

# Final Corporate Sustainability Reporting Directive text adopted

## AT A GLANCE

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### What's new?

- The European Council approved the European Parliament's position on 28 November 2022 for [the Corporate Sustainability Reporting Directive \(CSRD\)](#). This means the legislative Act has now been adopted. Once CSRD enters into force, member states will have 18 months to implement the new rules.
- The scope of CSRD will affect a large number of EU companies, as well as some non-EU companies.
- Also, the Sustainability Reporting Board (SRB) for European Financial Reporting Advisory Group (EFRAG) submitted its [first set of draft European Sustainability Reporting Standards](#) (ESRS) to the European Commission on 23 November 2022. The ESRS apply to companies in scope of CSRD and seek to provide additional detail about a company's sustainability-related impacts, risks and opportunities.

### What does this mean?

- CSRD was proposed by the European Commission (EC) in April 2021 to revise the Non-Financial Reporting Directive (NFRD).
- CSRD will expand and standardise the existing rules on non-financial reporting and seek to increase the comparability of data. This will apply both at the individual entity and group level. CSRD requirements cover environmental, social, and governance (ESG) topics.
- Comprehensive and granular disclosures will be required based on, and determined by, the concept of "double materiality" through the ESRS. This means firms will need to consider the effects of business activity on people and the environment either directly or indirectly in their value chain, and how sustainability topics affect cash flows and enterprise value.
- Key features of CSRD include:
  - Introducing mandatory ESRS covering ESG matters.
  - Extending the scope of NFRD to all large companies and listed Small and Medium-Sized Enterprises (SMEs) that are incorporated in the EU and to certain non-EU companies and groups'.
- Requiring the reported information to be assured.
- Requiring the reported information to be digitally tagged to feed into the European single access point.
- Over time, CSRD seeks to drive changes in company behaviour and bring sustainability reporting to the same level as financial reporting.
- Different companies in scope of CSRD (which will have different application dates) include:
  - All large companies.
  - All companies listed on regulated markets (except listed micro undertakings).
  - Listed SMEs.
  - Non-EU companies generating a net turnover of EUR 150 million in the EU and which have at least one subsidiary or branch in the EU exceeding certain thresholds.

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- The draft ESRS set out the new sustainability reporting requirements based on CSRD. Please see [PwC's Viewpoint](#) for more information.
- There are 12 draft sector-agnostic ESRS. Two are cross-cutting standards that will apply to all sustainability matters (general requirements and general disclosures) and 10 are ESG-specific standards covering: climate change, pollution, water and marine resources, biodiversity and ecosystems, resource use and the circular economy, own workforce, workers in the value chain, affected communities, consumers and end-users, and business conduct.
- ESRS drafts will be consulted on by the EC with EU bodies and Member States before the final standards are adopted as delegated acts in June 2023. There will then be a scrutiny period by the European Parliament and Council.
- Further sets of sector-specific ESRS will be developed by EFRAG in future (e.g. SMEs and non-EU undertakings).

## What do firms need to do?

- CSRD and the ESRS will have a significant impact on companies' reporting and wider approaches to sustainability.
- Firms, including non-EU companies, will need to consider which entities are in scope and what will be the relevant effective date for reporting under CSRD. This can be complex.
- There are multiple ways a non-EU company may be impacted by CSRD and firms will need to spend time understanding if, and how, they are impacted. For example, they may need to prepare a sustainability report (e.g. through a large EU-incorporated subsidiary) or they may be asked to provide data or assurance to other parts of the group that needs to make a sustainability report (e.g. UK subsidiaries of EU parent companies).
- Companies need to evaluate their operating model and embed sustainability in a way that addresses CSRD's requirements while also benefiting the way the business is run. Beyond compliance, business can create distinctive advantage by demonstrating compelling ESG performance.
- As companies can prepare consolidated reports in some instances, entity and group-level responsibilities need to be understood. Firms should assess what information would be required to report at various levels to determine whether - and how - they need to report.
- CSRD requires a significant number of data points. Companies need to understand the full extent of the data they will be required to report against.
- Companies will want to consider whether their existing reporting processes can be adapted to include sustainability reporting or whether a new, dedicated process is required.

## Next steps

There are four phased application dates for CSRD:

- Reporting in 2025 on financial year (FY) 2024 - companies already subject to NFRD
- Reporting in 2026 on FY 2025 - large companies not currently subject to the NFRD
- Reporting in 2027 on FY 2026 - listed SMEs (except micro undertakings), small and non-complex credit institutions and captive insurance undertakings:
- Reporting in 2029 on FY 2028 - third-country undertakings with net turnover above 150 million in the EU if they have at least one subsidiary or branch in the EU exceeding certain thresholds.

The final ESRS are expected in June 2023 and the first companies in scope of CSRD will need to apply ESRS starting FY 2024 (reporting in 2025).

