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NOTE

Origine:	Comité des représentants permanents (1 ^{re} partie)
Destinataire:	Conseil
N° doc. préc.:	5864/22
N° doc. Cion:	8132/21
Objet:	Directive modifiant les directives 2013/34/UE, 2004/109/CE et 2006/43/CE ainsi que le règlement (UE) n° 537/2014 en ce qui concerne la publication d'informations en matière de durabilité par les entreprises <i>Orientation générale</i>

I. Introduction

Le 21 avril 2021, la Commission européenne a présenté sa proposition de directive du Parlement européen et du Conseil modifiant la directive 2013/34/UE, la directive 2004/109/CE, la directive 2006/43/CE et le règlement (UE) n° 537 /2014, en ce qui concerne la publication d'informations en matière de durabilité par les entreprises¹. La base juridique de la proposition repose sur les articles 50 et 114 du traité sur le fonctionnement de l'Union européenne.

¹ 8132/21 + COR 1 + ADD 1 COR 1 + ADD 2 COR 1 + ADD 3 COR 1.

La proposition vise à combler les lacunes des règles existantes en matière d'informations extra-financières. La publication d'informations en matière de durabilité pourrait attirer des investissements et des financements supplémentaires en vue de faciliter la transition vers une économie durable décrite dans le pacte vert. Ainsi, les entreprises doivent fournir de meilleures informations sur les risques en matière de durabilité auxquels elles sont exposées et sur leur propre incidence sur la population et l'environnement.

Les principales nouveautés de la proposition sont les suivantes:

- étendre le champ d'application des obligations d'information à d'autres entreprises, notamment toutes les grandes entreprises et toutes les entreprises cotées sur un marché réglementé (à l'exception des microentreprises cotées);
- exiger l'assurance des informations en matière de durabilité;
- préciser plus en détails les informations que les entreprises doivent publier et leur prescrire de publier ces informations conformément aux normes obligatoires d'information en matière de durabilité dans l'Union;
- faire en sorte que toutes les informations soient publiées dans une section dédiée des rapports de gestion des entreprises.

II. État d'avancement

Les discussions au sein du Conseil ont débuté le 7 juin 2021 sous la Présidence portugaise, et grâce à une attitude constructive de toutes les délégations, le groupe "Droit des sociétés" a pu réaliser des progrès importants.

Le 8 décembre 2021, le groupe a examiné un premier texte de compromis (14268/21) présenté par la présidence slovène. Les 13 et 20 janvier 2022, le groupe a donné suite aux remarques et interventions faites par les délégations, et a poursuivi ses discussions sur la base d'un texte de compromis ajusté. Le 28 janvier 2022, la présidence a présenté un texte de compromis révisé². Lors de ses réunions des 3 et 9 février 2022, le groupe a examiné ce texte de compromis révisé. Le 16 février 2022, le Coreper a apporté son soutien au texte de compromis³ présenté par la Présidence lequel a été approuvé en l'état avec un ajout, proposé par une délégation et soutenu par plusieurs autres, dans l'Article 29b 2b d'une phrase qui vise à prévoir une période de transition au cours de laquelle de la flexibilité serait accordée aux PME pour la fourniture d'informations sur les chaînes de valeur. Ce nouveau texte se lit comme suit : **“Furthermore, for the first three years of application of this Directive, in the event that not all the necessary information about the business relationships and the supply chain is available, the undertaking shall include the information in its possession and a statement indicating that the business relationships and the undertakings in its value chain did not make the necessary information available.”**.

Les principaux changements apportés au texte par rapport à la proposition initiale sont les suivants :

Champ d'application (*Articles 1 et 2 de la “Directive comptable”*)

Il est précisé dans le compromis comment les exigences en matière de *reporting* de durabilité s'appliquent aux banques et compagnies d'assurance. Une définition du chiffre d'affaires net pour les établissements de crédit et pour les sociétés d'assurance a été ajoutée afin de prendre en compte leurs spécificités.

² 5788/22.

³ 5864/22

Localisation (Articles 19a 1. et 29a 1. de la “Directive comptable”).

Il est prévu la publication des informations dans une section clairement identifiable dans le rapport de gestion, pour faciliter la lisibilité et l’identification du *reporting* de durabilité.

Actifs incorporels – Definition et communication d’informations (Article 19 de la “Directive comptable”)

Certaines délégations ont demandé une clarification de la définition des "actifs incorporels" et des obligations y afférentes. En compromis, la présidence a suggéré d’inclure leurs obligations de publication d’informations dans l’article 19 “contenu du rapport de gestion” de la Directive comptable.

PMEs – obligations de publication d’informations (Article 19a de la "Directive comptable")

En ce qui concerne les PME, plusieurs délégations ont souhaité exclure l'ensemble des PME du champ d'application. D'autres délégations ont demandé d'encadrer davantage le contenu des obligations en ce qui concerne la publication d'informations demandées aux PME (normes simplifiées), aussi bien dans le cadre du reporting obligatoire des PME cotées que dans le cadre du reporting volontaire des autres PME. La présidence a renforcé la possibilité pour les PME de limiter les informations à fournir (à l’exclusion des PME qui sont également maison mère de grandes entreprises).

En ce qui concerne les entités d'intérêt public (EIP), une majorité de délégations a demandé à prévoir une exemption du reporting pour ces entités (tout comme pour toute autre filiale), lorsqu’elles sont filiales d’un groupe soumis à des obligations de reporting, étant entendu que le reporting effectué au niveau consolidé doit inclure les informations nécessaires sur les filiales. A ce stade, la présidence a opté pour le maintien de l'exemption (Article 19a 7a et article 29a 7a de la «Directive comptable»).

Régime linguistique (*Article 29a de la "Directive comptable"*)

Pour tenir compte de préoccupations exprimées par certaines délégations, le texte de compromis prévoit qu'un État membre peut exiger la publication du rapport de gestion et du rapport d'assurance de la société mère dans une langue acceptée par l'Etat membre qui supervise sa filiale exemptée de reporting de durabilité.

Chaîne de valeur (*Article 29b 2b de la "Directive comptable"*)

Plusieurs délégations ont évoqué les difficultés que pourraient rencontrer les entreprises à recueillir des informations des différents acteurs de leur chaîne de valeur, notamment des PME. Le compromis prévoit que ces difficultés seront prises en compte dans l'élaboration des standards, en déclinant de manière proportionnée les obligations de publications et en tenant compte en particulier des entreprises incluses dans les chaînes de valeur qui ne sont pas soumises aux obligations de cette directive. De plus, il a été explicité que pendant une période de transition de trois ans, les entreprises qui ne sont pas en mesure de fournir certaines informations en raison de l'absence de données de la part des entreprises présentes dans leurs chaînes de valeur, notamment des PME, pourront bénéficier d'une flexibilité.

Format d'information électronique unique (*article 29 5. de la "Directive comptable"*)

La proposition initiale de la Commission contenait des dispositions qui, au-delà du contenu des rapports de durabilité des entreprises, portaient sur les modalités de collecte des données de durabilité par les organismes officiellement habilités à effectuer cette collecte. Ce sujet étant lié aux modalités de création d'un point d'accès unique européen aux données financières et extra-financières des entreprises⁴, il a été décidé de réserver la discussion à cette dernière proposition législative. En revanche, le format électronique du reporting s'agissant des sujets de durabilité reste exigé dans le texte. Le texte de compromis supprime toutefois les dispositions introduisant une obligation pour les sociétés non-cotées soumises à la CSRD de publier leurs informations comptables selon le format électronique unique européen (ESEF).

⁴ ESAP (European Single Access Point), proposition publiée le 23 novembre 2021, 14377/21.

Sanctions (*Article 51 de la "directive comptable"*)

La majorité des délégations a demandé la suppression des modifications apportées à l'article 51. En conséquence, la présidence a décidé de supprimer l'article amendant l'article 51 de la Directive comptable.

Audit et contrôleurs (*Article 34b de la "Directive comptable"*)

Certaines délégations ont souligné la nécessité de prévoir que des contrôleurs distincts puissent procéder au contrôle légal des comptes d'une part, et à l'assurance des informations sur la durabilité d'autre part. D'autres délégations ont demandé plus de clarté concernant les exigences applicables aux prestataires de services d'assurance indépendants. Certaines délégations ont demandé des clarifications quant à la supervision des contrôleurs et des entités d'audit de pays tiers. Cela a été précisé dans le texte.

Normes d'assurance en matière de durabilité (*Article 23 (4) de la "Directive transparence"*)

Un contrôleur d'un pays tiers doit assurer les informations sur la durabilité selon les normes d'assurance adoptées par l'Union. À défaut, le contrôleur peut assurer ces informations selon des normes équivalentes. La Commission peut adopter des normes sur "l'équivalence" par acte délégué.

Formation professionnelle (*Article 6 de la "Directive sur l'audit"*)

Certaines délégations ont demandé que les auditeurs puissent décider s'ils souhaitent se faire agréer pour effectuer l'assurance des rapports de durabilité, ou s'ils souhaitent continuer à n'effectuer que l'audit financier. La question de la durée de la formation pratique a été également soulevée par un certain nombre de délégations. Le texte de compromis fait passer la durée de formation pratique pour être autorisé à réaliser l'assurance des informations en matière de durabilité à huit mois (contre douze mois dans le texte initial).

Interdiction de fournir des services autres que d'audit des rapports de durabilité (*Article 25c de la "Directive audit"*)

Plusieurs délégations ont souhaité définir des incompatibilités entre la certification du rapport de durabilité d'une entreprise et le fait de fournir à cette même entreprise des services de conseil. Des dispositions ont été insérées à cet égard dans la Directive Audit. Elles s'inspirent du régime défini pour l'audit financier et sont, comme lui, applicables à l'audit des entités d'intérêt public.

Obligations liées à l'audit des rapports de durabilité (*Article 25d de la "Directive audit"*)

Plusieurs délégations ont souhaité reprendre, pour les auditeurs de durabilité, l'obligation de dénoncer les fraudes, telle qu'elle existe pour les auditeurs financiers. Des dispositions ont été insérées dans cet égard dans la directive Audit. Elles s'inspirent du régime défini pour l'audit financier et sont, comme lui, applicables à l'audit des entités d'intérêt public.

Prestataires de services d'assurance indépendants (*Article 34 3a de la "Directive comptable"*)

Plusieurs délégations ont insisté sur la nécessité d'avoir les conditions de concurrence équitables et de prévoir les mêmes exigences applicables aux prestataires de services d'assurance indépendants et aux contrôleurs légaux des comptes. La présidence a adapté le texte dans ce sens.

Ajustement des délais (*Article 5 de la proposition*)

Certains délais ont été jugés trop ambitieux par de nombreuses délégations. Plusieurs délégations ont demandé que le délai de transposition soit fixé par rapport à l'entrée en vigueur de la directive, tandis que d'autres délégations ont suggéré que la date d'application soit reportée afin de donner suffisamment de temps aux entreprises pour s'adapter. Dans cette optique, la présidence suggère les délais suivants:

- délais prévus pour la transposition par les États membres (18 mois après l'entrée en vigueur);
- délais prévus pour la mise en œuvre par les entreprises:
 - 1^{er} janvier 2024 pour les entreprises déjà soumises à la NFRD (reporting en 2025 sur les données de 2024) ;
 - 1^{er} janvier 2025 pour les grandes entreprises non soumises aujourd'hui à NFRD (reporting en 2026 sur les données 2025)
 - 1^{er} janvier 2026 pour les PME cotées, ainsi que pour les établissements de crédit de petite taille et non complexes, et pour les entreprises captives d'assurance (reporting en 2027 sur les données 2026)

Autres délais

- délais prévus pour le passage à l'assurance raisonnable de la publication d'informations en matière de durabilité : 6 ans après l'entrée en vigueur. (*Article 26a "Directive audit"*)
- délais prévus pour l'adoption des normes par la Commission : 31 Octobre 2022 pour l'adoption de standards généraux et 31 Octobre 2023 pour l'adoption de standards sectoriels et de standards adaptés aux PME (*Article 29b "Directive comptable"*).

III. Conclusion

Le Conseil est invité à

- **confirmer l'accord sur l'orientation générale,**
 - **inviter la Présidence à commencer les négociations avec le Parlement européen sur la base de cette orientation générale en vue d'arriver à un accord en première lecture.**
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2021/0104 (COD)

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) No 537/2014, as regards corporate sustainability reporting

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 50 and 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee⁵,

Acting in accordance with the ordinary legislative procedure,

⁵ OJ C [...], [...], p. [...].

Whereas:

- (1) In its communication on the European Green Deal adopted on 11 December 2019⁶, the European Commission made a commitment to review the provisions concerning non-financial reporting of Directive 2013/34/EU of the European Parliament and of the Council.⁷ The European Green Deal is the European Union's new growth strategy. It aims to transform the Union into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases by 2050. It also aims to protect, conserve and enhance the Union's natural capital, and protect the health and well-being of citizens from environment-related risks and impacts. The European Green Deal aims at decoupling economic growth from resource use, and ensuring that all regions and citizens of the Union participate in a socially just transition to a sustainable economic system. It will contribute to the objective of building an economy that works for the people, strengthening the EU's social market economy, helping to ensure that it is future-ready and that it delivers stability, jobs, growth and investment. These goals are especially important considering the socio-economic damage caused by the COVID-19 pandemic and the need for a sustainable, inclusive and fair recovery. In its proposal of 4 March 2020 for a European Climate Law, the European Commission proposed to make the objective of climate neutrality by 2050 binding in the Union.⁸ Moreover, in its Biodiversity Strategy for 2030, the European Commission commits to ensure that by 2050 all of the world's ecosystems are restored, resilient, and adequately protected. This strategy aims to put Europe's biodiversity on a path to recovery by 2030.

⁶ COM(2019) 640 final.

⁷ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

⁸ Proposal for a Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law) [2020/0036 (COD)]

- (2) In its *Action Plan: Financing Sustainable Growth* the Commission set out measures to achieve the following objectives: reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth, manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues, and foster transparency and long-termism in financial and economic activity⁹. The disclosure by undertakings of relevant, comparable and reliable sustainability information is a prerequisite for meeting those objectives. The European Parliament and the Council adopted a number of legislative acts as part of the implementation of the Action Plan on Financing Sustainable Growth. Regulation (EU) 2019/2088 of the European Parliament and of the Council¹⁰ governs how financial market participants and financial advisers are to disclose sustainability information to end investors and asset owners. Regulation (EU) 2020/852 of the European Parliament and of the Council¹¹ creates a classification system of environmentally sustainable economic activities with the aim of scaling up sustainable investments and combatting greenwashing of financial products that unduly claim to be sustainable.

⁹ COM(2018) 97 final.

¹⁰ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability- related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

¹¹ 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 (OJ L 198, 22.6.2020, p. 13).

Regulation (EU) 2019/2089 of the European Parliament and of the Council¹², complemented by Commission Delegated Regulations (EU) 2020/1816¹³, (EU) 2020/1817¹⁴ and (EU) 2020/1818¹⁵, introduces environmental, social and governance (‘ESG’) disclosure requirements for benchmarks administrators and minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks. Regulation (EU) No 575/2013 of the European Parliament and of the Council¹⁶ requires large institutions which have issued securities that are admitted to trading on a regulated market to disclose information on ESG risks from 28 June 2022. The new prudential framework for investment firms set by Regulation (EU) 2019/2033 of the European Parliament and of the Council¹⁷ and Directive (EU) 2019/2034 of the European Parliament and of the Council¹⁸ contains provisions concerning the introduction of an ESG risk dimension in the supervisory review and evaluation process (SREP) by competent authorities, and contains ESG risks disclosure requirements for investment firms, applicable from 26 December 2022.

¹² Regulation (EU) 2019/2089 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 (OJ L 317, 9.12.2019, p. 17).

¹³ Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published (OJ L 406, 3.12.2020, p. 1).

¹⁴ Commission Delegated Regulation (EU) 2020/1817 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation on how environmental, social and governance factors are reflected in the benchmark methodology (OJ L 406, 3.12.2020, p. 12).

¹⁵ Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks (OJ L 406, 3.12.2020, p. 17).

¹⁶ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

¹⁷ Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (OJ L 314, 5.12.2019, p. 1).

¹⁸ Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (OJ L 314, 5.12.2019, p. 64).

The Commission has also announced a proposal on a European Green Bond Standard in its Work Programme for 2021, following up on the Action Plan on Financing Sustainable Growth.

- (3) On 5 December 2019, in its conclusions on deepening the Capital Markets Union, the Council stressed the importance of reliable, comparable and relevant information on sustainability risks, opportunities and impacts, and called on the Commission to consider the development of a European non-financial reporting standard.
- (4) In its resolution on sustainable finance of 29 May 2018¹⁹, the European Parliament called for the further development of non-financial reporting requirements in the framework of Directive 2013/34/EU. In its resolution on sustainable corporate governance of 17 December 2020²⁰, the European Parliament welcomed the Commission's commitment to review Directive 2013/34/EU and expressed the need to set up a comprehensive Union framework on non-financial reporting that contains mandatory Union non-financial reporting standards. The European Parliament called for the expansion of the scope of the reporting requirements to additional categories of undertakings and for the introduction of an audit requirement.

¹⁹ 2018/2007(INI).

²⁰ A9-0240/2020 (INI).

- (5) On 25 September 2015, the UN General Assembly adopted a new global sustainable development framework: the 2030 Agenda for Sustainable Development (the ‘2030 Agenda’). The 2030 Agenda has at its core the Sustainable Development Goals and covers the three dimensions of sustainability: economic, social and environmental. The Commission communication of 22 November 2016 on the next steps for a sustainable European future linked the Sustainable Development Goals to the Union policy framework to ensure that all Union actions and policy initiatives, both in and beyond the Union, take those goals on board at the outset.²¹ In its conclusions of 20 June 2017, the Council confirmed the commitment of the Union and its Member States to the implementation of the 2030 Agenda in a full, coherent, comprehensive, integrated and effective manner, in close cooperation with partners and other stakeholders.²²
- (6) Directive 2014/95/EU of the European Parliament and the Council²³ amended Directive 2013/34/EU as regards disclosure of non-financial information by certain large undertakings and groups. Directive 2014/95/EU introduced a requirement on undertakings to report information on, as a minimum, environmental, social and employee matters, respect for human rights, and anti-corruption and bribery matters. With regard to these topics, Directive 2014/95/EU required undertakings to disclose information under the following reporting areas: business model, policies (including due diligence processes implemented), the outcome of the policies, risks and risk management, and key performance indicators relevant to the business.

²¹ COM(2016) 739 final

²² Council conclusions “A sustainable European future: The EU response to the 2030 Agenda for Sustainable Development”, 20 June 2017.

²³ 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 (OJ L 330, 15.11.2014, p. 1).

- (7) Many stakeholders consider the term ‘non-financial’ to be inaccurate, in particular because it implies that the information in question has no financial relevance. Increasingly, however, the information in question does have financial relevance. Many organisations, initiatives and practitioners in this field refer to ‘sustainability’ information. It is therefore preferable to use the term ‘sustainability information’ in place of ‘non-financial information’. Directive 2013/34/EU should therefore be amended to take account of this change in terminology.
- (8) The ultimate beneficiaries of better sustainability reporting by undertakings are individual citizens and savers. Savers who want to invest sustainably will have the opportunity to do so, while all citizens should benefit from a stable, sustainable and inclusive economic system. To realise these benefits, the sustainability information disclosed in undertaking’s annual reports first has to reach two primary groups (‘users’). The first group of users consists of investors, including asset managers, who want to better understand the risks and opportunities that sustainability issues pose to their investments and the impacts of those investments on people and the environment. The second group of users consists of organisations, including non-governmental organisations and social partners, that wish to better hold undertakings to account for their impacts on people and the environment. Other stakeholders may also make use of sustainability information disclosed in annual reports. The business partners of undertakings, including customers, may rely on this information to understand, and where necessary report on, the sustainability risks and impacts through their own value chains. Policy makers and environmental agencies may use such information, in particular on an aggregate basis, to monitor environmental and social trends, to contribute to environmental accounts, and to inform public policy. Few individual citizens and consumers directly consult undertaking’s reports, but they may use such information indirectly such as when considering the advice or opinions of financial advisers or non-governmental organisations. Many investors and asset managers purchase sustainability information from third party data providers, who collect information from various sources, including public corporate reports.

- (9) There has been a very significant increase in demand for corporate sustainability information in recent years, especially on the part of the investment community. That increase in demand is driven by the changing nature of risks to undertakings and growing investor awareness of the financial implications of these risks. That is especially the case for climate-related financial risks. Awareness of the risks to undertakings and to investments resulting from other environmental issues, such as biodiversity loss, and from social issues, including health issues, is also growing. The increase in demand for sustainability information is also driven by the growth in investment products that explicitly seek to meet certain sustainability standards or achieve certain sustainability objectives. Part of that increase is the logical consequence of previously adopted Union legislation, notably Regulation (EU) 2019/2088 and Regulation (EU) 2020/852. Some of the increase would have happened in any case, due to fast-changing citizen awareness, consumer preferences and market practices. The COVID-19 pandemic will further accelerate the increase in users' information needs, in particular as it has exposed the vulnerabilities of workers and of undertaking's value chains. Information on environmental impacts is also relevant in the context of mitigating future pandemics with human disturbance of ecosystems increasingly linked to the occurrence and spread of diseases.
- (10) Undertakings themselves stand to benefit from carrying out high quality reporting on sustainability matters. The growth in the number of investment products that aim to pursue sustainability objectives means that good sustainability reporting can enhance an undertaking's access to financial capital. Sustainability reporting can help undertakings to identify and manage their own risks and opportunities related to sustainability matters. It can provide a basis for better dialogue and communication between undertakings and their stakeholders, and can help undertakings to improve their reputation. Moreover, a consistent basis for sustainability reporting by undertakings in the form of reporting standards should provide for the relevant and sufficient information and thus significantly decrease ad hoc requests for information.

- (11) The report on the review clause of the Non-Financial Reporting Directive (Directive 2014/95/EU), and its accompanying fitness check on corporate reporting, identified problems as to the effectiveness of that Directive²⁴. There is significant evidence that many undertakings do not disclose material information on all major sustainability-related topics. The report also identified as significant problems the limited comparability and reliability of sustainability information. Additionally, many undertakings from which users need sustainability information are not obliged to report such information.
- (12) In the absence of policy action, the gap between users' information needs and the sustainability information reported by undertakings is expected to grow. This gap has significant negative consequences. Investors are unable to take sufficient account of sustainability-related risks and opportunities in their investment decisions. The aggregation of multiple investment decisions that do not take adequate account of sustainability-related risks has the potential to create systemic risks that threaten financial stability. The European Central Bank and international organisations such as the Financial Stability Board have drawn attention to those systemic risks, in particular in the case of climate. Investors are also less able to channel financial resources to undertakings and economic activities that address and do not exacerbate social and environmental problems, which undermines the objectives of the European Green Deal and the Action Plan on Financing Sustainable Growth.

²⁴ Publication office: please insert reference to Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the review clauses in Directives 2013/34/EU, 2014/95/EU, and 2013/50/EU, and accompanying SWD-Fitness Check.

Non-governmental organisations, social partners, communities affected by undertakings' activities, and other stakeholders are less able to hold undertakings accountable for their impacts on people and the environment. This creates an accountability deficit, and may contribute to lower levels of citizen trust in businesses, which in turn may have negative impacts on the efficient functioning of the social market economy. The lack of generally accepted metrics and methods for measuring, valuing, and managing sustainability-related risks is also an obstacle to the efforts of undertakings to ensure that their business models and activities are sustainable.

- (13) The report on the review clause of Directive 2014/95/EU, and its accompanying fitness check on corporate reporting, also recognised a significant increase in requests for STT information about sustainability matters to undertakings in an attempt to address the existing information gap. In addition, ongoing expectations on undertakings to use a variety of different frameworks and standards are likely to continue and may even intensify as the value placed on sustainability information continues to grow. In the absence of policy action to build consensus on the information that undertakings should report, there will be significant increases in costs and burden for reporting undertakings and for users of such information.
- (14) The growing gap between users' information needs and the current reporting practices of undertakings makes it more likely that individual Member States will introduce increasingly divergent national rules or standards. Different reporting requirements in different Member States would create additional costs and complexity for undertakings operating across borders and therefore undermine the single market, and would undermine the right of establishment and the free movement of capital across the Union. Those different reporting requirements also make reported information less comparable across borders, undermining the capital markets union.

- (15) Articles 19a and 29a of Directive 2013/34/EU apply to large undertakings that are public-interest entities with an average number of employees in excess of 500, and to public-interest entities that are parent undertakings of a large group with an average number of employees in excess of 500 on a consolidated basis, respectively. In view of the growth of users' needs for sustainability information, additional categories of undertakings should be required to report such information. It is therefore appropriate to require all large undertakings and all undertakings listed on regulated markets, except micro undertakings, to report detailed sustainability information. Articles 19a and 29a explicitly set out the scope of the reporting requirements with reference to Articles 2 and 3 of Directive 2013/34/EU. Therefore, Articles 19a and 29a do not 'simplify' or 'modify' another requirement and the restriction of exemptions for public-interest entities in Article 40 of Directive 2013/34/EU does not apply. In particular, public-interest entities should not be treated as large undertakings for the purposes of the reporting obligations of Articles 19a and 29a, i.e. small and medium sized public-interest entities should be allowed to report according to the simplified SME sustainability reporting standards. In addition, all undertakings that are parent undertakings of large groups should prepare sustainability reporting at group level.
- (16) The requirement that also large non-listed undertakings should disclose information on sustainability matters is mainly driven by concerns about the impacts and accountability of such undertakings, including through their value chain. In this respect, all large undertakings should be subject to the same requirements to report sustainability information publicly. In addition, financial market participants also need information from those large non-listed undertakings.
- (17) The requirement that undertakings not established in the Union but with securities listed on regulated markets should also disclose information on sustainability matters responds to the needs of financial market participants for information from such undertakings in order to understand the risks and impacts of their investments, and to comply with the disclosure requirements laid down in Regulation (EU) 2019/2088.

(18) Considering the growing relevance of sustainability-related risks and taking into account that small and medium-sized enterprises (SMEs) listed on regulated markets comprise a significant proportion of all listed undertakings in the Union, in order to ensure investor protection it is appropriate to require that also those SMEs disclose information on sustainability matters. The introduction of this requirement will help to ensure that financial market participants can include smaller listed undertakings in investment portfolios on the basis that they report the sustainability information that financial market participants need. It will therefore help to protect and enhance the access of smaller listed undertakings to financial capital, and avoid discrimination against such undertakings on the part of financial market participants. The introduction of this requirement is also necessary to ensure that financial market participants have the information they need from investee undertakings to be able to comply with their own sustainability disclosure requirements laid down in Regulation (EU) 2019/2088. SMEs listed on regulated markets should, however, be provided with sufficient time to prepare for the application of the requirement to report sustainability information, due to their smaller size and more limited resources, and taking account of the difficult economic circumstances created by the COVID-19 pandemic. They should also be given the possibility to report according to standards that are proportionate to the capacities and resources of SMEs, and relevant to the scale and complexity of their activities. Non-listed SMEs can also choose to use these proportionate standards on a voluntary basis. The SME standards will set a reference for undertakings that are within the scope of the Directive regarding the level of sustainability information that they could reasonably request from SME suppliers and clients in their value chains.

- (19) Directive 2004/109/EC of the European Parliament and of the Council²⁵ applies to all undertakings with securities listed on regulated markets. In order to ensure that all undertakings with securities listed on regulated markets, including third country issuers, fall under the same sustainability reporting requirements, Directive 2004/109/EC should contain the necessary cross-references to any requirement on sustainability reporting in the annual financial report.
- (20) Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC empower the Commission to adopt measures to set up a mechanism for the determination of equivalence of information required under the Directive, and for the establishment of general equivalence criteria regarding accounting standards, respectively. Article 23(4), third subparagraph, of Directive 2004/109/EC also empowers the Commission to take the necessary decisions on the equivalence of accounting standards that are used by third-country issuers. In order to reflect the inclusion of the sustainability requirements in Directive 2004/109/EC, the Commission should be empowered to establish a mechanism for the determination of equivalence of sustainability reporting standards applied by third-country issuers of securities, similar to existing Commission Regulation (EC) No 1569/2007²⁶ which sets out the criteria for the determination of equivalence of accounting standards applied by third country issuers. For the same reason, the Commission should also be empowered to take the necessary decisions on the equivalence of sustainability reporting standards that are used by third country issuers. The competent authority of the home Member State of a third

²⁵ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38).

²⁶ Commission Regulation (EC) No 1569/2007 of 21 December 2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council (OJ L 340, 22.12.2007, p. 66).

country issuer may consider that the third country issuer is compliant with the EU sustainability reporting obligations if it reports according to equivalent sustainability reporting standards. Those amendments will ensure consistent equivalence regimes for sustainability reporting obligations and for financial reporting obligations regarding the annual financial report.

- (21) Articles 19a(3) and 29a(3) of Directive 2013/34/EU currently exempt all subsidiary undertakings from the obligation to report non-financial information where such undertakings and their subsidiary undertakings are included in the consolidated management report of their parent undertaking, provided this includes non-financial information reported according to EU requirements. That exemption should also apply where the parent undertaking reporting at consolidated level is a third country undertaking reporting sustainability information in accordance with equivalent sustainability reporting standards. Given that Directive 2004/109/EC would foresee appropriate mechanisms to determine the equivalence of sustainability reporting standards, and given that both undertakings with and without securities listed on regulated markets should be required to report according to the same sustainability reporting standards, the measures adopted pursuant to Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC establishing a mechanism for the determination of equivalence of standards should be put to use for determining the exemption of subsidiary undertakings of non-EU parent undertakings under the regime of Directive 2013/34/EU. In this sense, the subsidiary undertaking should be exempted when consolidated sustainability reporting is drawn up in a manner equivalent to European sustainability reporting standards, determined in accordance with the relevant measures adopted pursuant to Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC.

- (21)a It is necessary to ensure that sustainability information is easily accessible for users, and to bring transparency about which is the parent undertaking of the exempted subsidiary undertaking which is reporting at consolidated level. It is therefore necessary to require those subsidiary undertakings of EU parent undertakings to include in their management report the name of the parent undertaking, the web links to the consolidated management report of the parent undertaking and to the assurance opinion on sustainability reporting, and the fact that the undertaking is exempted from sustainability reporting obligations. In order to ensure the usability of the information, it is necessary to allow Member States to require the publication of the consolidated management report and the opinion on sustainability reporting, in a language accepted by the Member State by which the exempted subsidiary undertaking is governed, and that any necessary translation into this language is certified. Subsidiary undertakings of non-EU parent undertakings should also publish the consolidated management report and the assurance opinion on sustainability reporting in a language accepted by the Member State by which the exempted subsidiary is governed to ensure that the relevant sustainability information meets the publication requirements in the EU, ensuring the digital access to this information.
- (22) Article 23 of Directive 2013/34/EU exempts parent undertakings from the obligation to prepare consolidated financial statements and a consolidated management report where those undertakings are subsidiaries of another parent undertaking that complies with that obligation. It should be specified, however, that the exemption regime for consolidated financial statements and consolidated management reports operates independently from the exemption regime for consolidated sustainability reporting. An undertaking can therefore be exempted from consolidated financial reporting obligations but not exempted from consolidated sustainability reporting obligations where its ultimate parent prepares consolidated financial statements and consolidated management reports in accordance with Union law, or in accordance with equivalent requirements if the undertaking is established in a third country, but does not prepare consolidated sustainability reporting in accordance with EU law, or in accordance with equivalent requirements if the undertaking is established in a third country.

(23) Credit institutions and insurance undertakings play a key role in the transition towards a fully sustainable and inclusive economic and financial system in line with the European Green Deal. They can have significant positive and negative impacts via their lending, investment and underwriting activities. Credit institutions and insurance undertakings other than those that are required to comply with Directive 2013/34/EU, including cooperatives and mutual undertakings, should therefore be subject to sustainability reporting requirements provided that they meet certain size criteria. Users of that information would thus be enabled to assess both the impacts of these undertakings on society and the environment and the risks arising from sustainability matters that these undertakings could face. The Accounting Directive applies three possible criteria to determine whether an undertaking is considered to be a “large undertaking”, which are the balance sheet total, net turnover and average number of employees during the financial year. The criterion of net turnover needs to be adapted for credit institutions and for insurance undertakings by referring to the definition of net turnover in Directive 1986/635 and in Directive 1991/674 instead of the general definition of Directive 2013/34/EU. To ensure coherence with the reporting requirements of Council Directive 86/635/EEC²⁷ on the annual accounts and consolidated accounts of banks and other financial institutions, Member States may choose not to apply sustainability reporting requirements to credit institutions listed in Article 2(5) of Directive 2013/36/EU of the European Parliament and of the Council²⁸.

²⁷ Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (OJ L 372, 31.12.1986, p. 1).

²⁸ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

- (24) The list of sustainability matters on which undertakings are required to report should be as coherent as possible with the definition of ‘sustainability factors’ laid down in Regulation (EU) 2019/2088. That list should also correspond to the needs and expectations of users and undertakings themselves, who often use the terms ‘environmental’, ‘social’ and ‘governance’ as a means to categorise the three main sustainability matters. The list of sustainability factors laid down in Regulation (EU) 2019/2088 does not explicitly include governance matters. The definition of sustainability matters in Directive 2013/34/EU should therefore relate to environmental, social and human rights and governance factors, and be based on the definition of ‘sustainability factors’ laid down in Regulation (EU) 2019/2088.
- (25) Articles 19a and 29a of Directive 2013/34/EU require reporting not only on information ‘to the extent necessary for an understanding of the undertaking's development, performance, position’, but also on information necessary for an understanding of the impact of the undertaking’s activities on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. Those articles therefore require undertakings to report both on the impacts of the activities of the undertaking on people and the environment and on how various sustainability matters affect the undertaking. That is referred to as the double-materiality perspective, in which the risks to the undertaking and the impacts of the undertaking each represent one materiality perspective. The fitness check on corporate reporting shows that those two perspectives are often not well understood or applied. It is therefore necessary to clarify that undertakings should consider each materiality perspective in its own right, and should disclose information that is material from both perspectives as well as information that is material from only one perspective.

(26) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to disclose information about five reporting areas: business model, policies (including due diligence processes implemented), the outcome of those policies, risks and risk management, and key performance indicators relevant to the business. Article 19a(1) of Directive 2013/34/EU does not contain explicit references to other reporting areas that users of information consider relevant, some of which align with disclosures included in international frameworks, including the recommendations of the Task Force on Climate-related Financial Disclosures. Disclosure requirements should be specified in sufficient detail to ensure that undertakings report information on their resilience to risks related to sustainability matters. In addition to the reporting areas identified in Articles 19a(1) and 29a(1) of Directive 2013/34/EU, undertakings should therefore be required to disclose information about their business strategy and the resilience of the business model and strategy to risks related to sustainability matters, any plans they may have to ensure that their business model and strategy are compatible with the transition to a sustainable and climate-neutral economy; whether and how their business model and strategy take account of the interests of stakeholders; any opportunities for the undertaking arising from sustainability matters; the implementation of the aspects of the business strategy which affect, or are affected by sustainability matters; any sustainability targets set by the undertaking and the progress made towards achieving them; the role of the board and management with regard to sustainability matters; the principal actual and potential adverse impacts connected with the undertaking's activities; and how the undertaking has identified the information that they report on. Once the disclosure of elements such as targets and the progress towards achieving them is required, the separate requirement to disclose the outcomes of policies is no longer necessary.

(27) To ensure consistency with international instruments such as the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the OECD Due Diligence Guidance for Responsible Business Conduct, the due diligence disclosure requirements should be specified in greater detail than is the case in Article 19a(1), point (b), and Article 29a(1), point (b) of Directive 2013/34/EU. Due diligence is the process that undertakings carry out to identify, prevent, mitigate and remediate the principal actual and potential adverse impacts connected with their activities and identifies how they address those adverse impacts. Impacts connected with an undertaking's activities include impacts directly caused by the undertaking, impacts to which the undertaking contributes, and impacts which are otherwise linked to the undertaking's value chain. The due diligence process concerns the whole value chain of the undertaking including its own operations, its products and services, its business relationships and its supply chains. In alignment with the UN Guiding Principles on Business and Human Rights, an actual or potential adverse impact is to be considered principal where it measures among the greatest impacts connected with the undertaking's activities based on: the gravity of the impact on people or the environment; the number of individuals that are or could be affected, or the scale of damage to the environment; and the ease with which the harm could be remediated, restoring the environment or affected people to their prior state.

(28) Directive 2013/34/EU does not require the disclosure of information on intangible resources other than intangible assets recognised in the balance sheet. It is widely recognised that information on intangible assets and other intangible factors, including internally-generated intangibles, is underreported, impeding the proper assessment of an undertaking's development, performance and position and monitoring of investments. To enable investors to better understand the increasing gap between the accounting book value of many undertakings and their market valuation, which is observed in many sectors of the economy, adequate reporting on intangibles should be required from all large undertakings and all undertakings listed on regulated markets, except micro undertakings. Nonetheless, certain information on intangible resources is intrinsic to sustainability matters, and will therefore be part of sustainability reporting. For example, information about employees' skills, competencies, experience, loyalty to the undertaking and motivation for improving processes, goods and services, is sustainability information regarding social matters that could also be considered as information on intangible resources. Likewise, information about the quality of the relationships between the undertaking and its stakeholders, including customers, suppliers and communities affected by the activities of the undertaking, is sustainability information relevant to social or governance matters that could also be considered as information on intangible resources. These examples illustrate how in some cases it is not possible to distinguish information on intangible resources from information on sustainability matters.

- (29) Articles 19a(1) and 29a(1) of Directive 2013/34/EU do not specify whether the information to be reported is to be forward looking or information about past performance. There is currently a lack of forward-looking disclosures, which users of sustainability information especially value. Articles 19a and 29a of Directive 2013/34/EU should therefore specify that the sustainability information reported shall include forward-looking and retrospective, and both qualitative and quantitative information. Reported sustainability information should also take into account short, medium and long-term time horizons and contain information about the undertaking's whole value chain, including its own operations, its products and services, its business relationships, and its supply chain, as appropriate. Information about the undertaking's whole value chain would include information related to its value chain within the EU and information that covers third countries if the undertaking's value chain extends outside the EU.
- (30) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to include in their non-financial reporting references to, and additional explanations of, amounts reported in the annual financial statements. Those Articles do, however, not require undertakings to make references to other information in the management report or to add additional explanations to that information. There is currently thus a lack of consistency between non-financial information reported and the rest of the information disclosed in the management report. It is necessary to lay down clear requirements in this regard.
- (31) Articles 19a(1) and 29a(1) of Directive 2013/34/EU require undertakings to provide a clear and reasoned explanation for not pursuing policies in relation to one or more of the matters listed, where the undertaking does not do so. The different treatment of disclosures on the policies that undertakings may have, compared to the other reporting areas included in those articles, has created confusion among reporting undertakings and has not helped to improve the quality of the reported information. Therefore, there is no need to maintain this different treatment of policies in the Directive. The standards will determine what information needs to be disclosed in relation to each of the reporting areas mentioned in Articles 19a and 29a.

(32) Undertakings under the scope of Articles 19a(1) and 29a(1) of Directive 2013/34/EU may rely on national, Union-based or international reporting frameworks, and where they do so, they have to specify which frameworks they relied upon. However, Directive 2013/34/EU does not require undertakings to use a common reporting framework or standard, and it does not prevent undertakings from choosing not to use any reporting framework or standards at all. As required by Article 2 of Directive 2014/95/EU, the Commission published in 2017 non-binding guidelines for undertakings under the scope of that Directive²⁹. In 2019, the Commission published additional guidelines, specifically on reporting climate-related information³⁰. The climate reporting guidelines explicitly incorporated the recommendations of the Task Force on Climate-related Financial Disclosures. Available evidence indicates that those non-binding guidelines did not have a significant impact on the quality of non-financial reporting by undertakings under the scope of Articles 19a and 29a of Directive 2013/34/EU. The voluntary nature of the guidelines means that undertakings are free to apply them or not. The guidelines can therefore not ensure on their own the comparability of information disclosed by different undertakings or the disclosure of all information that users consider relevant. That is why there is a need for mandatory common reporting standards to ensure that information is comparable and that all relevant information is disclosed. Building on the double-materiality principle, standards should cover all information that is material to users. Common reporting standards are also necessary to enable the audit and digitalisation of sustainability reporting and to facilitate its supervision and enforcement. The development of mandatory common sustainability reporting standards is necessary to progress to a situation in which sustainability information has a status comparable to that of financial information. The adoption of sustainability reporting standards by means of Delegated Regulations will ensure harmonised sustainability reporting across the Union. Therefore, an undertaking would be compliant with the requirements of Articles 19a and 29a by reporting according to the sustainability reporting standards.

²⁹ Communication from the Commission *Guidelines on non-financial reporting (methodology for reporting non-financial information)* (C/2017/4234).

³⁰ Communication from the Commission *Guidelines on non-financial reporting: Supplement on reporting climate-related information* (C/2019/4490).

- (33) No existing standard or framework satisfies the Union's needs for detailed sustainability reporting by itself. Information required by Directive 2013/34/EU needs to cover information relevant from each of the materiality perspectives, needs to cover all sustainability matters and needs to be aligned, where appropriate, with other obligations under Union law to disclose sustainability information, including obligations laid down in Regulation (EU) 2020/852 and Regulation (EU) 2019/2088. In addition, mandatory sustainability reporting standards for Union undertakings must be commensurate with the level of ambition of the European Green Deal and the Union's climate-neutrality objective for 2050. It is therefore necessary to empower the Commission to adopt Union sustainability reporting standards, enabling their rapid adoption and ensuring that the content of sustainability reporting standards are consistent with the Union's needs.
- (34) The European Financial Reporting Advisory Group (EFRAG) is a non-profit association established under Belgian law that serves the public interest by providing advice to the Commission on the endorsement of international financial reporting standards. EFRAG has established a reputation as a European centre of expertise on corporate reporting, and is well placed to foster coordination between European sustainability reporting standards and international initiatives that seek to develop standards that are consistent across the world. In March 2021, a multi-stakeholder task force set up by EFRAG published recommendations for the possible development of sustainability reporting standards for the European Union. Those recommendations contain proposals to develop a coherent and comprehensive set of reporting standards, covering all sustainability matters from a double-materiality perspective. Those recommendations also contain a detailed roadmap for developing such standards, and proposals for mutually reinforcing cooperation between global standard-setting initiatives and standard-setting initiatives of the European Union. In March 2021, the EFRAG President published recommendations for possible governance changes to EFRAG if it were to be asked to develop technical advice about sustainability reporting standards.

These recommendations include offsetting up within EFRAG a new sustainability reporting pillar while not significantly modifying the existing financial reporting pillar. When adopting sustainability reporting standards, the Commission should take account of technical advice that EFRAG will develop. In order to ensure high-quality standards that contribute to the European public good and meet the needs of undertakings and of users of the information reported, EFRAG's technical advice should be developed with proper due process, public oversight and transparency, accompanied by cost benefit analyses, and be developed with the expertise of relevant stakeholders. To ensure that Union sustainability reporting standards take account of the views of the Member States of the Union, before adopting the standards the Commission should consult the Member State Expert Group on Sustainable Finance referred to in Article 24 of Regulation (EU) 2020/852 and the Accounting Regulatory Committee referred to in Article 6 of Regulation (EU) 1606/2002 on EFRAG's technical advice. The European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) play a role in drafting regulatory technical standards pursuant to Regulation (EU) 2019/2088, and there needs to be coherence between those regulatory technical standards and sustainability reporting standards. According to Regulation (EU) No 1095/2010 of the European Parliament and of the Council³¹, ESMA also plays a role in promoting supervisory converge in the enforcement of corporate reporting by issuers whose securities are listed on EU regulated markets and who will be required to use these sustainability reporting standards. Therefore, ESMA, EBA and EIOPA should be required to provide an opinion on EFRAG's technical advice.

³¹ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

This opinion should be provided within two months from the date of receipt of the request from the Commission. In addition, the Commission should consult the European Environment Agency, the European Union Agency for Fundamental Rights, the European Central Bank, the Committee of European Auditing Oversight Bodies and the Platform on Sustainable Finance to ensure that the sustainability reporting standards are coherent with relevant Union policy and legislation. Where any of those bodies decide to submit an opinion, they shall do so within two months from the date of being consulted by the Commission.

- (35) Sustainability reporting standards should be coherent with other Union legislation. Those standards should in particular be aligned with the disclosure requirements laid down in Regulation (EU) 2019/2088, and they should take account of underlying indicators and methodologies set out in the various delegated acts adopted pursuant to Regulation (EU) 2020/852, disclosure requirements applicable to benchmark administrators pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council³², the minimum standards for the construction of EU climate transition benchmarks and EU Paris-aligned benchmarks; and of any work carried out by the European Banking Authority in the implementation of the Pillar III disclosure requirements of Regulation (EU) No 575/2013. Standards should take account of Union environmental legislation, including Directive 2003/87/EC of the European Parliament and of the Council³³ and Regulation (EC) No 1221/2009 of the European Parliament and of the Council³⁴, and should take account of Commission Recommendation 2013/179/EU³⁵ and its annexes, and their updates.

³² Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).

³³ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

³⁴ Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).

³⁵ Commission Recommendation 2013/179/EU of 9 April 2013 on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations (OJ L 124, 4.5.2013, p. 1).

Other relevant Union legislation, including Directive 2010/75/EU of the European Parliament and of the Council³⁶, and requirements laid down in Union law for undertakings as regards directors' duties and due diligence, should also be taken into account.

- (36) Sustainability reporting standards should take account of the Commission guidelines on non-financial reporting³⁷ and the Commission guidelines on reporting climate-related information³⁸. They should also take account of other reporting requirements in Directive 2013/34/EU not directly related to sustainability, with the aim of providing the users of the reported information with a better understanding of the development, performance, position and impact of the undertaking, by maximising the links between the sustainability information and other information reported in accordance with Directive 2013/34/EU.
- (37) Sustainability reporting standards should be proportionate, and should not impose unnecessary administrative burden on companies that are required to use them. In order to minimise disruption for undertakings that already report sustainability information, sustainability reporting standards should take account of existing standards and frameworks for sustainability reporting and accounting where appropriate. Those include the Global Reporting Initiative, the Sustainability Accounting Standards Board, the International Integrated Reporting Council, the International Accounting Standards Board, the Task Force on Climate-related Financial Disclosures, the Carbon Disclosure Standards Board, and CDP (formerly the Carbon Disclosure Project). Standards of the European Union should take account of any sustainability reporting standards developed under the auspices of International Financial Reporting Standards Foundation. 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.

³⁶ Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) (OJ L 334, 17.12.2010, p. 17).

³⁷ 2017/C 215/01.

³⁸ 2019/C 209/01.

- (38) In its communication on the European Green Deal, the European Commission committed to support businesses and other stakeholders in developing standardised natural capital accounting practices within the Union and internationally, with the aim of ensuring appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs. The Transparent Project sponsored under the LIFE programme is developing the first natural capital accounting methodology, which will make existing methods easier to compare and more transparent while lowering the threshold for companies to adopt and use the systems in support of future-proofing their business. The Natural Capital Protocol is also an important reference in this field. While natural capital accounting methods serve principally to strengthen internal management decisions, they should be duly considered when establishing sustainability reporting standards. Some natural capital accounting methodologies seek to assign a monetary value to the environmental impacts of companies' activities, which may help users to better understand those impacts. It is therefore appropriate that sustainability reporting standards should be able to include monetised indicators of sustainability impacts if that is deemed necessary.
- (39) Sustainability reporting standards should also take account of internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility, and sustainable development, including the UN Sustainable Development Goals, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Business Conduct and related sectoral guidelines, the UN Global Compact, the Tripartite Declaration of Principles of the International Labour Organisation concerning Multinational Enterprises and Social Policy, the ISO 26000 standard on social responsibility, and the UN Principles for Responsible Investment.

- (40) It should be ensured that the information reported by undertakings in accordance with the sustainability reporting standards meet the needs of users. The reporting standards should therefore specify the information that undertakings are to disclose on all major environmental factors, including their impacts and dependencies on climate, air, land, water and biodiversity. Regulation (EU) 2020/852 provides a classification of the environmental objectives of the Union. For reasons of coherence, it is appropriate to use a similar classification to identify the environmental factors that should be addressed by sustainability reporting standards. The reporting standards should consider and specify any geographical or other contextual information that undertakings should disclose to provide an understanding of their principal impacts on sustainability matters and the principal risks to the undertaking arising from sustainability matters.
- (41) With regard to climate-related information, users are interested in knowing about undertakings' physical and transition risks, and about their resilience to different climate scenarios. They are also interested in the level and scope of greenhouse gas emissions and removals attributed to the undertaking, including the extent to which the undertaking uses offsets and the source of those offsets. Achieving a climate neutral economy requires the alignment of greenhouse gas accounting and offset standards. Users need reliable information regarding offsets that addresses concerns regarding possible double-counting and overestimations, given the risks to the achievement of climate-related targets that double-counting and overestimations can create. The reporting standards should therefore specify the information undertakings should report with regard to those matters.
- (42) Achieving a climate neutral and circular economy and a toxic-free environment requires the full mobilisation of all economic sectors. Reducing energy use and increasing energy efficiency is key in this respect as energy is used across supply chains. Energy aspects should therefore be duly considered in sustainability reporting standards, in particular in relation to environmental matters.

(43) Sustainability reporting standards should specify the information that undertakings should disclose on social factors, including employee factors and human rights. Such information should cover the impacts of undertakings on people, including on human health. The information that undertakings disclose about human rights should include information about forced labour in their value chains where relevant. Reporting standards that address social factors should specify the information that undertakings should disclose with regard to the principles of the European Pillar of Social Rights that are relevant to businesses, including equal opportunities for all and working conditions. The European Pillar of Social Rights Action Plan adopted in March 2021 calls for stronger requirements on undertakings to report on social issues. The reporting standards should also specify the information that undertakings should disclose with regard to the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the fundamental conventions of the International Labour Organisation, and the Charter of Fundamental Rights of the European Union.

(44) Users need information about governance factors. Governance factors that are most relevant to users are listed by authoritative reporting frameworks such as the Global Reporting Initiative and the Task Force on Climate-related Financial Disclosures, as well as by authoritative global frameworks such as the Global Governance Principles of the International Corporate Governance Network and the G20 OECD principles of Corporate Governance. Sustainability reporting standards should specify the information that undertakings should disclose on governance factors. Such information should cover the role of an undertaking's administrative, management and supervisory bodies with regard to sustainability matters, and their access to expertise and skills to fulfil this role through their own expertise or through access to the necessary expertise, and information on an undertaking's internal control and risk management systems in relation to the sustainability reporting process.

Users also need information about undertakings' corporate culture and approach to business ethics, which are recognised elements of authoritative frameworks on corporate governance such as the Global Governance Principles of the International Corporate Governance Network, including information about anti-corruption and anti-bribery, and about the undertaking's political engagements, including lobbying activities. Information about the management of the undertaking and the quality of relationships with customers, suppliers and communities affected by the activities of the undertaking helps users to understand an undertaking's risks as well as its impacts on sustainability matters. Information about relationships with suppliers, includes payment practices relating to the date or period for payment, the rate of interest for late payment or the compensation for recovery costs referred to in Directive 2011/7/EU of the European Parliament and of the Council³⁹ on late payment in commercial transactions. Every year, thousands of businesses, especially SMEs, suffer administrative and financial burdens because they are paid late, or not at all. Ultimately, late payments lead to insolvency and bankruptcy, with destructive effects on entire value chains. Increasing information about payment practices should empower other undertakings to identify prompt and reliable payers, detect unfair payment practices, access information about the businesses they trade with, and negotiate fairer payment terms.

- (45) The reporting standards should promote a more integrated view of all the information published by undertakings in the management report to provide users of that information with a better understanding of the development, performance, position and impact of the undertaking. Those standards should distinguish as necessary between information that undertakings should disclose when reporting at individual level and the information that undertakings should disclose when reporting at consolidated level. Those standards should also contain guidance for undertakings on the process carried out to identify the sustainability information that should be included in the management report, since an undertaking should only be required to disclose the information relevant to understand its impacts on sustainability matters, and the information relevant to understand how sustainability matters affect its development, performance and position.

³⁹ Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions (OJ L 48, 23.2.2011, p. 1).

- (46) Undertakings in the same sector are often exposed to similar sustainability-related risks, and they often have similar impacts on society and the environment. Comparisons between undertakings in the same sector are especially valuable to investors and other users of sustainability information. Sustainability reporting standards adopted by the Commission should therefore specify both information that undertakings in all sectors should disclose and information that undertakings should disclose depending on their sector of activity. Standards should also take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain, especially from SME suppliers and from suppliers in emerging markets and economies.
- (47) To meet the information needs from users in a timely manner, and in particular given the urgency to meet the information needs of financial market participants subject to the requirements laid down in the delegated acts adopted pursuant to Article 4, paragraphs 6 and 7 of Regulation (EU) 2019/2088, the Commission should adopt a first set of reporting standards by 31 October 2022. That set of reporting standards should specify the information that undertakings should disclose with regard to all reporting areas and sustainability matters, and that financial market participants need to comply with the disclosure obligations laid down in Regulation (EU) 2019/2088. The Commission should adopt a second set of reporting standards at the latest by 31 October 2023, specifying complementary information that undertakings should disclose about sustainability matters and reporting areas where necessary, and information that is specific to the sector in which an undertaking operates. The Commission should review the standards, including the standards for SMEs, every 3 years to take account of relevant developments, including the development of international standards.

(48) Directive 2013/34/EU does not require that the management report is provided in a digital format, which hinders the findability and usability of the reported information. Users of sustainability information increasingly expect such information to be findable and machine-readable in digital formats. Digitalisation creates opportunities to exploit information more efficiently and holds the potential for significant cost savings for both users and undertakings. Undertakings should therefore be required to prepare their management report in the format referred to in Article 3 of Commission Delegated Regulation (EU) 2019/815,⁴⁰ XHTML format, and to mark-up sustainability information, including the disclosures required by Article 8 of Regulation (EU) 2020/852, in accordance with the format referred to in that Delegated Regulation once this is determined. A digital taxonomy to the Union sustainability reporting standards will be necessary to allow for the reported information to be tagged in accordance with those standards. These requirements should feed into the work on digitalisation announced by the Commission in its Communication *A European strategy for data*⁴¹ and in the *Digital Finance Strategy for the EU*.⁴² These requirements also complement the creation of a European single access point for public corporate information as envisaged in the capital markets union action plan, which also considers the need for structured data.

⁴⁰ Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143, 29.5.2019, p. 1).

⁴¹ <https://ec.europa.eu/digital-single-market/en/european-strategy-data>

⁴² https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en

- (49) To allow for the inclusion of the reported sustainability information in the European single access point, Member States should ensure that undertakings with no securities listed in regulated markets publish their management report, including sustainability reporting, in the electronic format prescribed in Commission Delegated Regulation (EU) 2019/815.
- (50) Article 19a(4) of Directive 2013/34/EU enables Member States to exempt undertakings from including in the management report the non-financial statement required under Article 19a(1). Member States may do so where the undertaking concerned prepares a separate report that is published together with the management report in accordance with Article 30 of that Directive, or where that report is made publicly available on the undertaking's website within a reasonable period of time not exceeding 6 months, after the balance sheet date, and is referred to in the management report. The same possibility exists for the consolidated non-financial statement referred to in Article 29(a)(4) of Directive 2013/34/EU. Twenty Member States have used that option. The possibility to publish a separate report hinders, however, the availability of information that connects financial and information on sustainability matters. It also hinders the findability and accessibility of information for users, especially investors, who are interested in both financial and sustainability information. Possible different publication times for financial and sustainability information exacerbate this problem. Publication in a separate report can also give the impression, internally and externally, that sustainability information belongs to a category of less relevant information, which can impact negatively on the perceived reliability of the information. Undertakings should therefore report sustainability

information in a clearly identifiable dedicated section of the management report and Member States should no longer be allowed to exempt undertakings from the obligation to include in the management report information on sustainability matters. Such obligation also helps to clarify the role of national competent authorities in supervising sustainability reporting, as part of the management report, in accordance with Directive 2004/109/EC. In addition, undertakings required to report sustainability information should in no case be exempted from the obligation to publish the management report as it is important to ensure that sustainability information is publically available.

- (51) Article 20 of Directive 2013/34/EU requires undertakings with securities listed on regulated markets to include a corporate governance statement in their management report, which has to contain among other information a description of the diversity policy applied by the undertaking in relation to its administrative, management and supervisory bodies. Article 20 of Directive 2013/34/EU leaves flexibility to undertakings to decide what aspects of diversity they report on. It does not explicitly oblige undertakings to include information on any particular aspect of diversity. In order to progress towards a more gender-balanced participation in economic decision-making, it is necessary to ensure that undertakings with securities listed on regulated markets always report on their gender diversity policies and the implementation thereof. However, to avoid unnecessary administrative burden, those undertakings should have the possibility to report some of the information required by Article 20 of Directive 2013/34/EU alongside other sustainability-related information. If they decide to do so, the corporate governance statement needs to include a reference to the undertaking's sustainability reporting, and the information compliant with Article 20 of Directive 2013/34/EU should remain subject to the assurance requirements of the corporate governance statement.

- (52) Article 33 of Directive 2013/34/EU requires Member States to ensure that the members of the administrative, management and supervisory bodies of an undertaking have collective responsibility for ensuring that the (consolidated) annual financial statements, the (consolidated) management report and the (consolidated) corporate governance statement are drawn up and published in accordance with the requirements of that Directive. That collective responsibility should be extended to the digitalisation requirements laid down in Delegated Regulation (EU) 2019/815, to the requirement to comply with Union sustainability reporting standards and to the requirement to mark up sustainability reporting.
- (53) The assurance profession distinguishes between limited and reasonable assurance engagements. The conclusion of a limited assurance engagement is usually provided in a negative form of expression by stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated. The auditor performs fewer tests than in a reasonable assurance engagement. The amount of work for a limited assurance engagement is therefore less than for reasonable assurance. The work effort in a reasonable assurance engagement entails extensive procedures including consideration of internal controls of the reporting undertaking and substantive testing, and is therefore significantly higher than in a limited assurance engagement. The conclusion of this type of engagement is usually provided in a positive form of expression and states an opinion on the measurement of the subject matter against previously defined criteria. Article 19a(5) and Article 29a(5) of Directive 2013/34/EU require Member States to ensure that the statutory auditor or audit firm checks whether the non-financial statement or the separate report has been provided. It does not require that an independent provider of assurance services verifies the information, although it allows Member States to require such verification where they wish to.

The absence of an assurance requirement on sustainability reporting, in contrast to the requirement for the statutory auditor to perform a reasonable assurance engagement on financial statements, would threaten the credibility of the sustainability information disclosed, thus failing to meet the needs of the intended users of that information. Although the objective is to have a similar level of assurance for financial and sustainability reporting, the absence of a commonly agreed standard for the assurance of sustainability reporting creates the risk of different understandings and expectations of what a reasonable assurance engagement would consist of for different categories of sustainability information, especially with regard to forward looking and qualitative disclosures. Therefore, a progressive approach to enhance the level of the assurance required for sustainability information should be considered, starting with an obligation on the statutory auditor or audit firm to express an opinion about the compliance of the sustainability reporting with Union requirements based on a limited assurance engagement. This opinion should cover the compliance of the sustainability reporting with Union sustainability reporting standards, the process carried out by the undertaking to identify the information reported pursuant to the sustainability reporting standards and compliance with the requirement to mark-up sustainability reporting. The auditor should also assess whether the undertaking's reporting complies with the reporting requirements of Article 8 of Regulation (EU) 2020/852.

To guarantee a common understanding and expectations of what a reasonable assurance engagement would consist of, the statutory auditor or audit firm should be required to express an opinion based on a reasonable assurance engagement about the compliance of the sustainability reporting with Union requirements, when the Commission adopts assurance standards for reasonable assurance of sustainability reporting six years after the assurance and reporting requirements have applied for the first time. The gradual approach from limited to reasonable assurance would also allow for the progressive development of the assurance market for sustainability information, and of undertakings' reporting practices. Finally, this progressive approach would phase in the increase in costs for reporting undertakings, given that reasonable assurance is more costly than limited assurance. Undertakings subject to sustainability reporting requirements can decide to have an opinion on their sustainability reporting based on a reasonable assurance engagement if they wish so, and in this case they would be deemed to have complied with the obligation to have an opinion based on a limited assurance engagement. It should be noted that the reasonable assurance opinion on forward-looking information is only an assurance that such information has been prepared in accordance with applicable standards.

(54) Statutory auditors or audit firms already verify the financial statements and the management report. The assurance of sustainability reporting by the statutory auditors or audit firms would help to ensure the connectivity between, and consistency of, financial and sustainability information, which is particularly important for users of sustainability information. However, there is a risk of further concentration of the audit market, which could risk the independence of auditors and increase audit fees or fees relating to the assurance engagements of sustainability reporting. It is therefore desirable to offer undertakings a broader choice of independent assurance services providers for the assurance of sustainably reporting. Member States should therefore be allowed to accredit independent assurance services providers in accordance with Regulation (EC) No 765/2008 of the European Parliament and of the Council⁴³ to provide an opinion on sustainability reporting, which should be published together with the management report. In addition, Member States should be given the option to allow a statutory auditor other than the one(s) carrying out the statutory audit of the financial statements to express an opinion on sustainability reporting. Furthermore, if they allow independent assurance service providers to carry out the assurance of sustainability reporting Member States should at the same time allow a statutory auditor other than the one(s) carrying out the statutory audit of the financial statements to express an opinion on sustainability reporting.

⁴³ Regulation (EC) No 765/2008 of the European Parliament and of the Council of 9 July 2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products and repealing Regulation (EEC) No 339/93 (OJ L 218, 13.8.2008, p. 30).

Member States should set out requirements that ensure the quality of the assurance engagement carried out by independent assurance services providers and consistent outcomes in the assurance of sustainability reporting. Therefore, all independent assurance services providers should be subject to requirements that are equivalent to those set out in Directive 2006/43/EC as regards the assurance of sustainability reporting, while being adapted to the characteristics of independent assurance services providers which do not carry out statutory audits. In particular, Member States should set out equivalent requirements as regards training and examination, continuing education, quality assurance systems, professional ethics, independence, objectivity confidentiality and professional secrecy, appointment and dismissal, the organisation of the work of the independent assurance services providers, investigations and sanctions, and reporting irregularities. This will also guarantee a level playing field among all persons and firms allowed by Member States to provide the opinion on the assurance of sustainability reporting, including statutory auditors. If an undertaking seeks the opinion of an accredited independent assurance services provider other than the statutory auditor on its sustainability reporting, it should not in addition need to request this opinion from the statutory auditor. Independent assurance services providers that have already been accredited by a Member State for the assurance of sustainability reporting should continue to be allowed to carry out assurance engagements of sustainability reporting. Likewise Member States should ensure that independent assurance services providers that by the date of the entry into application of the new requirements on training and examination are undergoing their accreditation process, are not subject to these new accreditation requirements provided they finish the process within the following two years. Member States should, however, ensure that all the independent assurance services providers accredited by a Member State for the assurance of sustainability reporting before two years after the entry into application of the new accreditation requirements, acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via continued professional education.

- (55) Directive 2006/43/EC of the European Parliament and of the Council⁴⁴ sets out rules concerning the statutory audit of annual and consolidated financial statements. It is necessary to ensure that consistent rules apply to the audit of financial statements and the assurance of sustainability reporting by the statutory auditor. Directive 2006/43/EC should apply where the opinion on sustainability reporting is given by a statutory auditor or audit firm.
- (56) The rules on the approval and recognition of statutory auditors and audit firms should allow for the additional qualification of statutory auditors for the assurance of sustainability reporting. Member States should ensure that statutory auditors who want to qualify for the assurance of sustainability reporting have the necessary level of theoretical knowledge of subjects relevant to the assurance of sustainability reporting and the ability to apply such knowledge in practice. However, statutory auditors that have already been approved or recognised by a Member State should continue to be allowed to carry out assurance engagements of sustainability reporting. Likewise Member States should ensure that natural persons who are undergoing the approval process by the date of the entry into application of these new requirements for the assurance of sustainability reporting, are not subject to these provided they finish the process within the following two years. Member States should, however, ensure that statutory auditors approved before two years after the entry into application of the new requirements and who want to carry out assurance engagements of sustainability reporting, acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via continued professional education. Natural persons who decide to be approved as statutory auditors for financial audit only may decide at a later point in time to qualify for the assurance of sustainability reporting.

⁴⁴ Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (OJ L 157, 9.6.2006, p. 87).

In order to do so, they should meet the necessary requirements set out by Member States to ensure that statutory auditors who want to qualify for the assurance of sustainability reporting have the necessary level of theoretical knowledge of subjects relevant to the assurance of sustainability reporting and the ability to apply such knowledge in practice. Therefore, they should complete at that point in time the required eight months practical training in the assurance of annual and consolidated sustainability reporting or other sustainability related services.

- (57) It should be ensured that the requirements imposed on auditors as regards their work on the statutory audit and the assurance of sustainability reporting are consistent. It should therefore be laid down that there should be at least a key sustainability partner who is actively involved in conducting the assurance of sustainability reporting. When carrying out the assurance of sustainability reporting, statutory auditors should be required to devote sufficient time to the engagement and assign sufficient resources to enable them to carry out their duties appropriately. Finally, the client account record should specify the fees charged for the assurance of sustainability reporting and an assurance file should be created to include information related to the assurance of sustainability reporting. Where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, the assurance file may be included in the audit file. However, requirements imposed on statutory auditors relating to the assurance of sustainability reporting should only apply to statutory auditors that carry out the assurance of sustainability reporting.
- (58) Article 25 of Directive 2006/43/EC requires Member States to put appropriate rules in place to avoid that the fees on the statutory audit are influenced or determined by the provision of additional services to the audited entity or are based on any form of contingency. Articles 21 to 24 of that Directive also require Member States to ensure that statutory auditors carrying out statutory audits comply with the rules on professional ethics, independence, objectivity, confidentiality and professional secrecy. For reasons of coherence, it is appropriate that those rules are extended to the work carried out by statutory auditors on the assurance of sustainability reporting.

- (59) In order to provide for uniform assurance practices and high quality assurance of sustainability reporting across the Union, the Commission should be empowered to adopt sustainability assurance standards by means of delegated acts. Member States should be given the possibility to apply national assurance standards, procedures or requirements as long as the Commission has not adopted an assurance standard covering the same subject matter. These assurance standards should set out the procedures that the auditor shall perform in order to draw its conclusions on the assurance of sustainability reporting. With a view to facilitating the harmonisation of the assurance of sustainability reporting across Member States, the CEAOB is encouraged to adopt non-binding guidelines to set out the procedures to be performed when expressing an opinion on the sustainability reporting until the Commission adopts an assurance standard covering the same subject-matter.
- (60) Article 27 of Directive 2006/43/EC sets out rules on the statutory audit of a group of undertakings. Similar rules should be set out for the assurance of consolidated sustainability reporting.
- (61) Article 28 of Directive 2006/43/EC requires statutory auditors or audit firms to present the results of their statutory audit in an audit report. Similar rules should be set out for the assurance of sustainability reporting. The results of the engagement should be presented in an assurance report. Where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, the information about the assurance engagement of sustainability reporting may be presented in the audit report.

- (62) Article 29 of Directive 2006/43/EC requires Member States to set up a system of quality assurance review of statutory auditors and audit firms. To ensure that quality assurance reviews also take place for the assurance of sustainability reporting and that the persons who carry out quality assurance reviews have appropriate professional education and relevant experience in the assurance of sustainability reporting and sustainability reporting, that requirement to set up a system of quality assurance review should be extended to the assurance of sustainability reporting. As a transition, until 31 December 2025, the persons who carry out quality assurance reviews relating to the assurance of sustainability reporting should be exempted from the requirement to have relevant experience in the assurance of sustainability reporting and sustainability reporting or other sustainability related services.
- (63) Chapter VII of Directive 2006/43/EC requires Member States to have in place an investigations and sanctions regime for statutory auditors and audit firms carrying out statutory audits. Chapter VIII of that Directive requires Member States to organise an effective system of public oversight, and to ensure that regulatory arrangements for public oversight systems permit effective cooperation at Union level in respect of Member States' oversight activities. Those requirements should be extended to statutory auditors and audit firms that conduct assurance engagements of sustainability reporting in order to ensure the consistency of the investigations, sanctions and oversight frameworks set up for the auditor's work in the statutory audit and the assurance of sustainability reporting.

- (64) Article 37 and 38 of Directive 2006/43/EC contain rules on the appointment and dismissal of statutory auditors and audit firms carrying out statutory audits. Those rules should be extended to the assurance of sustainability reporting to ensure the consistency of the rules imposed on auditors as regards their work on the statutory audit and the assurance of sustainability reporting.
- (65) Article 39 of Directive 2006/43/EC requires Member States to ensure that each public-interest entity has an audit committee, and specifies its tasks with regard to the statutory audit. That audit committee should be assigned with certain tasks with regard to the assurance of sustainability reporting. Those tasks should include the obligation to inform the administrative or supervisory body of the audited entity of the outcome of the assurance of sustainability reporting, and to explain how the audit committee contributed to the integrity of sustainability reporting and what the role of the audit committee was in that process. Member States should be able to allow that the functions assigned to the audit committee relating to sustainability reporting and the assurance of sustainability reporting are performed by the administrative or supervisory body as a whole or by a dedicated body established by the administrative or supervisory body.
- (66) Article 45 of Directive 2006/43/EC contains requirements for registration and oversight of third-country auditors and audit entities. To ensure that a consistent framework exists for the work of auditors in both the statutory audit and the assurance of sustainability reporting, it is necessary to extend those requirements to the assurance of sustainability reporting.

(67) Regulation (EU) No 537/2014 of the European Parliament and of the Council⁴⁵ applies to statutory auditors and audit firms carrying out statutory audits of public-interest entities. To ensure the independence of the statutory auditor when carrying out a statutory audit, that Regulation establishes a limit to the fees for other services that he or she can obtain. It is important to clarify that the assurance of sustainability reporting should not count in the calculation of that limit. In addition, Article 5 of that Regulation prohibits the provision of certain non-audit services over certain time periods when the statutory auditor is carrying out the financial audit. Services related to the preparation of sustainability reporting, including any consulting services, should also be considered as prohibited services over the time period prescribed in the Regulation. These prohibitions should apply in all cases where the statutory auditor carries out the statutory audit of financial statements. To ensure the independence of the statutory auditor, certain non-audit services should also be prohibited when he or she is carrying out the assurance of sustainability reporting. Article 7 of Regulation (EU) No 537/2014 requires statutory auditors to report irregularities to the audited entity and, under certain circumstances, to authorities as designated by the Member States responsible for investigating such irregularities. These obligations should also be extended as appropriate to statutory auditors and audit firms as regards their work on the assurance of sustainability reporting of public-interest entities.

⁴⁵ Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ L 158, 27.5.2014, p. 77).

(70) Article 24 of Directive 2004/109/EC assigns to national supervisors the task of enforcing compliance with corporate reporting requirements by undertakings with securities listed on regulated markets. Article 4 of that Directive specifies the content of the annual financial reports, but lacks an explicit reference to Articles 19a and 29a of Directive 2013/34/EU, which require the preparation of a (consolidated) non-financial statement. This implies that national competent authorities of some Member States have no legal mandate to supervise those non-financial statements, especially where those statements are published in a separate report, outside of the annual financial report, which Member States may currently allow. It is therefore necessary to insert into Article 4(5) of Directive 2004/109/EC a reference to sustainability reporting. It is also necessary to require that the persons responsible within the issuer confirm in the annual financial report that, to the best of their knowledge, the management report is prepared in accordance with the sustainability reporting standards. In addition, given the novel character of those reporting requirements, the European Securities and Markets Authority should issue guidelines for national competent authorities to promote convergent supervision of sustainability reporting by issuers subject to Directive 2004/109/EC. These guidelines should only apply to the supervision of undertakings with securities listed on regulated markets.

- (71) Member States are invited to assess the impact of their transposition act on SMEs in order to ensure that they are not disproportionately affected, giving specific attention to micro-enterprises and to the administrative burden, and to publish the results of such assessments. Member States should consider introducing measures to support SMEs in applying the voluntary simplified reporting standards.
- (72) Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014 should therefore be amended accordingly,

HAVE ADOPTED THIS DIRECTIVE:

Article 1

Amendments to Directive 2013/34/EU

Directive 2013/34/EU is amended as follows:

(1) in Article 1, the following paragraphs 3 and 3a are added:

‘3. The coordination measures prescribed by Articles 19a, 29d, 29a, 30 and 33, Article 34(1), second subparagraph, point (aa), paragraphs 2 and 3 of Article 34, and Article 51 of this Directive shall also apply to the laws, regulations and administrative provisions of the Member States relating to the following undertakings regardless of their legal form, provided they are large undertakings or small and medium sized undertakings which are undertakings referred to in Article 2, point (1), point (a) of this Directive:

- (a) insurance undertakings within the meaning of Article 2(1) of Council Directive 91/674/EEC⁴⁶;
- (b) credit institutions as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council⁴⁷.

Member States may choose not to apply the coordination measures referred to in the first subparagraph to the undertakings listed in Article 2(5), points (2) to (23), of Directive 2013/36/EU of the European Parliament and of the Council⁴⁸.

⁴⁶ Council Directive 91/674/EEC of 19 December 1991 on the annual accounts of insurance undertakings (OJ L 374, 31.12.1991, p. 7).

⁴⁷ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

⁴⁸ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

3a. The coordination measures prescribed by Articles 19a, 29d and 29a, shall not apply to financial products referred to in Article 2, point 12, points (b) and (f) of Regulation (EU) 2019/2088 of the European Parliament and of the Council, provided the financial product is not self-managed.’

(2) Article 2 is amended as follows:

a) point (5) is replaced by the following:

‘(5) ‘net turnover’ means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover for credit institutions referred to in point (b) of Article 1(3) of this Directive ‘net turnover’ shall be defined according to point (c) of Article 43(2) of Directive 1986/635 of the Council; for insurance undertakings referred to in point (a) of Article 1(3) of this Directive, ‘net turnover’ shall be defined according to Article 35 of Directive 1991/674 of the Council’;

b) the following points (17) to (20) are added:

‘(17) ‘sustainability matters’ means environmental, social and human rights, and governance factors, including sustainability factors as defined in Article 2, point (24) of Regulation (EU) 2019/2088 of the European Parliament and of the Council⁴⁹;

(18) ‘sustainability reporting’ means reporting information related to sustainability matters in accordance with Articles 19a, 29a and 29d of this Directive;

⁴⁹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1).

(19) ‘key intangible resources’ means resources without physical substance on which the business model of the undertaking fundamentally depends and that are a source of creation of the value of the undertaking’;

(20) ‘independent assurance services provider’ means a conformity assessment body accredited in accordance with Regulation (EC) No 765/2008 of the European Parliament and of the Council^{50*5} for the specific conformity assessment activity referred to in Article 34(1), second subparagraph, point (aa) of this Directive.’

(2a) In Article 19, the following subparagraph is inserted:

‘Large undertakings referred to in Article 3 point (4) and small and medium-sized undertakings as defined in Article 3(2) and 3(3) which are undertakings as referred to in Article 2, point (1), point (a) shall report information on the key intangible resources on which the business model of the undertaking fundamentally depends, and explain this dependency and how they are a source of value creation for the undertaking’.

(3) Article 19a is replaced by the following:

⁵⁰ Regulation (EC) No 765/2008 of the European Parliament and of the Council of 9 July 2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products and repealing Regulation (EEC) No 339/93 (OJ L 218, 13.8.2008, p. 30).’;

Sustainability reporting

1. Large undertakings referred to in Article 3 point (4) and small and medium-sized undertakings as defined in Article 3(2) and 3(3) which are undertakings as referred to in Article 2, point (1), point (a) and which are not micro-undertakings as defined in Article 3 (1), shall include in the management report information necessary to understand the undertaking’s impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking’s development, performance and position.

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

2. The information referred to in paragraph 1 shall contain:
 - (a) a brief description of the undertaking's business model and strategy, including:
 - (i) the resilience of the undertaking's business model and strategy to risks related to sustainability matters;
 - (ii) the opportunities for the undertaking related to sustainability matters;
 - (iii) the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;
 - (iv) how the undertaking’s business model and strategy take account of the interests of the undertaking’s stakeholders and of the impacts of the undertaking on sustainability matters;

- (v) how the undertaking's strategy has been implemented with regard to sustainability matters;
- (b) a description of the targets related to sustainability matters set by the undertaking and of the progress of the undertaking towards achieving those targets;
- (c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
- (d) a description of the undertaking's policies in relation to sustainability matters;
- (e) a description of:
 - (i) the due diligence process implemented by the undertaking with regard to sustainability matters;
 - (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain;
 - (iii) any actions taken by the undertaking, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
- (f) a description of the principal risks to the undertaking related to sustainability matters, including the undertaking's principal dependencies on such matters, and how the undertaking manages those risks;
- (g) indicators relevant to the disclosures referred to in points (a) to (f).

Undertakings shall report the process carried out to identify the information that they have included in the management report in accordance with paragraph 1 and in this process they shall take account of short, medium and long-term horizons.

3. Where applicable, the information referred to in paragraphs 1 and 2 shall contain information about the undertaking's value chain, including the undertaking's own operations, products and services, its business relationships and its supply chain.

Where applicable, the information referred to in paragraphs 1 and 2 shall also contain references to, and additional explanations of, other information included in the management report in accordance with Article 19 and amounts reported in the annual financial statements.

Member States may allow information relating to impending developments or matters in the course of negotiation to be omitted in exceptional cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking, provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance, position and impact of its activity.

4. Undertakings shall report the information referred to in paragraphs 1 to 3 in accordance with the sustainability reporting standards referred to in Article 29b.
5. By way of derogation from Article 19a, paragraphs 2 to 4, and without prejudice to paragraphs 7 and 7a, small and medium-sized undertakings referred to in paragraph 1, small and non-complex institutions as defined in Article 4(1), point (145) of Regulation (EU) No 575/2013, and captive insurance undertakings as defined in Article 13 (2) of Directive 2009/138/EC and captive reinsurance undertakings as defined in Article 13 (5) of Directive 2009/138/EC may limit their sustainability reporting to the following information:

- (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 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).

Small and medium-sized undertakings, small and non-complex institutions and captive insurance and reinsurance undertakings that use this derogation shall report in accordance with the sustainability reporting standards for small and medium-sized undertakings referred to in Article 29c.

- 6. Undertakings that comply with the requirements set out in paragraphs 1 to 4 and undertakings making use of the derogation in paragraph 5 shall be deemed to have complied with the requirement set out in the third subparagraph of Article 19(1).

7. An undertaking ('the exempted subsidiary undertaking') which is a subsidiary undertaking shall be exempted from the obligations set out in paragraphs 1 to 4 if that undertaking and its subsidiary undertakings are included in the consolidated management report of a parent undertaking, drawn up in accordance with Articles 29 and 29a. An undertaking that is a subsidiary undertaking from a parent undertaking that is established in a third country shall also be exempted from the obligations set out in paragraphs 1 to 4 where that undertaking and its subsidiary undertakings are included in the consolidated management report of that parent undertaking and where the consolidated sustainability reporting is drawn up in a manner equivalent to sustainability reporting standards adopted pursuant to Articles 29b of this Directive, determined in accordance with the relevant measures adopted pursuant to Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC of the European Parliament and of the Council⁵¹.

The exemption in subparagraph 1 is subject to the following conditions:

- (i) the management report of the exempted subsidiary undertaking contains all of the following information:
 - (a) the name and registered office of the parent undertaking that reports information at group level in accordance with Articles 29 and 29a of this Directive, or in a manner equivalent to sustainability reporting standards adopted pursuant to Article 29b of this Directive, determined in accordance with the measures adopted pursuant to Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC;

⁵¹ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (*OJ L 390, 31.12.2004, p. 38*).';

- (b) the web links to the consolidated management report of the parent undertaking referred to in the first subparagraph and to the opinion referred to in Article 34(1), second subparagraph, point (aa) of this Directive or the opinion referred to in point (ii) of this subparagraph;
 - (c) the fact that the undertaking is exempted from the obligations set out in paragraphs 1 to 4 of this Article.
- (ii) When the parent undertaking referred to in the first subparagraph is established in a third country, its consolidated management report and the opinion based on a limited assurance engagement given by one or more person(s) or firm(s) authorised to give an opinion on the assurance of sustainability reporting under the national law governing the undertaking which drew up that consolidated management report, shall be published in accordance with Article 30, in the manner prescribed by the law of the Member State by which the exempted subsidiary undertaking is governed.

The Member State by which the exempted subsidiary undertaking is governed, may require that the consolidated management report of the parent undertaking is published in a language that it accepts, and that any necessary translation into those languages is certified.

Undertakings which are exempted from preparing a management report according to Article 37 of this Directive, need not to provide the information of points (a), (b) and (c) of point (i) of the second subparagraph, provided they publish the consolidated management report referred to in the first subparagraph of this paragraph in accordance with Article 37 of this Directive.

For the purposes of the first subparagraph, and where Article 10 of Regulation (EU) No 575/2013 applies, credit institutions referred to in Article 1, point (3), point (b) of this Directive that are permanently affiliated to a central body which supervises them under the conditions laid down in that same article shall be treated as subsidiaries of the central body.

For the purposes of the first subparagraph, insurance undertakings referred to in Article 1(3), point (a) of this Directive that are part of a group on the basis of a relationship referred to in Article 212(1)(c)(ii) of Directive 2009/138/EC which is subject to group supervision in accordance with Article 213(2), points (a), (b) and (c) of that Directive shall be treated as subsidiaries of the parent undertaking of that group.

- 7.a The exemption of paragraph 7 shall also apply to public interest entities subject to the requirements of this Article.

[moved under chapter 6a as 29b, 29c and under chapter 6b as 29d]

- (5) Article 20(1) is amended as follows:

- (a) point (g) is replaced by the following:

‘(g) a description of the diversity policy applied in relation to the undertaking’s administrative, management and supervisory bodies with regard to gender and other aspects, such as age, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case.’;

- (b) the following subparagraph is added:

‘Undertakings subject to Article 19a may comply with the obligation laid down in point (g) of the first subparagraph of this Article where they include the information required under those points as part of their sustainability reporting and a reference is included in the corporate governance statement.’;

- (6) Article 23 is amended as follows:

- (a) in paragraph 4, point (b) is replaced by the following:

‘(b) the consolidated financial statements referred to in point (a) and the consolidated management report of the larger body of undertakings are drawn up by the parent undertaking of that body, in accordance with the law of the Member State by which that parent undertaking is governed, in accordance with this Directive, with the exception of the requirements laid down in Article 29a, or in accordance with international accounting standards adopted in accordance with Regulation (EC) No 1606/2002;’;

- (b) in paragraph 8, point (b)(i) is replaced by the following:

‘(i) in accordance with this Directive, with the exception of the requirements laid down in Article 29a, ’;

- (c) in paragraph 8, (b)(iii) is replaced by the following:

‘(iii) in a manner equivalent to consolidated financial statements and consolidated management reports drawn up in accordance with this Directive, with the exception of the requirements laid down in Article 29a, or’;

- (7) Article 29a is replaced by the following:

Consolidated sustainability reporting

1. Parent undertakings of a large group as referred to in Article 3, point (7) shall include in the consolidated management report information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position.

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

2. The information referred to in paragraph 1 shall contain:
 - (a) a brief description of the group's business model and strategy, including:
 - (i) the resilience of the group's business model and strategy to risks related to sustainability matters;
 - (ii) the opportunities for the group related to sustainability matters;
 - (iii) the plans of the group to ensure that the group's business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement;
 - (iv) how the group's business model and strategy take account of the interests of the group's stakeholders and of the impacts of the group on sustainability matters;
 - (v) how the group's strategy has been implemented with regard to sustainability matters;

- (b) a description of the targets related to sustainability matters set by the group and of the progress of the group towards achieving those targets;
- (c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters;
- (d) a description of the group's policies in relation to sustainability matters;
- (e) a description of:
 - (i) the due diligence process implemented by the group with regard to sustainability matters;
 - (ii) the principal actual or potential adverse impacts connected with the group's value chain, including its own operations, its products and services, its business relationships and its supply chain;
 - (iii) any actions taken by the group, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
- (f) a description of the principal risks to the group related to sustainability matters, including the group's principal dependencies on such matters, and how the group manages those risks;
- (g) indicators relevant to the disclosures referred to in points (a) to (f).

Parent undertakings shall report the process carried out to identify the information that they have included in the consolidated management report in accordance with paragraph 1 and in this process they shall take account of short, medium and long-term horizons.

3. Where applicable, the information referred to in paragraphs 1 and 2 shall include information about the group's value chain, including its own operations, its products and services, its business relationships and its supply chain,.

Where applicable, the information referred to in paragraphs 1 and 2 shall also, include references to, and additional explanations of, other information included in the consolidated management report in accordance with Article 29 of this Directive and amounts reported in the consolidated financial statements.

Member States may allow information relating to impending developments or matters in the course of negotiation to be omitted in exceptional cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the group, provided that such omission does not prevent a fair and balanced understanding of the group's development, performance, position and impact of its activity.

4. Parent undertakings shall report the information referred to in paragraphs 1 to 3 in accordance with the sustainability reporting standards referred to in Article 29b.
6. A parent undertaking that complies with the requirements set out in paragraphs 1 to 4 shall be deemed to have complied with the requirements set out in the third subparagraph of Article 19(1) and Article 19a.

7. A parent undertaking ("the exempted parent undertaking") which is also a subsidiary undertaking shall be exempted from the obligations set out in paragraphs 1 to 4 if that exempted parent undertaking and its subsidiaries are included in the consolidated management report of another undertaking, drawn up in accordance with Article 29 and this Article. A parent undertaking that is a subsidiary undertaking of a parent undertaking that is established in a third country shall also be exempted from the obligations set out in paragraphs 1 to 4 where that undertaking and its subsidiary undertakings are included in the consolidated management report of that parent undertaking and where the consolidated sustainability reporting is drawn up in a manner equivalent to sustainability reporting standards adopted pursuant to Articles 29b, determined in accordance with the relevant measures adopted pursuant to Article 23(4), first subparagraph, point (i), and Article 23(4), fourth subparagraph of Directive 2004/109/EC.

The exemption in subparagraph 1 is subject to the following conditions:

- (i) The management report of the exempted parent undertaking contains all of the following information:
 - (a) the name and registered office of the parent undertaking that reports information at group level in accordance with Article 29 and this Article, or in a manner equivalent to sustainability reporting standards adopted pursuant to Article 29b of this Directive, determined in accordance with the measures adopted pursuant to Article 23(4), first subparagraph, point (i) and Article 23(4), fourth subparagraph of Directive 2004/109/EC;
 - (b) the web links to the consolidated management report of the parent undertaking referred to in the first subparagraph and to the opinion referred to in Article 34(1), second subparagraph, point (aa) of this Directive or the opinion referred to in point (ii) of this subparagraph ;

- (c) the fact that the parent undertaking is exempted from the obligations set out in paragraphs 1 to 4 of this Article.
- (ii) when the parent undertaking referred to in the first subparagraph is established in a third country, its consolidated management report and the opinion based on a limited assurance engagement given by one or more person(s) or firm(s) authorised to give an opinion on the assurance of sustainability reporting under the national law governing the undertaking which drew up that consolidated management report, shall be published in accordance with Article 30, in the manner prescribed by the law of the Member State by which the exempted parent undertaking is governed.

The Member State by which the exempted parent undertaking is governed, may require that the consolidated management report of the parent undertaking is published in a language that it accepts, and that any necessary translation into those languages is certified.

Parent undertakings which are exempted from preparing a management report according to Article 37 of this Directive, need not provide the information of points (a), (b) and (c) of point (i) of the second subparagraph, provided they publish the consolidated management report referred to in the first subparagraph of this paragraph in accordance with Article 37 of this Directive.

For the purposes of the first subparagraph, and where Article 10 of Regulation (EU) No 575/2013 applies, credit institutions referred to in Article 1, point (3), point (b) of this Directive that are permanently affiliated to a central body which supervises them under the conditions laid down in that same article shall be treated as subsidiaries of the central body.

For the purposes of the first subparagraph, insurance undertakings referred to in Article 1(3), point (a) of this Directive that are part of a group on the basis of a relationship referred to in Article 212(1)(c)(ii) of Directive 2009/138/EC which is subject to group supervision in accordance with Article 213(2), points (a), (b) and (c) of that Directive shall be treated as subsidiaries of the parent undertaking of that group.

7.a The exemption of paragraph 7 shall also apply to public interest entities subject to the requirements of this Article.

(7)b Articles 29b and 29c have been added

‘Article 29b

Sustainability reporting standards

1. The Commission shall adopt delegated acts in accordance with Article 49 to provide for sustainability reporting standards. Those sustainability reporting standards shall specify the information that undertakings are to report in accordance with Articles 19a and 29a and, where relevant, shall specify the structure in which that information shall be reported. In particular:

- (a) by 31 October 2022, the Commission shall adopt delegated acts specifying the information that undertakings are to report in accordance with paragraphs 1 and 2 of Article 19a, and paragraphs 1 and 2 of Article 29a where appropriate, and at least specifying information corresponding to the needs of financial market participants subject to the disclosure obligations of Regulation (EU) 2019/2088.
- (b) by 31 October 2023, the Commission shall adopt delegated acts specifying:
 - (i) complementary information that undertakings shall report with regard to the sustainability matters and reporting areas listed in Article 19a(2), where necessary;
 - (ii) information that undertakings shall report that is specific to the sector in which they operate.

The Commission shall, at least every three years after its date of application, review any delegated act adopted pursuant to this Article, taking into consideration the technical advice of the European Financial Reporting Advisory Group (EFRAG), and where necessary shall amend such delegated act to take into account relevant developments, including developments with regard to international standards.

The Commission shall, at least once a year, consult jointly the Member State Expert Group on Sustainable Finance referred to in Article 24 of Regulation (EU) 2020/852 and the Accounting Regulatory Committee referred to in Article 6 of Regulation (EU) 1606/2002 on EFRAG's work programme as regards the development of sustainability reporting standards.

2. The sustainability reporting standards referred to in paragraph 1 shall require that the information to be reported is understandable, relevant, verifiable, comparable, and is represented in a faithful manner.

The sustainability reporting standards shall, taking into account the subject matter of a particular standard:

- (a) specify the information that undertakings are to disclose about the following environmental factors:
 - (i) climate change mitigation;
 - (ii) climate change adaptation;
 - (iii) water and marine resources;
 - (iv) resource use and circular economy;
 - (v) pollution;
 - (vi) biodiversity and ecosystems;
- (b) specify the information that undertakings are to disclose about the following social and human rights factors:
 - (i) equal opportunities for all, including gender equality and equal pay for equal work or work of equal value, training and skills development, and employment and inclusion of people with disabilities;
 - (ii) working conditions, including secure and adaptable employment, wages, social dialogue, collective bargaining and the involvement of workers, work-life balance, and a healthy, safe and well-adapted work environment;

- (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, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions and the Charter of Fundamental Rights of the European Union.
- (c) specify the information that undertakings are to disclose about the following governance factors:
 - (i) the role of the undertaking's administrative, management and supervisory bodies with regard to sustainability matters, 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;
 - (iii) political engagements of the undertaking, including its lobbying activities;
 - (iv) the management and quality of relationships with customers, suppliers and communities affected by the activities of the undertaking, including payment practices;

[moved to (i)a]

- 2a. The sustainability reporting standards shall specify the forward-looking and retrospective information, and qualitative and quantitative information, as appropriate, to be reported by undertakings.

- 2b. Standards shall also take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain, especially from those which are not obliged to publish sustainability information pursuant to Article 19a or 29a of Directive 2013/34/EU and from suppliers in emerging markets and economies. They shall specify disclosures on value chains that are proportionate and relevant to the scale and complexity of the activities, and the capacities and characteristics of undertakings in value chains, especially those of undertakings that are not subject to the sustainability reporting obligations of Articles 19a or 29a of this Directive. Furthermore, for the first three years of application of this Directive, in the event that not all the necessary information about the business relationships and the supply chain is available, the undertaking shall include the information in its possession and a statement indicating that the business relationships and the undertakings in its value chain did not make the necessary information available.
3. 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;
 - (b) the information that financial market participants need to comply with their disclosure obligations laid down in Regulation (EU) 2019/2088 and the delegated acts adopted pursuant to that Regulation;
 - (c) the delegated acts adopted pursuant to Regulation (EU) 2020/852⁵²;

⁵² 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 (OJ L 198, 22.6.2020, p. 13).

- (d) the disclosure requirements applicable to benchmarks administrators in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816⁵³, (EU) 2020/1817⁵⁴ and (EU) 2020/1818⁵⁵;
- (e) the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013⁵⁶;
- (f) Commission Recommendation 2013/179/EU⁵⁷;
- (g) Directive 2003/87/EC of the European Parliament and of the Council⁵⁸;

⁵³ Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published (OJ L 406, 3.12.2020, p. 1).

⁵⁴ Commission Delegated Regulation (EU) 2020/1817 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation on how environmental, social and governance factors are reflected in the benchmark methodology (OJ L 406, 3.12.2020, p. 12).

⁵⁵ Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks (OJ L 406, 3.12.2020, p. 17).

⁵⁶ Commission Implementing Regulation laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council (C(2021)1595)

⁵⁷ Commission Recommendation 2013/179/EU of 9 April 2013 on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations (OJ L 124, 4.5.2013, p. 1).

⁵⁸ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (OJ L 275, 25.10.2003, p. 32).

(h) Regulation (EC) No 1221/2009 of the European Parliament and of the Council⁵⁹.

Article 29c

Sustainability reporting standards for SMEs

The Commission shall adopt delegated acts in accordance with Article 49 to provide for sustainability reporting standards proportionate and relevant to the scale and complexity of the activities, and to the capacities and characteristics of small and medium-sized undertakings. These sustainability reporting standards shall specify for these small and medium-sized undertakings referred to in Article 2, point (1)(a), the information that shall be reported in accordance with Article 19a(5).

Reporting standards for small and medium-sized undertakings shall take into account the criteria set out in Article 29b, paragraphs 2, 2a, 2b and 3. They shall also, to the extent possible, specify the structure in which that information shall be reported.

The Commission shall, at least every three years after its date of application, review any delegated act adopted pursuant to this Article, taking into consideration the technical advice of the European Financial Reporting Advisory Group (EFRAG), and where necessary, shall amend such delegated act to take into account relevant developments, including developments with regard to international standards.

The Commission shall adopt those delegated acts at the latest by 31 October 2023.’

(7)c A new chapter title is inserted

⁵⁹ Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS), repealing Regulation (EC) No 761/2001 and Commission Decisions 2001/681/EC and 2006/193/EC (OJ L 342, 22.12.2009, p. 1).

“Chapter 6b – Electronic format”

(7)d A new article is added

‘Article 29d

Single electronic reporting format

1. Undertakings subject to Article 19a shall prepare their management report in the electronic reporting format referred to in Article 3 of Commission Delegated Regulation (EU) 2019/815⁶⁰ and shall mark-up their sustainability reporting, including the disclosures laid down in Article 8 of Regulation (EU) 2020/852, in accordance with the format referred to in that Delegated Regulation.
2. Parent undertakings subject to Article 29a shall prepare their consolidated management report in the single electronic reporting format referred to in Article 3 of Delegated Regulation (EU) 2019/815 and shall mark-up sustainability reporting, including the disclosures laid down in Article 8 of Regulation (EU) 2020/852, in accordance with the format referred to in that Delegated Regulation.

(8) Article 30 is amended as follows:

- (a) paragraph 1 is replaced by the following:

⁶⁰ Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (OJ L 143, 29.5.2019, p. 1).;

- ‘1. Member States shall ensure that undertakings publish within a reasonable period of time, which shall not exceed 12 months after the balance sheet date, the duly approved annual financial statements and the management report in the format prescribed by Article 29d of this Directive where applicable, together with the opinions and statement submitted by the statutory auditor or audit firm referred to in Article 34 of this Directive, as laid down by the laws of each Member State in accordance with Title 1, Chapter III of Directive (EU) 2017/1132 of the European Parliament and of the Council.

Where an independent assurance services provider gives the opinion referred to in Article 34(1), second subparagraph, point (aa), this opinion shall be published together with the documents referred to in the first subparagraph.

Member States may, however, exempt undertakings from the obligation to publish the management report where a copy of all or part of any such report can be easily obtained upon request at a price not exceeding its administrative cost.

The exemption laid down in the third subparagraph shall not apply to undertakings subject to Articles 19a and 29a. ’;

- (9) in Article 33, paragraph 1 is replaced by the following:

- ‘1. Member States shall ensure that the members of the administrative, management and supervisory bodies of an undertaking, acting within the competences assigned to them by national law, have collective responsibility for ensuring that the following documents are drawn up and published in accordance with the requirements of this Directive and, where applicable, with the international accounting standards adopted in accordance with Regulation (EC) No 1606/2002, with Delegated Regulation 2019/815, with the sustainability reporting standards referred to in Article 29b, or Article 29c where applicable, of this Directive, and with the requirements of Article 29d of this Directive:

- (a) the annual financial statements, the management report and the corporate governance statement when provided separately;
- (b) the consolidated financial statements, the consolidated management reports and the consolidated corporate governance statement when provided separately.’;

(9)a Chapter 8 is amended as follows:

Auditing and assurance of sustainability reporting

(10) Article 34 is amended as follows:

(a) in paragraph 1, the second subparagraph is amended as follows:

(i) point (a)(ii) is replaced by the following:

‘whether the management report has been prepared in accordance with the applicable legal requirements, excluding the requirements on sustainability reporting laid down in Article 19a;’;

(ii) the following point (aa) is inserted:

(aa) where applicable, express an opinion based on a limited assurance engagement as regards the compliance of the sustainability reporting with the requirements of this Directive, including the compliance of the sustainability reporting with the reporting standards adopted pursuant to Article 29b or Article 29c, the process carried out by the undertaking to identify the information reported pursuant to those reporting standards, and the compliance with the requirement to mark-up sustainability reporting in accordance with Article 29d, and as regards the compliance with the reporting requirements of Article 8 of Regulation (EU) 2020/852. ’;

(b) paragraph 3 is replaced by the following:

‘3. Member States may allow a statutory auditor or an audit firm other than the one(s) carrying out the statutory audit of financial statements to express the opinion referred to in paragraph 1, second subparagraph, point (aa).

3.a Member States may allow an independent assurance services provider to express the opinion referred to in paragraph 1, second subparagraph, point (aa), provided that such independent assurance services provider is subject to requirements that are equivalent to those set out in Directive 2006/43/EC of the European Parliament and of the Council⁶¹ as regards the assurance of sustainability reporting as defined in Article 2, point 22 of that Directive, in particular with requirements on:

- i) training and examination, ensuring that independent assurance services providers acquire the necessary expertise on sustainability reporting and the assurance of sustainability reporting;
- ii) continuing education;
- iii) quality assurance systems;
- iv) professional ethics, independence, objectivity, confidentiality and professional secrecy;
- v) appointment and dismissal;
- vi) investigations and sanctions

⁶¹ Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (*OJ L 157*, 9.6.2006, p. 87).

- vii) the organisation of the work of the independent assurance services provider, in particular in terms of sufficient resources and personnel and the maintenance of client account records and files; and
- viii) reporting irregularities.

Where an independent assurance services provider gives the opinion referred to in paragraph 1, second subparagraph, point (aa), Member States shall ensure that this opinion is prepared in accordance with Articles 26a, 27a and 28a of Directive 2006/43/EC and that, where applicable, the audit committee or a dedicated committee, reviews and monitors the independence of the independent assurance services provider in accordance with Article 39 paragraph 6 point (e) of Directive 2006/43/EC.

Member States shall ensure that independent assurance services providers accredited before 1 January 2024 for the assurance of sustainability reporting in accordance with Regulation (EC) No 765/2008, are not subject to the training and examination requirements referred to in the first subparagraph, point i).

Member States shall ensure that independent assurance services providers that on 1 January 2024 are undergoing the accreditation process in accordance with the relevant national requirements are not subject to the training and examination requirements referred to in the first subparagraph, point (i) as regards the assurance of sustainability reporting provided they finish the process by 1 January 2026.

Member States shall ensure that the independent assurance services providers referred to in the third and fourth subparagraphs acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via the continuing education requirement referred to in the first subparagraph, point ii).’

If a Member State makes use of the option to allow an independent assurance services provider to express the opinion referred to in paragraph 1, second subparagraph, point (aa), it shall also allow a statutory auditor other than the one(s) doing the statutory audit of financial statements, to do so.

(b)a The following paragraph is inserted:

‘3aa. When the Commission adopts standards for reasonable assurance according to Article 26a(2), second subparagraph of Directive 2006/43/EU, following an assessment to determine if reasonable assurance is feasible for auditors and for undertakings, the opinion referred to in Article 34(1), second subparagraph, point (aa) shall be based on a reasonable assurance engagement’;

(11) Article 49 is amended as follows:

(a) paragraphs 2 and 3 are replaced by the following:

‘2. The power to adopt delegated acts referred to in Article 1(2), Article 3(13), Article 46(2), Article 29b and Article 29c shall be conferred on the Commission for an indeterminate period of time.

3. The delegation of power referred to in Article 1(2), Article 3(13), Article 46(2), Article 29b and Article 29c may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of that decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.’;

(b) the following paragraph 3a is inserted:

- ‘3a. When adopting delegated acts pursuant to Articles 29b and 29c, the Commission shall take into consideration technical advice from EFRAG, provided such advice:
- a) has been developed with proper due process, public oversight and transparency and with the expertise of relevant stakeholders,
 - b) is accompanied by cost-benefit analyses that include analyses of the impacts of the technical advice on sustainability matters, and
 - c) is accompanied by an explanation of how it takes account of the initiatives and legislation listed in Article 29b(3).

The accompanying documents to the EFRAG technical advice shall be submitted together with such technical advice.

The Commission shall consult jointly the Member State Expert Group on Sustainable Finance referred to in Article 24 of Regulation (EU) 2020/852 and the Accounting Regulatory Committee referred to in Article 6 of Regulation (EU) 1606/2002 on the draft delegated acts prior to their adoption as referred to in in Articles 29b and 29c.

The Commission shall request the opinion of the European Securities and Markets Authority, the European Banking Authority and the European Insurance and Occupational Pensions Authority on the technical advice provided by EFRAG, in particular with regard to its consistency with Regulation (EU) 2019/2088 and its delegated acts. The European Securities and Markets Authority, the European Banking Authority and the European Insurance and Occupational Pensions Authority shall provide its opinion within two months from the date of receipt of the request from the Commission.

The Commission shall also consult the European Environment Agency, the European Union Agency for Fundamental Rights, the European Central Bank, the Committee of European Auditing Oversight Bodies and the Platform on Sustainable Finance established pursuant to Article 20 of Regulation (EU) 2020/852 on the technical advice provided by EFRAG prior to the adoption of delegated acts referred to in Articles 29b and 29c. Where any of those bodies decide to submit an opinion, they shall do so within two months from the date of being consulted by the Commission.’;

(c) paragraph 5 is replaced by the following:

‘5. A delegated act adopted pursuant to Article 1(2), Article 3(13), Article 46(2), Article 29b and Article 29c shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of two months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or the Council.’;

Article 2

Amendments to Directive 2004/109/EC)

Directive 2004/109/EC is amended as follows:

(1) in Article 2(1) the following point (r) is added:

‘(r) ‘sustainability reporting’ means sustainability reporting as defined in Article 2(18) of Directive 2013/34/EU of the European Parliament and of the Council⁶²’;

(2) Article 4 is amended as follows:

(a) in paragraph 2, point (c) is replaced by the following:

‘(c) statements made by the persons responsible within the issuer, whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face and, where applicable, that it is prepared in accordance with sustainability reporting standards referred to in Articles 29b and 29c of Directive 2013/34/EU.’;

⁶² Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

(b) paragraphs 4 and 5 are replaced by the following:

- ‘4. The financial statements shall be audited in accordance with Article 34(1), first subparagraph and Article 34 (2) of Directive 2013/34/EU.

The statutory auditor shall express the opinion and statement on the management report referred to in Article 34(1), second subparagraph, points (a) and (b) and in Article 34(2) of Directive 2013/34/EU.

The audit report referred to in Article 28 of Directive 2006/43/EC, signed by the person or persons responsible for carrying out the work set out in paragraphs 1 and 2 of Article 34 of Directive 2013/34/EU shall be disclosed in full to the public together with the annual financial report.

Where applicable, sustainability reporting shall be assured in accordance with Article 34(1), second subparagraph, point (aa), Article 34(2), Article 34(3), Article 34(3a), Article 34(3aa) of Directive 2013/34/EU.

The assurance report on sustainability reporting referred to in Article 28a of Directive 2006/43/EC shall be disclosed in full to the public together with the annual financial report.

5. The management report shall be drawn up in accordance with Articles 19, 19a, 29d(1) and 20 of Directive 2013/34/EU, provided that the size thresholds prescribed in those articles are met.

Where the issuer is required to prepare consolidated accounts, the consolidated management report shall be drawn up in accordance with Articles 29d(2), 29 and 29a of Directive 2013/34/EU, provided that the size thresholds prescribed in those articles are met.’;

- (3) in Article 23(4), the third and fourth subparagraphs are replaced by the following:

‘The Commission shall, in accordance with the procedure referred to in Article 27(2), take the necessary decisions on the equivalence of accounting standards under the conditions set out in Article 30(3) and on the equivalence of sustainability reporting standards as referred to in Article 29d of Directive 2013/34/EU which are used by third-country issuers. If the Commission decides that the accounting standards or the sustainability reporting standards of a third country are not equivalent, it may allow the issuers concerned to continue using such standards during an appropriate transitional period.

In the context of the third subparagraph, the Commission shall also adopt, by means of delegated acts adopted in accordance with paragraphs 2a, 2b and 2c of Article 27, and subject to the conditions laid down in Articles 27a and 27b, measures aimed at establishing general equivalence criteria regarding accounting standards and sustainability reporting standards relevant to issuers of more than one country.’;

- (4) the following Article 28(d) is inserted:

‘Article 28d

ESMA guidelines

After consulting the European Environment Agency and the European Union Agency for Fundamental Rights, ESMA shall issue guidelines in accordance with Article 16 of Regulation 1095/2010 on the supervision of sustainability reporting by national competent authorities.’

Article 3
Amendments to Directive 2006/43/EC

Directive 2006/43/EC is amended as follows:

- (1) Article 1 is replaced by the following:

‘Article 1

Subject matter

This Directive establishes rules concerning the statutory audit of annual and consolidated accounts and the assurance of annual and consolidated sustainability reporting.’;

- (2) Article 2 is amended as follows:

- (a) points 2 to 6 are replaced by the following:

- ‘2. ‘statutory auditor’ means a natural person who is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits and, where applicable, assurance engagements of sustainability reporting;
- ‘3. ‘audit firm’ means a legal person or any other entity, regardless of its legal form, that is approved in accordance with this Directive by the competent authorities of a Member State to carry out statutory audits and, where applicable, assurance engagements of sustainability reporting;’

4. ‘third-country audit entity’ means an entity, regardless of its legal form, which carries out audits of the annual or consolidated financial statements, or, where applicable, the assurance of sustainability reporting of a company incorporated in a third country, other than an entity which is registered as an audit firm in any Member State as a consequence of approval in accordance with Article 3;
5. ‘third-country auditor’ means a natural person who carries out audits of the annual or consolidated financial statements, or, where applicable, the assurance of sustainability reporting of a company incorporated in a third country, other than a person who is registered as a statutory auditor in any Member State as a consequence of approval in accordance with Articles 3 and 44;
6. ‘group auditor’ means the statutory auditor(s) or audit firm(s) carrying out the statutory audit of the consolidated financial statements or, where applicable, the assurance engagements of consolidated sustainability reporting;’

(a)a The following point 16a is added:

‘16 a. ‘key sustainability partner(s)’ means:

- (a) the statutory auditor(s) designated by an audit firm for a particular assurance engagement of sustainability reporting as being primarily responsible for carrying out the assurance engagement of sustainability reporting on behalf of the audit firm; or
- (b) in the case of the assurance of consolidated sustainability reporting at least the statutory auditor(s) designated by an audit firm as being primarily responsible for carrying out the assurance engagement of sustainability reporting at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries; or

- (c) the statutory auditor(s) who sign(s) the assurance report referred to in Article 28a of this directive;’
- (b) the following points 21, 22 and 23 are added:
- ‘21. ‘sustainability reporting’ means sustainability reporting as defined in Article 2, point (18), of Directive 2013/34/EU;
22. ‘assurance (engagement) of sustainability reporting’ means the opinion expressed by the statutory auditor or audit firm in accordance with Article 34(1), second subparagraph, point (aa) and Article 34(2) of Directive 2013/34/EU .’;
23. ‘independent assurance services provider’ means a conformity assessment body accredited in accordance with Regulation (EC) No 765/2008 of the European Parliament and of the Council[1]*5 for the specific conformity assessment activity referred to in Article 34(1), second subparagraph, point (aa) of Directive 2013/34/EU.’

(3) Article 6 is replaced by the following:

‘Article 6

Educational qualifications

1. Without prejudice to Article 11, a natural person may be approved to carry out a statutory audit only after having attained university entrance or equivalent level, then completed a course of theoretical instruction, undergone practical training and passed an examination of professional competence of university final or equivalent examination level, organised or recognised by the Member State concerned.
2. A natural person may in addition be approved to carry out assurance engagements of sustainability reporting when the additional specific requirements of Articles 7(2), 8(3), 10(1) second subparagraph and 14(2), fourth subparagraph of this Directive are met.
3. The competent authorities referred to in Article 32 shall cooperate with each other with a view to achieving a convergence of the requirements set out in this Article. When engaging in such cooperation, those competent authorities shall take into account developments in auditing and in the audit profession and, in particular, convergence that has already been achieved by the profession. They shall cooperate with the Committee of European Auditing Oversight Bodies (CEAOB) and the competent authorities referred to in Article 20 of Regulation (EU) No 537/2014 in so far as such convergence relates to the statutory audit and assurance of sustainability reporting of public-interest entities.’;

(3)a in Article 7, paragraph 2 is added:

- ‘2. In order for the statutory auditor to also be approved to carry out assurance engagements of sustainability reporting, the examination of professional competence referred to in Article 6 shall guarantee the necessary level of theoretical knowledge of subjects relevant to the assurance of sustainability reporting and the ability to apply such knowledge in practice. Part at least of that examination shall be written.’

(4) in Article 8, paragraph 3 is added:

- ‘3. In order for the statutory auditor to also be approved to carry out assurance engagements of sustainability reporting, it shall also cover at least the following subjects:
- a) legal requirements and reporting standards relating to the preparation of annual and consolidated sustainability reporting;
 - b) sustainability analysis;
 - c) due diligence processes with regard to sustainability matters;
 - d) legal requirements and assurance standards for sustainability reporting as referred to in Article 26(a)’;

(5) in Article 10, paragraph 1, the following subparagraph is added:

In order for the statutory auditor or the trainee to also be approved to carry out assurance engagements of sustainability reporting, at least eight months of such practical training shall be in the assurance of annual and consolidated sustainability reporting or other sustainability related services.’

(6)a Article 12 is replaced by the following:

‘Article 12

Combination of practical training and theoretical instruction

1. Member States may provide that periods of theoretical instruction in the fields referred to in Article 8, paragraphs 1 and 2, shall count towards the periods of professional activity referred to in Article 11, provided that such instruction is attested by an examination recognised by the State. Such instruction shall not last less than one year, nor may it reduce the period of professional activity by more than four years.
2. The period of professional activity and practical training shall not be shorter than the course of theoretical instruction together with the practical training required in Article 10(1), first subparagraph.’

(7) in Article 14, paragraph 2, the following subparagraph is added

‘In order for the statutory auditor to also be approved to carry out assurance engagements of sustainability reporting, the aptitude test referred to in the first subparagraph shall cover the statutory auditor's adequate knowledge of the laws and regulations of that host Member State in so far as it is relevant to the assurance of sustainability reporting.’;

(8) the following Article 14a is inserted:

‘Article 14a

Statutory auditors approved or recognised before 1 January 2024 and persons undergoing the approval process for statutory auditors on 1 January 2024

Member States shall ensure that statutory auditors that are approved or recognised to carry out statutory audits before 1 January 2024 are not subject to the requirements of Articles 7(2), 8(3), 10(1) second subparagraph and 14(2), fourth subparagraph of this Directive.

Member States shall ensure that persons that are undergoing the approval process foreseen in Articles 6 to 14 on 1 January 2024, are not subject to the requirements of Articles 7(2), 8(3), 10(1), second subparagraph and 14(2), fourth subparagraph of this Directive, provided they finish the process by 1 January 2026.

Member States shall ensure that statutory auditors approved before 1 January 2026 who want to carry out assurance engagements of sustainability reporting, acquire the necessary knowledge of sustainability reporting and the assurance of sustainability reporting, including of the subjects listed in Article 8(3), via the continuing education requirement of Article 13.’;

(8)a Article 16 is amended as follows:

(a) in subparagraph 1, the following point (bb) is inserted:

‘(bb) whether the statutory auditor is also approved for carrying out the assurance of sustainability reporting.’

(b) in subparagraph 1, point (c) is replaced by the following:

‘(c) all other registration(s) as statutory auditor with the competent authorities of other Member States and as auditor with third countries, including the name(s) of the registration authority(ies), and, if applicable, the registration number(s), and an indication of whether the registration concerns the financial audit, the assurance of sustainability reporting, or both.

(c) in paragraph 2, the following subparagraph is added:

The register shall indicate whether such third-country auditors are registered for carrying out the financial audit, the assurance of sustainability reporting, or both.

(8)b Article 17 is amended as follows:

(a) In paragraph 1, subparagraphs (e) and (i) are replaced by the following :

‘(e) name and registration number of all statutory auditors employed by, or associated as partners or otherwise with, the audit firm, and an indication of whether they are also approved for carrying out the assurance of sustainability reporting;

(i) all other registration(s) as audit firm with the competent authorities of other Member States and as audit entity with third countries, including the name(s) of the registration authority(ies), and, if applicable, the registration number(s), and an indication of whether the registration concerns the financial audit, the assurance of sustainability reporting, or both.’;

- (b) in paragraph 2, the following subparagraph is added:

‘The register shall indicate whether such third-country audit entities are registered for carrying out the financial audit, the assurance of sustainability reporting, or both.’;

- (9) Article 24b is amended as follows:

- (a) paragraph 1 is replaced by the following:

- ‘1. Member States shall ensure that, when the statutory audit is carried out by an audit firm, that audit firm designates at least one key audit partner. The audit firm shall provide the key audit partner(s) with sufficient resources and with personnel that have the necessary competence and capabilities to carry out his, her or its duties appropriately.

Member States shall ensure that, when the assurance of sustainability reporting is carried out by an audit firm, that audit firm designates at least one key sustainability partner, who can be (one of) the key audit partner(s). The audit firm shall provide the key sustainability partner(s) with sufficient resources and with personnel that have the necessary competence and capabilities to carry out his, her or its duties appropriately.

Securing audit quality, independence and competence shall be the main criteria when the audit firm selects the key audit partner(s) and, where applicable, the key sustainability partner(s) to be designated. The key audit partner(s) shall be actively involved in the carrying-out of the statutory audit. The key sustainability partner shall be actively involved in the carrying-out of the assurance of sustainability reporting.’;

(b) the following paragraph 2a is inserted:

‘2a. When carrying out the assurance of sustainability reporting, the statutory auditor shall devote sufficient time to the engagement and shall assign sufficient resources to enable him or her to carry out his or her duties appropriately.’;

(c) in paragraph 4, points (b) and (c) are replaced by the following:

‘(b) in the case of an audit firm, the name(s) of the key audit partner(s) and, where applicable, the name(s) of the key sustainability partner(s);’

‘(c) the fees charged for the statutory audit, for the assurance of sustainability reporting and the fees charged for other services in any financial year.’;

(e) paragraph 5a is added:

‘5a. A statutory auditor or an audit firm shall create an assurance file for each assurance engagement of sustainability reporting.

The statutory auditor or the audit firm shall document at least the data recorded pursuant to Article 22b as regards the assurance of sustainability reporting.

The statutory auditor or the audit firm shall retain any data and documents that are of importance in support of the report referred to in Article 28a of this Directive and for monitoring compliance with this Directive and other applicable legal requirements as regards the assurance of sustainability reporting.

The assurance file shall be closed no later than 60 days after the date of signature of the assurance report referred to in Article 28a of this Directive;

Where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, the assurance file may be included in the audit file.’;

- (f) paragraph 6 is replaced by the following:

‘The statutory auditor or the audit firm shall keep records of any complaints made in writing about the performance of the statutory audits and the assurance engagements of sustainability reporting carried out.’

- (10) Article 25 is replaced by the following:

‘Article 25

Audit and assurance fees

Member States shall ensure that adequate rules are in place which provide that fees for statutory audits and the assurance of sustainability reporting:

- (a) are not influenced or determined by the provision of additional services to the entity being subject to statutory audit or assurance of sustainability reporting;
- (b) cannot be based on any form of contingency.’;

- (11) the following Article 25b is inserted:

‘Article 25b

Professional Ethics, Independence, Objectivity, Confidentiality and Professional Secrecy as regards the assurance of sustainability reporting

The requirements of Articles 21 to 24a as regards the statutory audit of financial statements shall apply mutatis mutandis to the assurance of sustainability reporting.’;

(11)a the following Article 25c is inserted:

‘Article 25c

Prohibited non-audit services where the statutory auditor carries out the assurance of sustainability reporting of a public-interest entity

1. A statutory auditor or an audit firm carrying out the assurance of sustainability reporting of a public-interest entity, or any member of the network to which the statutory auditor or the audit firm belongs, shall not directly or indirectly provide to the audited entity, to its parent undertaking or to its controlled undertakings within the Union the services referred to in Article 5(1), second subparagraph, points (b), (c), (e), (f), (g), (h), (i), (j) and (k) of Regulation (EU) No 537/2014 in:
 - (a) the period between the beginning of the period subject to assurance of sustainability reporting and the issuing of the assurance report; and
 - (b) the financial year immediately preceding the period referred to in point (a) in relation to the services referred to in Article 5(1), second subparagraph, point (e) of Regulation (EU) No 537/2014.
2. A statutory auditor or an audit firm carrying out assurance engagements of sustainability reporting of public-interest entities and, where the statutory auditor or the audit firm belongs to a network, any member of such network, may provide to the entity subject to assurance of sustainability reporting, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in paragraph 1, or if applicable, referred to in Article 5 (1) or (2) of Regulation (EU) No 537/2014, subject to the approval of the audit committee after it has properly assessed threats of independence and the safeguards applied in accordance with Article 22b of this Directive.

3. When a member of a network to which the statutory auditor or the audit firm carrying out an assurance engagement of sustainability reporting of a public-interest entity belongs provides the non-audit services referred to in paragraph 1 of this Article, to an undertaking incorporated in a third country which is controlled by the public-interest entity subject to assurance of sustainability reporting, the statutory auditor or the audit firm concerned shall assess whether his, her or its independence would be compromised by such provision of services by the member of the network.

If his, her or its independence is affected, the statutory auditor or the audit firm shall apply safeguards where applicable in order to mitigate the threats caused by such provision of services in a third country. The statutory auditor or the audit firm may continue to carry out the assurance of sustainability reporting of the public-interest entity only if he, she or it can justify, in accordance with Article 22b of this Directive, that such provision of services does not affect his, her or its professional judgement and the assurance report.

(11)b Article 25d is inserted:

‘Article 25d

Irregularities

Article 7 of Regulation (EU) No 537/2014 shall apply mutatis mutandis to a statutory auditor or an audit firm carrying out assurance engagements of sustainability reporting of a public-interest entity.’

(12) the following Article 26a is inserted:

‘Article 26a

Assurance standards for sustainability reporting

1. Member States shall require statutory auditors and audit firms to carry out the assurance of sustainability reporting in compliance with assurance standards adopted by the Commission in accordance with paragraph 3.
2. Member States may apply national assurance standards, procedures or requirements as long as the Commission has not adopted an assurance standard covering the same subject-matter.

Member States shall communicate the assurance procedures or requirements to the Commission at least three months before their entry into force.

3. The Commission shall be empowered to adopt, by means of delegated acts in accordance with Article 48a, the assurance standards referred to in paragraph 1 in order to set out the procedures that the auditor shall perform in order to draw its conclusions on the assurance of sustainability reporting, including engagement planning, risk consideration and response to risks and type of conclusions to be included in the audit report.

The Commission shall adopt assurance standards for reasonable assurance no later than six years after the entry into force of the CSRD⁶³.

The Commission may adopt the assurance standards only where they:

- (a) have been developed with proper due process, public oversight and transparency ;
- (b) contribute a high level of credibility and quality to the annual or consolidated sustainability reporting;
- (c) are conducive to the Union public good.’
- (d) do not amend any of the requirements of this Directive or supplement any of its requirements apart from those set out in Articles 25b, 27a and 28a.

4. ’; *[Moved to Article 34 AD]*

(13) the following Article 27a is inserted:

⁶³ Publication office to replace by a specific date.

Assurance of consolidated sustainability reporting

1. Member States shall ensure that in the case of an assurance engagement of consolidated sustainability reporting of a group of undertakings:
 - (a) in relation to the consolidated sustainability reporting, the group auditor bears the full responsibility for the assurance report referred to in Article 28a of this Directive;
 - (b) the group auditor evaluates the assurance work performed by any independent assurance services provider(s) or third-country auditor(s) or statutory auditor(s) or third-country audit entity(ies), or audit firm(s) for the purpose of assurance engagement of consolidated sustainability reporting and documents the nature, timing and extent of the work performed by those auditors, including, where applicable, the group auditor's review of relevant parts of those auditors' assurance documentation;
 - (c) the group auditor reviews the assurance work performed by independent assurance services provider(s), third-country auditor(s) or statutory auditor(s) and third-country audit entity(ies) or audit firm(s) for the purpose of the assurance engagement of consolidated sustainability reporting and documents it.

The documentation retained by the group auditor shall be such as to enable the relevant competent authority to review the work of the group auditor.

For the purposes of point (c) of the first subparagraph of this paragraph, the group auditor shall request the agreement of the independent assurance services provider(s), third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) concerned to the transfer of relevant documentation during the conduct of the assurance engagement of consolidated sustainability reporting, as a condition of the reliance by the group auditor on the work of those independent assurance services provider(s), third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s).

2. Where the group auditor is unable to comply with point (c) of the first subparagraph of paragraph 1, he, she or it shall take appropriate measures and inform the relevant competent authority.

Such measures shall, as appropriate, include carrying out additional assurance work, either directly or by outsourcing such tasks, in the relevant subsidiary.

3. Where the group auditor is subject to a quality assurance review or an investigation concerning the assurance engagement of consolidated sustainability reporting of a group of undertakings, the group auditor shall, when requested, make available to the competent authority the relevant documentation he, she or it retains concerning the assurance work performed by the respective independent assurance services provider(s), third-country auditor(s), statutory auditor(s), third-country audit entity(ies) or audit firm(s) for the purpose of the assurance engagement of consolidated sustainability reporting, including any working papers relevant to the assurance engagement of consolidated sustainability reporting.

The competent authority may request additional documentation on the assurance work performed by any statutory auditor(s) or audit firm(s) for the purpose of the assurance engagement of consolidated sustainability reporting from the relevant competent authorities pursuant to Article 36.

Where the assurance of sustainability reporting of a parent undertaking or a subsidiary undertaking of a group of undertakings is carried out by an auditor or auditor(s) or an audit entity(ies) from a third country, the competent authority may request additional documentation on the assurance work performed by any third-country auditor(s) or third country audit entity(ies) from the relevant competent authorities from third countries through the working arrangement.

By way of derogation from the third subparagraph, where an independent assurance services provider, an auditor or auditors or an audit entity or entities from a third country that have no working arrangements, carried out the assurance of sustainability reporting of a parent undertaking or a subsidiary undertaking of a group of undertakings, the group auditor shall, when requested, also be responsible for ensuring proper delivery of the additional documentation of the assurance work performed by such independent assurance services provider(s), third-country auditor(s) or audit entity(ies), including the working papers relevant to the assurance engagement of consolidated sustainability reporting. In order to ensure such delivery, the group auditor shall retain a copy of such documentation, or alternatively agree with the independent assurance services provider(s), third-country auditor(s) or audit entity(ies) that he, she or it is to be given unrestricted access to such documentation upon request, or take any other appropriate action. Where assurance working papers cannot, for legal or other reasons, be passed from a third country to the group auditor, the documentation retained by the group auditor shall include evidence that he or she has undertaken the appropriate procedures in order to gain access to the audit documentation, and in the case of impediments other than legal ones arising from the legislation of the third country concerned, evidence supporting the existence of such impediments.’;

(14) In Article 28, paragraph 2, point (e) is replaced by the following

- ‘(e) include an opinion and statement, both of which shall be based on the work undertaken in the course of the audit, referred to in Article 34(1), second subparagraph, points (a) and (b) of Directive 2013/34/EU’

(14)a Article 28a is added:

‘Article 28a

Assurance report on sustainability reporting

1. The statutory auditor(s) or the audit firm(s) shall present the results of the assurance of sustainability reporting in an assurance report on sustainability reporting. The report shall be prepared in accordance with the requirements of assurance standards adopted by the Commission or by Member States until the Commission adopts the assurance standards referred to in Article 26a.
2. The assurance report on sustainability reporting shall be in writing and shall:
 - (a) identify the entity whose annual or consolidated sustainability reporting are the subject of the assurance engagement;
 - (b) specify the annual or consolidated sustainability reporting and the date and period they cover; and identify the sustainability reporting framework that has been applied in their preparation;
 - (c) include a description of the scope of the assurance of sustainability reporting which shall, as a minimum, identify the assurance standards in accordance with which the assurance of sustainability reporting was conducted;

- (d) Include the opinion based on the work undertaken in the course of the assurance of sustainability reporting referred to in Article 34a(1), second subparagraph, point (aa) of Directive 2013/34/EU.
3. Where the assurance on sustainability reporting was carried out by more than one statutory auditor or audit firm, the statutory auditor(s) or the audit firm(s) shall agree on the results of the assurance engagement on sustainability reporting and submit a joint report and opinion. In the case of disagreement, each statutory auditor or audit firm shall submit his, her or its opinion in a separate paragraph of the assurance report on sustainability reporting and shall state the reason for the disagreement.
4. The assurance report on sustainability reporting shall be signed and dated by the statutory auditor. Where an audit firm carries out the assurance of sustainability reporting, the assurance report on sustainability reporting shall bear the signature of at least the statutory auditor(s) carrying out the assurance of sustainability reporting on behalf of the audit firm. Where more than one statutory auditor or audit firm have been simultaneously engaged, the assurance report on sustainability reporting shall be signed by all statutory auditors or at least by the statutory auditors carrying out the assurance of sustainability reporting on behalf of every audit firm. In exceptional circumstances Member States may provide that such signature(s) need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person.

In any event, the name(s) of the person(s) involved shall be known to the relevant competent authorities.

5. Member States may require that, where the same statutory auditor carries out the statutory audit of annual financial statements and the assurance of sustainability reporting, the assurance report may be included as a separate section of the audit report.
6. The report of the statutory auditor or the audit firm on the consolidated sustainability reporting shall comply with the requirements set out in paragraphs 1 to 5.’

(15) Article 29 is amended as follows:

(a) in paragraph 1, point (d) is replaced by the following:

‘(d) the persons who carry out quality assurance reviews shall have appropriate professional education and relevant experience in statutory audit and financial reporting and, where applicable, in the assurance of sustainability reporting and sustainability reporting or other sustainability related services combined with specific training on quality assurance reviews;’;

(a)a in paragraph 1, point (f) is replaced by the following:

‘(f) the scope of the quality assurance review, supported by adequate testing of selected audit files and, where applicable assurance files, shall include an assessment of compliance with applicable auditing standards and, where applicable, assurance standards and independence requirements, of the quantity and quality of resources spent, of the audit fees and fees charged for the assurance of sustainability reporting charged and of the internal quality control system of the audit firm;’

(b) in paragraph 1, point (h) is replaced by the following:

‘(h) quality assurance reviews shall take place on the basis of an analysis of the risk and, in the case of statutory auditors and audit firms carrying out statutory audits as defined in Article 2, point (1)(a), and, where applicable, carrying out assurance engagements of sustainability reporting, at least every six years;’;

(c) in paragraph 2, point (a) is replaced by the following:

‘(a) reviewers shall have appropriate professional education and relevant experience in statutory audit and financial reporting and, where applicable, in the assurance of sustainability reporting and sustainability reporting combined with specific training on quality assurance reviews;’;

(d) Paragraph 2a is inserted:

(2a) Member States may exempt, until 31 December 2025, the persons who carry out quality assurance reviews relating to the assurance of sustainability reporting from the requirement to have relevant experience in the assurance of sustainability reporting and sustainability reporting or other sustainability related services.

(15)a in Article 30, paragraphs 1 and 2 are replaced by the following:

‘1. Member States shall ensure that there are effective systems of investigations and sanctions to detect, correct and prevent inadequate execution of the statutory audit and the assurance of sustainability reporting.

2. Without prejudice to Member States' civil liability regimes, Member States shall provide for effective, proportionate and dissuasive sanctions in respect of statutory auditors and audit firms, where statutory audits and assurance engagements of sustainability reporting are not carried out in conformity with the provisions adopted in the implementation of this Directive, and, where applicable, Regulation (EU) No 537/2014.

Member States may decide not to lay down rules for administrative sanctions for infringements which are already subject to national criminal law. In that event, they shall communicate to the Commission the relevant criminal law provisions.'

(15)aa in Article 30a, paragraph 1, point (cc) is inserted:

'(cc) a temporary prohibition, of up to three years' duration, banning the statutory auditor, the audit firm or the key sustainability partner from carrying out the assurance of sustainability reporting and/or signing assurance reports.'

(15)b in Article 30a, paragraph 1, point (dd) is inserted:

'(dd) a declaration that the assurance report does not meet the requirements of Article 28a of this Directive;'

(16)a Article 32 is amendment as follows:

(a) in paragraph 3, subparagraph 1 is replaced by the following:

'3. The competent authority shall be governed by non-practitioners who are knowledgeable in the areas relevant to statutory audit, and where applicable, to the assurance of sustainability reporting. They shall be selected in accordance with an independent and transparent nomination procedure.'

(b) paragraph 4, point b is replaced by the following:

(b) the adoption of standards on professional ethics, internal quality control of audit firms, auditing and the assurance of sustainability reporting, except where those standards are adopted or approved by other Member State authorities;’

(17) the following Article 36(a) is inserted:

‘Article 36a

Regulatory Arrangements between Member States as regards the assurance of sustainability reporting

The requirements of Articles 34 and 36 as regards the statutory audit of financial statements shall apply *mutatis mutandis* to the assurance of sustainability reporting.’;

(17)a In Article 37, paragraph 1, the second subparagraph is inserted:

‘The provisions of the first subparagraph shall apply to the appointment of the statutory auditor or audit firm for the purpose of the assurance of sustainability reporting.’

(17)b In Article 37, paragraph 2, the second subparagraph is inserted:

‘The provisions of the first subparagraph shall apply to the appointment of the statutory auditor or audit firm for the purpose of the assurance of sustainability reporting.’

(18)a in Article 37, paragraph 3 is replaced by the following:

- ‘3. Any contractual clause restricting the choice by the general meeting of shareholders or members of the audited entity pursuant to paragraph 1 to certain categories or lists of statutory auditors or audit firms as regards the appointment of a particular statutory auditor or audit firm to carry out the statutory audit and, where applicable, the assurance of sustainability reporting of that entity shall be prohibited. Any such existing clauses shall be null and void.’

(18)b in Article 38, paragraph 1 is replaced by the following:

- ‘1. Member States shall ensure that statutory auditors or audit firms may be dismissed only where there are proper grounds. Divergence of opinions on accounting treatments, audit procedures or where applicable on sustainability reporting or assurance procedures shall not be proper grounds for dismissal.’

(18)c In Article 38, paragraph 2, the second subparagraph is inserted:

‘The information obligation referred to in the first subparagraph shall also apply to the assurance engagement of sustainability reporting.’

(19) Article 39 is amended as follows:

(a) Paragraph 4a is added:

- 4a. Member States may allow the functions assigned to the audit committee relating to sustainability reporting and the assurance of sustainability reporting to be performed by the administrative or supervisory body as a whole or by a dedicated body established by the administrative or supervisory body.

(b) paragraph 6, points (a) to (e) are replaced by the following:

- ‘(a) inform the administrative or supervisory body of the audited entity of the outcome of the statutory audit and, where applicable, of the outcome of the assurance of sustainability reporting and explain how the statutory audit and the assurance of sustainability reporting contributed to the integrity of financial and sustainability reporting respectively, and what the role of the audit committee was in that process;
- (b) monitor the financial and, where applicable, sustainability reporting process, including the digital reporting process referred to in Article 29d of Directive 2013/34/EU and the process carried out by the undertaking to identify the information reported according to the standards adopted pursuant to Article 29b of Directive 2013/34/EU, and submit recommendations or proposals to ensure its integrity;
- (c) monitor the effectiveness of the undertaking's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial and, where applicable, sustainability reporting of the audited entity, including its digital reporting as referred to in Article 29d of Directive 2013/34/EU, without breaching its independence;’
- (d) monitor the statutory audit of the annual and consolidated financial statements and, where applicable, the assurance of the annual and consolidated sustainability reporting, in particular, its performance, taking into account any findings and conclusions by the competent authority pursuant to Article 26(6) of Regulation (EU) No 537/2014;

- (e) review and monitor the independence of the statutory auditors or the audit firms in accordance with Articles 22, 22a, 22b, 24a, 24b and 25b, 25c and 25d of this Directive and with Article 6 of Regulation (EU) No 537/2014, and in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of that Regulation’;

(20) Article 45 is amended as follows:

- (a) paragraph 1 is replaced by the following:

‘1. The competent authorities of a Member State shall, in accordance with Articles 15, 16 and 17, register every third-country auditor and audit entity, where that third-country auditor or audit entity provides an audit report concerning the annual or consolidated financial statements, or, where applicable, an assurance report concerning annual or consolidated sustainability reporting of an undertaking incorporated outside the Union whose transferable securities are admitted to trading on a regulated market of that Member State within the meaning of Article 4(1), point (14), of Directive 2004/39/EC, except where the undertaking in question exclusively issues outstanding debt securities for which one of the following applies:

- (a) those securities have been admitted to trading on a regulated market in a Member State within the meaning of Article 2(1), point (c), of Directive 2004/109/EC of the European Parliament and of the Council⁶⁴ prior to 31 December 2010 and the denomination per unit of which is, at the date of issue, at least EUR 50 000 or, in the case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 50 000;
- (b) those securities are admitted to trading on a regulated market in a Member State within the meaning of Article 2(1), point (c), of Directive 2004/109/EC from 31 December 2010 and the denomination per unit of which is, at the date of issue, at least EUR 100 000 or, in case of debt securities denominated in another currency, equivalent, at the date of issue, to at least EUR 100 000.’;

(a)a paragraph 4 is replaced by the following:

- 4. Without prejudice to Article 46, audit reports concerning annual accounts or consolidated accounts or, where applicable, the assurance reports concerning annual or consolidated sustainability reporting referred to in paragraph 1 of this Article issued by third-country auditors or audit entities that are not registered in the Member State shall have no legal effect in that Member State.

⁶⁴ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38).’;

(b) paragraph 5 is replaced by the following:

‘5. A Member State may register a third-country audit entity for the purpose of the audit of financial statements only if:

- (a) the majority of the members of the administrative or management body of the third-country audit entity meet requirements which are equivalent to those laid down in Articles 4 to 10, with the exception of Articles 7(2), 8(3), 10(1) second subparagraph;
- (b) the third-country auditor carrying out the audit on behalf of the third-country audit entity meets requirements which are equivalent to those laid down in Articles 4 to 10, with the exception of Articles 7(2), 8(3), 10(1) second subparagraph;
- (c) the audits of the annual or consolidated financial statements referred to in paragraph 1 are carried out in accordance with international auditing standards as referred to in Article 26, as well as the requirements laid down in Articles 22, 22b and 25, or with equivalent standards and requirements;
- (d) it publishes on its website an annual transparency report which includes the information referred to in Article 13 of Regulation (EU) No 537/2014 or it complies with equivalent disclosure requirements;

A Member State may register a third-country audit entity for the purpose of the assurance of sustainability reporting only if:

- (a) the majority of the members of the administrative or management body of the third-country audit entity meet requirements which are equivalent to those laid down in Articles 4 to 10;
 - (b) the third-country auditor carrying out the audit on behalf of the third-country audit entity meets requirements which are equivalent to those laid down in Articles 4 to 10;
 - (c) the assurance of the annual or consolidated sustainability reporting referred to in paragraph 1 are carried out in accordance with assurance standards as referred to in Article 26a, as well as the requirements laid down in Articles 22, 22b, 25 and 25b, or with equivalent standards and requirements;’;
 - (d) it publishes on its website an annual transparency report which includes the information referred to in Article 13 of Regulation (EU) No 537/2014 or it complies with equivalent disclosure requirements.
- (c) paragraph 5a is replaced by the following:
- ‘5a. A Member State may register a third-country auditor for the purpose of the audit of financial statements only if he or she meets the requirements set out in points (b), (c) and (d) of paragraph 5, first subparagraph of this Article.

A Member State may register a third-country auditor for the purpose of the assurance for sustainability reporting only if he or she meets the requirements set out in points (b), (c) and (d) of paragraph 5, second subparagraph of this Article.

(c)a paragraph 6 is replaced by the following:

- ‘6. In order to ensure uniform conditions of application of point (d), first subparagraph and point (d) second subparagraph of paragraph 5 of this Article, the Commission shall be empowered to decide upon the equivalence referred to therein by means of implementing acts. Those implementing acts shall be adopted in accordance with the examination procedure referred to in Article 48(2). Member States may assess the equivalence referred to in point (d) , first subparagraph and point (d), second subparagraph of paragraph 5 of this Article as long as the Commission has not taken any such decision.

The Commission shall be empowered to adopt delegated acts in accordance with Article 48a for the purpose of establishing the general equivalence criteria to be used in assessing whether the audits of the financial statements and, where applicable, the assurance of sustainability reporting referred to in paragraph 1 of this Article are carried out in accordance with international auditing standards as referred to in Article 26 and with assurance standards as referred to in Article 26a, respectively, and with the requirements laid down in Articles 22, 24 and 25. Such criteria, which are applicable to all third countries, shall be used by Member States when assessing equivalence at national level.’.

(21) Article 48a is amended as follows:

(a) in paragraph 2 the following subparagraph is added:

‘The power to adopt delegated acts referred to in Article 26a(2) shall be conferred on the Commission for an indeterminate period of time’;(b) paragraph 3 is replaced by the following:

‘3. The delegation of power referred to in Articles 26(3), 26a(2), 45(6), 46(2) and 47(3) may be revoked at any time by the European Parliament or by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the Official Journal of the European Union or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.’;

(c) paragraph 5 is replaced by the following:

‘5. A delegated act adopted pursuant to Articles 26(3), 26a(2), 45(6), 46(2) and 47(3) shall enter into force only if no objection has been expressed either by the European Parliament or the Council within a period of four months of notification of that act to the European Parliament and the Council or if, before the expiry of that period, the European Parliament and the Council have both informed the Commission that they will not object. That period shall be extended by two months at the initiative of the European Parliament or of the Council.’.

Article 4

Amendments to Regulation (EU) No 537/2014

Regulation (EU) No 537/2014 is amended as follows:

- (1) Article 4 paragraph 2, second subparagraph is replaced by the following:

‘For the purposes of the limits specified in the first subparagraph, assurance engagements of sustainability reporting and non-audit services, other than those referred to in Article 5(1), required by Union or national legislation, shall be excluded.’

- (2) Article 5 is amended as follows:

- (a) paragraph 1, second subparagraph, point (c) is replaced by the following:

‘bookkeeping and preparing accounting records and financial statements as well as preparing sustainability reporting;’

(b) paragraph 4, second subparagraph is inserted:

‘The approval of the audit committee referred to in the first subparagraph shall not be needed for the provision of assurance engagements of sustainability reporting.’;

Article 5

Transposition

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with Articles 1 to 3 of this Directive by [Publications Office - set the date = eighteen months after entry into force]. They shall immediately inform the Commission thereof.

Member States shall provide that the provisions of Article 1 referred to in the first subparagraph shall apply:

- a) for financial years starting on or after 1 January 2024:
 - i) to large undertakings as defined in Article 3(4) of Directive 2013/34/EU which are public-interest entities as defined in Article 2, point (1) of that Directive exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year;
 - ii) to public-interest entities as defined in Article 2, point (1) of Directive 2013/34/EU which are parent undertakings of a large group as defined in Article 3(7) of Directive 2013/34/EU exceeding on its balance sheet dates, on a consolidated basis, the criterion of the average number of 500 employees during the financial year;
- b) for financial years starting on or after 1 January 2025:
 - i) to large undertakings as defined in Article 3(4) of Directive 2013/34/EU other than those referred to in point (a), point (i);
 - ii) to parent undertakings of a large group as defined in Article 3(7) of Directive 2013/34/EU other than those referred to in point (a), point (ii);

- c) for financial years starting on or after 1 January 2026:
- (i) to small and medium-sized undertakings as defined in Article 3(2) and 3(3) of Directive 2013/34/EU which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive;
 - (ii) to small and non-complex institutions provided they are large undertakings referred to in Article 3 point (4) of Directive 2013/34/EU or that they are small and medium sized undertakings as defined in Article 3(2) and 3(3) which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive;
 - (iii) to captive insurance undertakings and captive reinsurance undertakings provided that they are large undertakings referred to in Article 3 point (4) of Directive 2013/34/EU or that they are small and medium sized undertakings as defined in Article 3(2) and 3(3) which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive.

Member States shall provide that the provisions of Article 2 referred to in the first subparagraph shall apply:

- a) for financial years starting on or after 1 January 2024
- i) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are large undertakings as defined in Article 3(4) of Directive 2013/34/EU exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year;
 - ii) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are parent undertakings of a large group as defined in Article 3(7) of Directive 2013/34/EU exceeding on its balance sheet dates, on a consolidated basis, the criterion of the average number of 500 employees during the financial year;

- b) for financial years starting on or after 1 January 2025
 - i) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are large undertakings as defined in Article 3(4) of Directive 2013/34/EU other than those referred to in point (a), point (i);
 - ii) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are parent undertakings of a large group as defined in Article 3(7) of Directive 2013/34/EU other than those referred to in point (a), point (ii);
- c) for financial years starting on or after 1 January 2026:
 - (i) to issuers as defined in point (d) of Article 2(1) of Directive 2004/109/EC which are small and medium-sized undertakings as defined in Article 3(2) and 3(3) of Directive 2013/34/EU and which are not micro-undertakings as defined in Article 3 (1) of that Directive;
 - (ii) to issuers defined as small and non-complex institutions provided they are large undertakings referred to in Article 3 point (4) of Directive 2013/34/EU or that they are small and medium sized undertakings as defined in Article 3(2) and 3(3) which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive;
 - (iii) to issuers defined as captive insurance undertakings or captive reinsurance undertakings provided that they are large undertakings referred to in Article 3 point (4) of Directive 2013/34/EU or that they are small and medium sized undertakings as defined in Article 3(2) and 3(3) which are undertakings referred to in Article 2, point (1), point (a) of that Directive and which are not micro-undertakings as defined in Article 3 (1) of that Directive.

Member States shall provide that the provisions of Article 3 referred to in the first subparagraph shall apply for financial years starting on or after 1 January 2024.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. The methods of making such reference shall be laid down by Member States.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

Article 6

Date of application of Article 4

Article 4 of this Directive shall apply to financial years according to Article 5(1), fourth subparagraph.

Article 7

Entry into force

This Directive shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

Article 8

Addressees

This Directive is addressed to the Member States. Article 4 shall, however, be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament

For the Council

The President The President