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# Corporate sustainability reporting: CSRD

The European Union is reinforcing companies' reporting obligations on ESG matters, promoting data transparency and comparability.

Portugal - Legal flash

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On December 16, [Directive \(EU\) 2022/2464](#) (“**CSRD**”) was published, amending Regulation (EU) 537/2014, as well as Directives 2004/109/EC, 2006/43/EC, and 2013/34/EU, to address perceived deficiencies in non-financial reporting and expand the range of entities required to report sustainability information.

- It aims to place sustainability reporting on par with financial reporting over time, allowing public access to reliable and comparable data.
- An electronic format will be mandatory, as will the use of common standards in the reporting of information, which should expedite small and medium-sized enterprises' (“**SMEs**”) compliance. These standards will be based on the work carried out by the European Financial Reporting Advisory Group (“**EFRAG**”), which, on November 22, published the [first set of standards](#).
- The date by which reporting under the CSRD will be required depends on the company's type, with listed companies among the first, in 2025, by reference to the 2024 fiscal year.



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## CSRD purpose and context

In the 2019 [European Green Deal](#), the European Commission committed to review transparency in sustainability.

As the CSRD states in its recitals, there is a need to create “a robust and affordable [sustainability] reporting framework that is accompanied by effective auditing practices to ensure the reliability of data and avoid greenwashing and double counting.”

The CSRD amends the Non-Financial Reporting Directive ([2013/34/EU](#)) (known as the **NFRD**), the Audit Directive ([2006/34/EC](#)), and the Transparency Directive ([2004/109/EC](#)), to broaden the range of undertakings required to provide sustainability information and to address perceived deficiencies in how that information is provided. The main goal is to place ESG reporting on par with financial reporting over time, allowing the public access to reliable and comparable data.

When evaluating the CSRD, it is important to bear in mind the following:

- The improved ESG transparency it represents is highly significant for sustainable finance and sustainable corporate governance in the European Union (“EU”) because (a) access to clear, objective, and comparable information is essential for investors to identify sustainable activities and projects and channel capital to them; and (b) public access to more quality information facilitates oversight and promotes the adoption of business practices that observe human rights, the environment, and good governance, and that are capable of generating long-term value, as advocated in the [Proposal for a Directive on corporate sustainability due diligence](#).
- This is interlinked with the EU taxonomy and investment tools. The information required by the CSRD must be communicated through the common classifications and metrics developed in the taxonomy (common EU classification to determine what should be considered a sustainable activity) and the so-called investment tools (ratings, common standards, and labels related to sustainable activities). The three regulatory pillars governing sustainable finance (Taxonomy, Disclosure and Investment Tools) do not stand alone, so developments—to a greater or lesser extent—under each of them will affect the rest of the EU sustainability legislative package.



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## Who is subject to the new CSRD obligations?

### Affected undertakings

- **Companies listed** on EU regulated markets, including SMEs (unless they are micro-enterprises, which are companies that, on the balance sheet date, do not exceed two of the three following criteria: (a) a balance sheet total of €350,000, (b) a net turnover of €700,000, and (c) an average total of 10 employees during the financial year).
- Other **large undertakings** (i.e., those that, on the balance sheet date, exceed two of the following three criteria: (a) a balance sheet total of €20 million, (b) a net turnover of €40 million, and (c) an average total of 250 employees during the financial year) and **public-interest entities**.
- **Third-country undertakings with significant activity in the EU**; that is, undertakings that (a) generate a net turnover exceeding €150 million in the EU; and (b) have in the EU (i) a subsidiary fulfilling the requirements of an EU company for the purposes of these transparency obligations (i.e., being a listed company—other than a micro-enterprise— or a large undertaking, meeting the above thresholds); or (ii) a branch with a net turnover exceeding €40 million.
- **Small and non-complex institutions** (as defined in point 145 of Article 4.1 of Regulation (EU) 575/2013) and **captive insurance and reinsurance undertakings** (as defined in Article 3.2 of Directive 2009/138/EC).

All these undertakings must also comply with the CSRD information obligations provided for in Article 8 of the Taxonomy Regulation ([2020/852/EU](#)) and the Delegated Regulation ([2021/2178/EU](#)).

### Subsidiaries of groups that present consolidated sustainability reports

A subsidiary—unless listed on an EU regulated market—will be exempt from the obligation to present non-financial information if its parent company presents a consolidated sustainability report that complies with the CSRD. In this case, the subsidiary must include the following in its management report: (a) the parent company's name and registered office, providing the group-level sustainability information; (b) links to the parent company's consolidated management report; and (c) a reference to the exemption from sustainability reporting.

Where there are significant differences between the risks or impacts of the group and the risks or impacts of one or more of the subsidiaries, the parent company must provide an adequate explanation of the risks and impacts of the subsidiary or subsidiaries concerned, including—where applicable—information on due diligence procedures.



This exemption will also apply if the parent company reporting at a group level is a third-country company that discloses sustainability information in accordance with EU (or equivalent) reporting standards. A set of transitional provisions is also being introduced that allows a subsidiary to benefit from this exemption until January 6, 2030 (Article 48-I of Directive 2013/34/EU).

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## When must these new obligations be met?

The table below shows the phased application of the CSRD obligations, based on the undertaking's profile (Article 5 of the CSRD):

Affected undertaking	Applicable to fiscal years beginning from	Preparation of the first report
Large undertakings, which are public-interest entities, and exceed an average total of 500 employees during the fiscal year	January 1, 2024	2025
Public-interest entities, which are parent companies of a large group and exceed—on a consolidated basis—an average total of 500 employees during the fiscal year	January 1, 2024	2025
Large undertakings not covered by the previous item	January 1, 2025	2026
Public-interest entities not covered by the previous item	January 1, 2025	2026
SMEs that are public-interest entities, small and non-complex institutions, and captive insurance and reinsurance undertakings	January 1, 2026	2027 <sup>(*)</sup>
Third-country undertakings with subsidiaries or branches in the EU	January 1, 2028	2029

<sup>(\*)</sup> For fiscal years before January 1, 2028, listed SMEs may choose not to adopt the CSRD obligations, provided they briefly justify this in their management report.

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## How and where to report?

The management report must be in electronic format. Sustainability information (including that required by Article 8 of the Taxonomy Regulation and related regulations) must be flagged so it can be uploaded to ESAP (European Single Access Point): the single access point to financial and non-financial information for EU undertakings, created under the Capital Markets Union project to increase the visibility of this information and promote crossborder transactions.



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## What information must be made available?

According to the so-called “double materiality” concept, undertakings must disclose information that makes it possible to understand the ESG impact of their activity and how their development, income, and position affect sustainability issues.

Among other items, they must report on (a) the resilience of the business model, the undertaking’s strategy toward ESG risks, and the opportunities that sustainability can generate; (b) the plans to ensure that their business model and strategy are compatible with the transition to a sustainable economy and with the Paris Agreement’s global warming limit (1.5°C) and greenhouse gas emission reduction targets; (c) the sustainability management structures within the undertaking (bodies involved and their members’ knowledge and expertise); (d) sustainability policies; (e) incentive systems linked to ESG; (f) the due diligence procedure applied by the undertaking relating to sustainability issues and the main negative impacts (actual or potential) that the undertaking’s activity or its value chain may generate and the actions planned to detect, prevent, mitigate, or remedy them; and (g) the main ESG risks and how they are managed. This information must contain data about the undertaking’s activities and value chain, including its own operations, products and services, business relationships, and supply chain (as applicable). An undertaking may be permitted to cease reporting this value chain information for a certain period (specifically, for the first three years of applying Due Diligence Directive measures, subject to approval) if it explains why it does not have this information and details its efforts and plans to obtain it.

For SMEs, a separate and proportionate set of rules will be developed, whose adoption, as long as the SME is not a listed company, will be voluntary.

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## What reporting standards should be used?

One of the main new features of the CSRD is the mandatory use of common reporting standards. The European Commission will develop these based on the technical work carried out by the EFRAG on the following dates:

- By June 30, 2023, cross-cutting standards on sustainability issues (e.g., climate change, circular economy, business conduct, and value chain employees). These standards should serve for the purposes of the Disclosure Regulation ([2019/2088/EU](#)), which establishes harmonized transparency measures for financial market participants (e.g., insurers, investment services firms, investment fund managers, or credit institutions managing portfolios) and advisors (in investment or insurance matters).

On November 22, EFRAG published its work on this [first set of standards](#).



- By June 30, 2024, standards specific to certain industries (e.g., agriculture, coal, oil, gas, road transport, textiles, or food and beverages), standards adapted for listed SMEs, and standards for third-country undertakings that exceed EU thresholds.

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## Is any kind of verification of sustainability information required?

Yes, verification by an independent third party is required, and an opinion must be given regarding:

- compliance with reporting standards under EU law;
- the process performed by the undertaking to determine the information reported in accordance with these standards;
- compliance with the requirement to flag reporting, allowing it to be uploaded to the ESAP (European Single Access Point); and
- compliance with the reporting requirements of Article 8 of the Taxonomy Regulation.

To ensure the quality and uniformity of this verification, by October 1, 2026, the Commission will adopt standards for limited verification regarding the compliance of sustainability reporting with the requirements of the CSRD through delegated acts. Until then, Member States may apply national verification standards, procedures, or requirements, provided the Commission has not adopted—through delegated acts—a verification standard on the same subject.

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## Conclusions

The CSRD is a major boost in terms of ESG transparency. This improvement in corporate sustainability reporting will facilitate:

- the transition to a sustainable economic model, as investors will find it easier to identify sustainable activities and projects and channel capital to them; and
- better oversight of business conduct that respects human rights, the environment, and good governance, with the aim of generating long-term value, as intended in the Proposal for a Directive on corporate sustainability due diligence.



As we have highlighted, the main purpose of the new features is to ensure sustainability reports have a degree of comparability and reliability on par with financial reports.

Member States have 18 months to transpose the CSRD into their domestic law.

Undertakings must anticipate this and prepare to adapt their procedures to the approved new common standards and digital reporting format, in line with the applicable schedule for their type and size.

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