

CSRD applicability for North American companies



About CSRD

The Corporate Sustainability Reporting Directive (CSRD) is the new standard for sustainability reporting for companies domiciled or operating in the European Union (EU), which has significant implications for North American companies with subsidiaries in the bloc. It covers over 800 disclosure requirements across 2 general and 10 topical standards focusing on impact, risk and opportunity management. It also requires companies to obtain limited assurance and to pursue machine-readability of information to enable the EU's upcoming publicly accessible European Single Access Point database.

The CSRD represents one element in the broader journey from voluntary sustainability disclosures to mandatory sustainability reporting on par with financial reporting. With improved control and disclosure of sustainability data, investors may consider sustainability factors alongside traditional financial metrics when making investment decisions. With more eyes/scrutiny on sustainability disclosures, a company's reputation and valuation is at stake, raising the importance of having processes to develop good quality information and providing the opportunity for performance-based differentiation. Businesses will need to involve a range of stakeholders from across finance, legal, IT (Information Technology), procurement, sustainability, investor relations and human resources to operationalize the CSRD requirements. The CSRD requirements go beyond compliance. It's an opportunity to enhance value and proactively manage sustainability risks. By integrating sustainability into core processes, you gain a competitive edge in today's market. This document outlines the applicability of the CSRD to North American companies and their key action points over the next few years.

50,000

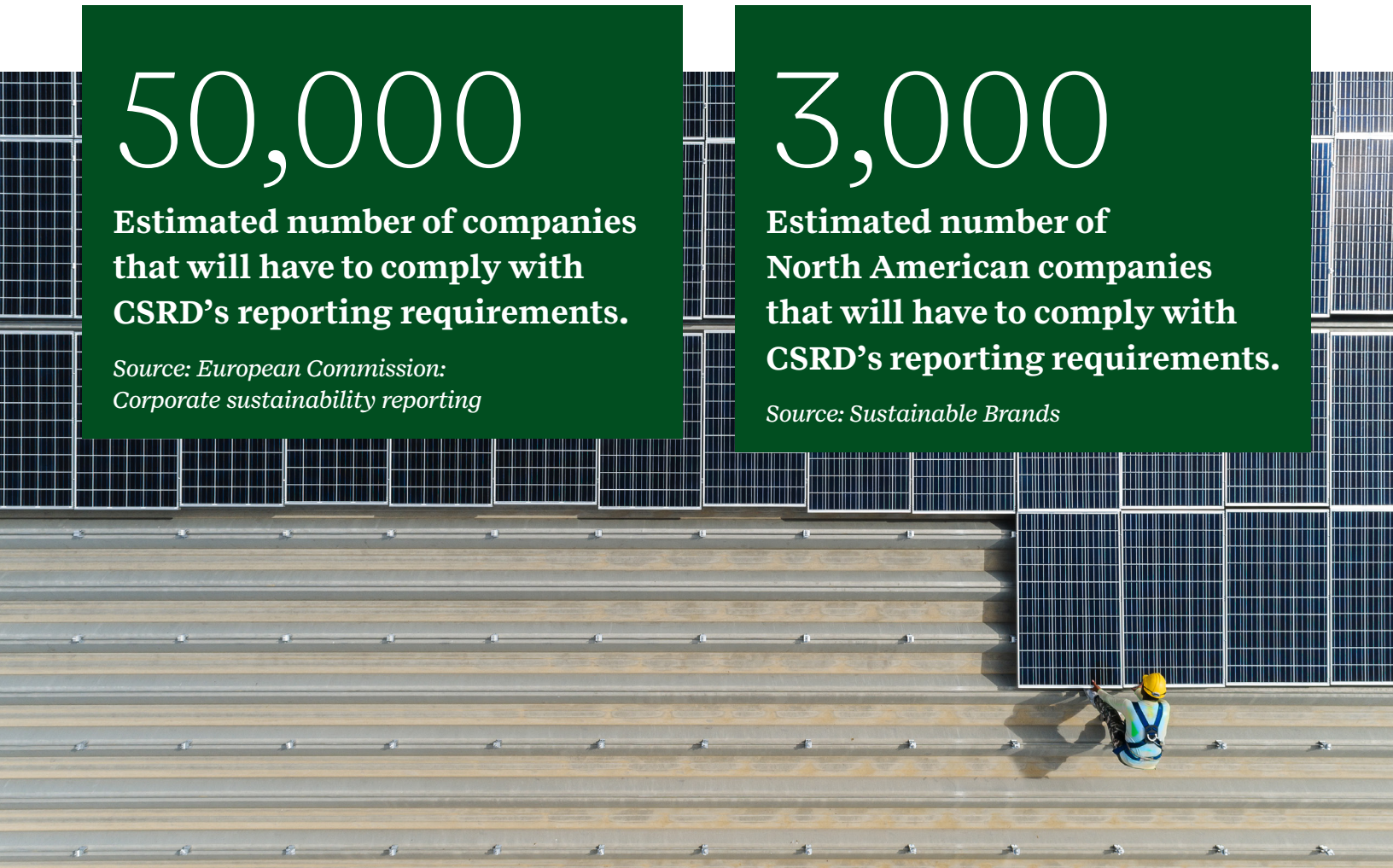
Estimated number of companies that will have to comply with CSRD's reporting requirements.

Source: European Commission: Corporate sustainability reporting

3,000

Estimated number of North American companies that will have to comply with CSRD's reporting requirements.

Source: Sustainable Brands



CSRD applicability for US and Canadian companies (as of May 1, 2024)

Entity	Criteria	Timeline
Large companies with >500 employees EU entities already subject to the EU non-financial reporting directive	EU credit institutions, insurance companies and companies designated as public interest entities by an EU member state All companies with securities (equity/debt) listed on EU-regulated markets (includes US and Canadian companies)	For FY starting on or after January 1, 2024
Large companies i.e., companies that meet two of the following (alone or on a consolidated basis with their controlled subsidiaries): i. >250 employees; ii. balance sheet of > €25 million; iii. net turnover of > €50 million	EU companies All companies with securities (equity/debt) listed on EU-regulated markets (includes US and Canadian companies)	For FY starting on or after January 1, 2025
Small and medium-sized enterprises (SMEs) i.e., companies that meet two of the following: i. >10 employees; ii. balance sheet of > €450,000; iii. net turnover of > €900,000	EU companies listed on EU-regulated markets All companies with securities (equity/debt) listed on EU-regulated markets (includes US and Canadian companies)	For FY starting on or after January 1, 2026
Non-EU companies with “significant activities” in the EU (includes US and Canadian companies)	Non-EU companies with an EU net turnover of > €150 million and either: (a) an EU subsidiary that is a Large company or has listed securities on EU-regulated markets; or (b) a branch in the EU with a turnover of > €40 million.	For FY starting on or after January 1, 2028

Source: Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting

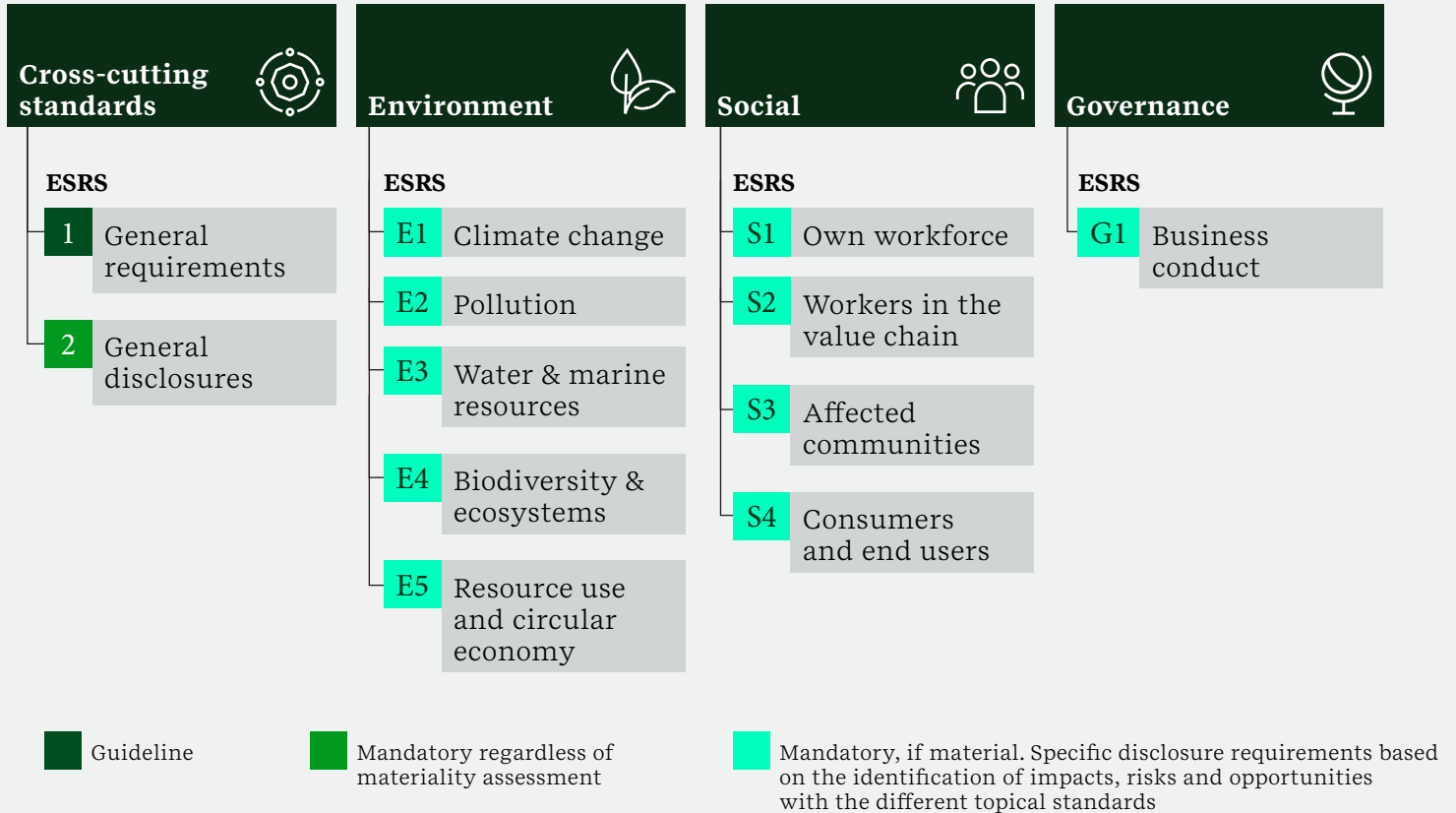
- Off-calendar reporting timelines:** The applicable reporting year is based on the company’s fiscal year, not the calendar year. The reporting due date is one year after the fiscal year end for North American companies (or Non-EU group with significant EU activity). Some EU Member States may have slightly different deadlines in their national implementation of the CSRD. Consult specific regulations of the relevant EU Member State.
- SMEs:** Currently, non-listed SMEs are not directly subject to mandatory CSRD reporting. Listed SMEs have similar reporting requirements as large companies but can benefit from proportionate reporting and simplified standards.

What are the requirements?

The CSRD raises the bar significantly, demanding detailed disclosures across the full range of environmental, social and governance (ESG) factors. These reports will be guided by the first set of 12 European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG). The information reported requires a company to look beyond its own operations across the value chain. From a company’s sustainability strategy and progress to its products, partnerships, and even internal incentives, the ESRS requires unparalleled transparency into a company’s impacts, risks and opportunities.

The first set of 12 European Sustainability Reporting Standards (ESRS)

Four pillars of the ESRS



Future standards include sector-specific standards, SME proportionate standards, additional topic standards, and integration with other reporting standards and frameworks. For topics identified via the double materiality process, entity-specific topic reporting is also a requirement.

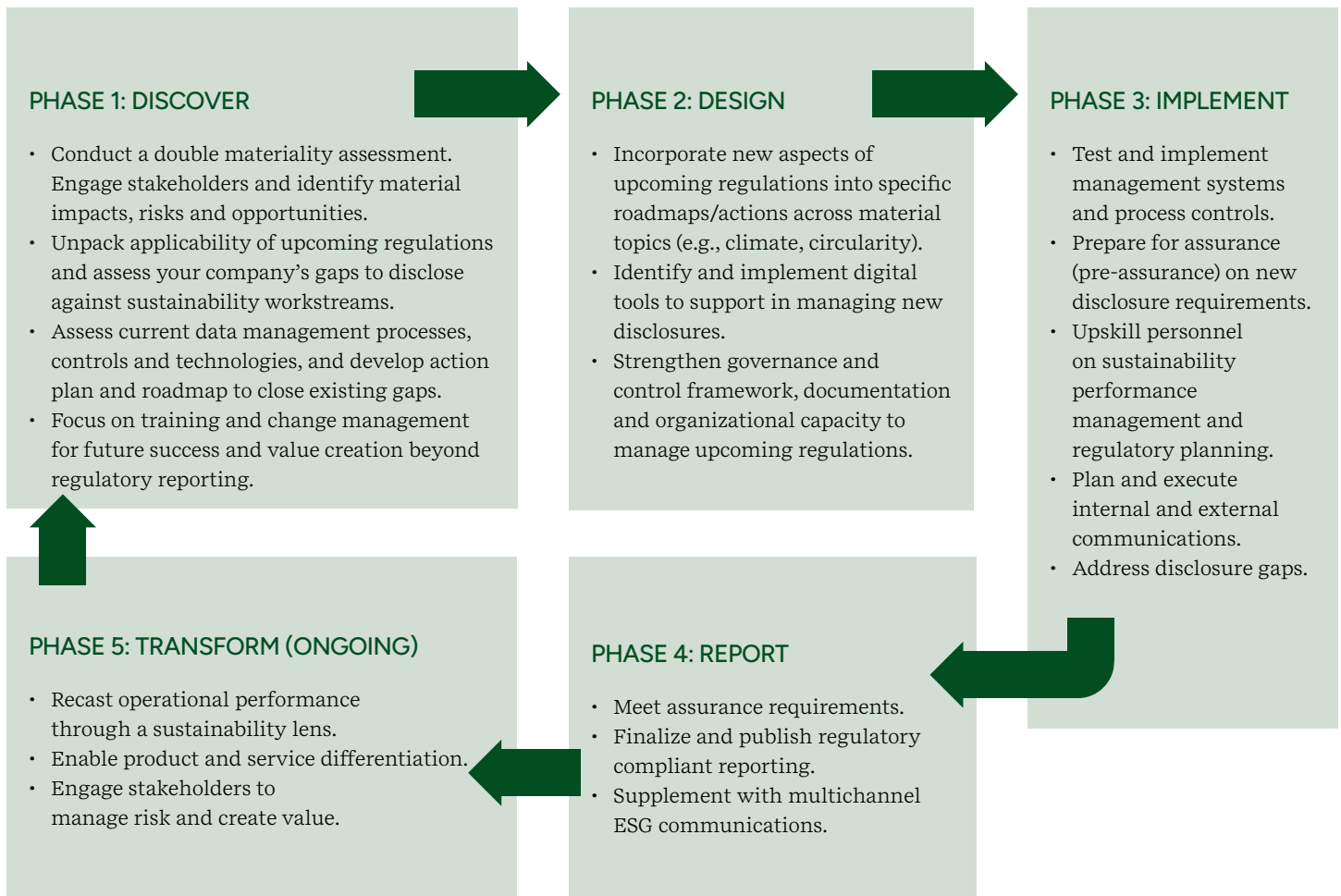
The CSRD mandates comprehensive reporting on sustainability factors, including:

- Double materiality:** Companies must conduct a double materiality assessment, outlining their process for evaluating both financial and sustainability impacts, to determine which matters are material and thus necessary to disclose to stakeholders.
- Value chain impacts:** Reporting must consider the company’s own operations and its value chain.
- Reporting standards:** ESRS provide detailed reporting guidelines for companies in scope, covering sustainability disclosures.
- Assurance:** Companies within scope must obtain limited assurance on their sustainability reporting, ensuring compliance with EU standards and electronic reporting formats. The EU will assess transition to “reasonable assurance” in the future.
- Digital tagging:** While the initial phase focuses on core requirements and disclosures, future implementation will incorporate reporting in European Single Electronic Format (ESEF) format and XBRL (eXtensible Business Reporting Language).

Latest Developments: On April 24th, 2024, the European Parliament formally adopted the Corporate Sustainability Due Diligence Directive (CSDDD), setting into law obligations for large companies with significant activities in the EU to conduct human rights and environmental due diligence in their own operations and across their chains of activities. The CSDDD sets minimum requirements for what EU Member States are required to transpose into national law. At a minimum, Member States need to develop or update existing national laws to meet the CSDDD’s objectives and scope but are allowed to go further by setting stricter due diligence requirements or by including into scope activities currently excluded from the Directive. For additional details please visit [Corporate Sustainability Due Diligence Directive \(CSDDD\) \(erm.com\)](https://erm.com)

Suggested approach

ERM’s sustainability regulatory reporting process is designed to go beyond compliance to optimize value at every step of the journey. From operational efficiency to product differentiation and risk mitigation, our phased approach enables clients to differentiate in a modular but cohesive fashion. This approach paves the way for broad sustainability disclosure readiness, product differentiation, operational efficiency and overall value creation.



The CSRD presents both challenges and opportunities for North American companies operating in the EU. By proactively taking steps towards compliance, companies can demonstrate their commitment to sustainability, gain a competitive edge and navigate the evolving regulatory landscape effectively.

Navigate CSRD with confidence: 10 practical steps for North American companies

The upcoming CSRD presents an opportunity for North American companies to demonstrate their commitment to sustainability. However, navigating its intricacies can seem daunting. This guide outlines 10 key steps to set your company on a smooth and impactful CSRD journey:

1. Assess applicability and gaps:

Start by determining if your company falls under the CSRD's scope. Analyze your structure, turnover and size of EU operations to identify direct or indirect reporting obligations. Conduct a thorough gap assessment for disclosure and process gaps.

2. Develop a robust compliance plan:

Create a roadmap with clear goals and timelines, addressing data gathering, reporting systems and internal control procedures. Mitigate risks by prioritizing accuracy, transparency and adherence to deadlines. Consider expert guidance and technology enablement for tailored support.

3. Build capacity & resources:

Evaluate your organization's expertise and capacity to implement the CSRD effectively. Address skill gaps through training or recruitment. Stay informed about updates and future standards, as the CSRD is part of a broader regulatory landscape.

4. Prioritize stakeholder engagement:

Proactively engage with investors, customers and other stakeholders, understanding their expectations regarding your CSRD journey. Develop clear communication plans and adapt your strategy to their evolving needs.

5. Align with reporting standards:

Review the upcoming ESRS and determine how your current reporting will need to adapt. Explore how CSRD compliance can integrate with other relevant frameworks like Global Reporting Initiative, IFRS Sustainability Disclosure Standards, Canadian Sustainability Disclosure Standards and other voluntary frameworks for efficiency and optimized resource allocation.

6. Map disclosures & KPIs effectively:

Streamline data collection by meticulously mapping disclosures and key performance indicators to corresponding regulations. This ensures clear, concise and efficient reporting, allowing you to focus on substantive content.

7. Implement robust data management & controls:

Establish robust data governance processes to ensure data quality, consistency and accuracy throughout the reporting cycle. This includes implementing internal controls to safeguard data integrity and enhance confidence of internal and external stakeholders in reported information.

8. Streamline the submission process:

Familiarize yourself with deadlines and develop a well-defined plan. Implement efficient data management practices and assurance readiness for smooth report submission.

9. Master regulatory templates:

Gain in-depth knowledge of relevant templates like ESEF and XBRL for seamless report acceptance. Leverage technology platforms to optimize data management and process controls, minimizing errors and streamlining your workflow.

10. Focus on value creation:

Look beyond mere compliance. Leverage data and expertise to craft compelling, stakeholder-resonant content that aligns with regulations, fuels positive change and drives business advantage.

CSRD implementation is a significant shift, but companies are taking steps to proactively prepare. Seeking expert guidance can ensure alignment with other frameworks for efficiency and a comprehensive sustainability approach. Remember, CSRD is an evolving process, so starting early is crucial to avoid last-minute disruptions and achieve long-term success in meeting your obligations.

About ERM

At ERM, sustainability is our business. We are the world’s largest advisory firm focused solely on sustainability. ERM has been a trusted partner to organizations navigating the complexities of sustainability related disclosures for over 51 years. ERM was lauded as the ESG and sustainability consulting leader by Verdantix Green Quadrant (2024), appointed best ESG advisory firm by Private Equity Wire (2024), named climate change consulting leader by Verdantix Green Quadrant (2023) and recognized as the #1 sustainability service provider by HFS (2022).

ERM brings unparalleled expertise to support your company’s documentation, governance, process controls, data and technical capacity of personnel generating climate data. ERM can assess readiness and work with your team to compile disclosures that are investor grade and audit-ready. We have helped over 1,000 companies craft impactful and compliant sustainability reports, encompassing writing, design and project management. ERM has delivered over 250 TCFD climate-related risk analyses to clients in every industry. ERM partners with companies to advance their decarbonization journeys, from compiling inventories to setting targets, decarbonizing products and assets, disclosing results and more.

ERM CVS, a global specialty business under the ERM umbrella, has been conducting sustainability assurance for over 25 years. We are a respected, independent third-party provider, delivering assurance to over 200 clients annually (both at the limited and reasonable level). ERM CVS conducts assurance in accordance with the globally recognized standard referenced in the SEC regulation (ISAE 3000). ERM CVS is also engaged with the International Auditing and Assurance Standards Board (IAASB) to develop the next set of globally recognized sustainability assurance standards (ISSA 5000), to be launched at the end of 2024. With a long history of guiding clients through global environmental and social reporting regulations, ERM brings unparalleled expertise to your CSRD journey. Our team of over 8,000 sustainability specialists across the globe is ready to support you in every step, from initial preparation to seamless submission.

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