



EU Directive on disclosure of non-financial and diversity information

Achieving good quality and consistent reporting

POSITION PAPER



HIGHLIGHTS

This Position Paper highlights the requirements of the EU Directive on disclosure of non-financial and diversity information, which is due to be transposed into Member States' national laws by 6 December 2016. Those companies affected will need to comply with the national rules from 2017 onwards; the European Commission is in the process of developing non-binding guidelines to assist them in complying with these requirements.

The Directive requires 6,000 large European companies to disclose information at least on environmental, social, and employee-related matters, as well as on the respect for human rights, anti-corruption, and bribery issues. These companies also have to disclose the diversity policy for their administrative, management, and supervisory boards.

This Directive represents the most significant EU legislative initiative in respect of such environmental, social and governance disclosure in nearly a decade and is likely to have a significant impact on the non-financial information (NFI) reporting of many of the companies affected. This paper sets out what the NFI Directive means in practice, discusses the key issues around implementing the requirements, and provides some real-world examples of how the requirements can be met.

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Chapter 1 Introduction

As highlighted in *The Future of Corporate Reporting*¹, a recent publication in the Cogito thought-leadership series by the Federation of European Accountants, the audience for corporate reporting is growing - as are their demands. Users of financial reports are looking for more information about the value creation process of an undertaking as well as information as to how it interacts with the world around it. This information provides context for financial disclosures, demonstrating both how far an undertaking is able to meet stakeholder expectations and the viability of its business model.

Such information has been variously categorised as Environmental, Social and Governance (ESG)², Sustainability or Corporate Social Responsibility (CSR)³ reporting, among others. The terms are often used interchangeably despite each category having a different emphasis. However, in the context of this publication they will be treated as synonymous and will refer only to CSR (unless ESG is specifically quoted), primarily as this is the term most commonly used in communications from the European Commission.

In corporate reporting, NFI covers more than just CSR issues but, except where otherwise indicated. References to NFI in this paper refer to the requirement of the NFI Directive (*Directive 2014/95/EU disclosure of non-financial and diversity information by certain large undertakings and group*) as the requirements in the NFI Directive relate to CSR issues.

Reporting on CSR issues had been gaining in importance for some years, as evidenced by the European Commission's publication of Green Paper in 2001. It became a major political issue after the 2008 financial crisis as there was a clear need to rebuild investors' and consumers' trust in markets, partly through better information regarding risk management and sustainability. Subsequently, both the European Commission and Parliament have been active in promoting CSR reporting, not only for the benefit of society but also as a means to improve the competitiveness and innovation of European businesses.

This has culminated in the NFI Directive, the objective of which is to improve the average quality and consistency of NFI reporting across Europe. A legislative proposal was considered necessary to ensure a level playing field and to reduce the possibility that different national requirements across the EU could create additional costs for cross-border businesses.

The Federation supports the initiative represented by the NFI Directive and believes that it is a valuable tool in promoting CSR reporting within Europe.

This publication aims to highlight the requirements of the Directive, address issues that could lead to inconsistent application across the EU and make positive suggestions as to how best to achieve consistent, high quality NFI reporting across the EU. It also aims to contribute to the development of the non-binding guidelines that the Commission is required to produce.

The Directive provides a high level, principles-based, legislative framework with sufficient flexibility to enable Member States to implement in the manner that best serves their internal markets. Chapter 2 will first give a taste of the current state of play of NFI reporting requirements in Europe before looking in detail at the contents of the NFI Directive.

¹ *The Future of Corporate Reporting* <http://www.fee.be/library/list/50-corporate-reporting/1529-1510future-corp-rep.html>

² According to UNEPFI report, Environmental, Social and Governance (ESG) is a generic term that emerged to describe environmental, social and governmental issues. This term is used by investors to assess corporate behavior and future financial performance of companies. One of the examples of ESG issues, among others, is an issue of non-financial or not material nature. More information can be found: <http://www.unepfi.org/fileadmin/documents/translatingESG.pdf>

³ Corporate Social Responsibility can be defined as the voluntary activities pursued by a company to operate in an economic, social and environmentally sustainable manner in the society. Sustainable development (or sustainability) can be defined as "the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland, 1987)

The increasing use of NFI brings its own challenges. Even defining the term can be difficult. Consequently, what constitutes NFI is further considered in Chapter 3.

The Federation believes that it is important that, whilst undertakings should be free to identify the key CSR issues that are crucial to their individual business, there is a need for good quality NFI that is comparable across different undertakings and across Europe.

The NFI Directive permits undertakings to determine, within certain broad guidelines, the key CSR issues affecting their business. In order to do so, the undertaking will have to consider the materiality of NFI. This is a difficult but crucial topic, so Chapter 4 is dedicated to considering how businesses should approach this complex issue.

Chapter 5 will provide some concrete examples of what the Federation considers to be best practice in the hope that it will be valuable in the development of an informed public debate as to what constitutes good quality NFI.

Chapter 2 The current environment

The current state of play

The section below gives an overview of the current legislative frameworks in several Member States – this is not an exhaustive analysis but does indicate how current legal requirements vary within the European Union.

In most European countries, the only current legal requirements regarding disclosure of CSR reporting still relate to the Modernisation Directive of 2003⁴ and the amendments to the Fourth and Seventh Accounting Directives in respect to the publications of a ‘corporate governance statement’⁵.

Under the Modernisation Directive 2003, large undertakings shall – to the extent necessary for a good understanding of their financial position – include in their annual reports the most important non-financial performance indicators for the company’s business, such as information on environmental and employee interests, in the company’s analysis of the development of its business and of its financial position. The existence of this information, but not its detailed content, is subject to the statutory audit.

Under the Directive 2006/46/EC, listed companies shall prepare a corporate governance statement containing:

- A reference to the corporate governance code that the undertaking has voluntarily applied;
- Reasons for any departure from this code;
- A description of the undertaking’s internal control and risk management systems as they pertain to the financial reporting process.

The statutory auditor is required to check that the report has been produced.

According to a survey conducted by the Federation in 2008, no significant change had occurred of CSR disclosure in financial reports⁶.

⁴ Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings, Full text can be found <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32003L0051&from=en>

⁵ Directive 2006/46/EC amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions, and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006L0046&from=EN>

By 2015, the following countries have implemented additional disclosure requirements:

France. From 2001, the NRE (Nouvelles Régulations Economiques)⁷ law required listed companies to provide some social and environmental information in their annual management report and since 2010 the Grenelle II⁸ law has added the following requirements:

1. Non-financial reporting is mandatory for all listed companies, and also for non-listed companies reaching certain thresholds (500 employees and 100 million € of net turnover or total assets);
2. Non-financial reporting has to address 42 specific issues (29 only for non-listed companies), with quantitative or qualitative information expected;
3. A 'comply or explain' approach is required;
4. Non-financial reporting has to be externally assured (extended from 2016 to include non-listed companies);
5. External assurance has to be provided by an 'accredited auditor' (the accreditation process has been devoted to the French Accreditation Committee – COFRAC). The assurance report has 2 parts:
 - i. an "attestation regarding the completeness of CSR information", and
 - ii. a "conclusion on the fairness of CSR information".

A template has been validated by the Compagnie Nationale des Commissaires aux Comptes for assurance provider members of the audit profession.

The undertaking is given the flexibility to choose to comply with a national or international reporting framework in order to fulfil its reporting obligation. However, it must disclose the nature and terms of the chosen framework.

Sweden has required state-owned companies to present an independently assured sustainability report in accordance with the GRI guidelines.

United Kingdom's Companies Act 2006 was amended in 2013 to require all UK companies, except those classed as small companies, to produce a Strategic Report. This report must disclose a description of the principal risks and uncertainties facing the undertaking, and key performance indicators (KPIs) in relation to environmental and employee matters.

In addition, all quoted companies must disclose the environmental impact of the undertaking's business, social issues (including those relating to human rights and community), and employee information, including the policies implemented regarding these matters and information on the effectiveness of these policies. Reporting on CO₂ emissions is also mandatory for all listed companies since 2013⁹.

A statement by the directors that the Annual Report, as a whole (including the Strategic Report) is fair, balanced, and understandable. The statement is required for all UK companies applying the Corporate Governance Code.

Denmark has made reporting on environmental, social and governmental topics mandatory since 2009¹⁰. The requirements apply to large companies, listed companies, state owned companies with limited liability, and

⁶ FEE Discussion Paper Sustainability Information in Annual Reports – Building on Implementation of the Modernisation Directive

http://www.fee.be/images/publications/sustainability/DP_Sustainability_Information_in_Annual_Reports_08125122008561444.pdf

⁷ Full legal text (in French) can be found <http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT00000223114>

⁸ Full legal text (in French) can be found <http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000022470434>

⁹ <http://www.legislation.gov.uk/ukdsi/2013/9780111540169/contents>

¹⁰ <https://www.globalreporting.org/information/news-and-press-center/Pages/DENMARK-TRANSPPOSES-EU-NFR-DIRECTIVE.aspx>

financial service sector companies with more than 250 employees. Denmark was, on 21 of May 2015, the first country to put the new EU NFI Directive into force. From 2016, the new law will apply to approximately 50 state-owned companies and companies listed on the Danish stock exchange.

From 2018, the rules will apply to all Danish companies with more than 250 employees, affecting a potential 1050 additional undertakings. The Danish legislation excludes the option in the NFI Directive to permit non-disclosure of certain information if “such disclosure would be seriously prejudicial to the entity’s commercial interest”. Large organisations have to supplement their Management Review with a CSR report, the content of which is described in detail. A supplementary report to the Annual Report is also possible.

The EU NFI Directive

The NFI Directive will apply to large public-interest entities (PIEs) with an average of 500 or more employees. The European Commission believes that this will affect approximately 6000 large companies and groups across the EU. Member States have the option to expand the definition of PIE over that used in the 2013 Directive.¹¹

The undertakings affected will be required to disclose information on several non-financial matters, to the extent necessary for an understanding of the undertaking’s development, performance and position, and of the impact of its activities.

Taking note of this, information must be provided, at a minimum, on:

- a. environmental matters
- b. social and employee-related matters
- c. respect for human rights
- d. anti-corruption and bribery matters

An undertaking must disclose a brief description of its business model and, for each of the above matters, the following information:

- a. A description of policies, including due diligence processes implemented;
- b. Outcomes of these policies;
- c. The risks relating to those matters and how the company manages those risks;
- d. Non-financial key performance indicators relevant for the particular business.

In the Federation’s opinion, NFI should be included in the management report rather than in a separate report, as far as it is material for an understanding of the undertaking’s development, performance, position and impact of its activity.

There exists a ‘comply or explain’ requirement – if an undertaking does not pursue policies covering these matters, it will provide a “clear and reasoned explanation” for not doing so.

Rather than specify a particular disclosure framework, the Directive permits use of national, European or international frameworks, but details of the framework(s) relied upon should be disclosed. For more information on existing disclosure guidelines and frameworks, see Chapter 3.

¹¹ Broadly defined in Article 2 para 13 of the Directive 2006/43/EC as all entities that are both governed by the law of a Member State and listed on a regulated market in a Member State, all credit institutions and insurance undertakings in the EU (whether listed or not) and other entities thus designated by Member States. The text is available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006L0043&from=EN>

Options are available as to where the information is disclosed – either in full in the management report or reported separately and cross-referenced in the management report. If published in a separate report, the report must be published at the same time as the management report or not later than 6 months after the balance sheet date.

Given that disclosure is only required of the key, material matters affecting an undertaking, **the Federation believes** that such information should be given its appropriate level of prominence in the management report. How to identify those issues that are material to an undertaking are examined in Chapter 4.

The statutory auditor shall check whether the required information is included in the management report (or a separate report as appropriate). Additionally, Member States may require that the NFI be verified by an independent assurance services provider. The Federation discusses the assurance aspects of the NFI Directive in a separate paper.¹²

Also coming into force at the same time is an amendment to the corporate governance requirements of the 2013 Accounting Directive. This requires the disclosure of the undertaking's diversity policy in respect of its administrative, management, and supervisory bodies. Matters to be covered include, for instance, those relating to age, gender, and educational and professional backgrounds. The objectives of the diversity policy, how it has been implemented and the results of its implementation in the reporting period must also be disclosed. If no such diversity policy exists, a statement shall be made explaining why this is the case. This requirement is not dependent on any level of significance or materiality. Consequently, all undertakings affected will have to include some commentary on the topic in their corporate governance statement. This amendment in respect of the diversity policy applies to all PIEs.

The NFI Directive applies to the European Economic Area and it entered into force on 6 December 2014. Member States have two years to transpose it into national legislation. This is also the deadline for the European Commission to publish non-binding guidelines on the methodology for producing NFI, including KPIs.

Companies have to comply with the reporting requirements in their disclosures for accounting periods commencing on or after 1 January 2017.

The Federation also considers that publication in the management report would help to ensure that the information is published in a timelier manner. Many of the undertakings affected prepare their annual reports as soon as possible after the balance sheet date - inclusion of such information in the management report would lead to its disclosure sooner than if the six month deadline for the publication of a separate report is adhered to.

¹² FEE issues views on the role of practitioners in providing assurance on disclosure of non-financial information
http://www.fee.be/index.php?option=com_content&view=article&id=1554&Itemid=106&lang=en

Chapter 3 Non-Financial Information

What is NFI?

The Chapter below discusses what is meant by NFI before moving on to look at some of the existing frameworks that may be useful as a reference point in the context of the NFI Directive.

NFI has appeared in financial reports to answer the need for more comprehensive information about corporate performance. But what is NFI? This concept could be understood as everything that is not financial. However, being more precise is a challenge. There is a lack of a common definition around this concept. Corporate reports already include a considerable amount of information that is not financial. Details of 'market share', for example, are not financial information but they give an indication of the undertaking's health and dynamism.

The major issue at stake with this concept is the value of the information disclosed. What is the difference between financial and non-financial information if both of them can have a financial impact on the company? NFI is vital to annual reports because it informs the decisions of investors and the providers of corporate finance. It gives valuable insight on internal and external policies, vision and values, risk management, and perspectives. These highlight the stability and robustness of the undertaking, and its ability to be profitable in the future. It helps address such questions as "can the undertaking meet stakeholders' expectations?", "can it cope with developing macro trends?", and, crucially, "is it fit for purpose?". After all, as highlighted in the World Economic Forum's *The Global Risks Report 2016*¹³, most macro trends and risks that could affect an undertaking in the future are non-financial.

NFI will usually concern externalities – the consequences of an economic activity that is experienced by unrelated third parties, positive or negative. This information can be quantified (perhaps even monetised), but normally additional qualitative information is necessary to connect NFI to financial outcomes and to provide context for such information. This information can reveal management effectiveness and reputational or industrial risks. It provides a context for financial information, and demonstrates the undertaking's success factors and value creation.

Ultimately, NFI can be defined as all the information disclosed by the company that cannot be explained with a currency. In spite of the appellation, it can have financial consequence – on the Profit or Loss Account or on the market value of the company due to reputational damage, for example. NFI is a label to work with, that gathers a continuum of new information on CSR issues, amongst others. This concept is still being developed and consensus is yet to be reached. This need for consensus is important since the NFI Directive was designed to unify European reporting practices under a common banner.

The NFI Directive, as mentioned in Chapter 2, highlights the material non-financial matters on which undertakings should report. These are environmental matters, social and employee-related aspects, respect for human rights and anti-corruption and bribery issues. Paragraph 7 of the preamble of the NFI Directive provides some additional guidance on what information should be disclosed for each of those matters:

- a. For environmental matters, an undertaking should report details of the current and foreseeable impacts of the undertaking's operations on the environment, (including, where appropriate, on health and safety), the use of renewable and or non-renewable energy, greenhouse gas emissions, water use, and air pollution;

¹³ <http://www3.weforum.org/docs/Media/TheGlobalRisksReport2016.pdf>

- b. For social and employee-related matters, the information provided should detail the actions taken to ensure gender equality, the implementation of fundamental conventions of the International Labour Organization, working conditions, social dialogue, respect for the right of workers to be informed and consulted, respect for trade union rights, health and safety at work and the dialogue with local communities, and/or the actions taken to ensure the protection and the development of those communities; and
- c. For human rights, anti-corruption and bribery, the NFI could include information on the prevention of human rights abuses and on instruments in place to fight corruption and bribery.

Current non-financial disclosure and sustainability guidelines

Paragraph 9 of the preamble to the NFI Directive makes it clear that preparers may rely on national frameworks, Union-based frameworks or international frameworks. For international frameworks, it specifically mentions the:

- a. UN's Global Compact
- b. the OECD's *Guidelines for Multinational Enterprises*
- c. the International Labour Organisation's *Tripartite Declaration of principles concerning multinational enterprises and social policy*, and
- d. the Global Reporting Initiative

It also permits the use of other recognised international frameworks, which include those developed by the European Federation of Financial Analysts Societies (EFFAS) and AccountAbility. The idea behind this approach is to best utilise already existing tools and also to create bridges between European and international reporting – thereby making NFI comparable. This Chapter will now briefly examine some of the frameworks available.

Global Reporting Initiative (GRI)

The GRI started publishing NFI reporting guidelines in the 1990s to help organisations communicate about their impact on society and environment. These guidelines give companies solutions to disclose their NFI information using a harmonised and clear methodology. The GRI provides a list of elements that should be included in companies' reporting with specific indications of the way in which they should be reported. The final objective is to give shareholders a tool to analyse the CSR performance of companies and to be able to compare them. Since inception, the GRI has gained major attention from companies and has become a worldwide reference for reporting. The latest (G4) version particularly focuses on issues related to materiality - it encourages companies to focus their communication on the most relevant topics related to their core business (<https://g4.globalreporting.org>).

The Federation believes that the implementation of the NFI Directive should follow the underlying approach of the <IR> framework as this framework emphasises the connectivity of financial and non-financial information and highlights the key role that materiality has to play. Within the overarching principles provided by <IR>, GRI then provides the most commonly used framework (providing the highest potential for comparable reporting) from which to draw, for example, specific KPI's, with the SASB framework providing other information where required.

The International Integrated Reporting Council (IIRC)

The IIRC was launched in 2010 with the objective of developing and promoting integrated Reporting (<IR>) by businesses. <IR> is a framework designed to change corporate communication to produce company reports that detail how an undertaking's organisational

strategy, governance, performance, and prospects lead to the creation of value over the short, medium, and long term. By integrating financial with NFI, the aim is to make clear how value-relevant information fits into the operations of the undertaking and thereby help embed long-term decision making into the undertaking's management. Following the <IR> framework, an undertaking demonstrates how its business model takes the 6 capital inputs (financial, manufactured, intellectual, human, social and relationship, and natural) and transforms them to outputs. <IR> is not primarily a framework for sustainability or CSR reporting – it aims to make the key value drivers for a particular business more obvious to investors and in the course of doing so it requires consideration of many of the issues of CSR reporting. The <IR> Framework was published in 2013 (<http://integratedreporting.org/>).

Sustainability Accounting Standards Board (SASB)

The SASB is a US not-for-profit organisation established in 2011 to develop and disseminate accounting standards dealing with social and environmental issues. A significant characteristic of the SASB is that the standards developed are intended to be consistent with the current US system of financial regulation – indeed, the aim is to integrate SASB standards into the standard annual report required by the U.S. Securities and Exchange Commission for all publically traded companies. The SASB has developed its *Sustainable Industry Classification System* that categorises ten sectors and 88 industries and has so far issued a Conceptual Framework and nine industry-specific reporting standards (with a tenth under development). Apart from NFI accounting standards and KPIs, the SASB is also developing a more consistent approach to the use of materiality in sustainability reporting (<http://www.sasb.org/>).

The Federation does not believe that any single framework provides a complete solution for dealing with the requirements of the NFI Directive. Our view is partly driven by the differing materiality considerations as to what should be included in a management report compared to that disclosed, for example, in a full sustainability report under the GRI framework. This issue will be discussed in more detail in the following Chapter.

The Federation believes that the frameworks provided by the GRI, the IIRC and SASB are the most suitable frameworks for informing undertakings seeking to comply with the requirements of the NFI Directive as they specifically focus on the reporting requirements and criteria

AccountAbility (AA)

The AccountAbility principles for sustainable development were initially published in 1999 and have since undergone various modifications. The current standard in place is the *AA1000 Accountability Principles Standard 2008* (AA1000APS), which provides undertakings with a set of principles to frame and structure the way in which they understand, govern, administer, implement, evaluate, and communicate their accountability. The value of the principles of AA1000APS (namely, inclusivity, materiality, and responsiveness) lies in their comprehensive coverage and the flexibility of their application. Accompanying AA1000APS is AA1000AS – a high-level principles-based assurance standard that emphasises the importance of materiality, completeness, and responsiveness.

AA1000APS demands that an undertaking actively engages with its stakeholders, fully identifies and understands the sustainability issues that will have an impact on its performance, and then uses this understanding to develop responsible business strategies and performance objectives. As principles rather than prescriptive rules, they allow undertakings to focus on what is material to their own vision, and provide a framework for identifying and acting on opportunities as well as managing non-financial risk and compliance (<http://www.accountability.org/standards/aa1000aps.html>).

United Nations Global Compact (UNGC)

Launched in 2000, the United Nations Global Compact is a platform for businesses for the development, implementation and disclosure of responsible, and sustainable corporate policies and practices. The UNGC seeks to align business operations and strategies with ten universally accepted, guiding and overarching principles in the areas human rights (2 principles), labour (4 principles), environment (3 principles), and anti-corruption (1 principle). It assists the private sector businesses in the management of increasingly complex risks and opportunities, and seeks to embrace, support and enact, within their sphere of influence, a set of core values in these areas. By partnering with companies and leveraging the expertise and capacities of a range of other stakeholders, the UNGC aims to embed the ten principles in markets and corporate boardrooms, for the benefit of both businesses and society around the world. Businesses become signatories to the UNGC and demonstrate tangible actions to support the Ten Principles by submitting formal *Communications on Progress* on an annual basis (<http://www.unglobalcompact.org>).

Organisation for Economic Co-operation and Development (OECD)

The OECD's *Guidelines for Multinational Enterprises* are a set of non-binding norms and principles aimed at international undertakings. Their objective is to help these businesses positively contribute to a better natural, social, and economic environment. By transforming the impact of companies on society, those Guidelines aim to reshape investment choices by adding a whole new perspective – non-financial performance. Its last version dates from 2011, comprises of eleven chapters of which the third chapter deals with disclosure, including information of a CSR nature. The text delivers recommendations regarding the content, the scope of their reporting, the nature of assurance, available norms and reporting tools, etc. It is, however, hardly ever used as a reporting guideline (<http://www.oecd.org/corporate/mne/48004323.pdf>).

European Federation of Financial Analysts Societies (EFFAS)

EFFAS has published KPIs for CSR since 2010. The objective of these KPIs is to provide a basis for the integration of CSR data into corporate performance reporting. The current release (*KPIs for ESG version 3.0*) sets out overall requirements for CSR reports, guidelines for presentation and structure, and minimum requirements for the content to be disclosed. They apply to profit-oriented entities.

While the framework is suitable for all entities regardless of size, scope and legal form, it has been specifically designed for publically-listed companies and issuers of bonds. The KPIs reflect the requirements of economic stakeholders in general and investment professionals in particular, as EFFAS is a professional association representing investment professionals (i.e. professionals who manage or evaluate investments or credit risks). EFFAS encourages investors, financial analysts, credit rating agencies, and other functions vital in capital markets to integrate its KPIs into their valuation models (*KPIs for ESG – A guideline for the Integration of ESG into Financial Analysis and Corporate Valuation*)
http://www.effas-esg.com/wp-content/uploads/2011/07/KPIs_for_ESG_3_0_Final.pdf).

ISO 26000

ISO 26000 is a voluntary CSR standard designed to help undertakings to behave responsibly and to improve their CSR engagement through time. The standard revolves around Seven Core Subjects: organisational governance, human rights, labour practices, environment, fair operating practices, consumer issues and community involvement and development. One of the ISO 26000's core objectives is to improve the reliability of undertakings' CSR communication and transparency, and to give a common and universal basis of CSR concepts and methodologies. This Seven Core Subjects makes the ISO 26000 a suitable tool for non-financial reporting, and many undertakings use it as a framework to organise their report (<http://www.iso.org/iso/home/standards/iso26000.htm>).

However, the ISO 26000 standard is neither a reporting framework nor a management system standard. Unlike many other ISOs that include a certification process, ISO 26000 it is a guideline only without a certification process.

Whichever framework or frameworks an undertaking decides to use as the basis for its reporting under the NFI Directive, **The Federation believes** that for the sake of clarity and comparability, the undertaking should adequately disclose the framework(s) used and the reasons for using it.

Chapter 4 Materiality defines the scope of NFI

As mentioned in Chapter 2, the NFI Directive requires that non-financial matters have to be disclosed to the “extent necessary for an understanding of the undertaking's development, performance, position, and impact of its activity”. This is further expanded in paragraph 8 of the preamble to the Directive, which states that information should be provided in “relation to matters that stand out as being most likely to bring about the materialisation of principal risks of severe impacts, along with those that have already materialised. The severity of such impacts should be judged by their scale and gravity”.

The ‘minimum matters’ stipulated by the NFI Directive should be understood as a categorisation to help undertakings identify material matters, hence the ‘comply or explain’ approach. For example, a software firm with highly paid staff working under flexible working conditions and that doesn’t have an extended supply chain may consider that the possibility of human rights abuses is extremely remote. Even though human rights matters are stipulated as minimum matters to be potentially included by the NFI Directive, the software firm should not disclose this information in the management report but rather explain the process by which this category was identified as immaterial.

This chapter aims to assist with the process of defining the scope of the NFI to be included in order to comply with the requirements of the NFI Directive. In order to define this scope, the concept of materiality is critical. The International Federation of Accountants (IFAC), in the context of materiality in respect of Integrated Reporting (<IR>) acknowledges this, stating that reports must focus on material matters to improve internal and external decision making by excluding extraneous information – thereby helping to reduce the information asymmetry between management and external stakeholders¹⁴.

The Federation also believes that it is crucial that the criteria and the internal processes for deciding on NFI materiality are properly disclosed. Undertakings should state how they have ensured that all material information has been included in the management report (i.e. how relevant issues have been identified and evaluated on their potential impact on the undertaking) to give the users comfort that all material issues have been included.

The SASB, using a judgement from the U.S. Supreme Court as a basis, defines information as material if there is “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available”¹⁵. Materiality is a concept well understood by the preparers, auditors and users of financial information, but determining materiality for NFI purposes is far more difficult because the accepted practice of defining materiality in terms of a financial threshold is simply not possible with many types of NFI. This increases the risk of differing judgements of materiality between the preparers, the auditors and the various users of NFI.

According to *the Guidance for the preparation of integrated reports* published by the IIRC¹⁶, three critical frames of reference need to be considered when determining materiality in relation to NFI in management reports:

¹⁴ <https://www.ifac.org/publications-resources/materiality-integrated-reporting>

¹⁵ <http://www.sasb.org/materiality/important/>

¹⁶ http://integratedreporting.org/wp-content/uploads/2015/11/1315_MaterialityinIR_Doc_4a_Interactive.pdf

1. The report's purpose: the purpose of a management report is to complement an undertaking's financial statements. Complementary information is necessary with regards to goodwill and other intangible assets (particularly where self-generated) as far as it cannot be drawn from financial statements, especially regarding their fair value. Furthermore, as financial statements are primarily based on historical financial information, forward-looking information is needed to inform as to the undertaking's probable future development;
2. The report's users or audience: the primary user of a management report is anybody who has a legitimate interest in an undertaking's performance. Those are primarily investors, but also include employees, suppliers, customers etc.;
3. The report's scope: the management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces. It should clearly indicate how internal aspects such as strategy and governance interact with external factors to influence the undertaking's ability to create value.

The above definition of materiality is more or less applicable when preparing any (corporate) report. However, the information to be included in a management report could be different from the information included in, for example, a sustainability report prepared in accordance with GRI Guidelines or other frameworks. This is because:

- a. Sustainability reports are directed towards a broader audience than management reports. Disclosure of topics that are deemed material for preparing a sustainability report can also be material for a management report, but not in the same detail or length;
- b. For management report purposes, it is not sufficient that a matter be material for stakeholders. For inclusion in the management report, the matter also has to materially impact the undertaking's performance – in the period of the report or in the future. It is, therefore, important not to just 'cut and paste' CSR-related information from a non-financial statement into the management report – this information should also be connected to disclosures related to the undertaking's performance, and should be of crucial importance to the undertaking.

The Federation believes that the disclosure requirements arising from the NFI Directive do not represent a fundamental change in direction in corporate reporting or an obligation to report on matters that are irrelevant for the undertaking's position. In fact, they are an acknowledgement that 'non-financials' do count financially and are often essential for a proper understanding of the undertaking's performance, position and future development. Applied correctly, and focused on material matters, this reporting obligation can assist in ensuring that management reports better meet their underlying purpose.

In **the Federations' view**, the following steps can help management identify material matters:

- a. Identify the non-financial matters that had material impact on the undertaking's financial position in the past year.
- b. Consider which non-financial matters could have material impact on the undertaking's financial position in the future. Identify the extent to which these matters represent risks or opportunities for the undertaking's future development.
- c. Identify those areas where the undertaking has significant dialogue with stakeholders. When identified, consider the importance of this dialogue to the undertakings corporate governance statement.

The Federation believes that, most of the time, it will not be possible to define a quantitative threshold for materiality with regards to NFI - the threshold is, rather, qualitative.

- d. Consider whether non-financial matters are reflected in the entity's Research and Development programme. If they are reflected, then consider how.
- e. Identify whether non-financial matters are reflected in the entity's senior management remuneration policy. If this is the case, then consider how.
- f. Consider whether there are any codes of conduct with regards to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. If any are identified in respect of the undertaking, determine whether those should be part of the undertaking's corporate governance statement.

Chapter 5 Current good practice

Many undertakings have already voluntarily adopted disclosure of CSR non-financial information, usually within an existing international framework and, therefore, there are still many examples of informative and clear disclosure. With a view to informing the development of European non-financial reporting, one example has been included below for each of the different matters specified in the NFI Directive to demonstrate how undertakings are currently dealing with these matters in their corporate reporting.

Inclusion of a section of the reports in our publication should not be seen as an endorsement by the Federation of the undertaking involved, its CSR policies or its NFI reporting.

Whilst these examples highlight that it is eminently possible to provide comprehensive information on CSR matters, they also highlight the considerable divergence in reporting on these matters between different undertakings and the fact that there is no single example that achieved reference standard in all of the matters required.

The Federation also believes that the key characteristics of good practice in NFI reporting should be the connectivity of information, a focus on material information, and on a common framework of information between undertakings. This will help ensure that the information necessary for informed decision making will be easy to digest – a process further assisted by presenting such information using graphical and tabular formatting rather than by using only text descriptions.

The matters addressed in the NFI Directive are, to differing degrees, also addressed in the <IR> Framework produced by the IIRC and the GRI Guidelines. Consequently, examples have been drawn from their respective databases^{17,18} and some examples were also taken from CorporateRegister.com Directory¹⁹. Priority has been given to winners of reporting awards or those recommended as high quality reports by the organisations managing the databases in question.

The disclosure of the business model is one of the key elements required by the <IR> Framework. For environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, as well as diversity matters, which are considered to be material, the <IR> Framework would also require disclosures on related risks and performance indicators. GRI's Guidelines address all these matters, albeit the focus is on disclosure of related policies, outcomes, and non-financial performance indicators. Similarly to the <IR> Framework, the GRI framework only calls for disclosure of matters if the undertaking considers them to be material.

Further examples of good practice can be found in the appendix on our website²⁰.

¹⁷ From the Integrated Reporting Examples Database (IRED) developed by the IIRC <http://examples.integratedreporting.org/>

¹⁸ Sustainability Disclosure Database (SDD), developed by the GRI <http://database.globalreporting.org/>

¹⁹ The CorporateRegister.com Directory (Co.Re.Di.) is managed by CorporateRegister.com <http://www.corporateregister.com/>

²⁰ http://www.fee.be/index.php?option=com_content&view=article&id=1575&Itemid=106&lang=en

Business model

Aggreko Plc, a global leader in temporary power and temperature control solutions, published its Annual Report 2014²¹ with a similar structure as outlined in the <IR> Framework without formally stating the application of a specific reporting framework. This Report involves all principal business and CSR matters and includes clear disclosure of its business model, covering six pages.

The effectiveness of this disclosure derives from the connection between the business model and the economic transformation process from inputs to outputs. Also described are the sourcing relationships with suppliers, the value creation strategy across the projects' life-cycles, and the use of specific resources.

The section also provides quantitative KPIs for many aspects mentioned in respect to value creation, thereby providing a benchmark for assessing changes and developments of the business model in the future.

HOW WE CREATE VALUE THROUGH OUR BUSINESS MODEL



Human
 We have a highly skilled and professional workforce of over 7,700 employees worldwide

Supply chain
 We work with suppliers to ensure the components and services they provide comply with our quality standards

Design and manufacture
 We work closely with engine manufacturers and technology partners to design and manufacture equipment that is fuel efficient, emissions compliant and with a unique capital cost advantage

Financial
 The Group has a strong balance sheet with sufficient facilities available

Intellectual
 We invest in our technology and operating procedures to deliver better performance

Power
 9,695MW £926m
assets¹

Chillers
 1,294MW £53m
assets¹

Oil-free air
 634cfm £12m
assets¹

Ancillaries
 £95m
assets¹

How our strategy maximises performance
 → Page 22
 Risks that are involved
 → Page 29



Maintain and Service
 211
 Sales and Service Centres worldwide operating a hub and spoke model

4
 Power Projects hubs on major shipping routes



Local business revenue
 £904m
 Average contract value: £21k
 The Local business rents power and temperature control equipment to a diverse range of customers who operate it themselves; we service and maintain it

Power Projects revenue
 £625m
(excluding pass-through fuel)
 Average contract value: £5 million per annum
 The Power Projects business sells electricity which we deliver using power plants built, owned and operated by ourselves



The value we create

- Supporting industry and commerce
- Providing power for countries and communities
- Enabling key events around the world
- Innovating to build a sustainable business
- Global employment
- Strong brand and good reputation
- Rewarding careers
- Shareholder returns

KEY INPUTS

Relationships
 We have longstanding relationships with many of our suppliers, notably Cummins, our main engine supplier. We also have sourcing relationships across the globe where we work very closely with suppliers to ensure that the components and services provided comply with our quality standards.

¹ Not comparable



Source: [Aggreko Plc, Annual Report 2014](#), p. 16- 17

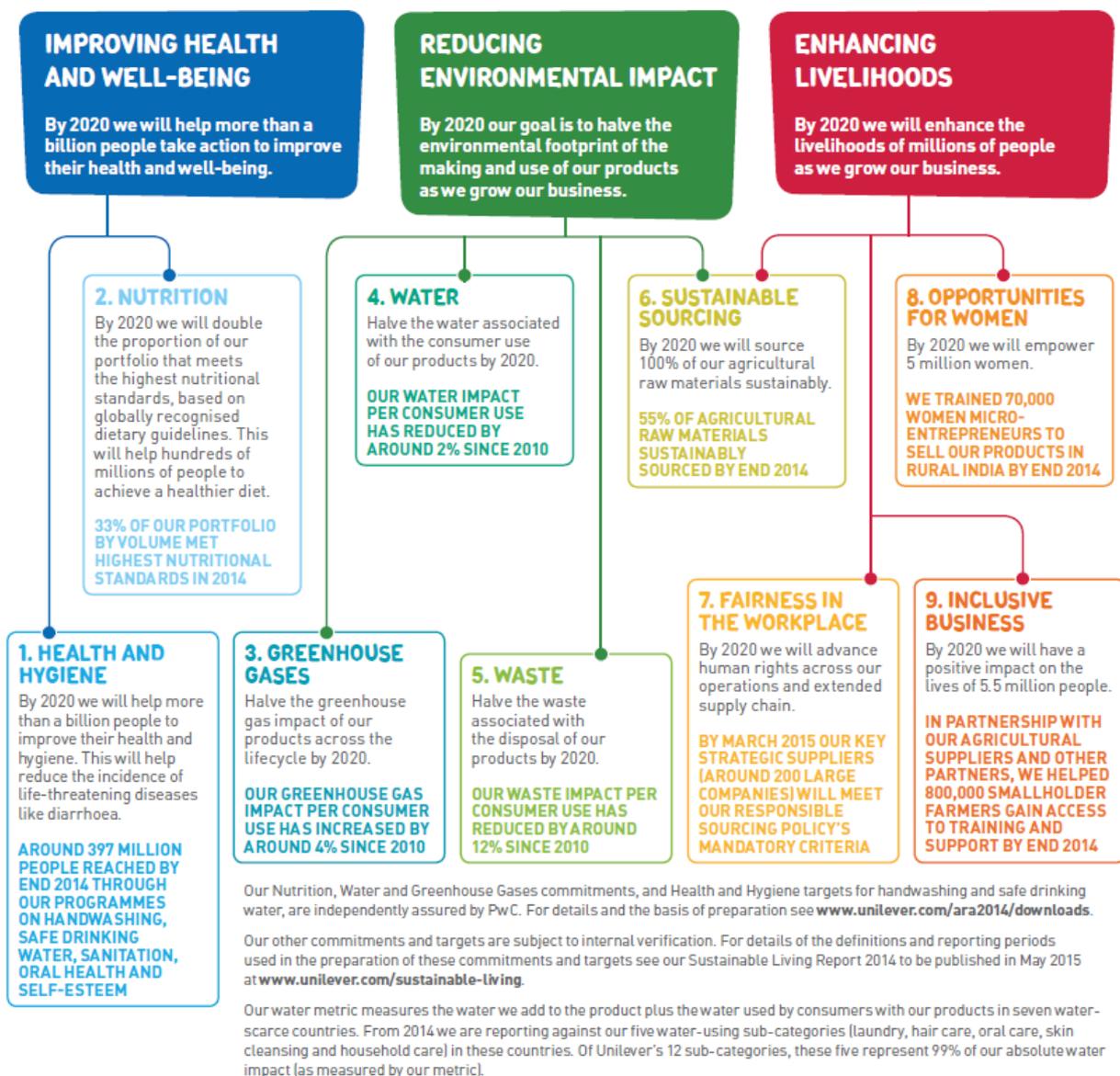
²¹ Aggreko Plc Annual Report 2014 <http://ir.aggreko.com/~media/Files/A/Aggreko-IR-v2/respres/2015/annual-report-2014.pdf>

Policies pursued and outcome of policies (incl. performance and KPIs)

Unilever, a multinational consumer goods company, is recognised as a world leader for corporate action on climate change and scored in 3rd position in research carried out on a content and quality on corporate social responsibility reports of Dutch companies.²² The company summarised in a single page the policy pursued with regard to several social and environmental policies, detailing its strategy and the resource allocation involved in the business model adopted in its Annual Report 2014²³.

The graphical design clearly outlines the environmental and social impact of the production chain and the sustainability value of the company.

The remainder of this section of the financial report is also easily understandable – the document uses lots of hyperlinks and small paragraphs to make it more intelligible and easier to determine the key environmental factors relating to the undertaking’s operations.



Source: [Unilever Annual Report 2014](http://www.unilever.com/ara2014), p. 11

²² More information can be found on <https://www.unilever.com/news/awards-and-recognition/>

²³ *Unilever Annual Report and Accounts 2014* https://www.unilever.com/images/ir_unilever_ar14_tcm244-421557_en.pdf

Outcome of policies

ARM Holdings Plc, the world's leading semiconductor intellectual property supplier, won an award for Strategic Reporting in 2015.²⁴

The company published its 2014 Annual Report in the form of two documents: the *Strategic Report*, giving a comprehensive and concise overview of the key information about ARM, and the *Governance and Financial Report*²⁵, containing more details about performance in the year. Additional information has been separately disclosed in the *Corporate Responsibility Report*²⁶.

The *Strategic Report* includes a section that provides information on the entire value creation chain, from the undertaking's policy and related strategy to its performance and outcome (in terms of market context, business model and its inputs and outputs diagram, and long-term growth strategy).



Source: [ARM Holdings plc Strategic Report](#), p. 22

Seventeen pages (from 14 to 30) are devoted to the specific analysis and KPIs of each principal economic and social channel of the ARM value creation process:

- “Building the base of licences that will drive future royalties”;
- “Growing the number of ARM-based chips”;
- “Increasing share in target end markets”;
- “Increasing the value that ARM receives for each smart device sold”;
- “Developing and licensing new technology to generate additional revenue streams generate additional revenue streams”;
- “Investing in ARM’s people and systems”;
- “Growing normalised profits, EPS, cash generation and dividends”.

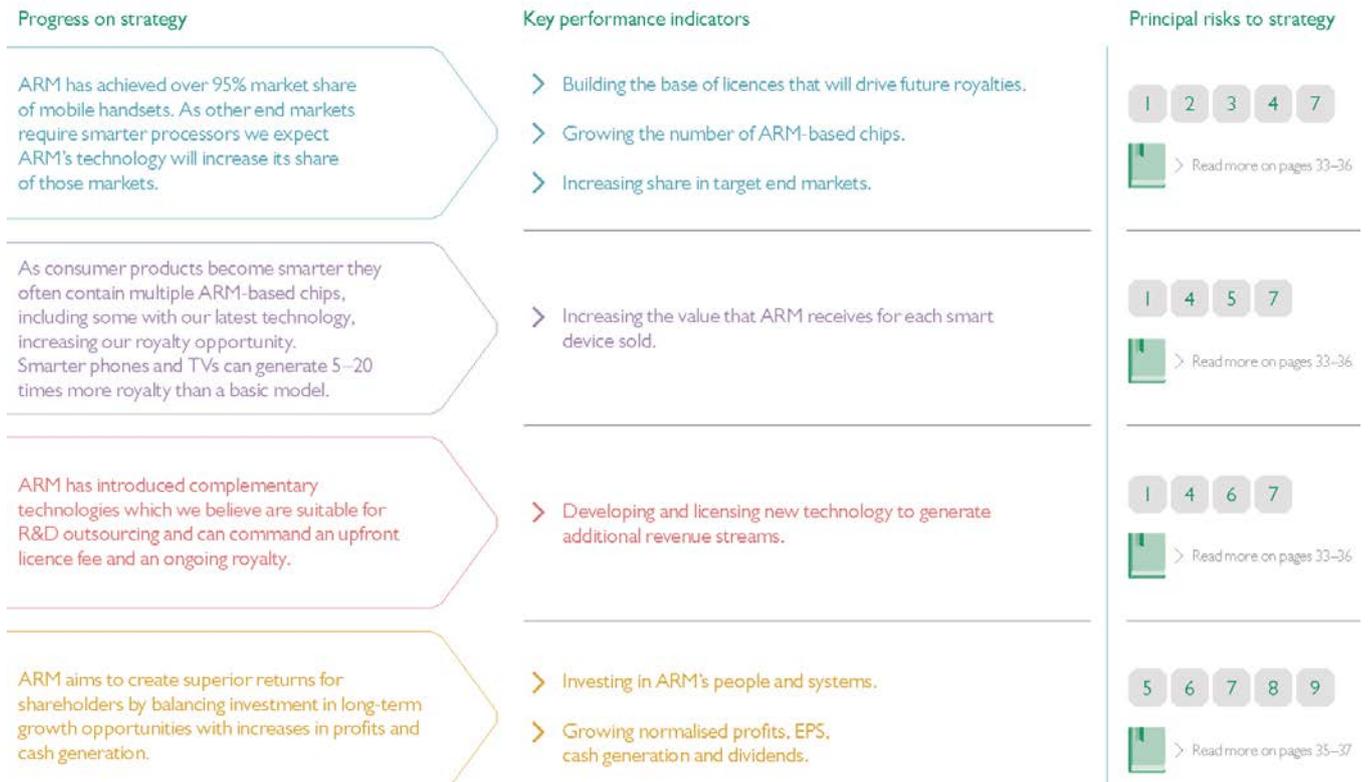
²⁴ The awards announced by PwC <http://www.pwc.co.uk/building-public-trust-awards/winners.html>

²⁵ ARM Holdings plc Strategic Report 2014 <http://ir.arm.com/phoenix.zhtml?c=197211&p=irol-reportsannual>

²⁶ ARM Holdings plc Corporate Responsibility Report 2014 http://www.arm.com/files/pdf/ARM_2014_CR_Report.pdf

With this presentational framework those activities most subject to risk are clearly identified.

The areas of activity, and where the production and sales activities take place, are comprehensively represented and the report clearly describes the countries in which the undertaking has created employment.



Source: [ARM Holdings plc Strategic Report](#), p. 23

Growth driver:
Generate additional revenues from new technology

Principal risks

1 4 6 7

Physical IP revenues (\$m)



Physical IP licensing/physical IP royalty.

Mali multimedia processor licences signed



ARM signed 25 Mali processor licences in 2014, taking the total number of licences signed to 105.

Source: [ARM Holdings plc Strategic Report](#), p. 28

Risks related to CSR matters

Gold Fields, one of the world's largest gold mining firms, is an awards winning company. The company scored well in sustainability performance over the past years²⁷. Its *Integrated Annual Review 2013*²⁸ (prepared according to GRI G3) has five pages providing information regarding CSR related risks. Its risks and opportunities section is structured around strategic categories, details the undertaking's appetite for risk and its tolerance level, clearly identifying the thought process behind each risk/opportunity and its impact on the business.

Moreover, the report contains annual targets and performance measurements for every kind of risk, indicating the actions undertaken to address these risks or opportunities.

| Strategy and risk category | | Risk appetite | Tolerance level | Targets | 2012 ⁵ | 2013 ⁶ | X/✓ |
|----------------------------|---------------------------------|---|--|--|---------------------|---------------------|-----|
| Operational excellence | Safety | Zero harm | Zero harm | No fatalities | 0 | 2 | X |
| | | | | SIFR ⁷ (5% reduction) ¹ | 0.35 | 0.66 | X |
| | | | | LTIFR (5% reduction) ¹ | 2.36 ² | 2.86 | X |
| | | | | DLIFR ³ (5% reduction) ¹ | 28.35 | 61.46 | X |
| Operational plan | Sustainable cash flow | Within ±5% of plan | 20 – 25% NCE | 20% | 17% | X | |
| | Superior shareholder returns | | Payment of dividends of 25% – 35% of earnings | 235 cps = 25% | 22 cps = 30% | ✓ | |
| Growing Gold fields | Mergers and acquisitions | Prioritise low-risk/high-return growth opportunities | Minimum of 10% IRR at US\$1,300/oz | Increase % oz in OECD countries | 29% oz in Australia | 43% oz in Australia | ✓ |
| | Exploration | | | Orogenic/low sulphidisation ore bodies | n/a | On track | ✓ |
| Securing our future | Environment | Zero harm | Zero Level 4 and 5 incidents | Zero | Zero | Zero | ✓ |
| | Health | Zero harm | Zero harm | Silica ³ Less than 5% >0.1mg/m ³ | 4.7% | 3.8% ⁴ | ✓ |
| | | | | Noise ³ All machinery <110dB(A) | 0.7% | Zero | ✓ |
| | Human resources | Pipeline of successors for scarce and critical skills | Successor cover for all executive committees | 100% | 110% | 100% | ✓ |
| | | High-performance culture | Performance management plans and targets for management | 100% Excluding South Deep | 100% | 100% | ✓ |
| | Licence to operate | Global leader in sustainable gold mining | Full compliance with all statutory, regulatory and community commitments | Full compliance – No mine closures, community- or government-related | 100% | 100% | ✓ |
| | Ethics and corporate governance | Full compliance with SOX and substantial compliance with King III | No material/significant failures | Nil | Nil | Nil | ✓ |

Source: Gold Fields [Integrated Annual Review 2013](#), p. 60

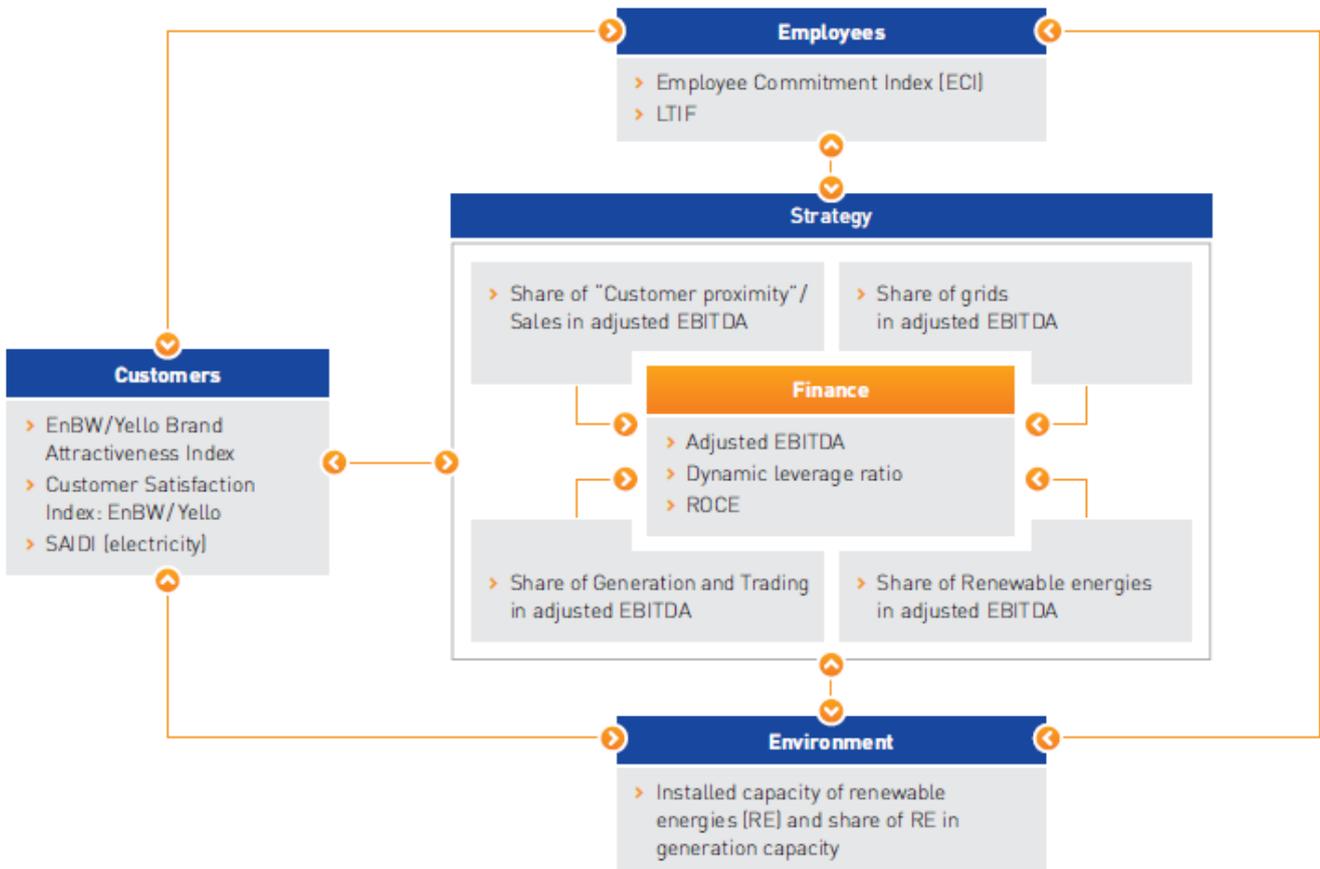
²⁷ More information can be found on https://www.goldfields.com/sus_awards.php

²⁸ *Gold Fields Integrated Annual Review 2013* https://www.goldfields.com/reports/annual_report_2013/pdf/annual-review-2013.pdf

Non-financial KPIs

Energie Baden-Württemberg AG (EnBW), a publicly traded electric utilities company, in its Annual Report 2014²⁹ (prepared according to the <IR> framework, GRI G4 and other reporting standards) provides a clear example in how to represent the possible connection between financial KPIs and non-financial KPIs. The report presents a thorough analysis of the relationship of the EBITDA (*Earnings before interest, taxes, depreciation, and amortisation*) with other KPIs, like the ECI (*Employment Commitment Index*).

Interaction of key performance indicators



Source: EnBW [Annual Report 2014](#), p. 27

Diversity policy

The Crown Estate, a collection of lands and holdings in the United Kingdom, won PwC's *Building Public Trust* award for Sustainability Reporting in 2014. The company in its *Annual Report and Accounts 2015*³⁰ (prepared according to IR Framework) has devoted considerable effort to informing stakeholders about its governance structure and diversity policy.

The governance policy is summarised in the first page of the specific section and detailed information is provided in the following pages, supported by 'in a glance' tables.

²⁹ EnBW Annual Report 2014 <http://report2014.enbw.com/fileadmin/ONGB14/Downloadcenter/EnBW-Report-2014-Complete.pdf>

³⁰ Crown Estate Annual Report and Accounts 2015

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437451/Crown_Estate_AR_2015_web_pdf_accessibility_version_.pdf

Board performance evaluation

Each year, the Board conducts a formal evaluation of its effectiveness. Last year the Board decided that an independent external evaluation would be appropriate, and this was led by PwC. The review was an extensive and in-depth assessment of our effectiveness, which spanned across last year and the current year. The Board has focused on the outcomes of that review, and has spent a great deal of time ensuring that all areas identified have been addressed. The Board's progress against the matters identified from the Board effectiveness review is shown below.

This Board performance appraisal process was followed up at the Board strategy away-day in October 2014, which focused discussion on progress against identified issues, where further progress could be made and how best to carry plans forward to completion.

| Actions from 2014 Board Effectiveness Review | Progress recorded in 2014/15 |
|---|--|
| Main Board to appoint a professionally qualified accountant to the Board. | Paula Hay-Plumb was appointed to the Board, and as chair of the Audit Committee, in January 2015. |
| <p>The Board should establish a Nominations Committee to include responsibility for:</p> <ul style="list-style-type: none"> a. working towards increased female representation on the Board; b. review the process for identifying the Senior Independent Board Member; c. considering the optimal term of office on the Board (including that of the Chief Executive); and d. oversight of executive succession. | A Nominations Committee has been established, and is scheduled to meet bi-annually. This Committee has delegated authority from the Main Board, to review the process of identifying the Senior Independent Board Member, examining gender diversity on the Board, considering terms of office for Board members and the Chief Executive, as well as having oversight for the succession plans for Management Board members. |
| The Board should review the executives' attendance at Board meetings and consider alternative approaches to encourage greater participation. | Active consideration is being given to this item, in conjunction with the work of the Nominations Committee. |
| The Chairman should review the frequency of Board meetings and adjust the agenda accordingly, encourage strategic discussion and consider the balance between formal and informal Board time. | The Board structure has been reduced to six meetings per year, which has encouraged a more strategic focus for discussions. This has been supported by the increased financial delegated authority given to the Investment Committee. |
| The Chairman and Company Secretary should develop a rolling programme of external speakers at Board meetings or other Board events and ensure Board Members are aware of external training opportunities. | The Board receive relevant commercial presentations from external consultants on a regular basis (three out of six meetings) and are provided with details of external training opportunities, which are relevant to their roles, as and when they arise. |

Source: Crown Estate, [Annual Report and Accounts 2015](#), p.65

Additional information is provided on leadership, accountability, effectiveness, remuneration, and relations with shareholders. With regard to the Boards and appointment thereto, key strengths, experience, and external appointments are listed for each board member.

| October 2014 Cheshire (Strategy meeting) | December 2014 London | December 2014 Special Meeting London | January 2015 London | February 2015 London | March 2015 London |
|--|---|---|--|---|---|
| Note the outcome of the Board effectiveness appraisal 2014 |  Note the quarterly safety, health and environment update |  Approve proceeding with the development of the Westgate Centre, Oxford | Note the presentation on our position in Scotland | A presentation by John Lutzius of Green Street on the listed real estate sector | Approve revenue budget for 2015/16 |
|  Strategic investment review |  Note the oral update on our position in Scotland | |  Approve the sale of 125-year lease of 15a Kensington Palace Gardens | Note the summary of our joint venture partnerships | Endorse the Corporate Plan for 2015/16 |
|  Financial strategy | | | Approve the site acquisition and development of the Castle Acres site, Fosse Shopping Park, Leicester | Approve the sale of the Bryanston Estate, Dorset | Approve a new joint venture on St James's Market Phase 2 |
| Update on Scotland | | | Approve the purchase of Rushden Lakes Shopping Park, Northamptonshire | Note Q3 reports on: • Integrating sustainability • Safety, health and environment |  Note updates on: • Real estate development • Offshore wind |
| Update on the work being undertaken by the Structure for Growth Workstream | | | | | Update on the work being undertaken by the Structure for Growth Workstream |

Source: Crown Estate, [Annual Report and Accounts 2015](#), p.67



Source: Crown Estate, [Annual Report and Accounts 2015](#), p.68

The Federation believes that there is a delicate balance between providing too much and too little information in the annual financial reports of companies. For matters of governance, it may be possible to achieve greater consistency of reporting as the information of interest to users of the accounts will not vary greatly between different undertakings. For other NFI, materiality is the key consideration as to which information should be included in the management report and which is included in other reports which makes consistency more difficult to achieve.

Perhaps one solution to this potential lack of consistency would be for the non-binding guidelines under development by the European Commission to take a similar approach to the German Sustainability Code³¹ – specify a number of key matters and performance indicators that would be relevant to the vast majority of the undertakings in question whilst still allowing for additional disclosure of specific matters affecting their individual business.

³¹ <http://www.deutscher-nachhaltigkeitskodex.de/en/home.html>

Chapter 6 Conclusions

NFI reporting should not just be seen as an administrative burden on business to placate the demands of other stakeholders. **The Federation believes** that implementing the internal processes required to fulfil the requirements of the NFI Directive can have long term benefits for the undertaking in question, particularly by focusing its attention on the key risks and opportunities that could impact on the undertaking. It also provides a means to communicate those aspects where the undertaking has taken an innovative approach in CSR matters, which could provide them with a competitive advantage over less innovative competitors.

Given that the matters under discussion are of importance to the undertaking, **the Federation believes** such information should be displayed with prominence in the management report, not relegated to a separate report.

As disclosure is only required for matters critical to the undertaking, **the Federation believes**, whilst undertakings require some flexibility to determine what disclosures are material to their business, we should search for as much consistency as possible in disclosure – and, indeed, transposition – across Europe. However, reconciling flexibility and consistency is not always easy. Perhaps developing a common base level of KPIs to be used by all affected undertakings could assist with improving consistency and comparability of disclosures across Europe.

In any event, **The Federation believes** that increased consistency could be best achieved by utilising internationally accepted reporting frameworks, which would increase the comparability of information provided by companies operating in the same sector and on a European basis. The existing reporting frameworks (GRI, <IR>, and SASB) can be a good starting point for undertakings seeking to comply with the requirements of the NFI Directive and in developing standards.

However, **the Federation does not believe** that existing frameworks provide the complete answer to the requirements of the NFI Directive, not least because of differences in defining the materiality for information to be included in a management report and that to be included in another type of report.

Materiality is a key concept in corporate reporting in general, but **the Federation believes** that it becomes especially important and challenging when dealing with NFI. NFI is mainly qualitative and it is not normally possible to set a quantitative threshold that can be applied. There are very few frameworks that deal comprehensively with this matter. The NFI Directive requires disclosure of information “to the extent necessary for an understanding of the undertaking’s development” – this simultaneously highlights the importance that NFI reporting of CSR issues has to the undertaking and the importance of materiality in determining which matters should be included.

As highlighted in the Cogito discussion paper The Future of Corporate Reporting, the audience for corporate reporting is growing. In recent years the way that the larger stakeholder audience perceives and judges a company has changed. For instance, investors now require more information about the undertaking’s future prospects and NFI can assist investors in assessing a company’s value as it complements financial information and provides information about the future direction of the undertaking.

The real potential for NFI reporting comes from providing context for financial disclosures by integrating financial and non-financial information, thereby producing a holistic view of the undertaking’s business. Given its experience in corporate and sustainability reporting, and having the necessary tools and standards at hand, the accountancy profession is well placed to establish that bridge between non-financial and financial information. It is also best place to interpret the information produced. The profession has an important role to play in the debate on the NFI reporting and assurance matters and the Federation aims to contribute with the discussion and key messages outlined in this paper.

FEE would also welcome more guidance from standard setters to aid undertakings in applying materiality consistently. In any event, **the Federation believes** that the criteria and internal processes that an undertaking uses to assess NFI materiality should be sufficiently well disclosed to reassure users of the information that nothing material has been omitted.

There is a tension between the increasing needs of stakeholders for more information and the issues of legibility brought about by the increasing volume of disclosures. **The Federation believes** that innovative reporting is required to prevent information overload and to ensure that key information is as easy to access as possible for all users of financial statements.

The real potential for NFI reporting comes from providing context for financial disclosures by integrating financial and non-financial information, thereby producing a holistic view of the undertaking's business. Given its experience in corporate and sustainability reporting, and having the necessary tools and standards at hand, the accountancy profession is well placed to establish that bridge between non-financial and financial information. It is also best place to interpret the information produced. The profession has an important role to play in the debate on the NFI reporting and assurance matters and **the Federation aims to contribute** with the discussion and key messages outlined in this paper.

The Federation has already contributed to the discussion with the idea of the CORE & MORE, a key concept in *The Future of Corporate Reporting*. CORE & MORE aims to provide "the company's corporate story and include information of interest to a wide and general audience" in one single comprehensive report. It also highlights the role of technology in the future development of reporting. It is seen as an essential element to diverse delivery and communication channels. To make the change happen, experimentation could aid developing a non-traditional, more innovative manner of reporting that could best accommodate the needs of a company and a growing audience of stakeholders.



Federation of European Accountants

Avenue d'Auderghem 22-28

1040 Brussels

T: +32 (0)2 893 33 60

E: secretariat@fee.be

www.fee.be



@FEE_brussels



Federation of European Accountants

WHO WE ARE

The Federation of European Accountants represents 50 professional institutes of accountants and auditors from 37 European countries, with a combined membership of over 875,000 professional accountants working in different capacities. As the voice of the European profession, the Federation recognises the public interest.

The Federation is in the EU Transparency Register (No 4713568401-18).