



Preparing for the Corporate Sustainability Reporting Directive

Guide to the CSRD

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On 16 December 2022, the [final text](#) of the **Corporate Sustainability Reporting Directive** (CSRD) has been published in the Official Journal of the European Union (OJEU). This publication is the outcome of a process that lasted several months, from the CSRD proposal by the European Commission (EC) in April 2021, until the political agreement reached in June 2022 on a slightly revised version of the initial CSRD proposal and the subsequent formal adoption by the Parliament and the Council.

The new directive comes into force 20 days after its publication in the OJEU, on 5 January 2023.

Member States will then have 18 months to transpose it into national law (by 6 July 2024).

This will be the final step in order to further specify the scope of the CSRD requirements and the implementation schedule.

What are we talking about?

The CSRD is the **update to the current Non-Financial Reporting Directive** (NFRD) which, in 2014, created reporting and transparency obligations on sustainability matters for a number of European companies.

In practice, the CSRD **widens the scope of companies** subject to mandatory sustainability reporting obligations, with about 50,000 companies having to comply with the new rules (in comparison with about 11,700 for the NFRD). Companies in the scope of the CSRD will also have to **comply with Article 8 of the Taxonomy Regulation of June 2020**, consequently expanding the scope of companies subject to Taxonomy reporting.

The new directive aims to improve the quality of reported sustainability information by **mandating the use of European Sustainability Reporting Standards** (ESRS) for all companies outlined in the scope of the directive, with businesses outside of this scope also encouraged to meet these standards or voluntary specific ones yet to be developed (see Forvis Mazars' dedicated publication on the [first set of draft ESRS](#)).

In addition, the CSRD requires **limited assurance on sustainability reporting, with an expected move to reasonable assurance by the end of the decade**.

Sustainability statements will have to be presented in a single identifiable **dedicated section of the management report**. Such report will have to be **both human and machine-readable** using the European Single Electronic Format (ESEF) and marking-up sustainability statements (including the disclosures provided for according to Article 8 of the Taxonomy regulation) based on an XBRL taxonomy yet to be prepared.

Last but not least, **the workers' representatives will have to be adequately informed and consulted by the company's management** in order to be able to better engage in social dialogue.

Why this new directive?

With the CSRD, the EU wishes to **bring sustainability reporting on an equal footing with financial reporting over time** in order to meet the level of ambition of the Green Deal and the Union's objective of climate neutrality by 2050.

Enabling the dissemination of reliable, relevant and comparable sustainability-related information among all economic and financial players is the cornerstone of Europe's sustainable development ambitions. Indeed, there can be no significant progress in achieving these collective objectives if the underlying issues are not uniformly understood, managed and shared. However, **the current framework defined by the NFRD has left considerable leeway for the implementation of reporting obligations**. This has resulted in a great deal of diversity in the information available, which is both expensive to produce, and ultimately sometimes confusing / misleading.

The CSRD therefore aims above all **to define a common, standardised language for sustainability reporting**. This directive will benefit all economic and financial players, and in particular companies themselves. This being said, the end goal is not reporting by itself but fostering the transition to a more sustainable and inclusive economy. Hence it is expected that the main beneficiaries will be the planet and people.

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Which companies/groups are concerned?

The CSRD applies in practice to the following companies:

- **all large companies** i.e. both public interest entities or PIE¹ (including non-EU companies listed on an EU regulated market) and unlisted entities that exceed at least two of the three following criteria²: (i) 250 for the average number of employees, (ii) €40m net turnover and (iii) €20m balance sheet total. All parent entities of a large group are also in the CSRD scope;
- **listed³ small and medium entities⁴ (SMEs)** meaning entities that meet at least two of the following criteria²: (i) average number of employees between 10 and 250, (ii) €700k and €40m net turnover, and (iii) €350k and €20m balance sheet total;
- **non-EU companies** generating at least €150m⁵ net turnover in the EU and with at least one branch (generating at least €40m⁶ net turnover) or one subsidiary in the EU (large entity or listed SME).

Unlisted SMEs will be encouraged to publish simplified information according to voluntary standards proportionate to their needs and capabilities.

Large unlisted entities and listed SMEs (including subsidiaries of non-EU groups) are exempt from publishing their own sustainability statements if they are in a group which publishes consolidated “CSRD compliant”⁷ sustainability statements.

However, **the subsidiary exemption does not apply to large listed companies.**

1 According to the EU Directive 2013/34, listed companies (i.e. entities whose transferable securities are admitted to trading on a regulated market of any Member State), credit institutions, insurance companies and companies designated by Member States as public-interest entities.

2 These three criteria shall be assessed at the balance sheet date.

3 Whose transferable securities are admitted to trading on a regulated market of any Member State.

4 Except micro-entities.

5 This €150m threshold on turnover shall be assessed for each of the last two consecutive financial years.

6 This €40m threshold on turnover for the branch shall be assessed for the preceding financial year.

7 Meaning compliant either with general ESRS (i.e. standards to be applied by large companies) or, where relevant, with non-EU standards considered as fully equivalent to general ESRS as per the equivalence rules that will be defined by the EC in case of a non-EU group.



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What information shall be published?

Companies in the scope of the CSRD shall include in their management report information necessary to understand (i) **company's impacts on sustainability matters** and (ii) **how sustainability matters affect the company's development, performance and position** ("double materiality" perspective).

In practice, the CSRD requires that such information contain:

- a) a brief description of the company's **business model and strategy**;
- b) a description of the **time-bound targets related to sustainability matters** set by the company;
- c) a description of the **role of the administrative, management and supervisory bodies with regard to sustainability matters**, and of their **expertise and skills** in relation to fulfilling that role or the access such bodies have to such expertise and skills;
- d) a description of the company's **policies in relation to sustainability matters**;
- e) information about the existence of **incentive schemes linked to sustainability matters** which are offered to members of the administrative, management and supervisory bodies;
- f) a description of:
 - the **due diligence process implemented with regard to sustainability matters**;
 - the **principal actual or potential adverse impacts** connected with the company's own operations **and with its value chain**;
 - any actions taken by the company to **prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions**;
- g) a description of the **principal risks to the company related to sustainability matters**, including a description of the company's **principal dependencies on those matters**, and how the company manages those risks;
- h) **indicators** relevant to the disclosures referred above.

Information provided by listed SMEs, small and non-complex credit institutions and captive insurance and reinsurance companies as defined by the CSRD may be limited so as to avoid a disproportionate administrative burden on them. Therefore, such companies will be able to apply specific ESRS (compared to general ESRS to be applied by large companies).

In practice, the information to be published within the framework of the CSRD and in accordance with ESRS will follow the structure of the Recommendations of the Task-Force on Climate-related Financial disclosures (TCFD) under four categories ((1) Governance, (2) Strategy, (3) Management of impacts, risks & opportunities, (4) Metrics and Targets) and will cover the three ESG topics (Environment, Social, Governance).

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Which assurance on this information?

The sustainability statements and the information contained therein will be **subject to mandatory assurance**, with limited assurance at inception and then expected to move towards reasonable assurance (from 2028 after an assessment to determine if reasonable assurance is feasible for auditors and undertakings).

The assurance will have to be carried **by the statutory auditor of the entity**. Member States can also allow **an independent assurance services provider (IASP)** or another statutory auditor to express this opinion. If the Member State allows IASP to express an opinion on the sustainability reporting, it should also allow a statutory auditor other than the one(s) carrying out the statutory audit of financial statements to do so.

Where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, if the Member State requires it, the assurance report on sustainability reporting may be included as a separate section of the audit report. The report from an IASP should be made available either as an annex to the management report or by other publicly accessible means.

The assurance provider will express an opinion as regards (i) the compliance of the sustainability reporting with the requirements of the directive, including with the ESRS, (ii) the process carried out by the company to identify the reported sustainability information, (iii) the compliance with the requirement to mark-up sustainability reporting using the ESEF and (iv) the compliance with the reporting requirements of Article 8 of the Taxonomy Regulation.

How this information will be monitored?

The CSRD confers **new role to the Audit Committee (AC)**, by extending its responsibilities towards financial reporting to sustainability reporting (SR), including its digitalisation. The AC will indeed oversee (i) the SR process, (ii) the effectiveness of the entity's internal quality control and risk management systems regarding its SR and, where applicable, its internal audit on that matter.

Besides, new tasks have been assigned to the AC regarding assurance of the SR:

- inform the relevant governing body of the outcome of the assurance of SR and explain how this assurance contributed to the integrity of SR, and what was the role of the AC in that process;
- monitor the assurance of the SR, in particular its performance;
- review and monitor the independence of the statutory auditor or the IASP which carries out assurance.

Member States may allow the functions assigned to the AC relating to SR and to the assurance of SR to be performed by the administrative or supervisory body as a whole **or by a dedicated body established by the administrative or supervisory body**.



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When will the CSRD have to be first applied?

Application of the CSRD will occur progressively under four stages for the following full-year periods:

1. **2024** (reports published early 2025) for large PIEs with more than 500 employees (which are already subject to the NFRD), based on the sector-agnostic standards expected to be adopted end of June 2023 by the EC⁸;
2. **2025** (reports published early 2026) for “new CSRD” large companies (which were not subject to the NFRD), including large listed entities with average number of employees below 500, based on (i) the sector-agnostic standards and (ii) the sector-specific standards expected to be adopted respectively end of June 2023 and end of June 2024 by the EC (to be confirmed for the first sector-specific standards);
3. **2026**⁹ (reports published early 2027) for listed SMEs, unless they choose to apply the two-year delay¹⁰, with justification, and based on listed SMEs ESRS¹¹ expected to be adopted end of June 2024 by the EC;
4. **2028** (reports published early 2029) for non-EU entities meeting the previously mentioned CSRD conditions, based on ESRS for non-EU entities¹¹ expected to be adopted end of June 2024 by the EC.

8 Subsequent reports on later periods will be based on the general ESRS framework i.e. including both sector-agnostic standards and sector-specific standards once these are available.

9 First year of ESRS reporting also for small and non-complex credit institutions and captive insurance and reinsurance companies as defined per the CSRD.

10 First report would then be published early 2029 for financial year 2028.

11 Unless they opt for general ESRS, or non-EU standards considered as fully equivalent to general ESRS as per the equivalence rules that will be defined by the EC.



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What do you need to do to prepare?

For example, if your company is a large PIE already subject to the NFRD:

Between now and end of June 2023

- Familiarise yourself with the final CSRD text
- Read the draft sector-agnostic ESRS issued on 22 November 2022 by EFRAG and delivered to the EC for final approval
- Anticipate impacts on sustainability reporting systems, processes and tools
- Carry out a diagnosis to measure the upgrade effort required ("gap analysis") and assess the changes to be implemented
- Define and execute the resulting action plans



Between end of June 2023 and end of 2024

- Ensure that the definitive standards as adopted by the EC do not include changes compared to the drafts prepared by EFRAG that need to be taken into account
- Bring up the necessary information and start drafting your sustainability statements in accordance with the sector-agnostic ESRS adopted by way of delegated act by the EC end of June 2023
- Where applicable, read the first ten draft sector-specific ESRS to be issued mid November 2023 by EFRAG and delivered to the EC for final approval



In 2025

- Publish your first sustainability statements for financial year 2024 in accordance with sector-agnostic ESRS – no comparative information is required the first year of application
- Bring up the necessary information and start drafting your sustainability statements in accordance with the first sector-specific ESRS adopted by way of delegated act by the EC end of June 2024 (to be applied for the first time to your 2025 sustainability statements – to be confirmed)

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If your company has never published sustainability statements, for instance here as a large unlisted entity:

Between now and end of 2023

- Familiarise yourself with the challenges of sustainability reporting and the content of the CSRD (objectives, reporting structure, methodologies, etc.)
- Conduct an initial materiality assessment and map your main specific sustainability issues (impacts, risks and opportunities)
- Derive a vision of reporting needs (policies, action plans and associated indicators)
- On this basis, carry out a diagnosis of your organisation (processes, systems, tools) in order to have a first idea of the path to follow as soon as possible and anticipate the actions to be implemented
- Deploy the action plan: adapt your business, processes, reporting and information control framework, as well as information systems
- Integrate into your action plan the precise information collection requirements as anticipated by the sector-agnostic standards issued on 22 November 2022 by EFRAG and delivered to the EC for final approval in June 2023



In 2024 and 2025

- Refine the materiality assessment and identify the information to be published
- Implement the new processes and reporting systems
- Collect the information needed for your first sustainability statements
- Define the precise content of the statements, and how it will fit into your management report
- Write your sustainability statements based on the sector-agnostic ESRS adopted by way of delegated act by the EC end of June 2023
- Where applicable, integrate into your action plan the information collection requirements as anticipated by the first ten sector-specific reporting standards to be issued mid November 2023 by EFRAG and delivered to the EC for final approval (publication of the 41 sectoral standards spread over three years)
- Where applicable, benchmark with relevant CSRD-compliant sustainability statements already available
- Choose the company that will audit your sustainability statements when they will be first published in early 2026



In 2026

- Publish your first sustainability statements for financial year 2025 in accordance with ESRS, both at sector-agnostic and sector-specific levels (where applicable – to be confirmed for sector-specific standards) – no comparative information is required the first year of application

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