



Corporate Sustainability Reporting Directive

Presentation to EFRAG Sustainability Reporting Board

30 June 2022

The CSRD at a glance

- ✓ **Scope** extended to all large and all listed companies, plus some non-EU.
- ✓ Mandatory, European **standards**...
- ✓ developed by EFRAG...
- ✓ and adopted by Commission as delegated acts.
- ✓ Standards by topic and by sector.
- ✓ Proportionate standards for listed SMEs, and standards for non-EU.
- ✓ **Assurance** requirement, starting with limited, later reasonable.

Scope

- 1) All large companies
- 2) All listed companies (except listed micro-enterprises)
- 3) Non-EU companies with branches or subsidiaries in the EU above certain thresholds*

Listed SMEs:

- Option to use simpler, proportionate standards
- Possibility to opt-out for 2 years after entry into application*

Non-EU:

- Separate standards*
- Not covering all reporting areas: impact focus, no reporting on risks*

Phased entry into application

- **“NFRD companies”**: FY 2024* (first reports published 2025)
- **Other large companies***: FY 2025 (reports 2026)
- **Listed SMEs**: FY 2026 (reports 2027)
- **Non-EU companies with branches/subsidiaries**: FY 2028 (reports 2029)

Subsidiary exemption

Subsidiary exemption remains, as in NFRD.

But

- Listed subsidiaries must report in their own right (cannot use subsidiary exemption).*
- A parent company that “identifies significant differences” between the risks or impacts of the group and the risks or impacts of an individual subsidiary, must “provide an adequate understanding” of the risks/impacts of the subsidiary(ies) concerned.*

Separate section of management report*

Article 19a(1):

“This information shall be clearly identifiable within the management report, through a dedicated section of the management report.”

Changes to reporting requirements 1/2

Transition plans

- New requirement to report on “implementing actions and related financial and investment plans” *
- in line with 2050 climate neutrality objective (European Climate Law), as well as Paris 1.5C *
- “where relevant, the exposure of the undertaking to coal, oil and gas-related activities” *

Targets

- Must be “time bound” *
- Include where appropriate absolute greenhouse gas emission reduction targets at least for 2030 and 2050 *
- Say whether environmental targets are science-based *

Intangibles

- Deleted from sustainability reporting requirements (so not addressed by standards) *
- 7 • But general disclosure requirement on intangibles in management report *

Changes to reporting requirements 2/2

Incentive schemes linked to sustainability matters (new) *

Due diligence and adverse impacts

- Due diligence should be “in line with EU requirements on undertakings to conduct a due diligence process” (anticipating Corporate Sustainability Due Diligence Directive) *
- Report principal actual or potential adverse impacts “*and other adverse impacts which the undertaking is required to identify according to other EU requirements [...] to conduct the due diligence process*” *

Value chain information

- For 3 years, if company cannot obtain value-chain information, it should explain a) the efforts made b) why information could not be obtained, and c) the plans to get information in the future. *

Reporting requirements for listed SMEs*

CSRD specifies reporting requirements for listed SMEs. This is a reduced list from the requirements that will apply to other companies under scope:

- a) A brief description of the undertaking's business model and strategy
- b) A description of the undertaking's policies in relation to sustainability matters
- c) The principal actual or potential adverse impacts of the undertaking with regard to sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts
- d) The principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks
- e) Key indicators necessary to the disclosures referred to in points (a) to (d).

Non-listed SMEs

Recent letter from Commissioner McGuinness to SMEUnited:

“It is indeed the intention of the Commission that we have standards that not only meet the needs of listed SMEs [...] under the scope of the CSRD, but can also be used on a voluntary basis by non-listed SMEs.

If the expert advice of EFRAG [...] is that we need separate levels or modules of standards for different categories of SMEs, then we will look for a pragmatic means of achieving that.”

Commission does not need legal basis to publish ‘standards’ or guidelines for voluntary use.

Management to inform & discuss with workers*

Article 19a

4b. “The management of the undertaking shall inform workers' representatives at the appropriate level and discuss with them the relevant information and the means of obtaining and verifying sustainability information. Their opinion should be communicated, where applicable, to the relevant administrative, management or supervisory bodies.”

Content of standards: environment

Only change is addition of reference to GHG emissions. So list is:

- (i) climate change mitigation, **including emissions on scope 1, scope 2 and, where relevant, scope 3 greenhouse gas emissions ***
- (ii) Climate change adaptation
- (i) Water and marine resources
- (ii) Resource use and circular economy
- (iii) Pollution
- (iv) Biodiversity and ecosystems

Content of standards: social and human rights 1/2

i) equal **treatment and**^{*} opportunities for all, including:

- gender equality and equal pay for work of equal value
- training and skills development
- employment and inclusion of people with disabilities
- **measures against violence and harassment in the workplace**^{*}
- **diversity**^{*}

ii) working conditions, including:

- secure employment
- **working time**^{*}
- wages
- social dialogue
- **freedom of association**^{*}
- **existence of work councils**^{*}
- collective bargaining **including the rate of workers covered by collective agreements**^{*}
- ~~the involvement~~ **information, consultation and participation rights of workers**^{*}
- work-life balance
- ~~a healthy, safe and well-adapted work environment~~
- **health and safety**^{*}

Content of standards: social and human rights 2/2

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, including **the UN Convention on Persons with Disabilities***
- **the UN Declaration on the Rights of Indigenous Peoples***
- the International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- the ILO fundamental conventions
- **the European Convention of Human Rights***
- **the revised European Social Charter***
- the Charter of Fundamental Rights of the European Union

Content of standards: governance

i) the role of the undertaking's administrative, management and supervisory bodies, ~~including~~^{*} with regard to sustainability matters, and their composition, **and their expertise and skills to fulfil this role or access to such expertise and skills** *

(i)a the main features of the undertaking's internal control and risk management systems, in relation to the sustainability reporting process

(ii) business ethics and corporate culture, including anti-corruption and anti-bribery, **the protection of whistle-blowers** * **and animal welfare** *

~~(iii) political~~ engagement of the undertaking **to exert its political influence**, including its lobbying activities;

(iv) the management and quality of relationships with ~~business partners~~ **customers, suppliers and communities affected by the activities of the undertaking** * including payment practices, **especially with regard to late payment to SMEs** *

Sector-specific standards

- There will be sector-specific standards
- They should be proportionate to the scale of risks/impacts in the sector concerned
- * (Recital) Sector specific standards especially important in sectors with high risks/impacts, including
 - Agriculture, forestry and fishing
 - Mining and quarrying (including, oil, gas, minerals)
 - Manufacturing (including of food and textiles)
 - Electricity, gas, steam and air-conditioning supply
 - Water supply, sewerage, waste management
 - Construction
 - Wholesale and retail trade
 - Transportation and storage
 - Real estate activities

The legislation and initiatives that standards should take account of

When adopting delegated acts pursuant to paragraph 1, the Commission shall **to the greatest extent possible*** take account of:

(a) the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting **and for greenhouse gas accounting***, responsible business conduct, corporate social responsibility, and sustainable development;

(c) the criteria, **indicators and methodologies** set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852¹ [Taxonomy], **including the technical screening criteria [...] and reporting requirements set out in the delegated act adopted pursuant to Article 8 [...] ***

(ga) Regulation (EU) 2021/1119 of the European Parliament and of the Council; [Climate Law] *

(ha) Directive (EU) 2019/1937 of the European Parliament and of the Council [Protection of Whistleblowers] *

References to other items unchanged: SFDR, Benchmarks Regulation, Pillar 3 disclosures CRR/CRD, Emissions Trading Scheme, EMAS.

Taking account of global standards

Article

[...] The standards shall avoid disproportionate administrative burden on undertakings, including by taking account to the greatest extent possible the work of global standard-setting initiatives for sustainability reporting as required by paragraph 3, point (a).*

Recital

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, **by supporting the work of the International Sustainability Standards Board (ISSB). European standards should reduce the risk of inconsistent reporting requirements on undertakings that operate globally by integrating the content of global baseline standards to be developed by the ISSB, to the extent that the content of the ISSB baseline standards is consistent with the EU's legal framework and the objectives of the European Green Deal.***

Value chain information and SME safeguards

Standards may not “specify disclosures that would require undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed according to” the standards for listed SMEs.*

Also:

- Standards must “take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain” especially from SMEs and non-EU companies.*
- Standards must specify disclosures on value chains that are proportionate to the scale, complexity, capacities and characteristics of undertakings in value chains, especially SMEs and non-EU companies.*

Conditions for Commission to consider EFRAG advice

Commission can take account of EFRAG advice provided that it is:

- developed with proper due process, public oversight and transparency
- developed with the expertise **and balanced participation*** of relevant stakeholders
- **developed with sufficient public funding to ensure its independence***
- **developed on the basis of a work programme on which the Commission has been consulted ***
- accompanied by cost-benefit analyses
- **accompanied by an explanation of how it takes account of the initiatives and legislation listed in Article 29b(3) ***
- **participation in the EFRAG technical work is based on expertise in sustainability reporting and is not conditional on any financial contribution ***

Also: Commission to consult Parliament and Member States annually on EFRAG work programme

Timelines for adoption of standards

30 June 2023 *

- standards to specify information to report according to articles 19a/29a (all sustainability topics)
- at least covering needs of financial market participants under SFDR

30 June 2024 *

- sector-specific standards
- standards for listed SMEs
- complementary information where necessary
- Standards for non-EU companies

Note

- legal mechanism for adoption of standards remains, even if nothing specified for subsequent years
- obligatory review and possible amendment of every standard every 3 years
- minimum 4 month period between adoption by Commission and entry into application *

Prioritisation

- Will be important to react to replies on prioritisation and signal that concerns by stakeholders are taken seriously
- COM interested in EFRAG assessment on how prioritisation/phase-in could be done
- Clear that prioritisation of some topical standards over other topics will not be possible, all need to be covered
- Prioritisation of some disclosures over other disclosures within a standard or a phasing-in (topical, sectoral standards) will be possible
- Any prioritisation should be based on clear criteria, e.g. availability of data, existing standards etc.