CONSULTATION RESPONSE

REVIEW OF THE NON-FINANCIAL REPORTING DIRECTIVE

June 2020

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.
More information: www.unpri.org

For more information, contact:

Alyssa Heath
Head of EU & UK Policy
Alyssa.heath@unpri.org

Susanne Draeger
Senior Policy Analyst
Susanne.draeger@unpri.org

SUMMARY OF PRI RESPONSE

The PRI welcomes the opportunity to submit a consultation response under the review of the Non-Financial Reporting Directive.

The lack of high quality, relevant and comparable data remains one of the central challenges faced by investors seeking to integrate sustainability risks into their processes and increase their contribution to sustainability outcomes. The PRI is working with our global network of signatories to advocate for meaningful, forward-looking and globally comparable company and investor disclosure, to promote the inclusion of material ESG information alongside other financial data and to encourage consolidated and harmonisation of reporting standards and regimes.[1] In April 2020, the PRI released research demonstrating that the data gap in Europe is a major barrier to scaling up investors' contribution to the EU Green Deal.[2]

Since the PRI's foundation in 2006, the evidence base for the materiality of sustainability issues has grown exponentially[3]. This is borne out by the results of the PRI's own reporting framework[4].

The EU is developing a dual-track approach, with reform of the Non-Financial Reporting Directive alongside technical development of an EU Non-Financial Reporting Standard. Several of our recommendations may be applicable to both tracks, depending on the eventual structure of the disclosure regime.

The PRI key recommendations are as follows:

1. Quality and scope of non-financial information

The high-level principles of the existing NFRD cover a wide range of ESG issues. However, in practice, the framework remains vague and open to interpretation,[5] resulting in corporate disclosures which do not adequately respond to the needs of investors. Recent disclosure requirements for financial market participants such as *Regulation (EU) 2019/2088 on sustainability -related disclosures in the financial services sector* increase the level and sophistication of investor disclosure requirements, increasing the disconnect between the data investors are required to disclose, and the information they can access from underlying companies.

The PRI makes the following recommendations:

- **The NFRD review should ensure that corporate disclosure requirements are aligned with financial market participant disclosure obligations, creating end-to-end sustainability reporting system.**
- **The scope of NFRD disclosures should be expanded to include Tax matters.**
- **While climate is technically included in the scope of the NFRD, the PRI recommends that climate be explicitly included in scope given the systemic and urgent nature of the climate challenge.**

[1] See Blueprint area: Driving Meaningful Data throughout markets. https://blueprint.unpri.org/
[2] https://www.unpri.org/sustainable-markets/investor-priorities-for-the-eu-green-deal/5710.article
[3] https://www.unpri.org/academic-research/how-esg-investing-affects-financial-performance/548.article?adredir=1
[4] For example, over 70% of signatories reporting that they incorporate ESG issues into their directly managed listed equity funds access raw ESG data, either directly or via service providers. Source: PRI Reporting Framework (data accessed May 2020).
[5] For example:
https://www.allianceforcorporatetransparency.org/assets/2019_Research_Report%20_Alliance_for_Corporate_Transparency-7d9802a0c18c9f13017d686481bd2d6c6886fea6d9e9c7a5c3cfafea8a48b1c7.pdf
https://www.cdsb.net/falling-short

2. Standardisation

The absence of comparable, standardised information from companies is one of the most common concerns with the existing NFRD. Companies and other issuers report using differing standards and KPIs, which are hard to link to the organisation's business model, to future trajectories and to the companies' alignment with global goals, such as The Paris Agreement. On the latter point, the EU Taxonomy is a step forward as it provides intensity based CO_2e emissions metrics aligned with the EU's climate neutrality commitment. This allows investors and other data users to directly identify the extent to which the company's business model is aligned with a net-zero economy.

The PRI supports regional and international progress on standardisation, and therefore welcomes the development of a proposed EU Non-Financial Reporting Standard. However, the PRI strongly believes that global harmonisation of standards is required to fulfil the needs of investors. The International Platform on Sustainable Finance could be used to further encourage international progress on standardisation.

The PRI therefore recommends:

- **The NFRD should provide for companies to disclose a set of standardised, mandatory Key Performance Indicators, for example directly drawing from the EU Non-Financial Reporting Standard when developed. These standards should:**
  - **apply consistently across Europe;**
  - **build from existing standards applied in the EU and internationally, with particular reference to the Taskforce on Climate-Related Financial Disclosures, existing TCFD guidelines embedded in the NFRD Non-Binding Guidelines and the recently introduced disclosure requirements for corporates under the Taxonomy regulation;**
  - **build from key elements of existing widely-used ESG reporting standards such as GRI and SASB;**
  - **enable investors and other stakeholders to understand a company's alignment with long-term sustainability goals, building from the approach taken with the EU Taxonomy;**
- **The EU should support and advance international dialogue around global harmonisation of Non-Financial Reporting Standards.**

3. Materiality

ESG issues are financially material. Such issues should already be considered to the extent relevant to the principles and definitions of traditional financial reporting. This was also suggested in a brief recently published by International Accounting Standards Board (IASB), stating climate-related risks and other emerging issues should be considered as part of reporting against existing IFRS standards, which are mandatory in Europe.[6]

Despite such clarifications, the inclusion of ESG data in traditional financial reporting is not yet sufficient. In addition, the definition of materiality is more limited than the "dual materiality" perspective offered by NFRD. Data on *impacts on society and the environment* is increasingly required by investors, particularly where seeking to respond to new requirements such as the regulation on sustainability-related disclosures in the financial services sector.

[6] https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en

The NFRD therefore plays an important dual role. It can create awareness of the wide range of potential E, S and G issues that a company should consider, and it incorporates the real-world impact of a company's actions.

However, it is important that the revised NFRD does not provide unintentional signals that ESG issues are not relevant to financial reporting.[7] The term non-financial might be misleading and a terminology change to sustainability disclosure should be considered.

The PRI recommends that clearer links be drawn between the requirement to disclose financially material ESG information in existing financial reporting and the additional requirements of the NFRD.

4. Assurance

ESG data is financially material and used in investment decision-making. It should therefore be as reliable as financial information. **The PRI recommends that companies' disclosures under the NFRD, including ESG KPIs, are subject to third-party assurance in line with a recognised assurance standard.** Where feasible, reasonable assurance should be sought.

5. Structure and location of the Non-Financial Statement

The current NFRD allows the Non-Financial Statement to be disclosed in a separate report and at a six-month delay from mainstream filings. This increases the difficulty of connecting financial and non-financial data to develop a holistic overview of a company's risks and impacts.

The PRI recommends that the Non-Financial Statement and material ESG KPIs are incorporated into the management report.

[7] For example, in the existing non-binding guidelines underpinning the NFRD, a wide range of non-financial reporting standards are referenced but there is no link to IFRS.

CONSULTATION QUESTIONS

[Note to readers;
Formatting:
Text in italic is explanatory text from the consultation document
Question are formatted like this
PRI responses are formatted like this]

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	2	3	4	5	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.					x	
The limited reliability of non-financial information reported by companies pursuant to the NFRD is a significant problem.					x	
Companies reporting pursuant to the NFRD do not disclose all relevant non-financial information needed by different user groups.					x	

(1= mostly disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

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.

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 (no more than three matters).

Please specify which other non-financial matters (no more than 3):

- Climate-related issues
- Tax related issues

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.

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 (no more than three).

- TCFD alignment
- Tax related categories

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

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.*

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 extent but not much	To a reasonable extent	To a very great extent	Don't know

In order to ensure that the financial sector entities comply with the new disclosure requirements, laid down in the different pieces of legislation, in the most effective and efficient manner, there might be scope for better coherence between the different disclosure requirements.

Question 6: How do you find the interaction between different pieces of legislation (You can provide as many answers as you want)

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

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

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

[The following statement has been shortened in the submitted response.]
PRIs has recently been issued a research project to explore the investor implications, opportunities and challenges of the European Green Deal. The report "Investor Priorities for the EU Green Deal" published on 30 April 2020 sets out recommendations to inform sustainable finance policy priorities during this legislative period, to ensure that investors can scale up their contribution to the EU's sustainability goals. The review of the Non-financial reporting directive has been a crucial part of this research project and was named a top priority by interviewed investors.

The investors interviewed for this project were almost unanimous in stating that the data gap prevents them from contributing to the EU's objectives to their full potential. The majority of investors mentioned that available data is lacking quality to the extent that indicators are not being used or vary and data does not include all relevant non-financial information needed by investors. This does not allow investors to assess trajectories and evaluate companies' impact global goals such as the Sustainable Development Goals or the Paris Agreement. Further, available data is difficult to compare as there is variety of standards and reporting manners companies apply.

Aligning investor and corporate disclosure
The PRI recommends to create an end-to-end sustainability reporting system aligning corporate and investor disclosure in a way that allows for a rapid implementation of sustainable finance policy measures.

Climate matters
The PRI recommends setting out climate as a single non-financial matter. Although climate-related non-financial matters can be considered part of environmental matters, climate has already received

much more recognition as a financially material issue and has been widely integrated in other regulatory matters such as the Taxonomy or Benchmark regulation.

Furthermore, the amendment (EU) 2019/2089 to the Benchmark Regulation lays out requirements for the EU Paris-aligned Benchmarks and EU Climate Transition Benchmarks. To allow for a rapid uptake of the benchmarks, the PRI recommends integrating the disclosure obligation aligned requirements for underlying assets.

The Taxonomy regulation is amending regulation 2019/2088 to facilitate sustainable investment. The legal provisions related to non-financial reporting by companies under the scope of the non-financial reporting directive should define environmental matters on the basis of the six objectives set out in the taxonomy regulation and shall continuously updated according to the further development of the Taxonomy.

The FSB Task Force on Climate-Related Financial Disclosures (TCFD) has released its final recommendations in 2017 and the recommendations have been integrated in the European Commission's Guidelines on reporting climate-related information. PRI recommends implementing TCFD-aligned disclosure requirements as a mandatory disclosure obligation for all companies under the scope of the non-financial reporting directive by making the European Commission's Guidelines on reporting climate-related information a mandatory disclosure requirement under the non-financial reporting directive.

PRI recommends to include the following specific greenhouse gas emissions-related KPIs as a mandatory disclosure requirement:

- Greenhouse gas (GHG) emissions by scope of emission (scope 1, 2 and 3);
- scope 3 emissions shall be separated by upstream/downstream; also separated by GHG; split of emissions in estimated/measured/assured;
- absolute and intensity GHG emission reduction targets (e.g. GHG emission intensity planned in 5 and 10 years);
- sector-specific GHG emissions (e.g. t CO_2e per t of product for materials or GWh for utilities or per km for automotive etc.);
- alignment of emissions reductions targets with a net zero by 2050 trajectory.

Human rights matters

The PRI supports the suggestions made under the directive to rely on international standards such as the UN Global Compact, OECD guidelines for multinational enterprises, ISO 26000.

To ensure full alignment with the minimum safeguard requirements of the Taxonomy regulation, the PRI recommends aligning disclosure obligation with the United Nations Guiding Principles on Business and Human Rights (UNGPs) and their directives for businesses around respecting human rights.

Tax matters

The current country-by-country reporting requirements under Council Directive 2016/881/EU do not include public disclosure obligations on companies. The "Tax fraud and evasion - action plan on fraud/evasion and simpler taxation" is a welcomed starting point to further develop initiatives tackling tax fraud, make compliance easier and take advantage of the latest developments in technology and digitalisation. PRI recommends including Tax-related matters into the non-financial reporting directive.

Corporate tax avoidance can have adverse impacts on the profitability and sustainability of investee companies, affecting investors' portfolio returns. It can also limit governments' ability to allocate appropriate funds to critical services such as infrastructure, address externalities like climate change, undermine sustainable development and it can exacerbate economic inequality. These macro-economic impacts make corporate tax responsibility an important systemic issue for universal owners. Opacity around tax practices impairs sound analysis of tax risks and opportunities. In the absence of standardized and comparable reporting on tax, investors face challenges in monitoring and incorporating tax considerations in investment decisions, differentiating leaders and laggards and evaluating the extent to which companies' practices are aligned with their commitments on tax.

PRI research on corporate disclosure finds that companies most commonly report tax data required by regulations and accounting standards. We also find that voluntary disclosure on tax is patchy and does not meet investors' expectations. Very few companies publish voluntary country-by-country reporting. In fact, the PRI's collaborative engagement on tax transparency found that without policy intervention, companies may be reluctant to publish this information due to concerns relating to commercial sensitivity and competitive disadvantage. Therefore, PRI recommends that the non-financial reporting directive includes specific requirements for disclosure on tax to facilitate a level playing field for companies.

At the minimum, companies should be producing the below qualitative and quantitative information. These areas are aligned with the framework put forth by the GRI tax standard: 207. The PRI recommends that the below indicators should be incorporated into the non-financial reporting directive:

- a global tax policy that outlines the approach to responsible tax (including information on alignment of tax planning with commercial operations; extent of consideration of economic and social impacts of its approach to tax in developing its tax policy; any organizational commitments to sustainable development in the jurisdictions in which it operates and whether its approach to tax is aligned with these commitments);
- whether tax governance is part of the risk oversight mandate of the board, including the setting of clear responsibilities and mechanisms to maintain compliance with the firm's tax policy;
- how the approach to tax is embedded within the organization (including processes, projects, programs, and initiatives that support adherence to the approach to tax and tax strategy. For instance, via training and remuneration);
- the approach to tax risks, including how risks are identified, managed, and monitored (describing its risk appetite and tolerance and providing examples of tax practices it has avoided because they are misaligned with its approach to tax);
- public country-by-country reporting or reporting of financial, economic and tax related information for each tax jurisdiction where the company operates (including information on i. Names of the resident entities; ii. Primary activities of the organization; iii. Number of employees, and the basis of calculation of this number; iv. Revenues from third-party sales; v. Revenues from intra-group transactions with other tax jurisdictions; vi. Profit/loss before tax; vii. Tangible assets other than cash and cash equivalents; viii. Corporate income tax paid on a cash basis; ix. Corporate income tax accrued on profit/loss; x. Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax. for all tax jurisdictions where it operates, based on the most recent audited financial statements).

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).

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 extent but not much	To a reasonable extent	To a very great extent	Don't know

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

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.

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 4)?

	1	2	3	4	N.A.
Global Reporting Initiative			x		
Sustainability Accounting Standards Board			x		
International Integrated Reporting Framework	x				

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

Question 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?

No

Question 10.2: Please specify other framework or standard (no more than three.)

No PRI response

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).

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	2	3	4	N.A.
Global Reporting Initiative				x	
Sustainability Accounting Standards Board				x	
International Integrated Reporting Framework	x				
Task Force on Climate-related Financial Disclosures (TCFD)				x	
UN Guiding Principles Reporting Framework (human rights)			x		
CDP			x		
Carbon Disclosure Standards Board (CDSB)			x		
Organisation Environmental Footprint (OEF)	x				
Eco-Management and Audit Scheme (EMAS)		x			
Another framework or standard *					

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

Question 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

Question 11.2: 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):

EU Taxonomy

Please rate from 1 to 4 as explained above (please use digits only)

4

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 (max 3)	Estimated cost of application per year, excluding any one-off start-up costs.

No PRI response.

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.

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

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 extent but not much	To a reasonable extent	To a very great extent	Don't know

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

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.

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 extent but not much	To a reasonable extent	To a very great extent	Don't know

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	2	3	4	N.A.
Investors				x	
Preparers				x	
Auditors/accountants				x	

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

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	2	3	4	N.A.
Civil society representatives/NGOs			x		
Academics			x		
Other*					

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

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

No

Question 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:

No PRI response.

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	2	3	4	N.A.
European Securities Markets Authority (ESMA)				x	
European Banking Authority (EBA)				x	
European Insurance and Occupational Pensions Authority (EIOPA)				x	
European Central Bank (ECB)			x		
European Environment Agency (EEA)			x		
Platform on Sustainable Finance				x	
Other*					

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

Question 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?

No

Question 19.2: Please specify other European public bodies or authorities that you consider should be involved in the process of developing a European non-financial reporting standard (no more than three).

No PRI response.

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	2	3	4	N.A.
National accounting standards-setters				x	
Environmental authorities			x		
Other*					

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

Question 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?

No.

Question 20.2: Please specify other type of European public bodies or authorities that you consider should be involved in the process of developing a European non-financial reporting standard (no more than three).

No PRI response.

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

Standardization

The PRI supports global and regional action that further harmonises corporate reporting standards. While no single existing framework is fully comprehensive in the context of the NFRD objectives, a common European non-financial reporting standard applied by companies under the scope of the NFRD should ensure that it:

a. Builds on existing standards applied in the EU and internationally, and reflects work underway by standard setters, in particular, the technical work of SASB and GRI
b. Provides a coherent vision for how existing standards can and should work together; and
c. Supports international dialogue around global harmonisation of reporting standards.

Further, the PRI recommends elaborating specific disclosure requirements for specific industries and sectors aligned with country-based sector targets.

Materiality

The non-financial reporting directive should require companies to clearly articulate how the concept of materiality has been applied at the start of any report. Companies should also report the results of their materiality assessment processes, the stakeholders involved in the decision making, issues prioritized and how they are integrated in the corporate strategy. The PRI recommends obliging companies under the scope the NFRD to integrate a materiality assessment on non-financial matters in their annual management report.

Stakeholders to be involved

Above the mentioned public and private stakeholders that should be involved in the developments of the European non-financial report standards. The PRI believe that the involvement of the European supervisory authorities (ESAs) will be extremely helpful, to ensure alignment with the regulatory technical standards which are currently under development and will contain sustainability indicators in relation to adverse sustainability impacts.

Further, national institutions, such as standard setters, Ministries involved in the implementation and thematic priorities as well as national supervisory bodies should be involved to share experiences from member state level and allow for an early a buy-in.

Small and medium-sized enterprises

The PRI recommends a simplified reporting standard for SMEs so that they can be on par with larger organisations. This will also help larger corporations comply and advance their supply chain reporting.

APPLICATION OF 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.[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.

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*?

[**Internal Note:** According to Article 2(16) of the Accounting Directive 'material' means 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]

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent	Don't know

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*?

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent	Don't know

Question 23: Is there a need to clarify the concept of 'material' non-financial information? If you think there is a need to clarify the concept of 'material' non-financial information, how would you suggest to do so?

Yes

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?

The PRI recommends to analyse and review the concept of materiality under the development of the EU non-financial reporting standards and provide further guidance on materiality assessments. The approach in the UN Guiding Principles on Business and Human Rights (UNGPs), which uses the term salience to define something that is so prominent or important, that it stands out conspicuously, might be further assessed.

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

Yes	No	Don't know

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

No further comments.

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.

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?

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent	Don't know

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

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.*

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

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

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

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

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.

Third-party assurance of ESG information provides the highest form of confidence that the reported information is reliable and relevant.

The PRI recommends that assurance of non-financial information should be conducted by someone not involved in preparing the subject matter; have pre-defined criteria to evaluate the subject matter against; use an appropriate published assurance standard and result in a written conclusion, stating a level of confidence that the intended audience can have in the data or process.

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

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

No PRI response.

Question 32.1: If you publish non-financial information and that information is assured, please indicate the annual costs of such assurance.

No PRI response.

Question 32.2: If you provided an answer to the previous question, please describe the scope of the assurance services provided (issues covered, reasonable/limited, etc.).

No PRI response.

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

No further PRI comments.

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.

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

	1	2	3	4	5	Don't know / no opinion / not relevant
It would be useful to require the tagging of reports containing non-financial information to make them machine-readable.					X	
The tagging of non-financial information would only be possible if reporting is done against standards.					X	
All reports containing non-financial information should be available through a single access point.					X	

(1= mostly disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

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

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent	Don't know

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

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

The PRI recommends the development of a common, publicly accessible data space for companies' ESG information.

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.*

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	2	3	4	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).				X	
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.				x	

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

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

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

(1= mostly disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

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

The PRI recommends to adopt revised requirements of non-financial corporate reporting in a legislative form that requires comparable disclosure requirements at EU member state level.

The current NFRD allows the Non-Financial Statement to be disclosed in a separate filing and at a six-month delay from financial accounts. This increases the difficulty of connecting financial and non-financial data to develop a holistic overview of a company's risks and impacts.

The PRI recommends ensuring non-financial data is disclosed with and released at the same time as traditional elements of corporate and financial reporting.

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.*

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?

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent	Don’t know

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

PRI recommends to integrate the non-financial statements in the management report in a manner similar to the corporate governance statement.

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.*

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	2	3	4	5	Don't know / no opinion / not relevant
Expand scope to include all EU companies with securities listed in regulated markets, regardless of their size.				x		
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).					x	
Expand scope to include all public interest entities, regardless of their size.				x		

(1= mostly disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

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	2	3	4	5	Don't know / no opinion / not relevant
Expand the scope to include *large non-listed* companies.				x		
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.			x			
Expand the scope to include large companies established in the EU but listed outside the EU.				x		
Expand the scope to include large companies not established in the EU that are listed in EU regulated markets.		x				
Expand scope to include all limited liability companies regardless of their size.		x				

(1= mostly disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

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

Question 42.1: If you consider that there should be a specific competent authority in charge of supervising non-listed companies' compliance with the obligation of disclosing non-financial information, please specify who in your opinion should carry out this task (National Competent Authorities, European Supervisory Authorities, other...) and how:

No PRI response.

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:

- *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.*

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	2	3	4	5	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.						X
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.						X

(1= mostly disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

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

No PRI response.

SIMPLIFICATION AND REDUCTION OF ADMINISTRATIVE BURDENS FOR COMPANIES

Question 44: If your company publishes non-financial information pursuant to the NFRD, please state how much time the employees of your company spend per year carrying out this task, including time of retrieving, analysing and reporting the information? Please provide your answer in terms of full-time-equivalents (FTEs, 1 FTE= 1 employee working 40h a week during 250 working days per year). Please provide your answer for reports published in 2019, covering financial year 2018.

No PRI response.

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.

No PRI response.

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.

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

	1	2	3	4	5	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.						x
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.						x
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.						x

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(1= mostly disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

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

No PRI response.

ATTACHMENTS

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

[PRI reports and comments to be attached here]

- PRI Report "Investor Priorities for the EU Green Deal"