

Checklist: 7 Things You Need to Know About the EU's CSRD

By PracticalESG.com

ESG in the EU is changing dramatically. The old statutory structure known as the Non-Financial Reporting Directive (NFRD) is being replaced by the new Corporate Sustainability Reporting Directive (CSRD). This checklist will walk you through these changes, help you identify if your company is in scope and help you determine the actions to take to ensure compliance.

The CSRD is set to be adopted in October 2022. If things proceed as planned, then the first round of disclosures will be reported in 2025 on 2024 data. EU member states are expected to implement the directive into national law 18 months after its passage. Additionally, the European Financial Reporting Advisory Group (EFRAG) is presently working on the European Sustainability Reporting Standards (ESRS) that will be used in CSRD reporting. [Draft standards](#) were published in April 2022 with the public comment period [ending](#) on August 8, 2022. Those comments are presently being reviewed by EFRAG and the first set of drafts incorporating public feedback are expected to be sent to the European Commission in November 2022 to be considered for adoption.

1. The CSRD will replace the NFRD.

The NFRD is the current regulatory scheme for ESG reporting in the EU. The NFRD was a set of amendments to existing EU directives, which created a requirement for an annual non-financial statement to be published by companies on areas including environmental, social, human rights and anti-corruption matters. However, the scope of the NFRD is limited primarily to large companies listed in EU-regulated markets. This limited scope, along with other perceived shortcomings, led to the creation of the CSRD, which seeks to bolster disclosures.

Many stakeholders feel that current disclosures are lacking. Investors, NGOs, social partners and other stakeholders that rely on the information in NFRD disclosures have complained that the information presented is often incomplete. Even when companies audit and disclose information in non-financial reports, the information is often not sufficiently comparable between companies. This has left stakeholders frustrated and is part of the impetus behind the CSRD's expanded rules.

Like the NFRD, the CSRD is a set of amendments to existing directives and regulations, which when taken together are designed to bolster the quality and quantity of sustainability reporting in the EU. The CSRD amends the following directives and regulations:

- a. [Directive 2013/34/EU \(aka the EU Accounting Directive\)](#) — The Accounting Directive provides guidelines for the categorization of businesses by size as well as laying out the accounting and disclosure requirements required for these categories. Amendments to the Accounting Directive are listed under Article 1 of [the proposal](#) on page 55.
 - b. [Directive 2004/109/EC \(aka the Transparency Directive\)](#) — The Transparency Directive lays out the minimum financial disclosure requirements for issues of securities listed on EU-regulated markets. Amendments to the Transparency Directive are listed under Article 2 of [the proposal](#) on page 103.
 - c. [Directive 2006/43/EC \(aka the Audit Directive of May 17, 2006\)](#) — The Audit Directive of May 17, 2006, outlines statutory audit requirements and standards. Amendments to the Audit Directive of May 17, 2006, are listed under Article 3 of [the proposal](#) on page 107.
 - d. [Regulation \(EU\) No 537/2014 \(as it regards corporate sustainability reporting\)](#) — Regulation (EU) No 537/2014 is a regulation [governing the independence of auditors and requirements for audit committees](#). Amendments to Regulation (EU) No 537/2014 are listed under Article 4 of [the proposal](#) on page 141.
- 2. CSRD will increase the scope of who is required to report.** Under the NFRD, only large companies listed on EU markets were required to report ESG data. However, CSRD is expanding the scope of companies required to make ESG disclosures. The European Commission expects the expanded scope of CSRD to bring the number of reporting entities from 11,600 to 49,000. Under the new rules, the following companies will be required to disclose ESG information:

EU Companies Subject to CSRD

- All large companies listed or unlisted who are established in the EU. Large companies are defined by the EU Accounting Directive as those who meet two of the following three requirements:
 - A net turnover of €40 million.
 - A balance sheet total of €20 million.
 - At least 250 employees on average over the financial year.
- All small and medium enterprises (SMEs) listed on EU-regulated markets. Micro-listed and unlisted SMEs are excluded from reporting requirements and may report on a voluntary basis.
- Insurance undertakings and credit institutions regardless of legal form, listed or unlisted, who are not micro companies. Note that insurance undertakings and credit institutions do not use the general definition of net turnover provided in [Directive 2013/34/EU](#) to calculate net turnover, and instead use the definition of net turnover provided in [Directive 1986/635](#) and [Directive 1991/674](#).
- Parent companies whose subsidiaries are required to make disclosures on a consolidated basis.

In Scope Non-EU Companies (Third-Country Companies)

- Third-country companies that meet both of the following criteria:
 - a. a net turnover of more than €150 million in the EU at the consolidated level; and
 - b. at least one subsidiary or branch generating a turnover of €40 million in the EU.

Important: Third-country companies that meet these requirements must report through their EU subsidiary or branch at the consolidated level. Article 29a, paragraph 2, points (a)(iii)-(e), found on page 69 of the [proposal](#), governs the types of information third-country companies will be required to disclose. Much of this information pertains to operations at an enterprise-wide level — including those

operations not previously within EU reporting jurisdiction. Specific reporting standards for third-country companies will differ from those for EU companies. These standards are set to be adopted by June 30, 2024. Third-country companies may also opt to use the standards applying to EU undertakings or standards which are deemed equivalent according to the Commission.

- Any company that has transferable securities listed on an EU-regulated market, regardless of whether the company is established in the EU — with the exception of micro-listed companies.

3. Disclosures will be expanded. The CSRD expands both the amount and quality of information required to be disclosed. Separate standards will be developed in the future for large companies, SMEs and third-country companies. This is designed to limit the burden of reporting on SMEs and allow a level of flexibility for third-country companies. CSRD reporting is based on the concept of double materiality, meaning that companies must report how ESG issues materially impact them and how they materially impact ESG. You may want to refer to our checklist on [Defining ESG Materiality](#).

The CSRD requires reporting in the areas of environmental, social and governance. Companies will be required to conduct a double-materiality assessment on an extensive list of topics. A few of the specific topic areas are information relating to:

- climate change mitigation,
- water and marine resources,
- biodiversity,
- ecosystems,
- equal opportunities for all,
- equal pay for equal work,
- working conditions,
- business ethics and corporate culture, and

- political engagement.

This is far from an exhaustive list. For the full range of topics, refer to Article 19a of [the proposal](#) on page 58.

In addition to these topics, the CSRD also requires companies to disclose how they are approaching these issues from a management and governance perspective, including companies’:

- ESG strategies,
- targets,
- board management,
- adverse impacts connected to the company’s value chain,
- intangibles, and
- methods for identifying and collecting the disclosed information.

Companies must report qualitative and quantitative data, forward-looking and retrospective information, and information that covers short-, medium- and long-term time horizons.

- 4. Disclosure processes will be more specific.** The NFRD didn’t require all disclosing companies to use the same format or require the disclosures to be digitally accessible. The CSRD fixes these issues by requiring that disclosures be made in a digitally readable format. The CSRD also introduces a requirement that all disclosures be made following ESRS, which is currently being developed by EFRAG. This allows for standardization that will make companies’ ESG disclosures more easily comparable.

Additionally, the CSRD mandates that this information be included in the company’s management report and removes a provision under the NFRD that allowed individual member states to let companies make these disclosures in separate reports. Parent companies are expected to make consolidated reports that cover the reporting for their subsidiaries. Subsidiaries are expected to reference the parent company’s consolidated report in their management reports and are not required to do separate reporting. This is slightly different for third-country parent companies with a

subsidiary or branch that is in scope. For those companies, the consolidated report is expected to be published in the management reports of their EU subsidiary or branch.

- 5. Disclosures must be audited.** Presently under the NFRD, only 20% of large companies fully report, and only 30% of those audit the information disclosed. This creates gaps in the information provided and makes it difficult for stakeholders to rely on disclosures. The CSRD solves this by requiring all disclosures to be audited.

The audits themselves will have conducted pursuant to the rules laid out in [Directive 2006/43/EC \(aka the Audit Directive of May 17, 2006\)](#), as amended in Article 3 of [the proposal](#) on page 107, and [Regulation \(EU\) No 537/2014, \(as it regards corporate sustainability reporting\)](#), as amended in Article 4 of [the proposal](#) on page 141.

Not just any auditing firm will be allowed to conduct sustainability audits. Some auditors will be approved at the EU level, while others will have to be approved by individual member states. This means that only a select list of auditors will be available to companies under the CSRD.

- 6. Disclosure will be expensive.** The CSRD is more detailed, in-depth and reaches a wider number of companies than the NFRD. This means more companies will be allocating resources for the expanded disclosures. The European Commission estimates a one-time initial cost to large companies of €1.2 million and a recurring yearly cost of €3.6 million. That is an estimated €5.8 million for the first year of reporting. Therefore, companies need to start allocating resources now for their eventual CSRD disclosures. Some multinational companies are setting aside up to €20 million to comply with the EU's upcoming Green Deal rules, including the CSRD.
- 7. The first companies will have to comply as soon as 2024.** The CSRD is set to be adopted in October 2022. If things proceed as planned, then the first round of disclosures will be reported in 2025 on 2024 data. The CSRD rolls out in phases staggering the timescale for companies depending on their classification. The phases are as follows:
 - **2025 Reporting:** Companies that were already subject to the NFRD must begin reporting from January 1, 2025, on their 2024 data.

- **2026 Reporting:** Large companies that were not subject to the NFRD must begin reporting from January 1, 2026, on their 2025 data.
- **2027 Reporting:** SMEs must begin reporting from January 1, 2027, on their 2026 data.
- **2029 Reporting:** Third-country companies must begin reporting from January 1, 2029, on their 2028 data.

While that may seem like third-country companies have a lot of time to prepare, the scale of the law combined with the costs of implementation means that in-scope companies should start moving toward compliance sooner rather than later.