Beyond the GAAP

Mazars' monthly newsletter on financial and sustainability reporting

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Editorial

On 9 April 2024, the IASB published IFRS 18 *Presentation and Disclosure in Financial Statements*, the new standard that will replace the current IAS 1. This standard, the culmination of the Primary Financial Statements (PFS) project initiated in 2015, aims to improve the comparability, quality and transparency of financial information for users of financial statements. It will apply retrospectively to reporting periods beginning on or after 1 January 2027 at the latest (subject to endorsement by the European Union, earlier application will be possible). Given the structural changes it introduces, we believe it is important to pay immediate attention to this new standard in order to anticipate the necessary changes to internal systems and processes for producing financial statements and, perhaps, to rethink the way in which financial performance is reported.

On April 24, the European Parliament endorsed the text of the future Corporate Sustainability Due Diligence Directive (CSDDD), which imposes due diligence processes on entities. This text supplements those already published as part of the 2019 Green Deal for Europe (which aims to make the EU the first climate-neutral continent by 2050). The future CSDDD must now be approved by the Council, after which Member States will have two years to transpose it into national law. This major new regulation for businesses will be examined in more detail in this issue.

IFRS Highlights

IASB launches in-depth review of IAS 38

On 23 April, the International Accounting Standards Board (IASB) announced the launch of a "comprehensive review of accounting for intangibles". The IASB's objective is to assess whether the requirements of the current IAS 38 – *Intangible Assets* remain relevant and continue to fairly reflect current business models, or whether they need to be improved.

This decision follows stakeholder feedback on the IASB's third work programme consultation. During consultations, many stakeholders stressed the need to improve IAS 38, in terms both of scope, recognition and measurement requirements (including the difference between accounting for acquired and internally generated intangible assets), and of disclosures in the notes to the financial statements.

The IASB accepts that this is a very large, complex project. This initial stage will seek to define the scope of the project and explore how best to organise the work.

In particular, it will be necessary to decide whether the project should be limited to the recognition and disclosure of assets and expenses arising from expenditure on intangible items, or whether it should be broader in scope.

The IASB will also need to consider the connections between this project and the work of the International Sustainability Standards Board (ISSB); for example, the connections with some information required by IFRS S1 or links with the ISSB's forthcoming research project on human capital.

For more details, you can consult the project description on the IASB site here.

Closing document of the BCUCC project published by the IASB

On 17 April, the IASB published a document (available here) summarising the Business Combinations under Common Control ('BCUCC') project and setting out the reasons for its discontinuation.

Readers will recall that IFRS 3 – *Business Combinations* sets out the requirements for accounting for and presenting business combinations but does not specify how to deal with combinations between entities under common control (for example, between companies in the same group).

In November 2020, the IASB published a discussion paper setting out its preliminary views on this subject, hoping to reduce the diversity of practices and improve the transparency and comparability of financial information on these transactions.

After a number of years' discussion and consideration, the IASB finally decided in November 2023 not to develop requirements for BCUCCs, on the grounds that:

- investors reported that they were not significantly affected by this diversity;
- users' information needs vary across jurisdictions, making it difficult to develop requirements that would meet the information needs of users globally; and
- any improvement in financial reporting when presenting BCUCCs was likely to be offset by the costs of developing and implementing these changes.

Imminent publication of IFRS 19

On 9 May, the IASB plans to publish IFRS 19 – *Subsidiaries without Public Accountability: Disclosures*. This voluntary standard is intended for subsidiaries that are not required to disclose information to the public (see details below).

It should enable them to simplify the preparation of their own IFRS financial statements by reducing the volume of disclosures.

A group subsidiary would be eligible to apply IFRS 19 if:

- it has no public disclosure requirements or, in the terminology of the standard, public accountability (i.e. it is neither stock exchange listed nor a financial institution); and
- its ultimate or any intermediate parent publishes consolidated financial statements that are available for public use and comply with IFRSs.

Exposure Draft on Renewable Power Purchase Agreements to be published shortly

On 8 May, the IASB plans to publish its exposure draft on renewable electricity contracts (PPA/VPPA). We previously reported its expected content, based on information received from IASB meetings (see Beyond the GAAP no 186 of March 2024).

The IASB gives no indication of the length of the comment period, but it should be remembered that its March meeting suggested a period of 90 days, given the urgency of the matter.

Publication of IFRS IC decision on climate-related commitments (IAS 37)

In April 2024, the IASB approved the decision taken in March by the Interpretations Committee (IFRS IC) on the application of IAS 37 to an entity's commitments to reduce or offset its future greenhouse gas (GHG) emissions, otherwise known as net zero transition

commitments (the IFRS IC Update for March 2024 can be consulted here). The question initially submitted to the Committee and the subsequent clarifications related to commitments of two types:

- a commitment to reduce annual GHG emissions by a specified amount by a specified future date;
- a commitment to offset the remaining annual GHG emissions thereafter, by purchasing and retiring carbon credits.

The Committee concluded that the current provisions of IAS 37 provide an adequate basis for an entity to determine (i) the conditions under which a public statement gives rise to a constructive obligation to fulfil the commitment; (ii) whether the entity recognises a provision for this obligation; and (iii) whether the corresponding amount is recognised as an expense or as an asset.

The Committee first observed that a constructive obligation does not arise automatically as soon as the entity makes a public statement, but that this qualification is a matter for the entity's judgement and may change depending on the relevant facts or circumstances, including any actions taken by the entity in this regard.

The Committee then observed that under paragraph 14 of IAS 37, an entity must recognise a provision when: (i) the entity has a present obligation as a result of a past event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the amount of the obligation. With regard to the first criterion, the Committee points out that 'no provision is recognised for costs that need to be incurred to operate in the future' (IAS 37.18) and that 'it is only those obligations arising from past events existing independently of the entity's future actions (i.e. the future conduct of its business) that are recognised as provisions' (IAS 37.19).

In the Committee's view, settling the reduction obligation will not require an outflow of resources, as the entity will receive other resources in exchange of the expenditure then incurred (e.g. investment, improvement expenditure, etc.). On the other hand, settling the offsetting obligation will require an outflow of resources, as the entity will be required to purchase and retire carbon credits without receiving any economic benefits in exchange. Nevertheless, the past event that gives rise to the offsetting obligation is the emission of greenhouse gases at the future date mentioned in the commitment (and not the entity's declaration or the measures it has taken to publicly affirm this commitment): prior to this date, no provision is therefore recognised.

Finally, the Committee clarifies that a provision for the offsetting commitment is recognised as an expense, unless the IFRS criteria for recognising an asset are met (without specifying the conditions for recognising a carbon certificate as an asset).

IFRS IC confirms its position on payments contingent on continued employment following a business combination (IFRS 3)

In April 2024, the IASB approved the IFRS IC's March decision on how an entity should account for payments to the sellers of a business it has acquired if those payments are contingent on the sellers' continued employment during a post-acquisition handover period (the IFRIC Update of March 2024 can be consulted here).

The fact pattern described in the request was as follows:

- the acquisition agreement requires the sellers to continue as employees of the acquired business to ensure the appropriate transfer of knowledge from the sellers to the new management team;
- the sellers are compensated for their services at a level comparable to other management executives, and receive additional payments contingent upon both the performance of the acquired business and the continued employment of the sellers for a limited period after acquisition;
- the sellers are entitled to receive the additional payments if their employment is terminated due to specified circumstances—such as death or disability—or with the entity's agreement. The sellers forfeit the additional payments if their employment is terminated in any other circumstances.

Observing that there were no significant diversity in the accounting for payments contingent upon continued employment in fact patterns such as that described in the request, the Committee pointed out that the acquirer should apply the provisions of IFRS 3 as revised in January 2013, and account for the payments as compensation for post-combination services rather than as additional consideration for the acquisition, unless the service condition is not substantive.

In publishing this decision, the Committee confirms the position taken ten years earlier, in January 2013 (accessible here).

Climate-related and other uncertainties in the financial statements

The IASB's April meeting discussed its project on climate-related and other uncertainties in the financial statements, which aims to examine how, through targeted actions, the IASB could help to improve the presentation of information on such issues.

The IASB tentatively decided to:

- provide examples of how an entity applies IFRS to account for the effects of climate and other uncertainties in its financial statements;
- include examples for illustrative purposes, to accompany the standards; and
- publish an exposure draft to obtain stakeholder feedback on these examples, setting the comment period at 120 days.

EIOPA report on the implementation of IFRS 17

In a report published on 15 April 2024 and available here, based on a survey of 53 European groups (data as at 30 June 2023), the European Insurance and Occupational Pensions Authority (EIOPA)[1] provides an overview of the effects of the transition to IFRS 17 and the practical impacts of the standard's main accounting requirements.

The report also highlights the synergies and differences between this regulatory accounting model and the Solvency II prudential framework.

In a comparative study of IFRS 17, to be published shortly and carried out on a panel of 18 insurers and reinsurers worldwide,

[1] EIOPA is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union. It is pivotal to the supervision of insurance and occupational pensions in the EU.

Mazars will present the effects of the standard on key performance indicators and the information presented in the financial statements at 31 December 2023.

ISSB to commence research projects about risks and opportunities related to nature and human capital

On 23 April 2024, following discussions within the Board at its last monthly meeting (see ISSB *Update*), the International Sustainability Standards Board (ISSB) announced the launch of new research projects on the reporting of the risks and opportunities relating to (i) biodiversity, ecosystems and ecosystem services and (ii) human capital (see the press release here). This work is designed to give priority to meeting investors' needs for information on these subjects and ties in with the public consultation launched in May 2023 on its future work programme (see Beyond the GAAP no 177 of May 2023).

The ISSB plans to rely on pre-existing frameworks of reference in this area, in particular the SASB (Sustainability Accounting Standards Board) standards and the CDSB (Climate Disclosure Standards Board) guidelines - both of which come under its supervision - as well as the work carried out by the TNFD (Task Force on Nature-related Financial Disclosures). Preparers are already invited to take these other reference frameworks into account when preparing their sustainability reporting on aspects other than climate in application of IFRS S1.

The ISSB also plans to continue to develop approaches that would promote interoperability between its global baseline and other standards and frameworks widely used to communicate the financial effects of risks and opportunities arising from sustainability issues.

These new research projects are therefore intended to support the standard-setting work that could in time be undertaken by the ISSB with the aim of broadening the current basis of the two initial standards – IFRS S1, General Sustainability Reporting Requirements and IFRS S2, Climate-related Disclosures - if necessary.

The other key priorities identified by the ISSB for the next two years are (i) supporting the implementation of IFRS S1 and IFRS S2, and (ii) continuing work to improve SASB standards. Resources will also be dedicated to working with the International Accounting Standards Board (IASB).

In light of the stakeholder feedback received during the public consultation, the ISSB has chosen to exclude, for the time being, research projects related to human rights and integration in reporting, while reserving the option of addressing them in the future depending on developments in these important areas. Both the ISSB and IASB will continue to support the use of the Integrated Reporting Framework.

In June, the ISSB expects to publish (i) a summary of the feedback on its agenda consultation, (ii) its response to the feedback and (iii) the outcome of its deliberations through the release of its work plan for the next two years.

ISSB publishes IFRS digital taxonomy for sustainability reporting

On 30 April 2024, the ISSB published the digital taxonomy applicable to sustainability information prepared under the IFRS Sustainability Disclosure Standards, the IFRS Sustainability Disclosure Taxonomy also known as the “ISSB Taxonomy”.

This taxonomy reflects, without modification or addition, the requirements of the first two ISSB standards, IFRS S1 and IFRS S2,

together with the accompanying guidance. Its aim is to enable companies to tag information prepared in accordance with these standards in a consistent manner, without affecting compliance.

It has been designed to be consistent with the taxonomy applicable to information prepared in accordance with IFRS accounting standards, but also for use with other digital taxonomies.

The ISSB press release and associated documentation are available here.

SSBJ consultation on IFRS-compliant sustainability reporting standards

On 5 April 2024, the Sustainability Standards Board of Japan (SSBJ) released a summary of the differences between (i) the three exposure drafts it published on 29 March as part of a public consultation (deadline for responses: 31 July 2024) and (ii) the ISSB's first two IFRS standards in this area (IFRS Sustainability Disclosure Standards), accompanied by a concordance table, since the SSBJ has largely aligned its proposals on the IFRS standards.

All these documents can be found of the dedicated page of the SSBJ website.

Appointment of Emmanuelle Guyomard to the IASB's Global Preparers Forum

The International Accounting Standards Board's (IASB) Global Preparers Forum (GPF) has appointed Emmanuelle Guyomard as a new member for an initial five-year term (press release of 18 April 2024 available here). The GPF is an independent body from the IASB and the IFRS Foundation which aims to provide the IASB with regular input from the international community of preparers of financial statements.

Ms Guyomard is currently Director of Accounting Standards and serves as Secretary to Sanofi's Audit Committee. She is also a board member of the French accounting standard-setter Autorité des normes comptables (ANC).

European Highlights

European Commission publishes corrigendum to ESRS Set 1

On 19 April 2024, the European Commission published in the Official Journal of the European Union (OJEU) a corrigendum to the Delegated Regulation on the first set of European Sustainability Reporting Standards (ESRS), which had been previously endorsed on 31 July 2023 and published in the OJEU on 22 December 2023 (see Beyond the GAAP no 183 of December 2023). The corrigendum is available in all official European Union languages here.

The Commission's amendments mainly concern (i) corrections to incorrect paragraph references, (ii) harmonisation of vocabulary (use of a single reference term to designate a given concept) and (iii) language improvements.

These non-substantive amendments have no impact on the application or interpretation of ESRS Set 1.

Final agreement between the European Parliament and the Council on the Commission's two-year deferral of the adoption of the next sets of ESRSs

On 10 April 2024, the European Parliament and the Council reached a final agreement on the two-year postponement proposed by the Commission for the adoption of sector-specific ESRS and ESRS for non-EU groups, which had been provisionally

endorsed last January (see Beyond the GAAP no 184 of January 2024).

This agreement means that the deadline for adopting these two sets of standards will be 30 June 2026 instead of 30 June 2024, as initially envisaged by the Corporate Sustainability Reporting Directive (CSRD).

It also calls on the Commission to publish eight standards for high-impact sectors as a matter of priority (i.e. ahead of the deadline) and to ensure, more generally, that the reporting requirements set by the sector-specific ESRS are proportionate to the scale of the impacts and risks associated with the sustainability issues inherent in each sector.

Once ratified, the agreement should result in the publication in the OJEU of a delegated act amending the Accounting Directive.

New composition of EFRAG FRB and new member of EFRAG SRB

On 17 April 2024, EFRAG's General Assembly approved the new composition of the EFRAG Financial Reporting Board (EFRAG FRB), with effect from 1 May 2024 for a three-year term.

Anna Vidal (representing the banking sector) and Carlos Moreno (representing ICAC, Spain) have joined the FRB, replacing Rosa Bruguera (banking sector) and Maria Dolores Urrea Sandoval (ICAC, Spain), while Jean Medernach (BETTER FINANCE) has been appointed FRB observer on behalf of the European organisations representing private investors. All the remaining members of the FRB have been reappointed.

The same General Assembly appointed Thomas Roullard to the EFRAG Sustainability Reporting Board (EFRAG SRB).

For more details about these reports, see the EFRAG press release here.

Publication of IFRS 18 *Presentation and Disclosure in Financial Statements*

Published on 9 April 2024, IFRS 18 will replace the existing standard on the presentation of financial statements, IAS 1, and will amend several other standards, including IAS 7 *Statement of Cash Flows* and IAS 8 A*ccounting Policies, Changes in Accounting Estimates and Errors.*

The existing standards are not very prescriptive as to the classification of income and expenses in the statement of profit or loss or on the use of totals and subtotals, and this leads to differences in presentation and difficulties in analysing and comparing company performance. The primary objective of this new standard is to ensure that entities present relevant information on their financial performance. Many of the provisions of the current IAS 1 have been incorporated without change. The main new requirements are based on three pillars:

- **improving the comparability of the statement of profit or loss** (and, to a lesser extent, the statement of cash flows) by setting out new rules on their structure and content;
- **improving transparency in the use of certain Alternative Performance Measures (APMs)** linked to the income statement;
- **strengthening the requirements for aggregating or disaggregating information,** both in the primary financial statements and in the notes, and preventing the omission or obscuring of material information.

Presentation of the income statement

The income statement will be structured around three new categories: Operating, Investing and Financing, in addition to the existing categories of income taxes and discontinued operations.

The standard provides a definition of the income and expenses that are included in each category:

- the **Operating category** is the default category, containing the income and expenses not included in other categories. This will include income and expenses from an entity's main business activities.
- the **Investing category** covers income and expenses from:
    - investments in unconsolidated subsidiaries, joint ventures, and associates. The share of the profit or loss of associates and joint ventures accounted for using the equity method must be presented in the Investing category;
    - cash and cash equivalents; and
    - other assets that generate an individual return that is largely independent of the entity's other resources (e.g. financial assets or investment property);
- the **Financing category** includes income and expenses from liabilities arising from transactions that only involve the raising of finance and those resulting from other liabilities, for example the effects of discounting a lease liability.

These general principles are supplemented by provisions for classifying certain income and expenses, such as those relating to foreign exchange differences,

hyperinflation, derivatives and hybrid contracts.

Sectoral adaptations, in particular for financial institutions, insurance companies and other investment entities, allow certain income and expenses to be classified in the Operating category when, under the general provisions of the standard, they would have been classified in the Investment or Financing categories.

IFRS 18 also imposes **two new mandatory subtotals** in addition to the net profit or loss already required by IAS 1: **operating profit** and **net profit before financing and income taxes.**

The standard also permits **the optional presentation of five additional subtotals:**

- gross profit or loss and similar subtotals,
- operating profit or loss before depreciation, amortisation and impairments within the scope of IAS 36,
- operating profit or loss and income and expenses from all investments accounted for using the equity method,
- profit or loss before income taxes, and
- profit or loss from continuing operations.

These sub-totals, whether mandatory or permitted, will not qualify as MPMs (see below).

Information on management-defined performance measures (MPM)

The standard provides a precise definition of the alternative performance measures that are linked to the statement of profit or loss and known as Management-defined Performance Measures (MPMs). They will be the subject of detailed disclosures in a single note to the financial statements, presenting both quantitative information (calculation method, reconciliation with the nearest income statement subtotal, with presentation of income tax effects and non-controlling interests) and qualitative information (definition of the indicator, and the way in which it reflects the company's performance).

Enhanced requirements for aggregation and disaggregation to provide useful information

The role of the primary financial statements is to present a structured summary of an entity’s assets, liabilities, equity, income, expenses and cash flows. The notes provide further material information necessary to understand the quantified information in the primary financial statements.

To ensure that the financial statements fulfil their role, IFRS 18 introduces new principles for presenting information within the primary financial statements and the notes. These principles include rules for locating information within the financial statements, for aggregating and disaggregating information and for providing guidance to the informative labelling of the aggregates. Additional requirements are set out for the presentation and nature of operating expenses.

Minor amendments to the statement of cash flows

In the case of the statement of cash flows, the standard focuses on certain targeted improvements:

- where a company opts for the indirect method, the standard defines a single starting point: **operating income.** This is a significant change insofar as a majority of preparers uses net profit as the starting point, as provided for in paragraph 18b of IAS 7;
- the elimination of the choices previously available to issuers in terms of the

classification of cashflows in respect of interests and dividends, with precise classification rules that depend on the entity's main activity.

Transition and first application

Application of IFRS 18 is mandatory for reporting periods commencing on or after 1 January 2027. The standard will be applied retrospectively. Early application is possible (in Europe, subject to endorsement by the European Union).

Without further delay, Mazars will present the 10 key points of IFRS 18 in a publication to be issued in the summer of 2024. This publication will aim to compare the requirements of the standard with current accounting practice under IAS 1.

European Parliament adopts the Corporate Sustainability Due Diligence Directive

In a plenary session on 24 April, the European Parliament voted to adopt **the compromise text of the future Corporate Sustainability Due Diligence Directive (CSDDD)**, with 374 votes in favour, 235 against, and 19 abstentions. This is a key stage in a lengthy process that began on 23 February 2022 when the European Commission published a proposal for a Directive. Since then, negotiations have gone back and forth, with significant uncertainty as to the eventual outcome, until a political compromise was eventually approved by the EU Council in March this year. It has now been ratified by the Parliament.

The final text must now be officially endorsed by the Council before it is published in the Official Journal of the EU in the coming weeks. It will enter into force 20 days after publication and member states will have two years to transpose it into national law.

Relationship between the CSDDD and CSRD

The CSDDD complements the existing legislation published under the 2019 European Green Deal, which aims to make the EU the first climate-neutral continent by 2050. In particular, it complements the Corporate Sustainability Reporting Directive (CSRD), which sets out new sustainability reporting requirements for some companies from 1 January 2024.

In contrast to the CSRD, which sets transparency requirements without imposing any behaviour to companies, the CSDDD sets out actions that must be taken by companies falling within its scope. The CSRD and ESRS (European Sustainability Reporting Standards) do not include any due diligence requirements. The CSDDD, on the other hand, will require companies within its scope to **implement due diligence processes relating to human rights and the environment, using a risk-based approach**.

Similarly, ESRS do not require reporting entities to adopt or implement a transition plan that is compatible with the global warming limit of 1.5°C set out in the Paris Agreement, even if mitigation of climate change is a material topic for the entity. **In contrast, the CSDDD will require companies to adopt and implement a transition plan.**

Moreover, although the European legislator has endeavoured to align the definitions set out in the CSRD and ESRS with those in the CSDDD as far as possible, companies will need to carry out a detailed comparative analysis to ensure the specific requirements of the CSDDD are met, particularly as regards the value chain. In fact, the CSDDD refers to the “chain of activities” rather than the “value chain”, which is the term used in the CSRD. The text specifies that **“chain of activities” does not include the activities of downstream business partners related to the services of the company**. If a company manufactures products, its downstream activities (i.e. distribution, transport and storage) **only include those carried out by its direct business partners** (i.e. those acting for the company or on behalf of the company). Finally, it should be noted that financial undertakings **do not need to take account of downstream activities** (at least not at this stage).

New requirements for companies

Companies that fall within the scope of the CSDDD **must carry out the following actions** in order to meet its requirements:

- integrate due diligence into their policies and risk management systems;
- identify and assess actual or potential adverse impacts, and where necessary prioritise them;
- prevent and mitigate potential adverse impacts, and bring actual adverse impacts to an end and minimise their extent;
- provide remediation for actual adverse impacts;
- carry out meaningful engagement with stakeholders;
- establish and maintain a notification mechanism and a complaints procedure;
- monitor the effectiveness of their due diligence policy and measures;
- publicly communicate on their due diligence policy and measures through an annual report published on their website.

Regarding this last point, **companies that also fall within the scope of the CSRD should automatically fulfil this communication requirement by publishing the mandatory information required by the Disclosure Requirement GOV-4 of ESRS 2**. This DR requires companies to provide a mapping of the information on the company's due diligence process that is included in the sustainability statement.

By 31 March 2027 at the latest, the Commission will adopt supplementary delegated acts that set out the content and criteria for the annual report required under the CSDDD, specifying, in particular, the detailed information required on the description of due diligence procedures, actual and potential adverse impacts identified, and appropriate measures taken with respect to those impacts. The CSDDD specifies that the Commission shall take into account ESRS and align the delegated acts with them to the extent appropriate.

Penalties and civil liability regime

If a company within the scope of the CSDDD does not meet the requirements set out in the Directive, as transposed into national law, the company may face **financial penalties**, to be defined by each member state within a framework set out in the CSDDD. Thus, **the maximum penalty payable by a company shall be not less than 5% of its net worldwide turnover in the financial year preceding that of the decision to impose the penalty**.

Member states must also lay down rules ensuring that a company **can be held legally responsible for damage caused to a natural or legal person**, but shall not be held responsible if the damage was caused by a business partner in its chain of activities.

Finally, it should be noted that the sections on directors' duties that were originally included in the February 2022 draft of the legislation have been removed from the text adopted by the European Parliament in April 2024.

Scope

The scope of the CSDDD **differs from that of the CSRD**, with the CSDDD mainly targeting larger companies. Like the CSRD, it includes **rules on non-EU companies**, which will be covered by the CSDDD if they meet certain criteria.

In practice, the CSDDD will thus affect both EU companies and non-EU companies.

EU companies:

- companies or groups (in cases where the company does not reach the thresholds set for individual companies, but the ultimate parent company reaches the thresholds for all the consolidated companies taken together) **with more than 1,000 employees** on average and **a net worldwide turnover of more than €450m** in the last financial year for which annual financial statements have been or should have been adopted;
- companies or groups that entered into **franchising or licensing agreements** in the EU in return for **royalties** with independent third-party companies **of more than €22.5m** in the last financial year for which annual (consolidated) financial statements have been or should have been adopted, and provided that the company or group had **a net worldwide turnover of more than €80m** in the same period;

Non-EU companies:

- companies or groups (in cases where the company does not reach the threshold set for individual companies, but the ultimate parent company exceeds the threshold for all the consolidated companies taken together) **with a net turnover of more than €450m in the EU** in the financial year preceding the last financial year;
- companies or groups that entered into **franchising or licensing agreements** in the EU in return for **royalties** with independent third-party companies **of more than €22.5m in the EU** in the financial year preceding the last financial year, provided that the company or group had **a net turnover of more than €80m in the EU** in the same period.

These thresholds have been raised from the draft Directive of February 2022, which proposed that European companies with more than 500 employees and a net worldwide turnover of more than €150m would fall within its scope.

Implementation schedule

The compromise text of the CSDD phases in the requirements over several years, as follows:

- **2027**, i.e. three years from the entry into force of the Directive (actions to be implemented over this financial period and reported on in 2028):
  - **EU** companies or groups **with more than 5,000 employees** on average, and **a net worldwide turnover of more than €1,500m**;
  - **non-EU** companies or groups with **a net turnover of more than €1,500m in the EU**;
- **2028**, i.e. four years from the entry into force of the Directive (actions to be implemented over this financial period and reported on in 2029):
  - **EU** companies or groups **with more than 3,000 employees** on average, and **a net worldwide turnover of more than €900m**;
  - **non-EU** companies or groups with **a net turnover of more than €900m in the EU**;

2029 (actions to be implemented over this financial period and reported on in 2030): **all other companies that fall within the scope of the CSDDD.**

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The drafting of the present issue was completed on 6 may 2024.

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About Mazars

Mazars is an international, integrated and independent firm, specialising in audit, advisory, accountancy, tax and legal services [1]. With a presence in 95 countries and territories across the world, Mazars brings together the expertise of 47,000 professionals – 30,000 in our integrated partnership and 17,000 in the United States and Canada via the Mazars North America Alliance – to serve clients of all sizes at every stage of their development.

[1] Where permitted under applicable country laws