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

<table>
<thead>
<tr>
<th>NFRD</th>
<th>CSRD</th>
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<td><strong>When do the rules come into force?</strong></td>
<td>FY 2018</td>
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<td><strong>Which companies are required to report?</strong></td>
<td>Large PIEs &gt; 500 employees</td>
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<td>Listed companies</td>
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<td>Banks and insurance companies</td>
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<td><strong>Scope of the reporting requirements</strong></td>
<td>Environmental</td>
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<td>Social responsibility</td>
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<td>Human rights,</td>
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<td>Anti-corruption and bribery</td>
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<td><strong>Additional reporting requirements</strong></td>
<td>Double materiality: sustainability risks affecting the company and companies’ impact on society and the environment.</td>
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<td>Forward-looking qualitative and quantitative information including targets and progress.</td>
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<td><strong>3rd party assurance</strong></td>
<td>Non-mandatory nation-state level rules</td>
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<td><strong>Where &amp; how companies should report?</strong></td>
<td>Annual report</td>
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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.
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
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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;

DIGITALIZATION

Financial statements and management report in a single electronic reporting format.
Policies (including due diligence processes implemented)

- 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;
- a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
- a description of the undertaking’s policies in relation to sustainability matters;
- a description of:
  - the due diligence process implemented with regard to sustainability matters;
  - 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;
  - any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;

The outcome of those policies

- 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;

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

Risks and risk management

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.

Key performance indicators relevant to the business

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

<table>
<thead>
<tr>
<th>TCFD recommendations</th>
<th>CSRD proposal text</th>
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<td><strong>GOVERNANCE</strong></td>
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<td>Describe the board’s oversight of climate-related risks and opportunities.</td>
<td>Board oversight mentioned in the recitals but not explicitly in the proposed directive text.</td>
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<td><strong>CDP Question: C1.1b</strong></td>
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<td>Describe management’s role in assessing and managing climate-related risks and opportunities.</td>
<td>‘a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;’</td>
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<td><strong>CDP Question: C1.2, C1.2a</strong></td>
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<td><strong>STRATEGY</strong></td>
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<td>Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</td>
<td>'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.'</td>
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<td><strong>CDP Question: C2.1a, C2.3, C2.3a, C2.4, C2.4a</strong></td>
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</table>
Describe the impact of climate related risks and opportunities on the organization’s businesses, strategy, and financial planning.

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.

CDP Question: C3.2, C3.2a

RISK MANAGEMENT

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

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.

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.

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.

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

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

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