



Preparing for the CSRD and EU Green Claims Directive: Impacts on UK Businesses

Introduction

The Corporate Sustainability Reporting Directive (CSRD) and the EU Green Claims Directive are set to significantly impact UK businesses that have operations or market presence in the EU. These directives aim to enhance transparency, accountability, and sustainability in business practices. This Fact Sheet explores how UK businesses can prepare for these changes and the potential impacts they may face.

Understanding the CSRD

The CSRD revises the 2014 Non-Financial Reporting Directive (NFRD) and expands the scope of companies required to report on sustainability. Approximately 50,000 companies, including large enterprises and listed SMEs, will need to comply. The directive mandates detailed reporting on sustainability risks, opportunities, and impacts using a “double materiality” approach, which considers both the impact on the company and its external effects on society and the environment.

Key Steps for Preparation

- 1. Assess Applicability:** Determine if your business falls under the CSRD’s scope. This includes non-EU companies with significant EU activities.
- 2. Review Current Reporting:** Evaluate existing sustainability reports and identify gaps in compliance with the new requirements.
- 3. Execute Survey and Double Materiality Analysis:** Find the topics material to your business and your stakeholder, from the perspective of the impact on your company and financial and risk mitigation.
- 4. Set Robust Targets:** Establish clear, science-based sustainability targets, including greenhouse gas reduction goals for 2030 and 2050.
- 5. Train Key Personnel:** Ensure that employees involved in sustainability reporting are well-versed in the new standards and methodologies.
- 6. Engage Stakeholders:** Communicate with stakeholders about the upcoming changes and how your business plans to address them.

Impacts of the CSRD

Increased Transparency: Businesses will need to provide detailed disclosures on their sustainability practices, enhancing transparency and accountability.

Operational Changes: Companies may need to adjust their operations to meet sustainability targets and reporting requirements.

Double Materiality Reporting: You will need to integrate the sustainability impact and double materiality into your annual financial reports.

Cost Implications: Implementing the necessary changes and ensuring compliance may incur additional costs, particularly for smaller businesses.

Penalties for Non-Compliance with the CSRD

For the CSRD, penalties can vary by member state but generally include:

- **Fines:** Companies may face substantial fines, which can be a percentage of annual turnover.
- **Public Disclosure:** Non-compliant companies may be publicly named, potentially damaging their reputation.
- **Legal Actions:** There could be civil liability for damages caused by non-compliance.

The timeline for the Corporate Sustainability Reporting Directive (CSRD) implementation is as follows:

1. January 1, 2024:

- **Large companies already subject to the Non-Financial Reporting Directive (NFRD)** will need to start complying with the CSRD. Their first CSRD-compliant reports will be published in 2025.

2. January 1, 2025:

- **All other large companies** not previously subject to the NFRD will need to comply. Their first CSRD-compliant reports will be published in 2026.

3. January 1, 2026:

- **Listed small and medium-sized enterprises (SMEs)** will need to start complying, with their first reports published in 2027.

This phased approach allows companies to gradually adapt to the new reporting requirements

Double materiality

The **double materiality** approach is a key concept in sustainability reporting, particularly under the Corporate Sustainability Reporting Directive (CSRD). It broadens the traditional view of materiality by considering both financial and non-financial impacts.

What is Double Materiality?

1. Financial Materiality (“Outside-In”):

- This perspective focuses on how sustainability issues affect the company’s financial performance. For example, how climate change might impact a company’s assets, liabilities, or overall financial health.

2. Impact Materiality (“Inside-Out”):

- This perspective looks at how the company’s operations impact the environment and society. It considers the positive and negative effects a company has on its stakeholders, including the environment, employees, and communities.

Why is Double Materiality Important?

- **Holistic Reporting:** It ensures that companies provide a comprehensive view of their sustainability performance, covering both how they are affected by and how they affect sustainability issues.
- **Enhanced Transparency:** By reporting on both perspectives, companies can offer more transparent and accountable disclosures, which can build trust with stakeholders.
- **Regulatory Compliance:** Adhering to the double materiality approach is essential for compliance with the CSRD, which mandates this type of reporting for companies within its scope.

Implementing Double Materiality

To effectively implement double materiality, companies should:

- **Conduct Materiality Assessments:** Identify and assess the sustainability issues that are material from both financial and impact perspectives.
- **Engage Stakeholders:** Involve stakeholders in the process to ensure that the assessments reflect a wide range of views and concerns.
- **Integrate into Reporting:** Incorporate the findings into sustainability reports, ensuring that both financial and impact materiality are clearly addressed.

By adopting the double materiality approach, businesses can provide more meaningful and comprehensive sustainability disclosures, aligning with regulatory requirements and stakeholder expectations.

The CSDDD, linked to CSRD

CSDDD is a European Union directive that establishes legal accountability for businesses concerning environmental and human rights transgressions, both within the EU and globally. As a next step to the impact analysis reporting from CSRD, this sets obligations for companies to take measures and address potential adverse impacts on human rights and the environment, including those related to their own operations, their subsidiaries, and their suppliers. By 2027, companies need to be ready to comply with the directive, with larger corporations likely to be the first to adhere.

To comply with the CSDDD, companies must identify, prevent, mitigate, and account for negative human rights and environmental impacts within their operations, subsidiaries, and value chain.

The directive gives business directors specific obligations to integrate due diligence into corporate strategy and consider the human rights, climate change, and environmental consequences of their decisions.

Value chain collaboration

This level of detail and reporting will be new for many companies, and each company will have to execute their own double materiality analysis. However, there is much to gain by collaborating with suppliers, peers and industry organizations. Many are already ahead in this process and able to share best practices. There is also support via organizations such as EFRAG (European Financial Reporting Advisory Group) that supply guidelines for all steps to CSRD.

The EU Green Claims Directive

The **EU Green Claims Directive** is a significant legislative measure aimed at combating greenwashing and ensuring that environmental claims made by businesses are accurate, verifiable, and transparent. Here are the key aspects of the directive:

Objectives

- **Combat Greenwashing:** The directive aims to prevent businesses from making false or misleading environmental claims about their products or services.
- **Enhance Consumer Trust:** By ensuring that green claims are credible and trustworthy, the directive helps consumers make better-informed purchasing decisions.
- **Promote Sustainability:** It encourages businesses to adopt genuine sustainable practices and improve their environmental performance.

Key Measures

1. **Clear Criteria for Claims:** Companies must use clear, evidence-based criteria to substantiate their environmental claims. This includes providing scientific evidence and data to support their statements.
2. **Third-Party Verification:** Environmental claims must be verified by independent, accredited third-party organizations before they can be made public. This ensures the claims are unbiased and accurate.
3. **Transparency in Labelling:** The directive sets requirements for environmental labels to be clear, transparent, and easy to understand. Labels must specify the environmental characteristics they cover, such as recyclability or carbon footprint.
4. **Governance of Labelling Schemes:** New rules to ensure that both public and private environmental labelling schemes are solid, transparent, and reliable.

Preparing for the Green Claims Directive

1. **Audit Current Claims:** Review all existing environmental claims to ensure they are accurate and supported by evidence.
2. **Implement Verification Processes:** Establish procedures for third-party verification of green claims to comply with the directive.
3. **Enhance Communication:** Clearly communicate the substantiation of green claims to consumers and stakeholders.
4. **Setting Clear Responsibilities:** Set up your teams for legal checks, local regulation monitoring and annual review of green claims.

Impacts of the Green Claims Directive

- **Enhanced Credibility:** Verified green claims can enhance a company's reputation and consumer trust.
- **Regulatory Compliance:** Non-compliance may result in penalties, making it crucial for businesses to adhere to the directive.
- **Market Differentiation:** Companies with verified green claims can differentiate themselves in the market, potentially gaining a competitive edge.

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Penalties for Non-Compliance with the EU Green Claims Directive

The EU Green Claims Directive also imposes strict penalties:

- **Fines:** Non-compliance can lead to fines of up to 4% of a company's annual turnover or €2 million if turnover information is not available.
- **Exclusion from Public Procurement:** Companies may be temporarily excluded from public procurement procedures and access to public funds.

These penalties underscore the importance of adhering to the directives to avoid financial and reputational damage.

Verifying green claims is crucial for businesses to ensure transparency and avoid greenwashing. Here are some key steps to help businesses verify their green claims:

Steps to Verify Green Claims

1. **Gather Credible Evidence:** Collect up-to-date, relevant, and credible data to support your environmental claims. This includes lifecycle assessments, carbon footprint analyses, and sustainability reports.
2. **Third-Party Verification:** Engage independent third-party organizations to verify your claims. This adds an extra layer of credibility and ensures that your claims are unbiased and accurate.
3. **Follow the Green Claims Code:** Adhere to guidelines such as the Green Claims Code, which outlines principles for making accurate and clear environmental claims. This includes ensuring that claims are truthful, not misleading, and based on the entire lifecycle of the product or service.
4. **Regular Monitoring and Updates:** Continuously monitor your sustainability data and update your claims as necessary. This ensures that your claims remain accurate over time.
5. **Transparent Communication:** Clearly communicate the basis of your green claims to consumers and stakeholders. Provide access to detailed information through QR codes, websites, or other means.

By following these steps, businesses can substantiate their green claims, build consumer trust, and comply with regulatory requirements.

Timeline

- **Proposal Adoption:** The European Commission adopted the proposal for the Green Claims Directive in March 2023.
- **Implementation:** The directive is currently in the process of being discussed and finalized by the European Parliament and the Council of the EU with a tentative date of 2026.

By adhering to the EU Green Claims Directive, businesses can ensure their environmental claims are credible and contribute to a more sustainable and transparent market.

Conclusion

The CSRD and EU Green Claims Directive represent significant shifts towards greater sustainability and transparency in business practices. Note this is just the tip of the iceberg as new waste directives, use of recycled materials and EPR responsibilities will become stricter in the next years. UK businesses must proactively prepare for these changes by assessing their applicability, reviewing current practices, setting robust targets, and ensuring compliance. While these directives may pose challenges, they also offer opportunities for businesses to enhance their sustainability credentials and build trust with stakeholders.

By taking these steps, UK businesses can navigate the evolving regulatory landscape and contribute to a more sustainable future.