EUROPEAN COMMISSION
Directorate-General for Financial Stability, Financial Services and Capital Markets Union

FINANCIAL MARKETS
Corporate reporting, audit and credit rating agencies

CONSULTATION DOCUMENT

REVIEW OF THE NON-FINANCIAL REPORTING DIRECTIVE

FINAL EBF RESPONSE
8 June 2020

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

You are invited to reply **by 14 May 2020** at the latest to the **online questionnaire** available on the following webpage:
https://ec.europa.eu/info/publications/finance-consultations-2020-non-financial-reporting-directive_en

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published unless respondents indicate otherwise in the online questionnaire.

Responses authorised for publication will be published on the following webpage:
https://ec.europa.eu/info/publications/finance-consultations-2020-non-financial-reporting-directive_en

INTRODUCTION

Background information on the Non-Financial Reporting Directive

The Non-Financial Reporting Directive (Directive 2014/95/EU, the "NFRD") 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. 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 key performance indicators (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 has 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.
- An 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 public 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 a 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.

Consultation questions

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?

	1	2	3	4	5	Don't know
The lack of comparability of non-financial information reported by companies pursuant to the NFRD is a significant problem.					x	
The limited reliability of non-financial information reported by companies pursuant to the NFRD is a significant problem.				x		
Companies reporting pursuant to the NFRD do not disclose all relevant non-financial information needed by different user groups.				x		

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

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 (no more than three matters).

1. More detailed requirements regarding environmental matters

In particular:

- Purposes implemented in SDGs policies and commitments (incl. DNSH….)
- Regarding climate mitigation and climate adaption making **a clear link to the taxonomy**. An example is GHG-emissions accounted for by at least two methods (one showing the emissions in giga tons and another one e.g. TCFD's WACI method). The climate-related information could be disclosed as a standalone matter to avoid uncertainties and inconsistences (or otherwise define environmental matters on the basis of the six objectives set out in the taxonomy regulation, please see Q7)
- June 2019 EC non biding guidelines on climate related disclosure (aligned on TCFD) could be included **with a small number of metrics and some adaptations, and a phase-in for implementation** (please see also response to question 3).
- Non-financial matter "environment" in Article 19a of the Accounting Directive could possibly be further disaggregated to include "Alignment with Paris Agreement", Climate related risk and opportunities, biodiversity risk and opportunities
- Total value of assets, with a materiality threshold, committed in regions likely to become more exposed to acute or chronic physical climate risks (in amounts and percentage of book value of exposed real assets) in conjunction with the company's assessment of physical risks and adaptation/ mitigation strategies and policies. The value of assets could be for instance aggregated by geographical zone depending on its climate risk vulnerability More granular information per asset/activity and not only consolidated information

2. Social aspects

- The crisis has led to a greater awareness of the importance social and governance goals. The current crisis is not affecting everyone in an equal manner and risks further broadening of the inequality gap and requires corrective measures from public authorities to protect those most affected. Questions related to governance, corporate dividends, employee benefit schemes, health, human rights, resilience and sustainability of supply chain will become equally important to those on climate change mitigation and adaptation to ensure that the most vulnerable ones are not most adversely affected by crises like these. This will require **greater focus also on information and data related to societal and governance issues**.

3. Governance issues (as in TCFD)

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 (no more than three).

- **Scenario analysis following the TCFD recommendations** would be very useful for large companies in sectors accounting for substantial GHG emissions. It would be useful to standardize the scenario analysis by e.g. recommending at least one 1,5 or 2 degree scenario and one business as usual (BAU) scenario. Moreover, a request to use the same methods or to choose between 1-3 methods would be great, these could be 2Dii's PACTA-analysis and/or MERCER's the Sequel analysis.

- **Alignment of strategies with 2 degrees**

- **KPIs**

- **KPIs aligned with the disclosure requirements that will be specified in the Delegated Acts of the Taxonomy Regulation** (implementation date for climate mitigation and adaptation is 31 December 2021 and for the other four environmental objectives 31 December 2022).

- Gradually, non-financial undertakings should be requested to report the **associated revenues and expenses of eligible products or activities** (as a percentage of the total) **and the associated sustainable assets** (as a percentage of the total).

  The disclosure of data needed for the tagging of taxonomy complaint activities should be provided in the form of templates and not (only) in free text format. In those templates the data should be broken down at the level of single economic activities/business lines listed in the taxonomy (and everything else aggregated) and therefore the templates should be peculiar for each economic activity.

  However banks need not only a taxonomy but also a nomenclature, in order to automate the sustainable finance lending activities and to do an automated assessment of the "green asset ratio". Such corporate data are not yet available for banks in a structured manner. EU member states do have that kind of information in a structured way, although not complete and not EU taxonomy based (please see also our proposal for central database in response to question 35). Manual sustainable finance is not feasible, too expensive. Harmonized data collection approach with a clear nomenclature is needed. Please see a suggestion for a data collection template -pages 16-19 (table 2) at the following link: https://publications.jrc.ec.europa.eu/repository/bitstream/JRC119403/jrc_eba_workshop_-_report_final_version.pdf

To address some of the above concerns, **a phase in by sectors for scope 3 emissions or other metrics** could be considered starting with the Energy and Mining sectors followed by Tansportation, Construction, Buildings, Materials and Industrial sectors, finally followed by all other sectors including banks.

To align in the best way the disclosure by corporates, asset managers, insurers and banks, it is key to select a limited number of very relevant and doable common metrics/ KPIs. To ensure relevant and reliable disclosure it is important to limit the scope of mandatory disclosure content to a number of key indicators that should be common with other regulations covering ESG disclosures (**CRR2 pillar 3**, **Taxonomy, Disclosure, Benchmarks**, **EC guidelines on climate related information** which specifies that *" Companies should read this supplement together with the relevant national legislation transposing the Non-Financial Reporting Directive (2014/95/EU)*[1]*, and if necessary the text of the Directive itself"* and finally the recently published **ECB/SSM Guide on climate-related and environmental risks** that stress that supervisory expectations will be " *as a minimum in line with the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information."*etc).

Any additional disclosure should be at company discretion.

<u>Article 8 of the Taxonomy Regulation</u>

The Article 8 of the Taxonomy Regulation should align the reporting obligations with the NFRD and the Disclosure Regulations taking into account concerns of financial institutions, primarily the lack of data and absence of mandatory disclosure requirements for some entities.

Article 8 of the Taxonomy Regulation and its implications should however be further clarified .

- It is not entirely clear whether if financial institution that makes available financial (investment) products but does not make available any products falling under Art. 5,6 and 7 falls under the scope of Article 8

- It is not clear whether the disclosure foreseen in Article 8 are in respect to:
  - activities as per art. 5,6 and 7
  - to all financial (investment) products made available or
  - generally speaking to all activities of the bank (also lending)

- It is not clear why enabling activities (Article 16) are out of the scope (Article 8 only references Articles 3 and 9)

While Article 8 and possible implications are not clear at this stage and should be clarified as soon as possible, should the forthcoming Delegated Act implementing Article 8 of the Taxonomy Regulation require banks to disclose certain metrics, there is a **need to reduce the scope of the 'banking assets' encompassed in any ratio.**

Banks' non-financial reporting is only possible once they have their clients' non-financial information.While banks will be making efforts to obtain as much information as possible, they will have to rely on the willingness and the ability of clients to deliver such information.

[1] Although we suggest that NFRD will take the form of a Regulation not a Directive

Even where data is available, it may not necessarily meet the taxonomy's requirements impacting the quality of banks' disclosure. While the recital of the Taxonomy Regulations states that if "reliable and timely information could not be obtained, the financial market participants may make complementary assessments and estimates on the basis of information from other sources". This 'relief' is questionable. A ratio composed by numerous assumptions and estimates is likely to have little operational value and legitimacy.

Financial institutions should therefore only be required to report sustainability-related information on their portfolios/activities if sufficient and reliable information is available.Financial institutions should not be legally required to disclose information from entities that are not subject to any mandatory disclosure requirements themselves.

The scope of Article 8 should therefore be narrowed down **for banking activities according to the three following dimensions:**

- **Relevance for the market:** The scope could be narrowed down by excluding assets with limited relevance for the purposes of Article 8 such as reserves in central banks, trading books, hedging derivatives etc
- **Data availability from customers:** Should lending activities fall into the scope of Article 8, the ratio could be narrowed down to the assets where the information from customers is available (e.g. aligned with the scope of the NFRD (activities carried out by undertakings subject to a requirement pursuant to Article 19a or Article 29a of Directive 2013/34/EU). The scope of the NFRD should however be enlarged compared to the current scope – see our response to question xx).
- **Phase-in:** the requirements could distinguish between "stock" and "flow", differentiating between existing exposures and newly originated assets. Article 8 could apply to "new" originated loans in the first step, and, progressively, extending to the other parts of the outstanding banking exposures.

Investment in intangible assets currently represents the majority of investment carried out by the private sector in advanced economies.[1] There is a long-standing debate about the need for better reporting of intangible investments in company reports, including in relation to sustainability.[2] 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).

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.)?

[1] https://voxeu.org/article/productivity-and-secular-stagnation-intangible-economy

[2] The European Financial Reporting Advisory Group (EFRAG) is currently carrying out a research project on this topic. See http://www.efrag.org/Activities/1809040410591417/EFRAG-research- project-on-better-information-on-intangibles. The United Kingdom's Financial Reporting Council issued a consultation document about business reporting of intangibles in 2019. See https://www.frc.org.uk/news/february-2019/consultation-into-improvements-to-the-reporting-of.

Yes	No	Don’t know
4X	X	x

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

a. The Regulation on prudential requirements for credit institutions requires certain banks to disclose ESG risks as of 28 June 2022.
b. 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.
c. 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	To some extent but not much x	To a reasonable extent	To a very great extent	Don’t know

In order to ensure that the financial sector entities comply with the new disclosure requirements, laid down in the different pieces of legislation, in the most effective and efficient manner, there might be scope for better coherence between the different disclosure requirements.

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	There are gaps	There is a need to streamline Between taxonomy, NFRD/TCFD and Disclosure Regulation , CRR2 Pillar 3, EC NBG on climate reporting x	It does not work at all	Don't know

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 X	No	Don't know

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

- **To enhance comparability and consistency, the NFRD should take a form of a Regulation, rather than Directive.**

- The EU framework is very complex and should be streamlined to avoid becoming 'a real labyrinth system'. The reviewed NFRD should be **aligned with the EU Taxonomy Regulation, the Disclosure Regulation , the CRR2 Pillar 3 requirements, the June 2019 EC Non-Binding Guidelines on Climate Reporting and the newly published ECB guidance, and as much as possible and appropriate in the EU context with widely adopted frameworks** (e.g. , recommendations laid out by the Task Force on Climate-related Financial Disclosures ('TCFD') for climate related matters or GRI.

- There is a **timing mismatch between the application deadlines for the legislative measures,** such as the EU Disclosure and Taxonomy Regulations (e.g. 10 March 2021 for the Disclosure regulation and 1 January 2022 for the technical screening criteria on climate change mitigation and adaptation environmental objectives under the EU Taxonomy) **and the foreseeable timing of the first non-financial reporting cycle under the revised NFRD with the latter unlikely to be completed before 1 Jan 2022.**

  We highlight that the Technical Expert Group on Sustainable Finance (TEG) in its final Taxonomy report notes that it will be "challenging" for financial market participants to complete their first set of disclosures against the Taxonomy, covering activities that substantially contribute to climate change mitigation and/or adaptation, by 31 Dec 2021 as the new NFRD corporate disclosures obligations provided by the Taxonomy Regulation will become effective only in the course of 2022.

  In addition, there will be only six months left between the date NFRD will become effective and the date banks will be required to disclose ESG risks (June 2022).We would therefore encourage the European Commission and European Supervisory Authorities to **facilitate supervisory flexibility** by the National Competent Authorities in relation to the compliance with the mentioned Regulations in a short term.

  While we support the drive to increase the emphasis on non-financial reporting, and support the introduction of a more explicit statutory framework, we would also underline that aspects of non-financial reporting differ considerably from financial reporting and that qualitative aspects will continue to be of prime importance. These lend themselves less readily to frameworks developed purely by reference to quantitative reporting.

- Collecting more data and compiling more information for reporting purposes only, will not support the goal to improve meaningful disclosure. Therefore, the **concept**

of materiality is the decisive aspect with regards to report content and should be further standardized (See our response in section 3).

- Challenges such as climate changes, human rights and social concerns affect companies **globally**. We see a need for interconnecting the European non-financial reporting activities with other already existing initiatives. **A European non-financial reporting standard would be most useful if a worldwide acceptance is ensured**.

4. 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 X	Don't know

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 X	No	Don't know

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 4)?

	1	2	3	4	Don't know
Global Reporting Initiative			x		
Sustainability Accounting Standards Board		x			
International Integrated Reporting Framework		x			
Another framework or standard *					

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

*Please specify other framework or standard (no more than three.)

	1	2	3	4
1.TCFD			x	
2.PRI		x		

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

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 Carbon 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:

	1	2	3	4	Don't know
Global Reporting Initiative			x		
Sustainability Accounting Standards Board		x			
International Integrated Reporting Framework		x			
Task Force on Climate-related Financial Disclosures (TCFD)				x	
UN Guiding Principles Reporting Framework (human rights)			x		
CDP		x			
Carbon Disclosure Standards Board (CDSB)		x			

Organisation Environmental Footprint (OEF)	x				
Eco-Management and Audit Scheme (EMAS)		x			

Another framework or standard *					

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

*Please specify other framework or standard (no more than three).

	1	2	3	4	5
The need is for an integrated non-duplicative international framework					x
UN Global Compact International Integrated Reporting				x	

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

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 x

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

NA

Name of standard or framework (max 3)	Estimated cost of application per year, excluding any one-off start-up costs.

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?

Yes	No	Don’t know
X		

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	To a reasonable extent x	To a very great extent	Don’t know

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?

Mandatory X	Voluntary	Don’t know

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	To a very great extent x	Don’t know

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?

	1	2	3	4	Don’t know
Investors				x	
Preparers				x	
Auditors/accountants			x		

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

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?

	1	2	3	4	Don’t know
Civil society representatives/NGOs (such as GRI)			x		

Academics			x		
Other*					

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

*Please specify other categories (no more than three).

	1	2	3	4
1.rating agencies				x
2.industry representatives (including business associations)				x
3.Advisory Committees of the Member States similar to ARC (for fin. reporting				x

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

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

	1	2	3	4	Don't know
European Securities Markets Authority (ESMA)			x		
European Banking Authority (EBA)			x		
European Insurance and Occupational Pensions Authority (EIOPA)			x		
European Central Bank (ECB)			x		
European Environment Agency (EEA)			x		
Platform on Sustainable Finance[3]				x	

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

*Please specify other European public bodies or authorities that you consider should be involved in the process of developing a European non-financial reporting standard (no more than three).

	1	2	3	4
1.EFRAG (although not entirely public body), but we agree with the mandate envisaged for EFRAG				x
2.				
3.				

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

[3] Established under the Regulation on the establishment of a framework to facilitate sustainable investment (the "Taxonomy Regulation"), not yet published in the EU Official Journal.

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?

	1	2	3	4	Don't know
National accounting standards-setters		x			
Environmental authorities			x		
Other*					

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

*Please specify other type of European public bodies or authorities that you consider should be involved in the process of developing a European non-financial reporting standard (no more than three).

	1	2	3	4
1.				
2.				
3.				

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

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

- The stakeholder engagement dialog should be sufficiently focused. Those stakeholder that are identified as the target group of corporate reporting should be involved.

- Furthermore, organization focusing on **social aspects** of sustainable development should be involved in the process - to correspond to the holistic understanding of sustainability.

- We **support the envisaged mandate for EFRAG** to become responsible for developing standards for non-financial repporting. The EFRAG has built up a very good reputation in terms of expertise and due process, including transparency, governance, consultation process, public accountability and thought leadership. It is exactly this reputation that would be needed to give NFR-standards the required level of credibility.

- The individual questions in this section make reference to a good number of pre-existing reference points and organisations that can be said to have legitimate grounds for being involved in the dialogue on standardisation and a contribution to make. We view the key as the engendering of an inclusive dialogue in which as common a basis as possible can be found for global application.

- SMEs are the backbone of the EU economy and they rely mostly on banks' financing. One of the most difficult question is whether the reporting requirements, even simplified, should be mandated for SMEs. We understand that many SMEs are currently in a very challenging situation and any increased reporting requirement may create animosity from business owners and a potentially disproportionate burden on their businesses. We were considering whether it would be sufficient to focus on strengthening SMEs commitments and understanding of the UNGPs, OECD Guidelines and Paris Agreement than imposing new reporting burdens.

- Our conclusion, on balance, is that a **simplified reporting requirements should be mandated on the grounds that the mainstreaming of sustainable finance, including but not exclusively in support of net-zero carbon objectives,** will invariably bring information demands on their part and putting this within the context of a statutory framework can only help all round. However, only SMEs under the scope of NFRD should be required to meet such mandatory but simplified ESG disclosure requirements (see our response in section 7.)

- The SMEs under NFRD should report a **minimum and simplified set of information that could be provided in a structured manner** consistent with EU legislation and standards, given due considerations to proportionality and materiality. This will further facilitate bank's support to businesses and development of new sustainable products and services.

- **In a first stage, only SMEs from sectors with a high transition risk should be subject to mandatory reporting obligations.** Broadening of the scope may require a gradual approach and a development of training schemes at European level on criteria and norms on which sustainability activities thresholds for mitigation are defined and that could help specific financial actors and non-financial enterprises to build a common understanding of the taxonomy and disclosure requirements. Local authorities and public sector could also provide tools to calculate the carbon footprint etc

- Together with SME United, we have launched an **informal dialogue** to understand on one hand the minimum information needs of banks from the SMEs and on the other hand reporting feasibility and possible constraints SMEs are facing. Accountancy Europe and EFRAG kindly agreed to join the discussion forum. **We believe it is only through a dialogue and mutual understanding that any reporting requirements for SMEs should be agreed upon.**

5. 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.[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.

[4] See also the Commission's non-binding guidelines on reporting climate-related information, section 2.2, page 4 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)#page=4.

‘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*?

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent x	Don’t know

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*?

No, not at all	To some extent but not much	To a reasonable extent X	Yes, to a very great extent	Don’t know

Question 23.: If you think there is a need to clarify the concept of ‘material’ non- financial information, how would you suggest to do so?

- The materiality assessment is already a core aspect of corporate (sustainability) reporting and a key principle to ensure completeness and relevance of content.

- To foster a path towards more standardization in reporting, the concept of materiality within the NFRD should be clarified, aligned with other EU initiatives and supported by guidance. The exercise should not become more complex, but confirming material (decision useful) sets of aspects that all companies (within one sector) must report on.

- At the moment, the high degree of flexibility to determine parameters of materiality makes it almost impossible to compare materiality assessments, its results and as a consequence, the content of reports. **Therefore, a principle based concept about how to conduct a materiality assessment should be introduced.** A guideline would help to constitute a robust, reliable determination process which should be disclosed in the Non-Financial Statement as well.

- The introduction of "double materiality" is a good step towards this goal, but needs to be better explained, while kept simple and the **concept of risk/impact should be considered in the assessment process.**

- More stress on the dual-materiality understanding would be useful. Currently, the emphasis seems to be skewed to focus on the impact of the financial results to a greater extent than on the impact of the business on its surroundings (ESG factors). It is important to develop a **standardized and widely accepted materiality framework,** i.e. that there is alignment between sustainability taxonomy/dimensions and materiality topics, taking into account existing frameworks to the extent appropriate in the EU context. A more elaboration on the understanding of impacts would be particularly helpful with reference to the positive and negative ESG impacts of the company along the value chain and the services and products offered. We would encourage an alignment with organizations such as UNEP FI and its Positive Impact working group to support the Principles for Responsible Banking.

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

Yes	No	Don't know
X		

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

Question 22 : A negative impact might not have consequences on the financial result on short term: Will the auditors be able to certify this part?

Questions 24: Disclosing materiality assessment process is necessary to evaluate the work of the company and also gives more structure. Non-financial materiality needs to have a very simple and clear definition. The connection with environmental, social and governance impacts should be made in a very clear way.

Q 21-24 general:
Focusing solely on corporate financial materiality is no longer sufficient. It is of interest to stakeholder groups, including investors and rating agencies, to also understand the material implications and impacts of business activities concerning environmental, social and governance aspects. Therefore, this element should be highlighted in further adjustments to the NFRD. The concept of materiality should be further defined and more standardized.

6. 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?

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent	Don't know
	X			

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
X		

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
	x	

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
x		

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
X		

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
X		

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.

- Existing assurance standards should be screened and mapped with the aim to provide robust guidelines, rather than develop new standards. International Standard on assurance engagement, ISAE 3000 (revised) should provide a starting point

- Consideration needs to be taken about what is considered as "stronger assurance requirements". One size does not fit all. Proportionality needs also to apply. This is a cross-cutting comment to entire section 4.

The existence of a framework for preparation and submission appears to be a necessary precondition for the implementation of an audit/control obligation.

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?

Yes	No	Don't know
X		

Question 32.: If you publish non-financial information and that information is assured,

please indicate the annual costs of such assurance.

NA

If you provided an answer to the previous question, please describe the scope of the assurance services provided (issues covered, reasonable/limited, etc.).

NA

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

- There should be a clarification on what is considered as "stronger assurance requirements "and whether external verification in particular for emission could be also considered instead of audit.

- The added value of reasonable assurance is in the development of internal controls around the information to be disclosed. For non-financial topics that are highly regulated already, this might be feasible. For topics of less maturity, the requirements to receive a reasonable assurance might be too high and will lead to a set-back in public disclosure of non-financial information. Hence, a requirement for reasonable assurance will be unrealistic.

  Limited assurance, on the other hand, will provide a minimum level playing field and might already be quite challenging for some organisations that have no assurance or are not assured by one of the Big4. At the moment this level for assurance seems most appropriate for the existing level of maturity of non-financial information/data to be publicly disclosed.

  At the initial stage, the assurance should be limited with an ambition to require reasonable assurance in a longer term.

- Question 29 should be clarified as to whether it concern the company responsible for the assurance (auditor firm) or the company whose non-financial information will be assured? The wording "Key engagement risks" seems to indicate the auditor firm itself, in that case our answer is yes. If the question regards the company, the answer is instead no.

7. 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?

	1	2	3	4	5	Don't know
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	

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

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

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent	Don't know
			X	

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

- Single access point should be defined.

- Standardisation of data should be a prerequisite to the tagging

- Digitisation could result in large benefit as far as accessibility to information is concerned. Digitization could help to expand and improve the reporting. The handling of science-based targets, climate stress tests, scenario analyses and disclosure by financial institutions of the compatibility of their portfolios with the reduction targets of the Paris Agreement on Climate Change will possibly be easier. This kind of forward-looking sustainability data is an important prerequisite for improved assessments of the risks and opportunities associated with the future viability of companies and their external effects on the environment.

- Nevertheless, in some context, the excessive standardization required to tag the information could penalize the quality of the reporting and subsequent analysis. It needs to be emphasized that one size does not fit all and that proportionality needs to apply. Not all companies have the same level of sophistication and these specifications need to be taken into consideration.

- While we see merit on setting out on a path that would involve digitisation we would caution against underestimation of the time and resource that this would involve. For example, iXBRL took a considerable amount of time to develop and even longer to make capable of practical application.

- We strongly advocate for the creation of a **centralized database that would facilitate building of ESG disclosures and the access to relevant and reliable data at the EU level** (ideally in a standardized form but also providing access to disaggregated raw data).We understood a common European Green Deal dataspace to support the Green Deal priorities is being envisaged in the EU data strategy. It could be in this context that the EU builds or supports, based on existing solutions and infrastructure, a central European ESG data register that could collect periodically, with the help of new reading technologies, **existing climate change mitigation and adaptation data of companies that published non-financial statements under the NFRD and other available relevant information, ESG metrics and relevant data points.**

  It should also be possible to upload information to the register on a voluntary basis.
  Data should be collected in a central EU database and **made available digitally to users** of non-financial information, not only investors, but also lenders and other users in order to ensure that data are widely accessible across MS in an open source format.

  The EU should also **open up its databases that collect environmental reporting data and make those re-usable for finance providers via the central repository**. The public sector (national banks, local authorities, utility companies, …) could publish their data (energy efficiency, air pollution, …) on a statistical basis, protecting the private information for individuals[1].

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

8. 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:

	1	2	3	4	5	Don't know
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).		x				
The publication of financial and non-financial information in different reports creates the perception that the information reported in the separate report is of		x				

[1] *Ensuring secure processing with adequate confidentiality and clarifying the responsibilities of the parties involved will thus be essential for a well-functioning regime and practices to evolve*

secondary importance and does not necessarily have implications in the performance of the company.						

1= not at all, 5= to a very great extent]

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

Yes	No	Don't know
	x	

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?

	1	2	3	4	5	Don't know
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			

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

Please provide any comments regarding the location of reported non-financial information.

- We do not consider that the provision of non-financial information as part of a separate report creates unsurmountable problems providing suitable disclosures are made in the management (or strategic) report and reflected in the reporting of performance against non-financial KPIs. This enables the breadth of non-financial information to be reflected and should not be misinterpreted as companies not needing to provide suitable information within their management (or strategic) report. Signposting assists hugely where information is given in different locations within the ARA and in supplementary reports.

- While the aspects of non-financial reporting differ from financial reporting and qualitative aspects will continue to be of prime importance in non financial reporting, synergies between financial and non-financial reporting should be explored to pay the way towards and integrated reporting system over time. ,Greater standardization of the time and place of disclosures of sustainability data should be considered over the next years, as this would enhance the comparability of sustainability data (e.g. in connection with the selected audit depth.

- In addition, consideration needs to be given to the time horizon for financial and non-financial reporting. Typically, an annual financial report is focused on performance over the current and previous year, however non-financial reporting on ESG aspects tends to report over a longer time frame as insights on trends are an important part of the companies ESG journey and give perspective on the company's progress on associated long term commitments/targets (e.g. in relation to transitioning to low/zero carbon emissions over time).

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?

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent	Don't know
		X		

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

Question 37. Companies should be "required to disclose all necessary material non financial information"

9. 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?

	1	2	3	4	5	Don't know
Expand scope to include all EU companies with securities listed in regulated markets, regardless of their size.					x	
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).					x	
Expand scope to include *all* public interest entities, regardless of their size.			x			

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

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?

	1	2	3	4	5	Don't know
Expand the scope to include *large non-listed* companies.					x	
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				

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

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?

Yes	No	Don't know
X		

If yes, please specify who in your opinion should carry out this task (National Competent Authorities, European Supervisory Authorities, other…) and how.

National competent authority in coordination at EU level.

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?

	1	2	3	4	5	Don't know
The threshold criteria for determining which banks have to comply with the NFRD provisions should be different from those used by Non-Financial Corporates.				x		
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.				x		

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

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

We advocate for the modification of the scope in a proportionate way, to add certain categories of companies not currently covered by the NFRD as follows:

- A) the EU rules on non-financial reporting should apply to
  - **all listed companies** given the application of the taxonomy to all financial investments in the capital/financial market
  - **all large companies**, however as per question 43 the criteria for banks should be

modified to include banks with more than 250 employees and more than 5 billion in total assets.

B) Companies from sectors with a high transition risk (for example mining, carbon, smaller utilities, ...), should also comply with reporting obligations for material risks (e.g. climate only), **regardless of the size of the company**. Information on climate risk is essential for TCFD reporting as integrated into the EU Non-financial reporting guidelines.

C) **A simplified minimum reporting framework could be considered for the remaining companies taking into account materiality, proportionality and possible gradual implementation.** We see a case in particular for a simplified version of the NFRD being applied to SMEs, with a suitable emphasis placed on proportionality and materiality in their circumstances (please see our response to question 20).

10. SIMPLIFICATION AND REDUCTION OF ADMINISTRATIVE BURDENS FOR COMPANIES

Question 44.: If your company publishes non-financial information pursuant to the NFRD, please state how much time the employees of your company spend per year carrying out this task, including time of retrieving, analysing and reporting the information? Please provide your answer in terms of full-time-equivalents (FTEs, 1 FTE= 1 employee working 40h a week during 250 working days per year). Please provide your answer for reports published in 2019, covering financial year 2018.

N.A

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.

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.

<u>Question 45.:</u> To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know
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.			x			
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.					x	
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.				x		

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

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