Climate
Disclosure
Standards
Board

CDSB response to consultation document on fitness check on the EU framework for public reporting by companies

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5=totally agree)

I. Assessing the fitness of the EU Public Reporting Framework Overall

Assessing the fitness of the EU Public Reporting Framework Overall

1. Do you think that the EU public reporting requirements for companies, taken as a whole, have been effective in achieving the intended objectives?

	1-5	Don't know
Ensuring stakeholder protection		x
Developing the internal market		x
Promoting integrated EU capital markets		x
Ensuring financial stability		x
Promoting sustainability	1	

Please explain your response and substantiate it with evidence or concrete examples.

While the European reporting framework overall is at a healthier stage than other jurisdictions, we believe that it is not yet at a stage where it can fully support a sustainable and resilient capital market and provide appropriate protection to investors and society at large. We welcome the Commission's Sustainable Finance Action Plan and have only included comments which are not covered by this plan.

Our specific comments are outlined in responses to questions below. Among others, the we have identified the following issues that need to be addressed in order to make the EU Public Reporting Framework fit for purpose and to minimise the need for future updates, in order to provide policy certainty for the market:

- *Implement the Task Force on Climate-related Financial Disclosures (TCFD) recommendations into the Non-Financial Information (NFI) directive to enhance reporting on the financial impacts of climate change-related performance, risks and opportunities, as well as to encourage reporting on material forward-looking information based on robust scenario analysis;*
- *The CDSB Framework for reporting environmental information, natural capital and associated business impacts, the CDP questionnaires on Climate Change, Water and Forest Risk Commodities, as well as a short list of other widely used reporting provisions should then be referenced to support robust and consistent reporting;*
- *Use the Non-binding Guidelines as additional guidance, rather than to implement reporting requirements;*
- *Provide ESAs with the necessary mandate and funding to support compliance through proactive supervision of "non-financial" information;*
- *Remove paragraph 4 of articles 19a and 29a of the NFI Directive, which allows information to be reported outside the management report and up to 6 months later, to reduce inconsistency of information and promote timely reporting;*

T: +44 (0) 203 818 3939
www.cdsb.net

71 Queen Victoria Street
London, EC4V 4AY

- *Proactively engage with the IASB and IFRS Foundation to evolve IFRSs within the formal processes and at an international level; and*
- *Treat financial and "non-financial" information as the same throughout the implementation of digital reporting to ensure consistency and comparability;*
- *While we applaud the Commission's efforts to address climate-related risks and opportunities and call for more to fully address them, it is important not to lose sight of the significant impacts that natural capital-related matters may have on the economy. For example, a 2015 study by Trucost of farming practices in 40 countries identified that the natural capital costs associated with crop production represent nearly USD 1.15 trillion, over 170 percent of its production value, whereas livestock production in this study produces natural capital costs of over USD 1.81 trillion, 134 percent of its production value. Other sectors have significant natural capital dependencies and impacts as well, this example was chosen due to the importance given to agriculture in the Sustainable Finance Action Plan.*

2. Do you think that the EU public reporting requirements for companies, taken as a whole, are relevant (necessary and appropriate) for achieving the intended objectives?

	1-5	Don't know
Ensuring stakeholder protection		x
Developing the internal market		x
Promoting integrated EU capital markets		x
Ensuring financial stability		x
Promoting sustainability	1	

Please explain your response and substantiate it with evidence or concrete examples of any requirement that you think is not relevant.
While the Commission has made significant steps to improve reporting that facilitates more sustainable decision-making by the market, the current requirements of the NFI Directive do not yet meet the threshold for this. To achieve a truly sustainable financial system, it is essential to provide information in a format and quality that is suitable for the mainstream market and not only ESG-focused investors.
The high-level requirements set out in the directive, without the necessary specificity in the way these should be reported, result in inconsistent reporting that hinders rigor, consistency and comparability in reporting.
In addition, advances such as the publication of the recommendations by the TCFD, have advanced the field of reporting and were developed by market participants for market participants to address the lack of climate-related financial information suitable for investor decision-making. It is therefore important and necessary to update the NFI Directive's current requirements to bring them in line with the TCFD recommendations to meet mainstream market actors' needs.

3. Companies would normally maintain and prepare a level of information that is fit for their own purposes, in a "business as usual situation". Legislation and standards tend to frame this information up to a more demanding level.

	1-5	Don't know
With regards to the objectives pursued, do you think that the EU legislation and standards on public reporting are efficient (i.e. costs are proportionate to the benefits generated)	4	

Please explain your response and substantiate it with evidence or concrete examples of requirements that you consider most burdensome.

While reporting is necessary to support efficient and resilient markets, inconsistency can cause additional burden and therefore unnecessary costs to report preparers.

A lack of high-quality, decision-useful information may result in significant delays to address sustainability risks and missed opportunities, which may have high costs associated with it, as outlined in the European Systemic Risk Board's report: "Too late, too sudden: Transition to a low-carbon economy and systemic risk". The report states: "Though the potential effect is difficult to quantify without better exposure data, Weyzig (2014) estimates that the exposures of European financial institutions (including banks, pension funds and insurers) to fossil-fuel firms exceed €1tn… and estimates potential losses of between €350bn and €400bn, even under an orderly transition scenario."

On the other hand, the financial opportunities of the transition to a sustainable financial system are significant. Providing information to investors on these matters is therefore an important way to boost financing of sustainable corporate activities and providing a vehicle for European investors and their beneficiaries to reap the benefits of this opportunity.

Coherence

As a preparer, user, or person with interest in financial reporting, you may have noticed possible incoherence due to overlaps, repetitions, redundant items, loopholes or inconsistencies in relation with the preparation, publication, access to or use of public reporting by companies.

5. Do you agree that the intrinsic coherence of the EU public reporting framework is fine, having regard to each component of that reporting?

	1-5	Don't know
Financial statements (preparation, audit and publication)		x
Management report (preparation, consistency check by a statutory auditor, publication) Please do not consider corporate governance statement or non-financial information		x
Non-financial information (preparation, auditor's check and publication)	3	
Country-by-country reporting by extractive / logging industries (preparation, publication)		x

Please explain your response and substantiate it with evidence or concrete examples.

The NFI Directive has brought some much-needed coherence in Member States' reporting requirements. While we applaud the progress made, we believe that more work needs to be done in order to harmonise the "non-financial" reporting landscape in Europe to make the use of such information commonplace by investors. Among others, we believe that this is due to the high-level nature of the recommendations, the lack of

authoritative guidance (our experience is that the market does not see the Non-binding Guidelines as authoritative) and the wide range of methodologies provisioned by the directive for its implementation. Paragraph 4 of articles 19a and 29a of the NFI Directive allows information to be reported outside the management report and up to 6 months later, which creates inconsistency of information and promotes untimely reporting. We recommend that this paragraph is removed.
6. Depending on circumstances, a company may have public reporting obligations on top of those being examined here. Such legislation may have been developed at the EU5, national or regional level. Should you have views on the interplay of these additional reporting obligations with the policies examined in this consultation, please comment below and substantiate it with evidence or concrete examples.

While there are some additional "non-financial" reporting obligations in certain Member States (UK Companies Act 2006, French Article 173 of the Green Growth and Energy Transition Law, etc), these sit well together the minimum requirements set at the EU level. As always, there is of course an opportunity to harmonise further in a process of continuous iteration, in order to simplify reporting processes and reduce the burden on reporting companies.

T: +44 (0) 203 818 3939
www.cdsb.net
71 Queen Victoria Street
London, EC4V 4AY

II. The financial reporting framework applicable to all EU companies

EU Added value

7. Do you think that, for each respective objective, the EU is the right level to design policies in order to obtain valuable results, compared to unilateral and non-coordinated action by each Member State?

	1-5	Don't know
Ensuring stakeholder protection		x
Developing the internal market		x
Promoting integrated EU capital markets	3	
Ensuring financial stability	2	
Promoting sustainability	2	

Please explain your response and substantiate it with evidence or concrete examples.
Given the international nature of finance, it is important to set a minimum level of policies in order to create a level playing field, support the efficient functioning of markets and to ensure investor protection. Reporting is also a key element and part of the basic infrastructure to the functioning of efficient markets. As such, it is a crucial element of the EU Capital Markets Union agenda.

Relevance of the content of financial reporting

A company's financial statement, together with the management report and related documents (corporate governance report, non-financial information) aim to provide a reliable picture of a company's performance and financial position at the reporting date. However, certain users argue that financial statements give only an image of the (recent) past and lack forward-looking information (see for instance Conference Shaping the future of corporate reporting, panel 5 – Matching expectations with propositions, investors' views). The financial statements may also fail to provide a complete picture of the long term value creation, business model, cash flows (non-IFRS financial statements) and internally generated intangible assets (See for instance expert group's report on Intellectual Property Valuation, 2013). There is also only scarce information required at 16 the EU level on dividend distribution policies and risks (see for instance the UK FRC Lab). The search for other sources of information to remedy this situation may increase costs for users and undermine the level playing field.

T: +44 (0) 203 818 3939
www.cdsb.net

71 Queen Victoria Street
London, EC4V 4AY

16. How do you think that the current EU framework as regards the content of financial reporting is relevant (necessary and appropriate), having regards to the following information:

	1-5	Don't know
A company's or group's strategy, business model, value creation	2	
A company's or group's intangible assets, including goodwill, irrespective of whether these appear on the balance sheet or not	1	
A company's or group's policies and risks on dividends, including amounts available for distribution		
A company's or group's cash flows	1	

Please explain, including if in your view additional financial information should be provided:

A company's or group's strategy, business model, value creation

Information on a company or group's strategy, business model and value creation are necessary to provide a complete picture to current and potential providers of capital. However, apart from some leading companies, most businesses do not provide sufficient information on this matter, especially regarding climate change and wider natural capital-related information. According to our recent report "Ready or Not", through company disclosures there is evidence that there continues to be a noticeable gap between companies identifying climate-related risks and opportunities, and then including these within their strategic planning. The TCFD recommendations provide valuable guidance on effective and efficient reporting of material information associated with climate change in particular. Implementing the TCFD recommendations within the NFI Directive would support an appropriate level of reporting on these matters.

A company's or group's intangible assets, including goodwill, irrespective of whether these appear on the balance sheet or not

While not commonly understood as such, natural capital dependencies could be considered to be an intangible asset. The IASB Conceptual Framework for Financial Reporting specifies a two-step process for the recognition of assets and liabilities:

1. *Does the item meet the definitions of an asset, liability and/ or economic resource discussed in the Exposure Draft of the Conceptual Framework?*
2. *Does the item meet the following recognition criteria:*
    - *It is probable that any future economic benefit associated with the asset or liability will flow to or from the entity; and*
    - *The asset or liability has a cost of value that can be measured reliably*

Recognition criteria, particularly relating to judgements about probable or likely economic benefits have, to date, prompted questions about whether certain assets – such as natural capital and what the TCFD calls carbon-related assets – should be recognised for financial accounting purposes.

A company's or group's cash flows

In relation to the Balance Sheet, the TCFD Final Report (2017) highlighted that:

"Climate-related risks and opportunities may change the profile of an organization's debt and equity structure, either by increasing debt levels to compensate for reduced operating cash flows or for new capital expenditures or R&D. It may also affect the ability to raise new debt or refinance existing debt, or reduce the tenor of borrowing available to the organization. There could also be changes to capital and reserves from operating losses, asset write-downs, or the need to raise new equity to meet investment."

It goes on to mention within Section E (Key Issues Considered and Areas for Further Work) that:

"consideration should be given to the linkage between scenario analyses performed to assess the resilience of an organization's strategy to climate-related risks and opportunities (as suggested in the Task Force's recommendations) and assumptions underlying cash flow analyses used to assess asset (e.g., goodwill, intangibles, and fixed assets) impairments."

These two examples show how financial reporting related to balance sheets and cash flow can be affected by climate-related risks and opportunities and that these can be further integrated within the current EU framework. The use of scenario analysis by organisations, including reference to a 2-degrees Celsius scenario, to understand the impact to future cash flows on their and where material should be disclosed along with other material business risks.

17. Is there any other information that you would find useful but which is not currently published by companies?

Yes	**x**
No	
Don't know	

If you answered yes, please explain what additional information you would find useful:
While some of the basic requirements are in place, more information is needed on:

- *Management's commentary on the potential impacts of climate- and natural capital-related risks and opportunities on the organisation's businesses, strategy and financial planning, where such information is material, based on robust analysis, such as scenario analysis;*
- *Discussion of the material potential impacts of climate and other natural capital-related risks and opportunities on the financial performance of companies, including strategies, policies and targets to mitigate those risks;*
- *Evidence that the Audit & Risk Committee has undertaken appropriate due diligence on non-financial risks, confirmation that these risks are being managed in the same way as financial risks and/or as part of the companies' risk management system, and a clear statement on who is responsible for these risks;*
- *While disclosures on organisations' governance around climate- and natural capital related risks and opportunities have become more commonplace, there is still a significant gap in the detail and quality of such information; and*
- *Strategy: we see a lack of information on how companies incorporate their assets into their strategy.*

Clarifying the requirements of the NFI Directive using the TCFD recommendations can support better information on the above matters to support effective investor stewardship.
The CDSB Framework provides principles and requirements relating to all of the aspects above. Referencing it in the NFI Directive would therefore provide helpful guidance for companies to comply with the requirements and the intended objectives of the Directive.
We have also noticed lack of clarity and consistency of companies' application of materiality to determine what should be included in their Management Report. We would refer the Commission to our paper on Materiality and climate-related financial disclosures, available at cdsb.net/materiality, which may provide helpful guidance for reporting entities.

III. The EU financial reporting framework for listed companies

The IAS Regulation and International Financial Reporting Standards (IFRS)

The IAS Regulation adopted in 2005 made the use of IFRS mandatory for the consolidated accounts of listed companies. The Commission Evaluation of the IAS Regulation in 201511 found that the use of IFRS had led to greater transparency and comparability of financial reporting within the single market, but that complexity had increased. It also concluded that the use of IFRS in the EU has significantly increased the credibility of IFRS and its use worldwide.

However, the current level of commitment to IFRS by third country jurisdictions differs significantly. Very few of the major capital markets and large jurisdictions have made the use of IFRS as issued by the IASB mandatory12. As a result, the level of global convergence achieved is sub-optimal compared to the initial objective on global use.

Before becoming EU law IFRSs have to be endorsed to ensure that they meet certain technical criteria, are not contrary to the true and fair view principle, and are conducive to the European public good13. The current endorsement process prevents the Union from modifying the content of the standards issued by the IASB. Some stakeholders, as mentioned in the final report of the High-Level Expert Group (HLEG)14, are concerned that this lack of flexibility would prevent the EU from reacting if these standards were to pose an obstacle to broader EU policy goals such as long-term investments and sustainability.

The IASB is addressing the complexity of the standards and the volume of disclosure requirements as part of its "Better Communication" project15. In addition, the Commission will continue to monitor progress on IASB commitment to improve disclosure, usability and accessibility of IFRS (see the Communication on the Mid-Term Review of the Capital markets Union Action Plan16). This initiative is one of the actions set in motion by the Commission in order to make it easier for companies to enter and raise capital on public markets, notably on SME Growth Markets17.

19. Given the different levels of commitment to require IFRS as issued by the IASB around the globe, is it still appropriate that the IAS Regulation prevents the Commission from modifying the content of IFRS?

Yes	
No, due to the risk of uneven level playing field for EU companies vis-à-vis companies established in third countries that do not require the use of IFRS as issued by the IASB.	
No, due to the risk that specific EU needs may not properly be addressed during the IASB standard setting process.	
No, due to other reasons.	x
No	

If you answered "No, due to other reasons ", please specify.

While in principle we strongly agree with this proposal, diverging from IFRSs may pose a serious and probable risk of creating additional inconsistency in the information available to investors.

In particular, CDSB supports the evolution of IFRSs and IASs to clarify their relevance for so-called "non-financial" or "wider" information, such as climate change- and natural capital-related information, but we believe that this should be done at the international level.

T: +44 (0) 203 818 3939
www.cdsb.net

71 Queen Victoria Street
London, EC4V 4AY

Europe could be a very good jurisdiction to provide proof of concept to the IASB, due to its evolved regulatory framework and relatively advanced corporate reporting landscape. Unfortunately, our understanding is that the European Commission has no direct links to the IASB through which it could communicate. European interests are represented through EFRAG (an independent body) and Member State representatives. Changing the regional application of IFRSs may result in some benefits, but we expect that the overall effect of this step may not be beneficial to Europe.
Given that we strongly support the sentiment of this proposal, we strongly encourage the European Commission to find a formal way to represent its concerns and interests within the IASB and IFRS Foundation and to continue working on evolving IFRSs to make them fit for purpose.
We also see a role for EFRAG's new Reporting Lab to experiment with this topic and feed in its findings to the IASB.

20. Since the adoption of IFRS by the EU in 2005, topics such as sustainability and long-term investment have come to the forefront of the regulatory agenda. Is the EU endorsement process appropriate to ensure that IFRS do not pose an obstacle to broader EU policy objectives such as sustainability and long-term investments?

Yes	
No	**x**
Don't know	

If you answered "No", please explain your position:
As described in our response to question 19, we believe that Europe should take a more proactive role in developing IFRSs and should find more ways to engage proactively and constructively during the standards development stage.

21. How could the EU ensure that IFRS do not pose an obstacle to sustainability and long-term investments:

By retaining the power to modify the IFRS standards in well-defined circumstances	
By making explicit in the EU regulatory framework that in order to endorse IFRS that are conducive to the European public good, sustainability and long-term investment must be considered	
Other, please specify: *As described in our response to question 19, we believe that Europe should take a more proactive and constructive role in developing IFRSs. The Commission should find more ways to engage during the standards development stage.* *We would like to bring the Commission's attention to our reports outlining how IFRSs may be applied to sustainability-related and forward-looking information, available at cdsb.net/IFRS, which may provide helpful approaches to propose to the IASB. In particular, our papers cover:* *- The IASB's definition of materiality;* *- IFRS 6 "Exploration for and Evaluation of Mineral Resources";* *- IFRS 7 "Financial Instruments: Disclosures";* *- IFRS 9 "Financial Instruments";* *- IFRS 15 "Revenue from Contracts with Customers";* *- IFRS 17 "Insurance Contracts";*	x

- IAS 36 "Impairment of Assets"; and *- IAS 37 "Provisions, contingent liabilities and contingent assets".*	
Don't know	

23. The EU has not endorsed the IASB Conceptual Framework for Financial Reporting. The conceptual framework is a set of concepts used to develop IFRSs but can also be helpful in interpreting how IFRS standards have to be understood and applied in specific circumstances. This could enhance a common application of IFRSs within the EU.

	1-5	Don't know
Should the EU endorse the IASB Conceptual Framework for Financial Reporting?	5	

Please explain your response and substantiate it with evidence or concrete examples.
CDSB supports the endorsement of the IASB Conceptual Framework for Financial Reporting, because it defines key reporting concepts, such as the objective of financial reporting and the qualitative characteristics of useful financial information. These bring clarity to reporting organisations and can support more consistent and decision-useful reporting.

Transparency Directive

The Transparency Directive requires issuers of securities traded on regulated markets within the EU to ensure appropriate transparency through a regular flow of information to the markets. The Transparency Directive was last amended in 2013 in order:

- To reduce the administrative burden on smaller issuers and promote long-term investment by abolishing the requirement to publish quarterly financial reports and,
- To strengthen investor protection by improving the efficiency of the disclosure regime of major holdings of voting rights, particularly regarding voting rights held through derivatives.

26. Do you agree that abolishing the quarterly reporting requirement in 2013 by issuers contributed to the following?

	1-5	Don't know
Reducing administrative burden, notably for SMEs	5	
Promoting long-term investment (i.e. discouraging the culture of short-termism on financial markets).	5	
Promoting long-term and sustainable value creation and corporate strategies	5	
Maintaining an adequate level of transparency in the market and investors' protection	5	

Please explain your response and substantiate it with evidence or concrete examples.
Quarterly reporting is unhelpful and can pose an obstacle to broader EU goals such as long-term investments and sustainability.
The influential and internationally recognised "Kay Review of UK Equity Markets and Long-Term Decision Making" has also stated the negative impacts of quarterly reporting:
"The meaningful measurement of annual profit requires fine and subjective judgment, and quarterly earnings will be dominated by random fluctuations – or worse, will be managed to avoid them. The unreliability of short term estimates does not imply that useful information cannot be given to asset managers who are in regular contact with companies and to shareholders generally, but such assessments will in large part be discursive rather than statistical and the appropriate form and frequency will be company specific. "

30. Should anything be done to improve public reporting by listed companies (documents, information, frequency, access, harmonisation, simplification)?
The Commission should work with the European Securities and Markets Authority (ESMA) to ensure that the Draft Regulatory Technical Standard for the European Single Electronic Format contains taxonomies for financial and "non-financial" information as well.
Currently, financial and so-called non-financial information is considered separately by ESMA, when it comes to digital reporting, which is a hindrance to the integration of non-financial information into mainstream reporting. ESMA is currently developing a European Single Electronic Format (ESEF), as defined by the Transparency Directive, which will allow mainstream reports to be produced in an easy to use, digital format. While making corporate reporting digital is a very useful development, it only applies to the financial information reported by companies. This means that non-financial information will be continued to be reported in the same way as before. This does not only hold back progress on non-financial reporting, but also separates information that is intended to be used in conjunction with each other.
Given that the future direction of reporting is clearly laid out in Europe, it is imperative that all forms of reporting move in the same direction. This is especially important to ensure policy stability and avoid multiple, incremental changes in the EU legislative framework later on.
We therefore believe that there is work to be done in Europe to ensure equivalence in technological advances and developing financial and non-financial reporting at the same pace using the same reporting platform.

T: +44 (0) 203 818 3939
www.cdsb.net
71 Queen Victoria Street
London, EC4V 4AY

V. Non-financial reporting framework

Non-Financial Reporting Directive

Directive 2014/95/EU on disclosure of non-financial Information and diversity information (the NFI Directive) requires around 6.000 large companies with more than 500 employees listed on EU regulated markets or operating in the banking or insurance sectors to disclose relevant environmental and social information in their management report. The directive also requires the large listed companies to make a statement about their diversity policy in relation to the composition of their boards. The first reports have to be published in 2018 regarding financial year 2017. In addition to the NFI Directive, the Commission adopted guidelines in June 2017 to help companies disclose relevant non-financial information in a consistent and more comparable manner. The Commission is required to submit a review report on the effectiveness of the Directive by December 2018.

40. The impact assessment for the NFI Directive identified the quality and quantity of non-financial information disclosed by companies as relevant issues, and pointed at the insufficient diversity of boards leading to insufficient challenging of senior management decisions. Do you think that these issues are still relevant?

	1-5	Don't know
The quality and quantity of non-financial information disclosed by companies remain relevant issues.	5	
The diversity of boards, and boards' willingness and ability to challenge to senior management decisions, remain relevant issues.		x

Please explain your response and substantiate it with evidence or concrete examples.

Without a clear understanding of companies' governance, business models, strategies, risk management and other issues, the market does not have adequate knowledge of the potential risks and, importantly, opportunities from sustainable finance.

So-called "non-financial" matters can have financially material impacts and companies depend on natural capital, as well as unchanged climate conditions to operate and generate value. As action to address these issues sufficiently is further delayed, the costs of doing so increase (ESRB 2016). As Commissioner Dombrovskis said in his speech at the launch of the Sustainable Finance Action Plan, "… sustainability risks will have an increasing impact on financial stability. Last year, the amount of catastrophe-related losses covered by insurance reached an all-time high – €110 billion. If we ignore the risks of climate change, we may end up locking capital into projects that are only viable in the short-run, which would be a waste." Commissioner Dombrovskis also highlighted the "urgent" need for investment to transition to a sustainable economy.

As the cost of the transition to a sustainable financial system continues to increase, "non-financial" matters increase in their financial materiality and will become even more relevant than before.

In addition, a recent study by investor organisation Ceres has found a significant change in the market's appetite for sustainable finance. Clean energy investment is increasingly driven by underlying investment fundamentals and quality of opportunity. Environmental and climate goals, previously seen as the primary drivers for low carbon investment, have been eclipsed by the growing diversity of investment opportunities that match investors' risk-return requirements as the clean energy market has become increasingly competitive, matures and grows.

A recent study by FTSE Russel found that:

- The green economy represents 6% of the market capitalization of global listed companies, approximately US$4 trillion. This represents a significant investment opportunity, approximately the same size as the fossil fuel sector;

- The green economy proportion of the global market capitalization is growing, while the fossil fuel sector shrinks; and
- Companies within FTSE Russell's broadest green indices have been outperforming their parent benchmarks over the last five years.
Given increasing the significance and market demand of non-financial information, it is important to provide investors with the necessary information to support their investment and engagement activities.

41. Do you think that the NFI Directive's disclosure framework is effective in achieving the following objectives?

	1-5	Don't know
Enhancing companies' performance through better assessment and greater integration of non-financial risks and opportunities into their business strategies and operations.	3	
Enhancing companies' accountability, for example with respect to the social and environmental impact of their operations.	3	
Enhancing the efficiency of capital markets by helping investors to integrate material non-financial information into their investment decisions.	3	
Increasing diversity on companies' boards and countering insufficient challenge to senior management decisions		x
Improving the gender balance of company boards		x

Please explain your response and substantiate it with evidence or concrete examples.
While evidence below may not relate directly to the NFI Directive, it refers to similar types of reporting and should be used as evidence for disclosures in line with the Directive by proxy.
Enhancing companies' performance as a result of disclosure:

"Using CDP's water questionnaire as a framework helped us to improve our water management strategy to mitigate risks and capitalize on opportunities" – BASF (quoted on cdp.net)
"Ferrovial believes in long-term development. A business model that advocates responsibility in the way of acting and the sustainability of the project. Values that generate commitments, policies and procedures for the environment, community, ethics and innovation. A way of being and acting acknowledged by DJSI, FTSE4Good and Carbon Disclosure by including Ferrovial among its members." – Ferrovial 2017 Annual Report
Enhancing the efficiency of capital markets:
"We can't model out of thin air. We need the information and it is CDP's data that underpins our analysis" – CalPERS quoted within CDP (2017), "Better Information, Better Investments: Case studies from global investors on how CDP data and services support smarter investment decision making"

42. Do you think that the NFI Directive's current disclosure framework is effective in providing non-financial information that is:

	1-5	Don't know
Material	1	
Balanced	1	
Accurate	4	
Timely	1	
Comparable between companies	1	
Comparable over time	1	

Please explain your response and substantiate it with evidence or concrete examples.
Our comments below relate to our observations from working with European businesses and reviewing their reports. We would like to note that our NFI review project, outlined in our response to question 67 below, will provide more substantial evidence on these matters.
Material
We have identified three reasons for the issues we see with the application of materiality within Management Reports:
1. *The definition of materiality in the NFI Directive ("to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity…") is not consistent with the existing definition of materiality in mainstream reports (as defined by the IASB). Apart from causing inconsistency between the financial and "non-financial" information in management reports, this definition does not include the intended primary audience for the materiality determination, which may have significant impacts on the outcomes of such assessments. According to the International Accounting Standards Board's paper on Management Commentary, in most jurisdictions, the defined target audience for narrative reporting is primarily aimed at investors. Having a clear picture of the intended audience, report preparers are better positioned to make more appropriate materiality determinations. It is also important to note that, while the primary audience of such reports is often the investment community, the reported information may also satisfy the needs of other stakeholders.*
2. *The materiality of "non-financial" information is not widely understood in the market. While many argue that existing requirements to report material risks and opportunities for example should already include certain "non-financial" risks and opportunities which are financially material, this is not understood as such by the market. It is therefore important to clarify that some "non-financial" matters may have material financial implications and as such, should be treated as financially material, just like any other financial, governance or other information. The TCFD recommendations provide useful guidance on establishing the link between climate dependencies and financial impacts.*
3. *The inconsistency in the medium of the reported information impacts the materiality determination process: while it is important to include non-financial information in sustainability reports, the audience of such reports is much wider, and the materiality determination process therefore differs from that of management reports. This means that sustainability reports contain much more depth and detail than management reports, including much information that may be deemed not material in that context. As a result, material information may be lost or misinterpreted within the "clutter" of other information, hindering their use by investors. We therefore urge the Commission to remove paragraph 4 of articles 19a and 29a, which allows for this information to be reported in a separate report and up to 6 months after issuing the*

management report. We do not believe that material "non-financial" information should be disclosed outside the management report.

The TCFD clarifies this in relation to climate change and is widely supported by the market. As of June 2018, well over 250 companies, institutional investors and governments have expressed their support for the TCFD recommendations (https://www.fsb-tcfd.org/tcfd-supporters-june-2018/). Leading investors from across the G7 called for speeding up the implementation of uniform and comparable climate-related disclosures using the TCFD recommendations (https://www.cdpq.com/en/news/pressreleases/leading-canadian-and-g7-investors-come-together-in-support-of-global-development). As such, we believe that the TCFD recommendations should be directly referenced in the NFI Directive, for example in the last paragraph of section 1. In articles 19a and 29a, to support companies in reporting material information.

It is also important for the resilience of the European markets to not only focus on climate change, but wider environmental and natural capital matters as well. While this response refers specifically to climate change-related financial information, this concept refers equally to other types of such information. Given the magnitude of the potential impact of certain natural capital matters on the financial stability of the market, it is important to take a holistic approach and apply the same materiality determination to natural capital information.

We would like to refer the Commission to our work on exploring the applicability of the IASB's definition of materiality to "non-financial" information, available at cdsb.net/materiality.

Balanced

While we have seen an improvement in the balance of reported information, there is still much work to be done to ensure that there is a fair representation of positive and negative information in management reports. Here, it is important to build capacity within the market. For example, many reporting companies believe that reporting climate change and wider sustainability risks may result in negative ramifications from their current and potential investors.

It is important to note that most of the basis for such information is based on scientific evidence that is widely known by the market. As such, we would question how such widely accepted matters would come as unexpected to readers of management reports. Such information can nonetheless be financially material to the readers of the report.

We would recommend that the commission provides more guidance on balanced reporting in the non-binding guidelines to the NFI Directive. In addition, the guidelines could also provide more guidance on reporting not only risks, but also the policies, outcomes, targets, incentives and other measures that the company has in place to manage such risks. Apart from providing a more complete picture of how these risks are managed, this may also provide a more accurate picture of the risks that investors seek to understand further.

Accurate

Given the current standards in place for reporting climate change and natural capital-related information, we do not see a trend of significantly inaccurate information being reported.

It is important to note that the national transpositions of the Directive have, in general, retained the optional nature of requiring assurance of "non-financial" information. It is therefore more difficult to judge the accuracy of the reported information and the trust in this information without this evidence.

Timely

Due to the fact that the information can be reported in a separate report and up to six months later, the reported information would have incurred at least a 6 months delay, which is too late for investor analysis and therefore not timely or of value to the investment community. We therefore urge the Commission to remove paragraph 4 of articles 19a and 29a, which currently allows for this.

We recognise that bringing many companies have staggered their financial and non-financial reporting periods to stagger workloads. Aligning the two periods would therefore pose a challenge to many of those businesses. In addition, this misalignment in reporting periods may be due to the fact that less importance is given to non-financial reporting. Aligning these reporting periods would result in more useful information, because it would be comparable with the rest of the management report and it would be timely.

Comparable between companies

The high-level requirements of the Directive, combined with a wide range of standards that can be used to report, combined with a lack of feedback from regulatory supervisors appears to have resulted in

T: +44 (0) 203 818 3939
www.cdsb.net

71 Queen Victoria Street
London, EC4V 4AY

inconsistencies in the way "non-financial" information is reported. While there is some consistency within reporting some first-generation greenhouse gas information, we have seen a wide range of approaches to reporting, often without references to the methodology that was used to calculate these figures.
Complete
While having complete information should not mean that companies would have to report on every element of the requirements, we observe significant gaps in the content of climate change and natural capital-related information in management reports, in the areas of business model, policies and principal risks in particular, as described in the NFI Directive [Articles 19a and 29a, 1 (a), (b), (c), (d)]. We do see some progress on non-financial key performance indicators.
Comparable over time
Standardisation and evolving market practice has improved the of year-on-year comparability of the reported information.

The CDSB Framework provides principles and requirements relating to all of the elements above. Referencing it in the NFI Directive would therefore provide helpful guidance for companies to comply with the requirements and the intended objectives of the Directive.

43. Do you agree with the following statement?

	1-5	Don't know
The current EU non-financial reporting framework is sufficiently coherent (consistent across the different EU and national requirements)?	4	

Please explain your response and substantiate it with evidence or concrete examples.
The NFI Directive has been transposed verbatim in most jurisdictions, apart from countries such as Sweden and Denmark, where the scope has been expanded.
There are elements of the reporting framework in certain Member States that differ from the overall reporting framework in Europe. This includes Article 173 of the French Green Growth and Energy Transition Law or more detailed greenhouse gas reporting requirements for UK quoted companies that fall below the threshold of the UK's transposition of the Directive. The landscape is therefore not completely coherent across the EU, providing useful examples to learn from for the next stages of the EU non-financial reporting framework.
We would like to refer the Commission to our upcoming review of the NFI Directive, which will include some more coherency of the EU non-financial reporting framework in practice.

44. Do you agree with the following statement?

	1-5	Don't know
The costs of disclosure under the NFI Directive disclosure framework are proportionate to the benefits it generates	5	

Please explain your response and substantiate it with evidence or concrete examples.
While CDSB is not a reporting entity, we strongly believe in the value of non-financial reporting to support the long term interests of businesses, as well as protection of investors and society.

45. Do you agree with the following statement?

	1-5	Don't know
The scope of application of the NFI Directive (i.e. limited to large public interest entities) is appropriate	3	

Please explain your response and substantiate it with evidence or concrete examples.
While disclosure has value to most companies, requirements should be proportionate to the size and impact of the company. We believe that the current scope, including the changes we have proposed in this consultation, is appropriate for the level of requirements of the Directive.

46. It has been argued that the NFI Directive could indirectly increase the reporting burden for SMEs, as a result of larger companies requiring additional non-financial information from their suppliers.

	1-5	Don't know
Do you agree that SMEs are required to collect and report substantially more data to larger companies as a result of the NFI Directive?	1	

Please explain your response and substantiate it with evidence or concrete examples.
Given that the Directive affects companies with over 500 employees, it appears that SMEs would not be directly affected apart from the extent to which larger companies rely on data due to supply chains. Advances in technologies such as blockchain has the potential to reduce the data provision burdens to SMEs and we recommend that the Commission should support efforts to develop technologies that can reduce the regulatory reporting burdens on companies regardless of size.
Article 29a of the directive pertains to groups, which may in fact contain some SMEs. The Non-binding guidelines could provide more guidance of how parent undertakings could take on a coordinating role to make the reporting process more efficient and less strenuous on SMEs.

47. Do you agree with the following statement?

	1-5	Don't know
The non-binding Guidelines on Non- Financial Reporting issued by the Commission in 2017 help to improve the quality of disclosure	1	

Please explain your response and substantiate it with evidence or concrete examples.
While the guidelines to provide some helpful guidance, we have not seen any significant uptake of the non-binding guidelines. In addition, we have not yet seen an example anywhere globally, where government guidelines have been successful in improving "non-financial" disclosures. The US Securities and Exchanges Commission's interpretive guidance on climate risk disclosure has not resulted in any significant improvements, nor did the Canadian Securities Authorities' Staff Notice 51-333: Environmental Reporting Guidance. The UK Financial Reporting Council's Strategic Reporting Guidance has been deemed helpful by businesses in the UK, but it only had the remit to influence reporting to the extent that the actual requirements in the UK Companies Act 2006 has permitted it to do so.
For these reasons, we do not support the Commission's current plans to use the non-binding guidelines instead of updating the NFI Directive.
We also note that the guidelines are at odds with the audience of the rest of the management report, by promoting a multi-stakeholder audience in section 3.5, rather than defining the audience based on the IASB

Conceptual Framework, prioritising providers of capital, while recognising that the information may be useful for other stakeholders. A multi-stakeholder approach in this context may result in decreased usefulness for investors.
To conclude, we do not see the non-binding guidelines as significantly helpful in their current format. Their update should be used to make them into guidelines accompanying a clearer NFI Directive, highlighting relevant elements of existing standards, rather than a vehicle to try to provide requirements through a non-mandatory instrument.

48. The Commission action plan on financing sustainable growth includes an action to revise the 2017 Guidelines on Non-Financial Reporting to provide further guidance to companies on the disclosure of climate related information, building on the FSB TCFD recommendations. The action plan also states that the guidelines will be further amended regarding disclosures on other sustainability factors. Which other sustainability factors should be considered for amended guidance as a priority?

	1-5	Don't know
Environment (in addition to climate change already included in the Action Plan)	5	
Social and Employee matters		x
Respect for human rights		x
Anti-corruption and bribery		x

50. How would you assess, overall, the impact of the NFI Directive disclosure framework on the competitiveness of the reporting EU companies compared to companies in other countries and regions of the world?

Very positive impact on competitiveness	**x**
Somewhat positive impact on competitiveness	
No significant impact on competitiveness	
Somewhat negative impact on competitiveness	
Very negative impact on competitiveness	
Don't know	

T: +44 (0) 203 818 3939
www.cdsb.net
71 Queen Victoria Street
London, EC4V 4AY

VI. The digitalisation challenge

In the area of public reporting by companies technology is changing 1) the way companies prepare and disseminate corporate reports and 2) the way investors and the public access and analyse company information. On 6 October 2017, the 'eGovernment Declaration' was signed in Tallin in the framework of the eGovernement Ministerial Conference. It marked a clear political commitment at EU level towards ensuring high quality, user-centric digital public services for citizens and seamless cross-border public services for businesses24.

Digitalisation is soon to become reality for issuers with securities listed on European regulated markets ("listed companies"). These companies must file their Annual Financial Reports with the relevant Officially Appointed Mechanisms (OAMs). An Annual Financial Report mainly contains the audited financial statements, the management report and some other statements. In 2013, the Transparency Directive was amended to introduce as from 1 January 2020 a structured electronic reporting for Annual Financial Reports based on a so-called "European Single Electronic Format" (ESEF). It also established a single European Electronic Access Point (EEAP) in order to interconnect the different national OAMs. The objectives were to facilitate the filing of information by listed companies, and facilitate access to and use of company information by users on a pan-EU basis, thus reducing operational costs for both parties.

Beyond listed companies, the Commission is currently working, as announced in the 2017 Commission Work Programme, on an EU Company Law package making the best of digital solutions and providing efficient rules for cross-border operations whilst respecting national social and labour law prerogatives, which is not subject to this public consultation.

57. Do you consider the existing EU legislation to be an obstacle to the development and free use by companies of digital technologies in the field of public reporting?

Yes	
No	x
Don't know	

If you answered "yes", please explain your response and substantiate it with evidence or concrete examples

58. Do you consider that increased digitalisation taking place in the field diminishes the relevance of the EU laws on public reporting by companies (for instance, by making paper based formats or certain provisions contained in the law irrelevant)?

Yes	
No	x
Don't know	

If you answered "yes", please explain your response and substantiate it with evidence or concrete examples

T: +44 (0) 203 818 3939
www.cdsb.net

71 Queen Victoria Street
London, EC4V 4AY

The impact of electronic structured reporting

59. Do you think that, as regards public reporting by listed companies, the use of electronic structured reporting based on a defined taxonomy (ESEF) and a single access point (EEAP) will meet the following intended objectives:

	1-5	Don't know
Improve transparency for investors and the public	5	
Improve the relevance of company reporting		x
Reduce preparation and filing costs for companies	1	
Reduce costs of access for investors and the public	3	
Reduce other reporting costs through the re-use of companies' public reporting of electronic structured data for other reporting purposes (e.g. tax authorities, national statistics, other public authorities)		x

Please provide an estimated order of magnitude or qualitative comments for such cost reductions (e.g. % of preparation costs or % of costs of accessing and analysing data...):

Having a single access point that makes it easy to download datasets will enable investors to more easily access information from multiple companies at once. Civil society organisations such as CDSB would also find it easier to access and analyse such information providing insights and thought leadership of value to the market and policymakers.

If EEAP will have some visualisation functionality built in, it may reduce the costs of data access to investors and the public. However, in most cases additional software will be required to analyse the raw data, which may incur additional costs. Having this information in a centralised database however, will reduce the costs of collecting and structuring this information.

The costs of CDSB's own projects have included multiple thousands of Euros' worth of staff time, and/or high subscription fees for access to aggregated data platforms, to collect the corporate information for our analyses.

Reporting costs will not initially be reduced if the data is not actually designed to be reported in a way that can be redistributed to competent authorities and previous requirements to report to said competent authorities are removed. By simply implementing a digital reporting structure in addition to conventional reports, costs of reporting would most likely increase, although the resulting information would be valuable to many users.

60. In your opinion, on top of the financial statements, do you think that the following documents prepared by listed companies should contain electronic structured data?

Financial reporting

	1-5	Don't know
Half-yearly interim financial statements		x
Management report		x
Corporate governance statement		x
Other disclosure or statements requirements under the Transparency Directive such as information about major holdings		x

Non-financial reporting and other reports

	1-5	Don't know
Non-financial information	5	
Country-by-country report on payments to governments		x
Other, please specify:		x

62. As regards the non-financial information that listed companies, banks and insurance companies must publish, do you think that digitalisation of this information could bring about the following benefits?

	1-5	Don't know
Non-financial information	5	
Increase the granularity of information disclosed	3	
Reduce the reporting costs of preparers	2	

Please explain your response and substantiate it with evidence or concrete examples.
The utility of material "non-financial" information is in no way different from other material information, all of which together form a more complete picture of a company's performance and prospects. "Non-financial" information should therefore not be treated differently or separately.

63. Digitalisation facilitates the widespread dissemination and circulation of information. Besides, the same corporate reporting information may be available from different sources, such as a company's web site, an OAM, a business register, a data aggregator or other sources. In a digitalised economy, do you consider that electronic reporting should be secured by the reporting company with electronic signatures, electronic seals and/or other trust services?

Yes	**x**
No	
Don't know	

Please explain your response and substantiate it with evidence or concrete examples.
Trust in the reported information is of utmost importance. With the advent of new media to disseminate information, some data users may have concerns about the authenticity of information reported using electronic reporting. Electronic signatures, seals and other trust services such as blockchain can provide more rigour and security in the transmission of such information, which in turn increases trust by its users to make investment decisions with the information.

Data storage mechanisms – data repositories
Today, the self-standing national databases maintained by each Officially Appointed Mechanisms (OAMs) are not interconnected to each other, or to a central platform.
The European Financial Transparency Gateway (EFTG)25 is a pilot project funded by the European Parliament that aims to virtually connect the databases using the distributed ledger technology in order to provide a single European point of access to investors searching for investment opportunities on a pan-EU basis. The European Financial Transparency Gateway could be used as a basis for achieving a single European Electronic Access Point (EEAP).

64. Considering the modern technologies at hand to interconnect databases on information filed by listed companies with the OAMs, do you agree with the following statements?

	1-5	Don't know
A pan-EU digital access to databases based on modern technologies would improve investor protection	5	
A pan-EU digital access to databases based on modern technologies would promote cross border investments and efficient capital markets	5	
The EU should take advantage of a pan-EU digital access to make information available for free to any user	5	

T: +44 (0) 203 818 3939
www.cdsb.net
71 Queen Victoria Street
London, EC4V 4AY

65. Public reporting data in the form of structured electronic data submitted by listed companies could potentially be re-used for different purposes by different authorities. For instance, by filing a report once with an OAMs and re-using it for filing purposes with a business register. In your opinion, should the EU foster the re-use of data and the "file only once" principle?

Yes	**x**
No	
Don't know	

Please explain your response and substantiate it with evidence or concrete examples.
A "file only once" principle has the potential to streamline reporting processes and support the reduction of the reporting burden on companies. In addition, the result of reporting only once is that there is a reduction of the possibility of conflicting information from a single organisation, through having similar but different data in different reports.
When implementing this principle, we recommend that the Commission should pay attention to the original purposes of the various reporting requirements, making sure that the reported information is still fit for those intended purposes.

Coherence with other Commission initiatives in the field of digitalisation
On 1 December 2017, the Commission launched a Fitness Check on the supervisory reporting frameworks26. In parallel, the financial data standardisation (FDS) project, launched in 2016, aims for a 'common financial data language' across the board for supervisory purposes. The Commission will report by summer 201927.

	1-5	Don't know
66. Should the EU strive to ensure that labels and concepts contained in public reporting by companies are standardised and aligned with those used for supervisory purposes?	5	

Other comments

67. Do you have any other comments or suggestions?
We would also like to bring the Commission's attention that we are currently undertaking a review of European companies' reporting under the NFI Directive, which will be published as a joint Climate Disclosure Standards Board and CDP report. We believe that this analysis will provide the Commission with useful evidence to support its decisions about the future of "non-financial" reporting in Europe.

T: +44 (0) 203 818 3939
www.cdsb.net

71 Queen Victoria Street
London, EC4V 4AY