

Corporate Sustainability Reporting Directive

2021/0104(COD) - 10/11/2022 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 525 votes to 60, with 28 abstentions, a legislative resolution on the proposal for a directive of the European Parliament and of the Council amending Directives 2013/34/EU, 2004/109/EC and 2006/43/EC and Regulation (EU) No 537/2014 as regards corporate sustainability reporting.

The European Parliament's position adopted at first reading under the ordinary legislative procedure amends the proposal as follows:

Objective

The Directive aims to address the shortcomings of the existing rules on non-financial reporting. It amends the 2014 Non-Financial Reporting Directive by introducing more detailed reporting requirements and ensures that large undertakings are required to disclose information on sustainability matters such as environmental rights, social rights, human rights and governance matters, building on common criteria aligned with the EU's climate objectives.

Scope of application

The new non-financial reporting rules will apply to:

- all **large undertakings** and all companies whose securities are admitted to trading on a regulated market. These companies will also be responsible for assessing the information at the level of their subsidiaries;
- **listed SMEs**, although they will have an additional period (until 2028) to comply;
- **third-country undertakings** which generate a net turnover of more than EUR 150 million in the Union and which have a subsidiary undertaking or a branch on the territory of the Union.

Sustainability reporting

Large undertakings and small and medium-sized companies, with the exception of micro-enterprises, that are public interest entities will be required to include in the management report information that provides an understanding of the company's impact on sustainability matters, as well as information necessary to understand how sustainability matters affect the group's development, performance and position.

The information should include, *inter alia*:

- a brief description of the company's business model and strategy, including the degree of resilience of the company's business model and strategy with respect to risks related to sustainability issues and how the company has implemented its strategy with respect to sustainability matters;
- a description of the time-bound targets related to sustainability matters set by the group, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the group has made towards achieving those targets, and a statement of whether the group's targets related to environmental factors are based on conclusive scientific evidence;

- a description of the principal risks to the group related to sustainability matters, including the group's principal dependencies on those matters, and how the group manages those risks.

Sustainability information should be clearly identifiable in a **dedicated section** of the management report. It should also be available and accessible online to the public.

Sustainability reporting standards

The Directive provides for the adoption of mandatory common sustainability reporting standards to ensure comparability of information and disclosure of all relevant information.

These standards will have to specify the information that undertakings must disclose on environmental factors such as climate change mitigation, including greenhouse gas emissions, water and marine resources, resource use and the circular economy, pollution, biodiversity and ecosystems. They will also need to specify the information that undertakings must disclose on social and human rights factors, as well as governance factors such as the role of the company's administrative, management and supervisory bodies in relation to sustainability issues, or ethics and corporate culture, including anti-corruption, whistleblower protection and animal welfare.

The adoption of sustainability reporting standards through delegated acts will ensure harmonised sustainability reporting across the EU.

The **European Financial Reporting Advisory Group** (EFRAG) will be responsible for setting the European standards, based on technical advice from several European agencies.

Certification and audit

To ensure that the information provided by companies is reliable, they will be subject to independent certification and auditing. **An independent auditor or certifier** must ensure that the sustainability information complies with the certification standards that have been adopted by the EU. The reporting of non-European companies must also be certified, either by a European auditor or by one established in a third country.

Application

The Directive will apply from:

- 1 January 2024 for companies already subject to the non-financial reporting directive;
- 1 January 2025 for large companies that are not presently subject to the non-financial reporting directive;
- 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings.