

BECEPTUM

BUSINESS ENGINEERING
BEYOND INCEPTION

C S R D

Corporate
Sustainability
Reporting
Directive

What companies need to know

April 2024

CSRD – KEY FACTS

The Corporate Sustainability Reporting Directive (CSRD) was adopted in November 2022 and transposed into national law by the EU member states by January 1st 2024. The CSRD changes the scope and nature of non-financial reporting under the Non-Financial Reporting Directive (NFRD), which until then has 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 must be accessible free of charge and digitally.

WHO IS AFFECTED?

- Up to **50,000** companies **throughout the EU**
- **From 2024, large capital market-oriented companies and financial institutions** with more than **500 employees**
- **From 2025, companies** that meet 2 of the following criteria:
 - > 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 general 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 begins on January 1st 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. From the **2025 financial year, the reporting obligation will also apply to all other “large” companies**. From the beginning 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.

Exemption: SMEs can apply for a two-year exemption if they explain in their annual report why they are not providing sustainability information. Parent companies of large groups are also required to produce a consolidated sustainability report. Subsidiaries with EU parent companies can be exempted from producing their own sustainability report if they are included in the consolidated report.

Subsidiaries that are also the parent company of a group may also use the exemption. However, **large capital market-oriented subsidiaries are not eligible for the exemption.**



Disclaimer:

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

SCOPE OF APPLICATION - WHO IS AFFECTED?

2. SUBSIDIARIES OF PARENT COMPANIES WITH A REGISTERED OFFICE OUTSIDE THE EU

In order to ensure transparency for companies that are not headquartered in the EU (so-called third country companies) but have a significant turnover in the territory of the Union, their EU subsidiaries or branches will be taken into account in the future. **If the EU subsidiary itself is required to publish a sustainability report, it must also include information from the parent company at the 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 two previous 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 at group level. If the third country company does not provide the required information, this must be explicitly stated in the sustainability report.

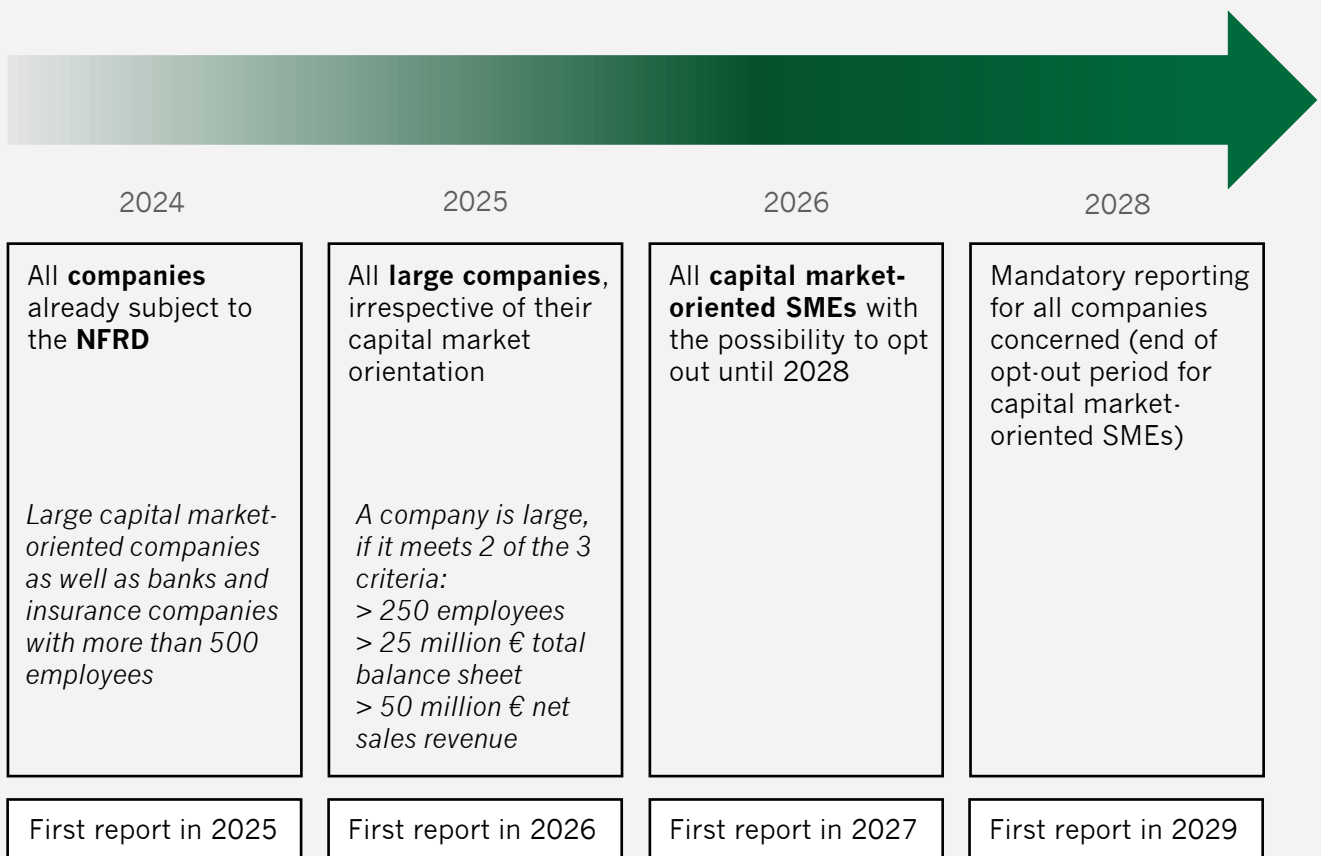
Exemption: Similarly to subsidiaries of EU parent companies, subsidiaries of third country companies can be exempted by a consolidated sustainability report of the parent company as long as it complies with ESRS (European Sustainability Reporting Standards) or equivalent standards. Large capital market-oriented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



Disclaimer:

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

WHO HAS TO REPORT?



HOW WILL THE REPORT BE REVIEWED?

In future, **sustainability reports will 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 firm is to prefer. 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

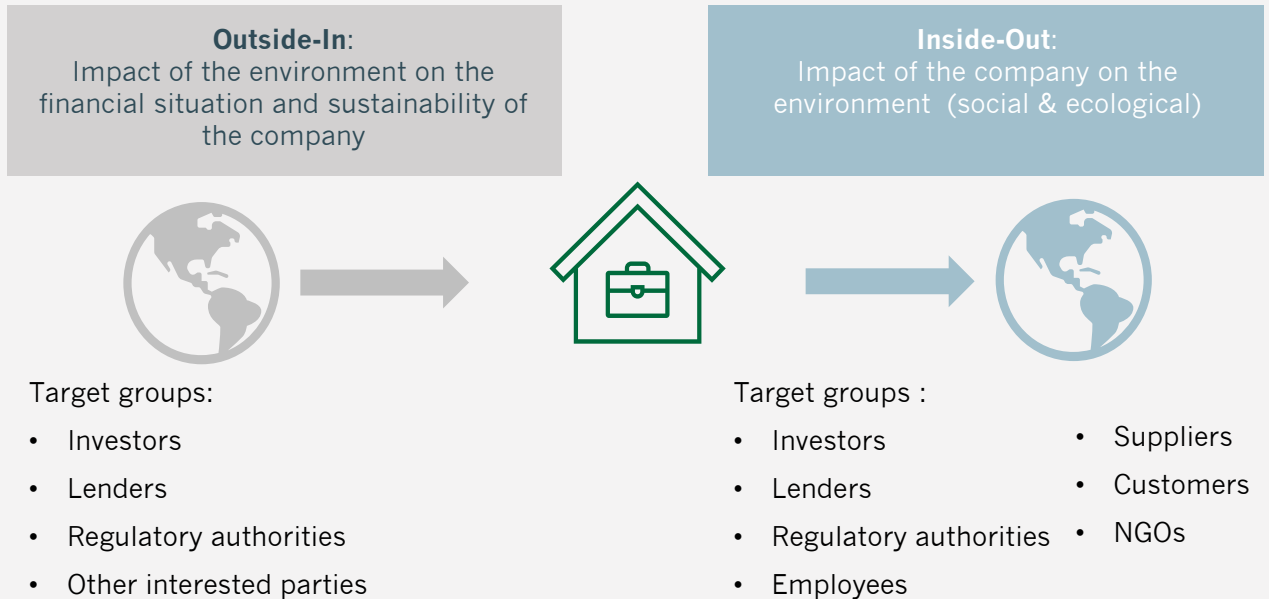
The content required for sustainability reports is defined by the European Sustainability Reporting Standards (ESRS). For this purpose, the European Financial Reporting Advisory Group (EFRAG) developed data and content requirements in the dimensions E, S and G. On 07/31/2023 the European Commission published the European Standards for Sustainability Reporting.

The standards are industry-independent and currently comprise 84 disclosure requirements. A draft of sector-specific requirements is currently under development. In order to maintain the principle of proportionality, EFRAG will also draft separate reporting standards for small and medium-sized entities. **Companies must continue to provide information on the impact of their activities on people and the environment, as well as the impact of different sustainability categories on the company (double materiality).** The information provided should cover data on the entire value chain of the company, including its own business activities, products and services, business relationships and supply chains, cover short, medium and long-term periods and contain information in accordance with Article 8 of the EU taxonomy.

European standards for sustainability reporting directive:

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



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 disclosures should be presented in the **ESRS1 Climate Change** reporting segment from an inside-out perspective. To do this, the company must first ask itself the question **Where in my value chain does CO2 occur?** 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 ask how CO2 can be avoided or **how the CO2 balance can be improved**. These goals can be achieved by choosing the right manufacturers, optimizing transportation routes, 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 improvements should be reported** in the sustainability report and their **implementation in subsequent years** should be **transparent**. The **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 now have to prepare sustainability reports for the first time. Despite the staggered implementation dates, affected companies should start early. **The challenges include the following:**

1 Define the information required under double materiality

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

2 Develop a sustainability strategy

- Maturity analysis of own 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
- Derive a sustainability strategy and transformation agenda

3 Establish robust reporting processes and structures

- Consolidation of data (with special attention to media breaks and verification)
- Clear responsibilities in reporting with the involvement of 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 Integrating ESG into corporate culture and developing 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 budgets, 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 the previous year of the first reporting year
- Timely preparation with the involvement of the press office

CONCLUSION

Through the principle of mandatory transparency, which has already proven to be an effective tool in European banking regulation, the CSRD should 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. The CSRD requires some **50,000 companies in the EU** to publish a standardized sustainability report. For many of them, this is a **significant challenge**, compounded by tight deadlines. While regular reporting and governance structures are part of everyday life for listed companies, **also some non-listed companies** are now confronted not only with the preparation of a sustainability report (bureaucracy), but also with 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 CSRD** must therefore not only be considered from the perspective of those primarily affected (Accounting and Compliance), but must 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 with a focus on sustainable management and corporate development. Founded in the fall of 2019 with offices in Munich and Berlin, BECEPTUM integrates holistic sustainability management with the levers of corporate value creation. With expertise and various services in the field of ESG, we support our clients in the operationalization of their sustainability strategy - from the appropriate management system to strategic partnerships and financing. With certified experts for supply chain regulations and climate risks, regular ESG monitoring and a customized training offer, we are a reliable partner for our clients in all aspects of sustainability.

Get in touch with us!

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

Contact



Marc Zinkel

Senior Partner

marc.zinkel@beceptum.com



Julia Grote

Senior Manager

julia.grote@beceptum.com

Beceptum International GmbH

Office München
Trautenwolfstr. 5
80802 München

Office Berlin
Krausnickstr. 16
10115 Berlin

W www.beceptum.com
E info@beceptum.com