

## **CORPORATE SUSTAINABILITY REPORTING DIRECTIVE**

*By Amine Moughanime*

The Corporate Sustainability Reporting Directive (“**CSRD**”) is a new legislation that enhances and extends the EU Directive 2014/95/EU, also known as the Non-Financial Reporting Directive (“**NFRD**”). The CSRD will lead to a significant increase in the number of companies subject to sustainability reporting obligations (from approximately 11,700 companies and groups in the EU of the NFRD, to approximately 49,000 with the CSRD) and a more extensive disclosure of ESG information on transparency and sustainability performance, in order to monitor and improve the impact of social and environmental issues on business activities.

### **SUBJECTS INVOLVED**

The CSRD is aimed at the following companies:

- a) large companies with more than 500 employees already subject to the NFRD;
- b) large unlisted companies that have exceeded at least two of the following size criteria:
  - 250 employees on average over the financial year;
  - Euro 20 million balance sheet;
  - a net turnover of Euro 40 million.
- c) listed small and medium-sized enterprises (excluding micro-enterprises);
- d) non-European companies that generate a turnover of more than Euro 150 million in the European Union, for each of the last two consecutive financial years.

Otherwise, unlisted small and medium-sized enterprises, in addition to being able to apply the standards of the CSRD on a voluntary basis, may be impacted indirectly if they are part of the supply chain of the companies involved in the CSRD.

### **APPLICATION TERMS**

The CSRD will be applied to different entities at different times. Here are the details:

- a) companies already included in the NFRD will need to comply with the CSRD for the first time in the 2024 financial year, for report published in 2025;
- b) large unlisted companies that were not previously subject to NFRD but are included in the CSRD will need to prepare their first disclosure in 2026, for the 2025 financial year.
- c) listed SMEs, small non-complex financial institutions, and insurance companies will need to prepare their first disclosure in 2027, for the 2026 financial year.

- d) non-European companies that generate a turnover of more than Euro 150 million in the European Union, for each of the last two consecutive financial years, will need to prepare their first disclosure in 2029, for the 2028 financial year, according to the requirements of the CSRD.

## INFORMATION

The sustainability report under the CSRD must include the following information:

- **Double materiality**

The CSRD requires that sustainability reporting include information relating to the so-called "double materiality" of the companies involved, *i.e.*, it is necessary to provide both sustainability information necessary to understand the impact of their activities on people and the environment (inside-out), as well as information necessary to understand the way in which sustainability factors influence the performance of the company, its results, and its situation (outside-in).

- **Business model and strategies**

The CSRD requires a brief description of the company's business model and strategy, including:

- the resilience of the company's business model and strategies regarding sustainability risks;
- opportunities for the company related to sustainability;
- the company's plans, including implementation actions, financial and investment plans, aimed at ensuring that the business model and strategies are compatible with the transition towards a sustainable economy and with limiting global warming to 1.5°C in line with the Paris Agreement;
- the ways in which the company's business model and strategies take into account the interests of its stakeholders and the impact on sustainability;
- the methods of implementing the company's strategy regarding sustainability issues.

- **Objectives and progress**

A description of the objectives temporarily connected to sustainability-related issues as defined by the company and the progress made in achieving them will be necessary.

- **Company policies and due diligence**

Companies must describe their policies related to sustainability and communicate the existence of incentive systems connected to sustainability issues to the members of the administrative, management, and control bodies.

The following descriptions are also required:

- the due diligence procedures applied;

- the main negative repercussions, actual or potential, linked to the company's value chain, including its activities, products and services, commercial relationships, and supply chain;
- any actions taken to prevent or mitigate actual or potential negative repercussions, or to remedy them, as well as the results of such actions.
- **Risks and impacts**

Companies must describe the main risks related to sustainability, including the organization's main dependencies on these issues, and the risk management methods adopted.

## UPDATES

In addition to the double materiality, the CSRD introduces several key changes compared to the NFRD. These changes include:

- a) placing sustainability information in the financial statement and having it certified by a responsible manager;
- b) requiring an accredited auditor to provide assurance on the sustainability report;
- c) using a single reporting standard, the ESRS (European Sustainability Reporting Standard), with specific standards for SMEs;
- d) reporting on ESG aspects across the entire value chain.

## INNOVATION, SUSTAINABILITY E GREEN ECONOMY

The innovation team of Eptalex, led by Amine Moughanime, and specialized in sustainability and green economy, assists the Clients in matter of governance, sustainability strategy, ESG management, sustainability reporting, and digital innovation.

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We remain at your disposal for any clarification or provide further insights as needed.

Best regards.

## CONTACTS

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