

Asset Management & Investment Funds Update

July 2022



Corporate Sustainability Reporting for Managers not Funds

On 21 June 2022, EU co-legislators reached provisional agreement on the Corporate Sustainability Reporting Directive (**CSRD**) which will replace the current EU non-financial reporting regime under the Non-Financial Reporting Directive (**NFRD**) and apply detailed new sustainability reporting standards to large EU-based companies and EU listed companies.

Background

CSRD, the Sustainable Finance Disclosures Regulation (**SFDR**) and the Taxonomy Regulation are the core legislative measures under the EU sustainable finance action plan/strategy. Both SFDR and CSRD are intended to increase the level of sustainability information in the market by obliging financial and non-financial companies to report on the sustainability impacts of their activities (outward looking) along with the impact of sustainability factors on their activities (inward looking). The Taxonomy Regulation sets out a harmonised system for the classification of business activities as sustainable and as such acts as a reference point/benchmark for companies reporting under SFDR and CSRD.

Latest proposal includes key revisions for funds and fund managers

Several key amendments to the Commission's CSRD proposal, of relevance to funds and fund managers, have been made as part of the legislative process to date. The following are reflected in the provisionally agreed text published on 30 June last:

- (i) **corporate funds not in scope:** CSRD is not proposed to apply to corporate UCITS and AIFs in scope of SFDR. This is a most welcome development which should ensure that corporate funds are not subject to dual-reporting obligations under CSRD and SFDR.
- (ii) **delayed application:** while the Commission proposed 1 January 2023 as the first application date, the latest proposal is for CSRD to first apply to reports published after 1 January 2025 (for F/Y 2024) by companies already subject to NFRD.

Funds and fund managers are reliant on the sustainability reporting of companies in which they invest to meet many of their own sustainability reporting obligations under SFDR and the Taxonomy Regulation and so this delay may have a negative impact on funds and fund managers SFDR/Taxonomy compliance preparations.

- (iii) **delayed application to non-NFRD large companies:** the proposed reporting deadline for large companies, not currently subject to mandatory reporting under the NFRD, is 1 January 2026 (on 2025 data). Large companies being those which on their balance sheet dates exceed two of the three criteria of (i) balance sheet total: EUR20m; (ii) net turnover: EUR40m; (iii) average number of employees during the financial year: 250.

- (iv) **delayed application to listed small and medium-sized companies:** the proposed reporting deadline for listed SMEs is 1 January 2027 (on 2026 data) however reporting standards will apply to listed SMEs on a comply-or-explain basis until 2028 and are to be calibrated 'taking into account their specific characteristics'.

Next Steps

CSRD is expected to be finalised and enter into force by the end of the year. CSRD delegated measures setting out sustainability reporting standards are scheduled for adoption by the Commission by June 2023, with a complementary second set due by June 2024. These delegated measures will detail the information that an in-scope company will be required to report pursuant to its CSRD sustainability reporting obligations.

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