

New EU rules on Corporate Sustainability Reporting

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As part of the European Green Deal, the European Union has introduced new rules for large companies and listed companies regarding social and environmental risks they face, and how their activities impact people and the environment. The Corporate Sustainability Reporting Directive (CSRD), which entered into force on 5 January 2023, requires approximately 50,000 large companies and listed SMEs to report on sustainability issues such as environmental rights, social rights, human rights, and governance factors. The rules apply to all large companies and companies listed on regulated markets, except for listed micro-enterprises. Non-European companies with a net turnover of EUR 150 million in the EU, and which have at least one subsidiary or branch in the EU, must also provide a report on their environmental, social, and governance (ESG) impacts.

The European Union requires large companies and listed companies, except listed micro-enterprises, to regularly disclose social and environmental risks and impacts on people and the environment. This helps investors, civil society organisations, consumers and other stakeholders to evaluate the sustainability performance of companies. The new Corporate Sustainability Reporting Directive (CSRD) entered into force on 5 January 2023, strengthening the rules about the social and environmental information that companies have to report.

The Corporate Sustainability Reporting Directive

The CSRD amends the 2014 Non-Financial Reporting Directive (NFRD) and requires a broader set of large companies and listed SMEs to report on sustainability, approximately 50,000 companies in total.

Large companies are defined as companies that meet at least two of the following criteria: (i) 250 employees on average over the financial year, (ii) a balance sheet of EUR 20 million, or (iii) a net turnover of EUR 40 million. These companies are also responsible for assessing the information applicable to their subsidiaries.

The rules also apply to listed SMEs, considering their specific characteristics. However, listed SMEs may opt-out during a transitional period exempting

them from the application of the directive until 2028. In such cases, SMEs shall, nevertheless, briefly state in its management report why the sustainability reporting was not provided.

For non-European companies, the requirement to provide a sustainability report applies to all companies generating a net turnover of EUR 150 million in the EU, for each of the last two consecutive financial years and which have at least one subsidiary or branch in the EU, provided that branch also exceeds EUR 40 million turnover in the preceding financial year. Subsidiaries and branches of these companies are responsible for drawing up, publishing and making reports on their environmental, social and governance (ESG) impacts, as defined in the CSRD, accessible on their websites. Such sustainability reports must also include information at the group level of the non-European company.

New Reporting Requirements

The CSRD introduces more detailed reporting requirements and ensures that large companies report on sustainability issues such as environmental rights, social rights, human rights and governance factors:

- (i) **Scope of Reporting:** Covered companies are required to report on sustainability issues, including climate change,

- environmental impact, social and employee-related matters, human rights, anti-corruption and bribery and diversity on company boards.
- (ii) **Standardized Reporting Format:** The CSRD introduces a standardized reporting format to improve the comparability of sustainability reports. Companies will need to use a set of mandatory sustainability reporting standards developed by the European Financial Reporting Advisory Group (EFRAG).
 - (iii) **Assurance Requirements:** The CSRD introduces new assurance requirements for sustainability reports. Companies will need to have their sustainability reports verified by an independent and accredited independent auditor to ensure their accuracy and reliability.
 - (iv) **Extended Reporting Period:** The CSRD extends the reporting period from one to two years. Companies will be required to provide sustainability information for both the current financial year and the previous year.
 - (v) **Double materiality perspective:** CSRD requires undertakings to report both on the impacts of the activities of the undertaking on people and the environment, and on how sustainability matters affect the undertaking.
 - (vi) **Sustainability Strategy:** The CSRD requires companies to disclose their sustainability strategy, including how they plan to manage and mitigate sustainability risks and their impact on society and the environment.
 - (vii) **Governance:** The CSRD requires companies to disclose information on their governance structure and policies related to sustainability.
 - (viii) **Supply Chain:** The CSRD requires companies to report on their supply chain, including their approach to managing sustainability risks in their supply chain.
 - (ix) **Digitalisation:** The CSRD requires companies to prepare their financial statements and management reports digitally, in XHTML format, in accordance with the European Single Electronic Format (ESEF) and to tag reported sustainability information, making them more accessible and centralised. Further, Member States may require from companies to publish management reports on their websites, accessible to third parties free of charge.

Overall, the CSRD aims to improve the transparency and consistency of sustainability reporting by companies operating in the EU, making it easier for investors and other stakeholders to compare and assess the sustainability performance of different companies.

Application Dates

The application of the regulation will take place in three stages:

- (i) 1 January 2024 for companies already subject to the NFRD, with first reporting being made in 2025;
- (ii) 1 January 2025 for large companies that are not presently subject to the NFRD, with first reporting being made in 2026;
- (iii) 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings, with first reporting being made in 2027; and
- (iv) 1 January 2028 for non-European companies, with first reporting being made in 2029.

Contact

Neven Marić

+385 (0)91 203 6669

n.maric@bmwc.hr

Marko Kapetanović

+385 (0)99 282 2833

m.kapetanovic@bmwc.hr

Ivan Luetić, LL.M. Harvard

+385 (0)91 588 5664

i.luetic@bmwc.hr

** This publication was prepared with assistance of associates Dora Konforta and Helena Pongrac*

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