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Informs

ESG: Corporate Sustainability
28 December 2022



Directive (EU) 2022/2464 on corporate sustainability reporting

It affects large listed and unlisted companies, which are also responsible for the information of their subsidiaries, listed SMEs and third-country companies with a turnover of more than 150 million euros

The new corporate sustainability directive

The European Council adopted the new Directive (EU) 2022/2464 of 14 December 2022 on corporate sustainability reporting —CSRD— amending Regulation (EU) No. 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU.

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The trend towards convergence of financial and non-financial reporting is confirmed with an important name change: from non-financial to sustainability reporting.

The European Commission presented the proposal for a Directive on 21 April 2021 as part of the European Green Deal and the Sustainable Finance Agenda to complete and improve the existing regulation on aspects such as the scope, homogeneity of the information reported or its reliability.

The Directive was published in the Official Journal of the European Union on 16 December 2022 and will enter into force 20 days after publication. Member States will have up to 18 months to implement it.

An important modification is that non-financial information is now referred to as sustainability information. The change is in response to the consideration that the term "non-financial" is inaccurate because it implies that the information in question has no financial relevance. This confirms the trend towards convergence of financial and non-financial information.

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The number of companies affected by the new directive is estimated to rise from the current 11,700 to 50,000. After its entry into force at the beginning of 2023, Member States will have 18 months to implement it.

The new CSRD affects all large companies in the European Union, whether or not they are listed on stock exchanges. These companies are also responsible for assessing information at the level of their subsidiaries. The new text also covers listed SMEs, with the exception of micro-enterprises, although these will have the possibility of an exemption for a transitional period until 2028. It also includes third-country companies with a net turnover of more than 150 million in the EU if they have at least one subsidiary or branch in the EU.

This brings the number of companies affected from the current 11,700 to a total of 50,000, according to EU figures. In addition, the Directive proposes voluntary disclosure of non-financial information to those companies that fall outside the scope of the Directive.

- ☐ The regulation will enter into force on 5 January 2023 and will be phased in between 2024 and 2028 depending on the type of company;
- ☐ 1 January 2024: companies currently subject to the NFRD will be required to report on the previous year under the new text in 2025.
- ☐ 1 January 2025: large EU companies not currently subject to the NFRD will be required to report in 2026 on the financial year 2025.
- ☐ 1 January 2026: listed SMEs and other companies, except micro-enterprises, shall report in 2027 on the financial year 2026.
- ☐ 1 January 2028: third country companies with a net turnover of more than 150 million in the EU if they have at least one subsidiary or branch in the EU will have to report in 2029 on the previous year.

Broadening the information approach

Companies within the scope of the CSRD will be obliged to report on sustainability issues such as environmental rights, social rights, human rights and governance factors, to which the obligation to report on a dual materiality approach is added: they will have to report on how their business model affects their sustainability and how external sustainability factors, such as climate change or human rights, influence their activities. And report in accordance with the Taxonomy and SFDR regulation.

It specifies in more detail the information that companies must report and requires reporting accordingly. Common reporting standards are to be used based on the technical work developed by the European Financial Reporting Advisory Group (EFRAG), which published the first draft of the set of standards on 22 November. The final version of the standards —ESRS— is expected to be adopted by the European Commission as a delegated act, following consultation with EU Member States and various European bodies.

The new regulation requires independent audits and external verification processes of sustainability information by an accredited third party to ensure the reliability of non-financial information.

It also ensures that all information is published as part of companies' management reports and disclosed in a digital and machine-readable format. This digital format will allow data to be uploaded to the single access point for financial and non-financial information of EU companies.

The CSRD is a significant boost to ESG. In practical terms, the improved reporting driven by the CSRD will help to better scrutinise corporate conduct and facilitate the transition to a more sustainable economy by allowing investors to better identify the activities and projects to which to channel funds.

For more information, please refer to the text of the [CSRD](#) Directive.