



# Targeted consultation on the update of the non-binding guidelines on non-financial reporting

Fields marked with \* are mandatory.

## Introduction

### Disclaimer:

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the the non-binding guidelines on non-financial reporting.

The [non-financial reporting Directive \(2014/95/EU\)](#) requires large public interest entities with over 500 employees (listed companies, banks, and insurance companies) to disclose certain non-financial information. As required by the directive, the Commission has published [non-binding guidelines](#) to help companies disclose relevant non-financial information in a more consistent and more comparable manner.

In March 2018 the Commission published the [action plan on financing for sustainable growth](#), with the aim of reorienting capital towards sustainable investment, managing financial risks that arise from climate change and other environmental and social problems, and fostering transparency and long-termism in financial and economic activity.

As part of that action plan the Commission committed to updating the non-binding guidelines on non-financial reporting, specifically with regard to the reporting of climate-related information. In practice, it is expected that the update will consist of a new supplement to the existing guidelines. The Commission expects to publish the new supplement on the reporting of climate-related information in June 2019.

In June 2018, the European Commission set up a [technical expert group on sustainable finance \(TEG\)](#) to assist in four key areas of the action plan through the development of

1. a unified classification system for sustainable economic activities (taxonomy),
2. an EU green bond standard,
3. benchmarks for low-carbon investment strategies,
4. new guidelines on the reporting of climate-related information.

In January 2019 the TEG published its [report on climate-related disclosures](#). The TEG invited feedback on its report by 1 February 2019, and approximately 70 organisations and individuals submitted comments. The TEG has published a [summary of these comments](#).

The Commission has taken into account the TEG report and the feedback received from stakeholders on that report and is now consulting stakeholders on the update of the non-binding guidelines before their planned adoption in June 2019. Stakeholders are invited to provide written comments by 20 March.

---

The [consultation document](#) takes account of the TEG report and of stakeholder feedback on that report. This document has been drafted by the services of the European Commission to facilitate a targeted consultation with interested stakeholders on the possible content of the new supplement to the non-binding guidelines. Comments on this document should be submitted by the end of Wednesday 20 March 2019, through this online facility created for this purpose. Comments submitted after that date, and comments not submitted through the online facility, will not necessarily be taken into consideration.

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the the non-binding guidelines on non-financial reporting.

More information:

- [consultation document on the update of the non-binding guidelines on non-financial reporting](#)
- [on this consultation](#)
- [on the protection of personal data regime for this consultation](#)

## 1. Information about you

---

\* Are you replying as:

- a private individual
- an organisation or a company

a public authority or an international organisation

\* Name of your organisation:

Climate Disclosure Standards Board

Contact email address:

The information you provide here is for administrative purposes only and will not be published

michael.zimonyi@cdsb.net

\* Is your organisation included in the Transparency Register?

(If your organisation is not registered, [we invite you to register here](#), although it is not compulsory to be registered to reply to this consultation. [Why a transparency register?](#))

- Yes  
 No

\* If so, please indicate your Register ID number:

922386710536-51

\* Type of organisation:

- |   |  |
|---|--|
| <input type="radio"/> Academic institution                        | <input type="radio"/> Media                                    |
| <input type="radio"/> Company, SME, micro-enterprise, sole trader | <input checked="" type="radio"/> Non-governmental organisation |
| <input type="radio"/> Consultancy, law firm                       | <input type="radio"/> Think tank                               |
| <input type="radio"/> Consumer organisation                       | <input type="radio"/> Trade union                              |
| <input type="radio"/> Industry association                        | <input type="radio"/> Other                                    |

\* Where are you based and/or where do you carry out your activity?

Germany

\* Field of activity or sector (*if applicable*):

at least 1 choice(s)

- Accounting  
 Auditing  
 Banking  
 Credit rating agencies  
 Insurance  
 Pension provision  
 Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)  
 Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)  
 Social entrepreneurship  
 Other  
 Not applicable



## Important notice on the publication of responses

---

\* Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?

([see specific privacy statement](#) )

- Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- No, I do not want my response to be published

## 2. Your opinion

---

1. Do you have any comments on [Chapter 2 “How to use these guidelines”](#) of the report?

*3000 character(s) maximum*

The content for the proposed supplement to the Non-Binding Guidelines on Non-Financial Reporting (the Supplement) states that “companies should read this Supplement together with the relevant national legislation transposing Directive 2014/95/EU” (p.6). We suggest adding “and related guidance of their Member State competent authorities”.

This ‘how to use’ section refers to integrating financial and climate information in reporting which could be emphasised further as complementary to the 6 NFR reporting principles. We suggest inserting a sentence about the use of the mainstream report for disclosure of climate-related information in accordance with TCFD principle 7.

We welcome the clarification that climate-related information falls within the scope of environmental matters, but suggest that this should refer to Article 19(a) of the Directive.

The inclusion of a double materiality threshold is somewhat confusing. There are some instances where information could be material from both perspectives, not either as stated on page 7 and could be clarified further. We would also suggest including a link to the widely adopted definition of materiality of the IASB Conceptual Framework to help companies.

We suggest removing the sentence that companies concluding that climate is not a material need to consider making a statement. If the TCFD recommendations are followed, one would struggle to find a company where climate-related information is not material.

Section 2.2. should make explicit that the 11 TCFD recommended disclosures are Type 1 disclosures. Section 2.4 needs to correctly refer to the Climate Disclosure Standards Board, not the Carbon Disclosures Standard Board. Footnote 21 should also refer to the IIRC.

Under the TCFD, Governance and Risk Management disclosures are mandatory and should be disclosed by all report preparers. However, this Supplement suggests they should only be disclosed if they are material. In the context of the TCFD, the financial materiality threshold only applies to the TCFD core elements of Strategy and Metrics and Targets. This is different in the Supplement and classification of disclosure types.

## 2. Do you have any comments on [Chapter 3.1 “Business Model”](#) of the report?

*3000 character(s) maximum*

We welcome the inclusion of scenario analysis and natural capital linkages in the context of the business model information category. The Supplement could encourage companies to specifically consider a 1.5°C scenario in light of the 2018 IPCC Special Report.

Key findings from CDSB's First Steps Report:

- No standardised approach to business model descriptions, despite 4 in 5 companies describing their business model in their management report;
- 44% disclosed how their business models were affected by environmental/climate matters; and
- 25% disclosed all 5 elements of the business model currently outlined in the NBG.

We therefore recommend the Supplement elaborate on the different content requirements of a business model (e.g. adopting/referencing standard definitions by the IIRC) and explaining how these could apply to climate-related matters.

Section 3.1 advises companies to describe "...the connectivity of financial and non-financial information that affect the company's strategy...". We note that even mature report preparers struggle to show the inter-connectedness between the two. We therefore suggest including more guidance on how to make more integrated disclosures. The EFRAG Reporting Lab's project taskforce on climate disclosure may produce some useful guidance in this regard.

### 3. Do you have any comments on [Chapter 3.2 "Policies and Due Diligence Processes"](#) of the report?

*3000 character(s) maximum*

CDSB's First Steps Report (p.13) considers corporate disclosures on this NFRD element and found:

- Disclosure of environmental policies is common practice;
- 20% of companies prepared a specific climate policy/strategy section in their management report, in contrast to 70% who disclosed an environmental or sustainability policy/strategy;
- Less than half of companies disclosed their due diligence processes; and
- More companies (35%) disclosed how they identify and manage climate risks compared to environmental risks (15%).

In the Supplement, further guidance could be given on aspects to be included in the description of climate-related policies. It would also be helpful to elaborate on how to make disclosures about climate change in situations where they may be integrated into other company policies. The Report only states that "Processes addressing climate-related topics may be separate from other operational processes or they may be fully integrated into the company's risk management framework". It does not provide sufficient examples of how to make disclosures when climate is mainstreamed.

The proposed disclosures in Table 2 could be strengthened by considering the risk management processes associated with natural capital dependencies. This should be added to be consistent with the proposed disclosures listed with Tables 1 and 4, and the statement on p.10: "companies should therefore carefully consider their natural capital dependencies when identifying and reporting on their climate-related risks".

#### 4. Do you have any comments on [Chapter 3.3 “Outcomes”](#) of the report?

*3000 character(s) maximum*

We note that information on the indicators and targets discussed in Table 3 is included in the guidance on Scope 1-3 emissions covered in section 3.5. Given that the proposed disclosures in 3.3 (outcomes) and 3.5 (KPIs) appear to cover similar information, we suggest expanding on the linkages so companies can make the connection between the disclosures under both NFRD content categories in their reporting. Provision of some tangible examples in the Supplement would be helpful and CDSB would be happy to provide some of these.

#### 5. Do you have any comments on [Chapter 3.4 “Principal Risks and Their Management”](#) of the report?

*3000 character(s) maximum*

We welcome the inclusion in Table 4 that companies define short, medium, and long-term and to describe the potential risks of natural capital dependencies.

We refer to our earlier comment on the application of materiality to the four TCFD elements in Q.1.

The term “major” listed on p.17 is not defined in the Supplement. To provide clarity we suggest this should refer to material climate-related risks instead.

CDSB’s First Steps Report found that 31% of companies identified climate change as a risk, but only 2% identified it as a principal risk, which is suggestive that further guidance is needed on what is meant by principal risk.

## 6. Do you have any comments on [Chapter 3.5 “KPIs”](#) of the report?

*3000 character(s) maximum*

The Supplement does not address the discrepancies between operational control (i.e. Scope 1,2 and 3 emissions) and financial boundary setting. If climate KPIs are only reported according to the operational boundary control approach, this can affect the comparability of the information with the rest of the annual report. Information beyond the financial boundary should be reported if material, but it should be disaggregated to differentiate between matters pertaining to the legal entity of a company and what is beyond. This approach to disaggregation is described in the Climate Change Reporting Framework, paragraphs 4.23 – 4.27, available at [cdsb.net/climate](https://cdsb.net/climate).

We welcome the proposed disclosure on indicators related to natural capital listed on p.17 which states that “companies whose business models are dependent on natural capitals threatened by climate change may need to disclose indicators related to those natural capitals”.

## 7. Do you have any comments on [Annex I “Proposed disclosures for Banks and Insurance companies”](#) to the report?

*3000 character(s) maximum*



CDSB has no comments on this question.

**8. Do you have any comments on [Annex II “Mapping of NFRD requirements and TCFD recommended disclosures”](#) to the report?**

*3000 character(s) maximum*

NFRD-TCFD alignment is detailed in our First Steps report: [cdsb.net/NFRreview](https://cdsb.net/NFRreview).

Figure 3 suggests a simplistic mapping of the 11 TCFD recommended disclosures to a single NFRD element. However, in practice this mapping is much more nuanced and each recommended disclosure is likely to cover more than one of the five NFRD elements. It is an oversimplification that prohibits the effective connectivity of disclosures and achievement of the overarching outcomes of the TCFD. We therefore suggest revisiting this table and including more than one NFRD element for each TCFD recommended disclosure. For example, under the TCFD Governance disclosure b) on management’s role, we would expect disclosures to draw on those relating to principal risks and their management. Moreover, under the TCFD Recommended Disclosure c) on Targets, it should also relate to the NFRD element of KPIs.

## 9. Do you have any additional comments on the report as a whole?

*3000 character(s) maximum*

It is important to note that companies must follow the guidance of their Member State competent authorities regarding their reporting obligations as well as the persuasive NBG. The EC might wish to consider how best to influence these national authorities to take onboard and promote the updated NBG or incorporate them into national MS guidance.

There is an assumption in the Supplement that changes to the NBG will result in TCFD-NFRD aligned disclosures, as noted on p.5 of the Supplement, “this Supplement integrates the TCFD recommendations, and provides guidance to companies that is consistent with the Non-Financial Reporting Directive and the recommendations of the TCFD.” However, the Supplement is weighted heavily towards achieving NFRD outcomes and does not achieve many TCFD outcomes or adhere fully to its principles. The Supplement does not fully implement the TCFD and that amendments to the NFRD are also needed to do so effectively. If changes are to be made to reporting practices at the pace required to meet the climate challenge as described in Section 1 then an unenforceable NBG is unlikely to be the best mechanism to effect such change within Member States. The change should therefore take place through the legal instrument through which the Guidelines relate. We, however, commend the European Commission for taking this first step towards issuing climate-related guidance for NFRD preparers.

### Useful links

[More on the Transparency register \(http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en\)](http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

[More on this consultation \(https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines\\_en\)](https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en)

[Specific privacy statement \(https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-specific-privacy-statement\\_en\)](https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-specific-privacy-statement_en)

[Consultation document \(https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document\\_en\)](https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document_en)

---

### Contact

fisma-non-financial-reporting-guidelines@ec.europa.eu

---