to answer some of your questions on CSRD, and to provide actionable tips and practical advice to help you make sure you're meeting its demands.

What is CSRD?

Put simply, it's a policy designed to promote transparency and accountability by requiring companies to provide accurate reports on their environmental, social and governance (ESG) performance. It was officially proposed in April 2021 and is part of the wider Green Deal to make Europe the first climate-neutral continent by 2050.

This might sound familiar – and it is. CSRD is essentially a newer, and stricter, version of the Non-Financial Reporting Directive (NFRD), which has applied to EU countries since 2014. CSRD is more ambitious than its predecessor, placing higher demands on companies to meet corporate sustainability standards.

Let's examine some of the key differences in closer detail.

Content

CSRD vs NFRD

Essentially, **CSRD extends the scope of the requirements of the NFRD** to all listed companies and large businesses. Overall, CSRD will apply to roughly 50,000 businesses, compared to the NFRD which has so far impacted 11,000.

CSRD aims to bind more organisations to **report their sustainability data**, which it will do by introducing digital tagging of information to be entered into a centralised database, and report auditing, which obligates companies to report according to the EU's sustainability standards. CSRD-compliant companies will also need to format and publish sustainability data using the European Single Electronic Format (ESEF/XHTML).

The CSRD also provides **one unified reporting framework**, unlike the NFRD which offered multiple framework options, meaning that the data produced didn't give a detailed or accurate image of companies' overall sustainability efforts.

The CSRD is the step-up necessary to **improve European companies' social and environmental impact**, working towards achieving the goals of the EU Green Deal. It includes the reporting requirements of the NFRD, and introduces topics such as:

- Double Materiality Concept
- Due diligence on company operations and supply chain
- Disclosure of information relating to intangibles (e.g. social, human, and intellectual capital)
- Reporting in line with the SFRD and EU Taxonomy Regulation
- Integrated reporting and mandatory external assurance

Who will CSRD apply to?

In theory, CSRD will affect **75% of business** in the European Economic Area. There are 3 clear business categories that CSRD will apply to.

1 Large companies operating in the EU

First up are the big enterprises which are referred to as “large undertakings” in the CSRD and include both EU companies and EU subsidiaries of non-EU companies. These companies must fulfil two out of three criteria:

1. Over **250** employees
2. A turnover of over **€40 million**
3. Over **€20m** in total assets

2 Listed SMEs

Some small-and-medium-sized companies as per the EU Regulation 575/2013 Art 4(1), point (145), will be required to report and submit their findings. However, there will be a period of transition of five years (until 2028) when SMEs can opt out. Bear in mind that there are big benefits to be had from complying with the directive.

3 Specific non-EU companies

Sustainability reporting will also be required of non-EU companies that generate over €150 million in the EU. These must also have at least one subsidiary or branch in the union.

What does CSRD mean for *UK companies*?

Put simply, if your UK company was already obligated to report under NFRD, then it will also need to submit the disclosure requirements of the CSRD.

However, if your business wasn't previously subject to the NFRD, then there are two potential situations in which the new CSRD requirements will apply to your UK company.

Possibility 1:

If your UK company has securities listed on an EU-regulated market.

Possibility 2:

If your UK company has a net turnover of over €150 million in the EU for each of the last two consecutive financial years. It must either have:

- An EU subsidiary which has securities listed on an EU regulated market; or is classified as a large undertaking and meets two of the following criteria:
    i. Total assets of €20 million
    ii. Net turnover of €40 million
    iii. An average of 250 employees over the financial year
- An EU branch which has generated a net turnover of more than €40 million in the previous financial year.

What will companies complying with CSRD *need to do*?

Companies will have to meet the CSRD Sustainability Reporting Standards. The first set of standards dictates that companies must both consider:

- **Double materiality:** This refers to how a company both impacts and is impacted by climate change
- **Value chain sustainability factors:** Taking into account the goods and services purchased from other providers
- **Quality of information:** Truthful representation, comparability, verifiability etc. is also a requirement

The second set of standards concern:

- **Connectivity:** Linking financial reporting to sustainability reporting
- **Levels and boundaries of reporting:** Scope 3 emissions included
- **Retrospective and forward-looking information:** Assessing targets and indicators set by companies themselves
- **Public good:** Required standards for alignment and consistency between EU reporting standards and public policy agreements

A notable change is that compliant companies will need to report "**scope 3 emissions**". A company's greenhouse gas emissions are divided up into three categories: scope 1, 2 and 3. Here's how they compare:

- **Scope 1:** Direct emissions from company-owned and controlled resources, which can be reduced directly
- **Scope 2:** Indirect emissions from the generation of purchased energy, from a utility provider
- **Scope 3:** All indirect emissions that occur in the company's value chain, including both upstream and downstream emissions. In short, all emissions linked to company operations.

As you might expect, **scope 3 emissions** are notoriously difficult to measure. In fact, less than 10% of companies comprehensively and accurately measure these emissions - because these emissions occur outside an enterprise's direct control.

Scope 3 emissions can be quantified through carbon accounting, ideally using information from a primary source (e.g. invoice) or secondary data (e.g. proxy data, industry averages). There are three primary methods:

1. Spend-based method: estimating an organisation's indirect emissions based on the value of goods and services it buys from suppliers.
2. Fuel-based method: identifying the types and amounts of fuel (natural gas, coal, gasoline, etc.) it uses, combining with the relevant emission factor.
3. Activity-based method: breaking down the value chain into different sections (e.g. procurement, transportation, product use), gathering data on the mass of purchased goods/services, and multiplying by their emission factor.
4. Hybrid method: one of the more popular options, the hybrid method takes into account all three approaches.

This means that companies hoping to comply with CSRD should begin the measuring process as soon as possible. It'll really pay off to get ahead of the mandate and put the necessary reporting framework in place.

Which issues will the CSRD have to *report on*?

Companies within the scope of CSRD will have to report on a wide range of issues relevant to their business. Sustainability data covers all related ESG (environment, social and governance) factors.

We've mentioned the key environmental factors, so here are some examples of the social and governance factors that will apply:

Social factors:

- **Equal treatment and opportunities** (racial and gender equality and equal pay)
- **Adequate working conditions** (fair wages, participation rights of workers, health and safety)
- **Respect of human rights** (democratic principles, fundamental freedoms)

Governance factors:

- **Business ethics and corporate culture** (safety of whistleblowers, anti-corruption measures)
- **Quality of relationships with customers and suppliers** (payments to SMEs)
- **Internal control and risk management systems** (as related to the sustainability reporting process)

Sustainability is a key focus of CSRD, but it's a much more comprehensive policy than its predecessor, meaning that governance and social factors also carry significant weight. Measuring social impact activities, for example, with the help of corporate purpose softwares like Benevity, can be crucial to delivering the CSRD-compliant data, in a way that engages employees, collects accurate numbers and saves hours of manual data collection.

What are the *timescales* of CSRD?

2025

The CSRD will be implemented in phases, starting in January 2024. From 1st January 2024, it will impact large EU public interest entities already subject to the NFRD, plus listed enterprises with over 500. The reporting will be due from **2025**.

2026

From 1st January 2025, the large companies not currently subject to the NFRD will be required to report. Reporting will be due from **2026** for financial years starting on or after 1st January 2025.

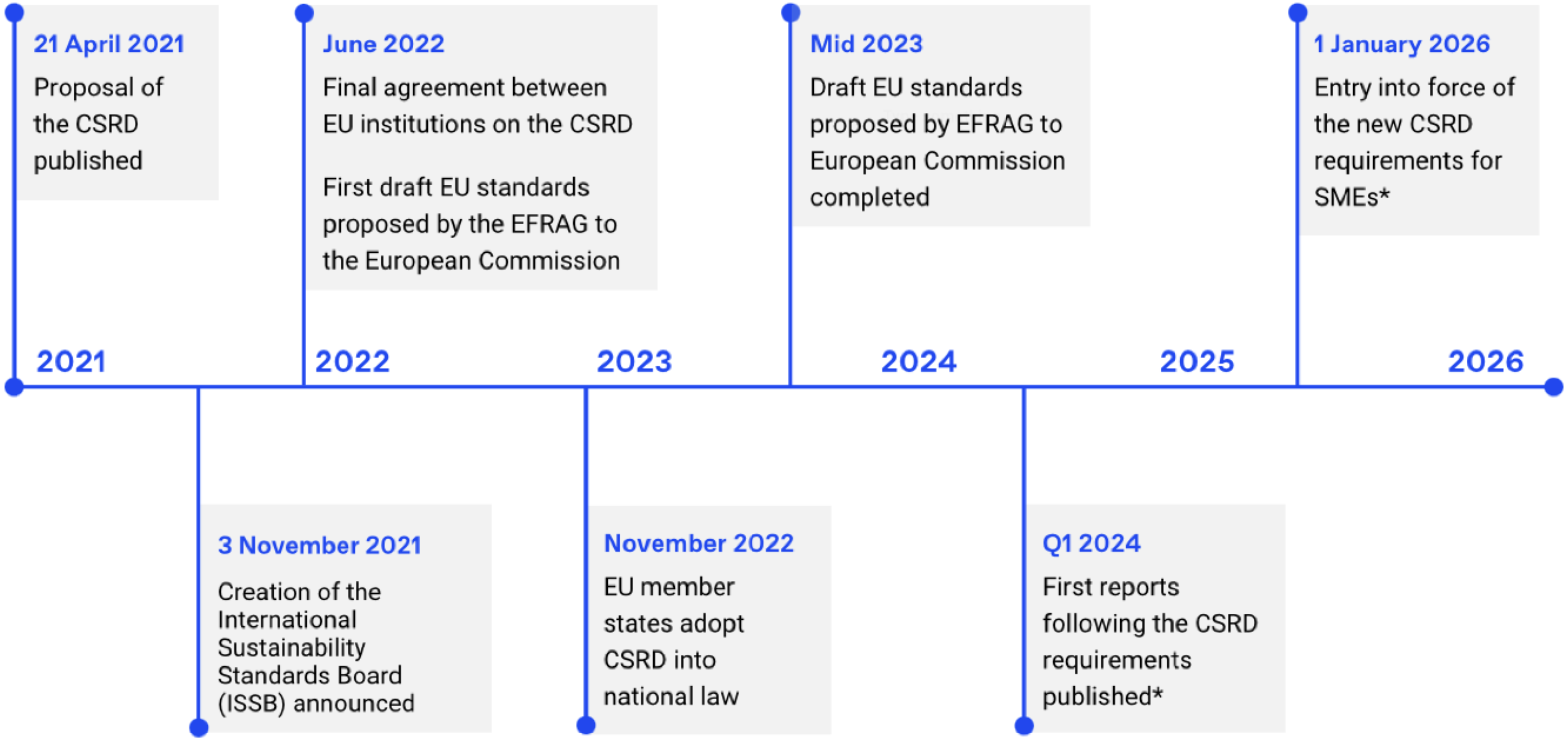
2027

The third category of businesses, SMEs listed on EU-regulated markets, will be expected to submit their reporting from **2027**.

2029

Finally, certain non-EU companies operating in EU-regulated markets must submit their reports from **2029**.

Here’s a more detailed breakdown:



*Delay and change of scope possible – decision pending

What are the *benefits* for businesses?

It's beneficial to look beyond CSRD as merely a new, demanding directive. The fact is, there are many advantages for compliant companies.

Here are the top perks:

- Reduced risk of **greenwashing**
- Driver to take **ESG** more seriously
- Enhanced **credibility**
- **Transparency** for stakeholders
- Normalising **climate reporting**
- Encouraging climate action and **accountability**
- Better approach to **social impact**

To ensure a strong market for green investments, investors must have a clear image of their portfolio's sustainability impacts. Today, the European Commission has cited an "accountability gap" in sustainability reporting. Ensuring high quality reporting across the board will "help create a culture of greater public accountability".

What's the *thinking* behind CSRD?

The bottom line is that companies have an important role to play in reducing our collective carbon footprint – and aiming to slow the rate of climate change.

CSRD is a step up from the NFRD, which certainly made a difference, but investors and stakeholders often felt that the information reported was not thorough enough to feel fully informed. The new legislation aims to pitch Europe as a frontrunner in corporate sustainability.

This new framework encourages total transparency, ensuring that both investors and consumers have access to a complete set of information about a company's sustainability.

How does CSRD fit in with wider *sustainability policies*?

Good question. There are similar reporting mechanisms in place around the world. For example, in the US, the Securities and Exchange Commission (SEC) regulates company environmental policies. It aims to ensure that emissions reporting is both harmonised and accessible to shareholders, investors and consumers.

In the UK, the Task Force on Climate-related Financial Disclosures (TCFD) has been in force since 2017. It's essentially a global framework for companies to report how climate change will affect their businesses.

CSRD, however, is leagues ahead in terms of how extensive and ambitious the reporting is. For example, the CSRD's double materiality reporting framework is a step up from the SEC's single materiality perspective, which requires only the climate-related impacts to the reporting company, rather than their impacts on the environment.

How does CSRD fit with *SFRD and Taxonomy Regulation*?

The SFRD, or Sustainable Finance Disclosure Regulation, is a framework which establishes guidelines for EU financial market participants (e.g. asset managers) to disclose sustainability information. The CSRD aims to ensure that companies can provide the necessary information to their investors and stakeholders to meet their SFDR obligations.

The **Taxonomy Regulation** is also an EU framework. It classifies "green" or "sustainable" economic activities by setting out four conditions, each concerning:

1. Climate change mitigation
2. Pollution prevention
3. Sustainable use and protection of water and marine resource
4. Transition to a circular economy

This set of criteria forms a part of the EU's goal to reach a climate-neutral economy, and its mandates on the private sector to help achieve the Paris climate agreement.

The Taxonomy Regulation and the SFRD work together to achieve three key goals in the EU business sector:

1. **Reorientate capital flows** with a focus on sustainable investments
2. **Establish sustainability** as a component of risk management
3. **Promote long-term investment** and economic growth

How can *companies prepare*?

When it comes to getting ahead of the curve, we recommend these five simple steps to guide your CSRD strategy.

1. Assess if the new regulations apply to your company
2. Determine the timeframe for compliance
3. Evaluate your existing reporting practices
4. If you have ESG goals, validate their strength and alignment with correct methodology
5. Provide specialised CSRD training to select employees

Getting *ahead of the curve*

Corporate culture plays a huge role in how seriously companies take sustainability and social impact. And building a culture of goodness helps to make the intention behind new measures, like CSRD, accessible to everyone at the company. This can be done with the help of a CSR platform like Benevity, which puts the necessary framework in place to align these business interests with employee passions for doing good.

Through Benevity's corporate purpose platform, companies demonstrate their dedication to social impact by building engaging workplace giving, volunteering and community investment programmes. Employees are empowered to take action in small ways against environmental or social injustices, connect with colleagues who have similar passions or interests, volunteer with their teammates, post fundraisers for their favourite causes, promote diversity, equity and inclusion in the workplace and more.

Creating a space for discussing and taking action on important issues - such as sustainability, diversity and social impact - makes it easier for companies to tap into employee passions and report on these issues. As social impact is central to CRSD, offering a programme of this nature to all employees helps create change from the inside out.

Combine social and business impact

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