Worldwide impact of CSRD - are you ready?

updated November 2023

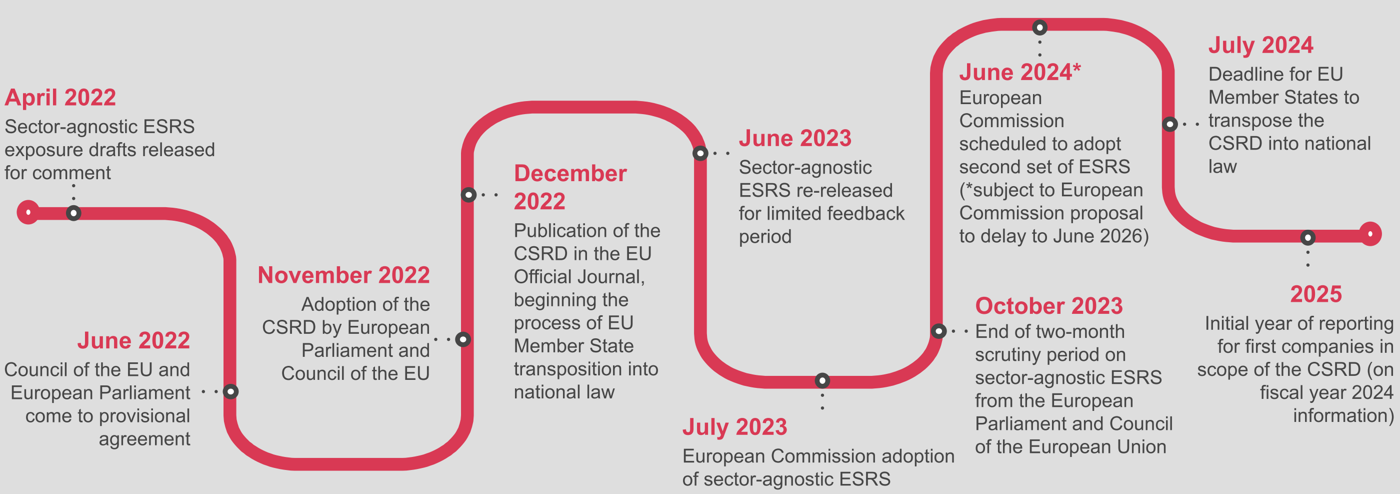
What's inside

This *In the loop* was updated in October and November 2023 to provide recent updates including the end of the scrutiny period of the European Sustainability Reporting Standards, recent developments at the European Commission, and additional information on available exemptions.

The transformation of ESG reporting accelerated in 2022 with the release of major proposals in the European Union (EU) and the United States (US), as well as globally by the International Sustainability Standards Board (ISSB). Although they all have the potential to impact multinational companies, the EU's Corporate Sustainability Reporting Directive (CSRD) perhaps requires the most immediate attention. Even as companies wait for the SEC proposal to be finalized and to see whether jurisdictions in which they operate will adopt the final IFRS® Sustainability Disclosure Standards, the final reporting directive was published in December 2022 setting forth sustainability reporting requirements that are expected to affect companies worldwide. The related sector-agnostic reporting standards, the European Sustainability Reporting Standards (ESRS), were adopted by the European Commission (EC) in July 2023.

The scope of companies directly impacted by the new requirements is expansive, including US and other non-EU headquartered companies. Determining whether the scope of the CSRD captures a company or one or more subsidiaries, however, has some complexity and merits priority focus by companies operating in the EU. And even once the scope determination is complete, the standards required and the effective date differ depending on the particular circumstances. What is clear, though, is that reporting will begin as early as fiscal year 2024 for some companies, and the reporting requirements are extensive.

Companies that fail to appreciate the impact of the new requirements will find themselves scrambling to comply. Further, although this may appear to be "just" a compliance exercise, it is also an opportunity for forward-thinking companies to share their sustainability stories with investors and other stakeholders.



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Past, present, and future of EU sustainability reporting

Sustainability reporting will now be on an equal footing with financial reporting. The [CSRD] will help drive the transition to a sustainable economic system built on innovation and investment opportunities.

Mairead McGuinness

European Commissioner for Financial Services, Financial Stability and Capital Markets Union

June 22, 2022

The CSRD was driven, in part, by the European Green Deal, a December 2019 European Commission (EC) package of policy initiatives designed to achieve climate neutrality by 2050 and protect Europe's natural habitat. The CSRD goes well beyond the EU's current Non-Financial Reporting Directive (NFRD), which has imposed requirements on certain companies to disclose some environmental and social impacts since 2017. By design, the CSRD intends to drive changes in company behavior and bring sustainability reporting on par with financial reporting over time by mandating extensive disclosures about environmental, social, and governance topics. The CSRD went into effect on January 5, 2023, and EU Member States have until early July 2024 (18 months from the effective date) to incorporate its provisions into national law.[1] The directive sets forth the baseline, thus Member States may add provisions during this period but cannot eliminate any of the requirements in the CSRD. The CSRD does, however, allow for EU Member States to make several elections during the transposition process (e.g., language requirements for reporting, expansion of assurance providers beyond the statutory auditor).

Status update

A number of EU Member States have started to transpose the CSRD into national law. For example, public consultations have been held in a number of countries to seek input from stakeholders, and drafts of the legislation have been made available or will be released in the coming months. The extent of any changes that may occur during the transposition process, however, is still unclear. Companies should monitor developments in those EU Member States where they have subsidiaries.

The CSRD will require comprehensive and granular disclosures covering the entire spectrum of sustainability topics (e.g., climate change, biodiversity and ecosystems, working conditions, human rights, business ethics). These disclosure requirements are detailed in the ESRS that were initially drafted by the European Financial Reporting Advisory Group (EFRAG), which has historically advised the European Commission on the endorsement of IFRS© Accounting Standards.

In November 2022, EFRAG submitted the first set of draft standards to the European Commission for review. Following an extensive consultation process and an additional public feedback period on revised draft standards it issued on June 9, 2023, the European Commission adopted final standards on July 31, 2023.[2] While the European Commission indicated that the draft ESRS submitted by EFRAG "broadly meet the mandate of the CSRD and would achieve the intended policy goals in the context of the European Green Deal," it also made certain changes "with the specific aim of ensuring proportionality and facilitating the correct application of the standards."[3] A two-month scrutiny period from the European Parliament and Council of the European Union ended on October 21, 2023. and the ESRS are now final. The ESRS are not subject to separate transposition into law by the EU Member States; they will become law once published in the Official Journal of the European Union.

The following pages summarize the key requirements of the CSRD that are applicable to non-EU headquartered companies and answer questions that are top of mind as companies assess the CSRD's scope, timing, and reporting requirements.

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[1] Directive (EU) 2022/2464 as published on December 16, 2022 in the Official Journal of the European Union.
[2] EC, Implementing and delegated acts - CSRD.
[3] EC, Delegated Regulation, Explanatory Memorandum, pages 5–6.

Scope and timing

The scope provisions of the CSRD are broad, and are intended to apply to many companies operating in the EU, estimated to be nearly 50,000 in total.[4] Further, even companies without direct reporting obligations under the CSRD may be asked for information by customers, suppliers, investors, or lenders because of the requirements for entities in scope to disclose information about their value chain, or because they are subsidiaries of EU companies with reporting obligations.

Scope requirements

A company will need to consider applicability at multiple levels within its organization to ensure all reporting obligations are identified. Penalties for non-compliance will be determined by each EU Member State and may include fines. Analyzing its legal entity structure against each of the criteria for reporting may help a non-EU company identify all entities within the organization that would be required to report as well as the timing of first time reporting:

All companies with securities listed on an EU-regulated market
(with limited exceptions)

"Large" EU companies that are not listed

EU companies that are a parent of a "large group" and not listed

+ Requirement for non-EU headquartered companies to provide global consolidated reporting

The analysis to assess whether a company is in scope of the CSRD (and the level at which it would be required to report) may be complex and should consider input from a company's legal counsel. This complexity may be compounded by differences, if any, that arise as a result of changes made when EU Member States transpose the CSRD into national law. General considerations on scoping, however, are highlighted below.

All companies with securities listed on an EU-regulated market

Reporting will be required for entities with debt or equity securities listed on an EU-regulated market, regardless of whether they are an EU entity or a non-EU entity (broadly referred to as "issuers"). A critical distinction in determining whether a company is in scope of this requirement is whether its securities are listed on an "EU-regulated" market, as certain EU stock exchanges — such as the Frankfurt Stock Exchange and Euronext Dublin — include both EU-regulated and self-regulated segments. Only those companies with listings on EU-regulated markets are within the scope of this requirement.

This means entities that are currently subject to NFRD are within scope. NFRD applies to public-interest entities, which generally are large listed EU entities, banks, and insurance companies with more than 500 employees. Public-interest entities may include other types of entities that are designated by the governing EU Member State as public-interest entities (such as those that have significant public relevance because of the nature of their business, their size, or the number of employees).

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[4] European Parliament: Sustainable economy: Parliament adopts new reporting rules for multinationals.

Countries in scope
There are currently 27 countries in the European Union, all of which will adopt the CSRD. Three additional countries — Iceland, Liechtenstein, and Norway — are part of the European Economic Area (EEA), which is a single market that allows for free movement of goods and people between the participating countries. These countries will also adopt the directive in accordance with the timeline set forth in the CSRD.

There are limited exceptions to the listed company reporting requirements (e.g., issuers that are "micro-undertakings" are not in scope).[5]

"Large" EU companies that are not listed

An EU entity (including an EU subsidiary of a non-EU headquartered company) will be required to report if it is a "large undertaking," defined as exceeding at least two of the following three metrics on two consecutive annual balance sheet dates:

- Total assets of €20 million (about $21 million as of October 31, 2023)
- Net turnover (revenue) of €40 million (about $42 million as of October 31, 2023)
- Average of 250 employees

An undertaking refers to specific types of companies in the EU, which are mainly those with limited liability.[6]

EU companies that are a parent of a "large group" and not listed

Consolidated reporting will be required for an EU entity (including an EU holding company or EU intermediate entity) if it is a "parent undertaking of a large group," defined as a group consisting of parent and subsidiary entities that, on a consolidated basis, exceed at least two of the following three metrics on two consecutive annual balance sheet dates:

- Total assets of €20 million (about $21 million as of October 31, 2023)
- Net turnover (revenue) of €40 million (about $42 million as of October 31, 2023)
- Average of 250 employees

The subsidiary entities considered in the calculation would include all subsidiaries of the EU parent, even those established outside the EU. This may be particularly relevant for EU holding companies established for tax purposes that may not have their own operations. Note that an EU holding company or EU intermediate entity that meets the definition of a "large undertaking" on both a standalone and consolidated basis would only be required to provide consolidated reporting.

Once a company qualifies under any of the size thresholds, it will continue to be subject to the requirements unless it falls below the thresholds for two consecutive years.

Proposed adjustment to the size thresholds

On October 17, 2023, the European Commission adopted a delegated act that would increase the asset and net turnover (revenue) thresholds by 25% to account for inflation.[7] This means that thresholds for total assets and net turnover (revenue) would increase to €25 million and €50 million, respectively, for an entity or group to be "large." The size thresholds have not been modified since 2013. The delegated act will now face scrutiny from the European Parliament and Council of the European Union (for two months with a possible two month extension), before going into effect.

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[5] "Micro-undertakings" are defined as an undertaking that does not exceed at least two of three metrics on two consecutive annual balance sheet dates: €350,000 in total assets, €700,000 in net turnover (revenue), and average of 10 employees; Directive 2013/34/EU, Article 3, paragraph 1. The size thresholds are subject to possible adjustment as part of the delegated act adopted by the European Commission on October 17, 2023.
[6] Directive 2013/34/EU, Article 1, paragraph 1 as well as Annex I and Annex II.
[7] EC, Delegated act, Adjusting SME size criteria for inflation.

Reporting exemptions

Although each EU subsidiary that is in scope has a separate reporting obligation by default, there are exceptions to the reporting requirement if certain conditions are met. An EU subsidiary (or subgroup) may be able to satisfy its own sustainability reporting requirements if it is included in the CSRD reporting of an EU or non-EU parent (referred to as the “subsidiary exemption”). The requirements vary depending on whether the parent reporting is an EU or non-EU entity.

Subsidiary exemption — EU parent

Subsidiary exemption — EU parent

An in-scope EU subsidiary or subgroup will be exempt from its own ESRS reporting if it is included in the consolidated management report of an EU parent (including a holding company or intermediate entity) that (1) is prepared in accordance with ESRS and (2) includes all subsidiaries of the EU parent (i.e., the full consolidated group), including subsidiaries located outside the EU.

Subsidiary exemption — non-EU parent

Subsidiary exemption — non-EU parent

An in-scope EU subsidiary or subgroup will be exempt from its own ESRS reporting if it is included in the consolidated sustainability report of a non-EU parent (whether an intermediate holding company or the global ultimate parent) that (1) is prepared in accordance with ESRS or in a manner deemed equivalent to those standards by the European Commission and (2) includes all subsidiaries of the parent (i.e., the full consolidated group), including non-EU subsidiaries. Note that no equivalent standards have been identified to date. Further, a non-EU parent may provide the reporting in a consolidated sustainability report; a management report is not required (see *Filing requirements of the CSRD*, page 9).

Artificial consolidation

Artificial consolidation

In addition, a special variant of the subsidiary exemption is (temporarily) available for EU subsidiaries (or subgroups) in the scope of CSRD with a non-EU parent company. Until 2030, companies can prepare “consolidated sustainability reporting” using “artificial consolidation” (i.e., a CSRD report combining the information of all EU subsidiaries in scope, similar to combined financial statements). This combined report would exempt included entities from reporting separately. This report must be prepared in accordance with ESRS, and the EU subsidiary that prepares and publishes the report must be one of the subsidiaries that generated the highest turnover (revenue) in at least one of the preceding five years.

Exemption availability

These exemptions, however, are not available to all entities. There are two primary scenarios when a reporting entity would not qualify to apply an exemption as follows:

Entities not eligible for a reporting exemption

Large and listed entities

An entity that meets the following criteria is not eligible for any reporting exemptions and must report separately:

- is an issuer (it has debt or equity securities listed on an EU-regulated market), **and**
- meets the size thresholds to be “large” (see page 4)

Country-level requirements

As part of the CSRD transposition process, a country may decide to limit the availability of reporting exemptions and require country- or entity-level reporting on a standalone basis for all companies located there.

Companies should continue to monitor the transposition process for country-specific requirements.

The Commission has worked to ensure a very high level of alignment between ESRS and the standards of the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI). ...

The very high degree of alignment between ESRS and the two ISSB standards aim to prevent that companies required to report in accordance with ESRS and that wish to also comply with ISSB standards, would have to report separately under ISSB standards.

Questions and Answers on the Adoption of European Sustainability Reporting Standards

July 31, 2023

Given differences in the scope of the information required for standalone reporting or for preparation of a consolidated report, we recommend companies carefully assess the required level of effort before pursuing these exemption possibilities. In addition, companies should monitor the process as the Member States transpose the CSRD into national law to ensure that process does not impact the available exemptions. Even if a reporting exemption is used, the EU subsidiary would still need to maintain a list of and monitor its reporting obligations. The scoping requirements and related exemptions are complex and may give rise to more questions, including the following.

What reporting is required if an EU subsidiary subject to CSRD applies one of the reporting exemptions?

In order to qualify for a reporting exemption, an EU subsidiary in scope of reporting is still required to provide certain information in its own management report including:

- A statement that it is exempt from the sustainability reporting obligations,
- The name and registered address for the parent company preparing the reporting,
- Web links to either (1) the consolidated management report or (2) to the consolidated sustainability report, as applicable, of the parent company, and
- Web links to the applicable assurance opinion.

EU Member States may also require the parent company's report to be provided in a specific language. Further, when a non-EU parent consolidated sustainability report is used to satisfy the EU subsidiary's reporting obligation, specific publication requirements of the relevant EU Member State must be followed.

What reporting frameworks or standards would be considered "equivalent" to the European Sustainability Reporting Standards?

The CSRD states that it may be possible to satisfy its reporting requirements using information submitted under another reporting regime if the European Commission determines that the disclosures are prepared "in a manner equivalent to" ESRS.[8] To date, the European Commission has not made any equivalency determinations, and it is unclear how long that process may take. Further, given certain differences in scope and key concepts (such as materiality) among other existing or proposed disclosure frameworks, it remains to be seen whether the European Commission will identify any other frameworks as equivalent. At this time, companies expecting to be in scope of the CSRD would be well served to assume they will need to prepare the full disclosures required by ESRS.

Would combined or consolidated sustainability reporting need to include specific information on individual subsidiaries (or subgroups)?

Potentially. If there are "significant differences" between the risks and impacts of the group and one or more of its subsidiaries, sufficient information would need to be provided for a reader to understand the specific risks and impacts.[9] Determining what would be considered a significant difference will require judgment and should include considerations of facts and circumstances, such as the sectors and geographies in which the subsidiary operates.[10] Certain standards, such as ESRS S1, *Own workforce,* also require information to be disaggregated (e.g., total number of

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[8] Directive (EU) 2022/2464 as published on December 16, 2022 in the Official Journal of the European Union, Recitals, paragraph 25.
[9] EC, Delegated Regulation, Annex I, *European Sustainability Reporting Standards*, ESRS 1, *General requirements,* paragraph 103, page 15.
[10] Ibid., paragraph 104, page 15.

employees by gender and by country) in certain circumstances.[11] Further, EU Member States may require country-level detail for some disclosures, although the exact requirements will not be known until the completion of the transposition process.

What if the EU holding company or intermediate entity does not prepare consolidated financial statements?

EU holding companies or intermediate entities may benefit from exemptions for consolidated financial reporting; however, those exemptions are separate from and not automatically applied to sustainability reporting under the CSRD. As a result, an EU holding company or intermediate entity may be required to provide consolidated sustainability information under the CSRD even though it does not prepare financial information at that level. Practical challenges may arise in these cases as certain ESRS disclosure requirements leverage financial information, such as intensity metrics and disclosures under the EU Taxonomy (see page 17). Absent clarifying guidance, our expectation is that a company in scope of the CSRD will need to obtain the financial information required for its sustainability reporting.

Additional reporting for a non-EU headquartered company

Even if the ultimate parent does not have debt or equity securities listed on an EU-regulated market, global consolidated reporting will be required beginning in fiscal year 2028 (reporting in 2029) if:

At least one entity in the consolidated group is within the scope of the CSRD

OR

At least one EU branch generated net turnover (revenue) of more than €40 million in the preceding year (about $42 million as of October 31, 2023)

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Consolidated net turnover (revenue) generated in the EU exceeds €150 million for each of the last two consecutive fiscal years (about $159 million as of October 31, 2023)

The CSRD does not define "branch" for purposes of determining whether reporting is required at the global consolidated level, and there is no single definition that exists in other EU regulations or directives. In general, a branch would be economically independent from the parent company (e.g., with its own payroll and accounting system) and importantly would be registered locally. In assessing whether this criterion is met, we recommend that companies perform an assessment based on existing relevant national definitions with advice from legal counsel. Additional clarification may also be provided when the CSRD is transposed into national law in the EU Member States. That said, the assessment of whether a company has a branch is only relevant if the non-EU parent company does not have a subsidiary in scope of reporting.

The CSRD states that the Member States shall require the EU undertaking to "publish and make accessible" the ultimate parent entity's sustainability report.[12] This global consolidated reporting would be in addition to the reporting requirements at an EU subsidiary or subgroup level. This reporting would be prepared in accordance with "Non-EU dedicated standards," which have not yet been issued by EFRAG (see pages 10 and 11), or ESRS or "equivalent" standards (see page 6).

[11] EC, Delegated Regulation, Annex I, ESRS S1, *Own workforce,* paragraphs 48–52, pages 164–165.
[12] Directive (EU) 2022/2464 as published on December 16, 2022 in the Official Journal of the European Union, Article 40a, paragraph 1.

First-time application for certain NFRD reporters
Some EU Member States expanded the scope of the NFRD during transposition into local law. Whether companies captured in the expanded scope will be included in the first round of CSRD reporters will be clarified as part of the EU Member State transposition. Until there is clarity, we recommend that these companies prepare for filing fiscal year 2024 information in fiscal year 2025.

How should a company determine its consolidated net turnover (revenue)?

The CSRD does not specify how consolidated net turnover (revenue) should be calculated. We believe this is intended to cover net turnover — as defined in the financial reporting framework of the company — as a result of sales from the global consolidated group to customers in the EU. Other methodologies, however, such as net turnover recognized by sales from entities established in the EU — whether to customers in the EU or otherwise — may also be permitted. Until more detail is provided, companies should consider evaluating this criterion from multiple perspectives and prepare for implementation based on the methodology that yields the highest net turnover (revenue) generated in the EU.

Application date for first time reporting

Determining when reporting will initially be required will depend on a company's facts and circumstances. Companies with securities listed on an EU-regulated market (i.e., "issuers") that have more than 500 employees will be among the first companies required to report, with reporting required beginning in fiscal year 2024 (filed in fiscal year 2025). Other "large undertakings," as well as parents of a "large group," would generally have another year, followed later by all other companies in scope.

Companies required to report	First-time application date
Companies subject to the **current NFRD requirements** plus **"issuers"** that (1) meet the definition of a large undertaking and (2) have more than 500 employees	Reporting on fiscal years beginning on or after January 1, 2024
All other "large undertakings" and "large groups" in scope of the CSRD	Reporting on fiscal years beginning on or after January 1, 2025
Listed small and medium sized undertakings (**"SMEs"**)[13]	Reporting on fiscal years beginning on or after January 1, 2026, with an optional deferral of first-time application by two years
Certain **small and non-complex institutions** and **captive insurance undertakings** as defined in EU regulation	Reporting on fiscal years beginning on or after January 1, 2026
Global consolidated level reporting for non-EU headquartered companies	Reporting on fiscal years beginning on or after January 1, 2028

The appendix includes examples of some of the more common structure and size cenarios and summarizes the related requirements and effective dates. Understanding whether a company may be required to report beginning in fiscal year 2024 (filed in fiscal year 2025) is a critical first step for planning. These first time application dates do not leave much time to develop the necessary processes and controls, even for companies that would not be required to report until fiscal year 2025 or later.

[13] Defined separately as "small undertaking" and "medium undertaking," but collectively these entities meet two of three criteria on two consecutive annual balance sheet dates: more than €350,000 but less than €20 million in total assets, more than €700,000 but less than €40 million in net turnover (revenue), and an average of more than 10 employees but less than 250 employees; [Directive 2013/34/EU](), Article 3, paragraphs 2–3. This size thresholds are subject to possible adjustment as part of the delegated act adopted by the European Commission on October 17, 2023.

Management reports
The management report requires a “fair review of the development and performance of the [company's] business and of its position, together with a description of the principal risks and uncertainties that it faces,” similar to management’s discussion and analysis in an SEC filing or information included in the UK Strategic Report.[14]

Filing requirements of the CSRD

The CSRD requires sustainability reporting to be included in a dedicated section of the management report that is submitted based on the requirements of the relevant regulator and/or EU Member State. The management report is required to be filed together with the financial statements.

The EU subsidiary or issuer that has the reporting obligation would be the entity required to publish the report in a digital format with sustainability reporting information tagged based on a digital taxonomy that will be developed. There are also specific reporting requirements for an EU subsidiary subject to CSRD that applies one of the reporting exemptions (see page 5 for further information).

If a non-EU company is reporting at a global consolidated level, is it required to include the CSRD information as part of a management report equivalent?

Although EU entities are required to include ESRS disclosures in their management report, the CSRD permits non-EU companies to provide the required disclosures as part of their “consolidated sustainability reporting.” We believe this exemption applies to both the required reporting for the consolidated entity (i.e., beginning in fiscal year 2028, reporting in 2029) as well as any voluntary consolidated reporting used to satisfy subsidiary reporting requirements. Note, however, that it is not clear if a non-EU company listed on an EU-regulated market would be able to satisfy its requirements through a sustainability report. These companies should perform additional analysis together with their legal counsel.

A further question may arise as to whether any reporting for purposes of the CSRD should be included in other regulatory filings (e.g., SEC Forms 10-K, 8-K, or 6-K or similar reporting in other jurisdictions). We do not necessarily believe inclusion in SEC filings would be required, based on review of the filing requirements of Form 8-K and Form 6-K, as well as the requirements for exhibits. Companies should also consider, however, Regulation S-K Rule 12b-20, which requires the disclosure of any information needed to make the required disclosures not misleading.[15] We recommend that companies analyze the applicable regulatory requirements in consultation with legal counsel.

Which entity in the consolidated group is required to publish the global consolidated sustainability report beginning in 2029?

The obligation to publish the global consolidated sustainability report for a non-EU headquartered company that is reporting under the €150 million criterion sits with the relevant EU subsidiaries (or branches), not with the non-EU parent. In the event the subsidiary or branch is unable to obtain that required information, it would "draw up, publish and make accessible the sustainability report [...], containing all information in its possession, obtained or acquired, and issue a statement indicating that the [non-EU parent] did not make the necessary information available.”[16]

EU Member States may inform the European Commission on an annual basis of the subsidiaries or branches of non-EU companies that fulfilled the publication requirement as well as instances when a report was published but includes a statement that not all necessary information was made available.

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[14] Directive 2013/34/EU, Article 19, paragraph 1.
[15] SEC Regulation S-K, Rule 12b-20.
[16] Directive (EU) 2022/2464 as published on December 16, 2022 in the Official Journal of the European Union, Article 40a, paragraph 2.

Preparing to report

EU Member States have until early July 2024 to transpose the requirements of the CSRD into national law. This timeline, however, does not mean that first time application will be delayed from the current dates (which require adoption in 2024 for certain companies). Leading practice would be to evaluate current disclosures and identify significant gaps based on ESRS and expected reporting obligations.

What are some of the possible implications of non-compliance with the CSRD?

Given that the broad array of potential impacts from non-compliance with the CSRD may be far reaching — ranging from monetary fines to negative reaction of stakeholders — companies should discuss any potential non-compliance with legal counsel. Direct impacts may include a breach of certain contractual arrangements (including debt agreements) due to non-compliance with laws and regulations, and may also impact an entity's ability to work with local, state, or national governments.

In addition, companies should be aware that failure to comply may not only result in a qualified or adverse opinion on the sustainability report but may also impact the audit opinion on the financial statements. Auditing standards include requirements related to "other information" included in a document that includes an audit opinion. A material omission of information from the sustainability report would need to be disclosed in the financial statement audit opinion.

In addition, intentional noncompliance with laws and regulations may have broader impacts on the audit of both the entity itself and its parent, if applicable. For example, noncompliance may impact the nature, timing, and extent of audit procedures, the auditor's ability to rely on management's representations, and the determination of whether there is a significant deficiency or a material weakness related to the control environment.

Reporting under the CSRD

Adding to the complexity of preparing for adoption, the reason why a company is scoped into the CSRD will impact which of three types of reporting standards would need to be applied:

- European Sustainability Reporting Standards (ESRS): As detailed below, 12 sector-agnostic standards were adopted by the EC in July 2023 and are now final after the completion of a two-month scrutiny period from the European Parliament and Council of the European Union.
- Non-EU dedicated standards: These are dedicated standards to be applied at a global consolidated level as part of the additional reporting for non-EU headquartered companies (see page 7).
- Simplified standards: These are for use by certain small and medium-sized enterprises (SMEs), small and non-complex institutions, and captive insurance undertakings, as defined in EU regulation.

Drafts of the simplified standards (for both listed SMEs and voluntary reporting by other SMEs) were discussed in September and October 2023 EFRAG Sustainability Reporting Board meetings.[17] We expect these to be issued for public consultation in early 2024. Sector standards are also in development, and we expect there to be around 40 sector-specific standards.

That said, following a request from the European Commission in March 2023, EFRAG shifted its focus to putting in place an "ESRS implementation support function," prioritizing implementation guidance for the sector-agnostic standards. In meetings in August, September, and October 2023, EFRAG discussed: (1) its draft implementation guidance related to the value chain and materiality assessment (see page 15 and 16), (2) a centralized process for addressing implementation questions starting in October 2023, and (3) a complete listing of data point requirements.[18]Also in October 2023, the

[17] EFRAG Sustainability Reporting Board meetings September 13, 2023 and October 24, 2023.
[18] EFRAG update, August 2023, page 10. EFRAG update, September 2023, page 13. EFRAG Sustainability Reporting Board meetings October 11, 2023 and October 25, 2023.

European Commission published a proposal to delay the sector standards and non-EU dedicated standards from the planned adoption date of 2024 to 2026.[19] The European Parliament and Council of the European Union will have to approve the proposal through the ordinary legislative procedure. Although the non-EU dedicated standards may be delayed, there is no proposed change in the required reporting dates; initial global consolidated reporting for a non-EU parent company will still be required in 2029 on 2028 information.

Plan to reduce reporting burden

In March 2023, European Commission President Ursula Gertrud von der Leyen announced to the European Parliament Plenary that the European Commission plans to develop proposals to reduce existing corporate reporting requirements by 25%. The primary objective would be to make the extensive regulations less costly to implement, in particular for small and medium sized businesses.[20] The October 2023 proposal to delay publication of the sector standards was highlighted as being part of these efforts.

How are the non-EU dedicated standards expected to differ from the European Sustainability Reporting Standards?

Although the non-EU dedicated standards have not yet been issued for public consultation, the CSRD specifies certain requirements for those standards which provide some insight into their expected scope. Notably, the following requirements under the European Sustainability Reporting Standards would not be required under the non-EU dedicated standards:

- The resilience of the group's business model and strategy in relation to risks related to sustainability matters
- The opportunities for the group related to sustainability matters
- A description of the principal risks to the group related to sustainability matters, including the group’s principal dependencies on those matters, and how the group manages those risks

It may be tempting to wait for the non-EU dedicated standards; however, given the breadth of the potential disclosures and uncertainty around the timing of when drafts will be available, we advise companies not to delay but instead to begin their assessments now by referencing ESRS.

[19] European Commission: Proposal for a Decision of the European Parliament and of the Council amending Directive 2013/34/EU as regards to the time limits for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertaking.

[20] Speech by President von der Leyen at the European Parliament Plenary on the preparation of the European Council meeting of 23-24 March 2023.

Details of the European Sustainability Reporting Standards

The 12 standards span all aspects of sustainability reporting — addressing environmental, social, and governance topics — and are intended to provide insight into a company's sustainability risks and opportunities, including its sustainability strategy, targets and progress, products and services, business relationships, incentive programs, and value chain.

General standards

1 - General requirements
2 - General disclosures

Standards on environment

E1 - Climate change
E2 - Pollution
E3 - Water and marine resources
E4 - Biodiversity and ecosystems
E5 - Resource use and circular economy

Social standards

S1 - Own workforce
S2 - Workers in the value chain
S3 - Affected communities
S4 - Consumers and end-users

Governance standards

G1 - Business conduct

The disclosures are interlinked with the company's discussion of its business model and strategy to assist stakeholders in assessing how the company fits into and contributes to society more broadly. Although companies may still be assessing the impact of CSRD and determining the scope of required reporting, now is also the time to delve into the ESRS — for example, understanding their structure, looking into the details, and considering potential gaps between the requirements and current voluntary reporting — as a critical step in developing an implementation plan.

Easing the burden

The European Commission acknowledged the high level of effort required for many companies to prepare for and report under the requirements of the CSRD and ESRS. As a result, a number of **transitional and voluntary provisions** are included.

For example, companies with 750 or fewer employees may omit Scope 3 GHG emissions disclosures in the first year of reporting. They may also omit reporting under ESRS E4, *Biodiversity and ecosystems*, ESRS S2, *Workers in the value chain*, ESRS S3, *Affected communities*, and ESRS S4, *Consumers and end-users,* for the first two years.

A number of other transition provisions have been highlighted in this publication, including:

- Option to prepare sustainability reporting using "artificial consolidation" (see page 5)
- Phased-in first-time reporting dates (see page 8)
- Simplified reporting standards for listed SMEs (see page 10)
- Three year deferral of certain value chain-related disclosures (see page 15)

Certain disclosure requirements, including the transition plan for biodiversity and ecosystems (ESRS E4) and information on non-employee workers in ESRS S1, are voluntary. For a list of all phased-in disclosure requirements under ESRS, refer to Appendix C of ESRS 1.[21]

[21] EC, Delegated Regulation, Annex I, ESRS 1, *General requirements*, Appendix C, pages 29–32.

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disclosure requirements

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templates

Structure and general requirements of the ESRS

The ESRS are structured based on the pillars of the Task Force on Climate-Related Financial Disclosures (TCFD) framework. As a result, some elements of the standards mirror the IFRS Sustainability Disclosure Standards as well as disclosures under the SEC climate proposal. The requirements in the two general or "cross-cutting" standards (i.e., ESRS 1, *General requirements*, and ESRS 2, *General disclosures*) will apply across sectors and across all topical standards. ESRS 1 sets forth key concepts and definitions, including value chain reporting, time horizons, and double materiality, that are foundational to this sustainability reporting.

Required disclosures

While materiality is central to the determination of what information will be reported in the sustainability statements, ESRS 1 states that **certain information under the ESRS would be required regardless of materiality**, specifically all of the requirements under ESRS 2 and the disclosure requirements in the topical standards related to the process to identify and assess material impacts, risks and opportunities.[22]

That said, if a company concludes that climate change is not a material topic and therefore does not report under ESRS E1, *Climate change,* it must provide detailed disclosure of the conclusions of the related materiality assessment, including a forward-looking analysis of the conditions that could lead the company to conclude that climate change is material in the future.[23] In addition, if a company omits information derived from other EU legislation (listed in ESRS 2, Appendix B), it must explicitly state that the information is "not material."[24]

ESRS 2 includes required disclosures about the basis of preparation, as well as the four pillars of governance; strategy; impact, risk and opportunity management (including the materiality assessment process); and metrics and targets. Additional requirements under the four pillars are included in the topical standards.

The detailed requirements included in ESRS go well beyond the requirements in the new topical standard on climate from the ISSB and the disclosures proposed by the SEC. And, although ESRS may not require changes to existing practices, it is expected that companies will be motivated to change their behavior in lieu of providing disclosures that they are not taking actions or setting targets for sustainability impacts, risks, and opportunities that they have determined to be material.

For example, ESRS E4, *Biodiversity and ecosystems*, requires disclosure of targets related to biodiversity, including whether ecological thresholds and allocation of impacts were applied and whether the targets are informed by and/or aligned with relevant frameworks and national policies and legislation.[25] In response, a company may decide to make a public biodiversity commitment rather than disclose that it does not have one. Companies will need to develop the appropriate processes and controls to accumulate the high quality data to support the disclosures. This may be particularly challenging in areas not previously covered by voluntary reporting or if reporting will be required for the first time at a sub-consolidation or subsidiary level.

Climate disclosure requirements

Although climate change is only one of five environmental standards in the ESRS, the provisions are a primary focus for many companies given the climate disclosure

[22] EC, Delegated Regulation, Annex I, ESRS 1, *General requirements*, paragraph 29, pages 5-6.
[23] Ibid., paragraph 32, page 6.
[24] Ibid., paragraph 35, page 6.
[25] Ibid., ESRS E4, *Biodiversity and ecosystems*, paragraphs 29–32, pages 131–132.

ESRS E1 boundaries

One notable difference with the requirements of the ISSB and the SEC proposal is with respect to the required organizational boundary (i.e., the scope of entities included in the GHG disclosures). ESRS E1 would require companies to use the operational control approach for certain investees and arrangements. In contrast, the SEC proposal would require alignment with the financial statements, and the ISSB provides the flexibility allowed by the GHG Protocol to use either financial control, operational control, or the equity share approach. These differences could result in different amounts disclosed under each framework.

requirements in the IFRS Sustainability Disclosure Standards and included in the SEC proposal.

The climate disclosure requirements in ESRS E1, *Climate change,* are more robust than current voluntary reporting and would go beyond the requirements of the IFRS Sustainability Disclosure Standards and the proposal from the SEC. For example, the SEC would require disclosure of a greenhouse gas (GHG) emissions reduction target only if the company has made one. The ESRS, on the other hand, would require companies to disclose whether and how they have set GHG emissions reduction targets, with further disclosure required if no such targets have been established.[26,27]

Selected disclosure requirements in ESRS E1

- The resilience of the company's strategy and business model, including how scenario analysis was used to inform the identification of physical and transition risks and opportunities over the short, medium, and long term
- The company's policies and actions (taken and planned) for climate change mitigation (i.e., limiting the increase in global average temperature as laid out in the Paris Agreement) and adaptation (i.e., adjusting to actual and expected climate change and its impacts)
- Whether and how the company established greenhouse gas emissions reduction targets, with additional disclosure if no targets have been established, including whether such targets will be adopted and the timeframe for their adoption, or the reasons why the company does not plan to adopt such targets
- Scope 1 and scope 2 emissions for the parent and consolidated subsidiaries as well as for associates, joint ventures (accounted for under either the equity method or proportionally consolidated in the company's financial statements), unconsolidated subsidiaries (investment entities), and jointly controlled operations and assets over which the parent has operational control
- Scope 3 emissions in total for the parent and consolidated subsidiaries as well as entities over which it has operational control, including significant scope 3 categories; scope 3 emissions would also include scope 1, scope 2, and scope 3 emissions of associates, joint ventures, and unconsolidated subsidiaries in the parent's value chain over which it does not have operational control
- Other performance measures, including GHG emissions per monetary unit of net revenue (GHG intensity) for scope 1, scope 2, and scope 3 emissions
- Reconciliations of amounts used to calculate metrics to amounts included in the financial statements
- Anticipated financial effects from material physical and transition risks (informed by the results of the scenario analysis used to conduct the resilience analysis) and potential to pursue material climate-related opportunities

[26] EC, Delegated Regulation, Annex I, ESRS E1, *Climate change*, paragraphs 33–34, pages 72–73.
[27] Ibid., ESRS 2, *General disclosures,* paragraphs 80–81, pages 51–52.

Even companies that currently prepare reports under the TCFD framework are likely to need to expand the nature and extent of their disclosures to comply with the proposed disclosures in ESRS E1 given its detailed and explicit requirements. Certain of the disclosure requirements in ESRS E1 are phased in, however, providing more time for these additional disclosures.

Consideration of the value chain

The information reported would not be limited to a company's own operations, but would extend to "direct and indirect business relationships in the upstream and/or downstream value chain."[28] These disclosures are expected to be some of the most challenging areas of reporting, given the scope and the reliance on information from parties not controlled by the company. EFRAG is currently working on guidance to support the implementation activities of preparers and other users of ESRS with regard to the value chain. The implementation guidance would be non-authoritative and would not introduce new provisions to the ESRS. A draft is expected to be issued in November 2023 for public feedback before being finalized in 2024.[29]

The proposed disclosure requirements include key features of the value chain in the context of sustainability. For example, value chain disclosures would include the following:

- A description of where a company's material impacts, risks, and opportunities are concentrated in its business model, own operations, and value chain[30]
- Details about value-chain related greenhouse gases removed from the atmosphere[31]
- A description of a company's policies that address the management of its material impacts, risks, and opportunities related to workers in the value chain[32]
- A description of the types of communities affected along the value chain[33]
- Targets (time-bound and outcome-oriented) related to reducing negative impacts on consumers and/or end-users[34]

While disclosures related to the value chain may seem daunting, transitional provisions in the standards are intended to ease the burden of first-time reporting. For the first three years of reporting, if all of the necessary information is not available, companies can report on a "comply or explain" basis, meaning that they would need to explain the reason for omitting any disclosures and their plans to obtain the needed information in the future. Further, during this time, companies would be able to limit value chain disclosures on policies, actions, and targets to information already available to the company or that is publicly available. Metrics would also exclude value chain information, with certain exceptions (e.g., scope 3 disclosures).[35] The interaction of this relief, however, with the relief provided for companies with 750 or fewer employees is unclear at this time.

This election would provide companies with more time to develop a plan to gather the relevant information.

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[28] EC, Delegated Regulation, Annex I, ESRS 1, *General requirements,* paragraph 63, page 11.
[29] EFRAG update, August 2023, page 10. EFRAG update, September 2023, page 13. EFRAG Sustainability Reporting Board meetings, October 25, 2023.
[30] EC, Delegated Regulation, Annex I, ESRS 2, *General disclosures,* paragraph 48, page 46.
[31] Ibid., ESRS E1, *Climate change,* paragraph 56, page 76.
[32] Ibid., ESRS S2, *Workers in the value chain*, paragraph 14, page 197.
[33] Ibid., ESRS S3, *Affected communities*, paragraph 9, page 211.
[34] Ibid., ESRS S4, *Consumers and end-users*, paragraph 38, page 230.
[35] Ibid., ESRS 1, *General requirements*, paragraphs 132–133, page 20.

Materiality assessment is informed by dialogue with affected stakeholders. The undertaking may engage with affected stakeholders or their representatives (such as employees or trade unions), along with users of sustainability reporting and other experts, to provide inputs or feedback on its conclusions regarding its material impacts, risks and opportunities.

ESRS 1, *General requirements*, paragraph AR 8

Materiality assessment

The CSRD embraces "double materiality," which requires that companies report information necessary to understand:

- the impact the company has on sustainability matters, including environmental, social, and employee matters, respect for human rights, anti-corruption and bribery matters, and governance (an "inside-out" perspective or "impact materiality"); and
- how sustainability matters affect a company's business development, performance, and position (an "outside-in" perspective or "financial materiality").

According to language in the CSRD, companies would need to consider each materiality perspective in its own right, and then disclose information necessary to understand how sustainability matters affect them, and information necessary to understand the impact they have on people and the environment.[36] This means that a sustainability matter may be material from an impact perspective, a financial perspective, or both.

Although these concepts of materiality differ, there may be overlap or linkages identified between these two perspectives. For example, if a company in agriculture depletes land and the biodiversity of a field (inside-out impact), this could directly affect the yield of the crops and hence the financial margin of the company (outside-in effect).[37]

ESRS 1, Appendix A provides specific topics that "shall" (i.e., must) be considered, together with application guidance on how to perform the materiality assessment from both impact and financial perspectives. It also includes guidance on identifying and assessing impacts, engaging with stakeholders (including those whose interests are affected or could be affected by the company's activities), and identifying risks and opportunities that affect or could reasonably be expected to affect the company's financial performance, position, or cash flows over the short, medium, or long term.[38]

This approach to materiality acknowledges the needs of stakeholders beyond investors and other capital providers and leverages definitions, steps, and concepts from the Global Reporting Initiative's approach to impact materiality.[39] In contrast, the IFRS Sustainability Disclosure Standards and the SEC's proposal retain the focus on what is material to investors, consistent with how it is interpreted in current financial reporting.

Materiality assessment is expected to be one of the most challenging areas of reporting given the significant judgment involved. EFRAG is currently working on guidance to support the implementation activities of preparers and other users of ESRS with regard to the materiality assessment. The implementation guidance would be non-authoritative and would not introduce new provisions to the ESRS. A draft is expected to be issued in November 2023 for public feedback before being finalized in 2024.[40]

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[36] Directive (EU) 2022/2464 as published on December 16, 2022 in the Official Journal of the European Union, Recitals, paragraph 29.
[37] Draft ESRS 1, *General requirements*, Basis for conclusions dated March 2023, paragraph BC62, page 18.
[38] EC, Delegated Regulation, Annex I, ESRS 1, *General requirements,* Appendix A, paragraphs AR 6–AR 16, pages 22–26.
[39] Draft ESRS 1, *General requirements*, Basis for conclusions, dated March 2023, paragraph BC67, page 19.
[40] EFRAG update, August 2023, page 10. EFRAG update, September 2023, page 13. EFRAG Sustainability Reporting Board meetings, October 25, 2023.

Is a company required to dialogue with stakeholders as part of its double materiality assessment?

ESRS 1 states that engagement with stakeholders is central to a sustainability due diligence process and materiality assessment[41] and ESRS 2 requires disclosure of the "process to identify, assess, prioritise and monitor the undertaking's potential and actual impacts on people and the environment, informed by the undertaking's due diligence process."[42]

The required description of the process to identify impacts needs to include whether and how the process involved consultation with affected stakeholders. And, although the standards do not mandate a dialogue with stakeholders, it may be difficult to disclose a robust process and conclude on double materiality without it. When gathering stakeholder perspectives, companies may choose to engage directly (e.g., through one-on-one engagement or tailored surveys), or indirectly (e.g., by having discussions with representatives of stakeholders or employees in other departments with knowledge of stakeholder perspectives or relying on scientific and analytical research on impacts on sustainability matters).[43]

EU Taxonomy disclosures

Companies in scope of the CSRD will also be in scope of Article 8 of the EU Taxonomy Regulation.[44] The EU Taxonomy Regulation is a component of the European Commission's "Action Plan: Financing Sustainable Growth" from March 2018, aimed to direct capital towards sustainable activities.[45] Despite use of the term "taxonomy," this taxonomy differs from the digital taxonomies used in financial reporting, such as iXBRL. The EU Taxonomy provides a classification system for environmentally sustainable economic activities. A subset of a company's activities will qualify as "eligible." And among those, activities that meet specified criteria will be deemed to be EU Taxonomy aligned. Companies are required to report key performance indicators (KPIs) representing the percentage of their activities that are Taxonomy aligned. For non-financial companies, these KPIs relate to revenue, capital expenditure, and operating expenditure. KPIs required by financial companies will vary based on the type of company, but generally aim to provide information about the extent to which income or assets arise from sustainable activities.

Companies reporting under the CSRD will be required to provide the EU Taxonomy disclosures and KPIs together with their ESRS disclosures. This is, in part, to allow financial market participants, such as investment managers, to disclose information about the sustainability of their investment products, including whether they are aligned with the EU Taxonomy. The technical requirements underlying the EU Taxonomy are complex to assess and may be compounded by challenges in obtaining financial data required for reporting, particularly if consolidated financial information is typically not prepared for the reporting entity. Early analysis and discussion may prove useful in developing an approach.

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[41] EC, Delegated Regulation, Annex I, ESRS 1, *General requirements,* paragraph 24, page 5.
[42] Ibid., ESRS 2, *General disclosures,* paragraph 53, page 47-48.
[43] Ibid., ESRS 1, *General requirements,* Appendix A, paragraphs AR 8 and AR 9(b), page 22.
[44] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, Article 1, paragraph 2(c).
[45] Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth, paragraph 1.

Requirement for third-party assurance

The CSRD would include a mandatory assurance obligation for all reported sustainability information, including the disclosures required under the EU Taxonomy Regulation.

The CSRD requirements begin with limited assurance and expand to reasonable assurance at a later date. This is a significant change from the current state, as the audit requirement under the NFRD is limited to the "existence" of disclosures, with no mandatory audit requirement over the content.

Reasonable versus limited assurance

Reasonable assurance will be familiar to users as the level of assurance provided in an audit of financial statements. A reasonable assurance engagement includes evaluating the design and implementation of relevant controls. It also includes obtaining an understanding sufficient to identify and assess risks of material misstatement and provide a basis for designing and performing procedures to respond to the assessed risks.

Limited assurance is also known as a review. It is a negative form of assurance that concludes as to whether any material modifications are needed for the information to be in accordance with specified criteria. The procedures performed are substantially less in extent than reasonable assurance and include identifying and focusing on areas of increased risk that the information may be materially misstated.

Although EU Member States will initially determine which assurance standards may be used — such as International Standard on Assurance Engagements (ISAE) 3000 or an equivalent national standard — the European Commission plans to adopt limited assurance standards by October 2026.[46] Reasonable assurance standards are expected to follow by October 2028, subsequent to completion of an assessment to determine if reasonable assurance is feasible for auditors and for companies.

The CSRD specifies that a company's financial statement auditor would be able to provide assurance, but EU Member States will decide during the transposition process whether companies may use another auditor or an independent assurance services provider. Use of others would be subject to appropriate accreditation as directed in the CSRD as well as oversight and quality requirements equivalent to those in place for financial statement auditors.

In addition, the audit committee would be expected to be responsible for sustainability reporting. Their responsibilities would include, for example, monitoring the sustainability reporting process and disclosing "how the audit committee contributed to the integrity of sustainability reporting and what the role of the audit committee was in that process."[47]

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[46] The International Auditing and Assurance Standards Board is currently undertaking a project to develop international standards on sustainability assurance. An exposure draft was issued on August 2, 2023 and the comment period closes on December 1, 2023. Refer to the announcement, IAASB launches public consultation on landmark proposed global sustainability assurance standard, for more information.
[47] Directive (EU) 2022/2464 as published on December 16, 2022 in the Official Journal of the European Union, Recitals, paragraph 76

Finalization and clarification needed

Although the CSRD and sector-agnostic ESRS are final, there remain a number of **areas of uncertainty**, including:

- The possibility of additional requirements by EU Member States during the national law transposition process (see page 2)
- Which sustainability reporting frameworks will be considered "equivalent" to ESRS (see page 6)
- How to calculate consolidated net turnover (revenue) generated in the EU (see page 7)
- First-time reporting date for those EU subsidiaries in scope of reporting under the NFRD because of an EU Member State's decision to expand the types of companies required to report (see page 8)
- Requirements of the non-EU dedicated standards (see page 10)

Focusing on what is known and developing an approach for what is unknown will allow companies to continue to progress until the requirements are finalized or guidance is provided.

Deciding how to report

Once the initial scoping exercise is complete, the next critical decision is deciding the level of the organization at which to report. The decision to report at the individual entity level, the global consolidated parent, or something in between will have a profound impact on the nature and extent of resources needed for compliance.

Our publication, "Take the next step — decide how to report under CSRD," provides a framework for making this decision and is crucial reading for any entity evaluating its reporting alternatives.

What's next?

Although the specific provisions of CSRD may still change — as a result of the ongoing transposition of CSRD into national law — companies should start to prepare for their reporting obligations now. Evaluating scope, the applicable effective dates, alternatives for reporting at different levels within the organization (if any), and what compliance with the disclosure requirements will entail (including which sustainability matters are material and consideration of the EU taxonomy) will set the stage for successful implementation. These determinations may be thorny and a company should assess the need for early involvement of its legal team. Staying close to decisions made by EU Member States over the 18 month transposition period also will be critical as decisions are made and the requirements evolve.

The ESRS set forth a wide range of requirements and should not be underestimated in terms of their complexities. Although the final reporting standards include a number of transitional reliefs to ease the reporting burden for companies, the level of effort required remains high. Obtaining an understanding of the wide-ranging disclosure requirements as well as the expected effort to obtain information and develop and implement reporting systems is an important first step in creating an implementation plan. In addition, this understanding may provide insights that support decisions about the level at which to prepare this reporting when multiple entities within the organization are impacted.

While this could be viewed as a compliance exercise, the CSRD is about more than just mandating sustainability disclosures; it is aimed at driving behavioral change. Companies have the opportunity to reframe the narrative of their purpose and business model in the context of sustainability and to seek opportunities for value creation. It will be a journey, but companies can position themselves for success through active engagement.

For more PwC accounting and reporting content specific to sustainability matters, visit the US ESG/Sustainability reporting page or the global Environmental, Social and Governance page.

To have a deeper discussion, contact your local PwC ESG specialist or:

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Appendix

Examples of common structure and size scenarios with related reporting requirements

The following simplified fact patterns are provided to illustrate some of the factors that should be considered in evaluating whether CSRD applies and, if so, the applicable standards and timing of application. These examples do not consider the ability to prepare combined reports in limited instances, and to satisfy subsidiary reporting requirements by reporting at a higher level within the organization.

The actual analysis is complex and companies should review the rules carefully and assess the need for early involvement of its legal team. Further, there may be exceptions to the effective dates in the examples below if the EU Member States make changes to these directives as part of their adoption process.

Fact pattern	What reporting standards are applicable?	When is reporting mandatory for a calendar year-end company?
Non-EU parent company • parent company has debt or equity securities listed on an EU-regulated market • parent meets the size thresholds of a “large undertaking” or is the parent of a “large group” • parent or “large group” has more than 500 employees	ESRS reporting on a global consolidated basis	January 1, 2024, reporting in 2025
Non-EU parent company • parent company has debt or equity securities listed on an EU-regulated market • parent meets the size thresholds of a “large undertaking” or is the parent of a “large group” • parent or “large group” has 500 or fewer employees	ESRS reporting on a global consolidated basis	January 1, 2025, reporting in 2026
Non-EU parent company • generated net turnover (revenue) of more than €150 million in the EU • parent has one (or more) of the following: – at least one EU subsidiary that is in scope of reporting (meets the definition of a “large undertaking” or has debt or equity securities listed on an EU-regulated market) – at least one branch in the EU with revenue of more than €40 million	Non-EU dedicated standard reporting (or ESRS reporting) at global consolidated level *May be in addition to the subsidiary reporting requirements*	January 1, 2028, reporting in 2029

Fact pattern	What reporting standards are applicable?	When is reporting mandatory for a calendar year-end company?
EU subsidiary • non-EU parent company • subsidiary meets the definition of a “large undertaking” • subsidiary has debt or equity securities listed on an EU-regulated market • subsidiary has more than 500 employees	ESRS reporting at individual subsidiary level	January 1, 2024, reporting in 2025
EU subsidiary • non-EU parent company • subsidiary meets the definition of a “large undertaking” • subsidiary has debt or equity securities listed on an EU-regulated market • subsidiary has 500 or fewer employees	ESRS reporting at individual subsidiary level	January 1, 2025, reporting in 2026
EU subsidiary • non-EU parent company • subsidiary meets the definition of a “large undertaking” or is the parent of a “large group” • subsidiary does not have debt or equity securities listed on an EU-regulated market	ESRS reporting at individual subsidiary level (or EU subgroup consolidated level)	January 1, 2025, reporting in 2026
EU subsidiary • non-EU parent company • subsidiary is an SME (meets the definition of a small undertaking or medium-sized undertaking) • subsidiary has debt or equity securities listed on an EU-regulated market	Simplified standards reporting at individual subsidiary level	January 1, 2026, reporting in 2027, unless the SME avails itself of the exemption from reporting until January 1, 2028, reporting in 2029
EU subsidiary • non-EU parent company • subsidiary is a small and non-complex credit institution or captive insurance undertaking (as defined in EU regulation)	Simplified standards reporting at individual subsidiary level	January 1, 2026, reporting in 2027

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