April 2022

More companies will have to prepare non-financial statements

I. Non-financial reporting in effect in Poland since 2017

Non-financial statements provide data that allow managers, investors and other stakeholders to make decisions. The currently binding Directive 2014/95/EU amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups was implemented into the Polish legal system by the following two pieces of legislation: with regard to extended non-financial reporting – the amendments to the Accounting Act dated 15 December 2016; with regard to diversity information on company bodies – the amendments to the Decree on current and periodic information. On 21 April 2021 the European Commission announced its draft Corporate Sustainability Reporting Directive (CSRD). It will replace the current Non-Financial Reporting Directive 2014/95/EU (NFRD).

II. Non-financial statements only at large entities

At present, non-financial reporting regulations apply only to large companies that are public interest entities (PIE), have more than 500 employees and meet one of two financial criteria, i.e.: PLN 85 million in total assets at the end of the financial year or PLN 170 million in net revenue from the sale of goods for resale and finished products for the financial year. As a result, they are: large listed companies, banks, insurance companies, other PIE. Their statements should contain descriptions of the policies they apply with respect to: social matters, employee related matters, the environment, human rights, counteracting corruption. In addition, the companies are required to report the results of their application of such policies, the risks involved in the above mentioned areas and the methods used to manage those risks.

Companies obligated to prepare non-financial statements will have more responsibilities as of 2024. All due to the new EU directive that will replace currently binding regulations. The number of those required to prepare such statements will also increase considerably.

III. New EU directive will soon go into effect

On 24 February 2022 the EU Competitiveness Council adopted the so-called general approach on the Commission's proposal for a corporate sustainability reporting directive. This refers to the draft 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, which will replace the 2014 directive. The draft CSRD was announced as a component of a comprehensive package of legislative changes to facilitate sustainable funding of economic growth to allow the EU to achieve climate neutrality by 2050. The proposed directive requires all large companies and groups (including large listed companies) to report on ESG matters (environmental (E), social (S) and governance (G)). At the same time, it broadens the catalog of entities obligated to report.

IV. Non-financial reporting to cover many more companies

In a compromise text member states have proposed a considerable (up to 18 months) extension of the deadline for the transposition of the directive and its three-step application by entities. By the first deadline (i.e. as of 2024), the new regulations would only be applied by those entities which already report non-financial information right now (i.e. large public interest entities with more than 500 employees). The second deadline (as of 2025) would apply to all other large entities, i.e. those that meet any two of the three criteria (total assets in excess of 20 million euro, net sales in excess of 40 million euro, more than 250 employees), irrespective of whether they are PIE or not. The third deadline (i.e. as of 2026) would cover all small and mid-sized listed companies. The scope of the directive will also cover large groups, as well as credit institutions and insurance companies which in accordance with the Accounting Directive are not joint-stock or limited liability companies, or are not considered to have limited liability, including cooperative banks and mutual and cooperative insurance societies, providing that they meet the relevant size criteria.

V. Sustainable development information to be included in management reports

Under the new directive, information about sustainable development is to be presented in a separate section of the company management report and be subjected to mandatory assurance, whereas auditors will be able to obtain an additional specialization in the audit of sustainable development information. The information is to be tagged using a developed taxonomy, making it machine readable and analyzable – and the entire management report will be prepared in the XHTML format. The new corporate sustainability reporting directive requires companies to provide information on the manner in which sustainable development matters affect their performance, position and development (outside-in perspective), as well as on how they impact people and the environment (inside-out perspective), which is often referred to as "double materiality".

VI. Environmental, social and employee related matters will have to be reported

In accordance with the new directive – sustainable development matters consist of the sustainability factors defined in Article 2 point 24 of Regulation (EU) 2019/2088 of the European Parliament and of the Council, as well as corporate governance factors. This therefore means that – aside from corporate governance – they consist of environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Whereas "sustainable development reporting" is defined as the disclosure of information on matters related to sustainable development referred to in Articles 19a, 19d and 29a of the new directive.

KRZYSZTOF MAKSYMIK
Partner in Audit Department BDO
tel.: +48 22 543 16 00
Krzysztof.Maksymik@bdo.pl

VII. There will be information on equal pay and gender equality

The scope of non-financial information that will have to be reported is relatively broad and, when it comes to, for example, the environment, includes information on: preventing climate change; adapting to climate change; water and marine resources; use of resources and circular economy; pollution; biodiversity and ecosystems. Whereas when it comes to social policy, it will be information on: 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 integration of people with disabilities; working conditions, including safe and flexible employment, wages, social dialogue, collective bargaining and employee involvement, work-life balance and a healthy, safe and properly adapted work environment; respect for human rights, fundamental freedoms, democratic principles and norms laid down in the International Charter of Human Rights and other UN fundamental human rights conventions, the International Labor Organization Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions, as well as the Charter of Fundamental Rights of the European Union.

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

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BDO spółka z ograniczoną odpowiedzialnością sp.k., ul. Postępu 12, 02-676 Warszawa; tel.: +48 22 543 1600, fax: +48 22 543 1601, e-mail: office@bdo.pl