



THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE

This note gives an overview of the Corporate Sustainability Reporting Directive (CSRD), an EU directive which came into force in 2023 as part of the EU's green deal. The CSRD introduces new obligations for in-scope companies to report on environmental, social and governance (ESG) matters relating to their operations and their impact on the wider world. The scope of the CSRD extends to companies incorporated outside the EU that meet certain criteria.

If, you would like to know more or to discuss your own circumstances in greater detail, please speak to your usual contact at Stevens & Bolton or a contact listed at the end of this guide.

WHAT ARE A COMPANY'S OBLIGATIONS UNDER THE CSRD?

The requirement to disclose information relating to both financial value and a company's impact on the world is known as the principle of "double materiality".

The CSRD requires a dedicated section in an eligible company's annual reports containing sufficient disclosures to understand both the company's external social and environmental impact and the impact of sustainability related matters on the company's financial position. The requirement to disclose information relating to both financial value and a company's impact on the world is known as the principle of "double materiality". Reporting must be in line with the European Sustainability Reporting Standards (ESRS), the first set of which was published at the end of July 2023.

Eligible companies must report information on sustainability generally and on a range of specific ESG topics, including climate change, pollution, the circular economy and resource usage.

Companies will need to collect and analyse information both internally and from their supply chain to assess the extent to which upstream and downstream factors impact upon and are impacted by the company's operations. These very broad reporting obligations are limited by the condition that only material matters need to be disclosed. However, a company's determination of materiality cannot be arbitrary as the CSRD introduces a mandatory requirement for limited assurance of the report to ensure that the information provided is accurate and compliant.

The CSRD leaves penalising non-compliance to the member states. Companies that do not comply could therefore face administrative sanctions which may differ between member states, ranging from public statements about the breach to financial penalties.

The disclosure required is potentially complex and will continue to develop over time so we recommend seeking legal advice if you think your company might be in-scope.

DOES THE CSRD APPLY TO YOU?

For UK parent companies that meet the criteria in row four, their EU subsidiary may be required to report on an individual basis before the UK parent is required to report at a group level. Consider how best to approach this with your accountants.

Subject to certain exemptions, the CSRD applies to companies that meet the criteria set out in the following table and will be implemented on a staggered basis over the coming years. As the UK is no longer a part of the EU, UK incorporated companies will only be within the scope of the CSRD if they have debt or equity securities admitted to an EU regulated market or fall into row four in the below table. Where a UK has an EU subsidiary that meets the criteria in rows two or three, the reporting requirements will apply to the subsidiary first and then ultimately at group level when the UK parent is required to begin reporting from its financial year starting on or after 1 January 2028.

	Description of undertakings within the scope of the CSRD	Implementation date
1.	Companies already subject to the Non-Financial Reporting Directive, i.e. large public interest companies with >500 employees.	Reporting due from 2025 for financial year starting on or after 1 January 2024
2.	<p>Large undertakings which meet two out of three of the following conditions and are incorporated in the EU, have securities listed on an EU regulated market or both:</p> <ul style="list-style-type: none"> • More than 250 employees, and/or • Net turnover of over €40m, and/or • Total assets (balance sheet) of over €20m. <p>OR</p> <p>An undertaking incorporated in the EU which is the parent of a large group that meets the above criteria on a consolidated basis.</p>	Reporting due from 2026 for financial year starting on or after 1 January 2025
3.	<p>Small and medium-sized undertakings (SMEs) which meet two out of three of the following conditions and have securities listed on an EU regulated market:</p> <ul style="list-style-type: none"> • Balance sheet total: €4m; and/or • Net turnover: €8m; and/or • An average of 50 employees during the financial year. 	Reporting due from 2027 for financial year starting on or after 1 January 2026
4.	<p>Parent companies incorporated outside of the EU which have a net turnover of €150m within the EU and have at least one of the following:</p> <ul style="list-style-type: none"> • An EU subsidiary which qualifies as a large undertaking (see above) • An EU subsidiary which is a listed SME, or • A branch in the EU that has generated net turnover of more than €40m in the prior financial year. 	Reporting due from 2029 for financial year starting on or after 1 January 2028

NEXT STEPS

The CSRD has more complex requirements than other reporting standards so even if a company already includes sustainability related information in its annual report, action will

Companies should consider how to leverage their existing reporting practices and then build upon them to maximise efficient compliance with the CSRD.

still be necessary to ensure the required data collection, analysis and reporting is conducted. If you think your company is within the scope of the CSRD, here are some suggested practical steps you can take now:

- Familiarise yourself with the ESRS, we are happy to help you with this.
- Ensure that the company's management are fully briefed on the requirements of the CSRD and engage with your accountants, company secretarial providers, legal and other advisers.
- Review your current internal information gathering and reporting processes, and the data you already obtain from suppliers or customers.
- Think about what policies and procedures you may need to ensure that you have the information you need in good time to report on it.
- Consider the business' supply chain, identify relevant third parties that will need to supply data and liaise with them to organise processes for passing on of relevant information.
Review your supply contracts to check that these include the necessary provisions including appropriate obligations on suppliers to meet required standards and report required information.

The CSRD is just one part of an evolving legal landscape concerning sustainability. Businesses should also keep an eye out for other EU legislation aimed at pushing companies towards greater transparency and diligence such as the Corporate Sustainability Due Diligence Directive and domestic initiatives such as the proposed adoption of UK Sustainability Disclosure Standards.

KEY CONTACTS

For further information about any of the issues raised in this guide, please contact:



Nicola Broadhurst

Partner

T: +44 (0)1483 734228

M: +44 (0)7887 713502

E: nicola.broadhurst@stevens-bolton.com



Catherine Sellars

Knowledge Lawyer

T: +44 (0)1483 401236

M: +44 (0)7966 293975

E: catherine.sellars@stevens-bolton.com

STEVENS&BOLTON

Wey House, Farnham Road
Guildford, Surrey, GU1 4YD
Tel: +44 (0)1483 302264
Fax: +44 (0)1483 302254
DX 2423 Guildford 1
www.stevens-bolton.com

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