



CADWALADER  
**CLIMATE**  
Connecting Climate Change and the Law

## Disclosure: European Sustainability Reporting Standards Approved

December 2, 2022

Disclosure



**By Jason Halper**  
Partner and Co-Chair | Global Litigation

On November 16, the European Financial Reporting Advisory Group (EFRAG) approved revised versions of the [European Sustainability Reporting Standards \(ESRS\)](#). EFRAG is a private association established in 2001 to, among other things, provide technical advice to the European Commission (EC) on sustainability reporting. The ESRS provides guidance regarding corporate disclosure on climate and other ESG issues as part of the [Corporate Sustainable Reporting Directive \(CSRD\)](#), which received final European Council [approval](#) on November 28. The CSRD, in turn, requires companies within its scope to report—using a double materiality standard—in compliance with the ESRS. The EC will now consult with its Member States on the standards before adopting final standards in June 2023. It is anticipated that companies initially will have to report consistent with the ESRS for fiscal year 2024 in disclosure published in 2025.

The ESRS provides guidance on disclosure regarding many, if not virtually all, corporate activities and impacts, including, among other things, governance processes, controls, and procedures used to monitor and manage impacts, risks, and opportunities; how the company's strategy and business model interact with material impacts, risks, and opportunities; the processes by which impacts, risks, and opportunities are identified, assessed and managed; and how performance is measured, including toward targets. The ESRS provides further guidance for how to make disclosure with respect to these issues in the areas of climate change, pollution, water and marine resources, biodiversity, and resource use (ESRS E1-5); business conduct (ESRS G1); and workers in value chain, affected communities, and consumers and end users (ESRS S2-4).

**Taking the Temperature: The CSRD will significantly expand existing sustainability reporting requirements as well as the number of companies subject to the obligation, from approximately 12,000 to over 50,000. The CSRD is intended to operate consistently with the EU's Sustainable Finance Disclosure Regulation, applicable to financial market**

participants, and the EU Taxonomy Regulation. Final approval of the CSRD sets the timetable for implementation, starting with the largest businesses. Companies with over 500 employees will be required to report using the CSRD framework for fiscal year 2024 with the first report due in 2025. Companies with over 250 employees will report for fiscal year 2025, with first reports due the following year. The CSRD will begin to apply to listed small and medium enterprises for fiscal year 2026, with reports due in 2027. Notably, the CSRD will also impact non-European companies that generate a net turnover of EUR 150 million in the EU and that have at least one subsidiary or branch in the EU exceeding certain thresholds.

We will have more to say on the actual content of the ESRS in subsequent posts. For now we offer the following high-level observations that the ESRS: (i) addresses many of the same subject areas as non-EU regulatory guidance, including the SEC's proposed climate change disclosure rule—an important step toward achieving regulatory and market consensus on climate-related disclosure; (ii) mandates disclosure of Scope 3 emissions and, consistent with related EU regulation, adopts a double materiality standard (*i.e.*, issuer impact and external impact of issuer activities), which diverges from current U.S. guidance; and (iii) recognizes the need for companies to have sufficient time to comply, therefore adopting a gradual approach to implementation.