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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party on Company Law (Sustainability information)
Subject:	Proposal for a Sustainability Reporting Directive: powerPoint presentation

Delegations will find attached a powerPoint presentation on above-mentioned subject made by the Commission at the Informal videoconference of the members of the Working Party on Company Law on 15 July 2021.



Proposal for a Corporate Sustainability Reporting Directive

Council WG

15 July 2021

Legal structure

CSRD = amending Directive



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

Index

➤ Amendments to Accounting Directive (AD)

- Double materiality

Article 1, paragraphs 3 (Article 19a AD, only paragraph 1) and Article 7 (Article 29a AD, only paragraph 1)

- Content

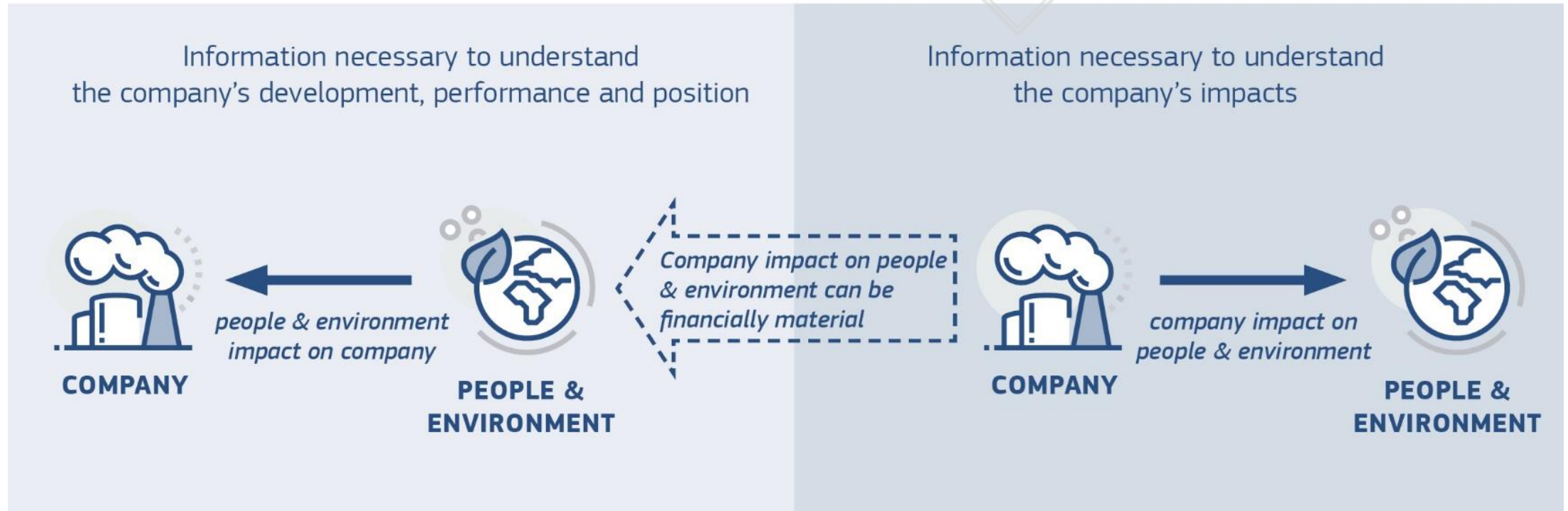
Article 1, paragraphs 3 (Article 19a AD, only paragraphs 2 and 3), Article 5 (Article 20 AD) and Article 7 (Article 29a AD, only paragraphs 2 and 3)

- Content

Article 1, paragraph 4 (only Article 19b AD, only paragraphs 2 and 3)

Double materiality - Article 19a(1)

THE CSRD CLARIFIES THAT REPORTING IS REQUIRED BOTH ON:



Double materiality - Article 19a(1)

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.** [...]

Double materiality - Article 19a(1)

Recital 25

(25) Articles 19a and 29a of Directive 2013/34/EU require reporting not only on information ‘to the extent necessary for an understanding of the undertaking's development, performance, position’, but also on information necessary for an understanding of the impact of the undertaking’s activities on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. Those articles therefore require undertakings to report both on how various sustainability matters affect the undertaking, and on the impacts of the activities of the undertaking on people and the environment. **That is referred to as the double-materiality perspective, in which the risks to the undertaking and the impacts of the undertaking each represent one materiality perspective.** The fitness check on corporate reporting shows that those two perspectives are often not well understood or applied. It is therefore necessary to clarify that undertakings should consider each materiality perspective in its own right, and should disclose information that is material from both perspectives as well as information that is material from only one perspective.

Required reporting areas – TODAY

TODAY

- ☐ business model
- ☐ policies including due diligence procedures
- ☐ outcomes
- ☐ risks and risk management
- ☐ KPIs relevant to the business

No policy on any of the 4 issues => explain why.

Required reporting areas - Article 19a(2)

. 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 - Article 19a(2)

- . **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 - Article 19a(2)

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

Required reporting areas - Article 19a(2)

Business model and strategy...

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

Coordination with SCGI

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

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

(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**.

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.

Required reporting areas - Article 19a(2)

Recitals 26, 27, 28, 31

(26) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to disclose information about five reporting areas: business model, policies (including due diligence processes implemented), the outcome of those policies, risks and risk management, and key performance indicators relevant to the business. Article 19a(1) of Directive 2013/34/EU does not contain explicit references to other reporting areas that users of information consider relevant, some of which align with disclosures included in international frameworks, including the recommendations of the Task Force on Climate-related Financial Disclosures. Disclosure requirements should be specified in sufficient detail to ensure that undertakings report information on their resilience to risks related to sustainability matters. In addition to the reporting areas identified in Articles 19a(1) and 29a(1) of Directive 2013/34/EU, undertakings should therefore be required to disclose information about their business strategy and the resilience of the business model and strategy to risks related to sustainability matters, any plans they may have to ensure that their business model and strategy are compatible with the transition to a sustainable and climate-neutral economy; whether and how their business model and strategy take account of the interests of stakeholders; any opportunities for the undertaking arising from sustainability matters; the implementation of the aspects of the business strategy which affect, or are affected by sustainability matters; any sustainability targets set by the undertaking and the progress made towards achieving them; the role of the board and management with regard to sustainability matters; the principal actual and potential adverse impacts connected with the undertaking's activities; and how the undertaking has identified the information that they report on. Once the disclosure of elements such as targets and the progress towards achieving them is required, the separate requirement to **disclose the outcomes of policies is no longer necessary**.

Required reporting areas - Article 19a(2)

Recitals 26, 27, 28, 31

(27) To ensure consistency with international instruments such as the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct, the due diligence disclosure requirements should be specified in greater detail than is the case in Article 19a(1), point (b), and Article 29a(1), point (b) of Directive 2013/34/EU. Due diligence is the process that undertakings carry out to identify, prevent, mitigate and remediate the principal actual and potential adverse impacts connected with their activities and identifies how they address those adverse impacts. Impacts connected with an undertaking's activities include **impacts directly caused by the undertaking, impacts to which the undertaking contributes, and impacts which are otherwise linked to the undertaking's value chain**. The due diligence process concerns the whole value chain of the undertaking including its own operations, its products and services, its business relationships and its supply chains. In alignment with the UN Guiding Principles on Business and Human Rights, an actual or potential adverse impact is to be considered principal where it measures among the greatest impacts connected with the undertaking's activities based on: the gravity of the impact on people or the environment; the number of individuals that are or could be affected, or the scale of damage to the environment; and the ease with which the harm could be remediated, restoring the environment or affected people to their prior state.

Required reporting areas - Article 19a(2)

Recitals 26, 27, 28, 31

(28) Directive 2013/34/EU does not require the disclosure of information on intangibles other than intangible assets recognised in the balance sheet. It is widely recognised that information on **intangible assets and other intangible factors**, including internally-generated intangibles, is underreported, impeding the proper assessment of an undertaking's development, performance and position and monitoring of investments. To enable investors to better understand the increasing gap between the accounting book value of many undertakings and their market valuation, which is observed in many sectors of the economy, adequate reporting on intangibles should be required. It is therefore necessary to require undertakings to disclose information on intangibles other than intangible assets recognised in the balance sheet, including intellectual capital, human capital, including skills development, and social and relationship capital, including reputation capital. Information on intangibles should also include information related to research and development.

Required reporting areas - Article 19a(2)

Recitals 26, 27, 28, 31

(31) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to provide a clear and reasoned **explanation for not pursuing policies** in relation to one or more of the matters listed, where the undertaking does not do so. The different treatment of disclosures on the policies that undertakings may have, compared to the other reporting areas included in those articles, **has created confusion among reporting undertakings and has not helped to improve the quality of the reported information**. Therefore, there is no need to maintain this different treatment of policies in the Directive. The standards will determine what information needs to be disclosed in relation to each of the reporting areas mentioned in Articles 19a and 29a.

Other requirements of reported information - Article 19a(3)

- ✓ 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 - Article 19a(3)

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 19a(3)

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.

Other requirements of reported information - Article 19a(3)

Recitals 29 and 30

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

(30) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to include in their non-financial reporting references to, and additional explanations of, amounts reported in the annual financial statements. Those Articles do, however, not require undertakings to make references to other information in the management report or to add additional explanations to that information. There is currently thus a lack of consistency between non-financial information reported and the rest of the information disclosed in the management report. It is necessary to lay down clear requirements in this regard.

Modification to corporate governance statement

TODAY

a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, [...]

CSRD

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

Modification to corporate governance statement

Article 1 - Amendments to Directive 2013/34/EU, 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.**’;

Modification to corporate governance statement

Recital 51

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

PUBLIC

Q&A

Standards (content) - Article 19b(2) and (3)

✓ meet quality criteria (understandability, relevance, reliability, verifiability, faithful representation)

✓ 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

(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 (content) - Article 19b(2) and (3)

Recitals 40, 41, 42, 43 and 44

(40) It should be ensured that the information reported by undertakings in accordance with the sustainability reporting standards meet the needs of users. The reporting standards should therefore specify the information that undertakings are to disclose **on all major environmental factors**, including their impacts and dependencies on climate, air, land, water and biodiversity. Regulation (EU) 2020/852 provides a classification of the environmental objectives of the Union. For reasons of coherence, it is appropriate to use a similar classification to identify the environmental factors that should be addressed by sustainability reporting standards. The reporting standards should consider and specify any geographical or other contextual information that undertakings should disclose to provide an understanding of their principal impacts on sustainability matters and the principal risks to the undertaking arising from sustainability matters.

(41) With regard to climate-related information, users are interested in knowing about undertakings' physical and transition risks, and about their resilience to different climate scenarios. They are also interested in the level and scope of greenhouse gas emissions and removals attributed to the undertaking, including the extent to which the undertaking uses offsets and the source of those offsets. Achieving a climate neutral economy requires the alignment of greenhouse gas accounting and offset standards. Users need reliable information regarding offsets that addresses concerns regarding possible double-counting and overestimations, given the risks to the achievement of climate-related targets that double-counting and overestimations can create. The reporting standards should therefore specify the information undertakings should report with regard to those matters.

(42) Achieving a climate neutral and circular economy and a toxic-free environment requires the full mobilisation of all economic sectors. Reducing energy use and increasing energy efficiency is key in this respect as energy is used across supply chains. Energy aspects should therefore be duly considered in sustainability reporting standards, in particular in relation to environmental matters.

Standards (content) - Article 19b(2) and (3)

Recitals 40, 41, 42, 43 and 44

(43) Sustainability reporting standards should specify the information that undertakings should disclose on **social factors**, including employee factors and human rights. Such information should cover the impacts of undertakings on people, including on human health. The information that undertakings disclose about human rights should include information about forced labour in their value chains where relevant. Reporting standards that address social factors should specify the information that undertakings should disclose with regard to the principles of the European Pillar of Social Rights that are relevant to businesses, including equal opportunities for all and working conditions. The European Pillar of Social Rights Action Plan adopted in March 2021 calls for stronger requirements on undertakings to report on social issues. The reporting standards should also specify the information that undertakings should disclose with regard to the **human rights, fundamental freedoms, democratic principles and standards** established in the International Bill of Human Rights and other core UN human rights conventions, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the fundamental conventions of the International Labour Organisation, and the Charter of Fundamental Rights of the European Union.

Standards (content) - Article 19b(2) and (3)

Recitals 40, 41, 42, 43 and 44

(44) Users need information about **governance factors**, including information on the role of an undertaking's administrative, management and supervisory bodies, including with regard to sustainability matters, the composition of such bodies, and an undertaking's internal control and risk management systems, including in relation to the reporting process. Users also need information about undertakings' corporate culture and approach to business ethics, including anti-corruption and anti-bribery, and about their political engagements, including lobbying activities. Information about the management of the undertaking and the quality of relationships with business partners, including payment practices relating to the date or period for payment, the rate of interest for late payment or the compensation for recovery costs referred to in Directive 2011/7/EU of the European Parliament and of the Council on late payment in commercial transactions, helps users to understand an undertaking's risks as well as its impacts on sustainability matters. Every year, thousands of businesses, especially SMEs, suffer administrative and financial burdens because they are paid late, or not at all. Ultimately, late payments lead to insolvency and bankruptcy, with destructive effects on entire value chains. Increasing information about payment practices should empower other undertakings to identify prompt and reliable payers, detect unfair payment practices, access information about the businesses they trade with, and negotiate fairer payment terms.

Standards (content) - Article 19b(2) and (3)

Recital 45



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

Standards (content) - Article 19b(2) and (3)

✓ 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 (content) - Article 19b(2) and (3)

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 (content) - Article 19b(2) and (3)

Recitals 35 - 39

(35) Sustainability reporting standards should be **coherent with other Union legislation**. Those standards should in particular be aligned with the disclosure requirements laid down in Regulation (EU) 2019/2088, and they should take account of underlying indicators and methodologies set out in the various delegated acts adopted pursuant to Regulation (EU) 2020/852, disclosure requirements applicable to benchmark administrators pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council, the minimum standards for the construction of EU climate transition benchmarks and EU Paris-aligned benchmarks; and of any work carried out by the European Banking Authority in the implementation of the Pillar III disclosure requirements of Regulation (EU) No 575/2013. Standards should take account of Union environmental legislation, including Directive 2003/87/EC of the European Parliament and of the Council and Regulation (EC) No 1221/2009 of the European Parliament and of the Council, and should take account of Commission Recommendation 2013/179/EU and its annexes, and their updates. Other relevant Union legislation, including Directive 2010/75/EU of the European Parliament and of the Council, and requirements laid down in Union law for undertakings as regards directors' duties and due diligence, should also be taken into account.

(36) Sustainability reporting standards should take account of the **Commission guidelines** on non-financial reporting and the Commission guidelines on reporting climate-related information. They should also take account of other reporting requirements in Directive 2013/34/EU not directly related to sustainability, with the aim of providing the users of the reported information with a better understanding of the development, performance, position and impact of the undertaking, by maximising the links between the sustainability information and other information reported in accordance with Directive 2013/34/EU.

Standards (content) - Article 19b(2) and (3)

Recitals 35 - 39

(37) Sustainability reporting standards should be proportionate, and should not impose unnecessary administrative burden on companies that are required to use them. In order to minimise disruption for undertakings that already report sustainability information, sustainability reporting standards should **take account of existing standards and frameworks for sustainability reporting and accounting** where appropriate. Those include the Global Reporting Initiative, the Sustainability Accounting Standards Board, the International Integrated Reporting Council, the International Accounting Standards Board, the Task Force on Climate-related Financial Disclosures, the Carbon Disclosure Standards Board, and CDP (formerly the Carbon Disclosure Project). Standards of the European Union should take account of any sustainability reporting standards developed under the auspices of International Financial Reporting Standards Foundation. To avoid unnecessary regulatory fragmentation that may have negative consequences for undertakings operating globally, European standards should contribute to the process of convergence of sustainability reporting standards at global level.

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

Standards (content) - Article 19b(2) and (3)

Recitals 35 - 39

(39) Sustainability reporting standards should **also take account of internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility, and sustainable development**, including the UN Sustainable Development Goals, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Business Conduct and related sectoral guidelines, the UN Global Compact, the Tripartite Declaration of Principles of the International Labour Organisation concerning Multinational Enterprises and Social Policy, the ISO 26000 standard on social responsibility, and the UN Principles for Responsible Investment.

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Q&A

Thank you

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