



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

SUMMARY REPORT

OF THE RESPONSES RECEIVED TO THE

PUBLIC CONSULTATION ON DISCLOSURE OF

NON-FINANCIAL INFORMATION BY

COMPANIES

DIRECTORATE GENERAL FOR THE INTERNAL MARKET AND SERVICES

APRIL 2011

EXECUTIVE SUMMARY

The services of DG Internal Market and Services have sought stakeholders' views on the existing EU regime on non-financial (CSR) disclosure with a view to improving existing policy. The following is a summary of the reactions received.

Existing non-financial disclosure policy

Respondents were in general agreement that legal regimes differ significantly across the EU Member States. Several respondents considered that this leads to difficulties in benchmarking between companies. Half of the respondents describe the current regime applicable in their respective jurisdiction as poor or very poor. For many, the current EU legislative framework lacks transparency. Several respondents think this translates into a lack of balance and cohesion of reporting by companies, making it difficult for shareholders and investors to make a reasonable assessment of the extent to which companies take account of CSR in their activities. Generally, contributions from Member States with more extensive requirements did not report that these lead to excessive administrative burdens. A majority of respondents also highlighted that potential costs could be considered as investments needed to build capabilities that are necessary for managing properly the overall business, leading to better long-term performances.

Possible improvements

With respect to improving the current regime on non-financial disclosure, a majority of those suggesting improvements to the current situation considered that EU should draw on frameworks already developed at international level rather than elaborate new standards and principles. Sharing of best practices, better guidance and the need of incentives for companies to report on non-financial issues were underlined by many respondents. According to some, the 'comply-or-explain' approach could be an appropriate way forward, allowing a certain room for flexibility. A large majority of contributors showed support for the concept of integrated reporting, indicating it should be embraced at EU level. However, for many stakeholders, developments on this need further reflections, especially on how best to make integrated reporting operational, without unduly increasing the administrative burden for companies.

Scope for future action

A majority of respondents found that better information on the following aspects are relevant; (1) whether or not the company has a CSR policy (and if so, how it is implemented), (2) the principal business risks and opportunities arising from social and environmental issues and how these are taken into account in company strategy and (3) key information on other specific issues¹. Respondents generally considered that there could be value in reporting on non-financial aspects based on overall principles such as those established by GRI, UN Global Compact, the OECD Guidelines, ISO 26000 etc. On the issue of which companies should be covered by enhanced requirements, the majority of respondents recognised the importance and relevance of company size. A significant majority argued in favour of excluding small businesses from mandatory requirements. The fact whether a company is listed on financial markets was not considered to be of great relevance.

¹ E.g. employee engagement, customer satisfaction, public perception of company, environmental issues and innovation, but also in the field of human rights and corruption and bribery.

1. INTRODUCTION

The Commission services launched on 22 November 2010 a public consultation on companies' disclosure of non-financial information, such as social aspects, environmental information, human rights and sustainable development. The consultation period ended on 28 January 2011. Member States, organisations and social partners at international, EU and national levels, business and professional federations, individual companies, representatives of the academic community, and European citizens have participated in the public consultation. Current EU legislation addresses the disclosure of non-financial information, in particular the Fourth Company Law Directive on annual accounts². This requires that companies make public, where appropriate, certain information on environmental and employee aspects of their activities to the extent necessary for providing a proper understanding of their development, performance or position³. The Commission explored these questions with stakeholders in a series of workshops organised in 2009-10.⁴

However, Member States may choose to exempt small and medium-sized companies (SMEs) from this disclosure obligation. Several Member States (including the UK, France, The Netherlands, Sweden and Denmark) have introduced disclosure requirements that go beyond the Fourth Company Law Directive. Certain Member States have made the disclosure of non-financial information mandatory. Others have adopted a “*comply or explain*” regime, which requires companies either to disclose non-financial information or to explain the reasons for not disclosing. Over time considerable demand has grown in the EU for improving the comparability, reliability, and relevance of information companies disclose, for example, on issues relating to social and environmental aspects.

This public consultation builds on this by gathering stakeholders' views on the existing non-financial information disclosure policy, including possible proposals for new initiatives and/or revised legislative measures. This initiative was announced in the Communication on the Single Market Act (SMA)⁵, adopted on 27 October 2010, which stresses the need to improve transparency of companies' operations, particularly regarding environmental, human rights and sustainable development aspects. In this context, the SMA mentions that measures aiming to improve the quality, relevance and consistency of the information provided by European companies on non-financial aspects could help strengthen their governance and sustainable development, their perception and management of business risks and their long-term economic and social performance.

Most respondents submitted their contributions by means of the European Commission's online consultation tool⁶, and some by other means. This evaluation report is based on both data and material received through the online tool used for the consultation, and data and material received separately. Efforts have been made to take into account responses submitted outside the online consultation tool (e.g. by e-mail), and/or submissions that did not necessarily adjust to the specific questionnaire but referred to the subject matter in general terms.

² Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies, OJ L 222, 14.8.1978, p. 11–31.

³ According to art.46(1)(b) of the Fourth Directive, to the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters;

⁴ http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure/swedish-presidency/index_en.htm

⁵ COM(2010) 608 final/2

⁶ http://ec.europa.eu/internal_market/consultations/2010/non-financial_reporting_en.htm

2. GENERAL OVERVIEW

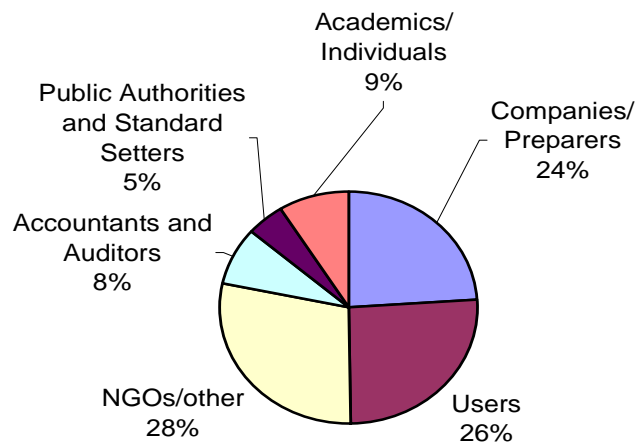
The Commission services received a total of **259** responses to the public consultation. These responses have been published online according to the Commission practice and applicable rules. This is available, together with a list of contributors, via: http://ec.europa.eu/internal_market/consultations/2010/non-financial_reporting_en.htm

In the interests of transparency, all organisations have been invited in the consultation document to provide the public with relevant information about themselves by registering in the Interest Representative Register and subscribing to its Code of Conduct. If the organisation is not registered, the submission is published separately from the registered organisations. 93 responses were received from organisations registered in the Interest Representative Register, while over 100 responses came from non-registered organisations. All these contributions have been analysed and published according to the Commission current practices.

It is important to note that **percentages and other statistics** used in this overview note pertain only to the direct analysis of contributions received in the context of this public consultation, and should be interpreted as representing the opinions of the respondents, and not necessarily representative of the views of the society at large, or the views of EU stakeholders that have not responded to the public contribution.

This report seeks to provide a qualitative summary of the contributions received. The public consultation and this summary report do not prejudice any future position or decision of the European Commission.

About half of the responses were received by companies/preparers and users of accounts⁷, whereas the remaining contributions were split amongst NGOs and other organisations, Accountants and Auditors, Public Authorities and Standard Setters, and other contributors including individuals and academics.



⁷ Stakeholders were asked in the consultation questionnaire to define themselves as Preparers, Users, Public Authorities, Accountants and Auditors, or Other. Preparers should be considered as companies or organisations dealing with the preparation of financial/non-financial information. Users are to be considered as organisations mostly using such information, including investors, analysts, rating agencies, etc.

Category	Number of responses
Companies/Preparers	62
Users	67
NGOs/other	74
Accountants and Auditors	21
Public Authorities and Standard Setters	12
Academics/Individuals	23
Total	259

As far as the geographical breakdown is concerned, more than half of the contributions came from three Member States (DE, FR and UK), while the remaining responses were split amongst other Member States (AT, BE, CS, CY, DK, ES, FI, IE, IT, LU, NL, PL, SV) as well as EU-wide, international or Third Countries organisations from Colombia, Israel, Japan, Mexico, New Zealand, Norway, Switzerland and USA.

MS	Number of Responses	%
AT – Austria	2	1%
BE – Belgium	6	2%
CS – Czech Republic	3	1%
CY – Cyprus	1	0%
DE – Germany	39	15%
DK – Denmark	3	1%
ES – Spain	21	8%
EU – wide organisation	26	10%
FI – Finland	8	3%
FR – France	64	25%
IE – Ireland	2	1%
IT – Italy	10	4%
LU – Luxemburg	1	0%
NL – Nederland	8	3%
PL – Poland	2	1%
SV – Sweden	2	1%
UK – United Kingdom	40	16%
International Organisations/Other	21	8%
Total	259	100%

A detailed overview of the responses received is included in the next section.

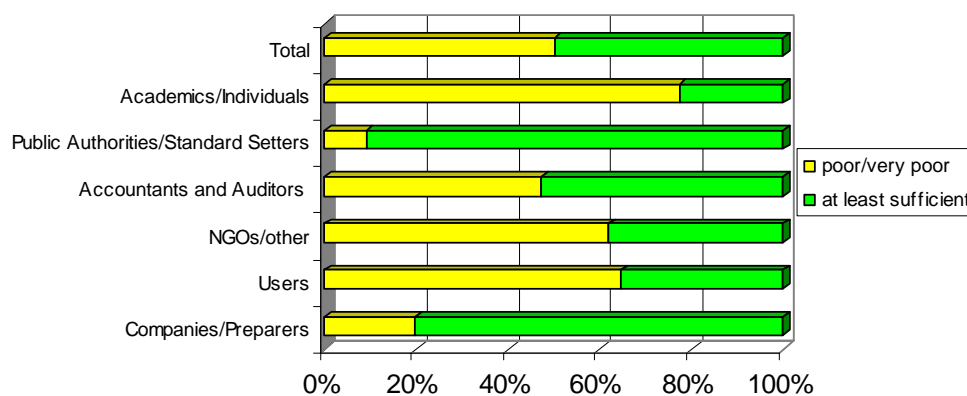
3. SUMMARY OF RESPONSES

Question 1

How would you consider the current regime of disclosure of non-financial information applicable in your country?

Provide information on what way current reporting provides useful information, and to what extent it is sufficiently tailored to the circumstances of the company. Comment as well on whether you find non-financial information useful for the decision-making of a company.

Roughly half of the respondents considered the current regime as "*at least sufficient*" while the other half considered it as "*poor/very poor*". Respondents broadly indicated that the legal regimes are significantly different across Member States and opinions therefore varied. Due to the lack of a common framework ensuring an adequate level of comparability many respondents found it complicated to make an assessment of companies operating in the EU.



NGOs and other organisations generally felt that the current EU framework is not adequate and lacks transparency. The most common criticism concerned the absence of a concrete and clear legal obligation on companies. The reporting regime on non-financial aspects is perceived to be "voluntary" which could translate into a lack of balance and cohesion of reporting practices by companies. This makes it difficult for shareholders and investors to make reasonable assessments of CSR related activities. A few went further and criticised voluntary regimes as ways only to enhance company reputation, rather than adhering to the larger objectives of CSR reporting. The significantly different legal treatment across EU Member States was considered inconsistent with a proper functioning of the internal market.

Other users explained that the regulation in some Member States has improved significantly over time, and that developments were moving in the right direction.

A majority of companies/preparers considered the current regime as at least sufficient, arguing that it enables companies to disclose information to stakeholders with a certain level of flexibility. Some indicated that this also allows companies to focus on the aspects of more relevance and materiality to their business operations. Generally, companies/preparers from Member States where there are more extensive requirements on non-financial reporting did not report increased administrative burdens more often than those from Member States where

reporting is less regulated. Some companies/preparers had a rather negative view of the existing legal regime, on the basis that reporting was not properly addressed in their Member State, or legislation was vague and confusing, and could lead to less relevant, or less comparable, information.

Public authorities in some Member States explained that the current legal framework is sufficient or good, and strikes a good balance, allowing companies a certain level of flexibility. A large majority of **accountants and auditors** felt that the current regime was either poor or adequate, or that reporting was of mixed quality, relevance, and of limited comparability. Some considered an issue with the fact that regulation is so different across Member States, leading to difficulties in benchmarking between companies in different jurisdictions. On the contrary, others appreciated the flexibility granted to companies.

Question 2

Have you evaluated the effects, and costs and benefits, of any current corporate disclosure of environmental and social information?

Most respondents considered the assessment of costs and benefits of corporate reporting of non-financial information as important, with about half of the contributors stating that they have done some research, or analysis, or that they have assessed the research conducted by third parties. Although many stakeholders were not able to quantify costs and benefits, a significant number of contributors provided a qualitative analysis related to mandatory disclosure. In this respect, while some stated that the costs associated with reporting on non-financial information were significant, others explained that costs in this field could be considered as "investments" which helped to build capabilities that were necessary for managing properly the business with a long-term performance perspective.

As far as costs are concerned, data collection, internal processing and consolidation, staff training/education, development of specific tools and potential third party verification were quoted amongst the main factors that might cause significant administrative burden. On the benefits side, positive effects relating to increased transparency, reputation, branding, global competitiveness, credibility, and generally increased attractiveness for both consumers and investors were highlighted in a significant number of contributions. A relevant number of stakeholders also pointed out that the costs, although potentially quite significant, would most likely be outweighed by the potential benefits.

Furthermore, it seems apparent that there is no broadly recognised methodology in place for the assessment of costs arising from reporting activities. There should however be a distinction between start-up costs in upgrading capabilities and the less considerable longer term costs once the practice had been established.

NGOs and other organisations generally explained that costs were fairly limited beyond the start-up effort arguing that they were offset by the advantages for the companies resulting from better management and transparency. Other benefits mentioned refer to better risk management and prevention of major risks in the long-term. Some respondents highlighted that start-up costs could be burdensome in particular for smaller companies.

Companies/preparers considered that overall costs were considerable (referring to the costs stated above) but that non financial disclosure could also provide useful information from a management point of view which could be of long-term benefit for the company. Flexibility and non-prescriptive regulation were important to ensure that companies could focus on aspects that were more relevant to their sector and characteristics. Some were concerned about the cumulative burden of separate and additional reporting requirements.

Several **users** indicated that non-financial reporting could also provide companies with positive effects in terms of improved branding, reputation, and credibility. A more complete picture of a company's operations was often referred to as a resulting potential benefit.

Question 3

If you think that the current regime of disclosure of non-financial information should be improved, how do you suggest that this should be done?

A majority of respondents to this question advocated a change in the existing regime, although suggesting quite a diverse range of potential approaches, varying from introducing legislation to merely enhancing current best-practices. On the other hand, a minority of respondents supported the view that no action should be taken in the short or medium term, based on the assumption that no change is desirable or that it is still too early in the process.

In general terms, a majority of respondents agree that any improvement should be taken at supranational level, be it EU-based or multilateral. Respondents also indicated that guidance and standards developed by international bodies should be taken into account, including the UN Global Compact, the Global Reporting Initiative (GRI), the applicable OECD guidelines and ISO 26000.

Amongst those who called for a change in the existing legal regime, a measure at European level would be a preferred approach, ensuring a level playing field for companies and comparability across the EU. When explaining their preferred instrument for a possible amendment to the existing legal regime, some stakeholders referred to new, specific legislation, while others expressed a preference for amending the Fourth Directive on Annual Accounts. Other respondents mentioned that the Transparency Directive⁸ should be addressed.

Several **NGOs and other organisations** took the view that compulsory, clearer disclosure requirements were important. This would ensure, appropriate transparency, coherence and comparability.

For **companies/preparers** and **accountants and auditors**, the importance of flexibility and the possibility to focus on aspects, activities and performance indicators that made more sense from an individual company's perspective. Some mentioned the need for sharing best practices, better guidance and creating more incentives for companies within a voluntary regime, and indicated that the Commission might focus on encouraging all companies, to improve transparency on a voluntary basis. But there was also a significant number in both groups which agreed on the need to go beyond the fragmented current practices in order to facilitate benchmarking between all as well as sector-specific companies. Some **accountants and auditors** suggested that a "comply-or-explain" approach could be an appropriate improvement to the existing regulation, while still leaving significant flexibility for companies.

⁸ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC, OJ L 390, 31.12.2004, p. 38–57.

Question 4

Should companies be required to disclose:

- Whether or not they have a CSR policy, and if they do, how they implement that policy and what the results have been
- The principal business risks and opportunities arising from social and environmental issues, and how they are taken into account in company strategy
- Key information regarding issues such as employee engagement (e.g.: employee training policy, equality and diversity, etc.); customer satisfaction (e.g.: customer loyalty); public perception of the company (e.g.: stakeholder dialogue); environmental policies (e.g.: energy efficiency, waste reduction); and innovation (e.g.: R&D expenditure)
- Other

A majority of respondents agree that information relating to all the aspects mentioned in the question (i.e. whether or not a company has a CSR policy, the principle business risks and opportunities as well as key information on certain issues) was relevant and should be disclosed. While some respondents did not see the need to introduce more extensive requirements, at least in the short or medium term, others indicated that non-financial reporting would enable companies to "tell their story" by disclosing their core business model, strategy and key business risks. This would provide a certain degree of flexibility for companies to disclose information that they consider relevant.

The views of **companies/preparers** were mixed. Most commented that the current setup was good. Some underlined that reporting on non-financial aspects should be voluntary and no change to the existing legal regime should be made. Others expressed the view that disclosure of environmental and social risks and other non-financial information contributes to better overall management. Some argued that any change in the legal framework should keep some flexibility and openness to voluntary enhancement for companies according to their size and other characteristics. Generally, companies with experience in non-financial reporting (from Member States with a more elaborate legal reporting framework) made more positive comments on the reporting scope than companies less exposed to reporting requirements.

NGOs and other organisations expressed the view that disclosure should be more holistic and comprehensive in nature and should include a description of the company's CSR policy, implementation and results, key risks and any other key information. Some suggested that reporting should cover other issues as well, related to human rights and corruption and bribery. They also called for greater dialogue with all stakeholders before any changes were implemented.

From the **accountants' and auditors'** perspective, indications were made that the Fourth Directive on Annual Accounts was working well and they wondered whether compulsory requirement on disclosure practices would bring significant advantages.

Question 5

For a EU measure on reporting of non-financial information to achieve materiality and comparability it should be based upon: Principles; Key Performance Indicators (KPIs); Other.

In case you consider that Key Performance Indicators (KPIs) would be useful, would you think that they should be: General for all economic sectors; Sector specific.

Indicate which indicators you would consider to be the most relevant for all economic sectors

Respondents generally considered that there was value in reporting on non-financial aspects based on both overall principles as well as key performance indicators (KPIs) and indicated that both could co-exist in a future EU approach, with no clear consensus for one option or the other. Many respondents stated that a set of key performance indicators could be universally applied to all companies and sectors, while others favoured a system of sector-specific indicators.

Respondents generally suggested that appropriate reference to existing international standards and institutions should be made (GRI, UN Global Compact, ISO 26000, OECD Guidelines for Multinational Enterprises were mentioned, among others), and argued against developing new EU-specific frameworks.

Most of the **NGOs and other organisations** found that a core set of performance indicators should be relevant and common to all companies and sectors. This might include, certain information on environmental and social policy, health issues, safety of operations, employee-related matters, codes of conduct applied, and countries of operation. Other organisations suggested that the EU should come up with a set of mandatory principles on which KPIs should be based. Similarly, a number of **users** also highlighted that indicators relating to environment, social, employment and governance performance could add meaningful information of a company's overall performances.

Companies/preparers mostly concluded that the application of current standards, particularly the use of Global Reporting Initiative (GRI) indicators and a principle based approach, were already sufficient and that there should be no mandatory application of standards. **Accountants and auditors** largely concurred.

Question 6

What should be the process to identify relevant principles and/or indicators (whether general or sector-specific)? Comment on whether the Commission should endorse or make reference to any existing international frameworks (or a part of them), such as Global Reporting Initiative (GRI), UN Global Compact, the OECD Guidelines, ISO 26000, or other frameworks; or whether companies should be required to select relevant indicators together with their investors and other stakeholders and to disclose information according to such indicators, depending on the use that different stakeholders would make of such information.

A majority of respondents indicated that existing international frameworks were a good basis for regulatory improvements. Respondents argued that new set of principles or performance indicators should not be developed, with a majority supporting the view that the Commission should build on the existing work already undergoing at international level.

Respondents also indicated that none of the international frameworks on non-financial information covered *all* reporting requirements that could potentially be considered. Some appreciated that the different international frameworks were complementary, and not mutually exclusive. Global Reporting Initiative (GRI), UN Global Compact, the OECD Guidelines, ISO 26000, IASB Management Commentary or other frameworks were generally perceived

by stakeholders as meaningful, but none was considered superior to the others. Some suggested that companies could refer to several of them, as appropriate. In addition, some contributors called on the Commission to take into consideration the work undertaken by other organisations such as the European Federation of Financial Analysts Societies (EFFAS), the International Corporate Governance Network (ICGN) or the International Integrated Reporting Committee (IIRC). With regards to aspects of labour law, applicable ILO conventions were also quoted by a number of respondents.

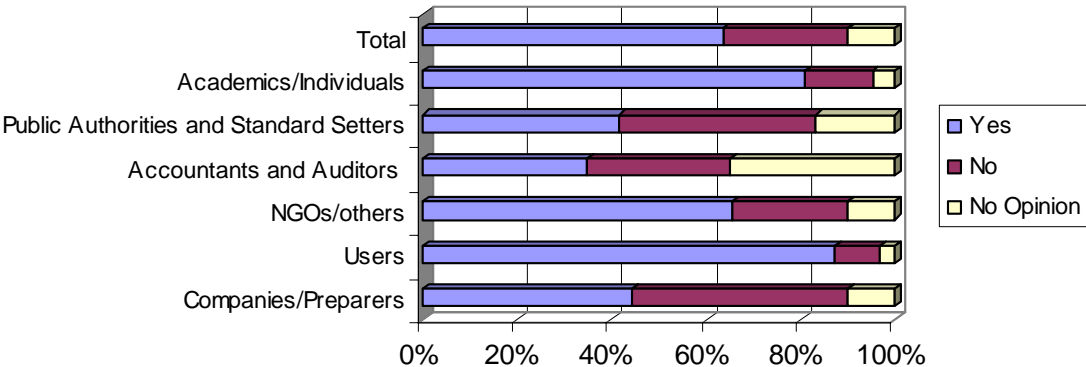
Some respondents from **companies/preparers** and **accountants and auditors** highlighted the importance of comprehensive consultation with stakeholders and institutions which are developing international standards when developing appropriate disclosure methodology. Some drew a comparison with the role of the International Accounting Standards Board (IASB).

Question 7

Should companies be required to disclose the steps they take to fulfil the corporate responsibility to respect human rights?

A significant majority of respondents recognized the importance for companies to fully respect human rights in conducting their business. Some respondents expressed the view that providing information on how this was done and the internal codes of conduct that companies applied was important information to be disclosed to stakeholders and investors.

Some respondents suggested that some sectors are exposed more significantly to human rights' abuse. Company size and the degree of international operations, especially in developing countries, should also be taken into account. Some respondents argued that companies already faced specific disclosure requirements on human rights aspects as these were covered by national legislation and UN guidelines in the field. Some suggested that specific disclosure requirements should only apply to companies exposed to significant risks.



Almost half of the **companies/preparers** argued that companies should decide themselves whether the issue was significant and material enough to them. Others indicated that stakeholders might have an interest in knowing the companies' operational exposure and policies and these issues should therefore be disclosed. Some noted that the existing

legislation already required transparency and good practices in the field and were sufficiently ambitious to cover for potential risks to be disclosed.

NGOs and other organisations referred to the obligations under UN and ILO Conventions. Others referred to the "*Protect, Respect and Remedy*" Ruggie Framework developed at UN level. Some expressed the view that strengthening reporting requirements would effectively contribute to raise awareness, develop better business codes of conduct and lead to stronger supervision. A vast majority of **users** also advocated further disclosure in this area, claiming that increased transparency in this field could play an important role in better assessing a company's business risks and opportunities.

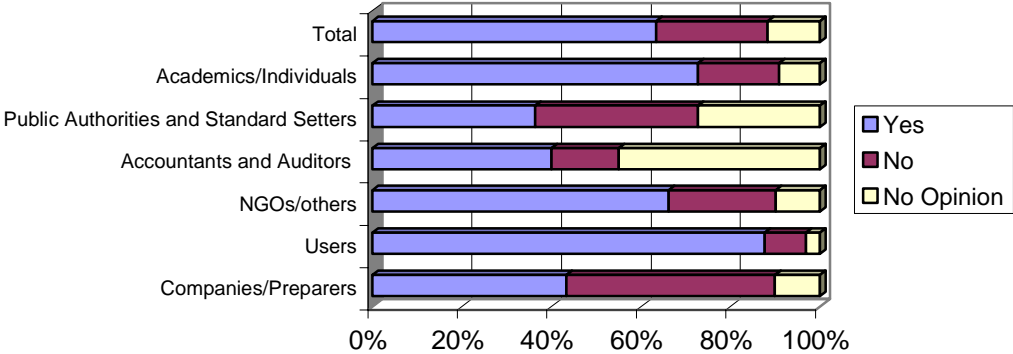
A few respondents chose not to express any opinion, in some cases recognising the importance of the issue but considering that it was a specific concern for companies operating in developing countries rather than within the EU internal market.

Question 8

Should companies be required to disclose the risks they face and the policies they have in the field of corruption and bribery?

Overall, a vast majority of respondents considered that corruption issues should be included in non-financial reporting practices by companies. Some respondents took the view that disclosing this information was of great interest to stakeholders and investors. Some argued that the interactions of companies with their respective business environment were important components of their long-term performance. Other respondents did not consider this information relevant or material.

Other respondents suggested that specific disclosure requirements should apply to companies that were exposed to significant risks, but should not be imposed on all companies. Some mentioned that company size and degree of international operations, in particular in developing countries, could also be taken into account. Some argued that efforts should be made to avoid that reporting would be unnecessarily burdensome. Some respondents took the view that reporting on this field should be voluntary for companies.



Some respondents mentioned that both the regulation and the perception of corruption vary among EU Member States (i.e. there would be difficulties for some companies to follow

guidelines as there is a big difference in corruption ratings between Member States), or that specific disclosure on these aspects would not be necessary as national legislation already covered this.

A vast majority of **users** advocated further disclosure in this area, claiming that increased transparency could also play an important role in assessing a company's business risks and opportunities. Most of the **NGOs and other organisations** referred to the UN and the OECD guidelines on corruption and bribery. Some expressed the view that strengthening reporting requirements would effectively contribute to raising awareness and provide a reference for companies facing these kinds of issues in their activities.

Among **companies/preparers**, the line of arguments was similar to those on the question 7 relating to disclosure of human rights aspects.

Question 9

What companies should be required to disclose non-financial information (large, medium-sized, small companies; listed, non-listed companies)?⁹

Respondents generally recognized the importance and relevance of company size and complexity of the business, calling for a proportional, size-based approach in this area. Respondents attached importance to the information provided by large companies, arguing that these have a bigger impact on the economy and local communities, and also because large companies lead business trends. A number of contributors, in mentioning that reporting was expected to be significantly less of an administrative burden for larger companies, suggested a phase-in approach, whereby the introduction of a new reporting requirement could apply first only to large companies, and later, following evaluation, to medium-sized companies. A significant majority of respondents agreed that small enterprises should not be subject to any mandatory requirement. Furthermore, the fact whether a company is listed on financial markets was not considered to be of great relevance.

Most of **companies/preparers** and **accountants and auditors** indicated that any reporting requirement should be limited to large companies. A few accountants and auditors felt that SMEs collectively had a large impact on society and the environment, if not individually, so should be included.

A majority of **NGOs and other organisations** said that they would prefer to extend the reporting requirements not only to large companies, but also to SMEs. Some respondents argued that while the impact of an individual SME could be small, their collective impact was still important.. Some suggested that small companies could be encouraged, but not required, to produce reports on non-financial aspects. Some also indicated that the scope of the requirement should be extended to operations in third-countries, in particular in developing countries, and in high-risk sectors. Some indicated that there should be a certain degree of reporting requirements for SMEs exposed to higher risks such as specific production methods,

⁹ For definition of large, medium-sized and small companies, reference is made to the Fourth Company Law Directive:

- Large companies: companies with turnover greater than €17.5 million, balance sheet total greater than €35 million and more than 250 employees
- Medium-sized companies: generally companies with turnover less than €17.5 million, balance sheet total less than €35 million and 250 or fewer employees
- Small companies: Generally companies with turnover less than €4.4 million, balance sheet total less than €8.8 million and 50 or fewer employees

goods and operations in third countries which increases risk of environmental damage or human rights violations.

Question 10

Should institutional investors be subject to specific or additional disclosure requirements, for example to disclose whether and how they take into account environmental and social issues in their investment decisions?

Provide information on which issues seem to be the most relevant ones and why; and which institutional investors should be subject to such an obligation.

A majority of respondents agreed that institutional investors should disclose information on environmental, social and other aspects and explain how these considerations influence their investment decisions. This was seen as important in order to enhance the long-term investment performance and as a matter of transparency to their clients and stakeholders. This would also make easier the investment decisions for clients who were willing to consider social and ecological sustainability criteria. Some respondents mentioned that this was also an effective way of promoting transparency in investee companies.

Companies/preparers and accountants and auditors showed varied opinions. Some among them did not consider that institutional investors should be subject to specific requirements.

Some respondents considered socially responsible investment (SRI) as a growing market segment where transparent disclosure is important. Some respondents argued that institutional investors should report only if it was relevant for their decisions, for instance if environmental and social issues are material to risk-adjusted and long-term returns. Some took the view that encouraging institutional investors to provide this kind of information would reinforce stewardship across companies.

Others suggested that institutional investors should follow the UN Principles for Responsible Investment (UN PRI), or mentioned that certain Member States already require that some institutional investors (e.g. public pension funds) disclose investment principles they comply with.

Question 11

Should European policy promote the concept of "integrated reporting"?¹⁰

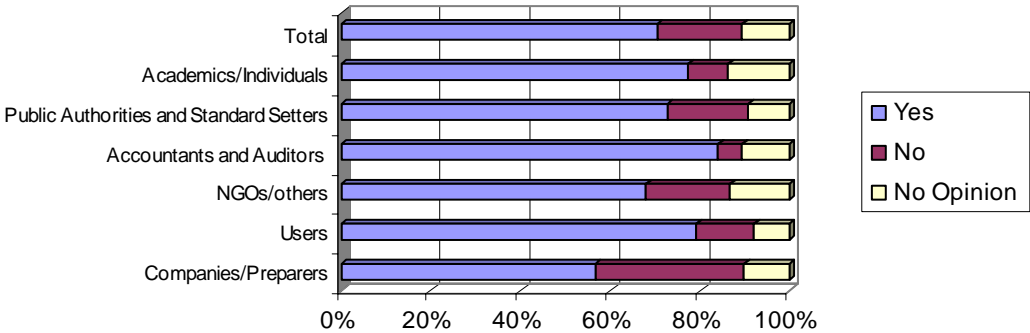
Indicate the advantages and disadvantages of an integrated report, as well as possible specific costs of integrated reporting.

Respondents were generally supportive of the integrated reporting concept, regardless of the group, and mentioned it should be supported in EU policy, particularly as a medium-term approach. Nevertheless, other respondents were more hesitant, indicating that a significant development effort is still necessary before considering mainstream use of integrated reporting.

From several it was mentioned that integrated reporting would raise awareness about the links between financial and non-financial information, and would give a holistic view about a company's activity, thus helping stakeholders realise that the financial results of a company

¹⁰ Integrated reporting refers to a report that integrates the company's key financial and non-financial information to show the relationship between financial and non-financial performance (environmental, social, and governance).

were only one part of its impacts. It was also argued that increased transparency in this area would demonstrate that sustainability was a key component of a company’s business.



Some made reference to the work of the International Integrated Reporting Council (IIRC) and encouraged the EU to contribute to the further development of the concept and to identify the advantages and issues. Others expressed the view that the concept of integrated reporting offered a promising potential for reporting on social and environmental aspects in a business-relevant way. The positive communication aspect of integrated reporting was mentioned by several. Moreover, some respondents held the view that integrated reporting could contribute significantly to “mainstreaming” environmental and social issues, and to increase the visibility of a company’s impact on society and the environment.

However, a number of respondents firmly questioned the feasibility of integrated reporting in the short term, the most commonly expressed concerns being that coordinating financial and non-financial reporting could lead to an information overload, or a sub-optimal amount of information.. It was also argued that specific target audience of a separate CSR report may be lost in integrated reporting, and that it would be an onerous and costly process.

Question 12

Should disclosed non-financial information be audited by external auditors?
 Provide any evidence you may have regarding costs of auditing non-financial information, as well as your views on other possible forms of independent reviews besides external auditing.

Respondents, including a majority of **users, NGOs and other organisations, and accountants and auditors**, generally expressed the view that there is value in getting the non-financial reports assessed by independent, qualified experts in order to improve accuracy, completeness and comparability and enhance confidence amongst the stakeholders.

However, a significant number of contributions from across all groups of respondents seem to agree that a mandatory audit requirement would entail a significant cost for companies, yet it was difficult to quantify. In this respect, a majority of stakeholders advocated a proportional, size-based approach that would exempt medium or small companies.

Some respondents suggested that audits/assurances of non-financial information could be provided on a voluntary basis while others favoured a compulsory approach. Avoiding undue costs was a concern for most of the respondents. Some suggested that assurance

opinions/verifications, rather than full audits, could help limiting costs and tailoring to the real needs of the companies.

Respondents indicated that external assurance on non-financial information involved activities and qualifications significantly different than those required for auditing financial statements. It was therefore underlined that professionals providing these services should be both competent on the subject matter and on assurance practices.

Companies/preparers had mixed views. Some indicated that independent expert assessments added value, while most considered the exercise too costly and with no clear added value. They also questioned the quality of the assurance as auditors were felt to not have enough experience on this.

Some **NGOs and other organisations** of stakeholders indicated that it should not necessarily be expected that professionals providing financial reporting audit services would have the relevant skills and capabilities to provide comparable services on non-financial reporting. Others said that independent expert opinions on CSR aspects could help companies' improve management and controls relevant for the long-term sustainability and success.

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