



Proposal for a Corporate Sustainability Reporting Directive

Council WG

17 June 2021

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Q&A



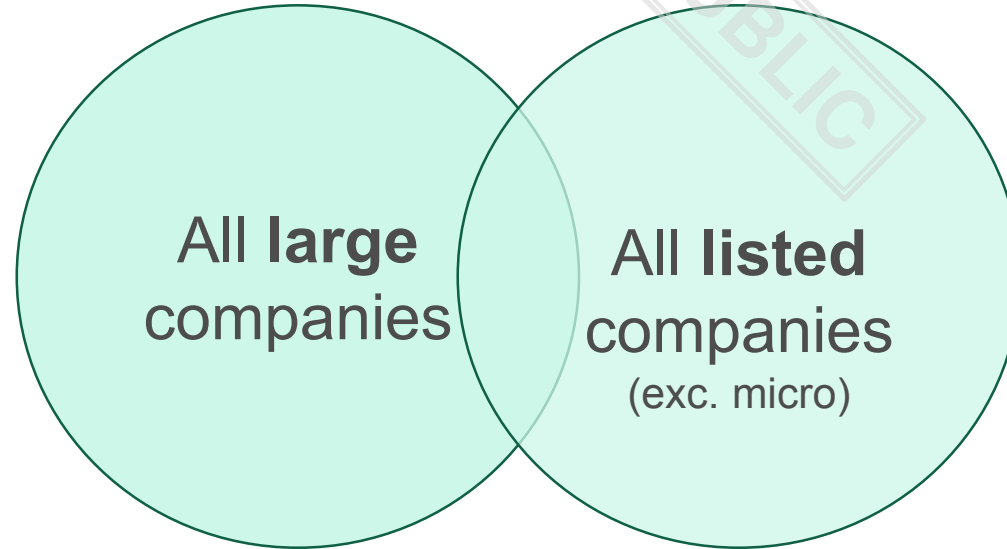
Legal structure

CSRD = amending Directive



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

Scope: which companies?



- Includes insurance undertakings and credit institutions regardless of their legal form.
- Listed SMEs: 3 year phase-in, and simpler reporting regime.
- Includes non-EU companies listed on EU regulated markets. Possibility to report according to equivalent standards:
 - COM shall adopt measures to establish a mechanism for the determination of the equivalence of sustainability reporting standards used by non-EU issuers
 - Possibility for COM to adopt Decisions about equivalence of sustainability standards
- Subsidiary exempted if parent reports according to EU requirements (or equivalent if non-EU company).

Scope: which companies?

➤ Recitals: 15-23

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraphs 1, 3 and 7

(1) in Article 1, the following paragraph 3 is added:

‘3. The coordination measures prescribed by **Articles 19a, 19d, 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:**

(a) **insurance undertakings** within the meaning of Article 2(1) of Council Directive 91/674/EEC;

(b) **credit institutions** as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council.

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 Council.

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

‘Article 19a, Sustainability Reporting

1. **Large undertakings** and, **as of 1 January 2026, small and medium-sized undertakings which are undertakings referred to in Article 2, point (1), point (a)**, 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. [...]

7. **An 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 consolidated management report of that parent undertaking and where the consolidated management report is drawn up in a manner that may be considered **equivalent**, in accordance with the relevant implementing measures adopted pursuant to Article 23(4), point (i), of Directive 2004/109/EC of the European Parliament and of the Council, to the manner required by the sustainability reporting standards referred to in Article 19b of this Directive.

graphs 1, 3 and 7

➤ Recitals: 15-23

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraphs 1, 3 and 7

(1) in Article 1, the following paragraph 3 is added:

‘3. The coordination measures prescribed by **Articles 19a, 19d, 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:**

- (a) **insurance undertakings** within the meaning of Article 2(1) of Council Directive 91/674/EEC;
- (b) **credit institutions** as defined in Article 4(1)  Includes insurance undertakings and credit institutions

- Includes insurance undertakings and credit institutions regardless of their legal form.

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 Council.

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

➤ Large companies Sustainability Reporting

- ▶ Listed SMEs: 3 year phase-in

1. **Large undertakings** and, as of 1 January 2026, **small and medium-sized undertakings** which are undertakings referred to in Article 2, point (1), point (a), 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. [...]

7. **An 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 shall be exempted from the obligations set out in paragraphs 1 to 4 if it is included in the consolidated management report of a parent undertaking, drawn up in accordance with Articles 29 and 29a.

➤ **Subsidiary exempted if parent reports according to EU requirements (or equivalent if non-EU company).**

- Subsidiary exempted if parent reports according to EU requirements (or equivalent if non-EU company).

that parent undertaking and where the consolidated management report is drawn up in a manner that may be considered **equivalent**, in accordance with the relevant implementing measures adopted pursuant to Article 23(4), point (i), of Directive 2004/109/EC of the European Parliament and of the Council*6, to the manner required by the sustainability reporting standards referred to in Article 19b of this Directive.

Scope: which companies?

PUBLIC

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraphs 1, 3 and 7

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

‘Article 29a, Consolidated sustainability reporting

1. **Parent undertakings of a large group** 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. [...]

7. **A parent undertaking which is also a subsidiary undertaking shall be exempted from the obligation** 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 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 consolidated management report of that parent undertaking and where the consolidated management report is drawn up in a manner that may be considered equivalent, in accordance with the relevant implementing measures adopted pursuant to Article 23(4)(i) of Directive 2004/109/EC, to the manner required by the sustainability reporting standards referred to in Article 19b of this Directive.

Scope: which companies?

Article 2 - Amendments to Directive 2004/109/EC (Transparency Directive), paragraphs 2 and 3

(2) Article 4 is amended as follows:

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

‘4. The financial statements shall be audited in accordance with Article 34 of Directive 2013/34/EU and Article 28 of Directive 2006/43/EC.

The audit report, 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.

5. The management report shall be drawn up in accordance with Articles 19, 19a, 19d(1) and 20 of Directive 2013/34/EU, 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 19d(2), 29 and 29a of Directive 2013/34/EU, when drawn-up by undertakings referred to in those provisions.’;**

(3) in Article 23(4), 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 and on the **equivalence of sustainability reporting standards** as referred to in Article 19b of Directive 2013/34/EU which are used by third-country issuers under the conditions set out in Article 30(3). 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 accounting 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.’;

Scope: which companies?

Article 2 - Amendments to Directive 2004/109/EC (Transparency Directive), paragraph 2

(2) Article 4 is amended as follows:

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

‘4. The financial statements shall be audited in accordance with Article 34 of Directive 2013/34/EU and Article 28 of Directive 2006/43/EC.

The audit report, signed by the person or persons responsible for carrying out the audit in accordance with Directive 2013/34/EU shall be disclosed in full to the public together with the annual financial statements.

➤ Includes non-EU companies listed on EU regulated markets.

5. **The management report shall be drawn up in accordance with Articles 19, 19a, 19d(1) and 20 of Directive 2013/34/EU**, 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 19d(2), 29 and 29a of Directive 2013/34/EU**, when drawn-up by undertakings referred to in those provisions.’;

(3) in Article 23(4), 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 and on the **equivalence of sustainability reporting standards** as referred to in Article 19b of Directive 2013/34/EU which are used by third country issuers under the conditions set out in Article 30(3). If the Commission finds that the accounting standards of a third country are not equivalent, it may allow a transitional period.

➤ Possibility for COM to adopt Decisions about equivalence of sustainability standards

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 for the assessment of the equivalence of sustainability reporting standards.

➤ COM shall adopt measures to establish a mechanism for the determination of the equivalence of sustainability reporting standards used by non-EU issuers

Location: where should information be reported?

Management report

Exempted subsidiary
companies need to

publish the **consolidated
management report of the
parent company**

&

include a **reference** in its
individual management report
to the **fact that it is exempted**

Location: where should information be reported?

➤ Recital: 50

Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3 and 7

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

‘Article 19a, Sustainability Reporting

1. Large undertakings and, as of 1 January 2026, small and medium-sized undertakings which are undertakings referred to in Article 2, point (1), point (a), 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. [...]

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

‘Article 29a, Consolidated sustainability reporting

1. Parent undertakings of a large group 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. [...]

Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3 and 7

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

‘ [...] 7. An 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 consolidated management report of that parent undertaking and where the consolidated management report is drawn up in a manner that may be considered equivalent, in accordance with the relevant implementing measures adopted pursuant to Article 23(4), point (i), of Directive 2004/109/EC of the European Parliament and of the Council*6, to the manner required by the sustainability reporting standards referred to in Article 19b of this Directive.

The consolidated management report of the parent undertaking referred to in subparagraph 1 shall be published in accordance with Article 30, in the manner prescribed by the law of the Member State by which the undertaking that is exempted from the obligations set out in paragraphs 1 to 4 is governed.

The Member State by which the undertaking that is exempted from the obligations set out in paragraphs 1 to 4 is governed, may require that the consolidated management report referred to in the first subparagraph of this paragraph is published in an official language of the Member State or in a language customary in the sphere of international finance, and that any necessary translation into those languages is certified.

The **management report of an undertaking that is exempted** from the obligations set out in paragraphs 1 to 4 shall **contain** all of the following information:

- (a) the **name and registered office of the parent undertaking that reports information at group level** in accordance with Articles 29 and 29a, or in a manner that may be considered equivalent, in accordance with the implementing measures adopted pursuant to Article 23(4), point (i) of Directive 2004/109/EC, to the manner required by the sustainability reporting standards referred to in Article 19b;
- (b) **the fact that the undertaking is exempted from the obligations** set out in paragraphs 1 to 4 of this Article.

Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3 and 7

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

‘[...] 7. A parent undertaking which is also a subsidiary undertaking shall be exempted from the obligation 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 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 consolidated management report of that parent undertaking and where the consolidated management report is drawn up in a manner that may be considered equivalent, in accordance with the relevant implementing measures adopted pursuant to Article 23(4)(i) of Directive 2004/109/EC, to the manner required by the sustainability reporting standards referred to in Article 19b of this Directive.

The consolidated management report of the parent undertaking referred to in subparagraph 1 shall be published in accordance with Article 30, in the manner prescribed by the law of the Member State by which the parent undertaking that is exempted from the obligations set out in paragraphs 1 to 4 is governed.

The Member State by which the parent undertaking that is exempted from the obligations set out in paragraphs 1 to 4 is governed may require that the consolidated management report referred to in the first subparagraph of this paragraph is published in its official language or in a language customary in the sphere of international finance, and that any necessary translation into those languages is certified.

The consolidated management report of a parent undertaking that is exempted from the obligations set out in paragraphs 1 to 4 shall contain all of the following information:

(a) the **name and registered office of the parent undertaking that reports information at group level** in accordance with Articles 29 and this Article, or in a manner that may be considered equivalent, in accordance with the relevant implementing measures adopted pursuant to Article 23(4)(i) of Directive 2004/109/EC, to the manner required by the sustainability standards adopted pursuant to Article 19b;

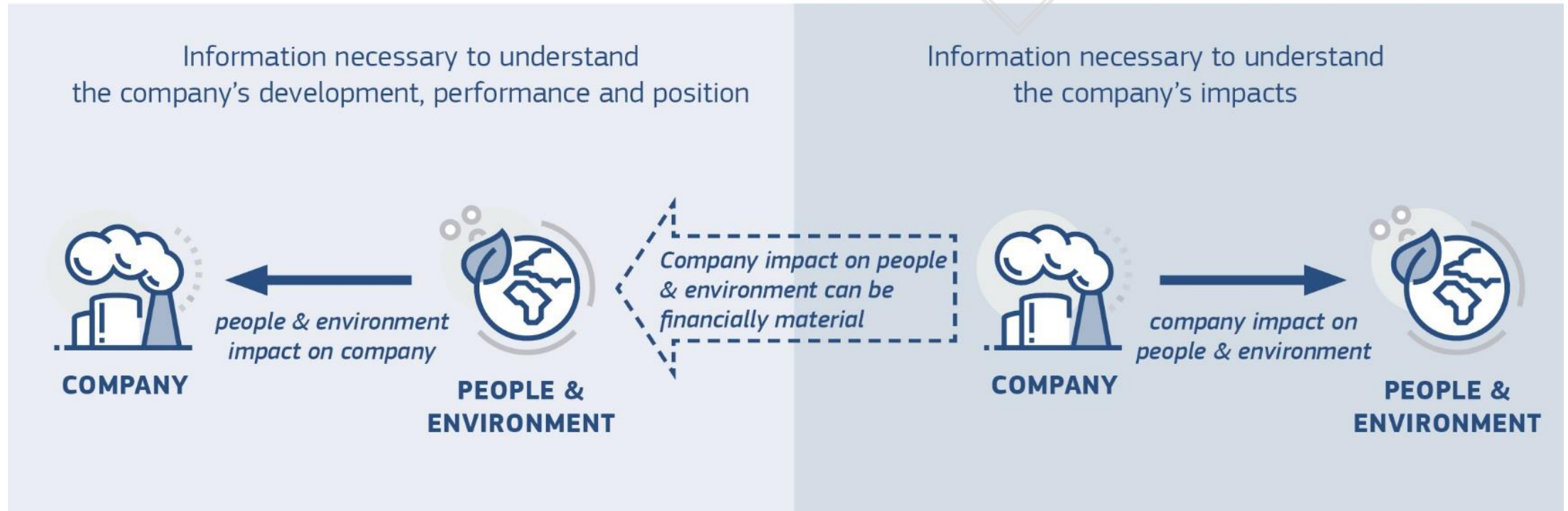
(b) the **fact that the undertaking is exempted from the obligations** set out in paragraphs 1 to 4 of this Article.’;

PUBLIC

Q&A

Double materiality

THE CSRD CLARIFIES THAT REPORTING IS REQUIRED BOTH ON:



Double materiality



➤ Recital: 25

Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3 and 7

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

‘Article 19a, Sustainability Reporting

1. Large undertakings and, as of 1 January 2026, small and medium-sized undertakings which are undertakings referred to in Article 2, point (1), point (a), 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.** [...]

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

‘Article 29a, Consolidated sustainability reporting

1. Parent undertakings of a large group 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.** [...]

Definition of 'sustainability matters'

- Environmental
- Social and employee matters
- Respect for human rights
- Anti-corruption and bribery matters
- Governance matters

Sustainable Finance
Disclosure Regulation

➤ Recital: 21

Article 1 - Amendments to Directive 2013/34/EU, paragraph 2

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

'(17) **'sustainability matters'** means sustainability factors as defined in Article 2, point (24) of Regulation (EU) 2019/2088 of the European Parliament and of the Council^{*4}, and governance factors;

Required reporting areas

PUBLIC

. Business model and strategy:

- ☐ resilience of business model and strategy to risks related to sustainability matters
- ☐ opportunities for undertaking related to sustainability matters
- ☐ transition plans, plans to ensure that 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
- ☐ interests of stakeholders, how taken into account in the undertaking's business model and strategy
- ☐ impacts, how taken into account in the undertaking's business model and strategy
- ☐ strategy implementation, with regard to sustainability matters

Required reporting areas

- . **Targets and progress**
- . **Role of board & management** with regard to sustainability matters
- . **Policies** in relation to sustainability matters
- . A description of:
 - ☐ **due diligence process**
 - ☐ **principal adverse impacts**
 - actual or potential
 - value chain, including its own operations, its products and services, its business relationships and its supply chain
 - ☐ **actions taken**, and the result of such actions, **to prevent, mitigate or remediate adverse impacts**
- . **Principal risks** to the undertaking **and risk management**
- . **Indicators**
- . **Intangibles**, including information on intellectual, human, and social and relationship capital
- . **Process to identify information reported**, taking account of different time horizons

Required reporting areas

Business model and strategy...

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

Embedding the TCFD

And...

- ☐ targets and progress
- ☐ role of board & management
- ☐ policies
- ☐ due diligence process
- ☐ principal adverse impacts
- ☐ actions taken to prevent, mitigate or remediate adverse impacts
- ☐ principal risks and risk management
- ☐ indicators
- ☐ intangibles
- ☐ process to identify information reported

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

‘[...] 2. The information referred to in paragraph 1 shall contain in particular:

(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** 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**;

(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 **targets** related to sustainability matters set by the undertaking and of the **progress** the undertaking has made towards achieving those targets;

(c) a description of the **role of the administrative, management and supervisory bodies with regard to sustainability matters**;

(d) a description of the undertaking's **policies** in relation to sustainability matters;

(e) a description of:

(i) the **due diligence process** implemented with regard to sustainability matters;

(ii) the **principal actual or potential adverse impacts** connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;

(iii) any **actions** taken, and the **result of such actions, to prevent, mitigate or remediate 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).

Undertakings shall also disclose information on **intangibles**, including information on intellectual, human, and social and relationship capital.

Undertakings shall report the **process** carried out to identify the information that they have included in the management report in accordance with paragraph 1 and in this process they shall **take account of short, medium and long-term horizons**.

Required reporting areas

PUBLIC

Article 1 - Amendments to Directive 2013/34/EU, paragraph 2

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

(19) 'intangibles' means non-physical resources that contribute to the undertaking's value creation;

Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3 and 7

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

'[...] 2. The information referred to in paragraph 1 shall contain in particular:

(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 to ensure that the group's business model and strategy 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;

(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 targets related to sustainability matters set by the group and of the progress of the undertaking towards achieving them;

(c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;

(d) a description of the group's policies in relation to sustainability matters;

(e) a description of:

(i) the due diligence process implemented with regard to sustainability matters;

(ii) the principal actual or potential adverse impacts connected with the group's value chain, including its own operations, its products and services, its business relationships and its supply chain;

(iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate 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 factors, and how the group manages those risks;

(g) indicators relevant to the relevant to the disclosures referred to in points (a) to (f).

Parent undertakings shall also report information on intangibles, including information on intellectual, human, and social and relationship capital.

Parent undertakings shall describe the **process** carried out to identify the information that they have included in the consolidated management report in accordance with this Article.

Other requirements of reported information

- ✓ Forward-looking and retrospective
- ✓ Qualitative and quantitative
- ✓ Value chain, business relationships
- ✓ Additional explanations of other information included in the management report and amounts reported in the annual financial statements.
- ✓ MS allowed to allow omission of information relating to impending developments or matters in the course of negotiation in exceptional cases

Other requirements of reported information

➤ Recitals: 29-30

Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3 and 7

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

‘[...] 3. The information referred to in paragraphs 1 and 2 shall contain **forward-looking and retrospective information**, and **qualitative and quantitative information**.

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

Where appropriate, 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.

Other requirements of reported information

Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3 and 7

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

‘[...] 3. The information referred to in paragraphs 1 and 2 shall contain **forward-looking information and information about past performance**, and **qualitative and quantitative information**. This information shall take into account short, medium and long-term time horizons, where appropriate.

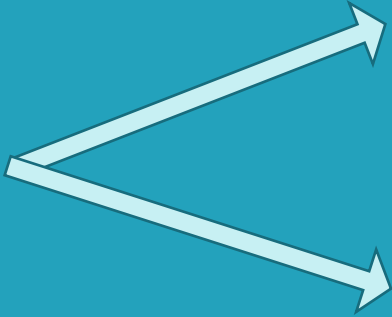
The information referred to in paragraphs 1 and 2 shall include information about the group’s **value chain**, including its own operations, its products and services, its business relationships and its supply chain, where appropriate.

The information referred to in paragraphs 1 and 2 shall also, where appropriate, **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.

Standards

PUBLIC

- Standards for large companies → Mandatory
- Standards for SMEs 
 - Mandatory - for **SMEs under scope**
(with securities listed on EU regulated markets)
 - Voluntary - for **all other SMEs**

Standards

➤ Recitals: 32-47

➤ Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3, 4, 7 and 11

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraphs 3 and 7

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

[...] 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.**

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.**

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

[...] 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 19b.

5. By way of derogation from Article 29a, paragraphs 1-4, parent undertakings that are 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.

Standards

➤ Recitals: 32-47

➤ Article 1 - Amendments to Directive 2013/34/EU, paragraphs 3, 4, 7 and 11

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraphs 3 and 7

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

[...] 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.**

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.**

Standards for SMEs -> Mandatory for SMEs under scope (with securities listed on EU regulated markets)

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

[...] 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 19b.

5. By way of derogation from Article 29a, paragraphs 1-4, parent undertakings that are 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.

Standards

PUBLIC

Content

- ✓ meet quality criteria (understandability, relevance, reliability, verifiability, faithful representation)
- ✓ cover detailed E, S and G topics
- ✓ take account of EU legislation and initiatives
- ✓ take account of global standard-setting initiatives

Coverage of sustainability topics

✓ cover detailed E, S and G topics

Environment

1. Climate change mitigation
2. Climate change adaptation
3. Water & marine
4. Resource use & CE
5. Pollution
6. Biodiversity & ecosystems

Mirrors EU Taxonomy

Social

1. Equal opportunities
2. Working conditions
3. Human rights

1 & 2 build on European Pillar of Social Rights

Governance

1. Role & composition of board and management
2. Ethics & corp. culture (inc. bribery & corruption)
3. Political engagements
4. Business relationships
5. Control & risk management

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 4

➤ Recitals: 40, 43, 44

(4) the following Articles 19b, 19c and 19d are inserted:

‘Article 19b, Sustainability reporting standards

[...] 2. The sustainability reporting standards referred to in paragraph 1 shall require that the information to be reported is **understandable, relevant, representative, verifiable, comparable, and is represented in a faithful manner**.

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 **environmental factors**, including information about:
 - (i) climate change mitigation;
 - (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 **social factors**, including information about:
 - (i) equal opportunities for all, including gender equality and equal pay for equal work, training and skills development, and employment and inclusion of people with disabilities;
 - (ii) working conditions, including secure and adaptable employment, wages, social dialogue, collective bargaining and the involvement of workers, work-life balance, and a healthy, safe and well-adapted work environment;
 - (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, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions and the Charter of Fundamental Rights of the European Union.
- (c) specify the information that undertakings are to disclose about **governance factors**, including information about:
 - (i) the role of the undertaking’s administrative, management and supervisory bodies, including with regard to sustainability matters, and their composition;
 - (ii) business ethics and corporate culture, including anti-corruption and anti-bribery;
 - (iii) political engagements of the undertaking, including its lobbying activities;
 - (iv) the management and quality of relationships with business partners, including payment practices;
 - (v) the undertaking’s internal control and risk management systems, including in relation to the undertaking’s reporting process.

Standards

PUBLIC

- ✓ Take account of EU legislation and initiatives
 - Information that FMP need to comply with their disclosure obligations laid down in SFDR
 - Criteria of the Taxonomy Regulation
 - Disclosure requirements on 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
 - Implementing acts of CRR, as regards Pillar III ESG risks disclosures
 - Commission Recommendation on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations (OEF)
 - Directive establishing a scheme for greenhouse gas emission allowance trading (ETS)
 - Regulation on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS)
- ✓ Take account of global standard-setting initiatives

Standards

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 4

(4) the following Articles 19b, 19c and 19d are inserted:

‘Article 19b, Sustainability reporting standards

[...] 3. When adopting delegated acts pursuant to paragraph 1, the **Commission shall take account of**:

- (a) the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital 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 set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852;
- (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) 2020/1816*8, (EU) 2020/1817 and (EU) 2020/1818;
- (e) the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013;
- (f) Commission Recommendation 2013/179/EU;
- (g) Directive 2003/87/EC of the European Parliament and of the Council;
- (h) Regulation (EC) No 1221/2009 of the European Parliament and of the Council.

Standards

Process

- ✓ European Financial Reporting Advisory Group (**EFRAG**) develops draft standards
- ✓ Commission shall take into consideration EFRAG's advice, provided that:
 - it has been developed with **proper due process, public oversight and transparency**
 - it has been developed with the **expertise of relevant stakeholders**
 - is accompanied by **cost-benefit analyses** that include analyses of the impacts of the technical advice on sustainability matters
- ✓ **Commission adopts standards as Delegated Acts after consulting relevant EU bodies**
 - Member State Expert Group on Sustainable Finance
 - European Securities and Markets Authority, in particular with regard to its consistency with SFDR. Opinion required within two months.
 - European Banking Authority, the European Insurance and Occupational Pensions Authority, 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. If they provide opinion, within two months.

Standards

PUBLIC

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 11

(11) Article 49 is amended as follows:

(b) the following paragraph 3a is inserted:

‘3a. When adopting delegated acts pursuant to Articles 19b and 19c, the Commission shall **take into consideration technical advice from EFRAG**, provided such advice has been developed with proper due process, public oversight and transparency and with the expertise of relevant stakeholders, and is accompanied by cost-benefit analyses that include analyses of the impacts of the technical advice on sustainability matters.

The Commission shall consult the **Member State Expert Group on Sustainable Finance** referred to in Article 24 of Regulation (EU) 2020/852 on the technical advice provided by EFRAG prior to the adoption of the delegated acts referred to in Articles 19b and 19c.

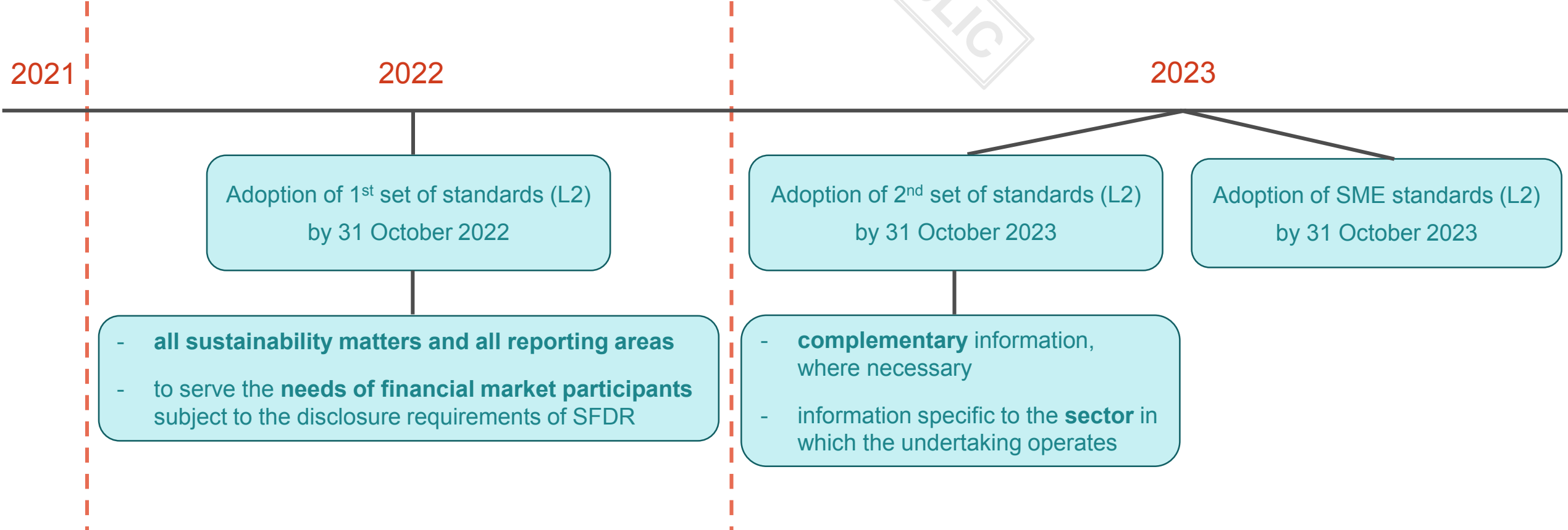
The Commission shall request the opinion of the **European Securities and Markets Authority** on the technical advice provided by EFRAG, in particular with regard to its consistency with Regulation (EU) 2019/2088 and its delegated acts. The European Securities and Markets Authority shall provide its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

The Commission shall also consult the **European Banking Authority, the European Insurance and Occupational Pensions Authority, 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 19b and 19c. 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.’;

Standards

Assumes co-legislators agreement in Q1/Q2 2022

PUBLIC



- At least every three years after its date of application, review any delegated act, taking into consideration the technical advice of EFRAG.
- Where necessary, amend such delegated act to take into account relevant developments, including developments with regard to international standards.

Standards

PUBLIC

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 4

(4) the following Articles 19b, 19c and 19d are inserted:

‘Article 19b, 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 31 October 2022**, 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 **at least specifying information corresponding to the needs of financial market participants subject to the disclosure obligations of Regulation (EU) 2019/2088**.

(b) **by 31 October 2023**, 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.

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**. [...]

PUBLIC

Q&A Break

Digital

Companies

- ☐ financial statements and management report in a single electronic reporting format (**XHTML**)
- ☐ **mark-up sustainability information** only, to make it machine readable

Consistent with ESEF

PUBLIC

Member States

- ☐ ensure that information is **published in electronic format**
- ☐ ensure that reported **information reaches Officially Appointed Mechanisms (OAMs)** → ESAP

Digital

➤ Recitals: 48-49

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraphs 4 and 8

(4) the following Articles 19b, 19c and 19d are inserted:

‘Article 19d, Single electronic reporting format

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

2. Undertakings subject to Article 29a shall prepare their consolidated financial statements and their consolidated management report in a single electronic reporting format in accordance with 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.

(8) Article 30 is amended as follows:

[...] (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.’;

Digital

➤ Recitals: 48-49

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraphs 4 and 8

(4) the following Articles 19b, 19c and 19d are inserted:

‘Article 19d, Single electronic reporting format

1. Undertakings subject to Article 19a shall prepare

reporting format in accordance with Article 3 of Commission Delegated Regulation (EU) 2019/815 and shall mark-up their sustainability reporting, including the disclosures laid down in Article 8 of Regulation (EU) 2020/852, in accordance with that Delegated Regulation.

ESEF Regulation would be amended to include a requirement to tag sustainability reporting

2. Undertakings subject to Article 29a shall prepare their consolidated financial statements and their consolidated management report in a single electronic reporting format in accordance with 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.

(8) Article 30 is amended as follows:

[...] (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.’;

Assurance

What?

- **'Limited assurance'**
- **'Reasonable assurance'** if Commission adopts assurance standards for reasonable assurance

Who?

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

Assurance

PUBLIC

➤ Recitals: 53-68

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

(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.’;

Assurance

PUBLIC

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

(10) Article 34 is amended as follows:

[...] (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.

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

Assurance

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.**’;

PUBLIC

Assurance

Other amendments to the Audit Directive, to ensure the legal FW of statutory auditors/audits applies to the assurance of annual and consolidated sustainability reporting

- ✓ Rules on approval, continuing professional education and mutual recognition of statutory auditors and audit firms amended to ensure that statutory auditors have the necessary level of knowledge of subjects relevant to the assurance of sustainability reporting
- ✓ Grandfathering clause to ensure that approved statutory auditors can continue carrying out statutory audits and can carry out assurance of sustainability reporting once the amended legal requirements apply
- ✓ Organisation of the work of the auditor: include work on the assurance of sustainability reporting.
- ✓ Rules on professional ethics, independence, objectivity, confidentiality and professional secrecy required to work on the assurance of sustainability reporting

Assurance

➤ Recitals: 53-68

PUBLIC

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraphs 1-21

(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.’;

(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 .’;

Assurance

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraphs 1-21

(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.’;

Assurance

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraphs 1-21

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

(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;’;

Assurance

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraphs 1-21

(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.’;

(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’;

(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.’;

(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.’;

Assurance

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraphs 1-21

(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.’;

(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, 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.’;

(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.’;

Assurance

PUBLIC

Article 3 - Amendments to Directive 2006/43/EC (Audit Directive), paragraphs 1-21

(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.’;

(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.’;

Assurance

PUBLIC

Other amendments to Audit Directive

- ✓ Require MS to require auditors to carry out assurance engagements of sustainability reporting in accordance with assurance standards adopted by the Commission (apply national assurance standards, procedures or requirements in the meantime).
- ✓ Empowerment to Commission to adopt assurance standards by means of delegated acts.
- ✓ Transition to reasonable assurance engagement should the Commission use the option to adopt standards for reasonable assurance.

Assurance

PUBLIC

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

(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.**’;

Assurance

PUBLIC

Other amendments to Audit Directive

- ✓ Results of assurance of sustainability reporting in the audit report.
- ✓ Ensure that quality assurance reviews take place for the assurance of sustainability reporting and that the people who carry out quality assurance reviews have appropriate professional education and relevant experience in the assurance of sustainability reporting.
- ✓ Clarify that the investigations and sanctions regime for statutory auditors and audit firms carrying out statutory audits also apply to audits of sustainability reporting.
- ✓ Clarify that provisions on public oversight and regulatory arrangements between MS as regards statutory audits also apply to the assurance of sustainability reporting.
- ✓ Clarify that the provisions on the appointment and dismissal of statutory auditors and audit firms as regards statutory audits also apply to the assurance of sustainability reporting.

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

(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.’;

(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.’;

(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) 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.’;

(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.’;

(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.’;

(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.’

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

(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;’;

(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 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;’;

(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.’;

(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.’;

Assurance

Other amendments to Audit Directive

- ✓ Clarify the tasks of the audit committee for the assurance of sustainability reporting:
 - inform the administrative or supervisory body of the audited entity of the outcome of the assurance of sustainability reporting;
 - explain how the audit committee contributed to the integrity of sustainability reporting and what the role of the audit committee was in that process;
 - monitor the sustainability reporting process, including the digital reporting process, and the process carried out by the company to identify the information reported according to the relevant sustainability reporting standards and submit recommendations or proposals to ensure its integrity;
 - monitor the effectiveness of the company's internal quality control and risk management systems and, where applicable, its internal audit, regarding the sustainability reporting of the audited entity, including its digital reporting, without breaching its independence;
 - monitor the assurance of the annual and consolidated sustainability reporting, and review and monitor the independence of the statutory auditors or the audit firms.
- ✓ Align the requirements for the registration and oversight of non-EU auditors and audit entities with the new scope of the Directive, covering the assurance of sustainability reporting.

Assurance

PUBLIC

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

(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;
- (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;'

Assurance

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

(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 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:

‘(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:

‘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).

Assurance

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Amendments to the Audit Regulation, to ensure certain requirements of the legal FW for the audit of PIEs apply to the assurance of annual and consolidated sustainability reporting

- ✓ Prohibited non-audit services (consulting services for the preparation of sustainability reporting) when statutory auditors or audit firms carrying out the assurance of sustainability reporting.
- ✓ Requirement to annually inform competent authority about which revenues from the non-audit services were generated from the assurance of sustainability reporting.

Assurance

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

(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.’;

(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.’

(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,’.

Supervision and penalties

Non-listed companies

- Minimum set of sanctions specified

Listed companies

- Clarifies that National competent authorities (**NCAs**) are **responsible** for enforcement
- **ESMA guidelines** for NCAs to promote convergent supervision

(Minimum set of sanctions is already specified)

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 12

➤ Recitals: 69-70

(12) Article 51 is replaced by the following:

‘Article 51, Penalties

1. Without prejudice to paragraph 2, Member States shall provide for penalties applicable to infringements of the national provisions adopted in accordance with this Directive and shall take all the measures necessary to ensure that those penalties are enforced. The penalties provided for shall be effective, proportionate and dissuasive.’
2. In case of a breach of the national provisions transposing Articles 19a, 19d and 29a, Member States shall provide for at least the following administrative measures and sanctions:
 - (a) a public statement indicating the natural person or the legal entity responsible and the nature of the infringement;
 - (b) an order requiring the natural person or the legal entity responsible to cease the conduct constituting the infringement and to desist from any repetition of that conduct;
 - (c) administrative pecuniary sanctions.
3. Member States shall ensure that, when determining the type and level of penalties, administrative sanctions or measures referred to in paragraph 2, all relevant circumstances are taken into account, including:
 - (a) the gravity and the duration of the breach;
 - (b) the degree of responsibility of the natural person or legal entity responsible;
 - (c) the financial strength of the natural person or legal entity responsible;
 - (d) the importance of profits gained or losses avoided by the natural person or legal entity responsible, in so far as such profits or losses can be determined;
 - (e) the losses sustained by third parties as a result of the breach, in so far as those losses can be determined;
 - (f) the level of cooperation of the natural person or legal entity responsible with the competent authority;
 - (g) previous infringements by the natural person or legal entity responsible.’.

Supervision and penalties

Article 2 - Amendments to Amendments to Directive 2004/109/EC (Transparency Directive), paragraphs 2 and 4

(2) Article 4 is amended as follows:

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

‘4. The financial statements shall be audited in accordance with Article 34 of Directive 2013/34/EU and Article 28 of Directive 2006/43/EC.

The audit report, 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.

5. The **management report shall be drawn up in accordance with Articles 19, 19a, 19d(1) and 20** of Directive 2013/34/EU, 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 **19d(2)**, 29 and **29a** of Directive 2013/34/EU, when drawn-up by undertakings referred to in those provisions.’

(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.’

Modification to corporate governance statement

Obligation to describe the **gender diversity policy** applied by the undertaking in relation to its **administrative, management and supervisory bodies** and the implementation thereof.

➤ ONLY undertakings with securities **listed** on regulated markets

Certain information required in the corporate governance statement may be included as part of sustainability reporting.

Modification to corporate governance statement

➤ Recital: 51

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 5

(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, 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 points (c), (f) and (g) of the first subparagraph of this Article **where they include the information required under those points as part of their sustainability reporting.**’;

Coherence CSRD & Taxonomy

Article 8 disclosures

- Scope: art 8 disclosures would apply to all companies under proposed CSRD scope
- Assurance: art 8 disclosures subject to same audit requirements as other CSRD information
- Digital: art 8 disclosures subject to digital mark-up requirement (=> European Single Access Point)

Sustainability reporting standards

- Platform on Sustainable Finance will be consulted on draft standards
- Environmental sub-topics mirror taxonomy structure
- Standards must take account of taxonomy criteria

Coherence CSRD & Sustainable Finance Disclosure Regulation

- ✓ Definition of sustainability matters: as for SFDR, plus governance
- ✓ Standards must take account of needs of financial market participants under SFDR, and 1st set of standards must meet those needs
- ✓ ESAs consulted by Commission prior to adoption of standards

Coherence with international initiatives

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

➡ EFRAG will work in co-construction with international initiatives.
Preparatory meetings in December 2020 and March 2021.

SMEs and the CSRD proposal

Having and sharing sustainability information will increasingly become part of business practice. Providers of finance, as well as business partners (especially but not larger company clients), increasingly expect a minimum amount of information.

Our aim: to enable, and not to endanger, SME participation in and contribution to transition to a sustainable economy.

Listed SMEs

In scope, but

- 3 years after large companies
- may use proportionate SME standards

All other SMEs

No new legal requirements, but

- may use proportionate SME standards on a voluntary basis

And: exploring possibility for technical support to Member States to support SMEs

Content of proposal

Main changes compared to existing provisions

	Existing provisions NFRD	Proposed CSRD
Scope	Large PIEs, with more than 500 employees	All large and all listed (ex. listed micros, inc. non-EU listed)
Double materiality	Some ambiguity	Clarity: both perspectives to be addressed in their own right
Topics	Environmental, social and employee matters, respect for human rights, anti-corruption & bribery	Environment, Social, Governance (in effect, as for NFRD plus governance)
Reporting areas	Restricted list	More detailed and extensive list
Standards	Companies disclose if they use a standard	Mandatory EU standards for large companies. Simpler standards for SMEs (mandatory for listed SMEs, voluntary for all other SMEs).
Location	Management report by default, but MS may allow separate report	Management report
Assurance	Existence check only	Limited assurance. Reasonable assurance should COM adopt assurance standards for reasonable assurance
Digital	No requirement	Mark-up sustainability information
Supervision & penalties	Listed companies: lack of clarity about role of NCAs Non-listed companies: no specific sanctions	Listed: Clarify role NCAs, and ESMA guidelines for NCAs Non-listed: minimum sanctions

Indicative timeline



- **21 April 2021:** Commission adopts proposal
- **Q1/Q2 2022:** Co-legislators reach agreement on level 1
- **Mid-2022:** first set of draft standards ready
- **End-2022:** first standards adopted in level 2 Delegated Regulations
- **2024:** companies publish first reports according to standards (covering financial year 2023)

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

Indicative timeline

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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 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.

Article 6 - Date of application of Article 4 (Amendments to Audit Regulation)

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

Thank you

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