

The Voice of RSM Special Edition

CSRD Compliance: What can companies still do before January 1, 2025?

Under the CSRD (Corporate Sustainability Reporting Directive), so-called “Large companies” (defined as companies with total assets exceed EUR 25 million, annual revenue exceeds EUR 50 million, and more than 250 employees (and then two out of three criteria) will need to report in line with CSRD requirements over FY 2025.

They will need to obtain (limited) ESG assurance from their auditors to confirm their adherence to the reporting framework and ensure a properly managed process. To report over FY2025, companies need to have their infrastructure and processes in place by January 1, 2025. As the intermediate deadline of January 1, 2025, approaches, it is essential for companies to take proactive steps now to ensure readiness. This article will outline the necessary actions companies should undertake and the potential consequences of failing to meet the compliance deadline of December 31, 2025.

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Failure to comply with CSRD reporting can result in fines, reputational damage, market disadvantages, and even the possibility of the auditor not being able to sign off on the annual financial report, as the sustainability reporting will be integrated into the report as part of the management statement. In some cases, this could also result in the late filing of the annual accounts with the local Chamber of Commerce. While the limited assurance that will be given during the first few years might mitigate some risks, it is important that companies aim for full compliance to avoid setbacks.

So far, our experience is that companies are significantly ramping up their CSRD compliance efforts, reflecting an increased recognition of its importance. This awareness extends beyond meeting deadlines; businesses now understand that CSRD is just the starting point in a broader wave of ESG related regulations that will come in the coming months and years. To effectively navigate these regulations, it's essential for companies to establish a robust infrastructure. Most regulations will require businesses to continuously monitor and report on their ESG progress, making strong internal systems key to long-term compliance and success.

CURRENT CSRD IMPLEMENTATION STATUS IN EUROPE

While many companies are still preparing for CSRD compliance, some EU countries are also behind in implementing the directive into national law. The deadline for transposing the CSRD was July 6, 2024. To date, only 40% of countries, including France, have completed the process. An additional 47%, such as Germany and the Netherlands, have published draft regulations or opened consultations, while 13%, including Austria, have not yet released even a draft.

For companies in countries where the CSRD is not yet officially transposed, this creates added uncertainty. Without clear national guidelines, preparing for compliance can be more complex.

We do expect that most European countries will speed up the process significantly in the next couple of weeks and months to ensure full implementation by the end of 2024. In that respect, most recently Italy has fully accepted the CSRD into their legislation and countries such as the Netherlands are speeding up the process.

Despite all the delays, companies cannot afford to postpone their efforts. In anticipation of a full expected implementation by the countries before the end of the year, progress must be made with respect to conducting double materiality assessments and preparations to meet core reporting obligations, which are unlikely to be significantly altered by national laws.

Delays can cause problems such as process weaknesses, inadequate controls, or incomplete and inaccurate data—issues that must be addressed before the initial audit. By progressing through the necessary steps and checking in with your assurance provider along the way, companies can remediate issues before mandatory requirements are enforced.

PREPARING FOR CSRD COMPLIANCE: THE ESG JOURNEY

The CSRD is not just about ticking compliance boxes; it is about embedding sustainability into the business model and stakeholder relations. Companies that take an intrinsic approach to sustainability are more likely to succeed in both compliance and overall business impact. Those who see sustainability as an added value, rather than a regulatory burden, are poised for greater long-term success.

The following steps should be completed to achieve CSRD compliance:

1. Scoping and initiation

Start by ensuring that your organization has a clear understanding of their reporting scope and is aware of ESG and CSRD requirements. Set up a working group, identify key stakeholders, and engage senior management.

2. Double materiality & stakeholder consultation

Perform a double materiality assessment to evaluate how ESG topics affect both your company and society. Work with your stakeholders to prioritize these topics and align them with your business objectives.

3. CSRD Gap analysis

Following the double materiality assessment, conduct a gap analysis to understand what remains to be done. This analysis will help to identify areas where your company is falling short of CSRD requirements.

4. Define indicators & develop targets

Once material ESG topics have been identified, establish key performance indicators (KPIs) and set measurable targets. These indicators will form the basis for your sustainability reporting.

5. Data collection & internal process improvement

Collect data based on the established KPIs and improve internal processes to ensure data accuracy and quality. In many cases, new systems and processes will need to be implemented to ensure compliance with ESRS (European Sustainability Reporting Standards) guidelines. Data collection is one of the more time-consuming aspects of CSRD compliance.

6. “CSRD-proof” reporting

With all the data in hand and systems in place, you can now prepare your CSRD report. Ensure that your reporting cycle aligns with financial reporting processes. The final report must be ready for external audit.

NAVIGATING TIME CONSTRAINTS

Each of the six steps requires significant time, as teams need to be assembled, processes established, and actions executed. With approximately 3.5 months left before the end of the year, companies must prioritize their actions based on their status; attempting to tackle all six steps at once may lead to rushed execution and increased risk of errors. Instead, decisions must be made on which steps to complete in 2024 and which to defer to 2025.

For those just beginning their CSRD journey, the immediate focus should be on defining the reporting scope, establishing the team, and promptly initiating the double materiality analysis. While laying the groundwork for this analysis—such as identifying stakeholders and mapping the business model—should not be overlooked, companies should also aim to leverage any existing resources. Once the material topics are identified, conducting a gap assessment against disclosure requirements of the ESRS is essential. Companies should focus on addressing the most significant gaps by determining how to gather the missing information and data.

This approach helps companies address the most pressing risks, such as having to scramble to retroactively piece together the required information. Then, during early 2025, companies can explore setting up a more detailed ESG strategy, establishing KPIs and targets, as well as setting up the necessary infrastructure to collect all required data for the CSRD report.

In cases where it's not feasible to tackle everything at once, the focus should be on the areas that present the highest impact and compliance risk, such as completing the double materiality assessment, establishing strong governance frameworks, and ensuring robust data collection processes. These elements are fundamental for achieving limited assurance and setting up a solid foundation for CSRD compliance. If some tasks must be deferred to 2025, companies should carefully prioritize to avoid creating compliance gaps or leaving significant risks unaddressed. By establishing a clear, phased roadmap, businesses can manage their workload more effectively and ensure long-term success in their sustainability reporting efforts.

Alternatively, if your company has completed their double materiality analysis or is already deep into data collection, focus on aligning ESG targets with the company's long-term strategy. Ensure all necessary data is identified and collectable, optimize internal processes, and establish robust data management systems. Confirm that the process has been and remains aligned with the framework and maintain a clear audit trail.

Given the tight timeframe and the complexity of the steps involved, it is important for companies to make strategic choices about where to focus their efforts. While the goal should be CSRD reporting readiness by 1 January 2025, adopting a well-considered implementation plan tailored to their current progress will lead to more sustainable and reliable outcomes. This allows companies to effectively address their most pressing needs while positioning themselves for a successful transition to full compliance.

FORWARD THINKING

As 2025 approaches, companies must act decisively to prepare for the CSRD. Waiting for full transposition of the directive into national law is not an option. Companies should assess where they stand and prioritize actions accordingly.

Ensure that key steps—such as defining the scope, conducting a double materiality assessment, performing a gap analysis against ESRS disclosure requirements, and identifying how to collect critical missing data— are completed in a timely manner. For companies that are behind, accelerating these steps will help to mitigate the most significant risks and will lay the foundation for a strong reporting framework, facilitating effective integration of ESG practices.

In other cases, if circumstances permit, companies should be looking beyond immediate compliance, aiming to integrate sustainability deeper into their business strategy. By aligning sustainability initiatives with long-term business goals, companies can leverage ESG compliance as a competitive advantage.

Overall, whether a company is catching up on compliance, making steady progress or pushing beyond it, the key is to act decisively and strategically. The choices made now will determine how effectively companies can navigate the CSRD requirements and harness the full potential of sustainability as a driver of long-term success.

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