

CSRD – Time for European Companies to Act

What You Need to Know

- The Corporate Sustainability Reporting Directive (“CSRD”) significantly expands sustainability reporting requirements for EU companies.
- Companies are subject to its requirements based on their type and whether they meet specific thresholds.
- Companies must undertake a materiality assessment to determine their particular sustainability reporting requirements.

Background

CSRD has significant sustainability reporting requirements for companies operating within the European Union. The CSRD's objective is to update and enhance the regulations regarding the social and environmental data that companies are required to disclose.

CSRD applies to a wide range of EU domiciled companies, including large companies and listed small and medium-sized enterprises (“SMEs”). It is estimated more than 60,000 EU companies will be in scope of CSRD, as opposed to just over 11,000 under its predecessor the Non-Financial Reporting Directive (“NFRD”), which only applied to large public-interest entities.

CSRD came into force on 1 January 2024. It consists of four implementation phases, with companies becoming subject to its requirements based on their type and whether they meet specific thresholds.

Phased Implementation

Phase one of CSRD, for all financial reporting periods commencing after 1 January 2024, only impacted large listed/public interest companies. In general, such large entities were already reporting under the NFRD.

Phase two (commencing 1 January 2025), applies to large undertakings (not subject to NFRD). Such large undertakings are undertakings which on their balance sheet date meet at least two of the three following criteria: (i) balance sheet total: EUR 25 million; (ii) net turnover: EUR 50 million; or (iii) average number of 250 employees during the financial year.

Phase three (commencing 1 January 2026) applies to small and medium-sized undertakings, which are public-interest entities and which are not micro-undertakings¹.

Phases 2 and 3 will encompass the majority of EU-domiciled companies that fall under the scope of the CSRD². These companies should begin preparing for the CSRD, if they have not already done so, during 2025.

¹ micro-undertakings are undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (a) balance sheet total: EUR 450,000; (b) net turnover: EUR 900,000; (c) average number of employees during the financial year: 10.

² This will include special purpose vehicles incorporated in Ireland and Luxembourg that meet the relevant criteria.

Key Requirements of CSRD

CSRD requires companies to report in accordance with the European Sustainability Reporting Standards (“ESRS”). The ESRS specify the information that a company shall disclose about its material impacts, risks and opportunities in relation to environmental, social, and governance sustainability matters.

It will ensure that investors and other stakeholders have access to the information they need to assess the impact of companies on people and the environment, and for investors to assess financial risks and opportunities arising from climate change and other sustainability issues.

A materiality assessment is the starting point for determining sustainability reporting under ESRS.

CSRD mandates that materiality be assessed through a “double materiality” lens, considering both impact (inside-out) and financial (outside-in) materiality.

In order to ensure that a reporting process is in place which adequately addresses the requirements of CSRD, it is crucial for Directors to have an understanding of these requirements, including the ESRS and their company's corresponding materiality assessments.

A failure to do so creates a risk of the financial statements published by the Directors not clearly and fairly reflecting the company's sustainability credentials, i.e. greenwashing.

Steps to take now

Here are some practical steps that companies can take to ensure compliance:

Determine Scope – Identify whether your company falls within the scope of CSRD and determine the specific phase applicable to your organisation.

Assess – Evaluate your current sustainability reporting practices and identify gaps in relation to the CSRD requirements.

Develop and Implement – Create a detailed plan to address the new reporting standards, including data collection, assurance processes, and digital reporting.

Director Training – Ensure boards have the requisite understanding of CSRD to oversee a reporting process that will clearly and fairly reflect a company's sustainability credentials.

How Maples can assist

Our Sustainable Investing Group, contacts listed below, can help you evaluate and prepare for CSRD compliance. We understand the complexities and challenges that come with adhering to the CSRD requirements and our team of experts is dedicated to providing comprehensive support and training to ensure your company and your board is fully prepared for compliance.

For further information, please reach out to your usual Maples Group contact or any of the persons listed below.

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