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The new EU draft legislation on disclosure of non-financial and diversity information: an opportunity we cannot miss!

The world is changing and corporate reporting must change too. Transparency, consistency and comparability of non-financial and diversity information are crucial to restore the trust of investors and stakeholders in large companies, but materiality is key to avoid creating new burden and help improving management, were the main conclusions of a recent roundtable at the European Parliament organised by ACCA (the Association of Chartered Certified Accountants), Aviva and Eurosif.

The European Commission published in April 2013 an amendment to the Fourth and Seventh Company Law Directive - known as Accounting Directives - targeting the disclosure of non-financial and diversity information of certain large companies. The legislative process has started, the new proposal is now in the hands of the two co-legislators – the European Parliament and the Council.

In this context, MEPs Richard Howitt and Raffaele Baldassarre recently co-hosted at the European Parliament in Brussels a high level multistakeholder roundtable called “Non-financial information disclosure: towards a more sustainable and comparable corporate reporting regime?”. At this jointly organised event by Aviva, ACCA and Eurosif, a distinguished line-up of experts from diverse horizons, including representatives from the European Commission and of Commissioner Barnier’s Cabinet, from the forthcoming Lithuanian Presidency, the French government, businesses, investors, accountants and NGOs, exchanged views on the potential impact of the newly published Directive for companies and their stakeholders, and discussed the way forward for corporate reporting.

Richard Howitt MEP, the Rapporteur on CSR who will be leading for the Employment Committee said: "This packed event with standing room only is testament to the huge buzz and genuine support for Europe to act on non-financial reporting. Speaker after speaker from EU Governments, institutional investors, business organisations, the accounting fields, civil society and from Commissioner Barnier’s cabinet hammered home the message that there is an urgent need for Europe’s largest companies to report on their environmental, social and human rights impacts. I will be working in the Parliament over coming months to seek the strongest possible agreement and to make sure Europe leads the way on corporate transparency and truly integrated reporting."

The new proposal was welcomed by all speakers, who agreed that it is a good foundation for the future, as it is strong and bold, but in the meantime balanced and proportionate. There is of course room for improvements and clarification; some raised for example the issues of comparability, monitoring and enforcement of such provisions, as well as the need for further guidance for some specific sectors. A representative from businesses argued that EU policy should not interfere with companies’ disclosure of non-financial information, as they are best placed to decide themselves how to best communicate their CSR performance to stakeholders.

In response, there was a consensus amongst panellists that business as usual is no longer an option, traditional reporting is no longer up-to-date, and companies are no longer able to escape transparency requests from society, especially in the light of recent scandals linked to working conditions and human rights in Bangladesh. Long-term issues need to be better addressed. Most panellists agreed that this calls for action at EU level, as consistency amongst the 27 member States’ reporting regimes is important for the Single Market, and this would avoid the fragmented practices which existed until now. It was stressed that legislation also acts as an accelerator for behaviours.
The issue of costs was also raised, but panellists insisted that the proposal will only apply to large companies over 500 employees, which should already have in place such a disclosure system and that implementing the new EU requirements should not add on administrative burden.

Helen Brand, ACCA Chief Executive, said: “The Commission proposals represent an important move towards enhancing the much needed transparency, consistency and comparability in the non-financial information accompanying financial statements of large businesses. Given our global organisation and membership, ACCA fully endorses the suggestion that companies should rely on internationally-accepted frameworks to report this information. There should be a convergence of international, EU and national principles. In the spirit of ACCA’s founding values of opportunity and diversity, we also strongly welcome the requirement for large and listed enterprises to disclose information relating to boardroom diversity.”

It was stressed that the concept of materiality is key. Companies need to identify with due diligence the main risks in their policies, prioritise them and integrate these issues in the way they manage their business and activities. Some participants made a clear call for integrated reporting, which should be a mirror of integrated thinking and provide clear, concise and meaningful report in a holistic way.

Steve Waygood, Chief Responsible Investment Officer, Aviva Investors, made it clear that: “While these business issues are measured in non-financial terms, they are fundamental to the long term financial performance of companies. Improved reporting deepens our knowledge of, for example, a company’s relationships with, their customers, employees, local communities and governments as we have improved access to customer complaints, employee turnover and the regulatory compliance record. These relationships are of course absolutely fundamental to the financial performance of companies. In addition to building the trust of stakeholders, better reporting also improves internal processes and business performance on these issues. It should not be seen as a cost – it is an investment in the companies’ future. However, to be really useful to investors, the disclosure of non-financial information should be synchronised with the disclosure of the financial data. We are strong supporters of the European Commission proposal, which does just this.”

He was echoed by Francois Passant, Executive Director of Eurosif, commenting on a joint ACCA-Eurosif survey: “Looking at non-financial aspects of an investee company is becoming the new normal for investors. In a world where 80% of a company’s value is derived from its intangibles, where value chains are more global, complex and lean, and where more and more investors are looking into how companies adapt to climate change, non-financial transparency cannot be seen as a burden or a tick-box exercise anymore but as a necessity. The current proposal is one that Eurosif therefore strongly supports overall as it represents a key milestone in this journey”.

Raffaele Baldassarre, MEP, the rapporteur for the Legal Affairs Committee on the proposal concluded: “It is important to have a balanced text without taking any extreme positions. All demands and requirements must be combined while providing enough flexibility for companies. We will be able to improve the text in the future, but there is definitely a step made in the right direction. We need to continue working in full transparency, involve stakeholders and recreate a trusting environment. This is the right way to contribute to solutions and to promote best practices. The European Parliament is committed to progress on the issue, the Legal Affairs Committee will examine the proposal in June, vote in committee is expected by the end of the year, with a view to start negotiations with the Council as soon as possible. A plenary vote is then planned for early 2014. It will be important to not focus on irrelevant matters or to be too ambitious if we want to reach a speedy adoption of the proposal. Conversely, it will be also important not to be under ambitious to come up with a meaningful piece of legislation.”

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The full report will be available soon.

For more information:

About ACCA
Contact: Cecile Bonino, Cecile.bonino@accaglobal.com, +32(0) 2 286 11 37
1. ACCA also published two related reports, Understanding investors: directions for corporate reporting and Understanding investors: the changing landscape.
1. ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.
2. We support our 154,000 members and 432,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of over 80 offices and centres and more than 8,400 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.
3. Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

About Aviva
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Aviva Investors
Aviva Investors is the global asset management business of Aviva plc. The business delivers investment management solutions, services and client-driven performance to clients worldwide. Aviva Investors operates in 15 countries in Asia Pacific, Europe, North America and the United Kingdom with assets under management of £274 billion at 31 December 2012.

Aviva plc
- Aviva provides 34 million customers with insurance, savings and investment products.*
- Combines life insurance, general insurance and asset management businesses under one powerful brand.

* Based on Aviva plc Annual Report and Accounts 2012.

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Eurosif, the European Sustainable Investment Forum, is the leading pan-European investment membership association whose mission is to develop sustainability through European financial markets. Eurosif works as a partnership of Europe-based national Sustainable Investment Forums (SIFs) with the direct support and involvement of over 60 member affiliates drawn from the industry and related services and representing assets exceeding €1 trillion. Eurosif’s position on the European Commission’s legislative proposal can be found at http://www.eurosif.org/policy/positions.