Department for Business, Innovation & Skills

Non-Financial Reporting consultation response form

The consultation is available at: https://www.gov.uk/government/consultations/non-financial-reporting-directive-uk-implementation

The closing date for responses is 15 April 2016

Please return completed forms to:

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Business Environment
Department for Business, Innovation and Skills
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Piccadilly Gate
Store Street
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Tel: 020 7215 0352:
Email: mark.jackson@bis.gsi.gov.uk

Please be aware that we intend to publish all responses to this consultation.

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes. Please see page 9 of the consultation for further information.

If you want information, including personal data, that you provide to be treated in confidence, please explain to us what information you would like to be treated as confidential and why you regard the information as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

I want my response to be treated as confidential ☐

Comments: Click here to enter text.

Response to BIS 'Call for views on effective reporting alongside proposals to implement EU requirements'

15th April 2016

Dear Mr Jackson,

We write in response to the current consultation calling for views on effective reporting alongside proposals to implement EU requirements.

CDP and CDSB are non-profit organisations, which since 2000 and 2007 respectively have worked closely with UK companies on matters relating to non-financial disclosure, in particular environmental reporting. We have worked closely with the UK government on these issues in the past, particularly in connection with the introduction of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

As organisations which work directly with multinational companies headquartered both within and outside the UK, including most of the companies affected by the proposed changes in this consultation, we are well qualified to provide advice on the interaction of UK and EU reporting requirements, as well as on the relationship between UK practices and emerging international developments. This is particularly important given the desirability stated in the consultation (paragraph 20) of achieving consistency and comparability of reported information. Our remarks are made in this context.

Our responses to the consultation questions follow. Some of the main points we wish to emphasise are:

1. The key to answering this consultation's detailed questions of content and positioning (including use of flexibilities) is to define the desired outcome – if we have the 'why' then it will be easier to decide on the 'how';
2. We believe that careful consideration needs to be given to reporting on climate change issues, given developments such as the 2015 Paris Agreement and the launch of the Task Force on Climate-related Financial Disclosures, and we note that the Outcome document from HM Treasury and DECC consultation on Business Energy Efficiency[1] has already superseded this NFR consultation by stating that current GHG reporting requirements will be maintained;
3. The consultation raises very important questions about the requirements and their context. However, it does not outline exactly what type of information companies will be required to report. Given that the deadline for the transposition of the directive may not allow for an additional consultation on the actual requirements, we have included recommendations on the content of the requirements. It is important to ensure that these requirements are flexible enough to accommodate the uniqueness

[1] HM Treasury & DECC (2016) Reforming the business energy efficiency tax landscape: response to the consultation [Online]. Available from: https://www.gov.uk/government/consultations/consultation-reforming-the-business-energy-efficiency-tax-landscape

of each business while ensuring the information is sufficiently consistent and comparable to be of value to information users during decision-making; and

4. We urge the government to look again at the topic of electronic reporting, perhaps with an additional consultation. The current consultation document does not equip the UK for a 'fast-moving, digital economy' because it does not address the issue of digital reporting.
5. We favour the extension of NFR reporting requirements to all listed companies, an option which was not included in the consultation document although it was examined in the government's Impact Assessment.

We will be very happy to discuss any of the content of this response further, or to provide further information to BIS on request.

Yours Sincerely,

Lois Guthrie

Lois Guthrie, Founding Director, CDSB

Kate Levick

Kate Levick, Director of Policy & Regulation, CDP

Questions

Name: Lois Guthrie and Kate Levick

Organisation (if applicable): Climate Disclosure Standards Board and CDP

Address: 4 Thomas

Please tick which best describes your organisation.

	Respondent type
☐	Business representative organisation/trade body
☐	Central government
☒	Charity or social enterprise
☐	Individual
☐	Large business (over 250 staff)
☐	Legal representative
☐	Local government
☐	Medium business (50 to 250 staff)
☐	Micro business (up to 9 staff)
☐	Small business (10 to 49 staff)
☐	Trade union or staff association
☐	Other (please describe)

Q1) Flexibility on where to provide the non-financial statement: What is your view on permitting companies flexibility to place information where they feel most appropriate within the boundaries laid out by the EU NFR Directive? Please explain your reasons.

Comments

Our views on flexibility about where to provide the non-financial statement appear below. However, at the outset we should stress that we do not think agreeing the location of information will in itself improve the quality of reporting or its consistency and conformity. There are more fundamental issues to be addressed which we outline in response to **Error! Reference source not found.**.

Regarding question 1, we agree that companies should be given some flexibility about where information is reported provided that:

a. Minimum reporting requirements are drafted to clarify which types of information OR the characteristics of information must be included in the management/annual report;

b. The objectives of non-financial reporting are clear enough to enable companies to determine when the quality and quantity of information they supply, as well as its location, is sufficient to satisfy those objectives;

c. The location of information outside the management/annual report is restricted to certain specified places, rather than left entirely to the discretion of the reporting organisation[1];

d. Conditions are set similar to those in Article 19a (4) Directive 2014/95/EU; and

e. Decisions on where information should be placed are not at odds with the aims of integrated reporting.

It is worth pointing out here that in order to achieve the above results and maximise consistency and comparability, the content and structure of the separate report will need to be regulated. This may ultimately create more burden for companies than maintaining the existing approach of regulating only the annual report and keeping all non-financial disclosures within it. It is also unclear how this additional regulatory requirement may aid the accessibility of such information if it creates an additional barrier to accessing it.

We recommend that in considering how to proceed, BIS:

a. Considers the context of the management/annual report. In particular, those

[1] For further information see Table 1 on page 39 of EFRAG's "Towards a Disclosure Framework for the Notes"

documents form part of a wider package of information and the location of information should be considered in the context of that whole package, rather than in isolation. The FRC's report on "Thinking About Disclosures in a Broader Context[2]" provides useful commentary here.

b. Consults the IASB's Disclosure Initiative[3]. For example an IASB staff paper[4] considered the use of cross-referencing in financial reporting where information is spread across multiple locations. The staff paper warns that the use of cross referencing can impair the understandability of information when multi-level or extended linking happens (i.e.: linking from one document to another and then another), or where too many cross-references are used. This can lead to scattered and hidden information. The staff paper also provides examples of the circumstances in which cross-referencing may be used including:

   i. Duplication of information that already has to be provided in other statements or documents for the same reporting period;

   ii. Duplication of "static" or standard information that does not change year on year such as lists of information about subsidiaries or policies;

   iii. To reduce complexity;

   iv. Information that the reporting entity does not regard as material but whose complete omission would need to be justified to one or more stakeholder group. On this particular point, we are opposed to information being reported in other locations (outside the management/annual report) on the grounds that it may or may not be material to one or more stakeholder group. We recommend that concerns about materiality should be addressed directly in the wider implementation plans for NFR requirements rather than being dealt with by re-locating information that presents materiality dilemmas for the reporting entity.

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[2] FRC (2012) Discussion Paper: Thinking about disclosures in a broader context: A road map for a disclosure framework [Online]. Available from: https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Thinking-about-disclosures-in-a-broader-contex.aspx

[3] IFRS Foundation (2015) Principles of disclosure [Online]. Available from: http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Principles-of-Disclosure/Pages/Discussion-and-papers-stage-2.aspx

[4] IASB Staff Paper 30 June 2014 – Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting on "Placement of information – cross referencing" [PDF]. Available from: http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2014/June/AP3B%20Joint%20CMAC-GPF%20June%202014%20DI%20-%20pod%20-%20cross-references.pdf

c. Consults the "characteristics of decision-useful information" in the IASB's Conceptual Framework. How would the split of information across multiple locations affect the principles of completeness and understandabilty?

d. Considers the implications of presenting information across different channels for assurance purposes[5];

e. Considers the implications of presentating information across different channels for communication purposes – can the company really tell its "story" in fragmented disclosures?

f. Devises sign posting rules for effective referencing between information locations.

A fundamental point we wish to raise is that many of the content elements listed in the so-called non-financial reporting directive do, in fact, have financial consequences over the short, medium or long-term. Therefore, if BIS concludes that certain information can be reported in a separate location, we recommend that this is subject to the overriding condition that the financial consequences of the separately reported information are referenced in the strategic report, whether or not those consequences are reflected in the financial statements.

On a different but important note, BIS states in paragraph 50 of the consultation that the words "together with the 'management report'" must mean 'within the strategic report'. This is on the grounds, as explained in paragraph 49, that, "In the UK, the current management report requirements have been reflected in regulations as part of the Strategic Report and accordingly form part of Annual report and Accounts." However, we see no reason why the way that the UK has applied the Accounting Directive should decide whether non-financial information should appear within Annual report and Accounts.

Paragraph 50 presents an apparently binary choice between putting non-financial information into the Strategic Report, or making a separate report entirely. However, it is clear that the information could be placed in the Directors Report. If – due to the way the Accounting Directive was transposed – this location genuinely cannot be considered as "together with the 'management report'" (which we are not convinced about, given that it sits within the same document), then logically it must be one of the options available for a separate report. Putting non-financial information into the Directors Report would be entirely in line with the thinking of the government when the dual reporting structure was created, and would avoid the pitfalls that come with creating a separate publication.

[5] See for example, IASB's Discussion Paper January 2011 – The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications [PDF]. Available from: https://www.ifac.org/system/files/publications/exposure-drafts/IAASB-Disclosures_Discussion_Paper.pdf

Q2) Information that could be placed in a Separate Report:

We would welcome suggestions for information, currently required by law that could be placed in the separate report

Comments

The answer to this question depends on what BIS or other authorities wish to achieve from the provision of information. For example, if an integrated view of corporate performance is required, we contend that information about the governance of environmental impacts should, by definition, be placed within governance disclosures (wherever they appear). Alternatively, if a thematic view of corporate performance is required, then it seems appropriate to place information under different subject headings (eg: environment, social etc). The latter is problematic in that many environmental issues present social and financial risks and consequences.

Rather than considering the type of information that should be placed in a separate report, we encourage BIS to think more widely about presentation of information generally and the use of labelling, tagging, characterisation (see question 19) and technology to enable users of information to create their own reports from a central data source.

With the development of real time information, XBRL, analytics and digital information formats being embraced by HMRC, Companies House and others such as the FRC, we believe that it is more relevant to consider the presentation of information within central structured data formats from which users can extract tailored reports.

Q3) Advantages and Disadvantages of a separate non-financial statement:

What do you see as the advantages and disadvantages, for your organisation of the separate statement?

Comments

The IASB staff paper[6] referenced above provides an overview of the advantages and disadvantages of reporting information through multiple channels and the attendant cross-referencing challenges.

[6] IASB Staff Paper dated 30 June 2014 – Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting on "Placement of information – cross referencing" [PDF]. Available from: http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2014/June/AP3B%20J

Note that the UK FRC is implementing a reduced disclosure framework which provides exemptions for certain disclosure requirements – this applies where there are differentials eg: SMEs can do things differently.
Q4) Advantages and disadvantages of the Implementation Options. What do you see as the advantages and disadvantages of the various implementation options?
Comments The answer to this question is not answered (as covered in our answer to question 5).
Q5): Preferred option relating to scope Considering the possible advantages and disadvantages provided by the flexibilities contained within the EU NFR Directive, which would be your preferred option in terms of which companies should be required to disclose non-financial information?
Comments On 16th March 2016 HM Treasury published the response to its recent consultation, 'Reforming the business energy efficiency tax landscape[7]'. Paragraph 3.18 of this document states: "*Continued reporting of GHG emissions by listed companies was supported by a number of respondents and the government believes it is important to maintain this reporting in order to provide data transparency for investors and establish London as a centre of global green finance.*" As a result of the above decision, we would like to point out that Option 2 on scope within this consultation on NFR (which was released a month before HMT's document) appears to have been superseded, as the government has now decided to maintain the current GHG emissions reporting requirement for UK quoted companies. Clearly it will be necessary to maintain at least some of the existing reporting provisions which go beyond the requirements of the NFR Directive. With this in mind, please note our response to

oint%20CMAC-GPF%20June%202014%20DI%20-%20pod%20-%20cross-references.pdf

[7] HM Treasury & DECC (2016) Reforming the business energy efficiency tax landscape: response to the consultation [Online]. Available from: https://www.gov.uk/government/consultations/consultation-reforming-the-business-energy-efficiency-tax-landscape

Question 6.

We attach a comparison of the relevant provisions of the Companies Act and EU Directives[8]. It is evident that there is a significant degree of agreement about the type/content of information that should be reported by companies. The difference, as your consultation document points out, relates to which companies should supply that content.

The Companies Act Strategic Report requirements apply in principle to all companies within scope of the Act. Small and medium sized companies are exempted from all or some of the Strategic Report requirements and other (mainly "non-financial") requirements apply only to quoted companies. Similarly, in the EU the Management Report requirements apply to all companies in scope of the Directives subject to exemptions for small and medium sized companies but the non-financial statement for inclusion in the management report is only required from qualifying large PIEs.

Under the third bullet point of the description of Implementation Option 1, we are not sure why EU NFR Directive provisions would replace section 414C(4)(b) of the Companies Act. As far as we can tell, section 414C(4)(b) applies to all companies within scope of the Act, except small companies. Its equivalent in Article 19 of the 2013 Directive will remain undisturbed by Articles 19a and 29a of the 2014 Directive. Therefore, we expect companies to continue to have to provide the information in line reference number 10 both in the UK and EU even after the introduction of the NFR Directive. Similarly, as the consultation document suggests, sections 414C(8)(a) and (b) will remain undisturbed as those sections already contain the requirements of the NFR Directive (see line reference number 17 in the attached table).

We are opposed to the introduction of two reporting regimens applicable to quoted companies and qualifying large PIEs respectively, as this would create unnecessary complexity and, as the consultation document says, companies do not necessarily fall neatly into the category of quoted company or qualifying large PIE on a year-on-year basis. We wonder whether the dilemma could be solved by applying Article 19a (1)(b) and (c) to companies that were at any point during the financial reporting year EITHER a quoted company OR a large PIE, as defined in Article 19a(1) of the NFR Directive or both. Presumably, though the UK Companies Act could only apply those requirements to a large PIE, as defined in Article 19a(1) of the NFR Directive where it is also within scope of the Companies Act 2006? Under this formulation, quoted company requirements under the Companies Act would remain undisturbed except, and to the extent that, the NFR Directive adds additional reporting content. Large PIEs would be brought within scope to the extent that the Companies Act allows and would be required to comply with new Companies Act requirements as amended by the NFR Directive.

Q6) Alternative Options

Are there any other options for implementing the EU NFR Directive the Government should consider?

[8] See Annex I.

Comments Our preferred scope option – which is definitely preferable in our opinion to the suggestion outlined in our response to question 5 – is that the government should apply the new NFR requirements to all listed companies. While this is not one of the options listed in the consultation document, it was considered in the government's impact assessment as Option 3[9]. The advantages of this option would be to reduce overall cost and burden for companies to create policy certainty, to optimise the information available to investors and to maximise the use of non-financial data by stakeholders. Companies would not fall in and out of scope for NFR reporting and thus they would avoid costs associated with changes to their reporting practices. All companies would have complete certainty as to what they were required to report. Investors would have access to information from a complete set of UK listed companies, thus enabling a full comparison between different investment opportunities. Furthermore, given the government's recent decision to maintain GHG reporting for quoted companies (referenced in our response to Question 5), extending the overall requirements to listed companies provides an opportunity to simplify overall reporting requirements so that one set of reporting rules applies to all.
Q7) Assurance of Non-Financial Information Should the Government require that the non-financial statement be verified by an independent assurance service provider'?
Comments Due to the reasons outlined in our answer to question 8, we encourage organisations to engage with assurance providers to agree an appropriate assurance approach. Assurance engagements conducted according to existing standards, such as International Standards on Assurance Engagements (ISAE) 3000, 3410, or similar national standards, are suited to provide assurance on environmental information.
Q8) Advantages and Disadvantages of third-party validation What do you see as the advantages and disadvantages of requesting third party assurance?

[9] BIS (2014) Impact Assessment – Non-financial reporting [PDF]. Available from: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506640/BIS-16-35-IA-non-financial-reporting-directive-consultation-impact-assessment.pdf

Comments

We believe that the same rigour and management responsibility is appropriate to all statements and disclosures presented in the annual report, whether audited or not. Assurance processes and engagements improve the quality of the reported information, reinforce credibility among stakeholders and improve reporting processes.

We are also aware that assurance does incur additional costs for reporting organisations.

Given that:

- assurance has clear benefits for the quality, and thus usability, of the reported information;
- the UK aims to make London a centre of green finance; and
- the UK is a world leader in assurance, a service its professionals provides worldwide;

We would recommend that assurance is required from all companies within scope of the legislation but in the medium-term rather than with effect from commencement. This will give time for more targeted assurance standards to be developed.

Q9) Other Options

Are there any other options the Government should consider for Third Party Verification?

Comments

No response.

Q10) Advantages and Disadvantages

What do you see as the advantages and disadvantages of preparing or receiving the non-financial statement electronically via a company's website?

Comments

We support a move to electronic reporting. However, we would question whether putting information on a website is the only option to discuss and feel that this consultation has missed an important opportunity to call for evidence on digital reporting. We encourage BIS to implement digital reporting in line with best practice in the UK and internationally.

This is also in line with the EU Transparency Directive (2013/50/EU), which says that "*a harmonised electronic format for reporting would be very beneficial for issuers, investors* *and competent authorities, since it would make reporting easier and facilitate accessibility, analysis and comparability of annual financial reports*"[10] and proposes XBRL as a format to implement this.

Companies House, the FRC and the HMRC are all implementing a structured electronic reporting method, *eXtensible Business Reporting Language*, or *XBRL*, for reporting corporate information. This method of reporting provides both a human-readable and a machine-readable form of the information, making it ideal for analysis by investors, as well as allowing Government to process and use reported information at significantly lower costs for measuring progress against national targets, or checking data for errors, for instance.

Although PDF files are a relatively established form of reporting, this rigid and unstructured format does not aid the usability and understandability of the information contained in it. The use of the information in annual/management reports is labour intensive, often requiring the manual transfer of data from them into other formats that are suitable for use in the systems that financial analysts and other stakeholders use. The XBRL format is designed to eliminate this issue and provide high quality information that is suitable for use in today's systems.

Given that the reported information is primarily designed to be reported in the annual report and accounts, we would like to bring to BIS's attention the importance of consistency across the various types of information. We would therefore only recommend this option if it is implemented for the entirety of the annual/management report. A possible avenue for this would be a voluntary filing programme, as part of an update of the XBRL project developed by the FRC[11] for filing annual reports in line with IFRS and the UK GAAP. Companies House has been successful in implementing XBRL on a voluntary basis for company accounts, which we believe is a good precedent for the implementation of digital reporting for such information as well.

Q11) Additional Protections

Considering your response to Q7, are there any additional protections that the government should consider?

Comments

Please see our response to Q11.

Q12) Number of Companies Providing an Electronic Report

[10] Official Journal of the European Union, 2013. Directive 2013/50/eu of the European Parliament and of the European Council [PDF]. Available from: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:294:0013:0027:EN:PDF

[11] Financial Reporting Council, FRC Taxonomies [Online]. Available from: https://xbrl.frc.org.uk

We are interested in the number of companies that currently send their annual report electronically. Considering your shareholders, how many, as a percentage, opt to receive their annual report as a printed copy?

Comments

In the UK, electronic reporting in the form of XBRL is an established practice. Exact numbers of companies using this format for reporting can be obtained from Companies House for submitting annual returns and HMRC for corporation tax filings.

In addition, a significant portion of the companies that may be covered under this requirement are also registered on a US exchange, which requires them to submit their annual report (Form 20-F) in XBRL through the US Securities and Exchanges Commission's EDGAR system. These companies are therefore experienced in digital reporting.

Q13) Definition of Senior Manager

BIS would welcome suggestions as to how this definition may be improved to reflect better the intention of this requirement.

Comments

No response.

Q14) Other Comments on this requirement

BIS would also welcome other comments on this regulation including views on the approach suggested

Comments

No response.

Q15) Reporting Regulations

What other reporting regulations would you suggest that could be repealed?

Comments

As paragraph 75 of the consultation document notes, the requirement in the 2014 Directive for companies to supply information on environmental matters is likely to result in the provision of information about greenhouse gas emissions and the use of energy. Rather than considering whether existing legislation should be repealed – which HMT's recent decision suggests is not likely to happen – we encourage BIS to focus on:

- What type of information is required from companies in order to support policy objectives AND where are requirements to produce that information best placed in statute in order to strengthen policy coherence. We contend that public information about corporate GHG emissions is essential for decision-making by companies, investors, policy makers and others, particularly in the light of the Paris Climate Agreement. The question is which channels should be used to require disclosure of that information in order to make it as useful as possible for decision-making; and

- How should the phrase "information on environmental matters" be defined for the purposes of the 2014 Directive? We refer BIS to the CDSB Framework for reporting environmental information & natural capital[12] for a suggested definition of "information on environmental matters".

Q16) Other Information

Is there any information that could be moved outside the Annual Report?

Comments

No response.

Q17) Analysis of the Costs and Benefits of implementing the NFR Directive

Type of Organisation

Q17a) Are you a company (not a PIE), a company which is a PIE (as described in para 2.6), an NGO, institutional investor or other type of organisation? If you are a PIE please specify whether you are a parent company or a subsidiary company.

PIE (Parent)	
PIE (Subsidiary)	

[12] CDSB, 2015. Framework for reporting environmental information & natural capital [PDF]. Available from: http://cdsb.net/Framework

Non-Governmental Organisation	
Institutional Investor	
Other (please specify	

When considering your answers, we would very much appreciate information on any costs you will incur as a result of the proposals for implementing the EU NFR Directive, both in terms of money and time (e.g. describe which type of staff will be involved, for how long). We would appreciate any information on new systems or practices your organisation may adopt, or existing processes that may change, because of the Directive.

Q17b) Do you expect to incur any "one off "or "ongoing costs" as a result of having to comply with the requirements of the EU NFR Directive over and above what you incur currently on your non-financial reporting obligations? Please describe these costs. (One off costs could include staff time to familiarise your organisation with the regulations or updating of internal guidance for staff; on-going costs could include additional time to review non-financial data in each year subsequent to first year)

Q18c) How would your costs change if you were allowed to provide your non-financial statement separately within six months of the balance sheet date on your financial report?'

Q18d) How would your costs change if you were allowed to provide this report electronically on your website and did not have the obligation to provide hard copies except in exceptional circumstances?'

Q18e) What additional costs would you expect if the government required that an independent assurance services provider verify the non-financial statement? This may be in terms of money or resources costs such as staff time.'

Benefits to your company of the EU NFR Directive?

Q18f) Please describe any benefits to your company you expect will arise because of the EU NFR Directive (to your organisation or more widely).

If you are happy for BIS officials contact you with further questions about the impact of the EU NFR directive, please provide your contact details.

Comments

We believe that the questions posed in this consultation cover crucial aspects that will contribute to the success of the NFR Directive's transposition. There are however other aspects that are not covered, which will be equally crucial for the implementation of legislation that will achieve the Directive's desired outcomes to "create new growth" and "identifying sustainability risks and increasing investor and consumer trust".

Type of information to be reported

Providing some detail on what type of information should be reported is helpful to both reporting companies and users of such reports, such as investors.

As a minimum, we suggest that the components of "environmental matters" are clarified as at least:

- Climate change-related matters;
- Matters related to water stewardship; and
- Matters related to the production and/or procurement of forest risk commodities.

The main benefit to companies is clarity on what they need to report, as well as on guidance to help them ensure compliance with the requirements. We have heard demand for this clarity[13] following the implementation of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. For example, the high level requirement to report emissions "for which the company is responsible" resulted in confusion, lack of comparability within various companies' reports, as well as additional costs for business to investigate what this requirement means in practice.

Having clarity on what to report also benefits the users of such information, such as the company's current and potential shareholders. Detail on what to report provides more consistency between the reported information across companies, providing a more complete dataset. A complete dataset is a requirement for investor analysis, without which it is not possible to compare companies on that particular aspect.

CDSB has developed the Framework for reporting environmental information & natural capital[14] which contains requirements and guiding principles for reporting environmental information through mainstream reporting channels, such as the annual report. These requirements and principles reflect and respond to the needs and practices of investors and companies, as well as the experiences of the financial reporting world and emerging environmental, social and governance reporting practices around the world. We encourage BIS to use the principles and requirements of the CDSB Framework as the basis to provide more clarity on the type of environmental information to be reported, or to reference it as guidance to support compliance with the legislation.

Through our research we observe a great deal of variation around the world in reporting

[13] Feedback to CDP from companies from a number of engagement events in the UK.
[14] CDSB, 2015. Framework for reporting environmental information & natural capital [PDF]. Available from: http://cdsb.net/Framework

requirements and practices. For example, CDSB's report on Climate Change Disclosures in the G20[15] published with the OECD evidences the variation of practice and approach within the G20. In response, CDP and CDSB offer a reporting system and a reporting framework that complement each other. These encourage an approach (through the CDSB Framework) for reporting environmental information (based on the same content as requested through the CDP system) through the Director's and/or Strategic Report. As a result, we encourage BIS to: 1. Examine current reporting practices and trends in order to align content requirements with the type of information that is now most commonly reported as a result of over a decade of reporting development work. CDSB's "Making the Connections" publication shows commonly adopted reporting themes. 2. Support greater overall reporting coherence by considering the broader context of reporting (referred to above) when deciding how best to implement the EU NEFR; 3. Provide guidance about how companies are expected to comply with the new requirements, including precise definition of terms used, guidance on how information should be prepared and where it should be reported.
Q18g) Any Other Comments Do you have any other comments about the costs and benefits that will result from the EU NFR Directive?
Comments
Q19) Additional Comments Do you have any additional comments on this directive
Comments **Conclusion** In summary, our main points in response to the government's consultation are: 1. The key to answering this consultation's detailed questions of content and positioning (including use of flexibilities) is to define the desired outcome – if we have the 'why' then it will be easier to decide on the 'how'; 2. We believe that careful consideration needs to be given to reporting on climate change issues, given developments such as the 2015 Paris Agreement and the

[15] OECD & CDSB (2015) Climate change disclosure in G20 countries – Stocktaking of corporate reporting schemes [PDF]. Available from http://www.oecd.org/daf/inv/mne/Report-on-Climate-change-disclosure-in-G20-countries.pdf

launch of the Task Force on Climate-related Financial Disclosures, and we note that the Outcome document from HM Treasury and DECC consultation on Business Energy Efficiency[16] has already superseded this NFR consultation by stating that current GHG reporting requirements will be maintained;

3. The consultation raises very important questions about the requirements and their context. However, it does not outline exactly what type of information companies will be required to report. Given that the deadline for the transposition of the directive may not allow for an additional consultation on the actual requirements, we have included recommendations on the content elements of the requirements. It is important to ensure that these requirements are flexible enough to accommodate the uniqueness of each business while ensuring information that is sufficiently consistent and comparable to be of value to information users for decision-making; and

4. We urge the government to look again at the topic of electronic reporting, perhaps with an additional consultation. The current consultation document does not equip the UK for a 'fast-moving, digital economy' because it does not address the issue of digital reporting; and

5. We favour the extension of NFR reporting requirements to all listed companies, an option which was not included in the consultation document, although it was examined in the government's Impact Assessment.

Workshops

BIS also intends to hold a series of workshops to discuss the issues in this consultation in more depth. We anticipate holding these in Spring 2016. If you would like to send a representative, pleased tick the box below and we will contact you in due course with further details.

☒ Yes, I would like to register interest to attend the BIS NFR Workshops

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply ☒

[16] HM Treasury & DECC (2016) Reforming the business energy efficiency tax landscape: response to the consultation [Online]. Available from: https://www.gov.uk/government/consultations/consultation-reforming-the-business-energy-efficiency-tax-landscape

At BIS we carry out our research on many different topics and consultations. As your views are valuable to us, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?

☒Yes ☐No

Annex I – High level comparison of UK Strategic Report and EU Management Report and Non-Financial Statement Reporting Requirements

Line ref number	Companies Act Section	Cos Act subsection	Summary	Paraphrased text	Directive 2013/34 or 2014/95 Article	Summary	Paraphrased text
1	414A	(1)	Duty to prepare a strategic report	The directors must prepare a strategic report	Article 19(1)	Duty to prepare a management report	Undertakings must prepare a management report
2			[Type of company to prepare a strategic report]	[Companies within scope of the Companies Act subject to the exceptions that follow]		[Type of company to prepare a management report]	[Undertakings within scope of Directive 2013/34]
3					19a(1)	Duty to provide a non-financial statement within the mangement report	A non-financial statement must be included in the management report
4					19a(1)	Type of undertaking to provide a non-financial statement	Large undertakings that are public-interest entities exceeding on their balance sheet date an average number of 500 employee during the financial year
5		(2)	Exceptions	Exception for companies entitled to the small companies exemption (see 414B)	19(3)	Exceptions	Member states may exempt small undertakings from the obligation to prepare management reoprts…(subject to conditions)
6		(3)	Requirement for group consolidated strategic report	The strategic report must be consolidated (a group strategic report) where the company is parent company and the directors prepare group accounts and it must relate to the undertakings included in the consolidation	Article 29 and 29a	Requirement for management and non-financial report to be consolidated	
7	414C	(1)	Purpose	To inform members of the company and help them assess how the directors have performed their duty to promote the success of the copany (under section 172)	Directive 2014/95/EU	Purpose	See Directive preamble
8		(2)	Content requirements for the strategic report for all companies in scope	The report must contain a fair review of the company's business and a description of the principal risks and uncertainties facing the business	19(1)	Content requirements for the management report	A fair review of the development and performance of the undertaking's business and of its position together with a description of the principal risks and uncertainties it faces
9		(3)	Characteristics of the review required by 414C(2) - except for medium sized businesses	A balanced and comprehensive analysis of the development and performance of the company's business during the financial year and its position at the end of the year consistent with the size and complexity of the business (but note subsection 6 which exempts medium sized companies from this requirement in relation to non-financial information)	19(1)	Characteristics of information to be provided in the management report - except for small and medium sized businesses	A balanced and comprehensive analysis of the development and performance of the undertaking's business and of its position consistent with the size and complexity of the business (but note article 19(4) which exempts small and medium sized companies from providing information relation to environmental and employee matters)
10		(4)	Content requirements to the extent necessary for an understanding of the business	analysis using financial (and where appropriate) non financial KPIs including information relating to environmental matters and employee matters	19(1)	Content requirements of management report to the extent necessary for an understanding of the business	analysis shall include both financial and where appropriate non-financial KPIs relevant to the particular business including information relating to environmental and employee matters.
11					19a(1)	Use of KPIs in the non-financial statement	Non-financial KPIs relevant to the particular business
12		(5)	Definition of KPI	factors by reference to which the development, performance or position of the company's business can be measured effectively			
13		(7)(a)	Content requirements for quoted companies to the extent necessary for an understanding of the business	Main trends and factors likely to effect the future development, performance or position of the company			
14		(7)(b)(i)	Content requirements for quoted companies to the extent necessary for an understanding of the business	Information about environmental matters including the impact of the company's business on the environment including information about any policies of the company in relation to those matters and the effectiveness of those policies AND the company must state if it does not provide this information	19a(1) (b) & (c)	Content requirements for large PIEs in relation to the non-financial statement within the management report	Environmental matters including a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented and the outcome of those policies and the principal risks related to those matters, including whre relevant and proportionate, its business relationships products or services which are likely to cause adverse impacts in those areas and how the undertaking manages those risks and where the undertaking does not pursue policies in relation to the matter the non-financial statement shall provide a clear and reasoned explanation for not doing so
15		(7)(b)(ii)	Content requirements for quoted companies to the extent necessary for an understanding of the business	Information about the company's employees including information about any policies of the company in relation to those matters and the effectiveness of those policies AND the company must state if it does not provide this information	19a(1) (b) & ©	Content requirements for large PIEs in relation to the non-financial statement within the management report	Employee matters including a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented and the outcome of those policies and the principal risks related to those matters, including whre relevant and proportionate, its business relationships products or services which are likely to cause adverse impacts in those areas and how the undertaking manages those risks and where the undertaking does not pursue policies in relation to the matter the non-financial statement shall provide a clear and reasoned explanation for not doing so
16		(7)(b)(ii)	Content requirements for quoted companies to the extent necessary for an understanding of the business	Information about social, community and human rights issues including information about any policies of the company in relation to those matters and the effectiveness of those policies AND the company must state if it does not provide this information	19a(1) (b) & ©	Content requirements for large PIEs in relation to the non-financial statement within the management report	Social matters, respect for human rights, anit-corruption and bribery matters, including a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented and the outcome of those policies and the principal risks related to those matters, including whre relevant and proportionate, its business relationships products or services which are likely to cause adverse impacts in those areas and how the undertaking manages those risks and where the undertaking does not pursue policies in relation to the matter the non-financial statement shall provide a clear and reasoned explanation for not doing so
17		(8)(a) and (b)	Content requirements for quoted companies - business model and strategy	A description of the company's strategy and business model	19a(1)(a)	Business model	a brief description of the undertaking's business model
18		8©	Content requirements for quoted companies - diversity stats	A breakdown showing gender diversity in the director, senior manager and employee populations	20(1)(g)	Diversity	a description of the diversity policy applied in relation the undertaking's administrative, management and supervisory bodies with regard to aspects such as age, gender or educational and professional backgrounds, the objectives of the diversity policy, how it has been implemented and its results during the repoting period. If no such policy is applied, the statement should explain why.
19		(11)	Relationship with directors report	The strategic report may also contain information to be disclosed under regulations pertaining to the directors report if that information is of strategic importance to the company	19a(1)	Relationship with management report	Undertakings fulfilling the obligations set out in paragraph 1 of Article 19a shall be deemed to have fulfilled the obligation relating to the analysis of non-financial information set out in Article 19(1) sub paragraph 3
20					19a(1)	Relationship between non-financial statement and financial statements	The non-financial statement shall, where appopriate, include references to and additional explanations of amounts reported in the annual financial statements
21	414C	(12)	Relationship between strategic report and financial statements	The strategic report must, where appropriate, include references to and additional explanations of amounts included in the company's annual accounts	19(1)	Relationship between management report and financial statements	In providing the analysis referred to in Article 19(1), the management report shall, where appropriate, contain references to and additional explanations of amounts reported in the annual financial statements.
22		(14)	Confidential information	Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, are seriously prejudicial to the interests of the company	19a(1)	Confidential information	Member states may allow information…that would be seriously prejudicial to the commercial position of the undertaking to be omitted provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance, position and impact of its activity
23					19a(1)	Basis for preparation	Undertakings may rely on national, Union-based or international frameworks for the preparation of information and shall specify which frameworks they have relied upon