

# Briefing Paper on the European Sustainability Reporting Standards (ESRS)

Commission Delegated Regulation supplementing Directive 2013/34/EU as regards sustainability reporting standards.

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## What is the EU Corporate Sustainability Reporting Directive?

On 5 January 2023, the [Corporate Sustainability Reporting Directive \(CSRD\)](#) entered into force. This new directive amends the [Accounting Directive 2013/34/EU](#) of the European Parliament and of the Council of 26 June 2013. It aims to **strengthen, broaden and deepen the rules** concerning information that companies have to report on their social and environmental impact. This replaced the EU’s legacy ESG reporting program — the Non-Financial Reporting Directive ([NFRD](#)).

The CSRD empowers the EU Commission to [adopt delegated and implementing acts](#), specifying how competent authorities and market participants shall comply with the obligations laid down in the Directive. Hence, on 31<sup>st</sup> July 2023, the EU Commission [released](#) a CSRD [Delegated act](#), adopting the first set of **European Sustainability Reporting Standards (ESRS)**.

The ESRS take a ‘**double materiality**’ [perspective](#)<sup>1</sup> in line with International Standards by requiring companies to report both on the impacts of the activities of the undertaking on people and the environment, and on how sustainability matters (social and environmental issues) affect the undertaking, in terms of financial risks and opportunities. In short, the risks to the undertaking and the impacts of the undertaking each represent one materiality perspective.

<sup>1</sup> As per Article 19a(1) and Article 29a(1) of Directive 2013/34/EU

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Overall, these updated common standards cover the full range of environmental, social, and governance issues, including climate change, biodiversity and human rights. Their aim is to ensure that companies across the EU **provide comparable and reliable sustainability information in their management reports**, with more attention to traceability and transparency. A broader set of large companies (where large is defined by the thresholds fixed in the Accounting Directive), as well as listed SMEs, will now be required to report on sustainability according to the ESRS, as detailed below.

## Who is subject to the CSRD?

Whether or not an entity will be subject to the reporting obligations laid down in the CSRD depends on the type of company<sup>2</sup> in question. Essentially, the CSRD covers all listed companies on regulated markets within the EU, including small and medium-sized enterprises but excluding micro-undertakings and all parent companies of large groups. It also applies to all large (listed or not) companies if they meet at least two of the following three criteria:

- Balance sheet total of more than EUR 20m;
- Net turnover of more than EUR 40m;
- The average number of employees during the financial year exceeding 250.

Additionally, certain non-EU undertakings will have to report sustainability information, if they generate over €150 million in the EU and have at least one large branch or subsidiary subject to CSRD in the EU (either a large company or a listed SME).

## When will companies have to start applying the European Sustainability Reporting Standards?

All companies covered by the CSRD ([around 50 000 companies](#)) will sooner or later be required to align their sustainability reports according to the ESRS. There will be a **gradual implementation of the ESRS**, depending on the size of the company, according to the [following timetable](#):

- **1 January 2024, reporting first sustainability statements in 2025 on 2024 data:** Companies already subject to the Non-Financial Reporting Directive (large listed companies, large banks, large insurance undertakings, large non-EU listed companies – all if they have more than 500 employees).
- **1 January 2025, reporting first sustainability statements in 2026 on 2025 data:** Other large undertakings, including other large non-EU listed companies, not currently subject to the Non-Financial Reporting Directive.
- **1 January 2026, reporting first sustainability statements in 2027 on 2026 data:** Listed small and medium-sized enterprises, including non-EU listed SMEs.
- **1 January 2028, reporting first sustainability statements in 2029 on 2028 data:** Non-EU companies covered by CSRD. Separate standards will be adopted specifically for this case.

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<sup>2</sup> Consult the definition of an undertaking under Article 3 of Directive 2013/34/EU (Accounting Directive) for further clarity.

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Disclaimer: listed SMEs may decide to opt out of the reporting requirements for a further two years. The last possible date for a listed SME to start reporting is financial year 2028, with first sustainability statement published in 2029.

Since the CSRD is a Directive, the **rules that apply in practice to each company are the rules set in national legislation which transposes the Directive**. For example, in Belgium, large companies listed in Accounting Directive Annex I do not apply to not-for-profit services providers nor to associations. Accounting and financial statements law for associations remains in the sphere of Belgian national legislation. We therefore advise you to contact your national authorities to verify whether your company is subject to the reporting requirements.

## Next Steps

It is important to note that the ESRS Delegated act is not in force until published in the Official Journal. It has been transmitted to the European Parliament and to the Council for scrutiny. The scrutiny period runs for two months, extendable by a further two months. The European Parliament or the Council may reject the delegated act, but they may not amend it.

The Commission will monitor the implementation of the standards contained in this delegated act to ensure that they lead to the disclosure of relevant, reliable and comparable sustainability information.

In future years the Commission is expected to adopt additional delegated acts for additional sets of standards. In fact, the CSRD requires the Commission to adopt by June 2024: sector-specific standards, proportionate standards for listed SMEs, and standards for non-EU companies.

## Background

The Commission ESRS are based on technical advice ([draft standards](#)) of the [EFRAG, previously known as the European Financial Reporting Advisory Group](#), an independent, multistakeholder advisory body, majority funded by the EU.

