FACTSHEET

WHAT ABOUT NON-FINANCIAL REPORTING FOR COMPANIES?

Key points of the Corporate Sustainability Reporting Directive (CSRD)

The last decade has seen a significant increase in the number of companies reporting on their performance on environmental, social and governance (ESG) topics, helping investors, customers, employees and the wider public to make more informed decisions.

The EU, and all its member states, accelerated its sustainability movement by signing the **Paris Agreement** in 2015, a legally binding international treaty on climate change with the goal to limit global warming to well under 2°C, preferably to 1.5 degrees Celsius compared to pre-industrial levels. In the same year, all 178 United Member Nation States adopted a shared blueprint for peace and prosperity for people and the planet, now and into the future, by launching the **Sustainable Development Goals (SDGs)** towards 2030.

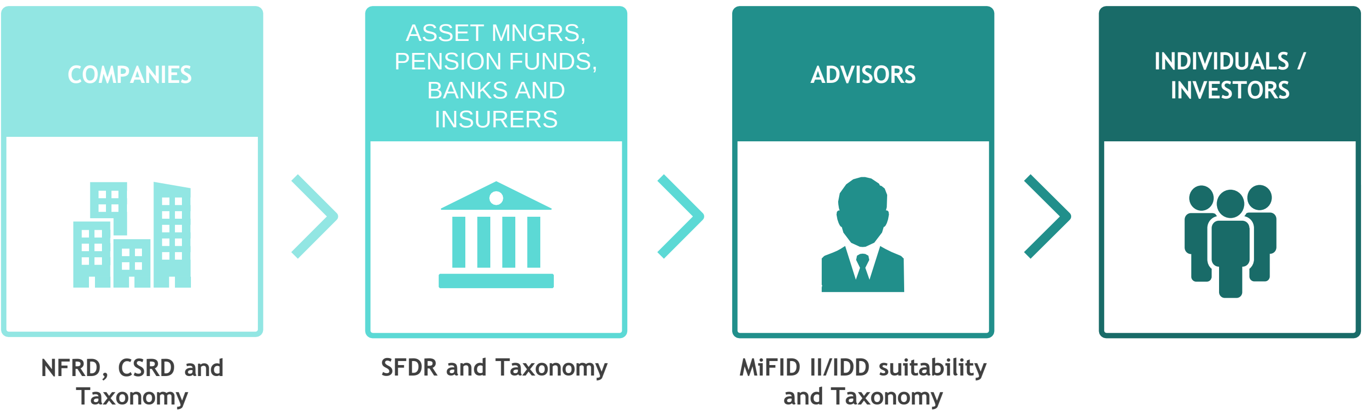
To reach the goals set by the Paris Agreement and the SDGs, the EU launched **The European Green Deal** with the ambitious goal of becoming the first climate-neutral continent by 2050, decoupling economic growth from resource use, leaving no person and no place behind.

Therefore, numerous policies were introduced to decarbonise all member states. One of these initiatives, the **Sustainable Finance Action Plan** aims to:

- Reorient capital flows towards a more sustainable economy
- Mainstream sustainability into risk management
- Foster transparency and long-termism

One of the key actions is the **Corporate Sustainability Reporting Directive (CSRD)** which is vital in creating transparency. Companies are the source of non-financial information. The process of taking ESG topics into consideration when making investment decisions in the financial sector will lead to more longterm investments in sustainable economic activities and projects.

The CSRD will also require entities to comply with **the EU Taxonomy** for sustainable activities. The Taxonomy is a classification system establishing a list of environmentally sustainable economic activities.



The European Commission adopted a proposal for the **Corporate Sustainability Reporting Directive** (CSRD) in 2021. The CSRD amends the current Non-Financial Reporting Directive (NFRD).

On 22 June 2022, the European Council and European Parliament announced that they had reached a provisional political agreement on the Corporate Sustainability Reporting Directive (CSRD). The provisional agreement is subject to approval by the European Council and the European Parliament. Therefore, the requirements could change and the final text of the CSRD may differ from the summary set out below. This European directive will need to be translated into national legislation.

WHY

Shifting sustainable business to the new business as usual will increase long-term resilience. Tracking ESG performance -like financial performance- across enterprises is an important step. The CSRD offers a way to harmonise non-financial reporting so the information becomes relevant, comparable, reliable and easy to access and use.

Creating transparency on ESG performance through this disclosure, results in:

- a baseline for companies to effectively and consistently measure and report sustainability related activities, performance and ambitions.
- investors and other relevant stakeholders can make the best possible decisions based on sustainability-related reports and data.
- limiting the risk of greenwashing

WHO WILL NEED TO REPORT BY WHEN

The application of the CSRD will take place in three stages for companies located in the EU, including approx. 49 000 companies.

NFRD

On 2024, report in 2025

Companies already subjected to the **NFRD**. These are companies that meet the definition of a Public Interest Entity (PIE) and have more than 500 employees.

LARGE COMPANIES

On 2025, report in 2026

Large companies exceed at least 2 out of 3 criteria:

- More than 250 employees
- More than EUR 40m turnover
- More than EUR 20m total assets

LISTED SMEs

On 2026, report in 2027

Listed SMEs, small and non-complex credit institutions and captive insurance undertakings. Some listed companies are exempt from the CSRD such as listed micro enterprises.

Certain **subsidiaries** are exempt if the non-financial information is in the parent company's sustainability reporting and compliant with EU standards or equivalent standards. The subsidiary must include in the management report: the name and registered office of the parent undertaking that is reporting sustainability information at group level, the web links to the consolidated management report of their parent undertaking and a reference in their management report to the fact that they are exempted from reporting sustainability information.

For **non-European companies**, the requirement to provide a sustainability report applies to all companies generating a net turnover of EUR 150 million in the EU and which have at least one subsidiary or branch in the EU. These companies must provide a report on their environmental, social and governance impacts, as defined in the CSRD.

It is possible for **non-listed SMEs** to apply adapted and proportionate standards on a voluntary basis. An opt-out will be possible for SMEs during a transitional period, meaning they will be exempted from the application of the directive until 2028 if they briefly declare in their management report why the sustainability information has not been provided.

WHAT WILL NEED TO BE REPORTED

Today a lot of companies already report non-financial data based on **voluntary frameworks** such as the Global Reporting Initiative (GRI), or the World Economic Forum's International Business Council (WEF IBC) to name a few. The CSRD will require new **European Sustainability Reporting Standards** (ESRSs).

EFRAG issued exposure drafts of the ESRSs in April 2022, with a comment deadline of 8 August 2022. These standards are likely to form the basis of the sector agnostic requirements (see picture below). If finalised as drafted, a significant amount of detailed information will need to be disclosed. Information likely to be required in public disclosures will cover environmental, social and governance matters, including greenhouse gas emissions, labour practices, water usage, etc. The sector and entity-specific requirements will follow in a later phase.

The ESRS architecture is designed based on a 3x3 structure:

3 Disclosure Layers	Sector Agnostic	Sector Specific	Entity Specific
3 Topics	Environment	Social	Governance
3 Reporting Areas	Strategy	Implemen-tation	Performance Metrics

The ESRS Sector Agnostic Standards drafts report on ESG topics, strategy, implementation and performance metrics.

Cross-cutting standards

- General Principles
- General Strategy, Governance and Materiality Assessment Disclosure Requirements

E Environmental	S Social	G Governance
• Climate Change • Pollution • Water & Marine Resources • Biodiveristy & Ecosystems • Resource use and circular economy	• Own Workforce • Workers in the value chain • Affected communities • Consumers and end-users	• Governance, risk management, internal control • Business Conduct

HOW WILL IT BE DISCLOSED AND VERIFIED

The CSRD requires companies to disclose the information in the **management report**. Furthermore, the report, including sustainability information, must be filed and **digitalised** and the sustainability information (including Taxonomy KPI's).

To ensure reliability, the management report including sustainability information will require **mandatory third-party assurance**. It will start of as limited assurance but as the CSRD evolves, so will the assurance level. An independent auditor or certifier must ensure that the sustainability information complies with the new assurance standards for CSRD reporting. The reporting of non-European companies must also be certified, either by an European auditor or by one established in a third country.

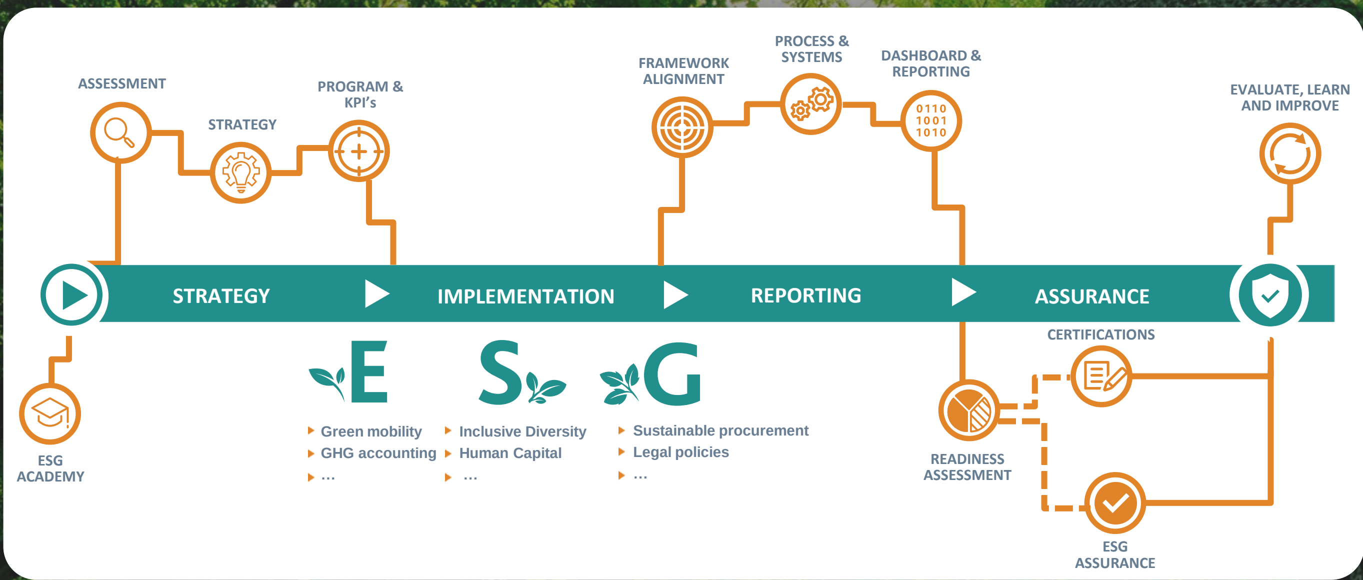
HOW TO START

Reporting on sustainability information is new for many companies and their information systems are often not yet designed to support this kind of information. That's why good and timely preparation is extremely important so that your company can report in accordance with the CSRD standards. Considering the foreseen planning for the application of the CSRD, some companies have less than 18 months to prepare for the first reporting period. Other companies will be indirectly impacted by stakeholders like larger companies, banks, employees and governments, demanding transparency.

Being proactive and integrating sustainability in your business model will result in more resilience to the drivers of change, leveraging on opportunities sustainability brings (technologies, partnership, M&A, etc.), strengthening performance and overall value.

As a result, BDO advises companies to start upskilling their organisation and start developing an ESG strategy and programme now. This will form the basis for internal and external reporting, followed by assurance. This sustainability journey will be one of continuous improvement.

"The best time to plant a tree was 20 years ago.
The next best time is today." Chinese proverb



DON'T HESITATE TO CONTACT US

If you want to discuss the implications of the CSRD for your company or you have other sustainability related questions, don't hesitate to contact our sustainability center of excellence.

TESSY MARTENS
Sustainability Lead

E-mail: tessy.martens@bdo.be
Tel.: +32 (0)476 53 46 91

PIERRE PONCELET
Sustainability Lead

E-mail: pierre.poncelet@bdo.be
Tel.: +32 (0)476 98 03 74

▶ Follow us

▶ www.bdo.be