Corporate Governance snapshot:

The EU Corporate Sustainability Reporting Directive & its impact in the UK

Even though the UK is not part of the EU, the EU Corporate Sustainability Reporting Directive (CSRD) (2022/2464) will impact on some UK incorporated companies. The CSRD, which entered into force in January 2023, sets out additional disclosures for companies to include in their annual report in relation to sustainability matters.

In-scope companies

Subject to certain exemptions, the CSRD will apply to:

- large undertakings incorporated in the EU;
- EU parent undertakings of large groups;
- issuers with transferable securities admitted to trading on an EU regulated market, regardless of where they are incorporated and including listed small and medium sized undertakings but not micro undertakings; and
- EU subsidiary undertakings or branches with an ultimate parent undertaking incorporated in a third-country if:
  - the EU entity is: (i) a large subsidiary undertaking; (ii) a listed SME; or (iii) a branch that has generated net turnover of more than €40 million in the preceding financial year; and
  - the third-country parent undertaking's group generated net turnover in the EU in excess of €150 million in each of the previous two consecutive financial years

(**Third-Country Parent Consolidated Reporting**).

Disclosures required & double materiality

The CSRD requires companies to provide information on sustainability matters relating to areas such as the entity's business model and strategy; targets adopted and progress made towards these targets; governance arrangements and incentive schemes. Sustainability matters are defined to cover environmental, social, human rights and governance matters.

More detailed disclosure standards will be developed by the EU Commission and adopted through delegated acts – these will specify in more detail the information which undertakings are required to include and the structure to be used. The EU Commission is required to adopt the first of these delegated acts by the end of June 2023.

Implementation timetable

The CSRD reporting obligations are being introduced in a phased manner between 2024 and 2029:

- for financial years starting on or after 1 January 2024 for EU listed large undertakings or EU listed parent undertakings of large groups, in either case with an average of more than 500 employees during the financial year;
- for financial years starting on or after 1 January 2025 for EU-incorporated large undertakings (whether listed or not) or parent undertakings of large groups, which did not fall within the 1 January 2024 deadline; and
- for financial years starting on or after 1 January 2028 for EU subsidiaries or branches which meet the criteria for Third-Country Parent Consolidated Reporting.

Next steps

EU Member States have until July 2024 to implement the CSRD into national law. UK incorporated companies will need to consider the relevant domestic implementing measures to ensure that they comply as necessary in respect of their activities in each EU jurisdiction and the EU as a whole.

Third-Country Parent Consolidated Reporting

Under the Third-Country Parent Consolidated Reporting obligation, it will be the in-scope EU subsidiary or branch that is required to publish the sustainability report.

The report needs to cover information at the group level of the non EU-incorporated parent undertaking and needs to include broadly the same information as is required under the CSRD generally.

Where the subsidiary/branch does not have the information available to include the necessary disclosures in the report, and the parent undertaking does not provide this information on request, the subsidiary/branch is required to publish a report containing all the information that it is able to include and to issue a statement noting that the parent undertaking did not make the necessary information available. Member States may notify the EU Commission annually of the subsidiaries/branches that issue such a statement.

Double materiality

The overarching obligation is to include *"information necessary to understand the [undertaking's/group's] impact on sustainability matters, and information necessary to understand how sustainability matters affect the [undertaking's/group's] development, performance and position"*. This is the so-called "double materiality" concept. It looks both at the impact on, and the impact by, an undertaking in relation to sustainability matters, recognising the duality of risk exposure that the undertaking's business and strategy may have.

Relevant definitions and threshold from EU Accounting Directive (2013/34)

Large undertaking

Undertaking exceeding at least two of three criteria as on its balance sheet date:

- balance sheet total: €20 million
- net turnover: €40 million
- average number of employees during financial year: 250

Large group

Group consisting of parent and subsidiary undertakings which on a consolidated basis exceeded at least two of three criteria as on the balance sheet date of the parent:

- balance sheet total: €20 million
- net turnover: €40 million
- average number of employees during financial year: 250

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