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// ASSET MANAGEMENT & INVESTMENT FUNDS

Asset Management & Investment Funds Update

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FAQ: Corporate Sustainability Reporting Directive (CSRD)

What is the EU Corporate Sustainability Reporting Directive or CSRD?

CSRD is proposed as the new non-financial reporting regime for EU-based and EU-listed companies. It will replace the existing regime (the Non-Financial Reporting Directive or NFRD) and is slated to come into effect for reporting periods starting on or after 1 January 2023. The CSRD proposal, first published in April 2021, is currently proceeding through the EU legislative process and is expected to be adopted early this year.

Why the need for a new corporate reporting regime?

In short, the EU needs private capital markets to help bridge the funding gap for energy-related investments. The EU estimates that annual investment to 2030 will need to increase by €350bn to achieve climate neutrality and by providing private investors with reliable non-financial information, it expects to stimulate sustainable investing in support of EU climate and energy targets.

As well as supplying customers/investors with comprehensive and reliable sustainability information, CSRD will also ensure the availability of information necessary for the financial sector (asset managers, banks, insurers etc) to comply with their non-financial reporting obligations under other EU sustainability-related rules. For example, recently introduced EU rules for the financial sector require investor disclosure of the sustainability impact of investment decisions; disclosures which would not be possible without data on the sustainability impact of investee companies' economic activities.

How will CSRD impact funds and fund managers?

The CSRD proposes removing the 500-employee reporting threshold under the NFRD which has to date been the reason for most funds and fund managers falling outside the scope of NFRD reporting. Under CSRD proposals, all large and listed companies are in scope of sustainability reporting including large fund managers and corporate investment funds and all listed corporate investment funds. Large companies under NFRD/CSRD are those which exceed two out of three criteria of balance sheet total >€20,000,000; net turnover: €40,000,000, avg. employees: 250. Under current proposals, in-scope companies would apply the CSRD sustainability reporting standards for the first time to reports published in 2024, covering financial years beginning on or after 1 January 2023. In addition, following replacement of the NFRD with the CSRD, the scope of companies subject to Article 8 EU Taxonomy disclosure rules will automatically be extended to include those in scope of the CSRD. Industry is actively lobbying for the exclusion of funds from the scope of CSRD on the basis that reporting under CSRD would be a duplication of effort given funds existing reporting obligations under the Sustainable Finance Disclosures Regulation (**SFDR**) and the Taxonomy Regulation.

How does CSRD reporting compare to the existing regime for non-financial reporting?

By comparison to the existing NFRD regime, CSRD extends both the level and scope of sustainability reporting. Draft CSRD sustainability reporting standards, which will provide further clarity on the enhanced level of reporting required under the CSRD, are expected to be published in June this year before being finalised ahead of the anticipated deadline of October 2022.

What are the key requirements under CSRD?

CSRD will mandate machine-readable reporting against new, directly effective, EU standards by all large EU companies (including parent companies of large groups) and EU listed companies. The EU standards will require companies to identify and report on their most significant sustainability risks, dependencies and impacts and how they manage them including qualitative and quantitative, forward-looking and retrospective information about their strategy, targets, risk governance structures, supply and whole value chains, and intangibles (R&D, intellectual/human/social and relationship capital). Sustainability information will initially need limited assurance but CSRD makes provision for moving to reasonable assurance at a later date.

What are the key impacts of CSRD?

As its principal objective is for a broader spectrum of companies to provide more detailed, harmonised sustainability reporting, the first and obvious impact of CSRD will be on companies' reporting processes and procedure. In particular, given the much-publicised dearth of accurate and reliable sustainability data, companies may need to establish new data sourcing, accumulation and monitoring processes in order to comply with the enhanced reporting rules. However, as with many EU sustainability initiatives, CSRD is also likely to drive more fundamental change by reporting entities seeking to avoid the myriad of risks associated with disclosing sustainability risk exposures and/or a negative impact on ESG factors.

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