



Corporate Sustainability Reporting Directive (CSRD) for non-EU companies

What is the CSRD?

CSRD is a European Union (EU) directive, that extends sustainability standards and reporting requirements to entities operating across the EU. These standards cut across Environmental, Social and Governance (ESG) areas. CSRD requires non-EU headquartered companies to undertake an analysis of their (legal) entities and group structure to understand which of their legal entities will be subject to the CSRD. Given the extensive scope of CSRD, the lead time to make sure your company is ready to report could take between 18-24 months. Member States are expected to transpose the CSRD into national law ultimately by July 2024. At the moment, (draft) transposition legislation is available that should be taken into account.

Who and when will the CSRD impact (EU and non-EU)?

Third-country undertakings and/or their EU subsidiaries or EU branches can fall under the scope of the CSRD (see image below). Undertakings that are already in scope of the Non Financial Reporting Directive (NFRD) will be obligated to report as of 2025 (on financial year 2024). Large EU undertakings and EU parent undertakings of a large group will be obligated to report as of 2026 (on financial year 2025).

Large undertakings are defined as those entities meeting two of the following three criteria (in two consecutive financial years):

- net turnover of more than EUR 50 million;
- balance sheet total of more than EUR 25 million; and
- have more than 250 employees (on average).

Large groups are groups, which on a consolidated basis, meet at least two of the three above mentioned criteria.

Listed Small and Medium Enterprises (SMEs) will be obligated to report as of 2027 (on financial year 2026). When a third-country undertaking meets the thresholds (see image below), certain EU subsidiaries (large undertakings and listed SMEs) or EU branches will be required to make accessible a sustainability report at the group level of the third-country undertaking as of 2029 (on financial year 2028). Specific reporting standards will be developed for these EU subsidiaries or EU branches of third-country undertakings and for listed SMEs.

In addition, a third-country undertaking will be subject to the CSRD when it is a non-EU issuer. A non-EU issuer is an undertaking, established under the laws of a third country, whose securities are admitted to trading on a regulated market in the EU.

Please note that certain collective investment undertakings are excluded from the CSRD scope. Special rules apply to credit institutions and insurance undertakings. Local transposition legislation could change the above.

Exemptions to report under the CSRD

- Possibility to exempt EU subsidiaries/subgroups from the obligation to report if they are included in the consolidated management report of a parent undertaking. This consolidated management report must be prepared in accordance with European Sustainability Reporting Standards (ESRS) or (when the parent undertaking is established in a third country) in a manner equivalent to those sustainability reporting standards (which will be determined by the EU at a later date).
- For a transitional time period (until 6 January 2030), there is an option to form an “artificial” scope of consolidation for all EU undertakings that are required to report. For this purpose, the largest EU subsidiary undertaking (in terms of turnover) must include all EU subsidiary undertakings in scope in an “artificially” consolidated sustainability report.

Implications of not complying

- Sanctions for non-compliance against companies and directors will vary across the EU but could lead to:
 - Fines; Criminal sanction and prosecution; Audit failure; Public censure; Reputational risk and exposure to litigation.

Assurance

- Mandatory assurance obligation for reported sustainability information.
- The requirement would begin with limited assurance and expand to reasonable assurance at a later date.
- Limited assurance is a negative form of assurance stating that no matter has been identified by the auditor to conclude that the subject matter is materially misstated.

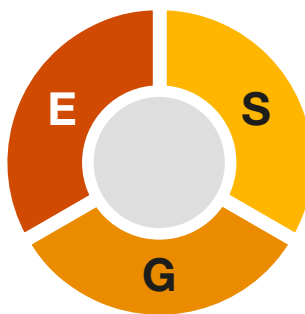
Takeaways and actions

- Third-country undertakings and/or EU subsidiaries or EU branches of third-country undertakings can fall under the scope of the CSRD and therefore be required to report non-financial information.
- Take stock of EU subsidiaries and EU branches and determine the reporting structure.
- Take into account group consolidation, individual entity reporting and 'artificial' consolidation. Exemptions may apply.
- Keep track of ESRS developments on reporting standards for EU subsidiaries or EU branches of third-country undertakings.
- Third-country undertakings with (significant) EU activities need to start on time with preparing for the CSRD.
- Undertakings should review the rules carefully and be aware of differences between the CSRD and the legislation yet to be implemented by each Member State.
- Consider the legal structure to manage the reporting scope and ensure compliance within the required time frames.
- Ensure that your business operating model and legal structure are fully aligned.

PwC can help you to answer your questions

Our team can assist by providing support that integrates our extensive legal, tax and reporting and assurance capabilities from across our global network, combining the E, S and G reporting components.

- Am I (or are my subsidiaries) required to report non-financial information? What does this mean for me and my subsidiaries?
- When do I or my EU subsidiaries need to (prepare to) report non-financial information?
- Can I (or my subsidiaries) be exempted from the sustainability reporting requirement? If so, what conditions must be taken into account?
- Any other questions (e.g. regarding the takeaways and actions above).



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