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New EU Directive Requires Mandatory ESG Reporting

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Recently, the members of the European Council of the European Union unanimously approved the EU Corporate Sustainability Reporting Directive (CSRD). In short, the CSRD will require more in depth sustainability and environmental, social and governance (ESG) reporting by more companies than any prior EU directive. As stated in the [council's press release](#):

“This means that companies will soon be required to publish detailed information on sustainability matters. This will increase a company’s accountability, prevent divergent sustainability standards, and ease the transition to a sustainable economy.”

“In practical terms, companies will have to report on how their business model affects their sustainability, and on how external sustainability factors (such as climate change or human right issues) influence their activities. This will equip investors and other stakeholders better for taking informed decisions on sustainability issues.”

From a timing and implementation perspective, the release further reports, “After being signed by the President of the European Parliament and the President of the Council, it will be published in the Official Journal of the European Union and will enter into force 20 days afterwards. The new rules will need to be implemented by member states 18 months later.” Reporting will be phased in starting in 2024.

However, this is all about the EU, isn’t it? What difference does it make to

U.S. companies? Potentially a lot, it turns out. U.S. companies with just one subsidiary or branch in the EU may be required to produce ESG reports in compliance with EU rules if they have more than EUR 150 million of turnover in the EU. Lower thresholds apply to businesses in certain “high impact” (i.e. higher risk) sectors, including those related to textiles, agriculture, food, metals and mineral extraction. Smaller private businesses may be affected if they operate within the “value chains” of companies that are in the scope. Notably, the final directive incorporates the proposed requirement that the reporting is to be certified by an accredited independent auditor or certifier.