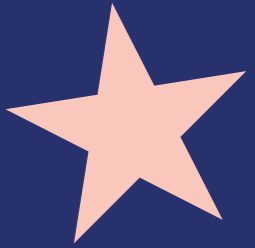# CSRD and ESRS

A guide to get you started

What's inside

Content

Are you ready for the biggest and boldest sustainability reporting directive ever adopted?

In January 2023, the EU's Corporate Sustainability Reporting Directive (CRSD) came into effect – making it mandatory for around 50 000 companies operating in the European Union (EU) to adhere to a new set of sustainability reporting requirements.

That's a lot of companies spanning all kinds of industries and sizes. So, if your company operates in the EU – chances are that you're in for the ride too.

Now, we get this might sound a little intimidating. But with the clock ticking and the first batch of companies subjected to CSRD obligated to start their reporting in 2024, it's high time to get started. But don't worry. We're here to help you navigate the ins and outs of this new directive – and that is where this guide comes in!

What is the Corporate Sustainability Reporting Directive?

01

In a nutshell, you could say that **the Corporate Sustainability Reporting Directive (CSRD)** is an upgraded replacement of the EU's Non-Financial Reporting Directive (NFRD). It has stricter reporting guidelines and covers an additional 40 000 companies.

The main goal is to ensure consistent and comparable reporting of environmental, social, and governance (ESG) performance. That is why all companies under CSRD are required to follow the directive's reporting standards, also known as **the European Sustainability Reporting Standards (ESRS)**. If this seems confusing, don't worry! We'll explain them in detail later.

"The CSRD is a total game-changer! It's not just about reporting anymore — it's reshaping how companines tackle sustainability altogether."

— Johan Löfquist
Head of Sustainability Data, Worldfavor

Key CSRD requirements you should know about:
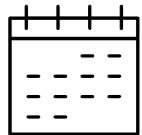
Yearly check-in
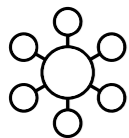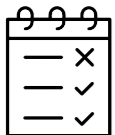Companies will have to publicly report their ESG performances aligned to the ESRS, including the risks and opportunities they face in these areas, each year.

Reporting scope
It's not just about your own operations – the CSRD requires you to report on your entire value chain.

Mandatory due diligence
Be prepared to spill the beans on your due diligence processes and results.
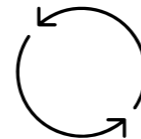
Double materiality assessment
Companies subject to the CSRD will have to do a double materiality assessment. (Don't worry, we'll explain what that means below!)
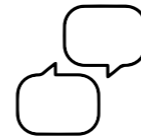
A second opinion
As part of the CSRD reporting requirements, companies need to get "limited" assurance for their sustainability info from a trustworthy third party. They'll review the data to make sure it's accurate and legit.

Bit-by-bit
This directive is rolled out in phases for different types of companies throughout the next years – with the big guys up first!

By when does your company need to comply?

In the upcoming years, more than 50 000 companies will be required to comply with the CSRD. But here's the question: who exactly needs to report, and when do they have to do it? Let's find out!

2023
The CSRD entered into force.

2024
All large companies already covered by the NFRD that meet at least two of the following three requirements:
500 or more employees;
40 million EUR in net turnover;
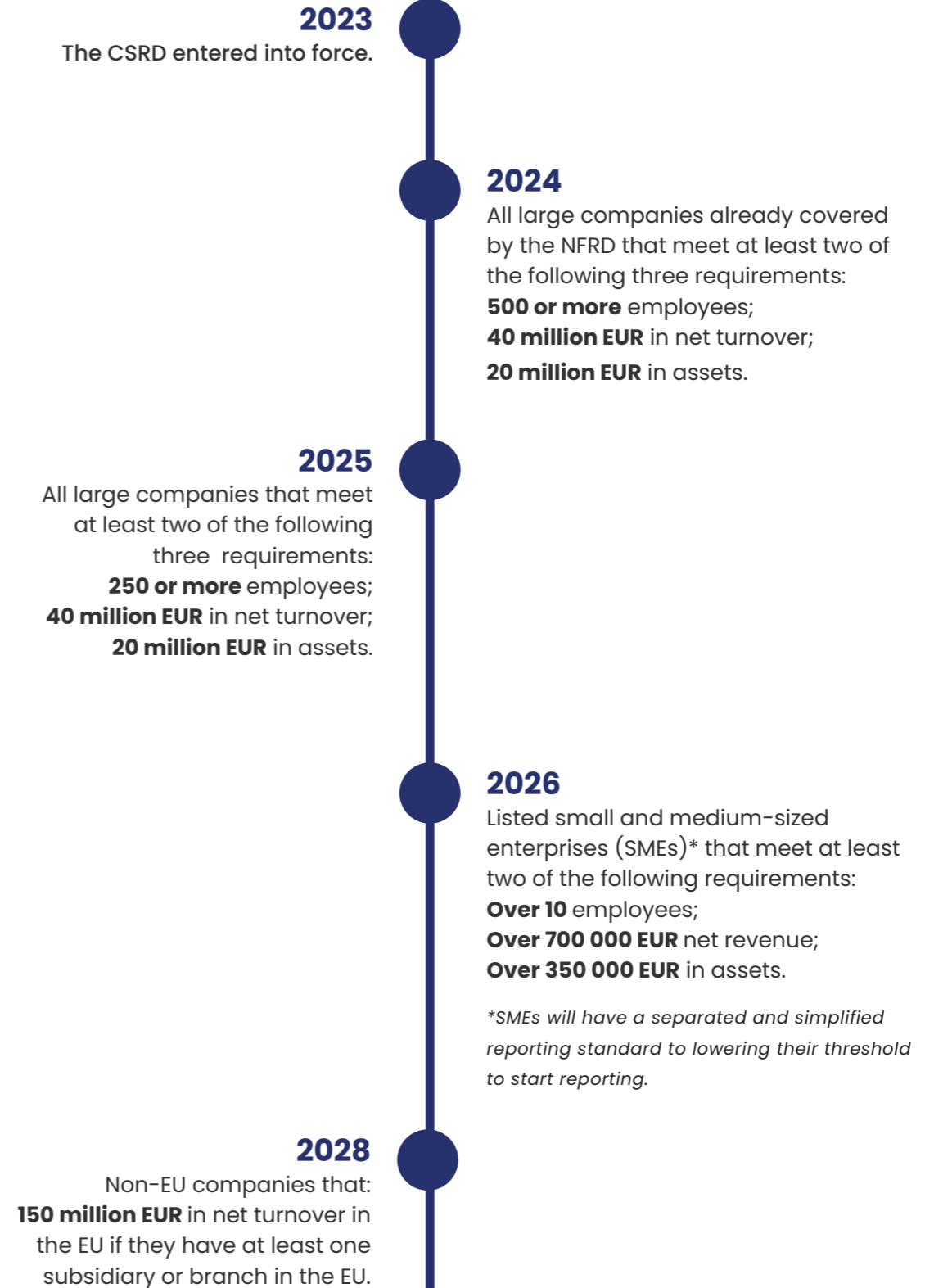**20 million EUR** in assets.

2025
All large companies that meet at least two of the following three requirements:
250 or more employees;
40 million EUR in net turnover;
20 million EUR in assets.

2026
Listed small and medium-sized enterprises (SMEs)* that meet at least two of the following requirements:
Over 10 employees;
Over 700 000 EUR net revenue;
Over 350 000 EUR in assets.

SMEs will have a separated and simplified reporting standard to lowering their threshold to start reporting.

2028
Non-EU companies that:
150 million EUR in net turnover in the EU if they have at least one subsidiary or branch in the EU.

What can happen in case of non-compliance?

It's up to each member country to decide what sorts of sanctions that should be imposed on companies that don't comply with the CSRD. However, the EU has put forward a set of recommended administrative sanctions:

Unmasking the wrongdoer:
The guilty company should be named and their wrongdoing will be made known to the public.

Cease-and-desist order:
The guilty company should be ordered to stop doing what they are doing wrong.

Paying the price:
The guilty company should pay heavy fines.

The European Sustainability Reporting Standards

ESRS

The European Sustainability Reporting Standards (ESRS) is the set of standards that companies subjected to the CSRD are required to follow.

But what exactly do they cover? In this chapter, we'll dig deep into these standards, plus cover the mandatory double materiality assessment. Let's get into all the nitty-gritty details!

Getting to know the European Sustainability Reporting Standards (ESRS)

The ESRS set out specific requirements that companies must align with when reporting their sustainability practices. Currently, there are 12 drafts available, including two cross-cutting drafts and 11 drafts covering specific topics.
The standards you'll need to follow depend on things like your operations, size, and sector.

Cross-Cutting Standards:

ESRS1
General Principles
ESRS2
General strategy, governance, and materiality assessment

Topical Standards ESG:

Environment:
ESRS E1
Climate Change
ESRS E2
Pollution
ESRS E3
Water and marine resources
ESRS E4
Biodiversity and ecosystems
ESRS E5
Resource use and circular economy

Social:
ESRS S1
Own Workforce
ESRS S2
Workers in the value chain
ESRS S3
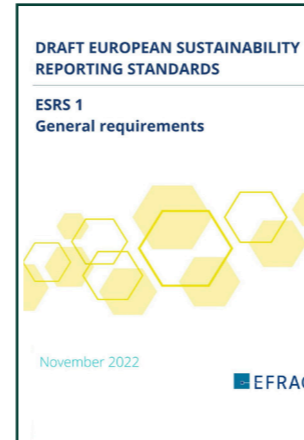Affected communities
ESRS S4
Consumers and end users

Governance:
ESRS G1
Governace, risk managment & internal control

The general requirements standards

Think of the general requirements standards as **the base of your reporting**, as they tell you what information to include and how to present it.

ESRS 1
General requirements

Mandatory

ESRS 2
General disclosures

July 2023 update
According to the EU's latest changes, the "General disclosures" standard is the only one that everyone must follow. To figure out the other disclosures that apply to you, you'll need to do a double materiality assessment, which is explained later in this chapter.
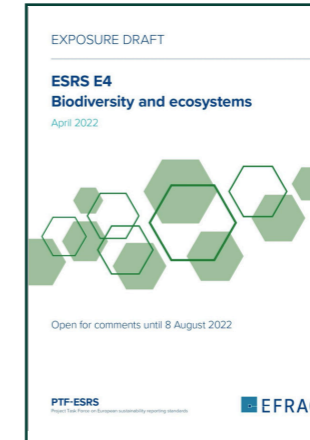
The environmental -related standards

The environmental-related standards (ESRS E1 to E5) give you the run down on **how to report your company's impact on the environment**. Right now, there are a total of five standards that cover the following areas:
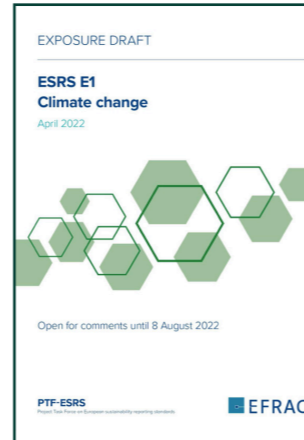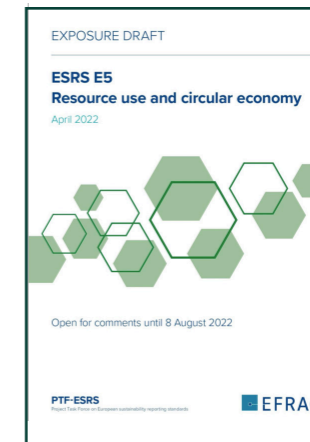
ESRS E1
Climate Change

ESRS E4
Biodiversity and ecosystems

ESRS E2
Pollution

ESRS E5
Resource use and ircular Economy

ESRS E3
Water and marineresources

July 2023 update
According to the EU's latest changes, companies with less than 750 employees now have the option to exclude certain disclosure requirements. During their first year, they can omit reporting on their scope 3 emissions data, and "biodiversity" for the first two years.
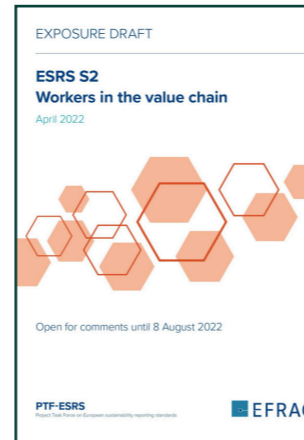
The social-related standards

The four social-related standards (ESRS S1-S4) give you the inside scoop on **how to report on things that affect people**. More specifically, they cover:

ESRS S1
Own Workforce

ESRS S3
Affected communities

ESRS S2
Workers in the value chain

ESRS S4
Consumers and end users

July 2023 update
*According to the EU's latest changes, companies with less than 750 employees have now the option to exclude certain disclosure requirements. During their first year of implementing the standards, they can omit reporting on "own work workforce," and for the first two years, they can exclude information on "workers in the value-chain," "affected communities," as well as "consumers end end-users."*

The governance standard

The governance standard (ESRS G1) outlines what companies need to report on **in relation to their company's conduct,** including supplier relationship management, strategy for preventing corruption and bribery, and whistleblower protection.
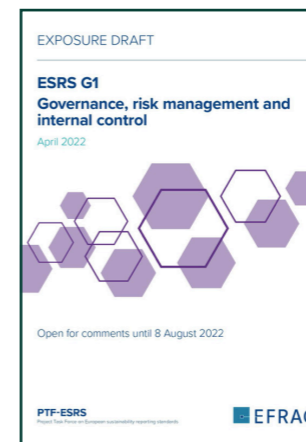
ESRS G1
Business conduct

July 2023 update
In the recent update, the commission made some alterations to some data disclosure requirements related to corruption, bribery, and whistle-blower protection. The reason for these alteration was to address the previous requirements that posed a potential infringement on individuals' rights to withhold evidence that could potentially implicate themselves in wrongdoing.

The double materiality requirement

When it comes to reporting under the ESRS, companies must first perform a double materiality assessment. This assessment helps determine which ESRS requirements are relevant for your organization specifically. There are two types of materiality that companies need to consider:

There are two types of materiality companies need to consider:

1. Impact materiality:
All about how your company's actions impact on people and planet in the short, medium, and long term. And remember, it's not just about your own operation; you also need to assess the impact your entire value chain.

2. Financial impact:
Here, the focus shifts to how sustainability issues impact your business financially. This includes factors such as your company's growth, performance, and cost of capital in the short, medium, and long term.

By combining these two factors, you can figure out which risks and opportunities are material and should be included in your reporting. It's important **to establish appropriate thresholds to help you make this decision**, such as the likelihood of occurrence and the potential financial effect. This way, you can ensure that you include important information in your reports.

The double materiality matrix

CSRD requires in scope companies to undertake a double materiality assessment.
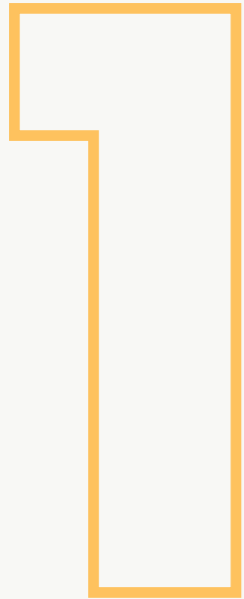

Impact on people and planet
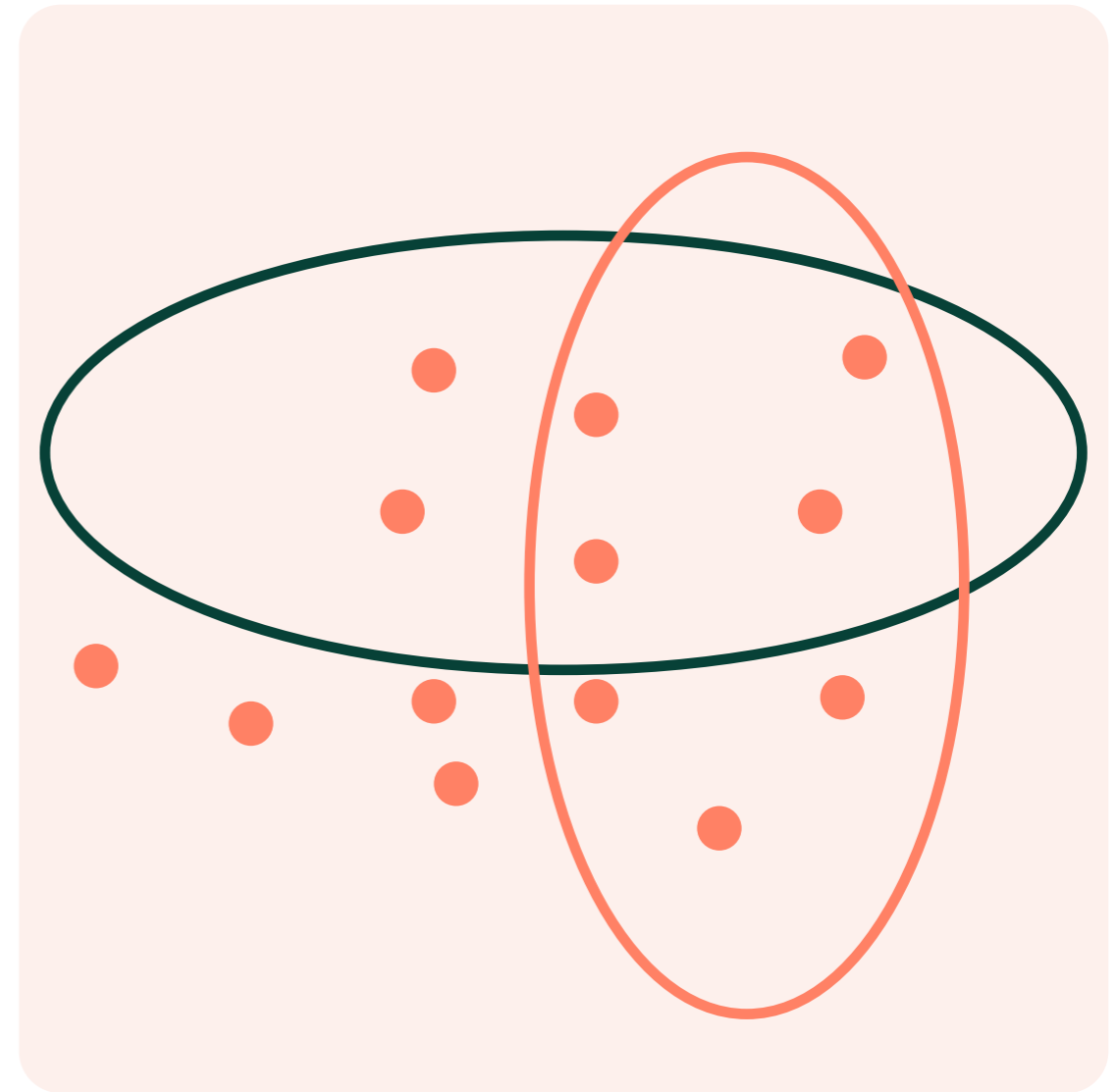
Impact on company value

How to get started

Starting your CSRD reporting can feel like a daunting task, but there are some steps you can take to make things run more smoothly.

Here's some practical tips from Worldfavor's sustainability experts on **how to kickstart your CSRD compliance**. You've got this!

1

Change your current reporting strategy to align

Start by reviewing which sustainability framework your company follows today and determine the scale of work to be done in order to comply with the CSRD.

This includes developing **a double materiality assessment, setting up a due diligence process, and defining relevant metrics** to measure the impact of your sustainability effort.

Did you know?
The ESRS, willl cleverly incorporate existing EU legislations and frameworks like the TCFD, EU Taxonomy and SFDR to lower the complying threshold. By aligning with established standards, compliance becomes a breeze when the directive comes knocking!

2

Start reporting on relevant ESRS standards

Although the ESRS are still just drafts, the changes will most likely not be big, so there's actually no reason to wait until they get finalized.

Find out which ESRS requirements apply to your reporting, what information you need to disclose, and what's currently missing in your sustainability reporting today.

3

Set up a process for collecting data

To comply with the CSRD, you need to gather a ton of data from your suppliers, operators, and company partners. But let's face it, getting these external companies to hop on board and share their data can be tricky. That's why it's crucial **to establish a smooth and easy process for sharing, collecting, and organizing the data** that works for everyone involved.

Remember:
just presenting the data is not enough, you also need to be able to provide information on how you collected and analyzed the data. Using a dedicated ESG platform to streamline your entire data collection process – from collecting to comparing – will make meeting this requirement easier. Trust us, your future self will thank you for it!

CSRD checklist

Understand how you'll be affected by the CSRD by answering these questions:

01 How will the CSRD impact our company in the next two years? What about ten?

02 How can we incorporate the CSRD into our current reporting?

03 What existing processes can we continue with? Which existing processes can we remove?

04 Which of the reporting requirements are relevant to our company that we need to report on?

05 Which of the ESRS's reporting requirements are not relevant to our company and we don't need to report on?

06 Are we conducting a double materiality analysis in our current sustainability reporting?

07 How should we collect and measure the data we need every year?

08 Are we collecting the data we need from our suppliers today?

09 How should we access the data we need from suppliers?

Manage your CSRD reporting in Worldfavor

Manage your CSRD reporting in Worldfavor

Do you need help managing your ESG data for upcoming directives like the CSRD? Our platform enables companies to easily access, share and analyze their ESG data – all in one place.

Save time and costs

Don't waste your time on administrative tasks - let the platform do that for you.

Meet legislative and stakeholders' demand

Protect your brand reputation and finances by staying ahead of the legislative curve.

Guidance and support every step of the way

Get a personal customer success manager who ensures you're always making the most of the platform.

Always free for companies to share data

Sharing data you need should not be a hassle for your providers. Sharing data on Worldfavor has always been free – and always will be.

No need for consultants

Our sustainability experts are on top of the ESG landscape and follow market trends across industries and countries. We help you set your ESG scope.

Actual data from the source

Access and collect data directly from companies in your value chain – no estimates.

> **Join Worldfavor today and take the first step towards your CSRD compliance.**

About Worldfavor

Our global ESG platform is used by **more than 30,000 organizations in 140 countries** to easily access, share, and gain insights from ESG data in one place, enabling sustainable decisions at scale.

Want to see how Worldfavor can benefit your company?
Request a personalized demo now!

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