

**FESI Q&A on Corporate Sustainability
Reporting Directive (CSRD)
August 2024**

TABLE OF CONTENTS

1. Objective 1

2. Scope 2

3. When is CSRD applicable and what does it require? 3

..... 3

4. SMEs reporting 3

5. What is the deadline for the publication of the management report that includes the sustainability statement? 4

6. How to report? 4

7. Which financial year determines when an undertaking falls into a certain size category of undertakings? 4

8. Who is responsible for reporting in case of subsidiary? 4

9. Does each EU subsidiary or EU branch have to publish a sustainability report? 5

10. Third-party assurance 5

12. European Sustainability Reporting Standards (ESRS) 5

13. Sector-specific ESRS 6

14. Useful links 6

1. Objective

The Corporate Sustainability Reporting Directive (CSRD) entered into force on 5 January 2023 and will be applicable starting from financial year 2024, for reports published in 2025. CSRD aims to ensure that investors, consumers, policymakers, civil society organizations, and other stakeholders are provided with all financial and non-financial data they need to assess companies’ societal and environmental impacts. The Directive also helps companies become more attractive to investors and other stakeholders through better disclosure requirements.

2. Scope

The CSRD replaces the Non-Financial Reporting Directive (NFRD), which applied to approximately 12.000 organizations within the EU region.

The new CSRD applies to a drastically larger scope of companies (50.000 companies more than NFRDs) across all sectors. Companies will have to publicly disclose detailed and transparent information on how sustainability issues affect their own business (risks and opportunities – outside-in perspective) and on the impact that they have on both people and the environment (inside-out perspective).

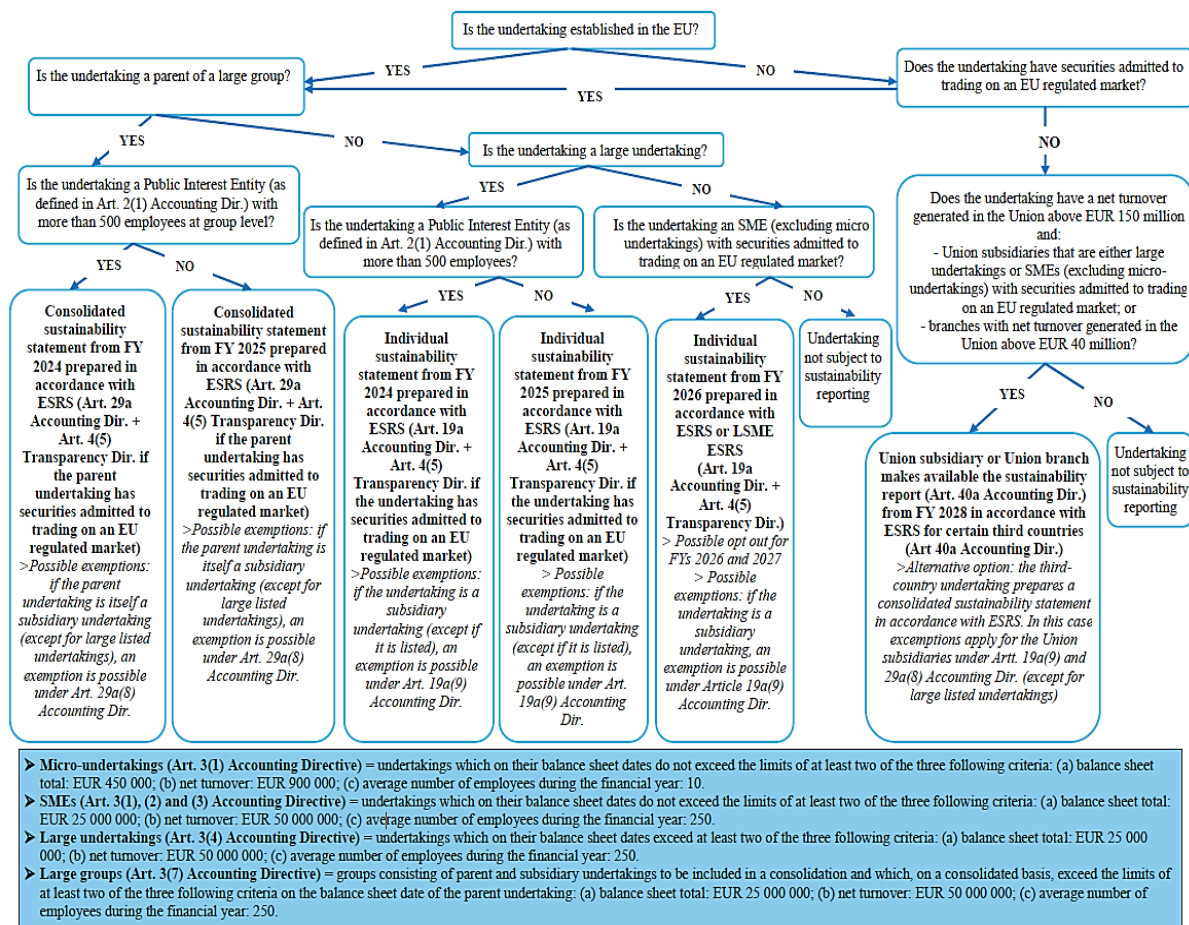


Figure 1 Establishing CSRD scope (European Commission, 2024)

3. When is CSRD applicable and what does it require?

	Financial year 2024 (reporting in 2025)	Financial year 2025 (reporting in 2026)	Financial year 2026 (reporting in 2027)	Financial year 2027 (reporting in 2028)	Financial year 2028 (reporting in 2029)
Large undertakings which are PIEs (including third-country issuers) > 500 employees on average during the financial year	Individual sustainability statement (ESRS)	Individual sustainability statement (ESRS)	Individual sustainability statement (ESRS)	Individual sustainability statement (ESRS)	Individual sustainability statement (ESRS)
PIEs (including third-country issuers) that are parent undertakings of a large group > 500 employees on average on a consolidated basis during the financial year	Consolidated sustainability statement (ESRS)	Consolidated sustainability statement (ESRS)	Consolidated sustainability statement (ESRS)	Consolidated sustainability statement (ESRS)	Consolidated sustainability statement (ESRS)
Large undertakings (including third-country issuers) that are not “PIEs > 500 employees on average during the financial year”	N/A	Individual sustainability statement (ESRS)	Individual sustainability statement (ESRS)	Individual sustainability statement (ESRS)	Individual sustainability statement (ESRS)
Parent undertakings of a large group (including third-country issuers) that are not “PIEs > 500 employees on average on a consolidated basis during the financial year”	N/A	Consolidated sustainability statement (ESRS)	Consolidated sustainability statement (ESRS)	Consolidated sustainability statement (ESRS)	Consolidated sustainability statement (ESRS)
Listed SMEs, SNCIs, captive (re)insurance undertakings (including third-country issuers)	N/A	N/A	Individual sustainability statement (ESRS or LSME ESRS)*	Individual sustainability statement (ESRS or LSME ESRS)*	Individual sustainability statement (ESRS or LSME ESRS)
CSRD subsidiaries (or, in the absence, EU branches with net turnover in the Union > EUR 40 million) of third-country non-listed undertakings with net turnover in the Union > EUR 150 million	N/A	N/A	N/A	N/A	Sustainability report (ESRS for certain third-country undertakings or ESRS)

Figure 2 CSRD applicability (European Commission, 2024)

4. SMEs reporting

SMEs (excluding micro undertakings) with transferable securities admitted to trading on an EU regulated market may decide not to report sustainability information under Article 19a of the Accounting Directive for financial years starting before 1 January 2028 (e.g. for financial years 2026 and 2027). In such cases, the SME shall, nevertheless, briefly state in its management report why the sustainability reporting was not provided.

Some non-listed SMEs, which are not subject to any sustainability reporting requirements under the Accounting Directive, may nevertheless receive requests for sustainability information from customers, banks, investors or other stakeholders. The European Financial and Advisory Group (EFRAG) is therefore also developing simpler, voluntary standards for use by non-listed SMEs.

EFRAG public consultations for the exposure drafts of standards for listed SMEs (LSME) and voluntary standards for non-listed SMEs (VSME) were closed in May 2024.

5. What is the deadline for the publication of the management report that includes the sustainability statement?

Article 30 of the Accounting Directive requires the management report, which includes the sustainability statement, to be published with the assurance opinion/report within 12 months of the balance sheet date of the financial year for which the report is drawn up, as provided for by each member state. Undertakings that are issuers of securities admitted to trading on an EU regulated market are required to publish their annual financial report (which includes the management report, therefore the sustainability statement) at the latest four months after the end of each financial year.

6. How to report?

From 1 January 2024, undertakings will be required to follow the European Single Electronic Format (ESEF) by preparing their management reports in the XHTML format and marking-up sustainability information, including the disclosures required by Article 8 of the Regulation 2020/852 (Taxonomy Regulation) using the Inline XBRL technology. To this end, a taxonomy for the European Sustainability Reporting Standards (ESRS) is being developed to allow for the reported information to be tagged in accordance with those standards.

7. Which financial year determines when an undertaking falls into a certain size category of undertakings?

The rules to determine the size of an undertaking for sustainability reporting purposes rely on the existing rules for financial reporting purposes applying to the undertaking on the basis of the Member State in which it has its registered office. These rules are set out in the national measures transposing the preexisting Accounting Directive.

8. Who is responsible for reporting in case of subsidiary?

If a third-country undertaking falls within the scope of Article 40a of the Accounting Directive, then either its EU subsidiary or EU branch will have to publish and make accessible a sustainability report on behalf of its third-country parent undertaking. The obligation to prepare the sustainability report does not explicitly fall on the EU subsidiary or branch. This means that the third-country parent may prepare the report, which will then be published and made accessible by the EU subsidiary or branch, either by filing it in an EU business register or by publishing it on its website. Alternatively, the EU subsidiary or branch may prepare, publish and make accessible the report on behalf of its third-country parent undertaking.

9. Does each EU subsidiary or EU branch have to publish a sustainability report?

Under Article 40a of the Accounting Directive, at least one subsidiary or branch in each EU Member State needs to publish a sustainability report. However, Member States may allow other subsidiaries or branches of the same third-country undertaking to fulfill this obligation by providing a link to the sustainability report published by another subsidiary or branch within the Union.

10. Third-party assurance

Article 26a of CSRD mandates limited assurance by a third party. Limited assurance involves a moderate level of scrutiny where the independent third-party auditor checks for compliance with the Union's sustainability reporting standards and provides a limited assurance opinion.

By October 1, 2028, the Commission aims to introduce "reasonable assurance," where auditors will provide a higher level of scrutiny of sustainability information. This will happen with specific delegated acts.

Specific rules for the accreditation/approval of statutory audits, audit firms, independent assurance service providers, accredited independent assurance providers and third-country assurance providers are contained in [Section V of the Commission's FAQ on CSRD implementation](#).

11. Penalties

Member States are responsible for the provision and enforcement of penalties. Non-compliance will lead to national administrative and/or criminal penalties, depending on the Member State.

12. European Sustainability Reporting Standards (ESRS)

The European Sustainability Reporting Standards (ESRS) were adopted in July 2023 through a Delegated Act with the aim to help companies to communicate and manage their sustainability performance more efficiently.

While CSRD provides a general framework for companies to use standards to fulfil their legal sustainability reporting obligations, ESRS takes a more practical approach by introducing a "double materiality" perspective. This requirement obliges companies to report both on their impacts on people and the environment, and on how social and environmental issues create financial risks and opportunities for the company. This first set of ESRS are sector-agnostic, meaning that they apply indistinctively to all companies in scope.

13. Sector-specific ESRS

Sector-specific ESRS standards and certain third-country undertaking standards were initially required to be adopted by the end of June 2024. In April 2024, it was decided to delay the adoption of sector-specific standards and certain third country undertaking¹ standards to 30 June 2026, in order to allow companies to focus on implementing the first set of ESRS, as well as to provide EFRAG with more time to develop these new standards. **Public consultations for the first exposure draft of sector-specific ESRS (final version still to be published) are expected to start in October 2024.**

14. Useful links

- Corporate Sustainability Reporting (CSRD) (Directive (EU) 2022/23), available [here](#)
- European Sustainable Reporting Standards (ESRS) (Delegated Regulation (EU) 2023/2772), available [here](#)
- Delaying adoption of sector-specific ESRS and third country undertaking (Directive 2013/34/EU), available [here](#)
- Accounting Directive ((EU) 2013/34), available [here](#)
- Audit Directive (2006/43/(EC)), available [here](#)
- Commission’s FAQ on CSRD implementation (August 2024) available [here](#)
- Essential ESRS Q&A (July 2023), available [here](#)
- ESMA information on electronic reporting, available [here](#)
- EFRAG ESRS Implementation Q&A platform-compilation of explanation (Jan-May 2024), available [here](#)
- EFRAG ESRS Implementation Q&A platform-compilation of explanation (Jan-July 2024), available [here](#)
- EFRAG ESRS Q&A platform, available [here](#)
- EFRAG IG 1 Materiality Assessment Implementation Guidance (May 2024), available [here](#)
- EFRAG IG 2 Value Chain Guidance (May 2024), available [here](#)
- EFRAG IG 3 List of ESRS Datapoints (May 2024), available [here](#)
- EFRAG IG 3 Explanatory note of ESRS Datapoints (May 2024), available [here](#)
- EFRAG updates on Standards for SMEs, available [here](#)

¹ *third-country undertakings with a net turnover above EUR 150 million and with either subsidiaries in the Union that are large undertakings or small and medium-sized undertakings with securities admitted to trading in the Union regulated markets, or with branches in the Union with a net turnover above EUR 40 million. While the adoption of third-country undertaking standards was postponed, the first reporting year for these third-country undertaking standards remains the financial year 2028.*