



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



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Comments submitted on line

EACB Comments on Commission working document on Disclosure of Non-Financial Information by Companies

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European Commission Questionnaire

1. How would you consider the current regime of disclosure of non-financial information applicable in your country? (compulsory)

Very poor

Poor

Sufficient

X Good

Very Good

In replying to this question, please provide information on what way current reporting provides useful information, and to what extent it is sufficiently tailored to the circumstances of the company. Please also comment on whether you find non-financial information useful for the decision-making of a company. (optional) (maximum 10000 characters)

Please explain

At European level, the Fourth Company Law Directive (CLD) on annual accounts of certain types of companies was amended in 2003 to require companies to include information relating to environmental and employee matters in their annual report:

*"To the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, **where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters**" (4th CLD, Art 46 paragraph b).*

Accordingly, EACB members and their customers currently disclose in their annual report every event, decision and factor known at the reporting date, which might from the management's point of view, influence the **performance** and economic situation of the enterprise.

In this respect, the given pieces of information have to be set in relation to past and present experience and evaluated accordingly if they:

- a) are subject to assessment for managing purposes and regularly are taken into account in the management's decision making process,
- b) have to be regarded as crucial criteria for evaluating the general position of the enterprise and the progress of its business.

- **Therefore, EACB considers that the current EU regime of disclosure of non-financial information applicable in the framework of the Fourth company law directive is good.**
- **Generally, our members think that the EU regime regarding non-financial information under the Fourth CLD should not be intermingled with other information related to economic situation and performance.**
- **Although, we are aware that some Member States have introduced additional social and environmental disclosure requirements to the amended Fourth CLD, we would not support any mandatory extension of the current level of non-financial information disclosures at EU level in the context of the modernisation of the accounting directives.**

However, EACB members are aware that the disclosure of non-financial information beyond **the Fourth Company Law Directive** becomes increasingly important in the context of the challenge of sustainable development.

Actually, some European Co-operative banks communicate environmental, social, and governance data etc. beyond financial performance indicators. They support that communicating their sustainability policy increases transparency and is useful when it comes to market relations on the long run. Thus, transparency on financial and non-financial information could be a tool to help European enterprises who so wish to integrate sustainability and responsibility into their core strategies and operations.

However, the members of the EACB are strongly convinced that such efforts for an integrated policy have to come from within the companies and should not be imposed if meaningful results and progress is to be achieved. In particular in co-operatives, whose purpose is to promote members' economic interest, the importation of extend non-adapted standards could lead to significant problems.

To improve their reporting in the field of environmental and social information, some EACB members would support the development of harmonized non-mandatory principles at EU level. Those non-mandatory principles would have to be developed in close cooperation with the stakeholders. The aim would be to provide voluntaries entities with reliable non-mandatory indicators for their reporting, however, keeping enough flexibility to respect the business models and national specificities (and again separately from the requirements of the Fourth CLD).

As mentioned above Co-operative banks have the mission to promote the economic situation of their members. This plays a key role for a co-operative bank's internal governance process. However, missions and ambitions of co-operatives differs thought Member States, as well as the expectations of their members. Therefore, sufficient flexibility of principles is required both for measuring of and for reporting on member benefit.

- **EACB members would support the development of EU harmonized non-binding indicators to help them to better report on their environmental, social and governance data, on a non-mandatory basis.**
- **Such indicators should not hamper reporting on the fulfillment of the mission of cooperative banks.**
- **However, it has to be made clear that this request does not take place in the context of the mandatory requirements of the Fourth Company Law Directive.**
- **Although, convinced by the general importance to achieve better results in the field of environmental, social and governance information disclosures, our members assess that amending the accounting directives is not the correct answer to this issue.**

2. Have you evaluated the effects, and costs and benefits, of any current corporate disclosure of environmental and social information? (compulsory)

Yes No X No opinion

Please explain (optional) (maximum 10000 characters)

As an European association, it was not possible to perform a costs/benefits assessment among all of our members on environmental, social, and governance information disclosure. However, based on some of our members' experience, it seems that:

- **Considering the effects of disclosing such non-financial information, some of our members think that it helps to obtain a more complete picture of the company.**
- **European harmonized indicators (“clef-en-main”) to report on a non-mandatory basis on their environmental, social, governance etc. data could bring about benefits for the reporting entities by increasing comparability but not necessarily cost benefits.**
- **However, it has to be underlined that the promotion of any European indicators for the reporting of non-financial information should remain outside of the framework of the Fourth CLD and has to be sufficiently flexible, in particular with regard to the specific mandate of co-operative banks, which even differs between jurisdictions.**

3. If you think that the current regime of disclosure of non-financial information should be improved, how do you suggest that this should be done?

Please explain (optional) (maximum 10000 characters)

The crucial point here is that any “improvements” should not lead to more mandatory information to be disclosed in the context of the Fourth CLD. Generally, most of our members would not support the introduction of any additional mandatory disclosure of non-financial information, especially when related to financial reporting, for the following two reasons:

a) The stipulated time-limits for the publication of the annual financial statement and the consolidated annual report are very short already and impose considerable stress on the administration capacities of business companies (the EC Transparency Directive, 2004/109/EC, stipulates a four-months-time-limit).

b) Moreover, we fear that an extension of financial reporting would lead to an information overload, which makes it difficult for readers to filter out information relevant for investment decisions

c) In particular, mandatory reporting would create serious burdens for small companies.

Furthermore, for auditing purposes, our members strongly believe that environmental, social, and governance information should remain part of the voluntary reporting (on this particular auditing aspect, see our response to question 12 as well as EACB position on the Audit Policy Green Paper from December 2010).

- **As further explained under questions 1 and 2, EACB members agree that the current regime of disclosure of non-financial information under the Fourth CLD should not be modified.**
- **Disclosure of other additional non-financial information should be regulated outside the framework of the accounting directives. .**
- **As for a voluntary reporting on environmental, social, and governance information, EACB members would support the development of harmonized indicators to report on environmental, social and governance information outside the Fourth CLD requirements.**

As indicated, regarding voluntary reporting on environmental, social, and governance information, the challenge for our members would be to combine their cooperative specificities (members' role, governance etc.) with external guidelines (i.e. GRI, UN Global Compact, OECD etc.).

In this respect, European cooperative banks are already actively involved in a process to identify the priorities for a "Corporate and Social Responsibility" policy in cooperation with stakeholders. One aim is notably to issue specific indicators to make CSR policies a tool of a strategic positioning of our members. Therefore, in many of our members' organizations, CSR becomes a tool to characterize co-operative specificities and a factor for the co-operative identity.

Generally, when developing non-binding indicators EU decision makers would have to find the right balance between enhancing the reporting of environmental, social, and governance by European entities and not making it too burdensome for EU companies (tricky issues as level playing field behind). Therefore, EACB members are convinced that amending the Fourth CLD on annual accounts is not the right answer to improve disclosure of non-financial information.

On the other hand, sometimes specific reports on certain aspects could be more useful, especially where companies are obliged to communicate certain information to public authorities on a regular basis (e.g. employment) or where persons are mandated (e.g. ombudsmen) to supervise the respect or proper functioning of certain rules. We may think that such reports could often be more useful to achieve a better sustainable development than a multitude of individual reports.

4. In your opinion, should companies be required to disclose the following (check all relevant boxes): (optional)

- Whether or not they have a CSR policy, and if they do, how they implement that policy and what the results have been
- The principal business risks and opportunities arising from social and environmental issues, and how they are taken into account in company strategy.
- Key information regarding issues such as employee engagement (e.g.: employee training policy, equality and diversity, etc.); customer satisfaction (e.g.: customer loyalty); public perception of the company (e.g.: stakeholder dialogue); environmental policies (e.g.: energy efficiency, waste reduction); and innovation (e.g.: R&D expenditure).
- Other

Other, please specify: (compulsory) (maximum 10000 characters)

Please explain (optional) (maximum 10000 characters)

- While many of our members are keen to disclose information on their CSR policy, employee engagement, customer satisfaction, etc. we repeat our strong reservations regarding the extension of any obligations to disclose non-financial information in the annual accounts.
- We think that principal business risks and opportunities should already be addressed by now in the framework of the Fourth CLD.
- Moreover, it has to be underlined that the operational risks of certain companies and their business are very complex and therefore very difficult to assess. Therefore, any reporting requirement should be reasonable and not disproportionate.

5. In your opinion, for a EU measure on reporting of non-financial information to achieve materiality and comparability it should be based upon (check all relevant boxes): (optional)

Principles

Key Performance Indicators (KPIs)

Other

See our responses to questions above.

5a) In case you consider that Key Performance Indicators (KPIs) would be useful, would you think that they should be (check all relevant boxes): (compulsory)

General for all economic sectors

Sector specific

5b) Please indicate which indicators you would consider to be the most relevant for all economic sectors: (optional) (maximum 10000 characters)

Other, please specify: (compulsory) (maximum 10000 characters)

Regarding the use of KPIs, EACB members underlined that it would be useful only if those KPIs are simple to use by the entity. In this respect, our members would look forward general KPI and some other specifically designed for a sector. Furthermore, those KPIs have to be fully in line with the main existing international standard indicators (e.g. GRI-G3, Accountability 1000 on stakeholder engagement etc.).

6. In your opinion, what should be the process to identify relevant principles and/or indicators (whether general or sector-specific)?

In replying to this question, please comment on whether the Commission should endorse or make reference to any existing international frameworks (or a part of them), such as Global Reporting Initiative (GRI), UN Global Compact, the OECD Guidelines, ISO 26000, or other frameworks; or whether companies should be required to select relevant indicators together with their investors and other stakeholders and to disclose information according to such indicators, depending on the use that different stakeholders would make of such information. (optional) (maximum 10000 characters)

Please explain

- As stated above, EACB members strongly believe that the current regime of disclosure of non-financial information as requirement by the Fourth CLD is sufficient on a mandatory basis.
- Although, we would support the development of harmonized indicators to report on environmental, social, and governance information, we think that disclosure of other additional non-financial information should definitely be regulated outside the framework of the accounting directives.
- Reflection on possible non-mandatory indicators could take place in stakeholders working groups set up by the European Commission. However, again, results produced by the stakeholders group should never lead to add any additional require-

ments to the disclosure of non-financial information in the context of the EU regulatory accounting framework.

- When developing those indicators references could be made to existing international frameworks. However, these frameworks entail an abundance of guidelines and thus should not be made compulsory in the context of the Fourth DCL.
- Moreover, regarding choosing an existing referential to compare oneself to another as benchmark practice, we think that specific indicators which can account for the characteristics of the co-operative business model and its differences have to be considered.

7. In your opinion, should companies be required to disclose the steps they take to fulfill the corporate responsibility to respect human rights? (compulsory)

Yes X No No opinion

Please explain (optional) (maximum 10000 characters)

Inside the EU and a number of other countries the respect of human rights by companies is a legal obligation.

Thus, ensuring the respect of human rights within the EU and national borders is the task of public authorities. We therefore do not see any need for report on the respect of human rights for companies that are active exclusively within the EU.

This may be different for companies that have significant activities outside the EU, especially in countries considered "sensitive" from a human rights perspective.

Moreover, company size may have to be taken into consideration as well.

8. In your opinion, should companies be required to disclose the risks they face and the policies they have in the field of corruption and bribery? (compulsory)

Yes X No No opinion

Please explain

Corruption and Bribery are banned throughout the EU. Many countries even treat them as a criminal offence and oblige companies to pay damages or compensation in the case of corruption and bribery. Therefore, EU companies are well advised to develop policies in that field. Since there should be a general presumption that companies respect existing laws and have policies in place to ensure that respect, we do not see any specific need for a reporting requirement.

9. In your opinion, what companies should be required to disclose non-financial information (check only one box)? (compulsory)

Large listed companies

Large companies (listed and non-listed)

- Medium-sized & Large listed companies
- Medium-sized & Large companies (listed and non-listed)
- All listed companies (Small, Medium & Large)
- All listed & non-listed companies (Small, Medium & Large)
- None
- Other

Other, please specify (compulsory) (maximum 10000 characters)

Any non-financial information that is relevant for the economic situation and performance of the company should be reported by all companies.

As for any other non-financial information, we rather think that such disclosure should be made on a voluntary basis. Moreover, we have doubts that an information overflow created by every SME reporting on environmental aspects will be helpful. The result would only be an abundance of information with nobody taking note.

10. In your opinion, should institutional investors be subject to specific or additional disclosure requirements, for example to disclose whether and how they take into account environmental and social issues in their investment decisions? (compulsory)

Yes No No opinion

Please explain

We take the view that institutional investors that are open for investment by the general public (investment funds) should generally disclose their investment policy. The same should apply to public interest investors (pension funds or similar investors). If social or environmental issues are relevant, they should be disclosed as well.

11. In your opinion, should European policy promote the concept of "integrated reporting"?

Integrated reporting refers to a report that integrates the company's key financial and non-financial information to show the relationship between financial and non-financial performance (environmental, social, and governance). (compulsory)

Yes No No opinion

Please explain

An "integrated report" would very likely overload financial reporting with too many complex and confusing clusters of information.

Therefore, in the context of the requirement provided by the Fourth CLD, we strongly do not support integrated report.

12. In your opinion, should disclosed non-financial information be audited by external auditors? (compulsory)

(at most 1 answer)



Yes



No



No opinion

Please explain

As expressed under the previous questions, EACB members strongly recommend that non-financial information exceeding the current regime should be disclosed by the individual enterprises voluntarily and therefore should not be made subject to obligatory auditing by external auditors.

As we expressed in the context of the consultation on the Commission Green Paper on audit policy, in general, we consider that as long as for i.e., CSR policy is a part of the voluntary reporting, the audit of that environmental, social and governmental reports should never be made a part of the statutory audit.

Auditors could be requested to give their opinion of the CSR report in a different report on a contractual/voluntary basis. However, we think that any future steps regarding the publication of a CSR-report should remain in the responsibility of the company.

13. If you have relevant documents you want to share with us, please attach them here. (optional) (optional)



I attach additional documents

Contact:

Mr. Volker Heegemann, Head of Department (v.heegemann@eurocoopbanks.coop)

Ms. Johanna Cariou, Adviser, Accounting & Audit (j.cariou@eurocoopbanks.coop)