

## Key Insights on CSRD Reporting Requirements for Companies Operating in the Croatian Market

29 July 2024

On 27 July 2024, Republic of Croatia officially implemented the Corporate Sustainability Reporting Directive (CSRD) into national legislation by replacing the existing legal framework set out under the Non-Financial Reporting Directive (NFRD). Namely, the CSRD has been implemented through the amendments to the **Accounting Act** (OG No. 85/2024), the **Audit Act** (OG No. 127/2017, 27/2024, 85/2024) and the **Capital Markets Act** (OG No. 65/18, 17/20, 83/21, 151/22, 85/24) (Accounting Act, Audit Act and the Capital Markets Act together as "**Local Legislation**").

The Local Legislation sets out relevant timelines, scope, reporting and audit requirements for companies operating in the Croatian market by applying a "double materiality" approach as summarized below.

### The Scope

Local Legislation expands the scope of sustainability reporting and disclosures with certain exemptions that now include:

Large EU Companies	Small and Medium Entities (SMEs)	Non-EU Companies
<ul style="list-style-type: none"> <li>public interest entities (including non-EU companies listed on an EU regulated market), EU parent companies of a large group and unlisted entities that exceed at least two of the three following criteria:                             <ol style="list-style-type: none"> <li>250 employees on average,</li> <li>EUR 50 million net turnover and</li> <li>EUR 25 million total balance sheet.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>listed entities that meet at least two of the following criteria:                             <ol style="list-style-type: none"> <li>average number of employees between 50 and 250,</li> <li>EUR 10 million and EUR 50 million net turnover, and</li> <li>EUR 5 million and EUR 25 million total balance sheet.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>entities generating at least EUR 150 million net turnover in the EU and with at least one:                             <ol style="list-style-type: none"> <li>branch generating at least EUR 40 million net turnover in the EU, or</li> <li>subsidiary in the EU (large entity or listed SME).</li> </ol> </li> </ul>

### The reporting requirements

Companies falling within the CSRD scope should include a special section in their management report about (i) the impact that the company has on sustainability matters, and (ii) how sustainability matters affect the company's development, performance and position in order to identify material sustainability impacts, risks and opportunities (**double materiality assessment**).



In summary, the sustainability report should include information related to the company's business model and strategy, time-bound targets, the roles and expertise of the administrative, management and supervisory bodies, policies and incentive schemes, due diligence processes and key risks and indicators pertinent to the sustainability disclosures.

The sustainability data should follow the rules of reporting as set out under the European Sustainability Reporting Standards Regulation (EU) 2023/2772 of 31 July 2023 (ESRS) (directly applicable) and be submitted in a standardised digital format (XBRL) to allow for easier verification and comparison in the European single access point database.

## The audit requirements

The sustainability report and the information it contains will be subject to mandatory limited assurance performed by a certified auditor licensed to provide audit services in the Republic of Croatia or by an auditor from another member state registered with the Croatian Ministry of Finance. The assurance is performed by an auditor appointed by the company in accordance with applicable statutory and internal rules.

## The implementation timeline

The Local Legislation provisions on CSRD implementation will enter into force in three stages:

- **From 1 January 2024:** for large public-interest companies (with over 500 employees, such as banks, insurance companies, etc.) already subject to the NFRD, with reports due in 2025;
- **From 1 January 2025:** for large companies that are not presently subject to the NFRD (with more than 250 employees and/or EUR 40 million in turnover and/or EUR 20 million in total assets), with reports due in 2026; and
- **From 1 January 2026:** for listed SMEs and other undertakings, with reports due in 2027. SMEs can opt-out until 2028.

## Supervision and Monetary Fines

Companies operating on the Croatian market which fall within the scope of the CSRD will be supervised by the Croatian Financial Services Supervisory Agency (HANFA). In case of non-compliance of the sustainability reporting provisions set out in the Accounting Act, monetary fines ranging from approx. EUR 1,320 to EUR 13,270 for legal entities and from approx. EUR 660 to EUR 2,650 for the responsible person within legal entities, may be triggered.

## Recommendation

As the CSRD requirements set the new benchmark for corporate sustainability reporting, companies, especially SMEs with less robust internal reporting teams (compared to large firms), must proactively adapt to meet these requirements. Companies operating on the Croatian market should familiarise themselves with the content of the Local Legislation and the corresponding ESRS requirements as soon as possible in order to determine whether they fall within the CSRD reporting scope and if so, start collecting missing information needed for their first sustainability report.

## About Wolf Theiss

Wolf Theiss is one of the leading European law firms in Central, Eastern and South-Eastern Europe with a focus on international business law. With more than 360 lawyers in 13 countries, over 80% of the firm's work involves cross-border representation of international clients. Combining expertise in law and business, Wolf Theiss develops innovative solutions that integrate legal, financial and business know-how.

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