

# Council gives final green light to corporate sustainability reporting directive

The Council gave its final approval to the corporate sustainability reporting directive (CSRD).

This means that companies will soon be required to publish detailed information on sustainability matters. This will increase a **company's accountability**, prevent divergent sustainability standards, and ease the transition to a **sustainable economy**.

The new rules will make more businesses accountable for their impact on society and will guide them towards an economy that benefits people and the environment. Data about the environmental and societal footprint would be publicly available to anyone interested in this footprint. At the same time, the new extended requirements are tailored to various company sizes and provides them with sufficient transition period to get ready for the new requirements.

Jozef Síkela, Minister for Industry and Trade

In practical terms, companies will have to report on how their business model affects their sustainability, and on how external sustainability factors (such as climate change or human right issues) influence their activities. This will equip investors and other stakeholders better for taking informed decisions on sustainability issues.

The CSRD strengthens the existing rules on non-financial reporting introduced in the Accounting Directive by the 2014 **non-financial reporting directive** (NFRD), which are no longer tailored to the EU's transition to a sustainable economy.

## New reporting rules for companies

The CSRD introduces **more detailed** reporting requirements and ensures that large companies and listed SMEs are required to **report on sustainability matters** such as environmental rights, social rights, human rights and governance factors.

The new sustainability reporting rules will apply to all large **companies** and to all **companies listed** on regulated markets except listed micro undertakings. These

companies are also responsible for assessing the information applicable to their subsidiaries.

The rules also apply to listed **SMEs**, taking into account their specific characteristics. An opt-out will be possible for listed SMEs during a transitional period, exempting them from the application of the directive until 2028.

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 and which have at least one subsidiary or branch in the EU exceeding certain thresholds. These companies must provide a report on their environmental, social and governance (ESG) impacts, as defined in this directive.

The **European Financial Reporting Advisory Group** (EFRAG) will be responsible for developing draft European standards. The European Commission will adopt the final version of the standards as a delegated act, following consultations with EU member states and a number of European bodies.

## Application date

The application of the regulation will take place 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 turnover above 150 million in the EU if they have at least one subsidiary or branch in the EU exceeding certain thresholds.

## Background

The European Commission presented the CSRD proposal on 21 April 2021 as part of the **European Green Deal** and the **Sustainable Finance Agenda**.

The CSRD will fill the gaps in the existing rules on sustainability information. Financial markets need access to environmental, social and governance information that is reliable, relevant and comparable if private capital is to be channelled into financing the green and social transition. Disclosure of sustainability information could attract

additional investment and funding to facilitate the transition to a sustainable economy, as described in the Green Deal.

On 24 February 2022, EU member states unanimously agreed on the Council's position on the CSRD proposal.

On 21 June 2022, the Council and the European Parliament reached a provisional agreement on the CSRD, which was endorsed by EU member states' representatives on 30 June 2022.

## Next steps

Following the Council's approval today of the European Parliament's position, the legislative act was adopted.

After being signed by the President of the European Parliament and the President of the Council, it will be published in the Official Journal of the European Union and will enter into force 20 days afterwards. The new rules will need to be implemented by member states **18 months** later.