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ESG Reporting Series: The Corporate Sustainability Reporting Directive (CSRD) and its impact in Asia Pacific

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Background

The Corporate Sustainability Reporting Directive (CSRD) will transform the sustainability reporting landscape and will affect global companies with operations in the European Union (EU). The CSRD aims to hold companies more accountable for their environmental and social impacts and accelerate the EU's transition to a sustainable and inclusive economic and financial system. Supplemented by the European Sustainability Reporting Standards (ESRS), the directive is aimed at promoting change in the business behaviour of companies that operate within the EU by increasing the breadth of non-financial information reported by companies and to ensure that the information reported is consistent relevant, comparable, reliable, and easy to access. The CSRD will require disclosure from a double materiality perspective that includes how environmental, social and governance (ESG) risks and opportunities affect financial performance, as well as how the reporting entity affect people and the environment.

The CSRD will have a significant impact on companies within and outside the EU, with an estimated 50,000 companies to be in scope of the new reporting requirements[1]. It is also pertinent to note that non-EU companies with operations in the EU will also be subject to the new reporting directive. An estimate by Refinitiv found that over 10,000 companies outside the EU will be subject to the CSRD[2].

1. https://www.europarl.europa.eu/news/en/press-room/20221107IPR49611/sustainable-economy-parliament-adopts-new-reporting-rules-for-multinationals
2. https://www.wsj.com/articles/at-least-10-000-foreign-companies-to-be-hit-by-eu-sustainability-rules-307a1406

Who will be impacted?

Non-EU companies with EU operations that meet the following criteria will be required to disclose under the CSRD:

1 Non-EU companies that:

have generated a net turnover of more than

€150 million in the EU in each of the last two consecutive financial years, and;

have at least one large or listed subsidiary on regulated markets in EU (or branch if there are no EU large or listed subsidiaries) with more than

€40 million net turnover.

2 Large undertakings based in the EU, including both companies listed on an EU-regulated market and companies not listed, as well as subsidiaries of these large undertakings. Such undertakings are defined as those that meet at least *two* of the following criteria for two consecutive financial years:

> €25
million balance sheet total

> €50
million net turnover

Average number of
250 employees

3 Small and medium-sized undertakings (SMEs) with debt or equity securities listed on a regulated market in the EU, other than micro undertakings. Such undertakings are defined as follows:

Micro undertakings that meet at least *two* of the following criteria:

1. no greater than **€450,000** balance sheet total
2. no greater than **€900,000** net turnover, and
3. no greater than **10** employees.

Small undertakings that meet at least *two* of the following criteria:

1. no greater than **€5** million balance sheet total
2. no greater than **€10** million net turnover, and
3. no greater than **50** employees.

Medium-sized undertakings that do not qualify as small and meet at least *two* of the following criteria:

1. no greater than **€25** million balance sheet total
2. no greater than **€50** million net turnover, and
3. no greater than **250** employees.

It is important to note that these thresholds were subject to revisions as per the European Commission's Delegated Directive on 17 October 2023, amending the Accounting Directive as part of a wider package aimed at simplifying reporting requirements in the EU[3]. The amendment involved adjusting the monetary size criteria (balance sheet and net turnover) for micro, small, medium-sized and large undertakings or groups by 25% to account for inflation, thereby reducing the number of companies falling within scope of the CSRD.

Timeline for CSRD and ESRS adoption and implementation

CSRD and ESRS adoption

Companies in scope begin preparing for implementation

Reporting obligations actively take place

2023	2024	2025	2026	2027	2029
CSRD entered into force Adoption of the first package of ESRS on 31st July including cross-cutting and topical standards	By 30th June:* Adoption of the second package of ESRS with sector specific standards	Large EU-listed enterprises currently subject to the Non Financial Reporting Directive (NFRD): all disclosures for FY24 with limited assurance	Large EU-listed and non-listed enterprises (not in scope of NFRD); large EU subsidiaries of non-EU enterprises: all FY25 disclosures with limited assurance	EU-listed SMEs; non-EU listed SMEs: all FY26 disclosures with limited assurance	All non-EU companies with EU revenue over €150M: all FY28 disclosures with limited assurance

*EFRAG plans to modify its timetable and this deadline is likely to change.

Source: Deloitte[4]

3. https://ec.europa.eu/transparency/documents-register/detail?ref=C(2023)7020&lang=en

4. https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2023/csrd-corporate-sustainability-reporting-directive-faqs?id=us:2em:3na:hucsrdfaq:eng:aud:081723:hu

On 17 October 2023, the European Commission published a *proposal* to delay the adoption of the sector-specific ESRS by two years (i.e. from 30 June 2024 to 30 June 2026) to allow companies to focus on the implementation of the first set of the ESRS, as well as allowing more resources to be dedicated to the development of effective and proportionate sector-specific ESRS and limit the reporting requirements[5]. The proposal is one of 26 proposals to reduce the reporting burden on companies by 25% included in the Commission Work Programme 2024.

Implications for non-EU companies

Non-EU large companies listed on a regulated market in the EU will have to report in accordance with the CSRD from 2026 for financial years starting on or after 1 January 2025.

EU and non-EU small and medium-sized undertakings ("SMEs") listed on EU-regulated markets must report from 2027 for financial years starting on or after 1 January 2026.

For financial years beginning from 1 January 2028, non-EU companies that generate €150 million per year in the EU, and non-EU companies with large or listed subsidiaries located in the EU, or an EU branch with more than €40 million net turnover, will have to report in accordance with the CSRD at the parent level, with its first sustainability statement published in 2029. This would require disclosure of consolidated information at the non-EU ultimate parent level. This requirement will bring the entire non-EU parent and its worldwide operations within the scope of the CSRD. As such, this will have significant implications for non-EU companies with significant operations in the EU to provide the necessary information covering its entire operations both within and outside the EU.

5. https://commission.europa.eu/system/files/2023-10/COM_2023_638_1_EN.pdf

What are the required disclosures?

The CSRD will require disclosure and assurance on a broad suite of ESG topics and companies are expected to provide a holistic viewpoint of sustainability within the context of their company. A key aspect is that the CSRD will require companies to adopt a double materiality perspective which considers both financial and impact perspectives in the context of their company. As such, disclosures will be required on both the impact of the company on people and environment along with the sustainability risks and opportunities present to the company's operations.

Under the CSRD, the disclosure requirements include but are not limited to:

- Sustainability risks & opportunities effect on financial performance, position, and development (financial perspective)
- The impact of performance, position & development on people and environment (impact perspective)
- Business strategy and the resilience of the business models considering ESG risks
- Targets and transition plans
- Value chains and due diligence
- Digitisation of information
- Assurance of reported information

Companies that are in scope of the CSRD will be required to report on sustainability information using the ESRS developed by the European Financial Reporting Advisory Group (EFRAG) at the request of the European Commission (EC). The standards, which cover the full range of sustainability matters specified in the CSRD, are composed of the following three categories of standards which complement and interact with each other.

Cross-cutting standards: includes provisions applying to general requirements that companies shall comply with when preparing and presenting sustainability-related information and general disclosures applicable to all companies regardless of the sector they operate in and across all sustainability topics.

Topical standards: covers specific sustainability topics and providing disclosure requirements relating to sustainability impact, risks and opportunities from a sector-agnostic perspective.

Sector-specific standards: provides disclosure requirements relating to sustainability impact, risks and opportunities that are material for all entities operating in a given sector (*yet to be developed by EFRAG*).

On November 15, 2022, the EFRAG Sustainability Reporting Board approved the revised ESRS drafts and submitted them to the EC for formal approval.[6]

Approved ESRS Drafts

Cross-Cutting

ESRS 1 General Requirements	**ESRS 2** General Disclosures

Environmental

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 Business conduct

Source: Deloitte[7]

6. https://www.efrag.org/Meetings/2211141505388508/EFRAG-SRB-Meeting-15-November-?AspxAutoDetectCookieSupport=1
7. Heads Up — #DeloitteESGNow — Global Reach of the E.U. Corporate Sustainability Reporting Directive and the Impact on U.S. Companies (January 9, 2023) | DART — Deloitte Accounting Research Tool

Assurance

Beyond the reporting requirements, the CSRD requires companies to obtain third-party limited assurance. This will require audit practitioners to sign off an assurance report containing conclusions on the company's compliance with the sustainability reporting standards, processes undertaken, electronic tagging and any specific disclosure requirements.

The Council of the European Union are discussing the mandating of reasonable assurance over the CSRD sustainability report, where it is proposed that conducting a feasibility assessment to determine the practicality of "reasonable assurance" for assurance practitioners and companies alike. If the CSRD were to mandate reasonable assurance, this would result in a greater requirement for data management, controls, and frameworks around how companies report on sustainability.

Digitised disclosures

The CSRD requires companies to digitally tag reported sustainability information in accordance with a digital taxonomy[8]. Companies will therefore be required to prepare their financial statements and their management report in eXtensible HyperText Markup Language (XHTML) and to mark up the sustainability reporting to make it easier for readers of the report to find the information they are seeking. Businesses may therefore need to invest in new technologies and systems that permit digital disclosures of their sustainability data in accordance with this requirement.

Can non-EU companies use equivalent international standards to meet requirements under the CSRD?

Although the European Commission (EC) has indicated that it will allow in-scope non-EU companies to use sustainability standards equivalent to the ESRS, it has yet to finalise which standards will be deemed equivalent. If the EC decides that another country's sustainability reporting standards are not equivalent, it may nonetheless allow companies to continue using such standards during an appropriate transition period, providing reasonable time for them to prepare to report in accordance with ESRS or an approved equivalent standard. When the appropriate transition period comes to an end, the companies would be required to report in accordance with ESRS or an approved equivalent standard.

When comparing the CSRD with the new standards from the International Sustainability Standards Board (ISSB), the EC noted that it worked to ensure a very high degree of interoperability between the ESRS and ISSB standards[9]. In fact, the ESRS and the first two standards of the ISSB, which were published in June 2023, have been developed in parallel. Discussions between the Commission, EFRAG and the ISSB were held to ensure a high degree of alignment where the two sets of standards overlap.

When comparing the CSRD with the United States' Securities and Exchange Commission's (SEC) proposed rule on climate-related disclosures, a main difference is that the CSRD will include requirements for non-climate-related environmental topics and various social topics, while the SEC's proposed rule on climate-related disclosures would only mandate disclosures specific to climate impacts and risk[10]. With an estimated 84 disclosure requirements covering both quantitative and qualitative disclosures, the disclosure requirements of the ESRS are more extensive and broader in scope than the SEC's proposed rule on climate-related disclosures.

8. https://dart.deloitte.com/USDART/home/publications/deloitte/heads-up/2023/esg-eu-corporate-sustainability-reporting#SL835739977-644782

9. https://efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2307280747599961%2F04-01%20EFRAG%20SRB%20%20230823-%20EFRAG%20assessment%20of%20interoperability%20with%20ISSB%20-%20Cover%20Note.pdf

10. https://www.sec.gov/rules/proposed/2022/33-11042.pdf

Preparing for the CSRD

Given its extraterritorial impact, companies in Asia Pacific with operations in the EU that meet the criteria should embark on the necessary preparation for CSRD compliance as soon as possible. While many companies have recognised the need to present sustainability information to key stakeholders and have already published sustainability reports based on the requirements relevant to their jurisdictions, there will be gaps that companies will need to address in order to fully comply with the CSRD's comprehensive disclosure requirements. An important first step for companies is to conduct a boundary assessment to understand whether they fall under the scope of the CSRD. If companies are in scope, the next step is to determine the relevant timeline of reporting, and to prepare accordingly.

Furthermore, disclosures aligned with the double materiality principle is a relatively new concept and companies within the scope of the CSRD should prioritize conducting a double materiality assessment by considering both financial and impact materiality as well as evaluating and strengthening their processes and controls over their sustainability information so they can be ready for assurance.

However, the CSRD goes beyond a compliance exercise for companies as it is underpinned by strategic and operational implications which require companies to proactively engage with different stakeholders and drive transformation in their organisations with strategies across key priority areas. These include governance and strategy, operations, data collection, transition planning, collaboration within and outside the organisation and ensuring a cohesive annual reporting cycle and assurance. To fully address the requirements of CSRD, companies should undertake a comprehensive review of their organisations across these priority areas.

The strategic and operational implications of the CSRD require companies to build on their internal capabilities and systems, requiring investment in key capacity building, equipping the existing teams that facilitate reporting with the right skills, fostering deeper engagement and collaboration across teams, transforming operations and enhancing data collection processes.

The following summarises some next steps for companies as they review their business strategies across key priority areas:

Priority Area	Key Action Steps
Governance and Strategy	• Effectively manage sustainability risks and consider their impact on financial risk appetite within companies' business models and decision-making processes • Make use of data collected for CSRD / ESRS reporting to influence performance of employees • Introduce a clear hierarchy of sustainability officers, including the role of the CSO
Operations	• Upskill staff or hire new resources to ensure sustainability requirements are well understood throughout the business and especially within core functions • Implement changes to companies' systems and invest in new technology to review contracts with third parties across the supply chain to fulfil required due diligence checks • Map the cost of implementing CSRD / ESRS and other sustainability regulations that could affect the company's financial standing
Standardised data collection	• Collect ESG data across companies' business operations, including their supply chains • Standardise collected ESG data for reporting purposes • Implement solutions to digitally tag sustainability information in the same way it is done for financial reports
Transition planning	• Develop decarbonisation pathways and develop transition plans (including investment and technology review) in line with Paris agreement • Build solutions to calculate carbon footprint, covering scope 1, 2, and 3 emissions • Conduct scenario analysis
Collaboration within the organisation and beyond	• Increase collaboration and create links between finance, internal risk management, procurement and HR departments to ensure the information flow and support the collection and reporting of data • Engage with actors along the supply chain to identify risks and opportunities and ensure transfer of information
Cohesive annual reporting cycle and assurance	• Incorporate sustainability reporting within the broader annual reporting cycle • Assess gaps between the financial and non-financial reports • Build knowledge of the entire value chain and relevant stakeholders to perform double-materiality assessments and assure reported information

Source: Deloitte[11]

11. https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/ecrs/deloitte-uk-csrd-esrs-ra-perspective-new.pdf

Key considerations for companies preparing to align with the CSRD:

- Does your organisation have operations in the EU that fall within the reporting criteria?
- Does your organisation's existing sustainability reporting disclosures meet requirements under the CSRD and the supporting ESRS requirements? Are there are overlaps?
- Which timeframe applies to your organisation?
- Do you have the necessary data processes and capabilities to capture, measure and disclose in accordance with the CSRD?
- Do you have an assurance partner that can validate and assure your data?
- If your organisation does have to report under CSRD, have you considered undertaking a double materiality assessment, and gap assessment to compare how your current disclosures compare to requirements under CSRD?

Sustainability Reporting Readiness Assessment powered by Deloitte's SustainNext™

SustainNext™, our pioneering generative AI-powered accelerator is designed to help companies prepare for emerging reporting standards such as the CSRD.

SustainNext™ utilizes Generative AI to seamlessly analyse public ESG disclosures and help companies prepare for new reporting standards. It offers content suggestions, an intuitive web-based workflow and visual summaries. Organisations need to have appropriate systems, processes, data and controls in place to effectively meet various Standards' requirements. Our Sustainability Reporting Readiness Assessment Tool has been developed to prepare our clients for changing Sustainability reporting landscape.

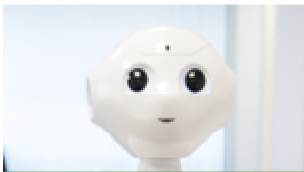
SustainNext™

Left

Existing Public ESG Reporting Disclosures

- **Annual Report**
- **Sustainability Report**
- **Modern Slavery Statement**
- **Risk Management Framework**

Generative AI Engine



1. Unstructured Data Extractor
2. Sentence Assembly Modelling
3. Language Translation (EN, JP)
4. Semantic Paragraph Constructor
5. Search Acceleration Modelling
6. Large Language Model (LLM)

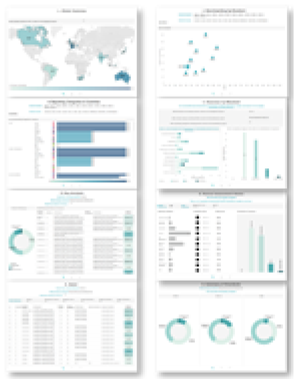
Right

Sustainability and Climate Standards Disclosure Requirements

- ISSB / IFRS
- CSRD / ESRS

Web-based Workflow

Real-Time Dashboard



Find out more about SustainNext here

Contact Deloitte to learn more about how we can help your organisation understand and prepare for the CSRD

Deloitte has experience through our end-to-end service offerings ranging from CSRD readiness and roadmap development to training, target setting, ESG data management and controls. Our bespoke CSRD gap assessment and reporting tools can help your organisation navigate the reporting process and ensure comprehensive disclosure in alignment with ESRS. Deloitte also can assist in transforming your organisation to prepare for and deliver new reporting standards and practices. Contact us below to learn more.

With extensive experience and expertise across Asia Pacific, Deloitte partners with businesses to take practical steps to decarbonise, become climate resilient and unlock the economic opportunity of the region's transition to a low-carbon economy. Contact us below to learn more about how we can support your organisation prepare for new reporting standards, stay ahead of the regulatory curve and align with global best practices.

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