



Luxembourg Newsflash - 8 December 2022

ESG - Approval of CSRD

On 28 November 2022, the Council of the EU formally approved the Directive amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regards corporate sustainability reporting ("CSRD").

1. Aim

The EU Commission presented the proposal for the CSRD in April 2021. The CSRD aims to strengthen the existing rules on non-financial reporting, which were added to amended Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings ("**Accounting Directive**") in 2014 by Directive 2014/95/EU regarding the disclosure of non-financial and diversity information by certain large undertakings and groups ("**NFRD**").

2. Key considerations

The key changes introduced by the CSRD are:

- Broadening the scope of application of the rules on non-financial reporting, so that the CSRD will apply to:
 - all EU companies qualifying as "large" companies;
 - all companies listed on regulated markets in the EU, except listed micro undertakings. An opt-out will be available for listed SMEs during a transitional period, exempting them from the application of the Directive until 2028; and
 - non-European companies generating net annual turnover above EUR 150 million in the EU which have at least one EU subsidiary or branch exceeding certain thresholds. These companies must provide a report on their environmental, social and governance impacts.

The CSRD is expected to increase the number of companies subject to mandatory non-financial reporting from approximately 12,000 to over 50,000. There are specific exemptions for certain subsidiaries.

- Introducing mandatory European Sustainability Reporting Standards ("**ESRS**"), which will be based on recommendations issued by the European Financial Reporting Advisory Group ("**EFRAG**") and adopted by the European Commission in the form of a delegated act.

On 23 November 2022, EFRAG announced that it had submitted the first set of draft ESRS to the European Commission, which companies within the scope of the CSRD will use for their reporting. It is expected that the first set of standards will be formally adopted in June 2023, while the reporting standards specific to non-EU groups are expected by 30 June 2024.

Including a mandatory external assurance obligation for the reported sustainability information, to ensure that the reported information is accurate and reliable.

3. Next steps

After being signed by the Presidents of the European Parliament and the Council of the EU, the CSRD will be published in the Official Journal of the EU and enter into force twenty days later. The new rules will need to be implemented by Member States within eighteen months of the entry into force.

The new rules will apply in four stages:

- Reporting in 2025 on the financial year 2024 for companies already subject to the NFRD.
- Reporting in 2026 on the financial year 2025 for large companies that are not currently subject to the NFRD.
- Reporting in 2027 on the financial year 2026 for listed SMEs (except micro undertakings), small and non-complex credit institutions and captive insurance undertakings.
- Reporting in 2029 on the financial year 2028 for third-country undertakings with net annual turnover above EUR 150 million in the EU if they have at least one EU subsidiary or branch exceeding certain thresholds.

Do not hesitate to contact our experts to help you meet the challenges of the constantly evolving ESG framework.

To read the Directive of the European Parliament and the Council of the EU as regards corporate sustainability reporting (CSRD), click [here](#)

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