WT Article

ESG Obligations in Hungary: Adapting to Broadening Regulatory Demands

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In recent years, environmental, social and governance (ESG) considerations have become a core element of corporate strategy across the European Union (EU). Integrating ESG obligations is no longer simply a regulatory necessity for companies but also an opportunity for sustainable growth and innovation. Effective 1 January 2025, in addition to public-interest entities, large enterprises will also be required to conduct ESG reporting as they face a much more comprehensive set of requirements.

Large enterprises are defined as those whose financial indicators exceed any two of the following thresholds at the balance sheet date for the previous financial year: (i) a balance sheet total of HUF 10,000 million; (ii) an annual net turnover of HUF 20,000 million or (iii) an average of 250 employees.

ESG due diligence and compliance laws in Hungary will enter into force gradually over the coming years, evolving from the Non-Financial Reporting Directive (NFRD) to the more comprehensive Corporate Sustainability Reporting Directive (CSRD), which introduced extended reporting requirements to a broader range of companies and mandates more detailed and comparable disclosures. In Hungary, the EU directives related to ESG were adopted into national law through Act CVIII of 2023 (the ESG Act). The Supervisory Authority for Regulated Activities (SZTFH) is the designated authority responsible for monitoring and enforcing ESG compliance.

The key features for ESG reporting are the following:

- The ESG Act mandates that companies provide detailed information on their environmental impact, including greenhouse gas (GHG) emissions, biodiversity risks and pollution control measures. This includes disclosing Scope 1, 2 and 3 emissions, requiring companies to assess not only their direct emissions but also those of their entire supply chain.

- The ESG Act brings a new requirement for double materiality. This means that companies must report both on how ESG issues affect their business (financial materiality) and on how their business impacts society and the environment (impact materiality). This involves assessing risks related to climate change, energy transition and community impact, as well as incorporating these findings into strategic planning.

- Under the ESG Act, companies must issue reports in accordance with the European Sustainability Reporting Standards (ESRS), which include specific standards for environmental topics (e.g. climate change and water resources), social topics (e.g. workforce diversity and human rights) and governance issues (e.g. anti-corruption measures and board diversity). The new standards aim to increase transparency and provide a uniform structure for reporting, making it easier for investors to compare sustainability performance across companies.

- The ESG Act also introduces mandatory third-party assurances for sustainability reports. This means that Hungarian companies will be subject to external verification of their ESG disclosures, enhancing the credibility and reliability of the reported data. The SZTFH establishes the accreditation requirements for ESG auditors, maintains a registry of accredited auditors and provides assistance to companies with regard to conducting complex ESG assessments.

- The ESG Act requires companies to submit their sustainability reports in a manner that is aligned with the European Single Electronic Format (ESEF). This is designed to streamline data collection, facilitate analysis and improve access to sustainability information for stakeholders.

The integration of ESG factors into corporate strategy is not only a compliance issue but rather increasingly becoming a key aspect in the valuation of companies, which brings a new element into M&A transactions. A strong ESG profile can enhance attractiveness in mergers and acquisitions, have an impact on access to capital and influence overall market valuation. In transaction processes, ESG considerations are becoming a core part of due diligence, influencing deal structures and pricing. Companies that proactively manage ESG risks and integrate sustainable practices may likely achieve higher valuations.

While the new obligations under the ESG Act may seem challenging, they offer significant opportunities for companies. Wolf Theiss' experts are committed to helping our clients meet their ESG obligations with respect to compliance, sustainable growth and enhanced market valuation.

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 390 lawyers in 13 countries and a central European hub in Brussels, 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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