# Insight...

## The essentials of CSRD and dual materiality analysis

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EU Directive 2022/2464 of December 14, 2022 (known as the CSRD: Corporate Sustainability Reporting Directive) aims to harmonize the normative framework for corporate sustainability reporting. Entities subject to the CSRD are now required to publish their sustainability information annually in accordance with the European Sustainability Reporting Standards (ESRS).

## The CSRD and its timetable

Succeeding Directive 2014/95/EU (known as *NFRD: Non-Financial Reporting Directive*), the CSRD introduces the following main new features:

- Extend the scope of disclosure obligations to other companies (all large companies, whether listed or not).
- Require external verification of sustainability information.
- Specify in greater detail the information that companies must publish.
- Require companies to prepare their sustainability reports in accordance with the European Sustainability Reporting Standards (ESRS).
- Ensure that all sustainability information is included in the management report and published in machine-readable digital format.

However, the CSRD will be phased in gradually up to 2028 (see Figure 1).

*Figure 1: CSRD application timetable*

| | 2025<br>Reporting 2025 on 2024 data | 2026<br>Reporting 2026 on 2025 data | 2027<br>2027 reporting on 2026 data | 2028<br>Reporting 2028 on 2027 data |
|---|---|---|---|---|
| Companies concerned | **Large companies already subject to NFRD:**<br>- EIP: workforce > 500 and sales > €50m or balance sheet total > €25m | **All other large companies** based in the EU or listed on an EU regulated market that exceed two of the following three thresholds:<br>**Balance sheet total > €25m Sales > €50m Employees > 250** | **SMEs listed** on a regulated EU market.<br>Possibility of deferring application until 2028 | **EU subsidiaries or EU branches** of certain non-EU companies:<br>- EU SALES > €150M<br>and<br>- EU sales > €50m for subsidiary (large company) or branch office |
| Reporting standards | ESRS or equivalent standards for non-EU companies | | Simplified standards can be applied | ESRS or equivalent standards |
| Reporting level | At consolidated company level | | | At the consolidated level of the ultimate non-EU parent company |
| Exemption from publication for subsidiaries? | **YES** if the subsidiary's reporting is included in the parent company's consolidated reporting prepared in accordance with the applicable standards (ESRS or equivalent standards for non-EU parent companies).<br>The exemption does not apply to listed subsidiaries. | | | |

**For financial years beginning on or after January 1st 2024**, the companies concerned by the obligation to publish a sustainability report are those already subject to extra-financial reporting under the NFRD. These are large EIP companies with more than 500 employees and a balance sheet total of more than €25 million or total sales of more than €50 million. This first year of application of the CSRD concerns in particular companies whose securities are admitted to trading on a European regulated market, credit institutions, insurance companies, mutual insurance companies or unions governed by Book II of the Mutual Insurance Code, and provident institutions.

**For financial years commencing on or after January 1st 2025**, the obligation applies to all other large companies based in the EU or listed on an EU regulated market exceeding 2 of the following 3 thresholds: balance sheet total > €25m (€30m for groups); sales > €m (€60m for groups); workforce > 250.

**For financial years beginning on or after January 1st 2026**, the obligation applies to SMEs listed on an EU regulated market, small and non-complex credit institutions, and captive insurance/reinsurance companies.

**For financial years beginning on or after January 1st 2027**, the obligation to publish sustainability information applies to EU subsidiaries or EU branches of certain non-EU companies with EU sales in excess of €150 million.

If some 11,000 listed European companies were subject to the declaration of extra-financial performance (DPEF), the CSRD should concern 50,000 European companies by 2028, including 7,000 in France.

The CSRD requires the sustainability report to be subject to external verification with mandatory moderate assurance initially, then with reasonable assurance from 2028 onwards after an assessment of the feasibility of its implementation. Assurance will be provided by the sustainability auditor (statutory auditor or independent third-party body).

## Sustainability report prepared in accordance with ESRS standards

Delegated Regulation (EU) 2023/2772 of July 31st 2023 approved the first set of 12 sustainability standards developed by the *European Financial Reporting Advisory Group* (EFRAG): 2 cross-cutting standards and 10 thematic standards (see Figure 2). This first set of non-sector-specific standards includes almost 80 *Disclosure Requirements* (*DR*) and 1,100 Data Points *(DP)* prior to materiality analysis.

*Figure 2: First set of EU-approved ESRS standards*

<table>
<tr><th colspan="6">2 cross-functional standards</th></tr>
<tr><td colspan="3">ESRS 1 General requirements - No DR</td><td colspan="3">ESRS 2 General information to be published - 12 DR</td></tr>
<tr><th colspan="6">10 thematic standards</th></tr>
<tr><th colspan="2">5 environmental standards</th><th colspan="2">4 social norms</th><th colspan="2">1 governance standard</th></tr>
<tr><td colspan="2">ESRS E1 Climate change - 9 DR<br>ESRS E2 Pollution - 6 DR<br>ESRS E3 Water and marine resources - 5 DR<br>ESRS E4 Biodiversity and Ecosystems - 6 DR<br>ESRS E5 Resource use and circular economy - 6 DR</td><td colspan="2">ESRS S1 Company Personnel - 17 DR<br>ESRS S2 Value Chain Workers - 5 DR<br>ESRS S3 Communities affected - 5 DR<br>ESRS S4 Consumers and end-users - 5 DR</td><td colspan="2">ESRS G1 Business Management - 6 DR</td></tr>
</table>

Sustainability information must be included in the management report and structured in four parts in the following order:

1. General information
2. Environmental information[1]
3. Social information
4. Governance information.

[1] *Including environmental taxonomy information published under Article 8 of Regulation (EU) 2020/852.*

**In its sustainability report, the company must provide both the general information required by the ESRS 2 standard and the information required by the thematic standards** (see figure 3). To do this, the company must carry out a double materiality analysis to determine which information it is required to produce.

According to the concept of double materiality, the company must publish the information needed to understand how sustainable development issues affect it, and the information needed to understand the impact of its activities on people and the environment.

***Figure 3: Information to be included in the sustainability report***

1. **Information required in ESRS 2 (General information to be published)**

2. **The information required in the thematic standards** concerning the IRO-1 publication requirement:
   - Description of processes for identifying and assessing material impacts, risks and opportunities

3. **The disclosures required by the 10 thematic standards** identified because of the double-materiality analysis
   - Materiality of sustainability issues and materiality of information

## Concept of double materiality

According to **impact materiality**, a sustainability topic is impact material when it concerns the company's actual or potential, positive or negative impacts on people or the environment in the short, medium or long term.

Impacts include those linked to the company's own operations and its upstream and downstream value chain, including through its products and services, as well as through its commercial relationships. Impacts are considered whether or not they are financially significant.

Depending on **financial materiality**, a sustainability impact may be financially material from the outset or become financially material when it can reasonably be expected to affect the company's financial position, financial performance, cash flows, access to financing or cost of capital in the short, medium or long term.

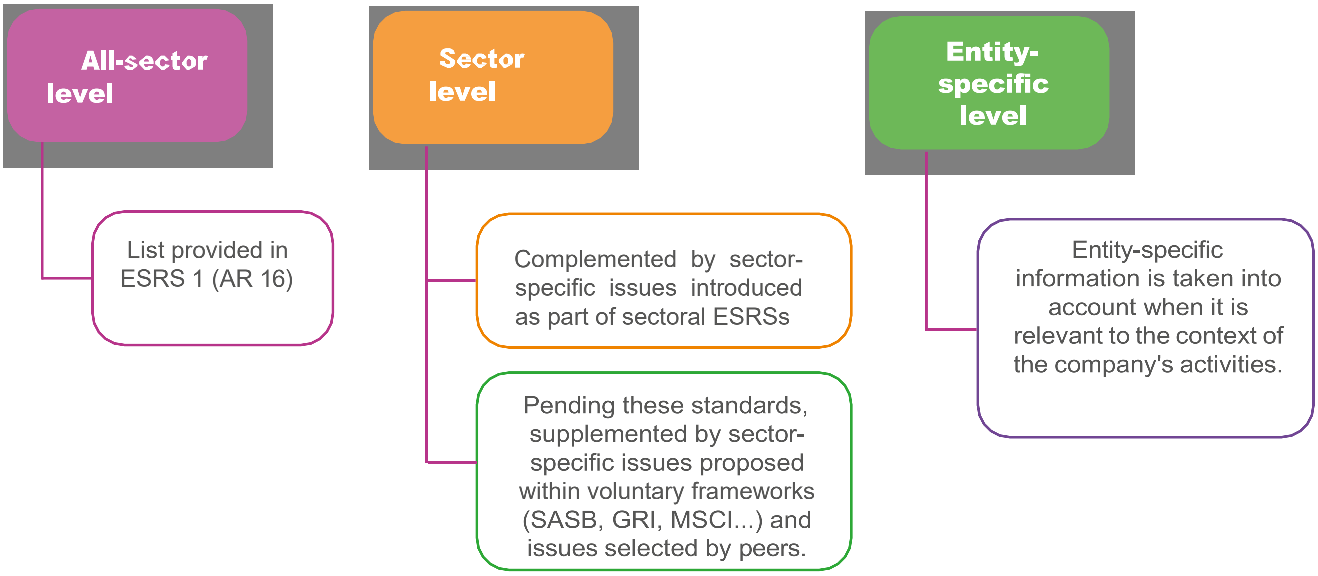
## Dual materiality analysis: how to implement it?

**Dual materiality analysis is the identification of material sustainability issues for the company in terms of financial performance, as well as for society and the environment.** Consequently, it represents a starting point for sustainability reporting. Although the ESRS standards do not prescribe an approach, this analysis can be carried out as follows:

1. Understanding the context: business activities and relationships, regulatory environment, affected stakeholders.
2. Identification of the list of potential sustainability issues.
3. Selection of material sustainability issues.

**The list of potential sustainability issues** to which the materiality analysis applies is based on the list of sustainability issues provided by the ESRS 1 standard, which must be supplemented by sector- specific issues and company-specific information (see figure 4).

*Figure 4: Methodology for building a list of potential sustainability issues for the company*




From the list of issues identified, the company must rank the most material issues in terms of impact materiality and financial materiality (see figure 5). The materiality of an issue is assessed according to the following criteria:

- For actual negative impacts, depending on the severity of the impact.
- For potential negative impacts, according to the severity of the impact and its probability of occurrence.
- For real positive impacts, depending on the magnitude and extent of the impact.
- For potential positive impacts, depending on the magnitude of the impact and its probability of occurrence.
- For risks and opportunities, according to the magnitude of the impact and its probability of occurrence.

*Figure 5: Assessing the materiality of sustainability issues using the double materiality concept*

| | | The subject is material from a financial materiality point of view. | |
|---|---|---|---|
| | | **Yes** | **No** |
| **The subject is material from an impact materiality point of view** | **Yes** | **Information to be published** | **Information to be published** |
| | **No** | **Information to be published** | No information to publish |

The company is not required to provide information on a sustainability topic if it is material neither in terms of financial materiality nor in terms of impact materiality. Except for climate change, the company is not required to provide explanations on subjects it considers non-material.

**The next step is to analyze the materiality of the elementary information associated with the sustainability issues deemed material for the company.** The materiality of information (*data points*) is assessed according to the importance of the elementary information in describing the sustainability issue, or its usefulness in meeting user needs.

When the company operates in several sectors, a materiality analysis is recommended for each of the significant sectors. In accordance with ESRS 2, a sector is significant for the company if it meets one of the following criteria: it represents more than 10% of sales, or it is associated with particularly significant negative impacts.

In the case of a subsidiary exemption, if there are significant differences between the sustainability challenges of the group and those of the exempted subsidiaries, the company must provide a description of the material sustainability challenges specific to the exempted subsidiaries.

Finally, the dual materiality analysis process must be proportionate to the size and sustainability challenges of companies and their value chain. Standard-setting and regulatory bodies (EFRAG, ANC, AMF) provide documentary resources that can be a valuable practical aid for companies in drawing up their sustainability reports [2].

[1] *Cf. EFRAG ESRS Q&A Platform (https://www.efrag.org/lab7); EFRAG Implementation guidance for the materiality assessment - 08/2023; Guide published by ANC "Deployer les normes ESRS" - 06/2024; Guide pédagogique published by AMF on transition plans - 02/2024; Guide published by EFRAG and IFRS Foundation on interoperability between European sustainability standards and standards issued by ISSB - 05/2024.*

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