



EU Corporate Sustainability Reporting Requirements
Strategic and operational implications of CSRD and ESRS

EU Corporate Sustainability Reporting Requirements

Executive summary

The Corporate Sustainability Reporting Directive (CSRD) sets out the sustainability information that companies need to include in their sustainability statements. Companies will need to provide qualitative, quantitative, forward-looking and retrospective information, including on their value chain; and covering short-, medium- and long-term time horizons. Companies in scope of the CSRD will have to report the sustainability information using the European Sustainability Reporting Standards (ESRS).

To fully respond to the new provisions, companies need to consider how implementing the reporting requirements extends beyond a simple compliance exercise and will drive firms to focus on their strategy, governance, operations and data. In particular, companies in scope will need to:

- Develop decarbonisation pathways and transition plans, conduct scenario analysis and calculate carbon footprint.
- Align their reporting with the strategy and ensure their targets are credible and the progress made is effectively reported to the external audience.
- Design and implement improved risk management processes and governance structure.
- Set up due due-diligence processes and identify and mitigate risks in their supply chains.

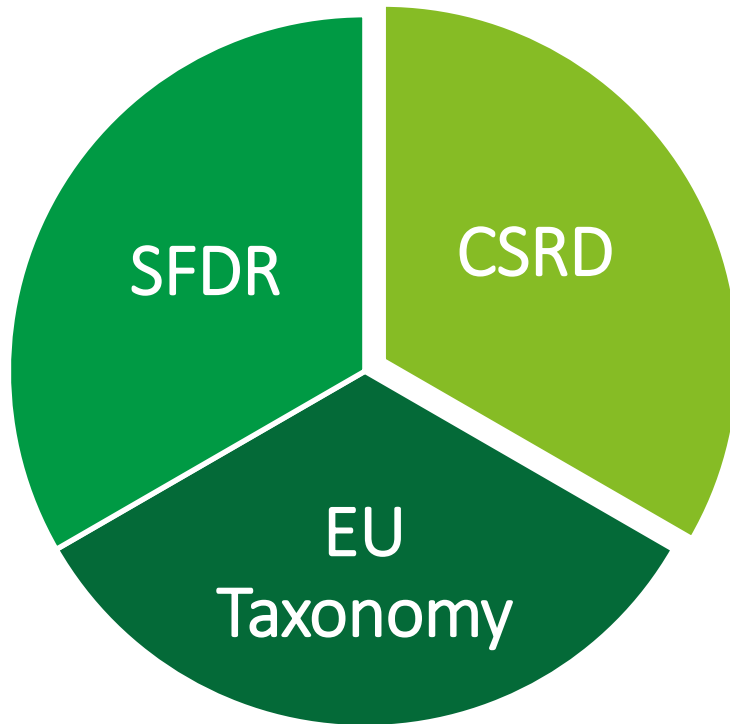
This deck highlights priority action areas for companies' business strategy transformation. It also provides an overview of the CSRD and ESRS requirements together with relevant reporting timelines.



Introduction

The CSRD entered into force in January 2023 and is a part of the EU Sustainable Finance package, a comprehensive set of measures aimed to help improve the flow of capital towards sustainable activities across the EU. Companies in scope of CSRD will need to report on the basis of requirements set out in the ESRS. The ESRS will also in future integrate the content of the global standards developed by the International Sustainability Standards Board (ISSB).

The CSRD is a core component of the EU's sustainability reporting framework, complementing requirements within the Sustainable Finance Disclosures Regulation (SFDR) and the EU Taxonomy Regulation. It amends the Non-Financial Reporting Directive (NFRD), the Accounting Directive, the Transparency Directive, the Audit Directive and the corresponding Audit Regulation.



Focus areas:

1. Business strategy and the resilience of the business models considering ESG risks
2. Targets and transition plans
3. Value chains and due diligence
4. Double-materiality i.e., the impact of company operations on people and environment, and vice versa.

Overview

The CSRD sets out the sustainability information that companies are required to include in their sustainability statements. Companies will need to provide qualitative, quantitative, forward-looking and retrospective information, including on their value chain; and covering short-, medium- and long-term time horizons.

The scope of the CSRD is much broader than that of the NFRD and, following the gradual implementation, CSRD reporting requirements will apply to:

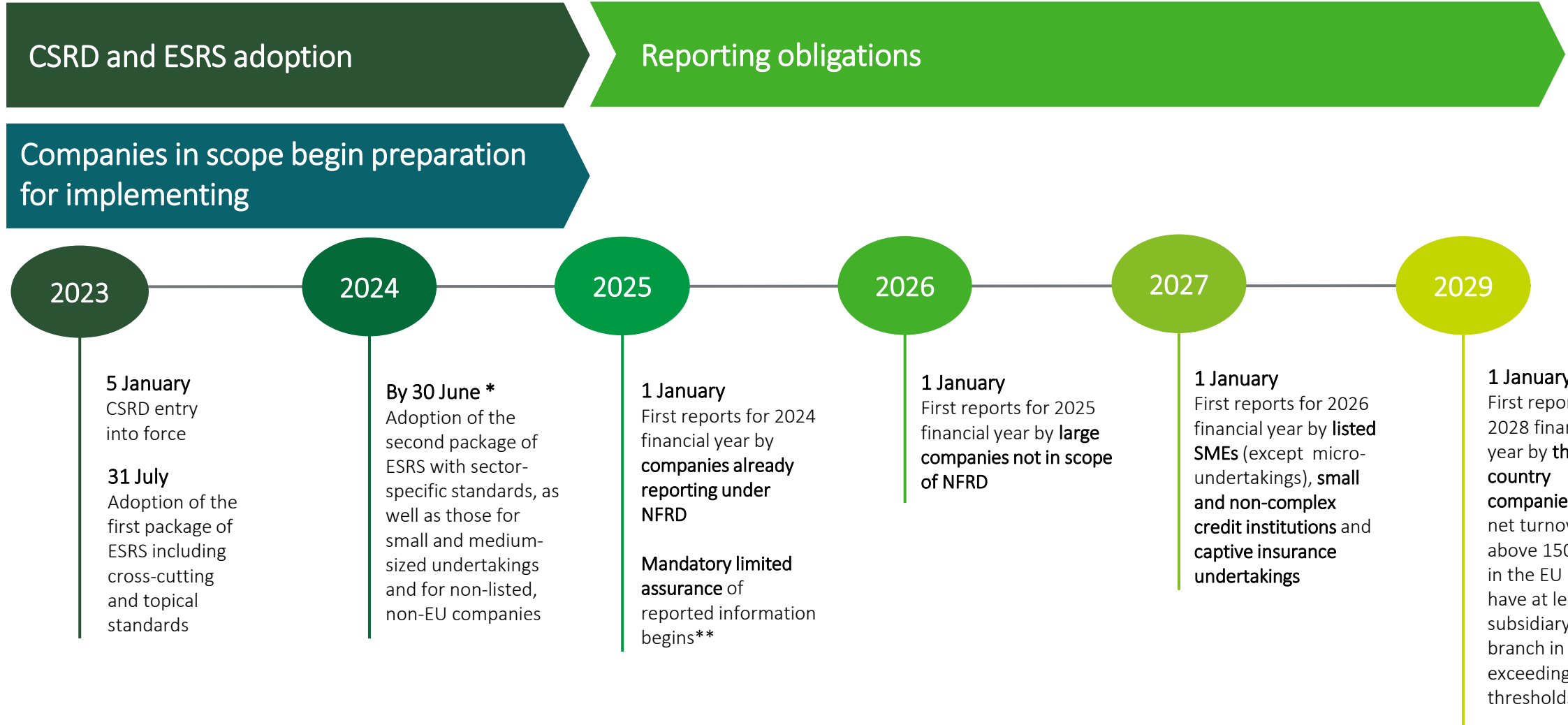
- All listed companies in EU, including listed SMEs but excluding micro-undertakings
- All large undertakings, as well as all parent undertakings of a large group, which exceed two of the three criteria for two consecutive financial years:
 - € 20 million balance sheet total,
 - € 40 million net turnover,
 - average number of 250 employees
- Companies outside the EU if they generate a net turnover in the EU of more than € 150 million (for each of the last two consecutive years) and have at least one large or EU-listed subsidiary or a branch that generates minimum revenue of €40 million in the EU.

CSRD's **extraterritorial effect** means it will also affect companies which are headquartered outside of the EU but conduct their business within the EU. Companies may therefore have to comply with EU obligations alongside separate provisions prescribed by their home jurisdiction. CSRD does include a mechanism for the Commission to determine equivalence of third-country issuers, but it remains unclear what the Commission's approach in that regard will be.

The information provided is subject to a **double materiality principle** i.e., companies will need to understand the impact their business has on sustainability matters and how sustainability matters affect their business development, performance and position.



Timeline



*EFRAG plans to modify its timetable and this deadline is likely to change.

**Limited assurance of CSRD will shift into reasonable assurance no later than 1 October 2028.

European Sustainability Reporting Standards

Companies in scope of the CSRD will have to report the sustainability information using the ESRS which have been developed by the European Financial Reporting Advisory Group (EFRAG) at the request of the European Commission.

EFRAG created the following three categories of standards which complement and interact with each other:

1. **Cross-cutting standards** – including provisions applying to general requirements that companies shall comply with when preparing and presenting sustainability-related information and general disclosures applicable to all companies regardless of the sector they operate in and across all sustainability topics.
2. **Topical standards** – covering specific sustainability topics and providing disclosure requirements relating to sustainability impact, risks and opportunities from a sector-agnostic perspective.
3. **Sector-specific standards** – providing disclosure requirements relating to sustainability impact, risks and opportunities that are material for all entities operating in a given sector (still to be developed by EFRAG).

The Commission adopted the Delegated Act (DA) on the first set of sector-agnostic standards, which includes two cross-cutting standards and ten topical standards, on 31 July 2023. With the exception of Disclosure Requirements under ESRS 2 on general disclosures, application of all Disclosure Requirements will be subject to the outcome of materiality assessments. The adopted DA has been designed to ensure that there is broad alignment with other international sustainability reporting standards such as the International Sustainability Standards Board (ISSB) Sustainability Standards. The DA follows the same structure as the ISSB, i.e., Governance, Strategy, Risk Management, Metrics.

Next steps

The DA adopted by the Commission has been formally transmitted to the European Parliament and to the European Council for scrutiny. The scrutiny period will run for two months, which can be extended by a further two months. The European Parliament or the Council may only reject the DA as a whole; they cannot amend it. If this scrutiny period passes without comments, the ESRS DA will only be in force once it has been published in the Official Journal of the European Union. We expect it to become effective from 1 January 2024. Companies (depending on their size) will then be able to report their sustainability information following the CSRD requirements, based on the DA for ESRS, from January 2025. To read more about the ESRS, please refer to this [article](#).

European Sustainability Reporting Standards

Cross-cutting standards (2)

General requirements	ESRS 1	Describes the architecture of ESRS standards, explains drafting conventions and fundamental concepts, and sets out general requirements for preparing and presenting sustainability-related information.
General disclosures	ESRS 2	Companies must disclose information required under this standard on a mandatory basis. The standard covers a broad spectrum of disclosure requirements ranging from corporate characteristics and a summary of the company’s activity, as well as particular compliance disclosures such as approximations to the value chain and limits, estimating uncertainty, changes in preparation and presentation, and prior period mistakes.

Topical standards (10)

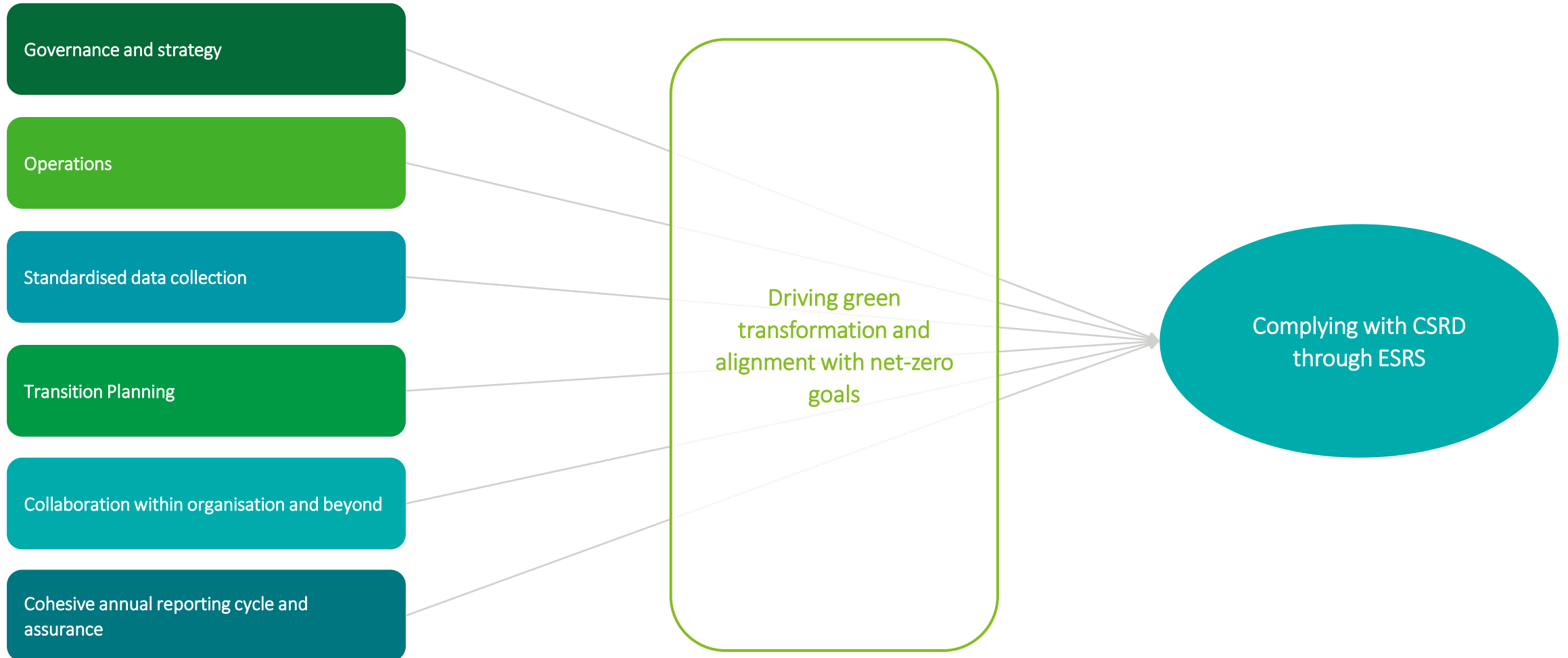
Environment (5)	ESRS E1 – Climate change	The environmental standards seek to help users of sustainability statements understand a company's plans and capacity to adapt its business model and operations to the transition to a sustainable economy, as well as how it contributes to the various environmental goals of the European Green Deal and other EU strategic and regulatory frameworks in this context.
	ESRS E2 – Pollution	
	ESRS E3 – Water and marine resources	
	ESRS E4 – Biodiversity and ecosystems	
	ESRS E5 – Resource use and circular economy	
Social (4)	ESRS S1 – Own workforce	The social standards seek to help users of sustainability statements understand a company’s approach to equal opportunities, including equal pay, gender equality, inclusion of people with disabilities. Further, they focus on working conditions such as security of employment, wages, collective bargaining, work-life balance and safety/wellbeing of the work environment. Considerations for respecting human rights, fundamental freedoms, democratic principles and standards under a variety of international conventions are also taken into account.
	ESRS S2 – Workers in the value chain	
	ESRS S3 – Affected communities	
	ESRS S4 – Consumers and end users	
Governance (1)	ESRS G1 – Business conduct	The governance standard helps improve users' awareness of the role of the management, their business ethic and corporate culture, including anti-corruption and anti-bribery approaches, political engagements, such as lobbying, management of business relationships, including payment practices, and internal control and risk management systems as well as reporting processes.

EU Corporate Sustainability Reporting Requirements

Strategic and operational implications of CSRD and ESRS

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The CSRD and ESRS are catalysts of the green transformation of businesses in the EU. To respond fully to the new provisions, companies need to consider how implementing the reporting requirements extends beyond a simple compliance exercise and will drive them to focus on the following priority areas.



Strategic and operational implications of CSRD and ESRS

Priority action areas

To fully respond to the reporting requirements of CSRD, companies will need to review their business strategies across areas that can be broadly grouped as follows:

GOVERNANCE AND STRATEGY



- Effectively manage sustainability risks and consider their impact on financial risk appetite within companies' business models and decision-making processes
- Make use of data collected for CSRD / ESRS reporting to influence performance of employees
- Introduce a clear hierarchy of sustainability officers, including the role of the CSO

TRANSITION PLANNING



- Develop decarbonisation pathways and develop transition plans (including investment and technology review) in line with Paris agreement
- Build solutions to calculate carbon footprint, covering scope 1, 2, and 3 emissions
- Conduct scenario analysis

OPERATIONS



- Upskill staff or hire new resources to ensure sustainability requirements are well understood throughout the business and especially within core functions
- Implement changes to companies' systems and invest in new technology to review contracts with third parties across the supply chain to fulfil required due diligence checks
- Map the cost of implementing CSRD / ESRS and other sustainability regulations that could affect the company's financial standing

COLLABORATION WITHIN THE ORGANISATION AND BEYOND



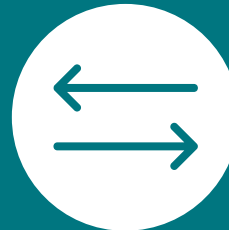
- Increase collaboration and create links between finance, internal risk management, procurement and HR departments to ensure the information flow and support the collection and reporting of data
- Engage with actors along the supply chain to identify risks and opportunities and ensure transfer of information

STANDARDISED DATA COLLECTION



- Collect ESG data across companies' business operations, including their supply chains
- Standardise collected ESG data for reporting purposes
- Implement solutions to digitally tag sustainability information in the same way it is done for financial reports

COHESIVE ANNUAL REPORTING CYCLE AND ASSURANCE



- Incorporate sustainability reporting within the broader annual reporting cycle
- Assess gaps between the financial and non-financial reports
- Build knowledge of the entire value chain and relevant stakeholders to perform double-materiality assessments and assure reported information

About the EMEA Sustainability Regulation Hub

Unravel regulatory complexity. Accelerate our sustainable future.

The Hub is a source of critical regulatory strategy insight and advice, designed to support business leaders understand and assess how sustainability regulation will drive the evolution of business strategies and operating models.

As sustainability regulatory requirements and standards expand, it is essential to adopt a strategic approach to navigate the complexity, and to proactively engage with regulators. We develop early insights across industries on emerging EU sustainability regulations, policies, industry standards and codes of conduct to help you assess how best to transform strategies and operating models. We do this by combining a world-class regulatory analytics platform, RegHub.ESG, and EMEA sustainability subject matter specialists.

For more information on the EMEA Sustainability Regulation Hub please click [here](#).

For further information or any questions on the CSRD and ESRS please get in touch with us.



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