

European Commission Proposal for a Corporate Sustainability Reporting Directive (“CSRD”)

CSRD | KPMG in Romania



On 21 April 2021 the European Commission issued their directive proposal aiming to strengthen the nature and extent of sustainability reporting in the EU over the coming years – the Proposal for Corporate Sustainability Reporting Directive (“CSRD”). The proposed changes to sustainability reporting are profound and will be fundamental and directly support the European Commission’s stated objective of directing investment towards more sustainable activities across the EU.



When will the legislation be applicable?

FY 2023 for large companies **FY 2026 for small and medium-sized companies listed on EU regulated markets**

- 2023: the first set of Sustainability Reporting Standards will apply (to be adopted at EU level by 31 October 2022).
- 2024: the second set of Sustainability Reporting Standards will also apply (to be adopted at EU level by 31 October 2023).
- 2026: the set of Sustainability Reporting Standards for small and medium-sized enterprises will apply (to be adopted at EU level by 31 October 2023).

The deadline for transposition of the CSRD into national law by Member States is 1 December 2022.



Which companies will the new legislation apply to?

All large companies (meeting at least two of the following three size criteria set out in Directive EU 34/2013):

- 250 employees or more and/or
- At least €40M in net revenue and/or
- A balance sheet total of at least €20M

Or according to criteria defined by the Member State as a result of the transposition of the CSRD);

All companies listed on an EU regulated market (with the exception of micro entities) listed SMEs will apply the requirements for FY 2026 onwards.

Note: the requirements also apply at the consolidated level of groups of entities.



What is the scope of the reporting requirements?

- ① A brief description of the business model and strategy, policies, including resilience, opportunities, plans compatible with the objectives of transition to a sustainable economy and limiting global warming, the interests of stakeholders and the impact on sustainability issues, implementation of the strategy.
- ② A description of the sustainability targets set and the progress made towards achieving them.
- ③ A description of the role of the administrative, management and supervisory bodies.



What is the scope of the reporting requirements?

- ④ A description of the due diligence process implemented including:
 - The main actual or potential adverse effects related to the undertaking's value chain, including its own operations, products and services, its business relations and supply chain.
 - Any actions taken and the outcome of such actions, to prevent, mitigate or remedy actual or potential adverse effects.
- ⑤ A description of the principal risks and how the undertaking manages those risks.
- ⑥ Information on intellectual, human and social capital.

Reporting will include forward-looking (short, medium and long term time horizons) and retrospective information as well as qualitative and quantitative information (relevant indicators).

Sustainability reporting will also include the requirements of the Sustainable Finance Disclosure Regulation (SFDR) applicable to certain financial institutions and the EU Taxonomy Regulation (i.e. reporting the proportion of turnover, capital expenditure and operating expenditure which qualifies as sustainable).



Is audit mandatory?

Mandatory - limited level of independent assurance

The audit committee will inform the administrative or supervisory body of the company of:

- The result of the assurance engagement on sustainability reporting.
- The way the audit committee has contributed to the integrity of sustainability reporting and what role the audit committee has played in this process.

Moreover, the audit committee will:

- Monitor the sustainability reporting process, and make recommendations or proposals to ensure its integrity.
- Monitor the effectiveness of the company's internal quality control and risk management systems and, where applicable, its internal audit, in relation to the company's sustainability reporting, including its digital reporting.
- Monitor the assurance engagement on the annual and consolidated sustainability reporting and analyze and monitor the independence of statutory auditors or audit firms.

Sustainability reporting should be included in the annual administrators' report.

The financial statements and the administrators' report, including the sustainability reporting should be prepared in electronic format (in XHTML format in accordance with the ESEF Regulation). Furthermore, the sustainability reporting should be tagged based on a digital taxonomy, which will allow machine reading.



How does the role of audit committees change?



In what format should companies report?



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