CSRD looms for some, but many more need to prepare

In scope and complexity sustainability reporting is at least equal to the regulatory requirements of Financial Reporting says Michael Costello, until recently managing partner of BDO, and now Head of Sustainability Reporting at the firm. With the Corporate Sustainability Reporting Directive (CSRD) coming into force on January 1st 2024 there will a sea change in the field of sustainability reporting for corporates, he writes.

He writes that in its scope and complexity CSRD is as at least equal to Financial Reporting. The first phase will see corporates currently subject to the EU's Non-Financial Reporting Directive (NFRD) report on 2024 information in 2025 - this will impact on around 11,000 EU corporates - while the second phase will bring 'large' corporates into scope and will see an estimated 50,000 corporates caught in the CSRD net - the vast majority of whom will need to prepare to deal with a new type of framework they are not familiar with writes Costello. He outlines the steps in-scope companies should now be taking meet these new obligations.

The initial phase of the EU's Corporate Sustainability Reporting Directive (CSRD) will require companies, that currently are subject to the Non-Financial Reporting Directive (NFRD), to report on 2024 information in 2025. It is estimated this initial phase will involve over 11,000 companies. The second phase will involve companies that are defined as "Large", (i.e. meeting at least two of the following criteria - 250 or more employees; €40m in net turnover; €20m in assets) reporting on 2025 information in 2026. It is estimated that this second phase will apply to over 50,000 companies.

> **"CSRD will require companies to carry out a fundamental review of their business including an assessment of the business strategy, business model, governance and value chain. Many businesses caught in the CSRD net may not be used to these frameworks, so help will be needed to guide them through the process."**

CSRD is the most comprehensive regulatory framework to date in the field of sustainability reporting. In scope and complexity it is at least equal to the regulatory requirements of Financial Reporting. CSRD will require companies to carry out a fundamental review of their business including an assessment of the business strategy, business model, governance and value chain. Many businesses caught in the CSRD net may not be used to these

Michael Costello

frameworks, so help will be needed to guide them through the process.

New concepts such as double materiality will need to be considered in order to establish the most important topics for each company, and that's only the starting point. Once you have identified the most important topics you will have to establish a base-line, set targets, and detail how you will meet those targets over time.

In relation to green-house gas (GHG) for example, companies will have to report on emissions which arise directly in their processes (Scope 1), indirectly as a result of their activities (Scope 2), and those arising in their value chain (Scope 3).

In time Sustainability reports will have to be audited as is the case currently with Financial reports, and this will require companies to focus significant resources on data collection and quality. Sustainability reporting data will have to be submitted in a

standardised digital format, to allow for easier checking and comparison in the European single access point database. The scale of CSRD reporting is hard to comprehend, it requires the disclosure of detailed and diverse information over approximately 85 disclosure requirements and more than 1,100 data points, depending on which sustainability topics are material to a particular business.

> **"New concepts such as double materiality will need to be considered in order to establish the most important topics for each company, and that's only the starting point. Once you have identified the most important topics you will have to establish a base-line, set targets, and detail how you will meet those targets over time."**

Our advice is to;
1. Start now, this is complex and there are a large number of issues to consider.
2. Educate your senior business leaders in Sustainability reporting and CSRD.
3. Take advice from a reputable source on how you should plan your CSRD journey.
4. See what grants and supports are available from the likes of Enterprise Ireland.
5. Allocate dedicated resources to the project, it will be very difficult to achieve on top of the day job.

Michael Costello, Partner & Head of Sustainability, BDO.