The new European directive on Corporate Sustainability Reporting (CSRD) and its mandatory European Sustainability Reporting Standards (ESRS) will gradually apply as of January 2024. In line with its approach of providing support for listed companies, the AMF proposes a few points that listed companies could consider for the preparation and correct implementation of this new regulatory framework.

The CSRD and reporting standards: what is new?

As of 2024, new more demanding sustainability reporting requirements with the CSRD

The European Corporate Sustainability Reporting Directive (CSRD) aims to harmonise corporate sustainability reporting and improve the availability and quality of published data. A large number of companies will therefore have to comply with compulsory European sustainability reporting standards and publish detailed information on their risks, opportunities and material impacts related to social, environmental and governance matters.

The CSRD will gradually cover around 50,000 companies, according to the following application timeline:
To find out more about the provisions of the CSRD and its detailed scope of application, go to the page:


Focus on the compulsory European sustainability standards

The CSRD foresees the creation of detailed European Sustainability Reporting Standards (ESRS) governing and harmonising companies’ publications. Several types of standards will be gradually adopted through delegated acts by the European Commission: "sector-agnostic" standards (applicable to companies in all sectors) first, then followed by sector-specific standards, and lastly specific standards for SMEs listed on regulated markets.

The European Commission has mandated EFRAG (the European Financial Reporting Advisory Group) to prepare these standards. Following a public consultation in spring 2022, EFRAG submitted to the European Commission an initial set URL = [https://www.efrag.org/lab6] of 12 sector-agnostic standards covering all ESG issues in November 2022. After revising these standards produced by EFRAG (notably making certain provisions less stringent and more gradual), on 9 June, the European Commission published a public consultation URL = [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-Normes-europeennes-dinformation-en-matiere-de-durabilite-premier-ensemble-de-normes_fr] on its draft delegated act (draft revised standards). This consultation is open for a period of four weeks until 7 July 2023.

— From 1 January 2024 (reports published in 2025), companies within the scope of application of the current Non-Financial Reporting Directive (NFRD) and which already publish a sustainability statement. These are listed companies with more than 500 employees, and more than €40m in turnover and/or a €20m balance sheet total.

— From 1 January 2025, all other large European companies, i.e. those that meet two of the following three criteria: more than 250 employees, a net turnover exceeding €40m and/or a balance sheet total exceeding €20m.

— From 1 January 2026, SMEs listed on a regulated market, with the exception of micro-enterprises. The SMEs will apply lighter reporting standards and will be able to postpone their requirements by two years.

— From 1 January 2028, certain large non-European companies having European turnover exceeding €150m and a subsidiary or branch based in the European Union.
Draft ESRS standards: Commission draft delegated act submitted for public consultation on 9 June 2023

NB: the following (non-exhaustive) information is based on the Commission draft delegated act submitted for public consultation on 9 June 2023, and might still go through changes. The final, applicable, standards will be published in the Official Journal of the European Union after the co-legislators' non-objection procedure on the final delegated act. The non-objection period will start as soon as the Commission adopts the delegated act following the current public consultation.

The European Sustainability Reporting Standards (ESRS)

Draft standard ESRS 1 "General requirements" describes the architecture, principles and general concepts of the ESRS standards: characteristics of the information, double materiality, structure of sustainability information, value chain, etc.

Draft standard ESRS 2 "General disclosures" describes the information that companies must present related to material sustainability issues. This information covers four areas of reporting: governance; strategy; process of identification and management of sustainability impacts, risks and opportunities; and metrics and targets.

The 10 draft topical standards, indicated in the chart above, detail specific information to be provided concerning the material impacts, risks and opportunities related to each sustainability topic – environment, social and governance, in addition to the general disclosures of ESRS 2 and complying with the same structure in four areas.
The European Commission also asked EFRAG to prepare implementation guidance accompanying the ESRS standards to facilitate their application by companies. Accordingly, guidance on the double materiality assessment and on the value chain are set to be published soon by EFRAG.

**How to prepare for the CSRD requirements?**

**Analysing the legislation and developing expertise**

Given the novelty, complexity and density of the new requirements introduced by the CSRD and the ESRS, a thorough reading and analysis of the texts appear as the first essential step in their implementation, to ensure a good understanding of the numerous disclosure requirements (nature of expected qualitative and quantitative information, links between the various requirements and datapoints, etc.).

Moreover, it is also necessary to grasp the “underlying aspects” of sustainability, i.e. the ramifications of each E (environment), S (social) and G (governance) topic covered by the standards. For example, a prerequisite for relevant reporting on biodiversity issues, is to first understand what is a "biodiversity impact" and what are the factors contributing to pressures exerted on the ecosystems, or the interdependencies between biodiversity and, for instance, climate matters.

Therefore, expertise has to be created and/or developed within companies concerning the various sustainability topics and the related standards.

**Working in "project" mode through involving all of the company functions**
All business lines and all functions of the company are concerned by sustainability, whether as regard the identification of the risks, impacts and related opportunities or for the definition, implementation and monitoring of the company's sustainability strategy, policies and actions. Similarly, the sustainability reporting stemming from these factors will involve various competencies (financial, legal, operational, sustainable development, human resources, communication, public affairs, etc.) within organisations.

A cross-cutting organisation, including all the internal stakeholders and involving the company management, is therefore a key factor of success in the implementation of this new regulatory framework.

Adapting tools for data collection and construction

The (draft) durability standards include a large number of disclosure requirements ("DR") and qualitative or quantitative datapoints to be provided.

Depending on the way companies are organised, their ESG issues, and the materiality of those issues, certain disclosure requirements will be completely new and require the production of new data, while others will already exist, but partially, and therefore have to be supplemented (e.g., data covering a limited scope on the required indicator), or will have to be made more reliable (e.g., data produced without an audit trail). In addition, some disclosures required by the standards will concern the company's value chain.

It is therefore equally important to anticipate and address data compilation, collection and the improvement of data reliability, these matters possibly implying a more or less substantial adaptation of reporting tools and channels, or an organisational change.

Establishing robust internal control of sustainability reporting

The CSRD requires that companies' sustainability reporting undergoes a mandatory assurance conducted by a statutory auditor or an independent assurance services provider (depending on Member States), initially with a "limited" level of assurance. A transition to the "reasonable" level of assurance could be required from the end of 2028.

The directive also expands the responsibility of the governing bodies, which must collectively ensure compliance of sustainability reporting with the CSRD and the ESRS, and the requirements under Article 8 of the Taxonomy Regulation. Lastly, the text extends the prerogatives of the Audit Committee, which shall contribute to the integrity of sustainability information (this new role assigned to the Audit Committee may be entrusted, depending
on Member States, to another body). These new duties aim to strengthen the quality and reliability of sustainability reporting.

For example, robust internal control and substantial involvement of the governing bodies will undoubtedly be very beneficial in the process of implementing the CSRD and ESRS within companies. Close dialogue with the auditor(s) or independent third-party organisation from the start and throughout the process of reporting production and monitoring could also be beneficial for businesses.

**What priorities in implementing the new reporting system?**

Implementing or updating the double materiality analysis

With the principle of "double materiality", the cornerstone of the CSRD, companies must report the information necessary to understand not only the effects of sustainability issues on their financial position and performance, but also their impact on the environment and society. The double materiality analysis carried out by companies should make it possible to identify sustainability topics reflecting the main ESG risks, opportunities and impacts of the company due to its activities and its value chain. This analysis should also enable to identify material information to report on those issues (indicators, contextual information, etc.), in accordance with the ESRS.

Since the materiality analysis is thus the starting point for sustainability reporting, companies will benefit from updating and/or swiftly implementing their materiality assessment process. A number of elements can be considered when carrying this materiality assessment pursuant to the provisions of the CSRD and the ESRS, which can require more or less work depending on the specific circumstances of each company. These can include, for instance: the nature of activities, sectors and geographies; consideration of the value chain; consideration of stakeholders; definition of the likelihood of occurrence of the impacts, risks and opportunities, the severity of impacts, and the potential magnitude of the financial effects; definition of materiality thresholds; etc.

Companies may usefully refer to the future guidance on "materiality assessment" currently being prepared by EFRAG.

With regard to transparency, a clear description by companies of their materiality analysis approach - critical in sustainability reporting - and their assumptions and trade-offs, will be important especially for the first reporting years.
Conducting a gap analysis between current publications and upcoming reporting requirements

Together with the double materiality analysis, the prioritisation operation can be usefully supplemented by a gap analysis of the future transparency requirements of the ESRS and the sustainability information already published by companies.

The information provided in all the companies’ communication materials and by virtue of the various regulations already applicable could be identified and analysed for this purpose, whether it be the information communicated in the non-financial statement, the specific climate report where applicable, the risk factors in the URD, the financial statements, or else under the Vigilance Plan, etc. Depending on companies’ organisation and specific features, certain information could correspond, fully or partially, to the disclosure requirements or datapoints of the ESRS.

This gap analysis stage will provide an overall view of the steps to be taken, which may be very substantial, as to the information to be reported with regard to the various material sustainability topics and sub-topics.

Defining priorities in the preparation of information

The materiality analysis and gap analysis will make it possible to prioritise the relevant information to be prepared.

On the basis of the Commission’s draft delegated act, the general disclosures required by draft standard ESRS 2 are not subject to materiality assessment, unlike the disclosures of the other topical standards which are to be provided if the sustainability issues that they cover are material according to the materiality analysis performed by each company. Companies should include the preparation of ESRS 2 disclosure requirements in their priorities to ensure their effective disclosure.

A second filter consists in identifying the transitional provisions planned for certain standards and disclosure requirements (which may temporarily not be provided). These are provisions introduced by the Commission to facilitate companies’ application of this demanding new transparency framework.

In its draft delegated act of 9 June 2023, the Commission introduced more optional datapoints than in the draft standards prepared by EFRAG. For example, numerous disclosures regarding non-employee workers (standard S1, on the company’s own workforce) have become optional.
The following box describes certain transitional provisions proposed in the Commission's draft delegated act.

**Transitional reporting simplification provisions (ESRS 1, Section 10)**

**Commission draft delegated act submitted for public consultation on 9 June 2023**

*NB: the following (non-exhaustive) information is based on the Commission draft delegated act submitted for public consultation on 9 June 2023, and might still go through changes. The final, applicable, standards will be published in the Official Journal of the European Union after the co-legislators' non-objection procedure on the final delegated act. The non-objection period will start as soon as the Commission adopts the delegated act following the current public consultation.*

**Gradual application of certain standards:**

Companies with less than 750 employees may postpone:

- by two years the application of the standard on biodiversity (ESRS E4);
- by two years the application of the standards related to social issues covering workers in the value chain (ESRS S2), affected communities (ESRS S4), and the consumers and end users (ESRS S4);
- by one year the application of the standard related to social issues concerning an entity's own workforce (ESRS S1).

Companies which choose to postpone these disclosures shall nevertheless examine whether the topics covered by these standards are material and publish some minimum additional disclosures required under the general standard ESRS 2.

**Gradual application of certain specific reporting requirements:**

For example, for the first year of application:

- all companies may postpone the disclosures on the anticipated financial effects of environmental issues (ESRS E1 to E5);
companies with less than 750 employees may postpone the disclosure of their Scope 3 indirect greenhouse gas emissions.

- likewise, on the social topic, some data regarded as not easily accessible (such as the social protection of employees or the proportion of employees with disabilities) are not mandatory in the first year.

Simplifications for reporting on the value chain: ESRS 1 also defines transitional provisions over three years to account for the difficulties of collecting data on the value chain, by making it possible for companies to limit value chain information to information available in-house, such as data already available to the undertaking and publicly available information.

Voluntary reporting of comparatives for the first year of application.

For more information: please refer to draft [standard ESRS 1 URL](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13765-Normes-europeennes-dinformation-en-matiere-de-durabilite-premier-ensemble-de-normes_fr) Section 10 "Transitional provisions" and its Appendix C "List of phased-in Disclosure Requirements".

In the context of ongoing developments of the standards (the sector-specific standards in particular), companies will also have to reflect upon their proper entity-specific information which might not be covered by the ESRS.

Establishing a roadmap

These various steps can help companies define a roadmap to prepare implementation of the new reporting requirements. Companies could reflect on measures to be adopted to compile the necessary data which are not yet published, collected, calculated or made reliable by the company, possibly including disclosures on the business's own operations and on its value chain, which are important for the materiality analysis, or else certain prospective information.

The roadmap could also identify the internal and external stakeholders concerned at each stage of the process, as part of the cross-cutting organisation that will have been established.
Moreover, while lighter provisions are planned for the first year(s) of application of the ESRS (cf. "transitional provisions" box), companies are encouraged to use this extra time to think about the future implementation of these more complex disclosure requirements and, where applicable, to adapt their data collection and production systems so as to be able to publish the required disclosures at the appropriate time.

**Other points to watch**

The value chain: various features of the ESRS require consideration of the value chain. Companies will have to analyse their value chain to identify their direct or indirect impacts on the environment and society, as well as their sustainability risks and opportunities arising from the value chain (direct or indirect effect on the company). This could mean, for example, to have a good understanding of the exposure to climate-related risks of suppliers in order to assess the company’s own sustainability climate-related risks. The assessment of the value chain also covers the presentation of disclosures on the policies and actions carried out (if applicable) or the provision of specific indicators such as Scope 3 greenhouse gas emissions.

Given the large number of actors active in companies’ upstream and downstream value chain, and the resulting complexity, special attention could be given to the collection of material information related to these actors, and to engagement with them. Anticipation is essential although certain transitional provisions are provided for by the draft legislation in this respect.

Companies may find useful to refer to the future guidance on this topic, currently being prepared by EFRAG.

Connectivity of financial information and sustainability: the relationship and consistency between the information disclosed in the sustainability report and the information provided elsewhere in the financial statements constitute a key principle of the ESRS. As an illustration, reconciliations with the data of the financial statements are required related to businesses' exposure to climate-related physical or transition risks, or to the portion of turnover linked with risky activities. Companies could therefore consider this point diligently in preparing both aspects of their reporting, financial and non-financial.

Presentation of information: CSRD requires the presentation of sustainability information in a dedicated section of the management report. Draft standard ESRS 1 lays down a general sustainability report structure in four information sections: general, environment, social and governance. The information provided in accordance with Article 8 of the Taxonomy Regulation will be included in the “environment” section. The incorporation by reference in
the sustainability report of other information presented in certain documents is authorised. Companies will benefit from thinking well ahead about the most appropriate and readable way of organising information within these sections (by sub-topics, connection between topics, etc.) in light of their current communication practices and the cross-cutting nature and interdependency of certain issues.

Transparency first and foremost: the density and novelty of the legislation make it complex to ensure compliance for many market participants. Moreover, all companies do not have the same maturity regarding the sustainability topics. If uncertainties remain or if significant trade-offs or assumptions and estimates are made in preparing the reporting, it will be important for companies to be transparent so as to provide the reader with clear and non-misleading information.

**AMF support for listed companies**

Implementation of the new sustainability reporting framework (Taxonomy, CSRD and ESRS in particular) represents a major challenge for companies. Substantial human and financial efforts will have to be made by listed companies to comply with the dense and complex regulatory requirements. Moreover, this implementation is taking place in a tight schedule in light of applicable regulations (ESRS) which are not yet definitive while their application dates have been fixed in the CSRD.

The legal framework is still evolving and will soon be enriched by other initiatives such as:

- the digital taxonomy, to support the mandatory digitalisation of the sustainability statements required by the CSRD;
- the tailored-made standard for SMEs that are listed on a regulated market;
- the sector-specific standards;
- and, in relation to the European Taxonomy, the delegated act published by the Commission on 13 June 2023 that extends the taxonomy to the four other environmental objectives. Companies will have to report on the eligibility of their activities to this new taxonomy starting from January 2024. Other evolutions of the taxonomy framework could arise, such as the inclusion of new economic sectors.

A close monitoring by companies of these regulatory developments could help anticipate future obligations and implementation challenges.
In this context, the AMF pursues its approach of supporting market participants in the implementation of the evolving regulatory framework, and remains attentive to listed companies so as to act in favour of sustainable finance within a pragmatic framework.

**Keywords**

PERIODIC & ONGOING DISCLOSURES

**Read more**

- Publication of the new directive on corporate sustainability reporting (CSRD)
- Directive (UE) 2022/2464 as regards corporate sustainability reporting
- European Commission consultation on the ESRS draft delegated act
24 March 2023
Sustainable Finance Disclosure Regulation: the AMF publishes a study on classifications and fossil fuel exposure in the French funds universe

23 March 2023
Overview of SFDR classifications in the French funds' universe and portfolios' exposure to fossil energies at the end of 2021

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