New Obligations for Large Companies in the Czech Republic

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Wednesday, January 11, 2017

Large companies in the Czech Republic will have to comply with new corporate and social responsibility obligations.

First, starting January 14, 2017, employees in joint-stock companies with more than 500 employees in an employment relationship will have the right to elect and recall at least one-third of members of the supervisory board, unless articles of association would provide for a greater share. Employees, however, may never be entitled to elect more members of the supervisory board than the general meeting is entitled to. The overall number of members of the supervisory board in such large companies has to be divisible by three to ascertain exact number of members elected by employees. Smaller companies that do not fall within the scope of laid down criteria may subordinate themselves to this new model of elections on a voluntary basis.
Obliged companies have two years to amend articles of association and to put the composition of the supervisory board in compliance with the statutory requirements. If a business corporation fails to do so, a commercial register court will invite the business corporation to comply and will grant the corporation an additional reasonable period of time. Following the expiry of the additional period, the court may dissolve the business corporation and order its liquidation.

We note that a similar model has already been part of the Czech legislation before January 1, 2014. At that time, the obligation used to be even much broader, applying to all joint-stock companies with at least 50 employees. This means that most of the obliged companies are expected to have previous experience with such model and should not face particular problems in the process of implementation of the above-mentioned requirements.

Second, in accordance with the EU directive 2014/95/EU, business corporations with more than 500 employees that qualify as large undertakings and public-interest entities as defined by the Czech act on accounting (these include, for instance, banks, insurance companies or large companies with securities admitted to trading on an EU regulated market) are subject to so-called non-financial reporting starting January 1, 2017. Obliged companies have to include additional non-financial information into their annual reports or make such information public in a separate report, such as sustainability report or social responsibility report. Corporate group is allowed to issue one consolidated report.

The scope of provided information should lead to understanding of the development of the company’s performance, position and impact of its activities relating to environment, social and employment matters, human rights and fight against corruption and bribery. Companies will be obliged to describe specific precautions they had implemented, including the applicable procedures of due care and results achieved. If a company does not take any action toward any of the non-financial area, it shall state clear and persuasive reasons for doing so.

Neither the directive nor the act on accounting provide for any suggested or recommended methodic approach. It is assumed that companies will find inspiration in internationally recognized methodological systems such as the Global Reporting Initiative and the UN Global Compact, or introduce their own systems of reporting. The amendment came into effect on January 1, 2017 and will not apply to reports issued for the financial year commenced in 2016.

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National Law Review, Volume VII, Number 11

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