TAUW

Decoding CSRD

Navigating the path to sustainable reporting success

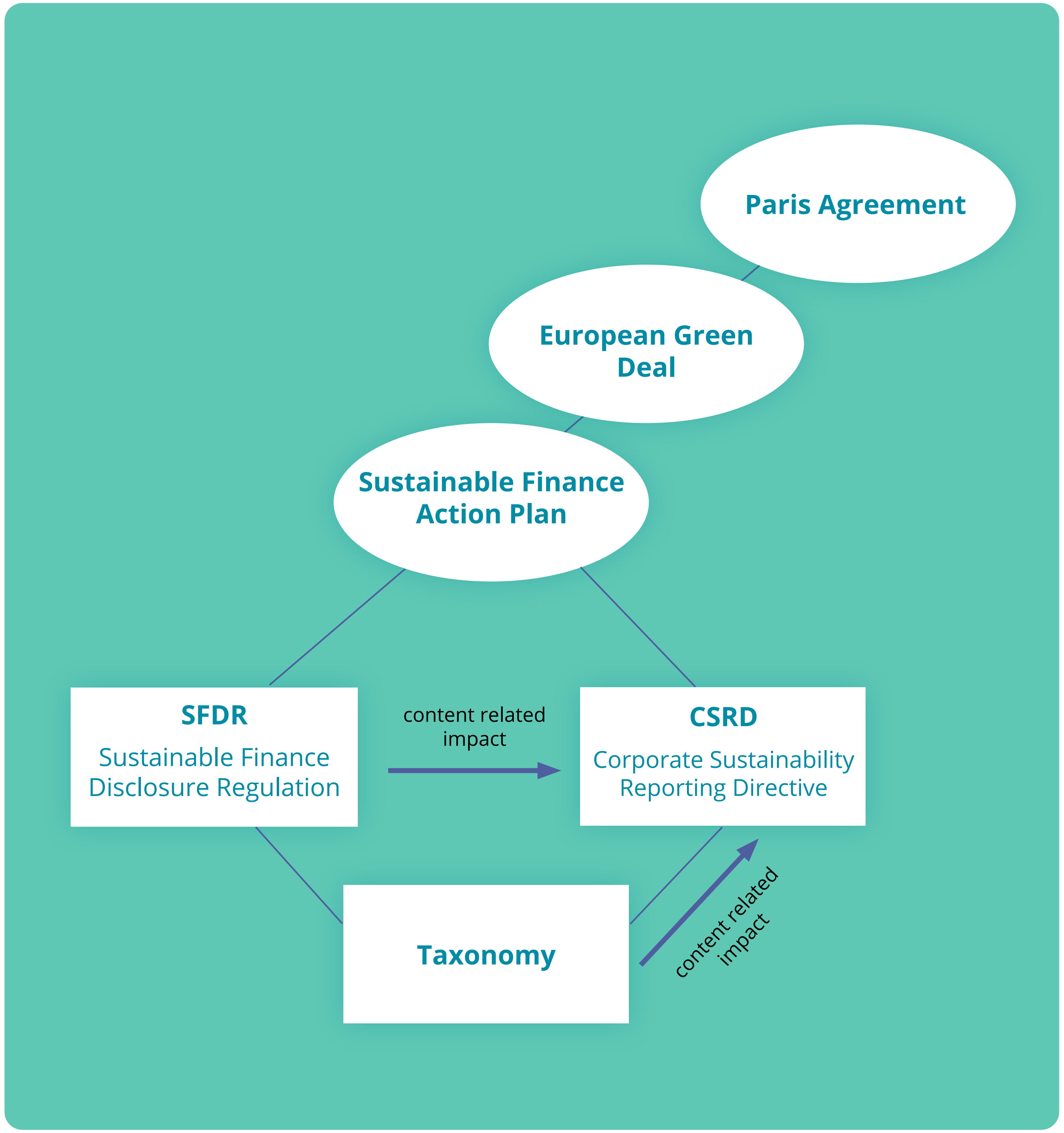
CSRD & ESRS – The basics

With the **Corporate Sustainability Reporting Directive (EU) 2022/2464 (CSRD)**, the European Union has set for itself, and in the future for more than 50,000 companies, the clear objective to enhance the quality, reliability, and comparability of companies' sustainability information and promote their disclosure starting with the financial year 2024.

Therefore, the CSRD requires the disclosure of environmental, social, and governance (ESG) information according to comprehensive and sector-agnostic reporting requirements known as the **European Sustainability Reporting Standards (ESRS)**.

While the integration of sustainability issues as a strategic element is becoming increasingly important for companies to ensure the future viability and resilience of their business models, proper implementation and integration of the CSRD can help improve the understanding of sustainability, understand the company's impact on sustainability, and be a guideline to bring about meaningful progress and impact.

The CSRD will make it easier for investors, customers, the public and other stakeholders to compare **information on climate risks and other relevant sustainability aspects** of companies and **to make decisions based on a transparent and consistent basis.**



Facts at a glance

CSRD was officially adopted by the European Parliament and Council in **November 2022**, and it has been **in force since 5 January 2023**.

Member states are **required to transpose** the CSRD into their national law **within 18 months**. They have the flexibility to choose how to do so, as long as they meet the standards outlined in the directive.

For instance, they can impose additional requirements to expand the scope of the directive. Member states also have the authority to determine which institutions are responsible for monitoring and enforcing the directive, as well as the sanctions that can be imposed for non-compliance.

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In November 2022, **the European Financial Reporting Advisory Group (EFRAG) submitted** the approved final draft of the ESRS to the **European Commission (EC)**.

In addition to the sector-agnostic standards, the CSRD foresees the development of sector-specific standards. The exposure drafts of the sector-specific ESRS are expected to be publicly consulted in the second half of 2023. It is expected that the **EC will adopt them as delegated acts in 2025**. The content of the sector-specific ESRS is based on the sector-agnostic ESRS and intended to supplement their requirements with sector-specific information.

In June 2023, the **EC published the consultation draft of the delegated acts** regarding the sector-agnostic ESRS. This draft act is open for feedback for 4 weeks. **The final adoption by the EC is planned in July 2023**. In comparison to the CSRD, the ESRS do not have to be transposed into national law, as they are issued as a delegated act. The delegated act is currently being examined by the European Parliament and the European Council for review. Neither institution can amend it, but they can reject it.

Why the CSRD matters and why you should take action

Overall CSRD objectives

CSRD as compliance requirement
The resulting sustainability reports are subject **to assurance by auditors.**

It can be assumed that **around 50,000 companies in the EU will be subject to the CSRD and ESRS requirements.** For Germany only, the DRSC[1] expects a 30-x increase in the number of companies affected from the current level of ~ 500 to ~ 15,000 companies.

Make better decisions
Sustainability reporting can empower your company to identify and manage the company's impact, risks and opportunities and to build better reputation.
The CSRD will support the **allocation** of your company's **resources, attention and money** to the areas where the impact will be greatest and where results will pay off. To anticipate sustainability risks before they materialize can save your company more money than dealing with these risks after they have occurred.

Sustainability reporting on one level with financial reporting
The declared aim by the CSRD is to help your company to increase the quality, reliability and comparability of sustainability reporting to the **same level as financial reporting**. Therefore, the CSRD will become the **standard framework** for sustainability reporting.

Improve assessment of sustainability
The **concept of double materiality** – a cornerstone of the CSRD - offers your company a new perspective on its impact on sustainability. Such a materiality analysis requires an assessment of both the impact on people and the environment and the impact of these aspects on your company itself.

1) DRSC= Deutsches Rechnungslegungs Standards Committee

The implementation timeline

In the future, **approximately 50,000 companies** in the European Union are required to disclose all material information regarding impacts, risks, and opportunities related to environmental, social, and governance matters. This disclosure should provide an understanding of your company's influence on these aspects and vice versa.

But who is affected?

2024

The first companies that are already subject to the Non-Financial Reporting Directive (NFRD)[1)] will have to apply the CSRD and the ESRS for the first time for the financial year 2024 for sustainability reports published in 2025.

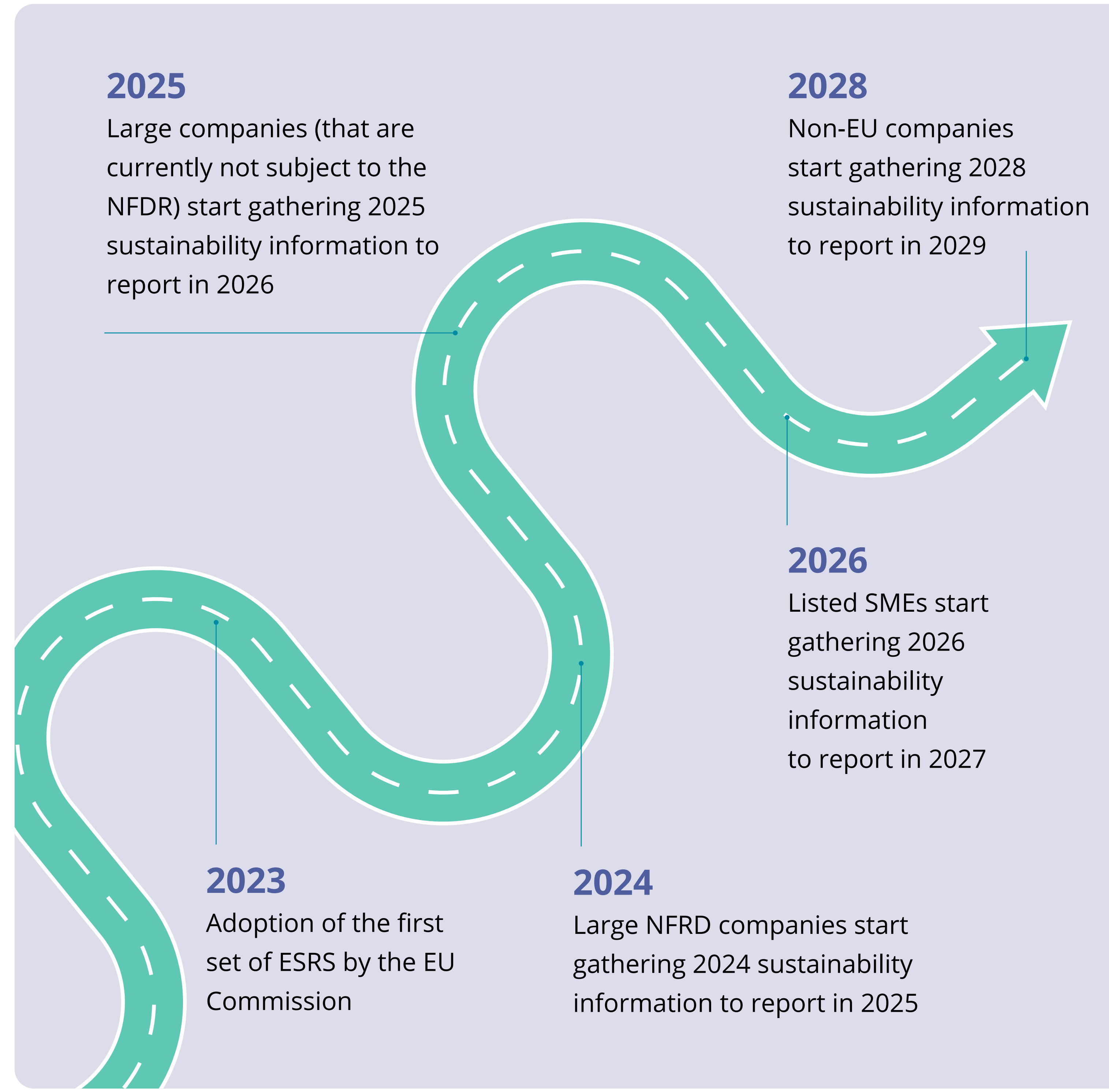
2025

The CSRD will come into effect for large companies that were not previously subject to the NFRD requirements. They have to publish sustainability reports in 2026 for the financial year 2025. Large companies are typically those that, on two consecutive balance sheet dates, exceed two out of the three following criteria:

i) €25 million in total assets,
ii) €50 million in net turnover
iii) an average of 250 employees during the financial year.

2026

Capital market-oriented small and medium-sized enterprises (SMEs) will need to comply with the CSRD requirements and publish reports for the financial year 2026 in 2027.



1) The CSRD amends the Non-Financial Reporting Directive (NFRD). Under the NFRD, large capital market-oriented companies with more than 500 employees, credit institutions and insurance companies are required to submit non-financial reports.

Current status – ESRS adoption in July 2023

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At the end of July 2023, the Commission published the final **delegated act of the ESRS (Set 1)**: This includes various adjustments compared to the previous draft. These adjustments can largely be understood as a reaction to the public comments previously received. The Commission provides for considerable relief with regard to the implementation deadlines and reporting deadlines, which mainly affect companies with less than 750 employees.

In addition, companies of any size can waive the disclosure of expected financial effects in the first reporting year. For the next two years, companies can only provide qualitative information on these financial impacts. Contrary to what was intended in EFRAG's November draft, the standards ESRS E1 (Climate) and ESRS S1 (Own Workforce) are no longer mandatory. Accordingly, all thematic standards are subject to a materiality analysis. Only in the **area of climate** was the compromise reached that companies have to explain their conclusion in detail even in the case of a "non-material" assessment. For other standards rated as "non-material", an explanation is voluntary.

A further adjustment is made with regard to the **disclosure requirements of some EU legislation** on the SFDR, the Pillar 3 requirements and the European Climate Change Act. Originally companies should disclose all relevant information in this regard that is relevant for financial market participants and their disclosure requirements. The legal act adopted in July 2023, however, provides companies are only required to indicate whether the data is material. If companies assess this data as material and disclose it accordingly, they must indicate where the relevant information can be found. This should make it easier for financial market participants to meet their regulatory requirements.

Additional reporting requirements

Standard	Disclosure obligation	For all companies	For companies with less han 750 employees Year 1	Year 2
ESRS E1-E5	Expected financial impact	Year 1: No consideration Year 1-3: Limitation to qualitative information		
ESRS E1	Data points regarding Scope 3 and total GHG emissions		No consideration	
ESRS E4	All disclosure requirements		No consideration	No consideration
ESRS S1	Selected disclosure requirements and data points	Year 1: No consideration		
ESRS S1	All disclosure requirements		No consideration	
ESRS S2, S3 und S4	All disclosure requirements		No consideration	No consideration

Determination of sustainability matters

And what to report?

Your company must report **mandatory sustainability information based on ESRS 2 standard**, irrespective of the double materiality assessment outcome. This includes general information on the **corporate strategy, governance processes, controls and procedures, and the double materiality assessment approach and results**.

Different from the first final drafts submitted by EFRAG in November 2022, all sustainability aspects (see figure below) are **subject to the materiality assessment**.
On the one hand, this shows that a thorough and in-depth materiality analysis is all the more important.

Sustainability matters according to the ESRS

Cross-cutting	ESRS 1 | General Principles	ESRS 2 | General, Stategy, Governance & Materiality Assessment	
Environment	ESRS E1 | Climate Change	ESRS E2 | Pollution	ESRS E3 | Water and Marine Resources
	ESRS E4 | Biodiversity and Ecosystems	ESRS E5 | Resource Use and Circular Economy	
Social	ESRS S1 | Own Workforce	ESRS S2 | Workers in the Value Chain	
	ESRS S3 | Affected Communities	ESRS S4 | Consumers and End Users	
Governance	ESRS G1 | Business Conduct		

1) EFRAG had envisaged that entities that have 250 or more employees must always disclose information about the own workforce.

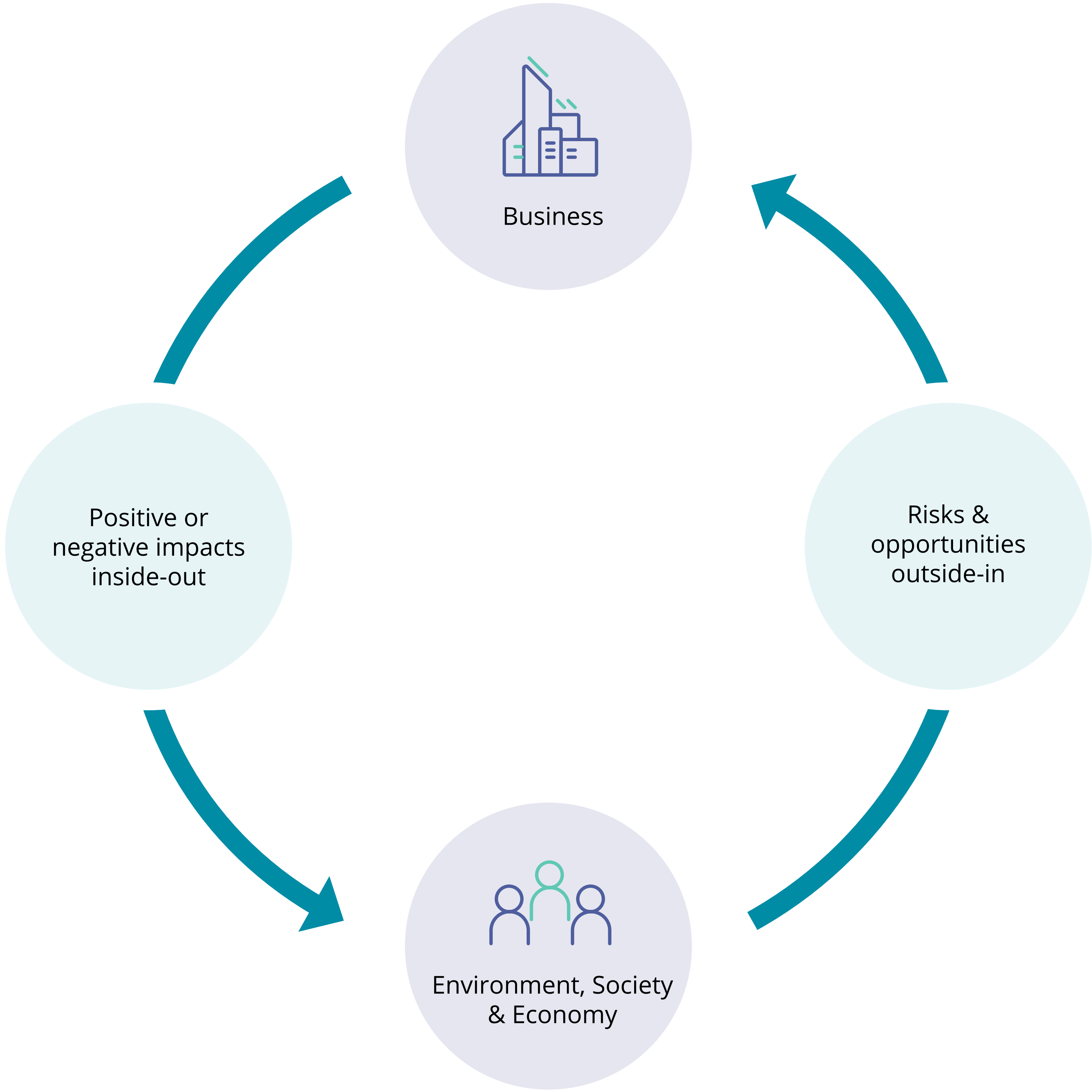
The concept of double materiality

The concept of **double materiality** plays a significant role in the context of CSRD. Under the CSRD, your company is required to disclose information related to both the inside-out and outside-in perspectives of double materiality.

The **inside-out perspective** focuses on the impact that your company's activities have on the environment and society. This perspective acknowledges that your company bears responsibility for minimizing negative impacts on the environment and society while maximizing positive impacts. It recognizes your company as an entity that directly affects stakeholders and the natural environment. Your company is expected to report on your sustainability efforts to enable all stakeholders to make informed decisions.

On the other hand, the **outside-in perspective** examines how external environmental and social factors can influence your company and the whole value chain. This perspective recognizes that your company operates within a broader context, which includes the natural environment, society, and the economy. External factors like climate change, losses of biodiversity and ecosystems, regulatory changes, and social trends can impact your company's operations, value chain, financial performance, and reputation. Your company is viewed as an entity that is influenced by stakeholders and the wider external environment.

Both the inside-out and outside-in perspectives of double materiality are crucial for understanding your **company's sustainability profile**. The concept of double materiality can develop a comprehensive understanding of your sustainability risks and opportunities and can help to work towards addressing them in a manner that benefits both your company and all stakeholders (in this context, the environment is considered as a "silent stakeholder"). This holistic approach aims to strengthen sustainability reporting, improve stakeholder engagement, and drive positive change towards more sustainable business practices.



How can TAUW support your company?

We offer comprehensive **support in implementing the CSRD** for your company. Through a structured approach in several stages with defined milestones, **TAUW can support your CSRD pathway**.

Phase I	Phase II	Phase III	Phase IV
~ 1 week	*~ 6-8 weeks*	*~ 4-6 weeks*	*~ 8-12 months*

Preparation & Scoping

TAUW provides a thorough **understanding of the CSRD requirements** and the mandatory requirements not subject to the double materiality assessment outcome. This phase ensures that your company gains a **detailed overview and understanding** of the reporting obligations in the future.

Materiality assessment & Strategy development

TAUW assists in conducting a **double materiality assessment**, analyzing the double materiality concept based on all relevant stakeholders and their impacts. By identifying key sustainability aspects, TAUW helps your company develop an **overall strategy aligned with the CSRD requirements**.

This strategy ensures that your company focuses on disclosing material information and addresses the most significant environmental, social, and governance impacts.

Gap analysis

TAUW performs a **comprehensive gap analysis to identify any information gaps** in the required ESG information based on the outcome of the materiality assessment and the mandatory disclosure requirements, comparing them with the existing data. This analysis helps determine the specific areas where additional effort on ESG matters is needed. TAUW assists in creating an **action plan** to anticipate the required ESG information and targets to be set.

Implementation

The CSRD implementation phase is customized based on the outcomes of phases I-III. TAUW works with your company to define the **necessary actions and steps to effectively implement the CSRD requirements**. This includes aligning reporting processes, enhancing data collection systems, and establishing clear communication channels to ensure accurate and timely reporting.

Get in touch with our experts

Let TAUW guide you through the CSRD implementation journey and help you achieve a systematic and efficient approach that ensures compliance with the directive.. Contact our experts now to unlock your company's full potential for sustainability reporting.

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