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The Corporate Sustainability Reporting Directive (CSRD)

Indian companies with EU business interests

April 2023

Preamble

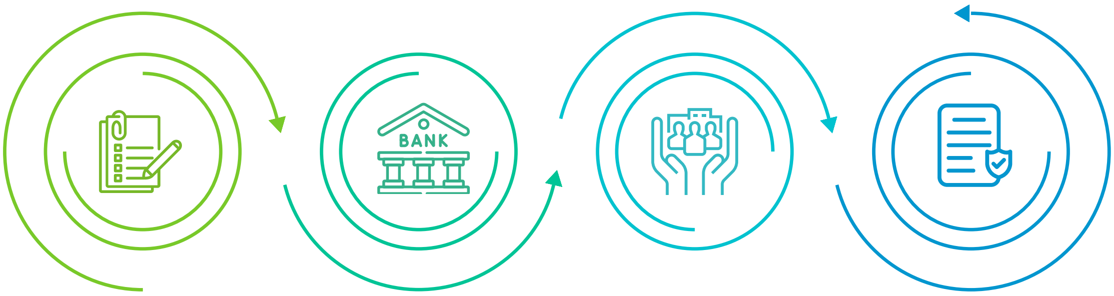
Indian business houses are operating profitably even beyond Indian shores. The reciprocal action of opening the Indian economy in the early 90s is paying well for Indian companies, parent to several EU-listed companies. The CSRD requirements, which came into play on 5 January 2023, may trigger additional disclosure requirements for Indian parent companies. These requirements form a part of the crucial information that stakeholders must provide on the sustainability of their businesses under the European Green Deal.[1]

The CSRD has amended and expanded disclosure requirements, topping it up with limited assurance to begin with; this may get revised to reasonable assurance with maturity in disclosures across the EU business ecosystem, which is expected to happen before the end of CY2028.

The required sustainability information is expected to be a part of the company's management report. There are 12 standards prescribed for companies in the draft European Sustainability Reporting Standards (ESRS), which are further divided into sector-agnostic, sector-specific, and entity-specific requirements.

The scope

The requirements of CSRD should be read along with the ESRS and Non-Financial Reporting Directive (NFRD). The initial reporting rules apply to large public-interest entities with more than 500 employees. This covers approximately 11,700 large companies (already subject to NFRD) and groups across the EU, including the following:



Listed companies

Banks

Insurance companies

Other companies designated by national authorities as public-interest entities.

[1]https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

In due course, more than 50,000 European establishments will be covered under the CSRD. This coverage is expected to impact the following identified establishments in the next five years:

Parent companies/aggregate business in the EU (meeting two out of three criteria):

Exceeding
€20 million
in balance sheet total

Exceeding
€40 million
in net turnover

Exceeding
250
employees

EU and non-EU establishments (except micro business):

- Securities listed in EU (including debt securities but excluding securities in EU multilateral trading facilities)
- Net turnover in the EU (consolidated or individual) exceeding €150 million for the last two consecutive years
- Presence of a subsidiary in the EU (including branch office) with an annual net turnover exceeding €40 million.

EU-listed small and medium enterprises can also opt out until CY2028.

Exemption

Establishments with non-EU parents can secure an exemption, provided the parent company's public disclosures are in alignment with ESRS[2] (84 disclosure requirements both qualitative and quantitative through 1144 data points). It is important to note that businesses in India following the US SEC requirement may not qualify for exemption, as US SEC requirements on non-financial disclosures may also fall short of ESRS requirements. Since CSRD has introduced limited assurance, the exemption may also require the non-EU parent to obtain a consolidated attested statement on the disclosures.

Additionally, the non-EU parent businesses are also expected to consider following:

- Application of the principles of double materiality[3] mirroring CSRD requirements
- Digital reporting using eXtensible HyperText Markup Language (xHTML)

European Sustainability Reporting Standards (ESRS)

On 15 November 2022, the European Financial Reporting Advisory Group (EFRAG) Sustainability Reporting Board approved the revised ESRS drafts and submitted them to the EC for formal approval. The EC will consult EU bodies and member states on the 12 approved ESRS drafts before the final ESRS drafts are adopted as delegated acts by 30 June 2023. Until this time, they will be referred to as "draft" ESRS. These 12 drafts are bifurcated as follows:

- Cross-cutting (general disclosures under ESRS 1 and 2)
- Environmental (climate change ESRS E1, pollution ESRS E2, water and marine resources ESRS E3, biodiversity and ecosystems ESRS E4, resource use and circular economy ESRS E5)
- Social (own workforce ESRS S1, workers in the value chain ESRS S2, affected communities ESRS S3, consumers and end users ESRS S4)
- Governance (business conduct ESRS G1)

The ESRS 2 (cross-cutting) i.e., "impacts, risks, and opportunities" is one of the critical disclosures for non-EU parent businesses seeking exemption after the application of double materiality.

Reporting timelines and implementation milestones:

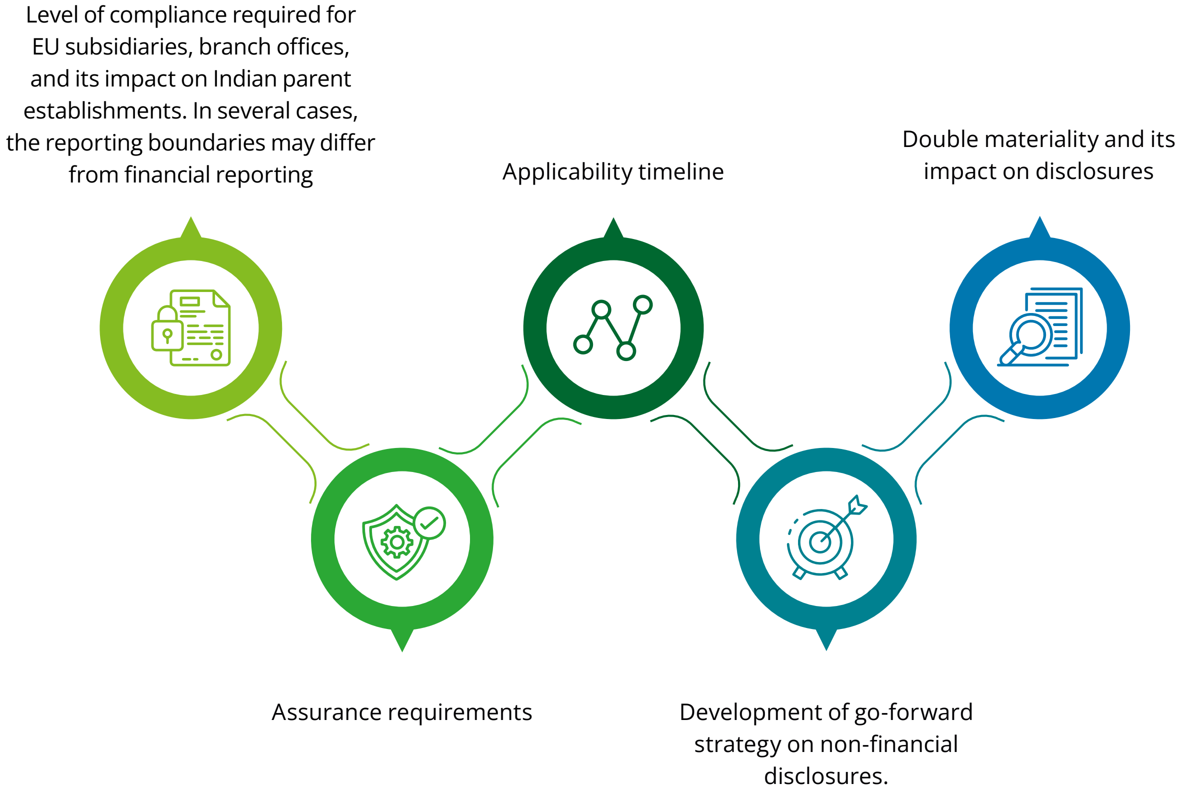
- CSRD entering into force for EU member states: 5 January 2023
- Adoption deadline by EU member states: 6 July 2024
- Initial disclosures with limited assurance for NFRD coverage: 1 January 2025
- Initial disclosure for large companies not covered in NFRD: 1 January 2026
- Balance set of companies (expect for opt out list): 1 January 2027
- EU branch offices (€40 million) and subsidiaries (€150 million) of non-EU companies: 1 January 2029.

[2] What may be deemed "equivalent" is yet to be determined by the EC, which may also exempt non-EU listed companies for a transitional period

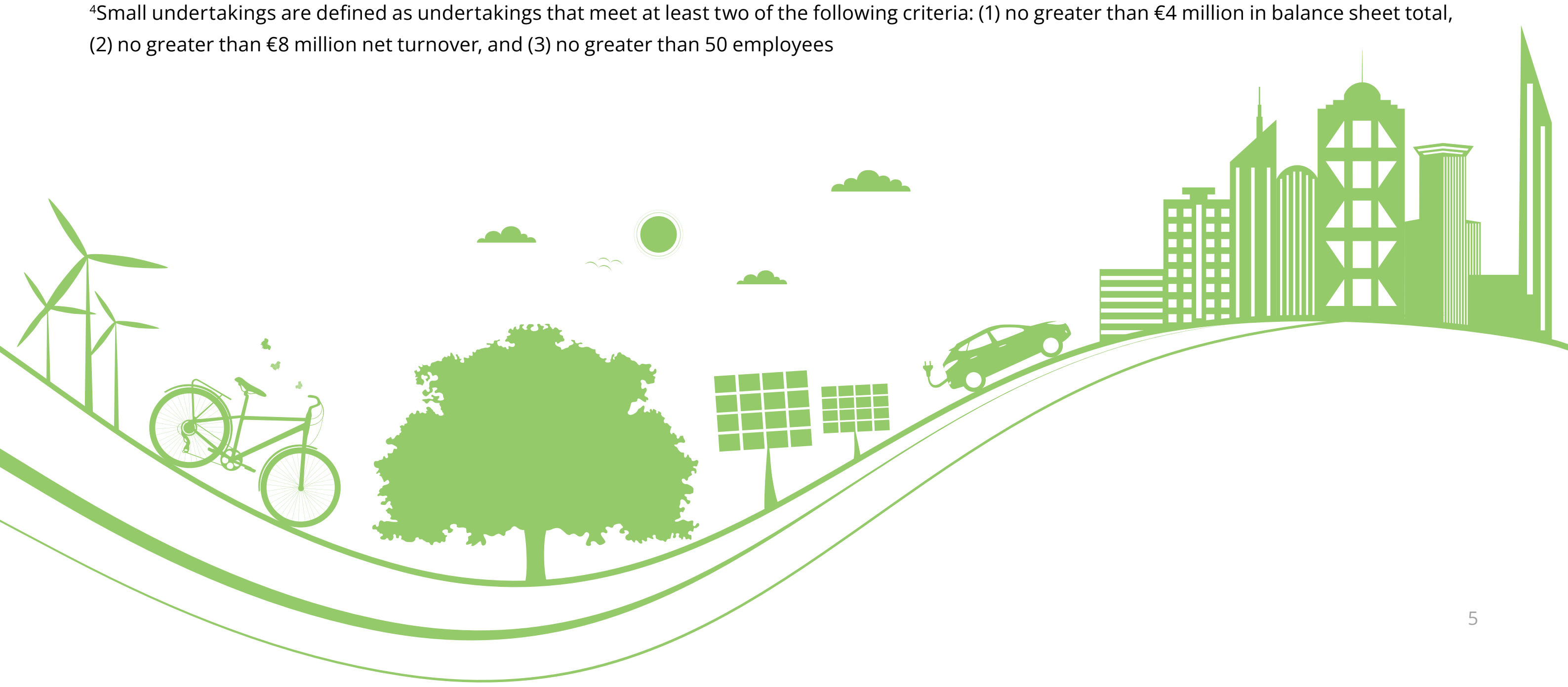
[3] Coverage includes impact of business on ESG matters and counterintuitive impacts of ESG on its financial well-being including physical and transitional risks

	CY2024	CY2025	CY2026
Scope	Companies already subject to NFRD	All large EU companies including subsidiaries to non-EU parents	Extension to include SME[4] listed in EU
Required standards	ESRS or equivalent applicable standard		Final adopted ESRS or an equivalent standard
Reporting level and assurance	Standalone EU-listed entity with independent limited assurance or consolidated into a non-EU parent, while aligned with EU requirements along with attestation/conclusion statements from an accredited third party.		

Indian businesses may thus need to consider following:



[4]Small undertakings are defined as undertakings that meet at least two of the following criteria: (1) no greater than €4 million in balance sheet total, (2) no greater than €8 million net turnover, and (3) no greater than 50 employees



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