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NOTE

Origine:	Secrétariat général du Conseil
Destinataire:	Comité des représentants permanents
Objet:	Directive modifiant les directives 2013/34/UE, 2004/109/CE et 2006/43/CE ainsi que le règlement (UE) n° 537/2014 en ce qui concerne la publication d'informations en matière de durabilité par les entreprises

- **Analyse du texte de compromis final en vue d'un accord**

I. CONTEXTE

1. Le 21 avril 2021, la Commission européenne a présenté sa proposition de directive du Parlement européen et du Conseil modifiant la directive 2013/34/UE, la directive 2004/109/CE, la directive 2006/43/CE et le règlement (UE) n° 537 /2014, en ce qui concerne la publication d'informations en matière de durabilité par les entreprises (CSRD).¹ La base juridique de la proposition repose sur les articles 50 et 114 du traité sur le fonctionnement de l'Union européenne (TFUE).

¹ 8132/21 + COR 1 + ADD 1 COR 1 + ADD 2 COR 1 + ADD 3 COR 1.

2. La proposition vise à combler les lacunes des règles existantes en matière d'informations extra-financières. La publication d'informations en matière de durabilité pourrait attirer des investissements et des financements supplémentaires en vue de faciliter la transition vers une économie durable décrite dans le pacte vert. Les entreprises devront fournir des informations plus détaillées sur les risques en matière de durabilité auxquels elles sont exposées et sur leur propre impact sur la société et l'environnement.
3. Le Comité économique et social européen a rendu son avis le 22 septembre 2021.
4. L'orientation général du Conseil a été adoptée à l'unanimité lors de la réunion du Conseil (Compétitivité) du 24 février 2022.
5. Le Parlement européen a désigné le député européen Pascal DURAND (RENEW, FR) comme rapporteur. La position du Parlement européen a été adoptée le 23 mars 2022.

II ÉTAT D'AVANCEMENT

6. Suite à l'adoption de la position du Conseil et du Parlement, quatre réunions de trilogue informel ont été tenues le 28 mars, le 25 avril, le 19 mai et le 21 juin 2022.
7. Lors de la dernière réunion de trilogue, dont la Présidence a rendu compte au Comité des Représentants Permanents lors de sa réunion du 22 juin 2022, les colégislateurs sont parvenus à un accord politique provisoire sur tous les points abordés au trilogue, tout en fournissant des orientations politiques pour l'affinement du texte au niveau technique
8. Deux réunions techniques supplémentaires se sont tenues après le trilogue, le 22 et 23 juin 2022, afin de trouver les bonnes formulations conformément à l'accord politique et de finaliser le texte. Le Groupe de travail sur le Droit des sociétés sera informé des résultats du trilogue le 27 juin et aura l'occasion d'analyser le texte de compromis. Le Comité des Représentants Permanents aura vocation à confirmer le texte de l'accord de compromis le 29 juin 2022.

9. La présidence est d'avis qu'avec ces derniers efforts, un bon compromis a été trouvé, conformément au mandat qui lui a été confié. Les principaux éléments de ce texte de compromis sont exposés à la section III ci-dessous.

III COMPROMIS GLOBAL

10. En ce qui concerne les principales questions politiques abordées lors du trilogue final, il convient de noter les éléments suivants :

- **La question de l'inclusion des PME cotées :**

Le compromis provisoire maintient les PME cotées dans le champ d'application, et introduit une possibilité de dérogation (*opt-out*), utilisable jusqu'en 2028 et assortie d'une obligation, pour les PME cotées utilisant l'*opt-out*, de décrire brièvement les raisons de l'utilisation de cet *opt-out*. Les modifications nécessaires ont été apportées à l'article 19a(5a) de la directive « comptable ». Par ailleurs, l'exemption de l'obligation de *reporting* au niveau des filiales individuelles s'appliquera aux PME cotées. Enfin, une précision est apportée pour protéger les PME au sein des chaînes de valeur : les standards devront faire en sorte que les grandes entreprises n'aient pas à requérir des PME au sein de leur chaîne de valeur de fournir plus d'informations que ce qui sera prévu dans les standards adaptés aux PME.

- **Le traitement des entreprises non-européennes :**

Le compromis inclut un avancement de l'entrée en vigueur à 2028 (CSRD, article 5), une clause de revue renforcée (CSRD, article 5a(1)) et une disposition prévoyant une possibilité pour les États membres (« *Member States may* ») de faire remonter à la Commission une liste positive des entreprises non-UE appliquant les obligations de *reporting* prévues, afin que la Commission puisse à son tour publier cette liste positive (Directive « comptable », nouveau paragraphe 4 de l'article 40a).

- **L’audit et l’assurance du rapport de soutenabilité :**

Le compromis final intègre les propositions de compromis dans le mandat révisé par les États membres lors du Comité des Représentants Permanents du 15 juin, à l’exception du contrôle qualité pour l’audit de durabilité. Ces propositions sont complétées par l’ajout de deux dispositions :

- i) la possibilité pour 5 % des actionnaires de demander en assemblée générale une expertise additionnelle sur des éléments du rapport de durabilité, en précisant qu’elle serait alors mise à disposition des actionnaires;
- ii) une exigence de transparence pour les entreprises sur les expertises externes qui sont requises par la législation européenne sur des éléments du rapport de durabilité, en précisant dans un considérant que ceci ne doit pas conduire à faire endosser ou refaire par l’auditeur le contenu de ces expertises externes.

Les modifications nécessaires sont ajoutés à la directive Comptable : article 34, nouveau paragraphe 3c, un nouveau considérant 54b; à la directive « audit » : article 37, nouveau paragraphe, un nouveau considérant 64a.

- **Le contenu des exigences de *reporting* :**

L’accord politique s’est établi sur la formule dessinée en amont et validée lors du dernier mandat :

- inclusion de l’exposition aux énergies fossiles (directive « comptable, article 19a(2)(a)(iii); et article 29a(2)(a)(iii)) ;
- remplacement de « publier » (« *disclose* ») par « identifier », à propos du *reporting* sur les impacts que les entreprises, le cas échéant, doivent « identifier » (plutôt que « publier ») en application de législations de l’UE adoptées par ailleurs et imposant aux entreprises des obligations de vigilance;
- alignement du texte avec le langage agréé sur la diversité dans la direction des entreprises (« top management ») (considérant 43) ;

- alignement du texte avec la directive « salaires minimums » sur les salaires « adéquats » et le taux de couverture des employés par des conventions collectives (directive « comptabilité, article 19b(2)(b)(ii)) ;
- explicitation du fait que les sauvegardes prévues s'agissant du *reporting* dans les chaînes de valeur sont sans préjudice des exigences pouvant être créées par ailleurs par le droit de l'UE pour certaines entreprises en matière de devoir de vigilance (article 29b(2b)).
- malgré l'insistance du Parlement à supprimer les mentions relatives à la Fondation IFRS et à l'ISSB, la Présidence du Conseil a réussi à maintenir telles quelles les dispositions du considérant 37.

- **Les sanctions**

Le compromis maintient le texte de l'orientation générale du Conseil à ce sujet.

- **Le calendrier**

Le texte agréé en trilogue ne sépare plus les volets spécifiques au climat des autres volets environnementaux, sociaux et de bonne gouvernance (pour les standards généralistes). Le texte prévoit l'adoption des premiers standards de *reporting* le 30 juin 2023 (article 29b(1)(a) de la directive « comptabilité »), et des standards sectoriels et adaptés aux PME le 30 juin 2024.

IV. CONCLUSION

11. Compte tenu de ce qui précède, le Comité des représentants permanents est invité à :
- approuver le texte de compromis figurant en annexe,
et
 - charger la Présidence d'adresser une lettre à la présidente de la commission JURI du Parlement européen confirmant que, si ce dernier adoptait sa position en première lecture, conformément à l'article 294, paragraphe 3, du TFUE et sous la forme exacte qui figure en annexe - sous réserve de la mise au point par les juristes-linguistes -, le Conseil approuverait, conformément à l'article 294, paragraphe 4, du TFUE, la position du Parlement européen et l'acte serait adopté dans la formulation qui correspond à la position du Parlement européen.
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Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and
Regulation (EU) No 537/2014, as regards corporate sustainability reporting

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 50 and 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

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Having regard to the opinion of the European Economic and Social Committee²,

Acting in accordance with the ordinary legislative procedure,

² OJ C [...], [...], p. [...].

Whereas:

- (1) In its communication on the European Green Deal adopted on 11 December 2019³, the European Commission made a commitment to review the provisions concerning non-financial reporting of Directive 2013/34/EU of the European Parliament and of the **Council**.⁴ The European Green Deal is the European Union's new growth strategy. It aims to transform the Union into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases by 2050. It also aims to protect, conserve and enhance the Union's natural capital, and protect the health and well-being of citizens from environment-related risks and impacts. The European Green Deal aims at decoupling economic growth from resource use, and ensuring that all regions and citizens of the Union participate in a socially just transition to a sustainable economic system *so that no person and no place is left behind*. It will contribute to the objective of building an economy that works for the people, strengthening the EU's social market economy, helping to ensure that it is future-ready and that it delivers stability, jobs, growth and *sustainable* investment. These goals are especially important considering the socio-economic damage caused by the COVID-19 pandemic and the need for a sustainable, inclusive and fair recovery. In its proposal of 4 March 2020 for a European Climate Law, the European Commission proposed to make the objective of climate neutrality by 2050 binding in the Union⁵. *Moreover, in its Biodiversity Strategy for 2030, the European Commission commits to ensure that by 2050 all of the world's ecosystems are restored, resilient, and adequately protected. This strategy aims to put Europe's biodiversity on a path to recovery by 2030.*

³ COM(2019) 640 final.

⁴ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

⁵ Proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law) [2020/0036 (COD)]

- (2) In its Action Plan: Financing Sustainable Growth the Commission set out measures to achieve the following objectives: reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth, manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues, and foster transparency and long-termism in financial and economic activity⁶. The disclosure by *certain categories of* undertakings of relevant, comparable and reliable sustainability information is a prerequisite for meeting those objectives. The European Parliament and the Council adopted a number of legislative acts as part of the implementation of the Action Plan on Financing Sustainable Growth. Regulation (EU) 2019/2088 of the European Parliament and of the Council⁷ governs how financial market participants and financial advisers are to disclose sustainability information to end investors and asset owners. Regulation (EU) 2020/852 of the European Parliament and of the Council⁸ creates a classification system of environmentally sustainable economic activities with the aim of scaling up sustainable investments and combatting greenwashing of financial products that unduly claim to be sustainable.

⁶ COM(2018) 97 final.

⁷ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability- related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

⁸ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).

Regulation (EU) 2019/2089 of the European Parliament and of the Council⁹, complemented by Commission Delegated Regulations (EU) 2020/1816¹⁰, (EU) 2020/1817¹¹ and (EU) 2020/1818¹², introduces environmental, social and governance ('ESG') disclosure requirements for benchmarks administrators and minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks. Regulation (EU) No 575/2013 of the European Parliament and of the Council¹³ requires large institutions which have issued securities that are admitted to trading on a regulated market to disclose information on ESG risks from 28 June 2022. The new prudential framework for investment firms set by Regulation (EU) 2019/2033 of the European Parliament and of the Council¹⁴ and Directive (EU) 2019/2034 of the European Parliament and of the Council¹⁵ contains provisions concerning the introduction of an ESG risk dimension in the supervisory review and evaluation process (S

⁹ Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (OJ L 317, 9.12.2019, p. 17).

¹⁰ Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published (OJ L 406, 3.12.2020, p. 1).

¹¹ Commission Delegated Regulation (EU) 2020/1817 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation on how environmental, social and governance factors are reflected in the benchmark methodology (OJ L 406, 3.12.2020, p. 12).

¹² Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks (OJ L 406, 3.12.2020, p. 17).

¹³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

¹⁴ Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L 314, 5.12.2019, p. 1).

¹⁵ Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (OJ L 314, 5.12.2019, p. 64).

REP) by competent authorities, and contains ESG risks disclosure requirements for investment firms, applicable from 26 December 2022. The Commission has also announced a proposal on a European Green Bond Standard in its Work Programme for 2021, following up on the Action Plan on Financing Sustainable Growth.

(2a) In its Guidelines on reporting climate-related information, the European Commission highlighted the benefits for companies to report on climate related information particularly by increasing awareness and understanding of climate related risks and opportunities within the company, diversifying investor base, creating a lower cost of capital and by improving constructive dialogue with all stakeholders. Furthermore, diversity on company boards might have an influence on decision making, corporate governance and resilience.

(3) On 5 December 2019, in its conclusions on deepening the Capital Markets Union, the Council stressed the importance of reliable, comparable and relevant information on sustainability risks, opportunities and impacts, and called on the Commission to consider the development of a European non-financial reporting standard.

(4) In its resolution on sustainable finance of 29 May 2018¹⁶, the European Parliament called for the further development of non-financial reporting requirements in the framework of Directive 2013/34/EU. In its resolution on sustainable corporate governance of 17 December 2020¹⁷, the European Parliament welcomed the Commission's commitment to review Directive 2013/34/EU and expressed the need to set up a comprehensive Union framework on non-financial reporting that contains mandatory Union non-financial reporting standards. The European Parliament called for the expansion of the scope of the reporting requirements to additional categories of undertakings and for the introduction of an audit requirement.

¹⁶ 2018/2007(INI).

¹⁷ A9-0240/2020 (INI).

- (5) On 25 September 2015, the UN General Assembly adopted a new global sustainable development framework: the 2030 Agenda for Sustainable Development (the ‘2030 Agenda’). The 2030 Agenda has at its core the Sustainable Development Goals and covers the three dimensions of sustainability: economic, social and environmental. The Commission communication of 22 November 2016 on the next steps for a sustainable European future linked the Sustainable Development Goals to the Union policy framework to ensure that all Union actions and policy initiatives, both in and beyond the Union, take those goals on board at the outset.¹⁸ In its conclusions of 20 June 2017, the Council confirmed the commitment of the Union and its Member States to the implementation of the 2030 Agenda in a full, coherent, comprehensive, integrated and effective manner, in close cooperation with partners and other stakeholders¹⁹.
- (6) Directive 2014/95/EU of the European Parliament and the Council²⁰ amended Directive 2013/34/EU as regards disclosure of non-financial information by certain large undertakings and groups. Directive 2014/95/EU introduced a requirement on undertakings to report information on, as a minimum, environmental, social and employee matters, respect for human rights, and anti-corruption and bribery matters. With regard to these topics, Directive 2014/95/EU required undertakings to disclose information under the following reporting areas: business model, policies (including due diligence processes implemented), the outcome of the policies, risks and risk management, and key performance indicators relevant to the business.
- (7) Many stakeholders consider the term ‘non-financial’ to be inaccurate, in particular because it implies that the information in question has no financial relevance. Increasingly, however, the information in question does have financial relevance. Many organisations, initiatives and practitioners in this field refer to ‘sustainability’ information.

¹⁸ COM(2016) 739 final

¹⁹ Council conclusions "A sustainable European future: The EU response to the 2030 Agenda for Sustainable Development", 20 June 2017.

²⁰ Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1).

It is therefore preferable to use the term ‘sustainability information’ in place of ‘non-financial information’. Directive 2013/34/EU should therefore be amended to take account of this change in terminology.

- (8) The ultimate beneficiaries of better sustainability reporting by undertakings are individual citizens and savers, ***including trade unions and workers’ representatives to be adequately informed and thereby to better engage in social dialogue***. Savers who want to invest sustainably will have the opportunity to do so, while all citizens should benefit from a stable, sustainable and inclusive economic system. To realise these benefits, the sustainability information disclosed in undertaking’s annual reports first has to reach two primary groups (‘users’). The first group of users consists of investors, including asset managers, who want to better understand the risks and opportunities that sustainability issues pose to their investments and the impacts of those investments on people and the environment. The second group of users consists of **■ *civil society actors***, including non-governmental organisations and social partners, that wish to better hold undertakings to account for their impacts on people and the environment. Other stakeholders may also make use of sustainability information disclosed in annual reports, ***notably to foster comparability across and within market sectors***. The business partners of undertakings, including customers, may rely on this information to understand, and where necessary report on, the sustainability risks and impacts through their own value chains. Policy makers and environmental agencies may use such information, in particular on an aggregate basis, to monitor environmental and social trends, to contribute to environmental accounts, and to inform public policy. Few individual citizens and consumers directly consult undertaking’s reports, but they may use such information indirectly such as when considering the advice or opinions of financial advisers or non-governmental organisations. Many investors and asset managers purchase sustainability information from third party data providers, who collect information from various sources, including public corporate reports.

(8a) The market for sustainability information is rapidly growing, and the role of data providers is gaining in importance with the new obligations that investors and asset managers need to fulfil. With the increased availability of disaggregated data, sustainability information should come at a more reasonable cost. The amended Directive 2013/34 is expected to increase the comparability of data and harmonise standards. It is expected that the practices of data providers should improve and that expertise will grow in this area, with a potential for job creation.

(9) There has been a very significant increase in demand for corporate sustainability information in recent years, especially on the part of the investment community. That increase in demand is driven by the changing nature of risks to undertakings and growing investor awareness of the financial implications of these risks. That is especially the case for climate-related financial risks. Awareness **is also growing on** the risks **and opportunities** to undertakings and to investments resulting from other environmental issues, **such as biodiversity loss**, and from **health and** social issues, including **on child labour and forced labour** **].** The increase in demand for sustainability information is also driven by the growth in investment products that explicitly seek to meet certain sustainability standards or achieve certain sustainability objectives **and to ensure coherence with the ambition of the Paris Agreement, Convention on Biological diversity and Union policies.** Part of that increase is the logical consequence of previously adopted Union legislation, notably Regulation (EU) 2019/2088 and Regulation (EU) 2020/852. Some of the increase would have happened in any case, due to fast-changing citizen awareness, consumer preferences and market practices. The COVID-19 pandemic will further accelerate the increase in users' information needs, in particular as it has exposed the vulnerabilities of workers and of undertaking's value chains. Information on environmental impacts is also relevant in the context of mitigating future pandemics with human disturbance of ecosystems increasingly linked to the occurrence and spread of diseases.

- (10) Undertakings themselves stand to benefit from carrying out high quality reporting on sustainability matters. The growth in the number of investment products that aim to pursue sustainability objectives means that good sustainability reporting can enhance an undertaking's access to financial capital. Sustainability reporting can help undertakings to identify and manage their own risks and opportunities related to sustainability matters. It can provide a basis for better dialogue and communication between undertakings and their stakeholders, and can help undertakings to improve their reputation. *Moreover, a consistent basis for sustainability reporting by undertakings in the form of reporting standards should provide for the relevant and sufficient information and thus significantly decrease ad hoc requests for information.*
- (11) The report on the review clause of the Non-Financial Reporting Directive (Directive 2014/95/EU), and its accompanying fitness check on corporate reporting, identified problems as to the effectiveness of that Directive¹. There is significant evidence that many undertakings do not disclose material information on all major sustainability-related topics, *including climate-related information such as all green-house gas emission and factors that affect biodiversity*. The report also identified as significant problems the limited comparability and reliability of sustainability information. Additionally, many undertakings from which users need sustainability information are not obliged to report such information. *All this underlines the need for a robust and affordable reporting framework accompanied by effective auditing practices to ensure the reliability of data and avoid greenwashing and/or double accounting.*

1. OJ: insert reference to Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the review clauses in Directives 2013/34/EU, 2014/95/EU, and 2013/50/EU, and accompanying SWD-Fitness Check.

- (12) In the absence of policy action, the gap between users' information needs and the sustainability information reported by undertakings is expected to grow. This gap has significant negative consequences. Investors are unable to take sufficient account of sustainability-related risks and opportunities in their investment decisions. The aggregation of multiple investment decisions that do not take adequate account of sustainability-related risks has the potential to create systemic risks that threaten financial stability. The European Central Bank and international organisations such as the Financial Stability Board have drawn attention to those systemic risks, in particular in the case of climate. Investors are also less able to channel financial resources to undertakings and economic activities that address and do not exacerbate social and environmental problems, which undermines the objectives of the European Green Deal and the Action Plan on Financing Sustainable Growth *and the objectives of the Paris agreement*. Non-governmental organisations, social partners, communities affected by undertakings' activities, and other stakeholders are less able to hold undertakings accountable for their impacts on people and the environment. This creates an accountability deficit, and may contribute to lower levels of citizen trust in businesses, which in turn may have negative impacts on the efficient functioning of the social market economy. The lack of generally accepted metrics and methods for measuring, valuing, and managing sustainability-related risks is also an obstacle to the efforts of undertakings to ensure that their business models and activities are sustainable. *The lack of sustainability information also limits the ability of stakeholders, including civil society actors, trade unions and workers representatives to enter into dialogue with undertakings on sustainability matters.*
- (13) The report on the review clause of Directive 2014/95/EU, and its accompanying fitness check on corporate reporting, also recognised a significant increase in information requests for information about sustainability matters to undertakings in an attempt to address the existing information gap. In addition, ongoing expectations on undertakings to use a variety of different frameworks and standards are likely to continue and may even intensify as the value placed on sustainability information continues to grow. In the absence of policy action to build consensus on the information that undertakings should report, there will be significant increases in costs and burden for reporting undertakings and for users of such information.

- (14) The growing gap between users' information needs and the current reporting practices of undertakings makes it more likely that individual Member States will introduce increasingly divergent national rules or standards. Different reporting requirements in different Member States would create additional costs and complexity for undertakings operating across borders and therefore undermine the single market, and would undermine the right of establishment and the free movement of capital across the Union. Those different reporting requirements also make reported information less comparable across borders, undermining the capital markets union.
- (15) Articles 19a and 29a of Directive 2013/34/EU apply to large undertakings that are public-interest entities with an average number of employees in excess of 500, and to public-interest entities that are parent undertakings of a large group with an average number of employees in excess of 500 on a consolidated basis, respectively. In view of the growth of users' needs for sustainability information, additional categories of undertakings should be required to report such information. It is therefore appropriate to require all large undertakings and all undertakings listed on regulated markets, except micro undertakings, to report detailed sustainability information. ***Articles 19a and 29a explicitly set out the scope of the reporting requirements with reference to Articles 2 and 3 of Directive 2013/34/EU. Therefore, Articles 19a and 29a do not 'simplify' or 'modify' another requirement and the restriction of exemptions for public-interest entities in Article 40 of Directive 2013/34/EU does not apply. In particular, public-interest entities should not be treated as large undertakings for the purposes of the reporting obligations of Articles 19a and 29a, i.e. small and medium sized public-interest entities should be allowed to report according to the simplified SME sustainability reporting standards.*** In addition, all undertakings that are parent undertakings of large groups should prepare sustainability reporting at group level. ***Moreover, since Article 8 of the Taxonomy Regulation refers to Article 19a and Article 29a of the Accounting Directive, the undertakings added to the scope of the reporting obligations in Article 19a or Article 29a will also have to comply with Article 8 of the Taxonomy Regulation.***

- (16) The requirement that also large non-listed undertakings should disclose information on sustainability matters is mainly driven by concerns about the impacts and accountability of such undertakings, including through their value chain. In this respect, all large undertakings should be subject to the same requirements to report sustainability information publicly. In addition, financial market participants also need information from those large non-listed undertakings.
- (17) The requirement that undertakings not established in the Union but with securities listed on regulated markets should also disclose information on sustainability matters responds to the needs of financial market participants for information from such undertakings in order to understand the risks and impacts of their investments, and to comply with the disclosure requirements laid down in Regulation (EU) 2019/2088.
- (17a) Third country undertakings which have a significant activity on the EU territory should also provide sustainability information, especially on their impact regarding social and environmental matters, in order to ensure the accountability of companies for their impacts on people and the environment and a level playing field for companies operating in the EU market. Therefore, third country undertakings which generate a net turnover of more than EUR 150 million in the Union, and which have a subsidiary or a branch in the EU should be subject to EU sustainability reporting requirements. To ensure the proportionality and enforceability of the dispositions, additional thresholds are applied on these branches (net turnover of EUR 40 million in the EU) and on these subsidiaries (they have to be large or listed subsidiaries), which should be the ones responsible for publishing the sustainability report of the third country undertaking.***

The sustainability reports published by the subsidiary or branch of the third country undertaking should be prepared according to standards to be adopted by 30 June 2024 by the European Commission through delegated acts. The undertaking can also report according to the standards applying to EU undertakings, or according to standards which are deemed equivalent according to a Commission's decision.

In the event that not all the required information is provided by the third country undertaking, despite the best efforts of the subsidiary or branch to obtain the necessary information, the subsidiary or branch should provide all the information in its possession and a statement indicating that the third country undertaking did not make the rest of the required information available.

In order to ensure the quality and reliability of the reporting, the sustainability reports of third country undertakings should be published alongside an assurance opinion by a person or firm authorized to give an opinion on the assurance of sustainability reporting, either under national law of the third country undertaking or of a Member State. In the event that such an assurance opinion was not provided, the subsidiary or branch should issue a statement indicating that the third country undertaking did not provide the necessary assurance opinion.

The sustainability report should be made accessible free of charge to the public through the business registers, or alternatively on the website of the subsidiary or the branch.

Member States may inform the Commission on an annual basis of the subsidiaries or branches of third country undertakings that fulfilled the publication requirement and of the cases where a report was published but where the branch or subsidiary has stated that it could not get the necessary information from the third country undertaking. The European Commission shall publish a list of these third country undertakings publishing a sustainability report on its website.

(18) Considering the growing relevance of sustainability-related risks and taking into account that small and medium-sized enterprises (SMEs) listed on regulated markets comprise a significant proportion of all listed undertakings in the Union, in order to ensure investor protection it is appropriate to require that also those SMEs disclose information on sustainability matters. The introduction of this requirement will help to ensure that financial market participants can include smaller listed undertakings in investment portfolios on the basis that they report the sustainability information that financial market participants need. It will therefore help to protect and enhance the access of smaller listed undertakings to financial capital, and avoid discrimination against such undertakings on the part of financial market participants. The introduction of this requirement is also necessary to ensure that financial market participants have the information they need from investee undertakings to be able to comply with their own sustainability disclosure requirements laid down in Regulation (EU) 2019/2088. SMEs listed on regulated markets should ***be given the possibility to report according to standards that are proportionate to the capacities and resources of SMEs, and relevant to the scale and complexity of their activities.*** Non-listed SMEs can also choose to use these proportionate standards on a voluntary basis. The SME standards will set a reference for undertakings that are within the scope of the Directive regarding the level of sustainability information that they could reasonably request from SME suppliers and clients in their value chains.

SMEs listed on regulated markets should, in addition, be provided with sufficient time to prepare for the application of the requirement to report sustainability information, due to their smaller size and more limited resources, and taking account of the difficult economic circumstances created by the COVID-19 pandemic. Therefore, a later entry into application in 2026 should be provided. Following this date, for a transitional period of two years, these SMEs should have the possibility to opt-out from the reporting requirements, provided they briefly declare in their management report why the sustainability information has not been provided.

- (18a) Member States are free to assess the impact of their transposition act on SMEs in order to ensure that they are not disproportionately affected, giving specific attention to micro-enterprises and to unnecessary administrative burden. Member States should consider introducing measures to support SMEs in applying the voluntary simplified reporting standards.***
- (19) Directive 2004/109/EC of the European Parliament and of the Council²¹ applies to all undertakings with securities listed on regulated markets. In order to ensure that all undertakings with securities listed on regulated markets, including third country issuers, fall under the same sustainability reporting requirements, Directive 2004/109/EC should contain the necessary cross-references to any requirement on sustainability reporting in the annual financial report.
- (20) Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC empower the Commission to adopt measures to set up a mechanism for the determination of equivalence of information required under the Directive, and for the establishment of general equivalence criteria regarding accounting standards, respectively. Article 23(4), third subparagraph, of Directive 2004/109/EC also empowers the Commission to take the necessary decisions on the equivalence of accounting standards that are used by third-country issuers. In order to reflect the inclusion of the sustainability requirements in Directive 2004/109/EC, the Commission should be empowered to establish a mechanism for the determination of equivalence of sustainability reporting standards applied by third-country issuers of securities, ***similar to existing Commission Regulation (EC) No 1569/2007²² which sets out the criteria for the determination of equivalence of accounting standards applied by third country issuers.***

²¹ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38).

²² [1] ***Commission Regulation (EC) No 1569/2007 of 21 December 2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council (OJ L 340, 22.12.2007, p. 66).***

For the same reason, the Commission should also be empowered to take the necessary decisions on the equivalence of sustainability reporting standards that are used by *third country* issuers. Those amendments will ensure consistent equivalence regimes for sustainability reporting obligations and for financial reporting obligations regarding the annual financial report.

- (21) Articles 19a(3) and 29a(3) of Directive 2013/34/EU currently exempt all subsidiary undertakings from the obligation to report non-financial information where such undertakings and their subsidiary undertakings are included in the consolidated management report of their parent undertaking, provided this includes **non-financial information reported according to EU requirements**. It is necessary, however to ensure that sustainability information is easily accessible for users, and to bring transparency about which is the parent undertaking of the exempted subsidiary undertaking which is reporting at consolidated level. It is therefore necessary to require those subsidiary undertakings to **include in the management report the name and registered office of the parent undertaking that is reporting sustainability information at group level, the web links to the consolidated management report of their parent undertaking and a reference in their management report to the fact that they are exempted from reporting sustainability information. Member States may require that the consolidated management report is published in the languages they accept and that any necessary translation in those languages is provided.** That exemption should also apply where the parent undertaking reporting at consolidated level is a third country undertaking reporting sustainability information in accordance with *equivalent sustainability reporting standards*. *Given that Directive 2004/109/EC would foresee appropriate mechanisms to determine the equivalence of sustainability reporting standards, and given that both undertakings with and without securities listed on regulated markets should be required to report according to the same sustainability reporting standards, the measures adopted pursuant to Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC establishing a mechanism for the determination of equivalence of standards should be put to use for determining the exemption of subsidiary undertakings of non-EU parent undertakings under the regime of Directive 2013/34/EU. In this sense, the subsidiary undertaking should be*

exempted when consolidated sustainability reporting is drawn up in accordance with the sustainability reporting standards adopted pursuant to Article 29b or in a manner equivalent to those European sustainability reporting standards, determined in accordance with Commission's decisions on the equivalence of sustainability reporting standards adopted pursuant to Article 23(4), third subparagraph of Directive 2004/109/EC. This exemption should not apply to large listed undertakings for reasons of investor protection, in order to ensure greater transparency from undertakings with securities regulated in EU markets.

- (22) Article 23 of Directive 2013/34/EU exempts parent undertakings from the obligation to prepare consolidated financial statements and a consolidated management report where those undertakings are subsidiaries of another parent undertaking that complies with that obligation. It should be specified, however, that the exemption regime for consolidated financial statements and consolidated management reports operates independently from the exemption regime for consolidated sustainability reporting. An undertaking can therefore be exempted from consolidated financial reporting obligations but not exempted from consolidated sustainability reporting obligations where its ultimate parent prepares consolidated financial statements and consolidated management reports in accordance with Union law, or in accordance with equivalent requirements if the undertaking is established in a third country, but does not prepare consolidated sustainability reporting in accordance with EU law, or in accordance with equivalent requirements if the undertaking is established in a third country. *It is necessary that parent undertakings reporting at consolidated level provide an adequate understanding of the risks and impacts of their subsidiaries, including information on their due diligence processes where appropriate. There might be cases where the differences between the situation of the group and its individual subsidiaries, or between the situation of individual subsidiaries in different geographies are particularly significant and would, in the absence of additional information about the individual subsidiary concerned, cause the user to reach a substantially different conclusion about the risks or impacts of the subsidiary.*

- (23) Credit institutions and insurance undertakings play a key role in the transition towards a fully sustainable and inclusive economic and financial system in line with the European Green Deal. They can have significant positive and negative impacts via their lending, investment and underwriting activities. Credit institutions and insurance undertakings other than those that are required to comply with Directive 2013/34/EU, including cooperatives and mutual undertakings, should therefore be subject to sustainability reporting requirements provided that they meet certain size criteria. Users of that information would thus be enabled to assess both the impacts of these undertakings on society and the environment and the risks arising from sustainability matters that these undertakings could face. *The Accounting Directive applies three possible criteria to determine whether an undertaking is considered to be a "large undertaking", which are the balance sheet total, net turnover and average number of employees during the financial year. The criterion of net turnover needs to be adapted for credit institutions and for insurance undertakings by referring to the definition of net turnover in Directive 1986/635 and in Directive 1991/674 instead of the general definition of Directive 2013/34/EU.* To ensure coherence with the reporting requirements of Council Directive 86/635/EEC²³ on the annual accounts and consolidated accounts of banks and other financial institutions, ■ Member States may choose not to apply sustainability reporting requirements to credit institutions listed in Article 2(5) of Directive 2013/36/EU of the European Parliament and of the Council²⁴.
- (24) The list of sustainability matters on which undertakings are required to report should be as coherent as possible with the definition of ‘sustainability factors’ laid down in Regulation (EU) 2019/2088, *and prevent a mismatch between information required by data users and information to be reported by data preparers.* That list should also correspond to the needs and expectations of users and undertakings themselves, who often use the terms ‘environmental’, ‘social’ and ‘governance’ as a means to categorise the three main sustainability matters.

²³ [1] Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (OJ L 372, 31.12.1986, p. 1).

²⁴ [2] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

The list of sustainability factors laid down in Regulation (EU) 2019/2088 does not explicitly include governance matters. The definition of sustainability matters in Directive 2013/34/EU should therefore *relate to environmental, social and human rights and governance factors, and* be based on the definition of ‘sustainability factors’ laid down in Regulation (EU) 2019/2088 **■**. *The reporting requirements of this directive should be without prejudice of other national reporting obligations.*

- (25) Articles 19a and 29a of Directive 2013/34/EU require reporting not only on information ‘to the extent necessary for an understanding of the undertaking’s development, performance, position’, but also on information necessary for an understanding of the impact of the undertaking’s activities on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. Those articles therefore require undertakings to report both on **■** the impacts of the activities of the undertaking on people and the environment, *and on how various sustainability matters affect the undertaking*. That is referred to as the double-materiality perspective, in which the risks to the undertaking and the impacts of the undertaking each represent one materiality perspective. The fitness check on corporate reporting shows that those two perspectives are often not well understood or applied. It is therefore necessary to clarify that undertakings should consider each materiality perspective in its own right, and should disclose information that is material from both perspectives as well as information that is material from only one perspective.
- (26) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to disclose information about five reporting areas: business model, policies (including due diligence processes implemented), the outcome of those policies, risks and risk management, and key performance indicators relevant to the business. Article 19a(1) of Directive 2013/34/EU does not contain explicit references to other reporting areas that users of information consider relevant, some of which align with disclosures included in international frameworks, including the recommendations of the Task Force on Climate-related Financial Disclosures. Disclosure requirements should be specified in sufficient detail to ensure that undertakings report information on their resilience to risks related to sustainability matters.

In addition to the reporting areas identified in Articles 19a(1) and 29a(1) of Directive 2013/34/EU, undertakings should therefore be required to disclose information about their business strategy and the resilience of the business model and strategy to risks related to sustainability matters. ***They should also be required to disclose*** any plans they may have to ensure that their business model and strategy are compatible with the transition to a sustainable **■ economy and with the objectives of limiting global warming to 1,5 °C in line with the Paris Agreement and achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 (European Climate Law), with no or limited overshoot. It is especially important that plans related to climate are based on the latest science, including IPCC reports and reports by the European Scientific Advisory Board on Climate Change. Information disclosed in accordance with Article 8 of Regulation (EU) 2020/852 about the amount of Capex or Opex associated with activities aligned with the taxonomy could support financial and investment plans related to these transition plans where appropriate. Undertakings should also be required to disclose** whether and how their business model and strategy take account of the interests of stakeholders; any opportunities for the undertaking arising from sustainability matters; the implementation of the aspects of the business strategy which affect, or are affected by sustainability matters; any sustainability targets set by the undertaking and the progress made towards achieving them; the role of the board and management with regard to sustainability matters; the principal actual and potential adverse impacts connected with the undertaking's activities; and how the undertaking has identified the information that they report on. Once the disclosure of elements such as targets and the progress towards achieving them is required, the separate requirement to disclose the outcomes of policies is no longer necessary.

- (27) To ensure consistency with international instruments such as the UN Guiding Principles on Business and Human Rights, ***the OECD Guidelines for Multinational Enterprises*** and the OECD Due Diligence Guidance for Responsible Business Conduct, the due diligence disclosure requirements should be specified in greater detail than is the case in Article 19a(1), point (b), and Article 29a(1), point (b) of Directive 2013/34/EU.

Due diligence is the process that undertakings carry out to identify, **track**, prevent, mitigate, **remediate and bring an end to** the principal actual and potential adverse impacts connected with their activities and identifies how they address those adverse impacts. Impacts connected with an undertaking's activities include impacts directly caused by the undertaking, impacts to which the undertaking contributes, and impacts which are otherwise linked to the undertaking's value chain. The due diligence process concerns the whole value chain of the undertaking including its own operations, its products and services, its business relationships and its supply chains. In alignment with the UN Guiding Principles on Business and Human Rights, an actual or potential adverse impact is to be considered principal where it measures among the greatest impacts connected with the undertaking's activities based on: the gravity of the impact on people or the environment; the number of individuals that are or could be affected, or the scale of damage to the environment; and the ease with which the harm could be remediated, restoring the environment or affected people to their prior state.

- (28) Directive 2013/34/EU does not require the disclosure of information on **intangible resources** other than intangible assets recognised in the balance sheet. It is widely recognised that information on intangible assets and other intangible factors, including internally-generated intangibles, is underreported, impeding the proper assessment of an undertaking's development, performance and position and monitoring of investments. To enable investors to better understand the increasing gap between the accounting book value of many undertakings and their market valuation, which is observed in many sectors of the economy, adequate reporting on intangibles should be required **from all large undertakings and all undertakings listed on regulated markets, except micro undertakings. Nonetheless, certain** information on **intangible resources is intrinsic to sustainability matters, and will therefore be part of sustainability reporting. For example, information about employees' skills, competencies, experience, loyalty to the undertaking and motivation for improving processes, goods and services, is sustainability information regarding social matters that could also be considered as information on intangible resources. Likewise, information about the quality of the relationships between the undertaking and its stakeholders**, including **customers, suppliers and communities affected by the activities of the undertaking, is sustainability information relevant to social or**

governance matters that could also be considered as information on intangible resources. These examples illustrate how in some cases it is not possible to distinguish information on intangible resources from information on sustainability matters.

- (29) Articles 19a(1) and 29a(1) of Directive 2013/34/EU do not specify whether the information to be reported is to be forward looking or information about past performance. There is currently a lack of forward-looking disclosures, which users of sustainability information especially value. Articles 19a and 29a of Directive 2013/34/EU should therefore specify that the sustainability information reported shall include forward-looking and retrospective, and both qualitative and quantitative information. ***Information should be based on conclusive scientific evidence where appropriate. Information should also be harmonized, comparable and based on uniform indicators where appropriate, while allowing for reporting that is specific to individual undertakings and not endangering the commercial position of the undertaking.*** Reported sustainability information should also take into account short, medium and long-term time horizons and contain information about the undertaking's whole value chain, including its own operations, its products and services, its business relationships, and its supply chain, as appropriate. Information about the undertaking's whole value chain would include information related to its value chain within the EU and information that covers third countries if the undertaking's value chain extends outside the EU.

For the first three years of the application of this Directive, in the event that not all the necessary information regarding the value chain is available, the undertaking shall explain the efforts made to obtain the information about its value chain, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future.

- (29a) It is not the objective of this Directive to require undertakings to disclose intellectual capital, intellectual property, know-how or the results of innovation that would qualify as trade secrets as defined in the Trade Secrets Directive. Reporting requirements defined by this Directive are therefore without prejudice to Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information.***
- (30) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to include in their non-financial reporting references to, and additional explanations of, amounts reported in the annual financial statements. Those Articles do, however, not require undertakings to make references to other information in the management report or to add additional explanations to that information. There is currently thus a lack of consistency between non-financial information reported and the rest of the information disclosed in the management report. It is necessary to lay down clear requirements in this regard.
- (31) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to provide a clear and reasoned explanation for not pursuing policies in relation to one or more of the matters listed, where the undertaking does not do so. The different treatment of disclosures on the policies that undertakings may have, compared to the other reporting areas included in those articles, has created confusion among reporting undertakings and has not helped to improve the quality of the reported information. Therefore, there is no need to maintain this different treatment of policies in the Directive. The standards will determine what information needs to be disclosed in relation to each of the reporting areas mentioned in Articles 19a and 29a.

(32) Undertakings under the scope of Articles 19a(1) and 29a(1) of Directive 2013/34/EU may rely on national, Union-based or international reporting frameworks, and where they do so, they have to specify which frameworks they relied upon. However, Directive 2013/34/EU does not require undertakings to use a common reporting framework or standard, and it does not prevent undertakings from choosing not to use any reporting framework or standards at all. As required by Article 2 of Directive 2014/95/EU, the Commission published in 2017 non-binding guidelines for undertakings under the scope of that Directive²⁵. In 2019, the Commission published additional guidelines, specifically on reporting climate-related information²⁶. The climate reporting guidelines explicitly incorporated the recommendations of the Task Force on Climate-related Financial Disclosures. Available evidence indicates that those non-binding guidelines did not have a significant impact on the quality of non-financial reporting by undertakings under the scope of Articles 19a and 29a of Directive 2013/34/EU. The voluntary nature of the guidelines means that undertakings are free to apply them or not. The guidelines can therefore not ensure on their own the comparability of *the* information disclosed by different undertakings, or the disclosure of all information that users consider relevant. That is why there is a need for mandatory common reporting standards to ensure that information is comparable and that all relevant information is disclosed. Building on the double-materiality principle, standards should cover all information that is material to users. Common reporting standards are also necessary to enable the audit and digitalisation of sustainability reporting and to facilitate its supervision and enforcement. The development of mandatory common sustainability reporting standards is necessary to progress to a situation in which sustainability information has a status comparable to that of financial information. ***The adoption of sustainability reporting standards by means of Delegated Regulations will ensure harmonised sustainability reporting across the Union. Therefore, an undertaking would be compliant with the requirements of Articles 19a and 29a by reporting according to the sustainability reporting***

²⁵ Communication from the Commission Guidelines on non-financial reporting (methodology for reporting non-financial information) (C/2017/4234).

²⁶ Communication from the Commission Guidelines on non-financial reporting: Supplement on reporting climate-related information (C/2019/4490).

standards. When defining such standards, it is essential to give due consideration and to the greatest extent possible to the main sustainability reporting standards used worldwide, while not lowering the ambition of this Directive and its Delegated acts.

- (33) No existing standard or framework satisfies the Union's needs for detailed sustainability reporting by itself. Information required by Directive 2013/34/EU needs to cover information relevant from each of the materiality perspectives, needs to cover all sustainability matters and needs to be aligned, where appropriate, with other obligations under Union law to disclose sustainability information, including obligations laid down in Regulation (EU) 2020/852 and Regulation (EU) 2019/2088. In addition, mandatory sustainability reporting standards for Union undertakings must be commensurate with the level of ambition of the European Green Deal and the Union's climate-neutrality objective for 2050 *as well as intermediate targets under Regulation (EU) 2021/1119*. It is therefore necessary to empower the Commission to adopt Union sustainability reporting standards, enabling their rapid adoption and ensuring that the content of sustainability reporting standards are consistent with the Union's needs.

(34) The European Financial Reporting Advisory Group (EFRAG) is a non-profit association established under Belgian law that serves the public interest by providing advice to the Commission on the endorsement of international financial reporting standards. EFRAG has established a reputation as a European centre of expertise on corporate reporting, and is well placed to foster coordination between European sustainability reporting standards and international initiatives that seek to develop standards that are consistent across the world. In March 2021, a multi-stakeholder task force set up by EFRAG published recommendations for the possible development of sustainability reporting standards for the European Union. Those recommendations contain proposals to develop a coherent and comprehensive set of reporting standards, covering all sustainability matters from a double-materiality perspective. Those recommendations also contain a detailed roadmap for developing such standards, and proposals for mutually reinforcing cooperation between global standard-setting initiatives and standard-setting initiatives of the European Union. In March 2021, the EFRAG President published recommendations for possible governance changes to EFRAG if it were to be asked to develop technical advice about sustainability reporting standards. These recommendations include offsetting up within EFRAG a new sustainability reporting pillar while not significantly modifying the existing financial reporting pillar. ***In March 2022, the EFRAG General Assembly appointed the members of the newly created EFRAG Sustainability Reporting Board.*** When adopting sustainability reporting standards, the Commission should take account of technical advice that EFRAG will develop. In order to ensure high-quality standards that contribute to the European public good and meet the needs of undertakings and of users of the information reported, EFRAG ***should have sufficient public funding to ensure its independence. Its*** technical advice should be developed with proper due process, public oversight and transparency, accompanied by cost benefit analyses, and be developed with the expertise of ***a balanced representation of*** relevant stakeholders, ***including preparers, investors, civil society organisations and trade unions. Participation in the EFRAG work at technical level should be based on expertise in sustainability reporting and should not be conditional on any financial contribution, without prejudice to the participation of public bodies and national standard setting organisations in this technical work. A transparent process avoiding conflicts of***

interest should be guaranteed. To ensure that Union sustainability reporting standards take account of the views of the Member States of the Union, before adopting the standards the Commission should consult the Member State Expert Group on Sustainable Finance referred to in Article 24 of Regulation (EU) 2020/852 *and the Accounting Regulatory Committee referred to in Article 6 of Regulation (EU) 1606/2002* on EFRAG's technical advice. The European Securities and Markets Authority (ESMA), *the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA)* play a role in drafting regulatory technical standards pursuant to Regulation (EU) 2019/2088 and there needs to be coherence between those regulatory technical standards and sustainability reporting standards. According to Regulation (EU) No 1095/2010 of the European Parliament and of the Council²⁷, ESMA also plays a role in promoting supervisory converge in the enforcement of corporate reporting by issuers whose securities are listed on EU regulated markets and who will be required to use these sustainability reporting standards. Therefore, ESMA, *EBA and EIOPA* should be required to provide an opinion on EFRAG's technical advice. *These opinions* should be provided within two months from the date of receipt of the request from the Commission. In addition, the Commission should consult ■ the European Environment Agency, the European Union Agency for Fundamental Rights, the European Central Bank, the Committee of European Auditing Oversight Bodies and the Platform on Sustainable Finance to ensure that the sustainability reporting standards are coherent with relevant Union policy and legislation. Where any of those bodies decide to submit an opinion, they shall do so within two months from the date of being consulted by the Commission.

²⁷ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

- (34a) In order to foster democratic control, scrutiny and transparency, the Commission should at least once a year consult the European Parliament, and jointly the Member State Expert Group on Sustainable Finance referred to in Article 24 of Regulation (EU) 2020/852 and the Accounting Regulatory Committee referred to in Article 6 of Regulation (EU) 1606/2002, on EFRAG's work programme as regards the development of sustainability reporting standards.***
- (35) Sustainability reporting standards should be coherent with other Union legislation. Those standards should in particular be aligned with the disclosure requirements laid down in Regulation (EU) 2019/2088, and they should take account of underlying indicators and methodologies set out in the various delegated acts adopted pursuant to Regulation (EU) 2020/852, disclosure requirements applicable to benchmark administrators pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council²⁸, the minimum standards for the construction of EU climate transition benchmarks and EU Paris-aligned benchmarks; and of any work carried out by the European Banking Authority in the implementation of the Pillar III disclosure requirements of Regulation (EU) No 575/2013. Standards should take account of Union environmental legislation, including Directive 2003/87/EC of the European Parliament and of the Council²⁹ and Regulation (EC) No 1221/2009 of the European Parliament and of the Council³⁰, and should take account of Commission

²⁸ Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).

²⁹ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

³⁰ Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).

Recommendation 2013/179/EU³¹ and its annexes, and their updates. Other relevant Union legislation, including Directive 2010/75/EU of the European Parliament and of the Council³², and requirements laid down in Union law for undertakings as regards directors' duties and due diligence, should also be taken into account.

- (36) Sustainability reporting standards should take account of the Commission guidelines on non-financial reporting³³ and the Commission guidelines on reporting climate-related information³⁴. They should also take account of other reporting requirements in Directive 2013/34/EU not directly related to sustainability, with the aim of providing the users of the reported information with a better understanding of the development, performance, position and impact of the undertaking, by maximising the links between the sustainability information and other information reported in accordance with Directive 2013/34/EU.
- (37) Sustainability reporting standards should be proportionate, and should not impose unnecessary administrative burden on companies that are required to use them. In order to minimise disruption for undertakings that already report sustainability information, sustainability reporting standards should take account of existing standards and frameworks for sustainability reporting and accounting where appropriate. Those include the Global Reporting Initiative, the Sustainability Accounting Standards Board, the International Integrated Reporting Council, the International Accounting Standards Board, the Task Force on Climate-related Financial Disclosures, the Carbon Disclosure Standards Board, and CDP (formerly the Carbon Disclosure Project). Standards of the European Union should take account of any sustainability reporting standards developed under the auspices of International Financial Reporting Standards Foundation. To avoid unnecessary regulatory

³¹ Commission Recommendation 2013/179/EU of 9 April 2013 on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations (OJ L 124, 4.5.2013, p. 1).

³² Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) (OJ L 334, 17.12.2010, p. 17).

³³ 2017/C 215/01.

³⁴ 2019/C 209/01.

fragmentation that may have negative consequences for undertakings operating globally, European standards should contribute to the process of convergence of sustainability reporting standards at global level, ***by supporting the work of the International Sustainability Standards Board (ISSB). European standards should reduce the risk of inconsistent reporting requirements on undertakings that operate globally by integrating the content of global baseline standards to be developed by the ISSB, to the extent that the content of the ISSB baseline standards is consistent with the EU's legal framework and the objectives of the European Green Deal.***

- (38) In its communication on the European Green Deal, the European Commission committed to support businesses and other stakeholders in developing standardised natural capital accounting practices within the Union and internationally, with the aim of ensuring appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs. The Transparent Project sponsored under the LIFE programme is developing the first natural capital accounting methodology, which will make existing methods easier to compare and more transparent while lowering the threshold for companies to adopt and use the systems in support of future-proofing their business. The Natural Capital Protocol is also an important reference in this field. While natural capital accounting methods serve principally to strengthen internal management decisions, they should be duly considered when establishing sustainability reporting standards. Some natural capital accounting methodologies seek to assign a monetary value to the environmental impacts of companies' activities, which may help users to better understand those impacts. It is therefore appropriate that sustainability reporting standards should be able to include monetised indicators of sustainability impacts if that is deemed necessary.

- (39) Sustainability reporting standards should also take account of internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility, and sustainable development, including the UN Sustainable Development Goals, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Business Conduct and related sectoral guidelines, the UN Global Compact, the Tripartite Declaration of Principles of the International Labour Organisation concerning Multinational Enterprises and Social Policy, the ISO 26000 standard on social responsibility, and the UN Principles for Responsible Investment.
- (40) It should be ensured that the information reported by undertakings in accordance with the sustainability reporting standards meet the needs of users ***and do not place a disproportionate burden in effort and costs on those reporting and those that are indirectly effected as part of the value chain of those reporting.*** The reporting standards should therefore specify the information that undertakings are to disclose on all major environmental factors, including their impacts and dependencies on climate, air, land, water and biodiversity. Regulation (EU) 2020/852 provides a classification of the environmental objectives of the Union. For reasons of coherence, it is appropriate to use a similar classification to identify the environmental factors that should be addressed by sustainability reporting standards. The reporting standards should consider and specify any geographical or other contextual information that undertakings should disclose to provide an understanding of their principal impacts on sustainability matters and the principal risks to the undertaking arising from sustainability matters. ***When specifying the information about environmental factors that undertakings are to disclose, coherence should be ensured with the definitions in Article 2 and the reporting requirements of Article 8 in Regulation (EU) 2020/852 and the delegated acts adopted pursuant to that Regulation.***

- (41) With regard to climate-related information, users are interested in knowing about undertakings' physical and transition risks, and about their resilience *and plans to adapt* to different climate scenarios *and to the EU's climate neutrality goal*. They are also interested in the level and scope of greenhouse gas emissions and removals attributed to the undertaking, including the extent to which the undertaking uses offsets and the source of those offsets. Achieving a climate neutral economy requires the alignment of greenhouse gas accounting and offset standards. Users need reliable information regarding offsets that addresses concerns regarding possible double-counting and overestimations, given the risks to the achievement of climate-related targets that double-counting and overestimations can create. *These parties are also interested to know the efforts made by companies to effectively reduce absolute GHG emissions as part of their climate mitigation and adaptation strategies, including scope 1, scope 2 and, where relevant, scope 3 emissions. With regard to scope 3 emissions, a priority for users is to receive information about which categories of scope 3 are significant in the case of the undertaking, and about the emissions in each of those scope 3 categories.* The reporting standards should therefore specify the information undertakings should report with regard to those matters.
- (42) Achieving a climate neutral and circular economy **■** *without diffuse pollution* requires the full mobilisation of all economic sectors. Reducing energy use and increasing energy efficiency is key in this respect as energy is used across supply chains. Energy aspects should therefore be duly considered in sustainability reporting standards, in particular in relation to environmental *matters, including climate-related* matters.

(43) Sustainability reporting standards should specify the information that undertakings should disclose on social factors, including *working conditions, social partner involvement, collective bargaining, equality, non-discrimination, diversity and inclusion,* and human rights. Such information should cover the impacts of *the undertaking* on people, including *workers, and* on human health. The information that undertakings disclose about human rights should include information about forced labour *and child labour* in their value chains where relevant. Reporting *requirements on forced labour should not replace the public authorities' responsibility to address the import of goods, produced as a result of human rights abuses, including forced labour, through trade policy and diplomatic means. Undertakings should also be able to report on possible risks and trends regarding employment and incomes.* Reporting standards that address social factors should specify the information that undertakings should disclose with regard to the principles of the European Pillar of Social Rights that are relevant to businesses, including equal opportunities for all and working conditions. The European Pillar of Social Rights Action Plan adopted in March 2021 calls for stronger requirements on undertakings to report on social issues. The reporting standards should also specify the information that undertakings should disclose with regard to the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, *including the UN Convention on the Rights of Persons with Disabilities, the UN Declaration on the Rights of Indigenous Peoples, the UN Convention on the Rights of the Child,* the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the fundamental conventions of the International Labour Organisation, *the European Convention of Human Rights, the (revised) European Social Charter,* and the Charter of Fundamental Rights of the European Union. *Reporting carried out on social factors, as well as on environmental and governance factors, should be proportionate to the scope and the goals of this Directive. Reporting standards that address gender equality and equal pay for equal work should specify, amongst other things, information to be reported about the gender pay gap, taking account of other relevant EU legislation. Reporting standards that address employment and inclusion of people with disabilities should specify, amongst other things, information to be*

reported about accessibility measures taken by the undertaking. Reporting standards that address training and skills development should specify, amongst other things, information to be reported about the rate and breakdown of workers participating in training. Reporting standards that address collective bargaining should specify, amongst other things, information to be disclosed about the existence of works councils as well as the existence of collective agreements and the rate of workers covered by such agreements. Reporting standards that address worker participation should specify, amongst other things information to be disclosed about the participation of workers in administrative and supervisory boards. Reporting standards that address diversity should among other things specify information to be reported on gender diversity at top management and the number of members of the under-represented sex on their boards.

- (44) Users need information about governance factors. *Governance factors that are most relevant to users are listed by authoritative reporting frameworks such as the Global Reporting Initiative and the Task Force on Climate-related Financial Disclosures, as well as by authoritative global frameworks such as the Global Governance Principles of the International Corporate Governance Network and the G20 OECD principles of Corporate Governance. Sustainability reporting standards should specify the information that undertakings should disclose on governance factors. Such information should cover the role of an undertaking's administrative, management and supervisory bodies █ with regard to sustainability matters, expertise and skills to fulfill this role or access to such expertise and skills, whether the company has a policy in terms of incentives offered to members of these bodies which are linked to sustainability matters, and information on an undertaking's internal control and risk management systems █ in relation to the sustainability reporting process.*

Users also need information about undertakings' corporate culture and approach to business ethics, *which are recognised elements of authoritative frameworks on corporate governance such as the Global Governance Principles of the International Corporate Governance Network*, including *information about* anti-corruption and anti-bribery, and about *the undertaking's* political engagements, including lobbying activities. Information about the management of the undertaking and the quality of relationships with *customers, suppliers and communities affected by the activities of the undertaking, helps users to understand an undertaking's risks as well as its impacts on sustainability matters. Information about relationships with suppliers, includes* payment practices relating to the date or period for payment, the rate of interest for late payment or the compensation for recovery costs referred to in Directive 2011/7/EU of the European Parliament and of the Council³⁵ on late payment in commercial transactions. ■ Every year, thousands of businesses, especially SMEs, suffer administrative and financial burdens because they are paid late, or not at all. Ultimately, late payments lead to insolvency and bankruptcy, with destructive effects on entire value chains. Increasing information about payment practices should empower other undertakings to identify prompt and reliable payers, detect unfair payment practices, access information about the businesses they trade with, and negotiate fairer payment terms.

³⁵ Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions (OJ L 48, 23.2.2011, p. 1).

(45) The reporting standards should promote a more integrated view of all the information published by undertakings in the management report to provide users of that information with a better understanding of the development, performance, position and impact of the undertaking. Those standards should distinguish as necessary between information that undertakings should disclose when reporting at individual level and the information that undertakings should disclose when reporting at consolidated level. Those standards should also contain guidance for undertakings on the process carried out to identify the sustainability information that should be included in the management report, *since an undertaking should only be required to disclose the information relevant to understand its impacts on sustainability matters, and the information relevant to understand how sustainability matters affect its development, performance and position.*

(45a) Member States should ensure that sustainability reporting is done in compliance with workers' rights to information and consultation. The management of the undertaking should hence inform workers' representatives at the appropriate level and discuss with them the relevant information and the means of obtaining and verifying sustainability information. This implies for the purpose of this legislation the establishment of dialogue and exchange of views between employees' representatives and central management or any more appropriate level of management, at such time, in such fashion and with such content as enables employees' representatives to express an opinion. Their opinion should be communicated, where applicable, to the relevant administrative, management or supervisory bodies.

(46) Undertakings in the same sector are often exposed to similar sustainability-related risks, and they often have similar impacts on society and the environment. Comparisons between undertakings in the same sector are especially valuable to investors and other users of sustainability information. Sustainability reporting standards adopted by the Commission should therefore specify both information that undertakings in all sectors should disclose and information that undertakings should disclose depending on their sector of activity. ***Sector-specific standards are especially important in the case of sectors associated with high sustainability risks and/or impacts on the environment, human rights and governance, including sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006, and the relevant activities within those. When adopting sector specific standards the Commission should ensure this information is proportionate to the scale of the risks and impacts related to sustainability matters of each sector, taking account of the fact that the risks and impacts of some sectors are higher than for others. The Commission should also take account of the fact that not all activities within such sectors are necessarily associated with high sustainability risks and/or impacts. For undertakings that operate in sectors particularly relying on natural resources, sector-specific standards would require the disclosure of nature-related impacts on and risks for biodiversity and ecosystems.***

Standards should also take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain, especially from SME suppliers and from suppliers in emerging markets and economies.

Standards shall specify disclosures on value chains that are proportionate and relevant to the scale and complexity of the activities, and the capacities and characteristics of undertakings in value chains, especially those of undertakings that are not subject to the sustainability reporting obligations pursuant to this Directive. Standards shall not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their value chain that exceeds the information to be disclosed according to the sustainability reporting standards for small and medium-sized undertakings. This provision is without prejudice to any EU requirements on undertakings to conduct a due diligence process.

- (47) To meet the information needs from users in a timely manner, and in particular given the urgency to meet the information needs of financial market participants subject to the requirements laid down in the delegated acts adopted pursuant to Article 4, paragraphs 6 and 7 of Regulation (EU) 2019/2088, the Commission should adopt a first set of reporting standards by **30 June 2023**. That set of reporting standards should specify the information that undertakings should disclose with regard to all reporting areas and sustainability matters, and that financial market participants need to comply with the disclosure obligations laid down in Regulation (EU) 2019/2088. The Commission should adopt a second set of reporting standards at the latest by **30 June 2024**, specifying complementary information that undertakings should disclose about sustainability matters and reporting areas where necessary, and information that is specific to the sector in which an undertaking operates. The Commission should review the standards, *including the standards for SMEs*, every 3 years to take account of relevant developments, including the development of international standards.
- (48) Directive 2013/34/EU does not require that the **management report** *is* provided in a digital format, which hinders the findability and usability of the reported information. Users of sustainability information increasingly expect such information to be findable, *comparable* and machine-readable in digital formats. *Member States may require that undertakings subject to Articles 19a and 29a make their management reports available on their web sites free of charge to the public.* Digitalisation creates opportunities to exploit information more efficiently and holds the potential for significant cost savings for both users and undertakings. *Digitalisation also enables the centralization at Union and Member State level of data in an open and accessible format that facilitates reading and allows for the comparison of data.* Undertakings should therefore be required to prepare their **management report** in **the format referred to in** Article 3 of Commission Delegated Regulation (EU) 2019/815,³⁶ *XHTML format*, and to mark-up sustainability information, including the

³⁶ Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143, 29.5.2019, p. 1).

disclosures required by Article 8 of Regulation (EU) 2020/852, in accordance with *the format referred to in* that Delegated Regulation *once this is determined*. A digital taxonomy to the Union sustainability reporting standards will be necessary to allow for the **■** reported *information* to be tagged in accordance with those standards. These requirements should feed into the work on digitalisation announced by the Commission in its Communication A European strategy for data³⁷ and in the Digital Finance Strategy for the EU³⁸. These requirements also complement the creation of a European single access point for public corporate information as envisaged in the capital markets union action plan, which also considers the need for structured data.

- (49) To allow for the inclusion of the reported sustainability information in the European single access point, Member States should ensure that undertakings **■ with no securities listed in regulated markets publish their** management report **■, including sustainability reporting■, in the electronic format prescribed in Commission Delegated Regulation (EU) 2019/815.**
- (50) Article 19a(4) of Directive 2013/34/EU enables Member States to exempt undertakings from including in the management report the non-financial statement required under Article 19a(1). Member States may do so where the undertaking concerned prepares a separate report that is published together with the management report in accordance with Article 30 of that Directive, or where that report is made publicly available on the undertaking's website within a reasonable period of time not exceeding 6 months, after the balance sheet date, and is referred to in the management report. The same possibility exists for the consolidated non-financial statement referred to in Article 29(a)(4) of Directive 2013/34/EU. Twenty Member States have used that option. The possibility to publish a separate report hinders, however, the availability of information that connects financial and information on sustainability matters. It also hinders the findability and accessibility of information for users, especially investors, who are interested in both financial and sustainability information. Possible different publication times for financial and sustainability information exacerbate this problem. Publication in a separate report can also give

³⁷ <https://ec.europa.eu/digital-single-market/en/european-strategy-data>

³⁸ https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en

the impression, internally and externally, that sustainability information belongs to a category of less relevant information, which can impact negatively on the perceived reliability of the information. Undertakings should therefore report sustainability information in ***a clearly identifiable dedicated section of*** the management report and Member States should no longer be allowed to exempt undertakings from the obligation to include in the management report information on sustainability matters. Such obligation also helps to clarify the role of national competent authorities in supervising sustainability reporting, as part of the management report, in accordance with Directive 2004/109/EC. In addition, undertakings required to report sustainability information should in no case be exempted from the obligation to publish the management report as it is important to ensure that sustainability information is ***publicly*** available.

- (51) Article 20 of Directive 2013/34/EU requires undertakings with securities listed on regulated markets to include a corporate governance statement in their management report, which has to contain among other information a description of the diversity policy applied by the undertaking in relation to its administrative, management and supervisory bodies. Article 20 of Directive 2013/34/EU leaves flexibility to undertakings to decide what aspects of diversity they report on. It does not explicitly oblige undertakings to include information on any particular aspect of diversity. In order ***to*** progress towards a more gender-balanced participation in economic decision-making, it is necessary to ensure that undertakings with securities listed on regulated markets always report on their gender diversity policies and the implementation thereof. However, to avoid unnecessary administrative burden, those undertakings should have the possibility to report some of the information required by Article 20 of Directive 2013/34/EU alongside other sustainability-related information. ***If they decide to do so, the corporate governance statement needs to include a reference to the undertaking's sustainability reporting, and the information compliant with Article 20 of Directive 2013/34/EU should remain subject to the assurance requirements of the corporate governance statement.***

- (52) Article 33 of Directive 2013/34/EU requires Member States to ensure that the members of the administrative, management and supervisory bodies of an undertaking have collective responsibility for ensuring that the (consolidated) annual financial statements, the (consolidated) management report and the (consolidated) corporate governance statement are drawn up and published in accordance with the requirements of that Directive. That collective responsibility should be extended to the digitalisation requirements laid down in Delegated Regulation (EU) 2019/815, to the requirement to comply with Union sustainability reporting standards and to the requirement to mark up sustainability reporting.
- (53) The assurance profession distinguishes between limited and reasonable assurance engagements. The conclusion of a limited assurance engagement is usually provided in a negative form of expression by stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated. The auditor performs fewer tests than in a reasonable assurance engagement. The amount of work for a limited assurance engagement is therefore less than for reasonable assurance. The work effort in a reasonable assurance engagement entails extensive procedures including consideration of internal controls of the reporting undertaking and substantive testing, and is therefore significantly higher than in a limited assurance engagement. The conclusion of this type of engagement is usually provided in a positive form of expression and states an opinion on the measurement of the subject matter against previously defined criteria. Article 19a(5) and Article 29a(5) of Directive 2013/34/EU require Member States to ensure that the statutory auditor or audit firm checks whether the non-financial statement or the separate report has been provided. It does not require that an independent provider of assurance services verifies the information, although it allows Member States to require such verification where they wish to.

The absence of an assurance requirement on sustainability reporting, in contrast to the requirement for the statutory auditor to perform a reasonable assurance engagement on financial statements, would threaten the credibility of the sustainability information disclosed, thus failing to meet the needs of the intended users of that information. Although the objective is to have a similar level of assurance for financial and sustainability reporting, the absence of a commonly agreed standard for the assurance of sustainability reporting creates the risk of different understandings and expectations of what a reasonable assurance engagement would consist of for different categories of sustainability information, especially with regard to forward looking and qualitative disclosures. Therefore, a progressive approach to enhance the level of the assurance required for sustainability information should be considered, starting with an obligation on the statutory auditor or audit firm to express an opinion about the compliance of the sustainability reporting with Union requirements based on a limited assurance engagement. This opinion should cover the compliance of the sustainability reporting with Union sustainability reporting standards, the process carried out by the undertaking to identify the information reported pursuant to the sustainability reporting standards and compliance with the requirement to mark-up sustainability reporting. The auditor should also assess whether the undertaking's reporting complies with the reporting requirements of Article 8 of Regulation (EU) 2020/852.

To guarantee a common understanding and expectations of what a reasonable assurance engagement would consist of, the statutory auditor or audit firm should be required to express an opinion based on a reasonable assurance engagement about the compliance of the sustainability reporting with Union requirements, **when** the Commission *adopts* assurance standards for reasonable assurance of sustainability reporting *no later than 1st October 2028, following an assessment to determine if reasonable assurance is feasible for auditors and for undertakings. The gradual approach from limited to reasonable assurance* **would** also allow for the progressive development of the assurance market for sustainability information, and of undertakings' reporting practices. Finally, this progressive approach would phase in the increase in costs for reporting undertakings, given that reasonable assurance is more costly than limited assurance. *Undertakings subject to sustainability reporting*

requirements can decide to have an opinion on their sustainability reporting based on a reasonable assurance engagement if they wish so, and in this case they would be deemed to have complied with the obligation to have an opinion based on a limited assurance engagement. It should be noted that the reasonable assurance opinion on forward-looking information is only an assurance that such information has been prepared in accordance with applicable standards.

- (54) Statutory auditors or audit firms already verify the financial statements and the management report. The assurance of sustainability reporting by the statutory auditors or audit firms would help to ensure the connectivity between, and consistency of, financial and sustainability information, which is particularly important for users of sustainability information. However, there is a risk of further concentration of the audit market, which could risk the independence of auditors and increase audit *fees or fees relating to the assurance engagements of sustainability reporting. Considering the key role of statutory auditors when providing assurance on sustainability reporting and ensuring reliable sustainability information, the Commission has announced that it will act to further enhance audit quality and to create a more open and diversified audit market, which are the conditions for a successful application of this Directive. In addition, it is* desirable to offer undertakings a broader choice of independent assurance *services* providers for the assurance of sustainability reporting. Member States should therefore be allowed to accredit independent assurance services providers in accordance with Regulation (EC) No 765/2008 of the European Parliament and of the Council³⁹ to provide an opinion on sustainability reporting, which should be published together with the management report. *In addition, Member States should be given the option to allow a statutory auditor other than the one(s) carrying out the statutory audit of the financial statements to express an opinion on sustainability reporting. Furthermore, if they allow independent assurance service providers to carry out the assurance of sustainability reporting Member States should at the same time allow a statutory*

³⁹ Regulation (EC) No 765/2008 of the European Parliament and of the Council of 9 July 2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products and repealing Regulation (EEC) No 339/93 (OJ L 218, 13.8.2008, p. 30).

auditor other than the one(s) carrying out the statutory audit of the financial statements to express an opinion on sustainability reporting.

Member States should set out requirements that ensure the quality of the assurance engagement carried out by independent assurance services providers and consistent outcomes in the assurance of sustainability reporting. Therefore, all independent assurance services providers should be subject to requirements that are equivalent to those set out in Directive 2006/43/EC as regards the assurance of sustainability reporting, while being adapted to the characteristics of independent assurance services providers which do not carry out statutory audits. In particular, Member States should set out equivalent requirements as regards training and examination, continuing education, quality assurance systems, professional ethics, independence, objectivity confidentiality and professional secrecy, appointment and dismissal, the organisation of the work of the independent assurance services providers, investigations and sanctions, and reporting irregularities. This will also guarantee a level playing field among all persons and firms allowed by Member States to provide the opinion on the assurance of sustainability reporting, including statutory auditors. If an undertaking seeks the opinion of an accredited independent assurance services provider other than the statutory auditor on its sustainability reporting, it should not in addition need to request this opinion from the statutory auditor. Independent assurance services providers that have already been accredited by a Member State for the assurance of sustainability reporting should continue to be allowed to carry out assurance engagements of sustainability reporting. Likewise Member States should ensure that independent assurance services providers that by the date of the entry into application of the new requirements on training and examination are undergoing their accreditation process, are not subject to these new accreditation requirements provided they finish the process within the following two years. Member States should, however, ensure that all the independent assurance services providers accredited by a Member State for the assurance of sustainability reporting before two years after the entry into application of the new accreditation requirements, acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via continued professional education.

- (54a) *In order to foster the free movement of services, Member States should allow that IASP established in a different Member State carry out sustainability assurance engagements in their territory. This would also favour opening up the assurance market even when not all Member States allow for the accreditation of IASP in their territory. Where IASP carry out sustainability assurance engagements in the territory of a Host Member State, this Member State may decide to supervise IASPs, given the possibility to leverage on the implemented framework for the supervision of auditors carrying out sustainability assurance engagements.*
- (54b) *Member States should ensure that when an undertaking is required by EU legislation to have some elements of its sustainability reporting verified by an accredited independent third party, the report of the accredited independent third party should be made available, either by an annex to the management report or any other publicly accessible means. Such accessibility should not pre-empt the outcome of the assurance opinion, of which the third-party verification should remain independent. It should not entail any duplication of work between the undertaking carrying out the assurance opinion and the third-party verifier.*
- (55) Directive 2006/43/EC of the European Parliament and of the Council⁴⁰ sets out rules concerning the statutory audit of annual and consolidated financial statements. It is necessary to ensure that consistent rules apply to the audit of financial statements and the assurance of sustainability reporting by the statutory auditor ■ . Directive 2006/43/EC should apply where the opinion on sustainability reporting is given by ■ a statutory auditor or audit firm ■ .
- (56) The rules on the approval and recognition of statutory auditors and audit firms should *allow for the additional qualification of statutory auditors for the assurance of sustainability reporting. Member States should ensure that statutory auditors who want to qualify for the assurance of sustainability reporting* have the necessary level of theoretical knowledge of subjects relevant to the assurance of sustainability reporting and the ability to apply such knowledge in practice.

⁴⁰ Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9.6.2006, p. 87).

Therefore, they should complete a practical training of at least eight months in the assurance of annual and consolidated sustainability reporting or in other sustainability related services, taking account of previous employment experiences.

However, statutory auditors that have already been approved or recognised by a Member State should continue to be allowed to carry out **■ assurance engagements of sustainability reporting**. *Likewise Member States should **■ ensure that natural persons who are undergoing the approval process by the date of the entry into application of these new requirements for the assurance** of sustainability reporting, are not subject to these provided they finish the process within the following two years.* Member States should, however, ensure that *statutory auditors **■ approved before two years after the entry into application of the new requirements and who want to carry out assurance engagements of sustainability reporting,** acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via continued professional education.*

Natural persons who decide to be approved as statutory auditors for financial audit only may decide at a later point in time to qualify for the assurance of sustainability reporting. In order to do so, they should meet the necessary requirements set out by Member States to ensure that they also have the necessary level of theoretical knowledge of subjects relevant to the assurance of sustainability reporting and the ability to apply such knowledge in practice.

- (57) It should be ensured that the requirements imposed on auditors as regards their work on the statutory audit and the assurance of sustainability reporting are consistent. It should therefore be laid down that **■ there should be at least a key sustainability partner who is** actively involved in conducting the assurance of sustainability reporting. When carrying out the assurance of sustainability reporting, statutory auditors should be required to devote sufficient time to the engagement and assign sufficient resources *and expertise* to enable them to carry out their duties appropriately. Finally, the client account record should specify the fees charged for the assurance of sustainability reporting and **■ an assurance** file should *be created to*

include information related to the assurance of sustainability reporting. *Where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, the assurance file may be included in the audit file. However, requirements imposed on statutory auditors relating to the assurance of sustainability reporting should only apply to statutory auditors that carry out the assurance of sustainability reporting.*

(57a) *Statutory auditors or audit firms that carry out the assurance of sustainability reporting should have a high level of technical and specialised expertise in the field of sustainability.*

(58) Article 25 of Directive 2006/43/EC requires Member States to put appropriate rules in place to avoid that the fees on the statutory audit are influenced or determined by the provision of additional services to the audited entity or are based on any form of contingency. Articles 21 to 24 of that Directive also require Member States to ensure that statutory auditors carrying out statutory audits comply with the rules on professional ethics, independence, objectivity, confidentiality and professional secrecy. For reasons of coherence, it is appropriate that those rules are extended to the work carried out by statutory auditors on the assurance of sustainability reporting.

(59) In order to provide for uniform assurance practices and high quality assurance of sustainability reporting across the Union, the Commission should be empowered to adopt sustainability assurance standards by means of delegated acts. Member States should *be given the possibility to* apply national assurance standards, procedures or requirements as long as the Commission has not adopted an assurance standard covering the same subject matter. These assurance standards should set out the procedures that the auditor shall perform in order to draw its conclusions on the assurance of sustainability reporting. *Therefore, the Commission should adopt assurance standards for limited assurance before 1st October 2026. With a view to facilitating the harmonisation of the assurance of sustainability reporting across Member States, the CEAOB is encouraged to adopt non-binding guidelines to set out the procedures to be performed when expressing an opinion on the sustainability reporting until the Commission adopts an assurance standard covering the same subject-matter.*

- (60) Article 27 of Directive 2006/43/EC sets out rules on the statutory audit of a group of undertakings. **Similar** rules should be **set out for** the assurance of consolidated sustainability reporting.
- (61) Article 28 of Directive 2006/43/EC requires statutory auditors or audit firms to present the results of their statutory audit in an audit report. **Similar rules** should be **set out for** the assurance of sustainability reporting. ***The results of the engagement should be presented in an assurance report. Where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, the information about the assurance engagement of sustainability reporting may be presented in the audit report.***
- (62) Article 29 of Directive 2006/43/EC requires Member States to set up a system of quality assurance review of statutory auditors and audit firms. To ensure that quality assurance reviews also take place for the assurance of sustainability reporting and that the persons who carry out quality assurance reviews have appropriate professional education and relevant experience in the assurance of sustainability reporting and sustainability reporting, that requirement to set up a system of quality assurance review should be extended to the assurance of sustainability reporting. ***As a transition, until 31 December 2025, the persons who carry out quality assurance reviews relating to the assurance of sustainability reporting should be exempted from the requirement to have relevant experience in the assurance of sustainability reporting and sustainability reporting or other sustainability related services.***
- (63) Chapter VII of Directive 2006/43/EC requires Member States to have in place an investigations and sanctions regime for statutory auditors and audit firms carrying out statutory audits. Chapter VIII of that Directive requires Member States to organise an effective system of public oversight, and to ensure that regulatory arrangements for public oversight systems permit effective cooperation at Union level in respect of Member States' oversight activities. Those requirements should be extended to statutory auditors and audit firms that conduct assurance engagements of sustainability reporting in order to ensure the consistency of the investigations, sanctions and oversight frameworks set up for the auditor's work in the statutory audit and the assurance of sustainability reporting.

(64) Article 37 and 38 of Directive 2006/43/EC contain rules on the appointment and dismissal of statutory auditors and audit firms carrying out statutory audits. Those rules should be extended to the assurance of sustainability reporting to ensure the consistency of the rules imposed on auditors as regards their work on the statutory audit and the assurance of sustainability reporting.

(64a) Pursuant to Article 6 of Directive 2007/36/EC as of 11 July 2007 on the exercise of certain rights of shareholders in listed companies, Member States shall ensure that shareholders of listed companies, acting individually or collectively, have the right to put items on the agenda of the general meeting, provided that each such item is accompanied by a justification or a draft resolution to be adopted in the general meeting; and have the right to table draft resolutions for items included or to be included on the agenda of a general meeting, as the case may be. If these rights are subject to the condition that the relevant shareholder or shareholders hold a minimum stake in the company, such minimum stake should not exceed 5 % of the share capital. In case of an assurance engagement on sustainability reporting, shareholders may exercise the rights set out in Article 6 of Directive 2007/36/EC in order to table draft resolutions requiring that (i) an accredited third party that does not belong to the same audit firm or network than the statutory auditor or audit firm carrying out the statutory audit prepares a report on some elements of the sustainability reporting and (ii) such report is made available to the shareholders general meeting. For undertakings subject to the reporting obligations of this Directive and that do not fall within the scope of Article 6 of Directive 2007/36/EC, shareholders which represent more than 5% of the voting rights or 5% of the capital of the undertaking, acting individually or collectively, should also be given the right to put as an item on the agenda of the general meeting, the requirement that (i) an accredited third party that does not belong to the same audit firm or network than the statutory auditor or audit firm carrying out the statutory audit prepares a report on some elements of the sustainability reporting and (ii) such report is made available to the shareholders general meeting.

- (65) Article 39 of Directive 2006/43/EC requires Member States to ensure that each public-interest entity has an audit committee, and specifies its tasks with regard to the statutory audit. That audit committee should be assigned with certain tasks with regard to the assurance of sustainability reporting. Those tasks should include the obligation to inform the administrative or supervisory body of the audited entity of the outcome of the assurance of sustainability reporting, and to explain how the audit committee contributed to the integrity of sustainability reporting and what the role of the audit committee was in that process. ***Member States should be able to allow that the functions assigned to the audit committee relating to sustainability reporting and the assurance of sustainability reporting are performed by the administrative or supervisory body as a whole or by a dedicated body established by the administrative or supervisory body.***
- (66) Article 45 of Directive 2006/43/EC contains requirements for registration and oversight of third-country auditors and audit entities. To ensure that a consistent framework exists for the work of auditors in both the statutory audit and the assurance of sustainability reporting, it is necessary to extend those requirements to the assurance of sustainability reporting.
- (67) Regulation (EU) No 537/2014 of the European Parliament and of the Council⁴¹ applies to statutory auditors and audit firms carrying out statutory audits of public-interest entities. To ensure the independence of the statutory auditor ***when carrying out a statutory audit, that Regulation establishes a limit to the fees for other services that he or she can obtain. It is important to clarify that the assurance of sustainability reporting should not count in the calculation of that limit. In addition,*** Article 5 of that Regulation prohibits the provision of certain non-audit services over certain time periods ***when the statutory auditor is carrying out the financial audit. Services related to the preparation of sustainability reporting, including any consulting services,*** ■ should also be ■ ***considered as prohibited services over the time period***

⁴¹ Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ L 158, 27.5.2014, p. 77).

prescribed in the Regulation. These prohibitions should apply in all cases where the statutory auditor carries out the statutory audit of financial statements. To ensure the independence of the statutory auditor, certain non-audit services should also be prohibited when he or she is carrying out the assurance of sustainability reporting. Article 7 of Regulation (EU) No 537/2014 requires statutory auditors to report irregularities to the audited entity and, under certain circumstances, to authorities as designated by the Member States responsible for investigating such irregularities. These obligations should also be extended as appropriate to statutory auditors and audit firms as regards their work on the assurance of sustainability reporting of public-interest entities.

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- (70) Article 24 of Directive 2004/109/EC assigns to national supervisors the task of enforcing compliance with corporate reporting requirements by undertakings with securities listed on regulated markets. Article 4 of that Directive specifies the content of the annual financial reports, but lacks an explicit reference to Articles 19a and 29a of Directive 2013/34/EU, which require the preparation of a (consolidated) non-financial statement. This implies that national competent authorities of some Member States have no legal mandate to supervise those non-financial statements, especially where those statements are published in a separate report, outside of the annual financial report, which Member States may currently allow. It is therefore necessary to insert into Article 4(5) of Directive 2004/109/EC a reference to sustainability reporting. It is also necessary to require that the persons responsible within the issuer confirm in the annual financial report that, to the best of their knowledge, the management report is prepared in accordance with the sustainability reporting standards. In addition, given the novel character of those reporting requirements, the European Securities and Markets Authority should issue guidelines for national competent authorities to promote convergent supervision of sustainability reporting by

issuers subject to Directive 2004/109/EC. *These guidelines should only apply to the supervision of undertakings with securities listed on regulated markets.*

I **I**

(71a) The Commission shall submit a report to the European Parliament and to the Council on the implementation of this Directive, including, among other aspects:

- an assessment of the achievement of the goals of this Directive, including the convergence of reporting practices between Member States;

- an assessment of the number of SMEs using voluntary reporting standards referred to in Article 29c;

- an assessment of whether and how the scope should be further extended, in particular in relation to SMEs and to third-country undertakings operating directly on the EU Single Market without a European subsidiary or a European branch;

- an assessment of the implementation of the reporting requirements on branches and subsidiaries of third country undertakings introduced by this directive, including an assessment of the number of third country undertakings which have a subsidiary or a branch reporting according to Article 40a; an assessment of the enforcement mechanism and of the thresholds set out in that Article;

- an assessment of whether and how to ensure the accessibility for people with disabilities to the sustainability reports published by undertakings under the scope of this Directive

The report shall be published by 30 April 2029 and every three years thereafter, and shall be accompanied, if appropriate, by legislative proposals.

By December 2028, the Commission shall review and report on the level of concentration of the sustainability assurance market. The review shall take into account the national regimes applicable to independent assurance services providers

and assess whether and to what extent these national regimes contribute to opening the assurance market.

By December 2028, the Commission shall assess possible legal measures to ensure sufficient diversification of the sustainability assurance market and appropriate sustainability reporting quality.

The report shall be transmitted to the European Parliament and the Council by December 2028 and be accompanied, if appropriate, by legislative proposals.

(72) Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014 should therefore be amended accordingly,

(72a) The European Central Bank was consulted and delivered an opinion on 7 September 2021.

HAVE ADOPTED THIS DIRECTIVE:

Article 1

Amendments to Directive 2013/34/EU

Directive 2013/34/EU is amended as follows:

(1) in Article 1, the following *paragraphs 3, 3a and 3 b* are added:

‘3. The coordination measures prescribed by Articles 19a, **29d**, 29a, 30 and 33, Article 34(1), second subparagraph, point (aa), paragraphs 2 and 3 of Article 34, and Article 51 of this Directive shall also apply to the laws, regulations and administrative provisions of the Member States relating to the following undertakings regardless of their legal form, *provided they are large undertakings or small and medium sized undertakings which are undertakings referred to in Article 2, point (1), point (a) of this Directive:*

- (a) insurance undertakings within the meaning of Article 2(1) of Council Directive 91/674/EEC⁴²;
- (b) credit institutions as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council⁴³.

Member States may choose not to apply the coordination measures referred to in the first subparagraph to the undertakings listed in Article 2(5), points (2) to (23), of Directive 2013/36/EU of the European Parliament and of the Council⁴⁴.

⁴² Council Directive 91/674/EEC of 19 December 1991 on the annual accounts of insurance undertakings (OJ L 374, 31.12.1991, p. 7).

⁴³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

⁴⁴ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

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- 3a.** *The coordination measures prescribed by Articles 19a, 29d and 29a, shall not apply to financial products referred to in Article 2, point 12, points (b) and (f) of Regulation (EU) 2019/2088 of the European Parliament and of the Council.*
- 3b.** *The coordination measures prescribed by Articles 40a to 40d shall also apply to the laws, regulations and administrative provisions of the Member States relating to subsidiaries and branches of undertakings which are not governed by the law of a Member State but which are of a legal form comparable with the types of undertakings listed in Annex I.'*

(2) **█** Article 2 is amended as follows:

a) *point (5) is replaced by the following:*

'(5) 'net turnover' means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover; for credit institutions referred to in point (b) of Article 1(3) of this Directive 'net turnover' shall be defined according to point (c) of Article 43(2) of Directive 1986/635 of the Council; for insurance undertakings referred to in point (a) of Article 1(3) of this Directive, 'net turnover' shall be defined according to Article 35 of Directive 1991/674 of the Council'; where the undertaking is an undertaking as defined in Article 19aa(1), the revenue as defined by or within the meaning of the financial reporting framework on the basis of which the financial statements of the undertaking are prepared;

”

b) the following points (17) to (20) are added:

(17) ‘sustainability matters’ means ***environmental, social and human rights, and governance factors, including*** sustainability factors as defined in Article 2, point (24) of Regulation (EU) 2019/2088 of the European Parliament and of the Council⁴⁵ ;

(18) ‘sustainability reporting’ means reporting information related to sustainability matters in accordance with Articles 19a, **29a and 29d** of this Directive;

(19) **‘key intangible resources’** means **resources without physical substance on which the business model of the undertaking fundamentally depends and that are a source of creation of the value of the undertaking;**

(20) ‘independent assurance services provider’ means a conformity assessment body accredited in accordance with Regulation (EC) No 765/2008 of the European Parliament and of the Council⁴⁶ for the specific conformity assessment activity referred to in Article 34(1), second subparagraph, point (aa) of this Directive.’

⁴⁵ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability- related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

⁴⁶ Regulation (EC) No 765/2008 of the European Parliament and of the Council of 9 July 2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products and repealing Regulation (EEC) No 339/93 (OJ L 218, 13.8.2008, p. 30).;

(2a) *In Article 19, the following subparagraph is inserted:*

“20c. Large undertakings referred to in Article 3 point (4) and small and medium-sized undertakings as defined in Article 3(2) and 3(3) which are undertakings as referred to in Article 2, point (1), point (a) shall report information on the key intangible resources on which the business model of the undertaking fundamentally depends, and explain this dependency and how they are a source of value creation for the undertaking.”

(3) Article 19a is replaced by the following:

‘Article 19a

Sustainability Reporting

1. Large undertakings **■** *referred to in Article 3 point (4) and* small and medium-sized undertakings *as defined in Article 3(2) and 3(3)* which are undertakings referred to in Article 2, point (1), point (a) *and which are not micro-undertakings as defined in Article 3(1)*, shall include in the management report information necessary to understand the undertaking’s impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking’s development, performance and position.

This information shall be clearly identifiable within the management report, through a dedicated section of the management report.

- 2. The information referred to in paragraph 1 shall contain **■** :

- (a) a brief description of the undertaking's business model and strategy, including:
 - (i) the resilience of the undertaking's business model and strategy to risks related to sustainability matters;

- (ii) the opportunities for the undertaking related to sustainability matters;
 - (iii) the plans of the undertaking, ***including implementing actions and related financial and investment plans***, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement ***and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 (European Climate Law)***, and where relevant, ***the exposure of the undertaking to coal, oil and gas-related activities***;
 - (iv) how the undertaking's business model and strategy take account of the interests of the undertaking's stakeholders and of the impacts of the undertaking on sustainability matters;
 - (v) how the undertaking's strategy has been implemented with regard to sustainability matters;
- (b) a description of the ***time-bound*** targets related to sustainability matters set by the undertaking, ***including where appropriate absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description*** of the progress the undertaking has made towards achieving those targets, ***and a specification of whether the undertaking's targets related to environmental matters are based on conclusive scientific evidence***;
 - (c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, ***and of their expertise and skills to fulfil this role or access to such expertise and skills***;
 - (d) a description of the undertaking's policies in relation to sustainability matters;

- (da) information about the existence of incentive schemes offered to members of the administrative, management and supervisory bodies which are linked to sustainability matters;*
- (e) a description of:
- (i) the due diligence process implemented *by the undertaking* with regard to sustainability matters, *and where applicable in line with EU requirements on undertakings to conduct a due diligence process;*
 - (ii) the principal actual or potential adverse impacts connected with the undertaking's **█** *own operations and with its value chain, including* its products and services, its business relationships and its supply chain, *actions taken to identify and track these impacts, and other adverse impacts which the undertaking is required to identify according to other EU requirements on undertakings to conduct the due diligence process;*
 - (iii) any actions taken *by the undertaking*, and the result of such actions, to prevent, mitigate, *remediate or bring an end to* **█** actual or potential adverse impacts;
- (f) a description of the principal risks to the undertaking related to sustainability matters, including the undertaking's principal dependencies on such matters, and how the undertaking manages those risks;
- (g) indicators relevant to the disclosures referred to in points (a) to (f). **█**

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Undertakings shall report the process carried out to identify the information that they have included in the management report in accordance with paragraph 1**█**. *The information listed under paragraph 2 shall **█** include information related to short, medium and long-term time horizons as applicable.*

3. Where **■ applicable**, the information referred to in paragraphs 1 and 2 shall contain information about the undertaking's **■ own operations, and about its value chain, including** products and services, its business relationships and its supply chain.

For the first three years of the application of this Directive, in the event that not all the necessary information regarding the value chain is available, the undertaking shall explain the efforts made to obtain the information about its value chain, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future.

Where **■ applicable**, the information referred to in paragraphs 1 and 2 shall also contain references to, and additional explanations of, other information included in the management report in accordance with Article 19 and amounts reported in the annual financial statements.

Member States may allow information relating to impending *developments* or matters in the course of negotiation to be omitted in *exceptional* cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking, provided that such omission does not prevent a fair and balanced *understanding* of the undertaking's development, performance, position and impact of its activity.

4. Undertakings shall report the information referred to in paragraphs 1 to 3 in accordance with the sustainability reporting standards referred to in Article **■ 29b**.

- 4b. The management of the undertaking shall inform workers' representatives at the appropriate level and discuss with them the relevant information and the means of obtaining and verifying sustainability information. Their opinion should be communicated, where applicable, to the relevant administrative, management or supervisory bodies.**
- 5. By way of derogation from Article 19a, paragraphs 2 to 4, and without prejudice to paragraphs 7 and 7a, small and medium-sized undertakings referred to in paragraph 1, small and non-complex institutions as defined in Article 4(1), point (145) of Regulation (EU) No 575/2013, and captive insurance undertakings as defined in Article 13 (2) of Directive 2009/138/EC and captive reinsurance undertakings as defined in Article 13(5) of Directive 2009/138/EC may limit their sustainability reporting to the following information:**
- (a) a brief description of the undertaking's business model and strategy;**
 - (b) a description of the undertaking's policies in relation to sustainability matters;**
 - (c) the principal actual or potential adverse impacts of the undertaking with regard to sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts;**
 - (d) the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks;**
 - (e) key indicators necessary to the disclosures referred to in points (a) to (d).**

Small and medium-sized undertakings, small and non-complex institutions and captive insurance and reinsurance undertakings that use this derogation shall report in accordance with the sustainability reporting standards for small and medium-sized undertakings referred to in Article 29c.

- 5a. *By way of derogation from paragraph 1 and until 2028, small and medium-sized undertakings which are undertakings referred to in Article 2, point (1), point (a), may decide not to include in their management report the information referred to in paragraph 1. The undertaking shall however provide a statement in its management report declaring briefly why the sustainability reporting was not provided.*
6. Undertakings that comply with the requirements set out in paragraphs 1 to 4 *and undertakings making use of the derogation in paragraph 5* shall be deemed to have complied with the requirement set out in the third subparagraph of Article 19(1).
7. An undertaking (*'the exempted subsidiary undertaking'*) which is a subsidiary undertaking shall be exempted from the obligations set out in paragraphs 1 to 4 if that undertaking and its subsidiary undertakings are included in the consolidated management report of a parent undertaking, drawn up in accordance with Articles 29 and 29a. An undertaking that is a subsidiary undertaking from a parent undertaking that is established in a third country shall also be exempted from the obligations set out in paragraphs 1 to 4 where that undertaking and its subsidiary undertakings are included in the **■ sustainability reporting** of that parent undertaking and where **■ this sustainability reporting of the parent undertaking** is drawn up in *accordance with the sustainability reporting standards adopted pursuant to Article 29b or in a manner **■ equivalent to those sustainability reporting standards determined** in accordance with Commission's decisions on the equivalence of*

sustainability reporting standards adopted pursuant to Article 23(4), *third subparagraph* of Directive 2004/109/EC of the European Parliament and of the Council⁴⁷.

The exemption in the first subparagraph is subject to the following conditions:

- (i) the management report of the exempted subsidiary undertaking contains all of the following information:*
 - (a) the name and registered office of the parent undertaking that reports information at group level in accordance with this Article, or in a manner equivalent to sustainability reporting standards adopted pursuant to Article 29b of this Directive, determined in accordance with Commission's decisions on equivalence of sustainability reporting standards adopted pursuant to Article 23(4), third subparagraph;*
 - (b) the web links to the consolidated management report of the parent undertaking or to the consolidated sustainability reporting where applicable, referred to in the first subparagraph and to the opinion referred to in Article 34(1), second subparagraph, point (aa) of this Directive or the opinion referred to in point (ii) of this subparagraph;*
 - (c) the fact that the undertaking is exempted from the obligations set out in paragraphs 1 to 4 of this Article.*

⁴⁷ *Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38).';*

- (ii) when the parent undertaking referred to in the first subparagraph is established in a third country, its consolidated sustainability reporting and the opinion based on a limited assurance engagement given by one or more person(s) or firm(s) authorised to give an opinion on the assurance of sustainability reporting under the national law governing the undertaking which drew up that consolidated sustainability reporting or separate report, shall be published in accordance with Article 30, in the manner prescribed by the law of the Member State by which the exempted subsidiary undertaking is governed.*
- (iii) when the parent undertaking referred to in the first subparagraph is established in a third country, the disclosures laid down in Article 8 of Regulation (EU) 2020/852, covering the activities carried out by the exempted subsidiary undertaking(s) established in the EU and its subsidiary undertakings, are included in one of the following reports:*
- a) in the management report of the exempted parent undertaking,*
- or*
- b) in the consolidated sustainability reporting prepared by the parent undertaking established in a third country referred to in the first subparagraph.*

The Member State by which the exempted subsidiary undertaking is governed, may require that the consolidated management report or consolidated sustainability reporting where applicable of the parent undertaking is published in a language that it accepts, and that any necessary translation into those languages is provided. Any translation not certified shall include a statement indicating the translation was not certified.

Undertakings which are exempted from preparing a management report according to Article 37 of this Directive, need not to provide the information of points (a), (b) and (c) of point (i) of the second subparagraph, provided they publish the consolidated management report referred to in the first subparagraph of this paragraph in accordance with Article 37 of this Directive.

For the purposes of the first subparagraph, and where Article 10 of Regulation (EU) No 575/2013 applies, credit institutions referred to in Article 1, point (3), point (b) of this Directive that are permanently affiliated to a central body which supervises them under the conditions laid down in that same article shall be treated as subsidiaries of the central body.

For the purposes of the first subparagraph, insurance undertakings referred to in Article 1(3), point (a) of this Directive that are part of a group on the basis of a relationship referred to in Article 212(1)(c)(ii) of Directive 2009/138/EC which is subject to group supervision in accordance with Article 213(2), points (a), (b) and (c) of that Directive shall be treated as subsidiaries of the parent undertaking of that group.



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7a. The exemption of paragraph 7 shall also apply to public interest entities subject to the requirements of this Article, unless that public-interest entity is a large undertaking falling under point (1)(a) of Article 2.

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- (5) Article 20(1) is amended as follows:
- (a) point (g) is replaced by the following:

‘(g) a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to gender and other aspects such as, age, or educational and professional backgrounds *or disabilities*, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case.’

(b) the following subparagraph is added:

‘Undertakings subject to Article 19a may comply with the obligation laid down in *point* (g) of the first subparagraph of this Article where they include the information required under those points as part of their sustainability reporting *and a reference is included in the corporate governance statement.*’

(6) Article 23 is amended as follows:

(a) in paragraph 4, point (b) is replaced by the following:

‘(b) the consolidated financial statements referred to in point (a) and the consolidated management report of the larger body of undertakings are drawn up by the parent undertaking of that body, in accordance with the law of the Member State by which that parent undertaking is governed, in accordance with this Directive, with the exception of the requirements laid down in Article 29a, or in accordance with international accounting standards adopted in accordance with Regulation (EC) No 1606/2002;’

(b) in paragraph 8, point (b)(i) is replaced by the following:

‘(i) in accordance with this Directive, with the exception of the requirements laid down in Article 29a;’

(c) in paragraph 8, point (b)(iii) is replaced by the following:

‘(iii) in a manner equivalent to consolidated financial statements and consolidated management reports drawn up in accordance with this Directive, with the exception of the requirements laid down in Article 29a, or;’

(7) Article 29a is replaced by the following:

‘Article 29a

Consolidated sustainability reporting

1. Parent undertakings of a large group *as referred to in Article 3, point (7)* shall include in the consolidated management report information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position.

This information shall be clearly identifiable within the consolidated management report, through a dedicated section of the management report.

2. The information referred to in paragraph 1 shall contain **■** :
 - (a) a brief description of the group's business model and strategy, including:
 - (i) the resilience of the group's business model and strategy to risks related to sustainability matters;
 - (ii) the opportunities for the group related to sustainability matters;

- (iii) the plans of the group, ***including implementing actions and related financial and investment plans***, to ensure that **█** *its* business model and strategy ***are*** compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement ***and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 (European Climate Law) and where relevant, the exposure of the group to coal, oil and gas-related activities;***
 - (iv) how the group's business model and strategy take account of the interests of the group's stakeholders and of the impacts of the group on sustainability matters;
 - (v) how the group's strategy has been implemented with regard to sustainability matters;
- (b) a description of the ***time-bound*** targets related to sustainability matters set by the group, ***including where appropriate absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description █*** of the progress ***█ the group has made*** towards achieving ***█ those targets, and a specification of whether the group's targets related to environmental matters are based on conclusive scientific evidence;***
- (c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, ***and of their expertise and skills to fulfil this role or access to such expertise and skills;***
- (d) a description of the group's policies in relation to sustainability matters;
- (da) information about the existence of incentive schemes offered to members of the administrative, management and supervisory bodies which are linked to sustainability matters;***

- (e) a description of:
- (i) the due diligence process implemented *by the group* with regard to sustainability matters, *and where applicable in line with EU requirements on undertakings to conduct a due diligence process*;
 - (ii) the principal actual or potential adverse impacts connected with the group's *own operations and with its value chain, including* its products and services, its business relationships and its supply chain, *actions taken to identify and track these impacts, and other adverse impacts which the parent undertaking is required to identify according to other EU requirements to conduct the due diligence process*;
 - (iii) any actions taken *by the group*, and the result of such actions, to prevent, mitigate, *remediate or bring an end to* ■ actual or potential adverse impacts;
- (f) a description of the principal risks to the group related to sustainability matters, including the group's principal dependencies on such ■ *matters*, and how the group manages those risks;
- (g) indicators relevant to the ■ disclosures referred to in points (a) to (f).

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Parent undertakings shall ■ *report* the process carried out to identify the information that they have included in the consolidated management report in accordance with ■ *paragraph 1. The information listed under paragraph 2 shall include information related to short, medium and long-term time horizons as applicable.*

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3. *Where applicable*, the information referred to in paragraphs 1 and 2 shall **contain** information about the group's **own operations, and about its value chain, including** products and services, its business relationships and its supply chain.

For the first three years of the application of this Directive, in the event that not all the necessary information regarding the value chain is available, the group shall explain the efforts made to obtain the information about its value chain, the reasons why this information could not be obtained, and the plans of the parent undertaking to obtain such information in the future.

Where applicable, the information referred to in paragraphs 1 and 2 shall also **include** references to, and additional explanations of, other information included in the consolidated management report in accordance with Article 29 of this Directive and amounts reported in the consolidated financial statements.

Member States may allow information relating to impending developments or matters in the course of negotiation to be omitted in exceptional cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the group, provided that such omission does not prevent a fair and balanced understanding of the group's development, performance, position and impact of its activity.

- 3a.** *Where the reporting undertaking identifies significant differences between the risks or impacts of the group and the risks or impacts of one or more its subsidiaries, the undertaking shall provide an adequate understanding of the risks and impacts, as appropriate, of the subsidiary or subsidiaries concerned.*

Undertakings shall indicate which subsidiaries included in the consolidation are exempted from individual or consolidated reporting according to Articles 19a(7) or 29a(7) respectively.

4. Parent undertakings shall report the information referred to in paragraphs 1 to 3 in accordance with the sustainability reporting standards referred to in Article 29b.

■ ■

- 5a.** *The management of the group shall inform workers' representatives at the appropriate level and discuss with them the relevant information and the means of obtaining and verifying sustainability information. Their opinion should be communicated, where applicable, to the relevant administrative, management or supervisory bodies.*

6. A parent undertaking that complies with the requirements set out in paragraphs 1 to 4 shall be deemed to have complied with the requirements set out in the third subparagraph of Article 19(1) ■ and Article 19a.

7. A parent undertaking ("*the exempted parent undertaking*") which is also a subsidiary undertaking shall be exempted from the *obligations* set out in paragraphs 1 to 4 if that exempted parent undertaking and its subsidiaries are included in the consolidated management report of another undertaking, drawn up in accordance with Article 29 and this Article. A parent undertaking that is a subsidiary undertaking *of* a parent undertaking that is established in a third country shall also be exempted from the obligations set out in paragraphs 1 to 4 where that undertaking and its subsidiary undertakings are included in the **■** *sustainability reporting* of that parent undertaking and where **■** *this sustainability reporting* is drawn up in **■** *accordance with the sustainability reporting standards adopted pursuant to Article 29b or in a manner equivalent to those sustainability reporting standards, determined in accordance with Commission's decisions on the equivalence of sustainability reporting standards* **■** *adopted pursuant to Article 23(4), third subparagraph of Directive 2004/109/EC.*

The exemption in subparagraph 1 is subject to the following conditions:

- (i) *The management report of the exempted parent undertaking contains all of the following information:*
- (a) *the name and registered office of the parent undertaking that reports information at group level in accordance with this Article, or in a manner equivalent to sustainability reporting standards adopted pursuant to Article 29b of this Directive, determined in accordance with Commission's decisions on equivalence of sustainability reporting standards adopted pursuant to Article 23(4), third subparagraph of Directive 2004/109/EC;*

- (iii) *when the parent undertaking referred to in the first subparagraph is established in a third country, the disclosures laid down in Article 8 of Regulation (EU) 2020/852, covering the activities carried out by the exempted subsidiary undertaking(s) established in the EU, are included in one of the following reports:*
- a) *in the management report of the exempted parent undertaking; or*
 - b) *in the consolidated sustainability reporting prepared by the parent undertaking established in a third country referred to in the first subparagraph.*

The Member State by which the exempted parent undertaking is governed, may require that the consolidated management report or consolidated sustainability reporting where applicable of the parent undertaking is published in a language that it accepts, and that any necessary translation into those languages is provided. Any translation not certified shall include a statement indicating the translation was not certified.

Parent undertakings which are exempted from preparing a management report according to Article 37 of this Directive, need not provide the information of points (a), (b) and (c) of point (i) of the second subparagraph, provided they publish the consolidated management report referred to in the first subparagraph of this paragraph in accordance with Article 37 of this Directive.

For the purposes of the first subparagraph, and where Article 10 of Regulation (EU) No 575/2013 applies, credit institutions referred to in Article 1, point (3), point (b) of this Directive that are permanently affiliated to a central body which supervises them under the conditions laid down in that same article shall be treated as subsidiaries of the central body.

For the purposes of the first subparagraph, insurance undertakings referred to in Article 1(3), point (a) of this Directive that are part of a group on the basis of a relationship referred to in Article 212(1)(c)(ii) of Directive 2009/138/EC which is subject to group supervision in accordance with Article 213(2), points (a), (b) and (c) of that Directive shall be treated as subsidiaries of the parent undertaking of that group.

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7a. The exemption of paragraph 7 shall also apply to public interest entities subject to the requirements of this Article, unless that public-interest entity is a large undertaking falling under point (1)(a) of Article 2.'

(7a) A new chapter title is inserted:

*'Chapter 6a
Sustainability Reporting Standards'*

(7b) The following Articles 29b and 29c are added:

"Article 29b

Sustainability reporting standards

1. *The Commission shall adopt delegated acts in accordance with Article 49 to provide for sustainability reporting standards. Those sustainability reporting standards shall specify the information that undertakings are to report in accordance with Articles 19a and 29a and, where relevant, shall specify the structure in which that information shall be reported. In particular:*

(a) *by 30 June 2023, the Commission shall adopt delegated acts specifying the information that undertakings are to report in accordance with paragraphs 1 and 2 of Article 19a, and paragraphs 1 and 2 of Article 29a where appropriate, and at least specifying information corresponding to the needs of financial market participants subject to the disclosure obligations of Regulation (EU) 2019/2088.*

(b) *by 30 June 2024, the Commission shall adopt delegated acts specifying:*

(i) *complementary information that undertakings shall report with regard to the sustainability matters and reporting areas listed in Article 19a(2), where necessary;*

(ii) *information that undertakings shall report that is specific to the sector in which they operate.*

When adopting delegated acts to specify the information required under subparagraph 1, letter (b), point (ii), the Commission shall pay particular attention to the scale of the risks and impacts related to sustainability matters of each sector, taking account of the fact that risks and impacts are higher for some sectors than for others.

The Commission shall, at least every three years after its date of application, review any delegated act adopted pursuant to this Article, taking into consideration the technical advice of the European Financial Reporting Advisory Group (EFRAG), and where necessary shall amend such delegated act to take into account relevant developments, including developments with regard to international standards.

The Commission shall, at least once a year consult the European Parliament, and jointly the Member State Expert Group on Sustainable Finance referred to in Article 24 of Regulation (EU) 2020/852 and the Accounting Regulatory Committee referred to in Article 6 of Regulation (EU) 1606/2002, on EFRAG's work programme as regards the development of sustainability reporting standards.

2. *The sustainability reporting standards referred to in paragraph 1 shall ensure the quality and relevance of reported information, by requiring that it is understandable, relevant, verifiable, comparable and is represented in a faithful manner. The standards shall avoid disproportionate administrative burden on undertakings, including by taking account to the greatest extent possible the work of global standard-setting initiatives for sustainability reporting as required by paragraph 3, point (a).*

The sustainability reporting standards shall, taking into account the subject matter of a particular standard:

- (a) *specify the information that undertakings are to disclose about the following environmental factors:*
 - (i) *climate change mitigation, including emissions on scope 1, scope 2 and, where relevant, scope 3 greenhouse gas emissions;*
 - (ii) *climate change adaptation;*

- (iii) water and marine resources;*
- (iv) resource use and circular economy;*
- (v) pollution;*
- (vi) biodiversity and ecosystems;*
- (b) specify the information that undertakings are to disclose about the following social and human rights factors:*
- (i) equal treatment and opportunities for all, including gender equality and equal pay for work of equal value, training and skills development, the employment and inclusion of people with disabilities, measures against violence and harassment in the workplace, and diversity;*
- (ii) working conditions, including secure employment, working time, adequate wages, social dialogue, freedom of association, existence of work councils, collective bargaining, including the rate of workers covered by collective agreements, the information, consultation and participation rights of workers, work-life balance and health and safety;*

(iii) respect for the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, including the UN Convention on Persons with Disabilities, the UN Declaration on the Rights of Indigenous Peoples, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions, the European Convention of Human Rights, the revised European Social Charter, and the Charter of Fundamental Rights of the European Union.

(c) specify the information that undertakings are to disclose about the following governance factors:

(i) the role of the undertaking's administrative, management and supervisory bodies with regard to sustainability matters, and their composition, and their expertise and skills to fulfil this role or access to such expertise and skills;

(i)a the main features of the undertaking's internal control and risk management systems, in relation to the sustainability reporting process;

(ii) business ethics and corporate culture, including anti-corruption and anti-bribery, the protection of whistle-blowers and animal welfare;

(iii) engagement of the undertaking to exert its political influence, including its lobbying activities;

- (iv) *the management and quality of relationships with customers, suppliers and communities affected by the activities of the undertaking, including payment practices, especially with regard to late payment to SMEs;*
 - (v) *the main features of the undertaking's internal control and risk management systems, in relation to the sustainability reporting and decision-making process.*
- 2a. *The sustainability reporting standards shall specify the forward-looking and retrospective information, and qualitative and quantitative information, as appropriate, to be reported by undertakings.*
- 2b. *Standards shall also take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain, especially from those which are not obliged to report sustainability information pursuant to Article 19a or 29a of this Directive and from suppliers in emerging markets and economies. Standards shall specify disclosures on value chains that are proportionate and relevant to the scale and complexity of the activities, and the capacities and characteristics of undertakings in value chains, especially those of undertakings that are not subject to the sustainability reporting obligations of Articles 19a or 29a of this Directive. Standards shall not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their value chain that exceeds the information to be disclosed according to the sustainability reporting standards for small and medium-sized undertakings referred to in Article 29c.*

This provision is without prejudice to any EU requirements on undertakings to conduct a due diligence process.

3. *When adopting delegated acts pursuant to paragraph 1, the Commission shall to the greatest extent possible take account of:*
- (a) *the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting and for greenhouse gas accounting, responsible business conduct, corporate social responsibility, and sustainable development;*
 - (b) *the information that financial market participants need to comply with their disclosure obligations laid down in Regulation (EU) 2019/2088 and the delegated acts adopted pursuant to that Regulation;*
 - (c) *the criteria, indicators and methodologies set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852⁴⁸, including the technical screening criteria established pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2) and 15(2) of that Regulation and the reporting requirements set out in the delegated act adopted pursuant to Article 8 of that Regulation;*

⁴⁸ *Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13).*

- (d) *the disclosure requirements applicable to benchmarks administrators in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816⁴⁹, (EU) 2020/1817⁵⁰ and (EU) 2020/1818⁵¹;*
- (e) *the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013⁵²;*
- (f) *Commission Recommendation 2013/179/EU⁵³;*
- (g) *Directive 2003/87/EC of the European Parliament and of the Council⁵⁴;*

⁴⁹ *Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published (OJ L 406, 3.12.2020, p. 1).*

⁵⁰ *Commission Delegated Regulation (EU) 2020/1817 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation on how environmental, social and governance factors are reflected in the benchmark methodology (OJ L 406, 3.12.2020, p. 12).*

⁵¹ *Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks (OJ L 406, 3.12.2020, p. 17).*

⁵² *Commission Implementing Regulation laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council (C(2021)1595)*

⁵³ *Commission Recommendation 2013/179/EU of 9 April 2013 on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations (OJ L 124, 4.5.2013, p. 1).*

⁵⁴ *Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).*

- (ga) Regulation (EU) 2021/1119 of the European Parliament and of the Council;*
- (h) Regulation (EC) No 1221/2009 of the European Parliament and of the Council⁵⁵;*
- (ha) Directive (EU) 2019/1937 of the European Parliament and of the Council.*

⁵⁵ *Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).*

Article 29c

Sustainability reporting standards for SMEs

The Commission shall adopt delegated acts in accordance with Article 49 to provide for sustainability reporting standards proportionate and relevant to the scale and complexity of the activities, and to the capacities and characteristics of small and medium-sized undertakings. These sustainability reporting standards shall specify for the small and medium-sized undertakings referred to in Article 2, point (1)(a), the information that shall be reported in accordance with Article 19a(5).

Reporting standards for small and medium-sized undertakings shall take into account the criteria set out in Article 29b, paragraphs 2, 2a, 2b and 3. They shall also, to the extent possible, specify the structure in which that information shall be reported.

The Commission shall, at least every three years after its date of application, review any delegated act adopted pursuant to this Article, taking into consideration the technical advice of the European Financial Reporting Advisory Group (EFRAG), and where necessary, shall amend such delegated act to take into account relevant developments, including developments with regard to international standards.

The Commission shall adopt those delegated acts at the latest by 30 June 2024.'

(7c) A new chapter title is inserted:

'Chapter 6b

Electronic format'

(7d) The following article 29d is added:

'Article 29d

Single electronic reporting format

1. *Undertakings subject to Article 19a shall prepare their management report in the electronic reporting format referred to in Article 3 of Commission Delegated Regulation (EU) 2019/815⁵⁶ and shall mark-up their sustainability reporting, including the disclosures laid down in Article 8 of Regulation (EU) 2020/852, in accordance with the format referred to in that Delegated Regulation.*
2. *Parent undertakings subject to Article 29a shall prepare their consolidated management report in the single electronic reporting format referred to in Article 3 of Delegated Regulation (EU) 2019/815 and shall mark-up sustainability reporting, including the disclosures laid down in Article 8 of Regulation (EU) 2020/852, in accordance with the format referred to in that Delegated Regulation."*

(8) Article 30 is amended as follows:

(a) paragraph 1 is replaced by the following:

"1. Member States shall ensure that undertakings publish within a reasonable period of time, which shall not exceed 12 months after the balance sheet date, the duly approved annual financial statements and the management report in the format prescribed by Article **29d** of this Directive where applicable, together with the opinions and statement submitted by the statutory auditor or audit firm referred to in Article 34 of this Directive, as laid down by the laws of each Member State in accordance with **Title I**, Chapter **III** of Directive (EU) 2017/1132 of the European Parliament and of the Council.

⁵⁶ *Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143, 29.5.2019, p. 1).;*'

Member States may require undertakings subject to Articles 19a and 29a to make the management report available on their website free of charge. Member States may require that, if the undertaking does not have a website, it shall make a written copy of its management report available upon request.

Where an independent assurance services provider gives the opinion referred to in *Article 34(1), second subparagraph*, point (aa), this opinion shall be published together with the *documents* referred to in the first subparagraph.

Member States may, however, exempt undertakings from the obligation to publish the management report where a copy of all or part of any such report can be easily obtained upon request at a price not exceeding its administrative cost.’

The exemption laid down in the third subparagraph shall not apply to undertakings subject to Articles 19a and 29a.’;

*¹⁶ Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law (OJ L 169, 30.6.2017, p. 46)."

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(9) in Article 33, paragraph 1 is replaced by the following:

‘1. Member States shall ensure that the members of the **administrative**, management and supervisory bodies of an undertaking, acting within the competences assigned to them by national law, have collective responsibility for ensuring that the following documents are drawn up and published in accordance with the requirements of this Directive and, where applicable, with the international accounting standards adopted in accordance with Regulation (EC) No 1606/2002, with Delegated Regulation 2019/815, with the sustainability reporting standards referred to in Article **29b, or Article 29c where applicable**, of this Directive, and with the requirements of Article **29d** of this Directive:

- (a) the annual financial statements, the management report and the corporate governance statement when provided separately;
- (b) the consolidated financial statements, the consolidated management reports and the consolidated corporate governance statement when provided separately.’

(9a) **Chapter 8 is amended as follows:**

"Auditing and assurance of sustainability reporting"

(10) Article 34 is amended as follows:

(a) in paragraph 1, the second subparagraph is amended as follows:

(i) point (a)(ii) is replaced by the following:

‘(ii) whether the management report has been prepared in accordance with the applicable legal requirements, excluding the requirements on sustainability reporting laid down in Article 19a;’

(ii) the following point (aa) is inserted:

‘(aa) where applicable, express an opinion based on a limited assurance engagement as regards the compliance of the sustainability reporting with the requirements of this Directive, including the compliance of the sustainability reporting with the reporting standards adopted pursuant to Article **29b** or **Article 29c**, the process carried out by the undertaking to identify the information reported pursuant to those reporting standards, and the compliance with the requirement to mark-up sustainability reporting in accordance with Article **29d**, and as regards the compliance with the reporting requirements of Article 8 of Regulation (EU) 2020/852.’

(b) paragraph 3 is replaced by the following:

"3. Member States may allow *a statutory auditor or an audit firm other than the one(s) carrying out the statutory audit of financial statements* to express the opinion referred to in paragraph 1, second subparagraph, point (aa).

3a. Member States may allow an independent assurance services provider established in their territory to express the opinion referred to in paragraph 1, second subparagraph, point (aa), provided that such independent assurance services provider is subject to requirements that are equivalent to those set out in Directive 2006/43/EC of the European Parliament and of the Council⁵⁷ as regards the assurance of sustainability reporting as defined in Article 2, point 22 of that Directive, in particular with requirements on:

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Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9.6.2006, p. 87).

- (i) training and examination, ensuring that independent assurance services providers acquire the necessary expertise on sustainability reporting and the assurance of sustainability reporting;*
- (ii) continuing education;*
- (iii) quality assurance systems;*
- (iv) professional ethics, independence, objectivity, confidentiality and professional secrecy;*
- (v) appointment and dismissal;*
- (vi) investigations and sanctions;*
- (vii) the organisation of the work of the independent assurance services provider, in particular in terms of sufficient resources and personnel and the maintenance of client account records and files; and*
- (viii) reporting irregularities.*

Where an independent assurance services provider gives the opinion referred to in paragraph 1, second subparagraph, point (aa), Member States shall ensure that this opinion is prepared in accordance with Articles 26a, 27a and 28a of Directive 2006/43/EC and that, where applicable, the audit committee or a dedicated committee, reviews and monitors the independence of the independent assurance services provider in accordance with Article 39 paragraph 6 point (e) of Directive 2006/43/EC.

Member States shall ensure that independent assurance services providers accredited before 1 January 2024 for the assurance of sustainability reporting in accordance with Regulation (EC) No 765/2008, are not subject to the training and examination requirements referred to in the first subparagraph, point i).

Member States shall ensure that independent assurance services providers that on 1 January 2024 are undergoing the accreditation process in accordance with the relevant national requirements are not subject to the training and examination requirements referred to in the first subparagraph, point (i) as regards the assurance of sustainability reporting provided they finish the process by 1 January 2026.

Member States shall ensure that the independent assurance services providers referred to in the third and fourth subparagraphs acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via the continuing education requirement referred to in the first subparagraph, point ii).

If a Member State makes use of the option to allow an independent assurance services provider to express the opinion referred to in paragraph 1, second subparagraph, point (aa), it shall also allow a statutory auditor other than the one(s) doing the statutory audit of financial statements, to do so.

(b)a *The following paragraphs 3b and 3c are inserted:*

‘3b. As from year X [OJ: please insert 4 years after the entry into force of the amending directive] a Member State (Host Member State) that has made use of the option of paragraph 3a shall allow independent assurance services providers established in another Member State (Home Member State) to carry out the assurance of sustainability reporting.

The Home Member State shall be responsible for the supervision of the independent assurance services providers established in its territory, unless the Host Member State decides to supervise the assurance engagement of sustainability reporting carried out by independent assurance services providers in its territory.

If the Host Member State decides to supervise the assurance engagements of sustainability reporting carried out in its territory by independent assurance services providers registered in another Member State, the Host Member State:

- (i) shall not impose more stringent requirements or liability on such IASP than those required for assurance of sustainability reporting services by the national laws for the IASPs or auditors established in that Host Member State; and*
- (ii) shall inform other Member States about its decision to supervise the assurance engagements carried out by IASP established in other Member States."*

3c. Member States shall ensure that when an undertaking is required by EU legislation to have some elements of its sustainability reporting verified by an accredited independent third party, the report of the accredited independent third party shall be made available either by means of an annex to the management report or by publicly accessible means.'

(10a) A new chapter title is inserted:

"Chapter 9a – Reporting of third country undertakings"

(10b) The following Articles 40a, 40b, 40c and 40d are inserted:

‘Article 40a

Sustainability reports of third country undertakings

- 1. Member States shall require that a subsidiary undertaking of an undertaking ultimately holding such undertaking and formed in accordance with the legislation of a third country (the ‘third country undertaking’) publish and make accessible a sustainability report covering the information specified in Article 29a, paragraph 2, points (a)(iii) to (e), and where appropriate point (g) of this Directive, at the consolidated level of the ultimate third country undertaking. This paragraph only applies to large subsidiary undertakings as defined in Article 3, point (4), and to subsidiary undertakings which are undertakings as referred to in Article 2, point (1), point (a) and which are not micro-undertakings as defined in Article 3(1).*

Member States shall require that a branch of an undertaking formed in accordance with the legislation of a third country which either is not part of a group or is ultimately held by an undertaking which is formed in accordance with the legislation of a third country (the "third country undertaking") publish and make accessible a sustainability report covering the information specified in Article 29a, paragraph 2, points (a)(iii) to (e), and where appropriate point (g) of this Directive, at the consolidated level - or, if not applicable, the individual level - of the third country undertaking. This rule applies only to a branch where the third-country undertaking does not have a subsidiary as defined in subparagraph 1, and where the branch generated a net turnover of more than EUR 40 million the preceding financial year.

Subparagraphs 1 and 2 shall only apply to the subsidiaries or branches referred to in subparagraphs 1 and 2, where the third country undertaking, at its consolidated level - or, if not applicable, the individual level -, generated a net turnover of more than EUR 150 million in the Union for each of the last two consecutive financial years.

Member States may require subsidiaries or branches referred to in subparagraph 1, sentence 1 and in subparagraph 2, sentence 1 to send them information about the net turnover generated in their territory and in the Union by the third country undertakings.

2. *Member States shall require that the sustainability report communicated by the subsidiary or branch as referred to in paragraph 1 is drawn up in accordance with the standards adopted pursuant to Article 40b.*

By way of derogation from subparagraph 1, the sustainability report referred to in paragraph 1 may be drawn up according to the sustainability reporting standards adopted pursuant to Article 29b or in a manner equivalent to those sustainability reporting standards, determined in accordance with Commission's decisions adopted pursuant to Article 23(4), third subparagraph of Directive 2004/109/EC.

Where the information required in subparagraphs 1 and 2 is not available, the subsidiary or branch referred to in paragraph 1 shall request the third country undertaking to provide them with all information necessary to enable them to meet their obligations.

In the event that not all the required information is provided, the subsidiary or branch referred to in paragraph 1 shall draw up, publish and make accessible the sustainability report referred to in paragraph 1, containing all information in their possession, obtained or acquired, and a statement indicating that the third country undertaking did not make the necessary information available.

3. *Member States shall require that the sustainability report referred to in paragraph 1 is published alongside an assurance opinion by one or more person(s) or firm(s) authorized to give an opinion on the assurance of sustainability reporting under the national law of the third country undertaking or of a Member State. In the event that the third country undertaking did not provide the assurance opinion according to sentence 1, the subsidiary or branch shall issue a statement indicating that the third country undertaking did not make the necessary assurance opinion available.*
4. *Member States may inform the Commission on an annual basis of the subsidiaries or branches of third country undertakings that fulfilled the publication requirement referred to in Article 40d and of the cases where a report was published but where the branch or subsidiary has made use of Article 40a, paragraph 2, fourth subparagraph. The European Commission shall publish a list of these third country undertakings publishing a sustainability report on its website.*

Article 40b

Sustainability reporting standards for third country undertakings

The Commission shall adopt by 31 June 2024 a delegated act in accordance with Article 49 to provide for sustainability reporting standards that specify the information that shall be included in the sustainability reports referred to in Article 40a.

Article 40c

Responsibility for drawing up, publishing and making accessible the report of Article 40a

Member States shall provide that the branches are responsible for ensuring, to the best of their knowledge and ability, that the sustainability report referred to in Article 40a is drawn up in accordance with Article 40a, and that it is published and made accessible in accordance with Article 40d.

Member States shall provide that the members of the administrative, management and supervisory bodies of subsidiaries referred to in Article 40a, have collective responsibility for ensuring, to the best of their knowledge and ability, that the report referred to in Article 40a is drawn up in accordance with Article 40a, and that it is published and made accessible in accordance with Article 40d.

Article 40d

Publication

- 1. The sustainability report together with the assurance opinion and the statement mentioned in Article 40a of this Directive shall be published within 12 months of the balance sheet date of the financial year for which the report is drawn up as provided for by each Member State in accordance with Articles 14 to 28 of Directive (EU) 2017/1132 of the European Parliament and of the Council (***) and, where relevant, in accordance with Article 36 of Directive (EU) 2017/1132.*
- 2. Where the sustainability report together with the assurance opinion and the statement published in accordance with paragraph 1 of this Article are not made accessible free of charge to the public on the website of the register referred to in Article 16 of Directive (EU) 2017/1132, Member States shall ensure that the sustainability report together with the assurance opinion and the statement published by the undertakings in accordance with paragraph 1 of this Article are made accessible to the public in at least one of the official languages of the Union, free of charge, no later than 12 months after the balance sheet date of the financial year for which the report is drawn up, on the website of the subsidiary or the branch as referred to in Article 40a."*

(10c) *The title of Chapter 11 is amended as follows:*

“Chapter 11

Transition and final provisions”

(10d) *The following Article 48a is inserted:*

'Article 48a

Transitional provisions

1. *Until year X [publication office: 7 years from the date of entry into force of this Directive], Member States shall permit that an EU subsidiary undertaking which is subject to Article 19a or 29a and which belongs to a group that has an parent undertaking not governed by the law of a Member State, prepares a consolidated sustainability report in accordance with the requirements of Article 29a, including all EU subsidiary undertakings of the referred parent undertaking which are subject to Article 19a or 29a.*

Until year X [publication office: 7 years from the date of entry into force of this Directive], Member States shall permit that the consolidated sustainability report referred to in the first subparagraph includes the disclosures laid down in Article 8 of Regulation (EU) 2020/852, covering the activities carried out by all EU subsidiary undertakings of the referred ultimate parent undertaking which are subject to Article 19a or 29a.

2. *The EU subsidiary undertaking referred to in the first subparagraph shall be one of the EU subsidiaries of the group that generated the greatest amount of turnover in the Union in at least one of the preceding five financial years, where applicable, on a consolidated basis.*

3. *The consolidated sustainability report referred to in paragraph 1 shall be published in the manner set out in Article 30.*
4. *For the purpose of the exemption of Articles 19a(7) and 29a(7), reporting according to paragraph 1 shall be considered as reporting by a parent undertaking at consolidated level with respect to the undertakings included in the consolidation and reporting according to paragraph 1, second subparagraph shall be considered as fulfilling the condition of Article 19a(7), second subparagraph, point iii) and Article 29a(7), second subparagraph, point iii) respectively shall be deemed to be fulfilled.*

(11) Article 49 is amended as follows:

(a) paragraphs 2 and 3 are replaced by the following:

- ‘2. The power to adopt delegated acts referred to in Article 1(2), Article 3(13), Article 46(2), Article **29b** and Article **29c** shall be conferred on the Commission for *a period of 5 years from ... (OJ: please insert date of entry into force of the amending directive). The Commission shall draw up a report in respect of the delegation of power not later than nine months before the end of the 5-year period. The delegation of power shall be tacitly extended for periods of an identical duration, unless the European Parliament or the Council opposes such extension not later than three months before the end of each period.*
3. The delegation of power referred to in Article 1(2), Article 3(13), Article 46(2), Article **29b** and Article **29c** may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of that decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.’

(b) the following paragraph 3a is inserted:

‘3a. When adopting delegated acts pursuant to Articles **29b and 29c**, the Commission shall take into consideration technical advice from EFRAG, provided **that** :

- a) *such advice has been developed with proper due process, public oversight and transparency, with the expertise and balanced participation of relevant stakeholders, and with sufficient public funding to ensure its independence, and on the basis of a work programme on which the Commission has been consulted;***
- b) *such advice is accompanied by cost-benefit analyses that include analyses of the impacts of the technical advice on sustainability matters;***
- c) *such advice is accompanied by an explanation of how it takes account of the initiatives and legislation listed in Article 29b(3);***
- d) *participation in the EFRAG work at technical level is based on expertise in sustainability reporting and is not conditional on any financial contribution.***

Points (a) and (d) are without prejudice to the participation of public bodies and national standard setting organisations in the technical work of EFRAG.

The accompanying documents to the EFRAG technical advice shall be submitted together with such technical advice.

The Commission shall consult *jointly* the Member State Expert Group on Sustainable Finance referred to in Article 24 of Regulation (EU) 2020/852 **■** *and the Accounting Regulatory Committee referred to in Article 6 of Regulation (EU) 1606/2002 on the draft* delegated acts *prior to their adoption as* referred to in Articles **■** *29b and 29c*.

The Commission shall request the opinion of the European Securities and Markets Authority, *the European Banking Authority and the European Insurance and Occupational Pensions Authority* on the technical advice provided by EFRAG, in particular with regard to its consistency with Regulation (EU) 2019/2088 and its delegated acts. The European Securities and Markets Authority, *the European Banking Authority and the European Insurance and Occupational Pensions Authority* shall provide *their opinions* within two months from the date of receipt of the request from the Commission.

The Commission shall also consult the European **■** Environment Agency, the European Union Agency for Fundamental Rights, the European Central Bank, the Committee of European Auditing Oversight Bodies and the Platform on Sustainable Finance established pursuant to Article 20 of Regulation (EU) 2020/852 on the technical advice provided by EFRAG prior to the adoption of delegated acts referred to in Articles **■** *29b and 29c*. Where any of those bodies decide to submit an opinion, they shall do so within two months from the date of being consulted by the Commission.’⁶

Article 2

Amendments to Directive 2004/109/EC

Directive 2004/109/EC is amended as follows:

(1) in Article 2(1) the following point (r) is added:

"(r) 'sustainability reporting' means sustainability reporting as defined in Article 2(18) of Directive 2013/34/EU of the European Parliament and of the Council⁵⁸ ;

(2) Article 4 is amended as follows:

(a) in paragraph 2, point (c) is replaced by the following:

'(c) statements made by the persons responsible within the issuer, whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face and, where appropriate, that it is prepared in accordance with sustainability reporting standards referred to in Article **29b** of Directive 2013/34/EU *and with the specifications adopted pursuant to Article 8(4) of Regulation (EU) 2020/852.*'

⁵⁸ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19)."

(b) paragraphs 4 and 5 are replaced by the following:

‘4. The financial statements shall be audited in accordance with Article 34(1), *first subparagraph* and Article 34 (2) of Directive 2013/34/EU.

The statutory auditor shall express the opinion and statement on the management report referred to in Article 34(1), second subparagraph, points (a) and (b) and in Article 34(2) of Directive 2013/34/EU. The audit report, *referred to in Article 28 of Directive 2006/43/EC*, signed by the person or persons responsible for carrying out the work set out in paragraphs 1 and 2 of Article 34 of Directive 2013/34/EU shall be disclosed in full to the public together with the annual financial report.

Where applicable, sustainability reporting shall be assured in accordance with Article 34(1), second subparagraph, point (aa), Article 34(2), Article 34(3), Article 34(3a), Article 34(3aa) of Directive 2013/34/EU.

The assurance report on sustainability reporting referred to in Article 28a of Directive 2006/43/EC shall be disclosed in full to the public together with the annual financial report

5. The management report shall be drawn up in accordance with Articles 19, 19a, 29d(1) and 20 of Directive 2013/34/EU, **and with the specifications adopted pursuant to Article 8(4) of Regulation (EU) 2020/852**, when drawn-up by undertakings referred to in those provisions.

Where the issuer is required to prepare consolidated accounts, the consolidated management report shall be drawn up in accordance with Article **29d(2)**, 29 and 29a of Directive 2013/34/EU **and with the specifications adopted pursuant to Article 8(4) of Regulation (EU) 2020/852**, when drawn-up by undertakings referred to in those provisions.'

- (3) **Article 23(4) is modified as follows:**

- (a) the third and fourth subparagraphs are replaced by the following:**

'The Commission shall, in accordance with the procedure referred to in Article 27(2), take the necessary decisions on the equivalence of accounting standards **under the conditions set out in Article 30(3)** and on the equivalence of sustainability reporting standards as referred to in Article **29d** of Directive 2013/34/EU which are used by third-country issuers **.** If the Commission decides that the accounting standards or the sustainability reporting standards of a third country are not equivalent, it may allow the issuers concerned to continue using such **standards** during an appropriate transitional period.

In the context of the third subparagraph, the Commission shall also adopt, by means of delegated acts adopted in accordance with paragraphs 2a, 2b and 2c of Article 27, and subject to the conditions laid down in Articles 27a and 27b, measures aimed at establishing general equivalence criteria regarding accounting standards and sustainability reporting standards relevant to issuers of more than one country.'

(b) a fifth subparagraph is added:

"The criteria that the Commission shall use when assessing the equivalence of sustainability reporting standards used by third-country issuers as provided in subparagraph 4 shall at least include the following:

(i) *The sustainability reporting standards require undertakings to disclose information on environmental, social and governance matters, "*

(ii) *The sustainability reporting standards require undertakings to disclose information necessary to understand the undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position.'*

(4) the following Article 28(d) is inserted:

"Article 28d

ESMA guidelines

After consulting the European Environment Agency and the European Union Agency for Fundamental Rights, ESMA shall issue guidelines in accordance with Article 16 of Regulation 1095/2010 on the supervision of sustainability reporting by national competent authorities."

Article 3

Amendments to Directive 2006/43/EC

Directive 2006/43/EC is amended as follows:

- (1) Article 1 is replaced by the following:

‘Article 1

Subject matter

This Directive establishes rules concerning the statutory audit of annual and consolidated accounts and the assurance of annual and consolidated sustainability reporting ■ .’

- (2) Article 2 is amended as follows:

- (a) points 2 ■ to 6 are replaced by the following:

2. ‘statutory auditor’ means a natural person who is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits and, *where applicable*, assurance engagements of sustainability reporting;

3. ‘audit firm’ means a legal person or any other entity, regardless of its legal form, that is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits and, *where applicable*, assurance engagements of sustainability reporting;

4. *'third-country audit entity' means an entity, regardless of its legal form, which carries out audits of the annual or consolidated financial statements, or, where applicable, the assurance of sustainability reporting of a company incorporated in a third country, other than an entity which is registered as an audit firm in any Member State as a consequence of approval in accordance with Article 3;*
5. *'third-country auditor' means a natural person who carries out audits of the annual or consolidated financial statements, or, where applicable, the assurance of sustainability reporting of a company incorporated in a third country, other than a person who is registered as a statutory auditor in any Member State as a consequence of approval in accordance with Articles 3 and 44;*
6. *'group auditor' means the statutory auditor(s) or audit firm(s) carrying out the statutory audit of the consolidated financial statements or, where applicable, the assurance engagements of consolidated sustainability reporting;'*

(aa) The following point 16a is added:

"16 a. 'key sustainability partner(s)' means:

- (a) the statutory auditor(s) designated by an audit firm for a particular assurance engagement of sustainability reporting as being primarily responsible for carrying out the assurance engagement of sustainability reporting on behalf of the audit firm; or*

- (b) in the case of the assurance of consolidated sustainability reporting at least the statutory auditor(s) designated by an audit firm as being primarily responsible for carrying out the assurance engagement of sustainability reporting at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries; or*
- (c) the statutory auditor(s) who sign(s) the assurance report referred to in Article 28a of this directive;"*

(b) the following points 21, 22 and 23 are added:

- ‘21. ‘sustainability reporting’ means sustainability reporting as defined in Article 2, point (18), of Directive 2013/34/EU;
22. ‘assurance (**engagement**) of sustainability reporting’ means the opinion expressed by the statutory auditor or audit firm in accordance with Article 34(1), second subparagraph, point (aa) and Article 34(2) of Directive 2013/34/EU;
23. ‘**independent assurance services provider**’ means a conformity assessment body accredited in accordance with Regulation (EC) No 765/2008 of the European Parliament and of the Council^{[1]*5} for the specific conformity assessment activity referred to in Article 34(1), second subparagraph, point (aa) of Directive 2013/34/EU.’

(3) **Article 6** is replaced by the following:

‘Article 6

Educational qualifications

1. Without prejudice to Article 11, a natural person may be approved to carry out a statutory audit **■** only after having attained university entrance or equivalent level, then completed a course of theoretical instruction, undergone practical training and passed an examination of professional competence of university final or equivalent examination level, organised or recognised by the Member State concerned.
2. *A natural person may in addition be approved to carry out assurance engagements of sustainability reporting when the additional specific requirements of Articles 7(2), 8(3), 10(1) second subparagraph and 14(2), fourth subparagraph of this Directive are met.*

The competent authorities referred to in Article 32 shall cooperate with each other with a view to achieving a convergence of the requirements set out in this Article. When engaging in such cooperation, those competent authorities shall take into account developments in auditing and in the audit profession and, in particular, convergence that has already been achieved by the profession. They shall cooperate with the Committee of European Auditing Oversight Bodies (CEAOB) and the competent authorities referred to in Article 20 of Regulation (EU) No 537/2014 in so far as such convergence relates to the statutory audit and assurance of sustainability reporting of public-interest entities.’

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(3a) in Article 7, paragraph 2 is added:

"2. In order for the statutory auditor to also be approved to carry out assurance engagements of sustainability reporting, the examination of professional competence referred to in Article 6 shall guarantee the necessary level of theoretical knowledge of subjects relevant to the assurance of sustainability reporting and the ability to apply such knowledge in practice. Part at least of that examination shall be written."

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(4) in Article 8, paragraph 3 is added:

‘3. In order for the statutory auditor to also be approved to carry out assurance engagements of sustainability reporting, it shall also cover at least the following subjects:

- a) legal requirements and reporting standards relating to the preparation of annual and consolidated sustainability reporting;*
- b) sustainability analysis;*
- c) due diligence processes with regard to sustainability matters;*
- d) legal requirements and assurance standards for sustainability reporting as referred to in Article 26(a);’*

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(5) in Article 10, paragraph 1, the following subparagraph is added:

‘In order for the statutory auditor or the trainee to also be approved to carry out assurance engagements of sustainability reporting, at least eight months of such practical training shall be in the assurance of annual and consolidated sustainability reporting or other sustainability related services.’

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(6a) Article 12 is replaced by the following:

"Article 12

Combination of practical training and theoretical instruction

1. *Member States may provide that periods of theoretical instruction in the fields referred to in Article 8, paragraphs 1 and 2, shall count towards the periods of professional activity referred to in Article 11, provided that such instruction is attested by an examination recognised by the State. Such instruction shall not last less than one year, nor may it reduce the period of professional activity by more than four years.*
2. *The period of professional activity and practical training shall not be shorter than the course of theoretical instruction together with the practical training required in Article 10(1), first subparagraph.'*

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- (7) *in Article 14, paragraph 2, the following subparagraph is added:*

'In order for the statutory auditor to also be approved to carry out assurance engagements of sustainability reporting, the aptitude test referred to in the first subparagraph shall cover the statutory auditor's adequate knowledge of the laws and regulations of that host Member State in so far as it is relevant to the assurance of sustainability reporting.'

- (8) the following Article 14a is inserted:

‘Article 14a

█ Statutory auditors approved or recognised before 1 January █ 2024 and persons undergoing the approval process for statutory auditors on 1 January 2024

Member States shall ensure that statutory auditors that are approved or recognised to carry out statutory audits before 1 January █ 2024 are not subject to the requirements of Articles █ 7(2), 8(3), 10(1) *second subparagraph* and 14(2), *fourth subparagraph* of this Directive.

Member States shall ensure that persons that are undergoing the approval process foreseen in Articles 6 to 14 on 1 January 2024, are not subject to the requirements of Articles 7(2), 8(3), 10(1), second subparagraph and 14(2), fourth subparagraph of this Directive, provided they finish the process by 1 January 2026.

Member States shall ensure that statutory auditors approved before 1 January █ 2026 *who want to carry out assurance engagements of sustainability reporting*, acquire the necessary knowledge *of sustainability reporting* and the assurance of sustainability reporting, *including of the subjects listed in Article 8(3)*, via the continuing education requirement of Article 13.’

(8a) Article 16 is amended as follows:

(a) in subparagraph 1, the following point (bb) is inserted:

"(bb) whether the statutory auditor is also approved for carrying out the assurance of sustainability reporting."

(b) in subparagraph 1, point (c) is replaced by the following:

"(c) all other registration(s) as statutory auditor with the competent authorities of other Member States and as auditor with third countries, including the name(s) of the registration authority(ies), and, if applicable, the registration number(s), and an indication of whether the registration concerns the financial audit, the assurance of sustainability reporting, or both."

(c) *in paragraph 2, the following subparagraph is added:*

"The register shall indicate whether such third-country auditors are registered for carrying out the financial audit, the assurance of sustainability reporting, or both."

(8b) *Article 17 is amended as follows:*

(a) *In paragraph 1, subparagraphs (e) and (i) are replaced by the following :*

"(e) name and registration number of all statutory auditors employed by, or associated as partners or otherwise with, the audit firm, and an indication of whether they are also approved for carrying out the assurance of sustainability reporting;'

'(i) all other registration(s) as audit firm with the competent authorities of other Member States and as audit entity with third countries, including the name(s) of the registration authority(ies), and, if applicable, the registration number(s), and an indication of whether the registration concerns the financial audit, the assurance of sustainability reporting, or both.'

(b) *in paragraph 2, the following subparagraph is added:*

"The register shall indicate whether such third-country audit entities are registered for carrying out the financial audit, the assurance of sustainability reporting, or both."

(9) Article 24b is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. Member States shall ensure that, when the statutory audit **■** is carried out by an audit firm, that audit firm designates at least one key audit partner. The audit firm shall provide the key audit partner(s) with sufficient resources and with personnel that have the necessary competence and capabilities to carry out his, her or its duties appropriately.

Member States shall ensure that, when the assurance of sustainability reporting is carried out by an audit firm, that audit firm designates at least one key sustainability partner, who can be (one of) the key audit partner(s). The audit firm shall provide the key sustainability partner(s) with sufficient resources and with personnel that have the necessary competence and capabilities to carry out his, her or its duties appropriately.

Securing audit quality, independence and competence shall be the main criteria when the audit firm selects the key audit partner(s) **and, where applicable, the key sustainability partner(s)** to be designated. The key audit partner(s) shall be actively involved in the carrying-out of the statutory audit. **The key sustainability partner shall be actively involved in the carrying-out of **■**** the assurance of sustainability reporting.’

(b) the following paragraph 2a is inserted:

‘2a. When carrying out the assurance of sustainability reporting, the statutory auditor shall devote sufficient time to the engagement and shall assign sufficient resources to enable him or her to carry out his or her duties appropriately.’

(c) in paragraph 4, *points (b) and (c) are* replaced by the following:

‘(b) in the case of an audit firm, the name(s) of the key audit partner(s) and, where applicable, the name(s) of the key sustainability partner(s);

(c) the fees charged for the statutory audit, for the assurance of sustainability reporting and the fees charged for other services in any financial year.’

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(e) the following paragraph 5a is added:

"5a. A statutory auditor or an audit firm shall create an assurance file for each assurance engagement of sustainability reporting.

The statutory auditor or the audit firm shall document at least the data recorded pursuant to Article 22b as regards the assurance of sustainability reporting.

The statutory auditor or the audit firm shall retain any data and documents that are of importance in support of the report referred to in Article 28a of this Directive and for monitoring compliance with this Directive and other applicable legal requirements as regards the assurance of sustainability reporting.

The assurance file shall be closed no later than 60 days after the date of signature of the assurance report referred to in Article 28a of this Directive;

Where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, the assurance file may be included in the audit file;"

(f) *paragraph 6 is replaced by the following:*

"The statutory auditor or the audit firm shall keep records of any complaints made in writing about the performance of the statutory audits and the assurance engagements of sustainability reporting carried out."

(10) Article 25 is replaced by the following:

‘Article 25

Audit *and assurance* fees

Member States shall ensure that adequate rules are in place which provide that fees for statutory audits and the assurance of sustainability reporting:

- (a) are not influenced or determined by the provision of additional services to the *entity being subject to statutory audit or assurance of sustainability reporting*;
- (b) cannot be based on any form of contingency.’

(11) the following Article 25b is inserted:

‘Article 25b

Professional Ethics, Independence, Objectivity, Confidentiality and Professional Secrecy as regards the assurance of sustainability reporting

The requirements of Articles 21 to 24a as regards the statutory audit of financial statements shall apply *mutatis mutandis* to the assurance of sustainability reporting.’

(11a) *the following Article 25c is inserted:*

"Article 25c

Prohibited non-audit services where the statutory auditor carries out the assurance of sustainability reporting of a public-interest entity

1. *A statutory auditor or an audit firm carrying out the assurance of sustainability reporting of a public-interest entity, or any member of the network to which the statutory auditor or the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union the services referred to in Article 5(1), second subparagraph, points (b), (c), (e), (f), (g), (h), (i), (j) and (k) of Regulation (EU) No 537/2014 in:*
 - (a) *the period between the beginning of the period subject to assurance of sustainability reporting and the issuing of the assurance report; and*
 - (b) *the financial year immediately preceding the period referred to in point (a) in relation to the services referred to in Article 5(1), second subparagraph, point (e) of Regulation (EU) No 537/2014.*

2. *A statutory auditor or an audit firm carrying out assurance engagements of sustainability reporting of public-interest entities and, where the statutory auditor or the audit firm belongs to a network, any member of such network, may provide to the entity subject to assurance of sustainability reporting, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in paragraph 1, or if applicable, referred to in Article 5 (1) or (2) of Regulation (EU) No 537/2014, subject to the approval of the audit committee after it has properly assessed threats of independence and the safeguards applied in accordance with Article 22b of this Directive.*

3. *When a member of a network to which the statutory auditor or the audit firm carrying out an assurance engagement of sustainability reporting of a public-interest entity belongs provides the non-audit services referred to in paragraph 1 of this Article, to an undertaking incorporated in a third country which is controlled by the public-interest entity subject to assurance of sustainability reporting, the statutory auditor or the audit firm concerned shall assess whether his, her or its independence would be compromised by such provision of services by the member of the network.*

If his, her or its independence is affected, the statutory auditor or the audit firm shall apply safeguards where applicable in order to mitigate the threats caused by such provision of services in a third country. The statutory auditor or the audit firm may continue to carry out the assurance of sustainability reporting of the public-interest entity only if he, she or it can justify, in accordance with Article 22b of this Directive, that such provision of services does not affect his, her or its professional judgement and the assurance report."

(11b) *the following Article 25d is inserted:*

"Article 25d

Irregularities

Article 7 of Regulation (EU) No 537/2014 shall apply mutatis mutandis to a statutory auditor or an audit firm carrying out assurance engagements of sustainability reporting of a public-interest entity."

(12) the following Article 26a is inserted:

"Article 26a

Assurance standards for sustainability reporting

1. Member States shall require statutory auditors and audit firms to carry out the assurance of sustainability reporting in compliance with assurance standards adopted by the Commission in accordance with paragraph 3. ■
2. Member States ■ *may* apply national assurance standards, procedures or requirements as long as the Commission has not adopted an assurance standard covering the same subject-matter.

Member States shall communicate the assurance procedures or requirements to the Commission at least three months before their entry into force.

3. The Commission shall be empowered to adopt, by means of delegated acts in accordance with Article 48a, *limited* assurance standards ***before 1 October 2026*** ■ in order to set out the procedures that the auditor shall perform in order to draw its conclusions on the assurance of sustainability reporting, including engagement planning, risk consideration and response to risks and type of conclusions to be included in the audit report. ■

The Commission shall adopt assurance standards for reasonable assurance no later than 1 October 2028, following an assessment to determine if reasonable assurance is feasible for auditors and for undertakings. Taking into account the results of this assessment and if appropriate, the delegated act shall specify when the opinion referred to in Article 34(1), second subparagraph, point (aa) shall be based on a reasonable assurance engagement based on these assurance standards.

The Commission may adopt the assurance standards only where they:

- (a) have been developed with proper due process, public oversight and transparency;
- (b) contribute a high level of credibility and quality to the annual or consolidated sustainability reporting;
- (c) are conducive to the Union public good.’
- (d) ***do not amend any of the requirements of this Directive or supplement any of its requirements apart from those set out in Articles 25b, 27a and 28a.***

(13) the following Article 27a is inserted:

‘Article 27a

Assurance of consolidated sustainability reporting

1. *Member States shall ensure that in the case of an assurance engagement of consolidated sustainability reporting of a group of undertakings:*

- (a) *in relation to the consolidated sustainability reporting, the group auditor bears the full responsibility for the assurance report referred to in Article 28a of this Directive;***
- (b) *the group auditor evaluates the assurance work performed by any independent assurance services provider(s) or third-country auditor(s) or statutory auditor(s) or third-country audit entity(ies), or audit firm(s) for the purpose of assurance engagement of consolidated sustainability reporting and documents the nature, timing and extent of the work performed by those auditors, including, where applicable, the group auditor's review of relevant parts of those auditors' assurance documentation;***
- (c) *the group auditor reviews the assurance work performed by independent assurance services provider(s), third-country auditor(s) or statutory auditor(s) and third-country audit entity(ies) or audit firm(s) for the purpose of the assurance engagement of consolidated sustainability reporting and documents it.***

The documentation retained by the group auditor shall be such as to enable the relevant competent authority to review the work of the group auditor.

For the purposes of point (c) of the first subparagraph of this paragraph, the group auditor shall request the agreement of the independent assurance services provider(s), third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) concerned to the transfer of relevant documentation during the conduct of the assurance engagement of consolidated sustainability reporting, as a condition of the reliance by the group auditor on the work of those independent assurance services provider(s), third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s).

2. *Where the group auditor is unable to comply with point (c) of the first subparagraph of paragraph 1, he, she or it shall take appropriate measures and inform the relevant competent authority.*

Such measures shall, as appropriate, include carrying out additional assurance work, either directly or by outsourcing such tasks, in the relevant subsidiary.

3. *Where the group auditor is subject to a quality assurance review or an investigation concerning the assurance engagement of consolidated sustainability reporting of a group of undertakings, the group auditor shall, when requested, make available to the competent authority the relevant documentation he, she or it retains concerning the assurance work performed by the respective independent assurance services provider(s), third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) for the purpose of the assurance engagement of consolidated sustainability reporting, including any working papers relevant to the assurance engagement of consolidated sustainability reporting.*

The competent authority may request additional documentation on the assurance work performed by any statutory auditor(s) or audit firm(s) for the purpose of the assurance engagement of consolidated sustainability reporting from the relevant competent authorities pursuant to Article 36.

Where the assurance of sustainability reporting of a parent undertaking or a subsidiary undertaking of a group of undertakings is carried out by an auditor or auditor(s) or an audit entity(ies) from a third country, the competent authority may request additional documentation on the assurance work performed by any third-country auditor(s) or third country audit entity(ies) from the relevant competent authorities from third countries through the working arrangement.

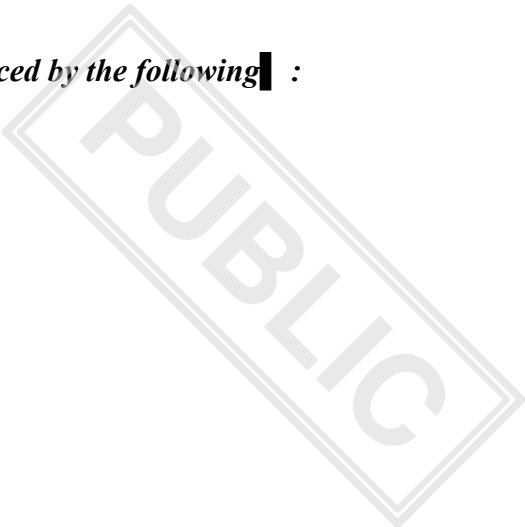
By way of derogation from the third subparagraph, where an independent assurance services provider, an auditor or auditors or an audit entity or entities from a third country that have no working arrangements, carried out the assurance of sustainability reporting of a parent undertaking or a subsidiary undertaking of a group of undertakings, the group auditor shall, when requested, also be responsible for ensuring proper delivery of the additional documentation of the assurance work performed by such independent assurance services provider(s), third-country auditor(s) or audit entity(ies), including the working papers relevant to the assurance engagement of consolidated sustainability reporting. In order to ensure such delivery, the group auditor shall retain a copy of such documentation, or alternatively agree with the independent assurance services provider(s), third-country auditor(s) or audit entity(ies) that he, she or it is to be given unrestricted access to such documentation upon request, or take any other appropriate action. Where assurance working papers cannot, for legal or other reasons, be passed from a third country to the group auditor, the documentation retained by the group auditor shall include evidence that he or she has undertaken the appropriate procedures in order to gain access to the audit documentation, and in the case of impediments other than legal ones arising from the legislation of the third country concerned, evidence supporting the existence of such impediments.’;

(14) In Article 28, paragraph 2, point (e) is replaced by the following :

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█ ‘e) include *an opinion* and statement, *both of* which shall be based on the work undertaken in the course of the audit, referred to in *Article 34(1)*, second subparagraph, *points (a) and (b)* of Directive 2013/34/EU █ ‘

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(14a) The following Article 28a is added:

‘Article 28a

Assurance report on sustainability reporting

- 1. *The statutory auditor(s) or the audit firm(s) shall present the results of the assurance of sustainability reporting in an assurance report on sustainability reporting. The report shall be prepared in accordance with the requirements of assurance standards adopted by the Commission or by Member States until the Commission adopts the assurance standards referred to in Article 26a.***
- 2. *The assurance report on sustainability reporting shall be in writing and shall:***
 - (a) identify the entity whose annual or consolidated sustainability reporting are the subject of the assurance engagement;***
 - (b) specify the annual or consolidated sustainability reporting and the date and period they cover; and identify the sustainability reporting framework that has been applied in their preparation;***
 - (c) include a description of the scope of the assurance of sustainability reporting which shall, as a minimum, identify the assurance standards in accordance with which the assurance of sustainability reporting was conducted;***
 - (d) include the opinion based on the work undertaken in the course of the assurance of sustainability reporting referred to in Article 34a(1), second subparagraph, point (aa) of Directive 2013/34/EU.***

3. *Where the assurance on sustainability reporting was carried out by more than one statutory auditor or audit firm, the statutory auditor(s) or the audit firm(s) shall agree on the results of the assurance engagement on sustainability reporting and submit a joint report and opinion. In the case of disagreement, each statutory auditor or audit firm shall submit his, her or its opinion in a separate paragraph of the assurance report on sustainability reporting and shall state the reason for the disagreement.*
4. *The assurance report on sustainability reporting shall be signed and dated by the statutory auditor. Where an audit firm carries out the assurance of sustainability reporting, the assurance report on sustainability reporting shall bear the signature of at least the statutory auditor(s) carrying out the assurance of sustainability reporting on behalf of the audit firm. Where more than one statutory auditor or audit firm have been simultaneously engaged, the assurance report on sustainability reporting shall be signed by all statutory auditors or at least by the statutory auditors carrying out the assurance of sustainability reporting on behalf of every audit firm. In exceptional circumstances Member States may provide that such signature(s) need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person. In any event, the name(s) of the person(s) involved shall be known to the relevant competent authorities.*
5. *Member States may require that, where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, the assurance report may be included as a separate section of the audit report.*

6. *The report of the statutory auditor or the audit firm on the consolidated sustainability reporting shall comply with the requirements set out in paragraphs 1 to 5."*

(15) Article 29 is amended as follows:

(a) in paragraph 1, point (d) is replaced by the following:

‘(d) the persons who carry out quality assurance reviews shall have appropriate professional education and relevant experience in statutory audit and financial reporting and, *where applicable*, in the assurance of sustainability reporting and sustainability reporting *or other sustainability related services* combined with specific training on quality assurance reviews;’

(aa) *in paragraph 1, point (f) is replaced by the following:*

‘(f) the scope of the quality assurance review, supported by adequate testing of selected audit files and, where applicable assurance files, shall include an assessment of compliance with applicable auditing standards and, where applicable, assurance standards and independence requirements, of the quantity and quality of resources spent, of the audit fees and fees charged for the assurance of sustainability reporting charged and of the internal quality control system of the audit firm;’

(b) in paragraph 1, point (h) is replaced by the following:

‘(h) quality assurance reviews shall take place on the basis of an analysis of the risk and, in the case of statutory auditors and audit firms carrying out statutory audits as defined in Article 2, point (1)(a), and, where applicable, carrying out assurance engagements of sustainability reporting, at least every six years;’

(c) in paragraph 2, point (a) is **replaced** by the following:

‘(a) reviewers shall have appropriate professional education and relevant experience in statutory audit and financial reporting and, **where applicable**, in the assurance of sustainability reporting and sustainability reporting combined with specific training on quality assurance reviews;’

(d) **the following paragraph 2a is inserted:**

"2a. Member States may exempt, until 31 December 2025, the persons who carry out quality assurance reviews relating to the assurance of sustainability reporting from the requirement to have relevant experience in the assurance of sustainability reporting and sustainability reporting or other sustainability related services."

(15a) in Article 30, paragraphs 1 and 2 are replaced by the following:

1. Member States shall ensure that there are effective systems of investigations and sanctions to detect, correct and prevent inadequate execution of the statutory audit and the assurance of sustainability reporting.

2. Without prejudice to Member States' civil liability regimes, Member States shall provide for effective, proportionate and dissuasive sanctions in respect of statutory auditors and audit firms, where statutory audits and assurance engagements of sustainability reporting are not carried out in conformity with the provisions adopted in the implementation of this Directive, and, where applicable, Regulation (EU) No 537/2014.

Member States may decide not to lay down rules for administrative sanctions for infringements which are already subject to national criminal law. In that event, they shall communicate to the Commission the relevant criminal law provisions."

(15aa) in Article 30a, paragraph 1, the following point (cc) is inserted:

"(cc) a temporary prohibition, of up to three years' duration, banning the statutory auditor, the audit firm or the key sustainability partner from carrying out the assurance of sustainability reporting and/or signing assurance reports."

(15b) in Article 30a, paragraph 1, the following point (dd) is inserted:

"(dd) a declaration that the assurance report does not meet the requirements of Article 28a of this Directive;"

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(16a) Article 32 is amendment as follows:

"(a) in paragraph 3, subparagraph 1 is replaced by the following:

3. The competent authority shall be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit, and where applicable, to the assurance of sustainability reporting. They shall be selected in accordance with an independent and transparent nomination procedure.'

(b) in paragraph 4, point b is replaced by the following:

(b) the adoption of standards on professional ethics, internal quality control of audit firms, auditing and the assurance of sustainability reporting, except where those standards are adopted or approved by other Member State authorities;"

(17) the following Article 36(a) is inserted:

‘Article 36a

■ Regulatory Arrangements between Member States as regards the assurance of sustainability reporting

The requirements of Articles ■ 34 and 36 as regards the statutory audit of financial statements shall apply *mutatis mutandis*■ to the assurance of sustainability reporting.’

(17a) *In Article 37, paragraph 1, the following second subparagraph is inserted:*

‘The provisions of the first subparagraph shall apply to the appointment of the statutory auditor or audit firm for the purpose of the assurance of sustainability reporting.’

(17b) *In Article 37, paragraph 2, the following second subparagraph is inserted:*

‘The provisions of the first subparagraph shall apply to the appointment of the statutory auditor or audit firm for the purpose of the assurance of sustainability reporting.’”

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(18a) *in Article 37, paragraph 3 is replaced by the following:*

"3. *Any contractual clause restricting the choice by the general meeting of shareholders or members of the audited entity pursuant to paragraph 1 to certain categories or lists of statutory auditors or audit firms as regards the appointment of a particular statutory auditor or audit firm to carry out the statutory audit and, where applicable, the assurance of sustainability reporting of that entity shall be prohibited. Any such existing clauses shall be null and void.'*

Member States shall ensure that shareholders of large undertakings subject to Articles 19a and 29a, except undertakings referred to in Article 2, point (1), letter (a) of Directive 2013/34/EU, and which represent more than 5% of the voting rights or 5% of the capital of the undertaking, acting individually or collectively, have the right to put as an item on the agenda of the general meeting the requirement that (i) an accredited third party that does not belong to the same audit firm or network than the statutory auditor or audit firm carrying out the statutory audit prepares a report on some elements of the sustainability reporting and (ii) such report is made available to the shareholders general meeting.

(18b) *in Article 38, paragraph 1 is replaced by the following:*

"1. *Member States shall ensure that statutory auditors or audit firms may be dismissed only where there are proper grounds. Divergence of opinions on accounting treatments, audit procedures or where applicable on sustainability reporting or assurance procedures shall not be proper grounds for dismissal.*

"

(18c) *In Article 38, paragraph 2, the following second subparagraph is inserted:*

‘The information obligation referred to in the first subparagraph shall also apply to the assurance engagement of sustainability reporting.’

(18d) *In Article 38, paragraph 3, the following third subparagraph is inserted:*

‘Subparagraphs 1 and 2 shall also apply to the assurance engagement of sustainability reporting.’

(19) *Article 39 is amended as follows:*

"(a) the following paragraph 4a is added:

‘4a. Member States may allow the functions assigned to the audit committee relating to sustainability reporting and the assurance of sustainability reporting to be performed by the administrative or supervisory body as a whole or by a dedicated body established by the administrative or supervisory body.’

(b) in **paragraph 6**, points (a) to (e) are replaced by the following:

"(a) inform the administrative or supervisory body of the audited entity of the outcome of the statutory audit and, *where applicable*, of the outcome of the assurance of sustainability reporting and explain how the statutory audit and the assurance of sustainability reporting contributed to the integrity of financial and sustainability reporting *respectively*, and what the role of the audit committee was in that process;

(b) monitor the financial and, *where applicable*, sustainability reporting process, including the digital reporting process referred to in Article **29d of Directive 2013/34/EU** and the process carried out by the undertaking to identify the information reported according to the standards adopted pursuant to Article **29b** of Directive 2013/34/EU, and submit recommendations or proposals to ensure its integrity;

- (c) monitor the effectiveness of the undertaking's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial and, *where applicable*, sustainability reporting of the audited entity, including its digital reporting as referred to in Article 29d of Directive 2013/34/EU, without breaching its independence;
- (d) monitor the statutory audit of the annual and consolidated financial statements and, *where applicable*, the assurance of the annual and consolidated sustainability reporting, in particular, its performance, taking into account any findings and conclusions by the competent authority pursuant to Article 26(6) of Regulation (EU) No 537/2014;
- (e) review and monitor the independence of the statutory auditors or the audit firms in accordance with Articles 22, 22a, 22b, 24a, 24b and 25b, 25c and 25d of this Directive and *with* Article 6 of Regulation (EU) No 537/2014, and in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of that Regulation ;"

(20) Article 45 is amended as follows:

- (a) paragraph 1 is replaced by the following:

‘1. The competent authorities of a Member State shall, in accordance with Articles 15, 16 and 17, register every third-country auditor and audit entity, where that third-country auditor or audit entity provides an audit report concerning the annual or consolidated financial statements, *or*, where applicable, *an assurance report* concerning annual or consolidated sustainability reporting of an undertaking incorporated outside the Union whose transferable securities are admitted to trading on a regulated market of that Member State within the meaning of Article 4(1), point (14), of Directive 2004/39/EC, except where the undertaking in question exclusively issues outstanding debt securities for which one of the following applies:

- (a) those securities have been admitted to trading on a regulated market in a Member State within the meaning of Article 2(1), point (c), of Directive 2004/109/EC of the European Parliament and of the Council⁵⁹ prior to 31 December 2010 and the denomination per unit of which is, at the date of issue, at least EUR 50 000 or, in the case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 50 000;
- (b) those securities are admitted to trading on a regulated market in a Member State within the meaning of Article 2(1), point (c), of Directive 2004/109/EC from 31 December 2010 and the denomination per unit of which is, at the date of issue, at least EUR 100 000 or, in case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 100 000.⁶

(aa) paragraph 4 is replaced by the following:

"4. Without prejudice to Article 46, audit reports concerning annual accounts or consolidated accounts or, where applicable, the assurance reports concerning annual or consolidated sustainability reporting referred to in paragraph 1 of this Article issued by third-country auditors or audit entities that are not registered in the Member State shall have no legal effect in that Member State."

(b) ■ paragraph 5 ■ *is replaced by the following:*

■ ■

⁵⁹ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38).⁶

‘5. A Member State may register a third-country audit entity for the purpose of the audit of financial statements only if:

- (a) the majority of the members of the administrative or management body of the third-country audit entity meet requirements which are equivalent to those laid down in Articles 4 to 10, with the exception of Articles 7(2), 8(3), 10(1) second subparagraph;*
- (b) the third-country auditor carrying out the audit on behalf of the third-country audit entity meets requirements which are equivalent to those laid down in Articles 4 to 10, with the exception of Articles 7(2), 8(3), 10(1) second subparagraph;*
- (c) the audits of the annual or consolidated financial statements referred to in paragraph 1 are carried out in accordance with international auditing standards as referred to in Article 26, as well as the requirements laid down in Articles 22, 22b and 25, or with equivalent standards and requirements;*
- (d) it publishes on its website an annual transparency report which includes the information referred to in Article 13 of Regulation (EU) No 537/2014 or it complies with equivalent disclosure requirements.*

A Member State may register a third-country audit entity for the purpose of the assurance of sustainability reporting only if:

- (a) the majority of the members of the administrative or management body of the third-country audit entity meet requirements which are equivalent to those laid down in Articles 4 to 10;*

- (b) *the third-country auditor carrying out the audit on behalf of the third-country audit entity meets requirements which are equivalent to those laid down in Articles 4 to 10;*
- (c) *the assurance of the annual or consolidated sustainability reporting referred to in paragraph 1 are carried out in accordance with assurance standards as referred to in Article 26a, as well as the requirements laid down in Articles 22, 22b, 25 and 25b, or with equivalent standards and requirements;’;*
- (d) *it publishes on its website an annual transparency report which includes the information referred to in Article 13 of Regulation (EU) No 537/2014 or it complies with equivalent disclosure requirements.’*

(c) paragraph 5a is replaced by the following:

‘5a. A Member State may register a third-country auditor *for the purpose of the audit of financial statements* only if he or she meets the requirements set out in *points (b), (c) and (d) of paragraph 5, first subparagraph of this Article.*

A Member State may register a third-country auditor for the purpose of the assurance for sustainability reporting only if he or she meets the requirements set out in points (b), (c) and (d) of paragraph 5, second subparagraph of this Article.

(ca) paragraph 6 is replaced by the following:

"6. In order to ensure uniform conditions of application of point (d), first subparagraph and point (d) second subparagraph of paragraph 5 of this Article, the Commission shall be empowered to decide upon the equivalence referred to therein by means of implementing acts. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 48(2). Member States may assess the equivalence referred to in point (d), first subparagraph and point (d), second subparagraph of paragraph 5 of this Article as long as the Commission has not taken any such decision.

The Commission shall be empowered to adopt delegated acts in accordance with Article 48a for the purpose of establishing the general equivalence criteria to be used in assessing whether the audits of the financial statements and, where applicable, the assurance of sustainability reporting referred to in paragraph 1 of this Article are carried out in accordance with international auditing standards as referred to in Article 26 and with assurance standards as referred to in Article 26a, respectively, and with the requirements laid down in Articles 22, 24 and 25. Such criteria, which are applicable to all third countries, shall be used by Member States when assessing equivalence at national level.'"

(21) Article 48a is amended as follows:

(a) in paragraph 2 the following subparagraph is added:

‘The power to adopt delegated acts referred to in Article 26a(2) shall be conferred on the Commission for an indeterminate period of time.;

(b) paragraph 3 is replaced by the following:

‘3. The delegation of power referred to in Articles 26(3), 26a(2), 45(6), 46(2) and 47(3) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.’

(c) paragraph 5 is replaced by the following:

‘5. A delegated act adopted pursuant to Articles 26(3), 26a(2), 45(6), 46(2) and 47(3) shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of four months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.

Article 4


Amendments to Regulation (EU) No 537/2014

Regulation (EU) No 537/2014 is amended as follows:

(1-a) Article 4 paragraph 2, second subparagraph is replaced by the following:

"For the purposes of the limits specified in the first subparagraph, assurance engagements of sustainability reporting and non-audit services, other than those referred to in Article 5(1), required by Union or national legislation, shall be excluded."

(1) Article 5 is amended as follows:

(a) paragraph 1, second subparagraph, point (c) is replaced by the following  **:**

'(c) bookkeeping and preparing accounting records and financial statements as well as preparing sustainability reporting;'

(b) in paragraph 4, the following second subparagraph is inserted:

'The approval of the audit committee referred to in the first subparagraph shall not be needed for the provision of assurance engagements of sustainability reporting.'

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Article 5

Transposition

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with Articles 1 to 3 of this Directive by █ *[Publications Office - set the date = eighteen months after entry into force]*. They shall immediately inform the Commission thereof.

Member States shall provide that the provisions *of Article 1* referred to in the first subparagraph shall apply █ :

- (a) *for financial years starting on or after 1 January 2024:*
 - (i) *to large undertakings as defined in Article 3(4) of Directive 2013/34/EU which are public-interest entities as defined in Article 2, point (1) of that Directive exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year;*
 - (ii) *to public-interest entities as defined in Article 2, point (1) of Directive 2013/34/EU which are parent undertakings of a large group as defined in Article 3(7) of Directive 2013/34/EU exceeding on its balance sheet dates, on a consolidated basis, the criterion of the average number of 500 employees during the financial year;*

- (b) *for financial years starting on or after 1 January 2025:*
- (i) *to large undertakings as defined in Article 3(4) of Directive 2013/34/EU other than those referred to in point (a), point (i);*
 - (ii) *to parent undertakings of a large group as defined in Article 3(7) of Directive 2013/34/EU other than those referred to in point (a), point (ii);*
- (c) *for financial years starting on or after 1 January 2026:*
- (i) *to small and medium-sized undertakings as defined in Article 3(2) and 3(3) of Directive 2013/34/EU which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive;*
 - (ii) *to small and non-complex institutions provided they are large undertakings referred to in Article 3 point (4) of Directive 2013/34/EU or that they are small and medium sized undertakings as defined in Article 3(2) and 3(3) which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive;*
 - (iii) *to captive insurance undertakings and captive reinsurance undertakings provided that they are large undertakings referred to in Article 3 point (4) of Directive 2013/34/EU or that they are small and medium sized undertakings as defined in Article 3(2) and 3(3) which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive.*

Member States shall provide that the provisions of Article 2 referred to in the first subparagraph shall apply:

- (a) for financial years starting on or after 1 January 2024:
 - (i) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are large undertakings as defined in Article 3(4) of Directive 2013/34/EU exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year;*
 - (ii) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are parent undertakings of a large group as defined in Article 3(7) of Directive 2013/34/EU exceeding on its balance sheet dates, on a consolidated basis, the criterion of the average number of 500 employees during the financial year;**
- (b) for financial years starting on or after 1 January 2025:
 - (i) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are large undertakings as defined in Article 3(4) of Directive 2013/34/EU other than those referred to in point (a), point (i);*
 - (ii) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are parent undertakings of a large group as defined in Article 3(7) of Directive 2013/34/EU other than those referred to in point (a), point (ii);**
- (c) for financial years starting on or after 1 January 2026:
 - (i) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are small and medium-sized undertakings as defined in Article 3(2) and 3(3) of Directive 2013/34/EU and which are not micro-undertakings as defined in Article 3 (1) of that Directive;*
 - (ii) to issuers defined as small and non-complex institutions provided they are large undertakings referred to in Article 3 point (4) of Directive 2013/34/EU or that they are small and medium sized undertakings as defined in Article 3(2) and 3(3) which are undertakings referred to in Article 2,**

point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive;

(iii) to issuers defined as captive insurance undertakings or captive reinsurance undertakings provided that they are large undertakings referred to in Article 3 point (4) of Directive 2013/34/EU or that they are small and medium sized undertakings as defined in Article 3(2) and 3(3) which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive.

Member States shall provide that the provisions of Article 3 referred to in the first subparagraph shall apply for financial years starting on or after 1 January 2024.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. The methods of making such reference shall be laid down by Member States.

Member States shall provide that the provisions of paragraphs (10a) and (10b) of Article 1 of this Directive apply to financial years starting on 1 January 2028.

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By derogation to Article 5, reporting requirements laid down in the delegated acts referred to in Articles 29b and 29c shall not enter into force earlier than four months after their adoption by the Commission.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. The methods of making such reference shall be laid down by Member States.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

Article 5 a

Review and report

1. *The Commission shall submit a report to the European Parliament and to the Council on the implementation of this Directive, including, among other aspects:*

- an assessment of the achievement of the goals of this Directive, including the convergence of reporting practices between Member States;*
- an assessment of the number of SMEs using voluntary reporting standards referred to in Article 29c;*
- an assessment of whether and how the scope should be further extended, in particular in relation to SMEs and to third-country undertakings operating directly on the EU Single Market without a European subsidiary or a European branch;*
 - an assessment of the implementation of the reporting requirements on branches and subsidiaries of third country undertakings introduced by this directive, including an assessment of the number of third country undertakings which have a subsidiary or a branch reporting according to Article 40a; an assessment of the enforcement mechanism and of the thresholds set out in that Article;*
 - an assessment of whether and how to ensure the accessibility for people with disabilities to the sustainability reports published by undertakings under the scope of this Directive.*

The report shall be published by 30 April 2029 and every three years thereafter, and shall be accompanied, if appropriate, by legislative proposals

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2. *By December 2028, the Commission shall review and report on the level of concentration of the sustainability assurance market. The review shall take into account the national regimes applicable to independent assurance services providers and assess whether and to what extent these national regimes contribute to opening the assurance market.*

By December 2028, the Commission shall assess possible legal measures to ensure sufficient diversification of the sustainability assurance market and appropriate sustainability reporting quality. The Commission shall review measures of paragraph X of Article 34 [paragraph to be determined] and assess the need to extend them to other large undertakings.

The report shall be transmitted to the European Parliament and the Council by December 2028 and be accompanied, if appropriate, by legislative proposals.

Article 6

Date of application of Article 4

Article 4 of this Directive shall apply to financial years starting on or after 1 January **2024**.

Article 7

Entry into force

This Directive shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

Article 8

Addressees

This Directive is addressed to the Member States. Article 4 shall, however, be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President