ESRS - European Sustainability Reporting Standards

The ESRS standards are reporting standards for sustainability within the EU. The ESRS standards are an integral part of the CSRD, the Corporate Sustainability Reporting Directive of the European Parliament and the Council. This means that the ESRS reporting standards are mandatory. The adoption of the first set of 12 standards by the Commission is considered a significant step to promote sustainable practices and transparency in companies and to contribute to their comparability. This is because the new reporting requirements herald major changes in sustainability reporting and these will affect around 50,000 companies based in the EU. However, subsidiaries, branches abroad, and companies that carry out a large part of their business activities in the EU area may also be indirectly affected, which is why the scope of impact can be significantly broader.

The objective of the ESRS and interaction with the EU Green Deal

The ESRS aims to advance the scope and quality of corporate sustainability reporting and promote sustainable development through transparency. Stakeholders, especially investors, other companies, and society should gain better insights into the business practices of companies. This is done through various levers.

On one hand, the ESRS requires companies to go into depth about their sustainability performance, in some cases all the way into the supply chain and to the end of the product life cycle. Mandatory ESRS data points, thus ESRS indicators of a qualitative and quantitative nature as well as reliable information on the development of a company's own sustainability performance place a much greater obligation on companies than before. This development leads to higher demands on data management, as well as existing reporting structures and processes, not least because the CSRD provides an electronic reporting format for sustainability data.

On the other hand, a separate sustainability report in accordance with ESRS is not envisaged for the companies covered by the CSRD. This is because sustainability information has recently become part of the group's annual report. This non-financial information on sustainability is also subject to an external audit requirement. In this context, companies must be able to explain how certain ESRS ESG data were collected and how ESRS KPIs were collected. Sustainability KPIs are thus on par with other reportable information from financial reporting. Overall, this raises the importance of sustainability disclosures to a new level[1].

Overall, sustainability reporting according to ESRS leads to higher quality and comparability of the report contents. However, the impact of the ESRS is not to be limited to their reporting requirements. Companies are also required by ESRS to disclose whether they have improved their sustainability performance and further developed their sustainability management. All of this is intended to accelerate the transformation toward a sustainable economy. The new CSRD standards are thus part of the EU's master plan to achieve climate neutrality by 2050 and establish a sustainable economic system. Alongside the ESRS and EU Taxonomy Regulation, the Corporate Sustainability Due Diligence Directive and many other EU decisions are important pieces of the puzzle related to the EU Green Deal.

Scope of CSRD and sustainability reporting according to ESRS: Who does ESRS apply to?

Among other terms, the CSRD defines the scope of the ESRS: Which companies are affected by the new reporting requirements and when? In short, this depends on different criteria. This is because the CSRD provides for a staggered introduction of the new reporting requirements. For companies

[1] https://denkstatt.eu/esrs-standards-explained/

with an existing reporting obligation under the Non-Financial Reporting Directive (NFRD), an application is planned for the annual report with publication in 2025. All other companies will be affected by the new reporting requirements from 2026 or 2027. The following overview shows the exact scale:

- **From fiscal year 2024 in the 2025 annual report**: Companies that are already subject to a reporting obligation under the NFRD.
- **From fiscal year 2025 in the 2026 annual report**: All other large corporations with an annual average of 250 employees or more, total assets of 25 million euros or 50 million euros in sales. Two of these three criteria must be met for a company to fall within the scope of the CSRD.
- **From fiscal year 2026 in the 2027 annual report**: Listed SMEs and small and non-complex credit institutions and captive insurance companies.
- **From fiscal year 2028 in the 2029 annual report**: Third-country companies with subsidiaries or branches in the EU. This only applies if the threshold of EUR 150 million in net sales in the EU area is exceeded over two years.

The staggered effective date also provides for a transition period (phase-in) for companies before full reporting is required.

Legislative Process

The European Parliament and EU Council will now scrutinise the delegated regulation for 2 months (extendable by 2 months). Unless they reject it, it will be published in the Official Journal and will apply from 1 January 2024 as noted above[2].

[2] https://www.arthurcox.com/insights/european-commission-adopts-european-sustainability-reporting-standards/#:~:text=The%20first%20set%20of%20ESRS%20will%20apply%20from%201%20January,to%20the%20EU%20Non%2DFinancial