



Corporate Sustainability Reporting Directive (CSRD)

**What the new CSR Directive
means for companies**



The New CSR Directive

The European Commission has presented the new Corporate Sustainability Reporting Directive (CSRD). The new regulations will replace the previous Non-Financial Reporting Directive (NFRD) and will affect – and significantly expand – virtually all relevant aspects of corporate reporting: **users, reporting content** and the **assurance requirement**.

The European Commission had first codified the requirements for certain companies to issue a “non-financial declaration” on key sustainability aspects in Directive 2014/95/EU in November 2014. The Directive was adopted into German law in April 2017 by the German CSR Directive Implementation Act. As a result, non-financial information has had to be reported in the annual report or a separate annex since 2018. This includes information on environmental protection, social responsibility, employee relations, respect for human rights, anti-corruption and bribery as well as diversity in company’s management boards. NFRD requirements apply to public-interest companies (those listed on a capital market) with more than 500 employees as well as insurance companies and banks.

Users

The draft CSRD presented by the EU Commission in April 2021 fundamentally changes the scope and type of sustainability reporting. The CSRD substantially expands the rules on non-financial reporting. All companies listed on a regulated EU market (except micro-companies) are covered by the new reporting requirement. Furthermore, companies not listed on the capital market will still have to report in accordance with the CSRD if they satisfy two of the three following criteria: total assets higher than EUR 20 million; net revenue higher than EUR 40 million; or number of employees higher than 250. It is estimated that, rather than previously approximately 550 companies, around 15,000 companies in Germany would be required to report for the first time. Thus, moving ahead, large unlisted family-run companies, companies held in private equity or even German subsidiaries of global parent corporations could be required to report in particular, unless they are exempted on the basis of collective reporting at group level. This should be considered in the

context that there is not necessarily a correlation between a company’s impact on key sustainability aspects and its financing and ownership structure.

Reporting: Content and form

Under the previous directive, it was left up to companies whether to integrate their non-financial report into their management report, elsewhere in their reporting or to publish it as a separate report. In practice, it was often criticised that this made it harder to compare and access reports. Under new regulations, reporters will be required to include CSR reporting in their (group) management report. It can be presented as a separate section or fully integrated by merging it with the corresponding information in the rest of the management report. The EU is therefore systematically continuing its strategy of fully integrated financial and non-financial reporting.

Furthermore, digitisation – namely information tagging – will be mandatory to facilitate better comparability, analysis and utilisation.

As for the reporting content, the European Financial Reporting Advisory Group (EFRAG) is to develop binding reporting standards on behalf of the EU Commission. These standards will then have to be applied by all companies, as with German or international financial reporting standards. It is assumed that the first multi-sectoral sustainability reporting standards for non-financial reporting will be available before the end of 2022. One year later, delegated acts for specific sectors will follow to adequately take into account the individual nature of the ESG challenges faced by different sectors.

As a result of the linking of the duty to additionally include EU Taxonomy information to the non-financial reporting

requirement, the defined financial indicators of “net sales”, “operating expenses” and “investments” in accordance with the EU Taxonomy Regulation will then also have to be disclosed as a component of non-financial reporting by these companies.

All activities relevant to the Taxonomy will have to be classified accordingly and reported as such in the amount of the “ecologically sustainable shares”.

The CSRD will systematically apply a double materiality concept in future. This includes both the impact of sustainability aspects on the company’s business situation and the effects of its operations on sustainability aspects. Furthermore, the CSRD will require reporting to contain information on sustainability targets, the role of the board and management, the company’s principal adverse impacts and intangibles not yet recognised.

Assurance requirement

Under the new Directive, the EU will require all companies within its scope to provide limited assurance. A reasonable assurance requirement was not included in the revised Directive on account of the elevated stress levels currently being faced by companies. However, the Directive stipulates a review of this requirement after not more than three years, which may result in the transition to a mandatory reasonable assurance requirement. Given the growing significance of non-financial reporting for stakeholders, the mandatory linking of non-financial KPIs to management board remuneration and the mandatory integration into the management report, it is assumed that the trend towards reasonable assurance will continue beyond a current mandatory obligation in the Directive.

All new features at a glance

Users



Companies with more than **250 employees**, **EUR 40 million in revenue** or **EUR 20 million in total assets**



Inclusion of **listed SMEs**



Increase in the number of reportable companies **in Europe** from 11,000 to approximately **50,000**



Increase in the number of reportable companies **in Germany** from 550 to up to **15,000**

Assurance requirement



Initially a mandatory **limited assurance** requirements as a transitional solution



Reasonable assurance as the next step towards **bringing the assurance requirement** into line with that of consolidated or annual financial statements

Reporting content



Mandatory inclusion in the **(group) management report**



Digital reporting of sustainability information using the **European Single Electronic Format (ESEF)**



Content development

- Double materiality
- Sustainability reporting
- Transitional solutions/simplifications for SMEs
- Strategy (Paris Agreement)
- Intangible ESG assets
- Governance+

How we can help you

The Directive is to be implemented in German law as at 1 December 2022, hence the first-time adoption of the new regulations is expected from January 2023 (i.e. for the 2023 financial/calendar year).

We will help you to handle the CSRD challenge with our modular project approach. We always proceed according to our **guiding principles**:

- We achieve results that are entirely adapted to the specific circumstances and requirements of the client.
- Our activities cover the current challenges, future developments and the market.
- We deliver pragmatic solutions combined with our insights from years of audit experience.

Our solution

ANALYTICAL PHASE



STATUS QUO

Analysis of legal requirements
Ambition level and ESG/reporting strategy



MATERIALITY

Materiality analysis
Stakeholder analysis

CONCEPT PHASE



ROUGH CONCEPT

Supervision of reporting content
Gap assessment
Definition of goals



DETAILED CONCEPT

Creation of a road map
Designing management systems

IMPLEMENTIERUNG



ROLL-OUT

Management system and
communication concept



REPORTING

Data entry and aggregation
Reporting and communication

Contact

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