

“Non-financial information disclosure: towards a more sustainable and comparable corporate reporting regime?”

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REPORT

The European Commission published in April 2013 an amendment to the Fourth and Seventh Company Law Directives- known as Accounting Directives- targeting the disclosure of non-financial and diversity information of certain large companies. The legislative process has started, the new proposal is now in the hands of the two co-legislators – the European Parliament and the Council.

In this context, MEPs Richard Howitt and Raffaele Baldassarre co-hosted on 4 June 2013 at the European Parliament in Brussels a high level multistakeholder roundtable called “*Non-financial information disclosure: towards a more sustainable and comparable corporate reporting regime?*”. At this event jointly organised by Aviva, ACCA (the Association of Chartered Certified Accountants) and Eurosif, a distinguished line-up of experts from diverse horizons, including representatives from the European Commission and of Commissioner Barnier’s Cabinet, from the forthcoming Lithuanian Presidency, the French government, businesses, investors, accountants and NGOs, exchanged views on the potential impact of the newly published Directive for companies and their stakeholders, and discussed the way forward for corporate reporting.

This event also presented the findings of a new joint ACCA-Eurosif study on “*Non-financial reporting: what investors expect from public policy reforms*” – see executive summary [here](#). The full report is available [here](#)

The main conclusions indicate that the world is changing and corporate reporting must change too. Transparency, consistency and comparability of non-financial and diversity information are crucial to restore the trust of investors and stakeholders in large companies, but materiality is key to avoid creating new burden and help improving management.



Richard Howitt, MEP made the welcome speech. The first panel then discussed **how non-financial reporting could be improved at EU level** (reacting to the new EC proposals). It was moderated by **Helen Brand**, Chief Executive, ACCA. The panel was comprised of **Didier Millerot**, Head of the Financial Reporting Unit, DG MARKT; **Michel Bände**, Senior Executive Vice-President, Solvay s.a; **Filip Gregor**, Board Member of the European Coalition for Corporate Justice (ECCJ); **Caroline Rees**, President, Shift; **Teresa Fogelberg**, Deputy Chief Executive, Global Reporting Initiative (GRI).



The second panel focussed on “**the future of corporate reporting, towards better corporate governance and a more integrated and international framework?**” It was moderated by **Steve Waygood**, Chief Responsible Investment Officer, Aviva Investors. Speakers for this panel were **Francois Passant**, Executive Director,

Eurosif; **Ralf Frank**, Managing Director, DVFA-Society of Investment Professionals in Germany; **Robin Edme**, Senior Advisor Responsible Finance, Ministry of Ecology, Sustainable Development and Energy, France; **Philippe Peuch-Lestrade**, Deputy to the CEO, International Integrated Reporting Council (IIRC).



Paulina Dejmek-Hack, Member of the Cabinet of Michel Barnier, Internal Market and Services Commissioner and **Justinas Juknys**, Financial Affairs attaché, Permanent Representation of Lithuania to the EU made key note statements. **Raffaele Baldassarre**, MEP made the concluding remarks.

Discussions revealed that:

- The new proposal was welcomed by all speakers, who agreed that it is a good foundation for the future, as it is strong and bold, but in the meantime balanced and proportionate. There is of course room for improvements and clarification; some raised for example the issues of comparability, monitoring and enforcement of such provisions, as well as the need for further guidance for some specific sectors. A representative from businesses argued that EU policy should not interfere with companies’ disclosure of non-financial information, as they are best placed to decide themselves how to best communicate their CSR performance to stakeholders.
- In response, there was a consensus amongst panellists that business as usual is no longer an option, traditional reporting is no longer up-to-date, and companies are no longer able to escape transparency requests from society, especially in the light of recent scandals linked to working conditions and human rights in Bangladesh. Long-term issues need to be better addressed. Most panellists agreed that this calls for action at EU level, as consistency amongst the 27 member States ‘reporting regimes is important for the Single Market, and this would avoid the fragmented practices which existed until now. It was stressed that legislation also acts as an accelerator for behaviours.
- The issue of costs was also raised, but panellists insisted that the proposal will only apply to large companies over 500 employees, which should already have in place such a disclosure system and that implementing the new EU requirements should not add on administrative burden.
- It was stressed that the concept of materiality is key. Companies need to identify with due diligence the main risks in their policies, prioritise them and integrate these issues in the way they manage their business and activities. Some participants made a clear call for integrated reporting, which should be a mirror of integrated thinking and provide clear, concise and meaningful report in a holistic way.

Main highlights

Richard Howitt, MEP (S&D, UK) rapporteur on CSR and Opinion Rapporteur on disclosure of non-financial and diversity information for the Employment and Social Affairs Committee

- This packed event with standing room only is testament to the huge buzz and genuine support for Europe to act on non-financial reporting. Speaker after speaker from EU Governments, institutional investors, business organisations, the accounting fields, civil society and from Commissioner Barnier's Cabinet hammered home the message that there is an urgent need for Europe's largest companies to report on their environmental, social and human rights impacts.
- The title of the draft legislation is disclosure of non-financial and diversity information, but the reason we need to get it right –as investors will say- is not because it is non-financial, but because environment, social and human rights have a deep financial impact on companies, their sustainability and their profitability, today and for the future.
- This is not a proposal that can be left or delayed because it is too difficult at the moment, might be too costly or there are more important imperatives. This is part of the solution, how we will restore confidence in companies and in the economy. This is part of how we build sustainable economic governance.”
- Significant movement in Europe has taken place in terms of corporate reporting. We need to find the right balance and not be over prescriptive. It must be discussed whether the companies need more guidance or not.
- I will be working in the Parliament over coming months to seek the strongest possible agreement and to make sure Europe leads the way on corporate transparency and truly integrated reporting.

Panel 1- Improving non-financial reporting at EU level (reacting to the new EC proposals) moderated by **Helen Brand**, Chief Executive, ACCA, who indicated:

- The Commission proposals represent an important move towards enhancing the much needed transparency, consistency and comparability in the non-financial information accompanying financial statements of large businesses. It is essential to restore trust of investors and stakeholders. Therefore we need a clear framework for reporting.
- Given ACCA's global organisation and membership, it fully endorses the suggestion that companies should rely on internationally-accepted frameworks to report this information. There should be a convergence of international, EU and national principles. In the spirit of ACCA's founding values of opportunity and diversity, the requirement for large and listed enterprises to disclose information relating to boardroom diversity is strongly welcome.

Didier Millerot, Head of the Financial Reporting Unit, DG MARKT, European Commission

- Certain large companies will need to disclose in their Annual Report information on environmental, social, and employee-related matters, respect of human rights, anti-corruption and bribery aspects. Within these areas, companies will include a description of their policies, results and risk-related aspects. They will need to look into their policies, identify relevant areas and integrate these issues in the way they manage their business and activities.
- In providing this information, companies will rely on internationally-accepted frameworks, such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, ISO 26000, the ILO Tripartite Declaration of principles concerning multinational enterprises and social policy, and the Global Reporting Initiative, and disclose which framework they have relied upon. Companies that do not apply a specific policy in one or more of these areas will be required to explain why this is the case. The obligation will only apply to those companies whose average number of

employees exceeds 500, and exceeds either a balance sheet total of 20 million euros or a net turnover of 40 million euros. On this basis, the new requirement would cover around 18.000 companies in the EU.

- Diversity is the second big part of the proposed amendment to the Directive. Diversity is meant in the broad sense – not only gender, but also age, geographical, educational, professional and cultural diversity.
- Being more transparent benefits companies. It helps them to form long-term views on management, to become more sustainable and to motivate employees. It also restores investors' trust. There is an important request for information from the investors that could help make their investment decision. Non-financial reporting has also a positive outcome for the society in terms of addressing its needs.
- It is important to have this legislation at EU level. Only 10% of the largest EU companies are currently disclosing such information regularly and properly, which led to a lack of consistency of reporting practices across the EU and made benchmarking between companies difficult. It is important for the Single market to avoid 27 different reporting regimes. Different interests need to be balanced; the direction that we are aiming at and possible consequences must thus be discussed. The proposal is ambitious and flexible, as it is difficult to find a one size fits all for companies reporting. The European Commission is not yet in a position to impose strict rules on how to report – much room is therefore left for companies to make their decisions.
- Future discussions will be based on the received feedback from companies and stakeholders. It is debatable whether additional guidance for some companies is needed or not. It is likely that the way the monitoring system should look like will be discussed. At the moment the only supervisory mechanism is foreseen in the Accounting Directive; no additional mechanisms are put in place. Some stakeholders express their wishes to have a monitoring system; others question whether it won't be too costly.
- During the Q&As Didier Millerot mentioned that following-up the EU summit conclusions calling on an extension of the disclosure of tax and benefits – that will be applied to banks as per the recent CRDIV requirements- to European companies. 3 possibilities are open: first, the European Parliament could decide at the last minute to add this during the vote in plenary on the accounting Directive (but this seems unlikely given the lengthy negotiations and agreement with the Council), second, MEP and the Council will use the next vehicle, ie the current non-financial reporting discussions to add this, or third, the European Commission will have to come-up with a new proposal, but this is not in on the table yet.

Michel Bande, Senior Executive Vice-President, Solvay s.a

- The proposal is a positive signal, not only because it will help to rebuild businesses' credibility in the society that was lost during the crisis, but also because we need to work on a new concept. When companies will analyse the risks and opportunities for the businesses, in internalising externalities will be able to find new solutions for the present situation. Companies with non-financial data will be more resilient than the others.
- Priority is not the report; it is the reporting for improving internal performances. Reporting will allow to be transparent as well as to give information and more clarity to stakeholders.
- Materiality is key; companies should analyse what is material for them. It should not be seen as a cost – it is an investment to create value for the future. Companies need to analyse their policies, identify the main risks and integrate these issues in the way they manage their business and activities. It might be more problematic for medium size business, which will need to select only one area and focus on the risk framework they need.

- We need to work with different specialists in order to improve and clarify certain aspects of the proposal. We must avoid national and even regional approach. It is one of the responsibilities of the European Commission to fight for a global approach.

Filip Gregor, Board Member of the European Coalition for Corporate Justice (ECCJ)

- The current proposal is a good framework that will need to be improved in the future. It is not going to solve every issue or provide perfect guidance in every situation, but it provides a starting point. Therefore we need to make sure that it fits the expectations in the coming years.
- The proposal should specify better the definition of risk. If there is no further explanation, it might be interpreted differently by different readers. A more precise definition would allow companies to more easily identify the issues they need to report on and ensure that users of the reports are provided with relevant and comparable information. Companies should not be obliged to identify and disclose every possible risk; the concept is to look for areas most likely to have the risks and identify and disclose risks of most serious impacts. We need to look at the UN guiding principles on Business and Human Rights and OECD guidelines for Multinational Enterprises– both of these instruments incorporate the notion of due diligence as standard for companies to look at their risks of impacts on society and how to prioritise them. For us it is a no-brainer to use what has been developed at international level and endorsed by governments. The questions “what are the most severe risks, what is material?” are crucial to rightly focus the companies’ energy.
- The proposal relies on enforcement by the stakeholders; therefore we need to make sure that they are empowered to do the job and improve the proposal without burdening companies and authorities. Those stakeholders with legitimate interest should be allowed to raise complaints about corporate disclosure before administrative or judicial authorities. An useful example of this can be found in EU consumer law.
- Regarding the future steps, more guidance for companies might be requested for some specific sectors and areas.

Caroline Rees, President, Shift

- Gave an overview of the issue from the perspective of human rights and their application to businesses. She argued that the proposal is extremely welcome in terms of human rights; especially for referencing international frameworks –notably the UN Guiding Principles on Business and Human Rights. This could provide predictability through standard approaches across countries.
- Reporting on human rights might be different and more challenging than on environmental and broader social issues. It can place practical limits on information disclosure because of the different nature of human rights, being based on international minimum standards. This may constrain how far companies can report on actual impacts on human rights where it raises legal implications. The key will be to pay more attention in reporting to how potential impacts (risks) are managed. Any discussion of actual impacts and how they are addressed then becomes more illustrative.
- The approach to human rights reporting cannot be mechanistic; it cannot be purely compliance-driven. We are talking about respect for people, companies’ culture and a way of thinking. Quantitative metrics alone are insufficient. Good qualitative metrics are needed to truly understand human rights impacts and how well they are addressed. Reporting on human rights needs to drive meaningful conversations within the company.
- Given these realities, the focus on policies and risks in the EC proposal is a very appropriate one. It is about supporting the approach of risk management in human

rights, which can help ensure that reporting is both meaningful for stakeholders and viable for companies.

Teresa Fogelberg, Deputy Chief Executive, Global Reporting Initiative (GRI)

- Great coalition has been formed at the EU level on non-financial reporting. We have to join forces in order to create a sustainable tomorrow. We all need to be aware of the challenges in Europe and business power to make a difference and provide solutions. In order to learn about your business, you need transparency and reporting. Non-financial reporting is just as normal and routine as financial reporting.
- We need to support it because the take-up of reporters is too slow in the EU at the moment. Commissioner Michel Barnier said that we need to move further, and have a higher number, and named the proposal bold and balanced which is exactly what we need in Europe. In Denmark, where a Report or Explain policy has been in place since the last three years, 98% of big companies are now reporting. It has been tested and companies are giving positive feedback.
- We need a systematic approach in the future. Amongst concerns are the administrative burden and costs, though studies on the Danish example show that companies perceive it as an investment rather than a cost; it is important to also look at the return and benefits. Green washing is also an issue to which we should pay attention.
- Materiality is the key element of this legal proposal. The issues are material, but at the same time, flexibility is given to the companies to select those elements and aspects that are relevant to them and the stakeholders.

Panel 2- The future of corporate reporting, towards better corporate governance and a more integrated and international framework? Moderated by **Steve Waygood**, Chief Responsible Investment Officer, Aviva Investors, who stressed:

- The proposal is strong, balanced and proportionate, therefore very welcome. The non-financial issues are absolutely material. While these business issues are measured in non-financial terms, they are fundamental to the long term financial performance of companies.
- Improved reporting deepens our knowledge of, for example, a company's relationships with, their customers, employees, local communities and governments as we have improved access to customer complaints, employee turnover and the regulatory compliance record. These relationships are of course absolutely fundamental to the financial performance of companies.
- A number of companies have suffered because they mismanaged these issues. We are looking for better information on how the risks should be managed. In addition to building the trust of stakeholders, better reporting also improves internal processes and business performance on these issues. It should not be seen as a cost – it is an investment in the companies' future. However, to be really useful to investors, the disclosure of non-financial information should be synchronised with the disclosure of the financial data. We are strong supporters of the European Commission proposal, which does just this
- However, to be really useful to investors, the disclosure of non-financial information should be synchronised with the disclosure of the financial data. It should not be seen as a cost – it is an investment in the companies' future.

Francois Passant, Executive Director, Eurosif, *Presentation of the [joint ACCA-Eurosif survey](#) on “Non-financial reporting: what investors expect from public policy reforms”*

- Eurosif is a long standing advocate of non-financial reporting and participated in the expert group launched by the European Commission. Eurosif strongly supports the proposal even if it can be improved – it is a necessity to meet investors' needs and to restore long term competitiveness.

- A disconnect exists between company's and investors' expectations. There is a need for more integrated information between financial and non-financial parts.
- Looking at non-financial aspects of an investee company is becoming the new normal for investors. Range of investment professionals with different backgrounds uses non-financial information. In a world where 80% of a company's value is derived from its intangibles, where value chains are more global, complex and lean, and where more and more investors are looking into how companies adapt to climate change, non-financial transparency cannot be seen as a burden or a tick-box exercise anymore but as a necessity. The current proposal represents a key milestone in this journey.
- New accountability mechanisms should be developed; current state of play doesn't work anymore. For the sake of the comparability of information, very important to investors, and for the own ease of work of reporting companies, it is important to emphasize international or at least EU-wide reporting frameworks. Additional guidance might be needed in terms of recommending relevant KPIs and capacity building. Accountability mechanisms will require debates in the future.

Ralf Frank, Managing Director, DVFA-Society of Investment Professionals in Germany

- Sustainability reporting has come of age - many corporates produce good quality reports many of which still contain too much "noise". Likewise, sustainability management has come of age - in many companies it has developed from an appendix to an established no-nonsense function.
- Managing granularity of information and finding the right level of details and the information that matters, that is relevant and that can be put into calculations seems to be pretty much difficult, but let's allocate some trust and say that slowly but surely we are getting there.
- Integrated reporting does work and it can become a catalyst for finding what is material and adding value to the company. However, more guidance will need to be given on content.
- Soon, the investment industry will not have a good excuse anymore for rejecting sustainability aspects as ingredients for investment decision-making (low data quality, comparability, etc.). Investment decision-making needs to return to judgment rather than being slave to investment analysis models.

Robin Edme, Senior Advisor Responsible Finance, Ministry of Ecology, Sustainable Development and Energy, France

- Strongly supports the proposal, but thinks that there is room for improvement. The proposal could have been definitively more ambitious; however, like in any other field, patience is required. Ambition will be achieved gradually, step by step; it will take time, precision and more depth. The proposal is clearly however a step forward.
- The current proposal could be improved in two directions: we could have a verification process on the one hand, and a slightly more detailed approach of what should be reported on, on the other hand.
- He highlighted that it would be a very bad sign if the proposal would be rejected at EU level and it would have critical consequences for the development of CSR as well as of responsible investing.
- Regarding the future of non-financial reporting, integration is key. We are at the beginning of the alignment between financial and extra-financial information, which is the ultimate goal and the strategic thrust for the future of corporate reporting. Integration should be mandatory, with a balanced principles-based and rules-based approach. Which means to settle the materiality issue. The approach to materiality should be envisaged in a two-fold manner: materiality to business (relates to corporate economic and financial performance), and materiality to society (relates to corporate social license to operate). Whatever society requires should be reported on

- businesses cannot escape demands from the society in particular in the field of human rights.
- Another aspect is comparability – there is obviously a need for comparable data, sector by sector.
- Information, whether financial or extra-financial, has also to be auditable.. All these elements will help to design a set of corporate integrated KPIs. Everything is there, we need now to have a convergence of all existing initiatives.
- He also mentioned that reporting non-financial information on a country by country basis seems inevitable, since if reporting is available at a consolidated level, it is necessarily available at country level. Ideally for a multi-sector group, reporting should be made available by business and by country.

Philippe Peuch-Lestrade, Deputy to the CEO, International Integrated Reporting Council (IIRC)

- Also strongly supports the EU initiative. Europe should be viewed as a model in the area of non-financial disclosure. If you want to restore confidence, you need to give information.
- The world is changing and corporate reporting must change too, we need to get over this obsolete conservatism and to set up a contemporary realignment of corporate reporting. The crisis has demonstrated that traditional reporting is no longer up to date. Changes in society values lead to different degree of expectations. It is time for companies to tell their unique creation story.
- The most significant idea in integrated reporting concept should be “less is more”. We should focus on this and work on the materiality concept. We have to explain as well how existing standards align with an integrated report.
- Another important point is syncing; the aim is to produce a concise; meaningful reporting that mirror companies’ activities, outcome of syncing within the company. It should reflect integrated thinking, in a holistic manner. It is also essential to evaluate how the company is creating value over time.
- Integrated Reporting (IR) proves that strong communication can help to restore confidence. This is the kick-start element for management.
- Another important element is the process of producing the report. We need to think about the value, associate all the stakeholders and include the board and staff to this exercise. Those charged with governance should take explicit responsibility for the integrated report. Integrated reporting can create a new profile and have impact on the image and reputation. . Integrated reporting can help improving access to equity and debt capital market. It is a good piece for future generations, companies, investors and society.

Paulina Dejmek-Hack, Member of the Cabinet of Michel Barnier, Internal Market and Services Commissioner

- It is important that the proposal is adopted as soon as possible. It would be a major achievement if we would manage to close this file under the Lithuanian presidency. It is possible; the Commission will do everything to facilitate the dialogue.
- The directive will give clear added value to companies in terms of longer term engagement and sustainability. We need to impose this legislation because of several reasons. First of all, from an internal market perspective, with soon 28 Member States. Member states take different approaches, some will opt for very detailed provisions some for less; if we want that reporting is similar and coordinated throughout the EU level, we need to take action. Secondly, legislation may help by making people focus and accelerate changes in behaviour (change would occur at a slower pace otherwise).
- It is very important not to overburden companies. The European Commission has paid a lot of attention to the issue of regulatory burden and proportionality, the

proposal only applies to companies with more than 500 employees. Flexibility is also very important in the proposal, it is materialised, inter alia, through the “comply or explain” approach. Hopefully we have managed to strike the right balance, keep the level of ambition, still leaving sufficient level of flexibility when it comes to the implementation.

Justinas Juknys, Financial Affairs Attaché, Permanent Representation of Lithuania to the EU

- The program of the Lithuanian presidency is based on three key objectives: credible, growing and open Europe. Measures that enhance business transparency on social and environmental matters in social environment while also giving the regard to diversity aspects of companies fits well into the framework of these three objectives.
- It is very important that the reporting requirements are as proportionate as possible and provide added value. The Commission proposal provides a reasonable and balanced basis for the start of the discussions. The final picture will be clear in the process. There is a necessity to ensure that it will not create undue burdens for companies.
- The EU agenda in recent years focused on fiscal consolidation and is now gradually shifting to more structural adjustment in member states. Given that, enhanced requirements on non-financial reporting can be seen as an opportunity for companies to take careful look into their business model.
- He noted that the Lithuanian presidency is looking forward to discussing this topic with institutions and member states. The aim is to materialise the potential.
- It is planned to open a discussion in the Council in July this year.

Concluding remarks by **Raffaele Baldassarre**, MEP (EPP, Italy) Rapporteur on disclosure of non-financial and diversity information and Vice-Chair of the Legal Affairs Committee

- It is important to have a balanced text of the proposal without taking an extreme position. All demands and requirements must be combined while providing enough flexibility for companies. We must keep some margin for manoeuvre and not to be too intrusive.
- The Committee has already followed different set of initiatives. Opinions in this area are different, but we are working on the same basis. We will be able to improve the text in the future, but there is definitely a step made in the right direction. It is important to try not to focus on irrelevant matters. We cannot wait until the crisis is finished.
- 80 000 companies should be involved in this exercise in Europe. We need to continue working in full transparency, involve stakeholders and recreate trusting environment. This is the way to contribute to solutions and to promote best practices.
- The European Parliament is committed to progress on the issue, the Legal Affairs Committee will examine the proposal in June, and vote in committee is expected by the end of the year, with a view to start negotiations with the Council as soon as possible. A plenary vote is then planned for early 2014. It will be important to not focus on irrelevant matters or to be too ambitious if we want to reach a speedy adoption of the proposal. Conversely, it will be also important not to be under ambitious to come up with a meaningful piece of legislation.

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