

Non-financial reporting regulation: THE EU

UPLIFT

The year 2020 shows remarkable signs of convergence at the forefront of non-financial reporting. The main global organizations and public bodies active in this field are collaborating, with the commitment to leap forward in terms of alignment and standardization. Local institutions are refining their requirements on the regulatory side, under the lead of the European Union (EU) and the current review of its Non-Financial Reporting Directive (NFRD).

By Estelle Aymard



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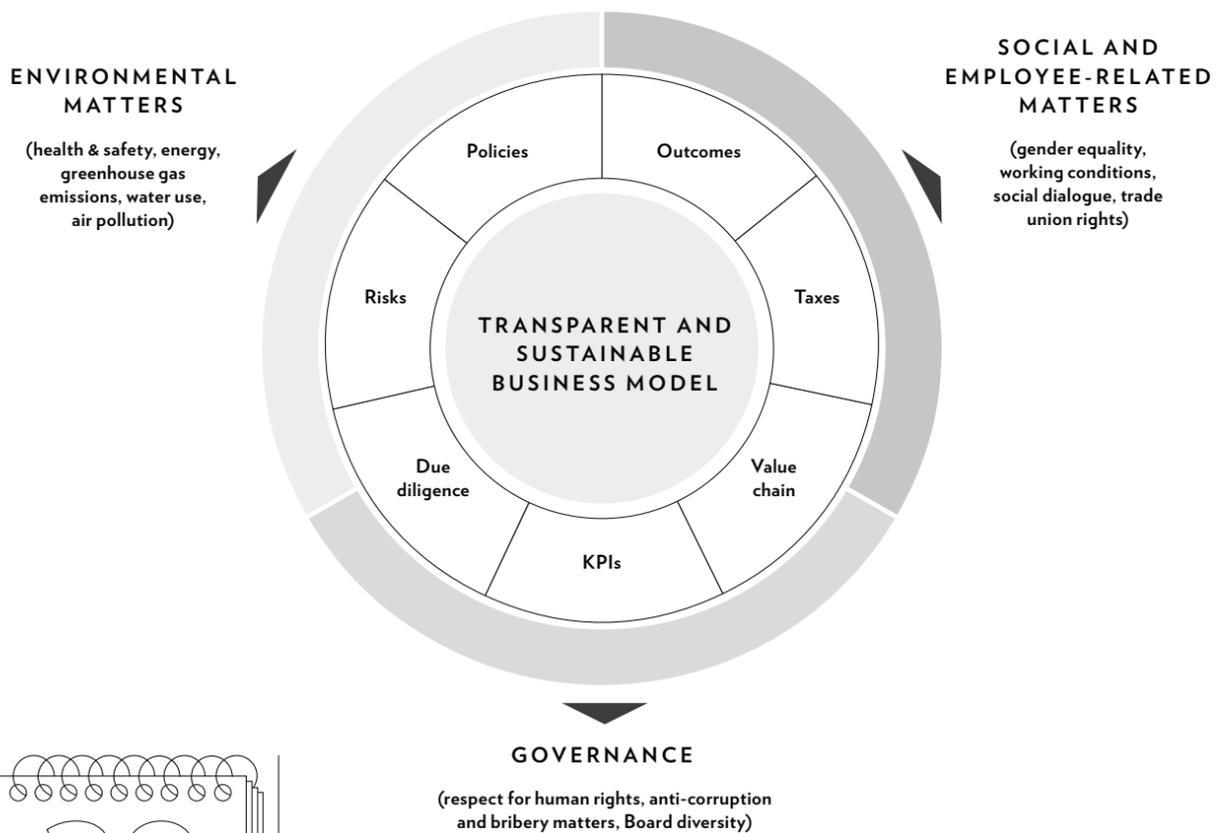
Estelle Aymard is leading Integrated Reporting at Zurich Insurance Group since 2015. She is a member of SASB's Financial Sector Standards Advisory Group, and of EFRAG's Project Task Force on Reporting of Non-Financial Risks and Opportunities and linkage to the business model.

The NFRD came into force in 2018, requiring EU-based public-interest companies of more than 500 employees to publicly disclose an annual non-financial statement. The information requested refers to Environmental, Social and Governance (ESG) matters, and focuses on the description of the related policies, outcomes, risks, and Key Performance Indicators (KPIs), as well as the business model as a minimum requirement (see chart below). The principle of “double materiality” prevails; i.e., how ESG issues affect the company, and how the company impacts the society and the environment. Preparers have flexibility in the way they report the information, according to the “comply or explain” approach, and they may rely on recognized international frameworks. While complemented with a successive set of non-binding guidelines to support its application, the local enforcement of the NFRD is left to the Member States.

After two years of non-financial statements being issued in accordance with the directive from the EU, the lack of comparability, reliability and relevance of the information reported is called out by users. Investors are pressing for more and better information from companies about their ESG performance and impacts, so they may factor them into their investment decisions. As part of the European Green Deal's strategy to strengthen the foundations for sustainable investment, the EU has therefore decided to review the NFRD in 2020. To this effect, a public consultation presented last spring was articulated around the following topics: quality and scope, standardization, materiality, assurance, digitization, structure and location of the information, and administrative burden.

In parallel, some key international initiatives are also contributing to enhance non-financial reporting. The European Financial Reporting Advisory Group (EFRAG) has set up the second project of its Corporate Reporting Lab on the “reporting of non-financial risks and opportunities and linkage to the business model”, and has appointed a task force on “the preparatory work for the elaboration of possible EU non-financial reporting standards”. The International Business Council (IBC) of the World Economic Forum (WEF) proposes a set of common metrics for sustainable value creation, based on existing standards and frameworks, with the support of the big four auditing firms. The five leading sustainability and integrated reporting organizations (see info box) collaborate to provide joint market guidance, vision and commitment for a complementary, coherent and comprehensive corporate reporting system.

NON-FINANCIAL STATEMENT Contents as listed in the NFRD



CCR Roundtable

Join us at the next CCR Roundtable: Estelle Aymard, member of the EFRAG Project Task Force will provide insights into their current work and timing. Additionally, EY will give a wider perspective on the NFRD and related developments in Europe and Switzerland (such as the Responsible Business Initiative). The presentation of best-practice cases from HUGO BOSS and bp United Kingdom will allow an in-depth discussion of the topic.

Are there any implications or similar developments expected for Swiss companies?

According to the NFRD, large EU-based companies must report the risks of adverse impact from their own activities, as well as from those linked to their operations, products, services and business relationships, including supply and subcontracting chains. Accordingly, Swiss-based companies with branches, suppliers or corporate clients located in the EU may potentially be impacted and have to disclose some non-financial information. In addition, the Swiss Responsible Business Initiative will be put to the people's vote in November. The aim of this initiative is to introduce Human Rights and Environmental Due Diligence obligations into the Swiss Constitution to hold companies legally accountable for their overseas operations. Should the Swiss people vote “no” to the initiative, an indirect counterproposal in the form of non-financial reporting requirements will become effective, which is inspired by, and largely follows the NFRD.

- THE FIVE LEADING FRAMEWORK- AND STANDARD-SETTING INSTITUTIONS:**
- CDP: Carbon Disclosure Project
 - CDSB: Climate Disclosure Standards Board
 - GRI: Global Reporting Initiative
 - IIRC: International Integrated Reporting Council
 - SASB: Sustainability Accounting Standards Board

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