



Proposal for a Corporate Sustainability Reporting Directive

EFRAG TEG-CFSS

16 June 2021

Policy context

European Green Deal



Europe Fit for Digital Age



Economy that Works for People



Particular relevance of:

- Sustainable Finance Action Plan and related legislation (especially Taxonomy and SFDR)
- Sustainable Corporate Governance Initiative (forthcoming)
- European Single Access Point (forthcoming)

Covid-19

- Accelerates growth in demand for corporate non-financial information
- Need to ensure sustainable and inclusive recovery
- Economic crisis and administrative costs on business

Background

The need for new rules

Problems for users

- Some companies report no information
- Relevant information not reported
- Comparability
- Reliability
- Findability and usability (digital)



Systemic risks to financial system

Limited capital flows to sustainable companies

Accountability deficit

Problems for preparers

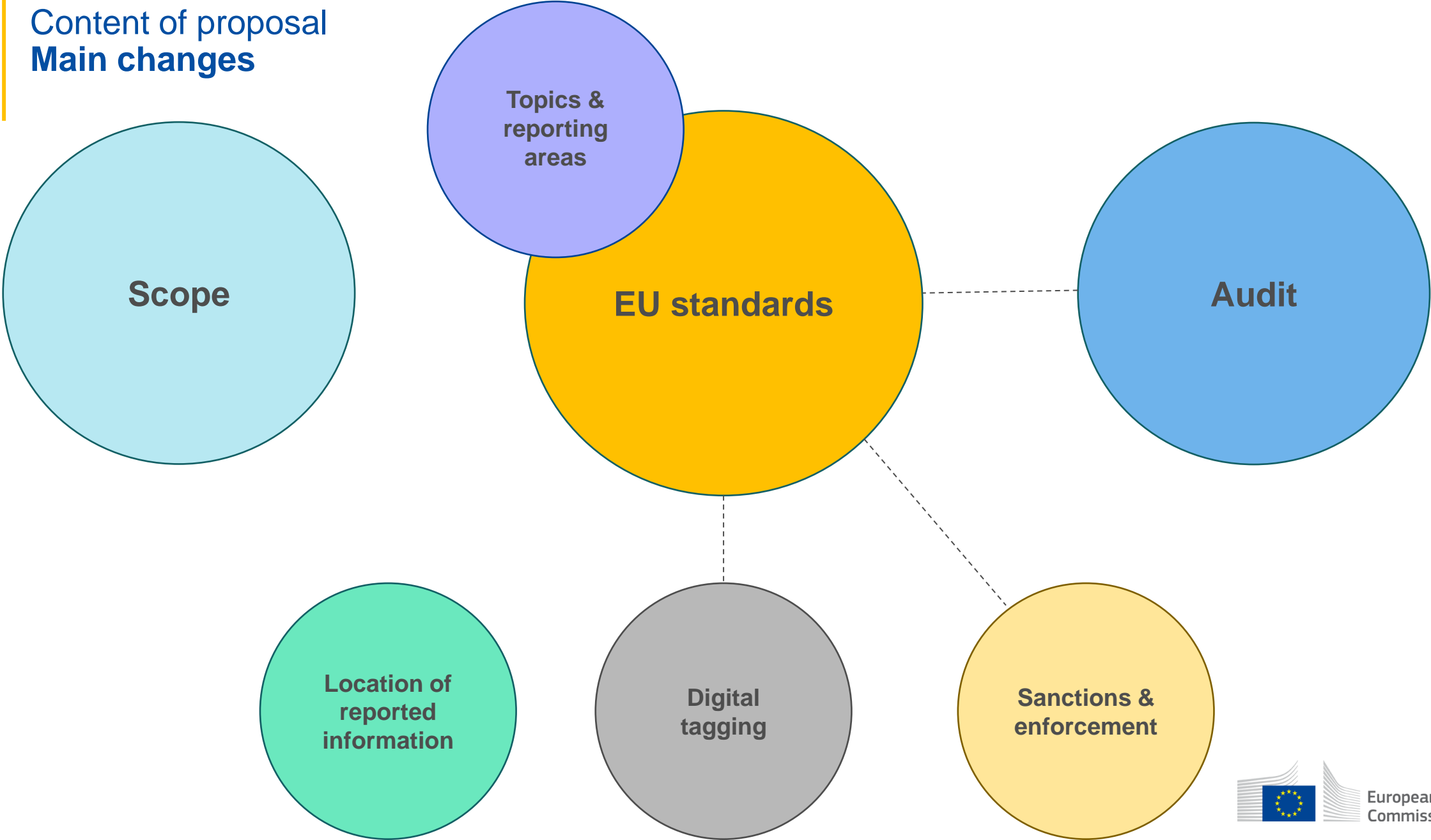
- Uncertainty about what to report
- Additional information requests
- Cannot get adequate information from own suppliers and clients



Costs and administrative burden

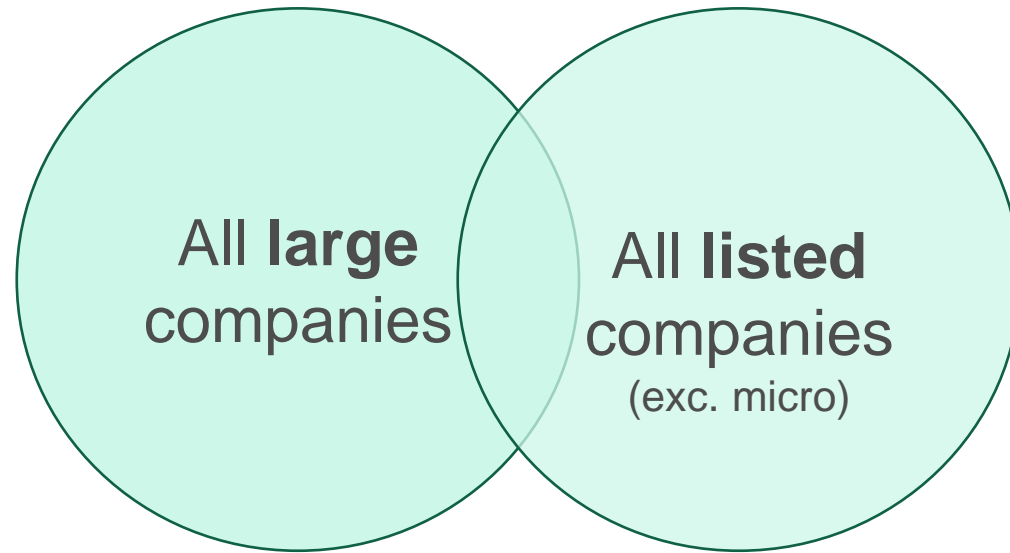
Situation highly dynamic:
problems for users & costs
for preparers will increase
with no EU action

Content of proposal
Main changes



Content of proposal

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

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

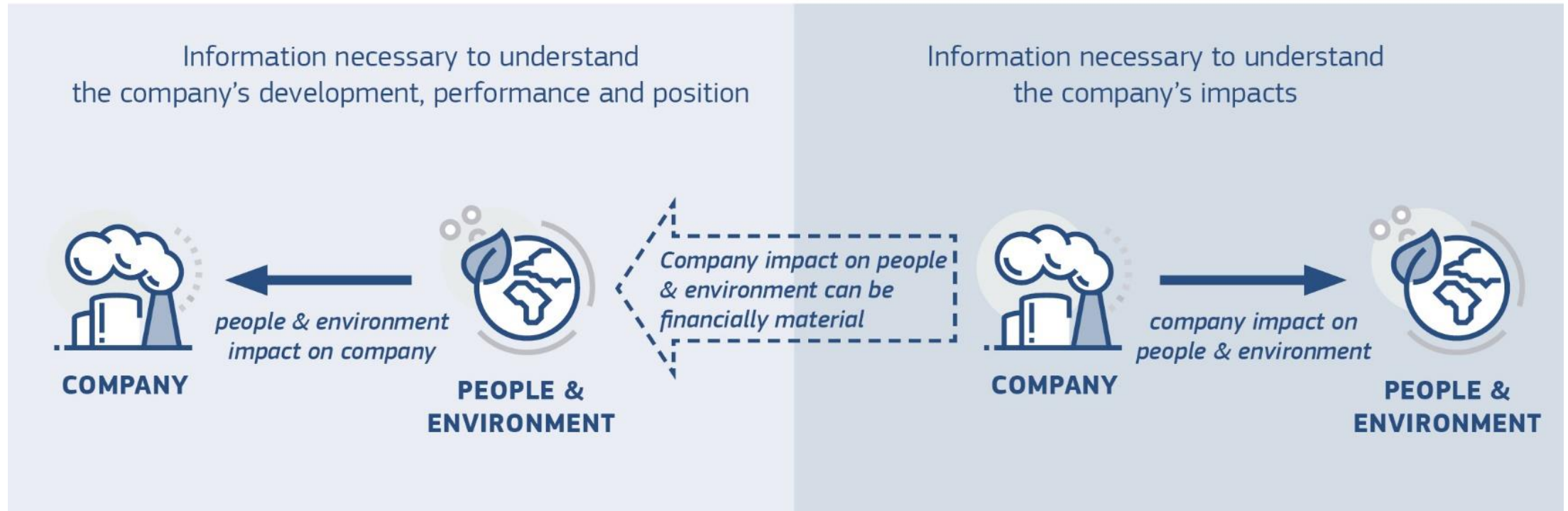
Governance

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

Double materiality

THE CSRD CLARIFIES THAT REPORTING IS REQUIRED BOTH ON:



Content of proposal

Required reporting areas

Business model and strategy...

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

And...

- targets and progress
- role of board & management
- policies
- due diligence process
- principal adverse impacts
- principal risks and risk management
- indicators
- process to identify information reported
- intangibles

Content of proposal

Required reporting areas

Business model and strategy...

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

And...

- targets and progress
- role of board & management
- policies
- due diligence process
- principal adverse impacts
- principal risks and risk management
- indicators
- process to identify information reported
- intangibles

Embedding the TCFD

Content of proposal

Other requirements of reported information

- ✓ Forward-looking and retrospective
- ✓ Qualitative and quantitative
- ✓ Short, medium and long-term horizons
- ✓ Value chain, business relationships
- ✓ Understandability, relevance, reliability, verifiability, faithful representation

Content of proposal

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

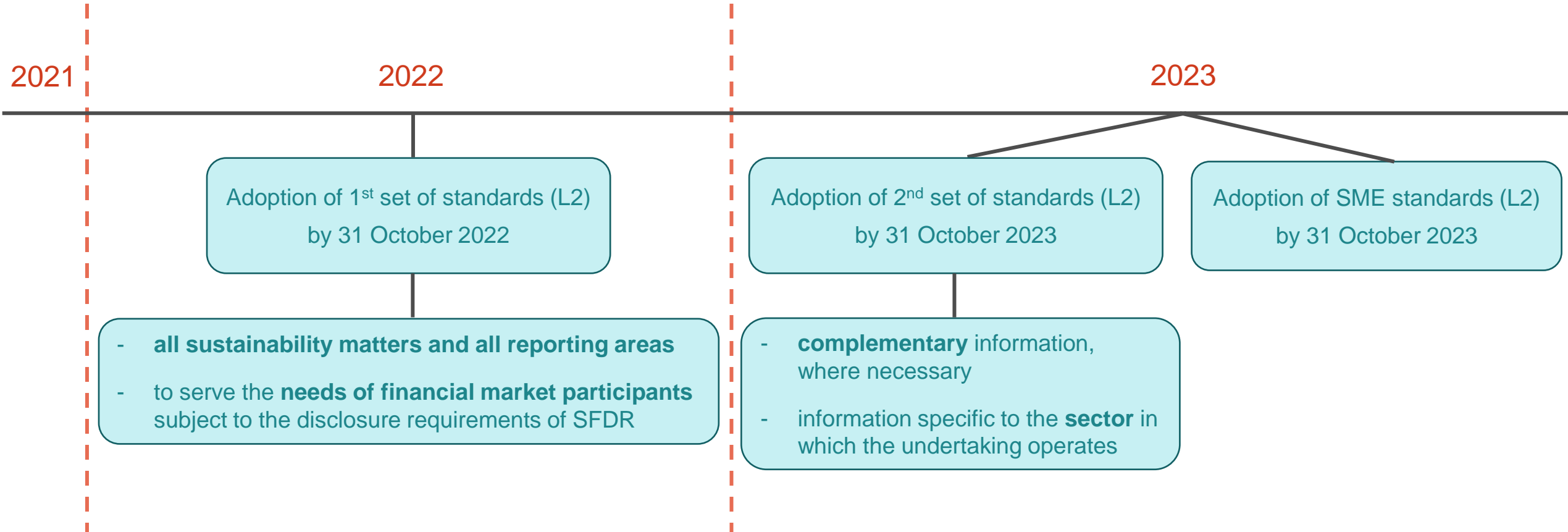
Standards

- ✓ 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 (**EFRAG**) develops **draft standards**
- ✓ **Commission** adopts standards as **Delegated Acts** after consulting relevant EU bodies

Content of proposal Standards

Assuming co-legislators agreement in Q1/Q2 2022



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

Who?

- **Statutory auditor**
- If MS allows for it, **any other accredited independent assurance services provider**

Content of proposal

Digital

Companies

- financial statements and management report in a single electronic reporting format (**XHTML**)
- mark-up sustainability information** only, 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

Coherence with international initiatives

- Sustainability reporting standards must take account of the work of global standard-setting initiatives.
 - Standards to be reviewed and amended as necessary every 3 years to take into account relevant developments, “including developments with regard to international standards.”
- ➔ EFRAG will work in co-construction with international initiatives.

Indicative timeline

- **21 April 2021:** Commission adopts proposal
- **Q1/Q2 2022:** Co-legislators reach agreement on level1
- **Mid-2022:** first set of draft standards ready
- **End-2022:** first standards adopted in level 2 Delegated Regulations
- **2024:** companies publish first reports according to standards (covering financial year 2023)

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

Thank you



© European Union 2020

Unless otherwise noted the reuse of this presentation is authorised under the [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/) license. For any use or reproduction of elements that are not owned by the EU, permission may need to be sought directly from the respective right holders.

Slide xx: **element concerned**, source: e.g. [Fotolia.com](https://www.fotolia.com/); Slide xx: **element concerned**, source: e.g. [iStock.com](https://www.istock.com/)

