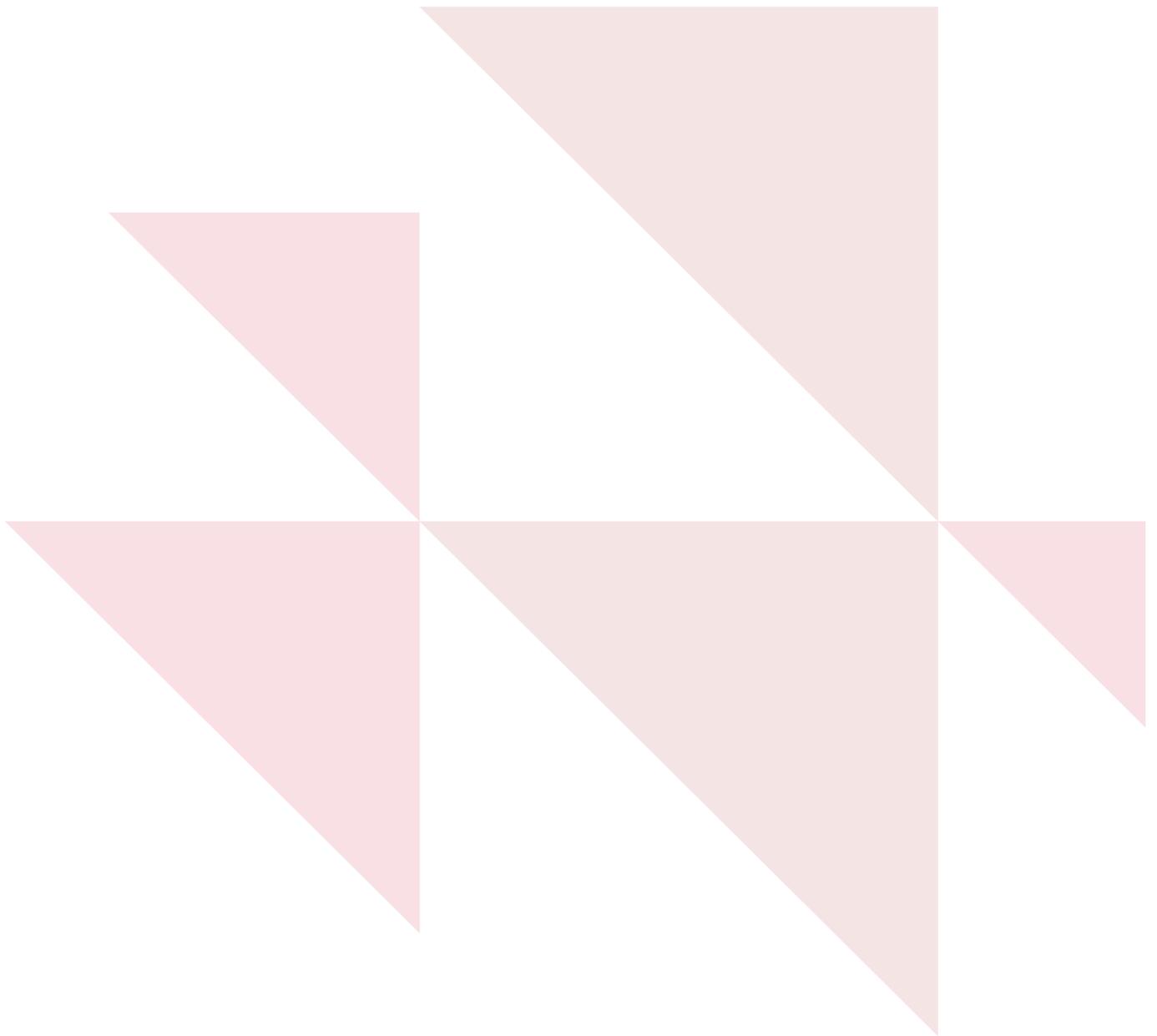


Q&A: CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

Comment from CDP Europe on what the CSRD means for companies



WHAT DOES THE CSRD MEAN FOR COMPANIES?

CDP Europe welcomes the EU Commission's Corporate Sustainability Reporting Directive proposal. Introducing reporting requirements for companies' compatibility with 1.5°C, covering more environmental matters and removing the exemption allowing sustainability data to be reported separately are key steps in the right direction. Getting better data to financial markets is essential to achieving the European Green Deal.

New and additional reporting requirements

	NFRD	CSRD
 <p>When do the rules come into force?</p>	<p>FY 2018</p>	<p>FY2023</p> <ul style="list-style-type: none"> ▼ FY2023: first set of Sustainability Reporting Standards (SRS). ▼ FY2024: second set of SRS. ▼ SME standards 2026.
 <p>Which companies are required to report?</p>	<p>Large PIEs > 500 employees</p> <ul style="list-style-type: none"> ▼ Listed companies ▼ Banks and insurance companies 	<ul style="list-style-type: none"> ▼ All large companies – 2 out of 3 criteria as follows: <ul style="list-style-type: none"> ▼ >250 Employees and/or ▼ €40M Turnover and/or ▼ €20M Total Assets ▼ Listed companies – listed SMEs given until 2026 to comply. ▼ Voluntary standards for MSMEs
 <p>Scope of the reporting requirements</p>	<ul style="list-style-type: none"> ▼ Environmental ▼ Social responsibility ▼ Human rights, ▼ Anti-corruption and bribery ▼ Board diversity 	<p>Additional reporting requirements</p> <ul style="list-style-type: none"> ▼ Double materiality: sustainability risks affecting the company and companies' impact on society and the environment. ▼ Forward-looking qualitative and quantitative information including targets and progress. ▼ Information relating to intangibles: social, human, and intellectual capital. ▼ Reporting in line with Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy.
 <p>3rd party assurance</p>	<p>Non-mandatory nation-state level rules</p>	<p>Mandatory – limited level assurance</p> <ul style="list-style-type: none"> ▼ Integration in Auditor's report ▼ Involvement of key audit partner ▼ Scope to include EU taxonomy and process to identify key relevant information.
 <p>Where & how companies should report?</p>	<ul style="list-style-type: none"> ▼ Annual report ▼ Online or pdf version 	<ul style="list-style-type: none"> ▼ Management report ▼ Electronic, digitally tagged format (XHTML according to ESEF regulation)

The CSRD makes changes in the areas of scope, reporting, standards, and digitalization

SCOPE

A wider scope of companies are included in the CSRD sustainability reporting obligations:

- ▼ as of 2023 all large (500+ employees) and listed companies (including listed SMEs, credit institutions and insurance undertakings, as well as parent PIEs with an average of 500+ employees on a consolidated basis.) will report sustainability information;
- ▼ as of 2026, SMEs must report using standards 'proportionate to the capacities and characteristics' of SMEs including:
 - ▼ simplified reporting compared to large undertakings;
 - ▼ voluntary, simplified EU standards for exempted MSMEs.

REPORTING

- ▼ New requirements to provide information about strategy, targets, the role of the board and management, the principal adverse impacts connected to the undertaking and its value chain, intangibles, and how undertakings have identified the information that they report.
- ▼ Double materiality reporting to understand both companies' impact and companies' 'development, performance and position' viz sustainability matters.
- ▼ Report qualitative and quantitative information, forward-looking and retrospective information, and information that covers short, medium and long-term time horizons.
- ▼ Obligation to always report within the management report.
- ▼ Exemption for consolidated financial statements and consolidated management reports does not imply exemption for consolidated sustainability reporting.
- ▼ Replacing the current "non-financial statement" with "sustainability reporting".
- ▼ Companies falling within the scope of the CSRD will also have to report on the related taxonomy indicators (as per Article 8 of the Taxonomy Regulation) alongside the other sustainability information required by the CSRD.

STANDARDS

- ▼ Sustainability reporting standards to be adopted by the EU Commission:
 - ▼ environmental factors, including climate change mitigation, climate change adaptation, water and marine resources, resource use and circular economy, pollution, biodiversity and ecosystems;
 - ▼ social factors, including equal opportunities for all (i.a. gender equality and equal pay, training/skills, labour market access for people with disabilities), working conditions (i.a. wages, social dialogue, work-life balance), human rights, fundamental freedoms;
 - ▼ governance factors, including the role of the undertaking's administrative, management and supervisory bodies, business ethics (i.a. corruption, bribery), political engagements, relationship with business partners, internal control and risk management systems;

DIGITALIZATION

- ▼ Financial statements and management report in a single electronic reporting format.

The CSRD reporting areas

The CSRD defines five areas of reporting, which are broadly inline with the recommendations of the TCFD:

1. Business model.
2. Policies (including due diligence processes implemented).
3. The outcome of those policies.
4. Risks and risk management.
5. Key performance indicators relevant to the business.

Reporting area CSRD reporting rules

Business model

- a) a brief description of the undertaking's business model and strategy, including:
 - i) the resilience of the undertaking's business model and strategy to risks related to sustainability matters;
 - ii) the opportunities for the undertaking related to sustainability matters;
 - iii) the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;
 - iv) how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
 - v) how the undertaking's strategy has been implemented with regard to sustainability matters;

Policies (including due diligence processes implemented)

- b) a description of the targets related to sustainability matters set by the undertaking and of the progress the undertaking has made towards achieving those targets;
- c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
- d) a description of the undertaking's policies in relation to sustainability matters;
- e) a description of
 - i) the due diligence process implemented with regard to sustainability matters;
 - ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
 - iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;

The outcome of those policies

Risks and risk management

- f) a description of the principal risks to the undertaking related to sustainability matters, including the undertaking's principal dependencies on such matters, and how the undertaking manages those risks;

g) indicators relevant to the disclosures referred to in points (a) to (f).

Parent undertakings shall also report information on intangibles, including information on intellectual, human, and social and relationship capital.

Key performance indicators relevant to the business

Parent undertakings shall describe the process carried out to identify the information that they have included in the consolidated management report in accordance with this Article.

The information shall contain forward- looking information and information about past performance, and qualitative and quantitative information. This information shall take into account short, medium and long-term time horizons, where appropriate.

COMPANY REPORTING AND SCIENCE BASED TARGETS

- ▼ No explicit reference in the proposal to 'Science-based Targets'.
- ▼ Companies will report how its business model and strategy are compatible with the limiting of global warming to 1.5 °C in line with the Paris Agreement.
- ▼ Companies should describe their targets and report progress made towards those targets.
- ▼ Reporting shall 'take account' of short, medium and long-term horizons.
- ▼ Requires forward-looking and retrospective, and qualitative and quantitative information.

DISCLOSURE ON SUPPLY CHAINS

- ▼ Companies are expected, where appropriate, to include information about its value chain including:
 - ▼ the companies' own operations;
 - ▼ products and service;
 - ▼ its business relationships, and;
 - ▼ its supply chain

TCFD alignment

TCFD recommendations

CSRD proposal text

GOVERNANCE

Describe the board's oversight of climate-related risks and opportunities.

Board oversight mentioned in the recitals but not explicitly in the proposed directive text.

CDP Question: C1.1b

Describe management's role in assessing and managing climate-related risks and opportunities.

'a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;'

CDP Question: C1.2, C1.2a

STRATEGY

Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

'Undertakings shall report the process carried out to identify the information that they have included in the management report in accordance with paragraph 1 and in this process they shall take account of short, medium and long-term horizons.'

CDP Question: C2.1a, C2.3, C2.3a, C2.4, C2.4a

Describe the impact of climate related risks and opportunities on the organization's businesses, strategy, and financial planning.

'(i) the resilience of the undertaking's business model and strategy to risks related to sustainability matters;'

CDP Question: C2.3a, C2.4a, C3.1, C3.2a, C3.3, C3.4, C3.4a, C-FS3.7, C-FS3.7a

Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

'(iii) the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;'

CDP Question: C3.2, C3.2a

RISK MANAGEMENT

Describe the organization's processes for identifying and assessing climate-related risks.

'(f) a description of the principal risks to the undertaking related to sustainability matters, including the undertaking's principal dependencies on such matters, and how the undertaking manages those risks;'

CDP Question: C2.1, C2.2, C2.2a, C-FS2.2b, C-FS2.2c, C-FS2.2f

Describe the organization's processes for managing climate-related risks.

'(d) a description of the undertaking's policies in relation to sustainability matters;'

CDP Question: C2.1, C-FS2.2f

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

'(e) a description of:
(i) the due diligence process implemented with regard to sustainability matters;
(ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
(iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;'

CDP Question: C2.1, C2.2

METRICS AND TARGETS

Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

'(g) indicators relevant to the disclosures referred to in points (a) to (f).'

CDP Question: C4.2a, C4.2b, C9.1

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

'(ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;'

CDP Question: C6.1, C6.3, C6.5, C-FS14.1, C-FS14.b, C-FS14.c

Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

'(b) a description of the targets related to sustainability matters set by the undertaking and of the progress the undertaking has made towards achieving those targets;'

CDP Question: C4.1a, C4.1b, C4.2a, C4.2b

For further information

General inquiries

policy.europe@cdp.net

CDP Government Partnerships

mona.freundt@cdp.net

Mirjam Wolfrum

Director Policy Engagement

mirjam.wolfrum@cdp.net

Mona Freundt

Policy Engagement Manager

mona.freundt@cdp.net

Cory Fletcher

Senior Policy & Public Affairs Officer

cory.fletcher@cdp.net



CDP Europe gratefully acknowledges EU funding support. The content of this publication is the sole responsibility of CDP Europe and can under no circumstances be regarded as reflecting the position of the European Union.

CDP Europe and the CDP global system

CDP Europe is a charitable organization registered in Brussels and Berlin and on the EU Transparency Register since 2012. It is part of the CDP Global System, a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with over 590 investors with \$110 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 10,000 organizations around the world disclosed data through CDP in 2020, including more than 9,600 companies worth over 50% of global market capitalization, and over 940 cities, states and regions, representing a combined population of over 2.6 billion. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit [cdp.net](https://www.cdp.net) or follow us [@CDP](https://www.linkedin.com/company/cdp) and on [LinkedIn](https://www.linkedin.com/company/cdp) to find out more.

In Europe, CDP Worldwide (Europe) gGmbH is a charitable limited liability company headquartered in Berlin, Germany, registered on the EU Transparency Register since 2012. It is a wholly owned subsidiary of CDP Europe AISBL, a charity based in Brussels, Belgium (together: "CDP Europe"). CDP Europe is part of the non-profit CDP Global System ("CDP"), which refers to three legally separate organizations: CDP Europe (BE), the CDP Worldwide Group (UK), and CDP North America, Inc. (US).

CDP Europe's annual report is available [here](#) and its regular policy newsletter can be joined [here](#).

CDP Government Partnerships

CDP Government Partnerships are designed to help governments analyse the impact of policies and regulation to achieve carbon-neutrality and resource efficiency by 2050. CDP's global disclosure system equips national, EU and international policymakers and governmental bodies with the data they need to track and measure the impact of policies, identify gaps, trends and best market practice that can be tackled and incentivized through policymaking to create positive impact and drive the transition.

By endorsing the CDP disclosure system, governments can actively drive the increase in quantity and quality of climate and environmental data of corporates and local governments as well as action on climate change, water insecurity and deforestation.

CDP Europe in European and international media



Important Notice

The contents of this report may be used by anyone provided acknowledgment is given to CDP. This does not represent a license to repackage or resell any of the data reported to CDP or the contributing authors and presented in this report. If you intend to repackage or resell any of the contents of this report, you need to obtain express permission from CDP before doing so. CDP has prepared the data and analysis in this report based on responses to the CDP 2021 information request. No representation or warranty (express or implied) is given by CDP as to the accuracy or completeness of the information and opinions contained in this report. You should not act upon the information contained in this publication without obtaining specific professional advice. To the extent permitted by law, CDP does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this report or for any decision based on it. All information and views expressed herein by CDP are based on their judgment at the time of this report and are subject to change without notice due to economic, political, industry and firm-specific factors. Guest commentaries where included in this report reflect the views of their respective authors; their inclusion is not an endorsement of them. CDP, their affiliated member firms or companies, or their respective shareholders, members, partners, principals, directors, officers and/or employees, may have a position in the securities of the companies discussed herein. The securities of the companies mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors; their value and the income they produce may fluctuate and/or be adversely affected by exchange rates.

*CDP refers to CDP Europe (Worldwide) gGmbH, a charitable limited liability company registered under number HRB119156 B at local court of Charlottenburg in Germany. © 2021 CDP. All rights reserved.