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Targeted consultation on the update of the non-binding guidelines on non-financial reporting

Fields marked with * are mandatory.

Introduction

Disclaimer:

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the the non-binding guidelines on non-financial reporting.

The non-financial reporting Directive (2014/95/EU) (https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en) requires large public interest entities with over 500 employees (listed companies, banks, and insurance companies) to disclose certain non-financial information. As required by the directive, the Commission has published non-binding guidelines (https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en) to help companies disclose relevant non-financial information in a more consistent and more comparable manner.

In March 2018 the Commission published the action plan on financing for sustainable growth (https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en), with the aim of reorienting capital towards sustainable investment, managing financial risks that arise from climate change and other environmental and social problems, and fostering transparency and long-termism in financial and economic activity.

As part of that action plan the Commission committed to updating the non-binding guidelines on non-financial reporting, specifically with regard to the reporting of climate-related information. In practice, it is expected that the update will consist of a new supplement to the existing guidelines. The Commission expects to publish the new supplement on the reporting of climate-related information in June 2019.

In June 2018, the European Commission set up a technical expert group on sustainable finance (TEG) (https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en) to assist in four key areas of the action plan through the development of

1. a unified classification system for sustainable economic activities (taxonomy),

2. an EU green bond standard,
3. benchmarks for low-carbon investment strategies,
4. new guidelines on the reporting of climate-related information.

In January 2019 the TEG published its report on climate-related disclosures (https://ec.europa.eu/info/publications/190110-sustainable-finance-teg-report-climate-related-disclosures_en). The TEG invited feedback on its report by 1 February 2019, and approximately 70 organisations and individuals submitted comments. The TEG has published a summary of these comments (https://ec.europa.eu/info/files/190110-sustainable-finance-teg-report-climate-related-disclosures-summary-of-responses_en).

The Commission has taken into account the TEG report and the feedback received from stakeholders on that report and is now consulting stakeholders on the update of the non-binding guidelines before their planned adoption in June 2019. Stakeholders are invited to provide written comments by 20 March.

The consultation document (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document_en) takes account of the TEG report and of stakeholder feedback on that report. This document has been drafted by the services of the European Commission to facilitate a targeted consultation with interested stakeholders on the possible content of the new supplement to the non-binding guidelines. Comments on this document should be submitted by the end of Wednesday 20 March 2019, through this online facility created for this purpose. Comments submitted after that date, and comments not submitted through the online facility, will not necessarily be taken into consideration.

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the the non-binding guidelines on non-financial reporting.

More information:

- consultation document on the update of the non-binding guidelines on non-financial reporting (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document_en)
- on this consultation (https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en)
- on the protection of personal data regime for this consultation (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-specific-privacy-statement_en)

1. Information about you

* Are you replying as:

- a private individual
- an organisation or a company
- a public authority or an international organisation

* Name of your organisation:

PricewaterhouseCoopers International Limited

Contact email address:

The information you provide here is for administrative purposes only and will not be published

henry.daubeney@pwc.com

* Is your organisation included in the Transparency Register?

(If your organisation is not registered, we invite you to register here

(<http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en>), although it is not compulsory to be registered to reply to this consultation. Why a transparency register?

(http://ec.europa.eu/transparencyregister/public/staticPage/displayStaticPage.do?locale=en&reference=WHY_TRANSAPRENCY_REGISTER))

Yes
 No

* If so, please indicate your Register ID number:

60402754518-05

* Type of organisation:

<input type="radio"/> Academic institution	<input type="radio"/> Media
<input type="radio"/> Company, SME, micro-enterprise, sole trader	<input type="radio"/> Non-governmental organisation
<input checked="" type="radio"/> Consultancy, law firm	<input type="radio"/> Think tank
<input type="radio"/> Consumer organisation	<input type="radio"/> Trade union
<input type="radio"/> Industry association	<input type="radio"/> Other

* Where are you based and/or where do you carry out your activity?

Other country

* Please specify your country:

Global

* Field of activity or sector (*if applicable*):

at least 1 choice(s)

- Accounting
- Auditing
- Banking
- Credit rating agencies
- Insurance
- Pension provision
- Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- Social entrepreneurship

- Other
- Not applicable



Important notice on the publication of responses

* Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?

(see specific privacy statement (https://ec.europa.eu/info/files/190110-sustainable-finance-teg-report-climate-related-disclosures-privacy-statement_en) 

- Yes, I agree to my response being published under the name I indicate (*name of your organisation/company/public authority or your name if your reply as an individual*)
- No, I do not want my response to be published

2. Your opinion

1. Do you have any comments on Chapter 2 “How to use these guidelines” (https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf#chapter-2) of the report?

3,000 character(s) maximum

In general, we support the provision of additional, non-binding guidelines on the interpretation of the NFRD requirements and on best practices for climate-related reporting. However, the guidelines - even though their application is not mandatory - should not conflict with the provisions of the NFRD. The current draft includes some recommendations, which do not seem in line with the NFRD. In these cases the guidelines should be more clear about the scope of their recommendations compared to the NFRD requirements.

For one, the materiality criteria of the NFRD are not used consistently in the consultation; information is material when it meets both conditions of being necessary for the understanding of the impact of the company on the climate and for the understanding of the impact of climate on the company's financial development, performance, position. However, the European Commission ("EC") sometimes switches to an either-or-perspective, i.e. information can be considered material if only one condition is met (see p. 7).

The latter perspective is partially in line with the TCFD recommendations, which focus on the impact of climate on the company. A less restrictive definition of materiality may contribute to the disclosure of adequate climate-related sustainability information following the Action Plan on Financing for Sustainable Growth. However, the non-binding guidelines should explain their approach on materiality more clearly and, thereby provide more context to their approach compared to the approach established in the NFRD, which refers to the company's development, performance, position, i.e. financial materiality, and the company's impact on non-financial matters.

This issue also applies to the recommendations on climate-related risks (see our comments below). The EC correctly notes, that the exposure of a company to climate-related risks might not necessarily depend on its impact on climate (see p. 10). However, the EC does not address to what extent disclosures on such risks are recommendations but not required by the NFRD.

Opportunities are not subject to NFRD reporting. While their interdependencies with climate-related risk are illustrated in the report (see *inter alia* figure 2), their role in (non-financial) reporting and regarding the NFRD requirements might be better explained in the report.

The EC distinguishes between two types of recommended information. Type 1 information should be considered in case climate-related information is material (largely as defined by the NFRD). Type 2 information comprises additional disclosures, which may be considered based on the size of climate-related risks and opportunities of the company. Particularly concerning type 1 disclosures on material issues, a more direct link in the report between recommendations and the NFRD requirements might be helpful.

2. Do you have any comments on Chapter 3.1 "Business Model" (https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf#chapter-3-1) of the report?

3,000 character(s) maximum

Based on the TCFD recommendations the EC highlights the importance of climate for business models. In order to assess the role of climate, companies are supposed to report on three different horizons (short-, medium- and long-term). While the extension of the time horizon to a more long-term approach may be adequate for the assessment of the impact of climate on companies and vice versa, this recommendation clearly exceeds current disclosure requirements and reporting practice in some Member States.

The non-binding guidelines lack specific guidance on the recommended horizons. There are no illustrative examples for specific timeframes and no further guidance on potential differences in disclosures depending on the addressed timeframe. We further miss a link between the recommended reporting horizon and the company's planning horizon or the value cycle of the company's products or services respectively.

Analysis of climate scenarios including one achieving the 2°C target is in line with the TCFD requirements but also exceeds non-financial reporting requirements. The guidelines do not provide any further explanations and guidance for companies to conduct the scenario analysis.

3. Do you have any comments on Chapter 3.2 “Policies and Due Diligence Processes”

(https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf#chapter-3-2) of the report?

3,000 character(s) maximum

This chapter is conceptually in line with the NFRD as due diligence processes are already part of the disclosures on the company's policies and concepts pursuing the NFRD. Moreover, the involvement of management has also been addressed by the NFRD.

In detail, certain recommendations extend the NFRD's approach, e.g., the NFRD does not require the explanation of the company's targets with regard to national or international targets.

4. Do you have any comments on Chapter 3.3 “Outcomes”

(https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf#chapter-3-3) of the report?

3,000 character(s) maximum

Reporting on outcomes, hence, the performance of the company against its targets is generally consistent to the NFRD. However, recommending specific targets, e.g. GHG emissions, is not in line with the approach taken by the NFRD, which focuses on the concepts including targets and policies applied by the company. Specific targets (and KPIs – see below) based on an established framework such as the TCFD recommendations which have to be reported by all companies might increase the comparability of non-financial/climate-related reporting. Yet, the NFRD primarily requires disclosures on the individual policies and concepts applied by the company. Thus, reporting on outcomes pursuant to the NFRD is based on the (individual) targets and metrics of the company rather than “one-size-fits-all” general disclosures. In this regard, general disclosures might present a trade-off between (more) comparable information and disclosure overload caused by the disclosure of information that might not be material for a specific reporting entity.

5. Do you have any comments on Chapter 3.4 “Principal Risks and Their Management”

(https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf#chapter-3-4) of the report?

3,000 character(s) maximum

The illustration of various types of potential risks based on the TCFD recommendations is generally helpful. The EC recommends the disclosure of both, risks of a negative impact by the company on the climate and risks of climate which may affect the company negatively, i.e. both types of risks should be addressed.

Materiality following the NFRD requires that both perspectives are met (see above). Moreover, material risks pursuant the NFRD are risks that likely cause adverse impacts. These risk-specific requirements are not addressed in the report.

The first practical experience on non-financial risk reporting indicates a lack of material risks (at least in some Member States), thus, a broader approach to climate-related risks is appreciated, but again the non-binding guidelines should elaborate on the interaction between the illustrative guidance of the non-binding guidelines and the requirements of the NFRD, particularly concerning materiality criteria and risk reporting.

Therefore, the numerous examples of climate-related risk may largely not meet the materiality criteria following the NFRD.

While the report provides numerous types of and examples for (climate-related) risks, the term “risk” is not defined. It is not clear whether the definitions of risks according to the implementation of the Accounting Directive and the NFRD in the Member States are consistent and, thus, whether any negative impact meets the definition of a (non-financial) risk. In this regard, additional guidance might be helpful.

6. Do you have any comments on Chapter 3.5 “KPIs”

(https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf#chapter-3-5) of the report?

3,000 character(s) maximum

The term "KPI" is not defined and in practice is broadly interpreted by companies. Based on our understanding, key performance indicators are the main indicators, which are also used by management for internal governance and management purposes. A clear definition from the EC might be helpful in this document.

Further, recommended disclosures on additional indicators and targets might be better suited in Chapter 3.1 on the company's concepts and policies. Thereby, the report could differentiate more clearly between disclosures on KPIs and on targets and other indicators.

On a similar note to our remarks on Chapter 3.3, reporting on specific KPI, which are not derived from the internal management process, is not consistent to the approach taken by the NFRD. Despite the non-binding nature of the guidelines, the recommendation of specific indicators might incentivize extensive disclosures which might not entirely be material for the company. In this regard additional guidance on the role of the recommendations might be helpful.

**7. Do you have any comments on Annex I "Proposed disclosures for Banks and Insurance companies
(https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf#annex-1) to the report?**

3,000 character(s) maximum

We appreciate the efforts to include sector-specific guidance, particularly for banks and insurance companies which take a major role in the EC's Action Plan for Financing Sustainable Growth.

However, we want to note, that the recommendations for banks and insurance companies seem excessive, particularly regarding disclosures on outcomes and KPIs. The definition of specific ratios and amounts that should be disclosed by any large bank and insurance companies is not in line with the approach of the NFRD. Moreover, the report lacks detailed guidance on the determination of these metrics.

**8. Do you have any comments on Annex II "Mapping of NFRD requirements and TCFD recommended disclosures"
(https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf#annex-2) to the report?**

3,000 character(s) maximum

We agree to the mapping of NFRD requirements and TCFD recommendations by the EC, which provides an illustrative overview of the main elements following the NFRD and TCFD.

Notably, despite the TCFD recommendation of disclosing climate-related information in the management report, in practice, many companies choose to disclose this information in a separate report, e.g. as part of a sustainability report which provides a lot of information in addition to the non-financial reporting following the NFRD.

We want to point out that the concept of materiality again (see our remarks on Chapter 2) is not applied consistently. Material aspects following the TCFD recommendations might not be material pursuing the NFRD requirements (see p. 33).

Moreover, disclosure recommendations which are not subject to a materiality assessment (e.g. disclosures on Governance and Risk Management following TCFD, see p. 33) are generally not in line with the NFRD, the main exemption being disclosures following the comply or explain approach of the NFRD in case the company has no concept for a non-financial aspect.

9. Do you have any additional comments on the report as a whole?

3,000 character(s) maximum

We support additional, non-binding guidance to provide best practices for climate-related reporting and further guidance for the interpretation of the NFRD to promote non-financial reporting that exceeds the legal minimum established by the NFRD. However, the non-binding guidelines should not conflict with the requirements of the NFRD. In some instances, e.g. concerning the materiality assessment and disclosures on climate-related opportunities, the guidelines do not seem consistent and in line with the NFRD. Particularly for these recommendations, we suggest to add some clarification on the scope of the guidelines in comparison to the NFRD.

The guidelines lack additional information on some particularly extensive disclosure recommendations, which are not addressed in the NFRD or might exceed the NFRD, namely scenario analysis and extended time horizons for risk assessments and other disclosures.

Specific reporting requirements irrespective of a materiality assessment or the internal processes of the company may contribute to increase the comparability of climate-related reporting. However, such disclosures are not in line with the NFRD conceptually. Moreover, in order to avoid disclosure overload in the form of extensive, non-company-specific checklists, specific disclosures should be limited to key information. Despite the non-binding nature of the guidelines, the recommendation of specific indicators might incentivize extensive but unreflected, i.e. not company-specific disclosures that are not intended by the NFRD.

Useful links

More on the Transparency register (<http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en>) (<http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en>)

More on this consultation (https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en) (https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en)

Specific privacy statement (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-specific-privacy-statement_en) (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-specific-privacy-statement_en)

privacy-statement_en)

Consultation document (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document_en) (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document_en)

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