Generation
Impact Global

ESRS

European Sustainability Reporting Standards

TABLE OF CONTENTS

Introduction

On July 31, 2023, the European Commission adopted the European Sustainability Reporting Standards (ESRS), enhancing Directive 2013/34/EU of the European Parliament and of the Council regarding sustainability reporting standards for companies subject to the Corporate Sustainability Reporting Directive (CSRD).

This delegated act, grounded in Article 29b (1), first subparagraph, of the Accounting Directive, delineates the ESRS that companies must use to fulfill their sustainability reporting obligations in line with Articles 19a and 29a of the Accounting Directive. The adoption of ESRS represents a significant step towards harmonizing ESG disclosures across regulations and setting the stage for interoperability in ESG reporting.

For the first time at an EU-wide level, companies are required to report ESG and corporate sustainability information in a standardized, comparable, and consistent format, establishing high-quality ESG reporting as a business standard. Approximately 50,000 European companies, along with non-EU companies with significant branches in the EU, must comply with ESRS. While this progress helps combat corporate greenwashing, it also presents considerable challenges for many companies, especially those new to sustainability reporting.

Legal Reporting Obligations on Corporate Sustainability

Legal reporting obligations on corporate sustainability are often dispersed across multiple legal frameworks. Despite the inclusion of over 40 legal cross-references in the CSRD, their primary aim is to create consistency in disclosure requirements. By achieving this, the CSRD not only enhances the value of sustainability reporting but also simplifies the process for both preparers and users. The following briefing provides concise definitions of the essential cross-references, improving understanding of the mandatory measures outlined in the directive and clarifying implications for companies preparing their management reports.

Key References

- **Accounting Directive (2013/34/EU):** The basic framework for financial and non-financial reporting in the EU, updated by the CSRD to include new sustainability reporting requirements.
- **Sustainable Finance Disclosure Regulation (SFDR):** Requires financial entities to disclose how they handle sustainability risks in their investment decisions.
- **Taxonomy Regulation (EU 2020/852):** Defines criteria to determine if an economic activity is environmentally sustainable.

Key Amendments Introduced by the CSRD

EU Taxonomy Regulation on Sustainable Investment (Regulation (EU) 2020/852):

- Requires companies to disclose the extent to which their activities are environmentally sustainable.

European Climate Law (Regulation 2021/1119/EU):

- Companies must disclose their climate transition plans aligning with the EU's goal of climate neutrality by 2050.

Corporate Sustainability Due Diligence Directive (CSDDD):

- Mandates companies to identify, prevent, mitigate, and remedy adverse impacts on the environment and human rights within their value chain.

Main Goals of SRD	• **Consistency in Reporting:** The CSRD aligns various sustainability reporting rules across the EU, ensuring that all reports are comparable and reliable. • **Simplified Process:** By bringing different reporting obligations under one directive, the CSRD makes it easier for companies to prepare their sustainability reports.

Key Amendments Introduced by the CSRD	**Accounting Directive (Directive 2013/34/EU):** • Expands disclosure requirements to include sustainability information on environmental, social, and governance (ESG) topics. • Introduces a single electronic format for management reports. **Transparency Directive (Directive 2004/109/EC):** • Aligns sustainability reporting requirements for listed companies with those for non-listed companies. • Sets criteria for assessing the equivalence of sustainability reporting standards from non-EU issuers. **Audit Directive (Directive 2006/43/EC):** • Mandates assurance (audit)of sustainability information by an independent third party. • Introduces limited assurance review with a transition to reasonable assurance over time. • Adds requirements for statutory auditors' competencies in sustainability assurance. **Audit Regulation (Regulation (EU) No 537/2014):** • Extends the prohibition of non-audit services to include sustainability assurance. • Adjusts limits on audit fees to encompass sustainability assurance services.

By standardizing sustainability reporting, the CSRD ensures that the information provided is clear, comparable, and useful for everyone involved.

CSRD vs NFRD

The Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD) are two key legislative measures by the European Union aimed at enhancing corporate transparency and accountability on social and environmental issues.

NFRD Non-Financial Reporting Directive	**CSRD** Corporate Sustainability Reporting Directive
Affect	
Accounting Directive (Directive 2013/34/EU): • Approx. 11700 companies including: • Large public interest entities (>500 employees) such as: • Listed companies • Banks and insurance companies, etc. • If they exceed some thresholds	Approx. 42500 companies including: • Small, medium and large public interest entities (PIE) • Large companies • Third-countries companies • If they exceed some thresholds • Example: Large companies should exceed • at least two of the following three criteria: • € 25m (balance sheet total); • € 50m net turnover; • 250 employees during the financial year
When?	
2018: first report	**2025:** first report from large listed companies **2026:** first report from large companies **2027:** first report from SMEs which are PIE (with option to opt out to 2029) **2029:** first report from third-country companies
Reporting format?	
Online reporting / PDF format	Human-readable format of reporting with structured machine-readable data, compliant with European Single Electronic Format (ESEF), based on online XBRL

NFRD Non-Financial Reporting Directive	CSRD Corporate Sustainability Reporting Directive
Disclosure requirements	
1. Disclose information on: 2. Environmental 3. Social and employee matters 4. Respect for human rights 5. Bribery and corruption to present general disclosures (business model ,due diligence process, etc.)	1. Disclose information on 10 topics in line with EU standards (ESRS): 2. Climate change 3. Pollution 4. Water and marine resources 5. Biodiversity and ecosystems 6. Resource use and circular economy 7. Own workforce 8. Workers in the value chain 9. Affected communities 10. Consumers and end-users 11. Business conduct (business model, value chain, views of stakeholders, due diligence, etc.) 12. to present general disclosures
Assessment requirement	
Double materiality in the NFRD's guidelines (**soft law**)	Double materiality in the directive (**hard law**)
Audit requirement	
On a voluntary basis by Member States	From limited assurance of the reporting (for the first report) to reasonable assurance of the reporting (after the adoption of a standard on it no later than 1 October 2028)
Located reporting	
In the management report or in a separate non-financial statement	Specific section of the management report
Standards	
Voluntary disclosure based on international, European or national guidelines	Mandatory disclosure based on European Sustainability Reporting Standards (ESRS), including sector-agnostic and sector-specific standards and a robust materiality assessment

Who and when under scope of CSRD

The CSRD significantly expands its scope compared to the NFRD, increasing the number of covered companies from 11,000 under the NFRD to about 42,500 within the EU. Additionally, several thousand non-EU companies will also fall under these new rules.

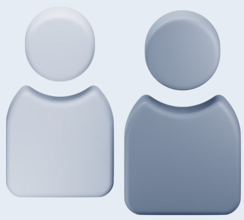
The directive covers various types of companies as listed in Annex I of the Accounting Directive (2013/34/EU), primarily targeting public and private companies limited by shares or by guarantee. For non-EU companies, the directive applies to those with legal forms comparable to the listed types.

The CSRD applies to several categories of companies based on specific size criteria, including large, small, and medium public-interest entities (PIEs), such as:
- Listed companies on regulated markets recognized by national authorities and compliant with EU rules on financial instruments.
- Credit institutions and insurance companies, including cooperatives. Member States may exclude central banks and certain public credit institutions at their discretion.

Furthermore, all EU-based companies that meet at least two of the following thresholds on a consolidated basis fall within the CSRD's scope

An average net turnover of EUR 50 million

An average balance sheet total of EUR 25 million

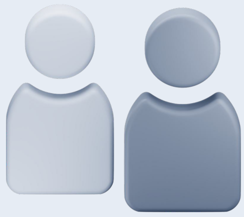


At least 250 employees

Companies below these thresholds are defined as micro, small, and medium enterprises (SMEs). Micro-companies not exceeding two of the following criteria are excluded from the directive

Net turnover of EUR 900,000

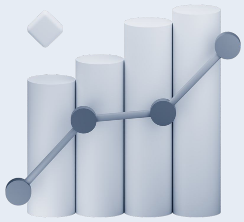
Balance sheet total of EUR 450,000



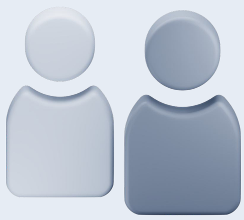
10 employees

Non-EU companies with significant EU operations, either through a large, small, or medium listed subsidiary or a branch, are included if

The subsidiary is a PIE listed on an EU-regulated market



The branch generates more than EUR 40 million in net turnover annually



The parent company generates over EUR 150 million in the EU during two consecutive years

In EU law, a branch is defined as a place of business distinct from the head office, lacking legal personality, and engaged in activities or investment services, including the reception and transmission of orders for financial instruments.

Thresholds (m = millions)

2025 (on 2024 data)	**2026** (on 2025 data)

Large listed companies

- with balance sheet (total) in excess of € 25m;
- and / or net turnover in excess of € 50 m;
- with more than 500 employees during the financial year.

Public interest entities (PIEs) other than large listed companies, credit institution and insurances

- with balance sheet (total) in excess of € 25m;
- and / or net turnover in excess of € 50 m;
- with more than 500 employees during the financial year.

Listed parent companies of a large group

- with balance sheet (total) in excess of € 25m;
- and / or net turnover in excess of € 50 m;
- with more than 500 employees (consolidated basis) during th e financial year.

EXCLUDED FROM THE SCOPE

Micro-undertaking

Do not exceed two of the following three criteria:
- € 450 000 (balance sheet total);
- € 900 000 net turnover;
- 10 employees during the financial year.

Large companies and groups

Exceeding at least two of the following three criteria:
- € 25m (balance sheet total);
- € 50m net turnover;
- 250 employees during the financial year.

Parent companies of a large group

Exceeding at least two of the following three criteria on a consolidated basis:
- € 25m (balance sheet total);
- € 50m net turnover;
- 250 employees (consolidated basis) during the financial year.

In EU law, a branch is defined as a place of business distinct from the head office, lacking legal personality, and engaged in activities or investment services, including the reception and transmission of orders for financial instruments.

Thresholds (m = millions)

2027 (on 2026 data)	**2029** (on 2028 data)

Possibility of an opt-out for 2 years

Listed Small and Medium Enterprises (SMEs)

- Do not exceed two of the following three criteria:
- € 25m (balance sheet total);
- € 50m net turnover;
- 250 employees during the financial year.

Small, non-complex credit institutions that are small and medium size public interest entities or large undertakings

- Thresholds of Small and Medium Enterprises (SMEs) or Large companies and groups

Captive insurance or reinsurance companies if they are small and medium size public interest entities or large undertakings

- Thresholds of Small and Medium Enterprises (SMEs) or Large companies and groups

IMPACT REPORTING ONLY

Large companies and groups

Exceeding at least two of the following three criteria:

- € 25m (balance sheet total);
- € 50m net turnover;
- 250 employees during the financial year.

Parent companies of a large group

Exceeding at least two of the following three criteria on a consolidated basis:

- € 25m (balance sheet total);
- € 50m net turnover;
- 250 employees (consolidated basis) during the financial year.

When must companies disclose sustainability information according to the ESRS?

Compliance with the new reporting regulations will be phased in over time, dependent on the profile of the organization:

2025 (on 2024 data)	2026 (on 2025 data)	2027 (on 2026 data)	2029 (on 2028 data)

January 2024:
Companies already subject to the Non-Financial Reporting Directive

January 2025:
Large companies not currently subject to the Non-Financial Reporting Directive

January 2026:
Listed SMEs and other undertakings

January 2028:
Non-EU companies with significant undertakings in the EU

It's worth noting that some SMEs have been granted three additional years to achieve compliance with the CSRD and may opt out until 2028.

The rollout of the ESRS digital taxonomy for the Corporate Sustainability Reporting Directive (CSRD) reporting appears to be set for 2025.

2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030

Legislatives acts and proposals

- **05/01** Entry into force of the CSRD
- **06/07** End of transposition period for the Member States
- First report (based on limited assurance)
- Evaluation report on the directive
- EU Commission assessment of possible legal measures to ensure sufficient diversification of the sustainability assurance market

For which companies?

- Public interest entities (PIEs) subject to a regulated market, bank, insurance companies if >500 employees
- Large companies
- Listed SMEs (but possible to opt out during 2 years)
- Non EU-companies if net consolidated turnover >150 millions euros
- End of exemption for Listed SMEs

For which companies?

- **31/07** Sector-agnostic standards
- **By June** Standards for SMEs
- **By June** Sectoral standards and for Non-EU companies
- **By October** Standards on limited assurance
- First revision of the standards
- **By October** Standards on reasonable assurance
- By June Sectoral standards and for Non-EU companies

What are the European Sustainability reporting Standards - ESRS?

The ESRS are the new mandatory standards set by the EU that companies under the CSRD must follow. These standards aim to ensure that relevant companies provide reliable, comparable, and pertinent sustainability data, clearly defining what needs to be reported. Developed by the European Financial Reporting Advisory Group (EFRAG) and adopted by the Commission through a delegated regulation, the first wave of companies will need to start disclosing this information as early as the 2024 reporting period.

What Are the Requirements for Setting ESRS Standards under the CSRD?

Article 1 of the CSRD introduces new articles (19a and 29a) in the Accounting Directive, specifying with various levels of detail what information must be disclosed on environmental, social, and governance (ESG) matters.

Companies are required to disclose information in five areas:

1. Business model
2. Policies, including due-diligence processes
3. Outcomes of these policies
4. Risks and risk management
5. Key performance indicators relevant to the business

The breakdown of the ESRS Standards

Different sets of ESRS are designed for various types of companies within the CSRD's scope: the full ESRS for listed and large companies, a standard for listed SMEs, and a standard for third-country companies.

The ESRS package includes the Commission's Delegated Act, which outlines two **Cross-Cutting Standards (ESRS 1 and ESRS 2) and ten specific sustainability standards for reporting on environmental, social, and governance issues (Topical Standards)**. These standards reflecting ESG dimensions. Each standard is indicated by a letter and number (e.g., ESRS E1 focuses on environmental aspects related to the climate change). They are structured into sustainability topics, sub-topics, and sub-sub-topics.

Starting in 2027, companies will report on sector-specific disclosures once these standards are adopted by the EU. Until then, companies must determine sector-specific material information independently.

Standard	Topic
ESRS 1	General Requirements
ESRS 2	General Disclosures
ESRS E1	Climate Change
ESRS E2	Pollution
ESRS E3	Water & Marine Resources
ESRS E4	Biodiversity and Ecosystems
ESRS E5	Resource use & circular economy
ESRS S1	Own workforce
ESRS S2	Workers in the value chain
ESRS S3	Affected communities
ESRS S4	Consumers and end-users
ESRS G1	Business conduct

Standards for listed SMEs:
These standards are simpler than the full ESRS and are proportionate to SMEs' capacity to report, considering their scale and complexity. They include requirements on sustainability matters and targeted metrics for performance assessment. The standards for listed SMEs are expected to be adopted by June 2024 and will apply from fiscal year 2026, with a possible two-year opt-out option. (currently published by EFRAG as draft)

Voluntary standards for SMEs:
Non-listed SMEs, which are outside the CSRD's scope, can use these standards voluntarily. They focus on narratives regarding the company's policies, actions, and targets without the need for data assurance. A materiality assessment is still required. (currently published by EFRAG as draft)

Standards for third-country companies:
These standards specify the information required in sustainability reports for non-EU companies with significant EU operations, including an annual net turnover of EUR 150 million in the EU and at least one subsidiary or branch. These standards are to be adopted by June 2026 and applied from fiscal year 2028. They focus on the sustainability performance and impacts of these companies.

Additionally, the CSRD allows the European Commission to recognize equivalent sustainability standards from non-EU jurisdictions, enabling third-country companies to use these standards if granted equivalence status by the EU.

Terminology of the ESRS standards

Disclosure Requirements (DR): These encompass all the information that must or can be disclosed within the different categories of the ESRS.

Application Requirements (AR): These support the application of Disclosure Requirements and hold the same authority. They provide further guidance for entity-specific disclosures and help determine the relevant disclosures for each company. The ARs ensure that the qualitative characteristics of the information, such as relevance and faithful representation, are maintained.

Datapoint (DP): The smallest, most specific reporting element within the disclosure requirements. Datapoints can be narrative (e.g., describing stakeholder engagement) or quantitative (e.g., the percentage of employees in collective bargaining agreements). ESRS 2 and the topical standards collectively include over 1,000 datapoints, but companies only need to report those deemed material.

Impacts, Risks, and Opportunities (IROs): These refer to environmental, social, and governance issues relevant to a company's operations and value chain that must be reported. Only material IROs need to be disclosed.

Entity-Specific Disclosure: When specific IROs are not covered or sufficiently detailed in the ESRS but are considered material by the company, additional disclosures can be provided. This helps users understand the specific impacts, risks, or opportunities. Until sector-specific standards are fully developed, companies must identify and report these material IROs themselves, potentially using other frameworks like IFRS or GRI Sector Standards.

Materiality Assessment: ESRS 1 requires companies to perform a materiality assessment using the principle of double materiality, which considers both the relevance of impacts and financial materiality. This assessment determines the material information to be disclosed and which IROs need reporting, based on the company's specific context and value chain.

The detailed structure and requirements of the ESRS are designed to provide a comprehensive framework for sustainability reporting, ensuring consistency and comparability across the EU (ESRS).

Generation Impact Global

Sustainability Matters covered in topical ESRS

Environmental

E1 CLIMATE CHANGE

- Climate change adaptation
- Climate change mitigation
- Energy

E2 POLLUTION

- Pollution of water
- Pollution of soil
- Pollution of living organisms
- Substances of concern
- Substances of high concern
- Microplastics

E3 WATER AND MARINE RESOURCES

Water
- Water consumption
- Water withdrawals
- Water discharges
- Water discharges in ocean

Marine resources
- Extraction and use of marine resources

E4 BIODIVERSITY AND ECOSYSTEMS

Direct impact drivers of biodiversity loss
- Climate changes
- Land-use change, fresh water-use change
- Direct exploitation
- Water discharges in ocean
- Pollution
- Others

Social

S1 OWN WORKFORCE

Water
- Secure employment
- Working time
- Adequate wages
- Social dialogue
- Freedom of association, the existence of work councils and the information, consultation and participation rights of workers
- Collective bargaining, including rate of workers covered by collective agreements
- Work-life balance
- Health and safety

S2 WORKERS IN THE VALUE CHAIN

Working conditions
- Gender equality and equal pay for work of equal value
- Training and skills development
- Employment and inclusion of persons with disabilities
- Measures against violence and harassment in the workplace
- Diversity

Other work related rights
- Child labor
- Forced labor
- Adequate housing
- Privacy

Governance

G1 BUSINESS CONDUCT

- Corporate culture
- Protection of whistle blowers
- Animal welfare
- Political engagement and lobbying activities
- Management of relationships with suppliers including
- payment practices
- Prevention and detection
- Incidents

Environmental	Social	Governance

E4

Impacts on the state of species
- e.g. Population size
- e.g. Extinction risk
- e.g. Migration patterns

Impacts on the extent and condition of the ecosystems
- e.g. Desertification
- e.g. Degradation
- e.g. Deforestation

Impacts and dependencies on ecosystem services

E5

CIRCULAR ECONOMY

- Resources inflows, including resource use
- Resource outflows related to products and services
- Waste

S3

AFFECTED COMMUNITIES

Measures against violence and harassment in the workplace
- Adequate housing
- Adequate food
- Water and sanitation
- Land related impacts
- Security related impacts

Communities' civil and political rights
- Freedom of expression
- Freedom of assembly
- Impact on human right defenders

Rights of indigenous people
- Free, prior and informed consent
- Self-determination
- Cultural rights

S4

CONSUMER AND END USERS

Information-related impacts for consumers and/or end-users
- Privacy
- Freedom of expression
- Access to information

Personal safety of consumers and/or end-users
- Health and safety
- Security of a person
- Protection of children

Social inclusion of consumers and/or end-users
- Non-discrimination
- Access to products and services
- Responsible marketing practices

Reporting format

Location

The CSRD requires that sustainability information be included in a specific section of the annual management report, rather than in a separate sustainability report. The structure, outlined by the ESRS in Appendices D and F, consists of four parts: general, environmental, social, and governance information. This means that financial and sustainability information will be disclosed together. Companies should publish their management report on their website or provide a hard copy upon request. The report must also be submitted to the appropriate authority as per national regulations.

Language

The management report should be written in the language of the Member State where the company is based, or another language accepted by that state's authorities. To avoid unnecessary costs, EU regulators have waived the requirement for certified translations, provided the absence of certification is clearly indicated.

Electronic format

Since 2020, companies listed on European regulated markets must use the European Single Electronic Format (ESEF) for their annual financial reports. The CSRD extends this requirement to include sustainability information and applies it to non-listed companies within its scope. Companies covered by the CSRD will need to prepare their management reports in electronic format and tag their sustainability information according to the digital taxonomy.

EFRAG has developed the XBRL digital taxonomy for sustainability reporting, including the markup of datapoints related to the EU Taxonomy for sustainable activities. XBRL tagging ensures that sustainability-related data are labeled consistently across different organizations and regions. This computer-based language facilitates the electronic communication of structured business data, making it machine-readable and removing language barriers. For example, XBRL tagging allows users to compile data from documents written in various languages, such as Finnish or Welsh. This consistency is crucial for accurate benchmarking and comparative analysis of sustainability practices, enabling investors and stakeholders to make better-informed decisions.

The European Single Access Point (ESAP)

ESAP: A Centralized Digital Platform for EU Company Information

The ESAP (European Single Access Point) is designed to provide a single digital access point for both financial and non-financial information about EU companies and investment products.

Key features

Centralized Digital Platform: ESAP is built to centralize access to information that is already published in line with existing and future European regulations. This includes financial regulations and ESG (Environmental, Social, and Governance) disclosure regulations such as the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD).

User-Friendly and Free: The platform will be user-friendly and accessible for free, located in a single central location.

Objectives

Enhanced Visibility for Companies: One of the main goals is to provide companies, especially small ones in smaller capital markets, with greater visibility to investors. This can help open up more financing opportunities.

Accessibility for Stakeholders: The platform also aims to make information easily accessible for other stakeholders.

Voluntary Information Submission

Companies that are not covered by EU regulations (like many SMEs) can voluntarily submit their information to the platform.

Process

National Collection Bodies: Companies will file their reports to designated national "collection bodies" (e.g., a public authority specifically appointed for this role) and Officially Appointed Mechanisms (e.g., national stock exchanges). These bodies will check, approve, and make the data available through the ESAP.

Verification: The verification process will ensure that all necessary documents are submitted in the correct format.

Implementation Timeline

The ESAP platform is expected to be available from summer 2027 and will be gradually phased in. Information required by the CSRD will be available from the first year.

Consolidation of subsidiaries

What is a Subsidiary?

A subsidiary is a company that is controlled by another company, known as the parent or holding company. In accounting terms, a parent company along with its subsidiaries forms a group. A parent company can also be a subsidiary if it is controlled by another higher-level parent company. The parent company has the authority to manage the financial and operational policies of the subsidiary to benefit from its activities. Control typically involves owning more than 50% of the voting rights in the subsidiary.

What is Consolidation?

Consolidation involves combining the financial and sustainability information of a parent company and its subsidiaries into a single set of consolidated statements. These consolidated statements provide a comprehensive view of the entire group's financial status and activities, rather than looking at each entity individually. This process ensures that the financial and sustainability reports are aggregated and presented cohesively, and are subject to audit or assurance.

How Does the CSRD Affect Consolidation?

The CSRD (Corporate Sustainability Reporting Directive) enhances the rules for disclosing and consolidating sustainability information, covering environmental, social, human rights, and governance topics. Both financial and sustainability information must be included in the consolidated management report, with the sustainability statement in a dedicated section.

Subsidiaries are generally exempt from providing a full individual sustainability statement if they are included in their parent company's consolidated management report. However, large listed subsidiaries on an EU-regulated market must still produce their own sustainability statements, regardless of consolidation.

Key Points for Subsidiaries Under CSRD

- **Exemption for Subsidiaries:** Subsidiaries included in a parent company's consolidated sustainability statement are exempt from publishing separate sustainability reports.
- **Mandatory Reporting for Listed Entities:** Large, listed subsidiaries must still provide their own sustainability statements.
- **National Discretion:** Member States can impose additional reporting requirements or restrict exemptions.
- **Reporting Requirements for Exempted Subsidiaries:**

1. Disclose the name and registered office of the parent company.
2. Provide web links to the parent company's consolidated management report.
3. Clearly state the exemption from individual sustainability reporting.

Special Case for Non-EU Parent Companies

Until 2030, EU subsidiaries with non-EU parent companies can be exempt from individual reporting if included in a consolidated report using ESRS (European Sustainability Reporting Standards). The largest EU-based entity by turnover will handle the consolidation. This transitional measure aims to ease the reporting burden on non-EU groups without a single EU holding entity.

Consolidation of a third-country parent group with subsidiaries or branches in the EU

	2026	2027	2028	2029	2030	after 2030

Outside EU

Third-country parent group (TCPG)

Inside EU

TCPG consolidates for its subsidiaries which are large companies in the EU (provided it surpasses the CSRD thresholds on a consolidated basis)

From 2026

The subsidiary that has the largest turnover in the EU consolidates for the other EU subsidiaries in the same group (using the full ESRS)
Or
TCPG publishes its management report including the sustainability reporting of its consolidated EU subsidiari(es)* (provided it uses the full ESRS or standards deemed equivalent to them)

From 2030

The subsidiary that has the largest turnover in the EU can no longer consolidate for the other EU subsidiaries in the same group

TCPG directly generates > €150 m net turnover in the EU (for 2 consecutive years at least)
And/Or
TCPG has an EU branch (that generated > €40 m net turnover per year)

From 2028

The branch publishes the sustainability report (using either ESRS for third-country companies, equivalent standards to ESRS or the full ESRS)

(*) In that case the EU subsidiaries are exempted from publishing a management report that includes sustainability information unless they are large listed public-interested entities

Consolidation of a third-country parent that has listed subsidiaries in the EU

	2026	2027	2028	2029	2030	after 2030

Outside EU

Third-country parent group (TCPG)

Inside EU

TCPG has a small, medium or large subsidiary with securities admitted to trading on an EU regulated market
(By consolidating it surpasses the CSRD thresholds)

Progressive application as of 2025

Those listed subsidiaries publish a stand-alone management report.
(It can use:

- full ESRS
- ESRS for listed SMEs if it is a listed SME)

TCPG can also publish a consolidated report that includes its listed subsidiaries in the EU, it can use either:

- full ESRS
- equivalent standards to ESRS

TCPG directly generates > 150m net turnover in the EU that are independent of the activities of its subsidiaries (for 2 consecutive years at least)
TCPG has a small, medium or large subsidiary with securities admitted to trading on an EU regulated market

After 2028

The listed subsidiary publishes the sustainability reporting of the third-country parent group (using ESRS for third-country companies). TCPG can also publish a consolidated report that includes its listed subsidiaries in the EU and information at group level.
It can use either:

- full ESRS
- equivalent standards to ESRS)

(*) In that case the EU subsidiaries are exempted from publishing a management report that includes sustainability information unless they are large listed public-interested entities

Consolidation of a parent company in the EU that has subsidiaries listed or not

Inside EU

Parent company (PC)
PC has subsidiaries which are either large or listed SMEs in the EU

Progressive application as of 2026

PC publishes a consolidated report that includes its subsidiaries in the EU* (it uses the full ESRS)

(*) In that case the EU subsidiaries are exempted from publishing a management report that includes sustainability information unless they are large listed public-interested entities

Reporting by international companies

The Corporate Sustainability Reporting Directive (CSRD) broadens the scope of reporting obligations to include international companies. It applies to:

- Third-country companies with securities listed on an EU regulated market (approximately 100 companies, according to the European Commission's estimate).
- Non-EU companies that generate over EUR 150 million in net turnover within the EU and have a subsidiary or a branch with a net turnover of at least EUR 40 million in the EU, or a listed subsidiary in the EU that is an SME or a large company.

Though there are no official figures on the number of third-country companies with significant EU business, Refinitiv, a global financial market data provider, estimates that around 11,000 companies headquartered outside the EU could be affected by these reporting obligations, including about 1,000 in the UK and over 3,000 in the US.

The directive mandates that branches or subsidiaries are responsible for publishing their controlling company's sustainability report. This report must be in a language accepted by the Member State where they are registered.

From 2028 onwards, third-country companies meeting these criteria have the following options for reporting their sustainability information:

- Use the standards for third-country companies.
- Use the full set of European Sustainability Reporting Standards (ESRS) available at that time.
- Use their own domestic reporting rules, provided these rules are deemed equivalent to the ESRS by the European Commission. This applies to both third-country companies and parent companies outside the EU consolidating their EU subsidiaries' reports. The European Commission assesses equivalence on a country-by-country basis upon request.

The European Commission will publish a list of third-country companies that have applied the ESRS on its website, based on information from EU Member States.

While the CSRD allows third-country companies to use equivalent sustainability standards, the specific standards deemed equivalent have not yet been decided. Equivalent standards will only be available for reporting at the parent-company level outside the EU; EU subsidiaries must use the ESRS for their reporting.

The criteria for assessing the equivalence of sustainability reporting standards used by third-country issuers will ensure that these standards require:

- Disclosure of information on environmental, social, and governance factors.
- Reporting the impacts the company has on sustainability matters and how these affect the company's development, performance, and position.

This means the standards must incorporate double materiality. Policymakers worldwide can align their national reporting standards with the ESRS to facilitate future equivalence and support their companies by adopting widely accepted global standards like those from the GRI and ISSB.

EU companies exceeding the CSRD thresholds with parent companies outside the EU must produce their sustainability statements according to the ESRS, unless their parent company issues a sustainability statement compliant with the ESRS or equivalent standards recognized by the European Commission. Until 2030, an EU subsidiary of a non-EU group with the highest turnover within the EU can prepare a consolidated sustainability statement for all EU subsidiaries within the group, provided they are not listed, to benefit from the exemption.

The CSRD and Audit Requirements

The Corporate Sustainability Reporting Directive (CSRD) has amended both the Audit Directive (Directive 2006/43/EC) and the Audit Regulation (Regulation EU No 537/2014). These changes establish laws and regulations for the statutory audit of annual and consolidated financial and sustainability statements in the EU. The Audit Regulation also sets specific requirements and rules for the conduct and oversight of statutory audits of public-interest entities.

Mandatory Assurance of Sustainability Information
The CSRD introduces a mandatory assurance (audit) of sustainability information by an independent third party. This can be the statutory auditor, who already audits financial information, or another auditor or Independence Assurance Service Provider (IASP), if allowed by national public authorities. The directive introduces a limited assurance review in the European Single Market, with a planned transition to reasonable assurance over time.
To promote diversity in the audit market, the directive allows shareholders with more than 5% voting rights or capital to request an accredited third party to prepare a report on some of the sustainability information. This third party cannot be affiliated with the same audit firm or network as the statutory auditor.

Assurance Engagements and Requirements
The CSRD introduces:
Levels of assurance engagements (limited and reasonable)
Assurance requirements for companies inside and outside the EU
Organization of the audit market in Europe, especially for sustainability assurance services

The European Commission is mandated to develop assurance standards outlining the technical aspects of the assurance engagement of sustainability information by auditors and IASPs. These standards will be adopted through delegated acts. The Committee of European Auditing Oversight Bodies (CEAOB) will provide technical advice for drafting these standards, expected before May 2025.

General EU-Wide Audit Requirement

The CSRD establishes an EU-wide audit (assurance) requirement for reported sustainability information. This addresses investor and stakeholder concerns about the reliability of sustainability information reported by companies. Initially, the CSRD requires a "limited" assurance, aiming to introduce EU-wide standards for limited assurance by October 1, 2026. A "reasonable" assurance will be required from October 1, 2028, pending a favorable assessment by the Commission.

Sustainability Assurance Market

The directive allows Member States to open the sustainability assurance market to Independent Assurance Service Providers (IASP). This means that firms other than the usual financial auditors can assure sustainability information, promoting fairer access to the audit market for non-statutory auditors.
Member States choosing to open their market to IASPs must appoint a public authority or body to handle the accreditation process. This process must adhere to EU Regulation requirements on accreditation and market surveillance, ensuring objectivity and impartiality.

Passporting System

The CSRD establishes a "passporting system" for IASPs, allowing accredited service providers in one Member State to operate in another Member State without seeking additional accreditation. France currently offers this opportunity, with other Member States planning to follow.

Organization of the Assurance Profession

Member States authorizing IASPs must set requirements equivalent to those for statutory auditors under the Audit Directive. This includes professional ethics, independence, objectivity, confidentiality, and professional secrecy regarding sustainability reporting assurance. Statutory auditors and IASPs must meet specific educational, training, and examination requirements, as well as adhere to quality assurance systems, and rules on irregularities, investigation, and sanctions.

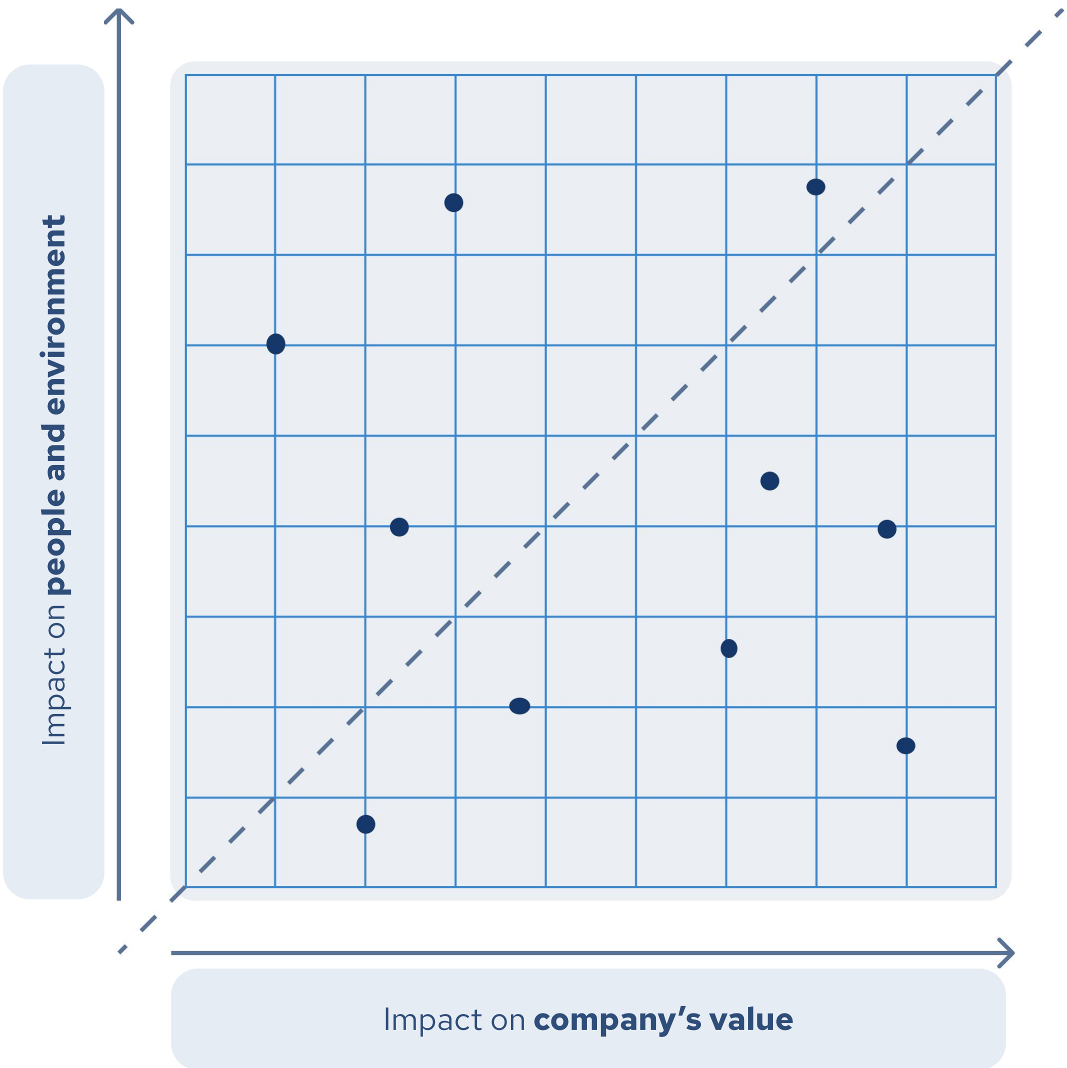
Equivalence with Third-Country Audit Companies

The directive provides a mechanism for recognizing third-country auditors if their regulatory framework is equivalent to the EU's for statutory audits. Third-country auditors must register with the competent authority of the Member State where they intend to carry out audits.

Review Clause

By December 31, 2028, the Commission will review and report on the concentration of the sustainability assurance market and assess possible legal measures to ensure market diversification and the quality of sustainability reporting.

Double Materiality vs Financial Materiality



The Importance of the Materiality Assessment

The Corporate Sustainability Reporting Directive (CSRD) emphasizes the importance of materiality assessment, recognizing the diverse users and purposes of reported information. Companies must evaluate materiality considering both impact and financial aspects of their activities, acknowledging their interconnections. Although separate and independent procedures are not required, identifying material impacts is typically the starting point, as financial evaluations often benefit from this assessment. Material impacts often lead to significant risks, opportunities, and financial consequences.

The European Sustainability Reporting Standards (ESRS) do not prescribe a specific method for conducting materiality assessments. Each company should develop a tailored process that fits its unique circumstances, including the depth of the assessment. Professional associations representing specific sectors can also help companies determine recurring impacts, risks, and opportunities, particularly in the absence of sector-specific standards in the EU.

Steps to Conduct a Materiality Assessment

Companies seeking guidance on materiality assessment can refer to guidance from EFRAG and GRI. The process starts with understanding the company's context, including its activities, business relationships, and the broader environment. Key steps include:

Identifying relevant stakeholders.

Engaging with stakeholders to understand their concerns and expectations.

Mapping potential sustainability issues based on industry standards, regulations, and best practices.

Assessing the significance and potential impacts of these issues on the company and its stakeholders.

Prioritizing issues based on their importance to the business and its stakeholders.

This inclusive approach enhances the credibility and relevance of sustainability reporting.

Including Value Chain Impacts, Risks, and Opportunities

The sustainability statement must cover all significant impacts, risks, and opportunities (IROs) related to all activities, including those from business relationships across the value chain. While not all data points require value chain information, it is necessary for significant IROs beyond the company's operations. If primary value chain information is unavailable, companies should estimate using reasonable and supportable data, including proxies and sector data.

Responsibility of Supervisory Bodies and Audit Committees

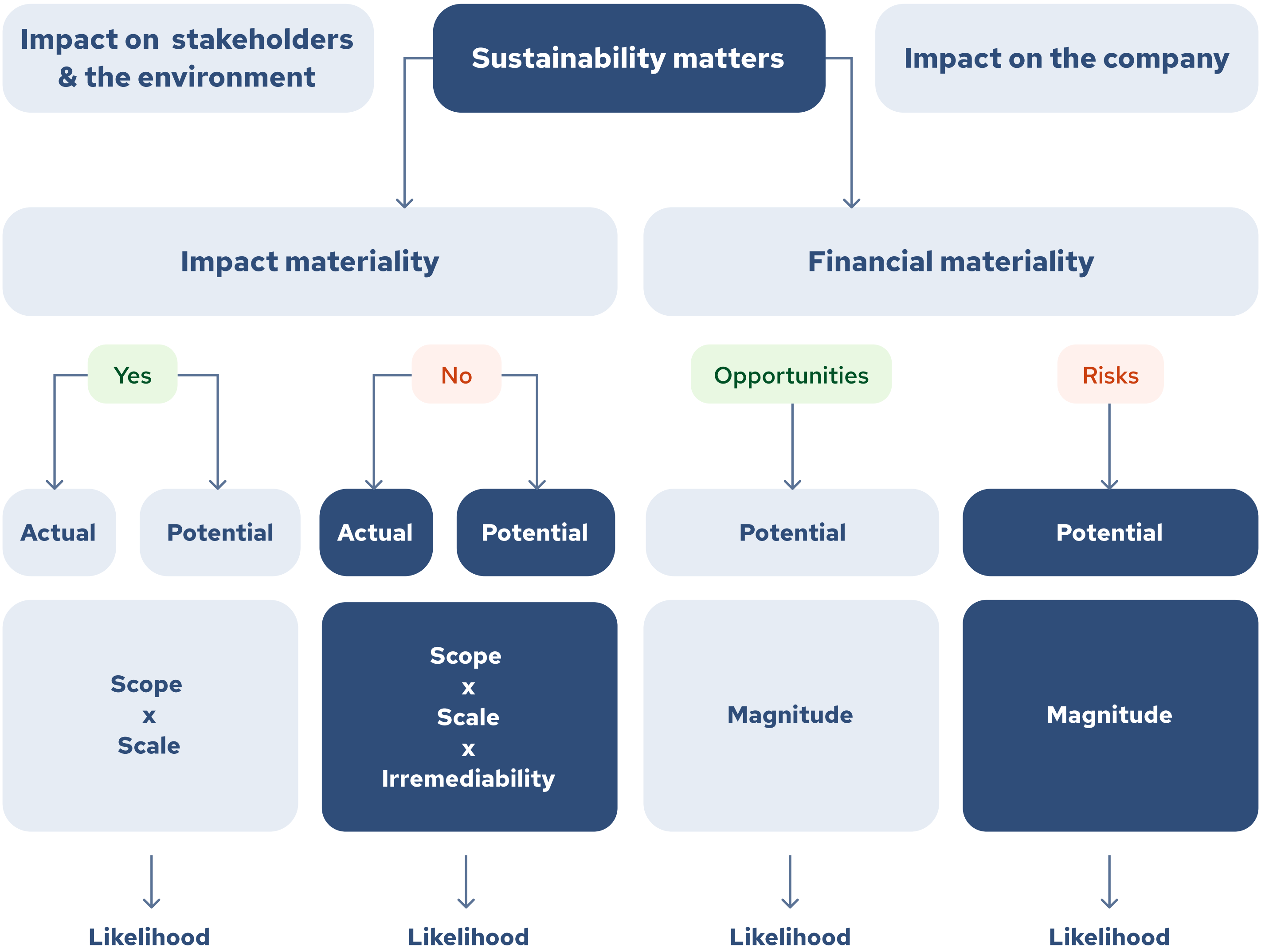
Effective sustainability reporting requires collaboration among various teams and stakeholders, including top management and supervisory boards. The CSRD enhances accountability, mandating that administrative, management, and supervisory bodies ensure compliance with its requirements. This includes preparing and publishing management reports with all necessary sustainability disclosures, corporate governance statements, and assurance reports in electronic formats.

For listed companies, the directive strengthens the role of audit committees in supervising the assurance of sustainability data. These committees monitor the sustainability reporting process, ensuring accuracy and independence. Corporate sustainability reporting committees within companies or sectoral associations can also play a crucial role in coordinating and overseeing sustainability performance data collection and reporting.

Materiality Thresholds

In double materiality reporting, a materiality threshold refers to the criteria (qualitative and/or quantitative) used to determine which topics are material to the company. The ESRS prescribe rules for applying double materiality, evaluating IROs based on severity and likelihood. For negative impacts, severity considers scale, scope, and the irremediable nature of impacts. For risks and opportunities, criteria are based on the magnitude and likelihood of financial effects.

Double materiality assessment



Further implementation and penalties

Understanding Secondary Legislation
EU delegated and implementing acts are considered secondary legislation, as opposed to primary legislation like regulations or directives. These acts provide a flexible and efficient mechanism for the European Commission to adapt and execute legislative measures. In some years, secondary legislation has represented up to 90% of the legislative volume produced by the European Union.

Delegation of Power to the European Commission
In EU law, delegation of power refers to the authority granted by the EU legislator (usually the European Parliament and the Council of the EU) to the European Commission to adopt legal acts in specific policy areas. This delegation is outlined in primary legislation and allows the Commission to supplement or amend non-essential elements of the legislation. However, this delegation comes with clear limits and conditions to ensure accountability and transparency, and the Commission must act within the framework set by the legislator.

Types of Secondary Legislation

Delegated Acts

Delegated acts are secondary legislative acts that the European Commission is empowered to adopt under the delegation of power from the EU legislator. They allow the Commission to supplement or amend non-essential elements of primary legislation within the limits set by the legislator. These acts are crucial for the effective implementation of EU laws, providing detailed rules and technical specifications necessary for consistency and adaptability in various policy areas. The European Parliament and the Council can object to a delegated act proposed by the Commission. In the European Parliament, this can happen through a resolution adopted by the majority of its members.

Implementing Acts

Implementing acts are secondary legislative acts adopted by the European Commission to ensure the uniform application of EU regulations or directives across all Member States. Unlike delegated acts, implementing acts are not delegated by the legislator but are directly mandated by primary legislation. They contain specific measures, such as technical details or procedural rules, necessary for the practical implementation of EU laws. While the Commission proposes and adopts implementing acts, it must consult with a committee composed of representatives from the Member States in a process known as “comitology.”

Types of Secondary Legislation

Category	Attribute	Formal deadline	Status	Provided to the EU Commission	Comment
Delegated Act	ESRS SET 1 - Sector agnostic	June 2023	Published	EFRAG	12 standards
Delegated Act	ESRS SET 2 - Sectoral standards	June 2026	Early drafting	EFRAG	Standards progressively adopted, with 6 to 11 foreseen by June 2026
Delegated Act	ESRS for listed SMEs	June 2024	Public consultation on draft	EFRAG	Drafts are being finalized; possible delay foreseen for Q1 2025 tbc
Delegated Act	ESRS for third-country companies	June 2026	Not started	Being considered	Shall focus on sustainability impacts reporting only
Delegated Act	Limited assurance standards	October 2026	Not started	Internal process at Directorate-General level	Based on technical advice by the CEAOB
Delegated Act	Reasonable assurance standards	October 2028	Not started	Internal process at Directorate-General level	Pending a favorable assessment report by the EU Commission
Delegated Act	Digital taxonomy (tagging & XBRL technical standards)	No formal deadline	Full ESRS datapoint released	EFRAG & ESMA	Early draft foreseen for Q4 2024
Implementing Act	Equivalence with third-country reporting regimes	No formal deadline	-	Internal process at Directorate-General level	Led by the European Commission
Guidelines	Voluntary standards for SMEs	June 2024	-	EFRAG	Drafts are being finalized; possible delay foreseen for Q1 2025 tbc
Guidelines	Supervision for sustain ability reporting for listed companies	No formal deadline	-	ESMA	Public consultation ended on March 15, 2024
Guidelines	Procedures for assurance	-	-	CEAOB	Guidelines to be developed by July 2024, for adoption by Q4 2024

National Implementation and Penalties

Transposition into National Law

The CSRD provides a harmonized framework for transparency, accounting, and audit, allowing flexibility for Member States to implement its provisions in their national legal systems. The directive must be transposed by all Member States into their national law by July 6, 2024. While Member States have little flexibility regarding the content of the reporting standards, they are required to incorporate the directive's provisions into their national legal framework and publish the necessary administrative provisions to comply with the CSRD.

Penalties for Non-Compliance

The CSRD does not introduce new penalties but requires Member States to establish effective, proportionate, and dissuasive penalties for infringements, including sustainability disclosures. Member States are responsible for providing adequate resources for supervisory authorities to control corporate sustainability reporting practices.

For example, France has introduced criminal sanctions for directors who fail to appoint an auditor of sustainability information and for obstructing a sustainability audit. In Hungary, non-compliance with ESG reporting obligations can result in financial penalties imposed by the national Supervisory Authority for Regulated Activities.

Scope and Applicability

Member States must ensure that the directive's requirements apply to specified companies, including public-interest entities (PIEs) and others meeting certain size criteria. They are responsible for ensuring compliance with the prescribed content and format of annual financial and sustainability statements, including electronic reporting requirements.

Compliance Oversight

To ensure compliance with reporting requirements, Member States must designate National Competent Authorities (NCAs) responsible for overseeing the CSRD implementation. Under the previous NFRD framework, these authorities were typically financial regulators or relevant bodies with limited supervisory powers. With the integration of financial and sustainability information, the supervisory measures for listed entities should now extend to sustainability reporting. Member States have the flexibility to decide whether to extend administrative supervision by NCAs to non-listed companies, opt for another competent body, or leave compliance checks to the judicial system.

Auditing Requirements

The directive includes provisions related to the audit of financial and sustainability statements. Member States are responsible for implementing rules on the statutory audit of annual and consolidated accounts, including the appointment and independence of auditors and Independent Assurance Service Providers. NCAs must monitor possible breaches of these provisions, imposing penalties such as fines or other disciplinary measures. In cases of serious misconduct, auditors could lose their authorization to conduct statutory audits. NCAs may also require audit firms and independent assurance service providers to take corrective measures to address deficiencies in their audit processes.

Public Oversight and Transparency

The directives emphasize the importance of transparency, requiring NCAs to make certain information related to penalties publicly available while respecting business confidentiality. The Committee of European Auditing Oversight Bodies (CEAOB) coordinates national audit oversight bodies at the EU level, including aspects of cross-border enforcement and penalties. The CSRD also mandates the European Securities and Markets Authority (ESMA) to issue guidelines on the supervision of sustainability reporting by national competent authorities.

By understanding these elements, companies and stakeholders can better navigate the requirements and implications of the CSRD and related secondary legislation in the EU.

National Implementation and Penalties

September 4th, 2023, EFRAG and GRI published a joint statement on the high level of interoperability achieved between the European Sustainability Reporting Standards (ESRS) and the GRI Standards.

Following the requirement of the CSRD to adopt a double materiality approach and to take account of existing standards, ESRS and GRI definitions, concepts and disclosures regarding impacts are fully or, when full alignment was not possible due to the content of the CSRD mandate, closely aligned.

Existing GRI reporters will be well prepared to report under the ESRS. Entities reporting under ESRS are considered as reporting with reference to the GRI Standards and will therefore avoid the burden of multiple reporting.

Interoperability between ESRS and ISSB Standards.
EFRAG Assessment and mapping table

August 23rd, 2023, EFRAG published the paper “Interoperability between ESRS and ISSB standards EFRAG assessment at this stage and mapping table ”.

The objective of this paper is to present the EFRAG’s assessment at this stage on the interoperability between ESRS 2 General Disclosures and ESRS E1 Climate and IFRS S1 & S2 Climate-related Disclosures and to provide a supporting mapping table. This paper and the climate-related disclosures mapping table is a contribution to the ongoing joint work with the ISSB on interoperability guidance on ESRS and ISSB standards.

Background: The CSRD requires that in adopting the Delegated Acts the European Commission shall to the greatest extent possible take account of the work of global standard-setting initiatives. In addition, ESRS should contribute to convergence of global standards to reduce the risk of inconsistent reporting requirements for undertakings that operate globally. EFRAG stated that It is important to present the EFRAG’s assessment at this stage on the interoperability between ESRS 2 General Disclosures and ESRS E1 Climate and IFRS S1 & S2 Climate-related Disclosures and to provide a supporting mapping table, which is a contribution to the ongoing joint work with the ISSB on interoperability guidance on ESRS and ISSB standards.

Generation Impact Global follows EFRAG, GRI, IFRS statements and presents interoperability between frameworks in the system for easy reporting sustainability and avoid company burden.

Generation Impact Global

ESRS

Discover everything you need to know!
Scan the QR code to visit GIG website

info@generationimpact.global

Contact

1202, Geneva, Switzerland, 82 Rue de Lausanne,
Generation Impact Global SA

+41 78 222 45 82