# CSRD & Supply Chain Sustainability: What You Need to Know

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**Why is CSRD a big deal for supply chain sustainability?**

The Corporate Sustainability Reporting Directive (CSRD) is new legislation in the European Union that requires, elevates, and standardizes ESG reporting like never before. It broadens who must report, standardizes what they report, and expands the scope of reporting to include the full value chain. For some, this is good news: It will reduce the noise of multiple reporting frameworks and help companies focus. But for many companies, this will require them to do things they haven't yet begun thinking about, placing pressure on them to deliver transparency and accountability to investors, the environment, and society. ***If you are concerned about CSRD, here's what you need to know:***

**The regulation lays out three categories of companies that must report.**

1. Large EU companies, defined by having at least two of the following criteria:

- Over 250 employees
- More than €40 million net revenue, or
- More than €20 million total assets

2. Listed EU companies, including listed SMEs
3. Non-EU parent companies with securities listed on EU-regulated markets and a combined group turnover in the EU of over €150 million

**What will your company be required to report?**

The CSRD relies on the new European Sustainability Reporting Standards (ESRS) reporting framework, which aims to standardize and harmonize existing voluntary frameworks. Companies will be required to report in three areas: strategy, governance, and materiality; implementation measures; and performance measurement for each of eleven topics:

1. Climate change
2. Pollution
3. Water and Marine resources
4. Biodiversity and ecosystems
5. Resource use and circular economy
6. Own Workforce
7. Workers in the value chain
8. Affected communities
9. Consumers and users
10. Business conduct
11. Governance, risk management and internal control

The Corporate Sustainability Reporting Directive fundamentally changes the way all companies must think about their impact, the visibility they have into their supply chains, and the technology needed to meet the requirements. Essentially, nearly 50,000 companies will be required to do what only leading companies are currently doing.

**Key innovations of CSRD**

***Value chain is at the core.*** Unlike first generation environmental legislation that only focused on a company's own footprint, CSRD goes straight to the supply chain, meaning that organizations must now take responsibility for all of their upstream suppliers. This is not surprising, given that most of a company's impact and risk lies within its value chain.

***Real data is required***. "Real data" involves engaging your immediate and upstream suppliers to understand who they are and what they are doing in regards to ESG issues. There is a provision for using industry average data, but companies must demonstrate "reasonable effort" to obtain actual data from the value chain by leveraging its influence. This means that the use of spend-based Scope 3 estimates or AI for human rights monitoring should only be a starting point, not a solution.

***Double materiality.*** Double materiality means that an organization must identify and report on not only the ESG risk and impact on its own company, but also the company's impact on the planet and humanity. This is no small shift; it expands ESG reporting past its previously narrow focus on business/financial risk to encompass a broad view on real impact.

***Clear definitions.*** It's now clearly outlined exactly what an organization is required to report on. This will help companies focus on what actions need to be taken, unlike existing reporting frameworks that tend to overlap and lack specific guidance. However, it will also increase the burden on gathering supply chain data, making consistency even more critical. In fact, the ESRS requires a total of over 1,000 quantitative and quantitative data points for disclosure.

***Performance, not just reporting.*** Until now, most ESG legislation has only required that companies report, but not necessarily improve. CSRD changes that. Not only will companies be required to perform double materiality assessment and report on eleven topics, they will also need to establish KPIs for performance improvement and report against them.


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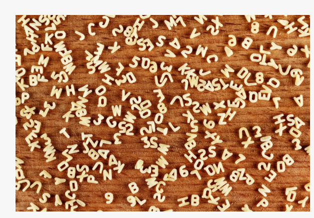

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**Act now, get ready**

Companies covered under the EU Non-Financial Reporting Directive (NFRD) will have to report on their 2024 financial year. Large companies not covered under the NFRD will have one additional year before they must also start disclosing. SMEs will get one more year on top of that– meaning they will be required to start reporting on their 2026 financial year. In addition, sector-specific guidance is still being developed, so it's not yet possible to establish a fully baked approach for CSRD reporting. Regardless of when you must start reporting, preparing in advance should be a no-brainer, especially given the tools and resources currently available and in use by leading companies.

With SupplyShift's standard assessments and expert team monitoring legislative developments globally, you can confidently track, manage, and report on your supply chain data. Contact us to discover how our comprehensive solutions can help you meet all ESG reporting requirements for existing and emerging frameworks.

Let's Talk



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