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Introduction to new sustainability **reporting obligations**

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The Act of 6 December 2024 on amending the Accounting Act, the Act on Certified Auditors, Audit Firms and Public Oversight, as well as certain other acts, introduced comprehensive sustainability reporting regulations to the Polish legal system. It is a response to the growing significance of environmental, social and governance matters (ESG) in the operation of businesses and to the need for increased transparency in this area.

The new regulations implement Directive 2013/34/EU of the European Parliament and of the Council on corporate sustainability reporting. The Act adds new Chapter 6c to the Accounting Act, which contains detailed regulations on the reporting requirements for different types of entities as regards their impact on sustainability, as well as the impact of sustainability matters on their activities.

The changes are meant to standardize the reporting of non-financial information, increase the comparability of data between entities and provide stakeholders with access to reliable information on the environmental and social impacts of businesses. Special emphasis has been placed on matters related to combating climate change, including reaching the objectives of the Paris Agreement and climate neutrality by 2050.

The regulations introduce different requirements depending on the size and nature of entities, considering the specific aspects of different legal forms and business sectors. There are also special solutions for groups and related parties, aimed at optimizing the reporting process while maintaining completeness and reliability of reported information.

KEY CHALLENGES:

- Preparing organizations for the new reporting obligations, including by building competencies and data collection systems
- Integrating ESG matters into business strategy and decision-making processes
- Ensuring reliability and comparability of reported data
- Need to incur considerable financial and organizational costs to implement the new requirements
- Reputational risk associated with disclosing sensitive information on environmental and social impacts
- Need to involve various departments and levels of the organization in the reporting process

Entities subject to sustainability reporting obligations

The Act contains a list of entities subject to the new regulations and introduces varied requirements depending on the size, legal form and nature of their business operations. The reporting system has been designed to reflect the organizational capabilities and specifics of different types of business entities.

The main categories of entities required to report include corporations (both limited liability and joint-stock companies) and partnerships limited by shares. The requirement also applies to specific forms of partnerships - general and limited partnerships, but only those where all of the partners with unlimited liability are corporations, partnerships limited by shares or foreign companies with a similar legal form.

Special regulations apply to the financial sector – with sustainability reporting obligations covering insurance and reinsurance companies and domestic banks. At the same time the lawmakers have introduced significant exclusions for investment funds (open-end, closed-end, specialized) and alternative investment companies.

Additional requirements apply to small and medium entity issuers of securities admitted to trading on EEA regulated markets, as well as small and non-complex credit institutions and captive insurance and reinsurance companies.

Additional revenue-based criteria apply to entities from outside the EEA – a threshold of EUR 150 000 000 at EU group level for parent companies and EU 40 000 000 for subsidiaries. The reporting system also takes into account capital relationships between entities, by introducing special regulations for subsidiary and parent companies, with exemptions available to some of the subsidiaries.

KEY CHALLENGES:

- Correct identification of reporting obligations at complex capital structures
- Coordinating the reporting process of entities belonging to international groups
- Ensuring consistency of reporting at group and individual entity level
- Adapting systems and procedures to different requirements depending on the category of entity
- Risk of double reporting or omission of material areas
- Need for constant monitoring of changes in entity status affecting the scope of reporting obligations
- Ensuring compliance of cross-border operations and complex ownership structures

Scope of sustainability reporting

Sustainability reporting requires entities to present comprehensive information that includes their impact on environmental, social and governance matters, as well as how these matters affect the entity's growth and position. It is a much broader scope than traditional financial reporting.
As part of their business model and strategy entities must present an analysis of resilience to ESG risks and identify potential opportunities. A key element is the presentation of specific action plans for the transition to a sustainable economy, including detailed initiatives aimed at limiting global warming to 1,5°C and achieving climate neutrality by 2050. Entities must also analyze the threats associated with using fossil fuels.
Reporting requires the setting of specific, measurable sustainability targets, particularly absolute greenhouse gas emissions reduction targets for the years 2030 and 2050. Entities must report on their progress in achieving those targets and present scientific evidence to support their assumptions. Another significant element is a description of a management system for ESG matters, including the role of the entity's management and supervisory bodies and their competence in this respect.
Special attention should be given to the due diligence process, which should include not only the own actions of the entity, but also its value chain. Entities must identify the actual and potential adverse effects of their operations and describe the preventive and corrective actions they have taken. All information must be supported by relevant quantitative and qualitative indicators.

KEY CHALLENGES:

- Ensuring completeness and accuracy of data in the entire value chain
- Developing methodology to measure and report climate and environmental impacts
- Integrating sustainability objectives with business strategy
- Building systems to monitor and report ESG scores
- Need to hire experts in various fields
- Risk of disclosing sensitive business information
- Difficulties projecting long-term environmental objectives
- Cost of implementing complex monitoring and reporting systems

EU sustainability reporting standards

The Act requires the application of uniform reporting standards set out by the European Commission through delegated acts. The system is to ensure comparability of sustainability information across the European Union and make it easier for stakeholders to access reliable information about the environmental and social impacts of businesses.

The standards are organized into two main categories. The first is the general standards, issued based on Article 29b par. 1 of Directive 2013/34/EU, which are intended for all entities required to report. They specify the detailed scope of information and the method of its presentation, ensuring consistency of reporting across the EU. The second category is standards for small and medium entities, issued based on Article 29c par. 1 of the Directive, which contain simplified requirements tailored to the capabilities of smaller entities.

All the information must be presented in three time perspectives: short-, medium- and long-term. The standards specify precisely when reporting should include information about the entity's own operations and its value chain, as well as when it is necessary to refer to other sections of the management report on activities and link to amounts disclosed in the financial statements.

Reporting must be in the format specified in Commission Regulation (EU) 2019/815, and information subject to disclosure in accordance with the EU Taxonomy (Regulation 2020/852) must be appropriately marked up. Entities from outside the EEA are permitted to use standards recognized as equivalent by the European Commission. Where EU regulations require additional verification by an accredited third party, the report on such verification must be attached.

KEY CHALLENGES:

- Correct interpretation and implementation of complex standard requirements
- Need to constantly monitor and adapt to changes in standards
- Ensuring appropriate competence in the application of standards
- Implementing IT systems to enable the required format of reporting
- Coordinating between different departments to ensure consistent reporting
- Costs of implementing and maintaining standard-compliance systems
- Risk of incorrect interpretation of standards and resulting penalties

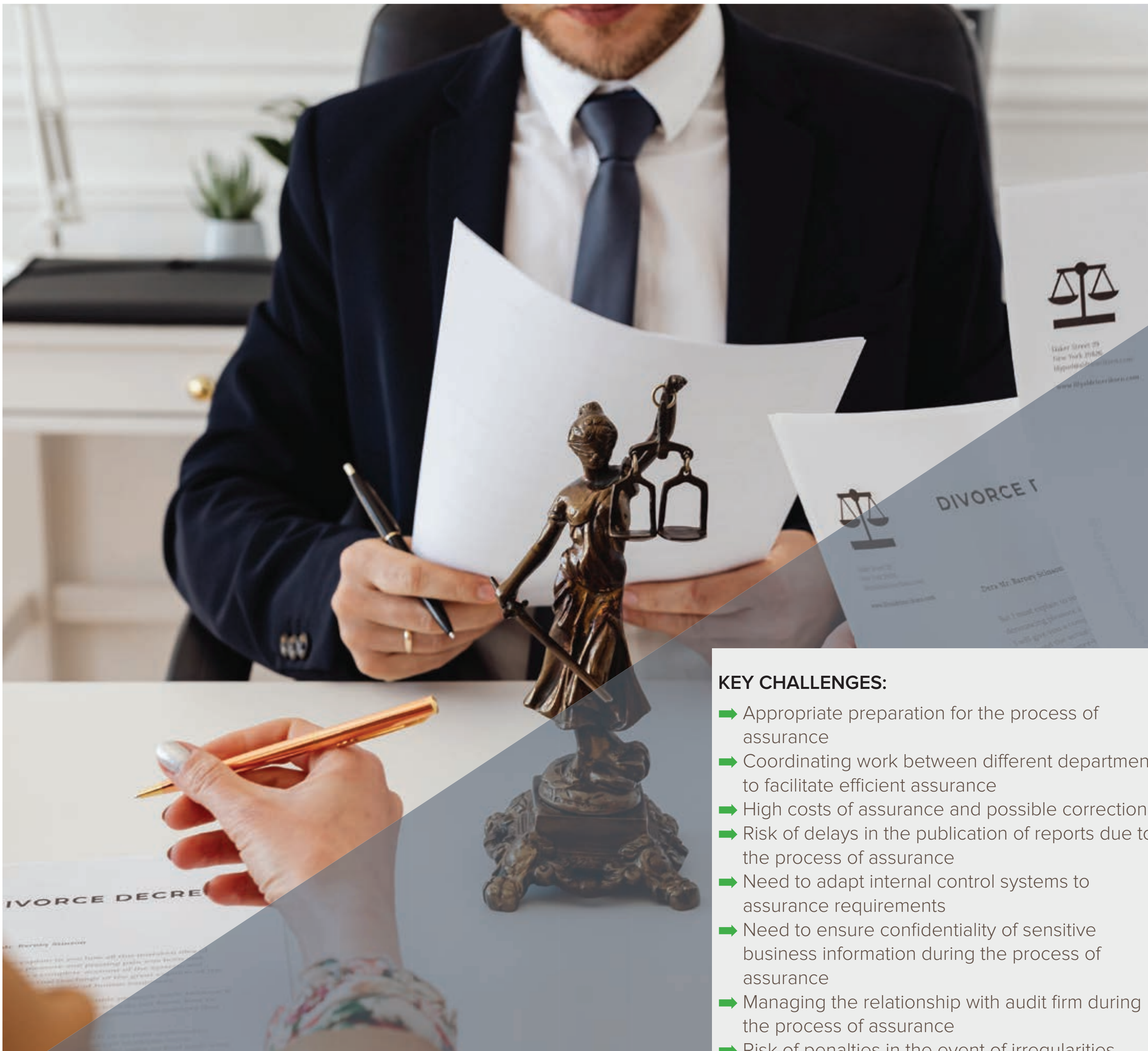
Audit and sustainability reporting obligations

The Act introduces a comprehensive system for the verification and filing of reports, by imposing a requirement for sustainability reports to be audited by authorized auditors. This is to ensure the reliability and accuracy of the reported information, as well as its compliance with the applicable legal requirements and reporting standards.

The process of assurance begins with the body approving the entity's financial statements selecting an audit firm. The Act introduces significant safeguards in this regard – it prohibits all clauses that limit the selection of audit firm to certain categories or lists. The entity's management then concludes an assurance agreement, with the costs of the process to be incurred by the audited entity. Dissolution of the agreement is possible only in strictly defined cases, such as inability to fulfill legal requirements, violation of ethics or independence standards.

The Act imposes a series of assurance-related duties on the entity's management – from providing access to documents, through presenting explanations, to making the necessary representations. The auditor is granted broad powers of access to information, including a right to obtain information from the entity's counterparties, banks and legal advisors. In the case of groups, these powers extend onto subsidiaries and associates.

Reporting deadlines and forms of publication are a crucial element of the system. The management report on activities must be published on the entity's website within 15 days of approval of its year-end financial statements. All documents must also be filed with the relevant court register. The system calls for severe penalties for violating obligations – auditors who issue an untrue opinion may be subject to a fine or imprisonment of up to 2 years.



KEY CHALLENGES:

- Appropriate preparation for the process of assurance
- Coordinating work between different departments to facilitate efficient assurance
- High costs of assurance and possible corrections
- Risk of delays in the publication of reports due to the process of assurance
- Need to adapt internal control systems to assurance requirements
- Need to ensure confidentiality of sensitive business information during the process of assurance
- Managing the relationship with audit firm during the process of assurance
- Risk of penalties in the event of irregularities

Sustainability reporting requirements for groups

The Act introduces special requirements for large groups, defining them as groups that meet at least two of the following three conditions: total assets in excess of PLN 85 000 000, net sales in excess of PLN 170 000 000, or average employment of at least 250 in a financial year. An extended reporting system is provided for such entities, considering the specifics of group structures.

The parent of a large group has an obligation to present comprehensive information on the entire group's impact on sustainability matters in a separate section of the report on the group's activities. The report must contain a detailed description of the group's business model and strategy, taking into account its resilience to ESG risks and the opportunities resulting from the transition. The group must present specific action plans and investments related to the transition to a sustainable economy, including initiatives to reduce global warming and achieve climate neutrality.

Special attention is given to the issue of differences between group-level and individual subsidiary-level risks. Where significant discrepancies are identified, the parent must present a detailed explanation. The report should also include information on subsidiaries exempt from individual reporting and the reasons for the exemptions.

The Act introduces mechanisms to ensure transparency and reliability of group-level reporting. The parent company's management must consult important information on the group's sustainability with employee representatives, and their opinion must be communicated to the supervisory authorities. All documents are subject to verification by an independent auditor, and in the case of multinational groups – a translation into Polish is required.

KEY CHALLENGES:

- Coordinating the reporting process across complex group structures
- Ensuring consistency of data and methodologies between different group entities
- Managing differences in approach to ESG matters in different countries
- High costs of implementing uniform reporting systems across the group
- Need to consider regulatory differences in different jurisdictions
- Risk of reporting inconsistencies between group entities
- Complexity of the process of consulting with employee representatives in international structures
- Difficulties in aggregating and verifying data from various sources within the group

European Sustainability Reporting Standards (ESRS)

The European Commission has so far adopted a set of 12 European Sustainability Reporting Standards (ESRS). This extensive set of documents, numbering 248 pages along with 33 pages of term and abbreviation explanations, constitutes a fundamental change in the way non-financial information is reported in the European Union.

The set of ESRS consists of four principal areas. Two general standards form the basis: ESRS 1 (General requirements) and ESRS 2 (General disclosures). They are followed by five environmental standards covering climate change, pollution, water and marine resources, biodiversity and the circular economy. The four social standards focus on employment, employees in the value chain, the social environment and consumers. The whole is completed by a standard on business practices and corporate governance (ESRS G1).

At the same time work is underway on additional sector-specific standards to be published in stages. The first will cover sectors with special impacts on sustainability, such as agriculture, chemicals, fossil fuels, forestry, mining, road transport, textiles and the food industry. Plans are also in place for simplified standards for listed small and medium entities, as well as standards for entities from third countries.

Under the current ESRS entities must make 84 detailed disclosures (down from the originally planned 136). ESRS 1 is a guide to the drafting of reports, ESRS 2 introduces 12 mandatory core indicators, the environmental standards require 32 disclosures, the social another 32, whilst the corporate governance standard calls for 6 disclosures.

KEY CHALLENGES:

- Need to carefully go through and understand the extensive standard documentation
- Introducing new data collection systems consistent with precise ESRS requirements
- Training employees in the interpretation and application of detailed standard requirements
- Ensuring consistency of reporting with term explanations in the standards
- Adapting internal procedures to new documentation requirements
- Risk of incorrect interpretation of detailed technical requirements
- Need to continually monitor standard updates and changes
- Coordinating sector reporting with core standard requirements

European general standards (ESRS 1 and ESRS 2)

The foundation of the European Union's ESG reporting system is made up of two general standards: ESRS 1 (General requirements) and ESRS 2 (General disclosures), which form the framework for the remaining specific standards. They set out the basic reporting principles and the required core disclosures for all reporting entities.
ESRS 1 (General requirements) is a guide to methodology, setting out the fundamental concepts for preparing sustainability reports. The standard introduces the key concept of double materiality, which requires the consideration of both the impact of the organization on sustainability, and the impact of sustainability matters on the organization. ESRS 1 does not contain specific indicators, but instead focuses on such qualitative characteristics as accuracy, completeness, verifiability and timeliness of reported information.
ESRS 2 (General disclosures) contains a set of 12 mandatory core indicators that must be reported by all entities. They cover three principal areas: general information about the reporting entity, a description of strategy and management, and a materiality assessment. General disclosures require presentation of the entity's business model, value chain and key stakeholders. The area of strategy and management requires the disclosure of sustainability targets, plans for their achievement and ESG risk management systems.
In addition, the standard introduces a requirement to perform and disclose a detailed materiality assessment, which should consider both the perspective of the organization's impact on the environment and the impact of ESG factors on the organization. The originally planned requirement to provide the reasons for omitting certain information (so-called rebuttable presumption) was dropped during the standard's development, which is a significant simplification for reporting entities.

KEY CHALLENGES:

- Obtaining a proper understanding of and implementing the concept of double materiality
- Ensuring consistency of reporting between all the ESRS
- Comprehensively recording all required general information
- Conducting a reliable materiality assessment that considers all perspectives
- Difficulties defining reporting boundaries in complex organizational structures
- Ensuring period-over-period comparability of data
- Need to develop data collection systems that comply with standard requirements
- Coordinating reporting with other reporting obligations

European environmental standards (ESRS E1-E5)

The five environmental ESRS constitute a key component of the new reporting system, focusing on the most important ecological challenges. Each of these standards introduces detailed reporting requirements related to a specific environmental impact, requiring 32 detailed disclosures in total.

ESRS E1 (Climate change) is the most extensive environmental standard, focusing on greenhouse gas emissions and adaptation actions. The standard calls for detailed data on Scope 1, 2 and 3 emissions, reduction targets consistent with the Paris Agreement and energy transition plans. It also requires information on physical climate risks and adaptation actions, as well as on the impact of climate change on the organization's business model.

ESRS E2-E4 cover as follows: pollution (E2), water and marine resources (E3) and biodiversity and ecosystems (E4). These standards require organizations to report on non-gaseous emissions, consumption and impact on water resources, as well as impact on ecosystems and biodiversity. Each of the standards calls for the presentation of quantitative indicators and description of management actions and improvement plans.

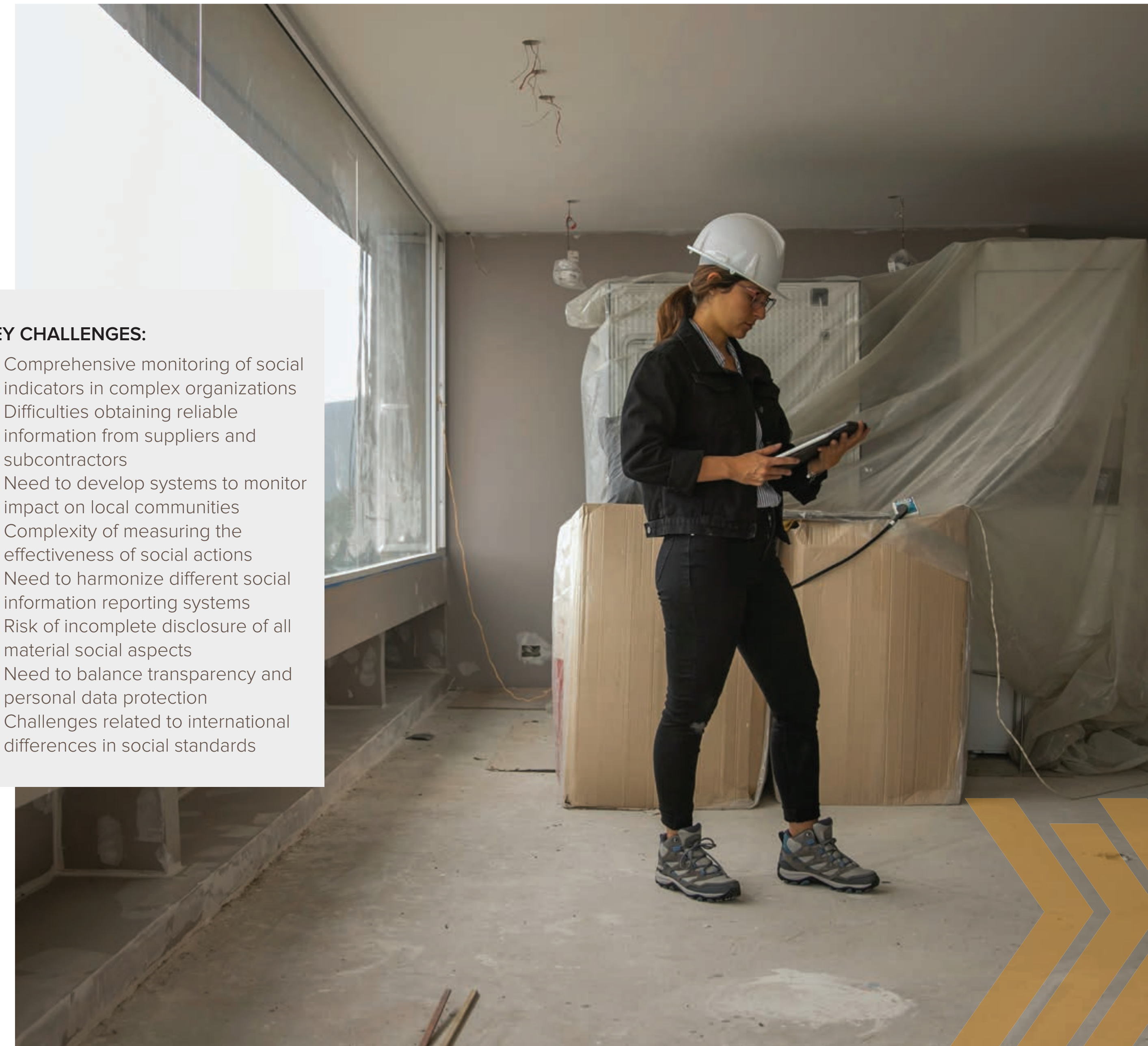
ESRS E5 (Resource use and circular economy) focuses on the efficiency of resource use and implementation of circular economy principles. The standard mandates disclosures on the use of raw materials, waste management, actions to extend the useful life of products, as well as initiatives to support the circulation of materials in the economy.

KEY CHALLENGES:

- Complexity of measuring Scope 3 emissions (indirect emissions in the value chain)
- Difficulties obtaining reliable environmental data from suppliers
- Need to develop systems to monitor biodiversity impacts
- High costs of implementing comprehensive environmental impact measuring systems
- Need to coordinate activities between different departments
- Need to integrate environmental data with management systems
- Risk of incomplete disclosure of material environmental information
- Challenges related to verification and assurance of environmental data

European social standards (ESRS S1-S4)

The social ESRS consist of four comprehensive documents covering various aspects of stakeholder relationships. They require a total of 32 detailed disclosures, focusing on the organization's impact on employees, local communities and consumers.
ESRS S1 (Own workforce) focuses on the organization's own workforce. The standard requires detailed reporting on working conditions, diversity and social inclusion, working time, wages, social dialog and occupational health and safety. Special attention is given to gender equality, the wage gap and access to training and professional development. Organizations must also report on accident rates, absences and actions to improve working conditions.
ESRS S2 (Workers in the value chain) extends reporting requirements onto those employed by suppliers and subcontractors. The standard calls for information on human rights practices, fair working conditions and due care throughout the entire supply chain. Organizations must report on how they monitor working conditions at suppliers, identify risks related to workers' rights and take corrective action.
ESRS S3 (Affected communities) focuses on the organization's impact on local communities. It requires reporting on involvement in local growth, dialog with affected communities, potential conflict management and actions to protect the rights of local communities. Special attention is given to the matters of relocation, access to resources and cultural heritage protection.
ESRS S4 (Consumers and end-users) relates to customer relationships. It calls for disclosures on product safety, privacy, marketing practices and complaint handling procedures. It also covers the accessibility of products and services to different social groups, as well as actions for responsible consumption.



KEY CHALLENGES:

- Comprehensive monitoring of social indicators in complex organizations
- Difficulties obtaining reliable information from suppliers and subcontractors
- Need to develop systems to monitor impact on local communities
- Complexity of measuring the effectiveness of social actions
- Need to harmonize different social information reporting systems
- Risk of incomplete disclosure of all material social aspects
- Need to balance transparency and personal data protection
- Challenges related to international differences in social standards

European governance standards (ESRS G1)

ESRS G1 (Business conduct) is a key component of corporate governance reporting, with 6 mandatory disclosures. It focuses on the ethical aspects of operating a business and the effectiveness of management structures in the context of sustainability.
ESRS G1 requires detailed reporting on the structure and operation of management bodies in the context of ESG. Organizations must disclose information on the role of management and supervisory board in overseeing sustainability matters, including their competence, experience and involvement in ESG-related decisions. The standard further requires information on incentive systems related to sustainability targets and responsibility for implementing ESG strategies.
Another important component is business ethics and compliance reporting. The standard requires disclosures on anti-corruption policies, whistleblower reporting channels, managing conflicts of interests and procedures to ensure regulatory compliance. Special attention is given to transparency in relationships with stakeholders and responsible lobbying.
In addition, the standard focuses on ESG risk management practices and internal controls. Organizations must describe how they identify, assess and manage sustainability risks, and how they integrate these matters with their overall risk management systems. They must also disclose information on sustainability due diligence processes and monitoring and reporting systems.

KEY CHALLENGES:

- Integrating ESG criteria with existing corporate governance systems
- Developing ESG competencies at management and supervisory board level
- Designing effective incentive systems related to ESG targets
- Ensuring transparency in reporting management practices
- Difficulties measuring the effectiveness of ESG oversight
- Need to adapt organizational structures to new requirements
- Risk of conflict between different corporate reporting systems
- Challenges related to verifying the effectiveness of ESG-related controls

Timetable for the implementation of sustainability reporting obligations in Poland

The Polish Accounting Act introduces a gradual system for the implementation of the new ESG reporting obligations where the reporting start dates depend on the size and nature of entities. This phased process is meant to allow organizations to properly prepare for the new requirements.

The first group of entities will begin reporting for financial years beginning after 31 December 2023. This applies to the largest public interest entities, with total assets in excess of PLN 110 000 000 and more than PLN 220 000 000 in net sales. The thresholds are higher for groups and amount to PLN 132 000 000 and PLN 264 000 000, respectively.

The second stage of implementation, covering financial years beginning after 31 December 2024, applies to other large entities and parent companies of large groups, as well as Bank Gospodarstwa Krajowego (National Development Bank). In the next stage, for years beginning after 31 December 2025, the obligation will cover small and medium entity issuers of securities admitted to trading on EEA regulated markets, small and non-complex credit institutions and captive insurers and reinsurers that meet specific criteria.

The Act provides for special transitional solutions. Small and medium listed entities can opt out of reporting until the end of 2027 on the condition that they explain the reasons for doing so in their reports on activities. In addition, for the first 3 financial years, entities without access to all the necessary information on the value chain can present information on the actions they have taken to obtain it and on their plans for the future.

KEY CHALLENGES:

- Need to precisely define the point at which reporting obligations arise
- Preparing the organization to meet new requirements in a timely manner
- Ensuring continuity of data collection despite phased implementation
- Coordinating implementation in groups with different reporting deadlines
- Risk of incomplete data in the first years of reporting
- Need to simultaneously operate old and new reporting systems
- Managing stakeholder expectations in the transition period
- Ensuring period-over-period comparability of data

The information presented herein does not constitute comprehensive information or opinion. Consult your adviser before making any decisions.

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