

# Corporate Sustainability Reporting Directive (CSRD)

## A comprehensive guide

### 1. Introduction

In today's global landscape, the Corporate Sustainability Reporting Directive (CSRD) represents a pivotal step towards a more transparent and accountable business environment. This directive is designed to make sustainability reporting as rigorous and reliable as financial reporting, ensuring that stakeholders have access to consistent and comparable sustainability information. As thought leaders in supply chain transparency, Sedex is committed to guiding organisations through this transformative process.

### 2. Overview

The CSRD evolved from the Non-Financial Reporting Directive (NFRD) in response to growing demands for enhanced corporate transparency on sustainability matters. It aligns with the European Green Deal and the EU's Sustainable Finance agenda.

The CSRD is a comprehensive framework that aims to increase corporate accountability, provide stakeholders with reliable and comparable data, and support the transition to a sustainable economy. Its primary goals are to:

- Enhance transparency and accountability in corporate sustainability reporting.
- Provide stakeholders with reliable and comparable sustainability information.
- Support the transition to a sustainable economy.

#### Timeline

The CSRD is being implemented in phases:

1. **From January 1, 2024:** Large public-interest companies (500+ employees) already subject to NFRD, with reports due in 2025
2. **From January 1, 2025:** Large companies not previously subject to NFRD, with reports due in 2026
3. **From January 1, 2026:** Listed SMEs and other undertakings, with reports due in 2027 (SMEs can opt-out until 2028)



## 3. Scope

The CSRD applies to a broad range of companies:

**Large EU Companies:** Those meeting 2 of 3 criteria:

- 250+ employees
- €40 million+ turnover
- €20 million+ total assets.

**Listed SMEs meeting at least two of the following:**

- €8+ million in net turnover
- €4+ million in assets
- 50+ employees

**Non-EU companies with:**

- €150+ million in annual EU-generated revenue
- A large or listed EU subsidiary or significant EU branch generating €40+ million in revenue

**This expansion will affect nearly 50,000 companies in the EU, a significant increase from the 11,700 companies covered under the Non-Financial Reporting Directive (NFRD).**

## 4. Penalties

The penalties for non-compliance with the Corporate Sustainability Reporting Directive (CSRD) vary across European Union member states, as each country is responsible for setting its own enforcement measures. However, some common types of penalties have emerged:

### Financial Penalties

- Fines can range from thousands to millions of euros, depending on the severity of the non-compliance and the size of the company.
- In Germany, fines can reach up to €10 million, 5% of total annual turnover, or twice the profits made or losses avoided due to the breach.
- France imposes fines of up to €18,750 for failing to publish required sustainability reports.

### Criminal Penalties

- Some countries have introduced criminal penalties for severe violations.
- In France, obstructing external auditors or failing to ensure independent assurance can lead to fines of up to €375,000 and prison terms of up to five years.

### Operational Consequences

- Exclusion from public procurement contracts.
- Potential suspension of subsidies.
- Operational disruptions due to regulatory interventions.

### Reputational Damage

Non-compliant companies may face reputational harm, affecting relationships with investors, customers, and other stakeholders.

### Legal and Regulatory Risks

- Increased regulatory scrutiny and potential legal actions.
- Publication of non-conforming information, which could remain publicly available for at least five years.

### Other Consequences

- Loss of investments due to investor protection concerns.
- Competitive disadvantages in markets that value sustainability.

It's important to note that as of 2025, many EU member states are still in the process of transposing the CSRD into national law, which means the specific penalties may continue to evolve. Companies should stay informed about the implementation in the countries where they operate to ensure compliance and avoid potential penalties.



## 5. Key reporting Requirements

The CSRD mandates the following key reporting requirements:

- **Double Materiality Principle:** Companies must report on their impacts on people and the environment, as well as how sustainability issues affect their financial performance.
- **Environmental Factors:** Reporting on climate change, resource use, and other environmental impacts.
- **Social Factors:** Reporting on equal opportunities, human rights, and other social issues.
- **Governance Factors:** Reporting on business ethics, corporate culture, and governance practices.
- **Business Model and Strategy:** Disclosure of how sustainability is integrated into the company's business model and strategy.
- **Sustainability Targets:** Reporting on specific sustainability targets and progress towards achieving them.
- **Role of Management Bodies:** Information on the role of management bodies in overseeing sustainability.
- **Policies and Due Diligence:** Details on sustainability policies and due diligence processes.
- **Principal Adverse Impacts:** Reporting on the principal adverse impacts of the company's activities.
- **Principal Risks:** Disclosure of the principal risks related to sustainability matters.
- **Value Chain Reporting:** Information on the company's value chains, including suppliers and products/services.
- **Data Quality:** Provision of limited assurance for sustainability information, with a future requirement for reasonable assurance.

## 6. Implementation Challenges and Opportunities Challenges

- **Complex Data Collection:** Gathering data across global value chains can be complex and resource-intensive.
- **Integration into Corporate Strategy:** Integrating sustainability data into corporate strategy and risk management requires significant effort.
- **Initial Costs:** Implementing new reporting systems and processes may involve initial costs.

### Opportunities:

- **Stakeholder Trust:** Enhanced reporting can improve trust and reputation among stakeholders.
- **Sustainable Finance:** Better access to sustainable finance as investors seek transparent and reliable sustainability data.
- **Risk Management:** Enhanced risk management and strategic decision-making through comprehensive sustainability reporting.

## 7. Stakeholder Engagement

Stakeholder engagement is vital for effective CSRD compliance. It helps companies:

- **Understand Investor Expectations:** Gain insights into the sustainability expectations of investors.
- **Collaborate with Suppliers:** Work closely with suppliers to ensure transparent value chain reporting.
- **Align Internal Practices:** Communicate with employees to align internal practices with sustainability goals.
- **Address Community Concerns:** Address concerns from customers and communities on social and environmental impacts.

## 8. Transformative Impact

The CSRD marks a significant shift in corporate sustainability reporting:

- Mandatory and Comprehensive Reporting:**  
 Expands the scope of companies required to report from around 11,700 under the NFRD to nearly 50,000 in the EU.
- Rigorous Reporting Requirements:** Introduces the double materiality principle and mandates detailed disclosures on environmental, social, and governance factors.
- Strategic Integration:** Requires the integration of sustainability into corporate strategy and risk management.
- Accountability and Trust:** Aims to increase corporate accountability, enhance stakeholder trust, and support the transition to a sustainable economy.

## 9. Conclusion

By adhering to the CSRD, organizations can not only meet regulatory requirements but also gain a competitive edge through enhanced transparency and accountability. Sedex is here to support you every step of the way, providing the tools and expertise needed to navigate this transformative journey.

## 10. Resources

**European Commission - Corporate sustainability reporting**

## About Sedex

Sedex is a global technology company that specialises in data, insights and professional services to empower supply chain sustainability. Our platform, tools and services enable businesses to easily manage and improve their environmental, social and governance (ESG) performance to meet their supply chain sustainability goals.

Sedex has 20 years of expertise and provides end-to-end supply chain solutions for all businesses, including SMETA, our world-leading site-level audit. We're proud to work with a community of 90,000 businesses and 115,000 supply chain sites across 35 sectors globally. This includes some of the world's most recognisable brands such as Reckitt, Nestlé, Molson Coors, Yum! Brands, Marks & Spencer, Mengniu, Walmart, Tesco, Asahi, Li & Fung, John Lewis Partnership (JLP) and Barclays to name a few. Visit our [website](#) for more information.

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