

Asset Management & Investment Funds Update

December 2022



Corporate Sustainability Reporting Rules Get Final Green Light

On 28 November, the Council gave its final approval to the Corporate Sustainability Reporting Directive (**CSRD**), which will make sustainability reporting mandatory for all large and listed companies in the EU. CSRD must now proceed through the final administrative stages of the EU process, following which it will enter into force 20 days after publication in the EU Official Journal. Member States will have 18 months in which to transpose the CSRD into national law.

Who is in scope?

CSRD extends the scope of mandatory sustainability reporting (under the current Non-Financial Reporting Directive or NFRD regime) to all large and listed companies in the EU. Non-EU companies "with substantial activity in the EU" – that is, with a turnover over €150 million in the bloc – will also have to comply.

CSRD sustainability reporting rules are specifically disapplied for investment funds, along with all other SFDR financial products. Fund management companies are not similarly excluded and as such may be in scope as either large or listed companies where large companies are those which exceed at least two of the three criteria of (i) >€20m balance sheet total; (ii) >€40m net turnover; and/or (iii) average of 250 employees during the financial year.

What must be reported?

All CSRD reports will be subject to an audit and companies will have to adhere to EU sustainability reporting standards which will be published as delegated measures to the CSRD.

On 23 November 2022, the first set of twelve draft reporting standards were submitted for the Commission's approval by the European Financial Reporting Advisory Group (the association designated by the Commission for providing technical advice on the reporting standards). Final draft standards submitted for the Commission's approval include those for reporting on climate change, pollution, water and marine resources, biodiversity and ecosystems, resource use and circular economy, workers in the value chain and own workforce, affected communities, consumers and end-users, and business conduct.

On 25 November 2022, the Commission published draft CSRD delegated measures to legislate for the implementation of the EFRAG draft reporting standards. Final CSRD delegated measures are expected to be available by June 2023.

When will reports be due?

CSRD will be introduced on a phased approach:

- **1 January 2024:** CSRD will apply to large public-interest companies with over 500 employees and already subject to the NFRD. Reports will be due in 2025;
- **1 January 2025:** CSRD will apply to large companies not presently subject to the NFRD, with 250 employees and/or €40 million turnover and/or €20 million in assets. Reports will be due in 2026; and
- **1 January 2026:** CSRD will apply to listed SMEs. Reports due in 2027. SMEs however can opt out until 2028.

What are the Taxonomy reporting obligations for companies in scope of CSRD?

All companies in scope of CSRD are automatically in scope of reporting under the EU Taxonomy Regulation (per Article 8 of the Taxonomy). The Taxonomy sets down environmental performance criteria for assessing companies' activities; the satisfaction of which criteria allows relevant activities to be classed as environmentally substantial activities under the EU rules.

Article 8 of the Taxonomy requires all companies in scope of CSRD to report on the extent to which activities are environmentally sustainable under the Taxonomy. In particular, companies must disclose the proportion of turnover from products or services associated with activities that satisfy the Taxonomy performance criteria and the proportion of both capital and operating expenditure related to assets or processes associated with such environmentally sustainable activities.

Next steps

Fund managers should consider the impact of coming in scope of CSRD and the Taxonomy, which would represent a significant additional sustainability reporting burden, in addition to that arising under SFDR.

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