



Brussels, 21.4.2021  
SWD(2021) 151 final

**COMMISSION STAFF WORKING DOCUMENT**  
**EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT**

*Accompanying the document*

**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**

{COM(2021) 189 final} - {SEC(2021) 164 final} - {SWD(2021) 150 final}

<b>Executive Summary Sheet</b>
Impact assessment on Proposal for a Revision of the Non-Financial Reporting Directive
<b>A. Need for action</b>
<b>Why? What is the problem being addressed?</b>
The Non-Financial Reporting Directive (NFRD) requires certain large companies to report on social, employee and environmental matters, human rights, bribery and corruption. Currently, the information reported by companies does not meet users' needs (investors, civil society and others). Some companies from whom users need information do not report. Even when companies do report, the information is usually not sufficiently relevant, comparable, reliable or easy to access and use. User demand for non-financial information is expected to increase significantly so these problems will intensify. The lack of adequate non-financial information for investors and civil society creates investment risks, inhibits financial flows to activities that address the sustainability crisis, and creates an accountability gap between companies and society. Preparers (reporting companies) incur unnecessary costs due to uncertainty about what to report and stakeholders' demands for information in addition to what companies report publicly. The flexibility and lack of specificity in the NFRD is one reason for this. In addition, there are many overlapping reporting standards and frameworks, and consequently no consensus on what companies should report.
<b>What is this initiative expected to achieve?</b>
This initiative aims to ensure that companies from whom users need non-financial information report such information, and that reported information is relevant, comparable, reliable, and easy to access and use. It also aims to reduce unnecessary costs for preparers. By enabling investors to better evaluate the sustainability risks and impacts of investments, it will mobilise private finance in support of the European Green Deal. It contributes to the completion of the Capital Markets Union by enabling investors to access comparable non-financial information from investee companies across the EU. It will also reinforce the social contract between companies and society by making companies more accountable for their impact on society and the environment.
<b>What is the value added of action at EU level?</b>
Only EU action can ensure the comparability of reported non-financial information across the single market, and the coherence of reporting requirements between the NFRD and other sustainable finance legislation (including the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation). Common rules across the EU are necessary to reduce the risks of different reporting requirements in different Member States, which would generate additional costs for companies operating across borders and undermine the single market. In addition, EU intervention can give the EU greater weight in global policy developments in non-financial reporting.
<b>B. Solutions</b>
<b>What legislative and non-legislative policy options have been considered? Is there a preferred option or not? Why?</b>
The impact assessment focused on these three issues: (1) standardisation, specifically, whether to develop EU non-financial reporting standards and whether to require companies to use them; (2) assurance, specifically, whether reported non-financial information should be assured and if so, at what level; and (3) scope, specifically, which categories of company should be subject to the reporting requirements. The preferred policy option is: (1) require all companies within the scope of the NFRD to report in accordance with EU standards; (2) require all such companies to seek limited assurance for reported non-financial information, with a review clause to explore the need to move to reasonable assurance (a higher, more demanding level of assurance) in the medium term; and (3) extend the scope of the NFRD to all large limited liability companies and most listed companies. The principal trade-off is between strong reporting and assurance requirements with a broad scope, highly effective in meeting users' needs but more expensive for preparers; and less stringent reporting and assurance requirements and a narrower scope, less effective in meeting users' needs but less expensive for preparers in the short term. The preferred option would achieve the objectives of the initiative at the lowest possible cost.
<b>Who supports which option?</b>
Users (investors, civil society and others) generally support stricter reporting and assurance requirements and a broader scope, while preparers generally support less strict requirements and a narrower scope. In spite of these differences, there is widespread support for a requirement to use EU non-financial reporting standards, including from a significant number of preparers. Financial institutions, who are both users and preparers, are more in favour of stricter reporting and assurance requirements and a broader scope than most non-financial sector companies.

<b>C. Impacts of the preferred option</b>
<b>What are the benefits of the preferred option (if any, otherwise the main ones)?</b>
Users will benefit from better access to comparable, relevant and reliable non-financial information from more companies. This will reduce the risks of investing in the financial system, increase financial flows to companies with positive social and environmental impacts, and make companies more accountable. The proposed option would ensure that approximately 49 000 companies report such information (75% of the turnover of all limited liability companies), compared to the current 11 600 companies (47% of the turnover of all limited liability companies). All large and most listed companies would be required to apply non-financial reporting standards and seek assurance for reported information. By comparison, only an estimated 20% of large companies currently apply standards and only 30% seek some kind of assurance. The proposed option will have indirect positive impacts on fundamental rights, the environment and society, given that stricter reporting requirements can influence corporate behaviour for the better. For example, about 45% of companies currently within the scope of the NFRD adopted some new due diligence processes on environmental or human rights matters because of the existing NFRD requirements.
<b>What are the costs of the preferred option (if any, otherwise the main ones)?</b>
The total estimated costs of the preferred option for preparers are EUR 1 200 million in one-off costs and EUR 3 600 million in annual recurring costs. If the EU takes no action, costs for preparers are expected to increase greatly anyway, due to an increase in uncoordinated information demands from users, the ongoing absence of consensus on what information companies should report in order to meet users' needs, and persistent difficulties in obtaining the non-financial information preparers need for reporting purposes from suppliers, clients and investee companies. The unavailability of sufficiently detailed data makes it impossible to calculate the costs for preparers in the absence of new rules. However, it is estimated that the use of standards could lead to annual costs savings of EUR 24 200-41 700 per company (around EUR 280-490 million per year for the current NFRD population and EUR 1 200-2 000 million per year for the preferred option), if standards eliminate the need for additional information requests. The preferred option does not have any significant negative impacts on society, the environment or fundamental rights.
<b>How will businesses, SMEs and micro-companies be affected?</b>
Affected companies will face an overall increase in costs (see previous section). However, the preferred option should also improve company resilience, given that better reporting raises companies' awareness of sustainability-related risks and improves risk management. It should also lead to advantages for more sustainable companies, since sustainability front-runners will be more easily identifiable. The reporting requirements would not apply to SMEs, except listed SMEs. However, simplified reporting standards will be developed for SMEs to use on a voluntary basis. These should enable SMEs to meet information demands from large company clients and banks, and will facilitate their contribution to and participation in the transition to a sustainable economy.
<b>Will there be significant impacts on national budgets and administrations?</b>
Implementation costs will be an estimated EUR 35,5 million, plus a further EUR 5 million in annual costs, for the development of digital ad hoc processes and maintenance of digital registers, resulting from requirements to digitally tag non-financial information as part of this initiative. Member States may also incur some additional costs from gearing enforcement priorities towards non-financial reporting.
<b>Will there be other significant impacts?</b>
Under the preferred option, EU companies risk incurring higher reporting costs than non-EU companies, with negative impacts on their international competitiveness. However, some global companies are likely to decide voluntarily to comply with the mandatory EU standards, and other jurisdictions are already introducing requirements or policy initiatives in the field of sustainability-related disclosures. Furthermore, the competitiveness of EU companies is likely to be enhanced in the longer term if EU standards prompt global alignment and influence possible future global standards.
<b>D. Follow up</b>
<b>When will the policy be reviewed?</b>
Evaluation will take place when sufficient evidence can be collected about the impacts of the initiative (i.e. at least 3 years of data), taking into account the time needed for its possible transposition and application, and data collection.