Corporate Sustainability Reporting Directive

2021/0104(COD) - 16/12/2022 - Final act

PURPOSE: to adopt a new directive on corporate sustainability reporting to improve the flow of sustainability information from companies.

LEGISLATIVE ACT: Directive (EU) 2022/2464 of the European Parliament and of the Council amending Regulation (EU) No 537/2014 and Directives 2004/109/EC, 2006/43/EC and 2013/34/EU as regards corporate sustainability reporting.

CONTENT: the Directive **strengthens the existing rules on non-financial reporting** introduced in the Accounting Directive by the 2014 Non-Financial Reporting Directive, which are no longer adequate for the EU's transition to a sustainable economy.

New rules for corporate reporting

The Directive introduces more detailed reporting requirements and ensures that large companies and listed SMEs are required to **publish information on sustainability issues**, such as environmental rights, social rights, human rights and governance factors. The requirement for companies to disclose detailed information on sustainability issues will increase corporate accountability, avoid discrepancies in sustainability standards and facilitate the transition to a sustainable economy.

In its resolution of 17 December 2020 on sustainable corporate governance, the European Parliament welcomed the Commission's commitment to revise Directive 2013/34/EU and stressed the need for a comprehensive EU framework for non-financial reporting that contains mandatory EU standards for non-financial reporting.

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 information

Large companies and small and medium-sized enterprises, with the exception of micro-enterprises, that are public interest entities will be required to include in the MD&A information that provides an understanding of the company's impact on sustainability issues, as well as information that provides an understanding of how sustainability issues affect the company's business development, performance and condition. This will help investors and other stakeholders to make informed decisions on sustainability issues.

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.

Consolidated sustainability reporting

Parent companies of a large group will be required to include in the consolidated management report the information necessary to understand the group's impact on sustainability issues, as well as information necessary to understand how sustainability issues affect the development of the how sustainability issues affect the business development, performance and position of the Group's business development, performance and position.

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;

- on **social rights** (equal treatment and opportunities for all, collective bargaining) and **human rights**;

- on **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 **European Financial Reporting Advisory Group (EFRAG)** will be responsible for developing draft European standards. The European Commission will adopt the final version of the standards in the form of a delegated act, following consultations with EU Member States and a number of European bodies.

Certification and auditing

To ensure that the information provided by companies is reliable, they will be subject to independent certification and auditing. An independent auditor or certifier will 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.

Transposition and application

The Directive will apply:

- in respect of financial years beginning on **1 January 2024** to companies already subject to the Non-Financial Reporting Directive;

- in respect of financial years beginning on **1 January 2025** to large companies not currently subject to the Non-Financial Reporting Directive;

- in respect of financial years beginning on **1 January 2026** to listed SMEs, as well as small and non-complex credit institutions and captive insurance companies.

ENTRY INTO FORCE: 17.12.2022.