



Proposal for a Corporate Sustainability Reporting Directive

CORPORATE SUSTAINABILITY REPORTING : Key changes

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Background

Objectives of the proposal for CSRD

A building block of the European Green Deal, a sustainable & inclusive recovery, and an economy that works for people:

- Reduce systemic risks to the financial system arising from climate change and other sustainability issues.
 - Enable the flow of capital to companies that address and do not exacerbate the sustainability crisis.
 - Make companies more accountable for their impacts on people and the environment.
 - Simplify and reduce unnecessary costs for reporting companies.
- How? Ensure that companies report the **relevant**, **comparable**, and **reliable** sustainability information needed by investors and other stakeholders.

Content of proposal

Legal structure

CSRD = amending Directive



- **Accounting Directive**
- **Transparency Directive**
- **Audit Directive**
- **Audit Regulation**

Background

Existing reporting requirements NFRD

What information?

- 4 issues: environment, social & employee, human rights, anti-bribery & corruption.
- 5 business concepts: business model, policies including due diligence procedures, outcomes, risks and risk management, KPIs relevant to the business.
- No policy on any of the 4 issues => explain why.

Materiality

- Information necessary for understanding position, performance and development of company (« outside-in »).
- Information necessary for understanding impacts of the company (« inside-out »).

Guidelines and standards

- No requirement to use a reporting standard.
- Commission published general guidelines in 2017, and climate-specific guidelines in 2019.

Scope (which companies?)

- Large companies with listed securities, large banks, large insurance companies, with > 500 employees.
- Exemption for subsidiaries.

Audit and assurance

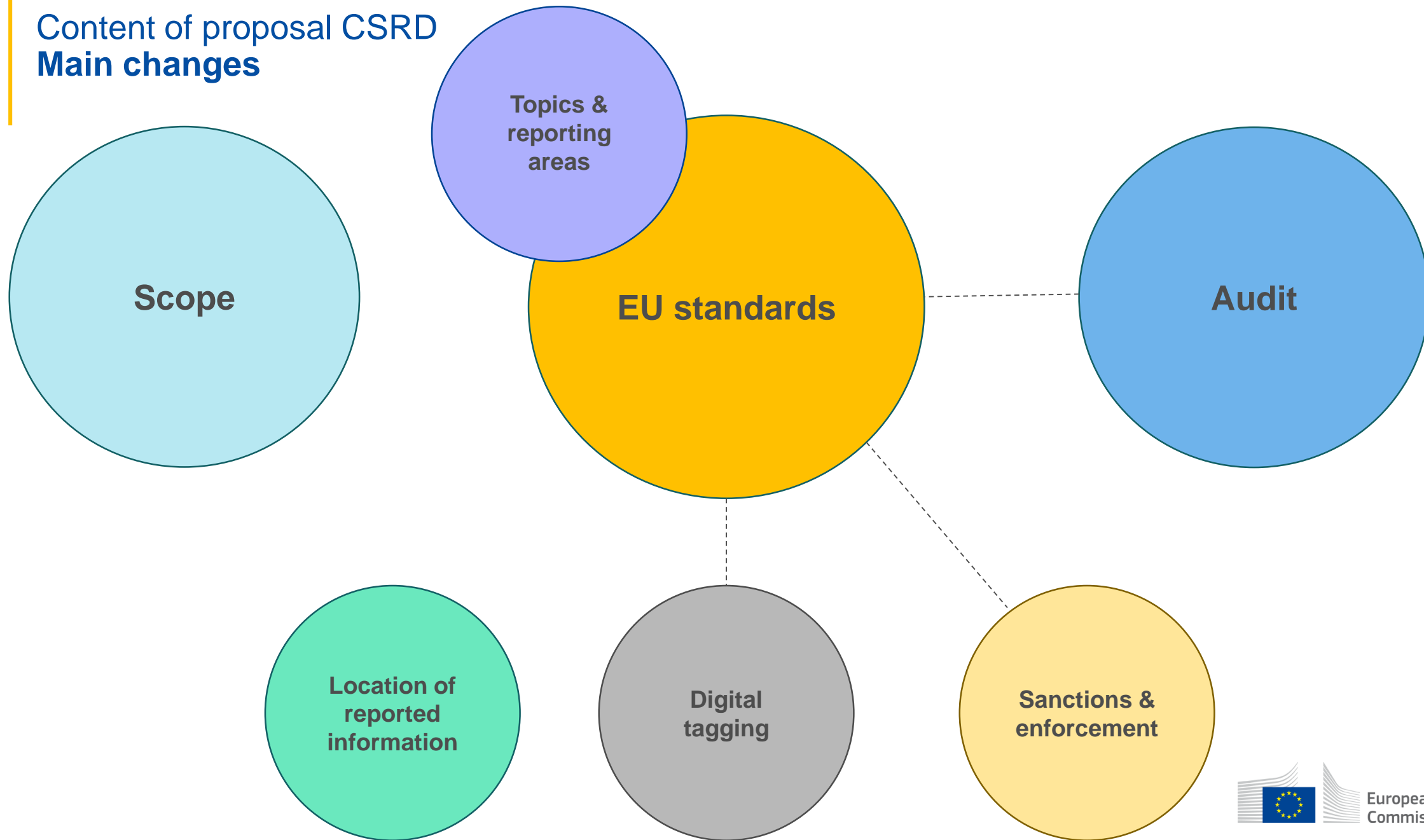
- Auditor checks that non-financial statement is provided.
- No assurance on content required, unless required by Member State.

Location (where report?)

- In the management report, or in a separate report if Member State allows.

Content of proposal CSRD

Main changes



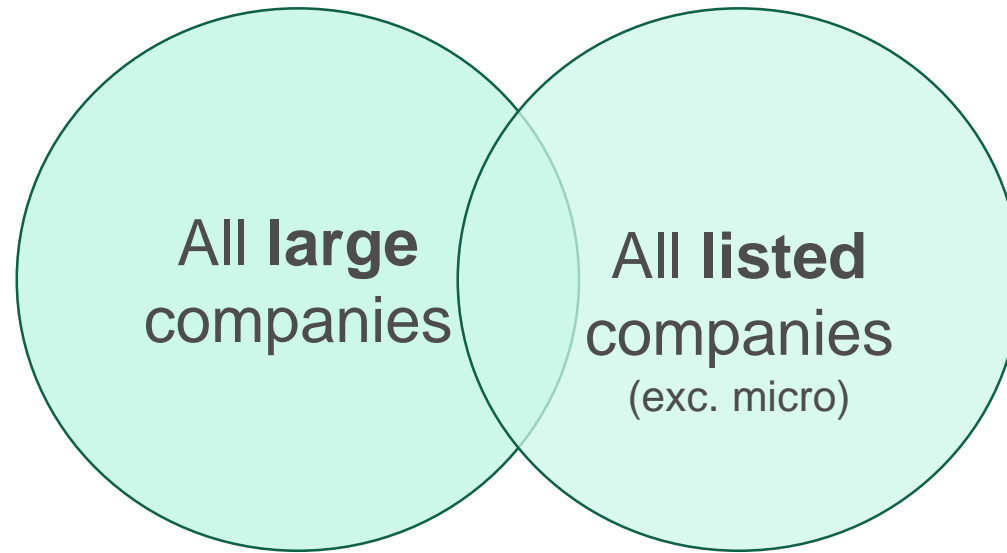
Content of proposal

Main changes compared to existing provisions

	Existing provisions NFRD	Proposed CSRD
Scope	Large PIEs, with more than 500 employees	All large and all listed (ex. listed micros, inc. non-EU listed)
Double materiality	Some ambiguity	Clarity: both perspectives to be addressed in their own right
Topics	Environmental, social and employee matters, respect for human rights, anti-corruption & bribery	Environment, Social, Governance (in effect, as for NFRD plus governance)
Reporting areas	Restricted list	More detailed and extensive list
Standards	Companies disclose if they use a standard	Mandatory EU standards for large companies. Simpler standards for SMEs (mandatory for listed SMEs, voluntary for all other SMEs).
Location	Management report by default, but MS may allow separate report	Management report
Assurance	Existence check only	Limited assurance. Reasonable assurance should COM adopt assurance standards for reasonable assurance
Digital	No requirement	Mark-up sustainability information
Supervision & penalties	Listed companies: lack of clarity about role of NCAs Non-listed companies: no specific sanctions	Listed: Clarify role NCAs, and ESMA guidelines for NCAs Non-listed: minimum sanctions

Content of proposal CSRD

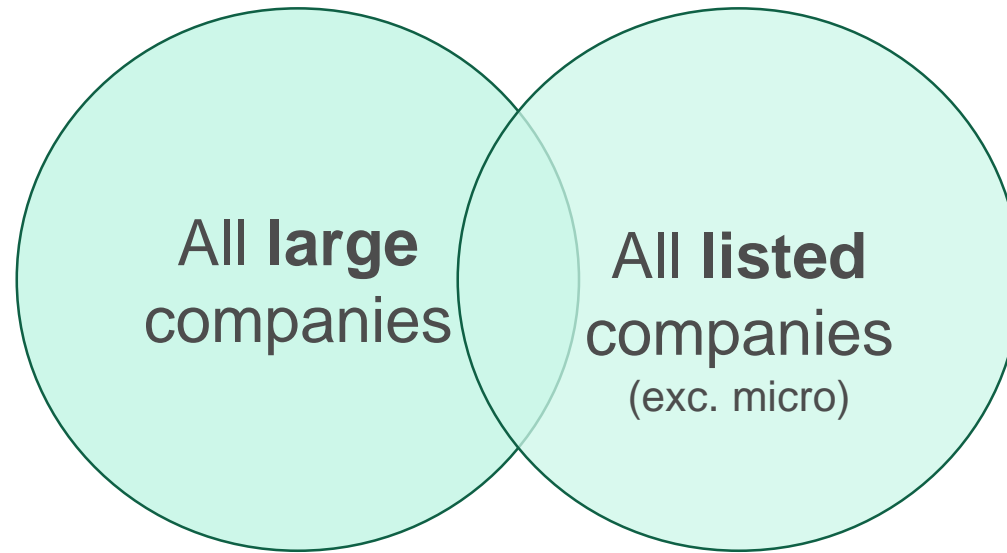
Scope: which companies?



- Includes non-EU companies listed on EU regulated markets.
- Listed SMEs: 3 year phase-in, and simpler reporting regime.
- Subsidiary exempted if parent reports according to EU requirements (or equivalent if non-EU company).

Content of proposal CSRD

Scope: which companies?



Large companies

The Accounting Directive defines large companies as those that exceed at least two of the three following criteria:

- (a) balance sheet total: EUR 20 000 000;
- (b) net turnover: EUR 40 000 000;
- (c) average number of employees during the financial year: 250.

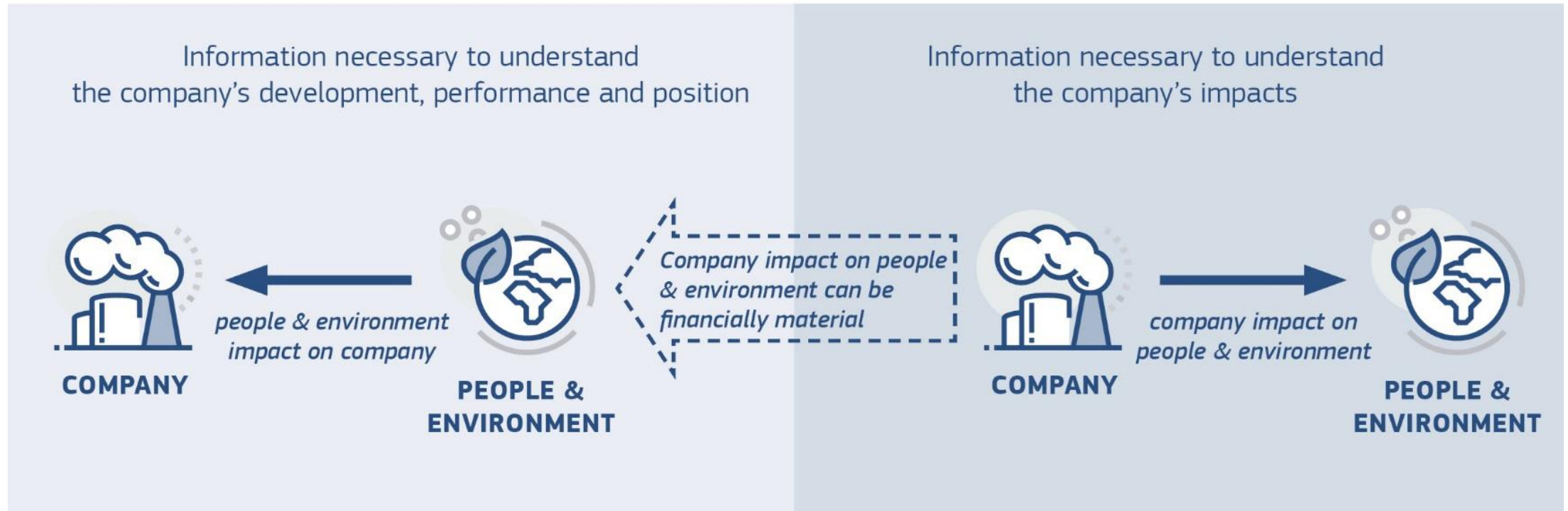
CSRD and SMEs

- The proposal does not impose any new requirement on the vast majority of smaller businesses.
- The reporting requirements of this proposal would not apply to SMEs with securities listed on SME growth markets or multilateral trading facilities (MTFs), allowing SMEs access capital markets without imposing additional reporting requirements.

Content of proposal CSRD

Double materiality

THE CSRD CLARIFIES THAT REPORTING IS REQUIRED BOTH ON:



- Article 1, paragraphs 3 and 7
- Recital: 25

Content of proposal CSRD

Coverage of sustainability topics

Environment

1. Climate change mitigation
2. Climate change adaptation
3. Water & marine
4. Resource use & CE
5. Pollution
6. Biodiversity & ecosystems

Mirrors EU Taxonomy

Social

1. Equal opportunities
2. Working conditions
3. Human rights

1 & 2 build on European Pillar of Social Rights

Governance

1. Role & composition of board and management
2. Ethics & corp. culture (inc. bribery & corruption)
3. Political engagements
4. Business relationships
5. Control & risk management

Content of proposal

Required reporting areas

Business model and strategy...

- ☐ resilience
- ☐ opportunities
- ☐ transition plans
- ☐ interests of stakeholders
- ☐ impacts
- ☐ strategy implementation

Embedding the TCFD

And...

- ☐ targets and progress
- ☐ role of board & management
- ☐ policies
- ☐ due diligence process
- ☐ principal adverse impacts
- ☐ actions taken to prevent, mitigate or remediate adverse impacts
- ☐ principal risks and risk management
- ☐ indicators
- ☐ process to identify information reported
- ☐ intangibles

Content of proposal

Location: where should information be reported?

Management report

Exempted subsidiary companies: publish the consolidated management report of the parent company, and include a reference in its individual management report to the fact that it is exempted.

Content of proposal

Assurance

What?

- **'Limited assurance'**
- **'Reasonable assurance'** if Commission adopts assurance standards for reasonable assurance
- Including **Article 8 TR** disclosures

Who?

- **Statutory auditor** (amendments to the Audit Directive)
- If MS allows for it, **any other accredited independent assurance services provider**, provided that it is subject to requirements that are consistent with those set out in the Audit Directive, as regards the assurance of sustainability reporting

Content of proposal

Digital

Companies

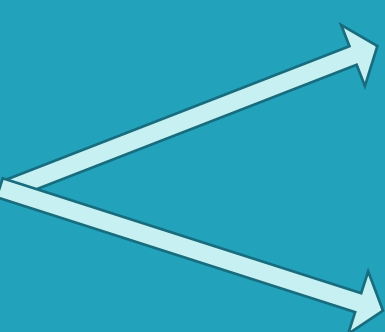
- ❑ financial statements and management report in a single electronic reporting format (**XHTML**)
- ❑ **mark-up sustainability information** only, inc. Article 8 TR disclosures, to make it machine readable

Member States

- ❑ ensure that information is **published in electronic format**
- ❑ ensure that reported **information reaches Officially Appointed Mechanisms (OAMs)** → ESAP

Content of proposal CSRD

Standards

- Standards for large companies → Mandatory
- Standards for SMEs 
 - Mandatory - for **SMEs under scope** (with securities listed on EU regulated markets)
 - Voluntary - for **all other SMEs**

Content of proposal CSRD Standards

- ✓ meet quality criteria
- ✓ cover detailed E, S and G topics
- ✓ take account of EU legislation and initiatives
- ✓ take account of global standard-setting initiatives

- ✓ European Financial Reporting Advisory Group (**EFRA**G) develops **draft standards**
- ✓ **Commission** adopts standards as **Delegated Acts** after consulting relevant EU bodies

SMEs and the CSRD proposal

Listed SMEs

In scope, but

- 3 years after large companies
- may use proportionate SME standards

Aim: not reduce access to finance

All other SMEs

No new legal requirements, but

- may use proportionate SME standards on a voluntary basis

Aim: ensure not excluded from transition. Having and sharing sustainability info will increasingly be part of business practice

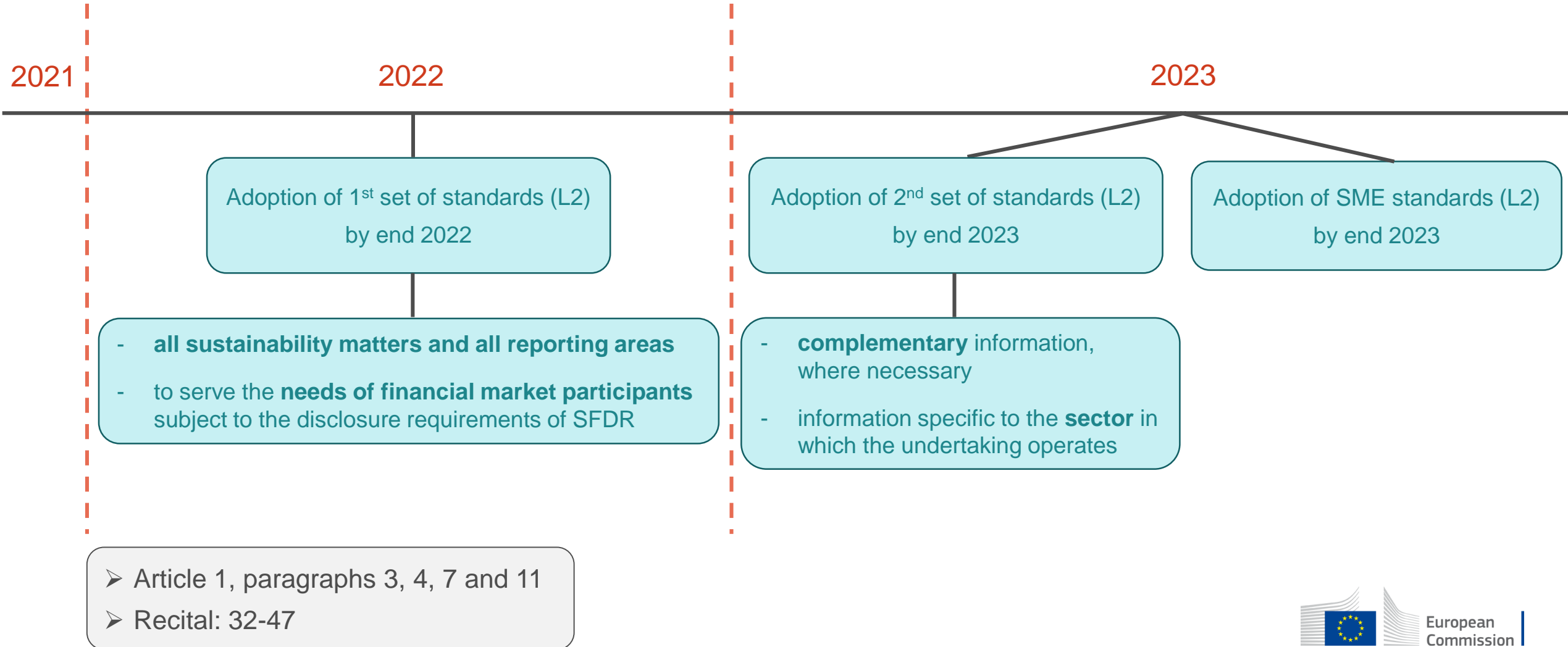
Indicative timeline

- **21 April 2021:** Commission adopts proposal
- **Q2 2022:** Co-legislators (Council and EP) reach agreement on level1
- **Fall 2022:** first set of draft standards ready
- **End-2022:** first standards adopted in level 2 Delegated Regulations
- **2024 TBC:** companies publish first reports according to standards (covering financial year 2023 TBC)

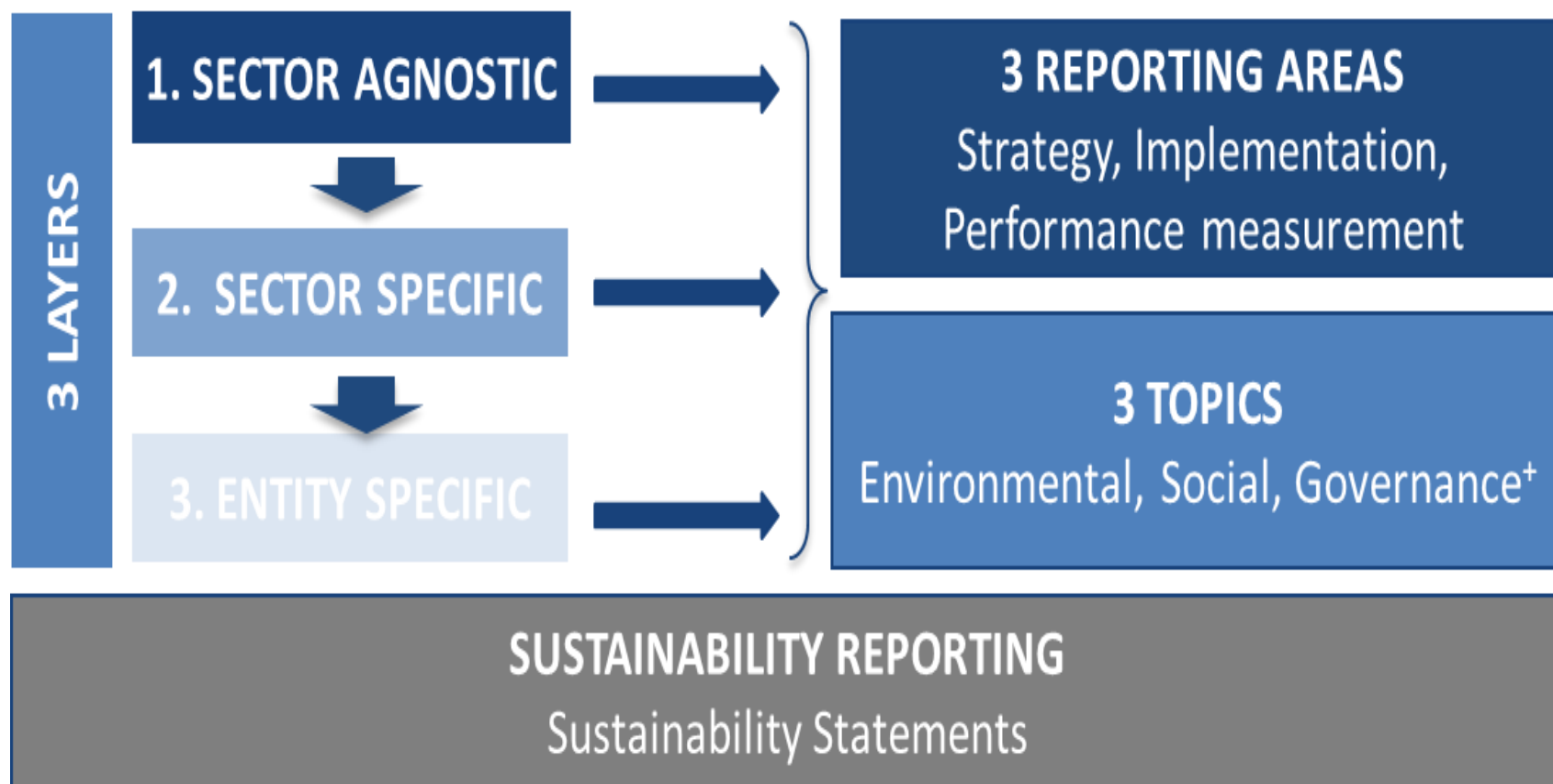
The development of standards will begin in parallel to negotiations on the level 1 legislation.

Assuming co-legislators agreement in Q2 2022

Standards – Indicative timeline



Reporting standards architecture 1/3



Procedures for the development of EU Sustainability Reporting Standards

- Please check the EFRAG website for ongoing work on the development of reporting standards:
- [Sustainability reporting standards interim draft - EFRAG](#)
- EFRAG Project Task Force:
- [European Lab PTF on European sustainability reporting standards \(PTF-ESRS\) – EFRAG](#)

How to improve reporting – best practises

Europeab LAB reports:

- **HOW TO IMPROVE CLIMATE-RELATED REPORTING**
- **A summary of good practices from Europe and beyond**
- <https://www.efrag.org/Activities/2010051119418610/Climate-related-reporting#>
- **Reporting of non-financial risks and opportunities and linkage to the business model – good practises**
- <https://www.efrag.org/Activities/2010051121466598/Risks-opportunities-and-business-model#>
- <https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/EFRAG%20PTF-RNFRO%20-%20Main%20Report.pdf>

Thank you



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