



# Corporate Sustainability Reporting Directive (CSRD)

The Corporate Sustainability Reporting Directive (CSRD) is a mandatory framework for making company sustainability reporting more common and standardized in the European Union. CSRD's purpose is to provide investors, communities, and other stakeholders with comparable information on environmental, social and governance issues. It is an update and replacement for the 2018 Non-Financial Reporting Directive (NFRD). The first set of standards will go into effect throughout the European Union in 2023, with the first reports published in 2025 on fiscal year 2024 information.

[https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting\\_en](https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en)

## THE BASICS

**Mandatory framework for disclosing non-financial sustainability information.** This disclosure directive provides a framework for reporting on the management of environmental, social, and governance issues. Disclosures required include descriptions of sustainability targets and progress toward targets, role of management and governance bodies regarding sustainability, policies related to sustainability factors, due diligence processes for the supply chain, assessment of risks, and the processes for identifying the information disclosed.<sup>1</sup> Reporting should be retrospective and forward-looking, with short, medium, and long-term horizons.

**Replaces the Non-Financial Reporting Directive (NFRD).** Market players reported shortcomings in the NFRD, and through a consultation process, the European Commission identified issues in reporting under NFRD, including missing data, inconsistencies in quality and format of reporting, and lack of information on sustainability risk exposure. Therefore, as part of the "European Green Deal," the European Commission committed to creating stronger and wider reporting measures.<sup>2</sup>

**Applies to EU companies meeting size, revenue, or asset criteria.** CSRD will apply to all companies in the EU meeting at least two out of three criteria: over 250 employees, more than €40M in annual revenue, and more than €20M euros in total assets. It also applies to publicly listed companies with more than 10 employees or €20M in revenue, and international (non-EU) companies with more than €150M in annual revenue within the EU.<sup>3</sup> This set of criteria expands the number of companies covered under NFRD, with estimates of more than 50,000, up from 11,000.

## USEFUL FOR

**Standardizing and simplifying company sustainability reporting.** CSRD's primary purpose is to standardize non-financial sustainability data reporting in order to facilitate sustainability investments and better inform stakeholders.<sup>4</sup> With standard guidance across firms, CSRD may reduce the burden of sustainability reporting on investees while making it easier for investors to make useful, comparable data-driven decisions.

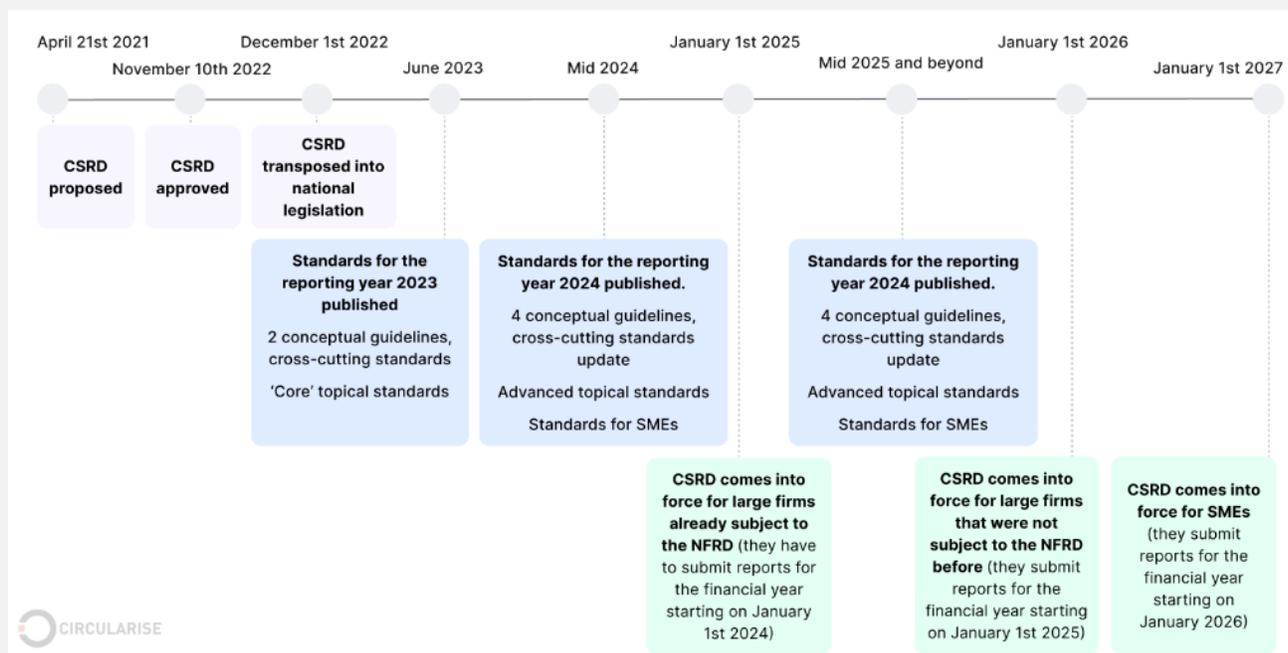
**Seeking to bring sustainability reporting "on par" with financial reporting.** With independent auditing requirements for sustainability disclosures set to strengthen over time under CSRD, this initiative seeks to put financial and sustainability reporting on equal footing, giving investors comparable and reliable data.<sup>5</sup>

## IMPLEMENTATION & IMPACT

**Based on the principle of *double materiality*.** This means that disclosures should reflect the company looking both inwards and outwards, disclosing how sustainability issues, such as climate change, affect the company as well as how the company has impacts on people and planet.

**Disclosures subject to digital tagging for single-point access.** The European Single Access Point (ESAP) is a new legislative initiative to create a centralized platform for accessing

### Overview of European Union's Corporate Sustainability Reporting Directive timeline



Source: [Corporate Sustainability Reporting Directive \(CSRD\) Explained](#), Circularise. Accessed 11/18/2022.

publicly disclosed financial and sustainability information. CSRD disclosures will be subject to digital tagging so that the data is machine-readable and can be incorporated into ESAP.<sup>6</sup>

**Provides guidance for optimizing and reinforcing impact management.** CASE has defined four universal steps in the process of impact management: Set Strategy, Integrate, Optimize and Reinforce.<sup>7</sup> CSRD supports processes for **optimizing impact** by standardizing data collection and asking for analysis reporting what happened, why it happened, and what the company will manage over shorter and longer time horizons. The CSRD has an assurance requirement that can help **reinforce impact** by proposing mandatory audits of sustainability disclosures. The initial assurance obligation will likely be “limited,” with the intention that obligations strengthen over time to become “reasonable” and on par with financial reporting.<sup>8</sup>

## CURRENT GAPS

**Geographic boundary of the standard.** CSRD covers European based companies, resulting in uncertainty around how it compels out-of-scope companies to report, and/or how it will tie into international reporting frameworks. Alignment to the International Sustainability Standards Board may alleviate this concern.<sup>9</sup>

**Assurance infrastructure will be developed over time.** The “limited” assurance likely to be required at first by CSRD is considered to be right-sized for current technical capacity in the market. To reach the more demanding “reasonable” assurance level CSRD will transition to over time, sustainability assurance standards will be needed. The European Commission has the opportunity to develop or adopt those standards, which would then trigger reasonable assurance requirements for disclosers.

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<sup>1</sup> <https://www.insideenergyandenvironment.com/2021/05/the-eu-corporate-sustainability-reporting-directive-proposal-what-companies-need-to-know/>

<sup>2</sup> <https://www.insideenergyandenvironment.com/2021/05/the-eu-corporate-sustainability-reporting-directive-proposal-what-companies-need-to-know/>

<sup>3</sup> <https://www.brightest.io/csrd-corporate-sustainability-reporting-directive#:~:text=To%20comply%20with%20CSRD%2C%20organization's,2023%20fiscal%20year%20environmental%20performance>

<sup>4</sup> <https://www.schuttelaar-partners.com/news/2021/07-juli/what-does-the-new-csrd-reporting-directive-mean-for-you>

<sup>5</sup> <https://www.europarl.europa.eu/news/en/press-room/20221107IPR49611/sustainable-economy-parliament-adopts-new-reporting-rules-for-multinationals>

<sup>6</sup> <https://www.internationaltaxreview.com/article/2a6abcbtm7tszx7bxiz9c/csrd-a-game-changer-in-sustainability-reporting-with-a-link-to-tax>

<sup>7</sup> <https://impactalpha.com/optimizing-for-impact-managing-investments-to-meet-goals-for-impact-and-expectations-of-regulators/>

<sup>8</sup> <https://www.insideenergyandenvironment.com/2021/05/the-eu-corporate-sustainability-reporting-directive-proposal-what-companies-need-to-know/>

<sup>9</sup> <https://www.pwc.com/gx/en/services/sustainability/publications/cop26/what-is-the-big-news-at-cop26-for-esg-reporting-pwc-cop26.html>