



Council of the European Union  
General Secretariat

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**Interinstitutional files:  
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**Brussels, 08 June 2021**

**WK 7548/2021 INIT**

**LIMITE**

**DRS**

**EF**

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**SUSTDEV**

**CODEC**

**IA**

### WORKING PAPER

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### **WORKING DOCUMENT**

|          |                                                                                                                                                                                                                                                |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| From:    | General Secretariat of the Council                                                                                                                                                                                                             |
| To:      | Working Party on Company Law (Sustainability information)                                                                                                                                                                                      |
| Subject: | Impact assessment of the proposed directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting - Powerpoint presentation (WP 7.06.2021) |

Delegations will find attached the presentation made by the Commission during the 7/6 meeting on the impact assessment of the proposed directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.

Delegations can send the questions and general comments they may have to the Presidency : Pedro Maio [pedro.maio@gpeari.gov.pt](mailto:pedro.maio@gpeari.gov.pt) and Daniel Marinho Pires [dmp@reper-portugal.be](mailto:dmp@reper-portugal.be), copy to GSC : [companylaw@consilium.europa.eu](mailto:companylaw@consilium.europa.eu) .

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# CSRD – Impact Assessment

Council WG

*7 June 2021*

# Agenda

- Introduction and policy context
- Problems and objectives

## Q&A

- Baseline scenario and discarded options
- Policy options and impact analysis for 3 main variables: standardisation, assurance and scope

## Q&A (break)

- Policy options and impact analysis for other variables
- Preferred option
- Legal basis and legal instrument
- Regulatory Scrutiny Board

# Policy context

## European Green Deal



## Europe Fit for Digital Age



## Economy that Works for People



Particular relevance of:

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

### Covid-19

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

# The NFRD at a glance

## What information?

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

## Materiality

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

## Guidelines and standards

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

## Scope (which companies?)

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

## Audit and assurance

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

## Location (where report?)

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

# Fitness Check and NFRD review clause

## NFRD review clause

Article 3 of NFRD requires Commission to publish review

Review published April 2021

## Fitness Check

Covers EU framework for financial and non-financial reporting

Published together with review clause report April 2021

## Principal conclusions

*“Ongoing deficiencies in corporate disclosure of non-financial information mean that revising the NFRD should be considered as a matter of priority”.*

**Effectiveness:** users’ needs not adequately met, limiting achievement of broader objectives

**Efficiency:** lack of standardisation leads to unnecessary costs

**Relevance:** pioneering in 2014, but no longer an adequate response to policy objectives

**Added-value:** EU policy can shape global policy, and reduces risk of divergent national approaches

**Coherence:** need to ensure NFRD is coherent with other sustainable finance legislation

# Stakeholder consultations and expert input

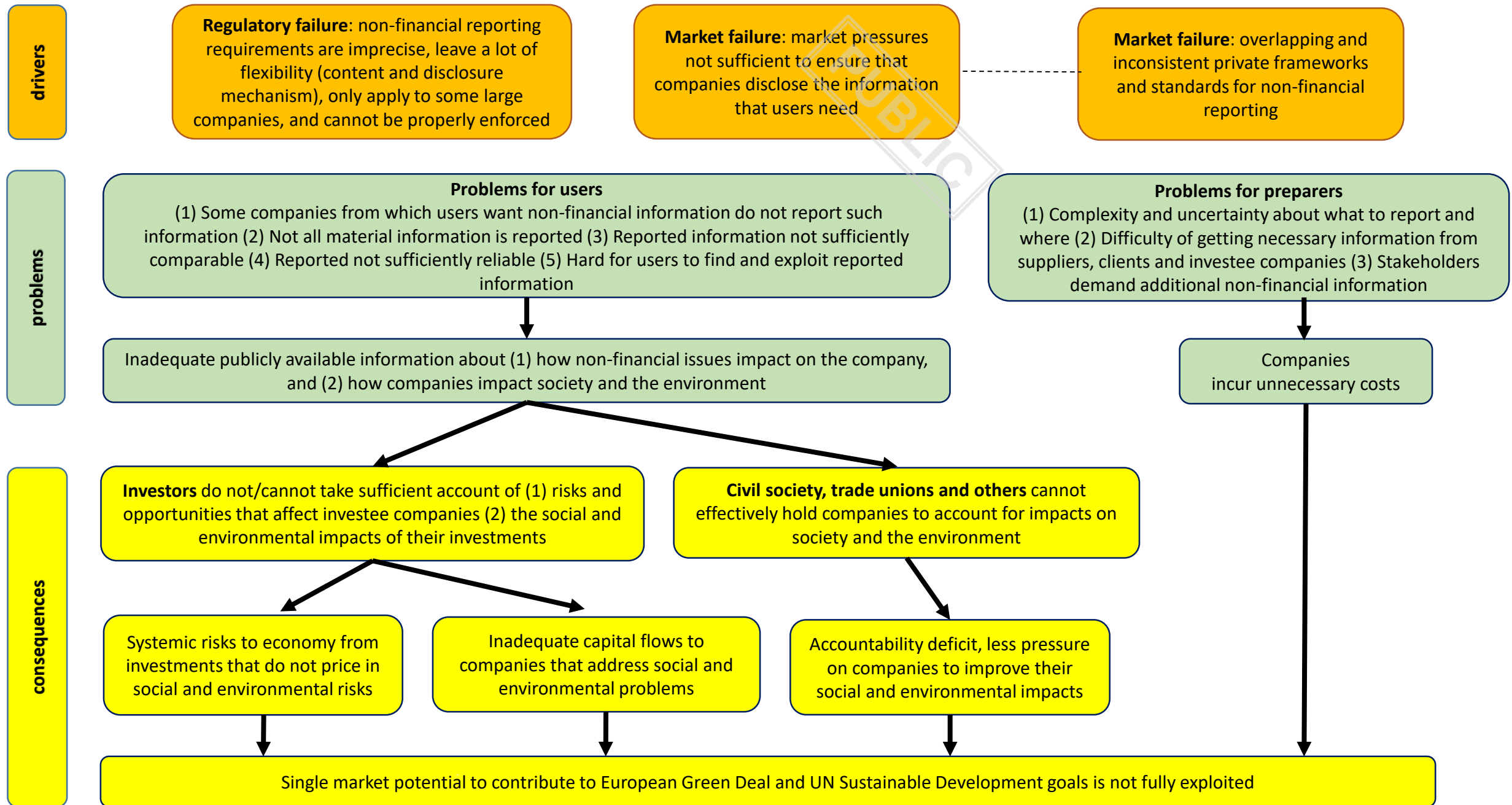
## Targeted surveys and expert/stakeholder input

- Study contracted to CEPS, including targeted survey of companies under NFRD scope (survey January-March 2020).
- SME Panel survey (March-May 2021).
- Study on ESG ratings contracted to SustainAbility, including survey to companies and relevant stakeholders.
- Expert workshops on materiality and on assurance.
- Separate stakeholder meetings with preparers, civil society, trade unions.
- Meeting with Member States in Accounting Regulatory Committee (ARC) and Member States' Expert Group on Sustainable Finance.

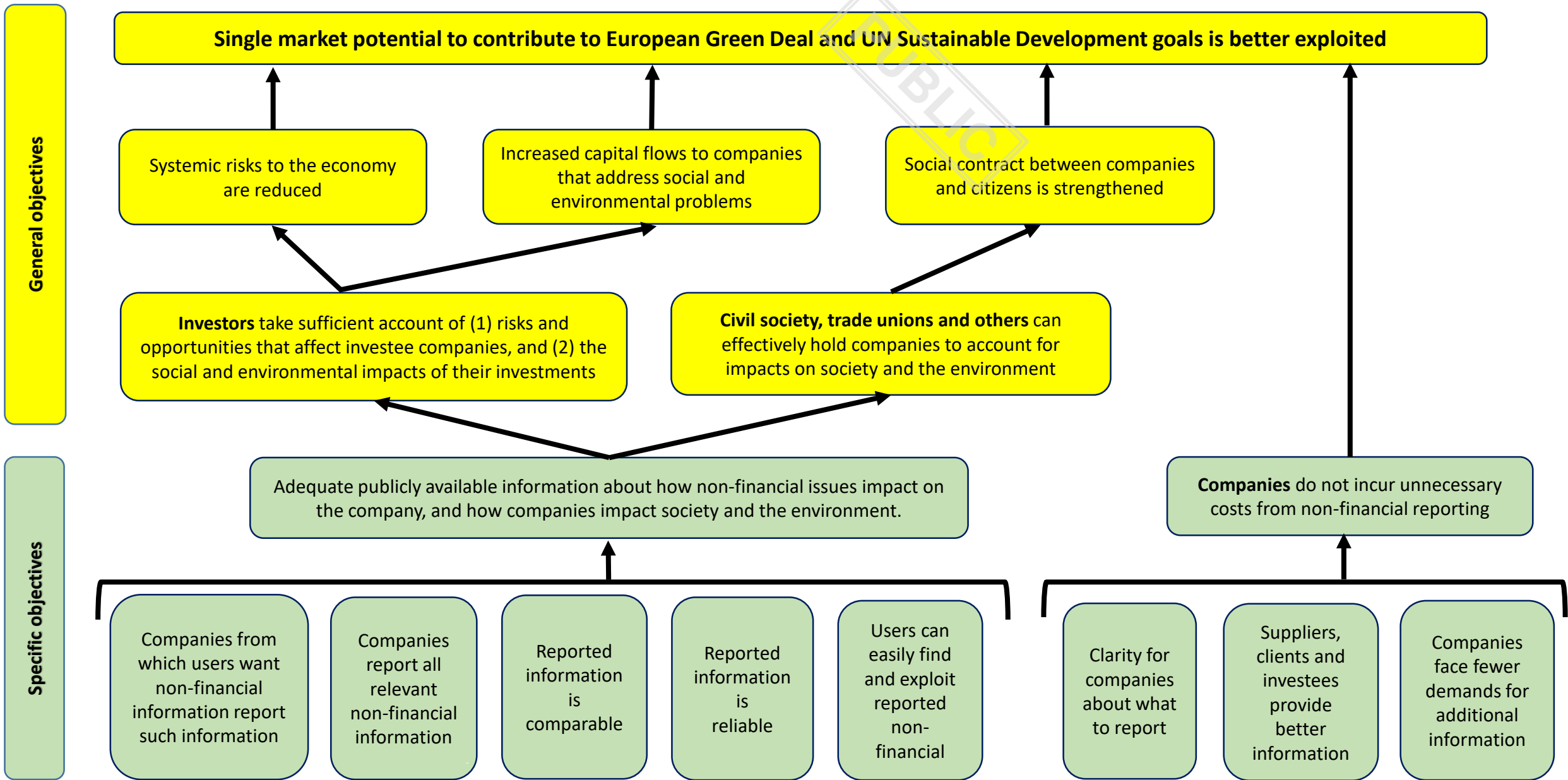
## Public consultations

- Public consultation for Fitness Check (2018).
- Responses to Inception Impact Assessment (January-February 2020).
- Public consultation on NFRD revision (February-June 2020).

# Problem tree



# Objectives



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# Q&A

# Baseline scenario: how would problems evolve with no EU action?

“the baseline scenario is **highly dynamic**, with a **very significant increase in the intensity of problems** for users and preparers”

- Very significant increase in the information needs of users.
- A growing gap between reported information and users' needs.
- Lack of coherence with other EU sustainability disclosure regulations, which will undermine the EU's sustainable finance objectives.
- An increase in uncoordinated information requests to preparers.
- Ongoing expectations on companies to use a variety of different frameworks and standards.
- Significant increases in costs for preparers and for users.
- AI and IT will help, but without resolving underlying problems.
- Growing likelihood that Member States take national initiatives.

# Policy options – overview of variables

## **Main variables, main drivers of impacts (sections 5 and 6 of IA)**

1. EU sustainability reporting standards
2. Assurance (audit)
3. Scope

## **Other variables (Annex XVI of IA)**

4. Digitalisation
5. Sanctioning regime and enforcement
6. Intangibles
7. Where to report
8. Materiality
9. Obligations of exempted subsidiaries

# Discarded policy options



- General: European Transparency Benchmark.
- Standardisation: Additional non-binding guidelines issued by the Commission.
- Standardisation: First developing voluntary EU standards before moving to a mandatory approach
- Standardisation: Endorsement of an international standard.
- Scope: Expanding the scope to include all SMEs.

# Policy options – main variables

**How changes to main variables potentially contribute to specific objectives?**

|                     |                                                                | Policy options  |           |       |
|---------------------|----------------------------------------------------------------|-----------------|-----------|-------|
|                     |                                                                | Standardisation | Assurance | Scope |
| Specific objectives | Companies from which users need information do report          |                 |           | X     |
|                     | Companies report all relevant information                      | X               | X         |       |
|                     | Reported information is comparable                             | X               |           |       |
|                     | Reported information is reliable                               | X               | X         |       |
|                     | Reported information is easy to find and exploit               | X               |           |       |
|                     | Companies have clarity about what to report                    | X               |           |       |
|                     | Companies have better info from suppliers, clients & investees | X               | X         | X     |
|                     | Reduced burden from additional demands for information         | X               |           | X     |

# 1. Standardisation - options

➤ **Mandatory**

or

➤ **Voluntary**

- specify all information necessary to allow companies to meet the legal requirements
- address information needs of investors and specialised civil society organisations, mainly
- ensure consistency with other SF legislation; address information needs of FMP subject to SFDR and the Taxonomy Regulation (TR)
- build on the most widely accepted elements of existing and future standards and frameworks
- double materiality perspective

# 1. Standardisation - options

- **Additional SME standards** for voluntary use by SMEs not under the scope

## Important:

- ✓ To help SMEs address the increase in uncoordinated demands for information that SMEs will face as a result of:
  - the new sustainability reporting requirements under this initiative: expected increase in the number of companies that seek detailed information from their suppliers or clients, which would include SMEs
  - the SFDR and Taxonomy Regulation disclosure requirements
  - general market developments, inevitable phenomenon, part of the transition to a sustainable economic system
- ✓ To facilitate SMEs' participation in the transition to a sustainable economy.

# 1. Standardisation – impact analysis of mandatory option

## ➤ Effectiveness in meeting specific objectives

|                     |                                                                | Standardisation |
|---------------------|----------------------------------------------------------------|-----------------|
| Specific objectives | Companies from which users need information do report          |                 |
|                     | Companies report all relevant information                      | X               |
|                     | Reported information is comparable                             | X               |
|                     | Reported information is reliable                               | X               |
|                     | Reported information is easy to find and exploit               | X               |
|                     | Companies have clarity about what to report                    | X               |
|                     | Companies have better info from suppliers, clients & investees | X               |
|                     | Reduced burden from additional demands for information         | X               |

# 1. Standardisation – impact analysis of mandatory option

## ➤ Other economic, environmental, social and fundamental rights impacts

- Positive impact on the environment, society and FR, consequence of change of company behaviour.
- Company resilience due to higher company awareness of sustainability-related risks and better management.
- Better policy on the environment, society and FR, due to availability of better information for policy-making.
- Competitive advantage for more sustainable companies, front runners in reporting more easily identifiable.
- Risk that EU companies incur higher reporting costs than non-EU companies.
- Risk of international fragmentation (mitigated by ensuring that EU standards build upon existing international standards and frameworks and fostering discussions on global coherence).
- Knock-on effects on SMEs. Simplified SME standards - effective solution, facilitate SMEs' participation in the transition to a sustainable economy.
- Risks to the Single Market from MS endorsing different reporting standards would very likely be removed.
- Improve reliability and quality of ESG ratings, clarity about the underlying data used in methodologies.

# 1. Standardisation – impact analysis of voluntary option

## ➤ Effectiveness in meeting specific objectives

- Cannot ensure that any of the objectives are fully met

## ➤ Other economic, environmental, social and fundamental rights impacts

- Risks to the Single Market from MS endorsing different reporting standards, or some MS deciding to endorse the EU reporting standards and others not.
- Low risk of competitive disadvantage for European companies compared to non-EU companies. On the other hand, the EU would be in a less strong position in any global negotiations on alignment of standards.
- Risk of international fragmentation (mitigated by ensuring that EU standards build upon existing international standards and frameworks and fostering discussions on global coherence).

# 1. Standardisation – preferred option

Costs will be presented together with the different scope packages

|                                                            | Option 1<br>( Mandatory Standards) | Option 2<br>( Voluntary Standards) |
|------------------------------------------------------------|------------------------------------|------------------------------------|
| Effectiveness                                              | +++                                | +                                  |
| Costs for preparers                                        | -                                  | 0                                  |
| Efficiency                                                 | ++                                 | +                                  |
| Other economic,<br>environmental, social<br>and FR impacts | ++                                 | +                                  |
| Coherence                                                  | ++                                 | +                                  |

## 2. Assurance – policy options

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➤ **Reasonable assurance engagement**

or

➤ **Limited assurance engagement**

- Same impacts, but greater for reasonable assurance than for limited assurance.

## 2. Assurance – impact analysis

### ➤ Effectiveness in meeting specific objectives

➤ **Reasonable assurance engagement**

+++

vs.

➤ **Limited assurance engagement**

++

|                     |                                                                | Assurance |
|---------------------|----------------------------------------------------------------|-----------|
| Specific objectives | Companies from which users need information do report          |           |
|                     | Companies report all relevant information                      | X         |
|                     | Reported information is comparable                             |           |
|                     | Reported information is reliable                               | X         |
|                     | Reported information is easy to find and exploit               |           |
|                     | Companies have clarity about what to report                    |           |
|                     | Companies have better info from suppliers, clients & investees | X         |
|                     | Reduced burden from additional demands for information         |           |

## 2. Assurance – impact analysis

➤ Other economic, environmental, social and fundamental rights impacts

• Single Market. A requirement for reasonable assurance, the highest level of assurance, would prevent different levels of assurance requirements in different Member States.

➤ **Reasonable assurance engagement**

vs.

➤ **Limited assurance engagement**

- Resilience of companies, more rigorous reporting processes within the company.
- Connectivity and consistency between financial and sustainability information, due to involvement of auditors.
- Risk of concentration of the audit market. This requirement would contribute to a certain extent to maintain the current situation of concentration in the audit market.
- Assurance of non-financial information would facilitate supervision of non-financial reporting by national competent authorities

## 2. Assurance – preferred option

Costs will be presented together with the different scope options

|                                                      | Option 1<br>(Reasonable assurance) | Option 2<br>(Limited assurance) |
|------------------------------------------------------|------------------------------------|---------------------------------|
| Effectiveness                                        | +++                                | ++                              |
| Costs for preparers                                  | --                                 | -                               |
| Efficiency                                           | +                                  | +                               |
| Other economic, environmental, social and FR impacts | +                                  | +                               |
| Coherence                                            | +                                  | +                               |

### Phase-in approach towards reasonable assurance

- Allows for a phase-in approach with regard to costs for preparers and for an assessment of the maturity of the industry and the availability or not of assurance standards.

**Possibility that MS allow third party assurance services providers** other than auditors to provide the opinion on sustainability reporting.

### 3. Scope – packages

Mandatory standards

+

Limited assurance

+

Additional nr. of  
companies

Package 0 - No change in scope

Package 1 - Extend to all other large public interest entities (PIEs) (removal of 500 employee threshold) + 1,150

Package 2 - Extend to all other large limited liability companies (in addition to extension above) + 35,300

Package 3 - Extend to SMEs with listed securities (in addition to extension above) + 1,050

Package 4 - Extend to non-listed medium sized companies (in addition to extension above) + 160,200

In general terms, the greater the scope, the greater the impacts

### 3. Scope – impact analysis

PUBLIC

#### ➤ Effectiveness in meeting specific objectives

|                     |                                                                | Scope |
|---------------------|----------------------------------------------------------------|-------|
| Specific objectives | Companies from which users need information do report          | X     |
|                     | Companies report all relevant information                      |       |
|                     | Reported information is comparable                             |       |
|                     | Reported information is reliable                               |       |
|                     | Reported information is easy to find and exploit               |       |
|                     | Companies have clarity about what to report                    |       |
|                     | Companies have better info from suppliers, clients & investees | X     |
|                     | Reduced burden from additional demands for information         | X     |

### 3. Scope - impact analysis

- Extend to all other large public interest entities (PIEs) i.e. removal of 500 employee threshold

- Extend to all other large limited liability companies (in addition to extension above)

- ✓ **Key role** in the transition towards a fully sustainable and inclusive economic and financial system, significant positive and negative impacts via their lending, investment and underwriting activities
- ✓ Includes banks and insurance companies beyond those with limited liability, such as cooperatives or mutual undertakings

- ✓ **Large non-listed EU companies.** Concern for the impacts and accountability of such companies, including through their supply chains
- ✓ **Large non-EU companies with securities listed on EU regulated markets.** FMP need information from such companies to understand the risks and impacts of their investments, and to meet their own disclosure requirements under the SFDR. More level playing field between EU and non-EU listed companies.

### 3. Scope - impact analysis

➤ Extend to SMEs with listed securities (in addition to extension above)

- ✓ Investors in principle need equal information from all listed companies.
- ✓ Due to new requirements on financial market participants coming from the SFDR, there is a risk that if SMEs do not report the information needed by FMP, they will be excluded from investments.
- ✓ Enables SMEs participation in the transition to a sustainable economy.

➤ Extend to non-listed medium sized companies (in addition to extension above)

- ✓ Require reporting against the simplified SME standards.
- ✓ Significant increase in the proportion of private economic activity subject to sustainability reporting requirements, contributing to improving the accountability of companies for their impacts.

### 3. Scope - impact analysis

| Coverage of options                                                     |          |          |          |          |          |
|-------------------------------------------------------------------------|----------|----------|----------|----------|----------|
|                                                                         | Baseline | Option 1 | Option 2 | Option 3 | Option 4 |
| Total number of companies                                               | 11.653   | 12.810   | 48.080   | 49.139   | 209.344  |
| % of total turnover of all EU limited liability companies               | 47%      | 48%      | 75%      | 75%      | 84%      |
| % of all market cap                                                     | 88%      | 90%      | 99%      | 100%     | 100%     |
| % of all listed companies (equity/bonds)                                | 41%      | 53%      | 55%      | 81%      | 81%      |
| Compared to baseline                                                    |          |          |          |          |          |
| Additional number of companies compared to baseline                     |          | 1.157    | 36.427   | 37.486   | 197.691  |
| Increase in % of total turnover of all LLC compared to baseline         |          | 1%       | 28%      | 28%      | 37%      |
| Increase % of total market cap compared to baseline                     |          | 2%       | 11%      | 12%      | 12%      |
| Increase in % of all listed companies (equity/bonds)                    |          | 13%      | 14%      | 40%      | 40%      |
| Compared to previous package                                            |          |          |          |          |          |
| Additional number of companies compared to previous package             |          | 1.157    | 35.270   | 1.059    | 160.205  |
| Increase in % of total turnover of all LLC compared to previous package |          | 1%       | 27%      | 0%       | 9%       |
| Increase % of total market cap compared to previous package             |          | 2%       | 9%       | 1%       | 0%       |
| Increase in % of all listed companies (equity/bonds)                    |          | 13%      | 2%       | 26%      | 0%       |

### 3. Scope - impact analysis

- Comparison of total costs of different packages for preparers

|                  | One-off costs | Annual costs |
|------------------|---------------|--------------|
| <b>Package 0</b> | <b>30</b>     | <b>400</b>   |
| <i>Reporting</i> | 30            | 210          |
| <i>Assurance</i> | 0             | 190          |
| <b>Package 1</b> | <b>50</b>     | <b>500</b>   |
| <i>Reporting</i> | 50            | 270          |
| <i>Assurance</i> | 0             | 230          |
| <b>Package 2</b> | <b>670</b>    | <b>3.500</b> |
| <i>Reporting</i> | 670           | 2.100        |
| <i>Assurance</i> | 0             | 1.400        |
| <b>Package 3</b> | <b>680</b>    | <b>3.500</b> |
| <i>Reporting</i> | 680           | 2.100        |
| <i>Assurance</i> | 0             | 1.400        |
| <b>Package 4</b> | <b>1.500</b>  | <b>7.100</b> |
| <i>Reporting</i> | 1.500         | 3.800        |
| <i>Assurance</i> | 0             | 3.300        |

### 3. Scope - impact analysis

#### ➤ Costs savings for users

- ☐ Costs associated with trying to find adequate information would be reduced.
- ☐ If more standardised information was publicly available, investors would rely on rating agencies and data providers to a lesser extent and would trust more the underlying source of the information

#### ➤ Costs for the EU

- ☐ Development/maintenance of EU reporting standards.

#### ➤ Costs for national authorities

- ☐ Check compliance against a more detailed set of requirements, but more clarity about what information companies should report

### 3. Scope – preferred package

Costs in relation to benefits.  
Reflects the net effect of the  
positive impacts and the costs  
associated to the policy option.

|                                                            | Package 0 | Package 1 | Package 2 | Package 3 | Package 4 |
|------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Effectiveness                                              | +         | +         | ++        | ++        | +++       |
| Costs for preparers                                        | -         | -         | --        | --        | ---       |
| Efficiency*                                                | +         | +         | ++        | +++       | -         |
| Other economic,<br>environmental, social<br>and FR impacts | +         | +         | ++        | +++       | ++        |
| Coherence                                                  | -         | +         | ++        | +++       | ++        |

Extend to all large companies + listed SMEs

**Changes in proposal - SMEs in scope (those with securities listed on regulated markets):**

- may report against the simplified SME standards.
- 3 years phase in (possibility envisaged in the IA)

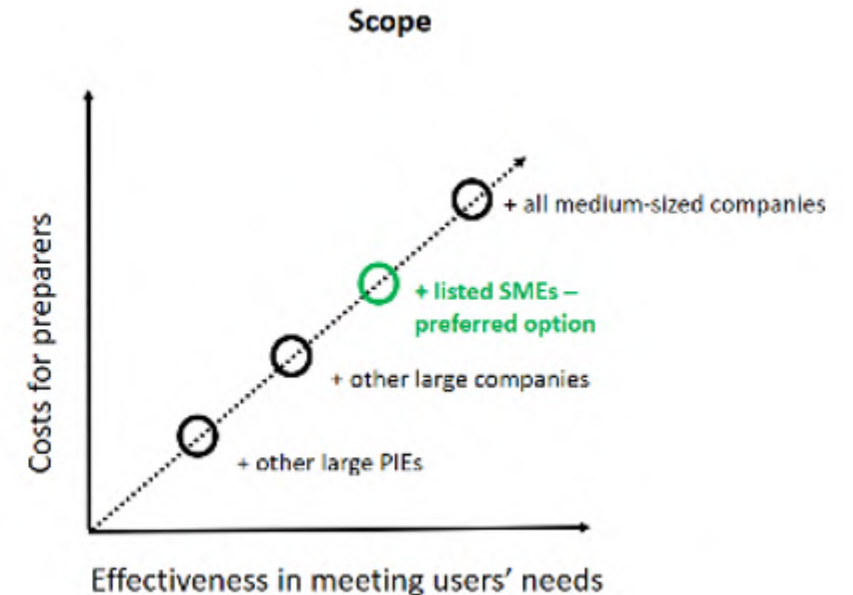
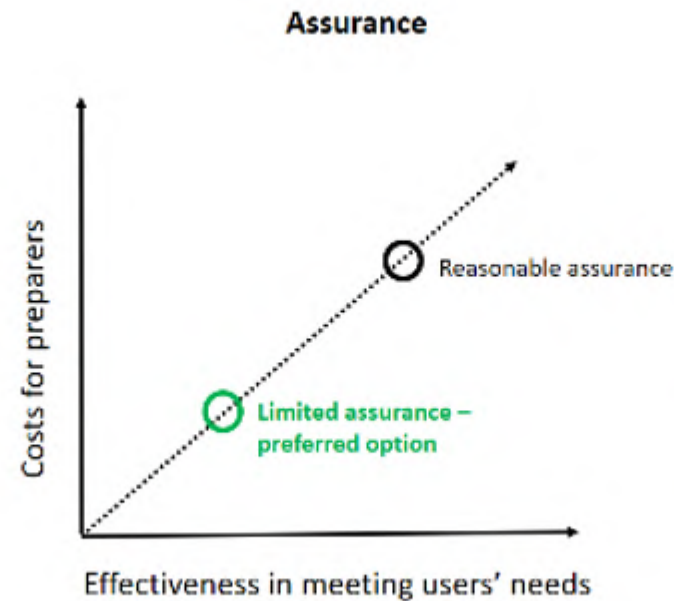
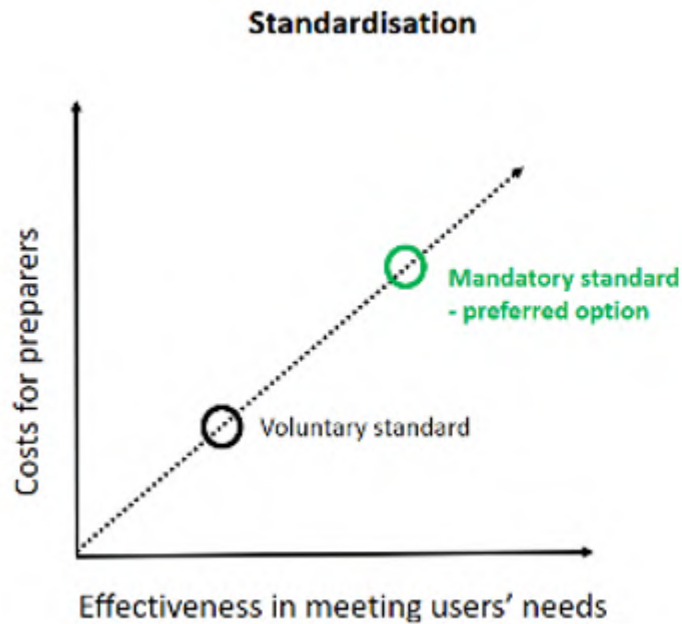
# Summary of costs (savings) of preferred package for companies\*

## Aggregated

- ❑ One-off costs: €700 million → Reporting: €700 million
- ❑ Annual costs: €3.5 billion
- Reporting: €2.1 billion yearly
  - Assurance: €1.4 billion yearly
- ❑ Potential annual costs savings: €2 billion?
- If the standards were to completely remove additional information requests (€1.2 – 2 billion)
  - Increased clarity about what info to report (€600 million)
  - Reduced costs from trying to get information from suppliers / clients subject to requirements,
  - Companies operating across different MS would see a reduction in the overall costs of reporting

\* This slide shows direct cost and potential savings for preparers only. It does not show a full cost-benefit analysis of the preferred option.

# Trade-offs and preferred option for 3 main variables



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# Q&A

PUBLIC

# Break

## 4. Digitalisation

### ➤ Proposed changes

- Require companies to 'tag' the sustainability information reported to make it machine-readable
- Development of EU digital taxonomy, accompanying the reporting standards
- Feed into the work on the European Single Access Point (ESAP).

### ➤ Impacts - effectiveness

|                     |                                                                        | Digital |
|---------------------|------------------------------------------------------------------------|---------|
| Specific objectives | Companies from which users need information report that information    |         |
|                     | Companies report all relevant information                              |         |
|                     | Reported information is comparable                                     | x       |
|                     | Reported information is reliable                                       |         |
|                     | Reported information is easy to find and exploit                       | x       |
|                     | Companies have clarity about what to report                            |         |
|                     | Companies have better information from supplies, clients and investees | x       |
|                     | Reduction of the burden created by additional demands for information  | x       |

## 4. Digitalisation – impact analysis

### ➤ Other economic, environmental, social and fundamental rights impacts

- Greater speed, reliability and accuracy of data handling - better quality of information and decision-making.
- Easier assessment and search for info allows users to hold companies more accountable for their impacts on society and the environment.
- Better policy on the environment, society and FR, due to availability of better information for policy-making.
- Competitive advantage for more sustainable companies, front runners in reporting more easily identifiable.

## 5. Sanctioning regime and enforcement

### ➤ Impact analysis - effectiveness

#### ➤ Proposed changes

##### Non-listed companies

- Sanctions to be specified in law

##### Listed companies

- Clarify in law the remit of the powers of supervisory authorities with regard to sustainability reporting.
- ESMA guidelines to NCAs

|                     |                                                                        | Supervision |
|---------------------|------------------------------------------------------------------------|-------------|
| Specific objectives | Companies from which users need information report that information    | x           |
|                     | Companies report all relevant information                              | x           |
|                     | Reported information is comparable                                     |             |
|                     | Reported information is reliable                                       | x           |
|                     | Reported information is easy to find and exploit                       |             |
|                     | Companies have clarity about what to report                            | x           |
|                     | Companies have better information from supplies, clients and investees |             |
|                     | Reduction of the burden created by additional demands for information  |             |

## 6. Intangibles

### ➤ Impact analysis - effectiveness

#### ➤ Proposed change

- Require companies to disclose information on intangibles, beyond activities in the field of R&D and intangible assets in financial statements (e.g. intellectual property, software, customer retention, human capital, etc.)

|                     |                                                                        | Intangibles |
|---------------------|------------------------------------------------------------------------|-------------|
| Specific objectives | Companies from which users need information report that information    |             |
|                     | Companies report all relevant information                              | x           |
|                     | Reported information is comparable                                     |             |
|                     | Reported information is reliable                                       |             |
|                     | Reported information is easy to find and exploit                       |             |
|                     | Companies have clarity about what to report                            | x           |
|                     | Companies have better information from supplies, clients and investees | x           |
|                     | Reduction of the burden created by additional demands for information  |             |

### ➤ Other impacts: facilitate investments in companies with real value

## 7. Where to report

### ➤ Impact analysis - effectiveness

- **Proposed change**
- Report the information in the management report

|                     |                                                                        | Location |
|---------------------|------------------------------------------------------------------------|----------|
| Specific objectives | Companies from which users need information report that information    |          |
|                     | Companies report all relevant information                              | x        |
|                     | Reported information is comparable                                     | x        |
|                     | Reported information is reliable                                       | x        |
|                     | Reported information is easy to find and exploit                       | x        |
|                     | Companies have clarity about what to report                            |          |
|                     | Companies have better information from supplies, clients and investees |          |
|                     | Reduction of the burden created by additional demands for information  |          |

## 8. Materiality

### ➤ Proposed change

- Clearer approach to the double materiality concept

### ➤ Other impacts

- Behavioural implications, would help companies assess risks to the company's performance, and also make it more aware of its impacts to the environment and society.
- No risks to the single market from companies interpreting the requirement in different ways in different MS.

### ➤ Impact analysis - effectiveness

|                     |                                                                        | Materiality |
|---------------------|------------------------------------------------------------------------|-------------|
| Specific objectives | Companies from which users need information report that information    |             |
|                     | Companies report all relevant information                              | x           |
|                     | Reported information is comparable                                     |             |
|                     | Reported information is reliable                                       |             |
|                     | Reported information is easy to find and exploit                       |             |
|                     | Companies have clarity about what to report                            | x           |
|                     | Companies have better information from supplies, clients and investees | x           |
|                     | Reduction of the burden created by additional demands for information  | x           |

## 9. Obligations of exempted subsidiaries

### ➤ Impact analysis - effectiveness

#### ➤ Proposed changes

Exempted subsidiaries required to:

- publish the consolidated management report of their parent company reporting sustainability information at group level
- refer to that consolidated report in their individual management report

|                     |                                                                        | Subsidiaries |
|---------------------|------------------------------------------------------------------------|--------------|
| Specific objectives | Companies from which users need information report that information    | x            |
|                     | Companies report all relevant information                              | x            |
|                     | Reported information is comparable                                     |              |
|                     | Reported information is reliable                                       |              |
|                     | Reported information is easy to find and exploit                       |              |
|                     | Companies have clarity about what to report                            | x            |
|                     | Companies have better information from supplies, clients and investees | x            |
|                     | Reduction of the burden created by additional demands for information  | x            |

# Preferred package – summary

1. Standardisation: mandatory EU sustainability reporting standards.
2. Assurance: limited assurance requirement, with phase in for reasonable assurance.
3. Scope: extended to all large companies and all listed companies (exc. micro).
4. Digitalisation: require companies to 'tag' the sustainability information reported.
5. Sanctioning regime and enforcement: clarify powers of NCAs & require ESMA to issue GL for supervisors (listed companies) / specify sanctions in law (non-listed companies).
6. Intangibles: require reporting on intangibles.
7. Where to report: obligation to report in the management report.
8. Materiality: clearer approach to the double materiality concept.
9. Exempted subsidiaries: refer in the individual management report to parent's consolidated report with sustainability information, and publish it.

# Potential indirect impacts on SMEs

Not possible to quantify the costs of these indirect effects:

- not be possible to disaggregate the indirect effect of the proposed revision of the NFRD from the effects of the overall transition to a sustainable economy
- not able to find reliable data on the number of SMEs in the supply-chains of large European companies

But, results of SME Panel provide an indication of likelihood and magnitude of these indirect effects :

- 28% of the medium-sized SMEs that responded to the SME panel already publish detailed sustainability information in their websites, whereas only 9% of small enterprises do so.
- 48% of respondent SMEs (and 80% of medium-sized companies) have already received at least one request for sustainability information (mainly from large companies to whom the SME supplies good or services and public administrations when the SME applies for public funds, also from banks).
- Of all SME respondents who are in large company supply chains, 43% have received information requests from the large company buyer. For medium-sized companies who are in large company supply chains, the figures goes up to 76%.

Results suggest that medium-sized companies are more likely to receive information requests than smaller companies, and that supply-chains are currently a bigger source of these requests than are client relationships with banks.

# Summary of costs (savings) of preferred package (for companies)\*

## Aggregated

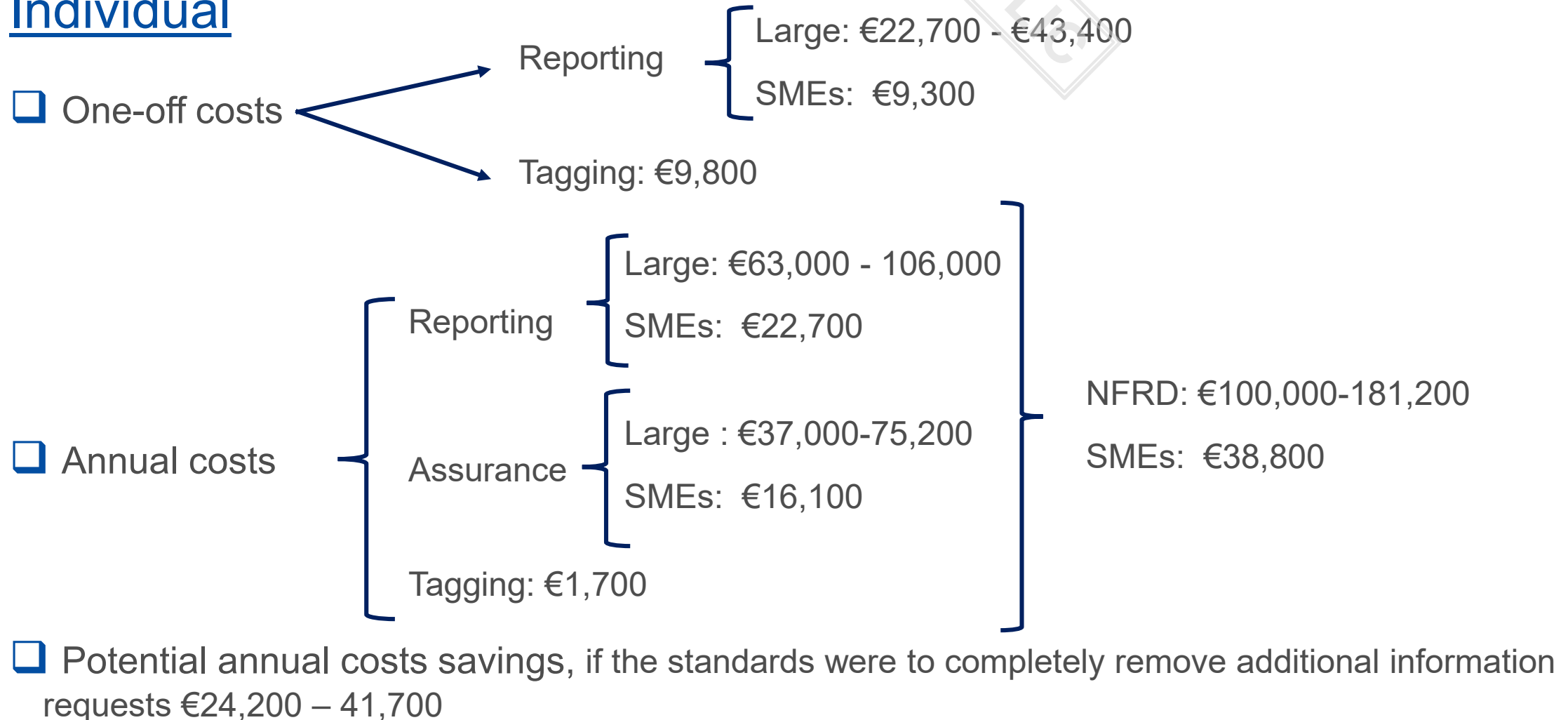


- If the standards were to completely remove additional information requests (€1.2 – 2 billion)
- Increased clarity about what info to report (€600 million)
- Reduced costs from trying to get information from suppliers / clients subject to requirements,
- Companies operating across different MS would see a reduction in the overall costs of reporting

\* This slide shows direct cost and potential savings for preparers only. It does not show a full cost-benefit analysis of the preferred option.

# Summary of costs (savings) of preferred package (for companies)

## Individual



# Summary of costs (savings) of preferred package (for other stakeholders)

## ➤ Costs savings for users

- ❑ Costs associated with trying to find adequate information would be reduced.
- ❑ If more standardised information was publicly available, investors would rely on rating agencies and data providers to a lesser extent and would trust more the underlying source of the information

## ➤ Costs for the EU

- ❑ Development/maintenance of EU reporting standards.
- ❑ Developing digital taxonomy (**one-off costs €550,000, annual maintenance costs €80,000**)

## ➤ Costs for national authorities

- ❑ Check compliance against a more detailed set of requirements, but more clarity about what information companies should report
- ❑ One-off costs for implementation of electronic format (**€35.5 million, potential synergies with ESEF**) and annual costs for filing reports in electric format (**€5 million**)

## Legal instrument

**amending Directive**



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

# Legal basis

## Article 50 TFEU

*Lex specialis*, legal basis for company law legislation:

- mandates EP/Council to act by means of directives to ensure freedom of establishment as regards a particular activity
- refers to “companies or firms” (Article 54 TFEU, i.e. companies or firms “incorporated in the EU”)

1. Accounting Directive
2. Transparency Directive
3. Audit Directive

&

## Article 114 TFEU

*Lex generalis*, residual legal basis:

- mandates EP/Council to adopt measures with the objective of establishing or ensuring the functioning of the internal market
- to ensure the free movement of capital, need to impose disclosure obligations on third country issuers (TD)
- quality of the assurance of sustainably reporting contributes to ensuring the smooth functioning of the internal market (AuR)

2. Transparency Directive
4. Audit Regulation

# Regulatory Scrutiny Board



RSB considered draft IA in its meeting of 7 October 2020.

## **“Positive opinion with reservations”:**

- Better explain the coherence with other initiatives
- Clarify link with Fitness Check
- Clarify the content of the policy options
- Make comparison of options more consistent and better substantiated

## **Changes to Commission proposal after RSB opinion**

- 3 years phase in for listed SMEs (this possibility is envisaged in the IA)
- Possibility for listed SMEs to report against SME standards
- No obligation on companies that claim to use the EU (SME) standards on a voluntary basis, to tag its report.
- Transition to reasonable assurance is triggered if/when Commission adopts sustainability assurance standards for reasonable assurance

PUBLIC

# Q&A

# Thank you

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