

Corporate Sustainability Reporting Directive

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TOP 5

What you need to know about CSRD

What is the CSRD?

The Corporate Sustainability Reporting Directive or CSRD, which entered into force on the 5th of January 2023, is a law of the European Union to replace the previously applicable Non-Financial Reporting Directive (NFRD). The NFRD was the basis for the CSR reporting obligation. The new CSRD will fundamentally expand and standardize European sustainability reporting. Based on the CSRD, the German implementation of the NFRD, the CSR Directive Implementation Act (CSR-RUG), will also receive a comprehensive update.



Important changes to reporting

The non-financial reporting obligation (NFRD – CSR reporting obligation) from 2014 will be substantially renewed by the law on CSRD, which came into force on the 5th of January 2023.

The CSRD will bring some innovations:

- While different reporting formats were applicable under the NFRD, the CSRD provides for a reporting obligation exclusively in the management report in accordance with uniform EU reporting standards, which are based on the Sustainable Finance Disclosure Regulations (SFDR) and the EU taxonomy regulations..
- The materiality principle changes from single materiality from the NFRD to double materiality. This means that matters are considered material if they are material to business performance OR from an environmental/social perspective. The CSRD introduces an audit requirement which is gradually increased from a “Limited Assurance” to a “Reasonable Assurance”. Thus, an external critical audit will be deepened.
- The CSRD introduces an audit requirement, which is gradually increased from a “Limited Assurance” to a “Reasonable Assurance”.
- It is no longer only retrospective content that is mandatory in sustainability reporting, but also future content/topics, in particular the assessment of opportunities and risks of sustainability aspects on business activities.

Who is affected by the CSRD?

The CSRD significantly expands the group of companies affected. While the NFRD affected around 12,000 companies, the new directive will affect around 50,000 companies – including around 15,000 in Germany alone. After the CSRD comes into force in January 2023, the law must be transposed into national law by the member states by the 6th of July 2024 at the latest. The current plan provides for introduction in a phased model. The companies affected by the CSRD are:

On FY 2024 with a reporting deadline in 2025:

→ Companies already subject to NFRD

- > 500 employees (independent from capital market orientation) *and*
- > 40 Mio. € turnover *or*
- > 20 Mio. € balance sheet total

On FY 2025 with a reporting deadline in 2026:*

→ Companies not yet subject to NFRD

- > 250 employees (independent from capital market orientation)
- > € 50 million in sales
- > € 25 million balance sheet total

On FY 2026 with a reporting deadline in 2027:*

→ All SMEs listed on the stock exchange (excl. microenterprises):

- > 10 employees AND
- > € 900,000 in sales OR
- > € 450,000 balance sheet total

* 2 of the 3 criteria must be met

What is the situation with subsidiaries?

European companies that report at group level in accordance with the CSRD sustainability reporting requirement thereby exempt their subsidiaries from their own reporting obligations.

For the exemption, the subsidiary only has to refer in its management report to the Group report via

- a link
- state the name and registered office of the parent company

However, capital market-oriented subsidiaries are not exempt from the reporting obligation.

What is the situation with subsidiaries?

More comprehensive rules apply to **non-European companies**.

Starting from January 1, 2028 with a reporting deadline until 2029:

Non-European companies with net sales of > €150 million IN THE EU must prepare a CSRD-compliant sustainability report at the consolidated level of the top third country company if:

At least one **subsidiary** in the EU meets the following criteria:

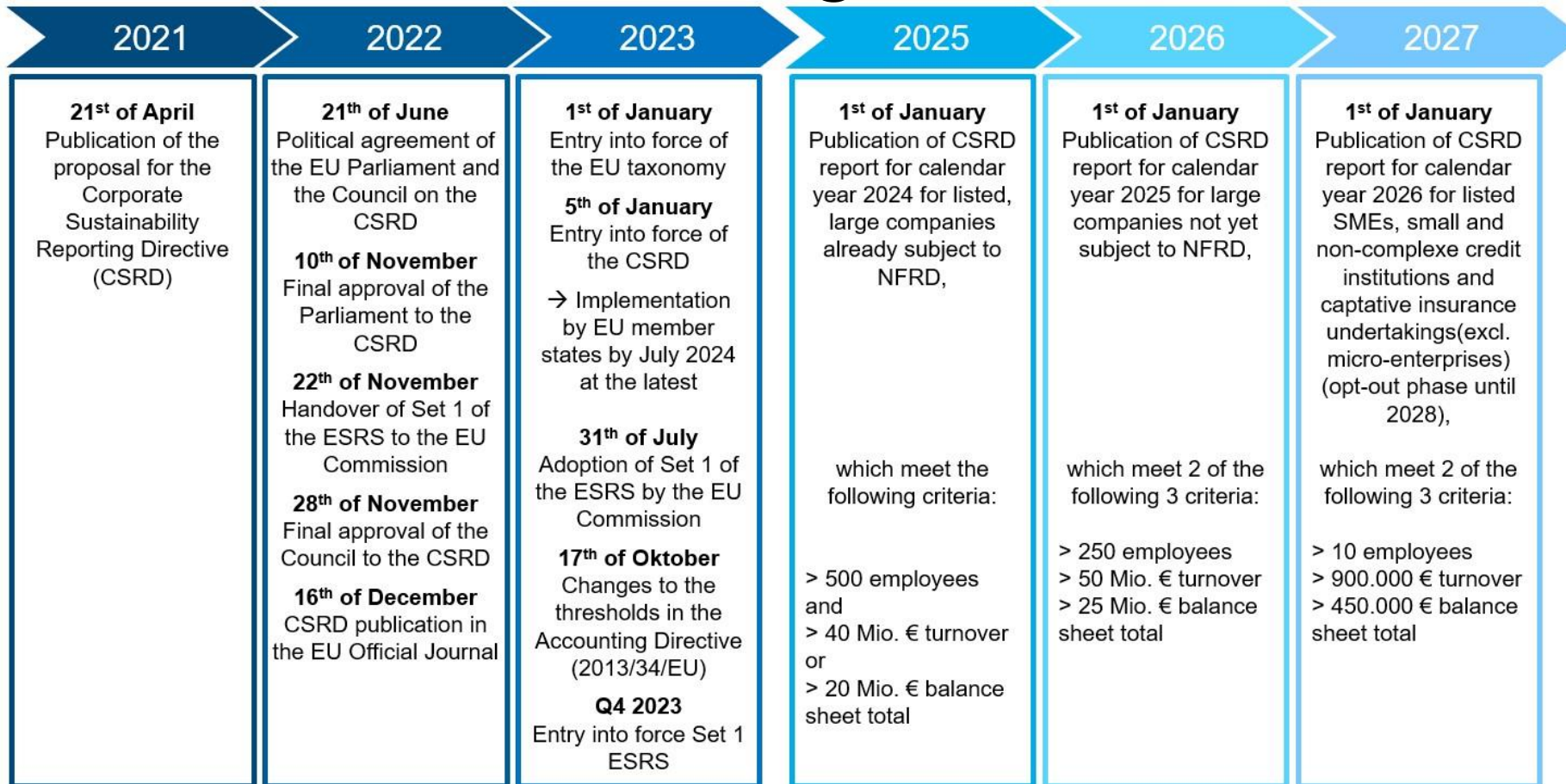
- Large companies*:
 - > 250 employees
 - > € 50 million turnover or
 - > € 25 million balance sheet total
- Listed companies*:
 - > 10 employees
 - > € 900,000 turnover or
 - > € 450,000 balance sheet total

* 2 of the 3 criteria must be met

Or if at least one **branch** in the EU meets the following criteria:

- > € 40 million net sales

When does the CSRD go into effect?



Graphic: CSRD timeline, 2021 to 2027, as of Nov. 23, DFGE

What happened so far? (1/3)

A lot has happened in the past months and years leading up to the final adoption of the CSRD and the creation of the uniform EU reporting standards. The most important milestones are listed below:

2014

- **October 2014:** Entry into force of NFRD (Directive 2014/95/EU)

2017

- **March 2017:** Entry into force CSR-RUG

2021

- **March 2021:** Structural proposal for EU reporting standards by EFRAG.
- **[CSRD DRAFT #1] 21. April 2021:** Publication of CSRD proposal by the European Commission
- **April – 14. July 2021:** Consultation period on CSRD proposal
- **June 2021:** European Council (EC) consultation period on CSRD begins.
- **[CSRD DRAFT #2] 16. November 2021:** November 16, 2021: Publication of draft report on CSRD proposal with proposed amendments
- **December 2021:** EC consideration of a first compromise text for the CSRD

What happened so far? (2/3)

2022

- **January 2022:** Publication of first working papers on the substantive specification of the “European Sustainability Reporting Standards” (ESRS) by the EFRAG working group PTF-ESRS
- **January 2022:** Presentation of a revised compromise text on CSRD by the EC Chair
- **[CSRD DRAFT #3] 24. February 2022:** EC publication of proposed amendment to CSRD
- **March 2022:** Publication of 4-column document by the EC comparing the three CSRD drafts
- **April 2022:** Publication of the 13 draft CSRD standards by EFRAG and start of the consultation phase on the CSRD
- **June 2022:** Preliminary political agreement on the CSRD between the EC and the European Parliament (EP) in trilogue
- **June 2022:** Publication of the draft law on the **CSRD including the trilogue amendments**
- **August 2022:** of consultation phase on draft standards
- **August 2022:** Information on the development of the sector-specific standards stretched over three years
- **September 2022:** Publication of statistical evaluation of the CSRD consultation phase
- **November 2022:** The European Parliament adopts the CSRD.
- **November 2022:** EFRAG publishes the final ESRS, which the European Commission will transpose into Delegated Acts.

What happened so far? (3/3)

2022

- **November 2022:** The European Parliament and the European Council adopt the CSRD.
- **November 2022:** EFRAG publishes the final ESRS, which the European Commission will transpose into Delegated Acts.
- **December 2022:** Publication of the CSRD in the Official Journal of the European Union

2023

- **January 2023:** CSRD enters into force
- **June 2023:** Publication of the revised ESRS Draft Delegated Acts (public consultation until 07 July 2023)
- **July 2023:** Adoption of Set 1 ESRS as a delegated act

What happens next?

The decisive steps towards uniform European sustainability reporting have been taken and the CSRD is officially in force. Read below to find out what will happen in the coming months:

- The first set of common standards is in place, while the European Commission is developing a complementary implementation guide. Sector-specific and SME standards are under development. The planned entry into force of the second set of sector-specific and SME-related standards in June 2024 is postponed to mid of 2026.
- By July 6, 2024 at the latest: Transposition of the CSRD into national law by EU member states [Art.5, Para.1; p.63]

What are the contents of the CSRD?

The proposed CSRD directive introduces uniform and binding European reporting standards (European Sustainability Reporting Standards – ESRS), which consist of sector-independent (core standards), sector-specific and organization-specific standards.

The core standards include reporting requirements on environmental targets, social aspects and governance aspects.

The sector-specific standards will be developed in three packages over a three-year period. The first set of sector-specific standards (agriculture, coal, mining, oil and gas extraction and processing, power generation, road transport, automotive production, textiles and footwear, and jewelry, food and beverage) and organization-specific SME standards were expected to be published in fall 2023. The remaining two packs of sector-specific standards were expected to follow in the next two years. However, the introduction was postponed to June 2026.

What are the contents of the CSRD?



Report on **environmental objectives**

- Climate protection (mitigation)
- Adaption to climate change (adaption)
- Water- and marine resources
- Resource use and Circular Economy
- Environmental pollution
- Biodiversity and ecosystems



Report on **social/societal aspects**

- Respect for human rights, democratic principles and international standards.
- Equal opportunities, including gender equality and appropriate, fair and balanced pay. Inclusion and employment of people with disabilities.
- Information on working conditions, job security, pay and collective bargaining, work-life balance, workplace safety and employee health, and social dialogue.
- Information on the impact of business activities on the company in relation to the protection of affected communities
- Information on the protection and safety of consumers and end users



Report on **governance aspects**

- Information on the structure and duties of the company's administrative, management and supervisory bodies, including focus on sustainability aspects.
- Anti-corruption and anti-bribery policies embedded in corporate ethics and culture..
- Information on the company's political commitment, incl. lobbying activities.
- Information on business partner relationships, incl. manager quality and payment practices.
- Information on the company's internal control and risk management system.
- Animal welfare information

Significant changes at a glance

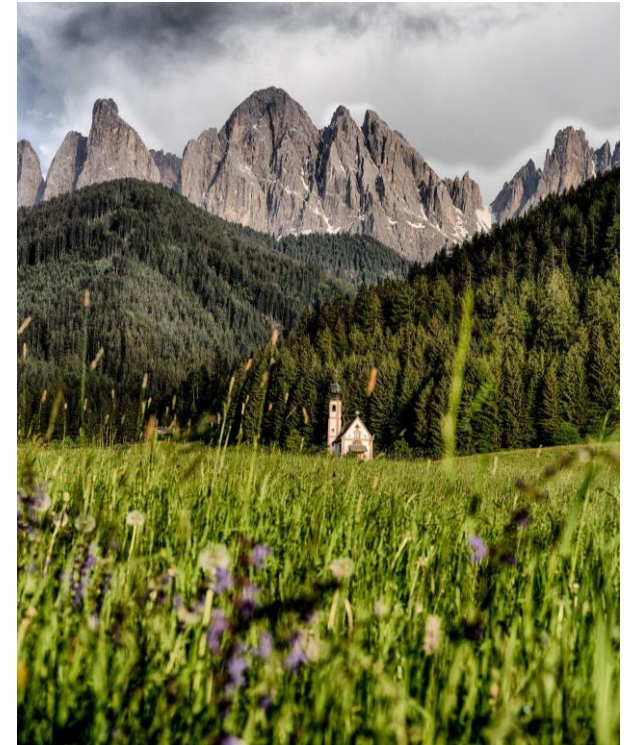
	Previous EU Directive 2014/95/EU	CSRD
Affected companies	<p>All capital market-oriented companies, insurance companies and credit institutions</p> <ul style="list-style-type: none"> ▪ > than 500 employees AND ▪ > € 40 million in sales OR ▪ > € 20 million balance sheet total 	<p>Companies, independent of capital market orientation</p> <p><i>From 2025 for FY 2024:</i></p> <ul style="list-style-type: none"> ▪ > 500 employees AND ▪ > 40 Mio. € turnover OR > 20 Mio. € balance sheet total <p><i>From 2026 for FY 2025 for which 2 of the 3 criteria are met.:</i></p> <ul style="list-style-type: none"> ▪ > 250 employees ▪ > € 50 million in sales ▪ > € 25 million balance sheet total <p>All SMEs listed on the stock exchange (excl. micro-enterprises):</p> <p><i>From 2027 for FY 2026 for which 2 of the 3 criteria are met.:</i></p> <ul style="list-style-type: none"> ▪ > 10 employees ▪ > € 900,000 in sales ▪ > € 450,000 balance sheet total
Number of companies affected	Approx. 12.000	Approx. 50.000 (15,000 in Germany alone)
Materiality	Simple Materiality (Matters are considered material if they are essential to business success AND from an environmental / social perspective)	Double materiality (Matters are considered material if they are essential for business success OR from an environmental / social point of view.)
Reporting Format	Different report formats possible	Exclusively in the management / sustainability report
Testing obligation	No testing obligation (voluntary)	Duty of verification (Successive increase from “Limited Assurance” to “Reasonable Assurance”)

The EFRAG

The European Financial Reporting Advisory Group (EFRAG) was established in 2001 with the support of the European Commission. European stakeholders as well as national and civil society organizations are among its member organizations. EFRAG's mission is to promote European financial and sustainability reporting in the public interest.

Within its accounting activities, EFRAG supports the European Commission in the development and adoption of International Financial Reporting Standards (IFRS). On the other hand, in the area of sustainability reporting, through its new role in the CSRD, EFRAG not only develops fully elaborated draft EU sustainability reporting standards, but also provides technical advice to the European Commission during the implementation process of the CSRD through its Sustainability Reporting Technical Expert Group (TEG).[1]

[1] <https://www.efrag.org/About/Facts>



European Sustainability Reporting Standards (ESRS)

EFRAG, responsible for the introduction of uniform reporting standards, has developed core reporting standards for each of the sector independent topics, which have already been published as delegated acts. The ESRS define the content of the CSRD and are based on international frameworks such as GRI, SASB and TCFD:

Cross-Cutting Standards	Environment	Social	Governance	Cover Note & Appendices	
General Requirements	Climate Change	Own Workforce	Business Conduct	Cover Note for public consultation	Datapoints in accordance with EU laws in the ESRS
General Disclosures	Pollution	Workers in the Value Chain		Disclosure Requirement Index	TCFD Recommendations and ESRS reconciliation table
	Water & Marine Resources	Affected communities		CSRD requirements for the development of sustainability reporting standards and their coverage by Draft ESRS	IFRS Sustainability Standards and ESRS reconciliation table
	Biodiversity and ecosystem	Consumers and end-users			Acronyms and glossary of terms
	Resource Use and CE				

Support from the DFGE

With foresight to the demanding new regulations of the EU CSR Directive, we as DFGE focus on the most important requirements that companies will have to fulfill in the future. With a scientific approach and efficient solutions, we support you in achieving your goals. To prepare for the CSRD reporting content and to identify your material topics, we help you carry out a double materiality analysis. In addition to calculating the corporate carbon footprint, we build the foundation for CSRD with a comprehensive ESG strategy and show you the synergies with other standards such as the GRI standard or a risk and opportunity analysis according to TCFD. Make your company CSRD-ready already now!



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DFGE – Institute for Energy, Ecology and Economy

Founded in 1999 as a spin-off of the technical University of Munich, the DFGE – Institute for Energy, Ecology and Economy provides consulting services in the field of sustainability. Our offer Sustainability Intelligence featuring calculation management, reporting solutions and strategy development aims at bundling the effort of taking part in several sustainability/CSR standards and rankings like CDP, UNGC, DJSI, EcoVadis or GRI as well as building overarching strategies, such as a sustainability strategy according to the SDGs. As the unique partner of the CDP for SBTs, DFGE provides its customers with comprehensive advice on climate strategy and helps them to operate climate-neutrally at product level or company-wide. To enable a future AI-based CSR management, DFGE researches in big data approach and machine learning. Our clients comprise international companies (DAX and fortune 500), SMEs, governmental organizations or territorial authorities.

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