MANDATORY CORPORATE REPORTING: HOW TO IMPROVE THE NON-FINANCIAL REPORTING DIRECTIVE (NFRD)?

Share Your Inputs with CSR Europe and the EU Commission to Make the NFRD Fit for Purpose.

As laid out in the Communication on the European Green Deal and the European Green Deal Investment Plan, the European Commission is committed to review the Non-Financial Reporting Directive in 2020.

The revision is part of the EC strategy to strengthen sustainable investments and assess the state of play of corporate reporting in Europe, especially with regards to how European companies disclose the impact of their business activities on climate. To this extent, the European Commission launched a wide consultation to collect the views of stakeholders on possible revisions to the provisions of the Non-Financial Reporting Directive. DEADLINE FOR SUBMISSION: 14 MAY 2020

For this reason, CSR Europe is setting up a process to support all its Members in influencing the future of EU mandatory reporting. How? By sharing our individual and collective experiences, concerns and proposals.

Furthermore, please refer to Annex I for more information on the recent study “How to Improve Climate-Related Reporting”, co-created by CSR Europe and other experts of the EU Project Task Force on Climate-Related Reporting (CRR).
# THE QUESTIONNAIRE

The consultation consists of a questionnaire that has a mix of **45 closed and open questions** divided in **8 clusters** aimed at assessing the costs and benefits of **three policy options available**:

1. **Continue with the current approach of non-binding guidelines and update them**;
2. **Endorse an existing or future standard on non-financial reporting, which would remain voluntary for companies to use**;
3. **Revise and strengthen the existing NFRD provisions**.

### TOPIC | CONTENT
---|---
1) **QUALITY AND SCOPE OF NON-FINANCIAL INFORMATION TO BE DISCLOSED**
- What do you think are the issues with non-financial reporting?
- Do you think there is a need to widen the scope of non-financial reporting to include:
  > Other non-financial topics besides the four ones currently required (environment; social and employee issues; human rights; bribery and corruption)?
  > Non-financial information related to a company’s governance and management procedures? For instance, providing scenario analysis, targets or information on how a company aims to contribute to society through its business activities could help the users of the report to understand the development, performance, position and impacts of the company.
  > Intangible assets or related factors (intellectual property, software, customer retention, human capital, etc.)?

2) **STANDARDISATION**
- Is it advisable to introduce a common non-financial reporting standard?
- Do you think that applying already existing frameworks, such as the [Global Reporting Initiative](https://www.globalreporting.org/), [International Integrated Reporting](https://www.integratedreporting.org/), [Sustainability Accounting Standards Board](https://www.sasb.org/), could resolve the problems identified with the NFRD and ensure a comprehensive disclosure of the NFRD requirements?

3) **APPLICATION OF THE PRINCIPLE OF MATERIALITY**
- Is the principle of materiality set-out in Article 2(16) of the Accounting Directive relevant to determine which information is necessary to understand a company’s development, performance and position?
- Should companies disclose their materiality assessment process?

4) **ASSURANCE**
- Given the differences in the assurance requirements between financial and non-financial information, should a reviewed NFRD strengthen the assurance requirements for non-financial information?

5) **DIGITALISATION**
- Is there the need to increase the digitalisation of non-financial information, through tagging systems and XHTML drafting, in order to make the reports machine-readable?

*The EC suggested the three policy options in the Inception Impact Assessment for the revision of the NFRD published in January 2020.*
<table>
<thead>
<tr>
<th>TOPIC</th>
<th>CONTENT</th>
</tr>
</thead>
</table>
| 6) STRUCTURE AND LOCATION OF NON-FINANCIAL INFORMATION | • Should companies be required to include non-financial information in the management report?  
• Is the current location of non-financial information within the management report effective to ensure its readability by users of company reports? |
| 7) EXTENSION OF PERSONAL SCOPE | • Should the scope on the NFRD be broadened to include other companies (other categories of Public-Interest Entities (PIEs) and non-PIEs)?  
• If not-listed companies were required to disclose non-financial information, should there be a specific authority in charge of supervising their compliance? |
| 8) REDUCE THE BURDENS FOR COMPANIES | • Should the reporting process be simplified, to allow a reduction of the burden, in terms of costs and time, for companies? |

DEADLINE FOR SUBMISSION: 14 MAY 2020
WHAT’S IN IT FOR YOUR COMPANY

1. MAKE YOUR VOICE HEARD:
Shape together with CSR Europe your position on the update of the NFRD through a wide range of activities:

- **23 MARCH - 1st DRAFT TO THE QUESTIONNAIRE**
CSR Europe will share with its members the 1st draft of its response to the questionnaire.

- **26 MARCH - WEBINAR**
“Revision of the Non-Financial Directive”
CSR Europe members will have the opportunity to share their reaction to our 1st Draft.
REGISTER NOW

- **6 APRIL - YOUR COMPANY’S CONTRIBUTION**
Deadline to send us your company’s written contribution to the CSR Europe’s Draft response.

- **15 APRIL 2nd DRAFT TO THE QUESTIONNAIRE**
CSR Europe will share with its members the 2nd draft of its response to the questionnaire.

- **15 APRIL - 14 MAY**
CSR Europe members will have the opportunity to share their reaction on a one-to-one basis.

- **14 MAY - SUBMISSION OF THE RESPONSE**
CSR Europe will submit the final version of its response to the Commission.

2. PEER-TO-PEER LEARNING:
Join the activities of our Community of Practice on Total Impact Disclosure:

- **28 APRIL - WORKSHOP with EIB**
“Corporate Sustainability Performance: Big Data Tools for ESG”
CSR Europe will share with its members the 1st draft of its response to the questionnaire.

Join the activities of our Community of Practice on Beyond Due Diligence:

- **23 MARCH - WEBINAR**
“Due Diligence Regulations and Impact”

FOR MORE INFORMATION
Contact Lorena Sorrentino
Senior Project Manager
ANNEX 1: HOW TO IMPROVE YOUR CLIMATE-RELATED REPORTING

**Key Learnings from +100 Companies**

CSR Europe co-created with other experts of the Project Task Force on Climate-Related Reporting (PTF-CRR) the study “How to Improve Climate-Related Reporting”. The document identifies the climate-related reporting trends and best practices of over 100 companies.

<table>
<thead>
<tr>
<th>SUPPLEMENT SECTION</th>
<th>CRITERIA CONSIDERED</th>
<th>LARGE CAP COMPANIES</th>
<th>SMALL &amp; MEDIUM CAP COMPANIES</th>
</tr>
</thead>
</table>
| 1) GOVERNANCE       | DISCLOSURE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD):  
  • Board’s oversight  
  • Management’s Role  
  NFRD ELEMENTS:  
  • Disclosure on Policies and Due Diligence Processes | AVIVA  
  enel  
  Eni | Atos  
  SCOR  
  Vallourec |
| 2) STRATEGY         | DISCLOSURE RECOMMENDATIONS OF THE TCFD:  
  • Climate-related risks and opportunities  
  • Impact of climate-related risks and opportunities  
  • Resilience of the organization’s strategy  
  NFRD ELEMENTS:  
  • Principal Risks and Their Management  
  • Business Model | KERING  
  enel  
  AXA | CNP  
  Vallourec |
| 3) RISK MANAGEMENT  | DISCLOSURE RECOMMENDATIONS OF THE TCFD:  
  • Processes for identifying and assessing  
  • Processes for managing  
  • Integration into overall risk management  
  NFRD ELEMENTS:  
  • Principal Risks and their Management | AVIVA  
  SOUTH32 | |
| 4) METRICS & TARGETS| DISCLOSURE RECOMMENDATIONS OF THE TCFD:  
  • Metrics used to assess  
  • GHG emissions  
  • Targets  
  NFRD ELEMENTS:  
  • Key Performance Indicators  
  • Outcomes | L'Oréal  
  Allianz  
  SCOR  
  ABN-AMRO | |

*Division according to a cross-referencing system between the TCFD recommended disclosures with the disclosures required by the NFRD, as done by the EC Guidelines on reporting climate-related information.  
Source: European Commission, DG FISMA, Guidelines on reporting climate-related information.
ISSUES IN A NUTSHELL

The study highlighted how Climate-Related Reporting as is currently carried out:

1. Rarely offers a complete overview of how businesses will transition their business model and strategy vis-à-vis climate mitigation and adaptation.

2. Is not always part of companies’ financial filings.

3. Shows that companies are less keen in disclosing how they monitor their climate-related policies and manage risks.

4. Includes too many generic information, disclosed without prior materiality assessment.

5. Is not as detailed in all the four thematic areas identified by the Task Force on Climate Related Financial Disclosures (TCFD). The area “Metrics and targets” is subjected to more advanced analysis compared to “Governance”, “Strategy”, and “Risk Management”.

6. Does not take full advantage of scenario analysis. Companies tend to use only one scenario, which sometimes is the best-case scenario.

7. Has to deal with conflicting time-horizons. The time horizon of climate-related risks, often beyond 5 year, is not aligned with the time horizon of companies’ business planning and strategy, which is often less than 5 years.

AS A RESULT, IT IS STILL DIFFICULT FOR REPORT USERS AND INVESTORS TO GET A COMPLETE PICTURE OF HOW COMPANIES ARE MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES.

USEFUL REFERENCES

- European Commission Guidelines on Non-Financial Reporting, June 2017
- Recommendations of the Task Force on Climate-Related Financial Disclosures, June 2017
- Climate Scenarios Demystified - A Client Scenario Guide for Investors, CICERO Climate Finance, February 2018
- European Commission Guidelines on reporting climate-related Information, June 2019