

Snapshot

UPDATED NOVEMBER 7, 2023
SNAPSHOT 2022-19

Impact of CSRD on non-EU entities

On November 28, 2022, the Council and Parliament of the European Union (EU) [approved](#) the [Corporate Sustainability Reporting Directive](#) (CSRD), which was subsequently updated in October 2023. The CSRD requires different disclosure standards and staggered effective dates, depending upon the type of entity. Due to the layers of complexity, entities with revenue or operations in the EU are encouraged to evaluate the impact of the CSRD immediately.

Applicability

The CSRD is expected to impact thousands of entities that are not currently required to report on environmental, social, and governance (ESG) activities under the EU's Non-Financial Reporting Directive (NFRD). The CSRD is complex and may create reporting obligations for U.S. parent entities with operations in the EU at both a consolidated parent and EU-subsubsidiary level.

The directive applies to all EU entities, including subsidiaries of non-EU parents, that meet any one of the following conditions:

- Undertakings with EU-listed securities (other than listed micro undertakings); or
- “Large undertakings” that meet at least two of the following three criteria on two consecutive balance-sheet dates:
 - Total assets exceeding €25 million
 - Net turnover (revenue) exceeding €50 million
 - 250+ employees

The CSRD also applies to consolidated non-EU parent entities that meet the following condition:

- Undertakings with net turnover (revenue) exceeding €150 million in the EU in each of the last two years with either:
 - An EU subsidiary that is considered a “large undertaking” or that has EU-listed securities; or
 - A significant EU subsidiary/branch with net turnover (revenue) exceeding €40 million

Timing

The [effective dates](#) for reporting under the CSRD will begin as follows.

Entity type	Financial year	Reporting in
Entities already subject to the NFRD, which includes entities with listed securities and more than 500 employees	2024	2025
Large undertakings, as described above, not currently subject to NFRD	2025	2026
Listed small and medium-sized undertakings, small and non-complex credit institutions, and captive insurance undertakings	2026	2027
Third-country undertakings with net turnover over €150 million in the EU	2028	2029

Requirements

ESRS overview

The CSRD calls for the development of European Sustainability Reporting Standards (ESRS) by

the [European Financial Reporting Advisory Group](#) (EFRAG), which have been finalized and adopted by the European Commission as of July 2023. The ESRS aim to utilize leading existing international sustainability frameworks, such as those developed by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and the Global Reporting Initiative (GRI), but they significantly expand the scope of reported ESG information.

EFRAG is currently producing a set of simplified ESRS for listed small and medium-sized undertakings that is proportionate and relevant to the scale and complexity of their activities.

Under the directive, non-EU parents required to report at a consolidated level are subject to disclosure requirements included in a separate ESRS. In October 2023, the EU Commission [proposed legislation](#) to delay the adoption of these non-EU ESRS by two years to June 2026.

Additionally, the CSRD initially requires companies to obtain "limited" assurance and will later shift to "reasonable" assurance over information required to be reported under the CSRD.

General disclosure requirements

Entities required to follow the ESRS are subject to ESRS 1, *General requirements*, and ESRS 2, *General disclosures*. These "cross-cutting" standards apply to all in-scope entities and include topics like policies and targets, governance in relation to sustainability, and the entity's assessment of material sustainability impacts, risks, and opportunities.

The ESRS also include 10 topical standards related to an entity's ESG impact that will apply based on an entity's consideration of "double" materiality. Under this "double" materiality concept, entities are required to consider the following factors:

- Impacts of the entity's activities on the environment and society; and
- How sustainability matters impact the entity's business

Entities are also required to consider each materiality perspective individually, disclosing information material to both materiality perspectives and information that may be material from only one of the materiality perspectives.

Reporting accommodations

The directive allows (1) non-EU parent entities with EU subsidiary reporting obligations to produce a consolidated CSRD-compliant report, and (2) non-EU parent entities with multiple in-scope EU subsidiaries to provide a consolidated CSRD-compliant report that includes all in-scope EU subsidiaries in initial reporting periods. In both cases, the reporting requirements applicable to EU-based entities, rather than the anticipated standard for non-EU parents, are expected to apply. Accordingly, U.S.-based entities that may have consolidated or subsidiary reporting obligations are advised to consult the ESRS to understand the nature and extent of future reporting requirements.

Next steps

The CSRD entered into force on January 5, 2023. Member states have until July 6, 2024 to implement it into national law. During this process, local jurisdictions may adopt additional reporting requirements.

Due to the complexity and extent of the scoping and reporting requirements, entities are encouraged to determine the potential impact of the CSRD on the consolidated entity and/or any of its subsidiaries immediately. Specifically, companies are encouraged to:

- Analyze their organizational chart and determine applicability for compliance with CSRD;
- Identify the timelines for reporting; and
- Understand the required disclosures, which may exceed currently disclosed sustainability information.

Contacts



Jim Burton
Partner
ESG & Sustainability
T +1 303 813 3945
E Jim.Burton@us.gt.com



Marjorie Whittaker
Managing Director
ESG & Sustainability
T +1 202 521 1535
E Marjorie.Whittaker@us.gt.com



Elizabeth Sloan
Managing Director
ESG & Sustainability
T +1 630 873 2510
E Elizabeth.Sloan@us.gt.com

© 2023 Grant Thornton LLP, U.S. member firm of Grant Thornton International Ltd. All rights reserved.

This Grant Thornton LLP bulletin provides information and comments on current accounting issues and developments. It is not a comprehensive analysis of the subject matter covered and is not intended to provide accounting or other advice or guidance with respect to the matters addressed in the bulletin. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at conclusions that comply with matters addressed in this bulletin. For additional information on topics covered in this bulletin, contact your Grant Thornton LLP professional.