Danish act on implementation in Danish law of the EU Corporate Sustainability Reporting Directive (CSRD)

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The main contents and scope of application of the Sustainability Reporting Act

On 2 May 2024, the Danish Parliament passed an important Act on sustainability reporting.

The title of the Act is Act no. 480 of 2 May 2024 on amendments to the Danish Financial Statements Act, the Auditors Act, and various other Acts (Implementation of the EU Directive on Corporate Sustainability Reporting and the EU Directive on raising the size thresholds in the Accounting Directive, etc.).

The Act implements the EU Corporate Sustainability Reporting Directive (CSRD) into Danish law.

The Act's sustainability reporting rules came into force on 1 June 2024.

Under the Act, all large companies and all listed companies (except listed micro companies) and certain financial companies must report information on a range of sustainability (ESG) matters in their annual reports.

Covered companies must disclose significantly more comprehensive and standardised information on a range of sustainability matters compared to the previous requirements for companies. Sustainability reporting must be done according to European standards. They are called the European Sustainability Reporting Standards (ESRS).

The sustainability reporting must include an auditor's report with limited assurance. The report must be reported digitally as part of the management commentary in the annual report.

In addition to the sustainability reporting rules in the Act, the Act contains rules which increase the size limits for balance sheet total and net sales in the Annual Accounts Act for micro, small and medium-sized companies. The size limits are increased by approximately 20-25%. The changes are due to inflation in recent years.

The changes in the Act implement corresponding changes in the EU Accounting Directive.

The changes mean that more companies will be subject to less extensive accounting requirements and fewer companies will be subject to sustainability reporting rules.

	Balance before changes in Act	Balance after changes in Act	Revenue before changes in Act	Revenue after changes in Act
Micro businesses (section 22 a)	2.7 million	3.5 million	5.4 million	7 million
Small businesses (section 7(2)(1))	44 million	55 million	89 million	111 million
Medium-sized companies (section 7(2)(2))	156 million	195 million	313 million	391 million
Large companies (section 7(3))	Over 156 million	Over 195 million	Over 313 million	Over 391 million

The Act's sustainability reporting rules came into force on 1 June 2024.

The Sustainability Reporting Directive involves a phased entry into force of the sustainability reporting requirements. The gradual phasing-in also follows from the Sustainability Reporting Act.

This gives Danish companies the same period of time to prepare for the new sustainability reporting requirements provided in the Sustainability Reporting Directive as companies in other EU member states. In Denmark, state-owned limited liability companies are treated the same as (equally with) listed companies so that the same requirements apply.

The new sustainability reporting requirements under the Act apply in accordance with the following phased entry into force:

- Large listed companies with more than 500 employees and large state-owned companies with more than 500 employees must report on sustainability for financial years beginning in 2024 or later.
- Other large companies must report on sustainability for financial years beginning in 2025 or later. The other large companies are companies which in two consecutive financial years exceed at least two of the following three thresholds: (1) balance sheet total: DKK 195 million, (2) net sales: DKK 391 million and (3) number of employees: 250.
- Listed small and medium-sized enterprises (SMEs) (excluding listed micro-entities) are generally required to report on sustainability for financial years beginning in 2026 or later, but may choose not to report until financial years beginning in 2028.

The aim of the Act is to enable investors, civil society actors and other stakeholders to use sustainability reporting to better assess the sustainability of companies and channel funding and demand towards the most sustainable companies.

The Act's sustainability reporting rules are important for companies' sustainable transition and development and to fulfil climate targets.

Corporate sustainability reporting and sustainable transition and development can generally give some companies a competitive advantage if they do it earlier, better and on a larger scale than their competitors.

The objectives of the Sustainability Reporting Directive (CSRD) and the Act

The purpose of the Sustainability Reporting Directive (CSRD) generally is to improve and increase corporate sustainability reporting.

It aims to promote and support the work of EU companies in achieving the goals of the European Green Deal and the UN Sustainable Development Goals.

The Sustainability Reporting Directive must also support the work on sustainable financing among companies and their investors and lenders, including financial institutions. This will be supported by ensuring that investors and lenders have access to relevant, comparable and credible information on sustainability.

Sustainability reporting regulations include detailed requirements for companies to report on sustainability matters. These are often referred to as Environmental, Social and Governance (ESG) matters. They include environmental and climate ("E") matters, human rights, labour and other social ("S") matters and governance ("G") matters.

Covered companies must now disclose significantly more comprehensive and standardised information on a range of sustainability matters compared to the requirements previously imposed on companies under the Non-Financial Reporting Directive.

A covered company's auditor must now issue a limited assurance opinion on the sustainability reporting. Under the previous rules, an auditor only had to provide an opinion based on a so-called consistency check.

The purpose of the Act is generally the same as the purpose of the Sustainability Reporting Directive. The purpose of the Act is also to strengthen the framework for companies' sustainability reporting in the management commentary in the annual report.

Companies' work with sustainability reporting is considered central to their work with sustainability and the green transition. It is important that sustainability reporting is both credible and usable for financial users.

The recitals in the preamble of the Sustainability Reporting Directive mention two main groups of users.

The first group of users is investors, including asset managers. They want to gain a better understanding of the risks and opportunities associated with sustainability matters for their investments. They also want to better understand the impact of their investments on people and the environment.

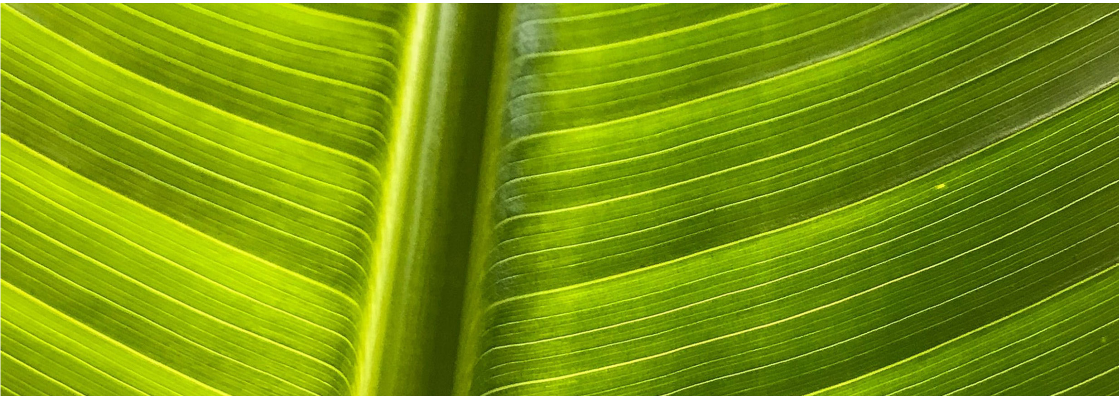
The second group of users is civil society actors, including non-governmental organisations (NGOs) and social partners (labour market parties), among others. They want to make companies take more responsibility for the impact of their activities on people and the environment. Many other stakeholders can also make use of the information. For example, to assess and compare companies and their sustainability performance and activities, including within sectors and across sectors.

For funding and investment to be targeted towards truly sustainable businesses and projects, it is necessary that sustainable companies can be identified based on specific data. Capital and demand can then be directed towards these companies.

Standardised sustainability data also allows for better comparability of companies' sustainability performance and activities, including within sectors and across sectors.

Sustainability reporting also gives some companies a competitive advantage if they do it earlier, better and on a larger scale than their competitors.

The aim of the Act is also to enable investors, civil society organisations and other stakeholders to better assess the sustainability of companies through sustainability reporting. They can then better channel funding and demand towards the most sustainable companies. On the other hand, companies that are not sustainable or do not show it in their reporting can be challenged in terms of access to financing and demand for their products.



European Sustainability Reporting Standards (ESRS) and the rules of the Act

Covered companies must disclose significantly expanded and standardised information on a range of sustainability matters compared to the previous requirements for companies.

Sustainability reporting must be done according to the applicable European standards. They are called the European Sustainability Reporting Standards (ESRS).

The Sustainability Reporting Directive requires standards to specify the information which companies must disclose in their sustainability reports. This includes information on environmental matters, including matters in relation to the climate, water and marine resources, resource use, circular economy, pollution, biodiversity and ecosystems ("E"). It also includes information on social matters, human rights and labour rights matters ("S") and governance matters ("G").

The sustainability reporting standards are directly applicable in the Member States and do not need to be implemented in the Financial Statements Act. The rules of the Sustainability Reporting Directive set the framework for the application of the sustainability reporting standards.

The framework for sustainability reporting is implemented in Danish law by amending the rules in section 99a of the Danish Financial Statements Act. The framework for sustainability reporting is thus provided in section 99a of the Danish Financial Statements Act.

The Sustainability Reporting Directive clarifies the double materiality principle by establishing rules for a double materiality assessment.

Covered companies must apply a double materiality assessment when preparing their sustainability reporting. A company must use the double materiality assessment to assess and understand the company's impact on sustainability matters and to assess and understand how sustainability matters affect the company's development, performance and position. The outcome of the company's double materiality assessment determines the disclosure requirements that the company must include in its sustainability reporting.

According to the amended rules in section 99a(1) of the Danish Financial Statements Act, a covered company must include a sustainability report in the management commentary in the annual report. The sustainability reporting must constitute a separate section in the management commentary.

The sustainability reporting must include information necessary to understand the company's impact on sustainability matters and how sustainability matters affect the company's development, performance and position.

The company must disclose the process it has undertaken to identify the information included in the sustainability reporting.

Specific rules on the content of the sustainability report under the Act

According to the amended rules in section 99a(2) of the Danish Financial Statements Act, a covered company's sustainability reporting must include information on some specific matters.

In particular, it is information on the following matters.

The company's business model and strategy in relation to sustainability matters

The sustainability reporting must include a brief description of the company's business model and strategy, including in relation to the following sustainability matters:

(a) The resilience of the company's business model and strategy to risks related to sustainability matters.

(b) The company's capabilities regarding sustainability matters.

(c) The company's plans, including implementation actions and related financing and investment plans, to ensure that its business model and strategy are consistent with the Paris Agreement under the United Nations Framework Convention on Climate Change (2015) and with the objective of achieving climate neutrality by 2050 as set out in the EU Regulation establishing a framework to achieve climate neutrality. Where applicable, the company must also disclose its exposure to coal, oil and gas related activities.

(d) How the company's business model and strategy take into account the interests of its stakeholders and its impact on sustainability matters.

(e) How the company's strategy has been implemented with regard to sustainability matters.

The company's time-bound sustainability targets

The sustainability reporting must include a description of the company's established time-bound sustainability targets.

Where applicable, the reference shall include absolute greenhouse gas emission reduction targets for at least 2030 and 2050.

The sustainability reporting shall also include a description of the company's progress towards achieving these targets and an indication of whether the company's targets regarding environmental factors are based on scientific evidence.

The role and expertise of the company's management in relation to sustainability

The sustainability reporting must include a description of the role the company's management plays with regard to sustainability matters.

The sustainability reporting must also include a description of the management's expertise and skills to fulfil this role or the ability of management to use assistance in relation to this.

Company policies and any incentive schemes related to sustainability matters

The sustainability reporting must include a description of the company's policies regarding sustainability matters.

The sustainability reporting must also state whether there are incentive schemes related to sustainability matters offered to members of the company's management.

Due diligence procedures, significant actual or potential adverse impacts and measures to prevent, mitigate, remedy or stop actual or potential adverse impacts

The sustainability reporting must include a description of the company's conditions and activities in relation to the following sustainability factors:

(a) Due diligence procedures carried out by the company with regard to sustainability matters. Where applicable, this must be in accordance with other legislation requiring companies to conduct a due diligence procedure. For very large companies, this will include the EU directive on corporate sustainability due diligence. It is called the

Corporate Sustainability Due Diligence Directive (CSDDD).

(b) The main actual or potential negative impacts relating to the company's own activities and its value chain. Its value chain includes its products and services, its business relationships and its supply chain. The sustainability reporting must also address the company's actions to identify and monitor these impacts and other negative impacts which the company is required to identify under other legislation on due diligence by companies. For very large companies, this will include the EU Corporate Sustainability Due Diligence Directive (CSDDD).

(c) Any actions taken by the company to prevent, mitigate, remedy or stop actual or potential adverse impacts and the outcome of such actions.

The company's main risks related to sustainability matters

The sustainability reporting must include a description of the most significant risks for the company regarding sustainability matters.

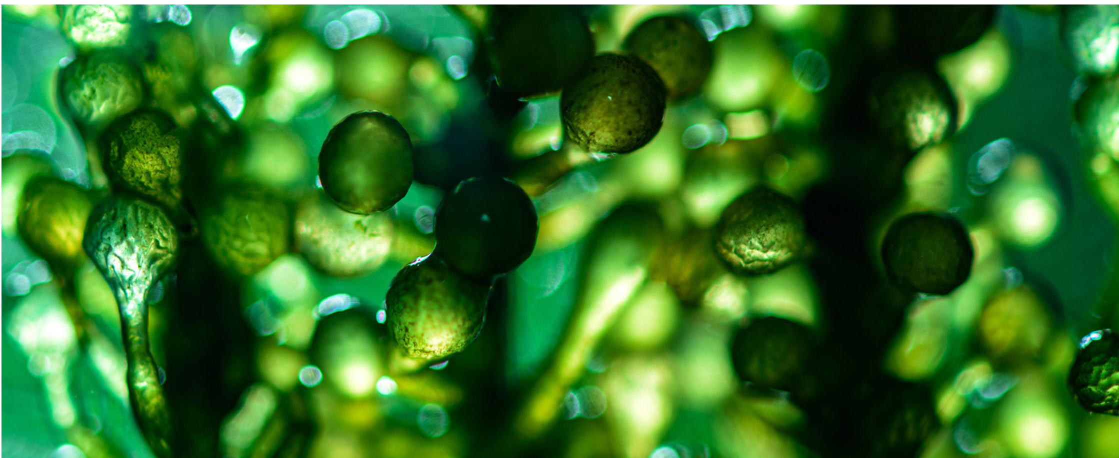
The sustainability reporting must also include a description of the company's key dependencies in relation to these matters and how the company manages these risks.

Indicators, time horizons and the company value chain

The sustainability reporting must include information on indicators that are relevant to the other information mentioned above in the reporting.

The reporting of the above information shall include information regarding short-term, medium-term and long-term time horizons, as appropriate.

The above-mentioned information in the sustainability reporting shall include, where applicable, the company's own activities and its value chain, including its products and services, its business relationships and its supply chain.



Auditor's report on the sustainability reporting

Under the amended rules in section 135 c of the Danish Financial Statements Act, a covered company's sustainability reporting must include a statement from an auditor on the sustainability reporting.

The auditor's report must be provided with limited assurance. This is to ensure the credibility of the sustainability information and thus the fulfilment of the needs of the intended users of the information.

The statement may only be issued by an auditor authorised to issue sustainability reporting statements under the Danish Auditors Act.

Digital reporting of sustainability reporting

Articles 19a and 29a of the Sustainability Reporting Directive require a company's sustainability information to be clearly identified in a separate section of the management commentary in the annual report.

The same requirement follows from the amended rules in section 99a of the Danish Financial Statements Act on sustainability reporting.

A company must use a digital reporting solution when submitting its annual report to the Danish Business Authority. This follows from the rules in the Danish Financial Statements Act and the Danish Business Authority's Executive Order on reporting to and publication of annual reports etc. in the Danish Business Authority and communication in connection therewith (the Submission Executive Order).

A company's sustainability report must thus be submitted digitally to the Danish Business Authority as part of the company's annual report, which must be submitted digitally.

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