



Proposal for a Corporate Sustainability Reporting Directive

CEPS

25 May 2021

Background

Political and policy context

- European Green Deal
- An economy that works for people – COVID 19 recovery
- Sustainable Finance Action Plan and related legislation (especially Taxonomy and Sustainable Finance Disclosure Regulation)
- Fitness Check
- Growing international attention (G7, G20, Financial Stability Board, IFRS Foundation)

Background

Existing reporting requirements

What information?

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

Materiality

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

Guidelines and standards

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

Scope (which companies?)

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

Audit and assurance

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

Location (where report?)

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

Background

The need for new rules

Problems for users

- Some companies report no information
- Relevant information not reported
- Comparability
- Reliability
- Findability and usability (digital)



Systemic risks to financial system

Limited capital flows to sustainable companies

Accountability deficit

Problems for preparers

- Uncertainty about what to report
- Additional information requests
- Cannot get adequate information from own suppliers and clients



Costs and administrative burden

Situation highly dynamic:
problems for users & costs
for preparers will increase
with no EU action

Background

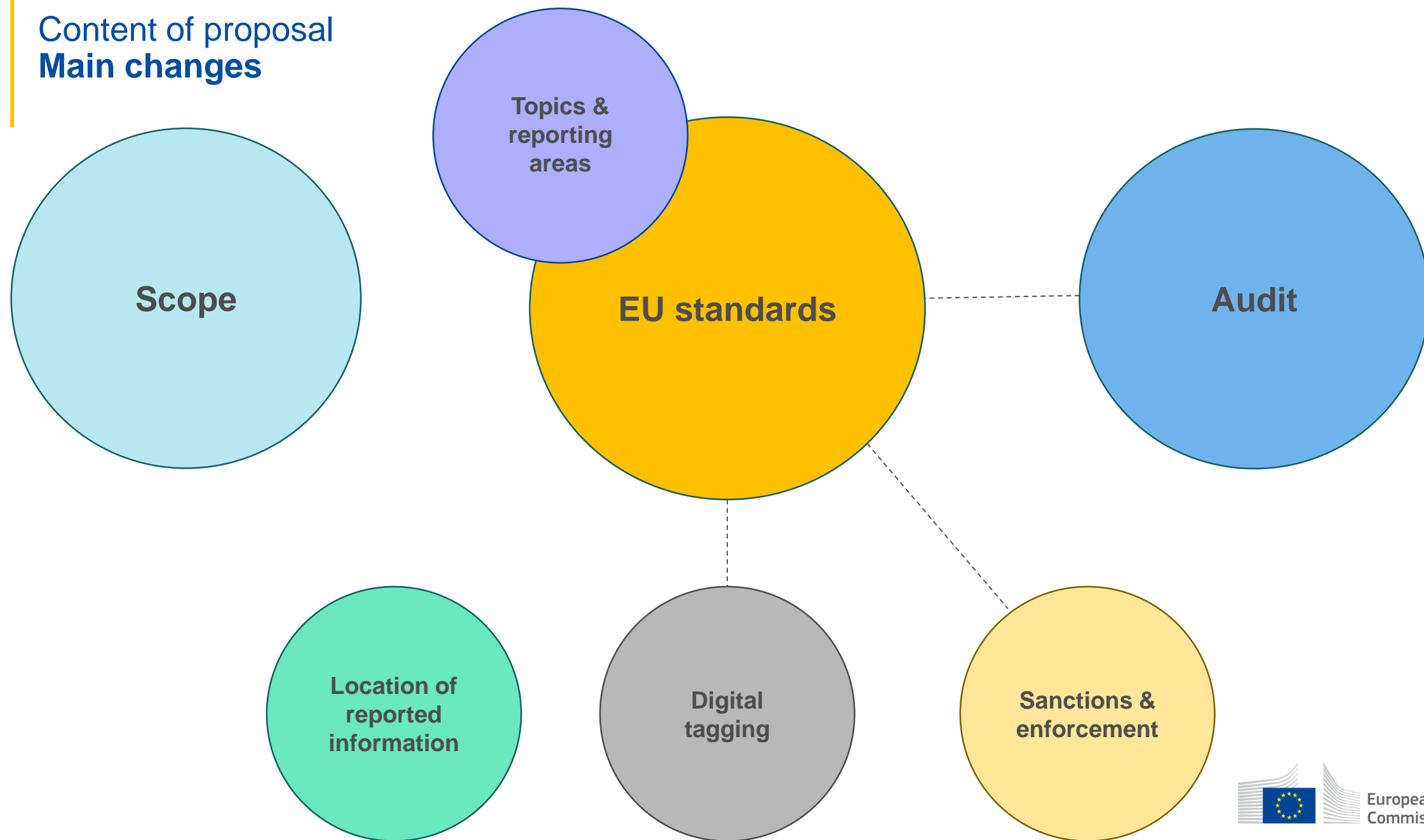
Objectives of the proposal

A building block of the European Green Deal, a sustainable & inclusive recovery, and an economy that works for people:

- Reduce systemic risks to the financial system arising from climate change and other sustainability issues.
 - Enable the flow of capital to companies that address and do not exacerbate the sustainability crisis.
 - Make companies more accountable for their impacts on people and the environment.
 - Simplify and reduce unnecessary costs for reporting companies.
- How? Ensure that companies report the **relevant**, **comparable**, and **reliable** sustainability information needed by investors and other stakeholders.

Content of proposal

Main changes



Content of proposal

Legal structure

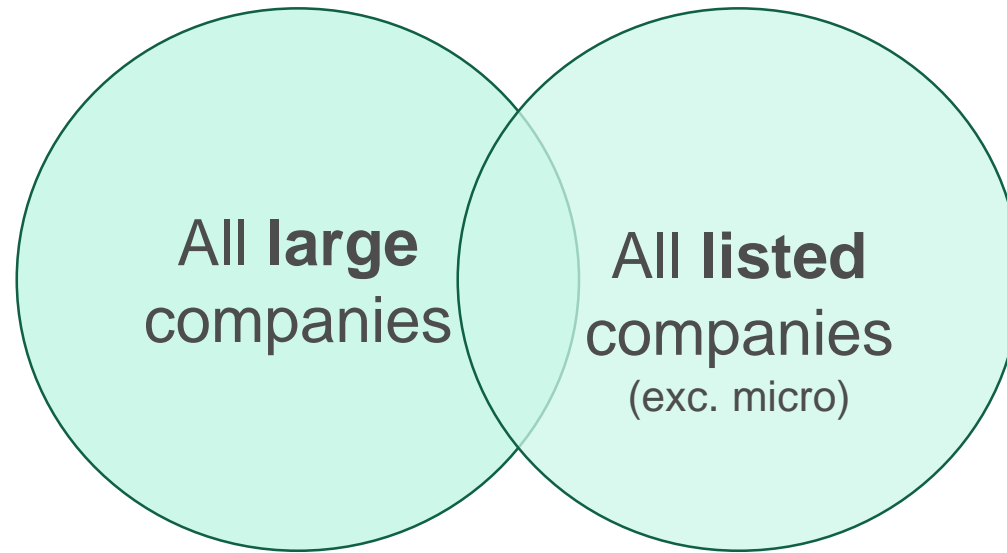
CSRD = amending Directive



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

Content of proposal

Scope: which companies?



- Includes non-EU companies listed on EU regulated markets.
- Listed SMEs: 3 year phase-in, and simpler reporting regime.
- Subsidiary exempted if parent reports according to EU requirements (or equivalent if non-EU company).

- Article 1, paragraphs 1, 3 and 7; Article 2, paragraph 2
- Recitals: 15-23

Content of proposal

Definition of 'sustainability matters'

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

Sustainable Finance
Disclosure Regulation

➤ Article 1, paragraph 2

➤ Recital: 24

Content of proposal

Coverage of sustainability 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

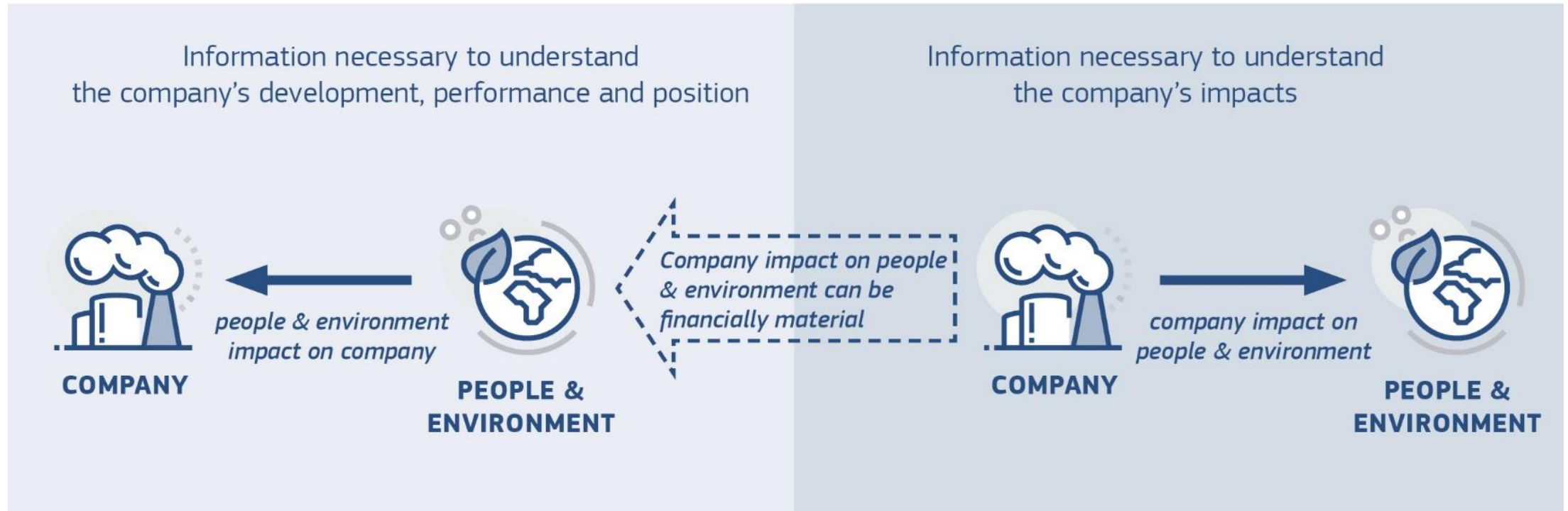
1. Role & composition of board and management
2. Ethics & corp. culture (inc. bribery & corruption)
3. Political engagements
4. Business relationships
5. Control & risk management

- Article 1, paragraph 4
- Recitals: 40, 43, 44

Content of proposal

Double materiality

THE CSRD CLARIFIES THAT REPORTING IS REQUIRED BOTH ON:



- Article 1, paragraphs 3 and 7
- Recital: 25

Content of proposal

Required reporting areas

Business model and strategy...

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

And...

- ☐ targets and progress
- ☐ role of board & management
- ☐ policies
- ☐ due diligence process
- ☐ principal adverse impacts
- ☐ principal risks and risk management
- ☐ indicators
- ☐ process to identify information reported
- ☐ intangibles

- Article 1, paragraphs 3 and 7
- Recital: 26-31

Content of proposal

Required reporting areas

Business model and strategy...

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

And...

- ☐ targets and progress
- ☐ role of board & management
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Embedding the TCFD

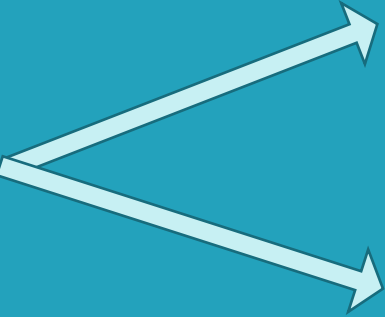
Content of proposal

Other requirements of reported information

- ✓ Forward-looking and retrospective
- ✓ Qualitative and quantitative
- ✓ Short, medium and long-term horizons
- ✓ Value chain, business relationships
- ✓ Understandability, relevance, reliability, verifiability, faithful representation

Content of proposal

Standards

- 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**

- Article 1, paragraphs 3, 4, 7 and 11
- Recital: 32-47

Content of proposal

Standards

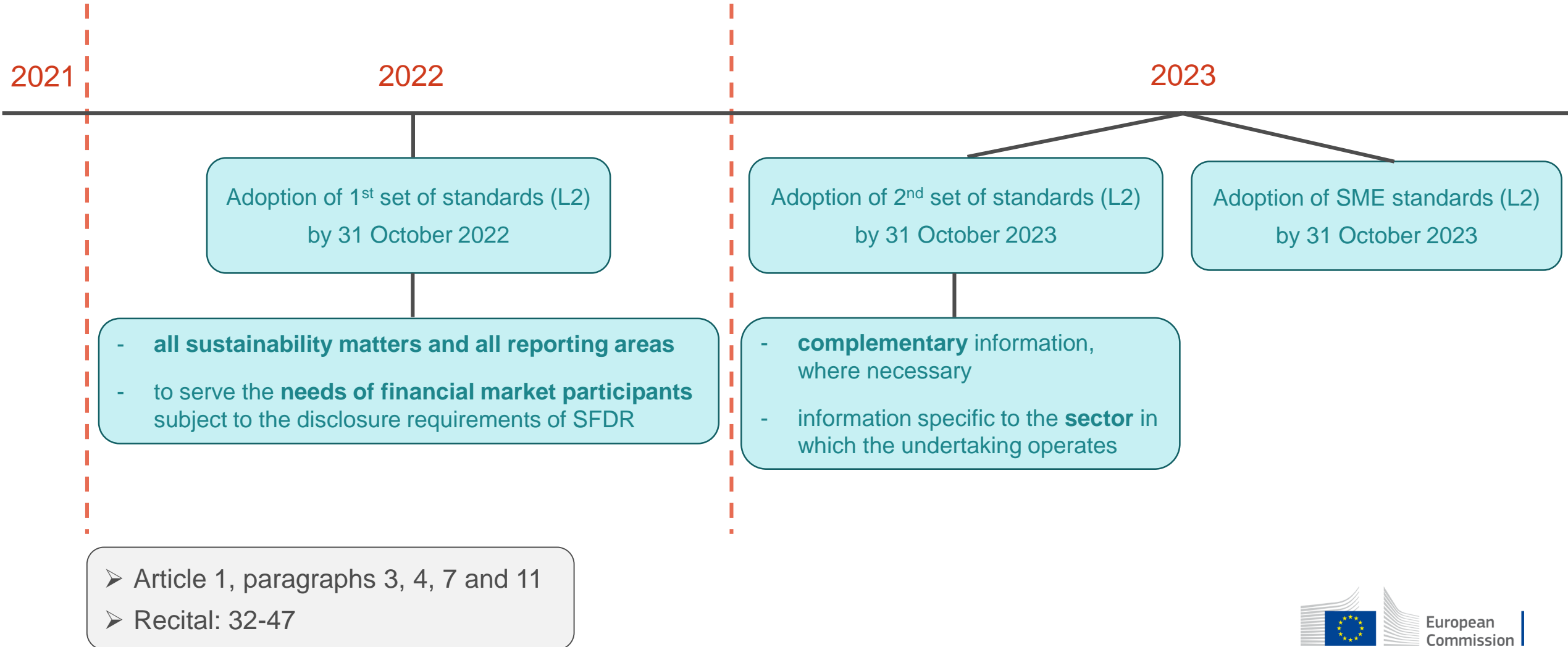
- ✓ meet quality criteria
- ✓ cover detailed E, S and G topics
- ✓ take account of EU legislation and initiatives
- ✓ take account of global standard-setting initiatives

- ✓ European Financial Reporting Advisory Group (**EFRA**G) develops **draft standards**
- ✓ **Commission** adopts standards as **Delegated Acts** after consulting relevant EU bodies

- Article 1, paragraphs 3, 4, 7 and 11
- Recital: 32-47

Content of proposal Standards

Assuming co-legislators agreement in Q1/Q2 2022



Content of proposal

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**

- Article 1, paragraphs 3 and 7
- Recital: 50

Content of proposal

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**

- Article 1, paragraph 10; Article 3 and Article 4
- Recitals: 53-68

Content of proposal

Digital

Companies

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

Member States

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

- Article 1, paragraphs 4 and 8
- Recital: 48-49

Content of proposal

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, paragraph 12; Article 2, paragraphs 2 and 4
- Recital: 69-70

Content of proposal

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

- Article 1, paragraph 5
- Recital: 51

Content of proposal

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

Content of proposal

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

Content of proposal

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.

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 level1
- **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.

Estimated costs (for companies)

- ❑ One-off costs: €1.2 billion
 - Reporting: €700 million
 - Tagging: €480 million
- ❑ Annual costs: €3.6 billion
 - Reporting: € 2.1 billion yearly
 - Assurance: €1.4 billion yearly
 - Tagging: €80 million yearly
- ❑ Potential annual costs savings: €2 billion?
 - Expected fewer information requests
 - Increased clarity about what info to report

Thank you



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