

Open stakeholder meeting on non-financial disclosures

18 October 2018

Breydel Building (auditorium), avenue d'Auderghem 45, Brussels

Background document

From March to July the services of the European Commission organised an open online public consultation on the EU framework for public reporting by companies. A full summary of responses will be published soon. This informal document provides an initial description of responses regarding non-financial disclosure only. Its purpose is simply to inform discussions during the open stakeholder meeting on 18 October. It is without prejudice to the full summary that will be published and does not pre-judge the contents of that summary.

Between 202 and 239 respondents provided answers to questions concerning non-financial reporting, from a total of 338 replies to the public consultation as a whole. A large number of respondents stated repeatedly that in their view it was too early to say anything definitive about the impacts of the Non-Financial Reporting Directive, since this is the first year that companies in scope have to report according to its provisions. Many went on to say that it was too early to consider any kind of revision, and that stability was needed, while other respondents suggested the Directive should be revised in various ways.

Relevance of issues addressed by the Non-Financial Reporting Directive

A clear majority of respondents agreed that the quantity and quality of non-financial information disclosed by companies remain relevant issues. A wide variety of stakeholders argued that current disclosure practices do not meet the growing demand for data and information from investors. NGOs and trade unions argued that the issues remain relevant because of perceived weaknesses in the Directive. A small minority of respondents, mainly enterprises and business associations, believed that the quantity and quality of non-financial disclosure are not relevant issues, because they were already resolved by national legislation or by voluntary corporate reporting practices.

Effectiveness of the Non-Financial Reporting Directive

Just over half of respondents believed that the Directive will be effective in enhancing company accountability, while slightly less believed it would enhance the efficiency of capital markets or company performance.

A variety of stakeholders expressed the view that the overall effectiveness of the Directive would be limited, because it does not impose a specific reporting framework and leaves a high degree of flexibility both to Member States and to companies. Many companies and

business associations welcomed this flexibility. Some respondents argued that the overall effectiveness of the Directive will be limited by the absence of a strong assurance and verification requirement. A wide variety of stakeholders argued that the Directive does not adequately define the concept of materiality.

Respondents expressed significantly different opinions about whether there was a link between company performance and non-financial disclosure. Some respondents commented that the Directive had already had a noticeable effect in terms of raising awareness of ESG issues in companies at board level.

In terms of the information disclosed by companies, respondents were most positive about the effectiveness of the Directive in leading to timely disclosures and were least positive about its effectiveness in enhancing comparability. Many companies and business/industry associations questioned whether improved comparability was a legitimate or realistic objective.

Some companies expressed the view that the Directive leans more towards the disclosure of negative impacts than positive impacts. Some other stakeholders believed that companies will under-report actual or potential negative impacts.

Coherence of the EU framework for non-financial disclosure

Significantly more respondents agreed that the EU non-financial reporting framework was sufficiently coherent compared to those who disagreed or did not know. Respondents who felt the framework was not sufficiently coherent argued that the Directive was imprecise on some issues and/or left considerable flexibility to Member States. A few respondents stated that some companies have found divergent transposition of the Directive burdensome. Financial institutions and their representative bodies argued that all non-financial disclosure requirements should be located in the same piece of legislation.

Costs and benefits

More respondents agreed that the costs of the Directive were proportionate to the benefits than disagreed, although a significant proportion did not know. Just under half of respondents said that the Directive has a positive impact on the competitiveness of European companies. Very few companies gave figures for the cost of compliance with the Directive, and there is an extremely high level of variation in the figures that were given.

A large number of companies and business associations, especially from Germany, stated that the administrative costs to companies of the Directive far outweighed the benefits, and argued that the Directive will negatively impact the competitiveness of EU companies unless non-EU companies have to meet the same requirements. A small number of companies stated that the incremental costs of the Directive were not significant. In the opinion of some respondents, the incremental costs to companies will vary considerably depending on the previous non-financial practices of the company.

Some respondents cited perceived benefits to business of non-financial disclosure, such as better information for decision-making and avoidance of future costs and liabilities. Some business associations and companies doubted whether such benefits existed. Representatives of NGOs and trade unions argued that enhanced corporate transparency and accountability should benefit people at risk of negative impacts from business, and that the society and the environment bear the costs of business not accounting for negative impacts. There was widespread agreement amongst respondents that there was increasing demand on SMEs to provide non-financial information, but respondents were divided on whether or not the Directive has significantly contributed to this trend

Scope

A small minority of respondents agreed that the scope of application of the Directive (public interest entities with over 500 employees) was appropriate, and about half partially agreed and partially disagreed. Some respondents, mainly from business, argued that the scope of application of the Directive was reasonably adapted to the size and impacts of companies. A number of respondents argued that large non-listed companies should be included in the scope of the Directive. Some respondents argued that SMEs should be included, while other respondents argued against this. Trade unions argued that the companies addressed by the Directive represent only a limited proportion of EU employment and production. Some respondents believed that small credit institutions and insurance companies, or those operating at a regional level, should be excluded from the scope.

The non-binding Guidelines on Non-Financial Reporting issued by the Commission

A minority of respondents agreed that the Non-binding guidelines on non-financial disclosure adopted by the Commission in 2017 have helped to improve the quality of disclosures. Many respondents found the guidelines most useful for companies that have never produced a non-financial information report. Many companies and business associations argued that the guidelines should remain flexible and not inhibit innovation. Some respondents thought that the guidelines help to clarify issues such as materiality and reporting about supply-chain information, while others found the guidelines insufficiently precise on these and other issues. Replies did not reveal a clear preference for any particular issue to be prioritised if the guidelines are further revised after the revision in 2019 with regard to climate-related information

Integrated reporting

Different stakeholders have a different understanding of what integrated reporting is. Just over half of the respondents believed that integrated reporting could contribute to a more efficient allocation of capital (through improved quality of information to capital providers), and a similar proportion believed it could contribute to better decision-making and risk management in companies. A minority of respondents believed that integrated reporting would lead to costs savings for report preparers or for users, with views considerably more

negative in the case of possible cost savings for preparers. Just under half of the respondents believed that the costs of integrated reporting are proportionate to the benefits, while a quarter disagreed.

Just over half of the respondents agreed that the EU should encourage integrated reporting. Most business representatives called for integrated reporting not to be imposed by regulation. A clear majority of respondents believes that the existing EU framework on reporting is no obstacle for companies to move towards integrated reporting, and only a small minority believes the opposite. Many respondents argued that the Non-Financial Reporting Directive encourages integrated reporting because the management report is the default location of the non-financial statement. At the same time, the fact that most Member States allow companies to publish the non-financial statement in a separate report was believed by some stakeholders to be contrary to the promotion of integrated reporting.