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Corporate Sustainability Reporting Directive

What companies need to know about it

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CSRD – KEY FACTS AT A GLANCE

The EU Corporate Sustainability Reporting Directive (CSRD) became effective on January 5, 2023, and was transposed into national law by the member states in 2024. The CSRD changes the scope and nature of non-financial reporting under the Non-Financial Reporting Directive (NFRD), which previously only applied to large, capital market-oriented companies and financial institutions. It expands the group of stakeholders and significantly increases the scope of reporting.

ANNUAL REPORT & ESG

Directive 2022/2464 (CSRD) is intended to improve sustainability reporting by companies within the EU. Through the standardization of the disclosure areas and the formulation of concrete information requirements, comparability and transparency regarding the sustainability of corporate activities are to be established. The ESG criteria, which have been relevant for capital market-oriented companies for some time, will be defined in detail and the sustainability report to be published becomes an audit-relevant part of the annual report. The sustainability report shall be available free of charge and in digital form.

WHO IS AFFECTED?

- Up to **15.000 companies in Germany** alone and up to **50,000 companies throughout the EU**
- **Since 2024, large capital market-oriented companies and financial institutions** with more than **500 employees**
- **From 2025, companies** that meet at least two of the following criteria for two consecutive financial years:
  > 250 employees
  > 25 million € balance sheet total
  > 50 million € net sales revenue
- **From 2028**, small and medium-sized capital market-oriented companies, excluding micro-enterprises
- Third country companies with a significant volume of activity in the EU

OPPORTUNITIES & BENEFITS

- Transparency for investors and the public
- Consistent requirements across EU member states
- Fast access to comparable and reliable data

SCOPE OF APPLICATION – WHO IS AFFECTED?

1. COMPANIES BASED IN THE EU

The reporting obligation has been in effect since January 1, 2024 for **large capital market-oriented companies of public interest** as well as for banks and insurance companies that employ an average of **more than 500 employees** per year. Since the 2025 financial year, the **scope of application now also applies to all other "large" companies**. From the start of the 2026 financial year**, capital market-oriented small and medium-sized enterprises (SMEs)** will also be obliged to include sustainability reporting in their annual financial statements. Micro-enterprises and small, non-complex credit institutions and insurance companies are exempt from reporting.

SMEs can apply for a two-year exemption if they explain in their annual report why they cannot provide sustainability information. Parent companies of large groups are required to produce a consolidated sustainability report. Pursuant to Article 19a(7) of Directive 2013/34/EU, **individual companies and groups of companies with EU parent companies may be exempted** from preparing their own sustainability report if they are included in the group report of the parent company and meet certain requirements. **However, an exemption for the parent company itself is not possible.** Subsidiaries that are also parent companies of large groups and are required to prepare a consolidated sustainability report in accordance with Article 29a of Directive 2013/34/EU can also make use of an exemption. **Large capital market-oriented subsidiaries, on the other hand, have no possibility of an exemption.**

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BECEPTUM International GmbH does not offer consulting services in the areas of tax law or auditing.

2. SUBSIDIARIES OF PARENT COMPANIES BASED OUTSIDE THE EU

In order to ensure transparency for companies that do not have their headquarters in the EU (so-called third-country companies) but generate significant turnover in the Union, the focus is on their EU subsidiaries or their EU branches. **If** the **EU subsidiary itself is required to publish a sustainability report**, it **must also include information from** the parent company on **group level**, provided that the entire group of companies has achieved a **turnover of more than €150 million in the territory of the Union** in each of the previous two financial years. If **there is no such subsidiary**, the **obligation falls on the EU branch** - but only if it has achieved a turnover of more than €40 million in the previous financial year. The EU companies concerned **must use their best endeavours** to obtain the information on group level. If the third country company does not provide the required information, this must be explicitly stated in the sustainability report.

Similar to subsidiaries of EU parent companies, **subsidiaries of third country companies can be exempted from a consolidated sustainability report of the parent company** as long as it complies with ESRS (European Sustainability Reporting Standards) or equivalent standards. Large capital market-oriented subsidiaries cannot be exempted from a consolidated sustainability report of the parent company.

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WHO HAS TO REPORT AND WHEN?

2024	2025	2026	2028
All **companies** already subject to the **NFRD**	All **large companies**, irrespective of their capital market orientation	All **capital market-oriented SMEs** with the possibility to opt out until 2028	Mandatory reporting for all companies concerned (end of opt-out period for capital market-oriented SMEs)
Large capital market-oriented companies as well as banks and insurance companies with more than 500 employees	*A company is large, if it meets 2 of the 3 criteria:* *> 250 employees* *> 25 million € total balance sheet* *> 50 million € net sales revenue*		
First report in 2025	First report in 2026	First report in 2027	First report in 2029

HOW IS THE REPORT VERIFIED?

Sustainability reports have to be externally audited, initially with limited assurance. The goal is to establish a comparable level of assurance for sustainability reporting as for financial reporting in the medium term. The EU Commission will therefore decide by October 2028 at the latest whether an audit with reasonable assurance is feasible and introduce the necessary audit standards. According to the CSRD, an audit by the statutory auditor is required. However, Member States have the option to allow other auditors or accredited independent assurance providers to carry out the audit in addition to the auditor.

REPORT CONTENTS & DOUBLE MATERIALITY

The content required for sustainability reports is defined by the European Sustainability Reporting Standards (ESRS). For this purpose, the European Financial Reporting Advisory Group (EFRAG) developed data and content requirements in the dimensions E, S and G, which were subsequently reviewed by the European Commission and then published as a supplement to Directive 2013/34/EU of the European Parliament and of the Council. The adoption as a delegated regulation for a first set of reporting requirements was published in July 2023 and, with a few changes, does not differ significantly from the standards published by EFRAG. Draft sector-specific requirements are currently being developed by EFRAG and are expected to be adopted by the European Commission in 2025. To maintain the principle of proportionality, EFRAG will also draft separate reporting standards for small and medium-sized entities. **Companies must provide information about the impacts of their activities on people and the environment, as well as describe the impacts of various sustainability categories on the company (double materiality).** The information provided should cover the entire value chain of the company, including its own business activities, products and services, business relationships and supply chains. It should cover short, medium and long-term periods and contain information in accordance with Article 8 of the EU taxonomy.

Reporting segments according to EFRAG:

E	S	G
ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Business Conduct
ESRS E2 Pollution	ESRS S2 Employees in the value chain	open
ESRS E3 Water & Marine Resources	ESRS S3 Affected communities	open
ESRS E4 Biodiversity & Ecosystems	ESRS S4 Customers & end consumers	open
ESRS E5 Use of resources and circular economy	open	open

REPORT CONTENTS & DOUBLE MATERIALITY

Outside-In:
Impact of the environment on the financial situation and sustainability of the company

Inside-Out:
Impact of the company on the environment (social & ecological)

Target groups:

- Investors
- Lenders
- Regulatory authorities
- Other interested parties

Target groups :

- Investors
- Lenders
- Regulatory authorities
- Employees
- Suppliers
- Customers
- NGOs

The **principle of double materiality** must be applied to determine what information is relevant for disclosure. The example of a furniture retailer can be used to illustrate which information is to be presented in the **inside-out perspective, e.g. in the reporting segment "ESRS1 Climate Change"**. To do so, the company must first ask itself the question: **Which parts of my value chain generate CO2?** In the case of the furniture retailer, CO2 emissions occur at several points in the value chain: The main sources include the production of the furniture, transportation from the manufacturer to the retailer, and sales and delivery to the customer. These **emissions need to be quantified** and published on an ongoing basis.

The next step is to evaluate how CO2 can be avoided and to which extent the CO2 balance can be improved. These goals can be achieved by choosing the right manufacturers, optimizing transportation, increasing energy efficiency, promoting recycling, and using renewable energy sources, among other things. For example, solar power could be used to meet the energy needs of retail stores, and suppliers could be selected based on the lowest carbon footprint. Energy-efficient lighting and air conditioning can improve the carbon footprint, as can providing electric vehicles and charging stations for customers and employees. **Planned measures must be reported in the sustainability report** and their **implementation must be monitored and documented transparently** in the following years. **2030 and 2050 are considered mandatory milestones for the carbon footprint reduction plan**.

CHALLENGES FOR COMPANIES

The expansion of the user group is particularly relevant for non-capital-market-oriented mid-sized companies, which are especially prevailing in Germany. These companies are now faced with the task to prepare sustainability reports for the first time. Despite staggered implementation deadlines, the companies concerned should **begin implementation early**. The challenges include the following:

1 Definition of information required under double materiality

- Full analysis of the company's business model in terms of impact factors (e.g. carbon footprint, resource consumption, supply chain compliance, etc.)
- Benchmarking against peers and industry standards (possibly: dealing with missing benchmarks)
- Dealing with information gaps and barriers

2 Development of a sustainability strategy

- Maturity analysis of the company and analysis of opportunities and risks vis-à-vis customers, competitors, suppliers, financing partners and the public
- Development of a sustainability goal for the company
- Derivation of a sustainability strategy and respective transformation agenda

3 Set-up of robust reporting processes and structures

- Consolidation of data (with special attention to media breaks and verification e.g. via four-eye-principle)
- Designation of clear responsibilities in reporting especially involving relevant departments' specialists (Compliance, Procurement, IT, etc.)
- Dealing with deadlines (month-end + X) and ad-hoc requirements

CHALLENGES FOR COMPANIES

4 Selection/integration of software for tracking CO2 intensity and supply chain compliance

- Definition of the requirements profile with focus on cost efficiency, legal certainty, user-friendliness and integration
- Involvement of all relevant departments in the selection process
- Early roll-out for data validation and/or identification of vulnerabilities

5 Integration with overall management and risk control processes

- Standardized inclusion of ESG criteria in the selection of suppliers and service providers
- Clear ESG requirement profile for business model development and M&A targets, including escalation levels
- Early warning system for information gaps or missed deadlines

6 Integration of ESG into corporate culture and development of a communication strategy

- Involvement of all relevant departments (Accounting, Compliance, Procurement, Sales, etc.)
- Creating a sustainable corporate culture
- Managing critical information and public relations damage control

7 Identification of auditors and preparation of initial report

- Appropriate time and cost budget planning, taking into account the human resources tied up in the preparation of the financial statements
- Comparison with peers and establishment of a comparative data base in prior to the first reporting year
- Timely preparation of the report with the involvement of the press office

CONCLUSION

With the principle of mandatory transparency, which has already proven to be an effective tool in European banking regulation, the CSRD shall lead to increased sustainability discipline on the part of European companies. The idea is that if third parties can get a comprehensive picture of a company's ESG compliance by reading its annual report, the pressure to do business sustainably will increase overall. The CSRD requires some **50,000 companies in the EU** to publish a standardized sustainability report. For many of them, this represents a **significant challenge**, which is further exacerbated by the tight deadlines. While regular reporting and governance structures are part of everyday life for listed companies, **also traditional medium-sized companies** are now not only confronted with the preparation of a sustainability report (bureaucracy) but also face a critical public due to the publication obligation.

A **self-critical analysis of one's own business model** in terms of carbon footprint, compliance with human rights in the supply chain, fair wages, recyclability of one's own products, etc. is therefore of **high strategic importance** in order to attract good employees, convince investors and survive in the market in the long term. The process of **implementing the CSRD** must therefore not only be considered from the perspective of those primarily affected (Accounting and Compliance), but should also **involve the management** levels of **Procurement, Business Development, Customer Service and Product Development**, because **sustainable action is a prerequisite for a successful sustainability report**. This in turn requires a maturity analysis, a target concept and a corresponding sustainability strategy.

BECEPTUM is a boutique consultancy focused on sustainable management and business development. Founded in fall of 2019 with offices in Munich and Berlin, BECEPTUM integrates holistic sustainability management with the levers of corporate value creation. With our expertise and range of ESG services, we help our clients operationalize their sustainability strategy - from the right management system to strategic partnerships and financing. With certified experts in supply chain regulation and climate risk, regular ESG monitoring and customized training, we are a trusted partner for our clients on all aspects of sustainability..

Get in touch with us!

We look forward to discussing your current and future challenges and potential solutions.

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