Navigating the Corporate Sustainability Reporting Directive

Preparing for the data and technology capabilities required

Raising Environmental, Social and Governance transparency

A new era for corporate reporting

Building on the previous Non-Financial Reporting Directive (NFRD), the CSRD significantly expands the scope of reporting. Organizations must now disclose and share detailed information about monitoring across a wide range of Environmental, Social and Governance (ESG) issues, and detail their impact on the planet.

By increasing transparency, the CSRD will ensure EU companies can be held accountable for their actions and the resulting impact on society and the environment. It means investors and stakeholders will have the necessary information to assess a company's sustainability performance. Moreover, the CSRD means organizations themselves can better understand sustainability risks and opportunities, identifying efficiencies, safeguarding reputation and driving strategic business growth.

Data accuracy, data availability and the role of technology

One of the biggest challenges in sustainability reporting is obtaining reliable and consistent data across all material environmental, social, and governance (ESG) metrics. Often ESG data is incomplete, fragmented, or difficult to standardize, complicating reporting efforts. Yet ensuring trusted, reliable and consistent data metrics is central to decision-making regulatory compliance.

Since the CSRD demands a significant amount of data, and scrutiny by multiple stakeholders, ensuring the right enterprise technology is paramount. Your technology stack must provide a central system of record, a transparent audit trail, and ensure governance over the data and reporting process.

Identify sustainability opportunities with IFS Cloud

Developed in collaboration with sustainability specialist PwC*, the Sustainability Management module capabilities in IFS Cloud address these and other critical challenges posed by a rapidly evolving regulatory landscape.

This guide explains the main requirements of the CSRD, offering practical guidance to assess and optimize the technology performance required to support compliance. It also signposts further details about the powerful Sustainability Management module capabilities and opportunities embedded in IFS Cloud.

* Where "PwC" is referenced, it relates specifically to the collaboration with IFS and PwC UK, the UK member firm, part of the PwC network. Each member firm is a separate legal entity.

Understanding the CSRD Requirements

Underpinned by the European Sustainability Reporting Standards (ESRS), the CSRD relies on Key Performance Indicator data points (KPIs) to cover critical areas based on an organization's Double Materiality Assessment (DMA).

Double Materiality requires companies to understand what environmental, social and governance topics are material to them – based on the organization's impact on the world, and its effect on a company's financial performance.

Who is affected?

The CSRD will impact more companies than any other piece of sustainability regulation to date. In sharp contrast to the 11,000 companies currently covered under legacy NFRD ESG reporting, the CSRD will see approximately 50,000 companies worldwide required to disclose, track, and measure their sustainability performance. Organizations affected by CSRD compliance include:

EU-based companies
All public companies, and all private companies that meet two of the three criteria:

- Net turnover of more than €50 million

- Balance sheet assets greater than €25 million

- More than 250 employees

Non-EU companies
Companies that generate more than €150 million in net turnover in the EU, and:

- Have a subsidiary in the EU that meets the criteria for EU companies

- Have a branch in the EU that generates more than €40 million in net turnover

Small and medium-sized companies
Listed small and medium-sized undertakings (SMEs) that will report for financial years starting on or after January 1, 2026.

Credit institutions and captive insurance undertakings
Some small and non-complex credit institutions and captive insurance undertakings that will report for financial years starting on or after January 1, 2026.

An accurate entity analysis is needed to understand how the regulation applies to each business. This will determine whether reporting should be on an entity-by-entity basis, or group-wide.

How soon must I report?

Reporting requirements are being phased-in depending on the type of entity. For some organizations already affected by European reporting regulations, this could be as early as reporting against CSRD metrics for the 2024 reporting period during in 2025. For most large businesses it will mean reporting during 2026 on the 2025 reporting period.

CSRD scoping

Large undertaking

E.U. subsidiary in-scope when two of three criteria on the right are met on consecutive balance sheet dates:

- Total assets exceed €25M
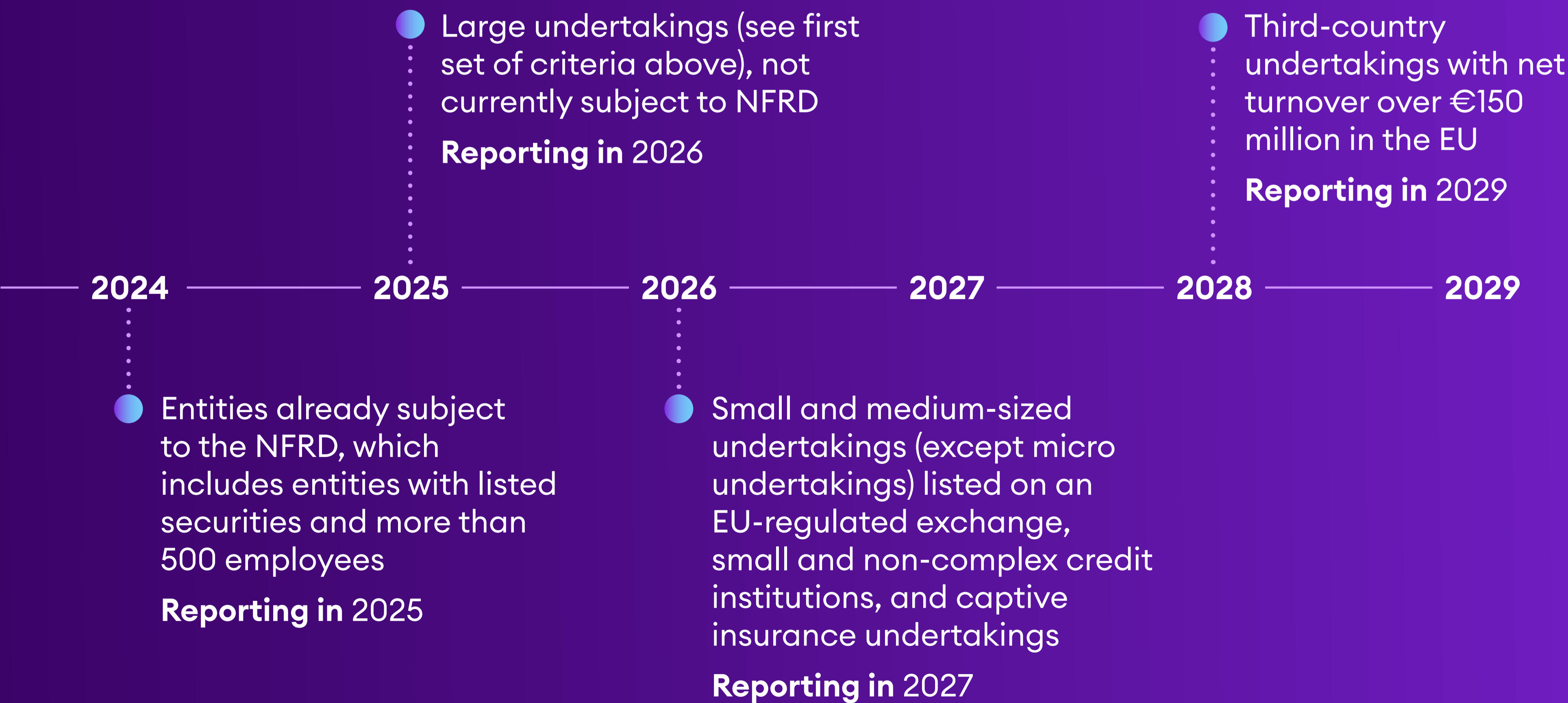- Annual revenues exceed €50M
- Employees over 250

Third-country undertaking

Annual EU revenues over €150M in two most recent years and one of two criteria is met:

- An EU subsidiary meets the criteria above
- EU brand with €40M in revenue

Phase-in of CSRD reporting

● Financial year

● Large undertakings (see first set of criteria above), not currently subject to NFRD
Reporting in 2026

● Third-country undertakings with net turnover over €150 million in the EU
Reporting in 2029

2024 — 2025 — 2026 — 2027 — 2028 — 2029

● Entities already subject to the NFRD, which includes entities with listed securities and more than 500 employees
Reporting in 2025

● Small and medium-sized undertakings (except micro undertakings) listed on an EU-regulated exchange, small and non-complex credit institutions, and captive insurance undertakings
Reporting in 2027

Source: Grant Thornton

What must be reported?

Understanding the CSRD scope

The CSRD's reporting requirements are more detailed than the Non-Financial Reporting Directive (NFRD) it replaces. With over 1,000 potential data points/metrics to report on, across 10 key ESG standards including areas such as pollution, resource use, and biodiversity, companies face complex disclosure demands. Disclosures must also cover both qualitative and quantitative measures across the short, medium and long term, and span the entire value chain. The CSRD also requires companies to disclose information on topics such as social responsibility and treatment of employees, anti-corruption and bribery measures, respect for human rights and diversity on company boards. Often for the first time, companies will need data from suppliers, customers and third-party data providers, and they need to assess its reliability.

The CSRD also introduces a key element to sustainability reporting called the Double Materiality Assessment (or "DMA"). This assessment, typically undertaken with the help of an external independent sustainability advisor, is a mandatory exercise for companies to identify which sustainability matters are most material to their organization and its stakeholders. Companies must report on how their business is impacted by sustainability risks and opportunities (the Financial materiality), as well as how their own activities impact society and the environment (the Impact materiality).

A reporting framework (the European Sustainability Reporting Standards - ESRS) provides drafts for General, Environmental, Social and Governance standards for all in-scope companies and topical disclosures that may or may not be material to a company.

Navigating CSRD Requirements

The CSRD (The Corporate Sustainability Reporting Directive) is a regulation standardizing sustainability reporting. Large, and publicity listed organizations in the EU and some non-EU organizations must report against the European Sustainability Reporting Standards (ESRS). The ESRS requirements include:

1. Double Materiality

Evaluate if sustainability matters or is material from two perspectives:

1. Impact on people and environment.

2. The financial impact of sustainability related matters.

2. Sustainability Disclosures

Disclose detailed information across environmental, social, and governance matters.

3. Forward-looking Information

Disclose performance and the resilience of your business model and strategy.

4. Assurance

Ensure you have the right process and control in place as disclosures are subject to limited assurance in first phase.

Beyond CSRD reporting: creating business value

Companies that directly integrate sustainability into their operations and business strategy can create valuable competitive advantage. For example, investors are increasingly considering ESG factors in their decision-making, potentially increasing access to and reducing the cost of investment capital for companies who demonstrate a commitment to sustainable operations. In the latest PwC Global Investor Survey, most investors would increase their investment in companies taking climate-related actions. For example, 72% said they would increase their investment in companies that are increasing their use of renewable energy.

A positive ESG record and stance also provides the opportunity for companies to differentiate themselves from competitors, opening new markets. Like-minded consumers will be drawn to environmentally conscious brands and companies and will remain loyal. Likewise, public and private sector business contracts are beginning to stipulate specific ESG performance criteria such as carbon reduction that must be met to tender.

Assessing current technology

Trustworthy reporting starts with a strong data foundation

Due to the sheer size and complexity of the Corporate Sustainability Reporting Directive, data will undoubtedly serve as the springboard for successful reporting. It's therefore vital to identify the Current State and address gaps between the ESRS requirements and the information currently available within the business technology stack. A gap analysis highlights any discrepancies between an organization's existing data ecosystem, policies and processes, and what's required under the CSRD. It effectively acts as a compass to guide companies to full compliance. For example, challenges and technology gaps commonly highlighted in a CSRD preparedness analysis might include:

- **Manually maintained/spreadsheet-held records:** non-financial data collection processes are often manual and spreadsheet based as opposed to automated and system-driven, risking inaccuracies compared to real-time reporting.

- **Lack of continuous performance insights:** data is often only collected and compiled at year end, so removing the opportunity to support ongoing ESG strategic decision-making in the business.

- **Less robust non-financial data:** the control environment for non-financial data is often weaker, which may mean it is less robust. The CSRD requires mandatory Assurance from year 1: companies will need to demonstrate their data is robust and accurate, and ensure they have a sufficient audit trail in place.

Importantly, the Gap Assessment is not just about identifying missing data points. It also identifies resource needs such as extra team members that you might need in procurement or finance, or budget that needs to be allocated to decarbonization activities or policies that need to be defined.

To ensure an integrated approach to data management and collection, many organizations are looking to enterprise technology solutions that provide a centralized and secure platform to collect, validate, and aggregate data from multiple data sources.

IFS Cloud, for example, offers a composable, AI-enabled platform that establishes a single master data source of truth across the business. Providing seamless connectivity to third-party systems and data sources through APIs, the IFS Cloud Sustainability Management module offers powerful capabilities for reporting, managing and strategically leveraging robust ESG performance data.

Optimizing your tech stack for CSRD

In a recent survey of professionals involved in ESG reporting by Workiva[1], 87% of executives said they will find it challenging to adapt reporting processes to comply with new regulations, and 83% indicated that collecting accurate data to meet the Corporate Sustainability Reporting Directive requirements will be a challenge for their organizations. Similarly, research by PwC found 60% of respondents identified data availability and quality as an obstacle to implementing the CSRD.

Reviewing data management

Robust, automated data management systems sit at the very heart of sustainability reporting. In the case of the CSRD, much new data will be required, often gathered from sources that are external to the organization. According to PwC's Global CSRD Survey 2024, the vast majority of UK respondents – 80% -- said they rely on spreadsheets for their existing sustainability reporting. In addition, much of the data will be coming from outside the organization. The importance of auditing and analyzing data quality, data cleanliness and – crucially – data governance cannot be underestimated to provide disclosures with assurance.

Preparing technology for change...

73%

Are using, planning to use or exploring the use of AI for CSRD reporting.

49%

Have involved their tech team in responding to CSRD requirements.

Source: PwC's Global CSRD Survey 2024 - UK respondents

Integration and interoperability

The CSRD reporting clearly demands wide ranging access to multiple data sources that will be held in different locations and systems. Ensuring that systems and tools can operate and integrate seamlessly is clearly a priority. 'Composable' enterprise applications, such as IFS Cloud, offer a modular system architecture that is flexible, adaptable, and capable of quickly consuming data, logic, intelligence, and workflows across the entire business. Composable applications are built from components that can be independently developed, sourced from third parties, deployed, managed, and then reconfigured to meet evolving business needs, allowing for greater efficiency and productivity.

By using Application Program Interfaces (APIs), composable components and sub-systems can communicate with each other using defined protocols and interfaces, providing rapid access to the seamless data exchange required to capture and compile sustainability data from multiple sources.

Learn more: Composable Business Applications and Industrial AI whitepaper

Automation and Industrial AI

Increasingly, organizations are looking to automation, Industrial Artificial Intelligence (AI), and machine learning (ML) to reduce technical costs, enable faster time to market, and improve business planning in a composable environment. Faced with the challenges posed by the CSRD, implementing and leveraging these technologies becomes even more relevant to ensure data accuracy and availability and remove human error.

1. Source: Workiva 2024 ESG Practitioner Survey

Supporting CSRD compliance with KPI Tracking

One of the most important parts of the CSRD is identifying the relevant impacts, risks and opportunities to complete the Double Materiality Assessment accurately. Any oversights will result in under reporting, whilst reporting on non-required or irrelevant topics will create unnecessary work for ESG teams. The Double Materiality Assessment will define the Key Performance Indicators (KPIs) that the organization must gather and forms the basis of all reporting going forward. As the Assessment is often complex and subject to audit from year one, most businesses will work with an external independent ESG partner expert to finalize it.

Tools for tracking and analyzing Key Performance Indicators

The IFS Sustainability Management Module within IFS Cloud streamlines complex data collection for the CSRD, supporting a single source of organization-wide data essential for accurate reporting and tracking of sustainability metrics in real time.

Built in collaboration with PwC, the solution includes a comprehensive KPI catalogue of 4,000+ pre-defined CSRD KPIs and workflows, providing the tools and insights to manage data and respond swiftly to changes. Organizations can select, configure and track relevant sustainability metrics to meet ESG business goals, and rapidly respond to changing regulatory requirements.

The tool also supports the creation of sustainability plans, allowing single companies or entity structures to continuously monitor progress and make informed strategic business decisions based on an accurate picture of ESG performance.

Scaling & Flexibility: embedding agile technology prepared for change

New regulatory and reporting frameworks such as the CSRD present complex data management challenges. Regulations are evolving and requirements will clearly continue to expand and grow in the months and years to come. It is therefore important to ensure that the organization's technology stack has the ability to adapt as new needs arise. Choosing a composable enterprise platform with API-based connectivity and leveraging dedicated regulatory tools to track and analyze performance will ensure the business has the agility to respond to future needs.

In tandem, most organizations will need access to specialist ESG expertise and regulatory knowledge from external subject matter advisors. Working with leading ESG regulatory experts, IFS offers IFS Cloud users both proven, compliant technology and, via third party partners, access to advisory services to help with assurance, Double Materiality Assessment scoping, readiness assessments, gap analysis, reporting and more.

Summary and 'What next?'

Sustainability reporting required by the Corporate Sustainability Reporting Directive is about to significantly impact the way thousands of organizations, both in the EU and worldwide, gather, manage and analyze data.

A clear understanding of which topics are materially relevant is essential, and third party ESG advice is almost certainly required. IFS is a software provider that prioritizes compliance with EU regulatory frameworks and assurance requirements. As ESG reporting becomes mandatory, and continues to evolve in complexity, establishing a single source of truth, enterprise-wide, in real time, is essential. IFS Cloud provides a proven, flexible, composable platform for a robust, future-proof data foundation. Coupled with the release of the IFS Sustainability Management Module, organizations now have out-of-the-box access to powerful ESG data monitoring and analysis capabilities, fully supporting CSRD reporting and assurance.

To find out more about the ways IFS Cloud and advisory services from expert partners can help to realize your corporate and regulatory sustainability goals, visit IFS.com.

About IFS

IFS is the world's leading provider of industrial AI and enterprise software for hardcore businesses that make, service, and power our planet. The industry expertise of our people and of our growing ecosystem, together with a commitment to deliver value at every single step, has made IFS a recognized leader and the most recommended supplier in our sector.

IFS develops and delivers cloud enterprise software for companies around the world who manufacture and distribute goods, build and maintain assets, and manage service-focused operations. Within our single platform, our industry specific products are innately connected to a single data model and use embedded digital innovation so that our customers can be their best when it really matters to their customers – at the Moment of Service .

The industry expertise of our people and of our growing ecosystem, together with a commitment to deliver value at every single step, has made IFS a recognized leader and the most recommended supplier in our sector. Our global team of over 7,000 employees every day live our values of agility, trustworthiness and collaboration in how we support thousands of customers.

Learn more about how our enterprise software solutions can help your business today at ifs.com.

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