

SNAPSHOT

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Non-Financial Reporting under Review

February 2020

The review of the Non-Financial Reporting Directive is due by the end of 2020. The new rules will be an integral part of the sustainable finance initiative which is critical to enable the ambitions of the European Green Deal. We expect that more companies will fall under the scope and that the reporting requirements will become more detailed and extensive. In this snapshot, we discuss the background and share details of the upcoming revision.

Non-financial reporting today

Improving corporate transparency has become an increasingly important issue for the EU, often pushed by civil society and NGOs. By doing so, policymakers aim to better understand companies' impact on environmental and social issues, make companies more accountable, and motivate them to improve their ESG performance.

A multitude of rules at EU level aim to aid the measuring monitoring and managing of companies' performances and their impact on society. However, except for some sector-specific rules for the extractive and finance industries, the current rules leave a lot of leeway for companies. They can choose the way they disclose information and there is no strict specification as to the depth and detail of the information they submit. As a result, private non-financial reporting frameworks and standards remain inconsistent, making it difficult to compare and use the information.

New level of ambition

Sustainable finance is a key element of the European Green Deal, the European Commission's flagship project to achieve a climate-neutral economy by 2050. Specifically, sustainable finance is considered a crucial tool to channel much-needed capital towards activities that support sustainability and the fight against climate change. To that end, the Commission will publish a renewed sustainable finance strategy in the second half of 2020.

Detailed reporting about the climate impact of companies is an indispensable part of this strategy as it allows investors to understand whether a company is acting sustainably and can hence be part of a 'sustainable' investment portfolio. While the initiative aims to reduce unnecessary costs caused by the uncertainty what kind of information to report, it could well

Arne Koepfel is a Senior Director and Head of Research in the Brussels office.

create an additional administrative burden on companies, due to more detailed reporting requirements.

What is coming up

The European Commission will publish its proposal for a revision of the Non-Financial Reporting Directive in the last quarter of 2020. To that end, it has published its [roadmap document](#) and will carry out a public consultation over the coming months.

The Commission will pursue several objectives with its revision, namely:

- Ensuring that investors have access to, and can take into account, information on sustainability-related risks, opportunities and impacts;
- Supporting businesses and other stakeholders in developing standardised natural capital accounting practices within the EU and internationally;
- Ensuring that civil society organisations, trade unions and others have access to adequate non-financial information to be able to hold them to account.

As part of the renewed Sustainable Finance Strategy the European Commission will also look into corporate governance to ensure that environmental and social issues are taken into account. These aspects could also be considered in the revision of the Non-Financial Reporting Directive and lead to higher scrutiny of companies' boards.

These objectives will lead to significant changes of the current non-financial reporting rules. For once, the Commission will change the non-financial reporting framework into a regulation, meaning that the rules will be directly applicable in the Member States.

On the specific measures the Commission is still considering different options, but the following measures seem likely:

- Extending the scope of the rules to large non-listed companies;
- Specifying in more detail what non-financial information companies should report - a likely option is that the non-binding guidelines on climate-related information will become an integral part of the Non-Financial Reporting Regulation;
- Requiring companies to use a non-financial reporting standard (today companies can choose under which standard to report);
- Ensuring that non-financial information is available in a digital format;
- Strengthening the enforcement regime and promoting greater supervisory convergence.

Next steps

- Until 27 February: Comment period for the roadmap on the Revision of the Non-Financial Reporting Directive
- First Quarter 2020: Public consultation
- Third Quarter 2020: Renewed Sustainable Finance Strategy
- Fourth Quarter 2020: Proposal for a Regulation on Non-Financial Reporting

Conclusions

The revision of the Non-Financial Reporting Directive will result in a wider scope, more detailed reporting standards and requirements for companies to disclose more information. Despite the Commission's objective to not create additional administrative burdens it will be likely that reporting obligations will become more onerous for companies. In particular, non-listed companies with at least 500 employees are likely to face much stricter reporting requirements than is currently the case.

For companies that have high transparency standards and are leaders in sustainability, the review is an opportunity to showcase their green ambitions, attract more investment and establish themselves as a credible partner in the green transition.

In any case business should make its voice heard, not to prevent more corporate transparency, but to ensure that the new rules serve their purpose in a more effective and efficient way possible.



Author

Arne Koepfel

+32 (0)2 289 0939

Arne.Koepfel@fticonsulting.com



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