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European Commission publishes FAQs on CSRD and SFDR

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On 13 November 2024, the European Commission published 90 frequently asked questions (''**FAQs**'') with the aim of enhancing stakeholders' understanding and compliance with the sustainability reporting requirements under the Corporate Sustainability Reporting Directive (*(EU) 2022/2464*) (''**CSRD**'') and the Sustainable Finance Disclosure Regulation (*(EU) 2019/2088*) (''**SFDR**'').

The FAQs predominantly focus on guidance in relation to the sustainability reporting requirements under the CSRD and include the following:

- a summary of the reporting requirements as well as guidance on the sustainable information required under Articles 19a, 29a, and 40a in the Directive 2013/34/EU (''**Accounting Directive**'').
- guidance on the assurance of sustainability information to be reported on and the process and content of assurance reports in relation to sustainability reporting under the Accounting Directive.
- guidance on reporting key intangible resources (which does not have to be included as part of the sustainability statement and can be provided in a different section of the management report).
- guidance aimed at third-party undertakings, including individual and consolidated sustainability statements for third-country undertakings who are not required to comply with EU sustainability reporting requirements and want to exclude their EU subsidiaries from sustainability reporting under Articles 19a and 29a of the Accounting Directive.

Spotlight on the FAQ on SFDR

The European Commission has also clarified the interaction between indicators of principal adverse impacts (‘‘**PAIs**’’) under the CSRD and SFDR. Under FAQ (90), the European Commission confirms that where an investee undertaking sets out that a PAI indicator is non-material under CSRD reporting, a fund manager can rely on this to determine that the investee undertaking is also not contributing to the corresponding PAI under SFDR.

What must be reported on for PAIs under the CSRD and SFDR?

The CSRD contains an obligation to consider the information needs of financial market participants. Consequently, any indicator assessed as being non-material by an investee undertaking subject to CSRD reporting is relevant information under the SFDR.

Fund managers can locate this information under CSRD reporting as Delegated Regulation (EU) 2023/2772 (first set of European Sustainability Reporting Standards) (‘‘**ESRS**’’) 1 paragraph 35 mandates that when an investee undertaking considers that a specific datapoint derived from the SFDR is not material, the undertaking must state that such information is not material.

Under ESRS 2 paragraph 56, undertakings subject to the CSRD must also include a table of all the datapoints deriving from other EU legislation, including the SFDR, setting out where the datapoints can be found in the sustainability statement and indicating where an undertaking has considered the datapoint to be non-material in accordance with ESRS 1 paragraph 35.

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