

THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE BECAME PART OF THE GOVERNMENT'S BUDGET CONSOLIDATION PACKAGE

As a surprise to everyone concerned, the current Budget Consolidation Package, to become effective for the most part as of January 2024, includes a partial implementation of the Corporate Sustainability Reporting Directive ([CSRD](#)).

CSRD requires companies to report on the impact of corporate activities on the environment and society, and requires the audit of such reported information. The Budget Consolidation Package (and the subsequent amendment 3149 by MP Havranek) proposal addresses the first phase of the CSRD obligations, i.e. to publish the sustainability report.

The good news is that the content of the sustainability report is largely consistent with the current obligation to provide an "overview of non-financial information" in the management report under the Czech Accounting Act, with the proposed changes attempting to eliminate any deviations from the CSRD that the current legislation contains.

Key areas affected by the amendment

- The amendment includes the 1st phase of CSRD obligations, which is to be effective from 1 January 2024.
- The range of obliged entities is the same as the range of entities that currently already report non-financial information.
- Sustainability report will include environmental and social matters, human rights and respect for them, governance and employee matters, fight against corruption and bribery.

SUSTAINABILITY REPORT ALREADY FROM 1 JANUARY 2024

The main changes include following:

- Harmonisation of the thresholds for the first phase of the CSRD obligations with Section 5(2)(a)(i) and 5(2)(a)(ii). The obligation to publish a sustainability report will therefore apply to public interest entities (i.e. banks, credit unions, insurance/reinsurance companies, pension companies, health insurance companies or companies issuing investment securities admitted to trading on a regulated market of any EU Member State) with:
 - more than 500 employees on average; and
 - either assets of more than CZK 500,000,000; or
 - an annual aggregate net turnover of more than CZK 1,000,000,000.
- The consolidated sustainability report must be prepared by a public interest entity that is the consolidating accounting entity of a "large group" of accounting entities that, on a consolidated basis, have exceeded the criterion of an average number of 500 employees for the accounting period. For the purpose of the requirement to publish a sustainability report, a public interest entity is not to be considered a "large accounting entity" automatically and the criteria of public interest, assets/turnover and average number of employees must be met cumulatively.
- Implementation of the requirement of the electronic reporting format for the management report based on Articles 1(1), 1(9) and 1(10) of the CSRD. This means that the annual report must be produced in the Extensible Hypertext Markup Language format (xhtml extension).
- Implementation of the obligation to report information on the key intangible resources based on Article 1(3) of the CSRD.
- If the entity issues a sustainability report or consolidated sustainability report, it is not required to report on key intangible resources elsewhere in the annual report, as follows from Articles 1(4) and 1(7) of the CSRD.

- Implementation of the obligation to describe the diversity policy applied to the issuer's management body with regard to gender whenever the entity describes its diversity policy and the explicit inclusion of a disability criterion among the examples of other criteria to be described, as follows from Article 1(5)(a) of the CSRD.

NEXT STEPS AND CSRD IMPLEMENTATION PLAN

The Budget Consolidation Package proposal as well as the amendment 3149 by MP Havranek was approved by the Chamber of Deputies and is now awaiting consideration by the Senate. If the changes are approved, the obliged entities will first publish their sustainability reports in 2025 for the 2024 financial year.

In general, the CSRD implementation plan is as follows:

- 2025 (for the financial year starting on 1 January 2024): large public interest entities and companies traded on European regulated markets, including those based outside the EU, with more than 500 employees.
- 2026 (for the financial year starting on or after 1 January 2025): large European companies, European parent companies of large groups and non-European companies listed on European regulated markets that meet at least 2 of the following 3 criteria:
 - assets of at least EUR 20 million;
 - turnover of at least EUR 40 million; and
 - more than 250 employees.
- 2027 (for the financial year starting on or after 1 January 2026): European and non-European small and medium-sized enterprises traded on regulated markets in the EU.
- 2029 (for the financial year starting on or after 1 January 2028): non-European companies with significant or publicly traded subsidiaries in the EU.

Disclosure of sustainability-related information places greater demands on companies in terms of standardization and legal preparation. We will continue to closely monitor the development of all related laws and amendments and will keep you informed of the situation.

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