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From:	General Secretariat of the Council
To:	Working Party on Company Law (Sustainability information)

Subject:	Presentation by the Commission on the Proposal for a Corporate Sustainability Reporting Directive - Powerpoint presentation (WP 29.06.2021)
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Delegations will find attached the presentation made by the Commission during the 29/6 meeting on 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.

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Proposal for a Corporate Sustainability Reporting Directive

Council WG

29 June 2021

Index

- Amendments to Accounting Directive (AD) and Transparency Directive (TD)
 - Definitions (AD)
 - Scope (AD and TD)
 - Location of reported information (AD)

Legal structure

CSRD = amending Directive



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

Definitions

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

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

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

(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.’

Definitions

PUBLIC

(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, and governance factors;

Definitions

PUBLIC

Recital 24

(24) The list of sustainability matters on which undertakings are required to report should be as coherent as possible with the definition of ‘sustainability factors’ laid down in Regulation (EU) 2019/2088. That list should also correspond to the needs and expectations of users and undertakings themselves, who often use the terms ‘environmental’, ‘social’ and ‘governance’ as a means to categorise the three main sustainability matters. The list of sustainability factors laid down in Regulation (EU) 2019/2088 does not explicitly include governance matters. The definition of sustainability matters in Directive 2013/34/EU should therefore be based on the definition of ‘sustainability factors’ laid down in Regulation (EU) 2019/2088, but with the addition of governance matters.

Definitions

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

Definitions



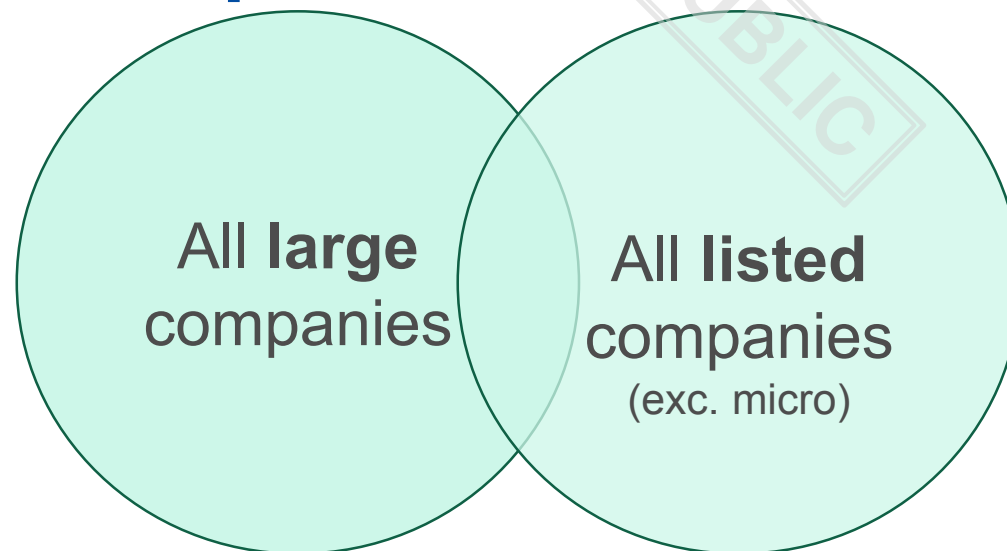
(19) 'intangibles' means non-physical resources that contribute to the undertaking's value creation;

Definitions

PUBLIC

(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.’

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?

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

(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.

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

Scope: which companies?

Recital 23

(23) Credit institutions and insurance undertakings play a key role in the transition towards a fully sustainable and inclusive economic and financial system in line with the European Green Deal. They can have significant positive and negative impacts via their lending, investment and underwriting activities. Credit institutions and insurance undertakings other than those that are required to comply with Directive 2013/34/EU, including cooperatives and mutual undertakings, should therefore be subject to sustainability reporting requirements provided that they meet certain size criteria. Users of that information would thus be enabled to assess both the impacts of these undertakings on society and the environment and the risks arising from sustainability matters that these undertakings could face. To ensure coherence with the reporting requirements of Council Directive 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions, sustainability reporting Member States may choose not to apply sustainability reporting requirements to credit institutions listed in Article 2(5) of Directive 2013/36/EU of the European Parliament and of the Council .

Scope: which companies?

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

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

‘Article 19a, Sustainability Reporting

➤ Large companies

➤ 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) 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. [...]

Scope: which companies?

PUBLIC

Recitals 15 and 16

(15) Articles 19a and 29a of Directive 2013/34/EU apply to large undertakings that are public-interest entities with an average number of employees in excess of 500, and to public-interest entities that are parent undertakings of a large group with an average number of employees in excess of 500 on a consolidated basis, respectively. In view of the growth of users' needs for sustainability information, additional categories of undertakings should be required to report such information. It is therefore appropriate to require **all large undertakings and all undertakings listed on regulated markets**, except micro undertakings, to report detailed sustainability information. In addition, **all undertakings that are parent undertakings of large groups should prepare sustainability reporting at group level.**

➤ Large companies

(16) The requirement that also large non-listed undertakings should disclose information on sustainability matters is mainly driven by concerns about the impacts and accountability of such undertakings, including through their value chain. In this respect, all large undertakings should be subject to the same requirements to report sustainability information publicly. In addition, financial market participants also need information from those large non-listed undertakings.

Scope: which companies?

Recitals 17 and 18

➤ Listed SMEs: 3 year phase-in

(17) The requirement that undertakings not established in the Union but with securities listed on regulated markets should also disclose information on sustainability matters responds to the needs of financial market participants for information from such undertakings in order to understand the risks and impacts of their investments, and to comply with the disclosure requirements laid down in Regulation (EU) 2019/2088.

(18) Considering the growing relevance of sustainability-related risks and taking into account that small and medium-sized enterprises (SMEs) listed on regulated markets comprise a significant proportion of all listed undertakings in the Union, in order to ensure investor protection it is appropriate to require that also those SMEs disclose information on sustainability matters. The introduction of this requirement will help to ensure that financial market participants can include smaller listed undertakings in investment portfolios on the basis that they report the sustainability information that financial market participants need. It will therefore help to protect and enhance the access of smaller listed undertakings to financial capital, and avoid discrimination against such undertakings on the part of financial market participants. The introduction of this requirement is also necessary to ensure that financial market participants have the information they need from investee undertakings to be able to comply with their own sustainability disclosure requirements laid down in Regulation (EU) 2019/2088. SMEs listed on regulated markets should, however, be provided with sufficient time to prepare for the application of the requirement to report sustainability information, due to their smaller size and more limited resources, and taking account of the difficult economic circumstances created by the COVID-19 pandemic. They should also be given the possibility to report according to standards that are proportionate to the capacities and resources of SMEs. Non-listed SMEs can also choose to use these proportionate standards on a voluntary basis. The SME standards will set a reference for undertakings that are within the scope of the Directive regarding the level of sustainability information that they could reasonably request from SME suppliers and clients in their value chains.

Scope: which companies?

PUBLIC

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

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

‘Article 19a, Sustainability Reporting

[...]

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.

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

Scope: which companies?

Article 1 - Amendments to Directive 2013/34/EU (Accounting Directive), paragraph 7

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

‘Article 29a, Consolidated sustainability reporting

[...]

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

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

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

(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.

➤ Obligations of exempted subsidiary.

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, paragraph 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.

➤ Obligations of parent exempted subsidiary.

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.’;

Scope: which companies?

PUBLIC

Recital 21

(21) Articles 19a(3) and 29a(3) of Directive 2013/34/EU currently exempt all subsidiary undertakings from the obligation to report non-financial information where such undertakings and their subsidiary undertakings are included in the consolidated management report of their parent undertaking, provided this includes the required non-financial information. **It is necessary, however to ensure that sustainability information is easily accessible for users, and to bring transparency about which is the parent undertaking of the exempted subsidiary undertaking which is reporting at consolidated level. It is therefore necessary to require those subsidiary undertakings to publish the consolidated management report of their parent undertaking and to include a reference in their management report to the fact that they are exempted from reporting sustainability information.** That exemption should also apply where the parent undertaking reporting at consolidated level is a third country undertaking reporting sustainability information in accordance with the requirements of this Directive or in a manner equivalent to EU sustainability reporting standards.

Scope: which companies?

Article 1 - Amendments to Directive 2013/34/EU, paragraph 6

(6) Article 23 is amended as follows:

➤ No interference with exiting exemption regime of consolidated financial reporting

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

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

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

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

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

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

Scope: which companies?

PUBLIC

Recital 22

(22) Article 23 of Directive 2013/34/EU exempts parent undertakings from the obligation to prepare consolidated financial statements and a consolidated management report where those undertakings are subsidiaries of another parent undertaking that complies with that obligation. **It should be specified, however, that the exemption regime for consolidated financial statements and consolidated management reports operates independently from the exemption regime for consolidated sustainability reporting.** An undertaking can therefore be exempted from consolidated financial reporting obligations but not exempted from consolidated sustainability reporting obligations where its ultimate parent prepares consolidated financial statements and consolidated management reports in accordance with Union law, or in accordance with equivalent requirements if the undertaking is established in a third country, but does not prepare consolidated sustainability reporting in accordance with EU law, or in accordance with equivalent requirements if the undertaking is established in a third country.

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 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.’;**

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

Scope: which companies?

PUBLIC

Recital 19

(19) Directive 2004/109/EC of the European Parliament and of the Council applies to all undertakings with securities listed on regulated markets. In order to ensure that all undertakings with securities listed on regulated markets, including third country issuers, fall under the same sustainability reporting requirements, **Directive 2004/109/EC should contain the necessary cross-references to any requirement on sustainability reporting in the annual financial report.**

Scope: which companies?

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

(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.

➤ 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 to issuers of more than one country.';

➤ COM shall adopt measures to establish equivalence criteria of sustainability reporting standards used by non-EU issuers

Scope: which companies?

PUBLIC

Recital 20

(20) Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC empower the Commission to adopt measures to set up a mechanism for the determination of equivalence of information required under the Directive, and for the establishment of general equivalence criteria regarding accounting standards, respectively. Article 23(4), third subparagraph, of Directive 2004/109/EC also empowers the Commission to take the necessary decisions on the equivalence of accounting standards that are used by third-country issuers. In order to reflect the inclusion of the sustainability requirements in Directive 2004/109/EC, the Commission should be empowered to **establish a mechanism for the determination of equivalence of sustainability reporting standards** applied by third-country issuers of securities. For the same reason, the Commission should also be empowered to **take the necessary decisions on the equivalence of sustainability reporting standards** that are used by third-country issuers. Those amendments will ensure consistent equivalence regimes for sustainability reporting obligations and for financial reporting obligations regarding the annual financial report.

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?

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. [...]

Location: where should information be reported?

Recital 50

(50) Article 19a(4) of Directive 2013/34/EU enables Member States to exempt undertakings from including in the management report the non-financial statement required under Article 19a(1). Member States may do so where the undertaking concerned prepares a separate report that is published together with the management report in accordance with Article 30 of that Directive, or where that report is made publicly available on the undertaking's website within a reasonable period of time not exceeding 6 months, after the balance sheet date, and is referred to in the management report. The same possibility exists for the consolidated non-financial statement referred to in Article 29(a)(4) of Directive 2013/34/EU. Twenty Member States have used that option. **The possibility to publish a separate report hinders, however, the availability of information that connects financial and information on sustainability matters. It also hinders the findability and accessibility of information for users, especially investors, who are interested in both financial and sustainability information. Possible different publication times for financial and sustainability information exacerbate this problem. Publication in a separate report can also give the impression, internally and externally, that sustainability information belongs to a category of less relevant information, which can impact negatively on the perceived reliability of the information.** Undertakings should therefore report sustainability information in the management report and Member States should no longer be allowed to exempt undertakings from the obligation to include in the management report information on sustainability matters. Such obligation also helps to clarify the role of national competent authorities in supervising sustainability reporting, as part of the management report, in accordance with Directive 2004/109/EC. In addition, undertakings required to report sustainability information should in no case be exempted from the obligation to publish the management report as it is important to ensure that sustainability information is publically available.

Thank you

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