



FERMA

Federation of European
Risk Management Associations

FERMA's response to the European Commission public consultation: "Fitness check on the EU framework for public reporting by companies"

July 2018

EXECUTIVE SUMMARY

The Federation of European Risk Management Associations (FERMA) represents the interests of more than 4800 risk and insurance managers through its 22 national risk management association members in 21 European countries.

FERMA welcomes the opportunity to contribute to the European Commission consultation about the EU framework for public reporting by companies. The section on non-financial reporting is of particular interest for risk and insurance managers since they are at the forefront of managing the non-financial risks within their organisations with the assessment, mitigation and treatment of identified risks.

FERMA calls on the European Commission to pay particular attention to the five following points while performing the fitness check on the EU framework for public reporting by companies of non-financial information:

- 1/** Non-financial reporting should become a business process, and the reporting of the risks connected with non-financial elements should be aligned with the organisation's objectives. Finding ways to achieve this goal should be a priority.
- 2/** Corporate risk management can provide support in making the connection between the risks associated with the non-financial elements and the consequences they can provoke.
- 3/** Corporate risk management has the potential to help mitigate the costs associated with non-financial reporting. It is a pre-condition of the Enterprise Risk Management (ERM) methodology to identify the principal risks connected with the elements of CSR to be reported and then consider how they can be mitigated.
- 4/** In the context of responsible sourcing, small and medium-sized enterprises (SMEs), as members of a supply chain, are also requested to provide non-financial information, while the EU Non-Financial Information Directive (NFI) was originally designed to preserve SMEs from the administrative burden. A proportionate approach should be developed to guide SMEs in prioritising the non-financial elements in an adapted reporting process.



Public consultation: Fitness check on the EU framework for public reporting by companies	FERMA answers
<p>Question 43. Do you agree with the following statement: The current EU non-financial reporting framework is sufficiently coherent (consistent across the different EU and national requirements)?</p>	<p><i>The implementation of the EU Non-Financial Reporting Directive has shown significant differences among member states. It includes provisions on fines, threshold for reporting etc....¹.</i></p> <p><i>Although FERMA believes that a certain level of flexibility is necessary to fit the local specificities, these national differences do not help to achieve the completion of the Single Market, as it creates a lot of uncertainty for organisations operating cross-border in the EU.</i></p>
<p>Question 44. Do you agree with the following statement: The costs of disclosure under the NFI Directive disclosure framework are proportionate to the benefits it generates.</p>	<p><i>From a general perspective, the benefits generated by the reporting of non-financial elements, including Corporate Social Responsibility (CSR) elements, become tangible only after a few years. In the meantime, there are obvious short-term administrative costs to build a proper reporting that embeds non-financial information with indicators about the risks, the mitigation measures and controls in place to reduce their impacts.</i></p> <p><i>FERMA would like to emphasise that these costs could be mitigated if the organisation benefits from pre-existing approaches and methodologies that are both practical, in that they can be implemented in any business within a reasonable timeframe, and are accepted by the business community, like ERM methodology.</i></p> <p><i>The ERM approach works in conjunction with a deep understanding of the business model of the organisation. It is a pre-condition of ERM to identify the principal risks connected with the elements of CSR to be reported and then consider how they can be mitigated.</i></p>

¹ For a detailed description of national implementation of the NFI Directive, see Accountancy Europe report “EU NFI Directive: A comprehensive guide to the national laws” <https://www.accountancyeurope.eu/events/eu-nfi-directive-comprehensive-guide-national-laws/>



	<p><i>Being in control of the CSR-related risks also opens the way for productivity and efficiency gains over the long term. This will apply especially in areas like energy and raw materials consumption, workforce stability and performance, and the capacity to create new markets for new products and services.</i></p>
<p>Question 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 nonfinancial information from their suppliers.</p> <p>Do you agree that SMEs are required to collect and report substantially more data to larger companies as a result of the NFI directive?</p>	<p><i>Responsible sourcing is a strong trend and a demand by society from large organisations. Many SMEs relying on contracts with larger organisations are now requested to provide their partners with greater documentation for transparency purposes. This will increasingly become a condition of business, with the risk for SMEs of being excluded from tender competition if they are unable to provide these elements.</i></p> <p><i>In this respect, the NFI Directive certainly has the potential to increase the reporting burden for SMEs. This is an unintended effect for SMEs as the Directive was originally designed to preserve SMEs from the administrative burden.</i></p> <p><i>FERMA recommends that the Commission explores the feasibility of an adapted reporting process for SMEs as regards non-financial elements, inspired by what already exist in terms of simplified ERM processes for SMEs.</i></p> <p><i>Such a proportionate approach would help SMEs to better distinguish between non-financial reporting elements that are important and necessary from what could be considered as secondary and optional.</i></p>



Question 55. Do you agree with the following statement?

- A move towards more integrated reporting in the EU should be encouraged
- The costs of a more integrated reporting would be proportionate to the benefits it generates (would be efficient)

Integrated reporting in the EU should certainly be encouraged, but finding ways to generate first serious interest in non-financial reporting from the highest level of the organisation: C-Suite, Boards... should be a priority.

This commitment is needed to get the necessary traction in the organisation to align the reporting of the risks connected with non-financial elements with the organisation's objectives.

Non-financial reporting should become a business process, going beyond visibility and reputation, to avoid turning this exercise into only communication tools about environment, human rights, employee matters....

There is a challenge to know how to make non-financial reporting a business process. FERMA is confident that corporate risk management can provide support for the organisation in making the connection between the risks associated with non-financial elements, like human trafficking, corruption or climate change, and their consequences, including business interruption, legal costs, loss of contracts and personal injuries.

If applied correctly to non-financial matters, corporate risk management has the opportunity not only to protect the organisation but also to allow the organisation to demonstrate its social role and its contribution to local development.

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FERMA - The Federation of European Risk Management Associations brings together 22 national risk management associations in 21 European countries. FERMA represents the interests of more than 4800 risk and insurance managers in Europe active in a wide range of business sectors from major industrial and commercial companies to financial institutions and local government bodies. More information can be found at www.ferma.eu