Corporate Governance snapshot:

The EU Corporate Sustainability Reporting Directive & its impact in the UK

Even though the UK is not part of the EU, the EU Corporate Sustainability Reporting Directive (**CSRD**) (2022/2464) will impact some UK incorporated companies. The CSRD, which entered into force in January 2023, sets out additional disclosures for companies to include in their annual report in relation to sustainability matters.

In-scope companies

Subject to certain exemptions, the CSRD applies to:

- large undertakings incorporated in the EU;
- EU parent undertakings of large groups and;
- large issuers with transferable securities admitted to trading on an EU regulated market, regardless of where they are incorporated.

For these purposes, following amendments introduced to the CSRD (see the *Amendments to the CSRD* box below), an entity will be classified as large and fall within the scope of the CSRD if on their balance sheet date they had a net turnover which exceeded €450 million and an average of 1,000 employees during the financial year.

Under the **Third-Country Parent Consolidated Reporting** obligation, the CSRD also applies to EU subsidiary undertakings or branches with an ultimate parent undertaking incorporated in a third-country (ie outside the EU) if:

- the EU entity is: (i) a subsidiary undertaking that has exceeded a net turnover of €200 million on the balance sheet date for the previous financial period or; (ii) a branch that has generated net turnover of more than €200 million in the preceding financial year; and
- the third-country parent undertaking's group generated net turnover in the EU in excess of €450 million in each of the previous two consecutive financial years.

Disclosures required & double materiality

The overarching obligation under the CSRD is to include *"information necessary to understand the [undertaking's/group's] impact on sustainability matters, and information necessary to understand how sustainability matters affect the [undertaking's/ group's] development, performance and position"*. This is the so-called "double materiality" concept. It looks both at the impact on, and the impact by, an undertaking in relation to sustainability matters, recognising the duality of risk exposure that the undertaking's business and strategy may have.

The CSRD requires companies to provide information on sustainability matters relating to areas such as the entity's business model and strategy; targets adopted and progress made towards these targets; governance arrangements and incentive schemes. Sustainability matters are defined to cover environmental, social, human rights and governance matters.

More detailed disclosure standards have been developed by the EU standard setting body (the European Financial Reporting Advisory Group (**EFRAG**)) and adopted by the EU Commission through delegated acts known as the European Sustainability Reporting Standards (**ESRSs**). The ESRSs specify in more detail the information that undertakings are required to include and the structure to be used. The EU Commission adopted the first of these delegated acts at the end of July 2023. The reporting standards contained in these delegated acts apply to financial years beginning on or after 1 January 2024.

However as part of overall review of the burden of the EU's sustainability reporting framework, the Commission has been tasked with adopting measures to simplify the ESRSs within six month of the Amendment Directive coming into force (see the *Amendments to the CSRD* box below).

The standards for Third-Country Parent Consolidated Reporting (known as the **NESRSs**) were scheduled to be adopted by the EU Commission by 30 June 2026. In light of the simplifcation of the ESRSs however the work to adopt the NESRSs has been paused.

Third-Country Parent Consolidated Reporting

Under the Third-Country Parent Consolidated Reporting obligation, it is the in-scope EU subsidiary or branch that is required to publish the sustainability report.

The report needs to cover information at the group level of the non EU-incorporated parent undertaking and needs to include broadly the same information as is required under the CSRD generally.

Where the subsidiary/branch does not have the information available to include the necessary disclosures in the report, and the parent undertaking does not provide this information on request, the subsidiary/branch is required to publish a report containing all the information that it is able to include and to issue a statement noting that the parent undertaking did not make the necessary information available. Member States may notify the EU Commission annually of the subsidiaries/ branches that issue such a statement.

Amendments to the CSRD

After the CSRD was passed, concerns were raised in relation to the reporting burden being placed on in-scope entities by the Directive. In November 2024, the EU Commission therefore proposed a sustainability Omnibus package (Omnibus I) to streamline and simplify the requirements under the CSRD (as well as two other pillars of the EU's sustainability framework). Omnibus I led to the adoption of three key measures:

1. the **Stop the Clock** Directive (2025/794) which postponed the reporting requirements for in-scope companies other than Wave 1 companies and entities subject to the Third Country Parent Consolidated Reporting obligation;
2. the **Quick Fix Regulation** (2025/1416) which deferred certain of the reporting requirements for Wave 1 companies and allowed them to benefit from certain temporary exemptions from reporting requirements; and
3. the **Amendment Directive** (2026/470) which increased the thresholds for falling within scope of the reporting requirements of the CSRD, delayed the implementation timetable, limited the trickle-down effects for smaller companies in the value chain and tasked the EU Commission with adopting amendments to the ESRSs.

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Implementation timetable

The CSRD reporting obligations are being introduced in a phased manner and the implementation timetable has been amended as part of the Omnibus I Package (see the *Amendments to the CSRD* box on the previous page).

For in-scope companies other than EU subsidiaries or branches which meet the criteria for Third Country Parent Consolidated Reporting, the CSRD reporting obligations apply for financial years starting on or after 1 January 2027.For EU subsidiaries or branches which meet the criteria for Third Country Parent Consolidated Reporting, the obligations apply for financial years beginning or after 1 January 2028.

The amendments were not finalised before the implementation date for the so-called **Wave 1 companies** and so for financial years between 1 January 2024 and 31 December 2026, these companies were required to include the disclosures required under the CSRD. The Quick Fix Regulation introduced certain modifications to these required disclosures as part of the efforts to reduce the CSRD's reporting burden. After 31 December 2026, these companies are only required to continue to include the CSRD disclosures if they meet the revised size criteria set by the Amendment Directive.

Companies need to use the ESRSs in force at the time of reporting in order to comply with their CSRD reporting obligations.

Next steps and implementation

EU Member States were required to implement the CSRD as originally drafted into national law by July 2024. The changes introduced by the Stop the Clock Directive had to be implemented by Member States by 31 December 2025 and those introduced by the Amendment Directive in relation to the CSRD need to be implemented by Member States by 19 March 2027. The implementation status across the EU is therefore complicated and so in order to establish what their reporting obligations are, UK incorporated companies need to consider the relevant domestic implementing measures to ensure that they comply as necessary in respect of their activities in each EU jurisdiction and the EU as a whole. (For details on the implementation by Member States of the CRSD and Omnibus I Package, see our transposition tracker here.)

In August 2024, the EU Commission published a draft Commission Notice which set out Frequently Asked Questions on the implementation of the sustainability reporting requirements introduced by the CSRD. The publication was part of the Commission's *"continuous effort to make the EU sustainable finance framework more usable for companies and reduce the administrative burden on them"*. The FAQs reflected comments received from companies and covered issues such as scope, application dates, and exemptions. It has however not been updated to reflect the changes made to the CSRD since its publication.

Wave 1 companies

To have been classified as a Wave 1 company, a company would need to be an EU listed large undertaking or EU listed parent undertaking of a large group, in either case with an average of more than 500 employees during the financial year. To be large for these purposes, the company/group would need to have a balance sheet total of €25 million and a net turnover of €50 million.

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