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ICYMI: A Recap of Developments in EU Sustainability Reporting in 2024

Travers Smith LLP

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In the last few years, the development of sustainability reporting rules (both mandatory and voluntary) has been full steam ahead – particularly in the EU where the Corporate Sustainability Reporting Directive ("**CSRD**") continues to represent the high-water mark of sustainability reporting in terms of scope and ambition. While voluntary and mandatory sustainability reporting laws continue to drive corporate disclosures, with the first EU companies preparing their first CSRD reports for publication this year, a number of regulations hit significant stumbling blocks in 2024.

In this overview we look back at some of the more significant developments in sustainability reporting, focusing in particular on the EU's CSRD. The sands started shifting as regulators realised the scale of the task that they had set for companies and the pressures those companies were under. In response, a range of different methods of "easing" the reporting burden were proposed or applied. Activity intensified towards the end of the year, as the narrative moved towards "pragmatism" and "proportionality" in light of Mario Draghi's report on EU competitiveness which criticised CSRD as "a major source of regulatory burden" (see our briefing). While some of these measures have taken effect (such as the delay to the publication of sector-specific reporting standards), the potentially more impactful measures (such as the proposal for an "omnibus" law covering CSRD and other EU sustainability legislation) remain as proposals.

This leaves EU reporting companies in particular in something of a quandary. Those reporters preparing to comply with CSRD in the next main reporting wave, namely large European companies and groups with financial years beginning on or after 1 January 2025, are having to think about questions such as how to resource this major piece of work, what stakeholders to engage with, and what level of ambition to apply in this first reporting cycle. At the same time, such reporters are navigating this fluid landscape with potentially unknown implications for their compliance plans. With this in mind, rather than proposals with no concrete timeframes and unclear outcomes, a higher degree of certainty is likely to be the most useful "fix" that could be offered to companies trying to understand and report in coming years.

Click on the hyperlinks to read our summary and analysis below.

January

01 January 2024

Revised financial thresholds apply for EU companies (increase for "large" and "medium") impacting scoping for CSRD

21 January 2024

Publication of Listed SME sustainability reporting standards by EFRAG

February

07 February 2024

EU institutions agree 2 year delay to adoption of non-EU reporting standards and sector-specific standards under CSRD

March

06 March 2024

US SEC adopts rules to enhance and standardise climate-related disclosures

April

04 April 2024

[US SEC stays climate-related disclosure rules pending judicial review](#)

10 April 2024

[EFRAG transition plans guidance announcement](#)

May

02 May 2024

[EFRAG published sustainability reporting interoperability guidance \(ISSB vs ESRS\)](#)

08 May 2024

[The Commission published the amending Directive to implement the 2 year delay to the adoption of sector specific and non-EU reporting standards \(see 7 February analysis\)](#)

31 May 2024

European reporting standards for CSRD: EFRAG finalises guidance on value chain, materiality assessment and ESRS data points

June

13 June 2024

PwC releases Global CSRD Survey giving a snapshot of CSRD preparedness and early reporting practices

July

05 July 2024

CS3D published (includes reporting obligations for companies not separately in scope of CSRD)

06 July 2024

Only c.10 Member States meet the deadline for CSRD implementation

August

07 August 2024

[Draft Commission FAQ published on interpretation of CSRD](#)

September

09 September 2024

[Draghi report published on 'The Future of European Competitiveness' recommending at least 25% reduction in reporting obligations for EU companies](#)

26 September 2024

[European Commission brings Infringement proceedings against 17 Member States for failure to implement CSRD](#)

30 September 2024

[EU Audit oversight body adopts guidelines for auditors assuring CSRD disclosures](#)

October

24 October 2024

ESMA annual statement on enforcement priorities including CSRD materiality, scoping and Taxonomy reporting.

08 November 2024

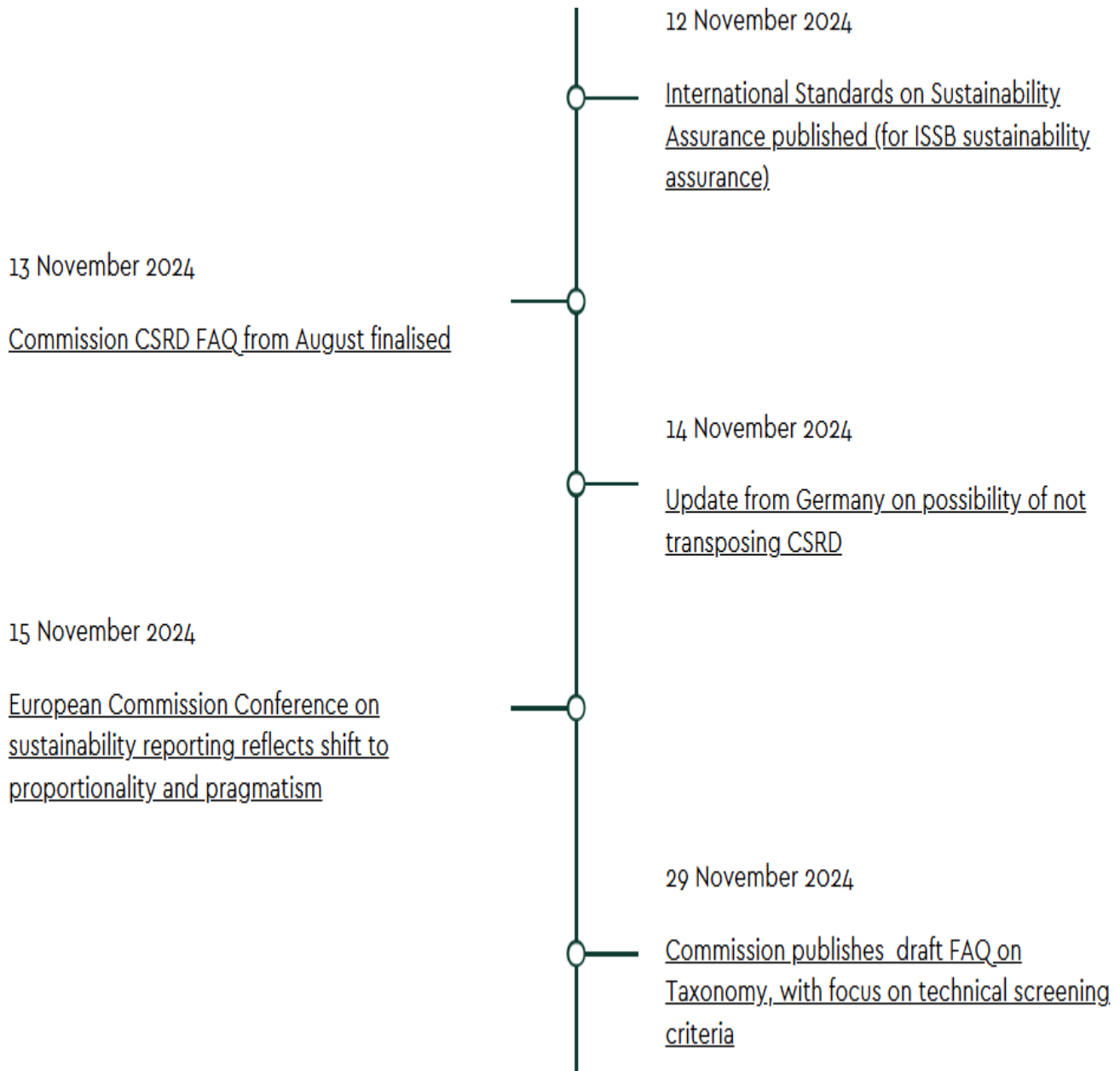
Proposal for an "omnibus" law covering CSRD, CS3D and Taxonomy first referenced

Commission FAQ on Taxonomy Reporting under CSRD published as final

November

04 November 2024

EFRAG publishes: (i) draft guidance on disclosure of transition plans and (ii) proposals for third country reporting standards for CSRD reporting



December

06 December 2024

[EFRAG publishes compilation of responses to sustainability reporting queries \(January to December 2024\)](#)

16 December 2024

[Commission targets Sweden to implement CSRD accurately.](#)

17 December 2024

[EFRAG sends final drafts of voluntary sustainability reporting standards \(for non-listed SMEs not in scope of CSRD\) to the Commission.](#)

[Germany welcomes "omnibus" proposal and requests postponement of CSRD application for two years.](#)

19 December 2024

[EFRAG publishes further Q&A responses on environmental standards within the ESRS for CSRD reporting](#)

January

1st The revised financial thresholds for determination of "large" and "medium" undertakings under the Accounting Directive took effect. The revised thresholds for a "large" undertaking were increased to EUR50m turnover and EUR25m balance sheet, instead of EUR40m and EUR20m respectively. *The increased thresholds had the effect of scoping out approximately 10,000 companies that would have otherwise been required to report under CSRD.*

21st EFRAG published exposure drafts of its proposed reporting standards for listed SMEs. These entities are in scope of CSRD from 2026, though may optionally delay reporting until 2028. *The LSME standard is important also to large undertakings in business relationships with listed SMEs, as it defines the "value chain cap", i.e. the*

maximum amount of information which large undertakings can request from SMEs in order to meet their own value chain reporting obligations. It is intended to ensure that SMEs are not plagued by many diverse information requests and requests for more information than is strictly required.

February

7th The European Parliament and the Council reached agreement to amend the Accounting Directive (and CSRD) to amend by 2 years the timetable for adoption of sector-specific and non-EU reporting standards, as a complement to the existing ESRS. Originally due by 30 June 2024, the revised deadline was agreed to be pushed back to 30 June 2026. *The Commission requested this delay in order to allow EFRAG to focus on helping companies report under the sector-agnostic standards, by publishing guidance and clarifications. The Commission framed the delay as "relief", but not all reporters would agree – in particular, the sector-specific standards for financial institutions are expected to provide much needed clarity over aspects of reporting such as definition of the value chain. In the absence of those standards, reporters are at the mercy of auditors to agree, or not, with the approach they have taken.*

March

6th The US SEC adopted rules to enhance and standardise climate-related disclosures for companies traded on US stock exchanges. The rules do not follow any pre-existing regime particularly closely, with lower ambition and reporting requirements than TCFD, CSRD or ISSB, for example in excluding disclosure of scope 3 greenhouse gas emissions.

April

4th The US SEC indefinitely stayed its rules on climate related disclosures for companies traded on US stock exchanges pending multiple legal challenges, including a judicial review of the legality of the rules themselves. The future of the rules remains uncertain, though the likelihood of the rules being enforced under the incoming President Trump seem very low.

10th EFRAG announced that its next implementation guidance document would be on disclosure of transition plans in line with ESRS standards and issued a call for companies to participate in the development of the guidance.

May

2nd EFRAG and IFRS Foundation published interoperability guidance to illustrate "the high level of alignment achieved between the International Sustainability Standards Board's IFRS Sustainability Disclosure Standards and the European Sustainability Reporting Standards (ESRS)". *The guidance will be of particular interest to businesses who expect to have to comply with not only CSRD but also ISSB standards in the UK, or other of the 30 or so jurisdictions that have or are in the process of adopting the standards (as at the time of writing). The ability to reuse sustainability information to meet multiple regulatory requirements is critical not only to time and cost efficiency but also to reducing the risks which arise from potential inconsistent or even contradictory public disclosures in different jurisdictions.*

8th The Commission published the amending Directive to implement the 2 year delay to the adoption of sector specific and non-EU reporting standards (see 7 February analysis).

31st EFRAG finalised its first three implementation guidance documents, IG1 on materiality assessments, IG2 on value chain and IG3 on detailed ESRS datapoints (listing out all data points in an Excel document for easier sorting and management). These documents are intended to smooth the reporting process for entities in the earliest stages of reporting, and were prioritised at the Commission's request ahead of the development of the

sector specific standards. *IG1 and 2 are in some respects helpful but are far from a "how to" guide for these key steps of the process. IG1, for example, makes it clear that there is no specific manner in which the double materiality assessment ("DMA") must be conducted, which in some respects helps reporters to adopt a process which works for them but on the other hand leaves open the possibility of auditors disagreeing with the adopted approach. Similarly, the IG2 suggests that a business's value chain can be nearly infinite, with impacts "not ringfenced by proximity of contractual relationship", which when taken at face value makes reporting on impacts, risks and opportunities within the value chain a very tall order.*

June

13th PwC released its inaugural Global CSRD Survey giving some early indications of the approaches businesses are taking to CSRD. The results showed that only 35% of surveyed companies had completed a full scoping assessment. There was little consensus in terms of the number of material impacts, risks and opportunities that companies were evaluating (note, not reporting), with 15% expecting this number to be less than 20, 19% between 21 and 40, and 15% between 41 and 60, and 24% expecting more than 60. 74% continued to use Excel (in part at least) to organise sustainability data.

July

5th Corporate Sustainability Due Diligence Directive ("**CS3D**") was published with a significantly reduced scope compared to initial proposals as well as compared with the CSRD's scope. The Directive will introduce new requirements for very large EU and non-EU companies with significant business in the EU to take steps to understand and control their supply chains and to take responsibility for human rights and environmental harms that occur within them. CS3D includes sustainability disclosure obligations for those companies in scope of it (where not already reporting under CSRD). See our briefing for more details.

6th The passing of the deadline for implementation of CSRD in Member States national laws did not yield the certainty which in-scope companies were hoping for. Around 10 Member States met the deadline, with 4 not having shown any signs of activity to even prepare drafts. *Although the core of the reporting obligations in CSRD are expected to be transposed into national law faithfully, and the European Commission will take action against failure to do so, matters such as precise boundaries for scope, methods for publication and penalties are all in the hands of the Member States. Romania, for example, brought medium sized companies (but not groups) into scope, while sanctions for non-compliance vary from a few hundred Euros to a percentage of turnover or balance sheet.*

August

7th The Commission published a long-awaited frequently asked questions document on CSRD, addressing matters which sit outside EFRAG's remit, such as the scope of the Directive, and cannot therefore be answered via its Q&A platform. The document contained some surprising clarifications, perhaps the most impactful of which is that the legal form of non-EU entities is irrelevant for the purposes of determining which entities are subject to the group-wide reporting obligation in accordance with Article 40a. This seems out of line with Article 1(5) of the Directive itself. The Commission also clarified, more helpfully for the asset management community, that undertakings which do not consolidate their subsidiaries for financial purposes, based on the "held for resale" exemption and other limited exemptions in Article 23(9) and (10) of the Accounting Directive, need not consolidate them for the purposes of sustainability reporting. *The question of whether entities must manually aggregate their non-consolidating subsidiaries for the purposes of sustainability reporting is a key differentiator between Member States, which some laws already providing that groups are defined based on aggregation. For*

asset managers, this has the potential to bring into scope holding companies and investment structures where there is very little connection between the parent and subsidiary entities, and where consolidated sustainability reporting is likely to reflect very little real world risk or impact beyond that contained in the portfolio group.

September

9th Mario Draghi's report on "The Future of European Competitiveness" was published by the European Commission. The wide-ranging report is critical of EU policymaking in several areas, while urging more ambition in others. The report's Foreword emphasised the regulatory burden faced by EU companies, especially SMEs, asserting that *"the EU's sustainability reporting and due diligence framework is a major source of regulatory burden, magnified by a lack of guidance to facilitate the application of complex rules and to clarify the interaction between various pieces of legislation."* It includes recommendations that the EU simplify the EU Taxonomy, take steps to calculate the proposed 25% reporting cost reduction for companies and postpone initiatives found to be "particularly problematic" from a competitiveness or innovation standpoint, or with a disproportionate impact on SMEs. These included, explicitly, CSRD and CS3D.

26th The European Commission commenced infringement proceedings against 17 Member States for failing to transpose CSRD into their national laws. Without that step, CSRD is not directly effective or binding on companies. Luxembourg, Germany and the Netherlands are amongst the Member States in receipt of the initial correspondence from the Commission, providing a 2 month window in which to respond.

30th CEAOB, the Committee of European Auditing Oversight Bodies, adopted non-binding guidelines to assist auditors in carrying out the limited assurance engagement under CSRD, intended to fill the gap and prevent national fragmentation until such time as the Commission adopts a limited assurance standard, which should be by 1 October 2026. EU Member States remain free to adopt national standards which must eventually give way to a European standard. The limited assurance standard is intended to identify and assess the risk of material misstatement in the sustainability disclosures. The guidelines are helpful in clarifying that auditors' focus should be on key high level aspects of reporting – the materiality assessment, disclosures around policies, targets and plans and use of estimated information. However, auditors are encouraged to respond to the risk of material misstatement based on fraud or non-compliance by a range of measures including inspection, observation and inquiry, which corresponds with certain views in the markets that, where necessary, auditors would be prepared to put "boots on the ground" to verify the actual content of reports.

October

24th The European Securities and Markets Authority (ESMA) released its annual statement on the European common enforcement priorities. In terms of sustainability reporting, it identified three priority enforcement areas: the CSRD materiality assessment, the scope and structure of the CSRD sustainability statement and Taxonomy reporting under Article 8 of the Taxonomy Regulation. It provides particularly detailed and practical recommendations regarding Taxonomy reporting.

November

4th EFRAG published a working draft of its implementation guidance on the disclosure of transition plans under the E1 standard. *It is important to note that the guidance aims to help reporters prepare a better disclosure, and does not impose any new requirements to put in place a transition plan. Nonetheless, the guidance is likely to provide inspiration to reporters who are working on such a transition plan ahead of CSRD reporting, or in preparation for the mandatory transition plan requirement in CS3D.*

4th EFRAG published working papers of its proposed standards for reporting by non-EU companies and groups in financial years beginning on or after 1 January 2028 with reports due in 2029. Notably, as previously trailed by the European Commission, reporting will be based entirely on impact materiality rather than the double materiality standard applied to EU companies. Additionally, and somewhat controversially even amongst EFRAG's own members, non-EU parent companies will have the option to exclude information about the impacts of sales of goods or provision of services to natural and legal persons outside the EU – this could benefit groups with a broad geographic spread of operations that can neatly be carved out. Importantly, any EU in-scope subsidiaries would have to continue to report separately using the EU ESRS and may not benefit from the subsidiary exemption based on being included in the parent's report. *Although the possibility of excluding impacts in non-EU jurisdictions – particularly those where environmental and human rights impacts may be more prevalent – is likely to be attractive, the consequences of this should be fully considered. Firstly, exactly how impacts within or outside the EU are delineated remains to be seen. Secondly, in a group with European operations spread across multiple in-scope EU subsidiaries, those subsidiaries would need to continue to report in line with the higher bar of the EU ESRS, which could mean a significant cost burden from report preparation and assurance on an ongoing basis. Although the option to report based on artificially consolidated EU subsidiaries under one large EU subsidiary ends in 2030, there are potentially routes to achieve the same outcome (subject to tax and other considerations), by inserting a European holding parent into the structure.*

8th In the month's biggest news, European Commission President Ursula von der Leyen "shot from the hip" (in the words of MEP Lara Wolters) in announcing that Q1 2025 would see the Commission proposing an "omnibus" law to reduce overlap and bureaucracy between the triangle of CSRD, the Corporate Sustainability Due Diligence Directive and the Taxonomy Regulation. This is now expected to be published no later than 26 February 2025 when it will be discussed in a meeting of the College of Commissioners. Though no further details have been disclosed (because, it seems, they are not known), von der Leyen did say that the content of the laws is "good" and would be retained. *Exactly how the three regulations overlap and to what extent that overlap can be eliminated is not clear. Whilst CSRD is a transparency measure entailing a large regulatory burden, CS3D is a more behaviour-focused regulation with only a minimal reporting burden for those companies who are not required to report under CSRD. Meanwhile the Taxonomy Regulation provides the framework for a different type of reporting, on the extent to which companies engage in "sustainable" economic activities within strict scientific bounds. The potential for widespread change to these regulations, which are at the beginning of their life and the benefits of which cannot yet be assessed, has prompted calls from business and industry groups to provide certainty rather than deregulation. Those companies already having expended considerable time, money and resources in preparing their first CSRD report (while those who have been slower to get going or in later stages could potentially benefit from a lighter touch) will no doubt agree with calls to #stopthebus.*

8th The Commission published an FAQ notice on Article 8 Taxonomy Reporting, which is an additional requirement for any entity already in the scope of non-financial reporting obligations under the Accounting Directive (whether as a result of NFRD and CSRD). The FAQ is the final version of the FAQ first published in December 2023.

12th The International Auditing and Assurance Standards Board ("**IAASB**") adopted the International Standard on Sustainability Assurance, ISSA 5000, on general requirements for sustainability assurance engagements, covering both limited and reasonable assurance engagements. Until the publication of a standards specifically for sustainability information, sustainability reports were (where necessary or by election) audited according to a general non-financial information standard, ISAE 3000, which may not be well suited to the very varied and complex information presented in a sustainability report. *The IAASB created the ISSA 5000 standard following engagement with international standard setters including the European Commission, European securities*

regulators and the Committee of European Auditing Oversight Boards ("CEAOB"). CEAOB has been asked by the Commission to advise on incorporation of ISSA 5000 into a CSRD assurance standard, with some changes expected to address specifics such as the need for digital tagging and Taxonomy reporting.

13th The Commission finalised its CSRD FAQ first published in draft back in August. There were no substantive changes to the responses, notwithstanding the potentially erroneous conclusions reached in some of them.

14th The German Institute of Public Auditors (IDW) issued a statement in which it explained the legal position regarding compliance with CSRD if the German government fails to transpose it into national law which, as at the time of writing, it looks set to continue to do. It confirmed that reporting should continue in line with the existing, in force rules, namely those implementing NFRD, and that any CSRD-aligned reporting would be deemed voluntary for now.

15th The Commission convened a conference entitled "Supporting companies in applying the European sustainability reporting standards (ESRS)", where it became clear that the mood music around reporting had changed. The Commission and EFRAG representatives spoke about pragmatism, proportionality, avoidance of over-compliance and overkill, addressing their comments to regulators, preparers and auditors. *There was recognition that the extent of the reporting obligation had "gone too far", though EFRAG stressed that it was trying to be helpful in opting for extreme levels of granularity in the ESRS given the narrative nature of many disclosure requirements, and encouraged reporters to use common sense and not to be intimidated by the scale of the task. They also confirmed, helpfully for UK-based listed entities or asset managers expecting the introduction of ISSB sustainability reporting in the UK in the next few years, that a CSRD sustainability statement would be compliant with ISSB and multiple reports would not be required (though at present and in the absence of an equivalence decision, this may have been an overstatement, as some re-cutting of sustainability information is likely to be needed).*

29th The Commission published a further draft FAQ on reporting under the Taxonomy Regulation. Many of the questions are very detailed and address specifics of the climate and environmental technical screening criteria, though a section also addresses Article 8 reporting more generally (required for entities in the scope of CSRD).

December

6th The Commission's advisory body and author of the European Sustainability Reporting Standards, EFRAG, released a further compilation of responses to questions received via its Q&A platform. The document now runs to 278 pages and still only responds to a fraction of the almost 800 questions that EFRAG has received since launching the platform in October 2023. *The Q&A, controversial as they sometimes are, should be recognised as non-binding. Asset manager clients may, for example, have noted a previous response regarding the key question of whether portfolio companies are part of the general partner's value chain. EFRAG's response may suggest that this matter is now settled, but we see GPs, legitimately, taking a variety of approaches to the inclusion of portfolio companies in the value chain, particularly in the early stages of reporting prior to more concrete requirements potentially being published in the sector specific standards in 2026.*

16th The Commission continues to press Sweden to properly implement CSRD into its national law. Sweden has passed implementing legislation, but provided relief to certain companies in the very first wave of reporting (existing reporters under NFRD). *Rather than applying the reporting obligation to companies with financial years beginning on or after 1 January 2024, Sweden's national law specifies a starting date of 1 July 2024, giving companies with financial years in the first half of the calendar year an additional 12 months to comply. The Commission, having previously sent Sweden a letter of formal notice, has now issued a "reasoned opinion" and given Sweden two months to respond and correct its national law. How exactly Sweden will or should respond is unclear, given that such a change would have the effect of giving affected companies very little time in*

which to prepare and publish a report: a company with a 31 December financial year end would need to prepare and publish a sustainability statement by the end of June 2025, having until January had the reasonable expectation that its first compliance deadline would be June 2026.

17th EFRAG sent its final drafts of the voluntary sustainability reporting standards for non-listed SMEs ("**VSME**") as technical advice to the European Commission. The Commission need not adopt and enact the standards into European law in the same way as the ESRS, so the published standards represent the completed work on standards for voluntary reporting for SMEs. The disclosure requirements are significantly simplified compared with the full ESRS, in an effort to encourage widespread adoption. *How far the VSME will be used by smaller companies not mandated to report under CSRD remains to be seen, particularly given noise from the market about the challenges of CSRD reporting. It would, however, provide valuable value chain information for entities in the scope of mandatory reporting – market pressures could be exerted by those large companies for their small business partners to report under the VSME, or potentially the volume of bespoke requests could result in the SMEs seeing VSME reporting as the lesser of two evils.*

17th The German government wrote to the European Commission describing its "ambitious bureaucracy reduction initiative" and welcoming the announcement of the Omnibus legislation which proposes to revise CSRD, the Corporate Sustainability Due Diligence Directive ("**CS3D**") and the Taxonomy Regulation (see November). It included specific recommendations for "immediate legislative action" to simplify CSRD. These include increasing the thresholds for reporting by "large" undertakings to match those under CS3D which would increase the EU thresholds from EUR50m to EUR450m turnover and from 250 to 1000 employees, and a proposal to base reporting on the listed SME reporting standards which would result in approximately 50% reduction in the number of data points. *Though it seems unlikely that all of the German government's more controversial suggestions will gain widespread support, Germany is an undeniably persuasive voice in the European institutions and, as the CS3D negotiations have shown, larger Member States have the power to build consensus with smaller neighbours. Ultimately, all three pieces of legislation are already written into European law, and the Commission could choose to step away from the proposal to amend them entirely if they prove too divisive (at which point the challenge would be to persuade the more reticent Member States to implement and enforce the existing legislation).*

19th In its final gift of a busy year, EFRAG published further clarifications via its Q&A platform on the climate change and biodiversity standards.

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