



Sustainability Reporting and IFRS for SMEs

Main features of the CSRD and development of the ESRS

*Train the trainers workshop
CFRR Vienna 6 – 8 December*

CSRD – Background information

- CSRD amends Directive 2013/34 (Accounting Directive “AD”), Directive 2004/109/EC (Transparency Directive “TD”), Directive 2006/43/EU (Audit Directive “AuD”), and Regulation (EU) No 537/2014 (Audit Regulation)
- CSRD revises and strengthens the sustainability reporting requirements introduced by Directive 2014/95 (Non-Financial Reporting Directive “NFRD”) into the Accounting Directive
- Key element of the EU Green Deal
- Objective: to put Sustainability Reporting on equal footing with Financial Reporting
- Publication in OJ: December 2022
- Transposition Deadline: 6 July 2024

CSRD – Key elements

Extension of NFRD scope of application

- large companies + listed SMEs + parent of large groups + certain non-EU companies

Strengthening of NFRD reporting requirements

- double materiality + more detailed requirements

European Sustainability Reporting Standards (ESRS)

- Developed by EFRAG and adopted by COM as delegated acts

Digitalisation of sustainability reporting

- XHTML format (+ marking-up of the information once digital taxonomy is adopted)

Assurance of sustainability reporting

- limited assurance now, reasonable assurance at later stage

Scope of application and phasing-in (Art. 5 CSRD)

Including non-EU companies listed in the EU (Art. 4 TD)

- ❑ **“NFRD companies”**: FY 2024 (publication in 2025)
- ❑ **Other large companies**: FY 2025 (publication in 2026)
- ❑ **Listed SMEs**: FY 2026 (publication in 2027)

- Option to use **“ESRS for listed SMEs”**
- 2-year opt-out (short indication of reasons)

- ❑ **Non-EU companies with net turnover above EUR 150 million and with subsidiaries (large companies / listed SMEs) or branches (with net turnover above EUR 40 million) in EU**: FY 2028 (publication in 2029)

“ESRS full”

“ESRS for certain non-EU companies”

Non-EU companies: 2 possibilities to be in scope

	Securities listed on EU regulated markets	> €150 million in the EU and have large EU subsidiary or branch
Reasoning	Financial stability and investor protection. Same rules for all listed companies on EU regulated markets.	Accountability and transparency to EU citizens for products/services consumed in EU. Level playing field in EU market.
Which standards?	Full ESRS, or equivalent standards.* If SME, may use ESRS for listed SMEs.	Dedicated standards for non-EU companies, not including financial materiality perspective (risks, opportunities). Can also comply through full ESRS or equivalent to full ESRS.
When?	Phased-in according to category.	FY 2028 / report 2029.

* Equivalence

EU legislation envisages possibility of granting equivalence to third countries, under two conditions:

- double materiality;
- full coverage of sustainability (ESG).

Non-EU companies: EU subsidiaries

- **Default:** subsidiary treated like all other EU companies (so if under scope => must report).
- **Subsidiary exemption:** subsidiary does not have to report if parent reports on a consolidated basis for group as a whole.
- **If decide to use subsidiary exemption and if parent is a non-EU company:**
 - Either parent reports according to full ESRS;
 - Or parent reports according to equivalent standards*
 - Or one EU subsidiary reports on EU-consolidated basis for all other EU subsidiaries (“artificial consolidation”), option possible until 2030.

Content of sustainability reporting (Art. 19a and 29a AD)

(1/3)

- **Impacts of company on sustainability matters + risks of and opportunities from sustainability matters on company**

- **Business model and strategy**
- **Time-bound targets**
- **Role of management**
- **Company's policies**
- **Incentive schemes**
- **Due diligence process and principal adverse impacts**
- **Principal risks**
- **Indicators**

Content of sustainability reporting (Art. 19a and 29a AD)

(2/3)

❑ Information about company's own operations and value chain:

- First 3 years of application: if not all information available, explanation of efforts made;
- Safeguards for SMEs: ESRS for listed SMEs as benchmark for the information that companies in the CSRD scope can obtain from SMEs in their value chain;
- Disclosures on value chains to be **proportionate and relevant to capacities and characteristics** of companies in value chains, and to the **scale and complexity** of their activities.

❑ Option for listed SMEs > sustainability reporting limited to:

- brief description of undertaking's business model and strategy;
- description of undertaking's policies;
- principal actual or potential adverse impacts of undertaking, and actions to identify, monitor, prevent, mitigate or remediate adverse impacts;
- principal risks to undertaking and how the undertaking manages those risks;

Digitalisation (Art. 29d AD)

- Management report in XHTML format.
- Mark-up of sustainability information (dedicated section of management report) in accordance with digital taxonomy (to be) set out in Commission Delegated Regulation 2019/815 on European Single Electronic Format (ESEF).

Assurance on ESRS sustainability statements

(Art. 34 AD and 28a AuD)

- Initial requirement: limited assurance. Possible future requirement: reasonable assurance.
- Assurance to cover also rules on digitalisation.
- MS option to accredit non-auditors, independent assurance providers (opening up the market)
- But they should be subject to equivalent education, ethics, quality assurance, etc.
- Statutory audit curriculum must be adapted practical training of at least eight months in the assurance of annual and consolidated sustainability reporting or in other sustainability-related services, (+ grandfathering)

Assurance standards

- COM to adopt **limited assurance standards** by October 2026. In the meantime, MS may apply own rules.
- COM to adopt **reasonable assurance standards** by October 2028, after assessment of feasibility.

European Sustainability Reporting Standards “ESRS”

“ESRS full”
(Art. 29b AD)

- ❑ **Cross-cutting standards and standards for all sustainability topics**
 - Including information needed to comply with SFDR requirements (Regulation (EU) No 2019/2088)

- ❑ **Sector-specific standards**

“ESRS for listed SMEs”
(Art. 29c AD)

- ❑ **Standards for listed SMEs**

“ESRS for certain non-EU companies”
(Art. 40b AD)

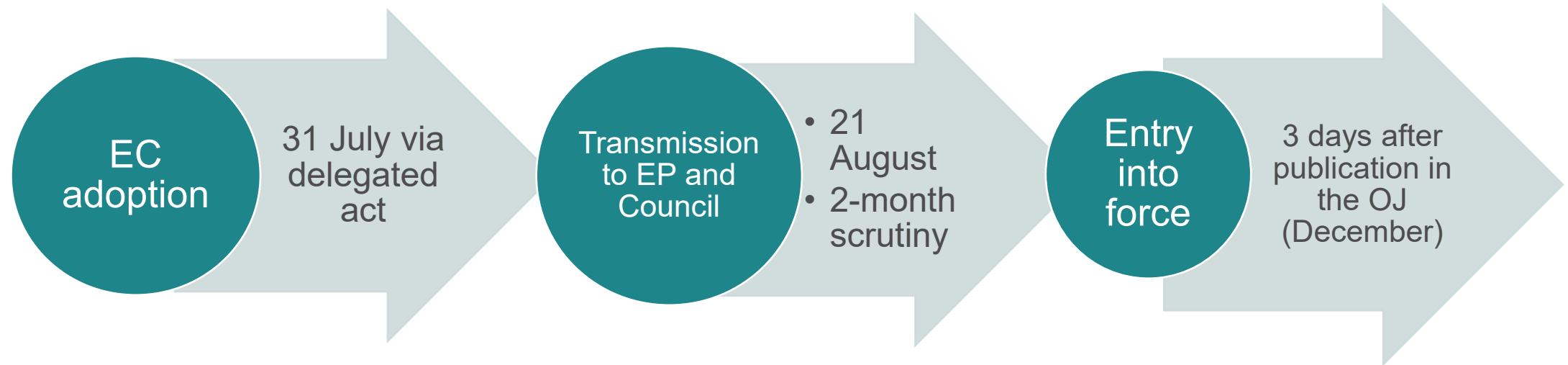
- ❑ **Standards for non-EU companies exceeding EU turnover threshold**

Adopted by
COM on 31 July
2023

To be adopted by
COM *

- EFRAG develops the standards
- Commission adopts the standards as delegated acts, following consultation of relevant EU bodies
- Commission reviews delegated acts every 3 years

ESRS Delegated Act - timeline



European Sustainability Reporting Standards

Group	Number	Subject
Cross-cutting	ESRS 1	General Requirements
Cross-cutting	ESRS 2	General Disclosures
Environment	ESRS E1	Climate
Environment	ESRS E2	Pollution
Environment	ESRS E3	Water and marine resources
Environment	ESRS E4	Biodiversity and ecosystems
Environment	ESRS E5	Resource use and circular economy
Social	ESRS S1	Own workforce
Social	ESRS S2	Workers in the value chain
Social	ESRS S3	Affected communities
Social	ESRS S4	Consumers and end users
Governance	ESRS G1	Business conduct

- 12 standards
- Developed in draft form by EFRAG

Double materiality

Risks and opportunities for company from sustainability issues

Impacts of company on people and environment

e.g. GHG emissions

e.g. exposure to extreme weather events

e.g. human rights issues deep in the value chain

Principal modifications compared to EFRAG's advice

1. Added an overall objective of ESRS (material information about material sustainability-related Impacts, Risks and Opportunities)
2. Enhanced materiality (Flowchart in Appendix E of ESRS 1)
3. Clarified and simplified the text
4. Drafting convention and ***defined terms***
5. Additional phase-ins (Appendix C of ESRS 1)
6. Interoperability (with ISSB on financial materiality and GRI on impact materiality)

The materiality assessment in the DA

EFRAG's drafts

ESRS 1	Pollution	Circular economy	Consumers & end-users
ESRS 2	Water	Own workforce	Affected communities
		Own workforce	
Climate	Biodiversity	Workers in value chain	Business conduct

Revised proposal

ESRS 1	Pollution	Circular economy	Consumers & end-users
ESRS 2	Water	Own workforce	Affected communities
Climate	Biodiversity	Workers in value chain	Business conduct

- Mandatory irrespective of materiality assessment*
- Subject to materiality. Assurer checks materiality assessment process.*
- Indicators deriving from SFDR, BMR, CRR/CRD*

Company may explain why the topic covered by a given standard is not material.

Additional phase-ins

EFRAG advice: Some disclosure requirements phased-in for all companies e.g. value chain metrics (3 years), quantitative data on financial effects from environment-related risks (3 years), certain indicators with regard to non-employees (1 year).

Revised proposal: Keep EFRAG phase-ins where relevant, and add:

For companies with < 750 employees:

- a) 1-year phase-in for scope 3 GHG emissions
- b) 1-year phase-in for own workforce standard ESRS S1
- c) 2-year phase-in for biodiversity (ESRS E4)
- d) 2-year phase in for value chain workers (ESRS S2), affected communities (ESRS S3) and consumers & end-users (ESRS S4).

For all companies:

- a) 1 year phase-in for anticipated financial effects under pollution, water, biodiversity and resource use/circular economy
- b) 1 year phase-in certain social indicators (e.g. persons with disability, social protection coverage, family leave)

New provision in ESRS 2 to ensure minimum CSRD requirements met during phase-in period.

For full list of phase-ins, see ESRS 1 *General Requirements*, Annex C

Phase-in provisions of CSRD and ESRS: overview

	FY 24 (report 25)	FY 25 (report 26)	FY 26 (report 27)	FY 27 (report 28)	FY 28 (report 29)
NFRD > 750 emp	Light phase-in	Light phase-in	Light phase-in	Full reporting	Full reporting
NFRD < 750 emp	Strongest phase-in	Moderate phase-in	Light phase-in	Full reporting	Full reporting
Non-NFRD > 750 emp	No reporting	Light phase-in	Light phase-in	Light phase-in	Full reporting
Non-NFRD < 750 emp	No reporting	Strongest phase-in	Moderate phase-in	Light phase-in	Full reporting
Listed SME	No reporting	No reporting	May opt out*	May opt out*	Full reporting*

“**NFRD**” = companies previously subject to Non-Financial Reporting Directive: large listed companies, large banks, large insurance companies, all if they have more than 500 employees. Includes non-EU issuers.

“**Non-NFRD**” = all large companies (non-SMEs) not covered by NFRD. It is mainly large non-listed companies.

* Listed SMEs may use separate, proportionate standards

Implementation Support

ESRS Access *Point*

- Online platform for questions
- EFRAG will publish answers
- Legal interpretation questions for COM

Practical Implementation *Guidance*

- Materiality Assessment
- Value Chain
- Non-authoritative
- Public consultation

Next steps – several workstreams

SMEs

- Listed SME
- Voluntary SME
- Public consultation

Sectoral

- 2-year delay
- *Also for non-EU companies*

Digital taxonomy

- Amendment to ESEF
- ISSB interoperability

Sector-Specific Standards

- SS standards to be developed for 40 sectors – progressive adoption of standards with prioritisation based on impact
- EC to adopt first set of SS standards in 2026, companies to apply SS standards as of FY 2027
- Sector-specific standard on **Agriculture, Farming and Forestry (AFF)**
- Sector-specific standard on **Food and Beverage Services**

ESRS and global standards

- Conscious decision of EU to set its own rules, not adopt global standards.
- Very high level of interoperability ESRS-ISSB on climate.
- EFRAG has published correspondence table. Ongoing EFRAG-ISSB discussions.
- ESRS also inspired by GRI.

CSRD and ESRS: what's next?

- 1st set of **sector-agnostic ESRS**: adopted, publication in Official Journal December 2023.
- EFRAG **implementation guidance**: materiality assessment, value-chain, list of data points. Plus online Q&A facility.
- **SMEs**: standards for listed SMEs and separate voluntary standards other SMEs: adoption/publication 2025.
- **Digital taxonomy**: EFRAG consultation soon, Commission adoption probably 2025.
- 1st set of **sector-specific standards**: mid-2026 (deadline pending approval European Parliament and Council).
- **Standards for non-EU companies that generate > €150 million in EU**: mid-2026 (deadline pending approval European Parliament and Council).

Thank you

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