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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

Thierry

* Surname

Philipponnat

* Email (this won't be published)

thierry.philipponnat@finance-watch.org

* Organisation name

255 character(s) maximum

Finance Watch

* Organisation size

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

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

- ◯ Yes
- ◉ No
- ◯ 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.

37943526882-24

* 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

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

* Field of activity or sector (if applicable):

at least 1 choice(s)

- [ ] Audit, assurance and accounting

- [ ] Banking
- [ ] Insurance
- [ ] Investment
- [ ] Pension provision
- [ ] 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
- [x] Other
- [ ] Not applicable

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

Financial regulation non-profit advocacy

* 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.

☑ I agree with the personal data protection provisions

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

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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	Governance matters including governance of sustainability issues and their taking into account by the Board
Other non-financial matter #2	Relationship of the company with third parties including tax issues and management of the supply chain (on top of bribery and corruption).
Other non-financial matter #3	Environment matters should be in line with the six environmental objectives defined by the European Taxonomy and, for the avoidance of doubt, it should be clear that the protection of healthy ecosystems includes biodiversity.

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	Assessment of work done to improve the sustainability of economic activities
Additional category of non-financial information #2	Governance of non-financial data collection, non-financial reporting and materiality analysis
Additional category of non-financial information #3	Audit processes of the implementation of non-financial policies

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.)?

- (●) 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
- (●) 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?

- (x) 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.

General comments:

The current Non-financial Reporting Directive (NFRD) was an important step in the right direction, but it needs to be revised in order to achieve a number of key points, among which the fact that the quality and scope of the non-financial information to be disclosed has to reconcile different objectives:

1) Be exhaustive enough to satisfy the different information needs of all categories of stakeholders of companies (investors, civil society, customers, employees, suppliers, supervisors, rating agencies).
2) Be comparable between reporting companies so as to make the work of stakeholders possible.
3) Be flexible enough to allow for a minimum level of standardisation and the possibility to report on the idiosyncrasies of each company.

It is essential that the standards of non-financial information that will be adopted should be comparable and consistent not only across the business spectrum, but also regardless of the nationality of the companies reporting. This is essential in a world where both sustainability and investment issues do not know the notion of border. It is therefore indispensable that 1) the next EU non-financial reporting standards should be enshrined in a regulation, and not in a directive as was the case in 2014 (we should have a NFRR); and 2) that the reporting of companies should be compulsory and not optional as is the case under the current NFRD.

Specific comments:

Q 1: The information provided has to be comparable, reliable and exhaustive, which is not the case under the current NFRD;
Q 2: Information about the environment should cover nature, biodiversity as well as climate. Information about social and employee issues and human rights should cover the supply chain of companies. Information about the relationship of the reporting company with third parties should include including tax issues and the management of its supply chain, on top of bribery and corruption information. Most fundamentally, the quality of governance is essential for stakeholders to assess properly the sustainability dimension of reporting companies. This is why, governance in general and governance of sustainability matters should make for compulsory information to disclose.
Q 3: Giving stakeholders the ability to assess the quality of the information provided is essential, hence the necessity to provide an assessment of the governance of sustainability policies (non-financial data collection, non-financial reporting and materiality analysis), and of audit processes of non-financial policies. In order to give stakeholders a dynamic and forward-looking view of the situation of companies, a qualitative and quantitative (e.g. capex) assessment of the work done to improve the sustainability of economic activities is essential, in line with the logic of the Taxonomy.
Q 4: Given the importance taken by intangible assets in the economy, reporting non-financial information related to those assets is indispensable. Not doing it would come down to missing on some of the most fundamental dimensions of today's economy.
Q5 to Q7: There are obvious gaps in the current NFRD, hence the necessity to revise it. As the Taxonomy regulation is the cornerstone of the EU green finance agenda, it is indispensable that the revised NFRD (hopefully becoming an NFRR) offer a framework
in line with the Taxonomy regulation.

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?

- (x) 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?

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

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?

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

11.2 Please specify the existing standard(s) or framework(s), whose principles and content should be incorporated in a potential common 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 existing standard or framework (no more than 3):	Please rate from 1 to 4 as explained above (please use digits only)
Other existing standard or framework #1	Global Compact	2
Other existing standard or framework #2	Natural Capital Coalition	2
Other existing standard or framework #3		

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
- ( ) To a reasonable extent
- (x) 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?

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

18.2 Please specify which other stakeholder(s) 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 stakeholder (no more than 3):	Please rate from 1 to 4 as explained above (please use digits only)
Other stakeholder #1	Non-financial rating agencies	4
Other stakeholder #2	Trade Unions	3
Other stakeholder #3		

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)			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				X	

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?

- (selected) 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 (EFRAG)	4
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?

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

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.

Standardisation is at the heart of the revision of NFRD, and it has several dimensions:

- Standardisation across jurisdictions (member states), hence the need for a regulation (NFRR) to replace the directive (NFRD).
- Standardisation across the entire spectrum of economic activities is indispensable whilst it has to be reconciled with the recognition of the existence of significant structural differences between sectors.
- A minimum level of standardisation between companies of different sizes is indispensable but the simultaneous recognition that companies of very different sizes should report at a different level of granularity is as important if we want to make the regulation operational.
- Getting inspiration from existing standards and frameworks can be useful and can bring efficiency to the process, but strong attention must be paid to the underlying principles of those standards and to their compatibility with the founding principles of the EU sustainable finance agenda, in particular with the concept of double-materiality (see following section) and the Taxonomy regulation. A number of existing standards are founded on a single materiality approach, which means that their principles and content can, at best, be a partial input for EU standards. For instance, SASB's standards have a focus on short term outside-in financial impact and are targeted at investors, whilst GRI's standards have an inside-out focus and are, as such, more relevant than SASB's for non-financial stakeholders but are nonetheless less ambitious than future European standards founded on double materiality. TCFD is by definition focused on climate-related information, an obviously essential subject but much narrower than the spectrum covered by the NFRD and it follows an outside-in financial single materiality logic.
- Given the ambition of developing EU standards incorporating both double materiality and the principles of the Taxonomy regulation, the Platform on Sustainable Finance in relation with EFRAG should be at the heart of developing a European non-financial reporting standard. In this process, the three ESAs should be given a consultative role.

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?

- ◉ 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.

The concept of materiality is the cornerstone of non-financial reporting. Namely, everything must be done to anchor the concept of double materiality at the heart of a European non-financial reporting standard. The EU has already gone a long way in this direction as witnessed, among others, by the 2019 Guidelines on reporting climate-related information, but failing to carve it in stone in the revised NFRD / NFRR would mean a renouncement of the EU to address the issue of the non-financial impact of businesses on their socio-environment. Double materiality has to be clearly defined in the revised NFRD / NFRR as the combination of the inside-out non-financial impact of businesses on their socio-environment and of the outside-in financial impact of the socio-environment on the accounts and financial performance of businesses. Moreover, the NFRD / NFRR should make clear that this double materiality impact has to be appreciated on three different time horizons: short term, medium term and long term.

A clear link should be kept between the accounting and the non-financial definitions in order to ensure that non-financial information acquires a status as important as accounting information. All information should be provided in the management report in order to ensure its consistency and comparability (cf. section 6 below).

Materiality should be assessed by the reporting companies under the control of external auditors, with a view of assessing their main material risks and their impact, and its governance should be disclosed.

Materiality reporting should be both quantitative and qualitative.

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

- (•) 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.

Article 2(16) of the Accounting Directive has a clear simple materiality approach which, as important as it may be, is only part of the subject of materiality (see our developments above). The definition which, as rightly stated, is geared towards financial reporting is important and should not be forgotten, but if taken on its own, it misses out on the essential dimension of the impact of businesses on their environment. Importantly, it is also the reflection of non-financial reporting as exclusively geared towards financiers and investors, whereas the revised NFRD / NFRR should make explicit that it targets non-financial stakeholders (civil society, consumers, employees...) as well as financial stakeholders.

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?

- (x) 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?

- (x) 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?

- (x) 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?

- (x) 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)?

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

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.

The credibility, and therefore the usefulness, of the non-financial information provided is a direct function of the assurance provided. Trust is of the essence.

This founding principle has a number of consequences:

Q 25 and 26: Bringing assurance as to the quality of the non-financial information reported is essential. As a consequence, external control of non-financial information by third-party verification providers should be mandatory throughout the EU and those third-party verification providers should certify the information. In turn, third-party verification providers should be accredited on a common set of quality standards and should be subject to well defined minimum criteria of qualification, experience and professional obligations in a consistent manner throughout Europe.

Q 27: EU law should require reasonable assurance of the non-financial information provided. Here again, it is a question of credibility and limited assurance will not suffice.

Q 28: The assessment by the assurance provider of the reporting company's materiality assessment process is indispensable: as described in previous responses, materiality assessment is the heart of the engine of the entire non-financial information disclosure exercise. Any flaw in the materiality assessment will rig the entire process. Hence this necessity.

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.	○	○	○	○	●	○
The tagging of non-financial information would only be possible if reporting is done against standards.	○	○	○	○	●	○
All reports containing non-financial information should be available through a single access point.	○	○	○	○	●	○

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.

Non-financial information collecting and processing has a number of challenges to meet that need to be reconciled to make it efficient:

1 - The amount of data to collect is vast and will keep growing in the foreseeable future.
2 - It is not standardized.
3- It has both a qualitative and a quantitative nature.

The principle of digitalisation must be promoted and all the technical efforts necessary must be made to implement it, as it is a case of making the exploitation of such a large amount of non-financial information possible in the first place, and also of making it cost-efficient. Failing to digitalize would lead to real world inefficiencies that could end-up hampering or jeopardizing the entire non-financial reporting effort.

In this context, comparability of data is a prerequisite to being able to tag reports containing non-financial information and this, in turn, requires the elaboration of a common standard of reporting. In other words, we have to address simultaneously the questions of designing reporting standards, and designing information formats allowing for tagging.

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.

Tagging being indispensable to making non-financial information reporting possible, exploitable and cost-efficient, no effort should be spared to introducing tagging of non-financial information. The cost of introducing tagging must be put in perspective with its characteristic of being indispensable and with the benefits it brings. Given the ambition of the sustainable finance effort and its duration, the cost of introducing tagging can be seen as being amortized on an indefinite time horizon, which makes it by construction economically cheap.

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.

Two crucial considerations underly the need for publishing non-financial information along with financial information in the management report: 1) financial information and non-financial information must be coherent and comparable with one another ; 2) in a double materiality logic, the long term inside-out non-financial impact of companies will feed the outside-in financial impact on companies of their socio-environment, and reporting the two categories of information in different locations would defy the very purpose of reporting non-financial information in the first place.

In other words, there must be a comprehensive approach of financial and non-financial information in the management report, and this must be done in a consistent manner at European level.

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.

Cf. our response to question 38.1 for the fundamental principles. There is an obvious connection between non-financial information and governance issues. Therefore if the current segregation referred to in question 39 has the merit of seeing these two categories of information located in the management report, merging the two statements within the management report could make sense, with the caveat that, given national legal governance frameworks differences, it would also require to streamline the governance statement.

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.	●	○	○	○	○	○
Expand the scope to include large companies established in the EU but listed outside the EU.	○	○	○	○	●	○
Expand the scope to include large companies not established in the EU that are listed in EU regulated markets.	○	○	○	○	●	○
Expand scope to include all limited liability companies regardless of their size.	○	○	○	○	○	●

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 / no opinion / not relevant

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.

The question of scope (which companies should disclose) cannot be considered independently of the question of double materiality and of the target stakeholders of the non-financial information disclosed.

The vision of Finance Watch on the scope of NFRD / NFRR derives from the fact that it supports strongly 1) the double materiality approach (combining outside-in and inside-out materiality), and 2) the definition of a non-financial reporting stakeholders group including civil society, customers, employees and suppliers as well as investors and financiers of different kinds.

With that perspective, there is no reason to distinguish between listed and non-listed companies, in particular because the inside-out impact of businesses is unrelated to the fact that the legal entities are listed or not.

Determining thresholds is a second best solution: ideally, we would want the reporting obligation to be linked to materiality (for instance, a hypothetical independent thermal coal facility or a highly-polluting chemical plant employing 100 employees should report), but we know that determining materiality at a very granular level for small and medium size companies can be difficult from an operational standpoint. With those two not necessarily convergent objectives in mind, we recommend that the revised NFRD / NFRR consider, in order of preference, the three following methods for determining its scope:

1) Materiality: does the business concern considered have a material inside-out or outside-in impact? In that logic, the inside-out leg of double materiality is particularly important, given that it deals with the impact of businesses on their socio-environment.
2) If the materiality approach is considered as too difficult to assess practically by third party verification providers and auditors, use thresholds linked to turnover and balance sheet and make them consistent with the Accounting Directive levels (respectively EUR 20 M and EUR 40 M).
3) If the number of employees is to be considered, use the threshold of 250 employees (essential to make it consistent with the Accounting Directive).

Two important points: 1) If hard thresholds are to be considered (as opposed to a materiality approach), turnover and balance sheet are technically more relevant than number of employees; 2) if the number of employees is to be considered as one the criteria, close attention should be paid to the fact that outside permanent contractors and consultants, employees on temporary contracts and trainees be counted as employees.

All companies should incur the same non-financial reporting obligations as long as they are established or listed in the EU, or if they generate a turnover in the EU. This should apply regardless of the nationality of the companies and of their possible listing in or outside of the EU (an establishment in the EU with a listing outside of the EU should not exempt the company as its inside-out impact is unrelated to its place of listing and as the target stakeholders are the same). This obligation should also apply with the same size thresholds regardless of the origin or the possible place of listing of the company.

The perimeter of the reporting obligation should be global, including for non-European companies, for businesses that are established, listed or sell their products or services in the EU. This global perimeter is indispensable both for investors (ESG investors have to consider the global activity of the companies they invest in, and information only centered on EU activity is of no use for them) and for non-financial stakeholders (civil society...) to derive meaningful information and understand the outside impact of companies. Here again, the issues are global and the borders are, in this respect, irrelevant.

8. Simplification and reduction of administrative burdens for companies

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

- ( ) Yes
- ( ) No
- (•) 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.

Not relevant

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 partially agree)	4 (mostly agree)	5 (totally agree)	Don't know / no opinion / 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.

Finance Watch considers that materiality is the key criteria to determine what non-financial information to report. In the current NFRD context, companies face uncertainty and complexity as materiality was not defined in the Directive 2014/95/EU, only partially defined in the guidelines of June 2017, and defined more clearly but in a non-binding text and only for climate-related reporting in the guidelines for reporting climate-related information in June 2019. One of the objectives of the precise definition of materiality that the revised NFRD / NFRR must deliver is precisely to remove all uncertainty and complexity for companies: there should be no ambiguity as to what must be reported or not, and this can be achieved thanks to a clear definition of materiality.

As explained in section 6 (structure and location of non-financial information), having only one reporting document for all information will also be essential to ensure consistency, simplicity and clarity of the information that companies disclose.

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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