



EU SUSTAINABILITY REPORTING

COMPARISON OF DRAFT CSRD TO NFRD REQUIREMENTS

International Sustainability Reporting Bulletin

The draft Corporate Sustainability Reporting Directive would significantly expand both the scope of the existing NFRD and the requirements for companies, including the need to obtain assurance on disclosed information.

As of April 2022.

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Introduction

In April 2021, the European Commission [proposed a new Corporate Sustainability Reporting Directive](#) (CSRD). The purpose of the CSRD is to revise and strengthen the existing requirements of the Non-Financial Reporting Directive (NFRD), to ensure that companies report reliable and comparable sustainability information that investors and other stakeholders need.

The proposals would significantly expand both the scope of the Directive (from around 11,600 companies to around 49,000) and the information to be reported. European Sustainability Reporting Standards (ESRS) would be required, and the information disclosed by companies would need to be assured (initially limited assurance, with reasonable (or audit) assurance later on).

As part of the legislative process, the European Commission's proposals have been subject to review by the European [Parliament](#) and the European [Council](#) (which is made up of representatives from each EU Member State). Both the Parliament and the Council have proposed amendments to the Commission's proposals, some of which are significant.

The status as at the end of April 2022 is that the so-called Trilogues are in progress. These are discussions among the European Parliament, the European Council and the European Commission at which a compromise is sought, in order to finalise the requirements of the new legislation. It is currently anticipated that the final CSRD will be published before the end of June 2022.

This publication sets out an overview of changes that will be introduced by the CSRD as drafted. It also provides a high-level overview of the proposed amendments from the European Council and the European Parliament.

What are the Key Changes Introduced by the CSRD?

As proposed by the European Commission, the key changes are as follows:

REQUIREMENT	NFRD	CSRD
Companies that are Required to Report	<p>Large public interest entities with more than 500 employees.</p> <p>Public interest entities are:</p> <ul style="list-style-type: none"> ▶ Listed companies ▶ Banks and insurance companies 	<p>Listed companies.</p> <p>All large companies, defined as those meeting two out of the following three criteria:</p> <ul style="list-style-type: none"> ▶ More than 250 employees ▶ More than EUR 40m turnover ▶ More than EUR 20m total assets <p>This includes all companies, including subsidiaries of non-EU groups.</p>
When do the requirements apply?	Years ended December 31, 2018, onwards.	<ul style="list-style-type: none"> ▶ Years ending December 31, 2023, onwards. ▶ Listed SMEs: December 31, 2026, onwards.
How many companies will need to comply with the requirements?	11,600	49,000
Scope of the Requirements	<ul style="list-style-type: none"> ▶ Environmental protection ▶ Social responsibility and treatment of employees ▶ Human rights ▶ Anti-corruption and bribery ▶ Diversity on company boards 	<p>NFRD requirements plus:</p> <ul style="list-style-type: none"> ▶ Disclosure of information about intangibles (including social, human and intellectual capital). ▶ Additional forward looking information. ▶ Reporting that is consistent with the Sustainable Finance Disclosure Regulation and the EU Taxonomy. ▶ Double materiality concept, which expands the consideration of sustainability beyond an entity's capital market value, to include the entity's wider effects on society and the environment.
Assurance	Not required	<p>Mandatory</p> <ul style="list-style-type: none"> ▶ Initially limited assurance, to be expanded to reasonable (audit) assurance in future.

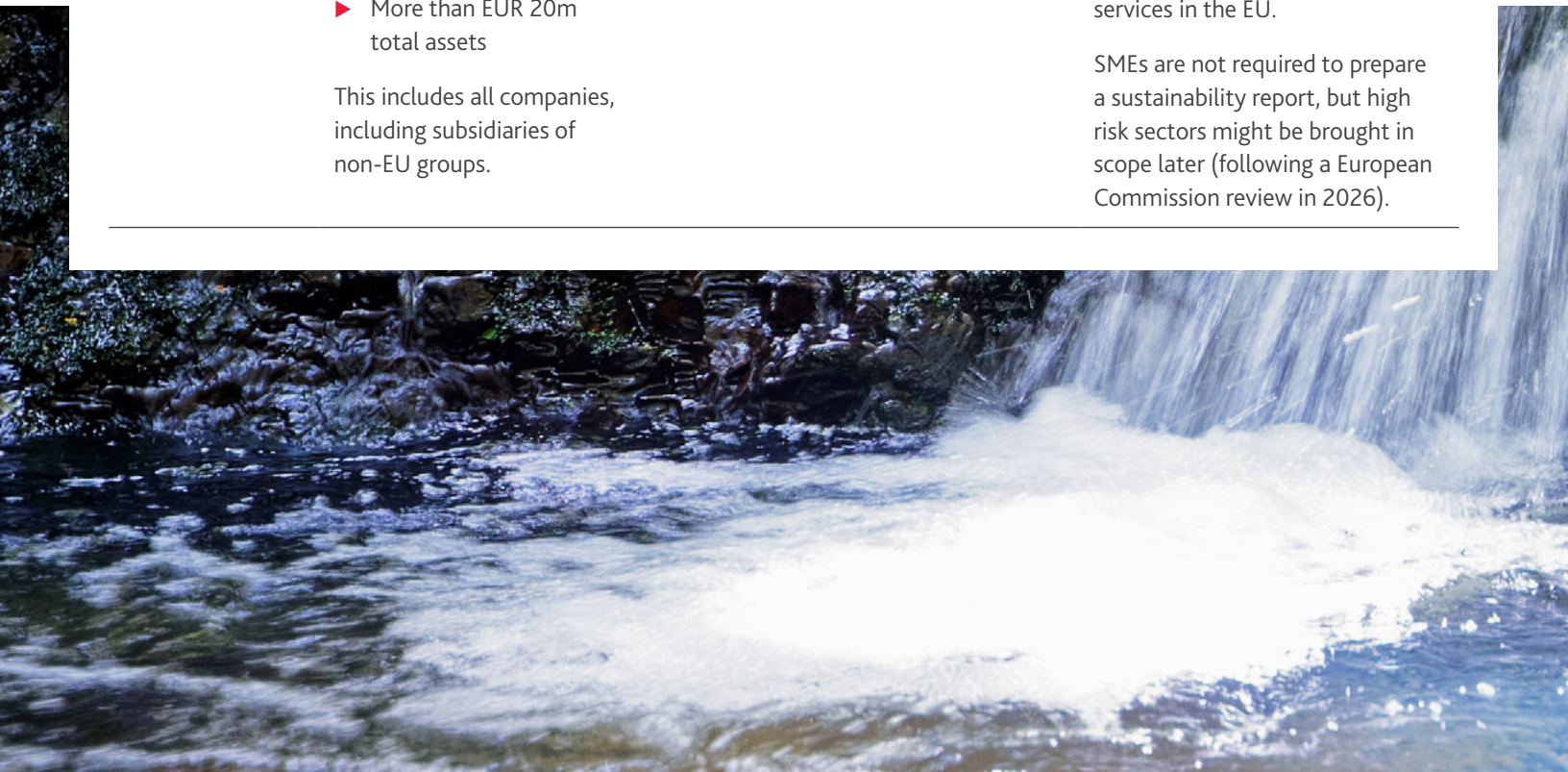
April 2022 – The Current State of Play

The European Commission's proposal were subject to public comment. In addition, as noted above and as part of the European Union's policy setting process, both the European Council (representatives from each Member State) and the European Parliament have provided their comments. The current position is that the Trilogue discussions are in progress, which involves both the Council and the Parliament putting forward their proposed amendments to the CSRD, which are then subject to discussion and compromise.

So what have the Council and Parliament proposed? A summary of some of the key points is set out below. The most significant areas include:

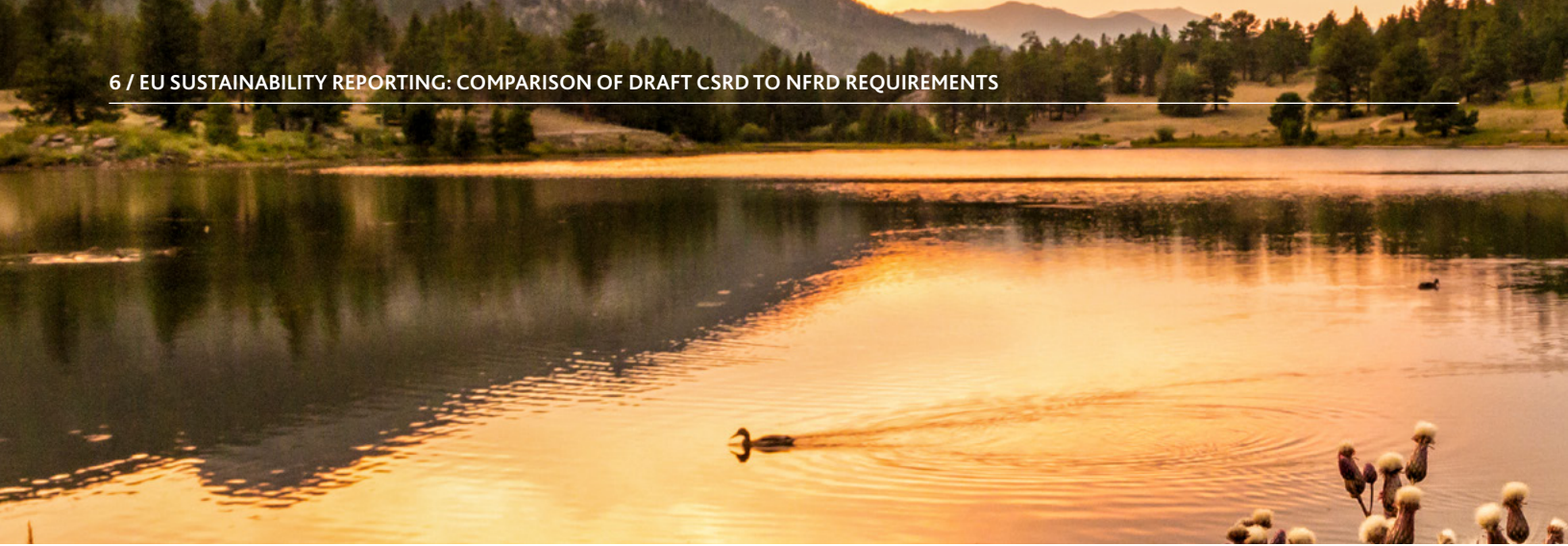
- ▶ The scope of the CSRD, which may be extended to cover additional entities.
- ▶ The effective date which will be later than the original proposal of 2023 calendar year ends, and will be from 2024 onwards depending on the size and nature of the reporting entity.
- ▶ Specified requirements for a provider of assurance services over sustainability information, plus (from the European Parliament) a proposal that the statutory auditor would be prohibited from providing assurance services over sustainability information.

REQUIREMENT	ORIGINAL PROPOSALS	EUROPEAN COUNCIL PROPOSED AMENDMENTS	EUROPEAN PARLIAMENT PROPOSED AMENDMENTS
Scope	<p>Listed companies</p> <p>All large companies, defined as those meeting two out of the following three criteria:</p> <ul style="list-style-type: none"> ▶ More than 250 employees ▶ More than EUR 40m turnover ▶ More than EUR 20m total assets <p>This includes all companies, including subsidiaries of non-EU groups.</p>	<p>Exemption for EU subsidiaries of non-EU parent companies, subject to the non-EU parent preparing a consolidated sustainability report which is in accordance with EU requirements and is subject to limited assurance.</p>	<p>Exemption for EU subsidiaries of non-EU parent companies, but only if the parent discloses sustainability information that is provided individually for each consolidated entity.</p> <p>Requirements apply to non-EU companies that sell goods or services in the EU.</p> <p>SMEs are not required to prepare a sustainability report, but high risk sectors might be brought in scope later (following a European Commission review in 2026).</p>



REQUIREMENT	ORIGINAL PROPOSALS	EUROPEAN COUNCIL PROPOSED AMENDMENTS	EUROPEAN PARLIAMENT PROPOSED AMENDMENTS
Effective Date	<p>Years ending December 31, 2023, year ends onwards.</p> <p>Listed SMEs: December 31, 2026, year ends onwards.</p>	<p>Large Public Interest Entities that have more than 500 employees:</p> <ul style="list-style-type: none"> ▶ December 31, 2024, year ends onwards. <p>All large companies, defined as those meeting two out of the following three criteria:</p> <ul style="list-style-type: none"> ▶ More than 250 employees ▶ More than EUR 40m turnover ▶ More than EUR 20m total assets ▶ December 13, 2025, year ends onwards <p>Listed SMEs, small and non-complex institutions, and captive reinsurance and insurance undertakings.</p> <p>December 31, 2026, year ends onwards.</p>	<p>All large companies, defined as those meeting two out of the following three criteria:</p> <ul style="list-style-type: none"> ▶ More than 250 employees ▶ More than EUR 40m turnover ▶ More than EUR 20m total assets <p>December 31, 2024, year ends onwards.</p> <p>SMEs which use simplified SME standards.</p> <p>December 31, 2026, year ends onwards.</p> <p>Possible extension of scope to SMEs in high risk sectors.</p> <p>European Commission to report to the European Parliament and EU Council by December 31, 2026.</p>





REQUIREMENT	ORIGINAL PROPOSALS	EUROPEAN COUNCIL PROPOSED AMENDMENTS	EUROPEAN PARLIAMENT PROPOSED AMENDMENTS
<p>Sustainability Reporting Standards</p>	<p>European Sustainability Reporting Standards (ESRS) to be developed by EFRAG. EFRAG exposure drafts may be accessed here.</p> <p>Adoption by the European Commission by delegated act provided there is no objection from the EU Council (two month period) and the European Parliament (a further two month period after the EU Council's two months).</p> <p>Before the adoption of ESRS, a requirement to consult with the Member State Expert Group on Sustainable Finance and a number of EU organisations. An opinion to be obtained from ESMA within two months.</p> <p>First set of standards to be prepared by October 31, 2022, with a second set by October 31, 2023.</p> <p>Take into consideration the work of global sustainability standard setters, and existing standards and frameworks.</p> <p>Review the standards every three years to take account of international developments.</p>	<p>Before the adoption of ESRSs, the European Commission would be required to consult the Accounting Regulatory Committee and obtain an opinion from the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA).</p> <p>Add text to require consideration 'to the greatest extent possible'.</p> <p>European Commission to consult, on an annual basis, the Member State Expert Group on Sustainable Finance and the Accounting Regulatory Committee, on EFRAG's work.</p>	<p>Delegated power to the European Commission for a period of four years (renewable).</p>

REQUIREMENT	ORIGINAL PROPOSALS	EUROPEAN COUNCIL PROPOSED AMENDMENTS	EUROPEAN PARLIAMENT PROPOSED AMENDMENTS
<p>External Assurance</p>	<p>Limited assurance required.</p> <p>If the statutory auditor provides assurance over sustainability information, the related assurance report is required to be included in the audit report.</p> <p>Member State option to permit assurance over sustainability information to be provided by an assurance services provider that is not the statutory auditor or an audit firm. Conditions include:</p> <ul style="list-style-type: none"> ▶ The assurance service provider must be subject to similar independence and other requirements as financial statement auditors; and ▶ The sustainability assurance report must be published at the same time as the audit report. <p>National assurance standards apply. The European Commission can develop EU assurance standards in future.</p>	<p>Limited assurance required initially, with a move to reasonable assurance when the European Commission adopts an assurance standard (to be not more than six years after the effective date of the CSRD).</p> <p>If the statutory auditor provides assurance over sustainability information, there is a Member State option to require the sustainability assurance report to be in a separate section of the audit report.</p> <p>If assurance over sustainability information is provided by an audit firm, designation of a key sustainability partner with appropriate skills and resources is required.</p> <p>An assurance services provider that is not the statutory auditor or an audit firm is required to comply with requirements that are equivalent to those set out in the Audit Directive (e.g., ethics, independence, training, continuing professional education, quality assurance).</p> <p>Independence of an assurance services provider that is not the statutory auditor to be monitored by the audit committee (this can be assigned to another committee).</p>	<p>Statutory auditor and any firm in the same audit network are prohibited from providing assurance services over the entity's sustainability information.</p> <p>An assurance services provider that is not the statutory auditor or an audit firm is required to comply with requirements that are equivalent to those set out in the Audit Directive (e.g., ethics, independence, training, continuing professional education, quality assurance), provided that in addition those requirements result in the same level of quality of assurance of sustainability information.</p> <p>European Commission to adopt assurance standards for limited assurance by October 1, 2023, and for reasonable assurance by January 1, 2026.</p>

Contacts

CHRISTOPHER TOWER

ESG Strategy and Services Leader
714-668-7320 / ctower@bdo.com

KAREN BAUM

Advisory ESG Strategy and
Services Leader
214-243-2928 / kbaum@bdo.com

CARA MOOSES

Corporate ESG Strategy Leader
312-730-1422 / cmooses@bdo.com

DAN FULLER

Tax ESG Strategy and Services Leader
616-802-3406 / dfuller@bdo.com

DAN HARRIS

Assurance ESG Strategy and
Services Leader
415-490-3188 / dharris@bdo.com

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