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

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 [hyperlink when online] 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).

Disclosure of profits associated with EU Taxonomy compliant activities (noted that disclosure of turnover associated with EU Taxonomy compliant activities is already a reporting requirement under the taxonomy).

IIGCC proposes using an integrated reporting framework that provides a more holistic approach to a company's value, particularly as market value shifts further towards intangible assets such as intellectual capital, R&D, brand value.

This is considered best practice and we would welcome a more dynamic set of expectations on company reporting from the Commission that focuses not just on the current company position in relation to specified environmental or social impacts – but one that also includes a more forward-looking and broader approach to market value. This could take the approach of the IIRC which places an emphasis on disclosing the process of corporate thinking on sustainability-related issues - rather than tick boxing around provision of data.

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).

Reporting of scope 1, 2, and material scope 3 emissions, using a consistent and methodologically robust basis. It is acknowledged that it may be challenging for some companies to disclose scope 3 emissions immediately. Hence, additional time could be considered for some companies to start reporting their scope 3 emissions.

Reporting of performance against short, medium and long-term emission reduction targets and/or measures towards those targets, with a minimum set of sector-specific indicators specified (to support improved comparability and consistency of disclosed information). Guidance for corporate targets could draw on sectoral methodologies developed through the Science Based Targets Initiative as well as Carbon Performance analysis developed by the investor led Transition Pathway Initiative. In addition details of oversight structures and remuneration linked to short-term climate and sustainability targets.

Physical climate risk management including results of risk identification analysis and any mitigation actions taken. The European Bank for Reconstruction and Development and the Global Commission on Adaptation gathered a group of financial institutions to make recommendations for expanding TCFD to better address physical climate risks and opportunities. We commend this report and its recommendations to be

incorporated into the NFRD: *Advancing TCFD Guidance on Physical Climate Risks and Opportunities*[1]. Appendix 1 of this document includes the summary recommendations from this report. One of the specific suggestions is that over time, companies should draw on insurance sector metrics with a goal of analysing and disclosing value at risk from physical climate impacts over different time horizons.

Investment in intangible assets currently represents the majority of investment carried out by the private sector in advanced economies.[2] There is a long-standing debate about the need for better reporting of intangible investments in company reports, including in relation to sustainability.[3] 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.)?

Yes	No	Don't know
X		

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

[1] Available at: https://www.physicalclimaterisk.com/index.html

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

[3] 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.

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
		X		

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	It does not work at all	Don't know
	X	X	X		

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

Yes	No	Don't know
X		

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

Please see the position paper attached to our consultation submission which provides further details of our recommendations.

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
			X	

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

Yes	No	Don't know
X		

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.CDP		X		
3.Sustainable Development Goals Disclosure (SDGD)			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
1. Sustainable Development Goals Disclosure (SDGD)			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

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 (max 3)	Estimated cost of application per year, excluding any one-off start-up costs.
N/A	

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	To a very great extent	Don't know
				X

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	Voluntary	Don't know
X		

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	Don't know
			X	

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		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.				
2.				
3.				

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

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?

	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[4]				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 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. European Financial Reporting Advisory Group			X	
2.				
3.				

[4] 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.

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

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* Sustainable Development Goals Disclosure (SDGD) – Experts			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 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.

IIGCC recommends that any disclosure standard developed by the Commission builds on, reinforces and clarifies existing global frameworks and standards, so as to limit or avoid regional/ country divergence. The Commission should build on standards that use robust methodologies, have strong governance in place to update thestandards (as our understanding of ESG issues develops) and support international dialogue towards harmonisation of non-financial reporting.

We recommend the Commission incorporates the principles and content of widely used internationally recognised ESG reporting standards which large listed companies already use. IIGCC members report the following standards as most helpful: GRI, TCFD, SASB, IIRF and Sustainable Development Goals (SDG) Disclosure.

In addition, the Climate Action 100+ benchmark, currently under development, could help support a consistent standard of disclosure which has been designed to support the TCFD's recommendations.

IIGCC recommends the auditing of non-financial disclosures; a clear standard will support the audit and assurance profession to develop the knowledge and skills to support their verification of the disclosed information.

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.[5] 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.

<u>Question 21:</u> 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	Don't know
	X			

5 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.

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	Yes, to a very great extent	Don't know
	X			

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 concept of double materiality as articulated in the NFRD guidelines related to climate reporting is a helpful starting point to clarify this concept in the revised NFRD. The distinction between 'impact on' (the case whereby ESG factors affect business strategy and performance) and 'impact of' (the case whereby one looks at the outputs companies provide in society and in the environment) is helpful for companies to identify what is material to them, both in terms of their business success and commercial longevity and in terms of their societal contribution. Likewise, their investors need the two sets of data – the former will provide more direct, and useful informational elements to integrate in their investment and risk management processes, the latter will provide contextual information. In respect of environmental and social materiality, for example the double materiality can be done in one assessment where on the X axis both sustainability issues that impact the company and those that the company has an impact on should be covered. On the Y axis, the views (level of importance attributed) by key stakeholder groups should be assessed. Companies should report on issues that end up in the top right quartile of the matrix – or those that score very high on either of the two axes.

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 21: the reference to 'financial statements' in the accounting directive definition is what narrows the relevance. Question 24: even companies in the same sector may cover different issues in their report. It is therefore important that they explain how they have reached their conclusions and how stakeholder input is reflected in their assessment.

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?

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.

There are at least two standards available in this space, although neither may be fully suitable to meet the assurance level envisioned for sustainability reports in the longer term. They can however offer useful learning and serve as a starting point:

- AA1000 AccountAbility Principles (AA1000AP) 2018
- ISAE 3000 series (IAASB 2013)

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.

N/A

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

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

IIGCC recommends that the assurance and audit requirements of disclosure made by companies under the NFRD are mandatory, including a move towards incorporating these disclosures within assurance and audit processes.

Independent, third party assurance and audit will be critically important for improving the reliability of disclosures made by companies covered by the NFRD. This should be results focused rather than only process focused. The narrow focus on process has been one of the weak points of financial audit today – and one criticised for allowing auditors to 'tick boxes' but failing to deliver on the ultimate purpose – alerting shareholders to inaccuracies. Assurers should provide an opinion as to whether the actual data provided is reliable, not just whether it was gathered in the right way.

The Commission could consider scaling the requirements for assurance and audit of disclosure of non-financial information, depending on company size and resources. For example, larger companies could be subject to a full audit, whereas smaller companies could be subject to assurance or otherwise appropriately scaled requirements.

Having clear and consistent reporting standards would greatly support the audit profession in developing its knowledge base and providing a high quality of assurance and audit in this area.

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?

	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:

A central, digital access point to the information would be of benefit to all stakeholder groups and particularly useful for smaller investors. All stakeholder groups would benefit from a public database of tagged sustainability information. The question is which party(s) would bear the costs associated with establishing, monitoring and maintaining the database.

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

Digitalized sustainability information originated from companies would still have to be somehow vetted. Sustainability data is often not balanced and tagging itself might lead to a growing amount of data that is only structured on the surface, but actually does not add up (is not comparable). That is why the application of the reporting principles and standards has to be monitored / enforced by an independent authority.

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:

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

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 would support the inclusion of NFI in the management report. Our view is that this would bring it into line with TCFD by requiring the inclusion of the information in the main financial reports rather than in a separate document.

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.

In respect of question 37, as companies should disclose how relevant sustainability issues are governed, how they fit with the business model and strategy, how associated risks (and opportunities) are managed and this needs to be complemented by metrics and targets.

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?

	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.

There is currently possibly no such supervisory mechanism, yet one might need to be set up at EU level with corresponding National Competent Authorities especially in light of the implementation of the EU Sustainable Finance taxonomy – compliant reporting. A number of other measures (Ecolabel, benchmarks, etc.) build on the availability and reliability of this corporate data. This EU-level body (and the national authorities) will need to vet the compliance with the reporting principles and standards. Providing a minimum set of mandatory disclosures including specific methodology for data calculation could help as well.

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.

IIGCC recommends an extension of the NFRD scope to cover more companies, including:

- All companies with over 250 employees to fully meet NFRD requirements whether listed or not; smaller companies to be included where they are in material sectors. Reporting requirements should be proportional according to the size of the company.
- All listed companies that are either listed in EU regulated markets (even if they were established outside of the EU) and/or have been established in the EU (even if they are listed outside the EU) and removing any exemptions for subsidiaries, noting that duplicate reporting should be avoided. This will ensure that all larger companies are regulated regardless of place of establishment or listing.

To support the assessment of whether smaller companies are operating in material sectors, the work of IIGCC's Paris Aligned Investment Initiative may be helpful. The initiative is currently considering materiality in assessing portfolios' alignment to the Paris Agreement. Their current recommendation (under review) is to use the EU taxonomy on Sustainable Finance as the basis for materiality. Currently the mitigation elements of the taxonomy focus on NACE codes A-F, H, J and L. We would also recommend considering G (wholesale and retail trade) and K (financial and insurance activities).

It is acknowledged that companies that were not previously within scope of the NFRD may need time to mature their reporting capacities. Partial or limited mandatory reporting (or full but voluntary reporting) for these companies could be considered, but with an end date for their transition to full, mandatory reporting.

IIGCC recommends the European Commission approaches the NFRD and the other files (SFDR, taxonomy) in a holistic way. As such products and entities that are already subject of SFDR do not need to be considered in scope of NFRD.

8. 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.

IIGCC members report they do not register the time spent on the NFRD specifically.

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.

IIGCC members have reported that investors do not have specific costs for NFRD disclosures as NFRD is just one of many non-financial disclosure requirements.

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.

The level of uncertainty companies face around reporting depends on their maturity on the reporting journey (e.g. years of experience / expertise). Their experience can be to some extent also correlated the level of maturity they and their business partners in terms of sustainability reporting.

IIGCC Response to EU Commission Consultation on the Revision of the Non-Financial Reporting Directive

The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low-carbon future. IIGCC has more than 230 members, mainly pension funds and asset managers, across 16 countries, with over €30 trillion in assets under management.

Our mission is to mobilise capital for the low-carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviors that address the long-term risks and opportunities associated with climate change. Members consider it a fiduciary duty to ensure stranded asset risk or other losses from climate change are minimised and that opportunities presented by the transition to a low-carbon economy – such as renewable energy, new technologies and energy efficiency – are maximised. For more information visit www.iigcc.org and @iigccnews.

The revision of the NFRD as way of ensuring disclosure of decision-useful information

IIGCC welcomes the review of the NFRD as an opportunity to fundamentally review the nature and format of non-financial disclosures to make the information provided more useful and relevant for investment decisions, and align corporate disclosures with the needs of the investment community, including those arising from the SFDR and EU Taxonomy regulations.

The recommendations below have been informed by our members' feedback, including through their involvement in initiatives such as IIGCC's Paris Aligned Investment Initiative (PAII) and Climate Action 100+ (CA100+) initiative. These initiatives are described in more detail in Annex 1 at the end of the document.

Quality and scope of non-financial information to be disclosed

Recommendation 1: IIGCC recommends that corporate reporting of non-financial information covers the priority issues below:

- Reporting of scope 1, 2, and material scope 3 emissions, using a consistent and methodologically robust basis. It is acknowledged that it may be challenging for some companies to disclose scope 3 emissions immediately. Hence, additional time could be considered for some companies to start reporting their scope 3 emissions.
- Reporting of performance against short, medium and long-term emission reduction targets and/or measures towards those targets, with a minimum set of sector-specific indicators specified (to support improved comparability and consistency of disclosed information). Guidance for corporate targets could draw on sectoral methodologies developed through the Science Based Targets Initiative as well as Carbon Performance analysis developed by the investor led Transition Pathway Initiative.
- Details of oversight structures and remuneration linked to short-term climate and sustainability targets.
- Disclosure of profits associated with EU Taxonomy compliant activities (noted that disclosure of turnover associated with EU Taxonomy compliant activities is already a reporting requirement under the taxonomy).
- A strengthening of corporate reporting on physical climate risk management, including results of risk identification analysis and any mitigation actions taken. The European Bank for Reconstruction and Development and the Global Commission on Adaptation gathered a group of financial institutions to make recommendations for expanding TCFD to better address physical climate risks and opportunities. We commend this report and its recommendations to be incorporated into the NFRD: *Advancing TCFD Guidance on*

Physical Climate Risks and Opportunities[6]*.* Annex 2 of this document includes the summary recommendations from this report. One of the specific suggestions is that over time, companies should draw on insurance sector metrics with a goal of analysing and disclosing value at risk from physical climate impacts over different time horizons.

In addition, company disclosure regarding their membership of external bodies or initatives pursuing climate-related policy, lobbying or advocacy initiatives is in alignment with the Paris Agreement goals would be useful.[7]

A Climate Action 100+ benchmark is currently being developed to consistently assess companies' performance on climate action and could help support reporting against the above topics. Please see Annex 1 for further details.

IIGCC recommends that the Commission has a central, digital access point to the information disclosed. This would be particularly useful for smaller investors.

Recommendation 2: IIGCC proposes using an integrated reporting framework that provides a more holistic approach to a company's value, particularly as market value shifts further towards intangible assets such as intellectual capital, R&D, brand value.

This is considered best practice and we would welcome a more dynamic set of expectations on company reporting from the Commission that focuses not just on the current company position in relation to specified environmental or social impacts – but one that also includes a more forward-looking and broader approach to market value. This could take the approach of the IIRC which places an emphasis on disclosing the process of corporate thinking on sustainability-related issues - rather than tick boxing around provision of data.

Recommendation 3: IIGCC recommends that improved disclosure of non-financial information should include reflecting ESG issues within financial accounts. This is vital for consistent and effective capital allocation. Specifically, financial reports should be consistent with any assumptions made over commodity or energy prices and consumer demand that are used in developing targets or Paris-Aligned strategies. For example, BP use an oil price of $50 per barrel to test whether capex projects are aligned with the Paris Agreement, yet disclose a forward looking price assumption of $75 per barrel in their financial accounts[8].

Recommendation 4: IIGCC recommends that any new requirements introduced by the Commission under the NFRD should be coherent with relevant existing (or imminent upcoming) requirements and avoid duplication of reporting legislation, for example:

- Disclosures regulation for institutional investors, including the recently agreed Sustainability Disclosure Regulation.
- Taxonomy Regulation.
- Shareholders Rights Directive.

Recommendation 5: IIGCC recommends that the NFRD is translated into a Regulation having a direct effect in all member states. Corporate reporting needs to become significantly more harmonized across member states. The translation of the NFRD into a Regulation having a direct effect in all member states would help to achieve consistency of implementation at the national level.

[6] Available at: https://www.physicalclimaterisk.com/index.html

[7] https://www.iigcc.org/resource/investor-expectations-on-corporate-lobbying/

[8] https://www.bp.com/en/global/corporate/investors/results-and-reporting/annual-report.html

Personal scope

Recommendation 6: IIGCC recommends an extension of the NFRD scope to cover more companies, including:

- All companies with over 250 employees to fully meet NFRD requirements whether listed or not; smaller companies to be included where they are in material sectors. Reporting requirements should be proportional according to the size of the company.
- All listed companies that are either listed in EU regulated markets (even if they were established outside of the EU) and/or have been established in the EU (even if they are listed outside the EU) and removing any exemptions for subsidiaries, noting that duplicate reporting should be avoided. This will ensure that all larger companies are regulated regardless of place of establishment or listing.

To support the assessment of whether smaller companies are operating in material sectors, the work of IIGCC's Paris Aligned Investment Initiative may be helpful. The initiative is currently considering materiality in assessing portfolios' alignment to the Paris Agreement. Their current recommendation (under review) is to use the EU taxonomy on Sustainable Finance as the basis for materiality. Currently the mitigation elements of the taxonomy focus on NACE codes A-F, H, J and L. We would also recommend considering G (wholesale and retail trade) and K (financial and insurance activities).

It is acknowledged that companies that were not previously within scope of the NFRD may need time to mature their reporting capacities. Partial or limited mandatory reporting (or full but voluntary reporting) for these companies could be considered, but with an end date for their transition to full, mandatory reporting.

As outlined in recommendation 4, IIGCC recommends the European Commission approaches the NFRD and the other files (SFDR, taxonomy) in a holistic way. As such products and entities that are already subject of SFDR do not need to be considered in scope of NFRD.

Assurance

Recommendation 7: IIGCC recommends that the assurance and audit requirements of disclosure made by companies under the NFRD are mandatory, including a move towards incorporating these disclosures within assurance and audit processes.

Independent, third party assurance and audit will be critically important for improving the reliability of disclosures made by companies covered by the NFRD. This should be results focused rather than only process focused. The narrow focus on process has been one of the weak points of financial audit today – and one criticised for allowing auditors to 'tick boxes' but failing to deliver on the ultimate purpose – alerting shareholders to inaccuracies. Assurers should provide an opinion as to whether the actual data provided is reliable, not just whether it was gathered in the right way.

The Commission could consider scaling the requirements for assurance and audit of disclosure of non-financial information, depending on company size and resources. For example, larger companies could be subject to a full audit, whereas smaller companies could be subject to assurance or otherwise appropriately scaled requirements..

As highlighted in recommendation 8, having clear and consistent reporting standards would greatly support the audit profession in developing its knowledge base and providing a high quality of assurance and audit in this area.

Standardisation

Recommendation 8: IIGCC recommends that any disclosure standard developed by the Commission builds on, reinforces and clarifies existing global frameworks and standards, so as to limit or avoid regional/ country divergence. The Commission should build on standards that use robust methodologies, have strong governance in place to update the standards (as our understanding of ESG issues develops) and support international dialogue towards harmonisation of non-financial reporting.

We recommend the Commission incorporates the principles and content of widely used internationally recognised ESG reporting standards which large listed companies already use. IIGCC members report the following standards as most helpful: GRI, TCFD, SASB, IIRF and Sustainable Development Goals (SDG) Disclosure.

In addition, the Climate Action 100+ benchmark, currently under development, could help support a consistent standard of disclosure which has been designed to support the TCFD's recommendations.

As highlighted by recommendation 7, IIGCC recommends the auditing of non-financial disclosures; a clear standard will support the audit and assurance profession to develop the knowledge and skills to support their verification of the disclosed information.

Annex 1 – IIGCC's Paris Aligned Investment Initiative and Climate Action 100+ benchmark

The Paris Aligned Investment Initiative is led and coordinated by IIGCC with a steering group of leading asset owners. More than 70 IIGCC members are participating in the initiative, representing over $15 trillion assets under management. The initiative will help investors effectively implement their ambitions to reduce carbon emissions and increase investments in climate solutions in line with the Paris goals. Please see here for more info.

IIGCC is a co-founder of the Climate Action 100+ (CA100+) initiative. CA100+ is an investor initiative launched in 2017 to ensure the world's 160 largest corporate greenhouse gas emitters take necessary action on climate change. More than 450 investors with over $40 trillion in assets collectively under management are engaging companies to curb emissions, improve governance and strengthen climate-related financial disclosures. IIGCC supports investors with their corporate engagement in Europe carried out as part of CA100+. To find out more info on CA100+, see here for more.

The disclosure work of the CA100+ initiative includes developing a scorecard to assess companies' progress on climate action. This would contribute to improving transparency and comparability of companies' climate-related data and disclosure. It is planned to issue an annual data request to companies and seek their disclosure for at least the remaining years of CA100+. The framework is under discussion but is expected to cover pillars such as:

1. Long term ambition or objectives to achieve net zero emissions by 2050
2. Short and medium targets to operationalise the long-term ambitions
3. Investment plans to deliver upon short, medium- and long-term commitments
4. Remuneration which reflects the delivery of targets and corresponding investment plan
5. Commitment to advocate positively with policymakers in support of the goals of the Paris Agreement, or sooner (depending on sector/region)[9]

Companies would disclose a score against each of the pillars, as per the below:

- Level 1 (basic awareness)
- Level 2 (incomplete approach)
- Level 3 (complete approach)

Annex 2 – Summary of Physical climate risk and opportunity disclosure recommendations, as developed by EBRD/GCA supported report[10]

1. Assess exposure to all first-order physical climate impacts
2. Assess physical climate risks over an asset's lifetime or over the lifetime of a financial instrument
3. Disclose locations that are critical to value chains
4. Provide detailed information on the financial impacts of recent extreme weather events
5. Disclose the impacts of weather variability on value chains
6. Perform forward-looking assessments of physical climate risks
7. Describe risk management processes for physical climate change impacts
8. Identify opportunities based on managing physical climate risks and related market shifts
9. Assess physical climate opportunities over timeframes relevant to business planning
10. Disclose physical climate business opportunities at the segment level; for critical facilities, disclose climate resilience benefits at the facility level
11. Disclose benefits from climate resilience investments with the same risk disclosure metrics
12. Include physical climate business opportunities in qualitative disclosures
13. Consider current and desired GHG concentration pathways and related warming projections as a basis for scenario analysis of physical climate risks and opportunities
14. Integrate scenario analysis of physical climate risks and opportunities into existing planning processes to ensure strategic, flexible and resilient businesses and investments
15. Avoid standardised scenario analysis in order to have a more comprehensive range of outcomes
16. Consider data from a wide variety of sources and scales when developing scenario analysis
17. Take account of scientific uncertainty inherent in climate data and in scenario analysis
18. Disclose qualitative information that is relevant to the company and its investors

[10] From: https://s3.eu-west-2.amazonaws.com/ebrd-gceca/EBRD-GCECA_draft_final_report_full_2.pdf