



Targeted consultation on the update of the non-binding guidelines on non-financial reporting

Fields marked with * are mandatory.

Introduction

Disclaimer:

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the the non-binding guidelines on non-financial reporting.

The [non-financial reporting Directive \(2014/95/EU\)](#) requires large public interest entities with over 500 employees (listed companies, banks, and insurance companies) to disclose certain non-financial information. As required by the directive, the Commission has published [non-binding guidelines](#) to help companies disclose relevant non-financial information in a more consistent and more comparable manner.

In March 2018 the Commission published the [action plan on financing for sustainable growth](#), with the aim of reorienting capital towards sustainable investment, managing financial risks that arise from climate change and other environmental and social problems, and fostering transparency and long-termism in financial and economic activity.

As part of that action plan the Commission committed to updating the non-binding guidelines on non-financial reporting, specifically with regard to the reporting of climate-related information. In practice, it is expected that the update will consist of a new supplement to the existing guidelines. The Commission expects to publish the new supplement on the reporting of climate-related information in June 2019.

In June 2018, the European Commission set up a [technical expert group on sustainable finance \(TEG\)](#) to assist in four key areas of the action plan through the development of

1. a unified classification system for sustainable economic activities (taxonomy),
2. an EU green bond standard,
3. benchmarks for low-carbon investment strategies,
4. new guidelines on the reporting of climate-related information.

In January 2019 the TEG published its [report on climate-related disclosures](#). The TEG invited feedback on its report by 1 February 2019, and approximately 70 organisations and individuals submitted comments. The TEG has published a [summary of these comments](#).

The Commission has taken into account the TEG report and the feedback received from stakeholders on that report and is now consulting stakeholders on the update of the non-binding guidelines before their planned adoption in June 2019. Stakeholders are invited to provide written comments by 20 March.

The [consultation document](#) takes account of the TEG report and of stakeholder feedback on that report. This document has been drafted by the services of the European Commission to facilitate a targeted consultation with interested stakeholders on the possible content of the new supplement to the non-binding guidelines. Comments on this document should be submitted by the end of Wednesday 20 March 2019, through this online facility created for this purpose. Comments submitted after that date, and comments not submitted through the online facility, will not necessarily be taken into consideration.

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the the non-binding guidelines on non-financial reporting.

More information:

- [consultation document on the update of the non-binding guidelines on non-financial reporting](#)
- [on this consultation](#)
- [on the protection of personal data regime for this consultation](#)

1. Information about you

* Are you replying as:

- a private individual
- an organisation or a company

- a public authority or an international organisation

* Name of your organisation:

Accountancy Europe

Contact email address:

The information you provide here is for administrative purposes only and will not be published

vita@accountancyeurope.eu

* Is your organisation included in the Transparency Register?

(If your organisation is not registered, [we invite you to register here](#), although it is not compulsory to be registered to reply to this consultation. [Why a transparency register?](#))

- Yes
 No

* If so, please indicate your Register ID number:

4713568401-18

* Type of organisation:

- | | |
|---|---|
| <input type="radio"/> Academic institution | <input type="radio"/> Media |
| <input type="radio"/> Company, SME, micro-enterprise, sole trader | <input type="radio"/> Non-governmental organisation |
| <input type="radio"/> Consultancy, law firm | <input type="radio"/> Think tank |
| <input type="radio"/> Consumer organisation | <input type="radio"/> Trade union |
| <input checked="" type="radio"/> Industry association | <input type="radio"/> Other |

* Where are you based and/or where do you carry out your activity?

Belgium

* Field of activity or sector (*if applicable*):

at least 1 choice(s)

- Accounting
 Auditing
 Banking
 Credit rating agencies
 Insurance
 Pension provision
 Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
 Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
 Social entrepreneurship
 Other
 Not applicable


* Please specify your activity field(s) or sector(s):

Corporate reporting



Important notice on the publication of responses

* Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?

([see specific privacy statement](#) )

- Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- No, I do not want my response to be published

2. Your opinion

1. Do you have any comments on [Chapter 2 “How to use these guidelines”](#) of the report?

3000 character(s) maximum

We appreciate that the proposed supplementary guidelines provide a clearer explanation of materiality, especially the double materiality perspective. However, the challenge lies in the practical application of this approach in order to take both perspectives into account. Materiality is an element of both the TCFD and the Non-Financial Reporting Directive (NFRD). While they have a similar starting point, they might be seen as differing in their interpretation. Therefore, further guidance on double materiality application is necessary to assist companies with this complex matter.

The NFRD requires the disclosure of 'information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity' and further explanation on this is included in Recital 8. The NFRD does not explicitly refer to the materiality concept as such but the implication is that businesses should only disclose information on matters which are material.

However, in trying to incorporate the TCFD framework – developed for a specific purpose – into the Non-Binding Guidelines (NBGs) we believe some friction with the NFI Directive is demonstrated, which could lead to confusion.

Specifically, it is not entirely clear how the classification of the disclosures (Type 1 and 2) fits into the existing requirements of the NFRD and the NBGs. While Type 1 disclosures correspond to the materiality concept as explained in the report, the purpose and necessity of the Type 2 disclosures is uncertain. Their role is to provide enhanced information that an entity may consider depending on other factors – including the size of such risks. This suggests a consideration of materiality but 'less important' materiality than suggested by Type 1 disclosures which results in confusion. A clearer approach could be to list those disclosures that entities would normally consider if climate related risks are deemed material, leaving other disclosures to the discretion of entities that adopt the full TCFD recommendations.

Equally, it should be clearly stated where the climate-related information is intended to be disclosed (even though there is a reference to this in the Annex II). The TCFD recommends the disclosure of the information in the mainstream annual report due to the perceived investor relevance of this information. Contrary to this, the NFRD has left room for individual EU members to consider other locations of reporting. We would like to reiterate that ESG related issues should be disclosed a priori in the annual management report, but only if it pertains to matters that are truly material to the company.

Finally, the statement on page 8 which states that 'most companies under the scope of the Directive are likely to conclude that climate is a material issue'. We do not believe that this is consistent with the approach taken in the NFI Directive that entities themselves decide what matters are most material for them.

2. Do you have any comments on [Chapter 3.1 “Business Model”](#) of the report?

3000 character(s) maximum

The proposed supplementary guidelines addressed our comments outlined to the previous consultation on the TEG report under Business model. Additional comments on the classification of disclosures are added under Question 1 in this consultation. We do not have any further comments regarding this chapter.

3. Do you have any comments on [Chapter 3.2 “Policies and Due Diligence Processes”](#) of the report?

3000 character(s) maximum

The proposed supplementary guidelines clarified the wording in comparison with the TEG report, which addresses our concerns expressed in the previous consultation. Therefore, we have no further comments on this chapter.

4. Do you have any comments on [Chapter 3.3 “Outcomes”](#) of the report?

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The supplementary guidelines name GHG emissions as one of the Type 1 disclosures. We would like to reiterate that in our view GHG emissions are only one of the potential indicators a company could disclose to show the results of its policies and for many sectors it can only be seen as a proxy for climate-related risks. Additionally, GHG emissions will not be financially material for all companies in all sectors. Therefore, suggesting that all companies should report on these (under Type 1) seems not to be in line with this principle.

5. Do you have any comments on [Chapter 3.4 “Principal Risks and Their Management”](#) of the report?

3000 character(s) maximum

We would like to reiterate the importance of considering climate-related risks in the context of and in relation to a broader set of risks in order to avoid an isolated approach to climate-related risks. It would be useful to stipulate this in the NBGs, add additional examples and/or refer to the TCFD recommendations that provide more information.

6. Do you have any comments on [Chapter 3.5 “KPIs”](#) of the report?

3000 character(s) maximum

The proposed supplementary guidelines recommend companies to consider a broader set of indicators in addition to the suggested set of KPIs (Table 5 and 6) mainly focusing on GHG. This addresses our previous comments on the TEG report that other indicators should also be considered to measure climate-related risks. We have no further comments on this chapter.

7. Do you have any comments on [Annex I “Proposed disclosures for Banks and Insurance companies”](#) to the report?

3000 character(s) maximum

The Annex I provides a number of elements for consideration by financial institutions. It is not explicitly clear whether these are seen as 'recommended disclosures as such' or 'recommended disclosures when deemed material for an understanding of the undertaking's development, performance, position and impact of its activity, relating to [...] key matters'. We would suggest clarifying in the introduction of this Annex the need to consider the elements in the context of materiality.

Also, it is not entirely clear whether banks and insurance companies have to follow also the guidance under Section 3 as it states that "disclosures under Section 3 are for all companies that fall under the NFRD <...>regardless of their sector of activity, including banks and insurance companies"; or only guidance under Annex I. It would help to have this clarified.

8. Do you have any comments on [Annex II "Mapping of NFRD requirements and TCFD recommended disclosures"](#) to the report?

3000 character(s) maximum

The Annex II refers to where ESG information is intended to be reported "if a company subject to the NFRD wants to meet the recommendations of the TCFD regarding the location of its climate-related disclosures, it should publish these disclosures in the management report". As indicated in our response to Question 1, it would be helpful to have this clarified as the TCFD and the NFRD recommend different locations of reporting which brings confusion.

Compliance with the TCFD recommendations implies that companies supply financial disclosures on non-financial issues (climate). This is new for the NFRD and the NBG which until now only focused on non-financial information reporting. We welcome integration between financial and non-financial information, but the proposed approach may create confusion.

9. Do you have any additional comments on the report as a whole?

3000 character(s) maximum

We congratulate the Commission on their efforts to provide a tool for improvement of climate-related disclosures. However, to significantly improve non-financial information reporting, climate-related matters cannot be treated in isolation, more so as this could have a negative impact elsewhere; therefore, broader environmental, human and social aspects need further attention. Companies disclose environmental, social and anti-corruption information, but the reported information is not necessarily giving a clear and balanced view according to a recent study on corporate sustainability reporting. Guidelines should cover other matters too as non-financial reporting is still relatively new, and companies need further guidance to get it right. Integrated reporting has become indispensable to connect financial and non-financial information in order to provide a holistic view of a company's performance. The IIRC's developed integrated reporting framework in combination with the Accountancy Europe's Core & More concept is a way to integrate financial and non-financial reporting, that reduces overlap by filtering targeted information and brings forward coherence of information (some leading European financial institutions are experimenting with this combination in practice). We also want to emphasise the importance of companies using internationally accepted standards and frameworks to achieve better comparability and coherence.

The existing Non-Binding Guidelines and its update are useful towards improving climate-related reporting. However, their nature as 'non-binding' reduces the impact that they could have if they were mandatory. 'Voluntary' does not create appropriate incentives for companies to adopt best practices.

The current scope of the NFRD is too restrictive as it excludes some very large publicly not listed companies. For these large private enterprises non-financial reporting may be more relevant than for some of the companies within the current scope. Overall, given the current focus on sustainable finance, it is necessary to ensure alignment of different legislation, e.g. reporting requirements with the taxonomy provisions and other regulations. To achieve real impact, the NFRD should be adapted accordingly within the upcoming revision.

Finally, we note that more and more stakeholders, incl. investors, voice the need for independent assurance on non-financial information. Sustainability or non-financial information is currently not subject to the same level of assurance as compared to financial information. As the non-financial reporting practice is still evolving, it is important to ensure that such information is verifiable or can be verified in the future. The NBG refer to independent external assurance as a way to make information "fairer and more accurate". As a way forward, it is necessary to open the discussion on assurance over non-financial information.

Useful links

[More on the Transparency register \(http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en\)](http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

[More on this consultation \(https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en\)](https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en)

[Specific privacy statement \(https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-specific-privacy-statement_en\)](https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-specific-privacy-statement_en)

[Consultation document \(https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document_en\)](https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document_en)

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