



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 \(2014/95/EU\)](#) 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](#) 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](#), 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 \(TEG\)](#) 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](#). 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](#).

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](#) 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](#)
- [on this consultation](#)
- [on the protection of personal data regime for this consultation](#)

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:

EuropeanIssuers

Contact email address:

The information you provide here is for administrative purposes only and will not be published

info@europeanissuers.eu

* Is your organisation included in the Transparency Register?

(If your organisation is not registered, [we invite you to register here](#), although it is not compulsory to be registered to reply to this consultation. [Why a transparency register?](#))

- Yes
 No

* If so, please indicate your Register ID number:

20935778703-23

* 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 type="radio"/> Consultancy, law firm | <input type="radio"/> Think tank |
| <input type="radio"/> Consumer organisation | <input type="radio"/> Trade union |
| <input checked="" type="radio"/> Industry association | <input type="radio"/> Other |

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

Belgium

* 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


* Please specify your activity field(s) or sector(s):

Publicly listed companies



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](#) )

- 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”](#) of the report?

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Although this consultation does not address Chapter 1 and in particular the benefits for reporting companies, we would like to point out that at this stage, the potential benefits for companies regarding in particular lower cost of capital and improved credit ratings for bond issuance and better credit worthiness assessment for bank loans are not obvious. More evidence is welcomed.

Companies appreciate the efforts of clarification undertaken by the Commission in Chapter 2. The explanations on the double materiality perspective of NFRD are very useful as this aspect is often misunderstood. The chart makes clear how climate change may affect the company and how the company may affect the climate. The frequent overlap of these two risk perspectives is essential to be understood before addressing climate related reporting.

Companies also welcome the simplification of the structure of the proposed disclosures, divided into 2 types of disclosures instead of 3 as initially proposed by the TEG. 3 levels of disclosure are totally impracticable and unacceptable for companies. However, we believe that Type 1 disclosures should be strictly focused on core issues and a limited number of KPIs that can reasonably be expected to be tackled by a wider community of companies reporting on climate-related issues. Type 2 disclosures should list all other optional disclosures for companies who wish to go further and provide more enhanced information. It should be kept in mind, when releasing these guidelines, that climate-related reporting is very expensive for companies as data is extremely complex to produce.

A step by step approach is therefore necessary considering the huge challenges companies face when carrying out climate scenario analysis. These difficulties, clearly pointed out by the TCFD Status Report of Oct 2018 and the I4CE Climate brief of Feb 2019, should be taken into account.

Also, the coherence with and reference to the newly adopted ISO 14064-1:2018, referred to in a quite discrete way in the KPI tables at the end of the consultation document, is missing in Chapter 2 and should be included. The new ISO standard is indeed the result of a vast international revision process in which countries like China actively participated. It abandons the terms Scope1, 2 and 3 to the benefit of direct and indirect GHG emissions, the indirect emissions being linked either to energy, transport, services etc. EU guidelines should be in line with this new international standard, as well as with the GHG Protocol, to avoid confusion and different approaches in classification and reporting of GHG.

At last, in order to be effective, non-financial disclosure should be focused, clear and concise. Following an approach requesting the too detailed information is counterproductive and risks to burden excessive administrative and organisational costs on EU companies, putting them in a position of competitive disadvantage towards their non-EU competitors.

2. Do you have any comments on [Chapter 3.1 “Business Model”](#) of the report?

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Companies propose to limit the Type 1 disclosures to the following two items, considering that NFRD requires only a brief description of the business model:

- Briefly describe the impact of climate-related risks on the company's business model, strategy and financial planning, and how strategies might change to address potential transition and physical risks [Covers TCFD recommendation Strategy b)]

- Briefly describe how the company's business model and strategy might have an adverse impact on the climate, and how they might contribute to climate change mitigation and/or adaption.

The description of "opportunities" is not included in NFRD. It would be inappropriate to enlarge the scope of the guidelines to include new items. Obviously, companies are free to report on opportunities but it is up to them to decide and not up to the guidelines to recommend it.

The description of resilience of the company's business model and strategy will be very difficult to produce for companies. If the two items above are well disclosed, a huge step will have been taken. Additional disclosures should only be considered on the basis of Type 2 disclosures by companies which have identified especially important risks.

We therefore propose to include the third item of Type 1 disclosures "Describe the resilience of the company's business model and strategy, taking into consideration different climate related scenarios over different time horizons, including at least a 2°C or lower scenario and a greater than 2° C scenario. [Covers TCFD recommendation Strategy c)]" in the list of Type 2 disclosures.

3. Do you have any comments on [Chapter 3.2 "Policies and Due Diligence Processes"](#) of the report?

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Again, Type 1 disclosures are much too ambitious and will discourage companies reporting on climate-related issues for the first time. If all EU companies in the scope of NFRD disclose the first recommended item: “Describe the company’s climate policy and associated targets, including any climate change mitigation or adaptation policy, and any other commitments or principles that the company has set.”, this would be a significant step.

Climate policy and targets are the baseline of policy reporting and should therefore be included in Type 1 disclosures. The other items are important for companies with high climate-related risks, but they will be too detailed for companies with smaller issues related to climate change.

The guidelines should set attainable and realistic goals and give useful indications for those to wish to provide more enhanced information under Type 2 disclosures. The guidelines may risk being considered as too difficult to apply if they include too many items that are very complicated to report on as a baseline.

For these reasons, all other Type 1 disclosures should be included in Type 2.

4. Do you have any comments on [Chapter 3.3 “Outcomes”](#) of the report?

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Type 1 disclosures should be limited to the first item on the list:

“Describe the outcomes of the company's policy on climate change, in particular the performance of the company against the indicators used and targets set to manage climate related risks and opportunities. [Covers TCFD Metrics and targets c].”

The second item should be included in Type 2 disclosures for the same reasons as explained above (see third paragraph of question 3).

5. Do you have any comments on [Chapter 3.4 “Principal Risks and Their Management”](#) of the report?

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Type 1 disclosures should be limited to the 4th item of the list:

“Describe processes for managing climate-related risks (if applicable how they make decisions to mitigate, transfer, accept, or control those risks), and how the company is managing the particular climate-related risks that it has identified. [Covers TCFD recommendation Risk management b)]”

The other Type 1 items should be included in Type 2 disclosures for the same reasons as explained above (see third paragraph of question 3).

However, the following Type 2 disclosures mentioned here below should be deleted from the guidelines, companies considering them as going too far and being problematic to produce:

- Give a detailed breakdown of climate-related risks by business activity and/or geographical location.
- Describe the processes for prioritizing climate-related risks, including any thresholds applied and indicate which risks across the value chain are considered most significant.
- Disclose any risk mapping that includes climate related issues.
- Describe the linkages between major climate-related risks and financial KPIs.
- Disclose financial impacts of extreme weather events, including possible indicators on days of business interruptions and associated costs, cost of repairs, fixed-asset impairment, value chain disruptions and lost revenues.

6. Do you have any comments on [Chapter 3.5 “KPIs”](#) of the report?

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As a general comment, we would like to point out that KPIs are sometimes excessively detailed and almost impossible to comply with. See for instance:

- The request to give a detailed breakdown of climate-related risks by business activity and/or geographical location (Table 4, Type 2)
- The request to describe how the company sets and applies limits to climate related risks, including any triggers used to escalate issues to management attention (Table 4, Type 2)

In addition, many of the requested disclosures can hardly be managed, even by companies big in size and very experienced and skilled in non-financial disclosure.

Also, we note that KPIs proposed in the Consultation Document are actually designed for financial effects of climate change and are therefore applicable in financial reporting. For instance, when referring to GHG emission target, the reference to intensity target is a financial measure (table 5).

Type 1 disclosures should be limited to the following items:

- direct GHG emissions,
- indirect GHG emissions from the generation of acquired and consumed electricity, steam, heat or cooling,
- other significant indirect GHG emissions,
- GHG emissions targets (in absolute emissions OR intensity in terms of emissions per unit of output).

Table 5 needs to be reformulated to be perfectly coherent with ISO 14064-1:2018 which is insufficiently

referred to. It should be reminded that Scope 3 should focus specifically on significant emissions. There should be explicit reference to Annex H of ISO 14064-1 which defines criteria allowing to assess the significance of indirect GHG emissions.

All other Type 1 disclosures should be included in Type 2 disclosures for the same reasons as explained above (see third paragraph of question 3).

7. Do you have any comments on [Annex I “Proposed disclosures for Banks and Insurance companies”](#) to the report?

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No comment as European Issuers is a cross sector association which does not take position on sector specific issues.

8. Do you have any comments on [Annex II “Mapping of NFRD requirements and TCFD recommended disclosures”](#) to the report?

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No comment.

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

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To conclude, companies believe essential to provide operational guidelines with Type 1 voluntary disclosures focusing on a limited number of core issues and Type 2 voluntary disclosures providing recommendations for companies considering providing more enhanced information.

The core Type 1 disclosures we recommend are the following:

- Describe the impact of climate-related risks on the company's business model, strategy and financial planning, and how strategies might change to address potential transition and physical risks. [Covers TCFD recommendation Strategy b)]
- Describe how the company's business model and strategy might have an adverse impact on the climate, and how they might contribute to climate change mitigation and/or adaptation.
- Describe the company's climate policy and associated targets, including any climate change mitigation or adaptation policy, and any other commitments or principles that the company has set.
- Describe the outcomes of the company's policy on climate change, in particular the performance of the company against the indicators used and targets set to manage climate related risks and opportunities. [Covers TCFD Metrics and targets c)].
- Describe processes for managing climate-related risks (if applicable how they make decisions to mitigate, transfer, accept, or control those risks), and how the company is managing the particular climate-related risks that it has identified. [Covers TCFD recommendation Risk management b)
- KPIs :
 - o direct GHG emissions,
 - o indirect GHG emissions from the generation of acquired and consumed electricity, steam, heat or cooling,
 - o other significant indirect GHG emissions,
 - o GHG emissions targets (in absolute emissions OR intensity in terms of emissions per unit of output).

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)

[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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