JOINT STATEMENT ON THE REVISION OF THE NON-FINANCIAL REPORTING DIRECTIVE IN THE CONTEXT OF COVID-19

Monday, 22nd June 2020 - The European Union, and the world economy, are facing one of the biggest challenges of our time in designing the means and tools to foster a green economic recovery. It is more important than ever for both the private and the public sector to work together on policy priorities governments should take in reaction to this crisis.

The current COVID-19 crisis puts the world at a crossroads with important choices to be made on the best ways to come out of the crisis and improve resilience from an economic, social, and environmental perspective. The response should not weigh one element against the other, on the contrary, COVID-19 has shown how economic, social and environmental aspects are interlinked. That is why we support a sustainable recovery, including the necessary focus on social issues and the implementation of the European Green Deal with its goal of climate neutrality by 2050.

As the objectives are clear, we now have to put in place the right tools and incentives for each stakeholder from both public and private sector to play its role. The European Commission indicated in its recently published consultation on a renewed Sustainable Finance strategy that companies should prioritise key stakeholders' long-term interest. We see the revision of the Non-Financial Reporting Directive (NFRD) as an important element of achieving this.

As a group of stakeholders with different backgrounds, but a common interest in sustainable finance, we believe the following matters are instrumental in the upcoming revision of the NFRD to make a leap forward in improving the quality, comparability and consistency of information on environmental, social and governance matters.

- **Expand the scope:** Whether companies have a significant impact on the environment and society does not depend on their size or legal status, neither are investments limited to assets listed on stock exchanges. We therefore recommend reviewing the scope beyond large publicly listed entities to cover those companies that have a significant impact on the environment and society as a result of economic activities and business models to ensure well targeted reporting. It is important though to have a balanced approach towards creating a reporting system that as an end result would ensure smart reporting, feasible for all kinds of companies.
- **Disclosure of non-financial information in the annual management report:** Assessing a company's performance and future resilience does not stop at financial numbers and risks. Including non-financial information in the publicly available annual management report could help improve the connectivity between financial and non-financial information (NFI) and inform the stakeholders to the fullest extent about a company's performance, risks, future development and impact on the environment and society. Such disclosures, however, should be based on a materiality assessment to ensure that they pertain to matters that are truly relevant to the company and its long-term value creation If supporting information is disclosed separate from the management report, clear links and synergies to the management report should be provided. Disclosing non-financial information in the annual management report would also ensure proper supervision of compliance by national authorities.
- **Strengthen the social and governance aspects:** We understand that climate-related issues have been at the centre of attention due to the urgency of the matter. Sustainability, however, encompasses wider ESG factors: environmental, social and governance considerations within a company are interlinked and often "E" and "S" follow the "G". Therefore, reporting should look equally at all matters of sustainability (E, S and G). In this respect, there is a particular need to improve disclosures on social matters, including human rights, employee issues, health and safety as well as governance matters such as Board's and management's overview of non-financial risks and opportunities and description of governance processes.
- **Minimum mandatory reporting requirements:** A common and harmonised level of reporting is necessary to ensure comparability, consistency and reliability. Therefore, the legislation should provide a mechanism for a clear guidance and develop a minimum set of reporting requirements, including sector

specific requirements. The legislation should specify key principles for its application and disclosure, while detailed content and requirements should be developed in a reporting standard to allow their dynamic development in response to a fast-changing context. Materiality determination should be the basis to prepare relevant and meaningful disclosures.

- **Build on existing reporting initiatives:** We recognise the need to consolidate the different existing reporting initiatives to ensure some level of simplification and comparability on a global level. Each of them encompasses strong elements in their respective areas, but none of them is probably covering the full set of ESG issues relevant for comprehensive non-financial reporting. Going forward, it is necessary to build on these initiatives and take into account international developments.
- **International role of reporting standards:** We welcome the EU's ambition to be the spearhead in sustainability-related policy. However, we need to bear in mind that challenges such as the worldwide climate crisis requires global efforts and solutions. Companies operate and sell cross-border, same as investors invest beyond their domestic market only. Therefore, any EU proposal for future NFI standards should ensure comparability and compatibility at global level as companies need to comply by a broadly recognised reporting standard to be able to meet information needs of stakeholders in a global market.
- **Ensure legislative consistency:** NFRD requirements should be coherent with relevant existing (or imminent) requirements and avoid duplication of reporting legislation, considering the purpose and scope of different legislation, for example:
  - Disclosures regulation for institutional investors
  - Taxonomy Regulation
  - Shareholders Rights Directive

Other initiatives such as E-GAAP (environmental accounting) should also be taken into account to help companies produce the necessary information internally.

Working Group Member Supporters