
Briefing

Parliament adopts the Corporate Sustainability Reporting Directive



INSTITUTE OF DIRECTORS
IN IRELAND

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On 10 November 2022, the European Parliament (the “**Parliament**”) adopted the corporate sustainability reporting directive (the “**CSRD**”). The text of the Parliament’s legislative resolution adopting the CSRD is available [here](#).¹

The CSRD will oblige companies to disclose information on their societal and environmental impact connected with their own operations and with their value chain. The Parliament expects that this will “*end greenwashing, strengthen the EU’s social market economy and lay the groundwork for sustainability reporting standards at global level*”.²

The CSRD

The CSRD will amend the Non-Financial Reporting Directive³ (the “**NFRD**”) to introduce more detailed reporting requirements in respect of sustainability issues such as environmental rights, social rights, human rights and governance factors.

The CSRD will apply to all large companies and listed companies (including listed SMEs).⁴ In certain circumstances, non-European companies may be required to produce a sustainability report where they generate a net turnover of €150 million in the EU for each of the last two consecutive financial years and have at least one subsidiary or branch in the EU.⁵

Reporting will need to be certified by an accredited independent auditor or certifier and published in a dedicated section of company management reports. The Parliament’s legislative resolution adopting the CSRD now includes provision that statutory auditors (other than the one(s) carrying out the statutory audit of a company’s financial statements) can express an assurance opinion on sustainability reporting (subject to certain requirements in respect of training and qualifications).

1 The original Commission proposal for the CSRD is available [here](#).
2 <https://www.europarl.europa.eu/news/en/press-room/20221107IPR49611/sustainable-economy-parliament-adopts-new-reporting-rules-for-multinationals>
3 Directive 2014/95/EU
4 The CSRD excludes listed micro-companies from mandatory reporting obligations.
5 See Chapter 9a ‘Reporting Concerning Third-Country Undertakings’ of the CSRD for further detail.

The European Financial Reporting Advisory Group (“**EFRAG**”) is responsible for producing European reporting standards to supplement the CSRD which are due to be submitted to the European Commission by November 2022. See our briefing ([here](#)) with further detail.

Key Developments

The ambition and scope of the CSRD is wide. The Parliament states that *“for nearly 50 000 companies in the EU, collecting and sharing sustainability information will become the norm, compared to about 11 700 companies covered by the current rules”*.⁶ Large public-interest companies already subject to the NFRD may be in a better position to comply with the new rules, however there will be many smaller in scope companies who will not have experienced reporting of this scale before.

Helpfully, the Parliament’s legislative resolution adopting the CSRD addresses some of the difficulties companies will face:

- **Value chain:** All in scope companies may experience difficulties obtaining information from companies in their value chain. The Parliament acknowledges this difficulty by including amendments to Article 19a(3) and Article 29a(3) in the CSRD which provides for a three year grace period for companies in the event that not all the necessary information regarding their value chain is available. In those cases, the company (or parent company, as applicable) *“shall explain the efforts made to obtain the necessary information about its value chain, the reasons why not all of the necessary information could be obtained, and its plans to obtain the necessary information in the future”*. In addition, the CSRD will now provide that sustainability reporting standards adopted by the Commission should take account of the difficulties that companies may encounter in gathering information from their value chain, especially in gathering data from those companies which are not subject to the CSRD and from suppliers in emerging markets and economies; and
- **SMEs:** It is widely acknowledged the SMEs are some of the most exposed actors in the current uncertain economic environment. The inclusion of listed SMEs within the scope of the CSRD will place a further burden on this sector. Apart from the delayed application of the CSRD to in scope SMEs (until 1 January 2026) and the possibility to opt-out for two years, the Parliament now also includes provision within the CSRD that sustainability reporting standards applying to in scope SMEs need to be proportionate to their capacity and resources and relevant to the scale and complexity of their activities. In addition, in scope companies obtaining information from SMEs within their

6 <https://www.europarl.europa.eu/news/en/press-room/20221107IPR49611/sustainable-economy-parliament-adopts-new-reporting-rules-for-multinationals>

value chain should not be required to obtain information from those SMEs which would exceed the information required to be disclosed under SME sustainability reporting standards. The Recitals of the CSRD will now state that Member States should consider introducing measures to support in scope SMEs in applying sustainability reporting standards.

Timeline

It is expected that the CSRD will apply in three stages:

- from **1 January 2024** for large public-interest companies (with over 500 employees) already subject to the NFRD, with reports due in 2025;
- from **1 January 2025** for large companies that are not currently subject to the NFRD (with more than 250 employees and/or €40 million in turnover and/or €20 million in total assets), with reports due in 2026; and
- from **1 January 2026** for listed SMEs and other undertakings, with reports due in 2027. SMEs can opt-out until 2028.

Comment and next steps

The difficulties which will be encountered by companies in obtaining information from their value chain is a key concern of in scope companies, the auditing community and regulators. In this respect, the three year grace period confirmed by the Parliament in this area will be welcomed. In addition, in scope SMEs will welcome the emphasis on proportionality and the acknowledgement that state supports for the sector may be required to assist with CSRD compliance. Notwithstanding these welcome developments, in scope companies will still face a significant exercise in preparing for compliance for the CSRD and should begin those preparations as soon as possible.

The Council of the EU is expected to adopt the CSRD on 28 November 2022. The CSRD will enter into force 20 days after publication in the Official Journal of the EU.

Further information is available from



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