

OSSERVATORIO ESG

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In a [letter](#) dated May 12, 2021, Commissioner Financial services, financial stability and Capital Markets Union Mairead McGuinness invites EFRAG to initiate as soon as possible the technical work necessary to develop draft sustainability reporting standards and changes to EFRAG's governance as EFRAG were asked to develop such standard. This work must be undertaken in parallel with the forthcoming negotiations of the proposed directive on corporate sustainability reporting (CSRD).

EFRAG ACTIVITIES AND EU PROPOSAL CSRD

Introduction

Commissioner McGuinness asks EFRAG to proceed with two activities, the development of draft sustainability standards should begin before the implementation of its new governance structure.

Working methods should foreshadow EFRAG's reforms and governance processes to ensure transparency and due process. EFRAG is invited to submit a first set of draft standards by June 15, 2022.

Corporate Sustainability Reporting Directive (CSRD)

On 21 April 2021 the European Commission published the text of the proposal for the Corporate Sustainability Reporting Directive that Member States are obliged to implement by 1 December 2022. The new Directive will apply to the financial year starting on 1 January 2023 or later.

1. Name of this form of reporting

Many interested parties consider the term "non-financial" to be inaccurate, as it is misleading as it implies information without financial significance. However, more and more often such information has financial relevance and many organizations, initiatives and professionals refer to information on "sustainability" and therefore it is preferable to use this term which makes financial dignity to sustainable information.

2. Scope of application

The proposed Directive will involve more than 49,000 companies providing information on sustainability by broadening the scope with respect to the current 11,600 companies that fall within the scope of the NFRD (Non Financial Reporting Directive). The new Directive extends the obligation to all large companies listed on EU

regulated markets (with the exception of micro-enterprises). All listed and unlisted large banks and insurance companies fall within the scope of application.

3. EU Sustainability reporting standard

Companies falling within the scope of the new Directive must provide the information requested using the EU Sustainability Reporting Standards, adopted by the Commission with delegated acts. Such information must be understandable, relevant, representative, verifiable, comparable and faithfully represented. It will be the responsibility of EFRAG to prepare these standards.

a. A first set of standards is expected to be adopted by 31 October 2022 that specify all sustainability issues and all reporting areas listed in Article 19 bis, paragraph 2. The information that companies must report on the issues of sustainability and all the reporting areas listed in the article of the new Directive, will be in line with the needs of the participants in the financial markets subject to compliance with the disclosure obligations set out in Regulation (EU) 2019/2088 (SFDR).

b. A second set of standards will be adopted by 31 October 2023 at the latest. This set of standards should specify complementary information that companies should report on sustainability issues and reporting areas listed in Article 19a (2), where necessary, and information specific to the sector in which the company operates.

The standards will have to be reviewed at least every 3 years to take into account relevant developments, including those of international standards and delegated acts that will be collected in EFRAG's "Technical Advice" prepared by the first half of 2022.

European Union standards must consider i) existing standards and frameworks for sustainability reporting and accounting and ii) sustainability reporting standards that will come under the auspices of the IFRS Foundation.

4. *Small and medium-sized enterprises (SMEs),*

It does not impose new requirements on SMEs, except SMEs listed on EU regulated markets. The Commission will adopt standards for large companies and separate, proportionate standards for SMEs. The SMEs standards will be tailored to the capacities and resources of such companies. While SMEs listed on regulated markets would be required to use these proportionate standards, non-listed SMEs – which are the vast majority– may choose to use them on a voluntary basis and start to use compulsorily from 2026.

5. *Sustainability matters*

The list of sustainability issues on which companies are required to report should be as consistent as possible with the definition of "sustainability factors" established in Regulation (EU) 2019/2088. Companies will be required to report qualitative and quantitative information, retrospective and forward-looking information and information covering short, medium and long term, as appropriate.

6. *Content and placement of Sustainability Reporting*

Large companies and, starting from 1 January 2026, small and medium-sized enterprises, must include in the management report the information on sustainability necessary to understand the impacts of the company and the information necessary to understand how these sustainability issues influence the development, performance and position of the company.

7. *Double materiality*

The proposed Directive specifies the principle of double materiality, removing any ambiguity and reporting that companies must report the information necessary to understand how sustainability issues affect them and the information necessary to understand their impact on society and the environment.

8. *Digital format, machine-readable*

The proposed Directive calls for a radical improvement in the way in which information on sustainability is communicated and used. Using digital technologies, information on sustainability must be digitally tagged in a machine-readable format.

9. *Intangibles*

According to the proposed Directive, companies must also communicate information on intangible assets (so-called intangibles), including information on intellectual, human, social and relational capital.

10. *Assurance (Audit) of information on sustainability*

The Directive extends to all companies falling within the scope of application the obligation to subject the information reported on sustainability to "limited assurance", and includes the option to switch to "reasonable assurance" at a later stage.

European Reporting Lab@EFRAG references

Main report

- Proposals for a relevant and dynamic eu sustainability reporting standard-setting, February 2021

Stream assessment report

- Assessment report EU non-financial information requirements momentum and coherence
- Assessment report possible input from existing initiatives
- Assessment report conceptual framework for non-financial information standard setting
- Assessment report interconnection between financial and non-financial information
- Assessment report focus on financial institutions
- Assessment report current non-financial reporting formats and practices

European Commission references

- Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups
- EU INCEPTION IMPACT ASSESSMENT, Revision of the Non-Financial Reporting Directive, Ref. Ares(2020)580716 - 30/01/2020
- COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS The European Green Deal COM/2019/640 final
- REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris aligned Benchmarks and sustainability-related disclosures for benchmarks
- REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
- Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) 537/2014, as regards corporate sustainability reporting COM/2021/189 final