

A stylized map of Central Europe, showing countries like Poland, Czech Republic, Slovakia, Austria, Hungary, Romania, and Bulgaria. The map is rendered in a light blue color against a darker blue background.

# CERHA HEMPEL CEE NEWSLETTER *Hungary*

## ESG and Sustainability Reports: Similarities and Differences under the Newly Adopted ESG Act

The Hungarian Parliament adopted Act CVIII of 2023 on the Rules of Corporate Social Responsibility to Encourage Sustainable Financing and Corporate Social Responsibility with an Emphasis on Environmental Awareness and Social and Welfare Matters ("ESG Act"), which is designed to transpose the CSR Directive (Directive (EU) 2022/2464) and the draft CSDD Directive into Hungarian law. From 1 January 2024, the new Act has introduced various requirements for certain companies to carry out due diligence and publish reports on sustainability issues.

### I. ESG Report

Under the ESG Act, companies will have to prepare an annual ESG report to show that they have complied with their obligation to carry out a sustainability due diligence review.

#### Applicability [ESG Act, Section 1(1)]

The ESG Act applies to a company if it has its registered office in Hungary and

- a) is a **large company** that qualifies as a **public-interest entity** and exceeded any two of the following three limits on the accounting reference date of the financial year that preceded the year under review:
  - aa) balance sheet total of HUF 10 billion,
  - ab) annual net sales revenue of HUF 20 billion,
  - ac) average number of employees of 500;

- b) is a **large company** and exceeded any two of the following three limits on the accounting reference date of the financial year that preceded the year under review:
  - ba) balance sheet total of HUF 10 billion,
  - bb) annual net sales revenue of HUF 20 billion,
  - bc) average number of employees of 250; and
- c) a **small or medium enterprise** that qualifies as a **public-interest entity**.

#### Deadlines [Section 54]

The provisions regarding obligations pertaining to sustainability due diligence reviews will have to be applied for the first time in

- a) the 2024 financial year in the case of companies within the meaning of Section 1(1)a) (**large companies** that qualify as **public-interest entities**), and the first ESG report will have to be published in **2025**;
- b) the 2025 financial year in the case of companies within the meaning of Section 1(1)b) (**large companies**), and the first ESG report will have to be published in **2026**;
- c) the 2026 financial year in the case of companies within the meaning of Section 1(1)c) (**small and medium enterprises** that qualify as **public-interest entities**), and the first ESG report will have to be published in **2027**.

### II. Sustainability report

The Accounting Act was also modified with the introduction of the ESG Act. As a result, the relevant companies are now required to issue what is known as a sustainability report. Sustainability reports are different from ESG reports. The business report of companies that



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are subject to the new rule will have to include a sustainability report with information that allows an assessment to be made of the impact of their operation on sustainability issues and how such sustainability issues influence their situation, development and performance.

### Application and exemption [Accounting Act Sections 95/E(1) and (2); Section 95/F]

A sustainability report will have to be prepared by every company that is required to prepare annual financial accounts, including the affiliates and branch offices of companies that are incorporated under the laws of an EU Member State or a third country. Consequently, a sustainability report must be prepared by a company if

- a) it exceeded any two of the following three limits on the accounting reference date in two consecutive financial years that preceded the year under review:
  - aa) balance sheet total of HUF 10 billion,
  - ab) annual net sales revenue of HUF 20 billion,
  - ac) average number of employees of 250, or
- b) its transferable securities have been admitted to trading on a regulated market in any of the member states of the European Economic Area, and it does not qualify as a micro-enterprise.

A consolidated sustainability report will have to be prepared by a parent company that is required to prepare consolidated annual accounts and satisfies the conditions pertaining to Hungarian companies.

**Exemption:** An affiliate may be exempted from the above obligation if it (and its affiliates, if any) is included in the consolidated sustainability report of its parent company. If a company's parent company prepares a consolidated sustainability report, it can be exempted from the reporting obligation if its annual account and the parent company's consolidated sustainability report meets the statutory requirements.

However, the exemption does not apply to companies whose transferable securities have been admitted to trading on a regulated market in any of the member states of the European Economic Area.

### Deadlines [Accounting Act, Sections 177(96)-(106)]

The new rules will take effect in a staggered manner. Large companies that qualify as public-interest entities, and **parent companies that prepare consolidated accounts and qualify as public-interest entities**, will have to prepare and publish their sustainability report with regard to the **2024 financial year** for the first time, while **other large companies** will have to do so with regard to the **2025 financial year**.

### Summary

With the introduction of the ESG Act, companies that are subject to its provisions will have to reckon with a complex set of requirements in connection with both ESG and sustainability reports.



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