Gül Saldıraner

EG Partner
CPA
Independent Auditor
Sustainability Auditor
www.eg-econsulting.com

Developments in the Corporate Sustainability Reporting Directive: Strategies Towards Net Zero

On 21 June 2022, the EU Council and the European Parliament reached a provisional agreement on amendments to the Corporate Sustainability Reporting Directive (CSRD). The Directive amends the existing Non-Financial Reporting Directive (2014/95/EU) (NFRD). Its scope has been expanded to include a greater number of companies both within and outside the EU. The regulation aims to address shortcomings in the current rules that hinder the transition to a sustainable economy and prevent investors from adequately benefiting from non-financial information, by establishing higher standards to provide consistent, comparable, and reliable non-financial data.

This represents a significant development for investors and all stakeholders, as it will ensure transparent, simple, and easily accessible information, while preventing greenwashing. As consumers gain access to reliable information on the environmental and human rights impacts of businesses, changes in consumption habits and preferences are expected to steer companies toward more sustainable investments and products. The Directive requires companies to submit their corporate sustainability reports for the 2024 financial year as of 1 January 2025, subject to independent audit and certification.

What Is the Corporate Sustainability Reporting Directive (CSRD)?

On 21 April 2021, within the framework of the European Green Deal, the European Commission adopted a comprehensive Sustainable Finance Package to finance the transition. One of the objectives of this action plan is to achieve the goal of climate neutrality by 2050 by directing capital flows toward sustainable technological investments and businesses in support of sustainable growth. The Directive constitutes a new EU regulatory framework requiring large companies to publish regular reports in order to enable investors, consumers, policymakers, and all other stakeholders to assess companies' environmental and social impact performance.

The Commission defines a common reporting framework for non-financial data. To ensure the reliability and quality of reports, the Directive also mandates external assurance for sustainability reports prepared in accordance with EU sustainability standards. The key reasons underlying this expanded framework include the inadequacy of existing disclosures; the need to understand how sustainability affects companies and how companies impact people and the environment; the risk that poor-quality information may negatively influence decision-making; the expansion of a reliable and accountable reporting culture to include non-public-interest entities and listed SMEs (excluding micro-enterprises); the elimination of confusion among similar reports; and the prevention of duplicative reporting.

Which Companies Will Be Covered by the CSRD?

While the NFRD applied only to public-interest entities with more than 500 employees, the CSRD extends its scope to include large companies and all listed companies. Where such companies have subsidiaries, reporting obligations also apply at the group level. Listed SMEs are included within scope, with an exemption until 2028.

Accordingly, companies meeting at least two of the following three criteria will be required to prepare sustainability reports:
– 250 employees

– EUR 40 million in total turnover
– EUR 20 million in total assets

Once the legislation enters into force, it is estimated that approximately 50,000 companies—representing around 75% of EU companies—will be subject to these reporting obligations.

For non-EU companies, all entities generating net turnover of EUR 150 million in the EU and having at least one subsidiary or branch within the EU will also be subject to these transparency requirements. In addition, non-listed SMEs, which constitute a significant portion of national economies, are encouraged to prepare voluntary sustainability reports within the specified timelines in response to increasing sustainability demands from credit institutions and large companies to which they supply goods or services.

Non-listed SMEs will be brought into scope under proportionate standards if they meet at least two of the following criteria:
– 50 employees
– EUR 8 million in total turnover
– EUR 4 million in total assets

What Information Must Companies Subject to the CSRD Disclose?

Compared to the NFRD, the CSRD introduces more detailed reporting requirements. Companies are required to disclose sustainability-related information covering environmental, social, human rights, and governance (ESG) matters. Large companies must provide detailed information on how they address and mitigate potential adverse impacts on people and the environment, taking into account the entire value chain.

The Directive also requires that sustainability information be published as a dedicated section within management reports and that it be easily accessible in digital, machine-readable format (XHTML), in compliance with the Single Electronic Format (SEF) Regulation. Mandatory disclosure areas include:

– Environmental matters
– Respect for human rights
– Social matters and the protection of employee rights
– Anti-corruption and anti-bribery measures
– Diversity within company boards (in terms of age, gender, education, and professional background)

What Is the Status of Sustainability Reporting Standards?

The development of the European Sustainability Reporting Standards (ESRS) has been entrusted to the European Financial Reporting Advisory Group (EFRAG). The Commission aims for EFRAG to submit the first set of sustainability reporting standards by 30 June 2023, followed by a second, sector-specific set by 30 June 2024. These developments indicate that sustainability reporting will complement financial reporting, and it is not unlikely that the next step will involve its integration into annual financial reports.

How Will the Quality of Reports Be Ensured?

Sustainability reports will be required to be approved by an accredited independent auditor or assurance provider. Independent auditors and assurance providers will be expected to verify that published sustainability information complies with EU-recognised certification standards. Similarly, non-EU companies must have their reports assured by an auditor established either within or outside the EU.

When Will the CSRD Enter into Force?

– Existing non-financial reports (NFR) will be subject to the revised rules as of 1 January 2024, with reporting in 2025
– Corporate sustainability reports will begin as of 1 January 2025, with reporting in 2026
– Small and non-complex credit institutions, captive insurance undertakings, and listed SMEs will begin reporting as of 1 January 2026, with reports published in 2027
– In-scope non-EU companies will be required to report as of 1 January 2028, with publication in 2029

Within the framework of the European Green Deal and the UN Sustainable Development Goals, the EU is implementing regulations to direct capital flows toward sustainable technological investments and businesses in order to ensure sustainable and inclusive growth. Sustainability reporting, as part of the EU's sustainable finance package, serves as a driving force for the transformation of the business world.

By fulfilling reporting requirements in the context of climate adaptation, companies gain a better understanding and management of climate risks, benefit from long-term financing under favourable conditions, increase sustainable investments to create new business opportunities, and enhance reputation and brand value through transparent data. These outcomes also support investment attraction, employee engagement, and motivation, delivering multiple internal and external benefits. Accordingly, sustainability reporting represents an important guide and opportunity for companies not yet within the reporting scope. The EU's expanded ESG strategy demonstrates its strong commitment to achieving net-zero targets.

REFERENCES

[1] *European Commission -Directive of the European Parliament and of the Council-Accessed August 08, 2022* https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189

[2] *European Commission –' Corporate sustainability reporting' Accessed August 16,2022* https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

[3] *European Council.June,21-2022 –'New rules on corporate sustainability reporting: provisional political agreement between the Council and the European Parliament' Accessed August21,2022 from* https://www.consilium.europa.eu/en/press/press-releases/2022/06/21/new-rules-on-sustainability-disclosure-provisional-agreement-between-council-and-european-parliament/

[4] *European Commission – 'Sustainable finance package' Accessed August 22 ,2022 from* https://finance.ec.europa.eu/publications/sustainable-finance-package_en

[5] *European Commission* **–** *'Sustainability-related disclosure in the financial services sector Accessed August 24,2022 from* https://finance.ec.europa.eu/publications/sustainable-finance-package_en

[6] *Plan A June-21-2022– 'The Corporate Sustainability Reporting Directive (CSRD' Accessed August 30,2022, from* https://plana.earth/academy/csrd-corporate-sustainability-reporting-directive

[7] *Narter&Partners 22-06-2022– Kurumsal Sürdürülebilirlik Raporlama Direktifi (CSDR) Accessed September 04,2022, from* https://www.narterlaw.com/kurumsal-surdurulebilirlik-raporlama-direktifi-csrd/

[8] *PWC 30-06-2022– Accord européen sur la nouvelle directive CSRD (Corporate Sustainability Reporting Directive) Accessed September 08,2022, from* https://www.pwcavocats.com/fr/ealertes/ealertes-france/2022/06/accord-europeen-nouvelle-directive-csrd-corporate-sustainability-reporting-directive.html

[9] *PRI Principles for Responsible Investment 22-09-2022– CSRD and ESRS: how EU corporate sustainability reporting is evolving Accessed September 25,2022, from* https://www.unpri.org/pri-blog/csrd-and-esrs-how-eu-corporate-sustainability-reporting-is-evolving/10539.article

[10] *EY 01-08-2022– Sustainability reporting: what to know about the new EU rules? Accessed September 30,2022, from* https://www.ey.com/en_es/assurance/how-the-eu-s-new-sustainability-directive-will-be-a-game-changer