European Fund and Asset Management Association

EFAMA's REPLY TO THE EUROPEAN COMMISSION's PUBLIC CONSULTATION ON THE REVISION OF THE NON-FINANCIAL REPORTING DIRECTIVE

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Executive Summary

Insufficient availability of meaningful, comparable, reliable and public ESG data is a key impediment to the realisation of the full potential of sustainable finance.

ESG data on investee companies are essential to enable asset managers to satisfy the end-investors' demands and meet the new ESG regulatory requirements. To comply with the EU taxonomy and the sustainability-related disclosures regulations, asset managers will need to consider sustainability risks and opportunities as well as, if relevant, the adverse impacts on sustainability factors.

Meanwhile, non-financial disclosures by companies are often not comparable, frequently lack essential information and are of limited usefulness when it comes to assessing sustainability risks and opportunities, not to mention adverse impacts.

The NFRD review should aim at closing this gap and result in more meaningful, comparable, reliable and publicly available ESG disclosures on investee companies.

To achieve that, **we recommend**:

- **Expanding the scope of the requirements**

Investors need information covering the widest possible investment universe to be able to invest in those companies and comply with new ESG disclosure requirements. Therefore, we suggest to expand the scope of NFRD to include **all EU companies with securities listed on regulated markets** and **large private companies to the extent they have listed debt**. However, any duplication with sectorial ESG disclosures, such as those provided by the SFDR (sustainability-related disclosure requirements), should be avoided.

- **Creating an EU reporting standard / minimum mandatory reporting requirements**

Harmonising corporate ESG disclosures can contribute to enhanced comparability and consistency. However, one size does not fit all and we advise against overly prescriptive rules. **Materiality remains key** to assess what is relevant for companies of different sizes and sectors.

We suggest making several key **disclosures and / or indicators mandatory,** while **other information should be disclosed if material**. Mandatory information should be defined based on what investors absolutely need to comply with the EU taxonomy and SFDR disclosures.

We acknowledge that it may be challenging for smaller companies to produce ESG disclosures. Therefore, we favour the development of a **simplified standard for listed SMEs**.

- **Building on the existing frameworks & ensuring global alignment**

To avoid re-inventing the wheel, we should develop **a framework based on the existing, ideally internationally accepted standards**. However, we recognize that none of the existing standards would fully satisfy all of the investors' needs and compliance obligations.

While a European non-financial reporting standard can be helpful, for standards to be effective in a global market, they need to be supported at the international level. Striving for comparability and compatibility at the international level is key, as companies, investors and capital markets are ever more global.

- **Ensuring reliability and usability of ESG data**

Providing non-financial **disclosures in the management report** has several benefits for investors, including aligned timing, improved connectivity between financial and non-financial information, as well as higher reliability. The latter is key for investors. Therefore, ESG disclosures should be **assured and publicly disclosed**. To ensure a transition and help reporting companies and assurers to adapt, a **progressive approach** towards the assurance could be envisaged, starting from a limited assurance and progressing to a reasonable one after some time.

- **Leveraging on digitalization**

Greater use of digitalization will improve the usability and comparability of non-financial information. To facilitate the use of such information, we suggest it should be disclosed in a **structured and machine-readable format**.

To address the challenge of insufficient availability of ESG data both in the short and long-term, we believe that an **EU central database for ESG information or a single access point** allowing access to all corporate non-financial information should be created.

This view is shared by the European banking, pension and insurance industries as demonstrated in a recent joint letter addressed to the European Commission. We suggest that such database contains EU regulated ESG information, while allowing companies outside the scope of NFRD to provide disclosures on a voluntary basis.

- **Ensuring legislative consistency & appropriate sequencing**

The new NFRD requirements should be **consistent** with other existing and imminent requirements and avoid unnecessary overlaps or duplication. This includes the EU taxonomy and sustainability-related financial disclosures.

A holistic approach towards sustainability is needed, ensuring that **disclosures reflect all environmental, social and governance considerations** within a company, as they are often intertwined.

The **timing and appropriate sequencing of different rules** is key. As many legislative proposals in the area of sustainable finance were developed in parallel, some inconsistencies and gaps have emerged. It is now time to put the different pieces of the puzzle together and **make the new rules work in practice**, **in a well sequenced, consistent and coordinated manner**. In this respect, it is essential for the NFRD review to be completed as swiftly as possible.

Detailed response to the consultation

1. QUALITY AND SCOPE OF NON-FINANCIAL INFORMATION TO BE DISCLOSED

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

	1 (totally disagree)	**2** (mostly disagree)	**3** (partially disagree and partially agree)	**4** (mostly agree)	**5** (totally agree)	**Don't know / no opinion / not relevant**
.The lack of comparability of non-financial information reported by companies pursuant to the NFRD is a significant problem.	☒	☐	☐	☐	☒	☐
The limited reliability of non-financial information reported by companies pursuant to the NFRD is a significant problem	☒	☐	☐	☒	☐	☐
Companies reporting pursuant to the NFRD do not disclose all relevant non-financial information needed by different user groups.	☐	☐	☐	☒	☐	☐

Question 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 (no more than 3):
Other non-financial matter #1	Corporate Governance issues more broadly e.g. the selection of profiles matching the companies' long-term corporate strategy, in terms of skills, experience and background, as well as preserving gender and ethnic diversity.
Other non-financial matter #2	Environmental matters which are not yet currently reflected in the NFRD. This should include information necessary to evaluate activities' substantial contribution to climate mitigation and adaptation objectives (e.g. GHG emissions), biodiversity related information (if material) and other information required for asset

	managers to prepare disclosures in line with the TEG recommendations on the EU taxonomy. It would be helpful if this included scenario analysis, possibly in line with the TCFD recommendations, including the outcomes to have a full picture about future performance prospects of companies and their resilience vis-à-vis sustainability risks.”

Question 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 more than 3):
Additional category of non-financial information #1	Corporate reporting should be aligned with the new disclosure requirements for financial entities in the sustainability-related financial disclosures regulation as well as the EU taxonomy regulation. Disclosure of forward-looking targets and KPIs would be useful for assessing sustainability-related risks and opportunities. Moreover, currently there is barely any information disclosed that can be used to assess the “principal adverse impact”.

Question 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.)?

☒ Yes

☐ No

☐ Don’t know / no opinion / not relevant

Question 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?

☐ Not at all

☒ To some extend but not much

☐ To a reasonable extend

☐ To a very great extend

☐ Don’t know / no opinion / not relevant

Question 6. How do you find the interaction between different pieces of legislation?

☐ It works well

☒ There is an overlap

☒ There are gaps

☒ There is a need to streamline

☐ It does not work at all

☐ Don’t know / no opinion / not relevant

Question 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?

☒ Yes

☐ No

☐ Don’t know / no opinion / not relevant

Please provide any comments or explanations to justify your answers to questions 1 to 7:

Our members’ investment approach is based on rigorous research and analysis of the investee companies. ESG corporate disclosures is essential in this process. Moreover, very soon, asset managers (AM) will be subject to new ESG disclosure requirements, stemming from the regulations on sustainability-related disclosures in the financial services sector (SFDR) and the EU taxonomy.

To comply with those rules, AMs will need to consider sustainability-related risks, opportunities and impacts on the investment decision, and in some cases also the adverse impacts of the investment on sustainability factors. We understand that this, to a certain extent, will be also reflected in the revised delegated acts amending the UCITS, AIFM and MiFID II legal frameworks. To be able to comply with those legal requirements, AMs need very specific ESG data on investee companies. Meanwhile, currently they are faced with insufficient availability of reliable and comparable ESG data. It is therefore of great importance that investee companies publicly disclose ESG information in a comparable format. While of course the principle of materiality remains key, leaving it up to investee companies to assess which information is material, some key indicators / data, including revenues, capex and opex from the EU taxonomy aligned activities, should be mandatory.

Currently the non-financial disclosures by companies are often not comparable, in many cases lack essential information and have a very limited usefulness for assessing sustainability risks and opportunities. According to the 2019 report by the Alliance for corporate transparency, over three-in-four companies do not provide transparent information of their environmental impact through the value chain. This makes it very challenging in view of the new regulatory requirements, many of which shall take effect in less than a year from now.

The NFRD review should close this gap and result in more consistent, comparable and reliable ESG disclosures on investee companies, enabling financial participants to consider sustainability risks and opportunities as well as any adverse impacts of their investment, if relevant.

Concerning Q3, disclosure of forward-looking targets would be very useful for assessing sustainability-related risks and opportunities. Meanwhile, results of scenario analyses would help to have a full picture on future performance prospects of companies and their resilience vis-à-vis sustainability risks.

Regarding Q4, intangibles have an important impact on companies' value (according to data from FactSet, BofA Merrill Lynch US Equity & Quant Strategy, 84% of S&P 500 companies' value at the end of 2018 comes from intangibles). Therefore, it would be useful that companies disclose information regarding intangible assets or related factors like intellectual property, software, customer retention, human capital, etc. It could however be challenged whether this should be referred to as "non-financial" as it has an important impact on the company's financials and its financial performance. E.g., human capital is crucial for the performance of a company and its long-term viability. However, what information should be disclosed should be carefully considered and eventually only material information should be disclosed. We should avoid overly prescriptive rules which would result in an excessive reporting burden and /or a mere box- ticking exercise.

As a general comment, we wanted to flag that we will follow up with a supplementary paper on the upcoming NFRD review, setting out our arguments in more detail. We think it is essential to give a number of the more nuanced questions raised by this consultation full consideration.

2. STANDARDISATION

Question 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?

☐ Not at all

☐ To some extend but not much

☒ To a reasonable extend

☐ To a very great extend

☐ Don't know / no opinion / not relevant

Question 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?

☒ Yes

☐ No

☐ Don't know / no opinion / not relevant

Question 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)?

	1 (not at all)	**2** (to some extend but not much)	**3** (to a very reasonable extend)	**4** (to a very great extend)	**N.A.**
Global Reporting Initiative	☐	☐	☐	☐	☒
Sustainability Accounting Standards Board	☐	☐	☐	☐	☒
International Integrated Reporting Framework	☐	☐	☐	☐	☒

10.1 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?

☐ Yes

☒ No

☐ Don't know / no opinion / not relevant

Question 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?

	1 (not at all)	**2** (to some extend but not much)	**3** (to a very reasonable extend)	**4** (to a very great extend)	**N.A.**
Global Reporting Initiative	☐	☐	☒	☐	☐
Sustainability Accounting Standards Board	☐	☐	☐	☒	☐
International Integrated Reporting Framework	☐	☒	☐	☐	☐

Task Force on Climate-related Financial Disclosures (TCFD)	☐	☐	☐	☒	☐
UN Guiding Principles Reporting Framework (human rights)	☐	☐	☐	☒	☐
CDP	☐	☐	☒	☐	☐
Climate Disclosure Standards Board (CDSB)	☐	☒	☐	☐	☐
Organisation Environmental Footprint (OEF)	☐	☒	☐	☐	☐
Eco-Management and Audit Scheme (EMAS)	☐	☒	☐	☐	☐

11.1 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?

☒ Yes

☐ No

☐ Don't know / no opinion / not relevant

Please specify the existing standard(s) or framework(s), whose principles and content should be incorporated in a potential common European non-financial reporting standard, and to what extent:

	Name of other existing standard or framework (no more than 3):	**Please rate from 1 to 4 as explained above (please use digits only)**
Other existing standard or framework #1	OECD MNE	
Other existing standard or framework #2	ILO	
Other existing standard or framework #3	UN Global Compact	

Question 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):

	Name of standard or framework (no more than 3):	Estimated cost of application per year, excluding any one-off start-up costs
Standard or framework #1		
Standard or framework #2		
Standard or framework #3		

Question 13. In your opinion, would it be useful for there to be a simplified standard and/or reporting format for SMEs?

☒ Yes

☐ No

☐ Don’t know / no opinion / not relevant

Question 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?

☐ Not at all

☐ To some extend but not much

☒ To a reasonable extend

☐ To a very great extend

☐ Don’t know / no opinion / not relevant

Question 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?

☒ Mandatory

☐ Voluntary

☐ Don’t know / no opinion / not relevant

Question 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?

☐ Not at all

☐ To some extend but not much

☐ To a reasonable extend

☒ To a very great extend

☐ Don't know / no opinion / not relevant

Question 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?

	1 (not at all)	**2** (to some extend but not much)	**3** (to a very reasonable extend)	**4** (to a very great extend)	**N.A.**
Investors	☐	☐	☐	☒	☐
Preparers	☐	☐	☐	☒	☐
Auditors / accountants	☐	☐	☒	☐	☐

Question 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?

	1 (not at all)	**2** (to some extend but not much)	**3** (to a very reasonable extend)	**4** (to a very great extend)	**N.A.**
Civil society representatives/NGOs	☐	☒	☐	☐	☐
Academics	☐	☒	☐	☐	☐

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

☐Yes

☒ No

☐ Don't know / no opinion / not relevant

Question 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?

	1 (not at all)	**2** (to some extend but not much)	**3** (to a very reasonable extend)	**4** (to a very great extend)	**N.A.**
European Securities Markets Authority (ESMA)	☐	☐	☐	☒	☐
European Banking Authority (EBA)	☐	☐	☐	☒	☐
European Insurance and Occupational Pensions Authority (EIOPA)	☐	☐	☐	☒	☐
European Central Bank (ECB)	☐	☒	☐	☐	☐
European Environment Agency (EEA)	☒	☐	☐	☐	☐
Platform on Sustainable Finance	☐	☐	☒	☐	☐

19.1 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?

☒Yes

☐ No

☐ Don't know / no opinion / not relevant

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

	Name of other European public body or authority (no more than 3):	**Please rate from 1 to 4 as explained above (please use digits only)**
Other European public body or authority #1	European Financial Reporting Advisory Group	**3**
Other European public body or authority #2		
Other European public body or authority #3		

Question 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?

	1 (not at all)	**2** (to some extend but not much)	**3** (to a very reasonable extend)	**4** (to a very great extend)	**N.A.**
National accounting standards-setters	☐	☒	☐	☐	☐
Environmental authorities	☒	☐	☐	☐	☐

20.1 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?

☐Yes

☒ No

☐ Don't know / no opinion / not relevant

Please provide any comments or explanations to justify your answers to questions 8 to 20:

There are pros and cons in the co-existence of different standards and the flexibility for investee companies to disclose in a way they deem appropriate. Harmonising corporate ESG disclosures would contribute to enhanced comparability and consistency. However, one size does not fit all. Materiality remains key to assess what is relevant for companies of different sizes and sectors. Thus, we suggest to provide an approach whereby several key disclosures and / or KPIs are mandatory, while other information should be disclosed if material and sector specific. Mandatory information should be defined based on what investors will absolutely need to comply with in the EU taxonomy and SFDR disclosures.

Standardisation should not be limited to climate-related information. Investors also need other environmental data to assess alignment with the EU taxonomy as well as social and governance information to comply with SFDR.

Investors also need information to assess the adverse impact. We therefore support the concept of double materiality, and we do believe that NFRD should reflect and be consistent with the information needed to comply with the final disclosure requirements provided for in SFDR and the EU taxonomy.

Timing and the sequencing of different regulatory requirements is problematic. Level 2 requirements on SFDR are under development and will not be finalized before Q1 or Q2 2021. Meanwhile, requirements resulting from the NFRD review shall be aligned with the final Level 2. Moreover, the EU taxonomy disclosures apply as of 1 January 2022 for the climate objectives and as of 1 January 2023 for others, while SFDR applies as of March 2021. Thus, NFRD review shall be completed as swiftly as possible.

While a European non-financial reporting standard can be helpful, for standards to be effective in a global market, they need to be supported at the international level. We understand this is a key priority for the EU and we believe the EU can assume a leading role in the international debate and help setting standards that are globally recognised.

To comply with the requirements of the SFDR and EU taxonomy, as well as the changes to the UCITS, AIFM, MiFID II frameworks on the integration of sustainability risks and factors, financial market participants will need corporate disclosures on:

- sustainability risks and opportunities,
- adverse impact of a company's activities on sustainability factors,
- revenues and CapEx/OpEx from/on the economic activities qualifying as environmentally sustainable according to the EU taxonomy.

We understand that none of the **existing standards would satisfy all of the investors' and compliance induced needs**. However, we should avoid re-inventing the wheel and, to the extent possible, create a framework based on the best of existing, ideally internationally recognised standards. Striving for comparability and compatibility at the international level is key as companies, investors and capital markets are increasingly global. In responses to Q 11 and 11.1 we rate the usefulness of standards, based on members' feedback.

Qs 13-15: We support the idea of a simplified standard for listed SMEs. A well-designed proportionate standard has the potential to help SMEs with ESG disclosures. However, referring to "SMEs" is ambiguous. We believe a reference "small and mid-caps" or "listed SMEs" would be more appropriate.

Q 19-20: We believe that involvement of ESAs and EFRAG is instrumental to developing the standards on ESG disclosures. ESAs are already heavily involved in developing SFDR Level 2. Meanwhile, NFRD should be aligned with the final SFRD provisions.

EFRAG has been heavily involved in developing financial standards providing it with useful expertise. Since the development of the Corporate Reporting Lab, EFRAG has developed expertise on ESG disclosures also. Given it's nature as a European body advising the European Commission on corporate reporting, it is very well placed to be actively involved in developing an EU standard on non-financial information.

Regarding the involvement of the Platform on Sustainable Finance, we believe the platform is key in shaping the future of sustainable finance in Europe, focusing on the development of the EU taxonomy. However, bodies we recommend to be involved in developing non-financial standard are already members of this platform. Hence, to avoid duplication of the organisations to be involved, we set the score at 3.

Concerning ECB, due to its different nature compared to ESAs and due to its banking supervisory and macroprudential role, we think it should be less involved than ESAs, EFRAG or the future Platform on Sustainable Finance.

3. Application of the principle of materiality

Question 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?

☐ Not at all

☐ To some extend but not much

☒ To a reasonable extend

☐ To a very great extend

☐ Don't know / no opinion / not relevant

Question 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?

☐ Not at all

☒ To some extend but not much

☐ To a reasonable extend

☐ To a very great extend

☐ Don't know / no opinion / not relevant

Question 23. Is there is a need to clarify the concept of 'material' non- financial information?

☒Yes

☐ No

☐ Don't know / no opinion / not relevant

Question 23.1 If you do think there is a need to clarify the concept of ‘material’ non-financial information, how would you suggest to do so?

We would like to highlight the key role of corporates and investors in assessing whether information is material.

However, it is of key importance to align the concept of materiality under NFRD with the provisions incumbent upon investors in terms of dealing with sustainability risk and adverse impact provided for in the SFDR. In this respect, the concept of 'material' non-financial information should be clarified and the current definition needs to be modified to explicitly refer to 'non-financial' information. It should appropriately capture the nature of non-financial information and help corporates and investors judge which ESG information is material

This would also bring more clarity as to whether information is material due to the risks on the financial performance of the company, or whether the risk is associated with the company's environmental and social footprint. In this respect, we believe that additional clarification regarding the concept of dual-materiality is needed.

Lastly, we would like to mention that while the double materiality and adverse impact considerations are somewhat controversial, financial impact of ESG factors is increasingly recognized. Materiality is crucial as there is a risk of financially material ESG issues being drowned out by excess information on ESG topics. Therefore it is key that companies disclose how they perform materiality assessment to help investors assess which information is most material for their investments.

Question 24. Should companies reporting under the NFRD be required to disclose their materiality assessment process?

☒Yes

☐ No

☐ Don’t know / no opinion / not relevant

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

23. Materiality is an important principle for the reporting, both for the reporting entity and for the entity using the information. However, information could be both financially material and material in other dimensions, such as environmental or social considerations, and the line between financial and non-financial aspects is increasingly blurry. Moreover, we appreciated that the concept of materiality covers both financial material and stakeholder material considerations. These two are distinct and complementary for companies as they address the information needs or expectations of different audiences, and may also reflect different time horizons.

24. Today, it is often difficult for investors to understand the way materiality assessments are built. The criteria and processes companies follow when reporting information on their development, performance and position should therefore be available. At the same time, materiality in relation to an investment is determined by the investor. We should set an appropriate disclosure framework that requires companies to disclose: 1) key essential ESG data, 2) optional indicators based on what they consider material. In terms of what is material

for the investment, it should be left at the discretion of the investor. In all these terms, it is of key importance to align the concept of materiality under NFRD with the provisions incumbent upon investors in terms of dealing with sustainability risk and adverse impact.

4. Assurance

Question 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?

☒ Not at all

☐ To some extend but not much

☐ To a reasonable extend

☐ To a very great extend

☐ Don't know / no opinion / not relevant

Question 26. Should EU law impose stronger assurance requirements for non-financial information reported by companies falling within the scope of the NFRD?

☒Yes

☐ No

☐ Don't know / no opinion / not relevant

Question 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?

☒Reasonable

☐ Limited

☐ Don't know / no opinion / not relevant

Question 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?

☒Yes

☐ No

☐ Don't know / no opinion / not relevant

Question 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)?

☒Yes

☐ No

☐ Don’t know / no opinion / not relevant

Question 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?

☒Yes

☐ No

☐ Don’t know / no opinion / not relevant

Question 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:

There are some merits in providing assurance based on a common standard. The main one is more comparability across investee companies. Moreover, we understand that if the company does not report against a common standard, the company itself has to define its own standard against which the auditor verifies the information.

However, we believe it is premature at this stage to decide on a specific standard as its choice should depend on whether the information is provided within the management report or in a separate report, as well as on the format and what information is provided.

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

☐Yes

☐ No

☒ Don’t know / no opinion / not relevant

Question 32. Do you publish non-financial information that is assured?

☐Yes

☐ No

☒ Don't know / no opinion / not relevant

Please provide any comments or explanations to justify your answers to questions 25 to 32:

Qs 25-26: We believe that the current differences in the assurance requirements between financial and non- financial information are not justifiable any longer and that non-financial information should be verified too, whenever possible. Reliability of information is key for investors and lenders to be able to trust the information. We therefore need 1) stronger assurance requirements for non-financial information reported by companies falling within the scope of NFRD, as well as 2) assurance on quantitative valuation (i.e. assurance on financial risk data). Q 27: We believe that a European framework should require reasonable assurance of non-financial information published pursuant to the NFRD. However, the specific sustainability-related information, including specific KPIs, are still under development. To ensure a proper transition and help reporting companies and assurers to adapt, a progressive approach could be envisaged, starting from a limited assurance, progressing to a reasonable one after some time. Qs 30-31: While it is possible to provide assurance on non-financial information without companies reporting against a specific non-financial reporting standard, there are some merits in companies disclosing information based on a common standard. The main advantage is enhanced comparability across investee companies. Moreover, we understand that in the absence of a common standard, a company has to define its own standard against which the auditor needs to verify the information. However, we believe it is premature at this stage to decide on a specific standard as the choice would depend on whether the information is provided within the management report or in a separate report, as well as on the format and type of information provided.

5. Digitisation

Question 33. To what extent do you agree or disagree with the following statements regarding digitalisation of non-financial information?

	1 (totally disagree)	**2** (mostly disagree)	**3** (partially disagree and partially agree)	**4** (mostly agree)	**5** (totally agree)
It would be useful to require the tagging of reports containing non- financial information to make them machine-readable.	☐	☐	☐	☐	☒
The tagging of non-financial information would only be possible if reporting is done against standards.	☐	☐	☐	☒	☐

All reports containing non-financial information should be available through a single access point.	☐	☐	☐	☐	☒

Question 34. Do you think that the costs of introducing tagging of non- financial information would be proportionate to the benefits this would produce?

☐ Not at all

☐ To some extend but not much

☒ To a reasonable extend

☐ To a very great extend

☐ Don't know / no opinion / not relevant

Question 35. Please provide any other comments you may have regarding the digitalisation of sustainability information:

The availability of reliable, comparable and publicly disclosed ESG data is highly likely to remain a challenge for financial market participants even after the initial years of the application of the EU taxonomy and after provisions of the revised NFRD are effective. The disclosures on investee companies both in the EU taxonomy and NFRD are confined to the scope of the latter. Even if the scope were to be enlarged, there will always be a large number of companies that will not be covered by these rules, for instance companies that are based outside the EU.

To demonstrate the magnitude of the problem, we would like to share some data on the proportion of assets invested by EU funds outside the EU:

- around 76% of UCITS equity funds' assets are invested outside the EU 27
- around 60% of UCITS bond funds' assets are invested outside the EU 27

Meanwhile, UCITS, with net assets worth EUR 11 trillion and representing 62% of all funds, largely represent most of the funds targeted to retail investors.

To address the challenge of insufficient availability of ESG data both in the short and long-term, we believe that an EU central database for ESG information or a single access point allowing access to all corporate non-financial should be provided for.

Governance of such a database is key to avoid the formation of any commercial monopoly or oligopoly for the provision of ESG data. The database will have to be accessible to all and operate on the basis of an open- data model. It could be provided by a public body directly, through a public-private partnership or by a not-for- profit grouping of market participants, under the supervision of a European public body.

In terms of data, we believe the aim should be to provide "raw" ESG data. It is important such data is provided in a machine readable format.

For companies that are or will be subject to EU rules requiring ESG disclosures, providing such data should be mandatory. However, companies outside the scope of such EU requirements, should be allowed to include such data on voluntary basis.

We recommend that such database includes not only regulated information (EU taxonomy, NFRD and other sectorial and environmental legislation providing for ESG disclosures), but – as mentioned above – also allows for voluntary disclosures by companies outside the scope of EU legal requirements. It would be helpful to access ESG information before the NFRD is reviewed and becomes effective.

This would very much facilitate access to ESG data not only for investors, but also other market participants and various European and national authorities. This is broadly reflected and emphasised in the letter in which EU financial industry speaks with one voice calling for the creation of a central EU ESG database: https://lnkd.in/d3uZ_jS.

We are pleased to hear that the Commissions is exploring opportunities to establish a single access point for public corporate information. We very much support the recommendations by the High-level Forum on CMU in this respect. We would also like to recall that Transparency Directive, as revised in 2013, already required to establish a European Electronic Access Point. The Directive obliged ESMA to:

- interconnect the national Officially Appointed Mechanisms (OAMs), responsible for compiling information disclosed by issuers having shares admitted for trading on regulated markets; and
- to provide a single access to such an interconnected European-wide database. ESMA was expected to deliver on that by 1 January 2018.

We understand that at the time this initiative was put aside due to what was believed to be excessive costs. Especially given the currently faced challenges, we believe that this could be re-considered, while investigating other, potentially even more appropriate solution, which should be extensively discussed with ESG data users.

Please provide any comments or explanations to justify your answers to questions 33 to 35:

We believe it would be useful to require tagging of non-financial reports to make them machine-readable. We however agree that tagging is only possible in case a standard is used. Moreover, as mentioned in the reply to question 35, a single access point or an EU database providing access to all non-financial reports as well as other disclosed ESG data, should be provided for and would facilitate access to ESG information not only for investors, but also for European and national supervisory authorities, as well as other stakeholders.

Greater use of digitalization will improve the usability and comparability of non-financial information. Whether the costs of introducing tagging of non-financial information would be proportionate to the benefits this would produce, the answers will vary depending on the perspective (the user of data vs. preparer). Nevertheless, it seems that given the current challenges (regulatory needs but more importantly the climate emergency), such step is necessary. However, we suggest that the best, state of the art solution is provided for (potentially considering the use of Artificial Intelligence) to ensure that the burden on the reporting entities is kept to a minimum.

6. STRUCTURE AND LOCATION OF NON-FINANCIAL INFORMATION

Question 36. 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:

	1 (not at all)	**2** (to some extend but not much)	**3** (to a very reasonable extend)	**4** (to a very great extend)	**N.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).	☐	☐	☒	☐	☐
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.	☐	☐	☐	☒	☐

Question 37. Do you believe that companies should be required to disclose all necessary non-financial information in the management report?

☒Yes

☐ No

☐ Don’t know / no opinion / not relevant

Question 38. 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?

	1 (totally disagree)	**2** (mostly disagree)	**3** (partially disagree and partially agree)	**4** (mostly agree)	**5** (totally agree)	**Don't know / no opinion / not relevant**
Legislation should be amended to ensure proper supervision of information published in separate reports.	☐	☐	☐	☐	☒	☐
Legislation should be amended to require companies to file the separate report with Officially Appointed Mechanisms (OAMs).	☐	☐	☐	☐	☒	☐
Legislation should be amended to ensure the same publication date for management report and the separate report.	☐	☐	☐	☐	☒	☐

Question 38.1 Please provide any comments regarding the location of reported non-financial information:

In a way, the location of non-financial information holds less importance than its credibility, transparency and quality. However, the risk for non-financial statements being less scrutinized and assured (not mentioning the legal liability of directors) if they are reported outside the management report, is a good reason for them to be included in the management report. Moreover, such separate reporting may obscure a possibility to consider both financial and non-financial information and their increasingly relevant interlinkages.

This would also ensure that both financial and non-financial information is published at the same time, which helps investors analyse information. While companies may prefer to have flexibility in allocating the resources dedicated to reporting over time, in would be convenient for investors, if reports were published more or less at the same time.

Going forward, we expect that non-financial reporting will increasingly become more standardized, based on quantitative metrics, and thus better embedded in the business narrative of the management report.

However, the key issue remains for users to be able to retrieve non-financial information in a standardized, digital format as it is possible today for financial accounts (at least in a national context). Thereby the discussion on where to publish information becomes much less important.

Question 39. 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?

☐ Not at all

☐ To some extend but not much

☒ To a reasonable extend

☐ To a very great extend

☐ Don't know / no opinion / not relevant

Please provide any comments or explanations to justify your answers to questions 36 to 39:

There are certain merits in providing such information together with a corporate governance statement, which also provides certain relevant non-financial information regarding the governance of the company.

7. Personal scope (which companies should disclose)

Question 40. 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?

	1 (totally disagree)	**2** (mostly disagree)	**3** (partially disagree and partially agree)	**4** (mostly agree)	**5** (totally agree)	**Don't know / no opinion / not relevant**
Expand scope to include all EU companies with securities listed in regulated markets, regardless of their size.	☐	☐	☐	☐	☒	☐
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).						
Expand scope to include all public interest entities, regardless of their size.	☐	☐	☒	☐	☐	☐

Question 41. If the scope of the NFRD were to be broadened to non-PIEs, to what extent would you agree with the following approaches?

	1 (totally disagree)	**2** (mostly disagree)	**3** (partially disagree and partially agree)	**4** (mostly agree)	**5** (totally agree)	**Don't know / no opinion / not relevant**
Expand the scope to include large non-listed companies.	☐	☐	☐	☒	☐	☐
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.	☐	☒	☐	☐	☐	☐
Expand the scope to include large companies established in the EU but listed outside the EU.	☐	☐	☐	☐	☒	☐
Expand the scope to include large companies not established in the EU that are listed in EU regulated markets.	☐	☐	☐	☐	☒	☐
Expand scope to include all limited liability companies regardless of their size.	☐	☒	☐	☐	☐	☐

Question 42. 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?

☐Yes

☐ No

☒ Don’t know / no opinion / not relevant

Question 43. To what extent do you agree with the following statements relating to possible changes of the personal scope of the NFRD for financial institutions?

	1 (totally disagree)	**2** (mostly disagree)	**3** (partially disagree and partially agree)	**4** (mostly agree)	**5** (totally agree)	**Don’t know / no opinion / not relevant**
The threshold criteria for determining which banks have to comply with the NFRD provisions should be different from those used by Non-Financial Corporates.	☐	☐	☐	☐	☐	☒
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.	☐	☐	☐	☐	☐	☒

Please provide any comments or explanations to justify your answers to questions 40 to 43:

40-41. We believe ESG may pose material risks and opportunities to companies regardless of their size. In addition, investors need information covering the widest possible universe of investment to be able to invest in those companies as well as to comply with the new regulatory requirements on ESG disclosures. If the coverage of ESG data as well as its comparability and reliability is not improved, the current situation, where investment mostly focused in blue-chip companies, could be further exacerbated. This would be counterproductive given the need for broader diversification to manage risks, as well as given that often small innovative start-ups provide for solutions which have a great potential of transforming our economy, the way we do business and our lives. And these companies need financing.

As mentioned in our responses to Q 40 and 41, to ensure that asset managers have as broad coverage of comparable, reliable and publicly available ESG data they need for their investment purposes and to meet the new EU regulatory requirements, we believe that the scope should be extended to include:

1) all EU companies with securities listed in regulated markets, regardless of their size (Q 40). However, we would like to highlight that listed financial products should not be captured as they already are subject to sustainability-related disclosure requirements provided by the SFDR. The latter is tailored towards specificities of financial products, while NFRD is aimed at corporate (real economy companies), disclosures reflecting their nature and activities.

2) large private companies (Q 41), to the extent they have listed debt.

Moreover, we do acknowledge that it may be challenging for smaller companies to produce the ESG disclosures. Therefore, as mentioned in the section dedicated to SMEs, we believe that there should be a simplified and proportional standard for ESG disclosures for listed SMEs within the scope. It should also be noted that given the scope, such companies are not what is commonly understood as "SMEs", meaning shops around the corner, but rather small and mid-capitalization companies. Concerning the current exemption for companies that are subsidiaries of a parent company that reports non-financial information at group level in accordance with the NFRD, we believe it should be maintained. However, we acknowledge that investors may need subsidiary reporting for e.g. their fixed income engagements and reporting. Meanwhile, currently it is not always easy to systematically track subsidiaries to their parent and group entities. Groups should make clearer in their reports, which subsidiaries are covered by the report. However, as mentioned, we do believe the current exemption should be maintained. To further promote disclosures of ESG data, the EU could consider tabling the inclusion of NFRD, or some of its elements, in negotiations on international trade agreements, thus requiring firms that collaborate or do business with EU companies to comply with its obligations.

8. SIMPLIFICATION AND REDUCTION OF ADMINISTRATIVE BURDENS FOR COMPANIES

Question 44. Does your company publish non-financial information pursuant to the NFRD?

☐Yes

☐ No

☒ Don't know / no opinion / not relevant

Question 44.2 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.

N/A

Question 45. To what extent do you agree with the following statements?

	1 (totally disagree)	**2** (mostly disagree)	**3** (partially disagree and partially agree)	**4** (mostly agree)	**5** (totally agree)	**Don't know / no opinion / not relevant**
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.						
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.	☐	☐	☐	☒	☐	☐
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.	☐	☐	☐	☒	☐	☐

Please provide any comments or explanations to justify your answers to questions 44 to 45:

Responding on behalf of the asset management industry, we are not really best placed to speak on behalf of the reporting entities (however some of our members also fall within the scope of the NFRD reporting obligations).

Nevertheless, from the discussions with investee companies and their representatives, we understand that:

- Indeed, many 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. This is especially acute for small and mid-caps companies and in particular in the markets where NFRD obligations are relatively new, and where specific more detailed guidance (by the regulator or the industry body) has not been provided. In any case, national-level guidance, while it may have a useful local angle, in a broader picture leads to market fragmentation, running against the principles of the Capital Markets Union.

- As mentioned above, many companies are under pressure to complete various questionnaires circulated by sustainability rating agencies and data providers. However, we understand this challenge is even greater for small and mid-cap companies that have more limited resources.

* * *