

# Proposal for a Corporate Sustainability Reporting Directive (CSRD)

European Commission

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# 1 | Introduction

## Background

**The Corporate Sustainability Reporting Directive revises and strengthens the existing rules introduced by the Non-Financial Reporting Directive. The proposal aims to ensure that companies report reliable and comparable sustainability information needed by investors and other stakeholders**



- The EP and the Council, published in 2014 the **Non-Financial Reporting Directive** (NFRD). The NFRD applies to large public-interest entities with an average number of employees in excess of 500, and to public-interest entities that are parent companies of a large group with an average number of employees in excess of 500 on a consolidated basis.
- The NFRD **introduced a requirement for companies to report both on how sustainability issues affect their performance, position and development, and on their impact on people and the environment.** This is often known as ‘double materiality’.
- The EC presented in December 2019 the **European Green Deal**, which aims to promote a circular and sustainable economy, as well as to reduce the Union’s net emissions to zero in 2050. With the European Green Deal, the EC committed itself to proposing a revision of the NFRD.
- In addition, the EP and the Council, published the **Taxonomy Regulation** which sets out relevant criteria for determining whether an economic activity qualifies as environmentally sustainable. Also, it was published the **Regulation on sustainability-related disclosures in the financial services sector** (SFDR) which governs how financial market participants (including asset managers and financial advisers) should disclose sustainability information to end-investors and asset owners. The NFRD, together with the SFDR and the Taxonomy Regulation, are the central components of the sustainability reporting requirements underpinning the EU’s sustainable finance strategy.

In this context, the EC has published the Proposal for a Corporate Sustainability Reporting Directive<sup>1</sup> with the objective of :

- Ensure that the **reporting requirements for companies are consistent with the taxonomy.** This will be achieved above all through the proposed sustainability reporting standards.
- Ensure that there is **adequate publicly available information about the risks that sustainability issues present for companies,** and the impacts of companies themselves on people and the environment.
- **Help reduce systemic risks** to the economy and reduce unnecessary costs of sustainability reporting for companies, and to enable them to meet the growing demand for sustainability information in an efficient manner.

# 1 | Introduction

## Executive summary

**The Corporate Sustainability Reporting Directive revises and strengthens the existing rules introduced by the Non-Financial Reporting Directive. The proposal aims to ensure that companies report reliable and comparable sustainability information needed by investors and other stakeholders**

This proposal consists of one Directive that would amend four existing pieces of legislation



- In the first place, it would amend the Accounting Directive, revising some existing provisions and adding certain new provisions about sustainability reporting.
- It would amend the Audit Directive and the Audit Regulation, to cover the audit of sustainability information.
- It would amend the Transparency Directive to extend the scope of the sustainability reporting requirements to companies with securities listed on regulated markets, and to clarify the supervisory regime for sustainability reporting by these companies.
- The amended provisions of this Regulation would **enter into application on 1 January 2023**.

- Compared to the NFRD sustainability reporting requirements, the principal novelties of this proposal are:
  - To **extend the scope of the reporting requirements** to additional companies, including all large companies and listed companies (except listed micro-companies).
  - To require **assurance of sustainability information**.
  - To **specify** in more detail **the information that companies should report**, and require them to report in line with mandatory EU sustainability reporting standards;
  - To ensure that all **information is published as part of companies' management reports**, and disclosed in a digital, machine-readable format.

# 2 | Amendments to Directive 2013/34/EU

## The accounting Directive (1/2)

### The Accounting Directive harmonises the regime of financial and non-financial reporting throughout the entire EU, including reporting about corporate social responsibility (CSR)

The CSRD would amend the Accounting Directive revising some existing provisions and adding certain new provisions about sustainability reporting.

#### Sustainability reporting requirements

- **Modifies the personal scope of the reporting requirements, extending their application to all large companies** and all companies with securities listed on EU regulated markets, except micro-companies. In order to alleviate the reporting burden for listed small and medium-sized enterprises (SMEs), they are to start reporting in accordance with this Directive 3 years after its entry into application.
- **Specifies in greater detail the information that companies should disclose:** introduces new requirements for companies to provide information about their strategy and business model (including, among others, the compatibility with the transition to a sustainable economy), targets, the role of the board and management with regard to sustainability matters, the principal adverse impacts connected to the company and its value chain, intangibles, and how they have identified the information they report.
- Requires all companies within its scope to **report in accordance with European sustainability reporting standards**, and allows listed SMEs within its scope to report in accordance with sustainability reporting standards specific for SMEs.
- **Removes the possibility** for Member States to allow companies to report the required information in a separate report that is not part of the management report.

#### Sustainability reporting standards

- **Specifies minimum quality criteria** that information reported in accordance with the standards would have to meet
- Requires the EC to **adopt a first set of standards by 31 October 2022**. This set of standards should specify information that companies should report about all sustainability matters and all reporting areas. A second set of standards should be adopted at the latest by 31 October 2023. Also, requires the EC to adopt sustainability reporting standards for small and medium sized companies by 31 October 2023.
- The sustainability reporting standards should specify the information that undertakings are to disclose about **environmental factors** (climate change mitigation and adaptation and water and marine resources among others); **social factors** (equal opportunities for all, working conditions and respect for the human rights); and **governance factors** (the role of the undertaking's administrative, management and supervisory bodies among others).
- Requires companies to **prepare their financial statements and their management report in a single electronic reporting format**.

# 2 | Amendments to Directive 2013/34/EU

## The accounting Directive (2/2)

The Accounting Directive harmonises the regime of financial and non-financial reporting throughout the entire EU, including reporting about corporate social responsibility (CSR)

### Corporate governance statement

- **Requires listed companies to include a reference to gender in the description of the diversity policy** applied in relation to the company's administrative, management and supervisory bodies.

### Exemptions from consolidation

- Clarifies that the **exemption regime for consolidated financial statements and consolidated management reports operates independently from the exemption regime for consolidated sustainability reporting**. This means that a company can be exempted from consolidated financial reporting requirements, but not from consolidated sustainability reporting requirements.

### General publication requirement

- Requires Member States to ensure that within **12 months after the balance sheet date**, companies publish their **duly approved annual financial statements** and management report in the electronic format.

### Responsibility and liability for publishing the financial statements

- Requires administrative, management and supervisory bodies to **ensure that the company in question has reported in accordance with EU sustainability reporting standards**, and in the digital format required, and deletes the reference to the currently allowed separate report for sustainability reporting.

### General requirement

- **Requires the statutory auditor to perform a limited assurance engagement** on a company's sustainability reporting, including on the compliance of the sustainability reporting with the reporting standards, on the process carried out by the company.

### Exemptions from consolidation

- **Stablishes the conditions for empowering the EC to adopt the delegated acts** on sustainability reporting standards. requires the Commission to take account of the technical advice of the European Financial Reporting Advisory Group (EFRAG) when preparing those acts.

# 3 | Amendments to Directive 2004/109/EC

## Transparency Directive

**The Transparency Directive establishes the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market**

The CSRD would amend the Transparency Directive to **extend the scope** of the sustainability reporting requirements to companies with **securities listed on regulated markets**.

### Sustainability reporting

- Introduces the term necessary for the proposal: sustainability reporting.

### Annual reports and sustainability reporting standards

- Introduces amendments in order to require that the annual financial report includes statements made by the people responsible for financial reporting in the issuer that to the best of their knowledge, the management report is prepared in accordance with sustainability reporting standards. The financial report of the annual financial report shall be audited in accordance with the Audit Directive and Accounting Directive:
  - The references to provisions of the Accounting Directive as regards the preparation of the management report are updated and amended to require sustainability reporting. These amendments enable the extension of the sustainability reporting requirements to companies listed on EU regulated markets, except micro-companies, including non-EU issuers.
  - The references to provisions of both directives, are updated as regards the requirement to audit financial statements in accordance with the Accounting Directive and to state whether the auditor or audit firm has identified material misstatements in the management report.

### Third countries

- Empowers the EC to adopt measures to establish a mechanism for the determination of the equivalence of sustainability reporting standards used by non-EU issuers and to take the necessary decisions on such equivalence. Any decisions on the equivalence of sustainability reporting standards used by non-EU issuers will be independent from equivalence decisions concerning financial reporting standards.

### ESMA guidelines

- Requires the European Securities and Markets Authority (ESMA) to issue guidelines for national competent authorities in order to promote supervisory convergence of sustainability reporting.

# 4 | Amendments to Directive 2006/43/EC

## Audit Directive (1/2)

**The Audit Directive establishes rules concerning the statutory audit of annual and consolidated accounts and the assurance of annual and consolidated sustainability reporting, where this is performed by the statutory auditor or audit firm carrying out the statutory audit of financial statements**

The CSRD would amend the Audit Directive, to cover the audit of **sustainability information**

### Subject matter

- Amends the subject matter of the Directive in order to include the assurance of annual and consolidated sustainability reporting, where carried out by the statutory auditor or audit firm.
- Inserts certain definitions and amends the definitions of 'statutory auditor' and 'audit firm'.

### Approval, continuing education and mutual recognition

- Modifies the rules on the approval, continuing professional education and mutual recognition of statutory auditors and audit firms. It also amends the rules on the procedures that competent authorities should set out for the approval of statutory auditors from a different Member State.

### Statutory auditors from other Member State

- Amends the rules on the procedures that competent authorities should set out for the approval of statutory auditors from a different Member State to ensure that where the Member State decides that the applicant seeking approval should be subject to an aptitude test.
- Ensures that approved statutory auditors can continue carrying out statutory audits and can carry out audits of sustainability reporting once the amended legal requirements apply. Adapts the rules on the organisation of the work of the auditor to include references to their work on the assurance of sustainability reporting.

### Audit fees

- Requires Member States to put adequate rules in place to prevent the fees for the assurance of sustainability reporting from being influenced or determined by the provision of additional services to the audited entity, or being based on any form of contingency.
- Extends rules on the professional ethics, independence, objectivity, confidentiality and professional secrecy required of auditors of financial statements to their work on the assurance of sustainability reporting.

### Auditing standards

- Demands Member States to require auditors to carry out assurance engagements of sustainability reporting in accordance with assurance standards adopted by the EC and to apply national assurance standards, procedures or requirements unless the EC has adopted an assurance standard covering the same subject-matter.

# 4 | Amendments to Directive 2006/43/EC

## Audit Directive (2/2)

**The Audit Directive establishes rules concerning the statutory audit of annual and consolidated accounts and the assurance of annual and consolidated sustainability reporting, where this is performed by the statutory auditor or audit firm carrying out the statutory audit of financial statements**

### Consolidated accounts and audit reporting

- Extends the rules on the statutory audit of a group of companies to the assurance of consolidated sustainability reporting, where carried out by the statutory auditor.
- Requires the statutory auditor or the audit firm carrying out the assurance of sustainability reporting to present their results in the audit report, and to prepare the report in accordance with the requirements for assurance standards adopted by the EU or Member State concerned. The audit reporting must contain for example, the specification of the the annual or consolidated sustainability reporting and the date and period they cover.

### Quality assurance systems

- Amends the matter concerning the system for the quality assurance review of statutory auditors and audit firms in order to ensure that quality assurance reviews take place for the audits of sustainability reporting and that the people who carry out quality assurance reviews have appropriate professional education and relevant experience in the assurance of sustainability reporting.

### Systems of investigations and penalties

- Clarifies that the investigations and sanctions regime for statutory auditors and audit firms carrying out statutory audits also apply to audits of sustainability reporting.

### Regulatory cooperation Third-country auditors and audit entities

- Clarifies that the provisions on public oversight and regulatory arrangements between Member States as regards statutory audits also apply to the assurance of sustainability reporting.
- Requires administrative, management and supervisory bodies to ensure that the company in question has reported in accordance with EU sustainability reporting standards, and in the digital format required, and deletes the reference to the currently allowed separate report for sustainability reporting.

### Application to non-listed public-interest entities

- Clarifies the tasks of the audit committee for the assurance of sustainability reporting.

# 5 | Amendments to Regulation (EU) No 537/2014

## Audit Regulation

The Audit Regulation develops the specific requirements regarding statutory audit of public-interest entities

The CSRD would amend the Audit Regulation, to cover the audit of **sustainability information**

### Provision of non-audit services

- Amends the disposals on Prohibition of the provision of non-audit services. Thus, the new regulation would prohibit the provision of consulting services for the preparation of sustainability reporting when statutory auditors or audit firms carrying out the statutory audit are also carrying out the assurance of sustainability reporting.

### Assurance of sustainability reporting

- It requires statutory auditors and audit firms to annually inform the competent authority in question of which revenues, among the revenues from non-audit services, were generated from the assurance of sustainability reporting.



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