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**Summary of proposal from Swedish government  
on implementation of EU directive on reporting of  
non-financial information**



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## Summary

On 19 May 2016 the Swedish government decided on a proposal to parliament for legislation to implement the EU directive on reporting of non-financial information (hereinafter “sustainability reporting”). The proposal widens the scope to all companies in the EU category of “large undertakings”, that is, broadly speaking, companies with more than 250 employees + also all Swedish Public Interest Entities. That increases the number of Swedish companies from 100-200 if the EU directive was strictly followed to around 1,600 and would make Swedish companies the largest group in Europe making such reports. As for details of the content and form of the reporting the proposal adheres to the EU directive. The proposal would, if approved by parliament, take effect from 1 December 2016 and apply to accounting year starting 1 January 2017 or later.

### 1. Background to the EU directive

An EU directive is a joint decision by EU Council of Ministers and the EU Parliament that member states should implement within 2 years. The EU directive 2014/95/EU must be implemented before 8 December 2016. The directive does specify some details that must be included in the legislation and in other cases they give a minimum level.

In Sweden this implementation requires changes of 9 laws. The government decided on 19 May 2016 on a proposal that after review by the Council on Legislation (Lagrådet), which is an advisory body that mainly checks if the bill is contravening the constitution, will be handled by the parliament. The outcome cannot be guaranteed although some of the concerns the parliament earlier has expressed has been taken into account.

Every governmental bill must be commented on by stakeholder in a consultation process. This was carried out in Sweden from end December 2014 to end March 2015. Relevant comments from the consultation process must be quoted in the bill and reasons for non-acceptance must be given.

### 2. Scope

The EU directive indicates that the directive should apply for those Public Interest Entities (PIE) that have more than 500 employees. Public Interest Entity is an EU term and member states are free to define it closer. In 25 of the 28 member states the PIEs include listed companies, banks and insurance companies + some other groups according to national decision. In Slovenia, Sweden and the UK only listed companies are defined as PIEs, so far.

The number of companies in Europe according to the EU directive’s definition should be around 6,000 of which 200 were assumed to be in Sweden. This number is lower than the number of Swedish companies that today do sustainability reporting. The government has therefore searched for a wider definition and in the bill it proposes all PIEs + other companies that fulfil the EU definition of “large undertaking”, that is companies fulfilling 2 of 3 criteria below:

- More than 250 employees

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- Higher net turnover than 40 million Euro
- Larger balance sheet than 20 million Euro

In practice the employee number is the limiting factor in Sweden. Some companies in e.g. trading have smaller balance sheet than 20 million Euro but probably a higher turnover than 40 million Euro. Some companies in the forestry sector might have lower net turnover but have larger balance sheet than 20 million Euro.

There are several reasons for the government to make this bold proposal:

- The conviction that sustainability reporting makes a company stronger
- Pressure from any civic organisations, trade unions etc.
- Doubts that concerns from industry organisations that sustainability reporting is very costly are correct

### 3. Content

The directive does not prescribe a special form of sustainability reporting but gives several examples:

- GRI (Global Reporting Initiative),
- UN Global Compact's Communication of Progress,
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- ISO 26 000,
- ILO's Tripartite Declaration of principles concerning multinational enterprises and social policy
- EU Eco-Management and Audit Scheme (EMAS)
- The Global Accounting Initiative IAS

The bill does indicate what type of facts and explanations the reporting should include.

Regarding the location of the report the bill follows the directive, i.e. it could be part of the annual report but it could also be a separate report, published not more than 6 months after the annual report.

The language in the report should be Swedish but an exception is made for company group with the mother company, doing a report for the whole group, with headquarter abroad.

The report is a decision by the board of directors but like the corporate governance report it does not need to be signed by all members of the board.

The EU directive does not prescribe that the report has to be independently verified, only that the auditor notes that a sustainability report has been done. The bill follows this line although it recognizes that an independently verified report would be of higher quality.

### 4. Diversity

The EU directive has a special chapter on reporting on diversity. In §19 it asks for information which policy on diversity the governing bodies have with regard to age, sex and education. Here the directive has a different scope "certain larger companies". The Swedish bill defines here that this should be applied on listed companies with more than 250 employees.

### 5. Comments

The issue of scope has been the most intensively discussed issue during the consultations. The business community advised against enlarging the scope in comparison with the EU directive. At the time of the consultations, Denmark had already legislated about a wider framework of >250 employees (France has been expected also to have a more ambitious level) while the other two countries that had completed legislation; Slovakia and Estonia, had gone for the EU minimum level.

While the directive had a second limitation, that is only covering PIEs over 500 employees the Swedish bill refers to all companies 250 employees + all PIEs.

During the consultations the business community mentioned the high costs involved as an argument against the increased scope. The government however refers to independent surveys that indicate that the added category of companies with between 250 and 500 employees would not have costs for a sustainability report that exceed 100 000 kronor.

Having taken an ambitious line on the scope, the government stayed on the minimum level of the directive in other issues. We can see good reasons to listen to the business community in general but their policy of avoiding “gold-plating” that is doing more than the EU minimum is not the line the Swedish government is likely to take on sustainability issues.

Of the details where a choice of a more ambitious policy could be taken we would specifically point to the issue of independent verification. Without that there is a risk that we will see substandard sustainability reporting.

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