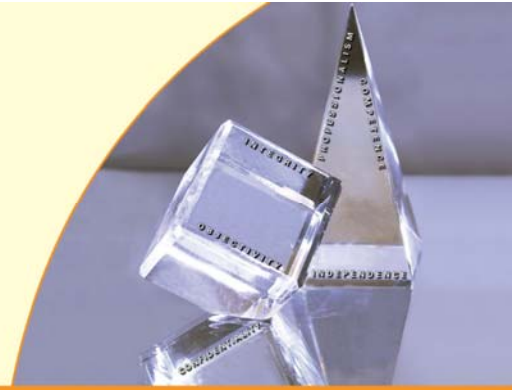




Federation of European Accountants
Fédération des Experts comptables Européens

Factsheet

Standing for trust and integrity



June 2013

European Commission Legislative Proposal on disclosure of non-financial and diversity information by certain large companies and groups

Introduction

On 16 April 2013 the European Commission (EC) adopted a Proposal for a Directive amending the Accounting Directives¹ regarding disclosure of non-financial and diversity information.

The objective is to improve companies' transparency and performance on environmental and social matters in order to ensure a level playing field across the EU and to promote a sufficient degree of diversity in the boards of companies.

The proposal is a step in a series of initiatives highlighting the need to improve quality and transparency of non-financial information².

The purpose of this Fact Sheet is to outline and bring out key aspects of the proposal in order to facilitate understanding of the proposal and its implications.

Highlights of the Proposal

Current requirements proposed to be expanded

The EC has identified the need for clearer requirements that would warrant greater effectiveness of disclosure of non-financial information as well as harmonise and streamline current reporting practices, while, retaining a degree of flexibility.

Article 46.1 (b) of the Fourth Directive and Article 36 (a) of the Seventh Directive would be expanded; both currently state that:

"To the extent necessary for an understanding of the company's development, performance or position, the analysis [thereof] shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters"

If approved by the European Parliament and the Council, the European Commission proposal would amend these Articles, as further explained below.

¹ Fourth and Seventh Accounting Directives on Annual and Consolidated Accounts, 78/660/EEC and 83/349/EEC, respectively. These two Directives have been revised to become the Accounting Directive of 26 June 2013 which was published in the Official Journal of the European Union on 29 June 2013.

² In April 2011, the EC Communication "Single Market Act - Twelve levers to boost growth and strengthen confidence" noted that "new business models are being used, in which [...] societal concerns are taking precedence over the exclusive objective of financial profit" and announced that the EC will present a legislative proposal on the transparency of the social and environmental information;

In October 2011, the EC issued a communication "A renewed EU strategy 2011-14 for Corporate Social Responsibility" reiterating and confirming its commitment to improving company disclosure of social and environmental information;

On 6 February 2013, the European Parliament adopted two resolutions on respectively "Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth" and "Corporate Social Responsibility: promoting society's interests and a route to sustainable and inclusive recovery".

Proposed new non-financial and diversity disclosure requirements

Further transparency

If approved by the European Parliament and the Council, the European Commission proposal would result in additional non-financial disclosure requirements for large companies to include the following information in their Annual Report:

- Disclosure of a statement including material information relating to at least environmental, social, and employee-related matters; respect of human rights; anti-corruption and bribery aspects.
- Within these areas inclusion of (i) a description of its policies, (ii) results of these policies and (iii) the risks relating to those areas and how the company manages those risks.
- For such disclosures the company may rely on national, EU-based or international frameworks, such as the UN Global Compact, the Guiding Principles on Business and Human Rights implementing the UN “Protect, Respect and Remedy” Framework, 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. A company will need to specify which framework was used for such reporting.
- A company that does not apply a specific policy in one or more of these areas would be required to explain why this is the case.

Consistency of the Annual Report with the annual accounts

- The report of the statutory auditors should also contain an opinion concerning the consistency or otherwise of the Annual Report, including non-financial information contained in the Annual Report, with the annual accounts for the same financial year.

Diversity policy

- Related to the diversity policy, it is proposed to amend article 46 (a) of the Fourth Directive, requiring large listed companies to provide information on their diversity policy, including aspects concerning age, gender, geographical diversity, and educational and professional background.
- This diversity related information would be included in the corporate governance statement and would have to contain the objectives of such a policy, its implementation and the results obtained.
- Companies not having a diversity policy would be obliged to explain why this is the case.

Scope of the proposed disclosure requirements

Non-financial disclosure

- The requirements related to transparency would only apply to large companies (i.e. whose average number of employees exceeds 500³, and which have either a balance sheet total exceeding 20 million Euros or a net turnover exceeding 40 million Euros).
- On this basis, it is estimated that 18.000 companies in the EU would be affected by these new requirements.
- The proposed amendments would exempt subsidiaries provided they are consolidated in the Annual Report of another company.

Disclosure of diversity policies

- The proposed amendments for the diversity policy would apply to companies listed on EU regulated markets even if they are registered in a third country.

³ For the purposes of non-financial disclosure, the EC has increased the reporting threshold of listed and/or large companies to 500 employees (250 in the current 4th and 7th Directives and the new Accounting Directive).



Next steps

This proposal now has to go through the **ordinary EU legislative procedure**, it will need to be adopted by the European Parliament and the Council and then transposed by EU Member States.

The **Committee on Legal Affairs of the European Parliament (JURI)** has been designated as the lead committee.

It is possible that other Committees of the EP will provide an opinion: Economic and Monetary Affairs, Employment and Social Affairs, Industry, Research and Energy, Internal Market and Consumer Protection, Women's Rights and Gender Equality.

MEP, Raffaele Baldassarre (Italy, Group of the European People's Party) has been appointed as **Rapporteur** and will draft a report for adoption in JURI Committee. MEP, Sergio Gaetano Cofferati, (Italy, Group of the Progressive Alliance of Socialists and Democrats), is shadow Rapporteur. Once JURI has adopted its report, it will go for vote in the EP's Plenary.

As regards the date when the proposals could be expected to be adopted by the EP and Council, at this stage this remains uncertain and will depend on the legislative process.

The Directive would then need to be implemented by Member States; in its FAQs the EC gives a tentative indication of an expected transposition date of 2016, meaning that companies might be required to publish their first reports in 2017. The Commission states that Member States may grant non-listed companies, which currently may be less used to reporting practices, the possibility of an additional transition year.

FEE has welcomed the EC legislative proposal as a first step in the right direction, noting that it is also critical to make the bridge between financial and non-financial performance; in today's world, historical financial information alone is insufficient to inform stakeholders on the business' capacity and prospects to create sustainable value.

Further information

Further related information is accessible via this link:

http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm

About FEE

FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 45 institutes of professional accountants and auditors from 33 European countries, including all of the 28 EU Member States.

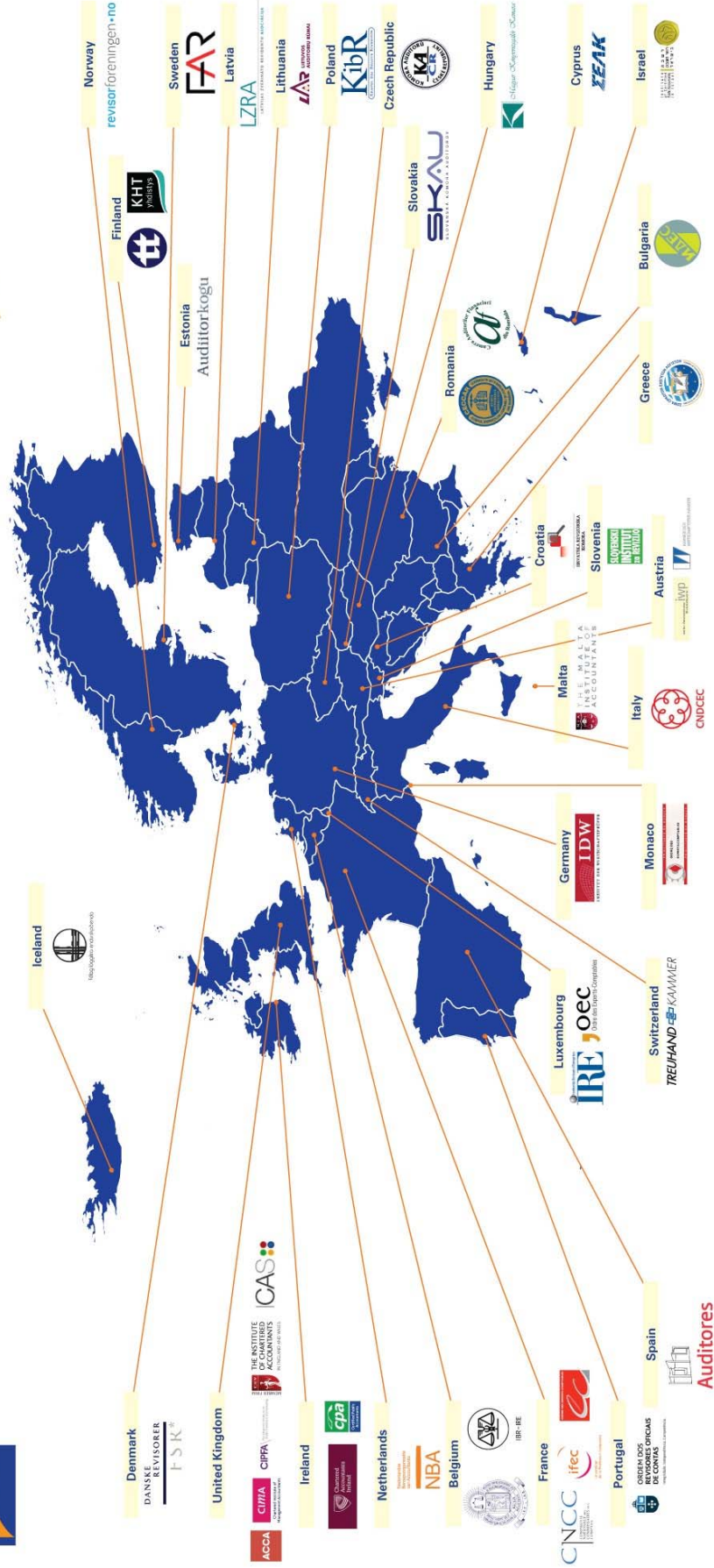
FEE has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education, who all contribute to a more efficient, transparent and sustainable European economy.



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