

Corporate Sustainability Reporting Directive

2021/0104(COD) - 21/04/2021 - Legislative proposal

PURPOSE: to create a new corporate sustainability reporting Directive to improve the flow of sustainability information in the corporate world.

PROPOSED ACT: Directive of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: the Non-Financial Reporting Directive (Directive 2014/95/EU, the NFRD), amending the Accounting Directive, was adopted in 2014. It applies to large public-interest entities with an average number of employees in excess of 500, and to public-interest entities that are parent companies of a large group with an average number of employees in excess of 500 on a consolidated basis. More than 11 000 companies are subject to the reporting requirements of the NFRD. The NFRD introduced a requirement for companies to report both on how sustainability issues affect their performance, position and development (the ‘outside-in’ perspective), and on their impact on people and the environment (the ‘inside-out’ perspective). This is often known as ‘double materiality’.

CONTENT: the Commission puts forward this proposal for a corporate sustainability reporting Directive (CSRD) with a view to revising and strengthening the existing rules introduced by the Non-Financial Reporting Directive (NFRD) on sustainability reporting. It aims to improve the flow of sustainability information in the corporate world. It will make sustainability reporting by companies more consistent, so that financial firms, investors and the broader public can use comparable and reliable sustainability information.

The Commission estimates that the proposed option would result in around 49 000 companies reporting sustainability information compared to 11 600 under the current regime.

Compared to the NFRD sustainability reporting requirements, the principal novelties of this proposal are:

- to extend the scope of these requirements to include all large companies, whether they are listed or not and without the previous 500-employee threshold. This change would mean that all large companies are publicly accountable for their impact on people and the environment. It also responds to demands from investors for sustainability information from such companies;
- to extend the scope to include listed SMEs, with the exception of listed micro-enterprises. For reasons of investor protection, it is especially important that investors have access to adequate sustainability information from listed companies. Furthermore, if listed SMEs do not report sustainability information, they may find themselves at risk of exclusion from investment portfolios. This risk will grow as sustainability information becomes ever more important throughout the financial system;
- to help reduce systemic risks to the economy and improve the allocation of financial capital to companies and activities that address social, health and environmental problems;
- to make companies more accountable for their impacts on people and the environment, thereby building trust between them and society;
- to simplify the reporting process for companies;

- to reduce unnecessary costs of sustainability reporting for companies, and to enable them to meet the growing demand for sustainability information in an efficient manner. It will bring clarity and certainty on what sustainability information to report and make it easier for preparers to get the information they need for reporting purposes from their own business partners (suppliers, clients and investee companies). It should also reduce the number of demands companies receive for sustainability information in addition to the information they publish in their annual reports;

- to ensure that all information is published as part of companies' management reports, and disclosed in a digital, machine-readable format.

The European Financial Reporting Advisory Group (EFRAG) will be responsible for developing draft EU standards on sustainability reporting, drawing on stakeholder expertise. The proposed EU standards would build on and contribute to international standard setting initiatives.