



## Need to know

### Worldwide reach of the Corporate Sustainability Reporting Directive

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On 26 February 2025, the European Commission (EC) published several proposed pieces of legislation (so-called “omnibus package”) that aim to reduce significantly the sustainability and due diligence reporting burden imposed by the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy Regulation and the Corporate Sustainability Due Diligence Directive (CSDDD). Under the proposals, the CSRD would only apply to entities with more than 1000 employees on average on their balance sheet date and with a net turnover exceeding EUR 50 million or a balance sheet total exceeding EUR 25 million. The proposals would also postpone by two years the effective date of the existing reporting requirements under the current CSRD for the second wave (large entities that are not in the first wave) from 2025 to 2027, and the third wave (listed SMEs, small and non-complex credit institutions, and captive insurance and reinsurance entities) from 2026 to 2028. The EC’s proposals will be submitted to the European Parliament and to the European Council for scrutiny under the EU’s ordinary legislative procedure. Once finalised and adopted, the legislation would enter into force after the publication in the EU Official Journal and would need to be transposed into member state laws. More information is available in our **Need to know** on the omnibus package.

This publication reflects the CSRD as published in the EU Official Journal in December 2022, i.e. without taking into account the amendments proposed in the omnibus package. The publication will be updated once the proposals in the omnibus package are finalised.

This *Need to know* outlines the Corporate Sustainability Reporting Directive (CSRD), which was **published in the Official Journal of the European Union** (EU Official Journal), following its adoption by the European Parliament and European Council in December 2022.

- A key objective of the CSRD is to improve sustainability reporting in an entity’s management report for investors, civil society and other stakeholders
- The CSRD sets out the high-level sustainability information to be provided by entities in its scope
- The scope of entities subject to the CSRD is much wider than that of its predecessor, the Non-Financial Reporting Directive (NFRD). If certain conditions are met, sustainability information in respect of non-EU entities not listed on an EU regulated market is required
- Exemptions are available for subsidiaries that meet specific criteria
- Reports need to be prepared using the European Sustainability Reporting Standards (ESRSs). The first set of 12 ESRSs has been published with further standards to be developed for specific sectors and for non-EU entities. Simplified standards for small- and medium-sized entities (SMEs) are also being developed
- The information provided is subject to mandatory limited assurance and mandatory digital reporting using digital tagging requirements yet to be finalised
- The requirements become effective in stages from 1 January 2024 to 1 January 2028, based on the characteristics of entities.

For more information please see the following websites:

[www.ukaccountingplus.co.uk](http://www.ukaccountingplus.co.uk)

[www.deloitte.co.uk](http://www.deloitte.co.uk)

### Background

On 16 December 2022, the CSRD was published in the EU Official Journal. The CSRD is a central part of the EU Sustainable Finance package, a comprehensive set of measures aimed at improving the flow of capital towards sustainable activities across the EU. The CSRD replaces the NFRD and amends the Accounting Directive, the Transparency Directive, the Audit Directive and the corresponding Audit Regulation.

A key objective of the CSRD is to enhance reporting on sustainability matters within the management report for a wide range of entities and to require assurance on this information. This is intended to contribute to the transition to a fully sustainable and inclusive economic and financial system in line with the European Green Deal and the UN Sustainable Development Goals. By providing the information necessary to investors to re-allocate investments towards more sustainable technologies and businesses, these measures are intended to be instrumental in making the EU climate-neutral by 2050.

In November 2024, the European Commission (EC) published a **set of 90 frequently asked questions** (EC FAQs) in the EU Official Journal (these were originally published in draft form in August 2024). The EC FAQs provide clarifications on the implementation of the requirements in the CSRD and related regulations.

### Implication for UK companies

The CSRD will directly affect UK companies if they have securities (shares or debt) listed on EU regulated markets. It will also apply directly to EU subsidiaries of UK companies. In addition, EU subsidiaries or branches of UK parent companies are required to report on the group wide information if the UK-headed group generates more than EUR 150 million net turnover in the EU (for each of the last two consecutive financial years) and has at least one EU subsidiary (large or listed on an EU regulated market) or EU branch (with more than EUR 40 million net turnover in the preceding financial year).

In April 2023, the UK government published its policy paper, **Green Finance Strategy—Mobilising Green Investment** (“the 2023 Strategy”), which re-emphasised the government’s commitment to Sustainability Disclosure Requirements (SDR), including its support for UK adoption of the ISSB standards and the development of an endorsement mechanism. The UK adoption process for the two ISSB standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosure* is currently ongoing with an endorsement decision expected in early 2025. In addition, the UK Transition Plan Taskforce (TPT) has published a framework for developing and reporting on transition plans and the UK government has confirmed its intention to require the most economically significant entities in the UK to develop and report on their transition plans, with a consultation expected in 2025.

The UK government aims to introduce the SDR in a way that complements the UK’s wider non-financial reporting framework, minimises duplication with other forms of corporate reporting and gives businesses enough time to implement the new requirements. However, where the requirements of the CSRD go beyond the reporting requirements in the UK, additional disclosures will need to be made by UK companies in scope of the CSRD to comply with EU requirements. The additional disclosures could be significant. Furthermore, the disclosures will be subject to mandatory assurance. Given the extensive disclosure requirements, UK companies should consider early how the CSRD may impact them. This extends to consideration of other EU regulations, such as the EU Taxonomy Regulation which introduces disclosures for companies in scope of the CSRD. Under the EU Taxonomy Regulation, non-financial entities must disclose “green” turnover, capex and opex indicators and financial entities need to disclose ratios relevant to their industry that relate to the proportion of environmentally sustainable economic activities in their financial activities, such as lending, investment and insurance. Determining what activities are “green” according to the specific technical screening criteria associated with the EU Taxonomy Regulation is not straightforward and will require careful consideration. For further information, please see:

- **Need to know** discussing the UK Government’s Green Finance Strategy—Mobilising Green Investment
- **Need to know** discussing the EU Taxonomy Regulation Scope

### Scope

The scope of entities subject to the CSRD is wide, covering:

- large EU entities (whether or not they are listed on a regulated market in the EU<sup>1</sup> and including EU subsidiaries of a non-EU parent entity), defined in the EU Accounting Directive as those that exceed at least two of the following criteria on their balance sheet date on two consecutive years:
  - more than EUR 25 million balance sheet total, consisting of total assets
  - more than EUR 50 million net turnover
  - more than 250 employees

<sup>1</sup> Entities with securities (may be shares or bonds) admitted to trading on an EU regulated market. The same definition applies to non-EU entities

### Observation

The CSRD amends the Transparency Directive to require all issuers, except micro-entities, of transferable securities admitted to trading on an EU-regulated market, including non-EU entities and groups, to prepare sustainability reporting in accordance with the amended Articles 19a and 29a of the EU Accounting Directive.

- large credit institutions<sup>2</sup> and insurance entities regardless of their legal form. This includes those outside the scope of the EU Accounting Directive, such as cooperatives and mutual entities
- small<sup>3</sup> and medium-sized<sup>4</sup> entities (except micro-entities) listed on a regulated market in the EU
- non-EU entities (referred to as third country undertakings in the CSRD) with transferrable securities admitted to trading on a regulated market in the EU (with an exemption for those reporting under sustainability reporting standards deemed equivalent by the EC<sup>5</sup>).

In addition, for financial years starting on or after 1 January 2028, sustainability information is required in respect of non-EU entities not listed on an EU regulated market that generate more than EUR 150 million net turnover in the EU for each of the last two consecutive financial years and that have at least one EU subsidiary (large or listed on an EU regulated market) or EU branch (with more than EUR 40 million net turnover in the preceding financial year). This information is required to be published by at least one of those EU subsidiaries or branches in each Member State in which a subsidiary or branch is established (see **EU subsidiaries and branches of non-EU entities not listed on an EU regulated market**).

The scope and impact of the CSRD are complex and entities, in particular non-EU entities, may wish to seek legal advice on its application.

### Exemption for subsidiaries

A subsidiary (except if it is a large entity listed on an EU regulated market) is exempt from preparing a sustainability report if certain criteria are met, including the requirement that the subsidiary (and its own subsidiaries, if any) is included in the consolidated management report of a parent entity prepared in accordance with the EU Accounting Directive and the assurance opinion on the consolidated sustainability reporting is publicly available.

This exception applies also to EU subsidiaries of a non-EU parent entity if the parent entity reports on a consolidated basis (including EU and non-EU subsidiaries) under ESRs or standards that are deemed to be equivalent by the EC. The parent entity's consolidated sustainability reporting and assurance opinion thereon must be published in accordance with the EU Accounting Directive and in accordance with the law of the Member State by which the exempted subsidiary is governed. If the non-EU parent entity is not in the scope of the CSRD (e.g. because it is not listed on an EU regulated market), it may voluntarily publish a consolidated sustainability report in order to allow its EU subsidiaries to benefit from the subsidiary exemption. In this scenario, the consolidated sustainability report may be published as a separate document (rather than as part of the annual report<sup>6</sup>). The EU Taxonomy disclosures related to such exempted subsidiaries should be provided either in the subsidiary's own management report or in the consolidated sustainability report published by its non-EU parent entity.<sup>7</sup>

An exempted subsidiary is required to disclose certain information in its management report, including a weblink to the consolidated management report of the parent entity or, when applicable, the consolidated sustainability reporting of the parent entity, and the assurance opinion thereon. Note that if the consolidated sustainability report of the parent entity is not yet published when the subsidiary publishes its own management report, the exempted subsidiary may instead include a general weblink to the location where the consolidated sustainability report will be available.<sup>8</sup>

2 Whether such institutions are large is determined by reference to the same thresholds for EU large entities, with the criterion for net turnover adapted for such entities

3 Small entities are defined as those which do not exceed two of the following: more than EUR 5 million balance sheet total, more than EUR 10 million net turnover and more than 50 employees

4 Medium-sized entities are defined as those which do not qualify as small and do not exceed two of the following: more than EUR 25 million balance sheet total, more than EUR 50 million net turnover and more than 250 employees

5 The EC may allow non-EU issuers to use non-equivalent standards for an appropriate transitional period

6 See FAQ 86 of the EC FAQs

7 See FAQ 47 of the EC FAQs

8 See FAQ 20 of the EC FAQs

### Observation

Until 2030, another exemption is available to EU subsidiaries of a non-EU parent entity (except for large subsidiaries listed on an EU regulated market). This transitional exemption allows the preparation of a 'consolidated' sustainability report that includes all EU subsidiaries of the non-EU parent entity that are in scope of the CSRD (this is sometimes referred to as 'artificial consolidation'). A subsidiary that applies this exemption is not required to prepare an individual sustainability report.

If the exemption is applied, the report must be prepared by one of the EU subsidiaries that generated the greatest turnover in the EU in at least one of the preceding five financial years, on a consolidated basis where applicable.

### Effective date

EU Member States are expected to transpose the CSRD by 6 July 2024 with an effective date for financial years starting on or after:

- 1 January 2024 for EU large public interest entities<sup>9</sup> (PIEs) with more than 500 employees and EU PIE parent entities of a large group,<sup>10</sup> with more than 500 employees (i.e. entities that are already subject to the NFRD)
- 1 January 2024 for large non-EU entities and non-EU parent entities of a large group, with more than 500 employees and with transferrable securities admitted to trading on a regulated market in the EU
- 1 January 2025 for all other EU large entities (including large EU subsidiaries of a non-EU parent entity) and EU parent entities of a large group
- 1 January 2025 for all other large non-EU entities and non-EU parent entities of a large group, with transferrable securities admitted to trading on a regulated market in the EU
- 1 January 2026 for EU and non-EU SMEs<sup>11</sup>, except for micro-entities, with transferrable securities admitted to trading on a regulated market in the EU
- 1 January 2026 for small and non-complex credit institutions and captive insurance entities that are either a large entity or an SME with transferrable securities admitted to trading on a regulated market in the EU
- 1 January 2028 for reporting about the whole group by certain EU subsidiaries or EU branches of a non-EU ultimate parent entity that is not listed on an EU regulated market but has significant activity in the EU (see **EU subsidiaries and branches of non-EU entities not listed on an EU regulated market**).

Not all of the EU Member States had completed the transposition into their laws at the date of this publication.

### Requirements

The CSRD requires an entity to include, in a dedicated section of its management report, information necessary to understand the entity's impacts on sustainability matters and how sustainability matters affect its development, performance and position.

### Materiality

The CSRD takes a double materiality approach, in which a sustainability matter is material for the entity when it meets the criteria defined for impact materiality or financial materiality or both:

- a sustainability matter is material from an impact perspective when it pertains to the entity's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term
- a sustainability matter is material from a financial perspective if it generates risks or opportunities that affect (or could reasonably be expected to affect) the entity's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- and long-term.

Entities should consider each materiality perspective in its own right and disclose information that is material from only one perspective and information that is material from both perspectives.

9 Public interest entities (PIEs) are defined as entities with securities admitted to trading on an EU-regulated market, entities that meet the definition of a credit institution or an insurance entity and any other entities designated as PIEs by EU member states

10 Large groups are defined as groups consisting of a parent and subsidiary entities to be included in a consolidation and which, on a consolidated basis, exceed the limits of at least two of the three following criteria on the balance sheet date of the parent entity: more than EUR 25 million balance sheet total, more than EUR 50 million net turnover and more than 250 employees

11 For a transitional period of two years until 1 January 2028, SMEs that are listed on an EU regulated market have the option to opt out of the reporting requirements if an explanation of why the required information is not provided is given in their management report

### Content

The following sustainability information must be disclosed in a clearly identifiable dedicated section of the management report:

- a brief description of the entity's business model and strategy, including:
  - resilience of the business model and strategy in relation to risks related to sustainability matters
  - opportunities related to sustainability matters
  - plans, including implementing actions and related financial and investment plans, to ensure that the business model and strategy are compatible with:
    - » the transition to a sustainable economy
    - » the limiting of global warming to 1.5°C in line with the Paris Agreement
    - » the objective of achieving climate neutrality by 2050
    - » the exposure of the entity to coal, oil and gas-related activities, where relevant
  - how the business model and strategy take account of the interests of the entity's stakeholders and the entity's impacts on sustainability matters
  - how the entity's strategy has been implemented with regard to sustainability matters
- a description of the time-bound targets related to sustainability matters set by the entity, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress made towards achieving those targets, and a statement of whether the targets related to environmental factors are based on conclusive scientific evidence
- a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, and of their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills
- a description of the entity's policies in relation to sustainability matters
- information about incentive schemes linked to sustainability matters offered to members of the administrative, management and supervisory bodies
- a description of:
  - the due diligence process implemented by the entity with regard to sustainability matters, and, where applicable, in line with EU requirements on entities to conduct a due diligence process
  - the principal actual or potential adverse impacts connected with the entity's own operations and its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts, and other adverse impacts that the entity is required to identify pursuant to other EU requirements on entities to conduct a due diligence process
  - any actions taken by the entity, and the result of such actions, to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts
- a description of the principal risks to the entity related to sustainability matters, including a description of the entity's principal dependencies on those matters, and how the entity manages those risks
- indicators relevant to the disclosures listed above.

The entity should describe the process carried out to identify the sustainability-related information included in the management report.

The information on an entity's business model and strategy should cover the short-, medium- and long-term time horizons, as applicable.

Where applicable, the sustainability reporting should contain information about the entity's own operations and about its value chain, including its products and services, its business relationships and its supply chain. However, for the first three years of the application of the CSRD, if not all the necessary information regarding the value chain is available, the entity may explain the efforts made to obtain the information about its value chain, the reasons why this information could not be obtained, and the plans of the entity to obtain such information in the future.

Where applicable, the sustainability reporting should also contain references to, and additional explanations of, the other information included in the management report and amounts reported in the annual financial statements.

The management of the entity is required to inform the workers' representatives at the appropriate level and discuss with them the relevant information and the means of obtaining and verifying sustainability information. The workers' representatives' opinion should be communicated, where applicable, to the relevant administrative, management or supervisory bodies.

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If the entity is a PIE (either large or SME, except micro-entity), its management report should also include information on the key intangible resources on which the business model of the entity fundamentally depends, and an explanation of this dependency and how those resources are a source of value creation for the entity.

### Observation

Although the information on key intangible resources is not required to be in the dedicated sustainability reporting section of the management report, the introduction to the CSRD states that certain information on intangible resources is intrinsic to sustainability matters and should therefore be part of sustainability reporting.

Finally, the corporate governance statement should include a description of the diversity policy applied in relation to the entity's administrative, management and supervisory bodies with regard to gender and other aspects such as age, disabilities or educational and professional background, the objectives of the diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement should contain an explanation as to why that is the case. Where this information is included as part of an entity's sustainability reporting, reference should be made to this in the corporate governance statement.

### SMEs listed on EU regulated markets

SMEs listed on an EU regulated market, small and non-complex credit institutions, and captive insurance and reinsurance entities are permitted to limit their sustainability reporting to the following information:

- a brief description of the entity's business model and strategy
- a description of the entity's policies in relation to sustainability matters
- principal actual or potential adverse impacts of the entity on sustainability matters and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts
- principal risks to the entity related to sustainability matters and how the entity manages those risks
- key indicators necessary for the above disclosures.

This limited reporting should be prepared in accordance with sustainability reporting standards yet to be finalised for SMEs that are proportionate and relevant to the scale and complexity of the activities, and to the capacities and characteristics of SMEs.

### Non-EU entities listed on an EU regulated market

Non-EU entities listed on an EU regulated market are subject to the same sustainability reporting requirements as EU entities listed on those markets but may be exempted from these requirements if they report under 'equivalent' standards.

### Observation

The EC has not yet identified any equivalent standards.

The criteria for equivalence will include ensuring that the standards being assessed require disclosure on environmental, social and governance matters, and disclosure of the information necessary to understand the entity's impacts on sustainability matters and how sustainability matters affect the entity's development, performance and position.

If the EC determines that the sustainability reporting standards are not equivalent, it may allow issuers to report using standards that are not considered equivalent, during an appropriate transition period.

The assurance report issued in respect of such entities is required to be publicly disclosed together with the annual financial report. Similar rules to those requiring registration of non-EU auditors of financial statements will apply.

### EU subsidiaries and branches of non-EU entities not listed on an EU regulated market<sup>12</sup>

For financial years starting on 1 January 2028, if a non-EU ultimate parent entity has generated a net turnover in the EU of more than EUR 150 million in each of the last two financial years, either at group level or individual level, a sustainability report covering the entire group will be required, if the ultimate non-EU parent entity has either:

- EU subsidiaries that are either:
  - large entities, as determined applying the size criteria explained in the **Scope** section, or
  - SMEs (except micro-entities) listed on an EU regulated market

<sup>12</sup> See Article 40A of the EU Accounting Directive

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- EU branches with more than EUR 40 million net turnover, if there are no subsidiaries that meet the criteria above.

The sustainability report for the whole group is required to be published and made available by at least one EU subsidiary (or EU branch, if there is no subsidiary) in each Member State in which a subsidiary or branch is established. To avoid double reporting by the subsidiaries and branches of the same non-EU entity, EU Member States may allow for one subsidiary or branch established or located in its territory to provide a link to the sustainability report published by another EU subsidiary or branch of the non-EU entity<sup>13</sup>.

The report should be published within 12 months of the balance sheet date, along with an assurance opinion. If the report and the assurance opinion is not available on a public register, free of charge, it must be made available on the website of the EU subsidiary or EU branch.

The sustainability report communicated by such a subsidiary or branch is to be prepared using either the sustainability reporting standards for third country entities to be adopted by the EC by 30 June 2026, full ESRs or standards that are deemed equivalent. The sustainability report is not required to include EU Taxonomy disclosures<sup>14</sup>. In the event that not all the required information is available to a subsidiary or branch, the subsidiary or branch should include in the sustainability report the relevant sustainability information in its possession and a statement indicating that the non-EU ultimate parent entity did not make the necessary information available.

The assurance opinion on the sustainability reporting will need to be expressed by a person or firm authorised to do so under the law of the relevant non-EU jurisdiction, or under the law of an EU Member State. If the assurance opinion is not provided by the non-EU ultimate parent entity, the subsidiary or branch will be required to issue a statement indicating that the necessary assurance opinion is not available.

The sustainability reporting standards for third country entities will be different from the cross-cutting and sector agnostic ESRs. Although these standards are not yet developed, the CSRD specifies the information to be included within the sustainability report and makes clear that the following would not be required:

- the resilience of the group's business model and strategy in relation to risks related to sustainability matters
- the opportunities for the group related to sustainability matters
- a description of the principal risks to the group related to sustainability matters, including the group's principal dependencies on those matters, and how the group manages those risks.

### European Sustainability Reporting Standards (ESRS)

To ensure entities disclose material, comparable and reliable information on all major sustainability-related topics, the CSRD requires entities within its scope to apply ESRs. These standards specify the information to report and, where relevant, specify the structure in which that information should be reported.

The EC commissioned EFRAG with the development of ESRs. The first set of ESRs was published in the Official Journal of the European Union in December 2023 and includes:

- two cross-cutting standards, which cover:
  - general requirements that entities should comply with when preparing and presenting sustainability-related information under the Accounting Directive as amended by the CSRD. This includes fundamental concepts used and the general requirements for preparing and presenting sustainability information, including the requirement to perform a materiality assessment to identify the material impacts, risks and opportunities to be reported using the double materiality principle (ESRS 1)
  - general disclosures that apply to all entities regardless of their sector of activity (i.e. sector agnostic) and across sustainability topics (ESRS 2)
- ten topical standards, which address environmental, social and governance topics from a sector-agnostic perspective.

A Deloitte *Need to know* **European Sustainability Reporting Standards finalised** provides further details on the first set of ESRs.

In addition to the standards already published, in January 2024 EFRAG published an exposure draft for an *ESRS for SMEs* listed on an EU regulated market.

<sup>13</sup> See FAQ 43 of the EC FAQs

<sup>14</sup> See FAQ 46 of the EC FAQs

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EFRAG will also develop:

- ESRs that require sector-specific disclosure
- ESRs for non-EU entities (not listed on an EU regulated market) that have more than EUR 150 million turnover in the EU and a large or listed subsidiary, or branch in the EU with more than EUR 40 million net turnover.

### Observation – Interoperability

The preamble to the CSRD notes that to avoid unnecessary regulatory fragmentation that may have negative consequences for entities operating globally, ESRs should contribute to the process of convergence of sustainability reporting standards at a global level, by supporting the work of the International Sustainability Standards Board (ISSB). It states that “[EU] sustainability reporting standards should reduce the risk of inconsistent reporting requirements for entities that operate globally by integrating the content of global baseline standards to be developed by the ISSB, to the extent that the content of those baseline standards is consistent with the [EU’s] legal framework and the objectives of the Green Deal.”

A Deloitte *Need to know* **Sustainability reporting: ISSB publishes first IFRS Sustainability Disclosure Standards** provides further details on the IFRS Sustainability Disclosure Standards.

In May 2024, the ISSB and EFRAG published guidance to illustrate the high level of alignment achieved between the ISSB’s IFRS Sustainability Disclosure Standards and the ESRs on climate-related disclosures.

In addition, EFRAG and the Global Reporting Initiative (GRI) signed a Memorandum of Understanding, and, in December 2023, a GRI-ESRS Interoperability Index was published. GRI has stated that entities reporting under ESRs will be deemed to be reporting ‘with reference’ to the GRI Standards and it expects that existing GRI reporters will be able to leverage their current reporting efforts when they are required to prepare disclosures under ESRs.

### Digitisation of information

The CSRD requires entities to tag reported sustainability information in accordance with a digital taxonomy. Entities are therefore required to prepare their financial statements and their management report in XHTML format and to mark up the sustainability reporting.

In August 2024, EFRAG published the XBRL Taxonomy that enables the digital tagging of information disclosed under ESRs and information required under Article 8 of the EU Taxonomy Regulation. The digital tagging taxonomy will form the basis for ESMA to develop the draft Regulatory Technical Standards (RTS) for tagging sustainability reporting, including the tagging of the sustainability statement. The tagging rules will need to be adopted by the EC by way of a delegated act amending Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF). Until the digital taxonomy is adopted, entities are not required to prepare the management report or sustainability report in XHTML or mark it up in accordance with a digital taxonomy<sup>15</sup>.

### Independent assurance

The CSRD requires all entities within its scope to seek limited assurance of sustainability reporting, including on:

- the process carried out to identify the information reported in accordance with the ESRs (the double materiality assessment process)
- compliance of the sustainability statement with the ESRs
- compliance with the reporting requirements of Article 8 of the EU Taxonomy Regulation (i.e. ‘green’ turnover, capital expenditure and operating expenditure for corporates)
- compliance with marking-up sustainability reporting in accordance with digital tagging requirements.

### Observation

In the FAQs issued by the EC, FAQ 70 refers to an expectation regarding the assurance provider’s report that “[t]he first part of the conclusion referring to the fair presentation, in all material respects, in accordance with the ESRs entails an opinion on:

- whether the entity’s sustainability statement, including the process to identify the information reported (i.e., the double materiality assessment process), are compliant with ESRs; and
- whether the outcome of this process has resulted in the disclosure of all material sustainability-related impacts, risks and opportunities of the entity in accordance with ESRs.”

A Deloitte *Need to know* on **fair presentation under the CSRD** provides more information on the implications of this FAQ for the preparation of sustainability statements.

<sup>15</sup> See FAQ 38 of the EC FAQs

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The EC is empowered to adopt, by means of delegated acts, limited assurance standards before 1 October 2026. As long as the EC has not adopted assurance standards, EU Member States may apply national assurance standards.

### Observation

In the absence of EU-wide assurance standards, on 30 September 2024, the Committee of European Auditing Oversight Bodies (CEAOB) issued non-binding guidelines on limited assurance. The guidelines are intended to facilitate a common understanding of some of the key aspects of the limited assurance engagement requirements introduced by the CSRD. The CEOB will also prepare technical advice for the development of EU specific add-ons (and possible carve-outs) to the International Auditing and Assurance Board's (IAASB) International Standard on Sustainability Assurance (ISSA) 5000<sup>16</sup> to be used for the preparation of the delegated act adopting limited assurance sustainability standards.

The EC will carry out an assessment to determine whether moving from limited to reasonable assurance is feasible for entities and their auditors. Following this assessment, the EC will adopt assurance standards for reasonable assurance no later than 1 October 2028.

The assurance can be carried out by the entity's financial statement auditors. The assurance of sustainability reporting by statutory auditors or audit firms is intended to ensure the connectivity between, and consistency of, financial and sustainability information, which is particularly important to users of sustainability and financial information.

The CSRD amends the Audit Directive to include requirements regarding the educational qualifications and professional competence that demonstrate that statutory auditors have the necessary involvement, skills and knowledge to perform assurance over sustainability reporting. EU Member States have the option to require that the assurance opinion is included as a separate section of the audit report.

The Audit Directive will also be amended to enhance the role and responsibilities of audit committees in monitoring the sustainability reporting process, including digitalisation, the effectiveness of internal quality control and risk management systems, sustainability reporting assurance and maintaining the independence of auditors.

Shareholders of large entities with collectively more than 5% of voting rights or 5% of the capital of the entity will have the right to put on the agenda of the shareholders meeting a motion to appoint an accredited third party that does not belong to the same audit firm or network as the financial statement auditor to prepare a report on some elements of the sustainability reporting. Any such report will be made available to the shareholders meeting.

EU Member States have the option to allow an auditor that is not the statutory auditor or an independent assurance services provider (IASP) to provide assurance on entities' sustainability reporting, as long as they are subject to requirements that are equivalent to those applicable to auditors in the Audit Directive when providing assurance on sustainability reporting. Their opinion will need to be published with the annual financial statements and the management report.

### Further information

If you have any questions about the contents of this newsletter, please speak to your usual Deloitte contact.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature.

**GAAP in the UK on DART** allows access to the full IFRS Standards and UK GAAP, linking to and from:

- Deloitte's authoritative, up-to-date, GAAP in the UK manuals which provide guidance for reporting under IFRS Standards and UK GAAP
- illustrative financial statements for entities reporting under IFRS Accounting Standards and UK GAAP.

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