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# #DeloitteESGNow — Frequently Asked Questions About the E.U. Corporate Sustainability Reporting Directive

## Background

On July 31, 2023, the European Commission adopted the [European Sustainability Reporting Standards](#) (ESRS or “the standards”). Drafted by the European Financial Reporting Advisory Group (EFRAG), the standards will provide supplementary guidance for companies within the scope of the [E.U. Corporate Sustainability Reporting Directive](#) (CSRD).<sup>1</sup> The adoption of the CSRD, along with the supporting ESRS, is intended to increase the breadth of nonfinancial information reported by companies and to ensure that the information reported is consistent, relevant, comparable, reliable, and easy to access.

The Council of the European Union adopted the CSRD in November 2022 in support of the [European Green Deal](#) (Green Deal) — a package of initiatives to cut greenhouse gas emissions, direct investment toward sustainability, invest in research and innovation, and preserve Europe’s natural environment. By enabling investors to better evaluate risks and investment impacts pertaining to sustainability, the CSRD is expected to mobilize private finance in support of the Green Deal. Overall, the CSRD aims to hold companies more accountable for their environmental and social impacts and to accelerate the E.U.’s transition to a fully sustainable and inclusive economic and financial system.

While the CSRD is a European directive, the CSRD requirements also apply to many non-E.U. companies. **This publication addresses some frequently asked questions related to the application of the CSRD to companies based in the United States.**

<sup>1</sup> “Directive (EU) 2022/2464 of the European Parliament and of the Council.”

## Questions and Answers

### Question 1

How does the CSRD affect U.S. companies?

### Answer

The scope of the CSRD is wide reaching and has the potential to affect many U.S.-based companies with activities in the E.U. The CSRD applies to:

- Large undertakings based in the European Union, including both companies listed on an E.U.-regulated market and companies not listed,<sup>2</sup> as well as subsidiaries of U.S. parent companies. Such undertakings are defined as those that meet at least *two* of the following criteria on their balance sheet dates:
  - Greater than €20 million balance sheet total (approximately USD 22 million as of July 31, 2023).
  - Greater than €40 million net turnover (approximately USD 44 million as of July 31, 2023).<sup>3</sup>
  - Greater than 250 employees.
- Small and medium-sized undertakings (SMEs) that are subsidiaries of U.S.-based companies with debt or equity securities listed on a regulated market in the European Union, other than micro undertakings. Such undertakings are defined as follows:
  - Small undertakings that meet at least *two* of the following criteria: (1) no greater than €4 million balance sheet total (approximately USD 4.4 million as of July 31, 2023), (2) no greater than €8 million net turnover (approximately USD 8.8 million as of July 31, 2023), and (3) no greater than 50 employees.
  - Medium-sized undertakings that do not qualify as small and meet at least *two* of the following criteria: (1) no greater than €20 million balance sheet total (approximately USD 22 million as of July 31, 2023), (2) no greater than €40 million net turnover (approximately USD 44 million as of July 31, 2023), and (3) no greater than 250 employees.
  - Micro undertakings that meet at least *two* of the following criteria: (1) no greater than €350,000 balance sheet total (approximately USD 385,000 as of July 31, 2023), (2) no greater than €700 thousand net turnover (approximately USD 771,000 as of July 31, 2023), and (3) no greater than 10 employees.
- U.S.-based companies that (1) have generated a net turnover of more than €150 million in the European Union in each of the last two financial years and (2) have at least one large or listed subsidiary on regulated markets in the European Union (or branch if there are no E.U. large or listed subsidiaries) in the European Union with more than €40 million net turnover.<sup>4</sup>

In addition to companies directly within the scope of the CSRD for reporting purposes, other companies operating upstream or downstream may be affected by its requirements. This is because the CSRD requires companies to disclose material environmental, social, and governance (ESG) impacts, as well as risks and opportunities connected with their upstream and downstream value chains. Therefore, companies that are not within the scope of the

<sup>2</sup> A company that is listed on an E.U.-regulated market does not need to have operations within the European Union to be brought into scope. A company that is *not* listed on an E.U.-regulated market must have operations or be based within the European Union to be brought into scope.

<sup>3</sup> The CSRD defines net turnover as “the amounts derived from the sale of products and the provision of services after deducting sales rebates and value-added tax and other taxes directly linked to turnover” (Article 2(5) Directive 2013/34/EU).

<sup>4</sup> For further details on the scope of the CSRD, see the [CSRD](#), paragraphs 17–21, and EU Accounting Directive (2013/34/EU), Articles 19a and 29c, and Chapter 9a as amended by the CSRD. For more on the information to be disclosed, see the [CSRD](#), paragraph 47, and EU Accounting Directive (2013/34/EU), Article 29b and Article 29a, paragraph 3, as amended by the CSRD.

CSRD themselves may be affected through their customer and supplier relationships. For example, a private supplier to a public company that is subject to the CSRD may be asked to provide emissions data to its customer so that the customer can make the appropriate Scope 3 greenhouse gas (GHG) disclosures, if material. The European Union recognizes that companies may need time to set up processes and controls for collecting this data and therefore has included a three-year grace period in the CSRD (see paragraph 33) specifically for value chain disclosures. During the grace period, companies may omit such data and instead disclose their efforts to obtain this information, the reasons for its omission, and future plans to obtain the data.

## Question 2

When will U.S. companies be affected by the CSRD, and what if a company is on an off-calendar reporting timeline?

## Answer

The CSRD will be applied in four stages. For the first in-scope year, 2024, only large U.S. companies that are listed on an E.U.-regulated market and have more than 500 employees will be subject to the CSRD. Starting in 2025, all U.S. companies that are large and listed on an E.U.-regulated market will be within the scope of the CSRD, and additional U.S. companies can be brought into scope if they have a large E.U.-based subsidiary (regardless of whether they are listed on an E.U.-regulated market; see [Question 1](#) for the definition of a large undertaking). The timeline below describes the requirements introduced at each stage from the perspective of a U.S.-based company.

	Reporting for Calendar-Year-End Filers			Enterprise Level
	2024 (Reporting in 2025)	2025 (Reporting in 2026)	2026 (Reporting in 2027)	2028 (Reporting in 2029)
	<b>Scope</b>	Companies already subject to the NFRD,* including large U.S. companies with more than 500 employees and listed on an E.U.-regulated market	All large** U.S. companies listed on E.U.-regulated markets and all large E.U. subsidiaries of U.S. companies	SME subsidiaries of U.S. companies listed on E.U.-regulated market***
<b>Required standards</b>	ESRS (or equivalent† standards)		ESRS or specific standards for SMEs	ESRS, equivalent standards, or alternative specific standards for non-E.U. entities to be developed
<b>Reporting level</b>	Stand-alone subsidiary, unless included in the parent's report prepared under ESRS or equivalent standards for non-E.U. parent (i.e., consolidated group level)			Consolidated group, including non-E.U. activity
<b>Assurance</b>	Yes, limited assurance over all reported sustainability information			Yes, limited assurance over all reported sustainability information

\* Companies already subject to the Non-Financial Reporting Directive (NFRD) are large public-interest companies with more than 500 employees. Public-interest companies include companies listed on an E.U.-regulated market, banks, insurance companies, and other companies designated by national authorities as public-interest entities.

\*\* Large undertaking is defined by the CSRD as an entity that meets two or more of the following three criteria: >250 employees, >€20M balance sheet, >€40M turnover in the European Union.

\*\*\* SMEs can choose to defer reporting for two years until 2028.

† What may be deemed "equivalent" is yet to be determined by the European Commission (EC).

The CSRD should be applied for financial years starting on or after January 1, 2024. Therefore, a company that is subject to the first-stage requirements and has a non-calendar-year-end such as June 30 would be required to report under the CSRD for the fiscal period ending June 30, 2025 (i.e., reporting in late 2025). See the [Appendix](#) for some CSRD reporting timeline examples.

The ESRS require companies to disclose one year of comparative information for all disclosed quantitative metrics and monetary amounts, as well as comparative information for narrative disclosures “[w]hen relevant to an understanding of the current period’s **sustainability statement**” (ESRS 1.7.1). However, ESRS 1.10.3 provides an exemption to facilitate first-time application of the standard. Companies may omit disclosure of comparative information required by ESRS 1.7.1 for the first year of reporting. This exemption also applies to first-year reporting of phased-in disclosure requirements. See [Question 3](#) for more information on ESRS.

For further information, see Deloitte’s January 9, 2023, [Heads Up](#) and [The Corporate Sustainability Reporting Directive — Latest Insights](#).

### Question 3

What is EFRAG, and what are the nature and timing of the ESRS that it is developing?

### Answer

Appointed as a technical adviser to the European Commission (EC) under the CSRD, EFRAG is an independent body tasked with developing ESRS, which describe the information that companies within the scope of the CSRD will be required to disclose. There are multiple sets of standards in various stages of completion, as outlined below:

- *Draft standards* — The draft of the first set of sector-agnostic standards, referred to as “draft ESRS,” was submitted to the EC on November 22, 2022. After releasing an updated [draft](#) on June 9, 2023, the EC provided a feedback period from that date until July 7, 2023. During that time, stakeholders could provide their comments on the draft ESRS, which were published on the EC’s Web site. On July 31, 2023, the EC adopted the ESRS, which are subject to approval or rejection by the European Parliament and Council. The European Parliament and Council will review the final ESRS during a two-month scrutiny period, which is extendable by an additional two months. The standards will not be in force until the Commission Delegated Regulation is published in the *Official Journal of the European Union*.

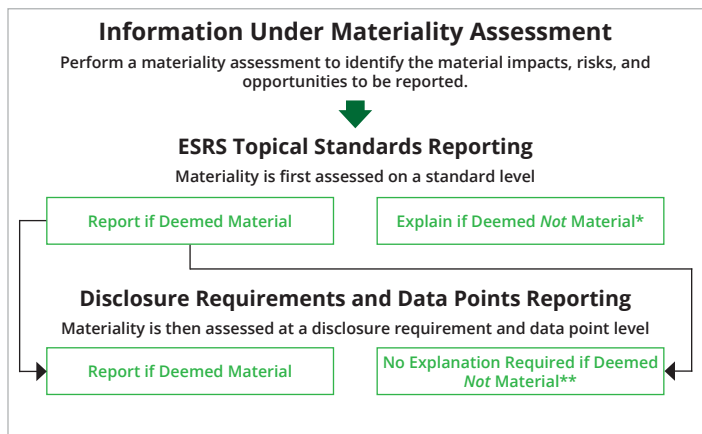
The first set of standards is sector-agnostic and includes twelve draft ESRS that cover the full range of sustainability matters specified in the CSRD. The standards are composed of 2 cross-cutting standards and 10 topical standards covering ESG topics. Each standard contains its own disclosure requirements and data points. All companies must comply with the general requirements of ESRS 1 and the general disclosure requirements of ESRS 2 **regardless of materiality**. After doing so, a company should then conduct a materiality assessment for the 10 topical standards to determine which are material to the company. If a topical standard is deemed material, the company must report on the disclosure requirements of that standard.<sup>5</sup> However, some disclosure requirements will remain voluntary regardless of the outcome of a materiality assessment and are designated as such. The standards contain roughly [80 disclosure requirements](#), pertaining to both quantitative and qualitative information, as well as hundreds of data points, which can also refer to a narrative sub-element of a disclosure requirement. The EC will allow certain phase-in options for all companies and additional phase-in options for companies with fewer than 750 employees. The graphics below show a breakout of the first set of 12 ESRS, a summary of which topics are mandatory and which are subject to materiality assessment, and the phase-in options available to all companies as well as those available to companies with fewer than 750 employees.

<sup>5</sup> Entities subject to other E.U. regulations may need to report certain disclosure requirements and data points prescribed by other E.U. regulations that may overlap with disclosure requirements and data points deemed voluntary or subject to a materiality assessment by ESRS.

Cross-Cutting Standards				
<b>ESRS 1</b> General requirements		<b>ESRS 2</b> General disclosures		
Environmental Topical Standards				
<b>ESRS E1</b> Climate change	<b>ESRS E2</b> Pollution	<b>ESRS E3</b> Water and marine resources	<b>ESRS E4</b> Biodiversity and ecosystems	<b>ESRS E5</b> Resource use and circular economy
Social Topical Standards				
<b>ESRS S1</b> Own workforce	<b>ESRS S2</b> Workers in the value chain	<b>ESRS S3</b> Affected communities	<b>ESRS S4</b> Consumers and end users	
Governance Topical Standard				
<b>ESRS G1</b> Business conduct				

**Mandatory Disclosures**

- ESRS 2 — General disclosures in full. Disclosure requirements and data points are mandatory for all companies regardless of materiality assessment.
- All other sections within ESRS are subject to a materiality assessment as depicted to the right.



Index/referencing of all disclosure requirements is required.

\* Undertakings must provide a detailed explanation when ESRS E1 climate change is determined to be not material. For all other topical standards deemed not material, explanatory disclosures are optional.

\*\* Undertakings must explicitly state that the data point is "not material."

Standard	Requirements That Are Applicable if the Topic/DR Is Deemed Material	For Companies With Fewer Than 750 Employees		For Companies With Over 750 Employees
		Required in Year 1?	Required in Year 2?	Required in Year 1?
<b>ESRS 2 SBM1</b>	Breakdown of total revenue by significant ESRS sector	Yes*	Yes*	Yes*
<b>ESRS 2 SBM3</b>	Material impacts, risks, and opportunities, and their interaction with strategy and business model (paragraph 48(e) anticipated financial effects)	Only reporting qualitative disclosures is possible for the first 3 years if it is impracticable to prepare quantitative disclosures	Only reporting qualitative disclosures is possible for the first 3 years if it is impracticable to prepare quantitative disclosures	Only reporting qualitative disclosures is possible for the first 3 years if it is impracticable to prepare quantitative disclosures
<b>ESRS E1</b>	Data points on Scope 3 and total GHG emissions (E1-6)	No	Yes	Yes

(Table continued)

Standard	Requirements That Are Applicable if the Topic/DR Is Deemed Material	For Companies With Fewer Than 750 Employees		For Companies With Over 750 Employees
		Required in Year 1?	Required in Year 2?	Required in Year 1?
<b>ESRS E1</b>	Anticipated financial effects from material physical and transition risks, and potential climate-related opportunities (E1-9)	Only reporting qualitative disclosures is possible for the first 3 years if it is impracticable to prepare quantitative disclosures	Only reporting qualitative disclosures is possible for the first 3 years if it is impracticable to prepare quantitative disclosures	Only reporting qualitative disclosures is possible for the first 3 years if it is impracticable to prepare quantitative disclosures
<b>ESRS E2/E3/E4/E5</b>	Anticipated financial effects and related impacts, risks, and opportunities from the topic (E2-6**, E3-5, E4-6, E5-6)	Qualitative disclosures possible for the first 3 years	Qualitative disclosures possible for the first 3 years	Qualitative disclosures possible for the first 3 years
<b>ESRS E4</b>	Biodiversity and ecosystems	No	No	Yes
<b>ESRS S1</b>	All disclosures regarding own workforce	No	Yes	Yes
<b>ESRS S1</b>	Some detailed information on own workforce (e.g., S1-7, S1-8, S1-11, S1-12, S1-14, and S1-15)	No	Yes	No
<b>ESRS S2</b>	All disclosure requirements related to workers in the value chain	No	No	Yes
<b>ESRS S3</b>	All disclosure requirements related to affected communities	No	No	Yes
<b>ESRS S4</b>	All disclosure requirements related to consumers and end-users	No	No	Yes

\* When the EC finalizes the disclosures required for specific sectors in which undertakings operate, undertakings will be required under ESRS 2 to provide a breakdown of total revenue by significant ESRS sector and a list of additional significant ESRS sectors. This change will occur no later than June 30, 2024.

\*\* Undertakings may comply with ESRS E2-6 by providing only qualitative disclosures for the first three years, except when such disclosures pertain to the information required by paragraph 40(b) on the operating capital expenditures that occurred in conjunction with major incidents and deposits.

- *Sector-specific standards* — According to the CSRD, EFRAG expects to publish a [second set of reporting standards](#), which will be sector-specific. The sectors are as follows: oil and gas; coal, quarries, and mining; road transport; agriculture, farming, and fisheries; motor vehicles; energy production and utilities; food and beverages; and textiles, accessories, footwear, and jewelry. The timing of publication is aligned with the implementation phases of the CSRD (see [Question 2](#)); however, delays are expected.
- *Additional future standards* — While EFRAG has announced its plans to release additional standards tailored to listed SMEs, nonlisted SMEs, and non-E.U. entities, currently there is limited to no publicly available information on the timing or content of these additional standards. However, EFRAG has stated that these additional standards will be proportionate and relevant to the scale and complexity of the activities and to the capacities and characteristics of the entities for which they are designed.

In addition, the EC has indicated that it will allow non-E.U. companies within the scope of the CSRD, such as U.S. parent companies, to use sustainability standards equivalent to the ESRS. For additional discussion of standards that may be deemed equivalent, see [Question 6](#).

For more information, see [ESRS 1](#), including Appendix C.

## Question 4

How is the CSRD related to the European Sustainable Finance Strategy, as well as other regulations and standards, such as the Non-Financial Reporting Directive, EU Taxonomy for Sustainable Activities, the Sustainable Finance Disclosures Regulation (SFDR), the Corporate Sustainability Due Diligence Directive, and the EU Green Bond Standard?

## Answer

Below is a brief summary of the relationship of the CSRD to those regulations and standards:

- *European Sustainable Finance Action Plan* — In recent years, the European Union has formed multiple initiatives to connect finance and sustainability through the 2018 Action Plan on Sustainable Finance; the Green Deal, which includes the EC's [renewed sustainable finance strategy](#); and the Sustainable Finance Package. The graphic below illustrates the timeline of the developments in recent years.



- *Non-Financial Reporting Directive (NFRD)* — The [NFRD](#) was adopted in 2014 and requires large public-interest companies that have more than 500 employees and are listed within the European Union to provide nonfinancial disclosures related to ESG matters along with their annual financial reports.

The CSRD replaces and expands the existing requirements of the NFRD and extends the scope of companies required to disclose sustainability information from approximately [11,700 to 50,000](#) companies in the European Union, with another [3,000 or more U.S.-based companies](#) estimated to be affected. Ultimately, the scope of the CSRD may be affected by how each E.U. member state transposes it into law.

- *EU Taxonomy for Sustainable Activities* — The [EU Taxonomy for Sustainable Activities](#), also known as the “EU Taxonomy,” is a classification system that establishes a list of environmentally sustainable economic activities that are consistent with the six environmental objectives pursued in the European Union as well as minimum social and human rights safeguards. The EU Taxonomy provides entities, investors, and policymakers with appropriate definitions and criteria (including science-based technical criteria) with which to identify economic activities that can be considered environmentally sustainable. While aiming to create security for investors and protect

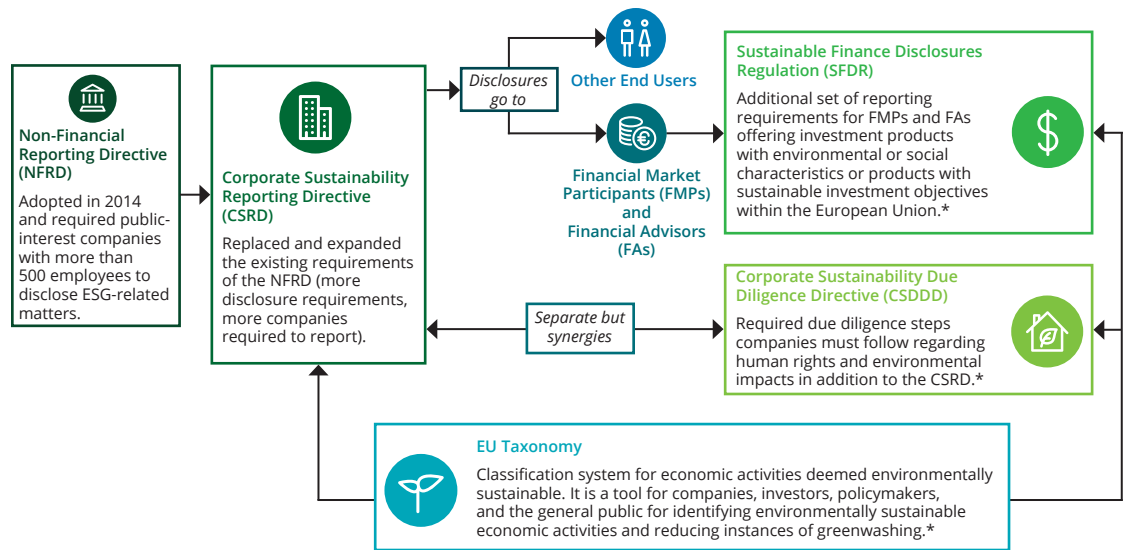
private investors from greenwashing, the EU Taxonomy also (1) helps companies become more climate-friendly, (2) mitigates market fragmentation, and (3) promotes a shift in investments to where they are most needed. The EU Taxonomy allows entities to comply with the [EU Taxonomy Regulation](#),<sup>6</sup> which establishes six environmental objectives — climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

The CSRD ties into Article 8 of the EU Taxonomy Regulation by requiring companies to report various key performance indicators, which vary on the basis of the nature of the entity, with respect to all six environmental objectives. For example, a company within the scope of the CSRD will be required to report its turnover, capital expenses, and operational expenses with respect to all six environmental objectives.

- *Sustainable Finance Disclosures Regulation (SFDR)* — The [SFDR](#) requires certain financial market participants and advisors to provide transparency in sustainability reporting on (1) the ESG qualities of the financial products that are offered to their clients as part of existing precontractual and periodic disclosure obligations, and subsequently reflected on their Web sites, and (2) how they incorporate sustainability matters into their investment decisions. These requirements, which are in addition to those of the CSRD, apply to financial market participants that offer investment products in the European Union, financial advisors who guide E.U. consumers, and non-E.U. financial institutions operating in the European Union or transacting with E.U.-based clients.
- *Corporate Sustainability Due Diligence Directive (CSDDD)* — Currently in development, the [CSDDD](#) is a future E.U. directive that would introduce required due diligence steps that companies must follow regarding human rights and environmental impacts. The directive would require companies to identify and remediate any negative human rights and environmental impacts within their own operations as well as those of their subsidiaries and up and down their value chains. The goal of the CSDDD is to encourage sustainable and responsible corporate behavior and operations. While these requirements would be in addition to those of the CSRD, there may be a number of synergies between the two directives, such as on the disclosure of value chain impacts and transition plans and the requirement to have a climate transition plan aligned with the Paris Agreement.
- *European Green Bond Standard* — The [European Green Bond Standard](#) is another regulation in development, which will possibly be finalized in 2023. It is a voluntary standard to help scale up and raise the environmental ambitions of the green bond market. Applying this standard would allow issuers to demonstrate that they are funding legitimate green projects aligned with the EU Taxonomy. The EU Green Bond Standard sets out requirements that would enable companies to claim that they are issuing an “EU green bond,” a label that is expected to be sought by the financial sector, which aims to invest in sustainable investments. Entities that do not follow the EU Green Bond Standard would not be entitled to claim that they are issuing “green bonds.” The requirements of the EU Green Bond Standard include references to the EU Taxonomy.

<sup>6</sup> “Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the Establishment of a Framework to Facilitate Sustainable Investment, and Amending Regulation (EU) 2019/2088.”





\* Specific considerations related to organizational structure and E.U. footprint will dictate further applicability requirements across the additional E.U. standards and regulations.

See Deloitte's December 2022 *iGAAP in Focus* and *The Corporate Sustainability Reporting Directive – Latest Insights* for further details.

## Question 5

How does the CSRD compare with the SEC's proposed climate disclosure requirements?

## Answer

**The CSRD will require disclosure and assurance on a much broader suite of ESG topics than would the SEC's proposed rule on climate-related disclosures.** The CSRD will include requirements for non-climate-related environmental topics and various social topics, while the SEC's [proposed rule](#)<sup>7</sup> on climate-related disclosures would only mandate disclosures specific to climate impacts and risk. The table below highlights the main differences between the SEC's proposed regulation and the CSRD.

	Regulation (proposed)	Standards
	SEC	CSRD/ESRS
<b>Type</b>	<ul style="list-style-type: none"> <li>Authoritative regulatory disclosure requirements</li> </ul>	<ul style="list-style-type: none"> <li>Regulation and standards developed by EFRAG</li> </ul>
<b>Scope</b>	<ul style="list-style-type: none"> <li>Climate-related disclosures (industry-agnostic)</li> </ul>	<ul style="list-style-type: none"> <li>Sustainability disclosures (including industry-specific)</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>Investor-focused, in a manner consistent with Supreme Court's definition</li> </ul>	<ul style="list-style-type: none"> <li>Double materiality</li> </ul>
<b>Assurance</b>	<ul style="list-style-type: none"> <li>Limited assurance, followed by reasonable assurance (Scope 1 and Scope 2 GHG emissions)</li> <li>Financial statement audit/ internal control over financial reporting (Financial Impact Metrics)</li> </ul>	<ul style="list-style-type: none"> <li>Limited assurance (potentially followed by reasonable assurance) over reported sustainability information</li> </ul>

<sup>7</sup> SEC Proposed Rule Release No. 33-11042, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*.

It is important to note that, as described in the graphic above, the CSRD will require assurance over *all* sustainability information whereas the SEC’s proposed rule would only require assurance over Scope 1 and Scope 2 GHG emissions.

For more information about double materiality and its impact on the CSRD requirements, see [Question 9](#). For further discussion of the CSRD assurance requirements, see [Question 10](#).

See Deloitte’s January 9, 2023, [Heads Up](#) for further details.

## Question 6

Will non-E.U. companies be permitted to use other standards instead of the ESRS? Which sustainability reporting standards are most likely to be deemed “equivalent” to ESRS for use by non-E.U. companies? Is the proposed SEC climate disclosure rule expected to be eligible for equivalence?

## Answer

Although the EC has indicated that it will allow in-scope non-E.U. companies (such as U.S. parent companies) to use sustainability standards equivalent to the ESRS, it has not yet decided which standards will be deemed equivalent. (Note that equivalent standards will only be available at the non-E.U. parent company level; any reporting done at an E.U.-company level must use ESRS.) If the EC decides that another country’s sustainability reporting standards are *not* equivalent, it may nonetheless allow companies to continue using such standards during an appropriate transition period, thus providing reasonable time for them to prepare to report in accordance with ESRS or an approved equivalent standard. When the appropriate transition period comes to an end, the companies would be required to report in accordance with ESRS or an approved equivalent standard. It is important to note that the disclosure requirements of the ESRS are extensive, with roughly 80 requirements covering both quantitative and qualitative disclosures, and go well beyond the requirements of the SEC’s proposed rule on climate-related disclosures. As of now, it is not known whether the SEC’s proposed rule, when finalized, will be an eligible ESRS-equivalent standard.

See the [CSRD](#), paragraph 25, and [EU Transparency Directive \(2004/109/EC\)](#), Article 23, paragraph 4, as amended by the CSRD, for more information.

## Question 7

Will E.U. subsidiaries within the scope of the CSRD still be required to report separately if the U.S. parent company publishes consolidated reporting in accordance with ESRS?

## Answer

If a U.S. multinational company has a subsidiary based in the European Union that is within the scope of the CSRD, the subsidiary may be exempt from reporting separately when it (and any subsidiary undertakings it may have) is included in the consolidated parent company’s reporting prepared in accordance with ESRS. In this case, an exempted subsidiary will be required to disclose certain information about the use of the exemption.

The exemption is not allowed for large subsidiaries that are listed on an E.U.-regulated market. Therefore, U.S. parent companies that are within the scope of the CSRD for enterprise-level reporting starting in 2028 and have a large subsidiary listed on an E.U.-regulated market will need to report at the consolidated U.S. parent-company level while continuing to separately report sustainability information in the management report for the large subsidiary listed on

an E.U.-regulated market. See [Question 2](#) for more information on enterprise-level reporting considerations.

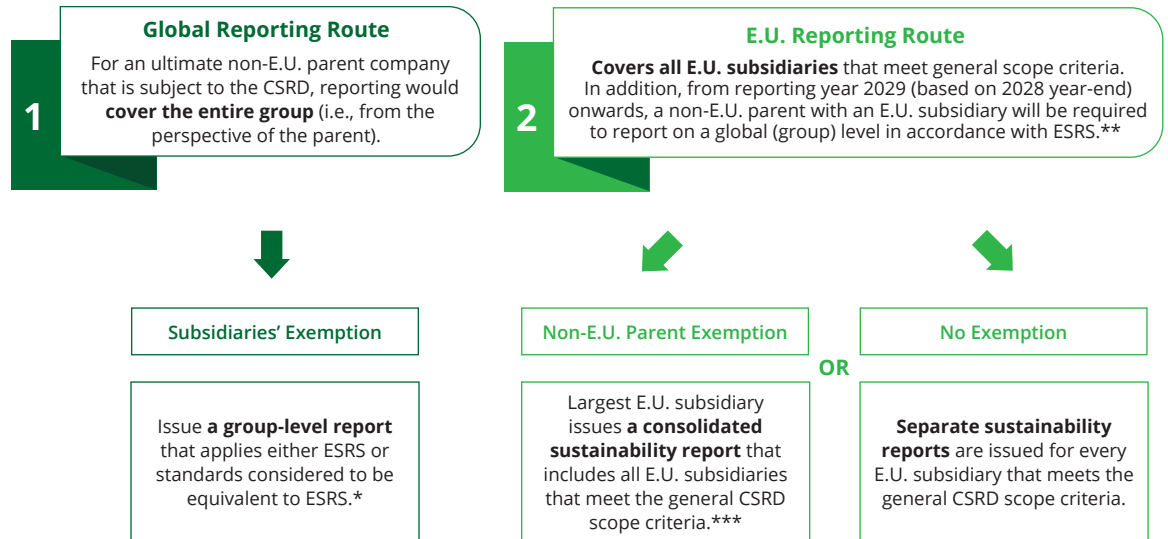
For further details, see the [CSRD](#), paragraphs 25 and 26, and [EU Accounting Directive \(2013/34/EU\)](#), Articles 19a, 29a, and 48i, paragraph 4, as amended by the CSRD.

## Question 8

What are the reporting options for U.S. companies with E.U.-based subsidiaries?

### Answer

The CSRD provides three different reporting options for non-E.U. parent companies with E.U.-based subsidiaries — one global reporting route and two E.U. reporting routes — to ensure that all entities within the scope of the CSRD ultimately report the required information. The global reporting route allows a U.S. (i.e., non-E.U.) parent company to report in accordance with the CSRD for itself and for all of its subsidiaries (i.e., one report covering the entire consolidated company from the perspective of the parent). The E.U. reporting route provides two additional options. The first, which is available until 2029, allows the largest E.U. subsidiary to produce a consolidated report containing information for all E.U. subsidiaries within the scope of the CSRD. This option is not for the enterprise-wide consolidated report; rather, this “artificial consolidation” is only allowed if the E.U. subsidiaries are *not* held by an E.U. holding company. The second option allows each E.U. subsidiary within the scope of the CSRD to issue a separate sustainability report. The graphic below provides further information.



\* The EC will adopt a decision on the equivalence of the reporting in the parent company's jurisdiction. Exemption will not be available for large listed E.U. subsidiaries to issue a stand-alone report.

\*\* There will be a separate reporting standard regarding reporting by an ultimate non-E.U. parent company that is within the scope of the CSRD. The standard is expected to focus on impact reporting and require no reporting on risks.

\*\*\* Exemption available until 2029. Exemption is not available for large E.U. subsidiaries listed on E.U.-regulated markets. The largest E.U. subsidiary (i.e., the subsidiary with the highest turnover in the European Union in at least one of the five preceding financial years on a consolidated basis where applicable) would be responsible for issuing the consolidated sustainability report.

For further information, see [EU Accounting Directive \(2013/34/EU\)](#), Articles 40a–40c, and Article 48i as amended by the CSRD, as well as Deloitte's January 9, 2023, [Heads Up](#).

## Question 9

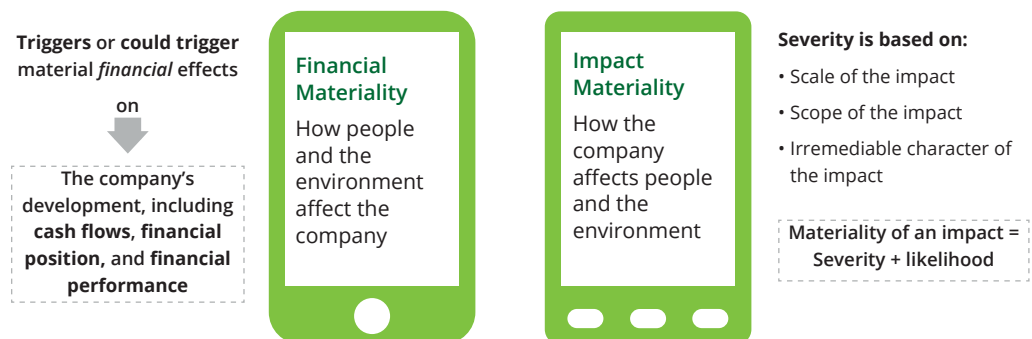
How is double materiality defined under the CSRD and ESRS?

### Answer

Double materiality is a concept that provides criteria for determining whether sustainability information is required to be disclosed. The CSRD describes double materiality as the requirement to “report both on the impacts of the activities of the undertaking on people and the environment [impact materiality], and on how sustainability matters affect the undertaking [financial materiality].” As further defined in ESRS 1, Section 3.4, impact materiality refers to positive and negative sustainability-related impacts connected with an undertaking’s business. Section 3.4 states that “[a] **sustainability matter** is material from an impact perspective when it pertains to the undertaking’s material actual or potential, positive or negative **impacts** on people or the environment over the short-, medium- or long-term. Impacts include those connected with the undertaking’s own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships.”

Financial materiality refers to sustainability-related matters that could present financial risks or opportunities for an undertaking. ESRS 1, Section 3.5, explains that “[a] sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material **financial effects** on the undertaking.”

These two concepts can be interrelated, such as when an undertaking’s impact on the environment generates a financial risk. Sustainability information meets the criteria of double materiality if it is material from the impact perspective, the financial perspective, or both perspectives. The graphic below illustrates the two dimensions of double materiality: financial materiality and impact materiality.



See [ESRS 1](#), including Appendix A, for further information on double materiality and application requirements.

## Question 10

Which disclosures will be subject to assurance, and what level of assurance is required?

### Answer

As specified in paragraph 60 of the CSRD, all companies within its scope are required to seek limited assurance over “the compliance of the sustainability reporting with [the E.U.] sustainability reporting standards, the process carried out by the undertaking to identify the information reported pursuant to the sustainability reporting standards and compliance with the requirement to [electronically tag the] sustainability reporting” in accordance with the electronic reporting format specified in Article 3 of Commission Delegated Regulation (EU) 2019/815. Limited assurance is required for all of the CSRD’s implementation phases, meaning

that entities within the scope of the CSRD must obtain limited assurance in their first year of reporting. The assurance provider should also assess whether the undertaking's reporting complies with the reporting requirements of Article 8 of the EU Taxonomy Regulation. The EC will perform an assessment to determine whether moving from limited to reasonable assurance is feasible for both auditors and companies. After this assessment, the EC will adopt assurance standards for (1) limited assurance no later than October 1, 2026, and (2) reasonable assurance no later than October 1, 2028. Under the CSRD, this assurance may be provided by the company's statutory auditor. The assurance provider will present an assurance report containing a conclusion about whether the company has disclosed its sustainability information in accordance with the criteria noted above.

For more information, see the [CSRD](#), paragraphs 60, 61, and 62, and [EU Audit Directive \(2006/43/EC\)](#), Articles 26a, 27a, and 28a, as amended by the CSRD.

### Question 11

What are the consequences of noncompliance with the CSRD?

#### Answer

The EC has not directly stated what the impacts of noncompliance with the CSRD will be. However, on the basis of precedent with the NFRD, which has different requirements and enforcement mechanisms for each E.U. member state, it is likely that the EC will once again leave enforcement and compliance up to each E.U. member state. This notion is further supported by [CSRD Article 5\(1\)](#), which notes that "Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with Articles 1 to 3 of this directive by 6 July 2024."

For further details, see the [NFRD](#), paragraphs 10 and 16.

### Question 12

What are the next steps in the CSRD regulatory adoption process for member states?

#### Answer

The CSRD entered into force on January 5, 2023, after being published in the *Official Journal of the European Union* in December 2022. The rules introduced by the NFRD will remain in force until the rules of the CSRD are applicable. Under the CSRD, [Article 5](#), member states will have until July 6, 2024, to transpose the CSRD into their national laws and bring into force regulations and administrative provisions necessary for compliance. At the time of this publication, no member states have transposed the CSRD into their national laws.

See the EU's [Corporate Sustainability Reporting](#) overview for more information.

## Question 13

What are some initial steps that companies can take to start preparing for CSRD compliance?

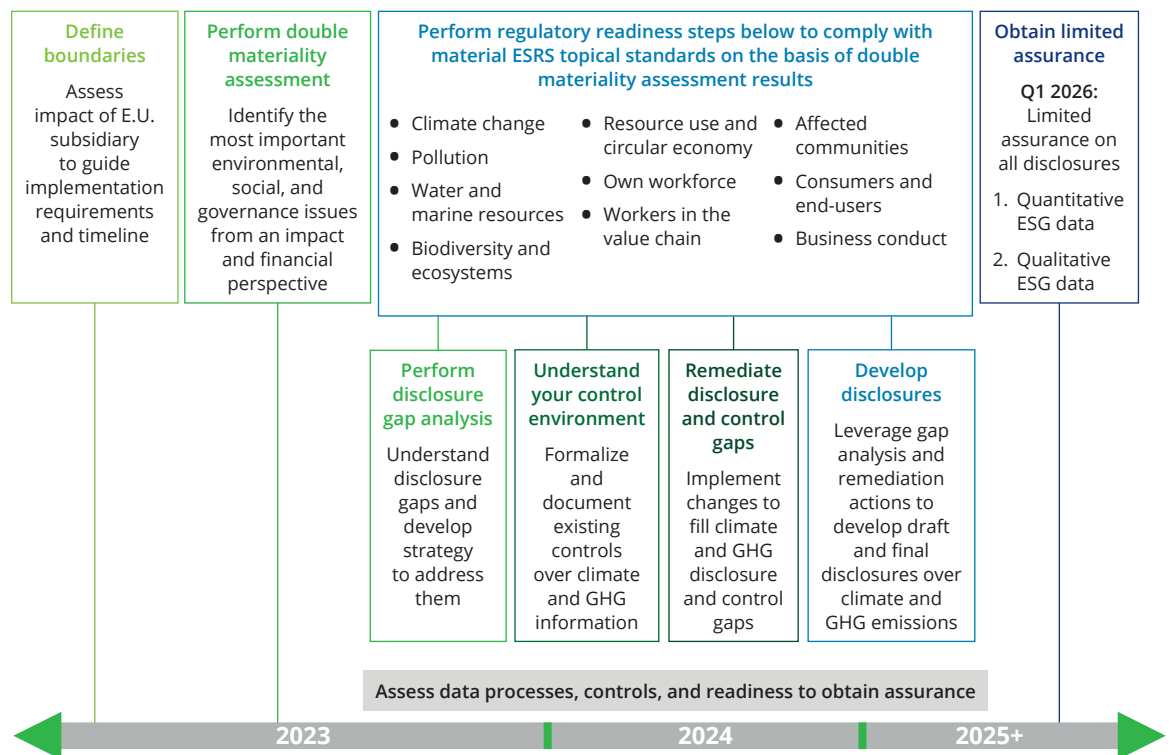
### Answer

First, companies should conduct a boundary assessment to see whether they fall under the scope of the CSRD. Consultation with legal counsel may be needed to conduct this assessment. If companies do fall under its scope, it is important to determine the timeline of reporting and to prepare accordingly.

Two key elements of the CSRD are its double materiality lens, which requires reporting on material impacts and risks relevant to investors and other stakeholders, and its requirement to have limited assurance over all disclosed sustainability information. If a topic is material, it needs to be disclosed; and if a topic is disclosed, it needs to be assured. Therefore, companies within the scope of the CSRD should prioritize conducting a double materiality assessment by (1) considering both financial and impact materiality (see [Question 9](#)) and (2) evaluating and strengthening their processes and controls over their sustainability information so they can be “assurance ready” (see [Question 10](#)). The graphic below outlines some additional initial steps that companies can take to start preparing for compliance with CSRD requirements over and above climate and GHG information.

### Preparing for CSRD Compliance — Important Steps

The table below assumes an inaugural reporting year of 2026 for FY 2025 data.



For more information, see Deloitte’s January 9, 2023, [Heads Up](#).

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## Appendix

Outlined below are a variety of scenarios in which a U.S. company and its subsidiaries may find itself within the scope of the CSRD. The table offers several circumstances, criteria, and analysis but does not outline every possible scenario in which a U.S. company may be affected.

	Scenario 1	Scenario 2	Scenario 3
Company overview	U.S. group	U.S. group	U.S. group
Company profile and CSRD criteria	The company generated €160M in the European Union in each of the last two years and had two E.U. branches that each generated €80M turnover in the preceding financial year.	The company generated €160M in the European Union in each of the last two years and has one large unlisted E.U. subsidiary.	The company generated €160M in the European Union in each of the last two years and has one large subsidiary listed on an E.U.-regulated market.
Timeline and CSRD reporting requirements	The U.S. group, including E.U. and non-E.U. operations, would be within the scope of the CSRD beginning financial year 2028, for reporting in 2029, because it generated more than €150M in the European Union at the consolidated level in the last two years and has at least one branch in the European Union that generated turnover there in excess of €40M in the preceding year.	On a standalone basis, the large E.U. subsidiary would be within the scope of the CSRD beginning financial year 2025, for reporting in 2026, unless included in the U.S. group's consolidated management report prepared in accordance with ESRS (or equivalent standards). The U.S. group, including E.U. and non-E.U. operations, will be within the scope of the CSRD beginning financial year 2028, for reporting in 2029.	The large listed E.U. subsidiary would be within the scope of the CSRD beginning financial year 2025 (or financial year 2024 if the subsidiary has over 500 employees). The U.S. group, including E.U. and non-E.U. operations, would be within the scope of the CSRD beginning financial year 2028 for reporting in 2029. Unlike scenario 2, the large subsidiary would not be exempt from subsidiary reporting if it is included in the U.S. group's consolidated management report prepared in accordance with ESRS (or equivalent) because it is a large listed subsidiary.



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