

## Consultation response – Non-binding guidelines for reporting of non-financial information by companies

### 1. General principles and key attributes of the non-financial information

Q1. What aspects of disclosure of non-financial information do you think that should be addressed by the GUIDELINES?

*Please, order in terms of importance (1 least important, 9 most important)*

- Materiality/Relevance – 9
- Usefulness - 4
- Comparability - 5
- Avoiding undue administrative burden - 2
- Comprehensiveness - 6
- Fairness and balance - 3
- Understandability - 8
- Reliability - 7
- Other, please specify: text

Q2. Who should be considered in your opinion the main audience of the non-financial statement?

Please, check the box of the alternative that you consider more appropriate.

- The shareholders
- The investment community in a broad sense ✓
- Users of information with an economic interest, such as suppliers, customers, employees, etc.
- All users of information (including consumers, local communities, NGOs, etc.)
- Other, please specify: text

Q2.1. Would you, please, provide a brief explanation? \*(text – 400 characters)

Numerous stakeholders have a valid interest, but evaluation of the risks and opportunities associated with non-financial information plays a growing role in investors' selection and stewardship of investments. In a Eurosif/ACCA 2013 investor survey, all respondents said

they made use of non-financial information and 89% said that CSR/sustainability reports were 'essential' or of 'high importance'.

Q3. In your opinion, what features make a piece of information material/relevant for the purposes of the non-financial statement?

*Please, order in terms of importance (1 least important, 7 most important)*

- Useful for the management/directors of the company - 2
- Relevant for shareholders or investors' decision-making – 4
- Relevant for stakeholders in general - 3
- Necessary to understand the impacts of the company's activity - 5
- Necessary to understand the company's development, performance and position - 7
- Necessary to understand how the company manages non-financial risks - 6
- Other, please specify: text

Q3.1 Would you, please, provide a brief explanation? \*(text – 400 characters)

Emerging evidence shows that companies that perform well on environment, social and governance issues tend to produce better returns for investors. Non-financial information on company activity is needed to form a thorough understanding of how directors are managing risks and pursuing opportunities that will affect the company's position and performance, particularly over the medium to long term.

## *2. Content of the non-binding guidelines*

Q4. Do you think that the GUIDELINES will be more useful for companies and users if they set out general principles and key ideas or if they put forward solutions in a detailed manner, including on specific sectoral issues?

*Please, indicate on a scale from 1 to 5 (1 geared towards general principles, 5 high level of detail/prescription)*

4

Q4.1. Would you, please, provide a brief explanation? \*(text – 400 characters)

The guidelines should specify key areas and indicators generally required and cover some sectoral issues in more detail, i.e. responsible supply chain management of conflict minerals. The guidelines must provide a useful level of detail without implying that they are comprehensive. Companies should be discouraged from responding to every area regardless of relevance or giving vague statements.

Q5 Please, provide a brief description of how you think that the following matters should be treated in the GUIDELINES, including as appropriate how they should be defined and described:

a. Business model (text – 400 characters)

Sources and assumptions underlying statements made about the business model should be explained and contextualised. Companies should also provide a forward-looking assessment of how their business model may change particularly due to risks and opportunities linked to so-called 'non-financial' factors. Companies should report on where in the business model the non-financial impacts occur.

b. Policies (text – 400 characters)

Companies should outline policies for all 'non-financial' issues covered in the report that include defined, measurable targets. The 'comply or explain' element is potentially this Directive's weakest, as the application of such obligations elsewhere like Directive 2006/46/EC or the UK Stewardship Code has shown. Specific guidelines on what constitutes a 'clear and reasoned' explanation must be issued.

c. Due diligence process (text – 400 characters)

Despite the critical importance of management having robust processes to check policy implementation, the Directive does not clarify what 'due diligence processes implemented' means. Greater clarity is needed if the Directive is to operate with due diligence as a central concept. The Commission should clarify how the 2 frameworks referenced in Rec. 9 should be implemented in this context.

d. Business relationships (text – 400 characters)

Companies should outline the non-financial impact of their activities throughout their supply chains, and the key risks relating to non-financial issues that stem from their business relationships. If this information is not provided then explanations must be given.

e. Key performance indicators –KPIs (text – 400 characters)

Key performance indicators should be quantitative as well as qualitative. 96% of respondents to the Eurosif/ACCA 2013 investors survey agreed or strongly agreed that quantitative key performance indicators are essential to assess corporate sustainability performance.

f. Outcome of policies (text – 400 characters)

Companies should outline their performance against their measurable targets. If they have failed to meet certain targets an explanation should be given as to why this is the case and what actions they are taking to remedy this.

g. Principal risks (text – 400 characters)

There should be clarity on how social, environmental and governance risks should be reported, including the quality of information expected (balanced, forward-looking, strategic, robust) as well as an indication of what substantive issues might be relevant. The guidelines should acknowledge that some risks may need to be reported as both principal risks and non-financial risks.

#### h. Impact of the activity (text – 400 characters)

no response

#### i. Adverse impacts (text – 400 characters)

no response

#### j. Information omitted in exceptional cases where disclosure would be seriously prejudicial

The Commission should provide guidance as to when the exemption rights can apply. In particular, the guidance should cover the final condition:

'The omission may not prevent a fair and balanced understanding of the undertaking's development, performance, position and impact of its activity'. (Article 19a, 1 and Article 29a, 1)

Q6 How do you think that the GUIDELINES should approach the disclosure of key performance indicators (KPIs)? \* Please, indicate your two preferred approaches (1 Best option, 2 Second preferred option).

- *The GUIDELINES should highlight key principles on how to disclose relevant KPIs and complementariness with narrative and/or financial information as applicable - 2*
- The GUIDELINES should make reference to KPIs proposed by other frameworks where addressing concrete matters or issues
- The GUIDELINES should include a comprehensive list of KPIs, general and sectoral
- The GUIDELINES should provide flexibility for companies to exercise judgement in deciding what KPIs should be included in their disclosures
- Other, please specify: *The GUIDELINES should include a minimum number of general KPIs for all economic sectors and a series of KPIs that would need to be sector-specific - 1*

Q6.1 Would you, please, provide a brief explanation? \*(text – 400 characters)

A sample or template should be provided for presenting KPIs in a concise and comparable way. A balance must be struck between materiality and transparency. A minimum number of

core KPIs in addition to sector-specific KPIs would give flexibility while ensuring a sufficient level of reporting.

Q7 Do you think that the GUIDELINES should include guidance on specific sectoral issues such as responsible supply chain management of conflict minerals? \*

Please, indicate on a scale from 1 to 5 (1 geared towards general principles, 5 high level of detail/prescription)

4

The EU has a good track record of improving reporting on important sectoral issues, and should build on this in drafting the NFR Directive guidelines. For example, the Extractive Industries Transparency Initiative has received strong support, being widely seen as having positive effects in implementing countries and for the industry.<sup>1</sup>

### *III. Interaction with other frameworks and other aspects*

Q8 How do you think that the GUIDELINES should relate to existing national, international or other EU-based frameworks (such as UN Global Compact, the UN Guiding Principles on Business and Human Rights, OECD guidelines for multinational enterprises, the ILO Tripartite Declaration of principles concerning multinational enterprises and social policy, EMAS, etc.)?\*

Please, order in line with your views (1 least in line, 6 most in line)

- The GUIDELINES should include detailed solutions and be an exhaustive document in a way that could make unnecessary for companies the use of other guidelines - **1**
- The GUIDELINES should be complementary to other frameworks - **6**
- The GUIDELINES should make reference to other frameworks where addressing concrete matters or specific issues - **5**
- The GUIDELINES should get general inspiration from other frameworks - **3**
- The GUIDELINES should explain how content produced in the context of other frameworks could be used in the non-financial statement - **2**
- Other, please specify:

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<sup>1</sup> [https://eiti.org/files/eiti\\_review\\_report\\_v10\\_-\\_final.pdf](https://eiti.org/files/eiti_review_report_v10_-_final.pdf)

8. Q8.1 Would you, please, provide a brief explanation? \*(text – 400 characters)

There is a risk that in its aim to create flexibility, and therefore cite a broad range of permissible national and international reporting frameworks, this Directive will not solve the problem of comparability. This can be seen as an internal market regulatory failure problem. The guidelines should go into most detail with regards to the most widely used frameworks.

Q9 Do you think that when preparing the GUIDELINES only the companies included in the scope of the DIRECTIVE should be considered, or that the interests, characteristics and/or requirements of other companies that prepare management reports should be taken into account as well? \* Please, check the box of the alternative that you consider most appropriate.

- Specific to the requirements of the companies under scope of the DIRECTIVE
- Consider all large companies
- Consider all companies
- Focus on the requirements of the companies under the scope of the DIRECTIVE, but also propose best practice for other companies that prepare management reports ✓

Q9.1 Accordingly, do you think that the content of the guidelines should be different according to the targeted companies? Would you please, provide a brief explanation? \*(text – 400 characters)

The guidelines should contain different advice for different sectors and business models.

Q10 [only for respondents that are companies] Does your company disclose annually relevant non-financial information?

- Yes
- No

No answer

If so, does your company use any existing reporting framework(s)?

- Yes
- No

No answer

If so, would you, please, indicate which one(s)? (text – 100 characters)

No answer

#### IV. Disclosures related to board diversity policy

Q11 Should the GUIDELINES provide more clarity on what companies should disclose as regards their board diversity? \*

- Yes ✓
- No
- No position

Q11.1 Would you, please, provide a brief explanation? \*(text – 400 characters)

Board diversity has a vital role to play in ensuring better governance and board performance in companies. However, as Daniel Ferreira<sup>2</sup> identifies, generating board diversity by appointing directors for their demographic characteristics at the expense of other important characteristics can be problematic. Companies should report on how they develop a diverse pipeline of junior staff.

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<sup>2</sup> <http://personal.lse.ac.uk/FERREIRD/Board%20Diversity%20version%201.pdf>