

Position Paper on EU Non-Financial Reportingⁱ

May 27, 2013

Eurosif strongly supports European Commission legislative proposal COM(2013)207, both in terms of disclosure of non-financial information and of diversity policy. We see it as a major advancement for Europe and for the community of investors incorporating non-financial (Environmental, Social and Governance) matters in their investment decisions.

While some aspects of the proposal can be improved, our view is that the proposal serves as an appropriate baseline for improved ESG transparency and reporting to investors and other stakeholders, while avoiding imposing overly costly requirements on companies, especially small and medium size companies. The legislation will help investors by making more relevant information available from a larger number of companies.

The legislation should also serve to incentivise a transformation of dialogue at company board level, by placing sustainability and diversity matters firmly on the strategic corporate agenda. This initiative represents a significant and historic step forward for Europe as it compels companies to improve their ESG / CSR performance, thus contributing to enhancing their overall competitiveness and creating more sustainable growth and increased employment.

Eurosif notes that the Commission statesⁱⁱ three objectives with the legislation:

- To increase the transparency of certain companies, and to increase the relevance, consistency, and comparability of the non-financial information currently disclosed, by strengthening and clarifying the existing requirements.
- To increase diversity in the boards of companies through enhanced transparency in order to facilitate an effective oversight of the management and robust governance of the company.
- To increase the company's accountability and performance, and the efficiency of the Single Market.

In order to better achieve these objectives through the proposed legislation, Eurosif sees the need for further discussion or clarification around at least the following matters:

- **Meaningful narrative (explanations) is essential:** The proposal mandates non-financial disclosure around a number of themes, however if a company does not report against one or several of these themes, it shall provide an explanation (comply or explain). Eurosif is supportive of this approach to the extent that the explanations provided are informative, and would recommend that the Commission provides additional guidance around the nature of narratives provided.
- **Comparability of information across companies is imperative:** Eurosif prefers seeing references to international frameworks, as EU-wide or national frameworks can impede comparability across companies. Comparability of information is of paramount importance to investorsⁱⁱⁱ and other stakeholders^{iv}, and the use of international frameworks from the beginning can avoid future need for convergence, as seen in US-GAAP and IFRS accounting rules. Eurosif also notes that explicitly naming frameworks in the legislation may be counterproductive as this is a rapidly developing area, and may prove to be limiting for companies in the future. For example, integrated reporting is rapidly becoming popular with investors, but has only been formalized as a framework in recent years.



- **KPIs play a key role in understanding a company's non-financial performance:** Eurosif regrets that Key Performance Indicators are not mandatory, as these are very important to investors. We would therefore suggest making the provision of KPIs mandatory while leaving companies, at least in the beginning, sufficient flexibility to select KPIs. As a second step, we would recommend that the Commission initiate or facilitate a process with businesses and investors to better define standards or guidelines for KPIs. A set of a limited number of core KPIs should be made compulsory, and further guidance on sector or specific KPIs should also be provided. This would allow sufficient flexibility to companies while ensuring a minimum level and quality of reporting
- **Clarity around accountability mechanisms should be sought:** The role of third-party assurance of information, for example by auditors, should be clarified in the legislation. In addition, Eurosif believes that it is important that shareholders (investors) are able to vote on the quality and relevance of the reporting at shareholder meetings.

Notwithstanding these observations, the primary intention of Eurosif is to ensure that the proposed legislation is, at a minimum, adopted in its current form. Additional refinements as noted above should be sought, but Eurosif believes that the legislation in its current form will contribute significantly to meeting the objectives of the Commission. Failure to adopt the proposed legislation will increase the risk of harming Europe's international competitiveness, and make incorporating ESG risk and opportunities in investment decisions more difficult and costly for investors.

Eurosif also notes that this proposal is consistent with several aspects of other initiatives launched by the European Commission aimed at contributing to a more "smart, sustainable and inclusive Europe", such as the recent Action Plan on Corporate Governance and the Green Paper on Long Term Financing of the European economy.

About Eurosif

Eurosif is the leading pan-European sustainable investment membership association whose mission is to develop sustainability through European financial markets. Eurosif works as a partnership of eight European national Sustainable Investment Forums (SIFs) with the support and involvement of Member Affiliates. The national SIF members of Eurosif are based in France, Germany, Italy, the Netherlands, the UK, Belgium, Spain and Sweden. Eurosif's Member Affiliates are drawn from leading institutional investors, asset managers, NGO's, and research providers, together representing assets totalling over €1 trillion. The main activities of Eurosif are public policy, research and creating platforms for nurturing sustainable investing best practices. Recognised as the premier pan-European forum for sustainable investment, Eurosif speaks authoritatively and broadly on SRI (Sustainable and Responsible Investment) issues. www.eurosif.org

This position has been developed as part of Eurosif's aim to develop sustainability through European financial markets. It does not necessarily reflect the views of all its Members and Member Affiliates.

ⁱ Position based on European Commission proposal COM(2013) 207 final.

ⁱⁱ http://ec.europa.eu/internal_market/accounting/docs/non-financial-reporting/com_2013_207_en.pdf, p. 3

ⁱⁱⁱ See for example Eurosif/ACCA survey on investor needs from non-financial reporting.

^{iv} See for example ECCJ: <http://www.corporatejustice.org/EU-Corporate-Reporting-proposal.html?lang=en>