

Worldwide impact of CSRD - are you ready?

What's inside

Past, present, and future of EU sustainability reporting.....2

Scope and timing.....3

Reporting under the CSRD.....9

Requirement for third-party assurance.....14

Filing requirements of the CSRD....16

What's next?.....18

Appendix.....19

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 all of these proposals have the potential to impact multinational companies, the Corporate Sustainability Reporting Directive (CSRD) perhaps requires the most immediate attention. Even as companies wait for the other proposals to be finalized, the final reporting directive was published in December 2022 setting forth sustainability reporting requirements that are expected to affect companies worldwide.

The scope of companies directly impacted by the new requirements is expansive, including US and other non-EU headquartered companies. Determining whether a company or its subsidiary is captured by the scope of the proposed rules, 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.





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

Past, present, and future of EU sustainability reporting

The CSRD was driven, in part, by the European Green Deal, a December 2019 European Commission 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 was adopted by the European Parliament and the Council of the European Union in November 2022 and published in the Official Journal of the European Union on December 16, 2022.¹

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. 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, in late January and February 2023, Ireland and Spain, respectively, began the process by initiating public consultations to seek input from stakeholders. Because of the early stage of these efforts, however, whether and what changes may occur 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 will be detailed in new European Sustainability Reporting Standards (ESRS) that are being developed 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, after incorporating feedback received during a public consultation process completed earlier in 2022. The European Commission is now consulting with EU regulatory authorities, expert groups, and EU Member States on the draft standards and will also launch an additional four-week public comment period in May 2023 before the expected adoption of the standards in July 2023. After completion of this milestone, the standards will face scrutiny from the European Parliament and Council of the European Union before going into effect. The ESRS will become law when the final standards are released; they are not subject to separate transposition into law of the EU Member States.

¹ [Directive \(EU\) 2022/2464](#) as published on December 16, 2022 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.

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.² 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:



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. There are limited exceptions to the listed company reporting requirements (e.g., issuers that are “micro undertakings” are not in scope).³

² European Commission: [Corporate sustainability reporting](#)

³ “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

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.

“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 \$22 million as of March 31, 2023)
- Net turnover (revenue) of €40 million (about \$44 million as of March 31, 2023)
- Average of 250 employees

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 \$22 million as of March 31, 2023)
- Net turnover (revenue) of €40 million (about \$44 million as of March 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.



What is an undertaking?

An undertaking refers to specific types of companies in the EU, which are mainly those with limited liability.⁴

The scoping requirements are complex and may give rise to more questions, including the following:

Are there any exemptions to these reporting requirements?

Yes. An EU subsidiary (or subgroup) may be able to satisfy its standalone reporting requirements if it is included in the CSRD reporting of an EU or non-EU parent.

Alternatively, the requirement may be met if the EU subsidiary is included in a CSRD report prepared using “artificial consolidation” (i.e., a CSRD report combining the information of all EU subsidiaries in scope, similar to combined financial statements). Note that this “artificial consolidation” exemption expires in 2030.

⁴ [Directive 2013/34/EU](#), Article 1, paragraph 1 as well as Annex I and Annex II

The following table summarizes general information about these exemptions, although the fact patterns have been simplified for illustrative purposes.

Exemption	Fact pattern
1 Inclusion in report of EU parent	<ul style="list-style-type: none"> ➤ EU subsidiary (or subgroup) is included in the consolidated management report of EU parent (holding company or intermediate entity) ➤ Report prepared in accordance with European Sustainability Reporting Standards
2 Inclusion in report of non-EU parent	<ul style="list-style-type: none"> ➤ EU subsidiary (or subgroup) is included in the consolidated sustainability report of non-EU parent (see <i>Filing requirements of the CSRD</i>, page 16) ➤ Report prepared in accordance with European Sustainability Reporting Standards <i>or</i> in a manner deemed equivalent to those standards by the European Commission ➤ Report would be required to include the entire consolidated group, including both EU and non-EU subsidiaries
3 Artificial consolidation	<ul style="list-style-type: none"> ➤ EU subsidiary is included in “consolidated sustainability report” (i.e., artificial consolidation, similar to combined financial statements) covering all EU subsidiaries (or subgroups) in the scope of the CSRD ➤ Report prepared in accordance with European Sustainability Reporting Standards ➤ EU subsidiary that prepares and publishes report must be one of the subsidiaries that generated the highest turnover (revenue) in at least one of the preceding five years ➤ Option is only available until 2030

No exemption is available to a large undertaking that has debt or equity securities listed on an EU-regulated market.

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.

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.⁵ 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

⁵ [Directive \(EU\) 2022/2464](#) as published on December 16, 2022 in the Official Journal of the European Union, Recitals, paragraph 25

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.⁶ 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.⁷ Certain standards, such as draft ESRS S1, *Own workforce*, may also require disaggregation of information (e.g., total number of employees by gender and by country).⁸ Further, as part of the transposition process, Member States may decide that country-level detail is required; this will become known as the transposition process progresses.

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 draft ESRS disclosure requirements leverage financial information, such as intensity metrics and disclosures under the EU taxonomy (see page 14). Absent clarifying guidance from EFRAG or the European Commission, our expectation is that a company in scope of the CSRD will need to obtain the financial information required for its sustainability reporting.



Location of CSRD reporting

Note that EU entities are required to file their CSRD information as part of their management report. In contrast, a non-EU company preparing consolidated reporting may include its CSRD information in either a consolidated management report or a consolidated sustainability report. See *Filing requirements of the CSRD* on page 16.

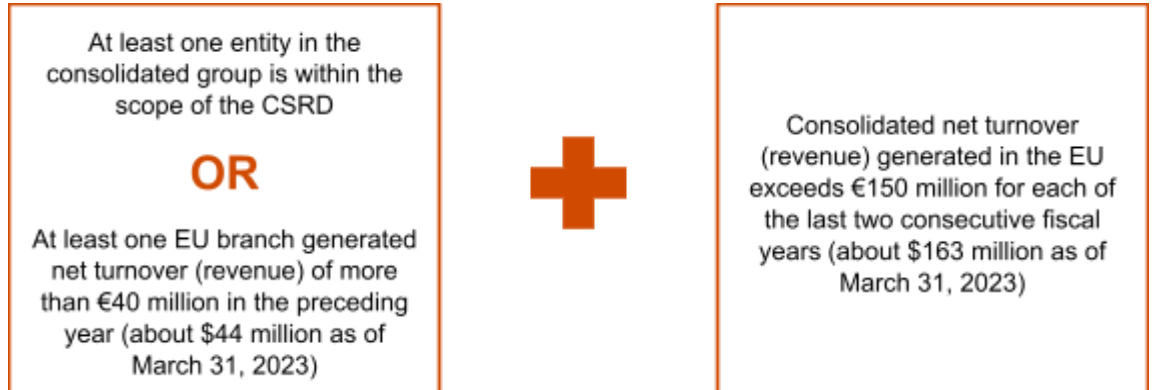
⁶ [Draft ESRS 1. General requirements](#) dated November 2022, paragraph 106, page 20

⁷ [Draft ESRS 1. General requirements](#) dated November 2022, paragraph 107, page 20

⁸ [Draft ESRS S1. Own workforce](#) dated November 2022, paragraphs 49-52, pages 13-14

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:



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.⁹ 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 page 9), or ESRS, or “equivalent” standards (see page 5). Filing requirements are discussed in a later section (see page 17).

How should a company determine its consolidated net turnover (revenue) generated in the EU?

The requirement refers to consolidated net turnover (revenue), although the CSRD does not specify how this amount 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.

⁹ [Directive \(EU\) 2022/2464](#) as published on December 16, 2022 in the Official Journal of the European Union, Article 40a, paragraph 1

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 , ¹⁰ 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 ") ¹¹	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 (€150 million criterion)	Reporting on fiscal years beginning on or after January 1, 2028

The appendix includes examples of some of the more common structure and size scenarios 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.



First-time application for certain NFRD reporters

Some EU Member States elected to expand the scope of applicable companies during the transposition of the NFRD into local law. There is still uncertainty around whether these additional companies will be included in the first round of CSRD reporters. Until there is clarity, we recommend that these companies prepare for filing fiscal year 2024 information in fiscal year 2025.

¹⁰ NFRD applies to public-interest entities, which generally are large listed EU entities, banks, and insurance companies with more than 500 employees

¹¹ 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

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 the most recently available draft standards.

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 draft standards were submitted to the European Commission in November 2022.
- **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.

Early versions of working papers for the simplified standards were discussed at a March 2023 EFRAG sustainability reporting board meeting.¹² We expect these to be issued for public consultation over the coming year. The non-EU dedicated standards have yet to be developed, and timing is uncertain.

Sector standards are also in development, and we expect there to be more than 40 sector-specific standards released in phases over the next few years. In March 2023, however, the European Commission requested that EFRAG prioritize implementation support over development of sector standards. In response, EFRAG indicated that it intends to focus its efforts on putting in place an “ESRS implementation support function.” Although the structure of this support function is under discussion, EFRAG has indicated that it could be organized “under three pillars, dedicated to (i) the swift and timely provision of much-needed guidance, (ii) the creation of a user-friendly and comprehensive documentation hub, and (iii) the facilitation of educational initiatives.”¹³ Notwithstanding the focus on implementation guidance, EFRAG indicated that the sector standards remain on its agenda as a priority (albeit on a modified timeline).

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

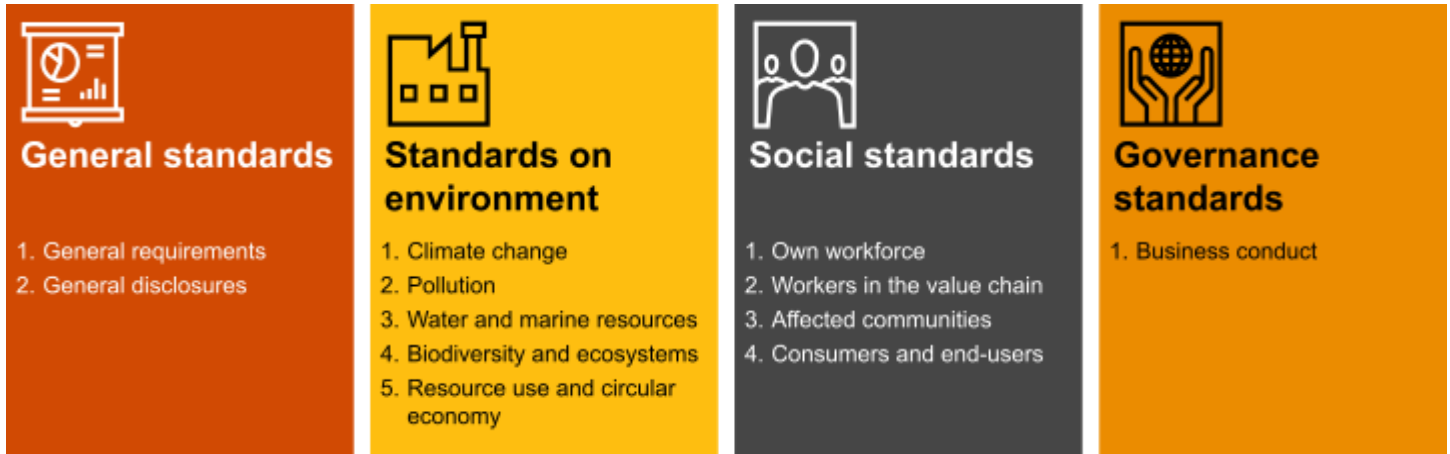
It may be tempting to wait for the non-EU dedicated standards; however, given the breadth of the potential disclosures and uncertainty around the timing of when drafts will be available, we advise companies not to delay but instead to begin their assessments now by referencing the draft ESRS.

¹² EFRAG SRB meeting 17 March 2023, [Drafting session on the working paper LSME](#)

¹³ [European Commission calls on EFRAG to prioritise implementation support for the first set of ESRS](#), 29 March 2023

Details of the European Sustainability Reporting Standards

The 12 draft 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.



The proposed 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 these standards are not yet final, focusing on the standards now — for example, understanding their structure and general scope, delving into the details, and considering potential gaps between the requirements and current voluntary reporting — is a critical step in developing an implementation plan.



Changes from the April 2022 public consultation

After evaluating feedback in the more than 750 comment letters received¹⁴ and from outreach events following the April 2022 public consultation, EFRAG submitted 12 draft standards to the European Commission in November 2022, marking a significant milestone in the development of the European Sustainability Reporting Standards.¹⁵ Feedback received from stakeholders during the public consultation process resulted in significant changes compared to the initial draft standards, with key changes centered around four areas:

- Consideration of international reporting standards (proposed standards by the ISSB and Global Reporting Initiative (GRI)) and other international instruments (UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises) to the maximum extent possible
- Refinement of the materiality assessment process
- “A reduction by nearly half of the disclosure requirements compared to the [exposure drafts]”
- Removal of one of the governance standards as a result of changes in the final CSRD to focus on governance of sustainability matters rather than governance more broadly^{16,17}

¹⁴ PwC’s comment letter on the ESRS exposure drafts can be found [here](#), dated July 29, 2022

¹⁵ First Set of draft ESRS dated November 2022

¹⁶ Draft ESRS [Cover letter](#) dated 22 November 2022

¹⁷ [Due process note – First set of draft ESRS](#) dated November 2022, paragraph 5(c), page 4

339
pages

82
disclosure
requirements

25
templates

Structure and general requirements of the ESRS

The draft 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 draft standards mirror proposed ISSB™ disclosures — which will be known as 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., draft ESRS 1, *General requirements*, and draft ESRS 2, *General disclosures*) will apply across sectors and across all topical standards. Draft 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, draft ESRS 1 states that **certain information under the draft ESRS would be required regardless of materiality**, including all of the requirements under draft ESRS 2 and draft ESRS E1 (the Climate change standard), specified disclosures on the company’s own workforce if certain employee thresholds are met, and disclosures related to other relevant EU legislation.¹⁸

Draft 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 the draft ESRS go well beyond the disclosures and topical standards proposed by the ISSB and SEC. And, although the draft 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, draft ESRS E4, *Biodiversity and ecosystems*, requires disclosure of targets related to biodiversity, including the established dates and milestones, and whether the targets are aligned with relevant frameworks and regulation to achieve “no net loss,” “net gain,” and “full recovery.”¹⁹ 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.

Proposed climate disclosure requirements

Although climate change is only one of five environmental standards in the draft ESRS, the provisions are a primary focus for many companies given the proposals on climate disclosures from the ISSB and the SEC.

The proposed climate disclosure requirements in draft ESRS E1, *Climate change*, are more robust than current voluntary reporting and would go beyond the proposals from the ISSB and SEC. For example, the SEC requires disclosure of a greenhouse gas (GHG) emissions reduction target only if the company has made one. The draft ESRS, on the other hand, would require companies to disclose whether and how they have

¹⁸ [Draft ESRS 1, General requirements](#) dated November 2022, paragraph 32, pages 9-10

¹⁹ [Draft ESRS E4, Biodiversity and ecosystems](#) dated November 2022, paragraph 32, page 11

ESRS E1 boundaries

One notable difference with the ISSB and SEC proposals is with respect to the required organizational boundary (i.e., the scope of entities included in the GHG disclosures). Draft ESRS E1 would require companies to use the operational control approach. 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 a control approach or the equity approach. These differences could result in different amounts disclosed under each framework.

set GHG emissions reduction targets, with further disclosure required if no such targets have been established.^{20,21}

Selected disclosure requirements in draft 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 and the assessment of potential financial effects due to these risks over the short, medium, and long term
- The company's policies and action plans for climate change mitigation (i.e., limiting the increase in global average temperature as laid out in the Paris Agreement) and adaptation (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
- Whether the company tracks the effectiveness of its policies and actions in relation to the material sustainability-related impact, risk and opportunity (climate change in the case of GHG emissions)
- Performance measures, including scope 1, scope 2, and scope 3 GHG emissions, and GHG emissions per monetary unit of net revenue (GHG intensity), using operational control 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
- Reconciliations of amounts used to calculate metrics to amounts included in the financial statements

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 the draft ESRS E1 given its detailed and explicit requirements.

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."²² 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. 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 how a company considers its value chain in the assessment of material sustainability impacts, risks, and opportunities²³

²⁰ [Draft ESRS E1, Climate change](#) dated November 2022, paragraphs 31-32, page 9

²¹ [Draft ESRS 2, General disclosures](#) dated November 2022, paragraph 79, page 19

²² [Draft ESRS 1, General requirements](#) dated November 2022, paragraph 67, page 15

²³ [Draft ESRS 2, General disclosures](#) dated November 2022, paragraph 46, pages 13-14

- Details about value-chain related greenhouse gases removed from the atmosphere²⁴
- A description of a company’s policies that address the management of its material impacts, risks, and opportunities related to workers in the value chain²⁵
- A description of the types of communities affected along the value chain²⁶
- Targets (time-bound and outcome-oriented) related to reducing negative impacts on consumers and/or end-users²⁷

While disclosures related to the value chain may seem daunting, the currently proposed value chain disclosures reflect efforts to simplify the approach based on feedback received during the public consultation process. The draft standards generally limit consideration of the value chain to material impacts, risks, and opportunities as well as instances where specifically required by a topical standard.²⁸ Additionally, if all of the necessary information is not available, companies would be able to omit most value chain disclosures for the first three years after implementation of the CSRD on a “comply or explain” basis, meaning that companies would need to explain the reason for omitting any disclosures. This election would provide companies with more time to develop a plan to gather the relevant information. Although, notably, the resulting delay would not apply to disclosure requirements (e.g., the requirement for scope 3 disclosures) that are mandatory due to other EU regulations.

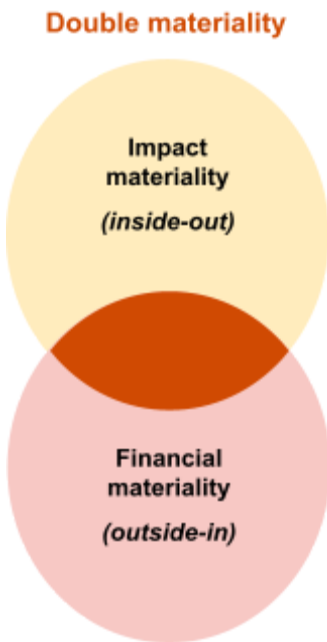
Materiality assessment

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.²⁹ 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).³⁰



²⁴ [Draft ESRS E1. Climate change](#) dated November 2022, paragraph 53, page 13

²⁵ [Draft ESRS S2. Workers in the value chain](#) dated November 2022, paragraph 14, page 6

²⁶ [Draft ESRS S3. Affected communities](#) dated November 2022, paragraph 9, page 5

²⁷ [Draft ESRS S4. Consumers and end-users](#) dated November 2022, paragraph 37, page 9

²⁸ [Due process note – First set of draft ESRS](#) dated November 2022, paragraph 5(d), page 4

²⁹ [Directive \(EU\) 2022/2464](#) as published on December 16, 2022 in the Official Journal of the European Union, Recitals, paragraph 29

³⁰ [Draft ESRS 1. General requirements](#) Basis for conclusions dated March 2023, paragraph BC62, page 18



Materiality assessment is informed by the 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.

Draft ESRS 1, General requirements, paragraph AR 3

Draft ESRS 1, Appendix B 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 may affect the company’s financial development, performance, and position.³¹

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.³² In contrast, the ISSB and the SEC have proposed disclosure standards that retain the focus on what is material to investors, consistent with how it is interpreted in current financial reporting.

EU taxonomy disclosures

Companies in scope of the CSRD will also be in scope of Article 8 of the EU Taxonomy Regulation.³³ 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.³⁴ 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 and requires disclosure of certain key performance indicators (KPIs) related to six environmental objectives.³⁵ 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.

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. In contrast, the SEC’s proposed disclosures included in the financial statements would be within the scope of the financial statement audit with additional

³¹ [Draft ESRS 1, General requirements](#) dated November 2022, Appendix B, section 3.3, pages 28-33

³² [Draft ESRS 1, General requirements](#) Basis for conclusions dated March 2023, paragraph BC67, page 19

³³ [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

³⁴ [Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth](#)

³⁵ [EU taxonomy for sustainable activities](#)

attestation proposed only on the scope 1 and scope 2 greenhouse gas emissions disclosures for large accelerated and accelerated filers. Further, the level of assurance required over the IFRS Sustainability Disclosure Standards will be established by each individual jurisdiction.

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 2026.³⁶ 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.”³⁷

³⁶ The International Auditing and Assurance Standards Board (IAASB) is currently undertaking a project to develop a new International Standard on Sustainability Assurance™ (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. The Exposure Draft of ISSA 5000 is expected in July 2023. Refer to the announcement, [IAASB advances timeline for consultation for proposal on sustainability assurance](#), dated April 24, 2023 for more information.

³⁷ [Directive \(EU\) 2022/2464](#) as published on December 16, 2022 in the Official Journal of the European Union, Recitals, paragraph 76

Filing requirements of the CSRD

The CSRD requires that the sustainability reporting 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 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.³⁸ 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.

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, the EU subsidiary in scope of reporting is required to include certain information in its management report, including the following:

- Reference to the fact that it is exempt from the sustainability reporting obligations
- The name and registered office of its parent entity that reports the consolidated sustainability information
- A link to the website with the exempting consolidated management report (or consolidated sustainability report) and the related assurance opinion

When a non-EU parent consolidated sustainability report is used to satisfy the EU subsidiary’s reporting obligation, that report must also be published by the EU subsidiary. As a result, even if a reporting exemption is used, the EU subsidiary would still need to maintain a list of and monitor its reporting obligations.



Easing the burden

The European Commission and EFRAG acknowledge 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 provisions** were introduced, many of which have been highlighted throughout 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 9)
- Three year deferral of certain value chain-related disclosures (see page 12)

For a listing of all phased-in disclosure requirements under the draft ESRS, refer to Appendix D of draft ESRS 1.³⁹

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

³⁸ [Directive 2013/34/EU](#), Article 19, paragraph 1

³⁹ [Draft ESRS 1, General requirements](#) dated November 2022, Appendix D, pages 38-39

2028, reporting in 2029) as well as any voluntary consolidated reporting to satisfy its 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, however, as to whether any reporting for purposes of 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). Specific to the SEC, 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-20,⁴⁰ which requires the disclosure of any information needed to make the required disclosures not misleading. 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. The subsidiary or branch must request all information necessary from the non-EU parent to enable it to meet its obligations. In the event that required information is not provided, the subsidiary or branch 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."⁴¹

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. The European Commission will publish a list of the non-EU companies that publish a sustainability report.



Finalization and clarification needed

Although the CSRD is final, there remain a number of **areas of uncertainty**, including:

- The possibility of changes by EU Member States during the national law implementation process (see page 2)
- Which sustainability reporting frameworks will be considered "equivalent" to ESRS (see page 5)
- 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 9)

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.

⁴⁰ [SEC Regulation S-K, Rule 12b-20](#)

⁴¹ [Directive \(EU\) 2022/2464](#) as published on December 16, 2022 in the Official Journal of the European Union, Article 40a, paragraph 2

What's next?

Although the disclosure requirements and specific provisions of CSRD may still change — as a result of the ESRS consultation process and 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 draft ESRS set forth a wide range of requirements and should not be underestimated in terms of their complexities. Although the ESRS have yet to be finalized, obtaining an understanding now 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 ESG matters, visit our Environmental, Social and Governance (ESG) page at viewpoint.pwc.com.

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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?
<p>Non-EU parent company</p> <ul style="list-style-type: none"> 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
<p>Non-EU parent company</p> <ul style="list-style-type: none"> 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” does not have more than 500 employees 	ESRS reporting on a global consolidated basis	January 1, 2025, reporting in 2026
<p>Non-EU parent company</p> <ul style="list-style-type: none"> generated net turnover (revenue) of more than €150 million in the EU parent has one (or more) of the following: <ul style="list-style-type: none"> 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 	<p>Non-EU dedicated standard reporting (or ESRS reporting) at global consolidated level</p> <p><i>May be in addition to the subsidiary reporting requirements</i></p>	January 1, 2028, reporting in 2029

Fact pattern	What reporting standards are applicable?	When is reporting mandatory for a calendar year-end company?
<p>EU subsidiary</p> <ul style="list-style-type: none"> • 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 	<p>ESRS reporting at individual subsidiary level</p>	<p>January 1, 2024, reporting in 2025</p>
<p>EU subsidiary</p> <ul style="list-style-type: none"> • 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 does not have more than 500 employees 	<p>ESRS reporting at individual subsidiary level</p>	<p>January 1, 2025, reporting in 2026</p>
<p>EU subsidiary</p> <ul style="list-style-type: none"> • 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 	<p>ESRS reporting at individual subsidiary level (or EU subgroup consolidated level)</p>	<p>January 1, 2025, reporting in 2026</p>
<p>EU subsidiary</p> <ul style="list-style-type: none"> • 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 	<p>Simplified standards reporting at individual subsidiary level</p>	<p>January 1, 2026, reporting in 2027, unless the SME avails itself of the exemption from reporting until January 1, 2028, reporting in 2029</p>
<p>EU subsidiary</p> <ul style="list-style-type: none"> • non-EU parent company • subsidiary is a small and non-complex credit institution or captive insurance undertaking (as defined in EU regulation) 	<p>Simplified standards reporting at individual subsidiary level</p>	<p>January 1, 2026, reporting in 2027</p>

