



*European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken*

Brussels, 8 November 2013

**EACB comments
on the COM proposal
for Non-financial Reporting Directive
and the draft ECON report**

The voice of 4.000 local and retail banks, 56 million members, 217 million customers

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This paper provides the EACB observations with regards to the Commission proposal for a *Directive as regards the disclosure of non-financial and diversity information by certain large companies and groups* (the Non-Financial Reporting Directive), and the amendments proposed by the Rapporteur, Mr Baldassarre in his draft report of 17 October 2013.

KEY MESSAGE I

The members of the EACB are in principle supportive, and ready do provide comprehensive non-financial information. However, they do not consider that providing this information in, or at the same time as the annual report, is the right approach. The preparation of the financial reporting is already a highly complex and demanding process, both in terms of staff and financial resources. A requirement to provide additional non-financial statement within the same timeframe would impose unnecessary pressure - without at the same time ensuring better quality of that information.

“Disconnection’ of non-financial information from audited annual report

In line with the Rapporteur’s Amendment 4, it is absolutely necessary to ensure high flexibility of action in order to take account of the multi-dimensional nature of corporate social responsibility (CSR) and the diversity of the CRS policies implemented by businesses.

For this reason, a choice should be allowed between:

- Including the non-financial statement as a supplement to the annual report (possibly in the management report),

OR

- Providing the non-financial information separately from the annual report.

The Rapporteur’s Amendments 18, 28-30 and 35 seem to already aim at easing the auditing requirements concerning the non-financial information, but do not remove them. The Rapporteur proposes to include the non-financial statement in the management report, as defined in Art 19 of the Directive 2013/34/EU, which is subject to an auditor’s ‘opinion’, and to require that the auditor also checks whether the description of diversity policy has been included in the management report.

These amendments do not go far enough, because the non-financial information would still have to be provided at the same time as the financial statement, being a part of the annual report. This would create additional burdens in what is already a busy and stressful period for any undertaking. In addition, in some Member States the intensity of the ‘opinion’ of the auditor as referred to Art 34 Par 1 on the management report is in practice equivalent to auditing.

A better approach, in our view, would be to maintain the possibility for undertakings to provide the non-financial information under currently used national, Union-based or international frameworks, such as GRI/G4, in a *comprehensive report*. This is to some



extent recognised in Amendments 31 and 16, however, the requirement that this *comprehensive report* forms part of the management report runs counter to the underlying objective of 'disconnecting' the non-financial information from the annual report and auditing.

For this reason, the EACB would propose the following amendments:

Article 1 Paragraph 1 point b (proposed Directive)

Commission proposal:	Draft report (AM 31)	EACB proposal:
'4. Where a company prepares a comprehensive report corresponding to the same financial year relying on national, EU-based or international frameworks and which covers the information provided for in paragraph 1(b), it shall be exempt from the obligation to prepare the non-financial statement set out in paragraph 1(b), provided that such report is part of the annual report.'	'4. <i>Where an undertaking prepares a comprehensive report corresponding to the same financial year which relies on national, Union-based or international frameworks and covers the information provided for in paragraph 1a, the undertaking shall be exempted from the obligation to prepare the non-financial statement provided for in paragraph 1a, provided that such comprehensive report forms part of the management report.</i>	'4. Where a company prepares a comprehensive report corresponding to the same financial year relying on national, EU-based or international frameworks and which covers the information provided for in paragraph 1(b), it shall be exempt from the obligation to prepare the non-financial statement set out in paragraph 1(a), provided that such report is part of the annual report. '

Recital 6 (proposed Directive)

Commission proposal	Draft report (AM 7)	EACB proposal
6. In order to enhance consistency and comparability of non-financial information disclosed throughout the Union, companies should be required to include in their annual report a non-financial statement containing information relating to at least environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters. Such statement should include a description of the policies, results, and the risks related to those matters"	(6) In order to enhance consistency and comparability of non-financial information disclosed throughout the Union, undertakings should be required to include in their management report a non-financial statement containing information relating to at least environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters. Such statement should include a description of the policies, results, and the risks	6. In order to enhance consistency and comparability of non-financial information disclosed throughout the Union, Companies should be required to provide to include in their annual report a non-financial statement containing information relating to at least environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters. Such statement should include a description of the policies, results, and the



	<p>related to those matters. The non-financial statement should also include, where appropriate, a reference to the due diligence processes implemented by the undertaking in order to identify, prevent and mitigate existing and potential adverse impacts as appropriate to the their size and the nature and context of operations.</p>	<p>risks related to those matters.</p>
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KEY MESSAGE II

Duplication of requirements must be avoided: credit institutions already covered by reporting requirements under the Capital Requirements Directive and Regulation must be deemed to comply with the disclosure requirements

Country-by-country reporting

All credit institutions are already subject to extensive obligations to provide country-by-country reporting under Art 89 of the Directive 2013/36/EU (the Capital Requirements Directive IV). In fact, the CRD requirements go far beyond those considered by the Rapporteur in Amendments 40 and 13.

Therefore, we would propose that it is made clear that the country-by-country reporting obligations which may be introduced in the future according to the amendment 40 would not apply to credit institutions already fulfilling those obligations under Art 89 of the CRDIV.

For this reason, the EACB would propose the following amendments:

Amendment 40 (draft Report)

Commission proposal	Draft report (AM 40)	EACB proposal
	<p>The report shall consider the introduction of an obligation for large undertakings and all public-interest entities to publicly disclose, on an annual basis, a country-by-country report for each Member State and third country in which they operate, containing information on, as a</p>	<p><i>The report shall consider the introduction of an obligation for large undertakings and all public-interest entities to publicly disclose, on an annual basis, a country-by-country report for each Member State and third country in which they operate, containing information on, as a minimum, profits</i></p>



	<p>minimum, profits made, taxes paid on profits and public subsidies received.</p>	<p>made, taxes paid on profits and public subsidies received.</p> <p><u>In any case, where an undertaking is a credit institution which falls under the scope of the Directive 2013/36/EU and already fulfils the country-by-country reporting obligations under Art 89 of this Directive, it will not be subject to such requirements under Directive 2013/34/EU.</u></p>
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Information on risks related to matters covered by non-financial information

The credit institutions already have extensive disclosure requirements under the Part Eight of Title I of the CRDIV/CRR, in relation to the risks, including those related to operations and exposures to counterparties, the strategies and processes to manage those risks, and the assessment of whether their disclosures convey their risk profile comprehensively to the market participants.

With regards to non-financial information, the requirement to disclose information on risks by linking them to the undertaking's activities, operations, products or business relationships as proposed by the Rapporteur in Amendment 30 would significantly extend the requirement introduced in the Commission's proposal (Art 1 point 1.a(iii)) and would be an overkill. In order to avoid duplication, it should be ensured that credit institutions which already fulfil the extensive disclosure requirements in under the CRD/CRR will be deemed to be compliant with the requirement to disclose the information on the risks.

Amendment 30 (draft Report)

Commission proposal (Art1)	Draft report (AM 30)	EACB proposal
<p>(iii) the risks related to these matters and how the company manages those risks.</p>	<p>(c) the principal risks related to matters linked to the undertaking's activities, operations, products or business relationships which are likely to cause severe adverse impacts in these areas and the way in which the undertaking manages those risks</p>	<p>(iii) the risks related to these matters and how the company manages those risks. <u>Where an undertaking is a credit institution which falls under the scope of the Directive 2013/36/EU and already fulfils the disclosure requirements under Part Eight of Title I of this Directive, it will be deemed to fulfil the requirements of this point.</u></p>



KEY MESSAGE III

Compliance at group level must be ensured throughout

Group exemption

The EACB strongly supports the Amendments 32, 37-39 concerning the exemptions for undertakings and their subsidiaries which run consolidated accounts.

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