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EU Corporate Sustainability Reporting Directive Signed into Law – Implications and Near-term Compliance Steps for U.S.-based Multinationals

The EU Corporate Sustainability Reporting Directive has now been signed and published in the EU Official Journal and will take effect on January 5, 2023. Building on the current EU Non-Financial Reporting Directive, the CSRD will require detailed qualitative and quantitative sustainability disclosures from a substantially expanded universe of companies. Importantly, the CSRD will require sustainability disclosures by many EU subsidiaries of U.S.-based multinationals and, in later years, for many U.S.-based multinationals for their consolidated operations. These and other requirements of the CSRD, as well as near-term compliance recommendations, are discussed in this Alert.

Attorneys
Michael R. Littenberg
Clara Melly

Next Steps in the Regulatory Process

As noted above, the CSRD enters into force on January 5, 2023. However, as a European Directive, it does not directly create obligations for subject undertakings. Those obligations will be created under each EU Member State's national legislation adopted pursuant to the CSRD (for brevity, in this Alert we refer to the CSRD rather than the implementing national legislation). EU Member States will have until June 16, 2024 to transpose the CSRD into their national laws.

As further discussed in this Alert, the CSRD creates a framework for required sustainability disclosures. More specific European Sustainability Reporting Standards are being developed in parallel by EFRAG (European Financial Reporting Advisory Group). On November 22, EFRAG submitted the first set of draft ESRS to the European Commission. The Commission is consulting with EU bodies and Member States on the draft standards before adopting the final first set of standards as delegated acts before the end of June 2023. The EFRAG process and standards are further discussed later in this Alert.

Subject Undertakings

The CSRD casts a wide net, substantially wider than the NFRD. The NFRD principally requires non-financial reporting by EU-listed companies and banks and insurance companies with more than 500 employees. In contrast, as further described below, the CSRD ultimately will require reporting by (1) all large undertakings, (2) non-EU undertakings with a substantial EU turnover and (3) all undertakings, except micro undertakings, whose securities are admitted to trading on an EU regulated market. The Commission estimates that approximately 49,000 undertakings will be required to comply with the CSRD, compared to an estimated only 11,600 that are required to comply with the NFRD.

There are three principal reporting triggers under the CSRD. As discussed in the next section of this Alert, the phase-in periods are different for each principal reporting trigger:

Large undertakings. These are EU entities or an EU consolidated group that exceeds at least two of the following three thresholds:

- Balance sheet total of €20 million;
- Net turnover of €40 million; and/or
- Average of 250 employees during the financial year.

“**Net turnover**” is generally defined as the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover.

The large undertaking reporting trigger is not tied to listing status or industry. Furthermore, this reporting requirement will independently apply to EU subsidiaries and subsidiary groups of U.S.-based multinationals to the extent they exceed the reporting threshold.

Non-EU undertakings with a substantial EU turnover. The CSRD also will require sustainability information for the consolidated group of non-EU companies with a substantial EU turnover. The stated policy rationales for this sweeping reporting requirement are (1) that third-country undertakings that have significant activity in the EU should also be required to provide sustainability information, especially on their impacts on social and environmental matters, in order to ensure that these undertakings are accountable for their impacts on people and the environment, and (2) to ensure a level playing field for companies operating in the EU internal market.

A non-EU undertaking will be captured by the CSRD if it meets the following two threshold requirements:

- Over €150 million in EU annual turnover for the trailing two financial years; and
- At least one subsidiary that is a large undertaking (or listed entity that is not a micro undertaking) or EU branch that generated net turnover of more than €40 million in the prior financial year.

This reporting trigger will bring into scope a large number of U.S.-based multinationals with significant EU operations. As noted above, this trigger will require information for the non-EU undertaking’s consolidated group, not just its EU operations.

Listed SMEs. This trigger encompasses small and medium-sized undertakings with securities admitted to trading on an EU regulated market. SME reporting requirements are only briefly discussed in this Alert for context.

Initial Compliance Dates

As noted above, the sustainability reporting requirements for subject undertakings will take effect on a staggered basis, as follows:

- For financial years starting on or after **January 1, 2024**, the CSRD will apply to public-interest entities that are large undertakings or parent undertakings of a large group, and that on their balance sheet date have an average of more than 500 employees during the financial year. These undertakings are required to already report under the NFRD.
- Other EU large undertakings and parent undertakings of a large group will be subject to CSRD reporting beginning with financial years starting on or after **January 1, 2025**.
- For financial years starting on or after **January 1, 2026**, the CSRD will be rolled out to listed SMEs (other than micro undertakings) and certain small and non-complex credit institutions and captive insurance and reinsurance undertakings. However, following that date, for a two-year transitional period (financial years starting before January 1, 2028), these SMEs may opt out of sustainability reporting if they briefly state in their management report why sustainability information has not been provided.
- If the non-EU undertaking turnover requirement described above is met, sustainability information in respect of the non-EU undertaking will be required for financial years starting on or after **January 1, 2028**.

Reporting will occur in the following financial year for each of the above financial years.

Sustainability Information to Be Reported

The CSRD will require the undertaking's management report, in a clearly identifiable dedicated section, to include information necessary to understand the undertaking's impacts on sustainability matters, and how sustainability matters affect the undertaking's development, performance and position. "Sustainability matters" broadly encompass environmental, social and human rights and governance factors. The CSRD intentionally uses the term "sustainability" rather than "non-financial." As noted in the recitals to the CSRD, many stakeholders consider the latter term to be inaccurate, since it implies the information to be reported has no financial relevance. The recitals disagree with that implication, noting that, increasingly, the information does have financial relevance.

For U.S. legal, compliance and finance personnel that live in the world of public company compliance, it is important to keep in mind that the CSRD takes a different, broader approach to disclosure than the U.S.'s proposed SEC reporting requirements.

CSRD reporting is intended to be fit for purpose for a broad range of stakeholders. As noted in the Directive's recitals, these include, among others, (1) investors, including asset managers, who want to better understand the risks and opportunities that sustainability issues pose for their investments and the impacts of those investments on people and the environment, (2) civil society actors, including non-governmental organizations and social partners that wish to better hold undertakings to account for their impacts on people and the environment, (3) customers, who want to understand and, where necessary, report on sustainability risks and impacts throughout their own value chains and (4) policy makers and environmental agencies, as part of monitoring environmental and social trends and to inform public policy.

Consistent with the CSRD's broad stakeholder focus, the CSRD takes a "double materiality" approach to reporting. Subject undertakings are required to report both on how sustainability matters affect their business and the external impacts of their activities on people and the environment. This is consistent with the approach taken under the voluntary Global Reporting Initiative (GRI) standards. As further discussed in draft ESRS 1 (*General requirements*), double materiality has two dimensions: impact materiality and financial materiality.

A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term time horizons. Impacts include those caused or contributed to by the undertaking and those that are directly linked to the undertaking's own operations, products or services through its business relationships. Business relationships include the undertaking's upstream and downstream value chain and are not limited to direct contractual relationships. The materiality assessment of a negative impact is informed by the due diligence process defined in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

The financial materiality assessment process includes, but is not limited to, the identification of information that is useful to investors, lenders and other creditors when they, as primary users of general purpose financial reporting, assess the effects of sustainability matters on the undertaking's cash flows, development, performance, position, cost of capital or access to finance. In particular, information is considered material for primary users of general purpose financial reporting if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statements.

Pursuant to the CSRD, the principal information required to be reported includes the following. Note that scaled-down reporting requirements that are not described in this Alert apply for SMEs and a limited number of other undertakings (such as captive insurance and reinsurance undertakings).

- A brief description of the undertaking's business model and strategy, including: (1) the resilience of the undertaking's business model and strategy in relation to risks related to sustainability matters; (2) the

opportunities for the undertaking related to sustainability matters; (3) the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with limiting global warming to 1.5° C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050 and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities; (4) how the undertaking's business model and strategy take into account the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters; and (5) how the undertaking's strategy has been implemented with regard to sustainability matters.

Information relating to short-, medium- and long-term time horizons, as applicable, is required to be included.

- A description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate: (1) absolute greenhouse gas emission reduction targets at least for 2030 and 2050; (2) a description of the progress the undertaking has made towards achieving those targets; and (3) a statement of whether the undertaking's targets related to environmental factors are based on conclusive scientific evidence.
- A description of the role of the undertaking's 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 those bodies have to such expertise and skills.
- A description of the undertaking's policies in relation to sustainability matters.
- Information about the existence of incentive schemes linked to sustainability matters that are offered to members of the administrative, management and supervisory bodies.
- A description of: (1) the due diligence process implemented by the undertaking with regard to sustainability matters, and, where applicable, in line with EU requirements on undertakings to conduct due diligence; (2) the principal actual or potential adverse impacts connected with the undertaking's own operations and with 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 which the undertaking is required to identify pursuant to other EU requirements on undertakings to conduct a due diligence process; and (3) any actions taken by the undertaking to prevent, mitigate, remediate or bring to an end actual or potential adverse impacts and the result of such actions.

Our earlier alert on the proposed EU Corporate Sustainability Due Diligence Directive is available [here](#).

- A description of the principal risks to the undertaking related to sustainability matters, including a description of the undertaking's principal dependencies on those matters, and how the undertaking manages those risks.
- Indicators relevant to the foregoing disclosures.

Undertakings are required to report the process carried out to identify the sustainability information included in the management report. In addition, if the reporting undertaking identifies significant differences between the risks for, or impacts of, the group and the risks for, or impacts of, one or more of its subsidiary undertakings, the undertaking is required to provide an adequate understanding of, as appropriate, the risks for, and impacts of, the subsidiary undertaking or subsidiary undertakings concerned.

To the extent applicable, reported information is required to address the undertaking's own operations and its value chains – both within and outside the European Union – including its products and services, its business relationships and its supply chain. However, the CSRD recognizes the difficulty in obtaining some value chain information. For the first three years of reporting, if information regarding the value chain is not available, the undertaking must instead explain the efforts made to obtain the necessary information about its value chain, the reasons why not all of the necessary information could be obtained and its plans to obtain the necessary information in the future.

Forward-looking information. The NFRD does not specify whether forward-looking information must be reported. The CSRD identifies this as a deficiency of the NFRD and therefore explicitly will require undertakings to disclose forward-looking information. The CSRD indicates that this information should (1) be based on conclusive scientific evidence where appropriate, (2) be harmonized, comparable and based on uniform indicators where appropriate, while allowing for reporting that is specific to individual undertakings and does not endanger the commercial position of the undertaking, and (3) take into account short-, medium- and long-term time horizons and contain information about the undertaking's whole value chain, including its own operations, products and services, business relationships and supply chain, as appropriate.

Confidential information. In their adopting legislation, Member States may allow information relating to pending developments or matters in negotiation to be omitted if its disclosure would be seriously prejudicial to the commercial position of the undertaking, so long as the omission does not prevent a fair and balanced understanding of the undertaking's development, performance and position and the impact of its activity. In addition, the recitals note that the Directive is not intended to require undertakings to disclose intellectual capital, intellectual property, know-how or the results of innovation that would qualify as trade secrets under the EU trade secrets directive.

European Sustainability Reporting Standards

The Commission is required to adopt delegated acts that set out the sustainability information that undertakings will be required to report. The first set of these European Sustainability Reporting Standards is required to be adopted by June 30, 2023. Pursuant to the CSRD, they are required to include the information that financial market participants subject to the EU's Sustainable Finance Disclosure Regulation need in order to comply with their obligations.

By June 30, 2024, the Commission is required to adopt delegated acts providing for additional ESRS that specify sector-specific reporting obligations. In doing so, the CSRD directs the Commission to pay particular attention to the scale of the risks and impacts related to sustainability matters for each sector, taking account of the fact that risks and impacts are higher for some sectors than others. This second set of delegated acts is also required, to the extent necessary, to provide for other information complementary to the CSRD's reporting requirements.

The Directive also requires ESRS to take into account the difficulties undertakings may encounter in gathering information from actors throughout their value chain, especially from those not subject to the CSRD and from suppliers in emerging markets and economies. The Directive goes on to require that ESRS specify disclosures on value chains that are proportionate and relevant to the capacities and the characteristics of undertakings in value chains, and to the scale and complexity of their activities. In addition, pursuant to the Directive, ESRS may not specify disclosures that would require undertakings to obtain information from SMEs in their value chain that exceeds the information SMEs subject to the CSRD would be required to report.

The Directive sets out specified topics and information required to be addressed in ESRS, as described below. ESRS are required to specify the forward-looking, historical, qualitative and quantitative information, as appropriate, to be reported by undertakings.

Environmental factors:

- Climate change mitigation, including regarding Scope 1, Scope 2 and, where relevant, Scope 3 greenhouse gas emissions;
- Climate change adaptation;
- Water and marine resources;
- Resource use and the circular economy;

- Pollution; and
- Biodiversity and ecosystems.

Social and human rights factors:

- Equal treatment and opportunities for all, including gender equality and equal pay for work of equal value, training and skills development, the employment and inclusion of people with disabilities, measures against violence and harassment in the workplace and diversity;
- Working conditions, including secure employment, working time, adequate wages, social dialogue, freedom of association, existence of works councils, collective bargaining (including the proportion of workers covered by collective agreements), the information, consultation and participation rights of workers, work-life balance and health and safety; and
- Respect for the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, including the UN Convention on the Rights of Persons with Disabilities, the UN Declaration on the Rights of Indigenous Peoples, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the fundamental conventions of the ILO, the European Convention for the Protection of Human Rights and Fundamental Freedoms, the European Social Charter and the Charter of Fundamental Rights of the European Union.

Governance factors:

- The role of the undertaking's administrative, management and supervisory bodies with regard to sustainability matters and their composition, as well as their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills;
- The main features of the undertaking's internal control and risk management systems, in relation to the sustainability reporting and decision-making process;
- Business ethics and corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers and animal welfare;
- Activities and commitments of the undertaking related to exerting its political influence, including its lobbying activities; and
- The management and quality of relationships with customers, suppliers and communities affected by the activities of the undertaking, including payment practices, especially with regard to late payment to SMEs.

Pursuant to the CSRD, a delegated act adopting reporting obligations only will enter into force if no objection is expressed either by the Parliament or the Council within two months after notification of the act, or when they earlier inform the Commission they will not object. That period can be extended by two months at the initiative of the Parliament or Council. In any event, reporting requirements laid down in the delegated acts may not enter into force earlier than four months after their adoption by the Commission.

The EFRAG Process

As earlier noted, ESRS to be adopted by the Commission are being developed by EFRAG, as technical adviser to the Commission. EFRAG is a private association established with the encouragement of the Commission to serve the public interest. Its member organizations are European stakeholders and national organizations and civil society organizations.

General and topical standards. EFRAG already has submitted to the Commission draft general standards, which provide for general requirements (ESRS 1) and general disclosures (ESRS 2). EFRAG also has submitted 10 topical draft standards across each of the “E,” “S” and “G” pillars.

Environment:

- 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)

Sector-specific and MNE standards. As a second set, EFRAG is in the process of developing draft sector-specific standards. These will include the following five sectors covered by GRI sector standards:

- Agriculture
- Coal mining
- Mining
- Oil and gas (upstream)
- Oil and gas (mid- to downstream)

As part of the second set of standards, EFRAG is developing standards for the following sectors it has characterized as high impact:

- Energy production
- Road transport
- Motor vehicle production
- Food/beverages
- Textiles

EFRAG has noted that its sector-specific standards will be mapped to the sector-specific SASB standards in subsequent versions of the ESRS to avoid inconsistencies. In addition, the CSRD’s recitals note that, for undertakings that operate in sectors particularly reliant on natural resources, sector-specific sustainability reporting standards will require the disclosure of nature-related impacts on and risks for biodiversity and ecosystems.

The second set of EFRAG standards also will include ESRS for SMEs. The intent behind standards specific to SMEs is to enable them to report in accordance with standards that are proportionate to their capacities and resources, and relevant to the scale and complexity of their activities.

Ongoing Commission Review

The reporting standards are intended to evolve over time. The CSRD requires the Commission to at least every three years review the sustainability reporting standards adopted pursuant to delegated acts to take into account relevant developments, including relating to international standards.

Interplay with the SFDR

The recitals to the CSRD note that the sustainability matters on which undertakings are required to report should be as consistent as possible with the definition of “sustainability factors” in the SFDR to prevent a mismatch between information required by data users and information to be reported by undertakings.

Alignment with Other Reporting Standards and Frameworks

The CSRD’s recitals note that no existing standard or framework by itself satisfies the EU’s sustainability reporting needs. However, in order to minimize disruption for undertakings that already report sustainability information, when adopting delegated acts pursuant to the CSRD, the Commission is required, to the greatest extent possible, to take into account existing standards and frameworks for sustainability reporting and accounting. These would include for example GRI, SASB, TCFD and CDP.

The recitals also indicate that EU sustainability reporting standards should take account of internationally recognized principles and frameworks on responsible business conduct, corporate social responsibility and sustainable development, including the UN Sustainable Development Goals, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Business Conduct and related sectoral guidelines, the UN Global Compact, the ILO’s Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and the ISO 26000 standard on social responsibility.

In addition, the recitals indicate that, to avoid unnecessary regulatory fragmentation that could have negative consequences for undertakings operating globally, EU sustainability reporting standards should contribute to global convergence of sustainability reporting standards by supporting the work of the International Sustainability Standards Board and by integrating the global baseline standards being developed by the ISSB to the extent consistent with the EU’s legal framework and the objectives of the EU Green Deal.

Selected Reporting Logistics

Reporting will be required to be in XHTML format. Undertakings also will be required to follow additional data tagging requirements specified by the Commission. This will facilitate packaging and comparability of data, especially by third-party data providers used by asset managers.

Member States may require undertakings to make the management report available to the public on their website. If an undertaking does not have a website, Member States may require it to make a written copy of its management report available upon request.

Non-EU Undertaking Reporting

As earlier noted, reporting will be required in respect of non-EU undertakings with a significant EU business presence at the group level of the ultimate parent non-EU undertaking.

Most of the same information required for EU-based undertakings must be provided. However, under the CSRD, the non-EU undertaking is not required to address as part of the description of the group's business model and strategy (1) the resilience of the group's business model and strategy in relation to risks related to sustainability matters, and (2) the opportunities for the group related to sustainability matters. The Commission is required to adopt standards for sustainability reports to be published in respect of non-EU undertakings by June 30, 2024.

Reporting will be able to be made in accordance with the standards applicable to EU-established undertakings or standards deemed equivalent by the Commission (the equivalence exemption is further discussed later in this Alert). The EU subsidiary undertaking or branch is responsible for the reporting for its non-EU parent undertaking. Under the Directive, if all of the required information is not provided, the subsidiary undertaking or branch is required to provide the information in its possession and issue a statement indicating that the non-EU undertaking did not make the rest of the required information available. Pursuant to the CSRD, Member States may annually inform the Commission of the subsidiary undertakings and branches of non-EU undertakings that issue such a statement. The Commission is required to make publicly available on its website a list of those non-EU undertakings.

The subsidiary undertaking or branch is required to publish the non-EU undertaking's sustainability report in the applicable Member State's central, commercial or companies register. If the report is not made accessible, free of charge, to the public on the website of the register, the report is required to be made available on the website of the subsidiary undertaking or branch.

Reporting Exemptions

The CSRD contains two ongoing reporting exemptions:

Subsidiary Exemption

Subsidiary undertakings (including an intermediate parent undertaking) generally will be exempt from reporting if they are included in the consolidated reporting of a parent undertaking that complies with the reporting requirements of the CSRD. The subsidiary reporting exemption applies to both subsidiaries of EU parent undertakings and subsidiary undertakings included in the consolidated sustainability reporting of a parent undertaking established outside of the European Union.

This exemption generally will require the subsidiary undertaking to include in its management report the name and registered office of the parent undertaking that is reporting sustainability information at the group level, the web link to the consolidated management report of the parent undertaking and a reference in its management report indicating it is exempt from sustainability reporting. In connection with this exemption, Member States may impose a language requirement on the parent undertaking consolidated management report.

Equivalence Exemption

The CSRD also allows for substituted compliance under non-EU disclosure regimes determined to be equivalent by the Commission. Based on the current direction of mandatory U.S. sustainability reporting, it is unlikely that SEC reporting requirements will be recognized as equivalent.

Third-party Assurance

The recitals to the Directive note that absence of an assurance requirement would threaten the credibility of the sustainability information disclosed. Sustainability information will require limited assurance (i.e., negative assurance that no matter has been identified by the assurance practitioner to conclude that the subject matter is materially misstated). Pursuant to the CSRD, assurance will be required to address, among other things, (1) compliance with the applicable ESRS and (2) the processes carried out to identify the reported information. Assurance standards are to be adopted by the Commission before October 1, 2026.

The EU's goal is to eventually adopt a "reasonable assurance" standard, potentially as early as 2028. A reasonable assurance engagement would entail more extensive procedures, including consideration of internal controls of the reporting undertaking and substantive testing. The European Union is taking a progressive approach to assurance since, at present, there is no commonly agreed standard for the assurance of sustainability reporting. As noted in the recitals to the Directive, this creates the risk of different understandings and expectations of what a reasonable assurance engagement would consist of for different categories of sustainability information, especially with regard to forward-looking and qualitative disclosures. The gradual approach to assurance also is intended to allow for the development of the assurance market for sustainability information and undertakings' reporting practices.

Recommended Near-term Compliance Steps

The good news for most U.S.-based multinationals and other privately held companies (including subsidiary undertakings) is that they will have a fairly long runway before compliance with the CSRD is required. Nevertheless, there are near-term compliance steps that should be considered, since CSRD compliance will in many cases be a big lift.

- As an initial matter, there should be an assessment of whether there are any in-scope undertakings. For most U.S.-based multinationals, the threshold question will be whether any of their EU subsidiaries are large undertakings. Larger U.S.-based multinationals also will need to assess whether they might be subject to reporting as a non-EU undertaking. U.S.-based multinationals that determine they currently do not meet a CSRD compliance threshold should consider whether their EU growth strategy necessitates ongoing compliance threshold testing or preparation for compliance with the CSRD.
- Subject or potentially subject U.S.-based multinationals (at the parent or subsidiary level) should determine where primary responsibility for CSRD compliance will sit. Over the last few years, we have seen increasing centralization of responsibility for sustainability disclosures to ensure consistency across mandatory and voluntary disclosures and reduce compliance costs. The march toward centralization continues, with new sustainability-related disclosure requirements across a range of subjects coming in several jurisdictions, including proposed climate-risk disclosure rules in the United States.

For U.S.-based multinationals, in almost all cases, it will make the most sense for primary responsibility for sustainability disclosure globally to sit in the United States (whether with the sustainability, legal, compliance, finance or another team). Of course, regional and local personnel in other parts of the world also have an important part to play and will need to be integral to data collection and reporting.

- Subject or potentially subject U.S.-based multinationals also should conduct a preliminary CSRD gap assessment. The gap assessment should focus on gaps between expected required CSRD disclosures and other current and expected voluntary and mandatory sustainability disclosures (including those expected to be required by the SEC's climate risk disclosure rules if applicable). Although the ESRS and SEC climate risk disclosure rules have not been finalized, there is enough detail in the proposals for an initial disclosure gap assessment. The gap assessment also should focus on the processes, procedures, controls and IT systems that will be needed to support reporting and assurance. For U.S. public companies, in most cases, it will likely make sense to integrate their CSRD gap assessment with their gap assessment under the SEC's proposed climate risk disclosure rules.

- As discussed in this Alert, the adoption of the CSRD is just one step towards enhanced mandatory EU sustainability reporting. The CSRD will need to be transposed into Member State national law. In addition, the ESRS need to be finalized, which will occur in stages. Subject or potentially subject U.S.-based multinationals should set up a process for ongoing monitoring of the significant number of CSRD-related developments that will occur over the next few years.
- In parallel to increasing sustainability disclosure requirements, requirements relating to the substantive management of sustainability issues are increasing. In the adopted column, there is, for example, the U.S. Uyghur Forced Labor Prevention Act (Alert [here](#)), the German Due Diligence in the Supply Chain Act (Alert [here](#)) and the Norwegian Transparency Act (Alert [here](#)). Proposed legislation includes the EU Corporate Sustainability Due Diligence Directive (Alert [here](#)), the EU Forced Labor Regulation (Alert [here](#)) and the New Zealand Modern Slavery Act (Alert [here](#)). Many of these instruments also have a disclosure requirement, which in some cases is expected to ultimately be subsumed into CSRD reporting. In addition, stakeholder expectations – including institutional investor expectations – around substantive management of sustainability issues continue to increase. As U.S.-based multinationals continue to build out their teams and processes to address the CSRD and other new sustainability disclosure requirements, these other substantive sustainability requirements and considerations should be integrated.

About Ropes & Gray's ESG, CSR and Business and Human Rights Compliance Practice

Ropes & Gray has a leading ESG, CSR and business and human rights compliance practice. We offer clients a comprehensive approach in these subject areas through a global team with members in the United States, Europe and Asia. In addition, senior members of the practice have advised on these matters for more than 30 years, enabling us to provide a long-term perspective that few firms can match.

For further information on the practice, click [here](#).