Q&A:

EU Expands ESG Reporting Requirements Through the CSRD

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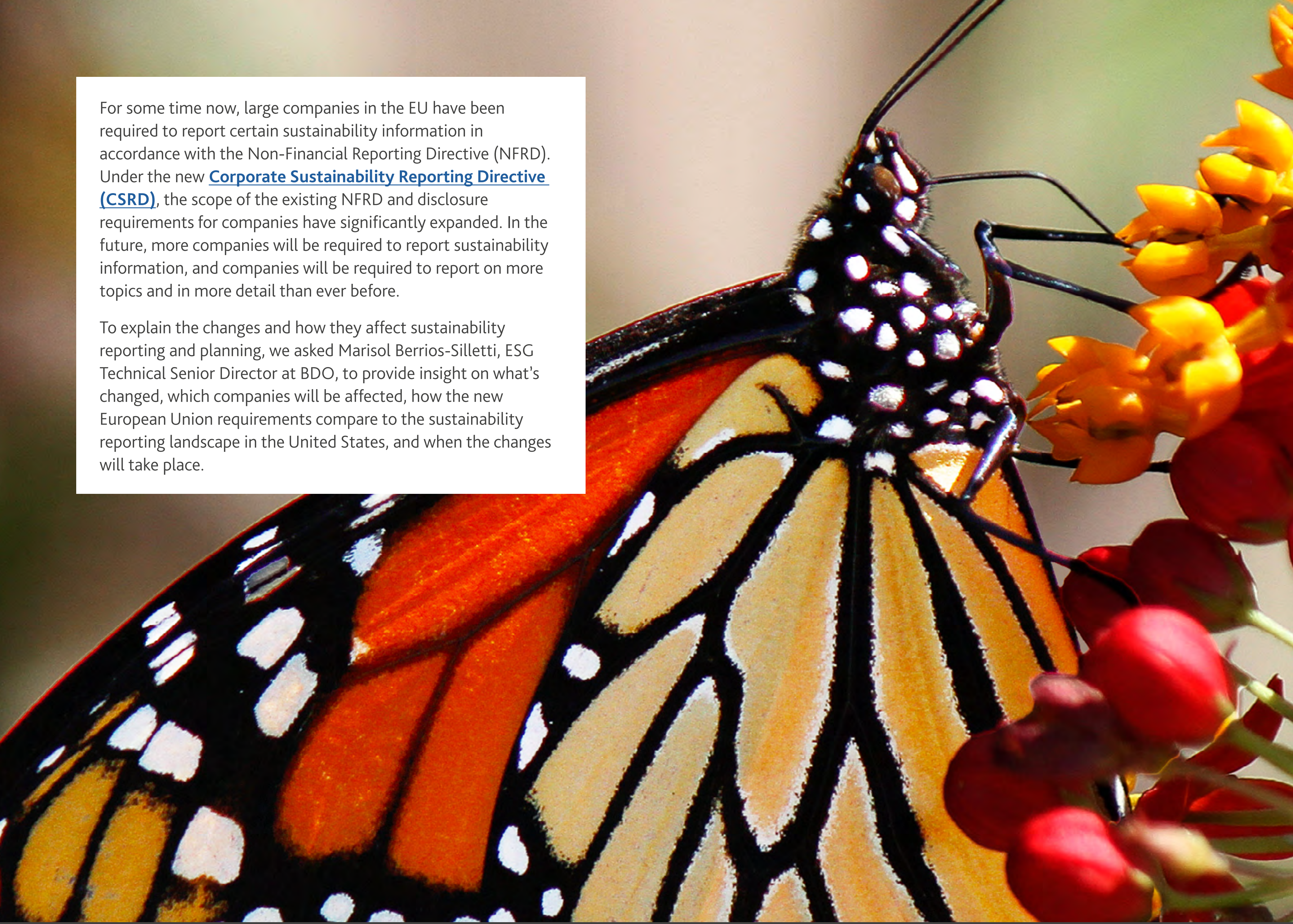
For some time now, large companies in the EU have been required to report certain sustainability information in accordance with the Non-Financial Reporting Directive (NFRD). Under the new **Corporate Sustainability Reporting Directive (CSRD)**, the scope of the existing NFRD and disclosure requirements for companies have significantly expanded. In the future, more companies will be required to report sustainability information, and companies will be required to report on more topics and in more detail than ever before.

To explain the changes and how they affect sustainability reporting and planning, we asked Marisol Berrios-Silletti, ESG Technical Senior Director at BDO, to provide insight on what's changed, which companies will be affected, how the new European Union requirements compare to the sustainability reporting landscape in the United States, and when the changes will take place.



What are the new EU sustainability reporting standards?

Developed by the European Financial Reporting Advisory Group (EFRAG), the **European Sustainability Reporting Standards (ESRS)** set rules on what companies will be required to report under the CSRD. The standards help to ensure the quality of the reported information by requiring that disclosures are understandable, relevant, verifiable and comparable.

Companies that are in scope of the CSRD will be required to report all material information on their sustainability-related impacts, risks and opportunities. These reporting requirements extend to a company's value chain. Companies will also be required to apply the concept of double materiality to their reporting to consider sustainability from both external and internal perspectives. This means that a company must examine its sustainability impacts on people and the environment in addition to analyzing the impacts of sustainability on its own corporate financial performance.

In November, **EFRAG submitted** the first set of 12 draft standards to the European Commission addressing the following topics:

ESRS 1 AND 2:

General reporting requirements and general disclosures that apply to all sustainability matters

ESRS E1 – E5:

Environmental reporting on climate change; pollution; water and marine resources; biodiversity and ecosystems; and resource use and the circular economy

ESRS S1 – S4:

Social reporting on a company's own workforce; workers in a company's value chain; affected communities; and consumers and end-users

ESRS G1:

Governance reporting on corporate culture and business conduct

What companies will be impacted?

Approximately [50,000 companies] are expected to be subject to the new requirements, according to the European Parliament. That's a dramatic increase in scope compared to the 11,700 companies that were required to report under the NFRD.

The CSRD applies to all public and private entities previously subject to NFRD, and to large EU companies (including subsidiaries of non-EU parent companies) that meet at least two of the following criteria:

>250	>€40M	>€20M
employees	Net turnover (revenue)	Total assets

The CSRD will also apply to companies with securities listed on an EU-regulated market, regardless of whether the issuer is established in the EU or a non-EU country. This means that some companies in the United States will be required to issue sustainability reporting that meets the CSRD requirements.

The CSRD also includes listed EU small and medium-sized enterprises (SMEs), as defined by the EU.

What will the CSRD require companies to report?

Companies that are in scope of the CSRD will be required to report all material information that relates to environmental, social and governance (ESG) impacts, risks and opportunities. Companies should include context on ESG matters and how those matters affect company development, performance and financial position. The information will need to be disclosed in a clearly defined section of the company's management report.

Some of the biggest reporting changes under the CSRD include:

- Audited assurance of information provided (initial limited assurance to later be expanded to reasonable assurance).
- A description of the company's materiality assessment process and the findings of the assessment.
- A description of the company's business model and strategy, and how they relate to sustainability matters.
- A description of the metrics and targets associated with sustainability disclosures, including the effectiveness in achieving those targets.
- Oversight of the company's sustainability matters and the role of the administrative, management and supervisory bodies.
- A description of sustainability-linked performance incentive schemes, including incentives offered to members of the administrative, management and supervisory bodies.
- A description of the due diligence process applied to sustainability matters that impact people and the environment.
- Turnover, capital expenditure and operating expenditure in accordance with the EU Taxonomy Regulation.

How do the EU rules impact issuers and non-issuers in the United States?

Currently sustainability reporting in the United States is voluntary, and companies that issue sustainability reports use voluntary sustainability reporting guidelines. For example, a U.S. company's report may reference the Task Force on Climate-related Financial Disclosures (TCFD) framework, or it may follow Global Reporting Initiative (GRI) standards.

Although ESRS requirements have taken into account the various existing standards as well as global baseline standards being developed under the International Sustainability Standards Board (ISSB), the CSRD goes beyond existing voluntary reporting guidance to ensure that disclosures are complete and comparable. U.S. companies that fall within the scope of these new requirements will likely require a dedicated report to remain compliant in the EU.

In the U.S., we're also closely monitoring any changes in mandatory reporting requirements set by the Securities and Exchange Commission (SEC), including its recent climate **draft proposal**. If a U.S. company were to align with what the SEC has proposed on climate disclosures, it would still likely need to disclose additional information under the CSRD.

When will the new EU requirements go into effect?

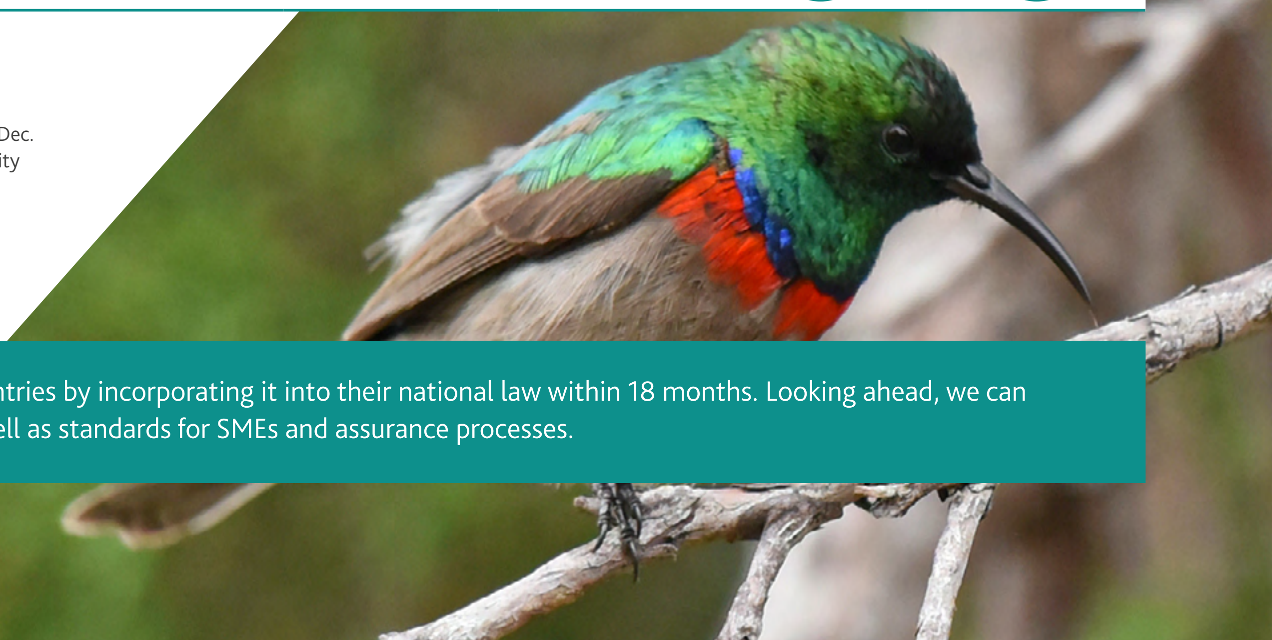
The CSRD will go into effect in phases. Depending on the organization type, entities need to comply with the CSRD for reporting periods starting in 2024. The current reporting timeline is as follows:

Organization Type	2024	2025	2026	2027	2028	2029
Entities already subject to NFRD	Financial Reporting Year	Reports Due				
All other large entities (includes EU Subsidiaries and Non-EU Groups)		Financial Reporting Year	Reports Due			
Listed SMEs*, small credit institutions and insurance undertakings			Financial Reporting Year	Reports Due		
Non-EU Groups (on a consolidated basis)**					Financial Reporting Year	Reports Due

Financial Reporting Year   Reports Due

* Listed SMEs can defer application of the reporting requirements to the year ending Dec. 31, 2028, if a statement is included in the management report of why the sustainability information was not provided.

** Required for Non-EU Groups with net turnover for all EU operations of more than €150 million which have at least one subsidiary (meeting the large entity size thresholds) or branch (with turnover exceeding €40 million) in the EU.



EU member states must implement the CSRD in their countries by incorporating it into their national law within 18 months. Looking ahead, we can expect the development of sector-specific standards, as well as standards for SMEs and assurance processes.

What can companies do to prepare?

Company leaders should start by learning as much as they can about what specifically they will be required to report, and on what timeline, so that they can be prepared to align with the new EU CSRD requirements. It will be important to get a jump start by assessing current reporting and data sets, as well as internal control processes for non-financial information to determine any gaps or shortfalls.

As the CSRD and other disclosure requirements evolve — and as stakeholder expectations continue to grow — companies will likely need to put more resources and procedures in place to identify and report impacts of their operations on people, society and the environment.

BDO will continue to monitor changes and publish materials in the ESG Center of Excellence. Our global team has also issued a bulletin that provides additional details on the CSRD changes and requirements.

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