

# SUSTAINABILITY: REPORTING REQUIREMENTS

## Background of the regulation

The European Union (EU) is ambitious regarding combating climate change: it wants Europe to become the first climate-neutral continent in 2050. To reach this objective it developed the European Green Deal, an action plan which includes plans for legislation, investments and, obligations to report on sustainability.

On 21 April 2021 the EU has adopted an ambitious and comprehensive package of measures to help improve the flow of money towards sustainable activities across the European Union. It has developed a Taxonomy to make it more transparent which economic activities contribute most to meet the EU's environmental objectives.

In addition, the Corporate Sustainable Reporting Directive (CSRD) is adopted, extending the existing requirements for reporting non-financial information (NFRD). With these measures, the EU is taking the next step towards becoming the first climate neutral continent.

## What does the CSRD entail?

The CSRD requires companies to report non-financial information about topics such as environmental impact, human rights and bribery. The CSRD is an extension of the current EU directive (NFRD) which only required large, publicly listed companies to report non-financial information. This non-financial information has to be included in the directors' report.

## Who is the CSRD applicable for?

The CSRD will only apply to large corporations<sup>1</sup>, while small and medium-sized enterprises (SMEs) will not have a legal obligation to report on non-financial information.

However, the measure could indirectly affect SMEs throughout supply chains because large corporations may impose reporting requirements on their suppliers and clients. Therefore, it is advisable that SMEs keep themselves informed about developments in their sector and start preparing to report on non-financial information.

## When will the CSRD take effect?

EU member states will implement the regulation in December 2022, so companies will have to comply for financial years starting from 1 January 2023. Since it can take much time to define material aspects and establish measurement systems, it is advised to start preparing in 2022 to be ready when regulations take effect.

## Other

The CSRD requires an external auditor to audit the report and provide an auditor's report with limited assurance.

<sup>1</sup> Companies are considered large corporations if they have at least two of the three following characteristics meet for two consecutive years: Minimum 250 FTE staff, Minimum € 40 million turnover, Minimum € 20 million balance sheet total.

## WHAT ARE THE REPORTING REQUIREMENTS?

The EU is developing a set of reporting standards that will become available in October 2022. The report is required to describe the following themes:

- The process used to identify material topics for stakeholders
- The double materiality concept: sustainability risk (incl climate change) affecting the company and also the company's impact on society and environment
- Forwardlooking information, including targets and progress thereon
- Environmental impact and 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)
- Information relating to intangibles (social, human and intellectual capital)

## More information?

Would you like more information? Please contact your trusted RSM advisor.