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From:	General Secretariat of the Council
To:	Working Party on Company Law (Sustainability information)
Subject:	Presentation by the Commission on the Proposal for a Corporate Sustainability Reporting Directive - Powerpoint presentation (WP 16.09.2021)



Proposal for a Corporate Sustainability Reporting Directive

Council WG

16 September 2021

Legal structure

CSRD = amending Directive

- Articles 5, 6, 7 and 8



- Accounting Directive (Article 1)
- Transparency Directive (Article 2)
- Audit Directive (Article 3)
- Audit Regulation (Article 4)

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- ❑ Sustainability reporting, remaining aspects (Article 1) – paragraph 3 (Article 19a(4), (5) and (6) of the Accounting Directive)
- ❑ Publication requirement (Article 1) – paragraph 8 (Article 30 of the Accounting Directive)
- ❑ Assurance requirement (Article 1) - paragraph 10 (Article 34 of the Accounting Directive)
- ❑ Subject matters and definitions (Article 3):
 - Paragraph 1 (Art. 1 of the Audit Directive)
 - Paragraph 2 (Art. 2 of the Audit Directive)
- ❑ Professional qualifications of statutory auditors (Article 3)
 - Paragraph 3 (Art. 6 and 7 of the Audit Directive)
 - Paragraph 4 (Art. 8 (1) of the Audit Directive)
 - Paragraph 5 (Art. 10 (1) of the Audit Directive)
 - Paragraph 6 (Art. 11, point (a) of the Audit Directive)
 - Paragraph 7 (Art. 14 (2) of the Audit Directive)
- ❑ Quality assurance systems - paragraph 15 (Art. 29 (1) point (d) and (h), (2) point (a) of the Audit Directive)
- ❑ Acquired rights of statutory auditors (Article 3)
 - Paragraph 8 (Art. 14 (a) of the Audit Directive)
- ❑ Organisation of the work - Article 3, paragraph 9 (Art. 24b (1), (2a), (4), (5) of the Audit Directive);
- ❑ Assurance standards for sustainability reporting - Article 3, paragraph 12 (Art. 26a of the Audit Directive),
- ❑ Exercise of delegation - Article 3, paragraph 21 (Art. 48a (2), (3), (5) of the Audit Directive);
- ❑ Assurance of consolidated sustainability reporting - paragraph 13 (Art. 27a of the Audit Directive);
- ❑ Audit reporting - Article 3, paragraph 14 (Art. 28 (1), (2), (3), (4) and (5) of the Audit Directive);
- ❑ Audit fees - Article 3, paragraph 10 (Art. 25 of the Audit Directive) and Article 4, paragraph 23 (Art. 14(b) of Regulation (EU) No 537/2014);
- ❑ Prohibition of the provision of non-audit services - Article 4, paragraph 22 (Art. 5(1) and (6) of the Audit Regulation).
- ❑ Professional Ethics, Independence, Objectivity, Confidentiality and Professional Secrecy as regards the assurance of sustainability reporting - Article 3, paragraph 11 (Art. 25b of the Audit Directive);
- ❑ Investigations and Sanctions as regards the Assurance of Sustainability Reporting - Article 3, paragraph 16 (Art. 30g of the Audit Directive);
- ❑ Public Oversight and Regulatory Arrangements between Member States as regards the assurance of sustainability reporting - Article 3, paragraph 17 (Art. 36a of the Audit Directive);
- ❑ Appointment and dismissal as regards the assurance of sustainability reporting - Article 3, paragraph 18 (Art. 38a of the Audit Directive);
- ❑ Audit committee - Article 3, paragraph 19 (Art. 39(6) of the Audit Directive);
- ❑ Registration and oversight of third-country auditors and audit entities- Article 3, paragraph 20 (Art. 45(1), (5) and (5a) of the Audit Directive);
- ❑ Other proposed provisions - Articles 5, 6, 7 and 8 of the CSRD

Sustainability reporting - Article 19a(4), (5) and (6) AD

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 3

(3) [...]

4. Undertakings shall report the information referred to in paragraphs 1 to 3 in accordance with the sustainability reporting standards referred to in Article 19b.

☐ Possibility for listed SMEs to report acc. to SME standards

5. By way of derogation from Article 19a, paragraphs 1 to 4, small and medium sized undertakings referred to in Article 2, point (1), point (a), may report in accordance with the sustainability reporting standards for small and medium sized undertakings referred to in Article 19c.

6. Undertakings that comply with the requirements set out in paragraphs 1 to 4 shall be deemed to have complied with the requirement set out in the third subparagraph of Article 19(1).

☐ Basic requirement of Article 19 remain, relevant only to companies not under scope of CSRD, but which prepare a management report.

Publication requirements - Article 30 AD

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 8

(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 19d 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 Chapter 3 of Directive (EU) 2017/1132 of the European Parliament and of the Council.’

‘Where an independent assurance services provider gives the opinion referred to in point (aa) of Article 34(1), this opinion shall be published together with the reports 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.’;

(b) the following paragraph 1a is inserted:

‘1a. Member States shall ensure that management reports containing sustainability reporting drawn up by undertakings subject to Articles 19a and 29a are also made available to the relevant officially appointed mechanism referred to in Article 21(2) of Directive 2004/109/EC without delay following their publication.

Where the undertaking drawing up the management report is not subject to Directive 2004/109/EC, the relevant officially appointed mechanism shall be one of the officially appointed mechanisms of the Member State where the undertaking has its registered office.’;

☐ MS shall ensure publication of the reports in the format prescribed by Article 19d, in accordance with Company Law Directive

☐ Publication of opinion of independent assurance services provider

☐ No possibility to exempt from publication of management report to CSRD companies

☐ Link with ESAP – single access point to information, via the interconnection of OAMs

Assurance requirement - Article 34 AD

➤ Recitals: 53-68

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraphs 2 and 10

(2) in Article 2, the following points (17) to (20) are added:

(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 Council for the specific conformity assessment activity referred to in Article 34(1), second subparagraph, point (aa) of this Directive.’

(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 19b, 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 19d, 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 an independent assurance services provider to express the opinion referred to in paragraph 1, second subparagraph, point (aa), provided that it is subject to requirements that are consistent with those set out in Directive 2006/43/EC as regards the assurance of sustainability reporting as defined in Article 2(1), point (r) of that Directive.’

To point out

Default - opinion provided by statutory auditor

Separate opinion required for the assurance of sustainability reporting

AD would read:

[...] The statutory auditor(s) or audit firm(s) shall also:

(a) express an opinion on:

(i) whether the management report is consistent with the financial statements for the same financial year, and

(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;;

‘(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 19b, 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 19d, and as regards the compliance with the reporting requirements of Article 8 of Regulation (EU) 2020/852.’;

(b) state whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements.

[...]

3. Member States may allow an independent assurance services provider to express the opinion referred to in paragraph 1, second subparagraph, point (aa), provided that it is subject to requirements that are consistent with those set out in Directive 2006/43/EC as regards the assurance of sustainability reporting as defined in Article 2(1), point (r) of that Directive.

Reasoning

- ❑ Default - opinion provided by statutory auditor
- ❑ Separate opinion required for the assurance of sustainability reporting
- ❑ Opinion based on a limited assurance engagement **
- ❑ If MS allow an independent assurance services provider to express the opinion – need to ensure that it is subject to requirements that are consistent with those set out in the (*future amended*) AuD, as regards the assurance of sustainability reporting.

– Expertise, connectivity with financial info

– Clarity about the requirements concerning assurance of sustainability reporting; allows that different third party than auditor provides opinion

– Proportionality, significant step forward compared to status quo; need development of assurance market – not clear how to go about certain elements (forward looking, qualitative..); availability of reporting and assurance standards

– Give MS possibility to open up market, but need to ensure consistent outcome of assurance engagements

** Link with new Article 26a AuD – transition to reasonable assurance if assurance standards for reasonable assurance adopted.

Articles 3 & 4 – Amendments to AuD and AuR - Reasoning

- ❑ Objective: extend framework that applies to statutory auditors carrying out the statutory audit (financial reporting) to their work on the assurance of sustainability reporting.
- ❑ Some articles due to their wording need no amendment – they are also relevant for the assurance of sustainability reporting (e.g. article 13 – continuing education)
- ❑ Independent assurance service provider, not subject to AuD & AuR
 - Conformity assessment body accredited in accordance with Regulation (EC) No 765/2008 for this specific conformity assessment activity.
 - MS need to ensure that it is subject to requirements that are consistent with those set out in the AuD.

Subject matter and definitions - Articles 1 and 2 AuD

Article 1 - Amendments to Directive 2006/43/EC(Audit Directive), paragraphs 1 and 2

(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, where this is performed by the statutory auditor or audit firm carrying out the statutory audit of financial statements.**’;

- ☐ Scope of directive: also establishment of rules concerning the assurance of sustainability reporting, when performed by statutory auditor.

(2) Article 2 is amended as follows:

(a) points 2 and 3 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 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 assurance engagements of sustainability reporting**;

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

‘21. ‘sustainability reporting’ means sustainability reporting as defined in Article 2, point (18), of Directive 2013/34/EU;

‘22. ‘assurance 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 .’;

- ☐ Necessary updates of definitions (in bold)
- ☐ Necessary new definitions

- ☐ Described with reference to the requirement, which is in the AD

Professional qualifications – Articles 6 and 7 AuD

Article 1 - Amendments to Directive 2006/43/EC(Audit Directive), paragraph 3

(3) Articles 6 and 7 are replaced by the following:

Article 6, Educational qualifications

Without prejudice to Article 11, a natural person may be approved to carry out a statutory audit **and an assurance engagement of sustainability reporting** 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.

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.

Article 7, Examination of professional competence

The examination of professional competence referred to in Article 6 shall guarantee the necessary level of theoretical knowledge of subjects relevant to statutory audit and assurance of sustainability reporting and the ability to apply such knowledge in practice. Part at least of that examination shall be written.';

- ☐ Amendments needed to ensure that statutory auditors have the necessary expertise in the assurance of sustainability reporting

Professional qualifications – Article 8(1) AuD

Article 1 - Amendments to Directive 2006/43/EC(Audit Directive), paragraph 4

(4) Article 8(1) is amended as follows:

☐ The AuD specifies that the **test of theoretical knowledge** included in the examination shall cover certain subjects - list. Subjects related to (the assurance of) sustainability reporting should be added

(a) the following point (bb) is inserted:

‘(bb) legal requirements and standards relating to the preparation of annual and consolidated sustainability reporting;’;

(b) the following point (cc) is inserted:

‘(cc) sustainability reporting standards;’;

(c) the following point (dd) is inserted:

‘(dd) sustainability analysis;’;

(d) the following point (ff) is inserted:

‘(ff) due diligence processes with regard to sustainability matters;’;

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

‘(ii) sustainability assurance standards as referred to in Article 26a;’;

(f) point (h) is replaced by the following:

‘(h) legal requirements and professional standards relating to statutory audit and assurance of sustainability reporting and statutory auditors;’;

Professional qualifications – Articles 10(1), 11(a) and 14(2) AuD

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Article 1 - Amendments to Directive 2006/43/EC(Audit Directive), paragraphs 5, 6 and 7

(5) in Article 10, paragraph 1 is replaced by the following:

‘1. In order to ensure the ability to apply theoretical knowledge in practice, a test of which is included in the examination, a trainee shall complete a minimum of three years' practical training in, inter alia, the auditing of annual financial statements, consolidated financial statements or similar financial statements **and the assurance of annual and consolidated sustainability reporting**. At least two thirds of such practical training shall be completed with a statutory auditor or an audit firm approved in any Member State.’;

Practical training in the assurance of sustainability reporting - required 3 years in total (in auditing of annual financial statements and in assurance of sustainability reporting, together)

(6) in Article 11, point (a) is replaced by the following:

‘(a) that he or she has, for 15 years, engaged in professional activities which have enabled him or her to acquire sufficient experience in the fields of finance, law and accountancy, **and sustainability reporting** and has passed the examination of professional competence referred to in Article 7, or’;

Qualification through long-term practical experience, also possible for the assurance of sustainability reporting.

No need to comply with Article 6 requirements on educational qualifications

(7) in Article 14, paragraph 2, third subparagraph is replaced by the following:

‘The aptitude test shall be conducted in one of the languages permitted by the language rules applicable in the host Member State concerned. It shall cover only the statutory auditor's adequate knowledge of the laws and regulations of that host Member State in so far as it is relevant to statutory audits **and assurance engagements of sustainability reporting**.’;

Approval of statutory auditors from another Member State

If host MS decides that statutory auditors approved in another MS need to take an aptitude test to be approved in host MS – test should also cover statutory auditor's adequate knowledge of the laws and regulations of that host Member State relevant to assurance engagements of sustainability reporting

Professional qualifications – Quality assurance systems – Article 29 AuD

Article 1 - Amendments to Directive 2006/43/EC(Audit Directive), paragraph 15

(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 in the assurance of sustainability reporting and sustainability reporting** combined with specific training on quality assurance reviews;’;

❑ **Reviewers** should have expertise in sustainability reporting and the assurance of sustainability reporting

(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;’;

❑ Quality assurance **reviews** of statutory auditors carrying out assurance engagements of sustainability reporting need to take place at least **every 6 years**.

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

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

❑ **Criteria for selection of reviewers**

Reviewers should have expertise in sustainability reporting and the assurance of sustainability reporting.

Professional qualifications – Acquired rights of statutory auditors – Article 14a AuD

Article 1 - Amendments to Directive 2006/43/EC(Audit Directive), paragraph 8

(8) the following Article 14a is inserted:

‘Article 14a, Statutory auditors approved or recognised before 1 January 2023

Member States shall ensure that statutory auditors that are approved or recognised to carry out statutory audits before 1 January 2023 are not subject to the requirements of Articles 6, 7, 10, 11 and 14 of this Directive.

Member States shall ensure that statutory auditors approved before 1 January 2023 acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via the continuing education requirement of Article 13.’;

- ❑ Statutory auditors approved or recognised before entry into application of changes to AD and AuD from CSRD (before 1 January 2023) – no need to meet new requirements of the AuD as regard education and professional qualifications.
- ❑ BUT, MS shall ensure that they acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via the continuing education requirement of Article 13:

Member States shall ensure that statutory auditors are required to take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values at a sufficiently high level, and that failure to respect the continuing education requirements is subject to appropriate sanctions as referred to in Article 30.

Organisation of the work - Article 24b AuD

Article 3 - Amendments to Directive 2006/43/EC(Audit Directive), paragraph 9

(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 **and the assurance of sustainability reporting** 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.

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

❑ The assurance of sustainability reporting can also be carried out by an **audit firm**. Therefore, for consistency, need to refer also to the case where the audit firm does the assurance of sustainability reporting - need to designate key audit partner.

(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.**’;

❑ Requirement to dedicate sufficient time and resources to assurance engagement of sustainability reporting .

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

‘(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.’;

❑ **Client account record** needs to be maintained by the statutory auditor / audit firm , amongst the data included for each client - fees charged for the assurance of sustainability reporting

(d) paragraph 5 is replaced by the following:

‘5. A statutory auditor or an audit firm shall create an audit file for each statutory audit. **The audit file shall also include information related to the assurance of sustainability reporting, where applicable.**’;

❑ Requirement to include in **single audit file**, information related to the assurance of sustainability reporting

**Typo: rest of paragraph 5 missing.*

Assurance standards for sustainability reporting - Article 26a AuD

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraph 12

(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 2.

Member States shall 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.

2. The Commission shall be empowered to adopt, by means of delegated acts in accordance with Article 48a, the assurance standards referred to in paragraph 1 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 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.’**

3. Where the Commission adopts standards for reasonable assurance, the opinion referred to in Article 34(1), second subparagraph, point (aa) of Directive 2013/34/EU shall be based on a reasonable assurance engagement.’;

To point out

Obligation to statutory auditors and audit firms to carry out assurance of sustainability reporting in compliance with assurance standards

Adopted by COM

Until then, MS shall apply national assurance standards, procedures or requirements

communicate to COM 3 months in advance

Set out the procedures that the auditor shall perform in order to draw its conclusions (inc. engagement planning, risk consideration and response to risks and type of conclusions)

Parallel approach to Article 26 – Audit standards

BUT: no reference to particular standards

- No existing standard for assurance of sustainability reporting
- Dependency on reporting standards, still under development

Exercise of delegation - Article 48a AuD

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraph 12

(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.

- ☐ References to Article 26a(2) added
- ☐ Empowerment for an indeterminate period of time
- ☐ 4 months objection period

Assurance of consolidated sustainability reporting- Article 27a AuD

PUBLIC

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive)

(13) the following Article 27a is inserted:

‘Article 27a, Assurance of consolidated sustainability reporting

The requirements of Article 27 as regards the audit of consolidated financial statements shall apply mutatis mutandis to the assurance of consolidated sustainability reporting.’

Audit reporting - Article 28 AuD

When statutory auditor carries out the assurance of sustainability reporting...

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraph 14

(14) Article 28 is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. The statutory auditor(s) or the audit firm(s) shall present the results of the statutory audit **and, where applicable, of the assurance of sustainability reporting** in an audit report. The report shall be prepared in accordance with the requirements of auditing standards adopted by the Union or Member State concerned, as referred to in Article 26 **and with the requirements of assurance standards adopted by the Commission or Member State concerned, as referred to in Article 26a.**’;

a) Results of assurance of sustainability reporting– presented in audit report (same report for financial audit and sustainability assurance)

a) Audit report - done in accordance with standards adopted by the Commission / MS

(b) paragraph 2 is amended as follows:

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

‘(aa) **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;**’;

b) Audit report - include info about date, reporting framework, scope of the assurance engagement of sustainability reporting

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

‘(bb) **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;**’;

c) Audit report - include in report the opinion on the assurance of sustainability reporting

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

‘(e) include the opinions and statement, which shall be based on the work undertaken in the course of the audit, referred to in the second subparagraph of Article 34(1) of Directive 2013/34/EU, **where applicable;**’;

Audit reporting - Article 28 AuD

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraph 14

(14) Article 28 is amended as follows:

[...]

d) e) and f) Reference to the 'assurance of sustainability reporting' added for consistency.

(d) in paragraph 3, the following subparagraph is added:

'The requirements of the first subparagraph as regards the statutory audit shall apply to the assurance of sustainability reporting.'

d) Requirements when assurance engagement carried out by more than one statutory auditor or audit firm (joint report & opinion)

(e) in paragraph 4 the first subparagraph is replaced by the following:

'The audit report shall be signed and dated by the statutory auditor. Where an audit firm carries out the statutory audit and, where applicable, the assurance of sustainability reporting, the audit report shall bear the signature of at least the statutory auditor(s) carrying out the statutory audit and 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 audit report shall be signed by all statutory auditors or at least by the statutory auditors carrying out the statutory audit and 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.'

e) Requirement to sign and date audit report by statutory auditor(s)

(f) paragraph 5 is replaced by the following:

'5. The report of the statutory auditor or the audit firm on the consolidated financial statements and, where applicable, on the consolidated sustainability reporting shall comply with the requirements set out in paragraphs 1 to 4. In reporting on the consistency of the management report and the financial statements as required by paragraph 2, point (e), the statutory auditor or the audit firm shall consider the consolidated financial statements and the consolidated management report. Where the annual financial statements of the parent undertaking are attached to the consolidated financial statements, the reports of the statutory auditors or the audit firms required by this Article may be combined.'

f) Equivalent requirements for audit report on the assurance of consolidated sustainability reporting

Audit fees - Article 25 AuD and 14(b) AuR

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraph 10

(10) Article 25 is replaced by the following:

‘Article 25, Audit 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 audited entity;
- (b) cannot be based on any form of contingency.’;

Article 4 - Amendments to Regulation (EU) No 537/2014 (Audit Regulation), paragraph 23

(23) in Article 14, point (b) is replaced by the following:

‘(b) revenues from non-audit services other than those referred to in Article 5(1) which are required by Union or national legislation, **specifying the revenues from the assurance of sustainability reporting**; and,’.

Statutory auditors and audit firms shall provide annually to CA a list of the audited PIEs by revenue generated from them.

Oblige to divide revenues into:

- Revenues from statutory audit
- Revenues from non-audit services required by Union or national legislation → Assurance of sustainability reporting
- Revenues from non-audit services, not required by Union or national legislation

Rules in place so that fees for the assurance of sustainability reporting non influenced

Prohibition of the provision of non-audit services - Art. 5(1) and (6) AuR

Article 4 - Amendments to Regulation (EU) No 537/2014 (Audit Regulation), paragraph 22

(22) Article 5 is amended as follows:

(a) paragraph 1 is amended as follows:

(i) the first subparagraph is replaced by the following:

‘1. A statutory auditor or an audit firm carrying out the statutory audit and, **where applicable, 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 any prohibited non-audit services in:

(a) the period between the beginning of the period audited and the issuing of the audit report; and

(b) the financial year immediately preceding the period referred to in point (a) in relation to the services listed in point (e) of the second subparagraph.’;

(ii) in the second subparagraph, the following point (l) is added:

‘(l) **consulting services for the preparation of sustainability reporting, where the statutory auditor or audit firm carries out the assurance of sustainability reporting.**’

☐ New non-audit service prohibited (where the statutory auditor carries out the assurance of sustainability reporting)

(b) the following paragraph 6 is added:

‘6. Paragraphs 4 and 5 referring to the statutory audit of financial statements shall apply to the assurance of sustainability reporting, where applicable.’

☐ Rules where the statutory auditor or the audit firm belong to a network (e.g. where a member of a network provides any of the non-audit services), also apply when the statutory auditor or the audit firm are carrying out assurance of sustainability reporting

Articles 25b, 30(g), 36(a) and 38a AuD

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraph 11

(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 to the assurance of sustainability reporting.’;

(16) the following Article 30(g) is inserted:

‘Article 30g, Investigations and Sanctions as regards the Assurance of Sustainability Reporting

The requirements of Articles 30 to 30f as regards the statutory audit of financial statements shall apply to the assurance of sustainability reporting.’;

These provisions need also apply when the statutory auditor or audit firm does the assurance of sustainability reporting. Therefore, need to explicitly broaden the scope of the requirements.

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

‘Article 36a, Public Oversight and Regulatory Arrangements between Member States as regards the assurance of sustainability reporting

The requirements of Articles 32, 33, 34 and 36 as regards the statutory audit of financial statements shall apply mutatis mutandis to the assurance of sustainability reporting.’;

(18) the following Article 38a is inserted:

‘Article 38a, Appointment and dismissal as regards the assurance of sustainability reporting

The requirements of Articles 37 and 38 as regards the statutory audit of financial statements shall apply to the assurance of sustainability reporting.’;

Audit committee - Art. 39(6) AuD

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraph 19

(19) in Article 39(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 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 and what the role of the audit committee was in that process;

(b) monitor the financial **and sustainability** reporting process, **including the digital reporting process referred to in Article 19d and the process carried out by the undertaking to identify the information reported according to the standards adopted pursuant to Article 19b of Directive 2013/34/EU**, and submit recommendations or proposals to ensure its integrity;

Materiality assessment process

(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 sustainability reporting** of the audited entity, **including its digital reporting as referred to in Article 19d**, without breaching its independence;’

(d) monitor the statutory audit of the annual and consolidated financial statements **and 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** of this Directive and 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;’

Registration and oversight of third-country auditors and audit entities - Article 45 AuD

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraph 20

(20) Article 45 is amended as follows:

(a) paragraph 1 is replaced by the following:

☐ Third country issuers subject to requirements. Possible work of third-country auditor.

‘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 **and, where applicable, 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 Council*¹⁹ 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.’;

(b) in paragraph 5, the following point (dd) is inserted:

☐ Conditions under which MS can register a third-country auditor

‘(dd) 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.’;

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

☐ Reference to new condition under point (dd) added

‘5a. A Member State may register a third-country auditor only if he or she meets the requirements set out in paragraph 5, points (c), (d), **(dd)** and (e).

Articles 5, 6, 7 and 8 of the CSRD

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 1 December 2022. They shall immediately inform the Commission thereof.

Member States shall provide that the provisions referred to in the first subparagraph shall apply for financial years starting on or after 1 January 2023.

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.

Tight timeline - Relevant, comparable, reliable information is urgently needed by investors and civil society organisations (necessary to contribute to objectives of Green Deal)

➤ Especially needed by **FMP subject to the SFDR** – L1 applicable from 10 March 2021, RTS applicable from 1 January 2022 (planned delay to 1 July 2022)

• CSRD companies first reporting cycle: **financial year 2023 (in 2024) – already late!** —————> Info available aprox. 2 years after entry into application of RTS of SFDR

Article 6, Date of application of Article 4

Article 4 of this Directive shall apply to financial years starting on or after 1 January 2023.

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.

Thank you

PUBLIC