CSRD. Implications for companies outside the EU

What is the issue?

When the Corporate Sustainability Reporting Directive (EU 2022/2464) enters into force in January 2024, sustainability reporting will move from a 'nice to do' to mandatory as an estimated 50,000 companies in Europe will be obliged to report on the impact of their activities on the environment and society. All large companies and all European stock exchange-listed companies as well as SMEs, are within the scope.

But as European businesses ready themselves for mandatory reporting, non-EU businesses cannot afford to relax as a significant addition of the CSRD is to extend the scope of the reporting obligations to include international companies. From 2024 the CSRD will also apply to non-EU companies with securities listed on an EU regulated market and from 2028 non-EU companies that directly generate a net turnover of over €150 million in the EU and have a subsidiary office (branch with no legal personality) with a net turnover of at least €40 million in the EU, or a large or listed EU subsidiary. However, this last category of companies will only have to report their impacts not the financial implications of those.

What does this mean for policy makers?

The implications of the adoption of the CSRD are that thousands of companies outside the EU will also have to report at least their sustainability impacts to the EU (see above). Policy makers around the world need to do more than watch what is happening with interest – they will need to ensure national policies reflect certain options for their businesses:

1. If a multinational company has a subsidiary based in the European Union that is within the scope of the CSRD, the subsidiary must include its sustainability data in an individual management report prepared in accordance with the European Sustainability Reporting Standards (ESRS), the standards that define the rules of the CSRD. Before 2030 the consolidation will not be possible in the consolidated report of the parent companies with HQ outside the EU, unless it is published in accordance with the ESRS. Alternatively, the subsidiary can include its information in the report of its largest sister company based in the EU that uses the ESRS.

2. Large non-EU companies that operate directly in the EU through a branch or that make significant business in the EU independently of their subsidiary will need to report separately on their impacts. The branch or the subsidiary are then responsible for publishing the sustainability information of the parent company and if they do so, the sustainability report must be published in a

language that that Member State accepts. These companies have two options for reporting:

a. Using the standards for non-EU companies which is being developed by the European Financial Reporting Advisory Group (EFRAG), or
b. Alternatively, non-EU companies that have branches in the EU could use their own domestic reporting guidelines (for them, exclusively on impact materiality) providing these non-EU standards are deemed equivalent to ESRS by the European Commission. The same applies to parent companies outside the EU that want to consolidate the reporting of their EU subsidiaries. The European Commission will assess equivalence on a country-by-country basis following a request by a country to do so.

In summary, policy makers around the world are advised to ensure their domestic standards as much as possible support businesses needing to report in accordance with the ESRS and consider seeking equivalence status.

How can GRI help?

Around the world, many companies already report on their sustainability impacts using globally accepted standards such as those developed by GRI, which provides the world's most widely used sustainability reporting standards. 73% of the world's 250 largest companies by revenue use GRI guidelines or standards and 67% of the top 100 companies by revenue in 52 countries and jurisdictions use GRI guidelines or standards. GRI offers the only reporting standards used by most surveyed companies in all regions (75% in the Americas, 68% in Asia-Pacific and Europe, 62% in ME & Africa). 99% of Singapore-registered companies use GRI standards.

So, GRI standards are widely used but what does that mean for ESRS compliance?

Organisations already using GRI standards in their reporting will maximise their chances of compliance with ESRS based on the high level of commonality and technical cooperation on non-EU Standards.

GRI and the European Financial Reporting Advisory Group (EFRAG) the body which developed the ESRS, have already started collaboration to make sustainability reporting easy to comply with. The high level of interoperability between ESRS and GRI standards in relation to impact reporting was confirmed in a recent MoU. As a first tangible outcome of this MoU, a GRI-ESRS Interoperability Index has been made publicly available which sets out how the disclosure requirements and datapoints in each set of standards relate to each other, emphasizing the high degree of commonality already achieved and laying down solid foundations to build a reciprocal digital taxonomy.

This interoperability effectively means that non-EU businesses already reporting using GRI standards are almost certainly adhering to ESRS, which will dramatically ease the burden of the reporting process and prevent the need for double reporting by companies resulting in a user-friendly reporting system without undue complexity.

Policy makers can thus rest easier knowing that if they wish to ensure their policies have equivalence to ESRS, GRI Standards reflect existing ESRS now and will do so for future European reporting requirements. And there is a clear case for policy makers outside the EU to support the equivalence status of policies based on GRI Standards. First, the already high adoption rate of GRI Standards by many companies outside the EU expected to report using ESRS. And second, the interoperability tools developed by the EU standard setting body.

For more information on reporting requirements for non-EU companies, please contact policy@globalreporting.org.

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