The Corporate Sustainability Reporting Directive (CSRD)

Introduction

EU law requires certain large companies to disclose information on the way they operate and manage social and environmental challenges.

On 21 June 2022, the Council and European Parliament reached a **provisional political agreement on the Corporate Sustainability Reporting Directive (CSRD)**, whose proposal was adopted by the European Commission on 21 April 2021 in the wake of the EU Green Deal, aimed at **revising and strengthening rules introduced by the existing Non-Financial Reporting Directive (NFRD)**.

The CSRD is intended to **ensure that companies report reliable and comparable sustainability information necessary for stakeholders** to evaluate companies' non-financial performance. Its main purpose is to **improve transparency for all stakeholders** in order to re-orient investments towards more sustainable technologies and companies.

The directive entails a **dramatic increase in the number of companies subject** to the EU sustainability reporting requirements. The new reporting requirements will lead to **significant changes for companies in scope** and to a **shift from voluntary to mandatory disclosure** under the Board's responsibility, **following binding European Sustainability Reporting Standards (ESRS)** to be developed by the European Financial Reporting Advisory Group (EFRAG).

Therefore, it is **crucial for companies to start preparations for CSRD implementation** as soon as possible to help ensure timely compliance with the reporting requirements.

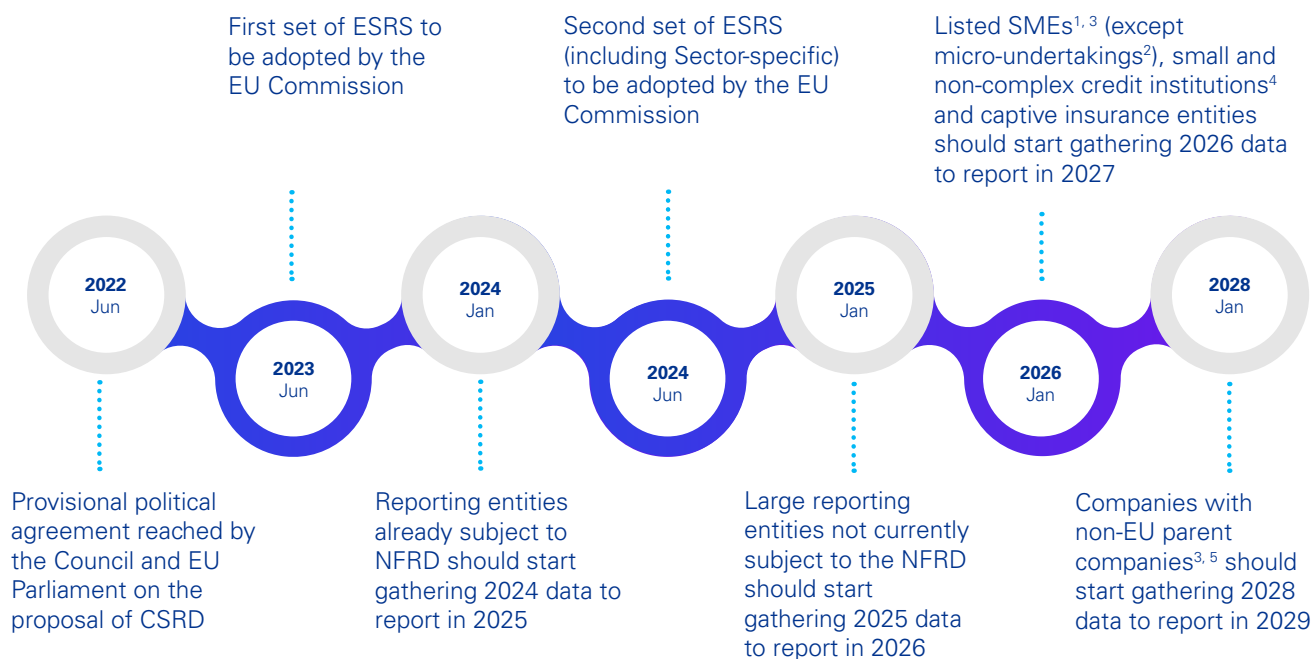## The CSRD sets out four groups of affected companies:

Companies already subject to the NFRD

All large companies (two of three criteria met): > 250 employees and/or > 40M Euro (EUR) Turnover and/or > EUR20M Total Assets

Listed SMEs[1] (except micro-undertakings[2])

Companies with non-EU parent companies[3] with a combined group turnover in the EU of > EUR150M for 2 consecutive years

[1] SMEs have the option to opt out for two years, reporting in 2029 on 2028 data
[2] Micro-undertakings are companies that do not exceed two of the following three criteria (including subsidiaries): 10 employees, net revenue of EUR 700,000 or total assets of EUR 350,000
[3] Separate standards will be developed for SMEs and non-EU parent companies (to be adopted by 30 June 2024)

Timeline

First set of ESRS to be adopted by the EU Commission

Second set of ESRS (including Sector-specific) to be adopted by the EU Commission

Listed SMEs[1,3] (except micro-undertakings[2]), small and non-complex credit institutions[4] and captive insurance entities should start gathering 2026 data to report in 2027

2022 Jun

2023 Jun

2024 Jan

2024 Jun

2025 Jan

2026 Jan

2028 Jan

Provisional political agreement reached by the Council and EU Parliament on the proposal of CSRD

Reporting entities already subject to NFRD should start gathering 2024 data to report in 2025

Large reporting entities not currently subject to the NFRD should start gathering 2025 data to report in 2026

Companies with non-EU parent companies[3,5] should start gathering 2028 data to report in 2029

Main provisions

		Current EU Directive 2014/95/EU (NFRD)	Corporate Sustainability Reporting Directive
	How many EU companies are subject to the new directive?	11,600	49,000 Covering >75 percent of total EU companies turnover
	What is the scope of reporting requirements?	Companies are to report on: • Environmental protection • Social responsibility and treatment of employees • Respect for human rights • Anti-corruption and bribery • Diversity on company boards (in terms of age, gender, educational and professional background)	General disclosures: • Business model, strategy and policies • KPIs and targets (forward looking information) • Company and sustainability governance • Double materiality assessment and due diligence • Risk and opportunity management Topic-specific disclosures: • Environmental (incl. EU Taxonomy) • Social • Governance • Sector-specific standards
	What is the reporting standard to use?	In accordance with recognized national, Union-based, or international frameworks	In accordance with binding European Sustainability Reporting Standards (ESRS) to be developed by the EFRAG

[1] SMEs have the option to opt out for two years, reporting in 2029 on 2028 data
[2] Micro-undertakings are companies that do not exceed two of the following three criteria (including subsidiaries): 10 employees, net revenue of EUR 700,000 or total assets of EUR 350,000
[3] Separate standards will be developed for SMEs and non-EU parent companies (to be adopted by 30 June 2024)
[4] Small and non-complex institutions and captive insurers are treated like listed SMEs (opt-out option until 2028 does not apply unless they also meet the definition of SME)
[5] Ultimate non-EU parent companies with a combined group turnover in the EU of more than EUR150 million

Main provisions (Cont.)

	Current EU Directive 2014/95/EU (NFRD)	Corporate Sustainability Reporting Directive
Is independent third party assurance mandatory?	Non-mandatory (for most countries) In some countries part of legal audit requirements	Mandatory — limited level of assurance Including: • Integration in Auditor's Report • Involvement of key audit partner • Scope to include EU Taxonomy information and process to identify key relevant information
Where should companies report?	Inclusion in the Management Report or in a separate report	Inclusion in the Management Report
In what format should companies report?	Online or PDF version	To be submitted in electronic format

Main challenges/opportunities

Double materiality

The **double materiality assessment** increases complexity by requiring to identify not only the undertaking's impacts on society and the environment *(impact materiality)* but also how sustainability matters affect the undertaking *(financial materiality)*.

Targets

In addition to disclosing information on policies and initiatives, the CSRD requires organization to **set targets related to sustainability matters** and **report progress** towards these targets.

Vastness of information

Information to be disclosed should contain **forward-looking and retrospective information,** while **extending the scope** with reference **to the whole value chain.**

Common European Sustainable Reporting Standards

Reporting will have to be **in accordance with the EU Sustainability Reporting Standards** (ESRS), which will **increase mandatory reporting requirements.**

Link with the European Taxonomy

The ESRS will require to **disclose information aligned with** the **European Taxonomy** (for companies in scope).

Mandatory assurance

CSRD foresees independent mandatory assurance on reported information, including compliance with ESRS.

Reporting in the management report

Mandatory disclosure of sustainability information **in the Management Report** may require effort in terms of **reshaping the existing report structure** to accommodate new and different types of information.

Increase of companies in scope

Although the current expected deadline gives **non-listed large companies and SMEs** additional time to prepare, **getting ready for the CSRD** will require to allocate **substantial investment** and **specialized resources.**

Alignment with TCFD requirements

Companies shall disclose information in line with the TCFD, the **transition to a sustainable economy,** with **limiting global warming to 1.5°C** and with **climate neutrality by 2050.**

CSRD covers aspects of E, S & G and is not – in contrast to SEC and ISSB – limited to climate-related aspects.

How KPMG can support

Organizations could **gain a competitive advantage** by moving from considering the **CSRD** as a mere compliance tool to leveraging it as **guidance to incorporate ESG-related risks and opportunities into corporate strategy and reporting. Companies will be pressed to increase their efforts to reach a sustainable future.** That is why **KPMG is working alongside organizations,** from more mature ones to smaller companies new to sustainability reporting, **to help make this transition smooth and beneficial.** The **KPMG five-phases approach** can help you **embed the CSRD requirements in your organization** while, at the same time, **preparing the sustainability transformation** of your company.

Phase 1
Impact assessment

- **1.1. Regulatory radar**
  Understanding of current and emerging legislation on sustainability reporting and impact on the company
- **1.2. Reporting strategy**
  Research on client current state, peers, potential regulations and definition of target vision on report users.

Phase 2
Define materiality

- **2.1. Double materiality assessment**
  Of topics to be reported, referred to in strategy, risk management, etc.
- **2.2. Strategy, targets, risks & opportunities, actions**
  For each material topic set a clear strategy and ambition, analyse risks and opportunities and design measures/actions
- **2.3. KPI identification**
  Performance measurement by setting the right KPI linked to ambition and actions

Phase 3
Assess maturity

- **3.1. Gap assessment of current reported information**
  Of current reported information against regulations & standards.
- **3.2. Data readiness assessment**
  Per topic or KPI through the lens of governance, processes & controls and systems, all related to reporting.
- **3.2. Operating model assessment**
  Reporting related maturity assessment in relation to processes taxonomy, roles & capacities, seizing, control environment, data model, policies.

Phase 4
Design ESG reporting setup

Phase 5
Group-wide implementation

- **4.1. Target operating model design**
  Reporting related processes and roles overlay, position to role mapping, policies design, design of non financial controls.

- **4.2. KPI calculation & narrative**
  Sourcing data and making calculations for specific KPIs. Examples: GHG emissions, EU Taxonomy, metrics for material biodiversity-related impacts, resource in-/outflows, etc.

- **4.3. Reporting manual**
  Development, KPIs' definitions, calculation formulas, scope and reporting boundaries.

- **4.4 System Architecture design**

- **5.1. System deployment**
  For ESG data management: functional criteria identification, assistance in choosing and configuring ESG Reporting IT solutions with vendors, designing KPI dashboards and consolidation methodology.

- **5.2. Training and change management**
  Tailored training plan for target audience across ESG and across the whole group: from awareness to call to action.

- **5.3. Assurance readiness**
  Get ready to be audited as the whole reporting process faces an annual assurance obligation.

We will support you to **handle the CSRD challenges with our modular project approach,** entirely **adaptable to the specific circumstances and requirements of your company.** By delivering **pragmatic approaches** combined with our **insights from years of experience in advisory and audit of sustainability reporting.**

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