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Public consultation on the revision of the non-financial reporting directive

Fields marked with * are mandatory.

Introduction

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Background information on the Non-Financial Reporting Directive

The Non-Financial Reporting Directive – NFRD – (Directive 2014/95/EU) is an amendment to the Accounting Directive (Directive 2013/34/EU). It requires certain large companies to include a non-financial statement as part of their annual public reporting obligations. obligations. Companies under the scope of the NFRD had to report according its provisions for the first time in 2018 (for financial year 2017).

The NFRD applies to large Public Interest Entities with more than 500 employees. In practice it includes large listed companies, and large banks and insurance companies (whether listed or not) – all providing they have more than 500 employees.

The NFRD identifies four sustainability issues (environment, social and employee issues, human rights, and bribery and corruption) and with respect to those issues it requires companies to disclose information about their business model, policies (including implemented due diligence processes), outcomes, risks and risk management, and KPIs relevant to the business. It does not introduce or require the use of a non-financial reporting standard or framework, nor does it impose detailed disclosure requirements such as lists of indicators per sector.

The NFRD requires companies to disclose information "to the extent necessary for an understanding of the development, performance, position and impact of [the company's] activities." This means companies should disclose not only how sustainability issues may affect the company, but also how the company affects society and the environment. This is the so-called double materiality perspective.

In 2017, as required by the Directive, the Commission published non-binding guidelines for companies on how to report non-financial information. In June 2019, as part of the Sustainable Finance Action Plan, the Commission published additional guidelines on reporting climate-related information, which integrate the recommendations of the Task Force on Climate-related Financial Disclosures.

Current context

The non-financial information needs of users, in particular the investment community, are increasing very substantially and very quickly. The demand for better information from investee companies is driven partly by investors needing to better understand financial risks resulting from the sustainability crises we face, and partly by the growth in financial products that actively seek to address environmental and social problems. In addition, some forthcoming EU legislation, including the regulation on sustainability disclosures in the financial services sector (Regulation (EU) 2019/2088), and the regulation on a classification system (taxonomy) of sustainable economic activities, can only fully meet their objectives if more and better non-financial information is available from investee companies. The taxonomy regulation will require companies under the scope of the NFRD to disclose certain indicators of the proportion of their activities that are classified as sustainable according to the taxonomy.

The feedback received in the online public consultation on corporate reporting carried out in 2018 in the context of a fitness check that is currently being finalised by the Commission services, confirms that the non-financial information currently disclosed by companies does not adequately meet the needs of the intended users. The following problems have been identified:

1. There is inadequate publicly available information about how non-financial issues, and sustainability issues in particular, impact companies, and about how companies themselves impact society and the environment. In particular:
    a. Reported non-financial information is not sufficiently comparable or reliable.
    b. Companies do not report all non-financial information that users think is necessary, and many companies report information that users do not think is relevant.
    c. Some companies from which investors and other users want non-financial information do not report such information.
    d. It is hard for investors and other users to find non-financial information even when it is reported.
2. Companies incur unnecessary and avoidable costs related to reporting non-financial information. Companies face uncertainty and complexity when deciding what non-financial information to report, and how and where to report such information. In the case of some financial sector companies, this complexity may also arise from different disclosure requirements contained in different pieces of EU legislation. Companies are under pressure to respond to additional demands for non-financial information from sustainability rating agencies, data providers and civil society, irrespective of the information that they publish as a result of the NFRD.

In its resolution on sustainable finance in May 2018, the European Parliament called for the further development of reporting requirements in the framework of the NFRD. In December 2019, in its conclusions on the Capital Markets Union, the Council stressed the importance of reliable, comparable and relevant information on sustainability risks, opportunities and impacts, and called on the Commission to consider the development of a European non-financial reporting standard. In addition, ESMA recently published a report on undue short-term pressure on corporations where it recommends the Commission to amend the NFRD provisions.

In its Communication on the European Green Deal, the Commission committed to review the Non-Financial Reporting Directive in 2020 as part of the strategy to strengthen the foundations for sustainable investment. Meeting the objectives of the European Green Deal will require additional investments across all sectors of the economy, the bulk of which will need to come from the private sector. In this sense review of the NFRD is part of the effort to scale up sustainable finance by improving transparency.

The European Green Deal also stressed that sustainability should be more broadly embedded into the corporate governance framework, as many companies still focus too much on short-term financial performance compared to their long-term development and sustainability aspects. As part of the Sustainable Finance Action Plan, work is being undertaken to prepare a possible action in this area.

In addition, to ensure appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs, the Commission will also support businesses and other stakeholders in developing standardised natural capital accounting practices within the EU and internationally.

The services of the European Commission have published an inception impact assessment on the Review of the Non-Financial Reporting Directive. It summarises the problem definition, possible policy options and likely impacts of this initiative.

Objectives of this public consultation and links with other consultation activities

This public consultation aims to collect the views of stakeholders with regard to possible revisions to the provisions of the NFRD. The principal focus of this consultation is on the possible options for such revisions.

This public consultation builds on a number of recent consultation activities, including:

- An online public consultation on corporate reporting in 2018, in the context of the fitness check on the EU framework for public reporting by companies. That consultation enabled the Commission to gather data and views on the problems that need to be addressed with regard to non-financial reporting. Problem analysis is therefore not a principal focus of the current consultation strategy.
- A online targeted consultation on climate-related reporting in 2019, as part of the development of the new guidelines for companies on how to report climate-related information. In addition, the Technical Expert Group on Sustainable Finance organised a call for feedback on its recommendations with regard to reporting climate-related information. The results of these consultation activities, although specific to the issue of climate, are also useful when considering non-financial reporting more generally.

This consultation is one element of a broader consultation strategy in the context of the review of the NFRD. In addition to this open consultation, there will also be targeted surveys addressed to SMEs, and to companies currently under the scope of the NFRD. The targeted surveys will collect more detailed opinions and data from companies on certain issues, including costs related to non-financial reporting.

In addition, the services of the Commission will soon launch an open public consultation on a Renewed Sustainable Finance Strategy, seeking for stakeholders' views in other Sustainable Finance related issues, including questions related to sustainable corporate governance.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-non-financial-reporting@ec.europa.eu.

More information:

- on this consultation
- on the consultation document
- on the protection of personal data regime for this consultation

About you

* Language of my contribution

- ○ Bulgarian
- ○ Croatian
- ○ Czech
- ○ Danish
- ○ Dutch
- ● English
- ○ Estonian
- ○ Finnish
- ○ French
- ○ Gaelic
- ○ German
- ○ Greek
- ○ Hungarian
- ○ Italian
- ○ Latvian
- ○ Lithuanian
- ○ Maltese
- ○ Polish
- ○ Portuguese
- ○ Romanian
- ○ Slovak
- ○ Slovenian
- ○ Spanish
- ○ Swedish

* I am giving my contribution as

- ○ Academic/research institution
- ● Business association
- ○ Company/business organisation
- ○ Consumer organisation
- ○ EU citizen
- ○ Environmental organisation
- ○ Non-EU citizen
- ○ Non-governmental organisation (NGO)
- ○ Public authority
- ○ Trade union
- ○ Other

* First name

Sarah

* Surname

Woodfield

* Email (this won't be published)

sarah.woodfield@theia.org

* Organisation name

255 character(s) maximum

The Investment Association

* Organisation size

- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- (selected) Medium (50 to 249 employees)
- Large (250 or more)

* Are you (or do you represent companies that are) SMEs?

- Yes
- No
- (selected) Don’t know / no opinion / not relevant

Transparency register number

255 character(s) maximum

Check if your organisation is on the transparency register. It's a voluntary database for organisations seeking to influence EU decision-making.

5437826103-53

* Country of origin

Please add your country of origin, or that of your organisation.

Afghanistan	Djibouti	Libya	Saint Martin
Åland Islands	Dominica	Liechtenstein	Saint Pierre and Miquelon
Albania	Dominican Republic	Lithuania	Saint Vincent and the Grenadines
Algeria	Ecuador	Luxembourg	Samoa
American Samoa	Egypt	Macau	San Marino
Andorra	El Salvador	Madagascar	São Tomé and Príncipe

- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh
- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Bhutan
- Bolivia
- Bonaire Saint Eustatius and Saba
- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria
- Burkina Faso
- Burundi
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
- Faroe Islands
- Fiji
- Finland
- France
- French Guiana
- French Polynesia
- French Southern and Antarctic Lands
- Gabon
- Georgia
- Germany
- Ghana
- Gibraltar
- Greece
- Greenland
- Grenada
- Guadeloupe
- Guam
- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong
- Malawi
- Malaysia
- Maldives
- Mali
- Malta
- Marshall Islands
- Martinique
- Mauritania
- Mauritius
- Mayotte
- Mexico
- Micronesia
- Moldova
- Monaco
- Mongolia
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Myanmar /Burma
- Namibia
- Nauru
- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
- Saudi Arabia
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan
- Spain
- Sri Lanka
- Sudan
- Suriname
- Svalbard and Jan Mayen
- Sweden
- Switzerland
- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- The Gambia
- Timor-Leste
- Togo
- Tokelau
- Tonga

- Cambodia
- Cameroon
- Canada
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Chile
- China
- Christmas Island
- Clipperton
- Cocos (Keeling) Islands
- Colombia
- Comoros
- Congo
- Cook Islands
- Costa Rica
- Côte d'Ivoire
- Croatia
- Cuba
- Curaçao
- Cyprus
- Czechia
- Democratic Republic of the Congo
- Denmark
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Isle of Man
- Israel
- Italy
- Jamaica
- Japan
- Jersey
- Jordan
- Kazakhstan
- Kenya
- Kiribati
- Kosovo
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lebanon
- Lesotho
- Liberia
- Northern Mariana Islands
- North Korea
- North Macedonia
- Norway
- Oman
- Pakistan
- Palau
- Palestine
- Panama
- Papua New Guinea
- Paraguay
- Peru
- Philippines
- Pitcairn Islands
- Poland
- Portugal
- Puerto Rico
- Qatar
- Réunion
- Romania
- Russia
- Rwanda
- Saint Barthélemy
- Saint Helena Ascension and Tristan da Cunha
- Saint Kitts and Nevis
- Saint Lucia
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Turks and Caicos Islands
- Tuvalu
- Uganda
- Ukraine
- United Arab Emirates
- United Kingdom
- United States
- United States Minor Outlying Islands
- Uruguay
- US Virgin Islands
- Uzbekistan
- Vanuatu
- Vatican City
- Venezuela
- Vietnam
- Wallis and Futuna
- Western Sahara
- Yemen
- Zambia
- Zimbabwe

* Field of activity or sector (if applicable):

at least 1 choice(s)

- [ ] Audit, assurance and accounting

- [ ] Banking
- [ ] Insurance
- [x] Investment
- [ ] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Credit rating agencies
- [ ] Providers of ESG data and ratings
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [ ] Production, manufacturing or services not covered by any of the above categories
- [ ] Other
- [ ] Not applicable

* Please choose one of the following options:

- ( ) My organisation is a preparer of non-financial information (or represents such organisations).
- ( ) My organisation is a user of non-financial information (or represents such organisations).
- (•) My organisation is both a preparer and a user of non-financial information (or represents such organisations).
- ( ) My organisation is neither a preparer nor a user of non-financial information (nor does it represent organisations that are preparers or users of such information).
- ( ) Don’t know / no opinion / not relevant

* Are you (or do you represent companies that are) currently under the scope of the provisions of the NFRD?

- (•) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

* Publication privacy settings

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- ( ) **Anonymous**
  Only your type of respondent, country of origin and contribution will be published. All other personal details (name, organisation name and size, transparency register number) will not be published.
- (•) **Public**
  Your personal details (name, organisation name and size, transparency register number, country of origin) will be published with your contribution.

- [x] I agree with the personal data protection provisions

1. Quality and scope of non-financial information to be disclosed

The feedback received from the online public consultation on corporate reporting carried out in 2018 suggests that there are some significant problems regarding the non-financial information currently disclosed by companies pursuant to Directive 2014/95/EU ("the Non-Financial Reporting Directive" or NFRD) Likewise, ESMA's 2018 Activity Report gathers evidence that shows there is significant room for improvement in the disclosure practices under the NFRD.

Question 1. To what extent do you agree or disagree with the following statements about possible problems with regard to non-financial reporting?

Please rate as follows:
1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree

	1 (totally disagree)	2 (mostly disagree)	3 (partially disagree and partially agree)	4 (mostly agree)	5 (totally agree)	Don't know / no opinion / not relevant
The lack of comparability of non-financial information reported by companies pursuant to the NFRD is a significant problem.	○	○	○	●	○	○
The limited reliability of non-financial information reported by companies pursuant to the NFRD is a significant problem.	○	○	○	●	○	○
Companies reporting pursuant to the NFRD do not disclose all relevant non-financial information needed by different user groups.	○	○	●	○	○	○

Article 19a of the Accounting Directive (which was introduced into the Accounting Directive by the NFRD) currently requires companies to disclose information about four non-financial matters, if deemed material by the particular company:

i. environment,

ii. social and employee issues,

iii. human rights,

iv. bribery and corruption.

These correspond to the “sustainability factors” defined in Article 2(24) of Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector.

Question 2. Do you consider that companies reporting pursuant to the NFRD should be required to disclose information about other non-financial matters in addition to those currently set-out in Article 19a?

	Please specify which other non-financial matters (no more than 3):
Other non-financial matter #1	Industry or sector specific financially material issues, as set out in a given standard (e.g. SASB) or framework (e.g. TCFD).
Other non-financial matter #2	Principal adverse impacts as defined by the Sustainable Finance Disclosure Regulations (with a proportionality principle applied).
Other non-financial matter #3	The six objectives set out in the taxonomy regulation.

For each of the four non-financial matters identified in Article 19a of the Accounting Directive, and subject to the company's own materiality assessment, companies are required to disclose information about their business model, policies (including implemented due diligence processes), outcomes, risks and risk management (including risks linked to their business relationships), and key performance indicators (KPIs) relevant to the business.

Question 3. Are there additional categories of non-financial information related to a company's governance and management procedures, including related metrics where relevant, (for example, scenario analyses, targets, more forward-looking information, or how the company aims to contribute to society through its business activities) that companies should disclose in order to enable users of their reports to understand the development, performance, position and impacts of the company?

	Please specify which additional categories of non-financial information (no more than 3):
Additional category of non-financial information #1	
Additional category of non-financial information #2	
Additional category of non-financial information #3	

Investment in intangible assets currently represents the majority of investment carried out by the private sector in advanced economies. There is a long-standing debate about the need for better reporting of intangible investments in company reports, including in relation to sustainability[1]. Irrespective of the potential future changes to accounting standards, it is likely to remain the case that a significant proportion of intangible assets will fail to meet the definition of an asset or the criteria for recognition as an intangible asset in the financial statements. The Accounting Directive currently makes no explicit reference to intangible assets in the Articles concerning the management report, other than the requirement to report about activities in the field of research and development in Article 19(2)(b).

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[1] The European Financial Reporting Advisory Group (EFRAG) is currently carrying out a research project on this topic. The United Kingdom's Financial Reporting Council issued a consultation document about business reporting of intangibles in 2019.

Question 4. In light of the importance of intangibles in the economy, do you consider that companies should be required to disclose additional non-financial information regarding intangible assets or related factors (e.g. intellectual property, software, customer retention, human capital, etc.)?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

In addition to the provisions of the NFRD, several other EU legislative acts require disclosures of sustainability-related information for financial sector entities:

- The Regulation on prudential requirements for credit institutions requires certain banks to disclose ESG risks as of 28 June 2022.
- The Regulation on sustainability related disclosures in the financial services sector requires financial market participants to disclose their policies on the integration of sustainability risks in their investment decision-making process and the adverse impacts of investment decisions on sustainability factors, as of 10 March 2021.
- The Regulation establishing a framework to facilitate sustainable investment (the Sustainable Finance Taxonomy) creates new reporting obligations including for companies subject to the NFRD, starting in December 2021.

Question 5. To what extent do you think that the current disclosure requirements of the NFRD ensure that investee companies report the information that financial sector companies will need to meet their new disclosure requirements?

- ( ) Not at all
- (x) To some extent but not much
- ( ) To a reasonable extent
- ( ) To a very great extent
- ( ) Don't know / no opinion / not relevant

In order to ensure that the financial service sector can comply with the new disclosure requirements there might be scope for better aligning the information required to investees and the one financial sector entities need to report themselves, e.g. as regards sustainability impacts.

Question 6. How do you find the interaction between different pieces of legislation?

You can provide as many answers as you want.

- [ ] It works well
- [ ] There is an overlap
- [x] There are gaps
- [x] There is a need to streamline
- [ ] It does not work at all
- [ ] Don't know / no opinion / not relevant

Question 7. In order to ensure better alignment of reporting obligations of investees and investors, should the legal provisions related to non-financial reporting define environmental matters on the basis of the six objectives set-out in the taxonomy regulation: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy (5) pollution prevention and control; (6) protection and restoration of biodiversity and ecosystems?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Please provide any comments or explanations to justify your answers to questions 1 to 7:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The quality of the information provided by investee companies is critical to supporting long term, sustainable value. Annual reports, accounts and supplementary market announcements should provide investors with information to develop a real understanding of a business and its drivers, its financial strength, the quality of management and the material risks and opportunities they are managing. This enables investors to make more efficient capital allocation decisions and to conduct quality oversight and engagement through their stewardship activities. A key component of company disclosures should be material non-financial factors, including on Environmental, Social and Governance factors. Intangibles, such as human and intellectual capital and culture are also key disclosures that give real insight into the long-term value of a company. Whilst the Annual Report is predominately for shareholders, these disclosures also provide important information for a wider range of stakeholders.

There is a clear lack of consistency, comparability and reliability of the non-financial information provided by companies. The treatment of intangibles is also inconsistent; further research is needed to identify how they can be uniformly recognised in accounting treatment. This results in a wide range of market inefficiencies including increased costs from duplicated reporting, verifying ESG data and the potential mispricing of assets. The reliability of this information gives confidence in public markets, empowering stakeholders to hold companies to account on creating long-term value and making tangible progress towards sustainability goals.

Material non-financial disclosures have evolved rapidly in recent years as the market for this data has proliferated. The scope of material non-financial disclosures has become increasingly diverse, wide and, on each issue more granular. Each factor has varying degrees of materiality to different companies based on their business model and physical location. This can be broadly identified by the sector or industry, but will also depend on the individual company's particular business model. The Commission should formally endorse and build their disclosure expectations around existing standards and frameworks that use robust methodologies to map material ESG factors onto different industries and that have strong governance in place to evolve these standards as our understanding of these issues develop. The IA endorses the use of SASB and TCFD. By promoting global standards the EU can effectively capitalise on cross border investments to influence the sustainable trajectory of global markets, recognising the footprint of large multinational companies seeking capital from around the world.

Some minimum disclosures should also be expected from a public transparency perspective. There is a growing need for a wider range of information on the positive and negative impacts that companies have on society, the environment and the economy. This information empowers a wide range of stakeholders to hold companies to account, including end investors who wish to make informed choices about their investments. Investors need companies to make these wider range of disclosures in order to meet new disclosure requirements (Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR)).

This review should therefore seek to address three needs of investors and wider society in addressing the scope of non-financial information that issuers are expected to disclose:

1. Material non-financial information as identified by common global standards and frameworks
2. Sustainability information as identified by the EU Taxonomy
3. Proportionate negative externalities as to be identified by SFDR.

Our support for extending NFRD to ensure coherence with the SFDR, is not a tacit endorsement of the existing list of adverse impacts identified in the current consultation on the regulatory technical standards (RTS). It is essential that non-financially material information is rationalised to fewer indicators, and handled with proportionality. There are also sequencing challenges on the SFDR. Investment managers are dependent on corporates disclosing requisite information on principal adverse impacts, for this to be a success. The RTS are very unlikely to be published before March 2021. It is crucial that the Commission sequences the implementation of these interconnected regulations to ensure there are meaningful disclosures on sustainability issues from corporates, asset managers, and asset owners.

The Commission should undertake a holistic overview of requirements of companies and investors with respect to non-financial disclosures, and ensure this is well sequenced to result in meaningful disclosures that support rather than undermine its' sustainability goals.

2. Standardisation

Note: in this section, the word "standard" is used for simplicity. This should not be read as a suggestion that all relevant reporting requirements must be specified in a single normative document. Rather, "standard" is merely used as a shorthand that could encompass a consistent and comprehensive set of standards. Reporting standards define what information companies should report and how such information should be prepared and presented.

A requirement that all companies falling within the scope of the NFRD report in accordance with a common non-financial reporting standard may help to address some of the problems identified in section 1 (comparability, reliability and relevance).

Question 8. In your opinion, to what extent would a requirement on companies to apply a common standard for non-financial information resolve the problems identified?

- ○ Not at all
- ○ To some extent but not much
- ○ To a reasonable extent
- ● To a very great extent
- ○ Don't know / no opinion / not relevant

Question 9. In your opinion, is it necessary that a standard applied by a company under the scope of the Non-Financial Reporting Directive should include sector-specific elements?

- ● Yes
- ○ No
- ○ Don't know / no opinion / not relevant

A number of non-financial reporting frameworks and standards already exist. Some, including the standards of the Global Reporting Initiative (GRI), the framework of the International Integrated Reporting Council (IIRC), and the standards of the Sustainability Accounting Standards Board (SASB), aim to cover most or all relevant non-financial issues.

Question 10. To what extent would the application of one of the following standards or frameworks, applied on its own, resolve the problems identified while also enabling companies to *comprehensively* meet the current disclosure requirements of the Non-Financial Reporting Directive, taking into account the double-materiality perspective (see section 3)?

Please rate as follows:
1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	1 (not at all)	2 (to some extent but not much)	3 (to a very reasonable extent)	4 (to a very great extent)	N.A.
Global Reporting Initiative	○	○	●	○	○
Sustainability Accounting Standards Board	○	○	○	●	○
International Integrated Reporting Framework	○	●	○	○	○

10.1 Do you consider that other standard(s) or framework(s), applied on their own, would resolve the problems identified while also enabling companies to *comprehensively* meet the current disclosure requirements of the NFRD?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

10.2 Please specify which other standard(s) or framework(s) you consider, applied on their own, would resolve the problems identified while also enabling companies to *comprehensively* meet the current disclosure requirements of the NFRD, and to what extent:

Please rate as follows:
1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	Name of other standard or framework (no more than 3):	Please rate from 1 to 4 as explained above (please use digits only)
Other standard or framework #1	TCFD	4
Other standard or framework #2		
Other standard or framework #3		

On 5 December 2019, the Economic and Financial Affairs Council adopted conclusions on deepening the Capital Markets Union, in which it invited the Commission to “consider the development of a European non-financial reporting standard **taking into account international initiatives**”.

Most existing frameworks and standards focus on individual or a limited set of non-financial issues. Examples include the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the UN Guiding Principles Reporting Framework (human rights), the questionnaires of the CDP (formerly the Carbon Disclosure Project), and the standards of the Climate Disclosure Standards Board (CDSB). Several approaches have also been developed at EU level in the environmental area, including the Organisation Environmental Footprint and reporting under the Eco-Management and Audit Scheme (EMAS).

Question 11. If there were to be a common European non-financial reporting standard applied by companies under the scope of the NFRD, to what extent do you think it would be important that such a standard should incorporate the principles and content of the following existing standards and frameworks?

Please rate as follows:
1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	1 (not at all)	2 (to some extent but not much)	3 (to a very reasonable extent)	4 (to a very great extent)	N.A.
Global Reporting Initiative	○	○	●	○	○
Sustainability Accounting Standards Board	○	○	○	●	○
International Integrated Reporting Framework	○	●	○	○	○
Task Force on Climate-related Financial Disclosures (TCFD)	○	○	○	●	○
UN Guiding Principles Reporting Framework (human rights)	○	○	●	○	○
CDP	○	○	●	○	○
Climate Disclosure Standards Board (CDSB)	○	●	○	○	○
Organisation Environmental Footprint (OEF)	○	●	○	○	○
Eco-Management and Audit Scheme (EMAS)	○	●	○	○	○

11.1 Do you consider that the principles and content of other existing standard(s) or framework(s) should be incorporated in a potential common European non-financial reporting standard?

- ○ Yes
- ◉ No
- ○ Don't know / no opinion / not relevant

Question 12. If your organisation *fully* applies any non-financial reporting standard or framework when reporting under the provisions of the NFRD, please indicate the recurring annual cost of applying that standard or framework (including costs of retrieving, analysing and reporting the information):

	Name of standard or framework (no more than 3):	Estimated cost of application per year, excluding any one-off start-up costs
Standard or framework #1		
Standard or framework #2		
Standard or framework #3		

Small and Medium-Sized Enterprises (SMEs) often do not have the technical expertise nor resources necessary to prepare reports in accordance with state-of-the-art, sophisticated standards. This may imply that requiring SMEs to apply the same standards as large companies may be a disproportionate burden for SMEs.

At the same time, many SMEs are under increasing pressure to provide certain non-financial information to other businesses, in particular if they are suppliers of large companies. In addition, financial institutions are increasingly likely to request certain non-financial information from companies to whom they provide capital, including SMEs. In this respect, SMEs that do not provide non-financial information may experience a negative impact on their commercial opportunities as suppliers of larger companies or on their access to capital, and may not be able to benefit from new sustainable investment opportunities.

Question 13. In your opinion, would it be useful for there to be a simplified standard and/or reporting format for SMEs?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 14. To what extent do you think that a simplified standard for SMEs would be an effective means of limiting the burden on SMEs arising from information demands they may receive from other companies, including financial institutions?

- ( ) Not at all
- ( ) To some extent but not much
- (x) To a reasonable extent
- ( ) To a very great extent
- ( ) Don’t know / no opinion / not relevant

Question 15. If the EU were to develop a simplified standard for SMEs, do you think that the use of such a simplified standard by SMEs should be mandatory or voluntary?

- (x) Mandatory
- ( ) Voluntary
- ( ) Don’t know / no opinion / not relevant

In the responses to the Commission’s public consultation on public corporate reporting carried out in 2018, just over half of the respondents believed that integrated reporting could contribute to a more efficient allocation of capital and agreed that the EU should encourage integrated reporting.

Question 16. In light of these responses, to what extent do you agree that the body responsible for developing a European non-financial reporting standard should also have expertise in the field of financial reporting in order to ensure “connectivity” or integration between financial and non-financial information?

- ( ) Not at all
- ( ) To some extent but not much
- ( ) To a reasonable extent

- (selected) To a very great extent
- Don’t know / no opinion / not relevant

Question 17. The key stakeholder groups with an interest in and contributing to the elaboration of financial reporting standards have historically been investors, preparers of financial reports (companies) and auditors / accountants.

To what extent to do you think that these groups should also be involved in the process of developing a European non-financial reporting standard?

Please rate as follows:

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	1 (not at all)	2 (to some extent but not much)	3 (to a very reasonable extent)	4 (to a very great extent)	N.A.
Investors	○	○	○	●	○
Preparers	○	○	○	●	○
Auditors/accountants	○	○	●	○	○

Question 18. In addition to the stakeholders referred to in the previous question, to what extent to do you consider that the following stakeholders should be involved in the process of developing a European non-financial reporting standard?

Please rate as follows:

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	1 (not at all)	2 (to some extent but not much)	3 (to a very reasonable extent)	4 (to a very great extent)	N.A.
Civil society representatives/NGOs	○	●	○	○	○
Academics	○	●	○	○	○

18.1 Do you consider that other stakeholder(s) should be involved in the process of developing a European non-financial reporting standard?

- ○ Yes
- ◉ No
- ○ Don’t know / no opinion / not relevant

Question 19. To what extent should the following European public bodies or authorities be involved in the process of developing a European non-financial reporting standard?

Please rate as follows:
1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	1 (not at all)	2 (to some extent but not much)	3 (to a very reasonable extent)	4 (to a very great extent)	N.A.
European Securities Markets Authority (ESMA)	○	○	○	●	○
European Banking Authority (EBA)	○	○	○	●	○
European Insurance and Occupational Pensions Authority (EIOPA)	○	○	○	●	○
European Central Bank (ECB)	○	●	○	○	○
European Environment Agency (EEA)	○	●	○	○	○
Platform on Sustainable Finance	○	○	●	○	○

19.1 Do you consider that other European public body/ies or authority/ies should be involved in the process of developing a European non-financial reporting standard?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

19.2 Please specify which other European public body/ies or authority/ies you consider should be involved in the process of developing a European non-financial reporting standard and to what extent:

Please rate as follows:
1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	Name of other European public body or authority (no more than 3):	Please rate from 1 to 4 as explained above (please use digits only)
Other European public body or authority #1	European Financial Reporting Advisory Group	3
Other European public body or authority #2		
Other European public body or authority #3		

National accounting standards-setters of several EU Member States are represented in the European Financial Reporting Advisory Group (EFRAG), which acts as the EU's voice and technical advisor in relation to financial reporting.

Question 20. To what extent to do you consider that the following national authorities or bodies should be involved in the process of developing European non-financial reporting standards?

Please rate as follows:

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	1 (not at all)	2 (to some extent but not much)	3 (to a very reasonable extent)	4 (to a very great extent)	N.A.
National accounting standards-setters	○	○	○	●	○
Environmental authorities	○	●	○	○	○

20.1 Do you consider that other type of national authorities or bodies should be involved in the process of developing a European non-financial reporting standard?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

20.2 Please specify which other type of national authorities or bodies you consider should be involved in the process of developing a European non-financial reporting standard and to what extent:

Please rate as follows:
1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	Name of other national authority or body (no more than 3):	Please rate from 1 to 4 as explained above (please use digits only)
Other national authority or body #1	Departments for Business	4
Other national authority or body #2	Securities Regulators	4
Other national authority or body #3		

Please provide any comments or explanations to justify your answers to questions 8 to 20:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The Commission should take this opportunity to formally endorse existing global standards that already have traction in the global market. We do not think an effective way of achieving its sustainability goals is for the Commission to develop its' own standard from scratch. The promotion of global disclosure standards and frameworks will greatly assist in improving the quality and comparability of non-financial disclosures by investee companies.

As discussed in response to section 1, this review should be used as an opportunity to point towards existing standards and frameworks that use a robust methodology to map material ESG factors onto different industries and where there is a strong governance process in place to develop and maintain these standards, as our scientific understanding of the impact of these factors on financial performance continues to evolve.

The IA's members endorse the use of SASB and TCFD by issuers. Both already have a significant amount of traction with global investors and companies and are the basis on which many investors are developing their ESG integration processes. The UK is beginning to specifically endorse TCFD in regulations covering the disclosures of issuers, asset owners asset managers and even public bodies. Importantly both of these are embedded in principles of materiality and strong governance, where the emphasis is on the company to identify the impact of sustainability considerations on their business model and strategy, and how this features in their risk management, oversight and capital allocation plans. This emphasis ensures a dynamic rather than static consideration of sustainability factors enabling focused engagement on how companies are making a sustainable transition. The Commission made good progress with this in 2019 by integrating TCFD with its' non-binding guidance for non-financial disclosures and should consider making TCFD mandatory as a part of this review as is consistent with the approach being made by a number of member states.

Endorsement of existing standards and frameworks has significant benefits over and above the EU Commission developing its own standard. In particular, it will help to rapidly increase the scope of companies disclosing. This will ensure comparability of disclosures across large multinational companies and ensure coherence throughout their supply chains. This global coherence is critical to our members in their role as global investors – having different emerging practices amongst different regions will not help support effective discipline across global supply chains in making progress towards sustainability goals, nor will it help the EU to effectively export its sustainability agenda.

Global cohesion is not without its' challenges and there are a number of steps that need to occur for this to become a reality. Local regulators will need to endorse these standards and ensure their applicability in different markets, recognising the variation in local governance and social norms and company law, while being careful to ensure that this does not result in significant divergence. This will require coordination at the global level, in particular with IOSCO and other standard setters, as well as clear governance mechanisms at the local and international level to ensure that these standards are appropriately enforced. Through this mechanism the EU could ensure coherence and integration between the three core strands of its' review of NFRD and participate proactively in global conversations about how to improve these global standards. Global coordination, governance and collaboration will be key to ensure the applicability in different markets.

The use of SASB and TCFD has room for improvement, given the quickly evolving understanding of sustainability issues and emerging best practice around the world. Some of the methodologies that inform sector specific indicators are too specific to the particular market in which they emerged. SASB is committed to reviewing the small number of methodologies which are only applicable in the US market. For TCFD, there is progress to be made in developing the specific metrics that are used to inform disclosures and ensure they take full account of the full range of physical and transition risks emerging from climate change. There is a global body of investors and companies that are committed to progressing this agenda.

For listed SMEs while there should be mandatory reporting, the Commission should ensure a proportionate approach focused on the most material non-financial indicators. If the Commission takes the opportunity to point towards standards and frameworks which have core components of materiality, then SMEs will be able to report on the factors that are considered most material to them, and this would help achieve proportionality.

3. Application of the principle of materiality

The NFRD requires companies to disclose information "to the extent necessary for an understanding of the development, performance, position and impact of [the company's] activities." This materiality principle implies that companies reporting pursuant to the NFRD must disclose (i) how sustainability issues may affect the development, performance and position of the company; and (ii) how the company impacts society and the environment. This is the double-materiality perspective (see also the Commission's non-binding guidelines on reporting climate-related information, section 2.2, page 4). The two "directions" of materiality are distinct although there can be feedbacks from one to the other. For example, a company that with severe impacts on the environment or society may incur reputational or legal risks that undermine its financial performance.

'Material' information is defined in Article 2(16) of the Accounting Directive as "the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking. The materiality of individual items shall be assessed in the context of other similar items." This definition is geared towards financial reporting, which is principally intended to serve the needs of investors and other creditors. By contrast, non-financial information serves the needs of a broader set of stakeholders, as it relates not only to the increasing impact of non-financial matters on the financial performance of the company, but also to its impacts on society and the environment. This may imply the need to provide an alternative definition of materiality for application in the context of non-financial reporting, or at least additional guidance on this issue.

Question 21. Do you think that the definition of materiality set-out in Article 2 (16) of the Accounting Directive is relevant for the purposes of determining which information is necessary to understand a company's development, performance and position?

- ○ Not at all
- ● To some extent but not much
- ○ To a reasonable extent
- ○ To a very great extent
- ○ Don't know / no opinion / not relevant

Question 22. Do you think that the definition of materiality set-out in Article 2 (16) of the Accounting Directive is relevant for the purposes of determining which information is necessary to understand a company's impacts on society and the environment?

- ○ Not at all
- ● To some extent but not much

- To a reasonable extent
- To a very great extent
- Don’t know / no opinion / not relevant

Question 23. Is there is a need to clarify the concept of ‘material’ non-financial information?

- (x) Yes
- No
- Don’t know / no opinion / not relevant

Question 23.1 If you do think there is a need to clarify the concept of ‘material’ non-financial information, how would you suggest to do so?

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 24. Should companies reporting under the NFRD be required to disclose their materiality assessment process?

- (x) Yes
- No
- Don’t know / no opinion / not relevant

Please provide any comments or explanations to justify your answers to questions 21 to 24:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The concept of materiality as set out in the Accounting Directive refers specifically to financial statements. The additional guidance on reporting climate related information is clear that companies’ activities have an impact on society, the environment and the economy, that these in turn impact on the financial performance of a company and that the society, environment and economy in which companies operate also present risks and opportunities to their long term value.

The main need for clarification here is to ensure that this definition is consistent with the concept of “principal adverse impacts” as set out in the SFDR. Additional guidance should be sufficient to ensure this consistency, however the Commission may wish to consider a broader review of the accounting directive to ensure the concept of materiality is future-proofed.

In asking companies to explain their ‘materiality assessment process’ it is important to ensure that that this is embedded into the company's governance and does not result in generic statements. It is the responsibility of the board to ensure that the company has a full view of material risks and opportunities and uses its assessment of these risks to inform its strategy, and risk management and oversight processes. Boards should be articulate about their approach to identifying and managing these risks in their annual reports.

4. Assurance

The NFRD requires that the statutory auditor or audit firm checks whether the non-financial statement has been provided if a firm falls within the scope of the Directive.

Article 34 of the Accounting Directive requires that the financial statements are audited, and that the statutory auditor or audit firm express an opinion whether the management report (i) is consistent with the financial statements for the same financial year; and (ii) has been prepared in accordance with the applicable legal requirements. Article 34 of the Accounting Directive also requires the statutory auditor or audit firm to state whether it has identified material misstatements in the management report and to give an indication of the nature of such material misstatements. However, the non-financial statement published pursuant to the NFRD – whether contained in the management report or a separate report – is explicitly excluded from the scope of Article 34 of the Accounting Directive. Consequently, the NFRD does not require any assurance of the content of the non-financial statement.

Question 25. Given that non-financial information is increasingly important to investors and other users, are the current differences in the assurance requirements between financial and non-financial information justifiable and appropriate?

- ○ Not at all
- ○ To some extent but not much
- ◉ To a reasonable extent
- ○ To a very great extent
- ○ Don't know / no opinion / not relevant

Question 26. Should EU law impose stronger assurance requirements for non-financial information reported by companies falling within the scope of the NFRD?

- ◉ Yes
- ○ No
- ○ Don't know / no opinion / not relevant

There are two types of assurance engagement a practitioner can perform:

- Reasonable assurance reduces the risk of the engagement to an acceptably low level in the given circumstances. The conclusion is usually provided in a positive form of expression and states an opinion on the measurement of the subject matter against previously defined criteria.
- Limited assurance engagements provide a lower level of assurance than the reasonable assurance engagements. The conclusion is usually provided in a negative form of expression by stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated.

Question 27. If EU law were to require assurance of non-financial information published pursuant to the NFRD, do you think that it should require a reasonable or limited assurance engagement on the non-financial information published?

- ◯ Reasonable
- ◉ Limited
- ◯ Don't know / no opinion / not relevant

Question 28. If EU law were to require assurance of non-financial information published pursuant to the NFRD, should the assurance provider assess the reporting company's materiality assessment process?

- ◉ Yes
- ◯ No
- ◯ Don't know / no opinion / not relevant

Question 29. If assurance of non-financial information was required by EU law, should the assurance provider be required to identify and publish the key engagement risks, their response to these risks and any related key observations (if applicable)?

- ◉ Yes
- ◯ No
- ◯ Don't know / no opinion / not relevant

Question 30. If assurance of non-financial information was required by EU law, do you think that assurance engagements should be performed based on a common assurance standard?

- ◉ Yes
- ◯ No
- ◯ Don't know / no opinion / not relevant

Question 30.1 If you answered yes in reply to the previous question, please explain whether there is an existing assurance standard that could be used for this purpose or whether a new standard would need to be developed:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The assurance standard should be built around company disclosure standards.

Question 31. Do you think that an assurance requirement for non-financial information is dependent on companies reporting against a specific non-financial reporting standard?

- [x] Yes
- [ ] No
- [ ] Don’t know / no opinion / not relevant

Question 32. Do you publish non-financial information that is assured?

- [ ] Yes
- [ ] No
- [x] Don’t know / no opinion / not relevant

Please provide any comments or explanations to justify your answers to questions 25 to 32:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As non-financial information increasingly informs investment decision making, it is essential that investors have confidence in the quality and accuracy of this information. The quality of this information also has important implications for the accurate pricing of assets which contributes to efficient capital markets. Assurance goes some way to providing this confidence.

There are some challenges in achieving robust assurance of non-financial information. Greater consistency and comparability of non-financial reporting is an essential starting point to overcoming these challenges. The promotion of common standards and frameworks for reporting, as discussed in response to sections 1 and 2 sets the foundation from which non-financial information can be assured and should be the Commission’s priority.

Assurance is a cost that is ultimately borne by the end beneficiaries of the investment process. It is important therefore to ensure that assurance adds rather than detracts from value across the investment chain. As there is a vast range of potential non-financial factors that could be reported on, calls for additional assurance should be focused on material information rather than a long list of immaterial information. SASB and TCFD support issuers focusing on this material information.

Over time we would like to see greater assurance, and in the meantime companies should indicate how they have confidence in the non-financial information disclosed, however this should not come at the cost of ensuring consistent reporting in line with a global standard and this should be the Commission’s focus.

In the UK there has been much debate on the role of audit and assurance in relation to a wider range of information in the report and accounts. In response to The Brydon Review into the quality of audit we have also proposed that the audit should cover the wider metrics investors consider important and that influence investors’ decisions, such as APMs and KPIs. These metrics often include reference to a broad range of non-financial factors. The Commission should consider which non-financial factors which are absolutely critical to investment decision making might be subject to audit.

5. Digitisation

The EU has introduced a structured data standard, the European Single Electronic Format (ESEF) under the Transparency Directive. With effect from 1 January 2020 listed companies in the EU shall report their annual financial reports in XHTML (audited financial statements, management report and issuer's responsibility statements). Additionally, if the consolidated financial statements are prepared in IFRS, the XHTML document should also be tagged using iXBRL elements specified in the ESEF taxonomy. This allows the information to be machine-readable. This is expected to produce a number of benefits, including cost saving for users of annual financial reports, greater speed, reliability and accuracy of data handling, improved analysis, and better quality of information and decision-making.

Additionally, the Commission is exploring opportunities to establish a single access point for public corporate information. In this respect, the Commission expects the High-level Forum on CMU to examine this topic and formulate recommendations from the Capital Markets angle in the coming months.

Question 33. To what extent do you agree or disagree with the following statements regarding digitalisation of non-financial information?

Please rate as follows:
1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree

	1 (totally disagree)	2 (mostly disagree)	3 (partially disagree and partially agree)	4 (mostly agree)	5 (totally agree)	Don't know / no opinion / not relevant
It would be useful to require the tagging of reports containing non-financial information to make them machine-readable.				X		
The tagging of non-financial information would only be possible if reporting is done against standards.					X	
All reports containing non-financial information should be available through a single access point.			X			

Question 34. Do you think that the costs of introducing tagging of non-financial information would be proportionate to the benefits this would produce?

- ○ Not at all
- ○ To some extent but not much
- ● To a reasonable extent
- ○ To a very great extent
- ○ Don’t know / no opinion / not relevant

Question 35. Please provide any other comments you may have regarding the digitalisation of sustainability information:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please provide any comments or explanations to justify your answers to questions 33 to 35:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As discussed in response to Sections 1 and 2, there is a clear need to ensure greater consistency and comparability of ESG data. The Commission’s starting point and focus should be to encourage high quality disclosures in line with a globally consistent standard. This will have positive impacts on the availability and quality of aggregated data, and support improvements in the wider market for this data.

The digitisation and machine readability of non-financial information will be a useful addition to the introduction of the European Single Electronic Format for financial information. However, this will only be a helpful undertaking once there is confidence in the quality of the underlying disclosures. Changes to the scope of the NFRD will need to be effectively enforced.

Once there is confidence in the quality and comparability of these disclosures, we agree that digitisation will have the benefits of cost saving for users and will enable investors to more readily integrate ESG factors into their investment processes. The additional suggestion of having a single ESG access point will have the added benefit of making this information more readily available and accessible for a wider range of market participants, provided it is made available on an open source basis. This may improve access for retail investors and other users who may not have resources available to them to commission specialist data providers. It may have the added benefit of boosting standards and competitiveness in the wider market for ESG data providers and allow innovation in the use of this data.

As we have discussed in relation to assurance, this should be focused on financially material information in the first instance in order to ensure a proportionate implementation and cost-efficiency. This platform should be built around agreed standards that have global comparability. There are a number of practical challenges to ensuring that this system produces accurate and up to date data which should be fully scoped before embarking on such a project. It will be important to ensure that it is well governed and has the buy-in of market participants. As far as possible this data should be produced in a format that sits alongside and is readily comparable with financial information.

6. Structure and location of non-financial information

The default requirement of the NFRD is that companies under scope shall include their non-financial statement in their annual management report. However, the NFRD also allows Member States to allow companies to disclose the required non-financial information in a separate report under certain conditions, and most Member States took up that option when transposing the Directive. Companies can be allowed by national legislation to publish such a report up to six months after the balance sheet date.

The publication of non-financial information in a separate report has a number of consequences, including:

- separate reports that include non-financial information are out of the legal mandate of the national competent authorities, whose mandate over periodic reports is limited to the annual and semi-annual financial reports (which include the management report).
- separate reports that include non-financial information are not required to be filed in the Officially Appointed Mechanisms (OAMs) designated by Member States pursuant to Article 21(2) of the Transparency Directive.

Question 36. Other consequences may arise from the publication of the non-financial statement as part of a separate report. To what extent do you agree with the following statements:

Please rate as follows:
1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

	1 (not at all)	2 (to some extent but not much)	3 (to a very reasonable extent)	4 (to a very great extent)	N. A.
The option to publish the non-financial statement as part of a separate report creates a significant problem because the non-financial information reported by companies is hard to find (e.g. it may increase search costs for investors, analysts, ratings agencies and data aggregators).					
The publication of financial and non-financial information in different reports creates the perception that the information reported in the separate report is of secondary importance and does not necessarily have implications in the performance of the company.					

Question 37. Do you believe that companies should be required to disclose all necessary non-financial information in the management report?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 38. If companies are allowed to publish the required non-financial information in a report that is separate from the management report, to what extent do you agree with the following approaches?

Please rate as follows:
1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree

	1 (totally disagree)	2 (mostly disagree)	3 (partially disagree and partially agree)	4 (mostly agree)	5 (totally agree)	Don’t know / no opinion / not relevant
Legislation should be amended to ensure proper supervision of information published in separate reports.	( )	( )	( )	( )	( )	(x)
Legislation should be amended to require companies to file the separate report with Officially Appointed Mechanisms (OAMs).	( )	( )	( )	( )	( )	(x)
Legislation should be amended to ensure the same publication date for management report and the separate report.	( )	( )	( )	( )	( )	(x)

Question 38.1 Please provide any comments regarding the location of reported non-financial information:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The management report, including the non-financial statement, aims to provide a company's stakeholders with the information necessary to understand the company's development, performance, position and impact. Some non-financial information is also reported in the corporate governance statement, which is also part of the management report.

Question 39. Do you consider that the current segregation of non-financial information in separate non-financial and corporate governance statements within the management report provides for effective communication with users of company reports?

- ○ Not at all
- ○ To some extent but not much
- ○ To a reasonable extent
- ○ To a very great extent
- ● Don't know / no opinion / not relevant

Please provide any comments or explanations to justify your answers to questions 36 to 39:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The quality of the information provided by issuers is critical to supporting long term, sustainable value. Annual reports, accounts and supplementary market announcements should provide asset managers with the relevant information to develop a real understanding of a business and its drivers, its financial strength, the quality of management and the material risks and opportunities they are managing. This information enables asset managers to make more efficient capital allocation decisions and to conduct quality oversight and engagement through their stewardship activities.

The best company reports support investment decisions and enable investors to focus their engagement activities with company management:

- Integrate information about material risks and opportunities arising from non-financial information alongside financial and strategic risks and opportunities in their strategic report. They provide quantitative data alongside qualitative assessments of their impacts.
- Make the discussion around these risks relevant to the business model and strategy and focused on material issues.
- Build a narrative around this information which helps users to differentiate between those companies that see reporting on non-financial factors as a compliance exercise versus those that see this as an essential component of describing to users how they are managing these risks and opportunities.
- Link this information to key financial information for example around their capital management, which helps set out how they can transition their business model to be more sustainable over the long-term.

Quality disclosures support investors to focus their engagement activities with company management. We are supportive of the guidance on best practice for the strategic report provided by the Financial Reporting Council in the UK.

It is important to ensure that amendments to the expectations of issuers on non-financial disclosures therefore continues to encourage this best practice. Separation of non-financial information into separate reports (even if subject to supervisory procedures) may discourage directors from engaging with this information in a meaningful way that ensures they are using this information to promote a sustainable business model.

If, as a result of this review companies are expected to disclose a disproportionate list of immaterial information, this should feature in an annex or as supplementary disclosures.

7. Personal scope (which companies should disclose)

The NFRD currently applies to large Public-Interest Entities (PIEs) with more than 500 employees. In practice this means large companies with securities listed in EU regulated markets, large banks (whether listed or not) and large insurance companies (whether listed or not) – all provided that they have more than 500 employees.

The Accounting Directive defines large undertakings as those that exceed at least two of the three following criteria:

a. balance sheet total: EUR 20 000 000;

b. net turnover: EUR 40 000 000;

c. average number of employees during the financial year: 250.

Some Member States have extended the personal scope of the NFRD by lowering the threshold to 250 employees, in effect capturing all large PIEs.

Companies that are a subsidiary of another company are exempt from the reporting requirements of the NFRD if their parent company publishes the necessary non-financial information at consolidated level in accordance with the NFRD.

There are a number of potential arguments to support the extension of the personal scope of the NFRD:

- Changes in the legislative framework: following the adoption of the Regulation on sustainability-related disclosure in the financial services sector and of the Taxonomy Regulation, investors may require non-financial information from a broader range of investees in order to comply with their own sustainability-related reporting requirements.
- Large unlisted companies can have significant impacts on society and the environment. There may therefore be no a priori reason to differentiate between listed and non-listed companies in this respect. In addition, the difference in treatment between listed and non-listed companies in this regard may serve as a disincentive for companies to become listed, and therefore undermine the attractiveness of capital markets.
- Exempting PIEs that are subsidiaries limits the information about impacts on society and the environment, thus undermining the ability of stakeholders of such exempted subsidiaries to hold them accountable for their impacts on society and the environment, especially at local and national level.

Question 40. If the scope of the NFRD were to be broadened to other categories of PIEs, to what extent would you agree with the following approaches?

Please rate as follows:
1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree

	1 (totally disagree)	2 (mostly disagree)	3 (partially disagree and partially agree)	4 (mostly agree)	5 (totally agree)	Don't know / no opinion / not relevant
Expand scope to include all EU companies with securities listed in regulated markets, regardless of their size.	○	○	○	●	○	○
Expand scope to include all large public interest entities (aligning the size criteria with the definition of large undertakings set out in the Accounting Directive: 250 instead of 500 employee threshold).	○	○	●	○	○	○
Expand scope to include all public interest entities, regardless of their size.	○	○	●	○	○	○

Question 41. If the scope of the NFRD were to be broadened to non-PIEs, to what extent would you agree with the following approaches?

Please rate as follows:
1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree

	1 (totally disagree)	2 (mostly disagree)	3 (partially disagree and partially agree)	4 (mostly agree)	5 (totally agree)	Don't know / no opinion / not relevant
Expand the scope to include large non-listed companies.	○	○	○	●	○	○

Remove the exemption for companies that are subsidiaries of a parent company that reports non-financial information at group level in accordance with the NFRD.		X				
Expand the scope to include large companies established in the EU but listed outside the EU.				X		
Expand the scope to include large companies not established in the EU that are listed in EU regulated markets.				X		
Expand scope to include all limited liability companies regardless of their size.		X				

Question 42. If *non-listed* companies were required to disclose non-financial information, do you consider that there should be a specific competent authority in charge of supervising their compliance with that obligation?

- (X) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 42.1 If you consider that there should be a specific competent authority in charge of supervising non-listed companies' compliance with the obligation of disclosing non-financial information, please specify who in your opinion should carry out this task (National Competent Authorities, European Supervisory Authorities, other...) and how:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Due to the nature of their activities, credit institutions and insurance undertakings have larger balance sheets than non-financial corporations. Hence, the vast majority of such institutions will exceed the balance sheet threshold in the definition of large undertakings set-out in the Accounting Directive. Moreover, the application of some public disclosure requirement of EU prudential regulation for credit institutions and insurance undertakings is defined based on various size thresholds.

For example:

- the Regulation on prudential requirements for credit institutions and investment firms includes in its definition of large credit institutions those with a total value of assets equal to or greater than EUR 30 billion;
- the same Regulation defines small and non-complex institutions as those that have EUR 5 billion or less total assets;
- the consultation paper published by EIOPA in October 2019 proposes to revise article 4 thresholds of Solvency II (below which entities are excluded from the scope of Solvency II), doubling the thresholds related to the technical provisions (from EUR 25M provisions to EUR 50M) and allowing Member States to set the threshold referring to premium income between the current EUR 5M and until a maximum of EUR 25M.

Question 43. To what extent do you agree with the following statements relating to possible changes of the personal scope of the NFRD for financial institutions?

Please rate as follows:
1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree

	1 (totally disagree)	2 (mostly disagree)	3 (partially disagree and partially agree)	4 (mostly agree)	5 (totally agree)	Don't know / no opinion / not relevant
The threshold criteria for determining which banks have to comply with the NFRD provisions should be different from those used by Non-Financial Corporates.	○	●	○	○	○	○
The threshold criteria for determining which insurance undertakings have to comply with the NFRD provisions should be different from those used by Non-Financial Corporates.	○	●	○	○	○	○

Please provide any comments or explanations to justify your answers to questions 40 to 43:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

IA members are in favour of widening the scope of NFRD, however we would urge the Commission to review this widening with caution, taking account of the cost-benefit and coherence of the wider set of sustainability regulations.

As global investors, investing across multiple asset classes, investors favour more coherent and comparable non-financial disclosures from all sizes of investee companies across a range of different asset classes.

Incoming disclosure regulations for asset managers do not distinguish between the different types of portfolio companies in the disclosures that investors need to make on non-financial information. Therefore, there is a need to include a wide range of companies in the review of the scope of NFRD to ensure that investors are able to meet their own disclosure requirements. Specifically we endorse the extension to include: all listed companies, large unlisted companies (as defined by the accounting directive), SMEs (by which we mean listed small and mid-cap companies and not small to medium sized unlisted companies); companies that were established in the EU, list on EU related markets. The current exemption for subsidiary entities should be maintained. However, group level entities should clearly state which subsidiaries are included in the report.
Creating a disjointed disclosure regime runs the risk of depriving smaller and unlisted companies from capital if investors feel that investing in these companies would limit their ability to meet their own disclosure obligations. This would be to the detriment of the sustainability agenda as these companies play an important role in facilitating a sustainable transition.

Other consumers of company reports, including NGOs, end beneficiaries and the wider public, do not distinguish between listed companies and large unlisted companies. Large privately run companies have a significant impact on the environment, society and the wider economy - public trust and confidence in financial markets is informed as much by the behaviours and actions of these companies as listed companies.

This widening of scope will help to meet Commission objectives in terms of harmonisation of company practice across EU member states and minimising the risks of carbon leakage.

We would like to highlight some of the challenges involved in widening the scope however. It will be particularly challenging for the Commission and national regulators to enforce new rules for companies that are not currently subject to regulatory scrutiny, who are not seeking access to public finding and who do not have the same resources available to them as large listed companies. The Commission should carefully consider the cost-benefit of requiring these disclosures from companies that do not traditionally make them. It is sensible to limit the application of this scope to private companies to only include large unlisted companies and to the extent that they trade debt on public markets.

Given this proposed increase in scope and some of the challenges in implementing, it is even more critical to the success of this project that the EU Commission seeks to promote existing global standards and frameworks, where there is already significant traction and a strong emphasis on materiality. SMEs in particular should be able to prioritise disclosures of financial material information and opt in to a wider range of indicators.
It is also important to consider the overlap in these regulations for financial services entitities, and ensure that the combined effect of the SFDR and the NFRD is proportional – there should be a clear distinction

between the information that investment managers are expected to disclose as a business enterprise (i/e the extent to which they have sustainability considerations in their business model, physical location and supply chains) and those they are expected to disclose through the SFDR regarding their financial products and investments.

8. Simplification and reduction of administrative burdens for companies

Question 44. Does your company publish non-financial information pursuant to the NFRD?

- Yes
- No
- (selected) Don't know / no opinion / not relevant

Question 44.2 Please state the total cost per year of any external services, excluding the cost of any assurance or audit services, that you contracted to assist your company to comply with the requirements of the Non-Financial Reporting Directive. Please provide your answer for reports published in 2019, covering financial year 2018.

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The majority of Member States have transposed the NFRD requirements into national legislation making very few changes to the wording of the legal provisions. Therefore, in the majority of the national legal frameworks, companies are required to comply with national legislation that is quite high level, not very prescriptive and do not require the use of any particular reporting standard.

Question 45. To what extent do you agree with the following statements?

Please rate as follows:

1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree

	1 (totally disagree)	2 (mostly disagree)	3 (partially disagree and	4 (mostly agree)	5 (totally agree)	Don't know / no opinion /

			partially agree)			not relevant
Companies reporting pursuant to the NFRD face uncertainty and complexity when deciding what non-financial information to report, and how and where to report such information.	○	○	○	○	○	●
Companies are under pressure to respond to individual demands for non-financial information from sustainability rating agencies, data providers and civil society, irrespective of the information that they publish as a result of the NFRD.	○	○	○	○	○	●
Companies reporting pursuant to the NFRD have difficulty in getting the information they need from business partners, including suppliers, in order to meet their disclosure requirements.	○	○	○	○	○	●

Please provide any comments or explanations to justify your answers to questions 44 to 45:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Useful links

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

More on this consultation (https://ec.europa.eu/info/publications/finance-consultations-2020-non-financial-reportin directive_en)

Specific privacy statement (https://ec.europa.eu/info/law/better-regulation/specific-privacy-statement_en)

Consultation document (https://ec.europa.eu/info/files/2020-non-financial-reporting-directive-consultation-document_en)

More on non-financial reporting (https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditir /company-reporting/non-financial-reporting_en)

Contact

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