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CSRD Reporting: EU-undertaking or UK Entity level first?

A phasing question for UK-headed groups

The EU's new Corporate Sustainability Reporting Directive (CSRD) reporting requirements came into force on 1 January this year. Whilst this is an EU regulation, it still impacts UK companies with European operations over certain thresholds. For those UK entities that are not considered EU Public Interest Entities, it applies to UK company subsidiaries that are considered *large EU-undertakings*[1] from 1 January 2025. Secondly, it applies to the UK company itself as *a non-EU undertaking*[2] from 1 January 2028. Once the UK entity-level reporting is in place at group level, the EU subsidiary in scope of CSRD can refer to this reporting and take a reporting exemption.

This gives UK parent companies two main options on implementation and reporting:

1. Follow the CSRD timetable, and report at EU-undertaking level for four year ends before providing UK-entity level reporting (and taking the EU-undertaking exemption) from 2028,
2. Bring the UK-entity level reporting date forward to align with the EU-undertaking's first reporting date, thereby providing the EU-undertaking with an exemption from the outset.

[1] Large EU undertakings (whether listed or not and including subsidiaries of non-EU parents), defined in the EU Accounting Directive as those that exceed at least two of the following on their balance sheet dates: -More than EUR 20 million balance sheet total, consisting of total assets -More than EUR 40 million net turnover -More than 250 employees

[2] Non-EU undertakings not listed on a regulated market in the EU, which generate more than EUR 150 million net turnover in the EU (for each of the last two financial years) and that have at least one EU subsidiary (large or listed on an EU regulated market) or EU branch (with more than EUR 40 million net turnover in the preceding financial year)

Deciding which option to choose is complex, with numerous pros and cons, and likely to be driven by the company's business model and business and sustainability strategy. As many firms are currently considering these options, we have set out below the key considerations:

Key considerations for firms include:

1. **Number of EU-undertakings impacted** – Understanding the number of large EU-undertakings within the UK group that will be impacted is vital as each undertaking may have to report separately from 1 January 2025. Where multiple EU undertakings are impacted, practical consideration needs to be given to the level of additional reporting required, as each separate undertaking will need to carry out its own double materiality assessment, report on its taxonomy alignment, etc. Notably, this is important, as individual reporting will only be required until non-EU group-level reporting is required in 2028 (also see *Assurance costs*).
2. **Group versus entity resourcing** – CSRD is onerous and requires reporting entities to build internal capability and capacity. CSRD is also permanent rather than a one-off, so the capacity is for the long-term, making outsourcing an unlikely solution. In many cases, subsidiaries or large EU-undertakings operate a "skinnier" resourcing model, relying on the group for capabilities and capacity. In the case of CSRD reporting, this may result in subsidiaries seeking to rely on the group's capacity to deliver subsidiary CSRD reporting, while that group is looking to use the same resources to prepare for group-level CSRD reporting. It might also result in subsidiaries building local capacity and capabilities that become oversized when the group-level reporting starts in 2028.
3. **Consistency** – the more individual instances of CSRD reporting within the same group, the more there is the potential for inconsistencies in reporting (e.g., in double materiality approach, output, taxonomy alignment and assurance). Such inconsistencies may naturally reflect the circumstances of each EU undertaking; however, as a result, they may attract additional scrutiny where this isn't clear. For example, why has an ESRS topic been considered material by one undertaking but not by another? Groups may be comfortable with variances or inconsistencies across the reporting from different EU-undertakings. Still, they should consider how they will be addressed when the group-level reporting is delivered in 2028.
4. **Local requirements (also see *Future UK reporting requirements*)** – when operating across multiple jurisdictions, *local market expectations* may need to be factored in. Groups might find themselves subject to *local regulatory reporting requirements* in addition to CSRD, for example, Transition Plan Taskforce (TPT) reporting in the UK. Understanding what these requirements are and the interplay between them and CSRD – as well as the impact on being able to take an exemption – should be considered when deciding the overall approach to reporting. *Local market expectations* may also need to be factored in when operating across multiple jurisdictions. Will customers in the local market require reporting of the company's sustainability performance within that market? Might a company consider such market-level reporting as a competitive edge? Conversely, might customers consider local market reporting as inefficient and a fee negotiation opportunity? This becomes more of a strategic than a compliance decision, but it should still be considered.
5. **Future UK reporting requirements** – whilst the exact UK implementation details for the International Sustainability Standards Board's (ISSB) new standards will not be confirmed until summer 2024, it seems likely that listed companies – and maybe others – will be expected to report under ISSB within the next few year ends. This means many UK companies caught by CSRD for the 2028 year-end will be caught by ISSB before this. Aside from the specifics on interoperability, it is clear that both reporting regimes will require companies to disclose similar metrics on material topics. Therefore, companies caught by CSRD and likely also by ISSB should consider their reporting timetable carefully; will ISSB mean group-level disclosures similar to CSRD before the 2028 deadline? And would this make an option 1 CSRD reporting approach less attractive?
6. **Future entity "shape"** – few companies remain static; most change shape and restructure through organic growth or acquisition/disposal. Given the long-dated nature of the CSRD reporting timetable and the potential implications of non-compliance, companies must consider whether they will be caught at the reporting date rather than whether they are caught now. Are any EU-undertakings currently under the thresholds but set to grow over them in 2025? Will the group shrink or grow before the 2028 non-EU undertaking deadline? While a group may only have one EU-undertaking now and therefore be considering undertaking group-level reporting from 2025, a growth strategy that might see additional undertakings in 2026 or 2027 could change the CSRD reporting decision.
7. **Data granularity** – for some companies, assets within the group – for example, an office or a factory – are used by multiple entities within that group. This presents less of a challenge for group-level reporting as the emissions data or water usage for the asset can be reported for the group as a whole. However, this may present a more significant challenge for entity-level reporting: How much water usage should be allocated to each entity? Can emissions be divided amongst the entities fairly and transparently, etc? Companies should consider the ease of creating undertaking-level granular reporting from group-level data.

8. **Assurance costs** – all CSRD reporting has to be independently assured (see our separate blogs on what's involved in CSRD reporting). Given the scale of the CSRD reporting requirements, especially the potential number of metrics and disclosures within the ESRSs (over 1,000 if all are considered material), the assurance costs will be substantial. Where companies follow option 2, these assurance costs will be incurred only once at the group level, whereas the costs will be incurred multiple times under option 1.

For companies impacted by CSRD, the decision between phasing option 1 and option 2 is pressing but should not be made in haste as it will determine the group's approach to the entire reporting process, including the double materiality assessment, ESRS reporting, EU Taxonomy and independent assurance. The importance of timely decision-making stems from the need to progress CSRD preparation and maximise the short timeframe before mandatory reporting. However, the complexities outlined above and the implications of making the "wrong" decision mean that the decision should not be taken lightly. Many of the CSRD's new disclosure requirements concern the governance over sustainability topics; this decision reflects the first test of that governance structure.

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