Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive

20 February 2020 - 11 June 2020

This document provides a factual overview of the contributions to the public consultation on the Review of the Non-Financial Reporting Directive that took place from 20 February 2020 - 11 June 2020. The content of this document should not be regarded as an official statement of the position of the European Commission on the subject matters covered. It does not prejudge any feedback received in the context of other consultation activities.

1. INTRODUCTION

1.1 The Non-Financial Reporting Directive

The Non-Financial Reporting Directive (Directive 2014/95/EU, the "NFRD") is an amendment to the Accounting Directive (Directive 2013/34/EU). It requires certain large companies to include a non-financial statement as part of their annual public reporting obligations. Companies under the scope of the NFRD had to report according its provisions for the first time in 2018 (for financial year 2017).

The NFRD applies to large Public Interest Entities with more than 500 employees. In practice it includes large listed companies, and large banks and insurance companies (whether listed or not) – all providing they have more than 500 employees.

The NFRD identifies four sustainability issues (environment, social and employee issues, human rights, and bribery and corruption) and with respect to those issues it requires companies to disclose information about their business model, policies (including implemented due diligence processes), outcomes, risks and risk management, and key performance indicators (KPIs) relevant to the business. It does not introduce or require the use of a non-financial reporting standard or framework, nor does it impose detailed disclosure requirements such as lists of indicators per sector.

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 means companies should disclose not only how sustainability issues may affect the company, but also how the company affects society and the environment. This is the so-called double materiality perspective.

In 2017, as required by the Directive, the Commission published non-binding guidelines for companies on how to report non-financial information. In June 2019, as part of the Sustainable Finance Action Plan, the Commission published additional guidelines on reporting climate-related information, which integrate the recommendations of the Task Force on Climate-related Financial Disclosures.

1.2 Purpose and timing of this consultation

In its Communication on the European Green Deal, the Commission committed to review the NFRD as part of the strategy to strengthen the foundations for sustainable investment. This public consultation is part of the overall consultation strategy to collect stakeholders' views on the review of NFRD. The consultation document was published on 20 February 2020. Due to the corona virus pandemic, the deadline for responses to was extended by one month, to 11 June 2020. According to the revised Commission Work Programme for 2020, the Commission expects to adopt a proposal regarding the NFRD in the first quarter of 2021.

2. SUMMARY OF KEY MESSAGES

Problems for users of non-financial information: The majority of respondents believe that the non-financial information reported by companies is deficient in terms of comparability (71% of respondents), reliability (60%) and relevance (57%). Looking just at respondents who identified themselves as users of non-financial information, those figures rise to 84%, 74% and 70% respectively.

Problems for preparers of non-financial information: 64% of respondents who are or who represent preparers (reporting companies) stated that additional requests for non-financial information, for example from rating agencies or NGOs, are a significant problem, and 38% experience significant problems regarding the complexity of the current situation and deciding what information to report.

Very strong support for a requirement on companies to use a common standard: 82% of respondents believe that a requirement on companies to use a common standard would address the identified problems.

Strong support for simplified standards for SMEs: 74% of respondents support the development of simplified standards for SMEs. 46% replied that such standards should be mandatory for SMEs, and 39% replied that they should be voluntary. The respective figures for respondents who are or who represent SMEs are 27% mandatory and 64% voluntary.

Strong support for stricter audit requirements: 67% of respondents believe that the EU should impose stronger audit requirements for non-financial information. If the EU were to introduce stronger audit requirements, respondents were evenly divided as to whether the requirement should be for limited assurance or reasonable assurance.

Strong support for digitalisation of non-financial information: 64% of respondents say that it would be useful to require the tagging of non-financial information to make it machine readable, and 65% say that all reports containing non-financial information should be available through a single access point.

Strong support for a requirement on companies to disclose their materiality assessment process: 72% of respondents believe that companies should be required to disclose their materiality assessment process.

Moderate support for requiring all information to be disclosed in the management report: 55% of respondents believe that all information should be disclosed in the management report, removing the option of publishing the information in a separate report.

Strongest support to expand the scope of the NFRD to certain categories of company. Respondents views on the possible expansion of the scope of the NFRD, ranked from most positive to least positive, were:

- Large companies not established in the EU but listed in EU regulated markets (72%)
- Large companies established in the EU but listed outside the EU (71% of respondents)
- Large non-listed companies (70%)
- All large public interest entities (in effect removing the current 500 employee threshold and applying the size thresholds set in the Accounting Directive) (62%)
- All EU companies with listed securities, regardless of their size (62%)
- All public interest entities, regardless of their size (45%)
- Remove the exemption for companies that are subsidiaries of a parent company (32%)
- All limited liability companies regardless of their size (21%)

Concerns about the interaction between different pieces of sustainability reporting legislation: 67% of respondents said that there is a need to streamline different pieces of legislation on sustainable finance, and only 3% of respondents believe that the interaction between different pieces of legislation works well.

Strong support to use taxonomy structure for environmental disclosures: 69% of respondents believe that the NFRD should define environmental disclosures according to the six environmental objectives set in the Taxonomy Regulation.

3. OVERVIEW OF RESPONDENTS

A total 588 organisations and persons responded to the consultation.

Individual companies were the biggest single group of respondents (32%), followed by business associations (20%) and non-governmental organisations (14%).

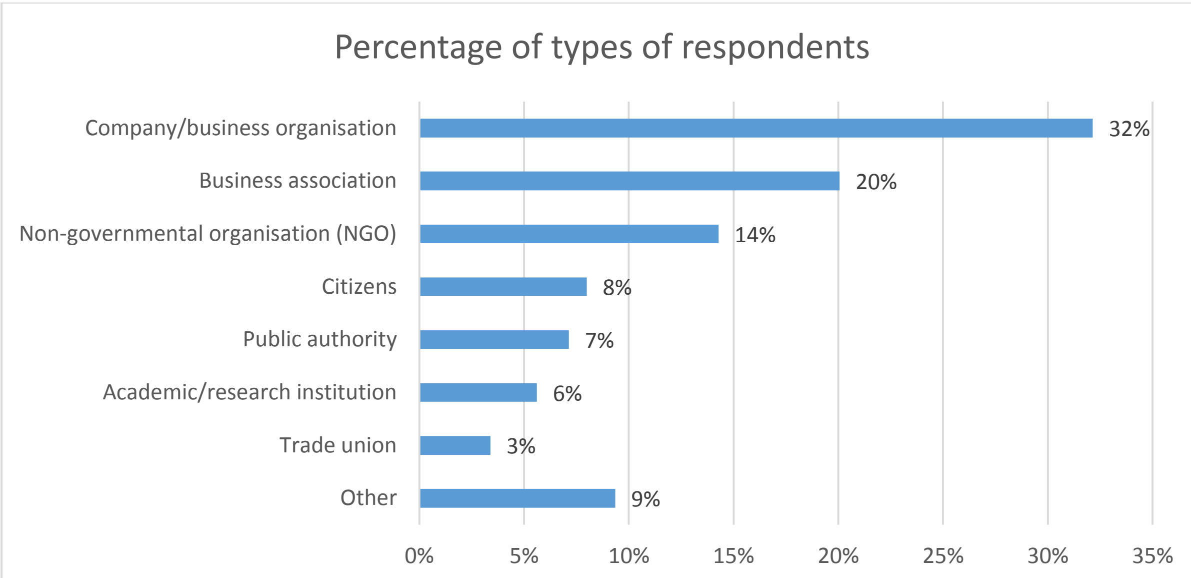


Figure 1

Of the respondents who were companies, 70% were large companies and 30% were SMEs.

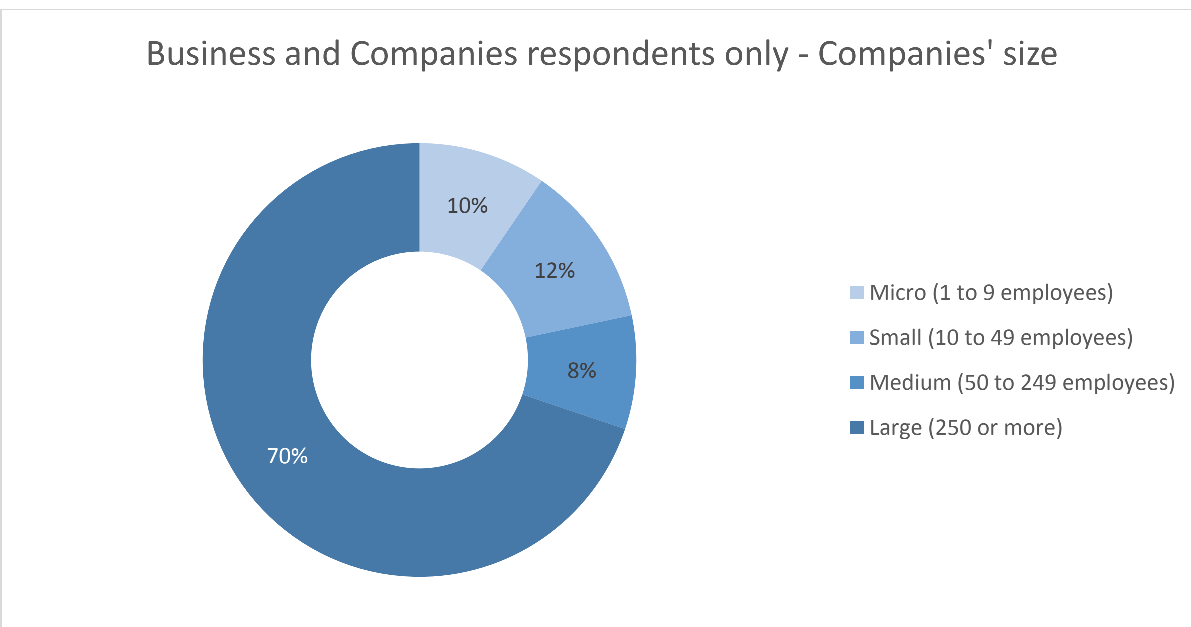


Figure 2

The country with the single largest number of respondents was Germany (18%), followed by Belgium (14%), France (10%) Spain (9%), Italy (6%) and the Netherlands (6%). The figure for Belgium is influenced by the high number of European-wide interest groups with offices in Belgium. From outside the EU there were significant proportions of responses from the UK (9%) and the US (4%).

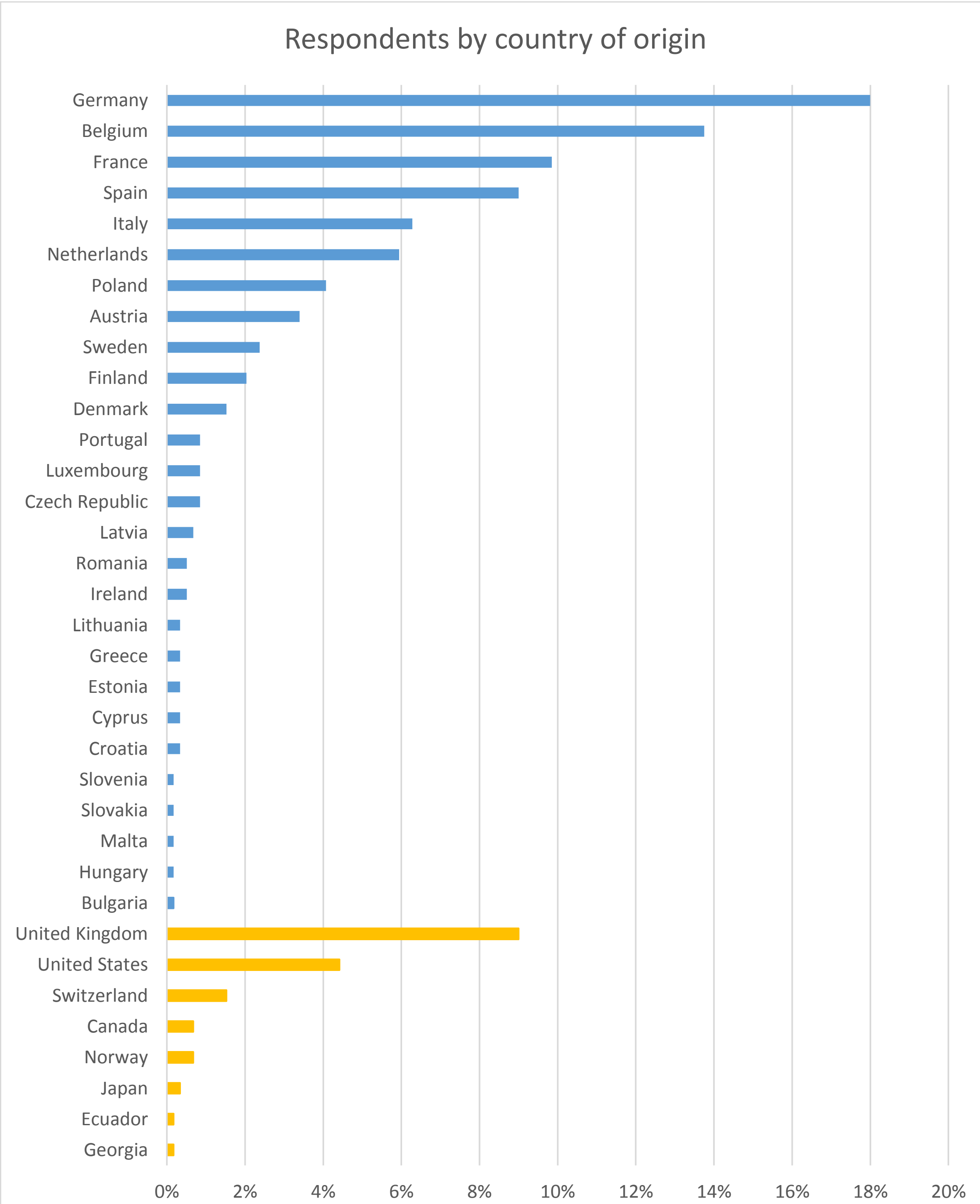


Figure 3

Respondents were asked to state whether they were preparers of non-financial information (that is to say, companies that report this information), or whether they were users of such information. 29% stated of respondents stated that they were both preparers and users of non-financial information, 22% were only users and 21% were only preparers.

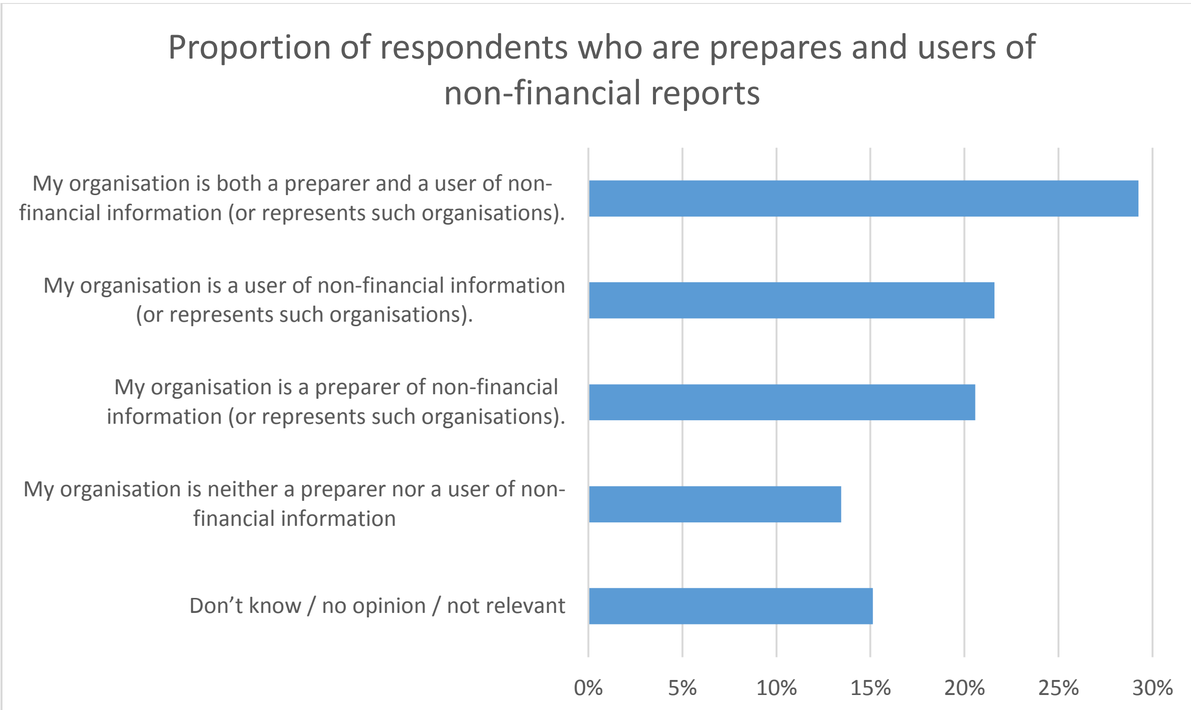


Figure 4

In addition to the distinction between users and preparers, for certain questions we have also determined large groups of respondents sharing specific attributes. These are: 1) social & environmental organisations, comprising environmental, social and consumer non-governmental organisations, and trade unions; and 2) financial sector, comprising companies or business associations who have activities in the banking, insurance, investment, or pension provider sectors.

4. SUMMARY OF RESPONSES PER QUESTION

The consultation consisted of 45 questions divided into 8 thematic sections. At the end of each section there was a possibility for respondents to provide additional comments.

This chapter provides detailed statistical results of the consultation for each question. We present the questions in the order in which they appeared in the consultation. At the end of each section we provide a summary of respondents' comments regarding that section.

4.1 Quality and scope of non-financial information to be disclosed (questions 1 – 7)

i. Problems with non-financial information currently reported

The consultation asked respondents to what extent they considered that there were problems with the reliability, comparability and relevance of non-financial information that companies currently report under the NFRD. The majority of respondents stated that there were problems with regard to all three issues, and in particular with regard to comparability. The proportion of users who consider there are problems with reported non-financial information is especially high: 84% of users responding to the consultation agreed that the limited comparability of information is a problem.

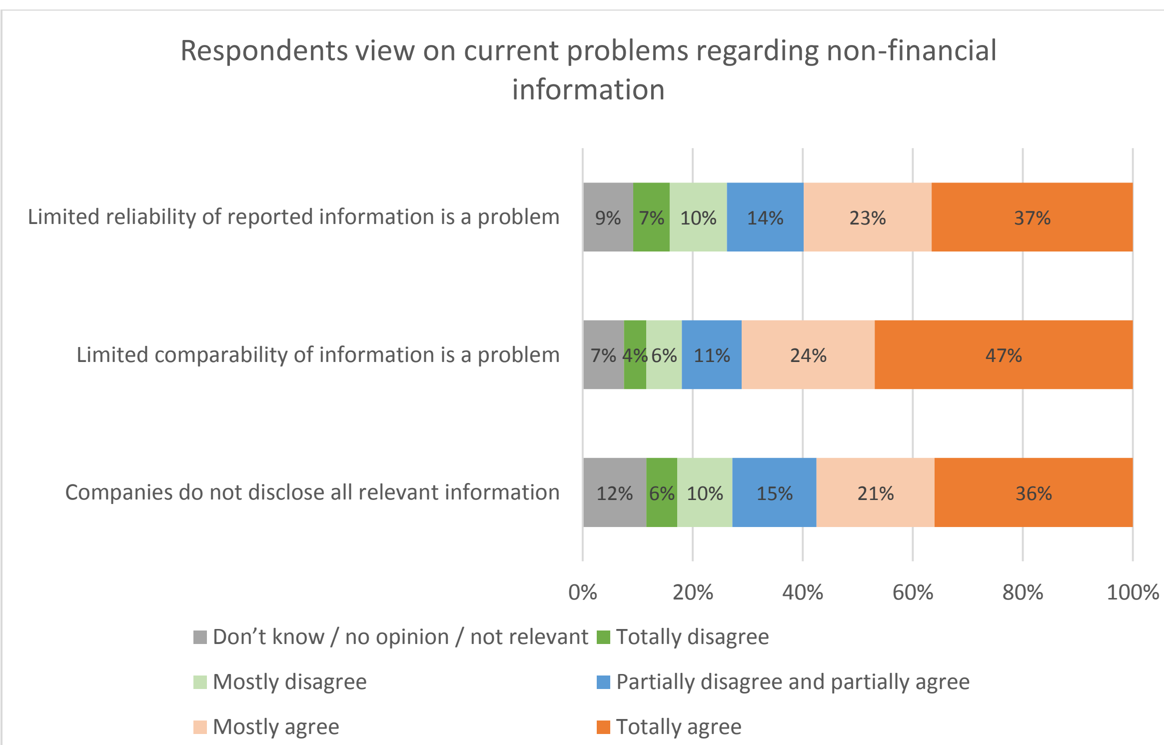


Figure 5

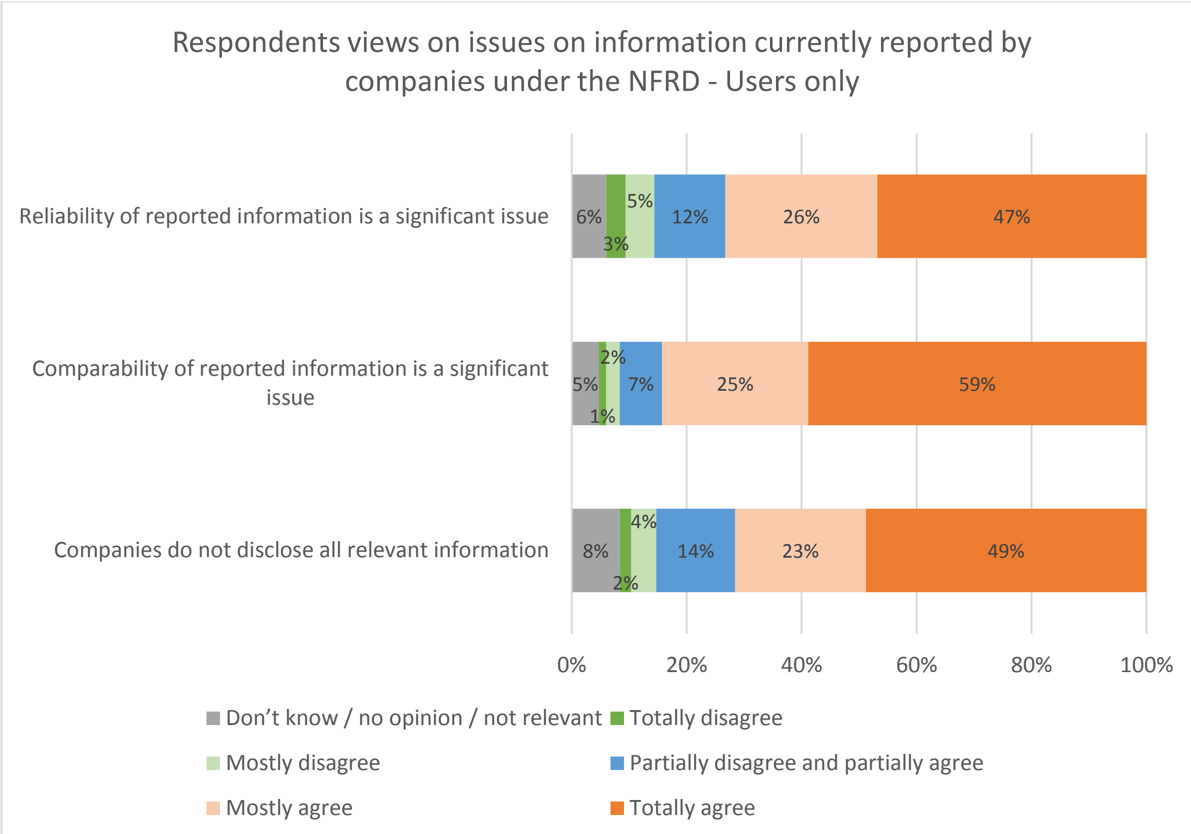


Figure 6

ii. Additional non-financial matters to report on

The consultation asked respondents whether companies should be required to disclose information about any non-financial matters in addition to those already specified in the NFRD (environment, social and employee issues, human rights, and bribery and corruption). Approximately 50 different non-financial matters were mentioned. The most frequent responses to this question were the Taxonomy Regulation, governance, and the supply chain; other responses make reference to lobbying, animal welfare, and consumer matters, amongst many others. Figure 7 shows the top 15 matters that make up 78% of the responses.

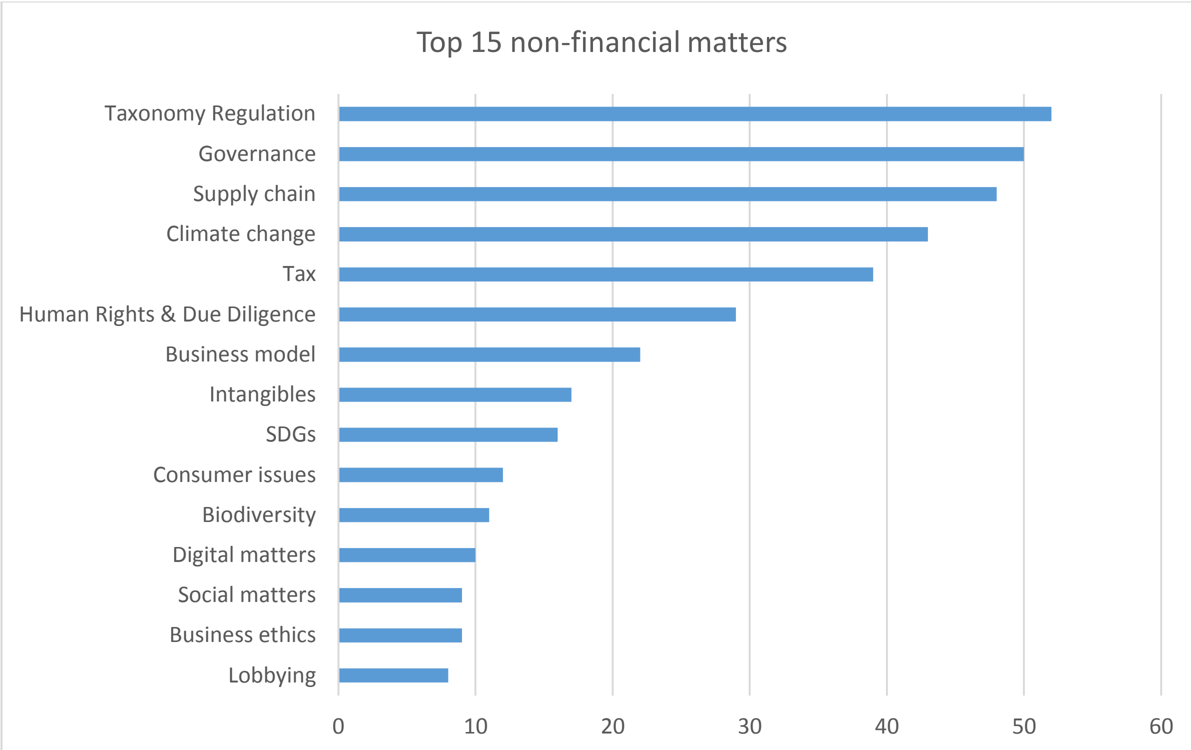


Figure 7

iii. Additional categories of non-financial information

The consultation asked respondents whether companies should be required to disclose information about additional categories of non-financial information in addition to those already specified in the NFRD (business model, policies, outcomes, risks and key performance indicators). Approximately 240 different categories were mentioned. The most frequent category respondents submitted is targets and companies' progress against targets. Other frequently mentioned categories were climate scenario analysis, forward-looking information, contribution to the UN Sustainable Development Goals, sustainability strategy, materiality assessment, the link between board remuneration and sustainability performance, and information aligned with the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR).

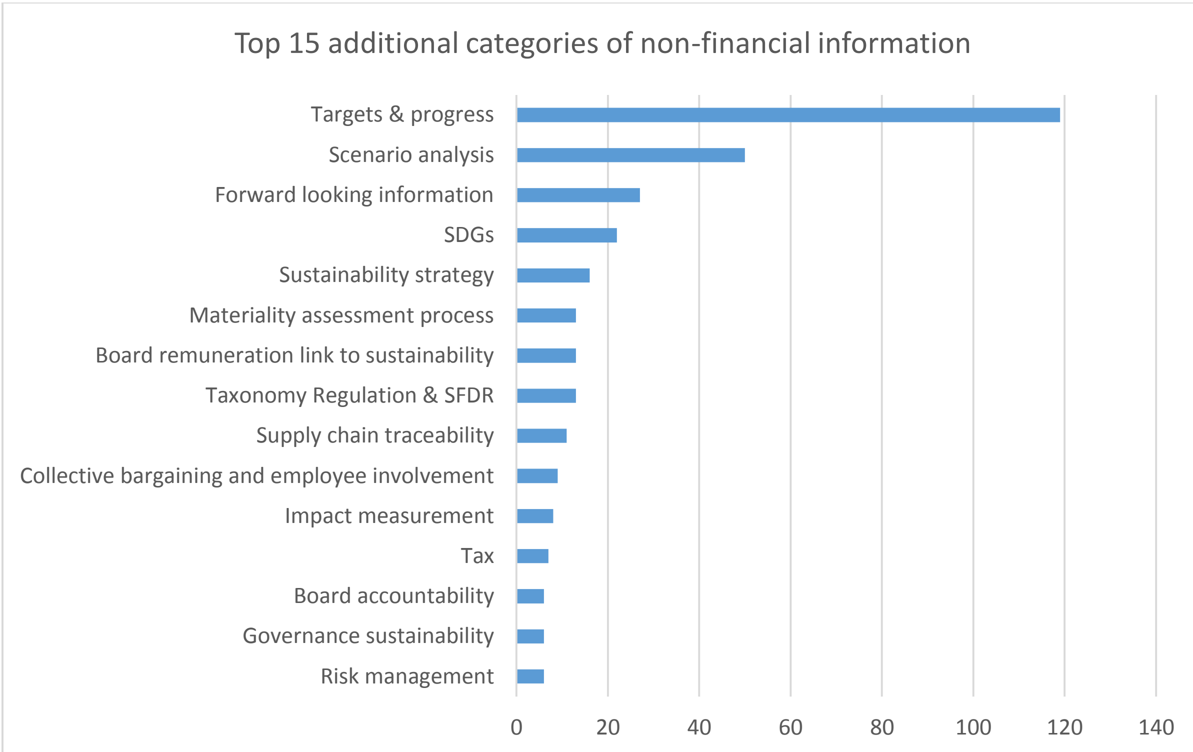


Figure 8

iv. Intangibles

The consultation asked whether companies should be required to disclose additional non-financial information regarding intangible assets or related factors, such as intellectual property, software, customer retention, and human capital. 50% of the respondents stated that companies should be required to disclose non-financial information on intangible assets. This view is stronger among only users of non-financial information (59% of the respondents).

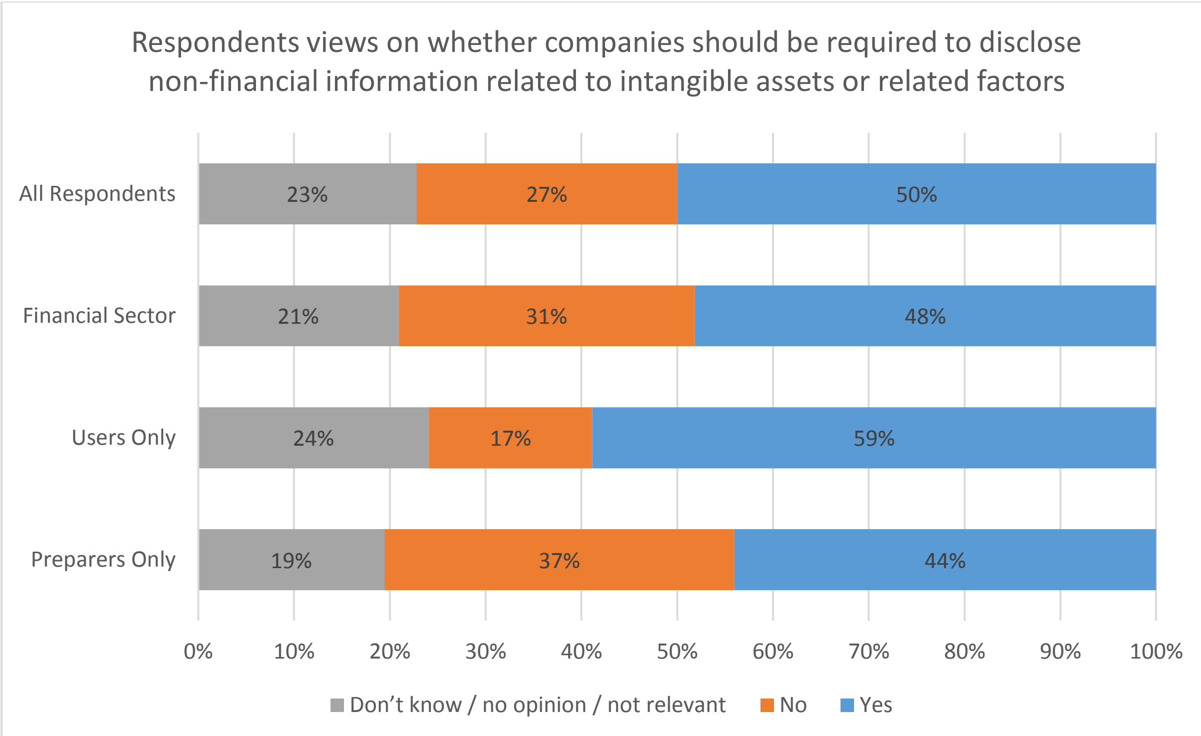


Figure 9

v. Information required by financial market participants

The consultation referred to other pieces of EU legislation that require the financial sector in particular to disclose sustainability information,[1] and asked whether the NFRD ensures that investee companies report the information that financial sector companies will need to meet their disclosure requirements. A minority of respondents (26%) believe that the current NFRD requirements ensure to a reasonable or a great extent that investee companies report sufficient information for financial sector companies to meet their disclosure regulations.

[1] (1) The Regulation on prudential requirements for credit institutions requires certain banks to disclose ESG risks as of 28 June 2022. (2) 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. (3) 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.

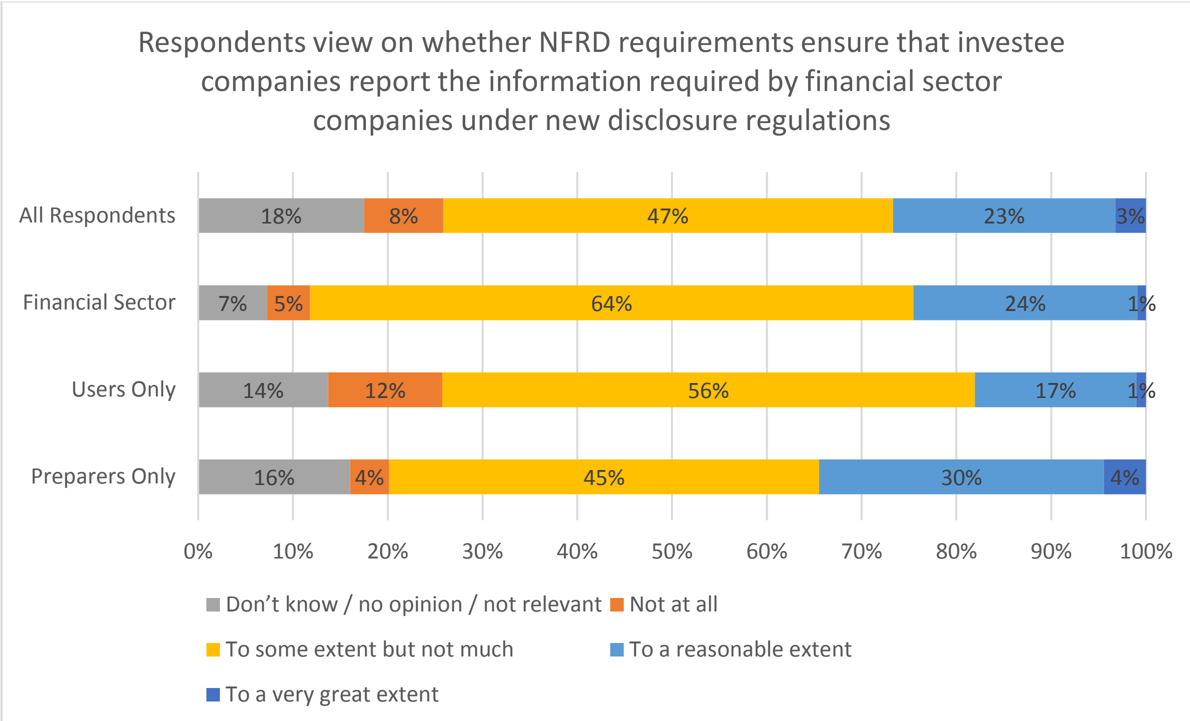


Figure 10

vi. Interaction between different reporting requirements

The consultation asked respondents for their views on the consistency and interaction between different pieces of EU legislation on sustainability reporting. A large majority of respondents (67%) indicate that there is a need to streamline different pieces of legislation, 36% indicate there are gaps and 29% indicate there is an overlap. For respondents from the financial sector (figure 12) the respective figures are higher: 79%, 45% and 39% respectively. Social and environmental organisations (Figure 13) believe more strongly than other groups that there are gaps in the legislation (54%).

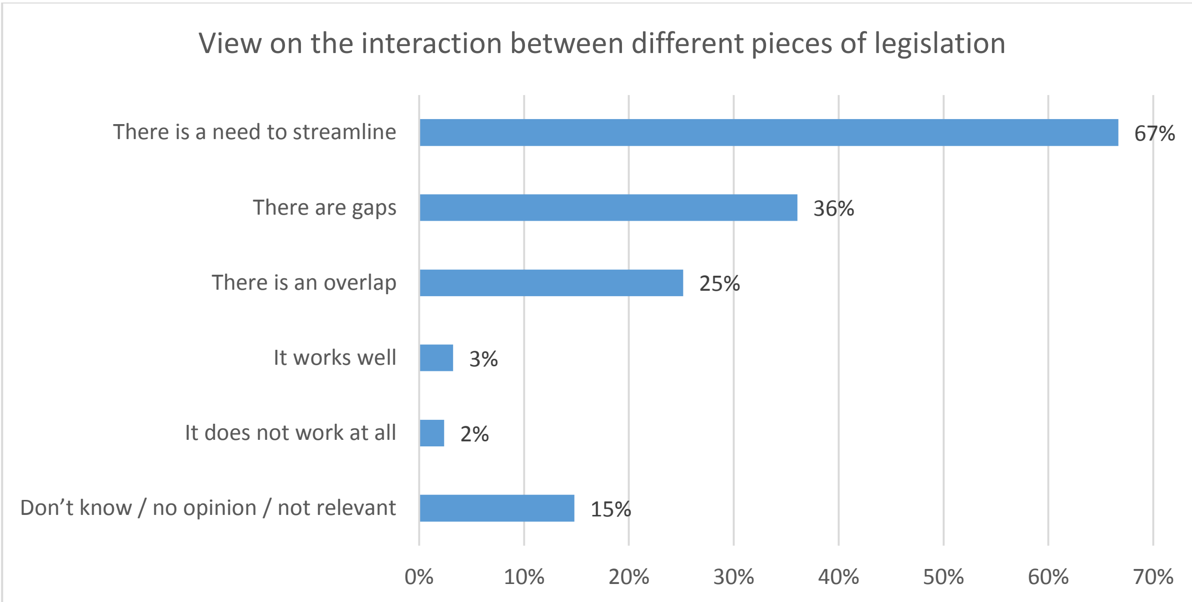


Figure 11

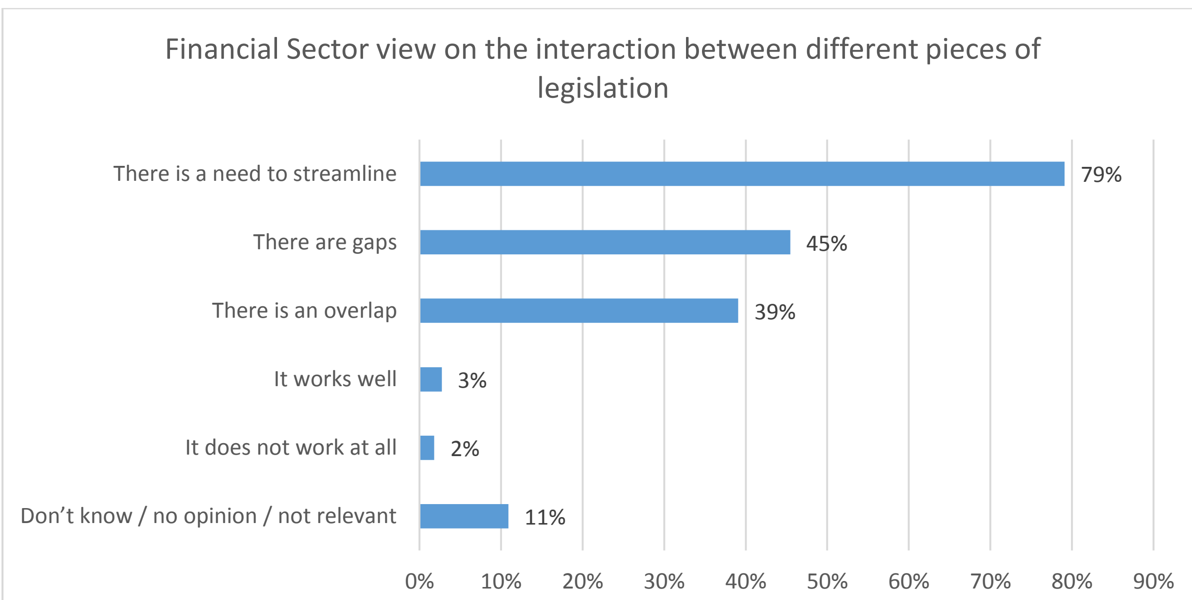


Figure 12

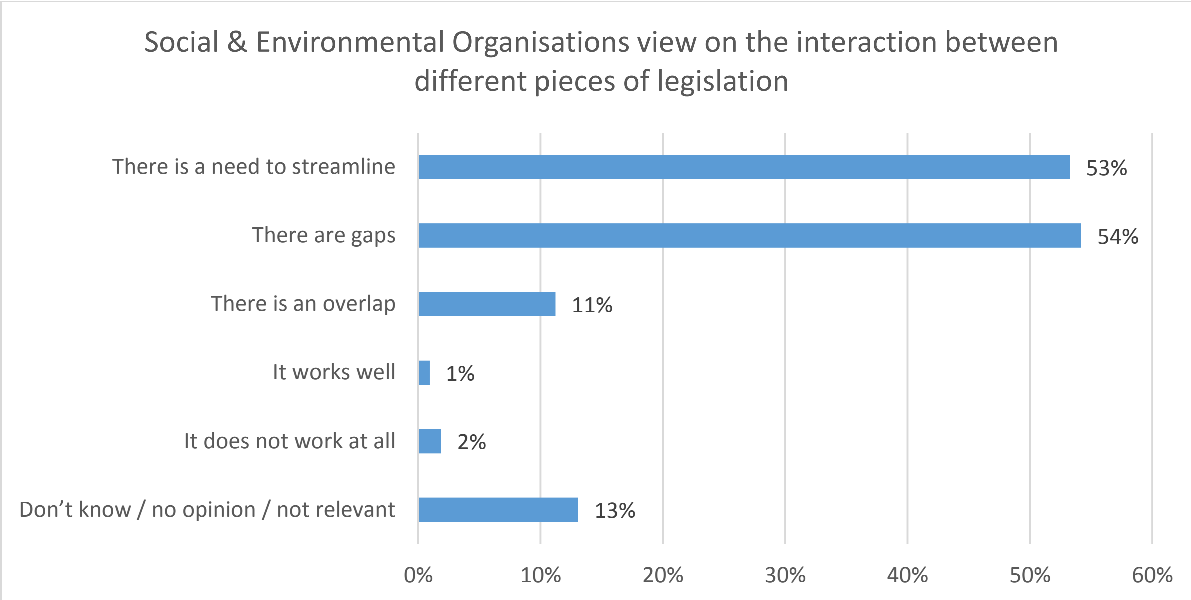


Figure 13

vii. Alignment with Taxonomy Regulation

The Taxonomy Regulation sets out six environmental objectives: (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. The consultation asked whether the NFRD should define environmental matters on the basis of these same six objectives. 69% of respondents agree that the legal provisions related to non-financial reporting should define environmental matters on the basis of the six objectives of the Taxonomy Regulation. This view is stronger amongst certain sub-groups of respondents, 81% of financial sector respondents, 77% of social and environmental organisations respondents, and 79% of users of non-financial information agree on defining the environmental matters on the basis of the Taxonomy Regulation objectives.

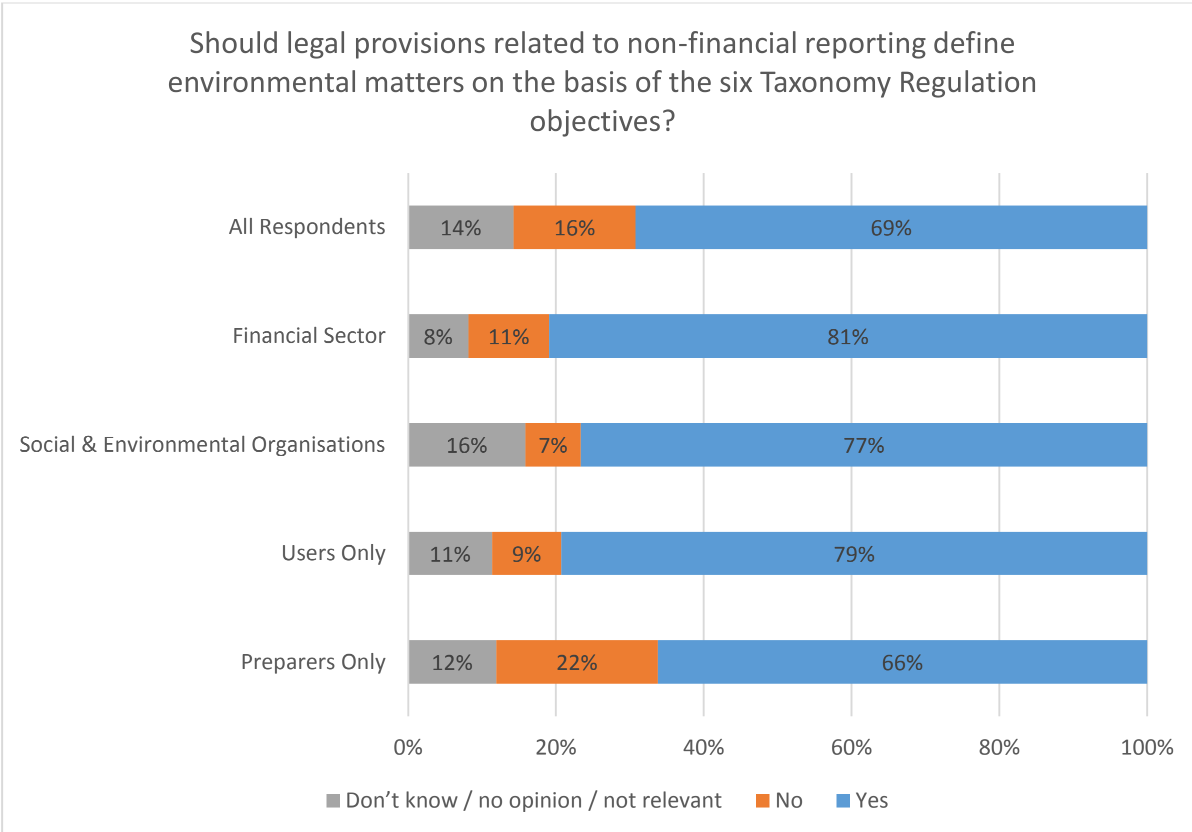


Figure 14

Summary of respondents’ comments regarding the quality and scope of non-financial information to be disclosed

Some of the respondents such as users and preparers stressed the need for more concrete and detailed definitions of what non-financial information should be disclosed. Some national standards setters even propose to make a description of the content to be included in each category (environment, social and employee issues, human rights, bribery, and corruption).

Moreover, some preparers state that governance matters could be treated more broadly, without being limited to bribery and corruption matters only. The scope of the governance matters could cover other topics relevant to business ethics and business conduct.

Some preparers are concerned about a possible enlargement of non-financial reporting to additional topics. It is important for them not to broaden the requested information but to harmonize the existing requirements among Member States and stop the fragmentation of national frameworks.

Some financial authorities point out that intangibles provide essential information about an issuer’s value creation potential and the lack of disclosure surrounding intangible assets creates an information gap between information available to issuers and that available to investors.

Moreover, reporting on assets like companies' human capital or customer base may provide information very valuable to understand the companies' sustainability profile. Some preparers consider that these issues are not mature enough to be included in the legislation, and that issuers should disclose non-financial information regarding intangible assets on a voluntary basis.

Some respondents such as financial authorities and environmental organizations believe companies should disclose forward-looking information on how they may be impacted in the future by sustainability-related risks and on how they plan to mitigate them. In addition, they considered that companies should report targets and scenario analysis, particularly in the case of climate change.

Most respondents stressed that all legislation regarding reporting and disclosure should be coordinated, avoiding gaps and overlaps. Many respondents argued that the revised NFRD should be aligned with the EU Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR), the pillar 3 requirements of the Capital Requirements Regulation, the EC Non-Binding Guidelines on Climate Reporting, and as much as possible in the EU context with widely adopted frameworks (e.g. TCFD recommendations or GRI).

According to some users, there is a timing mismatch between the application deadlines for the legislative measures, such as the SFDR and the Taxonomy Regulations and the foreseeable timing of the first non-financial reporting cycle under the revised NFRD. In this respect, many financial institutions drew attention to the difficulty to meet the requirements of the SFDR and the Taxonomy Regulation if the necessary information cannot be reliably obtained from their clients and investee companies.

Many respondents such as academics, credit rating agencies and business associations consider that common definitions of the environmental matters based on the six objectives set out in the Taxonomy Regulation would be helpful to streamline definitions and ensure, at least regarding these matters, the coherence between the NFRD and the SFDR. However, respondents also argued that such definitions should be broad enough to allow their adaptation to the specific activities of each company. In addition, some respondents stated that there are often links between the different objectives of the taxonomy, so that each environmental objective should not be considered in isolation but in a holistic way.

Other respondents such as accountancy associations stated that the EU taxonomy may inspire certain disclosure requirements under NFRD, but it should probably not become the sole reporting solution on environmental issues under the NFRD. They argued that the use and the objectives of the EU taxonomy and the NFRD framework are not entirely the same, and that the taxonomy may not cover all potential activities and cases that companies have to report under the NFRD.

Many respondents, including members of the financial sector, consider that to enhance comparability, consistency and standardization, the NFRD should take a form of a Regulation, rather than Directive.

4.2 Standardisation (questions 8 – 20)

i. Application of common reporting standard

The consultation asked respondents to what extent they believe the application of a common standard for non-financial information would resolve the problems of reliability, comparability, and companies not reporting all relevant information. 82% of all the respondents believe a common standard would solve the problems identified. The percentage of social and environmental organisations sharing this view is larger (90%).

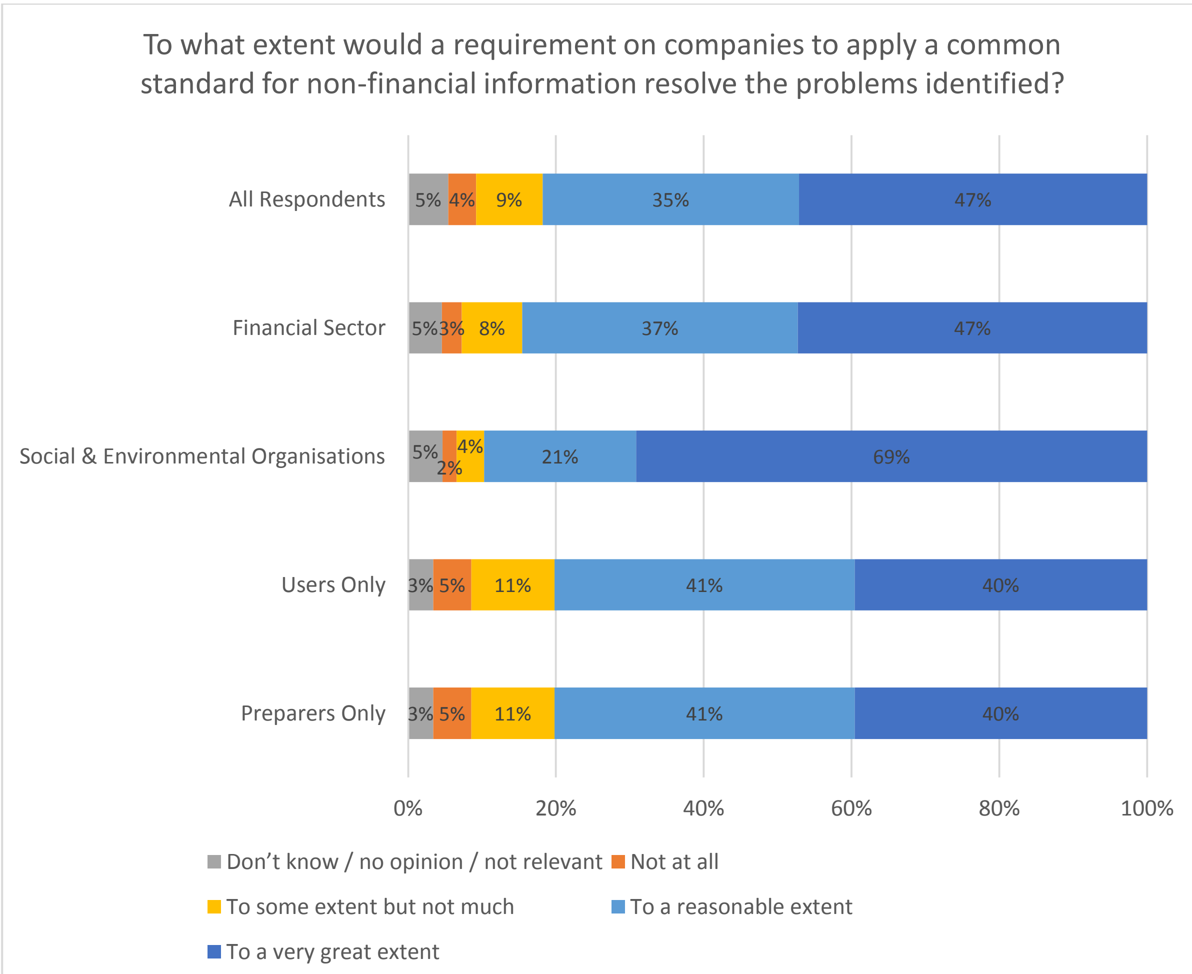


Figure 15

ii. Sector-specific elements in non-financial standard

The consultation asked respondents whether it is necessary that a standard applied by a company under the scope of the NFRD should include sector-specific elements. 80% of all respondents favour the inclusion of sector-specific elements in a reporting standard. The proportion of users who consider sector-specific elements should be considered is especially high: 89% of users responding to the consultation agreed that the non-financial reporting standard should include sector-specific elements.

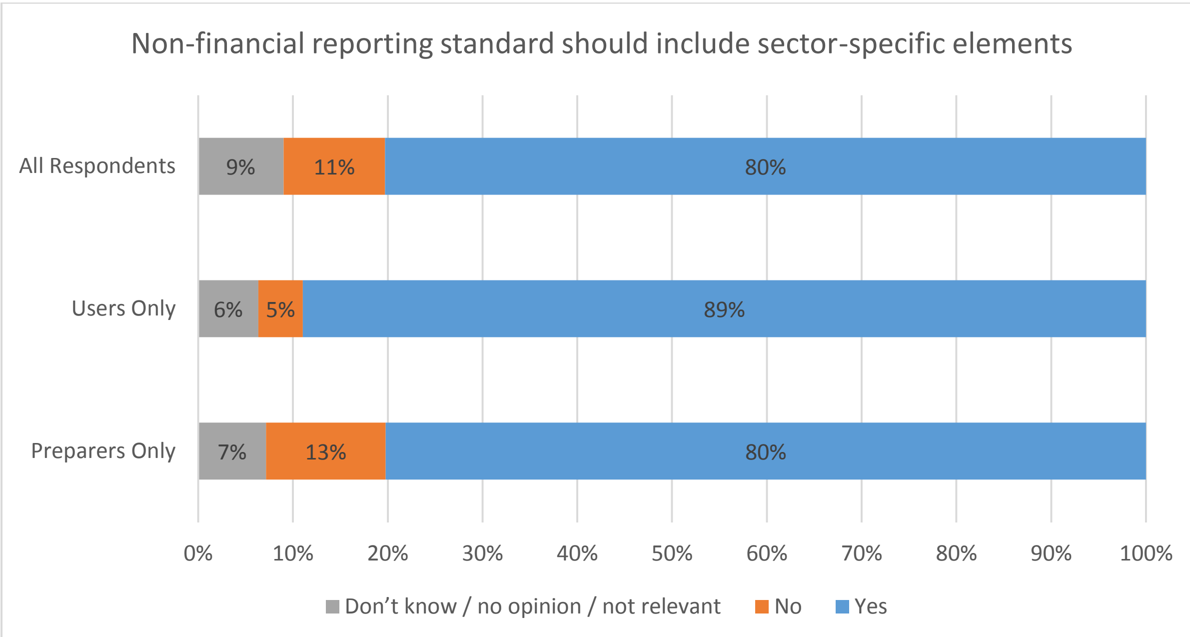


Figure 16

iii. Sole use of existing frameworks to report non-financial information

The consultation asked participants to what extent they believe the application of three existing standards or frameworks (the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and International Integrated Reporting Framework (IIRC)), applied on its own, would resolve the problems of reliability, comparability, and companies not reporting all relevant information while enabling companies to comprehensively meet the current disclosure requirements of the NFRD taking into account the double-materiality perspective. The GRI is the reporting framework for which more respondents agree could address these issues if applied on its own (51% of all respondents).

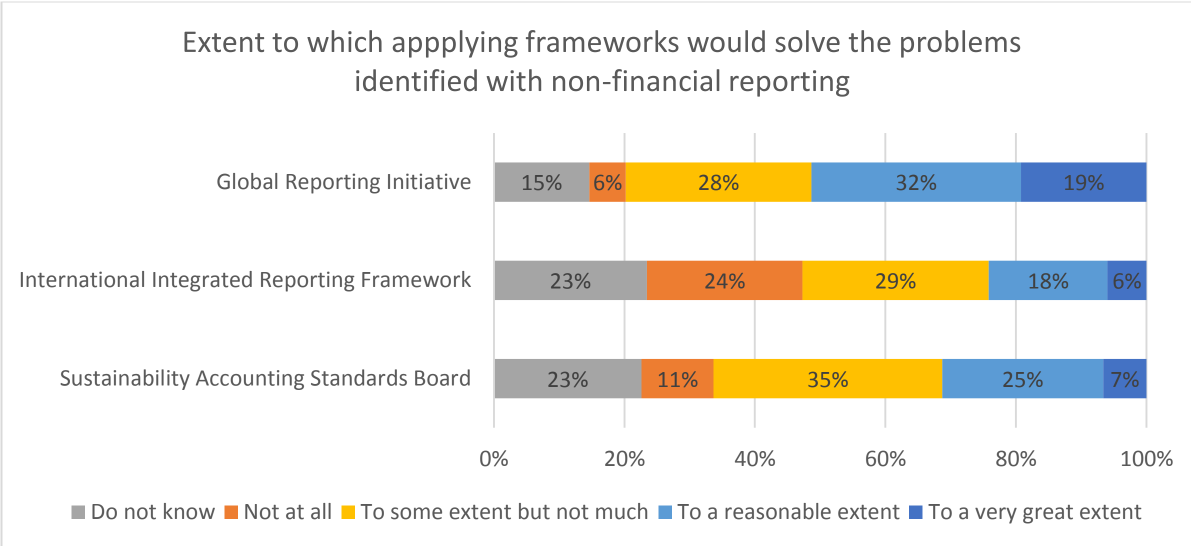


Figure 17

The consultation asked respondents to name any other framework or standard, that in their view, would solve the problems identified when applied by itself. Figure 18 shows the 10 frameworks that were mentioned most frequently in the responses. The most frequently mentioned additional framework was the Task Force on Climate Related Financial Disclosures (TCFD).

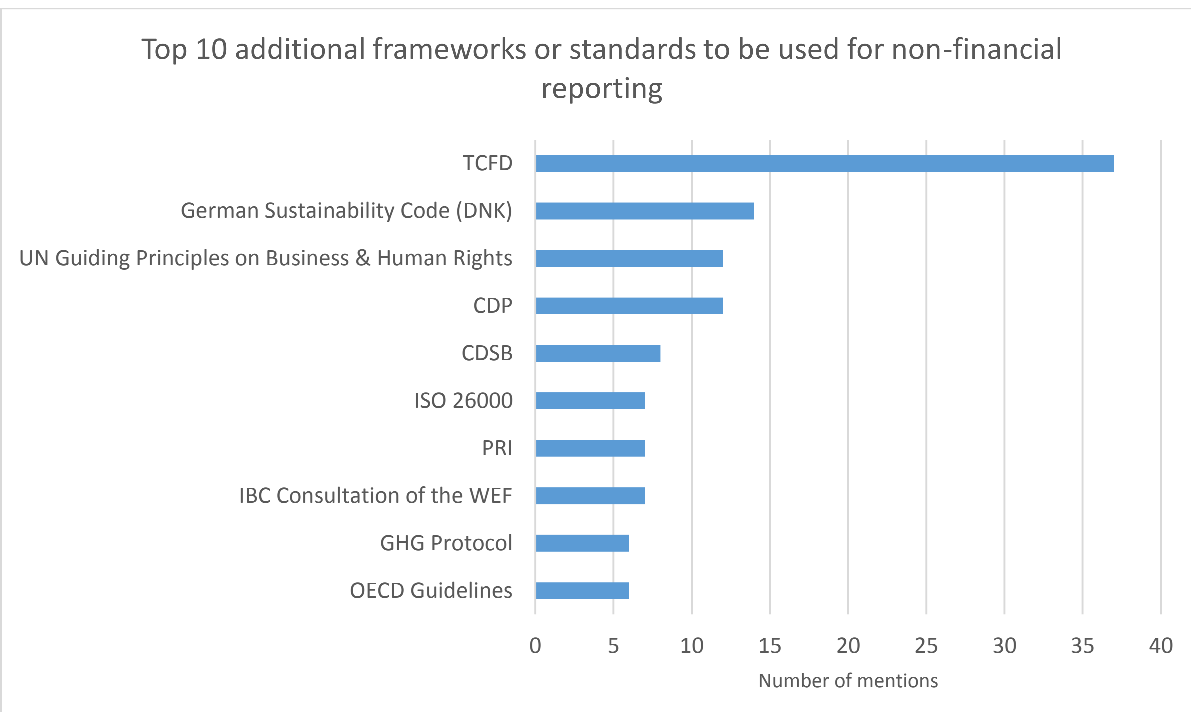


Figure 18

iv. Incorporation of existing frameworks in non-financial reporting standards

If there were to be common European non-financial reporting standards, the consultation referred to a variety of existing frameworks and standards, asking respondents to select the extent to which they think it would be important that a common European standard incorporates the principles and content of each one. 73% of respondents state that a common European non-financial reporting standard should incorporate the GRI, 71% agree it should incorporate the TCFD, and 64% the UN Guiding Principles Reporting Framework (human rights).

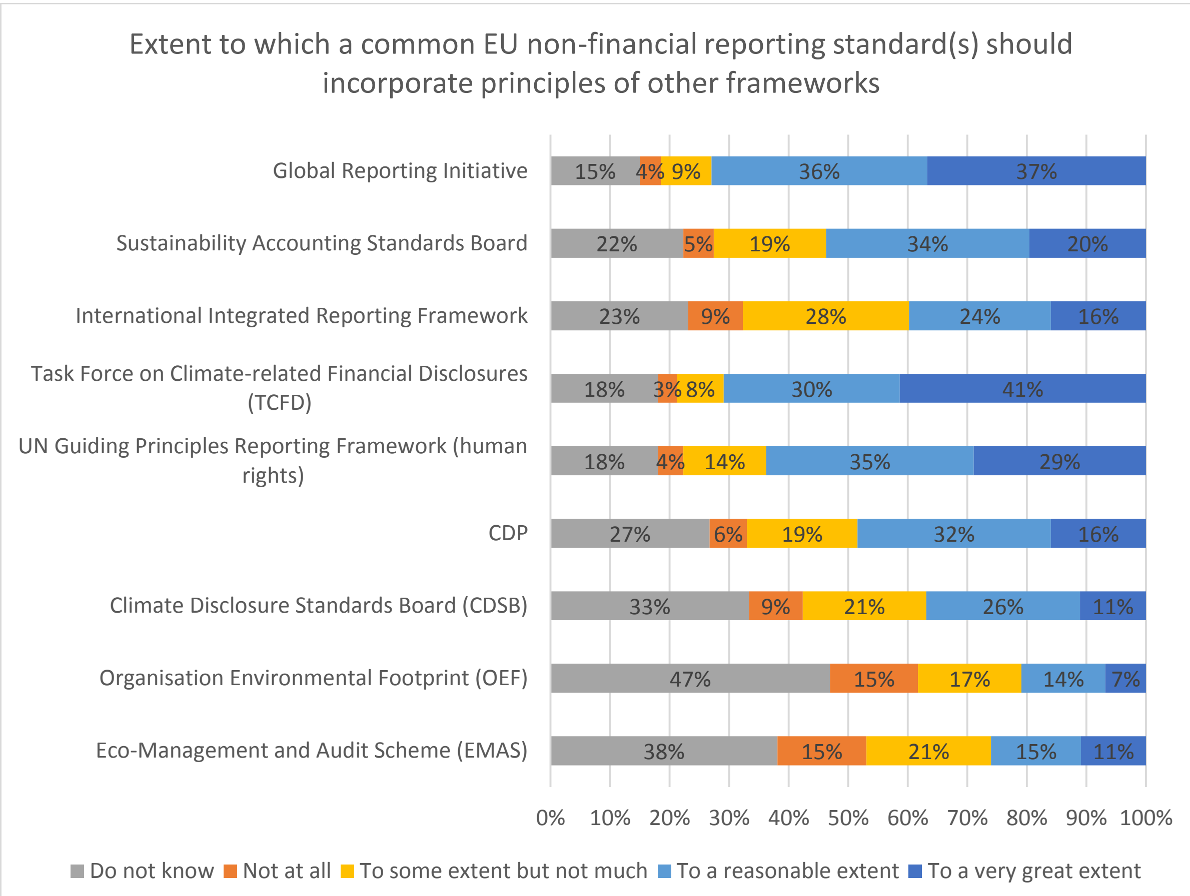


Figure 19

The consultation also allowed respondents to provide their views on what other frameworks or standards should be incorporated in a potential common European non-financial reporting standard. A total of 108 different frameworks and standards were mentioned. Figure 20 provides an overview of the 10 frameworks or standards that were most mentioned by the respondents to the consultation. The first 3 categories (i.e. OECD, ILO Standards, and ISO) consolidate responses mentioning different frameworks developed by these bodies, for example, the OECD Guidelines on Multinational Enterprises, OECD guidelines on due diligence, ILO labour standards, ILO child labour guidance, or various ISO standards such as 26000, 14001, and 14064.

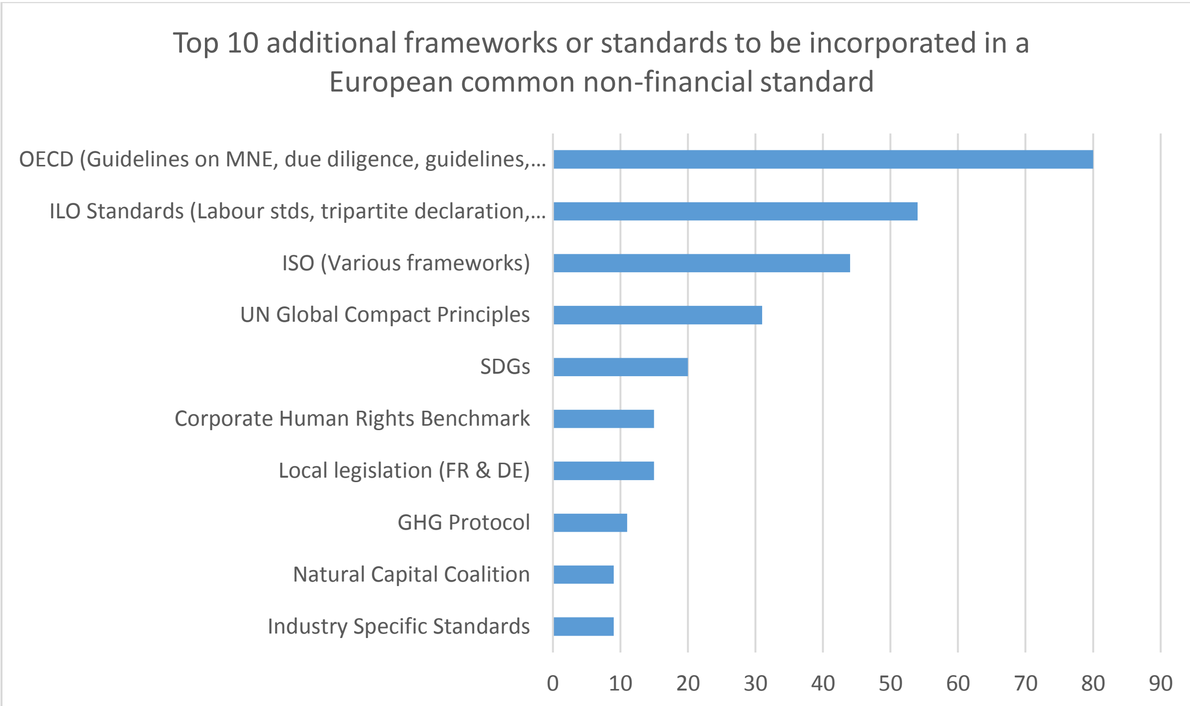


Figure 20

v. Costs of application of frameworks or standards

For preparers of non-financial information, the consultation asked for the recurring annual cost of fully applying a non-financial reporting standard or framework, including costs of retrieving, analysing, and reporting such information. There were 80 responses indicating the costs organisations incurred when fully applying a given standard or framework. The most frequently mentioned standards and frameworks for this question were the GRI, TCFD, CDP, UN Global Compact, and EMAS. From all the respondents' answers, the mean cost (excluding outliers) for fully applying a standard or framework is of EUR 100 865 per annum. The lowest cost was to apply the OECD Guidelines for Multinational enterprises (EUR 1 096 per annum); and the highest cost, not considering outliers, was to apply the TCFD (EUR 493 000 per annum).

vi. Simplified standard for SMEs

The consultation asked respondents whether a simplified standard or reporting format for SMEs would be useful. The majority of respondents (74%) agree that a simplified standard for SMEs would be helpful. That proportion increases when observing the SMEs responses only, for which 88% agree having a simplified standard or reporting format would help.

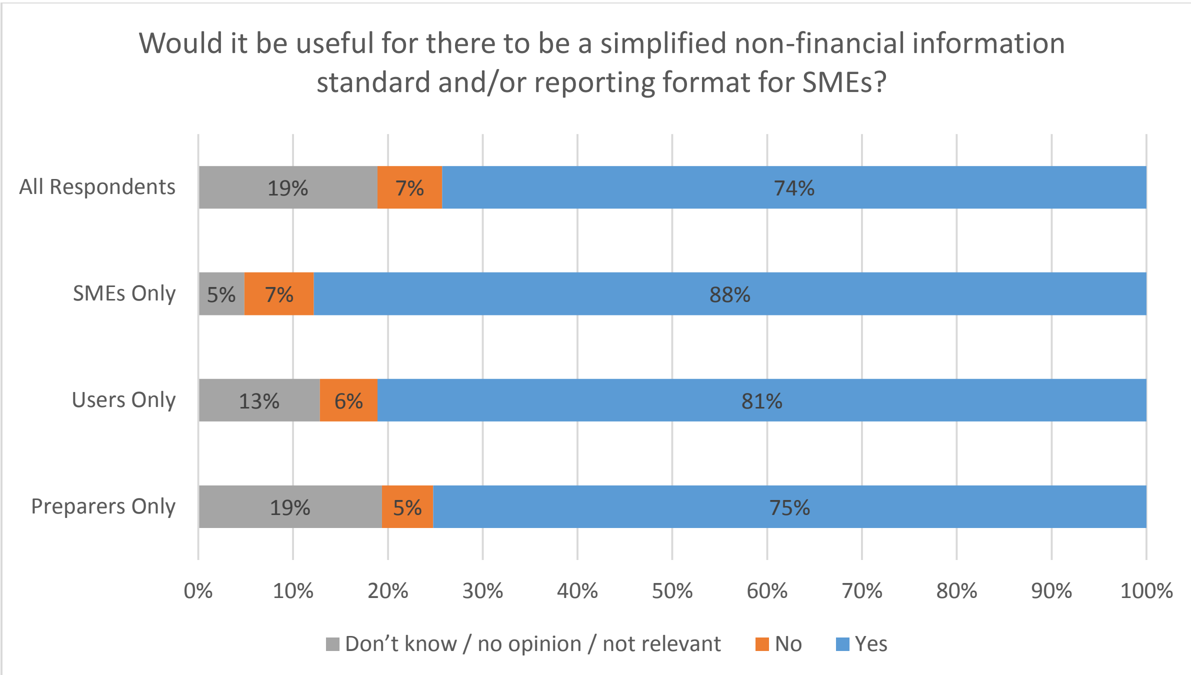


Figure 21

vii. Simplified standard as means to limit burden for SMEs

The consultation asked respondents the extent to which they think a simplified standard for SMEs would be an effective means of limiting the burden on SMEs arising from information demands from other companies, including financial institutions. 66% of all respondents think that a simplified standard for SMEs can help limit their burden when responding to information demands.

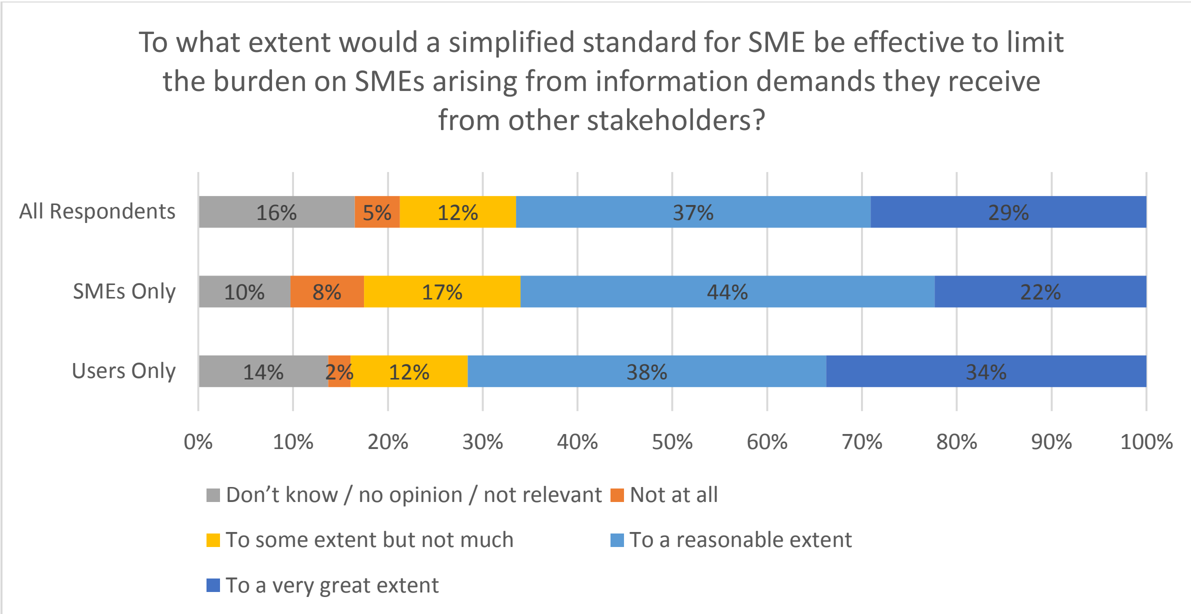


Figure 22

viii. Use of simplified standards for SMEs

The consultation asked whether a simplified standard for SMEs should be voluntary or mandatory, if the EU were to propose such a standard. Respondents favour a mandatory use (46%) over voluntary use (39%). The proportion of users who favour mandatory use is of 57%. SMEs on the other hand, favour a voluntary standard (64%) over mandatory (27%).

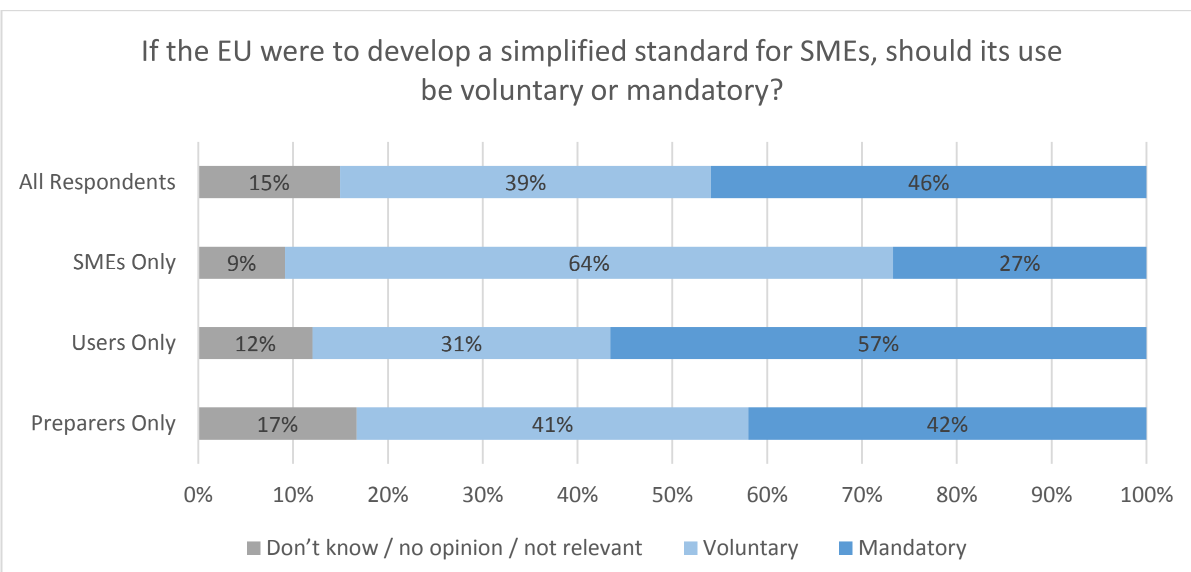


Figure 23

ix. Expertise of European non-financial standard setter

The consultation asked to what extent respondents agree that the body responsible for developing possible European non-financial reporting standards should also have expertise in the field of financial reporting in order to ensure "connectivity" or integration between financial and non-financial information. 84% of all respondents agree that the standard setter should also have expertise in the field of financial reporting and ensure integration between financial and non-financial information.

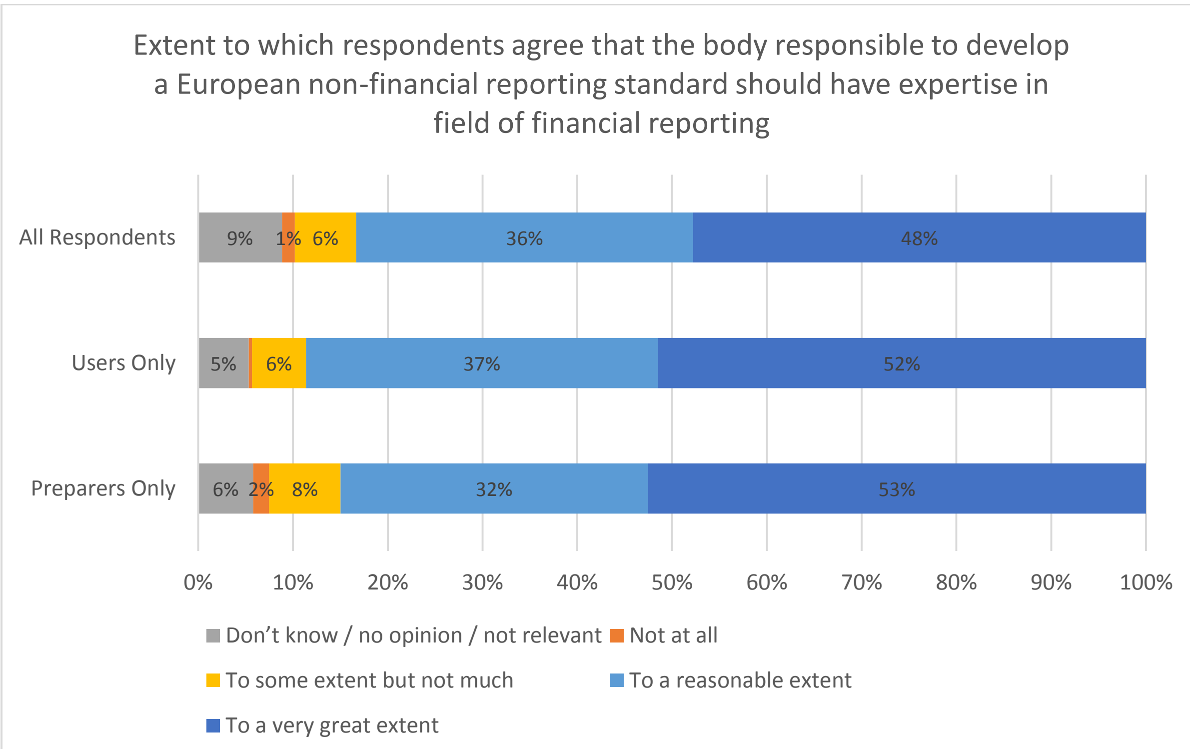


Figure 24

x. Stakeholders involved in the developing of European non-financial standard

The consultation asked respondents about the extent to which they think key stakeholder groups should be involved in the process of developing a European non-financial reporting standard. A large proportion of respondents agree that preparers (85%) and investors (81%) should be involved in developing a non-financial reporting standard. For auditors, academics, and civil society, respondents have a positive but less strong position towards their involvement in the standard setting process.

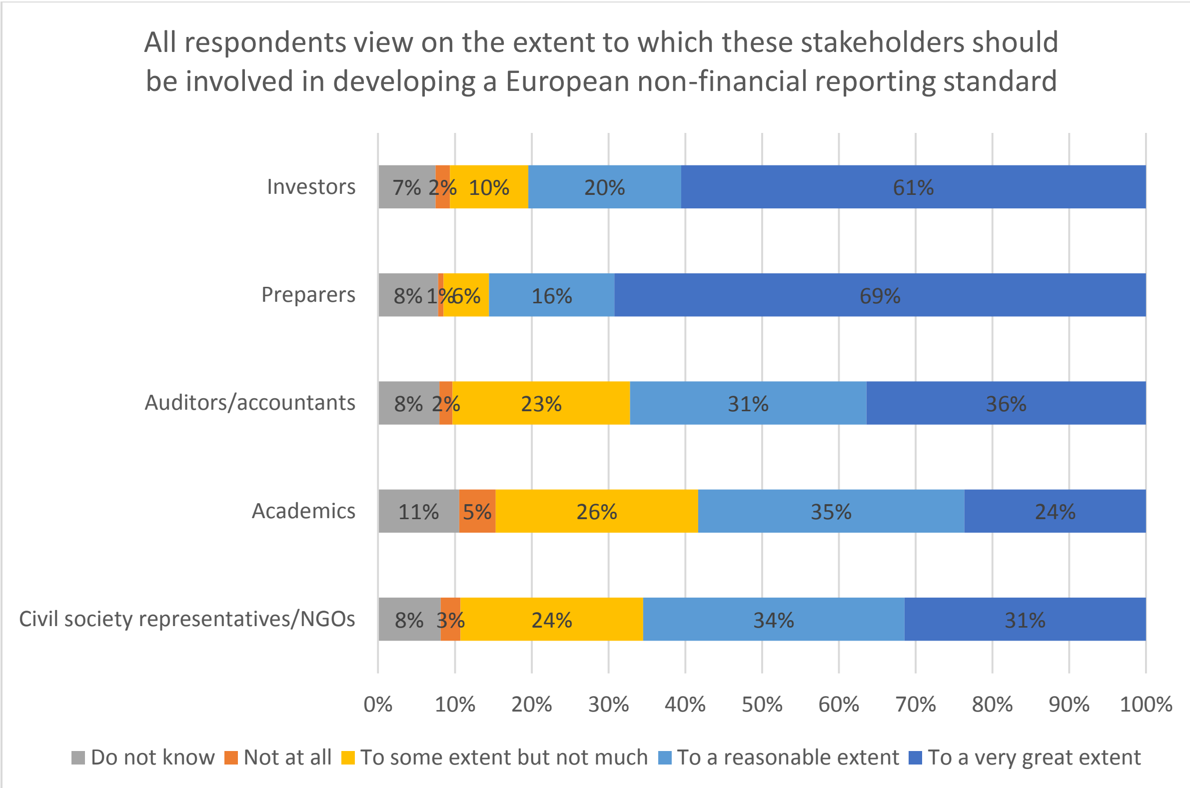


Figure 25

The consultation asked respondents if in their view there is a need to include any other group of stakeholders in a possible standard-setting process. The 5 most commonly mentioned additional stakeholder groups were: users (e.g. sustainability rating agencies and sustainability data providers), standard setters (e.g. GRI, TCFD), unions, trade associations, and business associations.

xi. European public bodies involved in the developing of European non-financial standard

The consultation asked respondents about the extent to which they think certain European public bodies or authorities (i.e. ESMA, EBA, EIOPA, ECB, EEA, and Platform on Sustainable Finance) should be involved in the process of developing a European non-financial reporting standard. A majority of respondents agree that the Platform on Sustainable Finance (64%), the European Securities Markets Authority (58%) and the European Environment Agency (55%) should be involved in developing of possible European standards.

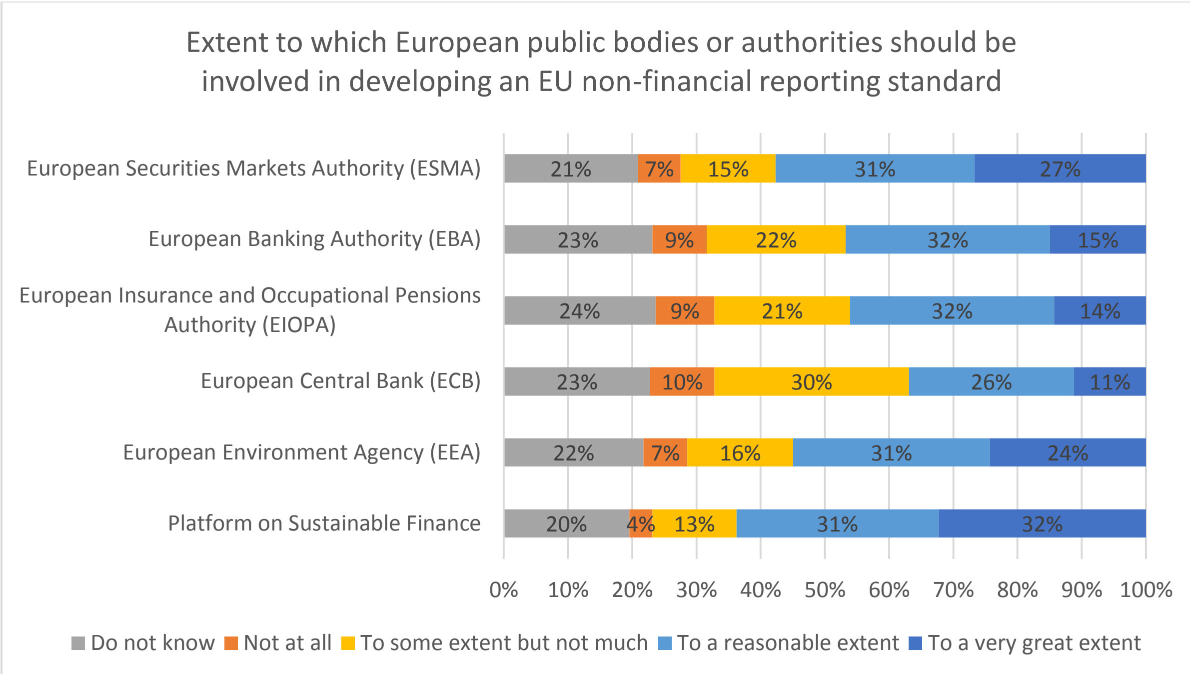


Figure 26

The consultation asked respondents if in their view there is a need to include any other public authorities or bodies in a possible standard-setting process. The most commonly mentioned public authorities and bodies were: European Financial Reporting Advisory Group (EFRAG), the European Investment Bank, the European Fundamental Rights Agency, European Labour Authority, the European Commission, and the Committee of European Auditing Oversight Bodies (CEAOB).

xii. National authorities involved in the developing of European non-financial standard

The consultation asked respondents whether they think certain national authorities or bodies (i.e. national accounting standard setters and environmental authorities) should be involved in the process of developing possible European non-financial reporting standards. The proportion of respondents that agree both national accounting standard setters and environmental authorities should participate is around 50%.

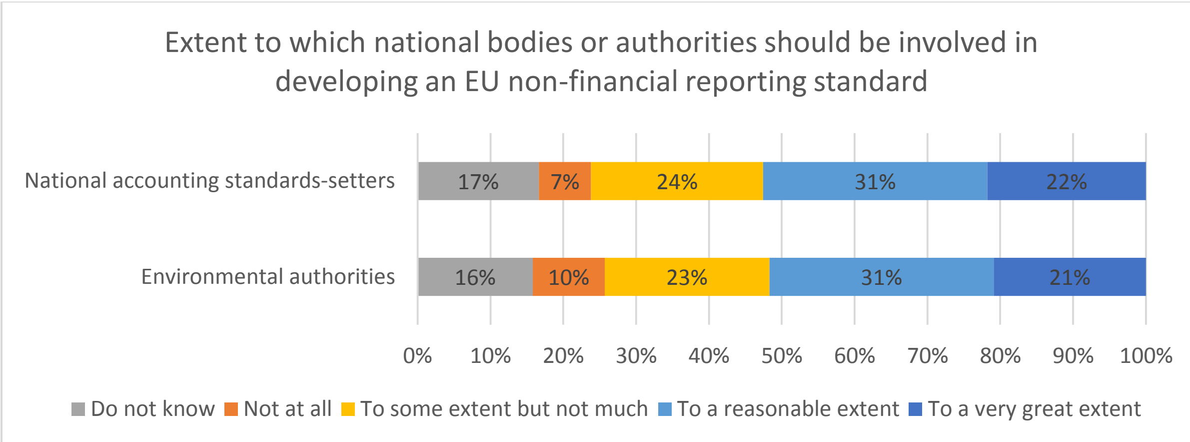


Figure 27

Summary of respondents' comments regarding standardisation

The majority of respondents, from a range of different stakeholder groups, believed that a common reporting standard would be useful to address the challenges regarding comparability, reliability and relevance of information. Some financial authorities consider that common reporting standards of sufficient quality are essential for the pricing of assets and the calibration of risk control measures.

Some preparers consider that companies report different information to a wide range of different stakeholders and argue that it is unrealistic to expect that one standard can meet all stakeholder demands.

According to business associations and companies, the very challenging economic situation means it would be even more necessary to ensure the proportionality of reporting requirements and avoid excessive administrative burden, especially in the case of SMEs. Some respondents suggest that in a first stage, only SMEs from sectors with a high transition risk should be subject to mandatory reporting obligations. They suggest that broadening of the scope to smaller companies may require a gradual approach and a development of training schemes that could help to build a common understanding of the taxonomy and disclosure requirements.

Public authorities, large companies, and environmental organizations agree that the EU can play a leadership role in promoting the establishment of a unified set of international non-financial disclosure standards compatible with the global nature of financial markets and sustainability challenges. They argue that the EU should cooperate with other major jurisdictions and non-EU investors to make sure that the EU standard is widely recognised, notably through the EU International Platform on Sustainable Finance and international bodies and initiatives such as the Financial Stability Board, the Task Force on Climate-related Financial Disclosure and the Network for Greening the Financial System.

Many respondents stressed that the design of any possible common European non-financial reporting standards should build on existing standards. Some preparers consider that the objectives could be achieved by giving companies the freedom to choose between different standards and frameworks and to decide (giving a proper justification) what information is relevant.

Most respondents believe that a wide range of stakeholders should be involved in the process of developing potential common European non-financial reporting standards. Some business associations consider that companies should be put at the heart of the standardisation process, as they are the preparers of non-financial information. Some public authorities state that the standard-setting process should be oriented to protect investors and cater for the information across the investment chain needed for investors for their respective capital allocation decisions, as well as to other stakeholders including consumers and representatives of the civil society.

4.3 Materiality (questions 21 – 24)

i. Relevance of materiality definition on outside-in risks

Article 2(16) of the Accounting Directive defines materiality. The consultation asked respondents the extent they believe this materiality definition is relevant for the purpose of determining which information is necessary to understand a company's development, performance and position. A large proportion of all respondents (69%) agree that the materiality definition given in Article 2(16) is relevant to determine the companies' development, performance, and position. This view is stronger amongst financial sector respondents only, for which the proportion of respondents agreeing on the relevance of the materiality definition increases to 81%.

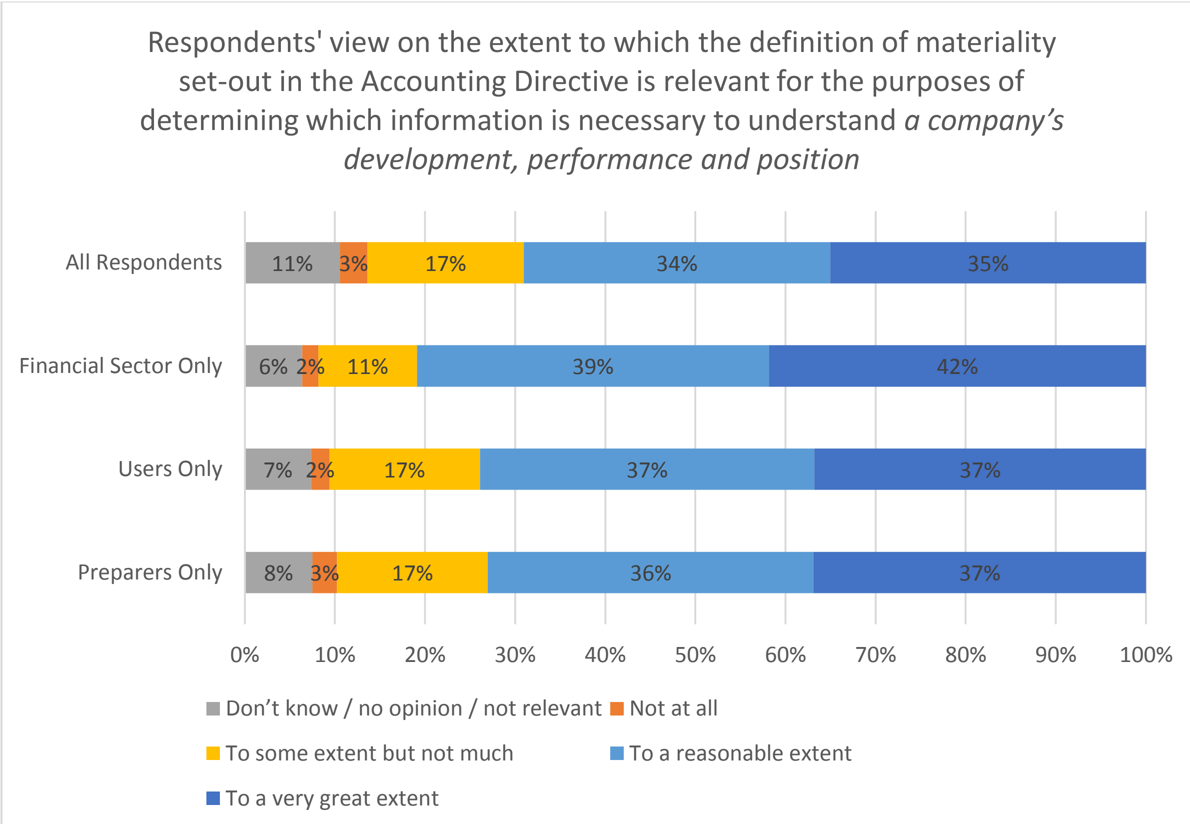


Figure 28

ii. Relevance of materiality definition on inside-out risks

The consultation asked respondents to share the extent to which they believe the materiality definition 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 impact on society and the environment. 46% of respondents believe that the definition is relevant to determine the companies' impacts, while 43% do not. In the case of environmental and social organisations, 17% believe that the definition is relevant to determine the companies' impacts.

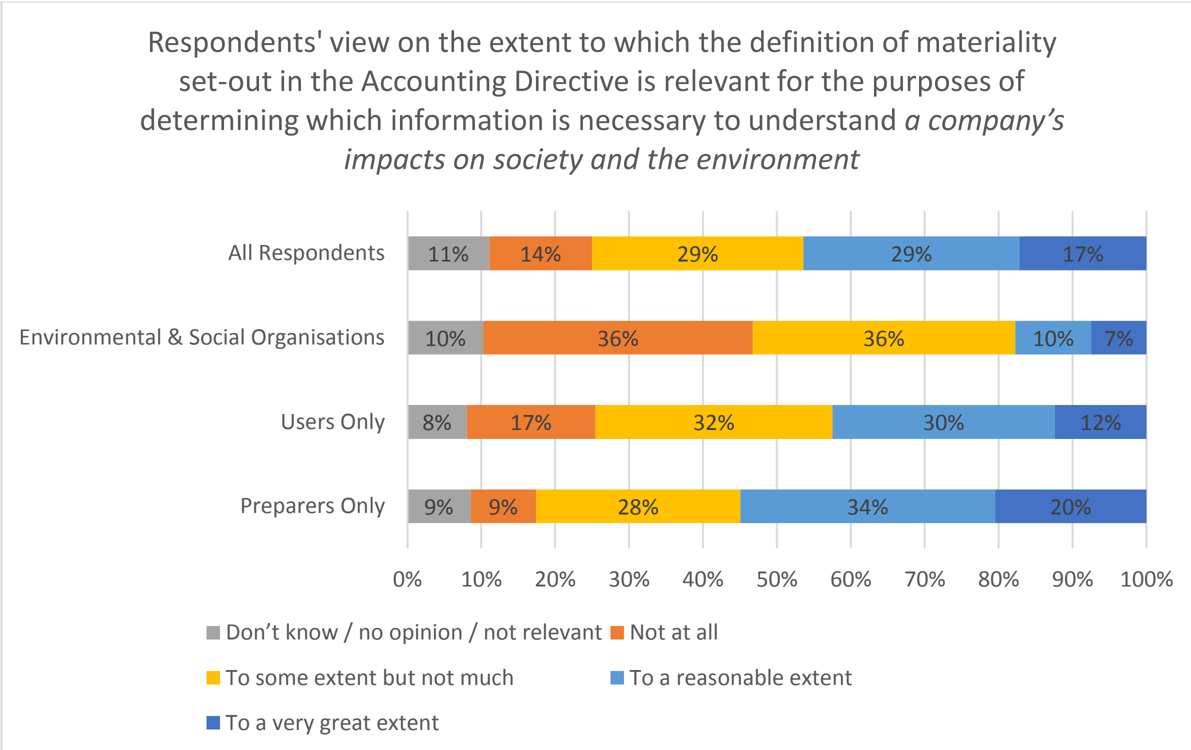


Figure 29

iii. Disclosure of materiality assessment

A large proportion of respondents to the consultation (72%) think companies reporting under the NFRD should be required to disclose their materiality assessment process. The proportion of users who believe companies should disclose their materiality assessment process is particularly high (83%).

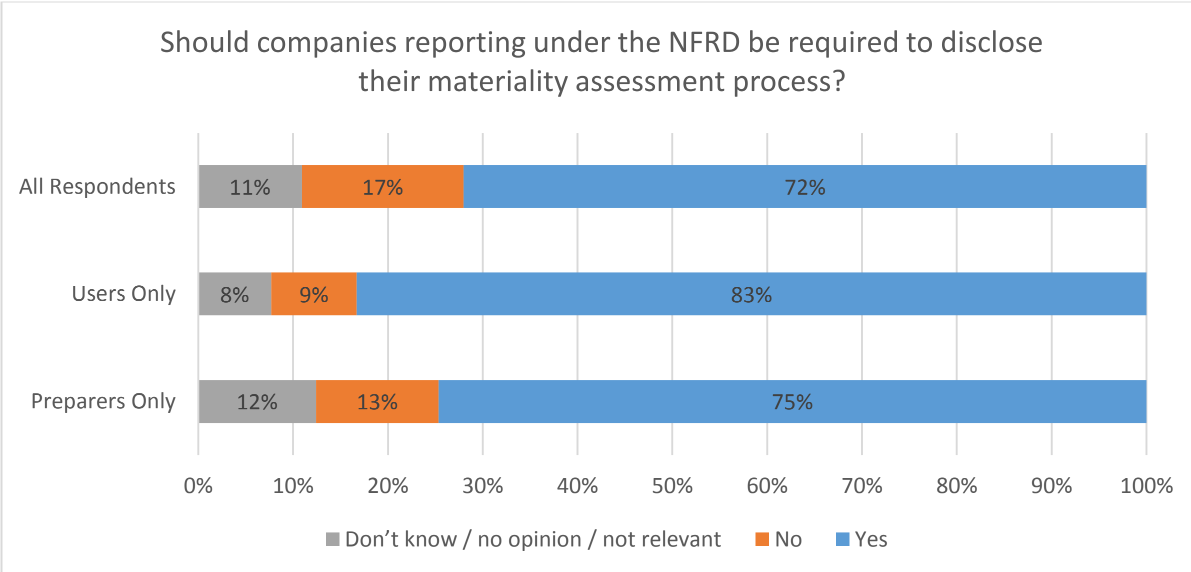


Figure 30

Summary of respondents comments regarding materiality

Many respondents including preparers, financial authorities, and national standard setters supported the concept of double materiality as introduced in the June 2019 non-binding guidelines on climate-related non-financial information, however they considered that such a concept should be further clarified and explicitly included in the Directive.

Some preparers (business associations) and academics considered that the two dimensions of materiality should be clearly stated in the revised NFRD, and that guidelines providing examples and good reporting practices based on this clarified definition could be useful.

Some environmental organisations stated that the legislation should provide definitions of some key terms such as risks, opportunities and impacts, using them consistently with respect to either financial or social and environmental materiality. For example, they suggested 'risks and opportunities' should be used for financial materiality, whereas 'impacts' should be used for social and environmental materiality.

Some supervisory authorities considered that the future standards for non-financial information should provide details on how to perform the materiality assessment specifically in relation to each of the non-financial matters – environment, social and employee issues, human rights, anti-corruption and bribery. For some financial associations it is important to develop a standardized and widely accepted materiality framework, containing an alignment between sustainability taxonomy and materiality topics.

Some preparers and academics considered that in general, the concept of materiality defined in article 2 of Accounting Directive is appropriate and relevant for the purpose of determining what non-financial information should be included in the non-financial information statement.

Some preparers stated that this definition could be more appropriate for "financial materiality" than for "environmental and social materiality" as the latter serve the needs of a broader set of stakeholders. Some financial institutions stated that regarding environmental and social materiality, it would be useful to establish a predetermined list of material topics to be disclosed depending on the sector, in order to have a consistent level of information for similar industries or actors and to improve comparability.

Some users and business organizations considered that there is a need to align the time horizons of climate risks and financial materiality, because climate change is mostly a long-term risk and it is often not considered in short term materiality assessments.

Some academics, public authorities and preparers considered that when companies disclose their materiality assessment process, they increase the quality and comparability of published non-financial information. Furthermore, creating transparency around the materiality assessment would allow stakeholders to understand how the reported information was selected and as such to evaluate its relevance and completeness.

4.4 Assurance (questions 25 – 32)

i. Difference in assurance requirements for financial and non-financial information

The consultation asked respondents to what extent they believe the current differences in the assurance requirements between financial and non-financial information are justifiable and appropriate. 34% of respondents agree the current differences between financial and non-financial information are justifiable and proportionate, and 56% believe the differences are not at all justifiable or only to small extent.

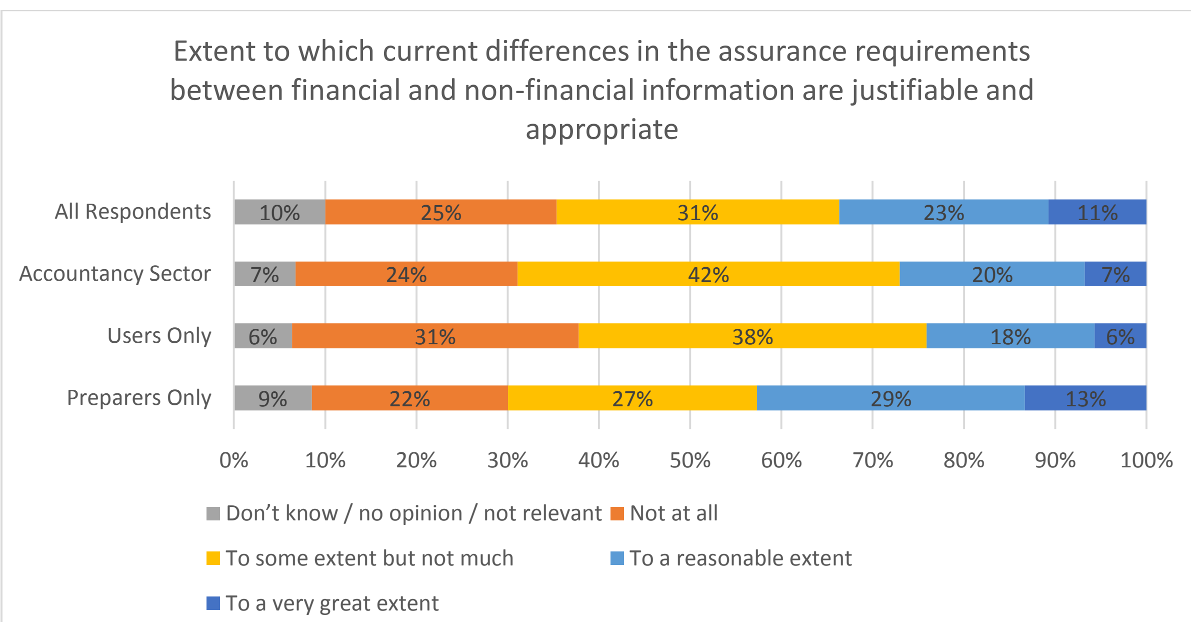


Figure 31

ii. Legal requirements for assurance of non-financial information

The consultation asked respondents whether EU law should impose stronger assurance requirements for non-financial information reported by companies falling under the scope of the NFRD. The proportion of users who agree with stronger assurance requirements is 78%. This figure is higher for users (78%), and lower for preparers (59%).

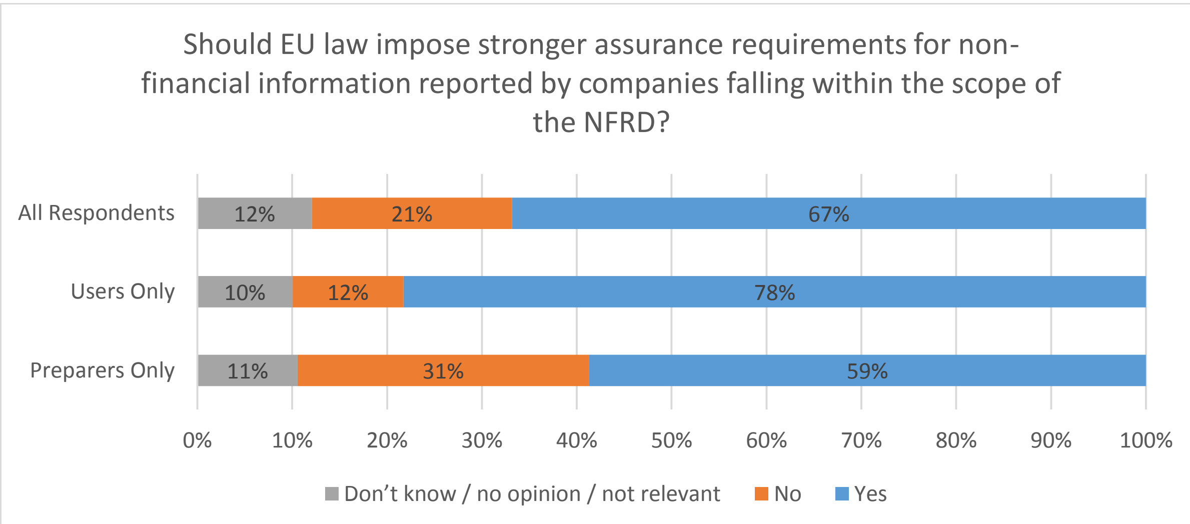


Figure 32

iii. Type of mandatory assurance (reasonable or limited)

If EU law were to require assurance of non-financial information published pursuant to the NFRD, the consultation asked whether it should require reasonable assurance or limited assurance. Respondent were evenly divided on this question (41% for each option). Users prefer reasonable assurance (51% compared to 31% for limited), while preparers prefer limited assurance (52% compared to 35% for reasonable).

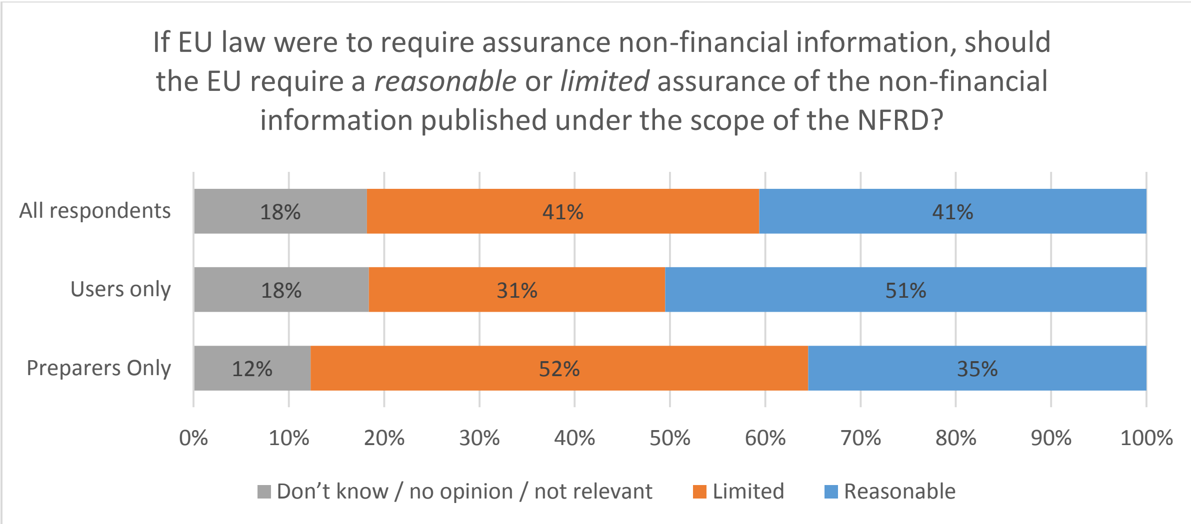


Figure 33

iv. Assurance of materiality assessment process

The consultation asked respondents what is their view on whether the assurance provider should assess the reporting company’s materiality assessment process, if EU law were to require assurance of non-financial information published pursuant to the NFRD. 68% of respondents agree that the materiality assessment of reporting companies should be assessed as part of assurance requirements.

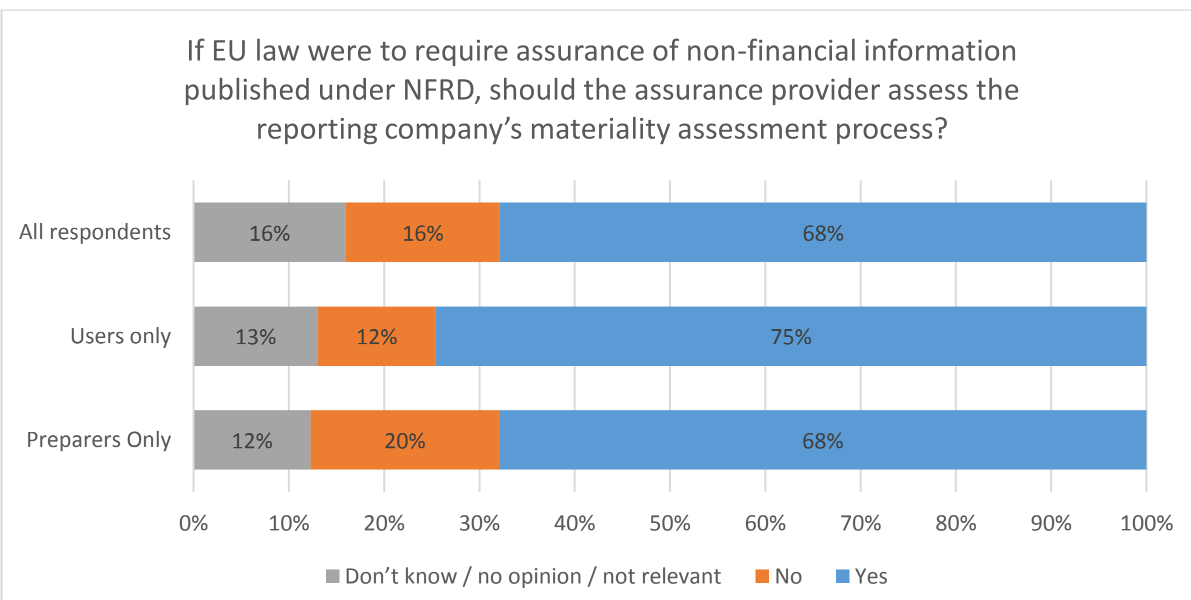


Figure 34

v. Identification and publication of key risks in assurance process

The consultation asked respondents their views on whether the assurance provider should be required to identify and publish the key engagement risks, their response to these risks and any related observations, if EU law required the assurance of non-financial information. 59% of the respondents believe assurance providers should be required to take these steps. The proportion of preparers who do not agree with the statement above is of 29%.

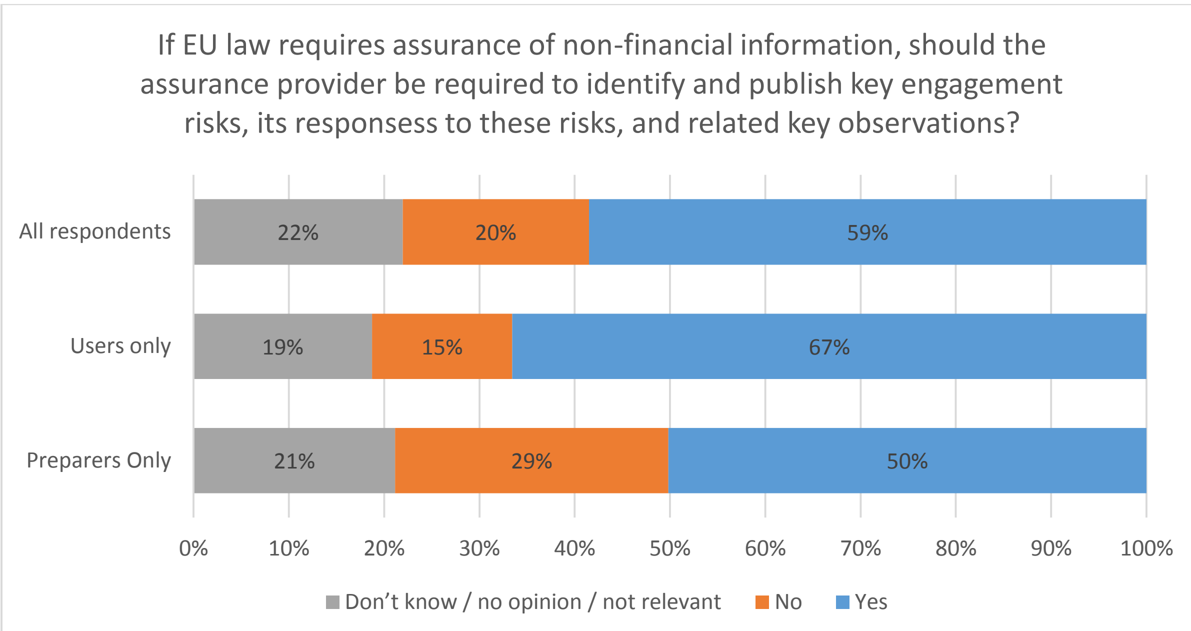


Figure 35

vi. Common assurance standard

The consultation asked respondents what they thought about having the assurance engagements been performed based on a common assurance standard. The proportion of respondents who agree using a common assurance standard to perform the assurance engagements is of 69%, a 23% of the respondents did not have an opinion on this question.

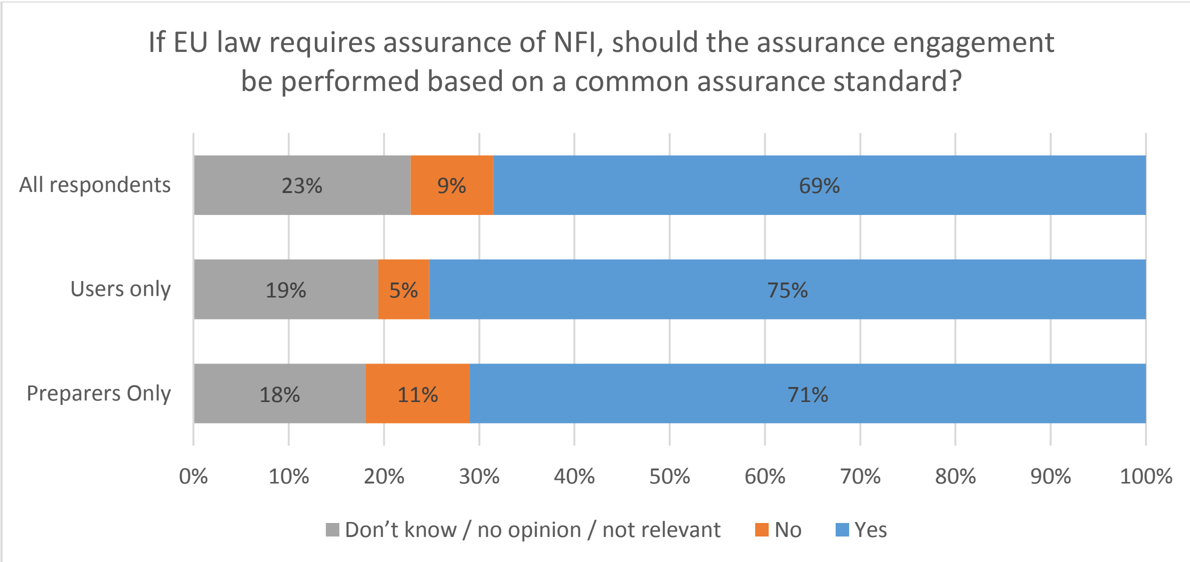


Figure 36

vii. Assurance requirement on common non-financial reporting standard

The consultation asked respondents whether they believe having assurance requirements is dependent on companies reporting against a specific non-financial reporting standard. 44% of respondents are of the view that in order to have assurance requirements, companies should be reporting against a specific non-financial reporting standard, while 31% do not believe this is necessary.

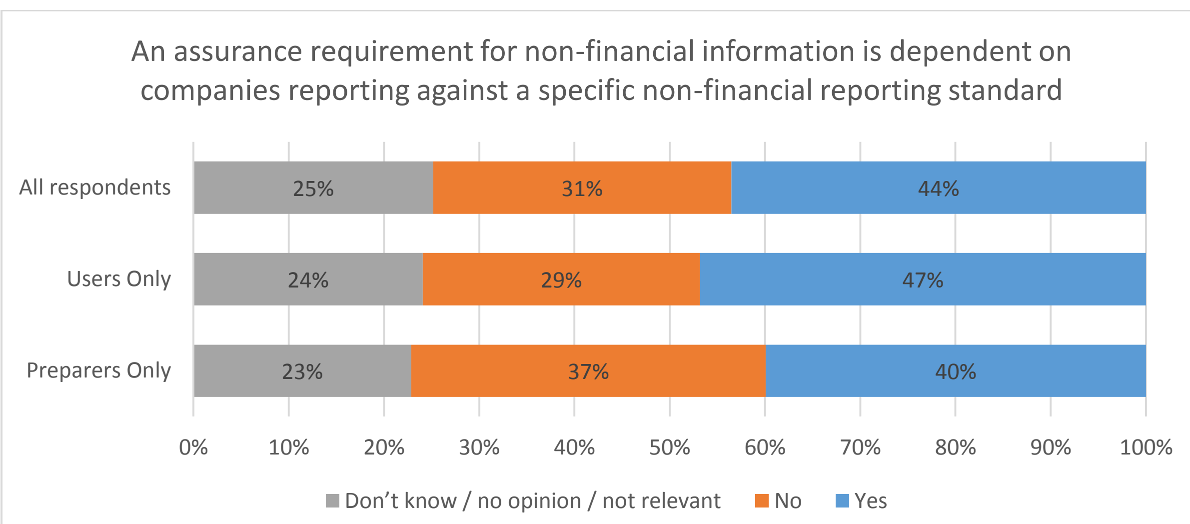


Figure 37

viii. Costs and scope of assurance

The consultation asked respondents who prepare non-financial reports, and who assure such reports, to share the annual costs of assurance, indicating the scope of assurance (i.e. limited or reasonable) and issues covered in the assurance process.

A total of 87 respondents said their non-financial reports are assured. 61% of these respondents provided details of their costs and details on information being assured, 24% provided either some costs or details of assurance, and 15% did not provide costs nor details.

A large proportion of respondents' non-financial reports that are assured undergo a limited assurance procedure (74%), compared 14% reasonable assurance, and 11% a mix of limited and reasonable assurance procedures. Regarding the type of information that is assured, it is most common to assure the complete non-financial reports (i.e. sustainability reports, non-financial information consolidated statement or disclosure, published non-financial information, etc.) and some KPIs, especially around GHG emissions, energy and waste, employee matters, and the materiality process.

According to the responses to the public consultation, the median cost for the respondents undergoing any kind of assurance (limited, reasonable, or a mix) is of EUR 50 000. The median costs of reasonable assurance is of EUR 60 000, EUR 50 000 for limited assurance, and EUR 40 000 for a mix of reasonable and limited assurance.

Summary of respondents comments regarding assurance

Most respondents argue that assurance is needed for non-financial information, with the exception of some preparers who consider that companies should be left to choose whether or not they will assure their reported non-financial information. Several respondents stressed the need of consistent assurance requirements for non-financial information across the Member States and also across companies. This would allow a level playing field within the EU. Some users and preparers also mentioned the need to simplify this reporting burden for smaller companies.

There are split views on the type of assurance that needs to be provided for non-financial information. Preparers generally prefer a limited level of assurance, especially for smaller and medium size enterprises (SMEs). Cost of assurance is one of their major concerns, especially for SMEs and they raised the need of proportionate assurance requirements for this category. Users are more in favour of reasonable assurance to allow for reliability of the reported information. In the absence of a complete set of assurance standards, a significant number of respondents from both groups preferred a gradual approach starting with a requirement for limited assurance and then moving gradually to a system with reasonable assurance in the longer term. Concern over cost of assurance, especially reasonable assurance, was a common point raised by all categories of respondents. The assurance would increase the level of confidence of the stakeholders in the disclosures of an entity.

Most respondents believe that a common assurance standard will have to be used for this work. International standards to be developed by the IAASB were among the preferred options of the respondents, while some of them also indicated the possibility to use the current ISAE3000 standards to start with. Other assurance standards mentioned were AA1000 and GRI Sustainability Reporting Standards. Many users and prepares are in favour of the development of a European common assurance standard. A significant number of respondents raised the point that reporting standards are also a key factor for the assurance process and that it should be common across Member States. Among them, several expressed a preference for the development of key performance indicators (KPIs).

Some respondents stated that auditors are best placed to provide assurance on non-financial information, while a smaller number mentioned that this should not necessarily be the case. Some users, preparers and others referred that assurance should be verified by an independent third party. There were also a few mentioning that it would be useful for the assurance providers to have specific qualifications on the content of the non-financial information (e.g. natural, social and human capital) to ensure a high level of quality of the verification.

4.5 Digitalisation (questions 33 – 34)

i. Digitalisation of non-financial information

Respondents to the consultation were asked to what extent they agree or disagree that: 1) it would be useful to require tagging of reports containing non-financial information, 2) the tagging of non-financial information would only be possible if the reporting is made against standards, and 3) all reports containing non-financial information should be available through a single access point. Between 64% and 65% of respondents agree that it would be useful to tag reports containing non-financial information, that the tagging of non-financial information would only be possible when done against reporting standards, and that all reports containing non-financial information should be available through a single access point.

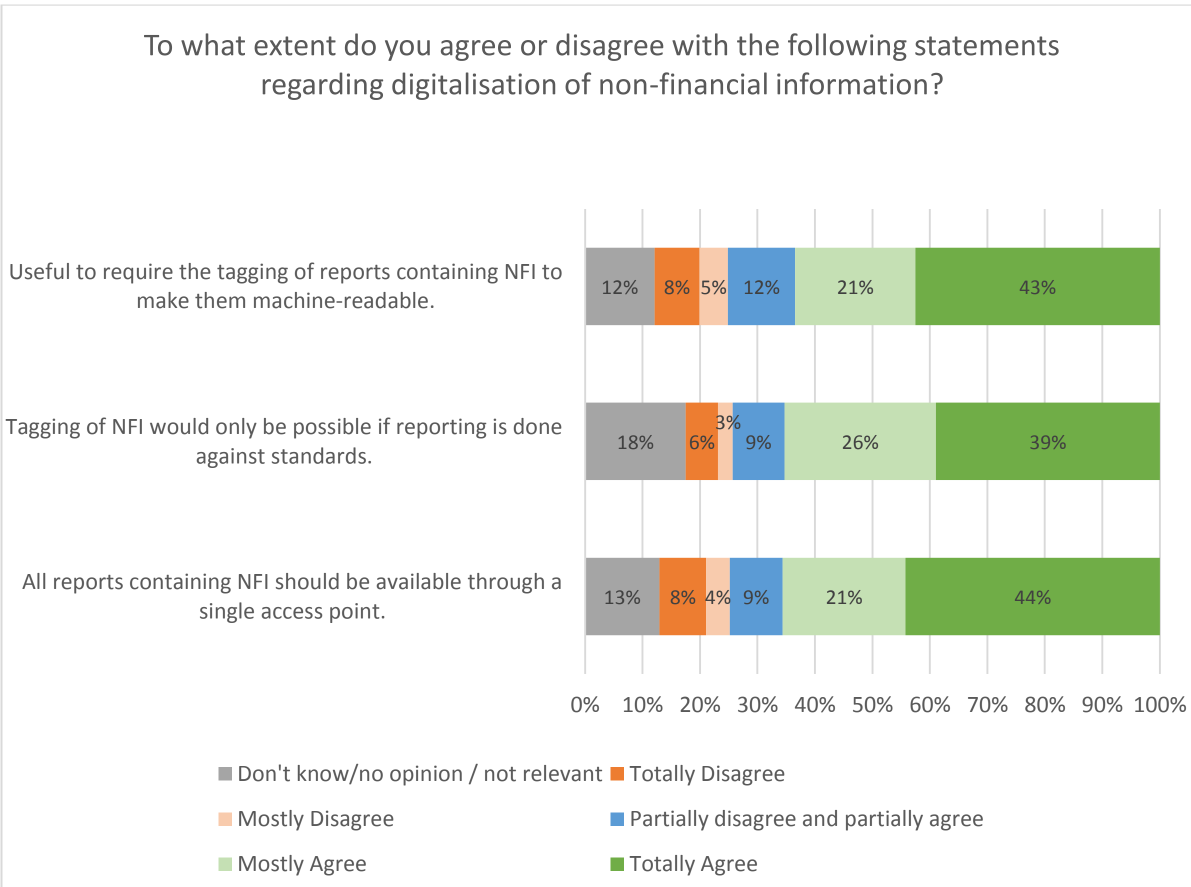


Figure 38

The proportion of users who agree with the previous statements is larger than that of preparers. 77% of users agree that it would be useful to require the tagging of reports containing non-financial information, compared to 56% of preparers; 74% users agree the tagging of non-financial information would only be possible if reporting is done against a standard, while 63%

of preparers do; and 79% of users agree that non-financial information should be available through a single access point, compared to 59% of preparers.

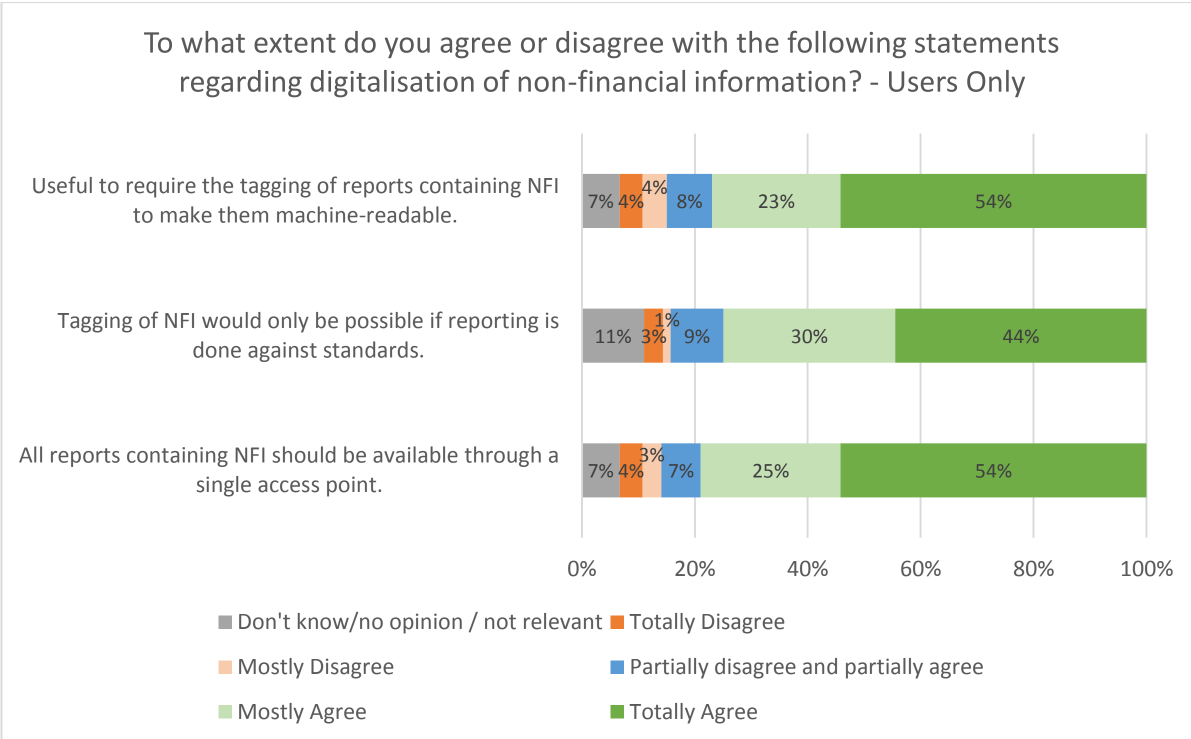


Figure 39

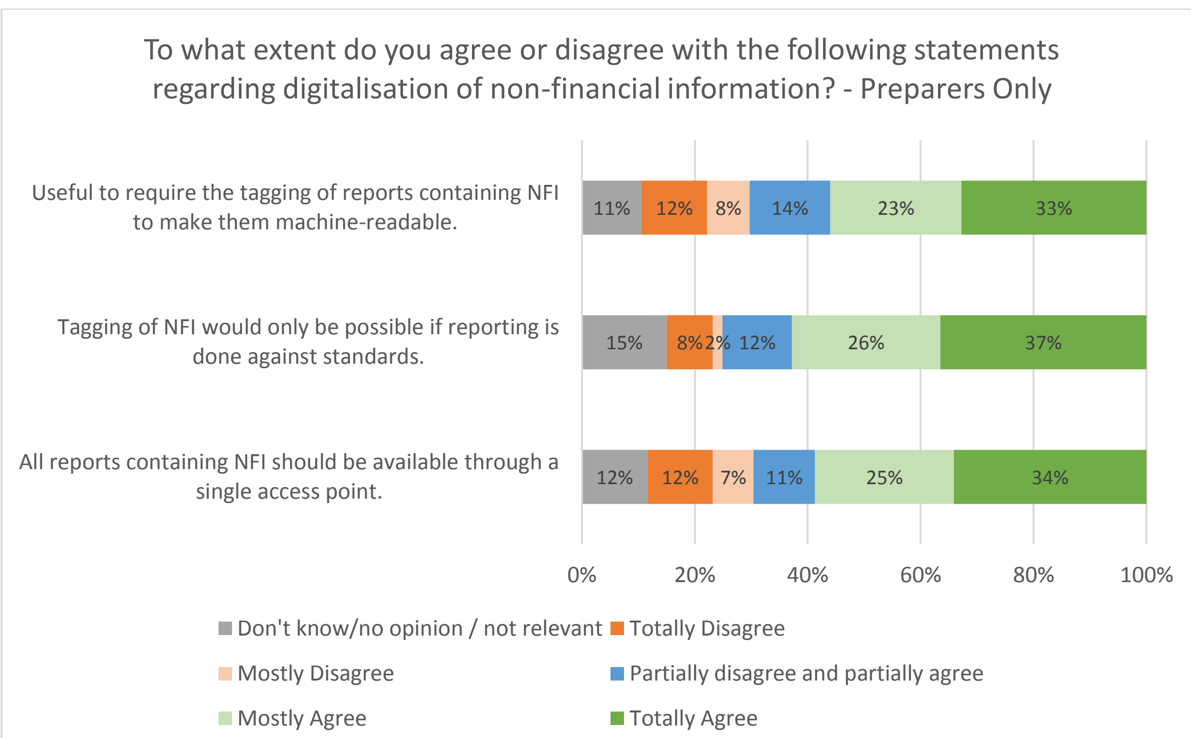


Figure 40

ii. Cost-benefit for tagging of non-financial information

The consultation asked respondents whether they think the costs of introducing tagging of non-financial information would be proportionate to the benefits this would produce. Overall 49% of respondents believe the costs and benefits would be proportionate, while 22% do not. 62% of users agree that the costs and benefits would be proportionate, compared to 41% of preparers.

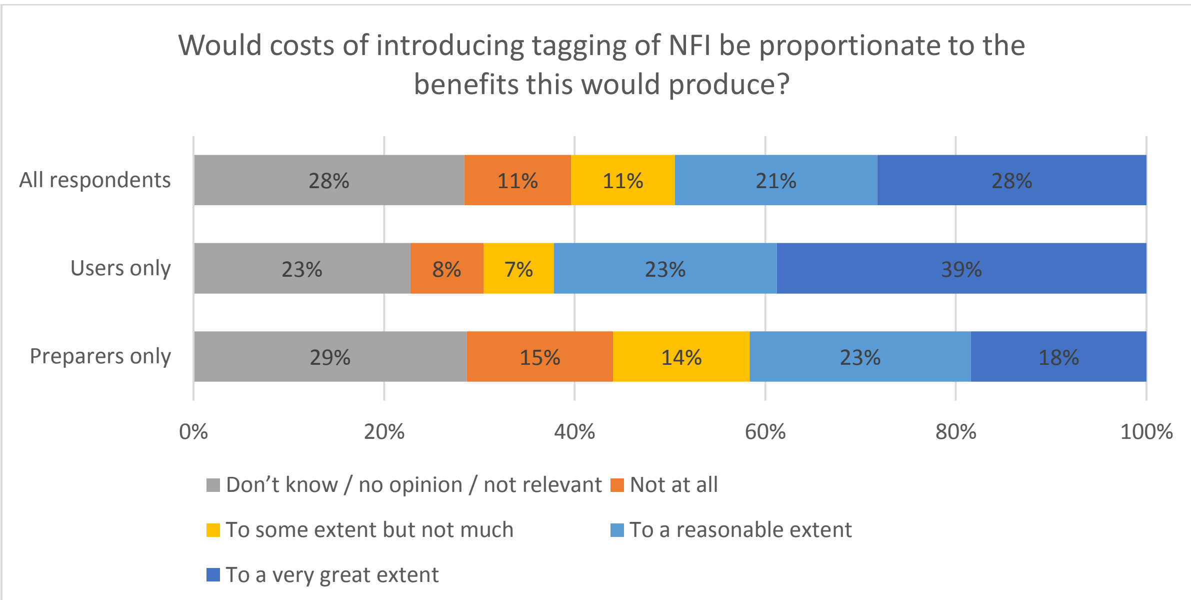


Figure 41

Summary of respondents comments regarding digitalisation

Overall, a majority of respondents believes that developing non-financial information standards and making non-financial information machine-readable and easily accessible via an EU central access point would enhance its searchability, readability and comparability. Opinions are balanced among participants that are preparers-only in regards to the benefits of extensive tagging, and recommend to at least evaluate the European Single Electronic Format (ESEF) beforehand in case an extension would be considered.

A majority of respondents underlines in any case the difficulty of enabling the machine-readability of information when it is of qualitative or narrative nature. The vast majority of respondents believes that, to be fully usable, machine-readable non-financial information would require prior standardisation, i.e. non-financial reporting standards and preferably sector-specific KPIs. Some respondents flag the risk of having digitalisation driving the standard setting as this may entail poorer or misleading information.

Many respondents see digitalisation as a game changer that will enable the corporate reporting policy to improve the analysis, comparability and decision-making and to fundamentally change the way business is conducted. Respondents stated that machine readability will yield benefits for all: investors, banks, insurers, credit / sustainability rating agencies, index providers, proxy advisors, NGOs, cities, statistical institutions, governmental and environmental agencies, academia, companies surveying their supply chain, etc. Digitalisation would enable users to apply big data or artificial intelligence tools to address increasingly extensive and complex data. By contrast, failing to digitalise would lead to real world inefficiencies that could end-up hampering or jeopardizing the entire non-financial reporting effort.

A few respondents believe in natural language processing, which would mean no need for an IT format, but a majority support an IT format as a way to enable machine readability, even if some see it as an intermediate step. Civil society supports IT formats such as CSV, XML, JSON or XSLX. Many others, including business, would rather support tagging techniques, XBRL and ESEF being the most cited ones, with taxonomies to be derived from non-financial information standards. Public authorities generally eye the extension of the ESEF once it has been evaluated. Interoperability is a key concern, this could be achieved with an EU (or global) common standard, but several respondents, especially academics or citizens, are wary of the fact that this might stifle innovation. A few respondents, especially civil society, suggest publication in multiple data schemas, leaving the choice to users.

The question of cybersecurity as well as authentication and identification were raised by a number of respondents as a way to ensure the quality and security of data. Many regulators insist on the need to have upfront quality checks on data collected, as well as some legal certainty.

A significant proportion of preparers question the cost-benefits of making information machine-readable. A number of respondents from business propose less tagging requirements for SMEs to avoid disproportionate costs. Other ways to ensure proportionality raised by respondents of all types include: to make machine readability voluntary for SMEs, to restrict machine readability to only a 'core' subset of data reported, such as key information or metrics, and to use IT standards other than the ESEF.

Regulators generally share the view that machine readability would be beneficial to users and mean lower costs in the long run, but also recognise the need for a proportionate approach. In particular, some state that an extension of the use of the ESEF could be limited to listed companies. This would be less costly as these already have made the investment to procure tools and set up processes to comply with the ESEF. For non-listed companies including SMEs, an alternative approach to ESEF could then be envisaged.

For a majority of users, there is no doubt that an EU central point of access should be developed. NGOs, consumer and environmental organisations, trade unions report that non-financial reporting information is hardly accessible as they have a limited financial capacity to pay for access to information. They argue that information in the new setting should be free, easily accessible with timely information. Central access would facilitate investors' decision-making, as well as enforcement and other policy-wide activities. It would also avoid overlapping requests by users. For some respondents the needs of disabled persons should be addressed and possibly open data policies should be implemented. Investors and civil society raised some concerns about the risks of creating a monopoly, which could drive up costs and reduce the quality of service. Business respondents underline the need for companies to continue to be able to publish the information via other channels, such as on their websites.

When it comes to the submission and collection of information, some commented that a decentralised approach (e.g. at the national level) would be preferable as it would reduce collection costs by being closer to data providers especially for SMEs, and as it would allow keeping infrastructure in place. Many in the business area are particularly opposed to submission at the EU level.

4.6 Location of reported information (questions 36 – 39)

i. Separate statements for non-financial reporting

The consultation referred to other consequences that may arise from the publication of the non-financial information as part of a separate report. Respondents were asked the extent to which they believe that publishing the non-financial information as part of a separate report may create certain problems. 51% of respondents agree that having non-financial information published in different reports creates problems to find non-financial information. 61% of all respondents, and 70% of users, believe that publishing non-financial information in separate reports creates a perception that the information is of secondary importance.

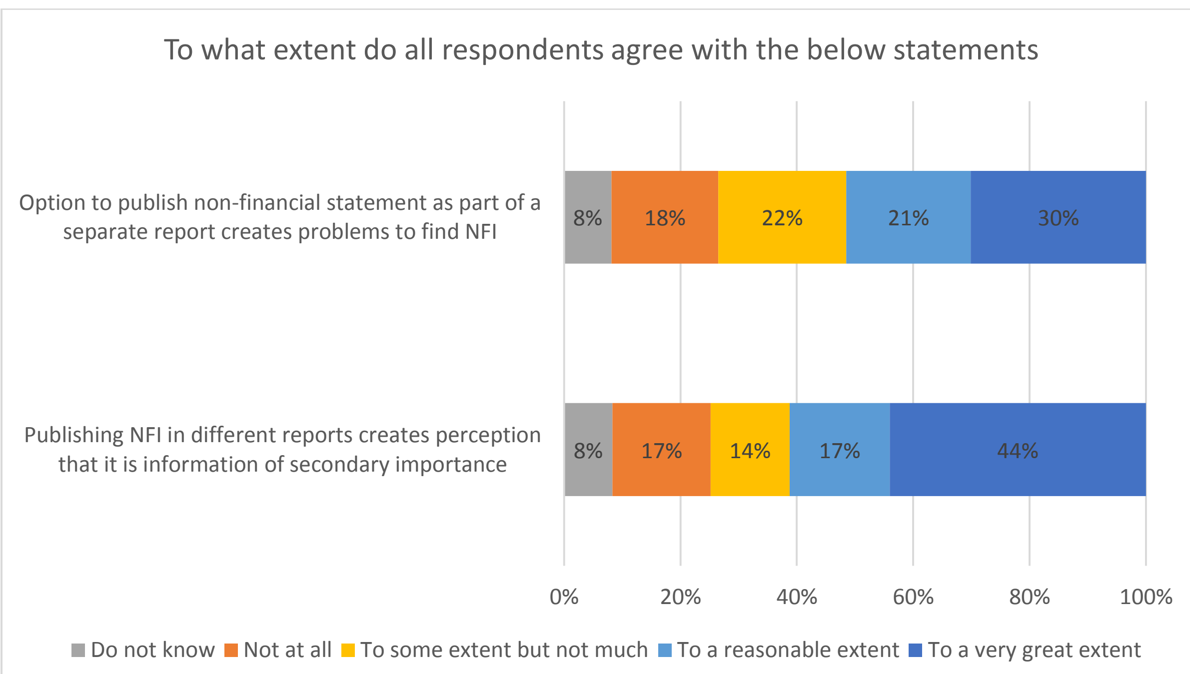


Figure 42

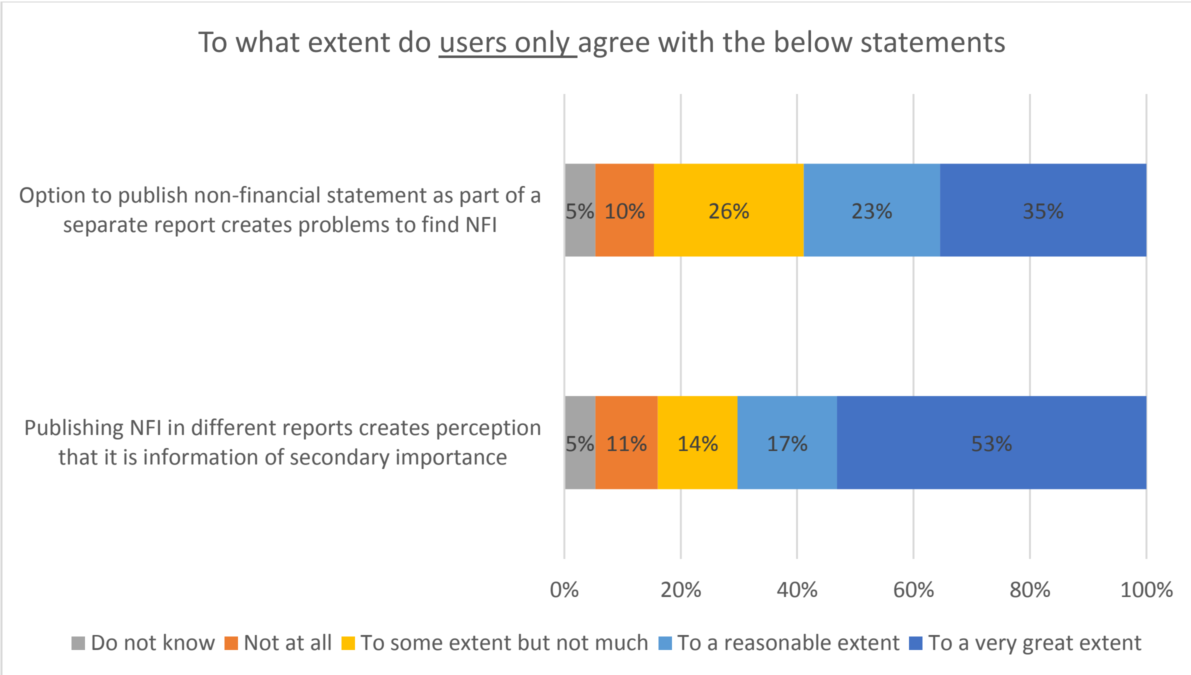


Figure 43

ii. Non-financial information in management report

The consultation asked respondents whether companies should be required to disclose all necessary non-financial information in the management repot. 55% of all respondents say that non-financial information should be included in the management report. 79% of social and environmental organisations support this option.

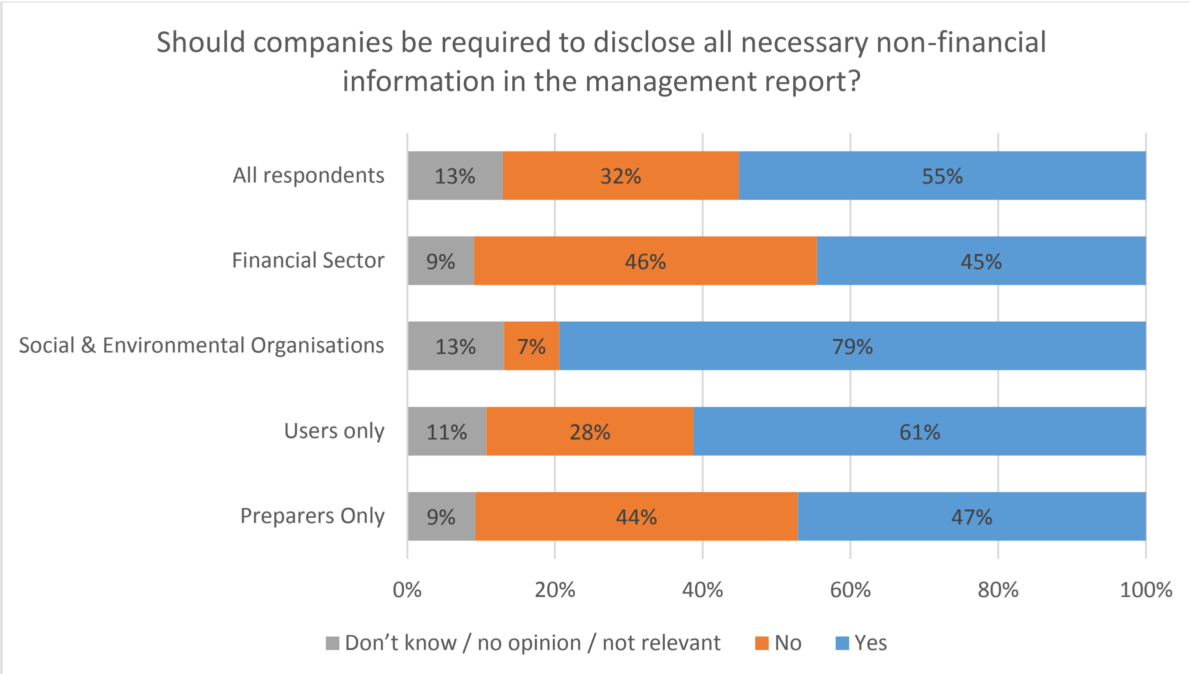


Figure 44

iii. Non-financial information in separate reports

The consultation referred to possible changes in the legislation in the case that companies were allowed to publish the required non-financial information in a report that is separate from the management report. 63% of respondents say legislation should be amended to ensure proper supervision of information published in separate reports. 53% say companies should be required to file reports with Officially Appointed Mechanisms, and 59% say that the management report and separate report should be published on the same date.

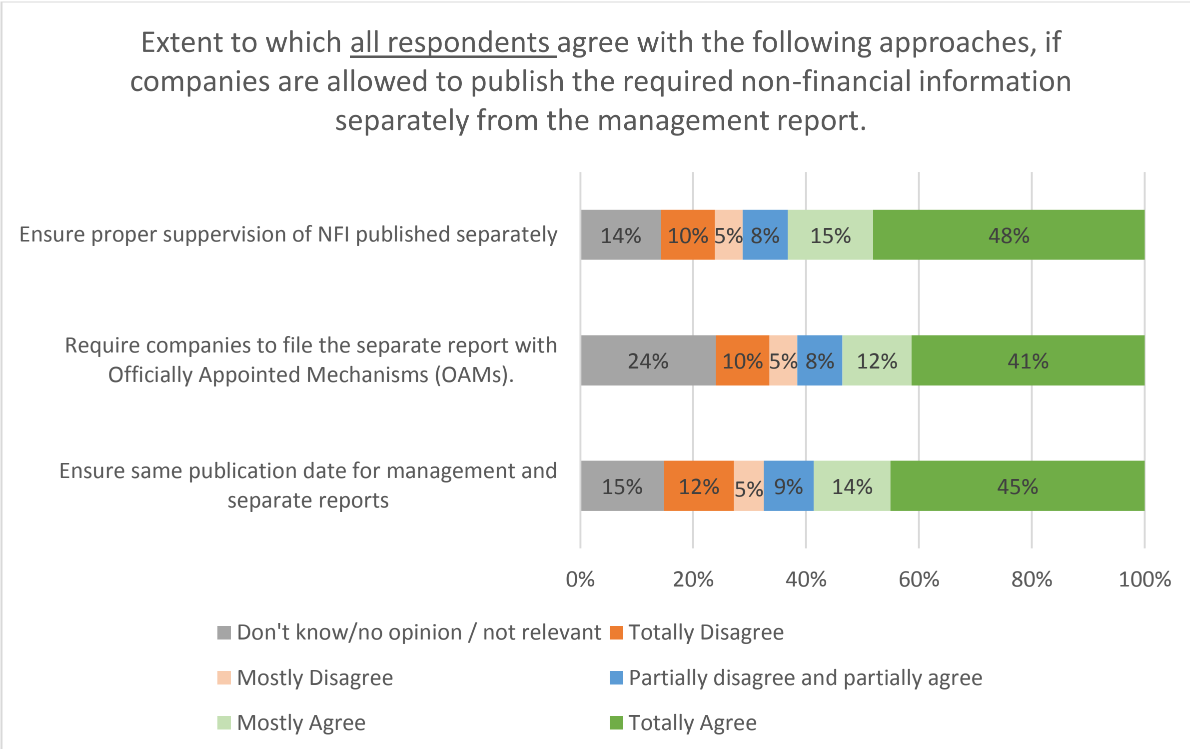


Figure 45

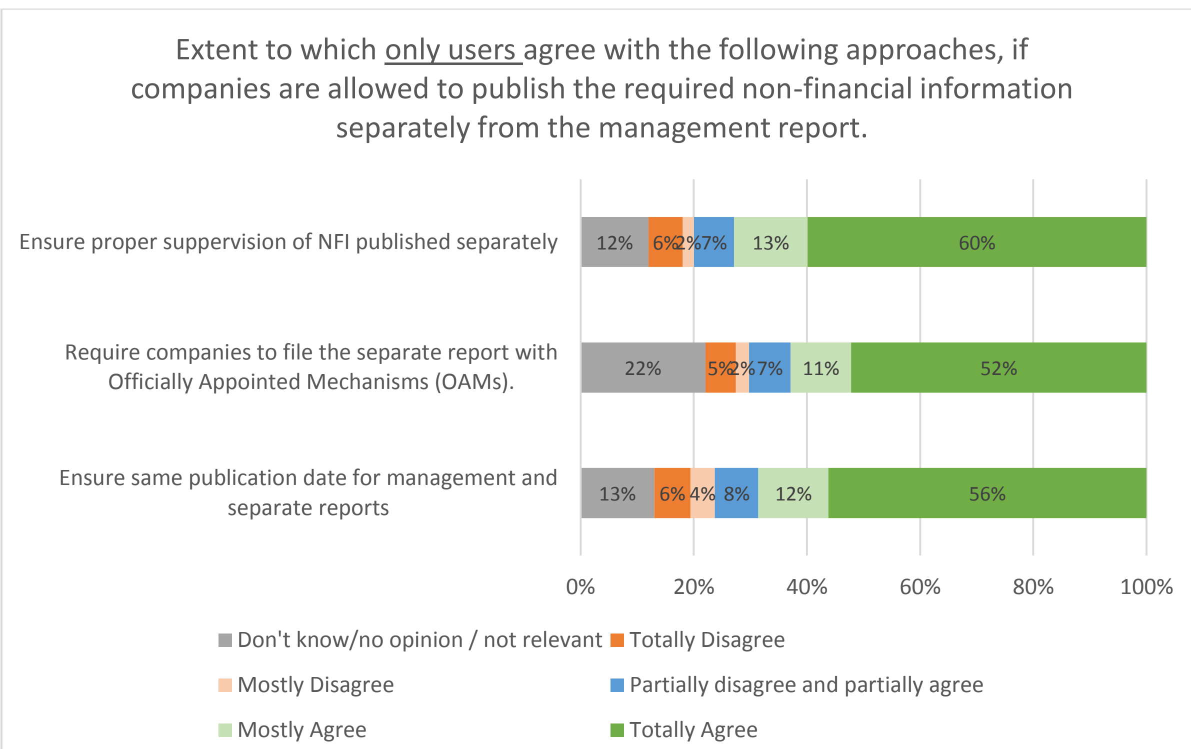


Figure 46

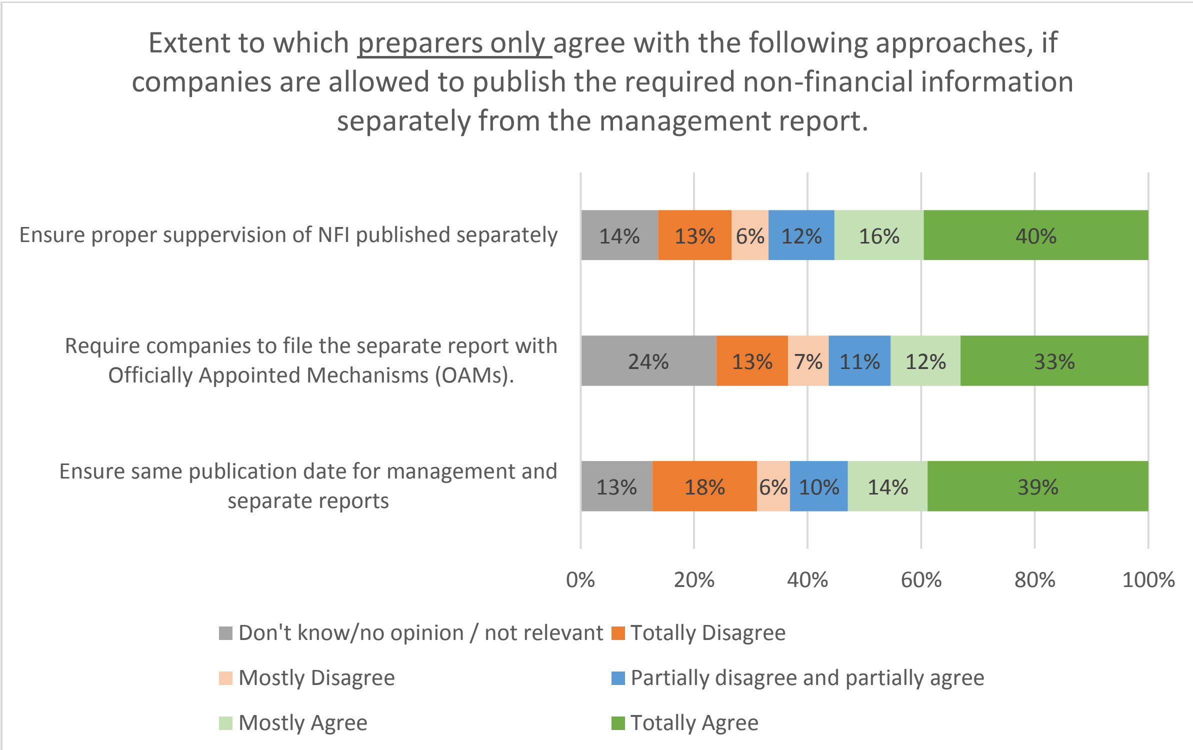


Figure 47

iv. Current segregation of reports

The consultation asked respondents to what extent they considered 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. A significant proportion of the financial sector respondents (59%) believe that the separation of reports provide for effective communication, while a significant proportion of social and environmental organisations (49%) do not.

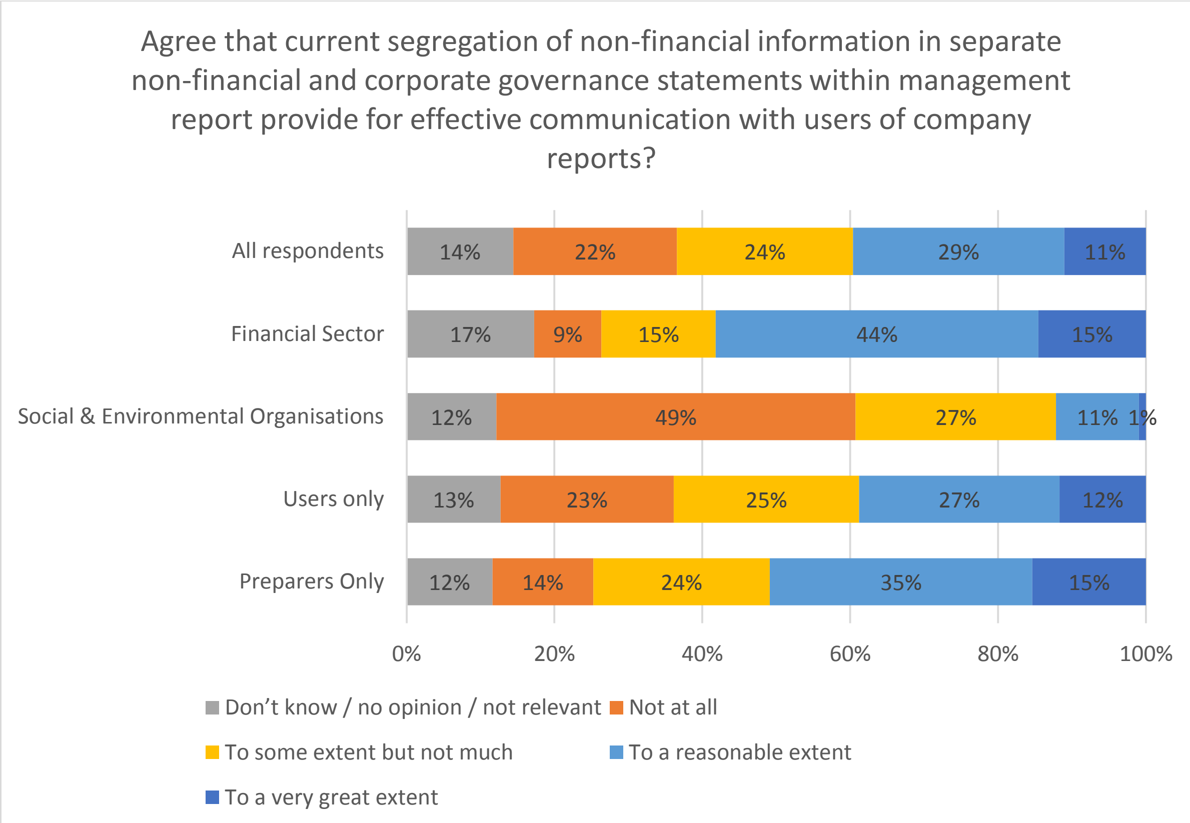


Figure 48

Summary of respondents’ comments regarding the location of reported information

There are split views on the location of non-financial information, even within the same group of stakeholders. Some respondents – mainly preparers – consider the segregation of non-financial information is a secondary issue and does not entail significant burdens, as non-financial statements are easily retrievable. They argue that this option allows the company to devise its own reporting frameworks in collaboration with their relevant stakeholders, and takes account of different company’s needs in terms of when and where it is relevant to publish the information. For some public authorities, the crucial issue is not the location but that the information is easily accessed from one single point in a digital format, at least at a national level.

Some preparers think that it is convenient that both financial and non-financial information are published in the management report as it provides a better understanding of the company´s overall performance and strategy. However, they argue that it should not be required and expect the market to regulate itself. As it is costly and challenging to implement this approach for companies not already doing so, some preparers propose they should be able to continue choosing how to publish their information over a transition period, with the ambition to integrate all reporting in the long term.

A third group of respondents – mostly environmental and social organizations, but also preparers – consider that EU legislation should provide for a harmonized rule and provide for the location of non-financial information in the management report. The best option for them is that the non-financial information should be in a specific section within the management report to allow easy access to the information and strengthen the links between non-financial and financial information. They argue that this approach might be justified by the interactions between financial and non-financial information and the increased importance of non-financial information in the stakeholder's decision process.

Some supervisors consider maintaining the option for the non-financial statement to be located outside the management report only under certain circumstances such as both reports should be published at the same time and with the same level of easy access. To ensure all national securities market supervisors have powers of enforcement over such separate reports is also needed.

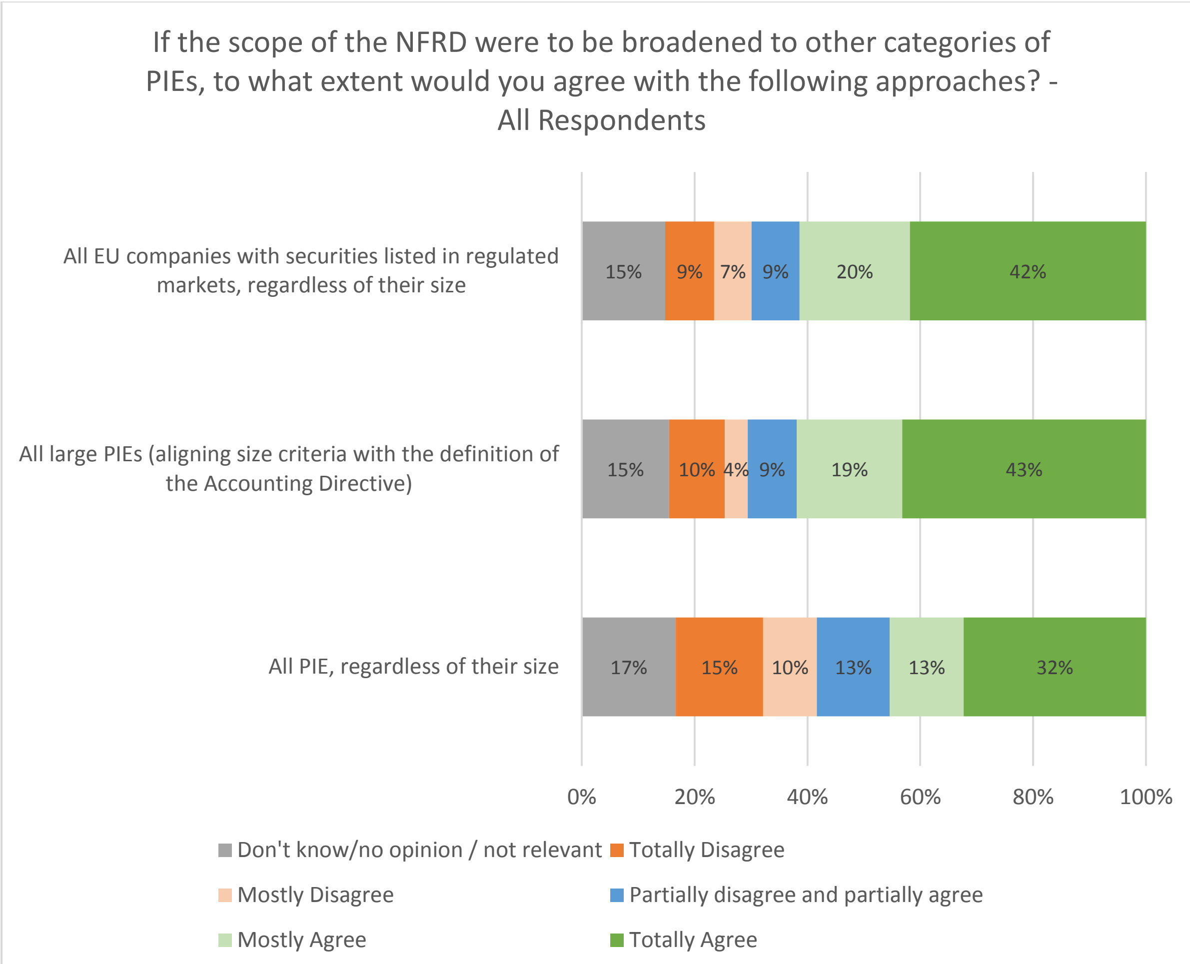
Some respondents consider that certain information required to be reported under the NFRD can be financially material for companies and would therefore be required to be reported under the pre-existing requirements for the management report even if the NFRD did not exist. This is particularly the case in relation to climate risk information. For companies in carbon-intensive or fossil fuel dependent sectors of the economy, this information is clearly financially material and should be reported under the pre-existing requirements for the management report rather than the non-financial statement.

4.7 Personal scope (question 40 – 43)

i. Broadened scope of the NFRD to other PIEs

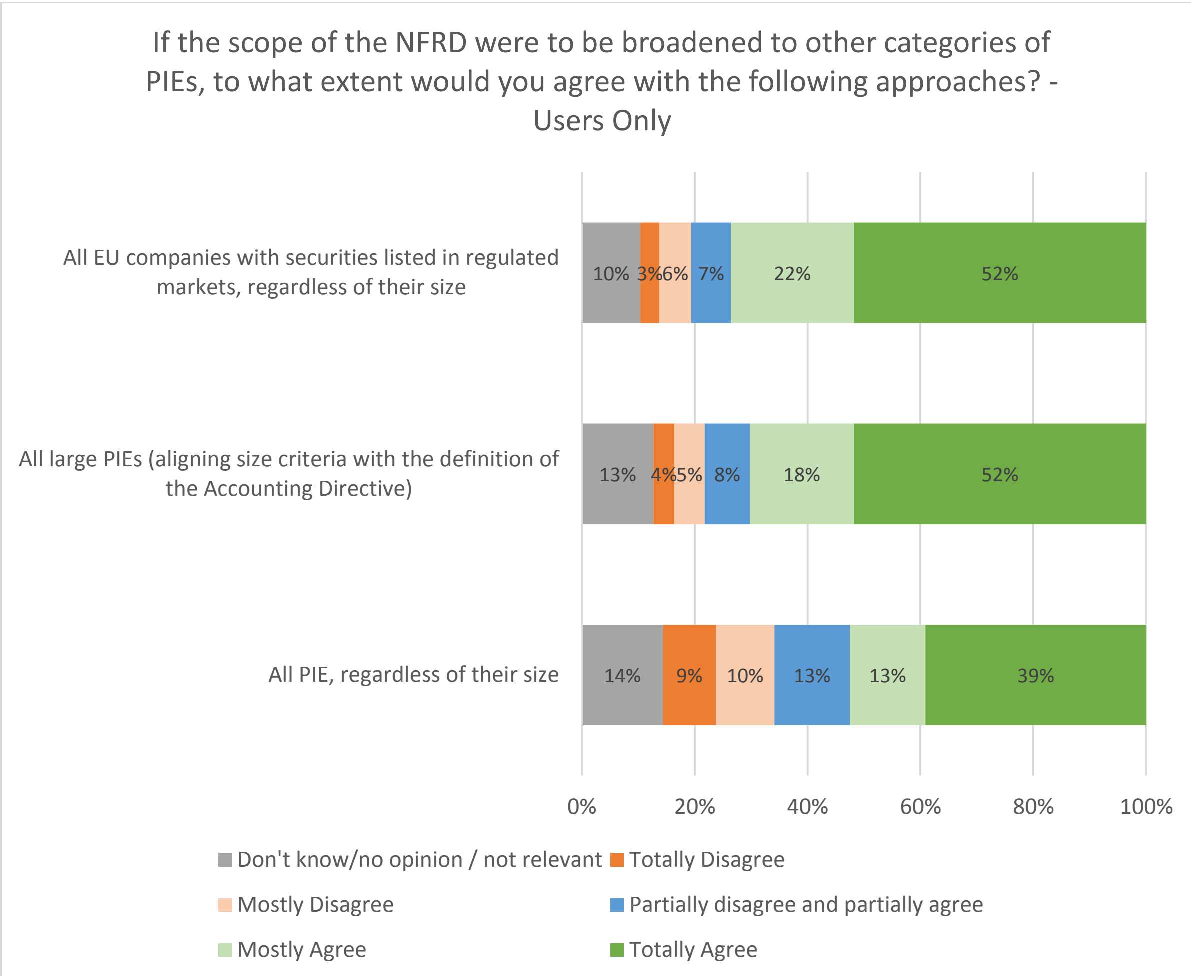
The consultation referred to three possible approaches to broaden the scope of the NFRD to additional public interest entities (PIEs). 62% of respondents say the scope of the NFRD should be broadened to all large PIEs (in effect removing the 500 employee threshold and aligning with the size definitions used elsewhere in the Accounting Directive), and the same proportion say that all listed companies regardless of their size should be included in the scope. 45% of respondents say that the NFRD should apply to all PIEs regardless of their size.

There are significant differences between different stakeholder groups: for example, 74% users support the idea of including all listed companies regardless of their size under scope and only 9% of users disagree with this option, whereas 43% of SME respondents agree with this option and 38% disagree. The proportion of financial sector companies that agree all listed companies regardless of their size should be included in the scope of the NFRD is 70%.



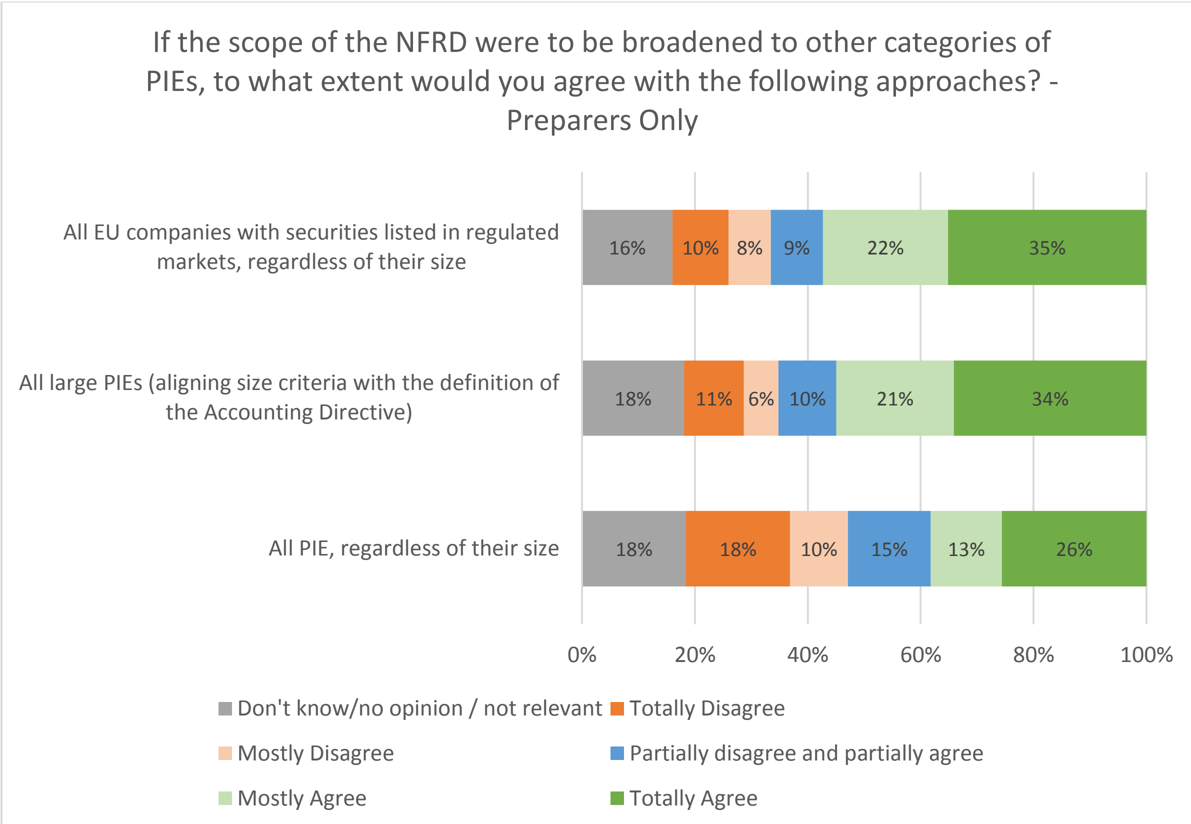
If the scope of the NFRD were to be broadened to other categories of PIEs, to what extent would you agree with the following approaches? - All Respondents
All EU companies with securities listed in regulated markets, regardless of their size
15% 9% 7% 9% 20% 42%
All large PIEs (aligning size criteria with the definition of the Accounting Directive)
15% 10% 4% 9% 19% 43%
All PIE, regardless of their size
17% 15% 10% 13% 13% 32%
0% 20% 40% 60% 80% 100%
Don't know/no opinion / not relevant
Totally Disagree
Mostly Disagree
Partially disagree and partially agree
Mostly Agree
Totally Agree

Figure 49



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? - Users Only
All EU companies with securities listed in regulated markets, regardless of their size
10% 3% 6% 7% 22% 52%
All large PIEs (aligning size criteria with the definition of the Accounting Directive)
13% 4% 5% 8% 18% 52%
All PIE, regardless of their size
14% 9% 10% 13% 13% 39%
0% 20% 40% 60% 80% 100%
Don't know/no opinion / not relevant
Totally Disagree
Mostly Disagree
Partially disagree and partially agree
Mostly Agree
Totally Agree

Figure 50



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? - Preparers Only
All EU companies with securities listed in regulated markets, regardless of their size
16%
10%
8%
9%
22%
35%
All large PIEs (aligning size criteria with the definition of the Accounting Directive)
18%
11%
6%
10%
21%
34%
All PIE, regardless of their size
18%
18%
10%
15%
13%
26%
0%
20%
40%
60%
80%
100%
Don't know/no opinion / not relevant
Totally Disagree
Mostly Disagree
Partially disagree and partially agree
Mostly Agree
Totally Agree

Figure 51

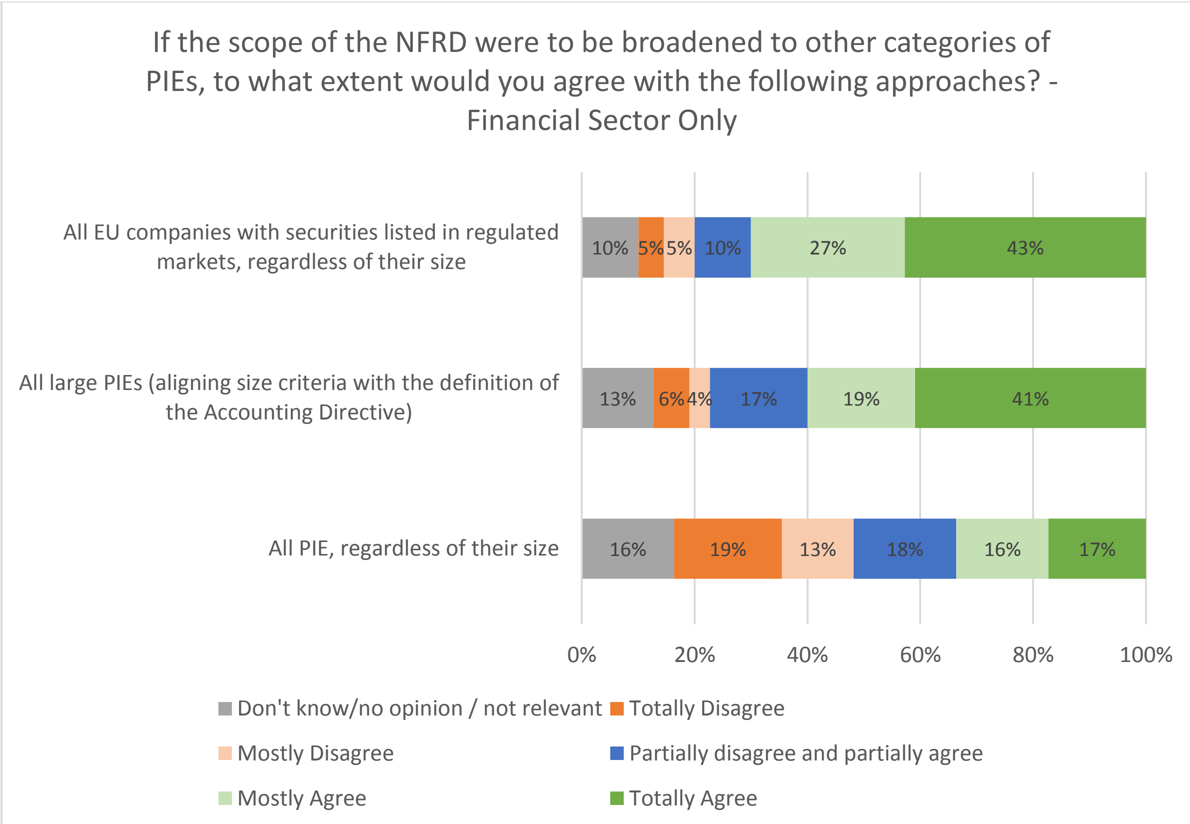


Figure 52

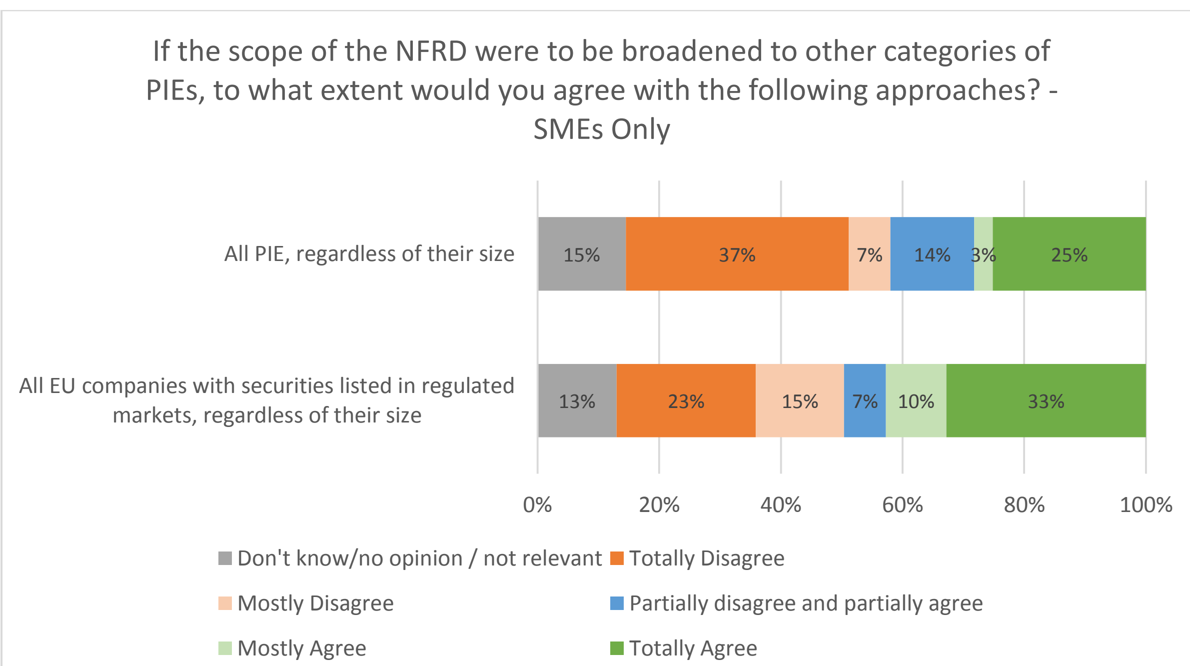


Figure 53

ii. Broadened scope of the NFRD to other non-PIEs

The consultation referred to five possible approaches to broaden the scope of the NFRD to additional public interest entities (PIEs). A large proportion of respondents agree that the scope of the NFRD should be enlarged to all large non-listed companies (70% of respondents), to large companies not established in the EU but listed in EU regulated markets (72%), and to large companies established in the EU but listed outside the EU (71%). A significantly smaller proportion of respondents supported expanding the scope to include all limited liability companies regardless of size (21%), or removing the exemption for subsidiaries of a parent company that reports non-financial information at group level in accordance with NFRD (32%).

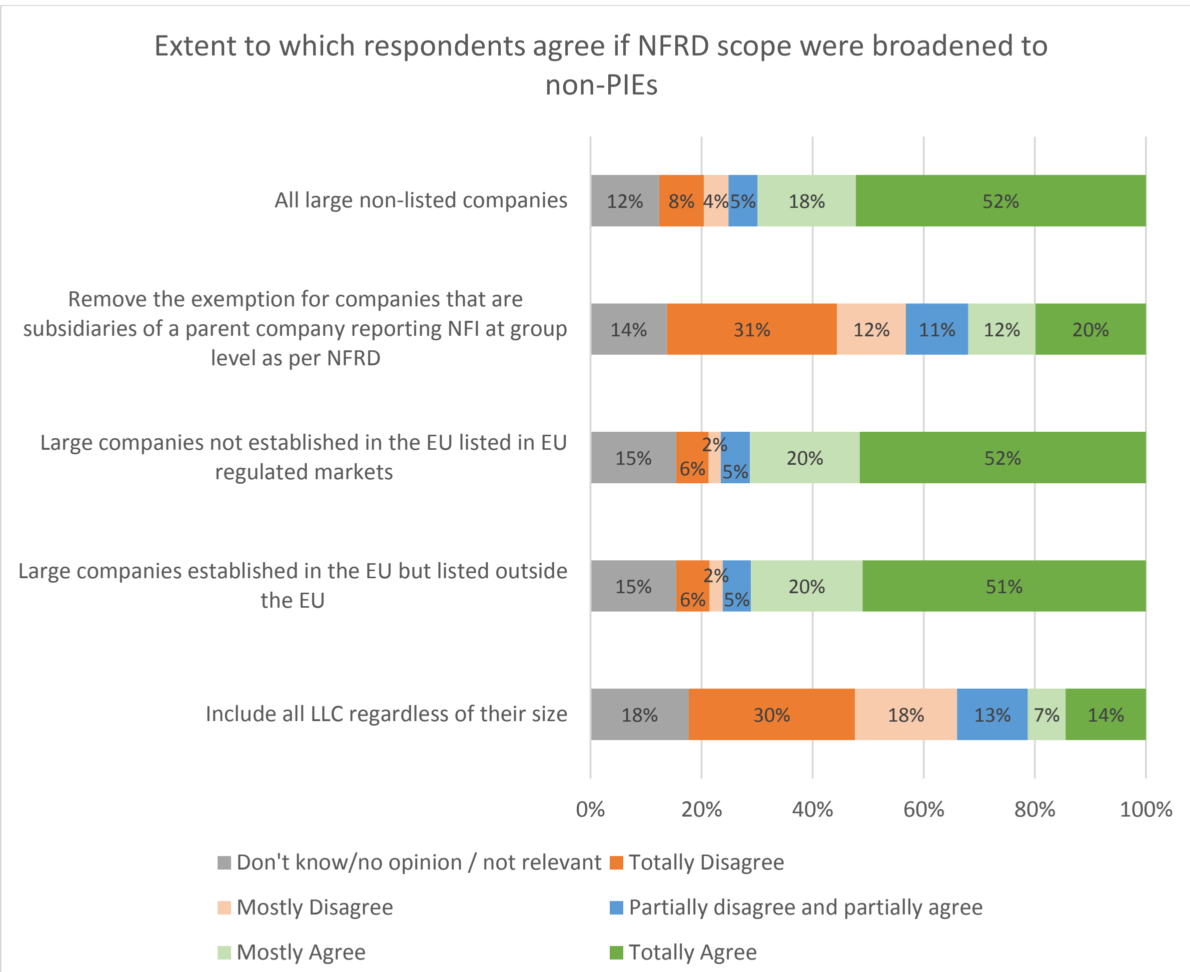
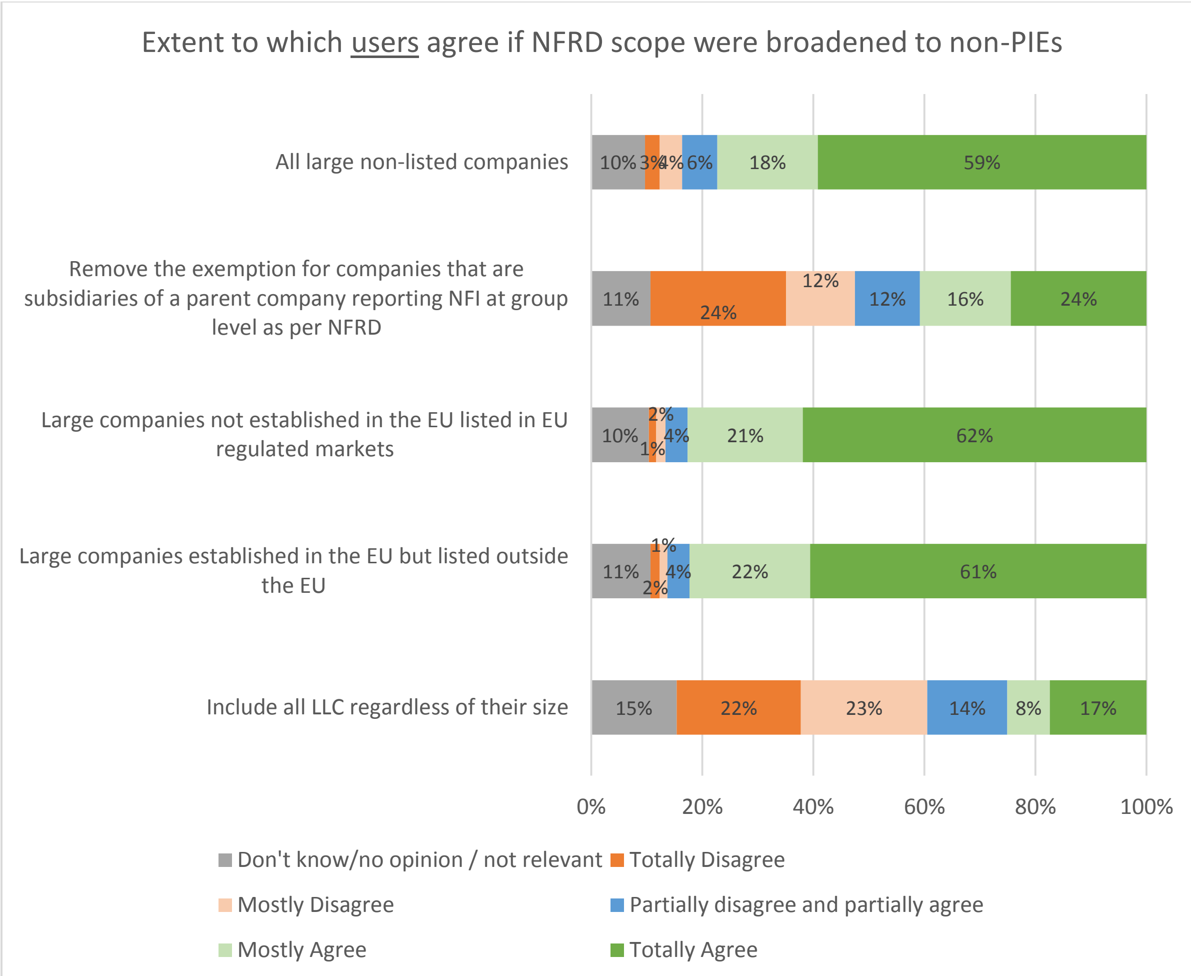
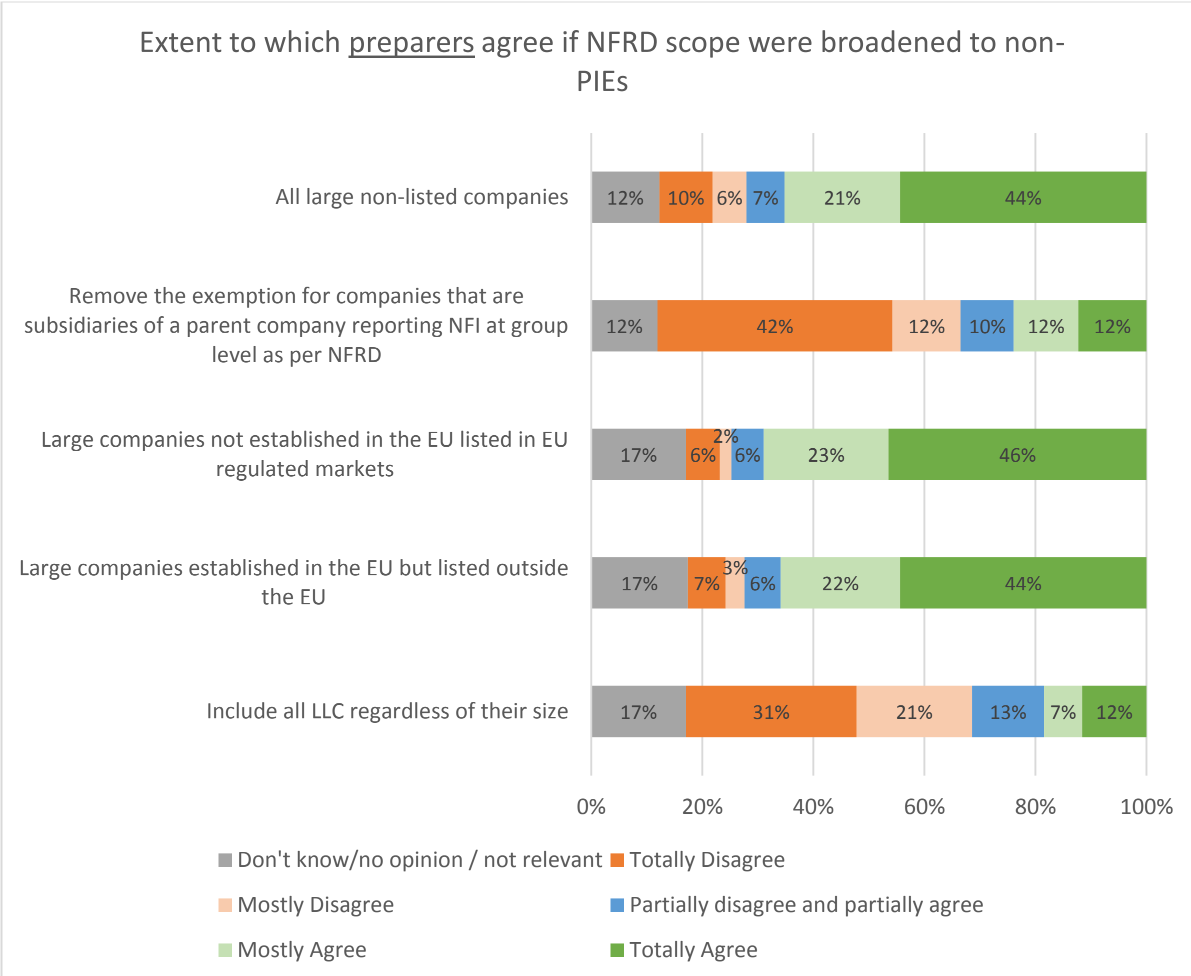


Figure 54



Extent to which users agree if NFRD scope were broadened to non-PIEs
All large non-listed companies
10%
3%
4%
6%
18%
59%
Remove the exemption for companies that are subsidiaries of a parent company reporting NFI at group level as per NFRD
11%
24%
12%
12%
16%
24%
Large companies not established in the EU listed in EU regulated markets
10%
2%
1%
4%
21%
62%
Large companies established in the EU but listed outside the EU
11%
1%
2%
4%
22%
61%
Include all LLC regardless of their size
15%
22%
23%
14%
8%
17%
0%
20%
40%
60%
80%
100%
Don't know/no opinion / not relevant
Totally Disagree
Mostly Disagree
Partially disagree and partially agree
Mostly Agree
Totally Agree

Figure 55



Extent to which preparers agree if NFRD scope were broadened to non-PIEs
All large non-listed companies
12% 10% 6% 7% 21% 44%
Remove the exemption for companies that are subsidiaries of a parent company reporting NFI at group level as per NFRD
12% 42% 12% 10% 12% 12%
Large companies not established in the EU listed in EU regulated markets
17% 6% 2% 6% 23% 46%
Large companies established in the EU but listed outside the EU
17% 7% 3% 6% 22% 44%
Include all LLC regardless of their size
17% 31% 21% 13% 7% 12%
0% 20% 40% 60% 80% 100%
Don't know/no opinion / not relevant
Totally Disagree
Mostly Disagree
Partially disagree and partially agree
Mostly Agree
Totally Agree

Figure 56

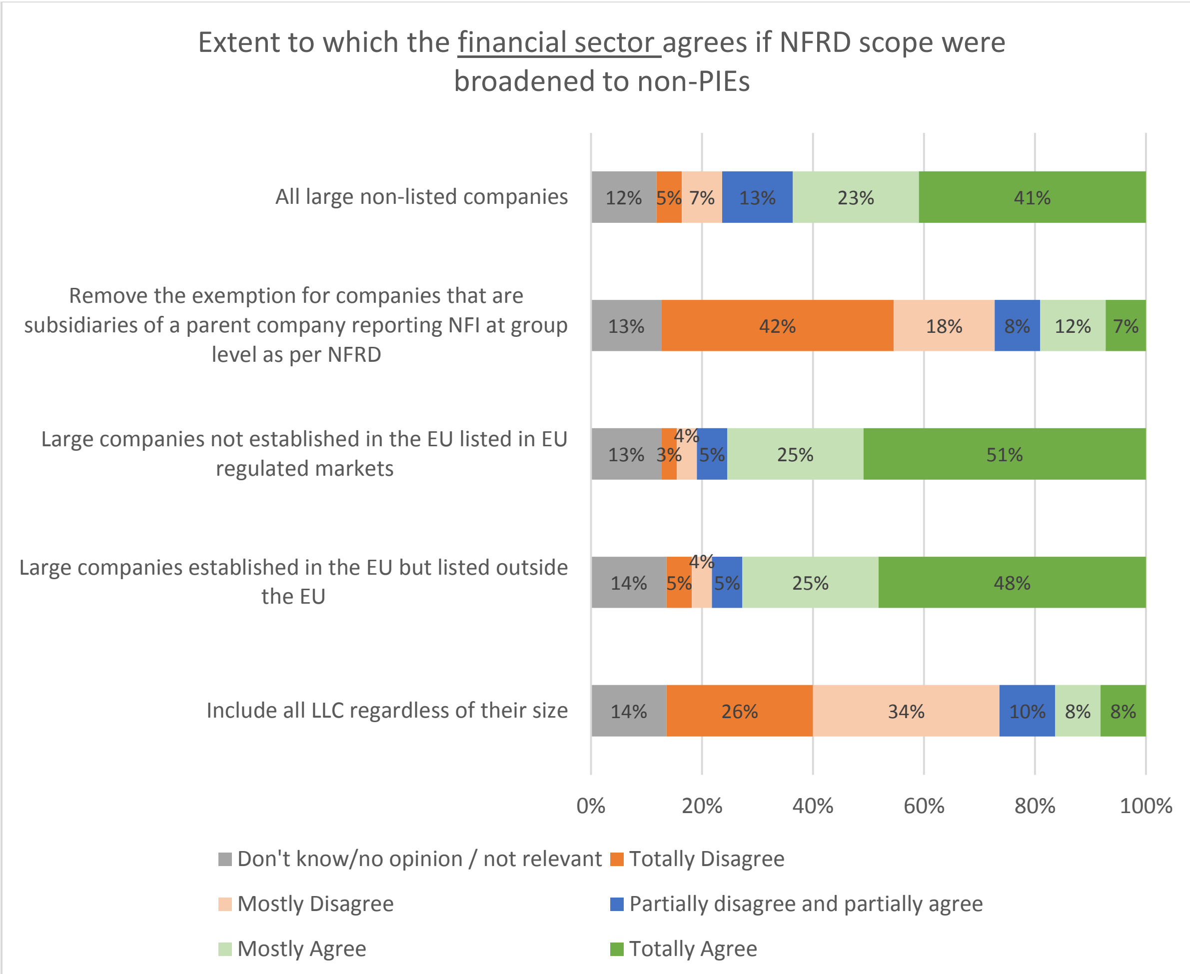


Figure 57

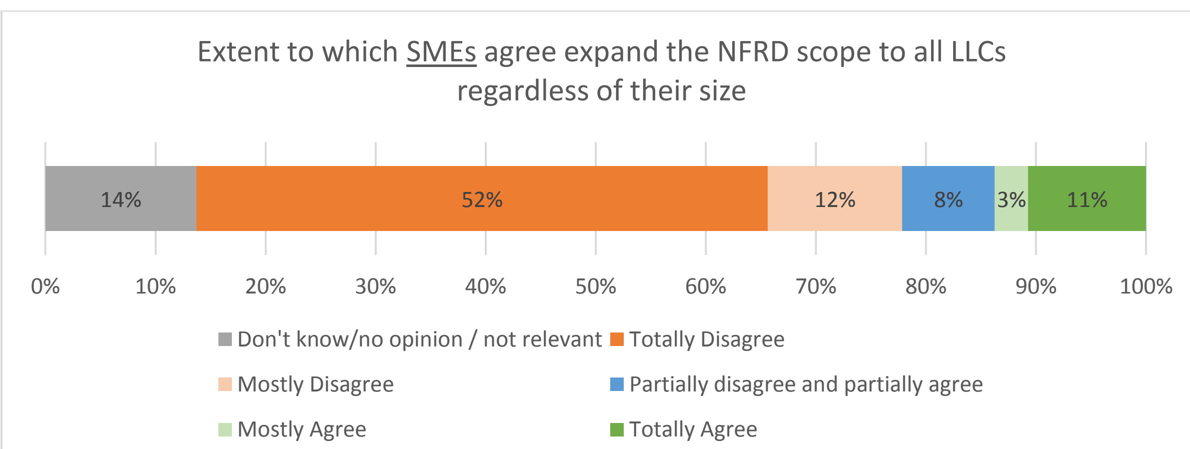


Figure 58

iii. Non-financial information disclosure by non-listed companies

The consultation referred to a possibility where non-listed companies were required to disclose non-financial information. 46% of respondents consider that, in such a case, there should be a specific competent authority in charge of supervising the compliance of non-listed companies.

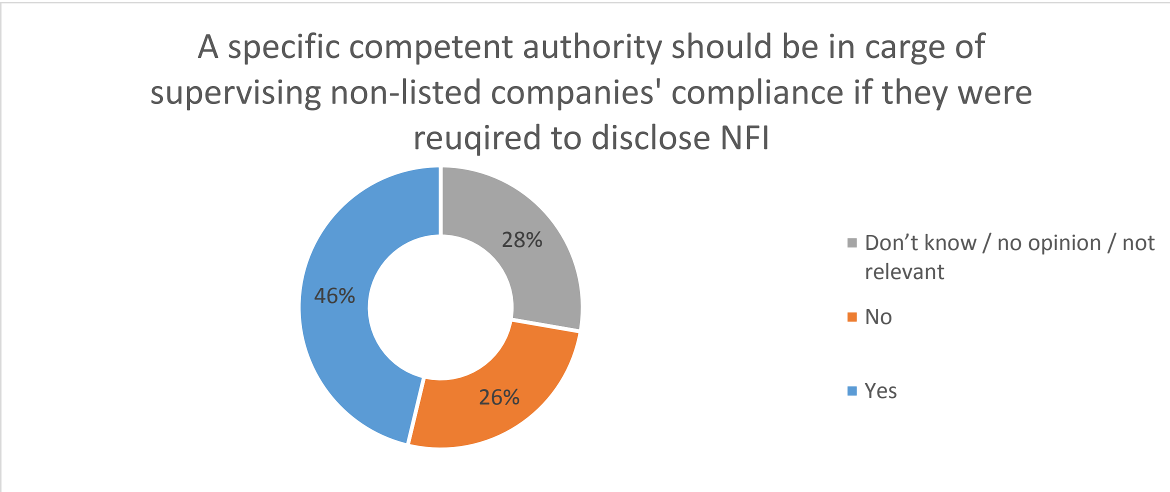


Figure 59

Summary of respondents' comments regarding supervision of non-listed companies

The majority of respondents (both prepares and other stakeholders) agreed that in order to ensure the level-playing field and supervisory convergence, the same national competent authorities that supervise non-financial information reports of listed companies should supervise non-financial information reports of non-listed companies. Some respondents specified further that the same supervisors should checks financial and non-financial reports (annual reports). Some respondents argued for EU-level coordination and pointed out to European Supervisory Authorities as the most suitable bodies to ensure this. A few respondents called for the establishment of a new EU authority.

iv. Personal scope of NFRD on banks and insurance undertakings

The consultation asked respondents to what extent they agree that the threshold criteria for determining which banks and which insurance undertakings have to comply with the NFRD provisions should be different from the thresholds used for non-financial corporates. For insurance undertaking, 27% of respondents support using different thresholds and 25% do not. For banks, 28% support different thresholds and 26% do not. A high proportion of respondents has no opinion on this question.

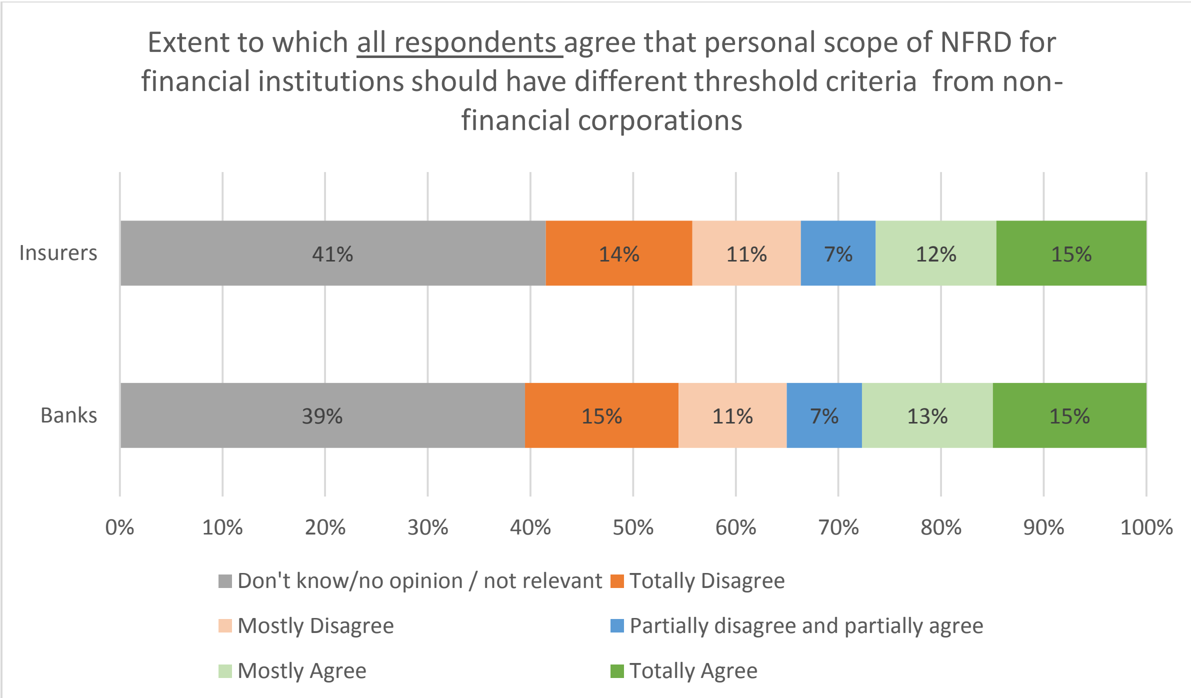


Figure 60

44% of the respondents whose sector of activity is banking believe there should be different threshold criteria for banks. 36% of respondents whose sector of activity is insurance believe thresholds should be different for insurance companies.

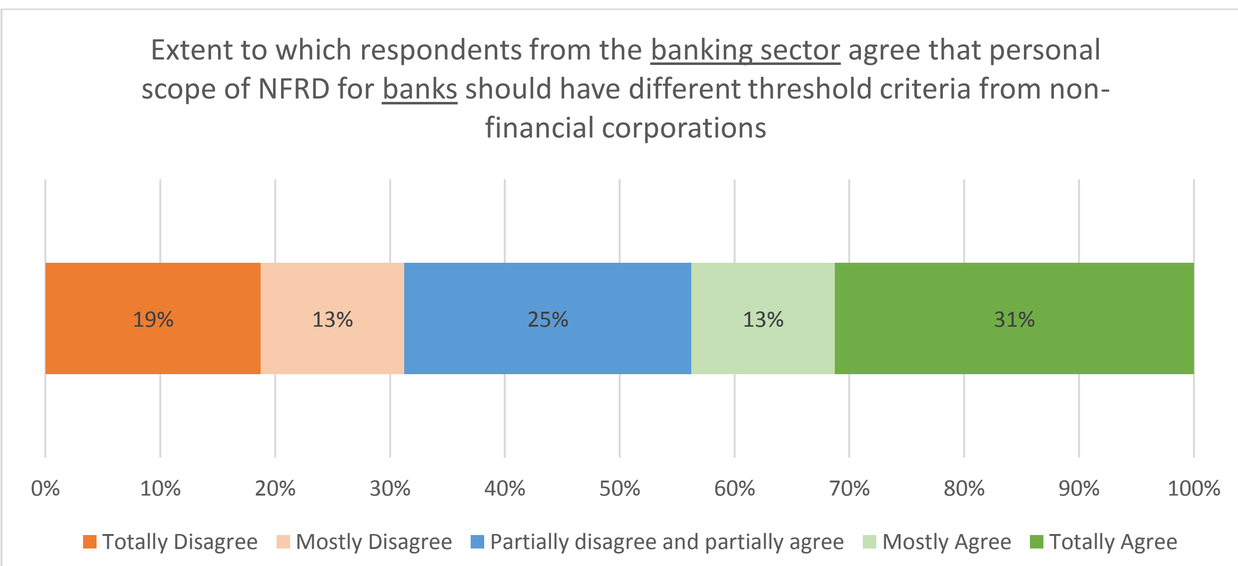


Figure 61

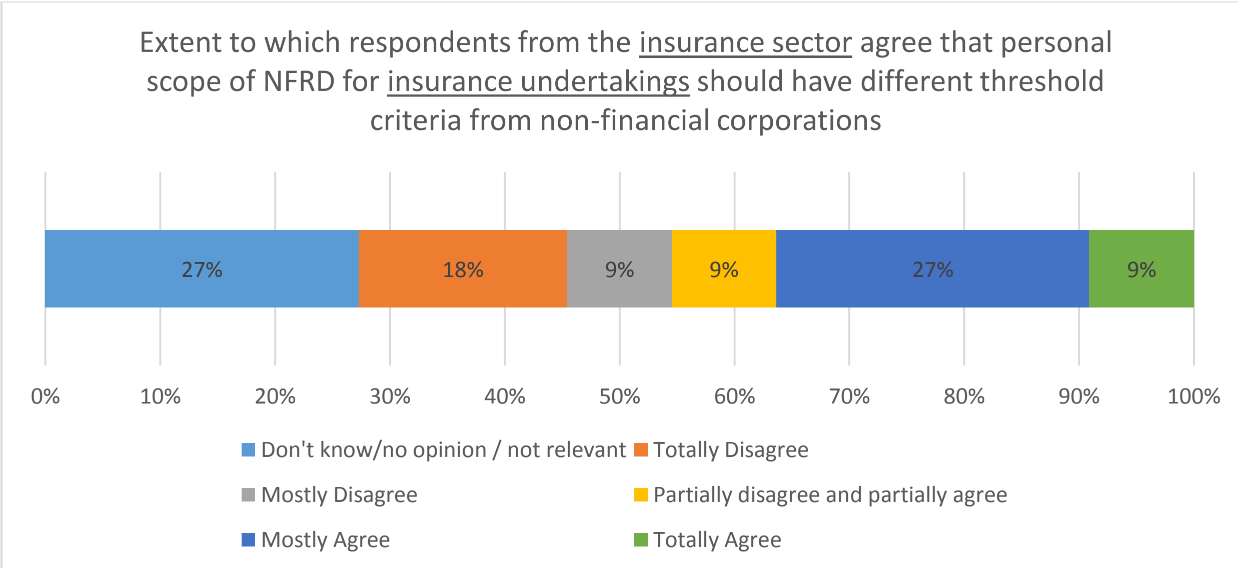


Figure 62

Summary of respondents' comments regarding scope

Comments provided ranged from not extending the scope of NFRD to expanding it to all companies established, listed or operating in the EU.

Some representatives of companies were against the extension of the scope at all, others supported only inclusion of all large PIE (as defined by Member States) or leaving it up to Member States. Some argued that the first step should be to extend the scope to non-EU companies operating in the EU or listed in the EU as well as to non-listed EU companies (without changing the size criteria). They argued that this would already result in a significant increase of the number of reporting companies.

Some representatives of the industry and civil societies argued that all companies should report non-financial information as long as they are established or listed in the EU, or if they generate a turnover in the EU.

Many respondents argued for the equal treatment of companies, i.e. the same thresholds should apply regardless of whether the company is listed or not, as the impact on the society and environment does not depend on listing of securities. Many respondents stated that the threshold should be aligned with those established by the Accounting Directive for large companies (250 employees).

Some respondents argued that the double materiality of non-financial information may need different reporting obligations: all companies have certain impacts on the society and the environment, whereas not all the companies have investors or are of importance to the wider public so that they should report information about risks and opportunities for their operations stemming from the external factors.

Some also noted that there are sectors that create high risks for the environment or societies while others do not, and this is largely irrespective of the size of the companies in such sectors, thus size is not always the best proxy.

Many comments stressed the need for the level-playing field between financial and non-financial information reporting obligations (alignment of obligations). Some respondents argued that the approach to non-financial reporting could follow the same proportional approach of the financial reporting, i.e. gradual increase of reporting obligation with the increase of the size of the company.

Most respondents agreed that SMEs need special treatment. Industry representatives, NCAs as well as companies agreed that for smaller companies the principle of proportionality should be kept in mind. However, as to the details, views were less homogenous. As for listed SMEs, some argued that they should not be subject to the obligatory reporting at all, as it may discourage SMEs from listing and push listed ones from the regulated markets due to additional burden and costs. Others argued that all listed SMEs or at least listed SMEs from the high-risk sectors should be required to report non-financial information.

Contradictory views on the exemption of subsidiaries were expressed: some argued that removing the exemption could lead to a number of problems at the group level (different branches applying different materiality assessments, a risk of double counting if a parent company includes the subsidiaries in its reporting), and additional verification costs for subsidiaries. Others proposed removing the exemption, arguing that the picture of non-financial risks and opportunities as well as adverse impacts caused at the group level may be quite different compared to individual group members.

Some representatives of financial industry as well as supervisors argued the scope threshold for financial institutions need to be different.

Many representatives of financial institutions pointed out that they need non-financial information from their clients and investees to meet their own reporting obligations stemming from EU legislation and thus the scope of issuers covered by the NFRD should take that into account.

4.8 Simplification and reduction of administrative burden for companies (questions 44 – 45)

i. Administrative costs for companies reporting under NFRD

The consultation asked respondents who publish non-financial information pursuant to the NFRD, to state the amount of time employees spend per year carrying out the reporting of non-financial information. The reporting of non-financial information includes time of retrieving, analysing, and reporting information and is represented in terms of full-time-equivalents (FTE). 1 FTE equals 1 employee working 40 hours per week for 250 working days. The total administrative costs provided by companies were calculated using a standard hourly rate of EUR 27,40.

The consultation also asked respondents to share the total cost per year of any external services, excluding assurance or audit services, that they contracted to assist their company with the requirements of the NFRD.

A total of 58 respondents provided information on their internal administrative costs and 37 respondents provided information on their external costs related to the publication of non-financial information under NFRD.

Administrative costs provided by companies range from EUR 5 500 to EUR 493 000. The external costs related to non-financial reporting (excluding costs of assurance) range from EUR 5 000 to EUR 200 000. Costs might be influenced by different factors, including the size of the reporting company, the sector in which it operates, the complexity of its activities or the level of detail in reporting (reporting against detailed standards or not).

ii. Burden of companies reporting non-financial information

The consultation asked about the burdens that preparers may face regarding non-financial reporting. 43% of respondents (and 38% of preparers) agree that companies reporting under NFRD face uncertainty and complexity on deciding what, where and how to report non-financial information. 59% of respondents (64% preparers) agree companies receive pressure to respond to additional demands for non-financial information, and 45% (51% preparers) agree companies reporting under NFRD face difficulties to collect information from their business partners.

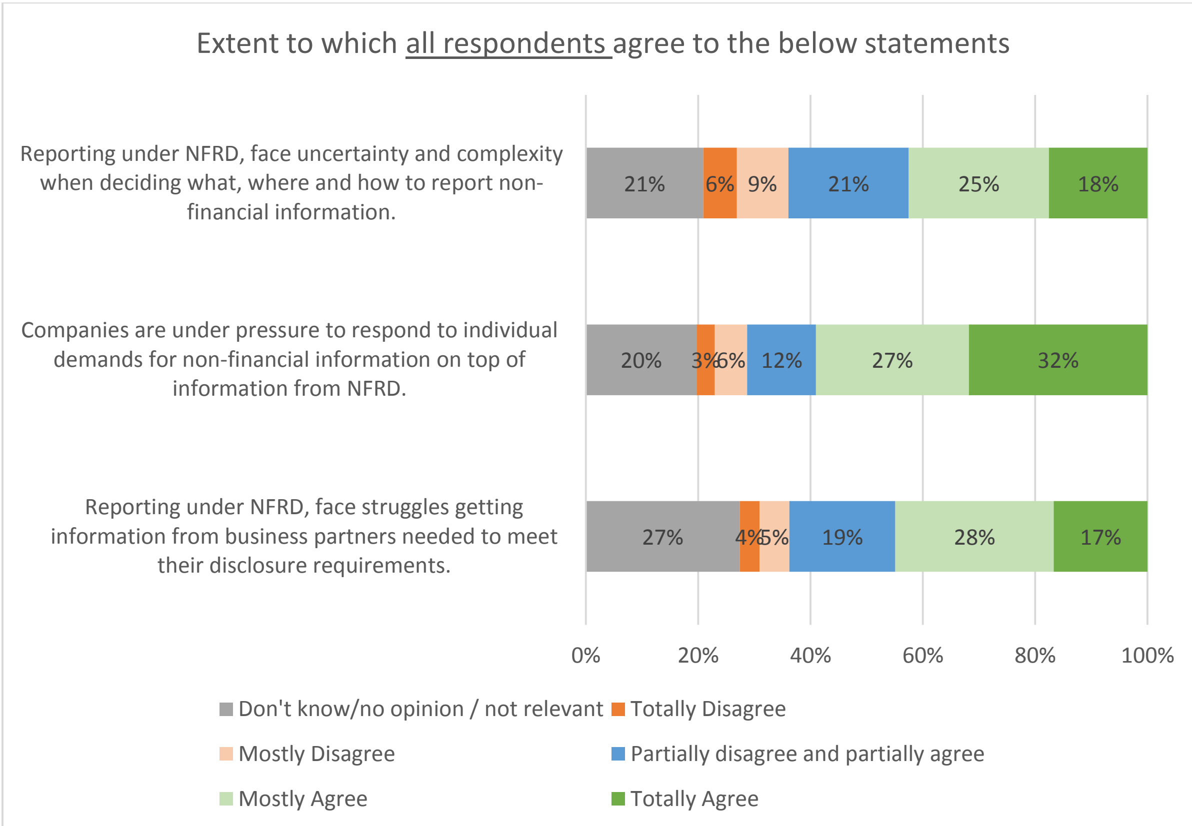

Extent to which all respondents agree to the below statements
Reporting under NFRD, face uncertainty and complexity when deciding what, where and how to report non-financial information.
21%
6%
9%
21%
25%
18%
Companies are under pressure to respond to individual demands for non-financial information on top of information from NFRD.
20%
3%
6%
12%
27%
32%
Reporting under NFRD, face struggles getting information from business partners needed to meet their disclosure requirements.
27%
4%
5%
19%
28%
17%
0%
20%
40%
60%
80%
100%
Don't know/no opinion / not relevant
Totally Disagree
Mostly Disagree
Partially disagree and partially agree
Mostly Agree
Totally Agree

Figure 63

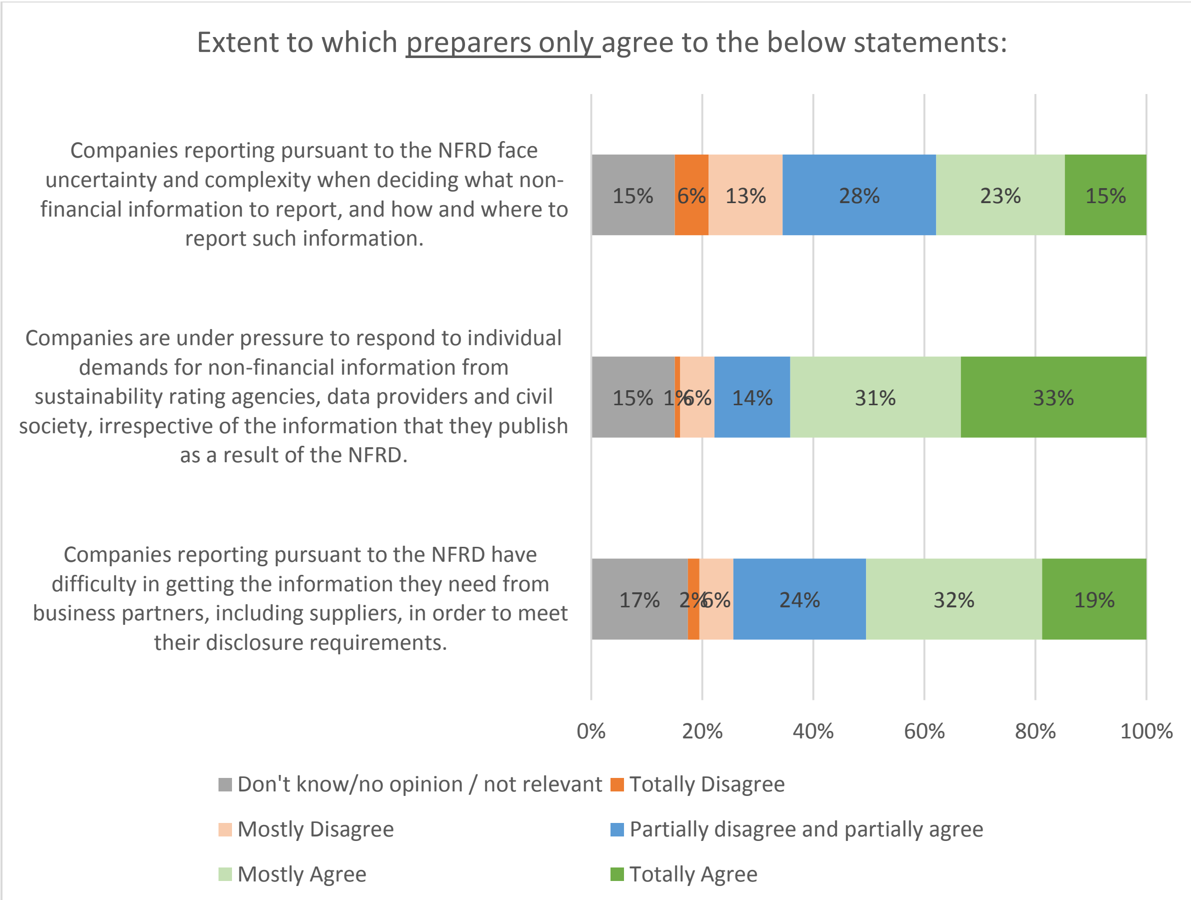


Figure 64

Summary of respondents' comments regarding simplification and reduction of administrative burden

Preparers raised the issue of administrative burden and costs stemming from various sources, including; uncertainty of what needs to be reported; problems obtaining information from business partners, including suppliers, especially if they are outside the EU; and frequent changes in the information needs of investors and other users, with new topics to be dealt with on a frequent basis. Multinational companies state that different reporting formats, content requirements and deadlines imposed by individual Member States while transposing NFRD create an additional burden. Many preparers also face individual demands coming from ESG data and rating providers, asset managers, and NGOs irrespective of the non-financial information they may publish. They also pointed to the high burden that results from the existence of different standards, frameworks and guidance. Some preparers stressed the need to ensure sufficient time for collection and analyses of data from the supply chain companies as well as subsidiaries, and argued for a difference between the deadline for financial and non-financial reports.

Auditors and financial industry respondents also stated that companies need more certainty on what they are supposed to report on, since this uncertainty leads to additional burden and costs.

Many respondents pointed out the difficulty of providing a reporting framework which would meet the non-financial information expectations of a very diverse range of users, as it might end up being excessively detailed and complex. Many respondents stressed the need to minimize the reporting burden by aligning transparency and reporting requirements stemming from different EU rules.

NGOs pointed out tangible benefits to be gained from responding to investor and buyers' requests for disclosure: protection and improvement of the company's reputation; boosting competitive advantage; identification of emerging environmental risks and opportunities; and benchmarking environmental performance against industry peers. Some NGOs referred to significant savings that could result from enhanced transparency.