FERMA
Federation of European Risk Management Associations

Consultation on the revision of the non-financial reporting directive

Section 1 - Quality and scope of non-financial information to be disclosed

The feedback received from the online public consultation on corporate reporting carried out in 2018 suggests that there are some significant problems regarding the non-financial information currently disclosed by companies pursuant to Directive 2014/95/EU ("the Non-Financial Reporting Directive" or NFRD) Likewise, ESMA's 2018 Activity Report gathers evidence that shows there is significant room for improvement in the disclosure practices under the NFRD.

1. **To what extent do you agree or disagree with the following statements about possible problems with regard to non-financial reporting?**

For each option, please rate your response on a scale from 1 to 5, where 1 = totally disagree, 2 = mostly disagree, 3 = partially disagree and partially agree, 4 = mostly agree, 5 = totally agree. You may also input don't know/no opinion/not relevant

a. The lack of comparability of non-financial information reported by companies pursuant to the NFRD is a significant problem **5**
b. The limited reliability of non-financial information reported by companies pursuant to the NFRD is a significant problem **3**
c. Companies reporting pursuant to the NFRD do not disclose all relevant non-financial information needed by different user groups **4**

Article 19a of the Accounting Directive (which was introduced into the Accounting Directive by the NFRD) currently requires companies to disclose information about four non-financial matters, if deemed material by the particular company: (i) environment, (ii) social and employee issues, (iii) human rights (iv) bribery and corruption. These correspond to the "sustainability factors" defined in Article 2(24) of Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector.

2. **Do you consider that companies reporting pursuant to the NFRD should be required to disclose information about other non-financial matters in addition to those currently set-out in Article 19a?**

Please specify which other non-financial matters

FERMA believes that companies should retain the flexibility to voluntarily disclose additional non-financial matters. As such, it considers the topics currently set out in Article 19a to be sufficient.

For each of the four non-financial matters identified in Article 19a of the Accounting Directive, and subject to the company's own materiality assessment, companies are required to disclose information about their business model, policies (including implemented due diligence processes), outcomes, risks and risk management (including risks linked to their business relationships), and key performance indicators (KPIs) relevant to the business.

3. **Are there additional categories of non-financial information related to a company's governance and management procedures, including related metrics where relevant, (for example, scenario analyses, targets, more forward-looking information, or how the company aims to contribute to society through its business activities) that companies should disclose in order to enable users of their reports to understand the development, performance, position and impacts of the company?**

Please specify which additional categories of non-financial information

No additional categories are necessary for mandatory disclosure. However, FERMA does believe companies should be able to provide additional information on a voluntary basis, if a risk and opportunity assessment indicates that they are relevant.

Investment in intangible assets currently represents the majority of investment carried out by the private sector in advanced economies. There is a long-standing debate about the need for better reporting of intangible investments in company reports, including in relation to sustainability[1]. Irrespective of the potential future changes to accounting standards, it is likely to remain the case that a significant proportion of intangible assets will fail to meet the definition of an asset or the criteria for recognition as an intangible asset in the financial statements. The Accounting Directive currently makes no explicit reference to intangible assets in the Articles concerning the management report, other than the requirement to report about activities in the field of research and development in Article 19(2)(b).

4. **In light of the importance of intangibles in the economy, do you consider that companies should be required to disclose additional non-financial information regarding intangible assets or related factors (e.g. intellectual property, software, customer retention, human capital, etc.)?**
   a. Yes
   b. No
   c. Don't know/no opinion/not relevant

In addition to the provisions of the NFRD, several other EU legislative acts require disclosures of sustainability-related information for financial sector entities:

- The Regulation on prudential requirements for credit institutions requires certain banks to disclose ESG risks as of 28 June 2022.
- The Regulation on sustainability related disclosures in the financial services sector requires financial market participants to disclose their policies on the integration of sustainability risks in their investment decision-making process and the adverse impacts of investment decisions on sustainability factors, as of 10 March 2021.
- The Regulation establishing a framework to facilitate sustainable investment (the Sustainable Finance Taxonomy) creates new reporting obligations including for companies subject to the NFRD, starting in December 2021.

5. **To what extent do you think that the current disclosure requirements of the NFRD ensure that investee companies report the information that financial sector companies will need to meet their new disclosure requirements?**
   a. Not at all
   b. To some extent but not much
   c. To a reasonable extent
   d. To a very great extent
   e. Don't know/no opinion/not relevant

In order to ensure that the financial service sector can comply with the new disclosure requirements there might be scope for better aligning the information required to investees and the one financial sector entities need to report themselves, e.g. as regards sustainability impacts.

6. **How do you find the interaction between different pieces of legislation? (multiple responses permitted)**
   a. It works well
   b. There is an overlap
   c. There are gaps
   d. There is a need to streamline
   e. It does not work at all
   f. Don't know/no opinion/not relevant

7. **In order to ensure better alignment of reporting obligations of investees and investors, should the legal provisions related to non-financial reporting define environmental matters on the basis of the six objectives set-out in the taxonomy regulation: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy (5) pollution prevention and control; (6) protection and restoration of biodiversity and ecosystems?**
   a. Yes

b. No
c. Don't know/no opinion/not relevant

Please provide any comments or explanations to justify your answers to questions 1 to 7:
5000 character(s) maximum

FERMA believes that current disclosure obligations are sufficient. However, organisations struggle to determine what information is necessary and relevant to report, in part due to different reporting obligations across Member States, and because organisations lack clear indicators, targets and objectives regarding sustainability topics. Consequently, even companies operating under full disclosure obligations may provide information that is only partially relevant, while the NFRD is usually perceived as a theoretical "ticking the box" exercise when it should be practical and business oriented.

Therefore, FERMA supports clarifying, structuring and simplifying non-financial reporting, starting by defining a clear process to help companies select key sustainability topics that will drive their strategic vision and reporting practices. This process can be found in the framework of Enterprise Risk Management (ERM), supported by the implementation of a risk and opportunity-based Materiality Matrix that is focused on a few clear priorities, which will aim to distinguish information that is important and necessary to disclose from that which could be considered secondary and optional.

As we will elaborate in the following section, FERMA also supports the definition of a standard disclosure structure and development of a common European non-financial reporting standard that aims to provide clear instructions, defined by industry and aligned with existing European and international standards, on how to meet the NFRD requirements and EU expectations.

Without both a standard framework and homogenous indicators, comparing disclosures and evaluating the performance of individual organisations and national bodies will remain difficult, if not impossible.

Section 2 – Standardisation

Note: in this section, the word "standard" is used for simplicity. This should not be read as a suggestion that all relevant reporting requirements must be specified in a single normative document. Rather, "standard" is merely used as a shorthand that could encompass a consistent and comprehensive set of standards. Reporting standards define what information companies should report and how such information should be prepared and presented.

A requirement that all companies falling within the scope of the NFRD report in accordance with a common non-financial reporting standard may help to address some of the problems identified in section 1 (comparability, reliability and relevance).

8. **In your opinion, to what extent would a requirement on companies to apply a common standard for non-financial information resolve the problems identified?**
   a. Not at all
   b. To some extent but not much
   c. To a reasonable extent
   d. To a very great extent
   e. Don't know/no opinion/not relevant

9. **In your opinion, is it necessary that a standard applied by a company under the scope of the Non-Financial Reporting Directive should include sector-specific elements?**
   a. Yes
   b. No
   c. Don't know/no opinion/not relevant

A number of non-financial reporting frameworks and standards already exist. Some, including the standards of the Global Reporting Initiative (GRI), the framework of the International Integrated Reporting Council (IIRC), and the standards of the Sustainability Accounting Standards Board (SASB), aim to cover most or all relevant non-financial issues.

10. **To what extent would the application of one of the following standards or frameworks, applied on its own, resolve the problems identified while also enabling companies to *comprehensively* meet the current disclosure requirements of the Non-Financial Reporting Directive, taking into account the double-materiality perspective (see section 3)?**

For each option, please rate your response on a scale from 1 to 4, where 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent and N.A. = not applicable

a. Global Reporting Initiative **2**
b. Sustainability Accounting Standards Board
c. International Integrated Reporting Framework **2**

Do you consider that other standard(s) or framework(s), applied on their own, would resolve the problems identified while also enabling companies to *comprehensively* meet the current disclosure requirements of the NFRD?

a. **Yes**
b. **No**
c. **Don't know/no opinion/not relevant**

On 5 December 2019, the Economic and Financial Affairs Council adopted conclusions on deepening the Capital Markets Union, in which it invited the Commission to "consider the development of a European non-financial reporting standard **taking into account international initiatives**".

Most existing frameworks and standards focus on individual or a limited set of non-financial issues. Examples include the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), the UN Guiding Principles Reporting Framework (human rights), the questionnaires of the CDP (formerly the Carbon Disclosure Project), and the standards of the Carbon Disclosure Standards Board (CDSB). Several approaches have also been developed at EU level in the environmental area, including the Organisation Environmental Footprint and reporting under the Eco-Management and Audit Scheme (EMAS).

11. If there were to be a common European non-financial reporting standard applied by companies under the scope of the NFRD, to what extent do you think it would be important that such a standard should incorporate the principles and content of the following existing standards and frameworks?

For each option, please rate your response on a scale from 1 to 4, where 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent and N.A. = not applicable

a. Global Reporting Initiative **4**
b. Sustainability Accounting Standards Board **4**
c. International Integrated Reporting Framework
d. Task Force on Climate-related Financial Disclosures (TCFD) **4**
e. UN Guiding Principles Reporting Framework (human rights) **4**
f. CDP **4**
g. Carbon Disclosure Standards Board (CDSB) **1**
h. Organisation Environmental Footprint (OEF) **1**
i. Eco-Management and Audit Scheme (EMAS) **1**

Do you consider that the principles and content of other existing standard(s) or framework(s) should be incorporated in a potential common European non-financial reporting standard?

a. Yes
b. No
c. Don't know/no opinion/not relevant

12. If your organisation *fully* applies any non-financial reporting standard or framework when reporting under the provisions of the NFRD, please indicate the recurring annual cost of applying that standard or framework (including costs of retrieving, analysing and reporting the information):

Please list name of standard or framework and estimated cost of application per year, excluding any one-off start-up costs

Small and Medium-Sized Enterprises (SMEs) often do not have the technical expertise nor resources necessary to prepare reports in accordance with state-of-the-art, sophisticated standards. This may imply that requiring SMEs to apply the same standards as large companies may be a disproportionate burden for SMEs.

At the same time, many SMEs are under increasing pressure to provide certain non-financial information to other businesses, in particular if they are suppliers of large companies. In addition, financial institutions are increasingly likely to request certain non-financial information from companies to whom they provide capital, including SMEs. In this respect, SMEs that do not provide non-financial information may experience a negative impact on their commercial opportunities as suppliers of larger companies or on their access to capital, and may not be able to benefit from new sustainable investment opportunities.

13. **In your opinion, would it be useful for there to be a simplified standard and/or reporting format for SMEs?**
    a. Yes
    b. No
    c. Don't know/no opinion/not relevant

14. **To what extent do you think that a simplified standard for SMEs would be an effective means of limiting the burden on SMEs arising from information demands they may receive from other companies, including financial institutions?**
    a. Not at all
    b. To some extent but not much
    c. To a reasonable extent
    d. To a very great extent
    e. Don't know/no opinion/not relevant

15. **If the EU were to develop a simplified standard for SMEs, do you think that the use of such a simplified standard by SMEs should be mandatory or voluntary?**
    a. Mandatory
    b. Voluntary
    c. Don't know/no opinion/not relevant

In the responses to the Commission's public consultation on public corporate reporting carried out in 2018, just over half of the respondents believed that integrated reporting could contribute to a more efficient allocation of capital and agreed that the EU should encourage integrated reporting.

FERMA
Federation of European
Risk Management Associations

16. In light of these responses, to what extent do you agree that the body responsible for developing a European non-financial reporting standard should also have expertise in the field of financial reporting in order to ensure "connectivity" or integration between financial and non-financial information?

a. Not at all
b. To some extent but not much
c. To a reasonable extent
d. To a very great extent
e. Don't know/no opinion/not relevant

17. The key stakeholder groups with an interest in and contributing to the elaboration of financial reporting standards have historically been investors, preparers of financial reports (companies) and auditors/accountants. To what extent to do you think that these groups should also be involved in the process of developing a European non-financial reporting standard?

For each option, please rate your response on a scale from 1 to 4, where 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent and N.A. = not applicable

a. Investors **4**
b. Preparers **4**
c. Auditors/accountants **3**

18. In addition to the stakeholders referred to in the previous question, to what extent to do you consider that the following stakeholders should be involved in the process of developing a European non-financial reporting standard?

For each option, please rate your response on a scale from 1 to 4, where 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent and N.A. = not applicable

a. Civil society representatives/NGOs **2**
b. Academics **3**

Do you consider that other stakeholder(s) should be involved in the process of developing a European non-financial reporting standard?

a. Yes
b. No
c. Don't know/no opinion/not relevant

18.2. Please specify which other stakeholder(s) you consider should be involved in the process of developing a European non-financial reporting standard and to what extent

Please rate as follows: 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent

	Name of other stakeholder	Please rate from 1 to 4 as explained above
Other Stakeholder #1	Board/audit committee members	4
Other Stakeholder #2	Risk managers (as part of the second line of defence)	4
Other Stakeholder #3	Internal auditors (as part of the third line of defence)	3

19. To what extent should the following European public bodies or authorities be involved in the process of developing a European non-financial reporting standard?

For each option, please rate your response on a scale from 1 to 4, where 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent and N.A. = not applicable

a. European Securities Markets Authority (ESMA) **1**
b. European Banking Authority (EBA) **1**
c. European Insurance and Occupational Pensions Authority (EIOPA) **1**
d. European Central Bank (ECB) **1**
e. European Environment Agency (EEA) **3**
f. Platform on Sustainable Finance **4**

Do you consider that other European public body/ies or authority/ies should be involved in the process of developing a European non-financial reporting standard?

a. Yes
b. No
c. Don't know/no opinion/not relevant

19.2. Please specify which other European public body/ies or authority/ies should be involved in the process of developing a European non-financial reporting standard and to what extent:

Please rate as follows: 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent

	Name of European public body or authority	Please rate from 1 to 4 as explained above
Other European public body or authority #1	EFRAG, presuming the EU will develop guidelines for integrated reporting. If financial and non-financial	3

	reports are not integrated, EFRAG's involvement should be restricted to ensure alignment of common information only, without affecting the NFR approach	
Other European public body or authority #2		
Other European public body or authority #3		

National accounting standards-setters of several EU Member States are represented in the European Financial Reporting Advisory Group (EFRAG), which acts as the EU's voice and technical advisor in relation to financial reporting.

20. To what extent to do you consider that the following national authorities or bodies should be involved in the process of developing European non-financial reporting standards?

For each option, please rate your response on a scale from 1 to 4, where 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent and N.A. = not applicable

a. National accounting standards-setters **1**
b. Environmental authorities **1**

Do you consider that other type of national authorities or bodies should be involved in the process of developing a European non-financial reporting standard?

a. **Yes**
b. **No**
c. **Don't know/no opinion/not relevant**

Please provide any comments or explanations to justify your answers to questions 8 to 20:
5000 character(s) maximum

FERMA believes that the existing standards do not comprehensively meet the disclosure requirements of the NFRD. Instead, as outlined in section 1, FERMA supports the development of a Common European Non-Financial Reporting Standard that aims to provide clear instructions for individual organisations on how to meet the NFRD requirements and EU expectations.

The standard should:

- be prepared by combining the best of existing standards – eliminating any conflicting requirements - with concrete and practical examples, guidelines, targets and indicators. Improved coordination between or consolidation of these various reference materials should help generate meaningful and relevant disclosure without the risk of overlapping or duplicate reporting;

- define clear parameters to facilitate the reporting of medium to long-term objectives by individual organisations, supported by easily measurable qualitative and quantitative targets. These objectives, as well as other sustainability programs of individual organisations, must be effectively monitored and communicated periodically, allowing stakeholders to discern their effectiveness and track their progress.

- align with existing European and international standards to ensure consistency across Member States and international comparability.

- include a simplified version - adapted for SMEs - with fewer requirements and a lighter administrative burden. FERMA would also like to stress that such a standard should only be mandatory for industrial SMEs. In all other cases, such a standard should be voluntary in order to avoid costly and disproportionately burdensome obligations.

When evaluating the range of stakeholders who may be interested in developing this standard, special consideration should be given to their competences and ability to provide a practical and business-oriented approach. In particular, FERMA stresses the importance of including input by future users of this standard during its development. Therefore, although FERMA maintains that balanced representation by stakeholders is needed, it is particularly important that companies and/or their representatives be involved in order to ensure that a common standard will be business-oriented.

While the input of academics is also very valuable, especially in matters involving the evaluation of past issues and trends, FERMA would like to recommend that if academics are involved in the development of a common standard that they adopt a practical approach.

Section 3 - Application on the principle of materiality

The NFRD requires companies to disclose information "to the extent necessary for an understanding of the development, performance, position and impact of [the company's] activities." This materiality principle implies that companies reporting pursuant to the NFRD must disclose (i) how sustainability issues may affect the development, performance and position of the company; and (ii) how the company impacts society and the environment. This is the double-materiality perspective (see also the Commission's non-binding guidelines on reporting climate-related information, section 2.2, page 4). The two "directions" of materiality are distinct although there can be feedbacks from one to the other. For example,

a company that with severe impacts on the environment or society may incur reputational or legal risks that undermine its financial performance.
'Material' information is defined in Article 2(16) of the Accounting Directive as "the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking. The materiality of individual items shall be assessed in the context of other similar items." This definition is geared towards financial reporting, which is principally intended to serve the needs of investors and other creditors. By contrast, non-financial information serves the needs of a broader set of stakeholders, as it relates not only to the increasing impact of non-financial matters on the financial performance of the company, but also to its impacts on society and the environment. This may imply the need to provide an alternative definition of materiality for application in the context of non-financial reporting, or at least additional guidance on this issue.

21. **Do you think that the definition of materiality set-out in Article 2(16) of the Accounting Directive is relevant for the purposes of determining which information is necessary to understand a company's development, performance and position?**
    a. Not at all
    b. To some extent but not much
    c. To a reasonable extent
    d. To a very great extent
    e. Don't know/no opinion/not relevant

22. **Do you think that the definition of materiality set-out in Article 2(16) of the Accounting Directive is relevant for the purposes of determining which information is necessary to understand a company's impacts on society and the environment?**
    a. Not at all
    b. To some extent but not much
    c. To a reasonable extent
    d. To a very great extent
    e. Don't know/no opinion/not relevant

23. **Is there is a need to clarify the concept of 'material' non-financial information?**
    a. Yes
    b. No
    c. Don't know/no opinion/not relevant

24. **Should companies reporting under the NFRD be required to disclose their materiality assessment process?**
    a. Yes
    b. No
    c. Don't know/no opinion/not relevant

Please provide any comments or explanations to justify your answers to questions 21 to 24:

5000 character(s) maximum

The materiality assessment process is one of the most critical aspects of non-financial reporting. FERMA maintains that the current definition of "Materiality" does not help determine what information is necessary to include in the NFRD regarding the impact on company, society, environment and other stakeholders.

In this regard, FERMA recommends:

1) A more precise definition of "Materiality," encompassing financial, environmental and social risks and opportunities that may contribute to the value of a company or increase value for external stakeholders. The clearer and more explicit this definition is, the more guidance it will provide for companies seeking to identify material topics. A catalogue or collection of best practices could also be useful to measure long-term growth and development.

2) The establishment of a materiality assessment process – referred to in section one - to help companies select key sustainability topics that will drive their strategic vision and reporting practices building on the well-established ERM framework. This risk and opportunity-based Materiality Matrix should be focused on a few clear priorities in order to distinguish information that is important and necessary to disclose from that which could be considered secondary and optional. This matrix should be set up by the risk manager, in close cooperation with the CSR/Sustainability department.

   Using ERM to assess the relevance of each risk and opportunity in order to select key sustainability topics will increase the quality of non-financial information for both companies and stakeholders, while ensuring the scope remains limited to only the most relevant aspects.
   Furthermore, this ensures that the materiality assessment process can be auditable by design (e.g. by the Internal Audit Function).

   Thanks to the risk and opportunity analysis, companies retain the opportunity to disclose additional non-financial matters on a voluntary basis (e.g. disclosure of intangible assets such as intellectual property, strategic innovation, etc.), while still adhering to a standardized structure.

   Multiplying the disclosure categories of non-financial information without providing the tools needed to evaluate different information sets will only increase the administrative burden on companies.

Section 4 – Assurance

The NFRD requires that the statutory auditor or audit firm checks whether the non-financial statement has been provided if a firm falls within the scope of the Directive.

Article 34 of the Accounting Directive requires that the financial statements are audited, and that the statutory auditor or audit firm express an opinion whether the management report (i) is consistent with the financial statements for the same financial year; and (ii) has been prepared in accordance with the applicable legal requirements. Article 34 of the Accounting Directive also requires the statutory auditor or audit firm to state whether it has identified material misstatements in the management report and to give an indication of the nature of such material misstatements. However, the non-financial statement published pursuant to the NFRD – whether contained in the management report or a separate report – is explicitly excluded from the scope of Article 34 of the Accounting Directive. Consequently, the NFRD does not require any assurance of the content of the non-financial statement.

25. **Given that non-financial information is increasingly important to investors and other users, are the current differences in the assurance requirements between financial and non-financial information justifiable and appropriate?**
    a. Not at all
    b. To some extent but not much
    c. To a reasonable extent
    d. To a very great extent
    e. Don't know/no opinion/not relevant

26. **Should EU law impose stronger assurance requirements for non-financial information reported by companies falling within the scope of the NFRD?**
    a. Yes
    b. No
    c. Don't know/no opinion/not relevant

There are two types of assurance engagement a practitioner can perform:

- Reasonable assurance reduces the risk of the engagement to an acceptably low level in the given circumstances. The conclusion is usually provided in a positive form of expression and states an opinion on the measurement of the subject matter against previously defined criteria.
- Limited assurance engagements provide a lower level of assurance than the reasonable assurance engagements. The conclusion is usually provided in a negative form of expression by stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated.

27. **If EU law were to require assurance of non-financial information published pursuant to the NFRD, do you think that it should require a reasonable or limited assurance engagement on the non-financial information published?**
    a. Reasonable
    b. Limited

c. Don't know/no opinion/not relevant

28. If EU law were to require assurance of non-financial information published pursuant to the NFRD, should the assurance provider assess the reporting company's materiality assessment process?

a. Yes
b. No
c. Don't know/no opinion/not relevant

29. If assurance of non-financial information was required by EU law, should the assurance provider be required to identify and publish the key engagement risks, their response to these risks and any related key observations (if applicable)?

a. Yes
b. No
c. Don't know/no opinion/not relevant

30. If assurance of non-financial information was required by EU law, do you think that assurance engagements should be performed based on a common assurance standard?

a. Yes
b. No
c. Don't know/no opinion/not relevant

30.1. If you answered yes in reply to the previous question, please explain whether there is an existing assurance standard that could be used for this purpose or whether a new standard would need to be developed:

The existing standards that are applicable to Internal Audit practices, which are well-recognised and consolidated at EU level, can also be used for non-financial information assurance.

31. Do you think that an assurance requirement for non-financial information is dependent on companies reporting against a specific non-financial reporting standard?

a. Yes
b. No
c. Don't know/no opinion/not relevant

Please provide any comments or explanations to justify your answers to questions 25 to 32:
5000 character(s) maximum

Given the growing importance of sustainability performance, and its capacity to influence the strategic decisions of investors, employees, consumer preferences, etc., high-quality and reliable information is essential. FERMA maintains that a common standard supported by organisations' internal audit function will better guide the assurance process around non-financial reporting. For example, the internal audit may include specific activities to check the effectiveness of the non-financial reporting process in the internal audit plan. Additionally, the entire process concerning materiality, including data collection, evaluation and reporting, should be auditable by design.

If EU law were to require assurance of non-financial information published pursuant to the NFRD, FERMA supports coordination between assurance activities, avoiding duplication and minimizing the administrative burden on enterprises.

Section 5 – Digitisation

The EU has introduced a structured data standard, the European Single Electronic Format (ESEF) under the Transparency Directive. With effect from 1 January 2020 listed companies in the EU shall report their annual financial reports in XHTML (audited financial statements, management report and issuer's responsibility statements). Additionally, if the consolidated financial statements are prepared in IFRS, the XHTML document should also be tagged using iXBRL elements specified in the ESEF taxonomy. This allows the information to be machine-readable. This is expected to produce a number of benefits, including cost saving for users of annual financial reports, greater speed, reliability and accuracy of data handling, improved analysis, and better quality of information and decision-making.

Additionally, the Commission is exploring opportunities to establish a single access point for public corporate information. In this respect, the Commission expects the High-level Forum on CMU to examine this topic and formulate recommendations from the Capital Markets angle in the coming months.

32. To what extent do you agree or disagree with the following statements regarding digitalisation of non-financial information?

   a. It would be useful to require the tagging of reports containing non-financial information to make them machine-readable **4**
   b. The tagging of non-financial information would only be possible if reporting is done against standards **4**
   c. All reports containing non-financial information should be available through a single access point **4**

- For each option, please rate your response on a scale from 1 to 5, where 1 = totally disagree, 2 = mostly disagree, 3 = partially disagree and partially agree, 4 = mostly agree, 5 = totally agree. You may also input don't know/no opinion/not relevant

33. Do you think that the costs of introducing tagging of non-financial information would be proportionate to the benefits this would produce?

a. Not at all
b. To some extent but not much
c. To a reasonable extent
d. To a very great extent
e. Don't know/no opinion/not relevant

34. Please provide any other comments you may have regarding the digitalisation of sustainability information

FERMA supports the digitalisation of non-financial information in a centralized European repository to facilitate its availability and comparability

Please provide any comments or explanations to justify your answers to questions 33 to 35:
5000 character(s) maximum

With regard to question 34, FERMA recommends conducting a cost-benefit analysis to determine whether the immediate costs of introducing tagging of non-financial information would be proportionate to the long-term benefits.

Section 6 – Structure and location of non-financial information

The default requirement of the NFRD is that companies under scope shall include their non-financial statement in their annual management report. However, the NFRD also allows Member States to allow companies to disclose the required non-financial information in a separate report under certain conditions, and most Member States took up that option when transposing the Directive. Companies can be allowed by national legislation to publish such a report up to six months after the balance sheet date.

The publication of non-financial information in a separate report has a number of consequences, including:

- separate reports that include non-financial information are out of the legal mandate of the national competent authorities, whose mandate over periodic reports is limited to the annual and semi-annual financial reports (which include the management report).
- separate reports that include non-financial information are not required to be filed in the Officially Appointed Mechanisms (OAMs) designated by Member States pursuant to Article 21(2) of the Transparency Directive.

35. **Other consequences may arise from the publication of the non-financial statement as part of a separate report. To what extent do you agree with the following statements:**
    a. The option to publish the non-financial statement as part of a separate report creates a significant problem because the non-financial information reported by companies is hard to find (e.g. it may increase search costs for investors, analysts, ratings agencies and data aggregators)… **1**
    b. The publication of financial and non-financial information in different reports creates the perception that the information reported in the separate report is of secondary importance and does not necessarily have implications in the performance of the company **3**

- For each option, please rate your response on a scale from 1 to 4, where 1 = not at all, 2 = to some extent but not much, 3 = to a very reasonable extent, 4 = to a very great extent and N.A. = not applicable

36. **Do you believe that companies should be required to disclose all necessary non-financial information in the management report?**
    a. Yes
    b. No
    c. Don't know/no opinion/not relevant

37. **If companies are allowed to publish the required non-financial information in a report that is separate from the management report, to what extent do you agree with the following approaches?**
    a. Legislation should be amended to ensure proper supervision of information published in separate reports. **4**
    b. Legislation should be amended to require companies to file the separate report with Officially Appointed Mechanisms (OAMs) **5**
    c. Legislation should be amended to ensure the same publication date for management report and the separate report. **5**

- For each option, please rate your response on a scale from 1 to 5, where 1 = totally disagree, 2 = mostly disagree, 3 = partially disagree and partially agree, 4 = mostly agree, 5 = totally agree. You may also input don't know/no opinion/not relevant

- Please provide any additional comments regarding the location of reported non-financial information.

FERMA also supports the creation of websites or sections of websites dedicated to sustainability, where information can be found easily.

The management report, including the non-financial statement, aims to provide a company's stakeholders with the information necessary to understand the company's development, performance, position and impact. Some non-financial information is also reported in the corporate governance statement, which is also part of the management report.

38. **Do you consider that the current segregation of non-financial information in separate non-financial and corporate governance statements within the management report provides for effective communication with users of company reports?**
    a. Not at all
    b. To some extent but not much
    c. To a reasonable extent
    d. To a very great extent
    e. Don't know/no opinion/not relevant

Please provide any comments or explanations to justify your answers to questions 36 to 39:
5000 character(s) maximum

FERMA maintains that, in a general sense, there is nothing wrong with integrated reporting, or putting more focus on sustainability issues in the management report. However, to ensure effective communication of integrated reporting to stakeholders, it is fundamental that sustainability and business plans are integrated at a strategic level.

In line with the Three Lines of Defence governance system, FERMA maintains that ownership of non-financial reporting in large companies should fall within the competences of the Sustainability / CSR Manager - if any - who will collaborate with the Risk Manager to set up the previously outlined risk and opportunity materiality matrix.

FERMA would like to stress, however, that although competences on NFR may be shared within the organisation, the ERM should be one of the key inputs on the non-financial report and should be used at a preliminary stage to assess and select key material topics on which the report should focus.

(Please note: The Three Lines of Defence model, developed by FERMA and ECIIA, is a way to explain the relationship between the monitoring and assurance functions in an organisation, and guide the division of responsibilities between them. According to this model, the first line of defence concerns functions that own and manage risk; the second line of defence concerns functions that oversee or specialize in risk management and compliance; and the third line of defence concerns functions that provide independent assurance, notably internal audit. For further information, please visit https://www.iia.nl/SiteFiles/ECIIA%20FERMA.pdf)

Section 7 – Personal scope (which companies should disclose)

The NFRD currently applies to large Public-Interest Entities (PIEs) with more than 500 employees. In practice this means large companies with securities listed in EU regulated markets, large banks (whether listed or not) and large insurance companies (whether listed or not) – all provided that they have more than 500 employees.

The Accounting Directive defines large undertakings as those that exceed at least two of the three following criteria:

a. balance sheet total: EUR 20 000 000;
b. net turnover: EUR 40 000 000;
c. average number of employees during the financial year: 250.

Some Member States have extended the personal scope of the NFRD by lowering the threshold to 250 employees, in effect capturing all large PIEs.

Companies that are a subsidiary of another company are exempt from the reporting requirements of the NFRD if their parent company publishes the necessary non-financial information at consolidated level in accordance with the NFRD.

There are a number of potential arguments to support the extension of the personal scope of the NFRD:

- Changes in the legislative framework: following the adoption of the Regulation on sustainability-related disclosure in the financial services sector and of the Taxonomy Regulation, investors may require non-financial information from a broader range of investees in order to comply with their own sustainability-related reporting requirements.
- Large unlisted companies can have significant impacts on society and the environment. There may therefore be no a priori reason to differentiate between listed and non-listed companies in this respect. In addition, the difference in treatment between listed and non-listed companies in this regard may serve as a disincentive for companies to become listed, and therefore undermine the attractiveness of capital markets.
- Exempting PIEs that are subsidiaries limits the information about impacts on society and the environment, thus undermining the ability of stakeholders of such exempted subsidiaries to hold them accountable for their impacts on society and the environment, especially at local and national level.

39. If the scope of the NFRD were to be broadened to other categories of PIEs, to what extent would you agree with the following approaches?

a. Expand scope to include all EU companies with securities listed in regulated markets, regardless of their size. **4**
b. Expand scope to include all large public interest entities (aligning the size criteria with the definition of large undertakings set out in the Accounting Directive: 250 instead of 500 employee threshold). **4**
c. Expand scope to include all public interest entities, regardless of their size. **4**

- For each option, please rate your response on a scale from 1 to 5, where 1 = totally disagree, 2 = mostly disagree, 3 = partially disagree and partially agree, 4 = mostly agree, 5 = totally agree. You may also input don't know/no opinion/not relevant

40. If the scope of the NFRD were to be broadened to non-PIEs, to what extent would you agree with the following approaches?

a. Expand the scope to include large non-listed companies. **4**
b. Remove the exemption for companies that are subsidiaries of a parent company that reports non-financial information at group level in accordance with the NFRD. **1**
c. Expand the scope to include large companies established in the EU but listed outside the EU. **3**
d. Expand the scope to include large companies not established in the EU that are listed in EU regulated markets. **4**
e. Expand scope to include all limited liability companies regardless of their size. **1**

- For each option, please rate your response on a scale from 1 to 5, where 1 = totally disagree, 2 = mostly disagree, 3 = partially disagree and partially agree, 4 = mostly agree, 5 = totally agree. You may also input don't know/no opinion/not relevant

41. If *non-listed* companies were required to disclose non-financial information, do you consider that there should be a specific competent authority in charge of supervising their compliance with that obligation?

a. Yes
b. No
c. Don't know/no opinion/not relevant

Due to the nature of their activities, credit institutions and insurance undertakings have larger balance sheets than non-financial corporations. Hence, the vast majority of such institutions will exceed the balance sheet threshold in the definition of large undertakings set-out in the Accounting Directive. Moreover, the application of some public disclosure requirement of EU prudential regulation for credit institutions and insurance undertakings is defined based on various size thresholds.

For example:

- the Regulation on prudential requirements for credit institutions and investment firms includes in its definition of large credit institutions those with a total value of assets equal to or greater than EUR 30 billion;
- the same Regulation defines small and non-complex institutions as those that have EUR 5 billion or less total assets;
- the consultation paper published by EIOPA in October 2019 proposes to revise article 4 thresholds of Solvency II (below which entities are excluded from the scope of Solvency II), doubling the thresholds related to the technical provisions (from EUR 25M provisions to EUR 50M) and allowing Member States to set the threshold

referring to premium income between the current EUR 5M and until a maximum of EUR 25M.

42. To what extent do you agree with the following statements relating to possible changes of the personal scope of the NFRD for financial institutions?

a. The threshold criteria for determining which banks have to comply with the NFRD provisions should be different from those used by Non-Financial Corporates. **4**
b. The threshold criteria for determining which insurance undertakings have to comply with the NFRD provisions should be different from those used by Non-Financial Corporates **4**

- For each option, please rate your response on a scale from 1 to 5, where 1 = totally disagree, 2 = mostly disagree, 3 = partially disagree and partially agree, 4 = mostly agree, 5 = totally agree. You may also input don't know/no opinion/not relevant

Please provide any comments or explanations to justify your answers to questions 40 to 43:
5000 character(s) maximum

Section 8 – Simplification and reduction of administrative burdens for companies

43. Does your company publish non-financial information pursuant to the NFRD?

a. Yes
b. No
c. Don't know/no opinion/not relevant

- Please state the total cost per year of any external services, excluding the cost of any assurance or audit services, that you contracted to assist your company to comply with the requirements of the Non-Financial Reporting Directive. Please provide your answer for reports published in 2019, covering financial year 2018.

The majority of Member States have transposed the NFRD requirements into national legislation making very few changes to the wording of the legal provisions. Therefore, in the majority of the national legal frameworks, companies are required to comply with national legislation that is quite high level, not very prescriptive and do not require the use of any particular reporting standard.

44. To what extent do you agree with the following statements?

a. Companies reporting pursuant to the NFRD face uncertainty and complexity when deciding what non-financial information to report, and how and where to report such information. **4**
b. Companies are under pressure to respond to individual demands for non-financial information from sustainability rating agencies, data providers and

civil society, irrespective of the information that they publish as a result of the NFRD. **4**

c. Companies reporting pursuant to the NFRD have difficulty in getting the information they need from business partners, including suppliers, in order to meet their disclosure requirements. **4**

- For each option, please rate your response on a scale from 1 to 5, where 1 = totally disagree, 2 = mostly disagree, 3 = partially disagree and partially agree, 4 = mostly agree, 5 = totally agree. You may also input don't know/no opinion/not relevant

Please provide any comments or explanations to justify your answers to questions 44 to 45:
5000 character(s) maximum

The development of a common process, widely recognised and applied, would allow for more structured, efficient and widely supported reporting. As has been stressed throughout this consultation, such a process can be found in the framework of the ERM, complemented by a well-defined materiality matrix and strengthened by a common standard. Non-financial disclosure should be standardized in order to increase its applicability and reduce the administrative burden on companies. To win broad support, clarity and simplicity are needed, while shared processes and standards contribute to the overall competitiveness of the internal market, addressing the concern that a company might lose its competitive advantage if it discloses too much compared to others.

About FERMA:

FERMA has been the single recognised voice of European risk managers for over forty years. With a membership of 21 risk management associations spanning 20 European countries, FERMA is the leader of an international network that influences industry, the public sector, finance and other services. FERMA advocates on behalf of nearly 5000 risk management professionals while promoting communication and education across the Federation. 50% of member organisations are listed on the stock exchange, and over 80% have a turnover of more than €50 million, making them notable players in the European economy.

Contact: Typhaine Beauperin, Chief Executive Officer: typhaine.beauperin@ferma.eu