

Corporate Sustainability Reporting Directive (CSRD)

Regulatory Requirements & Timelines

Regulatory Overview

CSRD aims to address shortcomings in the existing rules under the Non-Financial Reporting Directive (NFRD), and introduces more detailed reporting requirements on sustainability issues.

It requires reporting of a sustainability statement within a dedicated section of company’s consolidated management report. The information reported is to be certified by an accredited independent auditor, and is to include information regarding the company’s impacts on sustainability matters, and information regarding how the sustainability matters affect the company’s development, performance and position.

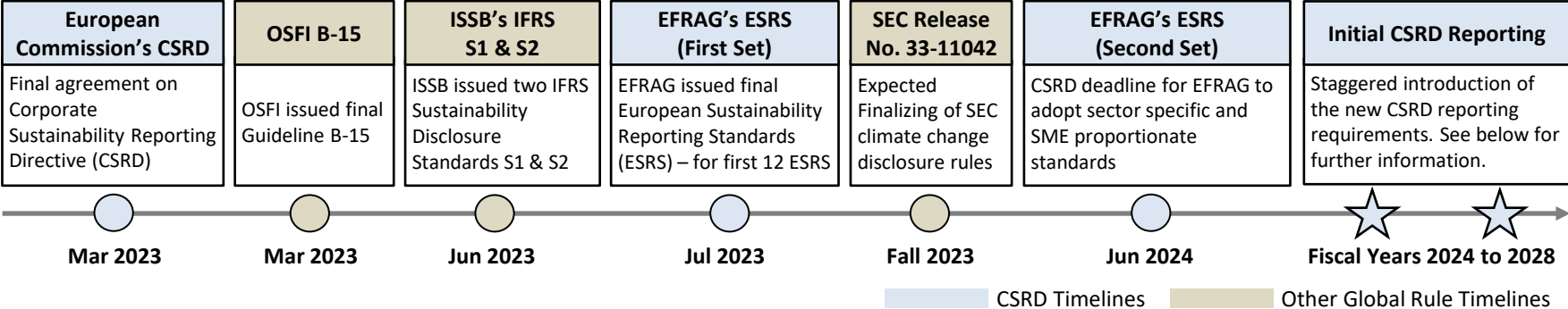
CSRD applies to all European large companies, small & medium sized enterprises (SME), as well as companies listed on regulated markets in the EU. Foreign companies with branches or subsidiaries in the EU are also in-scope if sales in the EU area exceed a certain threshold.

CSRD Minimum Disclosure Requirements

- CSRD requires the following disclosures within the sustainability statement:
- Description of the company’s business model and strategy related to sustainability matters
 - Description of the time-bound targets related to sustainability matters set by the company, and progress towards meeting those targets
 - Description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, and any existing incentive schemes
 - Description of the company’s policies in relation to sustainability matters
 - Description of the due diligence process with regard to sustainability matters
 - Description of any actual or potential adverse impacts connected with the company, and any actions taken by the company to identify, prevent, mitigate, remediate their impacts
 - Description of the principal risks to the company related to sustainability matters
 - Indicators relevant to the above

Regulatory Timelines

Canada, US, and Europe are all issuing climate-related disclosure requirements for which firms can capture efficiency by incorporating all global mandates within its climate-related risk management & disclosure program. The following shows the CSRD timelines relative to the other global rules:



Phased initial go-live dates and criteria of CSRD reporting:

- **From Fiscal Year 2024 in 2025 Annual Report:** Companies already subject to Non-Financial Reporting Directive (NFRD) reporting
- **From Fiscal Year 2025 in 2026 Annual Report:** Large corporations meeting at least 2 of the following:
 - (1) Annual avg of 250 employees, (2) Total assets of >250 million euros, (3) >50 million euros in sales
- **From Fiscal Year 2026 in 2027 Annual Report:** Listed SMEs and small & non-complex credit institutions and captive insurance companies
- **From Fiscal Year 2028 in 2029 Annual Report:** 3rd-country companies with subsidiaries or branches in EU & sales in EU area of >150 million euros

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European Sustainability Reporting Standards (ESRS)

Purpose of ESRS

The European Financial Reporting Advisory Group (EFRAG), acting as the technical advisor to the European Commission, is drafting European Sustainability Reporting Standards (ESRS) under CSRD. ESRS is the reporting standard to specify the sustainability information to be disclosed to meet the requirements of the CSRD. It provides the reporting framework and methodology for firms to disclose the impacts, risks and opportunities that it has assessed as material regarding environmental, social, and governance sustainability matters. ESRS does not require firms to disclose topics that the firm deems non-material upon performing a materiality assessment.

A sustainability matter is “material” when it meets either impact materiality or financial materiality. A matter is impact material if it results in actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long-term. Whereas a matter is financial material if it triggers or could reasonably be expected to trigger material financial effects on the company and should be included in the company’s financial statements.

ESRS Overview

The ESRS is composed of three categories, (1) the cross-cutting standards, (2) the topical standards, and (3) the sector specific standards. Companies required to report under CSRD shall make the minimum disclosures regarding policies, actions, metrics and targets at the general level as specified in the “cross-cutting standards”, as well as the environmental, social and/or governance disclosures that the company has assessed to be material which are covered in the ESRS “topical standards”. Also, there will be sector specific disclosures applicable to all companies within a sector which will be specified in “sector specific standards” at a later date.

ESRS Categories	ESRS Standards		
Cross-Cutting Standards	<p>ESRS1 – General Requirements: Describes the architecture of ESRS standards, explains drafting conventions and fundamental concepts, and sets out general requirements for preparing and presenting sustainability-related information.</p> <p>ESRS2 – General Disclosures: Establishes Disclosure Requirements on the information that the company shall provide at a general level across all material sustainability matters.</p>		
Topical Standards (Environmental, Social, & Governance Standards)	Environment	Social	Governance
	E1:Climate Change E2:Pollution E3:Water and Marine Resources E4:Biodiversity and Ecosystems E5:Resource Use and Circular Economy	S1:Own Workforce S2:Workers in the Value Chain S3:Affected Communities S4:Consumers and End-Users	G1:Business Conduct
Sector Specific Standards	These standards are applicable to all companies within a sector. They address impacts, risks and opportunities that are likely to be material for all companies in a specific sector and that are not covered, or not sufficiently covered, by topical standards.		

The Disclosure Requirements in ESRS 2, in topical ESRS and in sector-specific ESRS are structured into the following reporting areas:

- **Governance:** the governance processes, controls and procedures used to monitor, manage and oversee impacts, risks and opportunities;
- **Strategy:** how the company’s strategy and business model interact with its material impacts, risks and opportunities, including how the company addresses those impacts, risks and opportunities;
- **Impact, Risk, and Opportunity Management:** the processes by which the company: (i) identifies impacts, risks and opportunities and assesses their materiality, and (ii) manages material sustainability matters through policies and actions;
- **Metrics and Targets:** The company’s performance, including targets it has set and progress towards meeting them.

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Example of ESRS Sustainability Statement Structure & Disclosures

The sustainability statement is to include four sections: 1 - General Information, 2 - Environmental Information, 3 - Social Information, and 4 - Governance Information. In this illustration, the firm has deemed only pollution, water & marine resources, own workforce, and business conduct to be material.

Reporting Areas	ESRS Minimum Disclosure Requirements	
	General Information	
Basis for Preparation	(1) General basis for preparation of sustainability statements, (2) Disclosures in relation to specific circumstances	
Governance	(1) The role of the administrative, management and supervisory bodies, (2) Information provided to and sustainability matters addressed by the company's administrative, management and supervisory bodies, (3) Integration of sustainability-related performance in incentive schemes, (4) Statement on due diligence, (5) Risk management and internal controls over sustainability reporting	
Strategy	(1) Strategy, business model and value chain, (2) Interests and views of stakeholders, (3) Material impacts, risks and opportunities and their interaction with strategy and business model	
Impact, Risk, and Opportunity Management	(1) Description of the processes to identify and assess material impacts, risks and opportunities, (2) Disclosure requirements in ESRS covered by the company's sustainability statement, (3) Policies adopted to manage material sustainability matters, (4) Actions and resources in relation to material sustainability matters	
Metrics & Targets	(1) Metrics in relation to material sustainability matters, (2) Tracking effectiveness of policies and actions through targets	
	Environmental Information - E2: Pollution	Environmental Information - E3: Water and Marine Resources
Impact, Risk, & Opportunity Management	1. Policies related to pollution 2. Actions and resources related to pollution	1. Policies related to water and marine resources 2. Actions and resources related to water and marine resources
Metrics and Targets	3. Targets related to pollution 4. Pollution of air, water and soil 5. Substances of concern and substances of very high concern 6. Anticipated financial effects from pollution-related impacts, risks and opportunities	3. Targets related to water and marine resources 4. Water consumption 5. Anticipated financial effects from water and marine resources-related impacts, risks and opportunities
	Social Information – S1: Own Workforce	Governance Information– G1: Business Conduct
Impact, Risk, & Opportunity Management	Policies related to own workforce; engaging workforce about impacts; mitigation/ remediation of negative impacts; & channels to raise concerns	Processes to identify and assess material impacts, risks; Business conduct policies & corporate culture; Prevention/detection of corruption/ bribery
Metrics and Targets	Targets related to managing material negative impacts & advancing positive impacts, & managing material risks; Characteristics of the company's employee & non-employee workers; Collective bargaining coverage; Health & safety metrics; Work-life balance metrics; Compensation metrics; Other.	Confirmed incidents of corruption or bribery; Political influence and lobbying activities

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