NFRD – Non-Financial Reporting Directive

The new ambitious Corporate Sustainability Reporting Directive (CSRD) expands the current Non-Financial Reporting Directive (NFRD), which has already seen companies submitting sustainability information each year. The changes have been made in response to a growing recognition that information reported is often not sufficient for investors and other stakeholders to feel fully aware and confident about sustainability-related risks. Sustainability information increasingly needs to be comparable, trusted, and reliable and the new rules cater to this need. CSRD is an essential part of the EU Green Deal, the system of rules and guidelines that was put in place by the EU to accelerate the transition to a sustainable economy. Indeed, CSRD seeks to provide financial markets with the right ESG information to channel private capital into financing the green and social transition.

What are the main differences between NFRD and the new rules under the CSRD?

CSRD regulation updates NFRD in a number of key ways to eventually bring sustainability reporting on par with financial reporting:

- NFRD applies to large public-interest companies with more than 500 employees, covering around 11,000 businesses across the EU. CSRD expands on that, increasing the scope to almost 50,000 companies, including all large companies (categorized by certain criteria) and listed companies, listed SMEs, and qualifying non-EU companies.
- Under CSRD, sustainability reporting will need to be more detailed than NFRD. For example, including strategy, policies, and – crucially – a 'double materiality assessment' which means reporting will have to cover how sustainability issues impact an organization as well as how the organization impacts the planet and the people. Sustainability information will also have to be included in a company's management report.
- Where third-party assurance of reporting was not compulsory under NFRD, CSRD requires a mandatory level of accredited auditing against sustainability reporting standards.
- These new standards are being developed primarily by the European Financial Reporting Advisory Group (EFRAG), shaped to EU policies, but also building on global initiatives. The European Commission will consult EU bodies and Member States on the current draft standards, before adopting the final standards as delegated acts in June 2023.
- CSRD has changed the way companies share their sustainability reporting information, requiring companies to submit their reports to a digital database.

When does one need to comply?
The new rules will come into play in three phases:

- **1 January 2024** – for companies already reporting in line with NFRD (reporting in 2025 on 2024 data).
- **1 January 2025** – for large companies that are not currently subject to NFRD (reporting in 2026 on 2025 data).
- **1 January 2026** – for listed SMEs, small and non-complex credit institutions, and captive insurance undertakings (reporting in 2027 on 2026 data).
- **1 January 2028** - 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.

Please note the above timeline differs from the original Commission proposal[1].

[1] https://www.carbontrust.com/news-and-insights/insights/five-things-your-business-needs-to-know-about-the-corporate-sustainability-reporting-directive-csrd