



European Commission publishes first set of draft European Sustainability Reporting Standards

On 9 June 2023, the European Commission published a [draft delegated act](#) containing the first set of the European Sustainability Reporting Standards (“**ESRS**”), and launched a feedback process inviting comments on that draft act by 7 July 2023.

The ESRS are the reporting standards according to which covered undertakings under the [Corporate Sustainability Reporting Directive](#) (“**CSRD**”) are to report information related to sustainability matters. The CSRD requires all large EU undertakings and parent undertakings of large groups, EU listed undertakings (including SMEs), as well as non-EU undertakings with significant activity in the European Union to disclose certain non-financial information on sustainability matters (*i.e.*, environmental, social and human rights, governance matters) in their management reports. The CSRD provides for high-level rules on reporting requirements, but the precise reporting standards are to be adopted in delegated acts.

The [first set of ESRS](#) developed by the European Financial Reporting Advisory Group (“**EFRAG**”) were submitted to the European Commission in November 2022. After consulting the EFRAG’s technical advice and other stakeholders, the European Commission has now published the draft delegated act containing the ESRS.

While the European Commission maintained the overall structure of the EFRAG’s draft, it amended the specific disclosure requirements to reduce the burden for undertakings and smooth the transition. The draft ESRS require that all standards be subject to a materiality assessment (except for the general disclosure requirements, *i.e.*, ESRS 2). This means that the covered undertakings are not required to report the information which they consider, based on a detailed assessment, not to be material. Additionally, the European Commission converted some previously mandatory disclosures (*e.g.*, biodiversity transition plans, and certain indicators like adequate wages for “non-employees”) into voluntary disclosures and introduced flexibilities in respect of several disclosure requirements.

The draft delegated act also envisages additional phasing-in periods, in particular undertakings may omit reporting anticipated financial effects relating to non-climate environmental issues and certain information relating to their own workforce (in the first year they report). Additional flexibilities in the reporting obligations apply for undertakings with less than 750 employees.

The reporting requirements will start applying over time, with different phasing-in periods. The first group of covered undertakings, *i.e.*, undertakings which were previously subject to the [Non-Financial Reporting Directive](#), will already have to apply the ESRS during financial year 2024 for reports to be published in 2025.

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