

Disclosure of Non-Financial Information by Companies

-Eurosif's Response to the European Commission Consultation-

Between November 2010 and January 2011, the European Commission (EC) underwent a public consultation process to address the future of the European corporate disclosure regime of non-financial information (i.e: information pertaining to environmental, social and corporate governance issues). After years of engaging in dialogue with industry stakeholders, disclosure of non-financial information by companies is poised to move from a voluntary to a mandatory basis.

Eurosif submitted a Response to this important consultation, shaped with the valuable contribution of Eurosif's Board, Lobbying Advisory Group and its Member Affiliates.

This document provides an overview of Eurosif's lobbying position on corporate non-financial disclosure and additional topics that were opened for debate in the EC consultation.

More information about the consultation process:

http://ec.europa.eu/internal_market/consultations/2010/non-financial_reporting_en.htm

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1. Assessment of the current European regime of disclosure of non-financial information by companies

Exact question in the EC consultation questionnaire: "How would you consider the current regime of disclosure of non-financial information applicable in your country/region?" (Eurosif's answer highlighted)

- Very poor
- **Poor**
- Sufficient
- Good

In the current European regime, non-financial information disclosure is only mandatory to the extent that the non-financial information is relevant to the business. It is therefore a scheme that does not guarantee significant, relevant and comparable data from all issuers, so important for investment decisions.

Eurosif¹ believes that the European corporate non-financial information disclosure is poor, as currently regulated in three main European Directives, detailed below:

- A) The EU Accounts Modernisation Directive (2003/51/CE) of June 18th 2003 favours a "comply or explain" approach on non-financial disclosure. Article 1.14 stipulates:
- (a) *The annual report shall include at least a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces. The review shall be a balanced and comprehensive analysis of the development and performance of the company's business and of its position, consistent with the size and complexity of the business;*
 - (b) *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;*
- B) The Transparency Directive (Directive 2004/109/EC), regulating transparency requirements for listed companies, currently contains no reference to the disclosure of non-financial data, although in 2010 the European Commission undertook a consultation process aimed at addressing this issue and exploring how reporting administrative burdens could be eased, especially for SMEs.
- C) Additional transparency requirements for European companies are present in point 10 of the preamble and article 7 of the Directive 2006/46/EC:
- (10) *"Companies whose securities are admitted to trading on a regulated market and which have their registered office in the Community should be obliged to disclose an annual corporate governance statement as a specific and clearly identifiable section of the annual report." The statement "should at least provide shareholders with easily accessible key information about the corporate governance practices actually applied, including a description of the main features of any existing risk management systems and internal controls in relation to the financial reporting process. [...] Furthermore, where relevant, companies may also provide an analysis of environmental and social aspects necessary for an understanding of the company's development, performance and position.*

¹ Please see the Appendix for more information about Eurosif.



Non-financial information is often provided by companies selectively. Additionally, due to the absence of common standards, the data cannot be compared by investors with other companies or over time. More importantly, there are companies that consciously choose not to disclose non-financial information.

For investors in particular, material, timely and comparable information across companies remains crucial in order to make valid mid- and long-term investment decisions that take into consideration ESG factors. The current legislation does not provide them with a solid foundation to ensure that all material non-financial information is correctly taken into account when making investment decisions.

The investor interest in non-financial information is steadily growing and becoming mainstream. A 2009 Study conducted by Eurosif, *Investment Consultants and Responsible Investment*, showed that 89% of investment consultants anticipated an increase of clients' interest in ESG matters in the next three years. Furthermore, according to the 2010 Study conducted by Novethic in partnership with Eurosif, *European Asset Owners: ESG integration and Integration Practices*, the main sources of non-financial information for institutional investors remain investment managers (31%) and specialised rating agencies (38%); only 18% of investors obtain the information directly from company sources.²

Furthermore, a series of reports and publications have found that the information outlined in sustainability reports is currently difficult to use for the purposes of valuing a company.³ Research conducted in individual EU countries reinforces the shortfalls of current vague ESG disclosure. For example, a 2008 survey in Denmark found that over 80% of investment analysts would not use the information currently disclosed by companies and that a similar percentage of company representatives agreed that their information was not yet good enough for investment purposes.⁴ *It is precisely because the quality of non-financial disclosure varies that a standard common approach is urgently needed.*

While Eurosif considers the overall European corporate ESG information disclosure poor, the European Commission should review current efforts that a few countries around Europe have done to move towards non-financial data mandatory disclosure.

- **DENMARK:** In 2008 the Danish Parliament introduced an amendment to the Danish Financial Statements Act, which obliges all large businesses to include information about their Corporate Social Responsibility (CSR) practices in the annual report. Businesses must account for the following three dimensions: 1) CSR policies, 2) how these policies are translated into actions, and 3) what the business has achieved as a result of working with CSR and expectations for the future (if any). If the business has no CSR policy, this must be explicitly disclosed. A statement from the auditor is required, confirming that the legal requirement for reporting has been appropriately observed.
- **FRANCE:** France has the oldest non-financial data mandatory requirements. Since 2001, Article 116 of the NRE ("Nouvelles Régulations Economiques") Law and its accompanying decree has required large listed companies to disclose environmental and social information and indicators in their *annual (management) report*. The Article 225 of the Grenelle II Law voted in July 2010, which revised Article 116 of the NRE Law, requires all major French listed and non-listed large companies⁵ to disclose in their annual reports how they take into account the environmental and social impacts of their activities as well as their contributions to developing a sustainably society. The information disclosed, the content of which will be defined in the forthcoming decree, must be verified by an independent third party.

² The Study was conducted on a sample of 251 asset owners (banks, insurance companies, pension funds, public financial institutions, foundations, etc) and can be read at: http://www.eurosif.org/images/stories/pdf/Research/Novethic_Esif_ESG_Survey_2010.pdf

³ UNEPFI 2010 Report "Translating ESG into sustainable business value- key insights for companies and investors"
<http://www.unepfi.org/publications/investment/>

⁴ According to the European Workshop n°2 on Disclosure of ESG information, hosted by the European Commission in 2009: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure/swedish-presidency/wks-2/index_en.htm

⁵ Whether listed of a regulated market or with a total assets or a number of employees exceeding a threshold to be defined by the forthcoming decree.



- **SWEDEN:** In 2007, Sweden's Ministry of Enterprise, Energy and Communications issued guidelines for external reporting by state-owned companies. According to these guidelines, which took effect in 2008, the state-owned companies are to present a sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines.
- **UK:** The 2006 Companies Act and the 2008 Climate Change Act impose corporate governance and environmental disclosure on UK companies. Additionally, in 2010 the UK issued its first official Stewardship Code for institutional investors that became mandatory for FSA regulated institutions, as of December 6, 2010.

Finally, it is worth emphasising the fact that ESG information disclosure is currently being promoted in other regions of the world. In the US, the Dodd-Frank Act makes disclosure requirements mandatory for the extractives industry. In South Africa, as of June 2010, all companies listed on the Johannesburg Stock Exchange are required to produce an annual integrated report (disclosing financial and non-financial data).

In this international context and also keeping in mind the *Europe 2020 Strategy for smart, sustainable and inclusive growth*,⁶ the development of a low carbon economy through improved ESG disclosure will help position the EU to meet its EU 2020 targets as well as ensure that Europe retains a leading position in the global market.

2. Effects, costs and benefits of the current corporate disclosure regime in Europe

Exact question in the EC consultation document: "How have you evaluated the effects, costs and benefits, of any current corporate disclosure of environmental and social information?"

Since 2006, Eurosif has conducted a series of sector and theme reports that succinctly analyse how ESG issues are integrated into business and investment practices.⁷ The sector and theme reports are aimed at institutional investors, mainstream asset managers, policy makers, companies and the general public, helping them to better understand non-financial risks that lie outside the realm of traditional financial analysis but influence investments. The following sectors have been analysed in these reports: Banking, Extractives, Insurance, Automobile, Food Production, Hotel, Forestry, Chemical, Real Estate, Nuclear, Shipping and ICT. ESG considerations have also been approached in the following theme reports: Emerging Markets, Remuneration, Corruption, Water and Biodiversity.

The 2008 European Competitiveness report⁸ concluded that CSR is an increasingly competitive necessity for enterprises, but that it needs to be integrated into business strategy and purpose in order to become an effective competitive differentiator.

Finally, we recommend the Commission look into the work done by Eurosif's Member Affiliate, Trucost, in the field of environmental disclosure (impact and costs) that might also be relevant for assessing the costs of disclosing environmental data by companies.⁹

⁶ More information at: http://ec.europa.eu/europe2020/index_en.htm

⁷ Eurosif's sector and theme reports can be found at : www.eurosif.org/research.

⁸ Available at: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/competitiveness/index_en.htm#h2-2

⁹ www.trucost.com



3. Eurosif's recommendations on how European non-financial corporate disclosure regime should be improved

Exact question in the EC consultation document: "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?"

Eurosif supports a mandatory regulatory approach to ESG data disclosure for large listed and non-listed companies, with some latitude of choice in terms of content, as recommended in our past policy position papers.¹⁰

Eurosif considers that the current regime should be improved as follows:

1. The scope of non-financial information in the EU Accounts Directive should be revised to reflect current global economic and social challenges: environmental, social and corporate governance issues (as opposed to current provisions referring only to *environmental* and *employee matters*).
2. Article 1.14 of the EU Accounts Directive, changing Art. 46 of the 4th Directive (78/660/EC), should be revised to contain precise provisions in regards to non-financial data disclosure.
 - (a) ~~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, social and corporate governance matters and employee matters;~~
3. The Transparency Directive (2004/109/EC) should also be reviewed to contain specific provisions for mandatory ESG data disclosure by listed companies;
4. Eurosif strongly recommends the European Commission put legislation in place that would submit non-financial data to the same regime as the financial data, meaning to be included in the annual (management) report, approved/signed by the board and verified by an independent third party. By submitting non-financial information to the same regime as financial information, the same level of assurance and credibility is assured.
5. Investors should be subject to the same ESG disclosure regime to which companies are submitted. Thus, investors should be required to disclose how they integrate non-financial information published by companies in their investment decisions. Eurosif favours a mandatory regime, but a "comply or explain" approach could be a first acceptable step.
6. A guide to non-financial reporting should be developed by the Commission, detailing a series of principles that would make corporate non-financial reporting material and comparable. This would be a useful tool which would help companies to better understand and comply with such a requirement.

Finally, Eurosif wishes to stress the importance of material, timely and comparable non-financial information for investors, who increasingly assess non-financial data when making investment decisions, as mentioned in our answer to Q1. In the workshops organised by the European Commission on non-financial disclosure in 2009-2010, it was concluded that *investors seek information that is comparable across companies, consistent over time, material and reliable, linked to financial information and related to risk*. Adopting a harmonised non-financial reporting framework will also ease other aspects, for example, the "questionnaire fatigue" companies sometimes complain about when they receive multiple and diverging information requests from ESG analysts.

¹⁰ The 2009 Public Policy Position Paper and the ECRA 2010 Position Paper on Non-Financial Disclosure, available at : <http://www.eurosif.org/policy/positions>



Process-wise, while Eurosif acknowledges the difficulty in building a consensus among the different interested parties, Eurosif recommends the European Commission to:

1. Create a high-level working group composed of representatives of the major stakeholders within the categories implicitly defined by the EU 2009-2010 ESG Disclosure Workshops; this group should also contain representatives from the current global initiatives of non-financial reporting standards, such as the International Integrated Reporting Committee (IIRC), UN Global Compact, OECD, ICGN and GRI, as well as from European organisations that have developed significant work in the field, such as The Market Valuation Laboratory and EFFAS;
2. Establish a deadline by which the disclosure and reporting framework (content), should be agreed upon between the stakeholders as a first step (to be flexibly improved);
3. Align work with international developments to ensure that internationally accepted requirements are developed and adopted. International coordination and alignment is crucial in order to ensure coherent requirements across regions and also to avoid possible additional reporting burdens for companies.

4. Content of Non-Financial Reporting

Exact question in the EC consultation document: "In your opinion, what should companies be required to disclose in terms of non-financial information?" (Eurosif's answers highlighted)

- *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*

The key elements that ESG reporting should address are how company strategies are designed to address non-financial risks and how financial results are affected by those risks - a forward looking approach that allows interested stakeholders and especially investors to improve company valuation models.

5. Non-Financial Reporting: Principles vs Key Performance Indicators (KPIs)

Exact question in the EC consultation document: "In your opinion, for an EU measure on reporting of non-financial information to achieve materiality and comparability it should be based upon": (Eurosif's answers highlighted)

- **Principles**
- **Key Performance Indicators (KPIs)**
- *Other*

Eurosif believes that a mixed principles / indicators based approach would be flexible and simple enough to work for large companies (listed and non-listed).



Eurosif considers that any further European regulatory approach should combine the two approaches, however the second approach should be emphasised. Principles only provide a framework to the relevant KPIs.

Eurosif supports work done by the ICGN which details principles under which ESG reporting should be genuinely informative and includes forward-looking elements where this will enhance understanding of a company's value and performance.¹¹

However, principles alone are not enough to ensure material, timely and comparable information for investors and stakeholders and as such, the inclusion of KPIs (general for economic sectors and sector-specific) is crucial for effective corporate disclosure of non-financial information.

5.1 In case you consider that Key Performance Indicators (KPIs) would be useful, would you think that they should be? (Eurosif's answers highlighted)

- **General for all economic sectors**
- **Sector-specific**

With regards to standardised key performance indicators (KPIs), **Eurosif requests that there be a minimum number of general KPIs for all economic sectors and a series of KPIs that would need to be sector-specific.**

A number of existing initiatives have produced interesting results in terms of KPIs (Greenhouse Gas Protocol,¹² the European Federation of Financial Analysts Societies - EFFAS,¹³ the Non-Financial Performance Lab by the European Alliance for CSR). In particular, EFFAS developed sector-specific KPIs for 114 subsectors, as well as a methodology for defining industry-specific KPIs that any third party can use.

Eurosif believes that a minimum number of material KPIs is strongly recommended rather than a large number, and insists on the *balance between materiality and transparency (difference between "key performance indicators" and "social license to operate indicators", further explained in the answer to Q 6)*. Not everything that is transparent is necessarily material for the interested stakeholders. Furthermore, Eurosif remains aware of the need to balance corporate disclosure with the protection of commercially sensitive information.

5.2 Please indicate which indicators you would consider to be the most relevant for all economic sectors:

Eurosif recommends that the Commission explore the existing initiatives that have already proposed a series of KPIs to be used as a basis for non-financial reporting. For example, the work produced by the EFFAS ESG Commission and DVFA is very relevant in this aspect.¹⁴

A series of KPIs for 114 subsectors have been developed, corresponding to the following sectors: oil & gas, basic materials, the industrial sector, consumer goods, healthcare, consumer services, telecommunications, utilities, the financial sector and technology. While the framework is suitable for all entities regardless of size, scope and legal form, it has been specifically designed for stock-listed companies and issuers of bonds.

¹¹ www.icgn.org ; ICGN principles also available at: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure/swedish-presidency/wks-2/index_en.htm

¹² Developed by the World Business Council for Sustainable Development (WBCSD) and the World Resource Institute (WRI). www.ghgprotocol.org

¹³ www.effas-esg.com

¹⁴ EFFAS work available at : http://www.effas-esg.com/?page_id=206

6. Current international initiatives that could feed into a European non-financial information disclosure regime

Exact question in the EC consultation document: “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, Eurosif was asked to 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.

Eurosif recommends the Commission to take into consideration the current European and international initiatives and create a high-level group to develop a formalised approach regarding the most appropriate KPIs to be taken into consideration for each sector. The following initiatives have already developed/ are in the process of developing relevant work in the field of non-financial reporting:

- The Global Reporting Initiative- the non-financial corporate disclosure guidelines;
- The EFFAS ESG Commission and DVFA - as detailed above, the series of KPIs for 114 subsectors that constitute an excellent base to develop a common European approach on mandatory ESG reporting;
- The work done in 2009 by the International Corporate Governance Network (ICGN) on principle-based non-financial reporting;
- The Carbon Disclosure Standards Board GHG emissions reporting framework; The OECD Guidelines for Multinational Companies; considering that the guidelines are passing through an update period (a consultation process was started in December 2010), Eurosif asserts that this is a good time for the Commission to explore what can be transposed in the European non-financial reporting legislation from the guidelines’ update process.
- The 10 principles developed by the UN Global Compact on human rights, labour, the environment and anti-corruption issues.
- The voluntary guidance standards set out in the ISO 26000 initiative which could also serve as a basis for exploring the future of ESG reporting in Europe.
- The climate change disclosure frameworks for the electric utility, auto and oil&gas sectors developed jointly by the Institutional Investor Group on Climate Change (IIGCC, Europe), the Investor Network on Climate Risk (INCR, US) and the Australia/New Zealand Investor Group on Climate Change.¹⁵

In the field of KPIs, there is no unanimously recognised framework as of today, and Eurosif recommends that one be formalised through a convergence process of the different existing international and European initiatives. From our field experience, the generally accepted framework must distinguish between two sets of ESG indicators:

- “Key Performance Indicators” - indicators that demonstrate the material contribution, whether direct or indirect, of sustainable practices to the organisation’s economic and financial performance and therefore to its value creation [Materiality issue];
- “Social license to operate indicators” - indicators that reflect what civil society requires from economic and market organisations as their contribution to the long-term societal issues [Transparency issue].

¹⁵ <http://www.iigcc.org/publications/corporate-frameworks>

7. The disclosure of human rights issues, and risks/ challenges on corruption and bribery issues

Exact question in the EC consultation document: “In your opinion, should companies be required to disclose the steps they take to fulfill the corporate responsibility to respect human rights and the risks/ challenges they face in the field of corruption and bribery?” (Eurosif’s answer highlighted)

- **Yes**
- No
- No opinion

Eurosif strongly recommends that companies state how they comply with international Human Rights Conventions and the steps they have taken to address possible violation issues in their annual and management reports.

Eurosif wishes to highlight the work of Professor John Ruggie on the responsibilities of business in relation to human rights and the UN ‘Protect, Respect, Remedy’ report, which is increasingly well received by the business community.¹⁶ In addition, his discussion paper from June 30th, 2010 details how human rights issues can be effectively addressed by companies, using a series of straight-forward principles.¹⁷

Where there is a risk of corruption and bribery, companies should disclose how they address these risks.

This is a topic to be explored especially in certain sectors (mining, construction, aerospace) or on certain markets, such as the emerging markets, where regulation can be still weak. For example, Eurosif’s latest Emerging Markets Report discusses ESG integration and reporting by companies operating in emerging markets, and the increasingly significant role that these economies play, due to their rapid economic growth and their large populations.¹⁸

Some other initiatives are relevant and notable. The Extractives Industry Transparency Initiative (EITI)¹⁹ that sets transparency standards for the oil, gas and mining industries has proved quite helpful in disclosure. Similarly, Section 1504 of the US Dodd-Frank Act requires all extractive companies (e.g. minerals, oil, or natural gas) listed on US stock-exchanges to publish payments made to governments on a country-by-country basis addressing important corruption and bribery aspects.

¹⁶ Report available at: <http://198.170.85.29/Ruggie-protect-respect-remedy-framework.pdf>

¹⁷ Discussion paper available at: <http://www.oecd.org/dataoecd/17/50/45535896.pdf>

¹⁸ Report available at: <http://www.eurosif.org/research/theme-reports/emerging-markets>

¹⁹ <http://eiti.org/>

8. Types of companies that should be required to disclose non-financial information

Exact question in the EC consultation document: “In your opinion, what companies should be required to disclose non-financial information (check only one box)?” (Eurosif’s answer highlighted)

- 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

*Defined as per the Fourth Company Directive: Large companies (> €17,5 mil turnover, balance sheet > €35 mil, > 250 employees); Medium sized companies (< €17,5 mil turnover, balance sheet < €35 mil, < 250 employees); Small companies (< €4,4 mil turnover, balance sheet <8,8 mil, ≤ 50 employees)

Eurosif considers that the scope of mandatory non-financial reporting should be applied primarily to large companies, listed and non-listed, for the following reasons:

- Without clear non-financial reporting requirements for large companies, it is unrealistic to hope for non-financial disclosure compliance from smaller companies.
- Large companies, through a responsible supply chain management, can positively influence sustainable practices among medium and small companies and thus create a progressive positive impact across all types of companies.

In the longer term, ESG reporting could be applied to all listed and non-listed companies, but at the present moment, Eurosif believes that non-financial reporting for medium and small companies can place an additional administrative (including cost) burden on them.

Eurosif recommends a review of the company size definitions in the Fourth Company Directive. Currently, a “large” company is defined as having a turnover greater than €17.5 million, balance sheet total greater than €35 million and more than 250 employees. Eurosif recommends that only companies with over 500 employees and with total balance sheet greater than €50 million be included in this category.

Eurosif also recommends the European Commission explore how ESG reporting can be extended to small and medium enterprises. This can be either done through a series of recommendation guidelines that could be adopted by SMEs on a voluntary basis to begin with and that, over time, could evolve into a “comply or explain approach” and mandatory.

9. Disclosure of non-financial information by investors

Exact question in the EC consultation document: “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?” (Eurosif’s answer highlighted)

- **Yes**
- No
- No opinion

All institutional investors should be required to disclose how they use the non-financial information published by companies in investment decisions and to additionally explain how they integrate ESG factors into investment decisions.



Institutional investors should state the extent(if at all) to which ESG considerations are taken into account in the selection, retention and realisation of investments; and their policy in relation to the exercise of the rights (including voting rights) attached to investments.

In addition, where institutional investors communicate that they do have a sustainable and responsible investment (SRI) policy, they should provide information on how such policies are being implemented in practice, what results have been obtained so far and what trustees' expectations are for the future. Thus, Eurosif believes *it is essential that institutional investors report on how their responsible investment policy is implemented in practice* and how they monitor its effectiveness in order to prevent a gap between SRI policies and practices. The notion of independent audit of policy implementation (including exercise of shareholders rights) is worth exploring in this respect.

Where investors have decided against developing a policy for the integration of ESG issues into investment decisions, they should also be required to report that decision and its rationale. Eurosif believes that investors should be required to develop a policy for the integration of ESG issues into investment decisions unless 1) investors believe that such issues are not material factors in determining investment outcomes; and/or 2) investors believe that there are other reasons which means that such integration is not in the best interest of beneficiaries.

Finally, Eurosif wishes to draw attention to *the recent changes in the French Law that make ESG reporting mandatory for asset managers*, through Art 224 of the Grenelle II Law, passed in July 2010, which would be worth transposing at the EU level.²⁰

10. Promoting the concept of “integrated reporting”

Exact question in the EC consultation document: “In your opinion, should European policy promote the concept of “integrated reporting”?” (Eurosif’s answer highlighted)

- **Yes**
- No
- No opinion

Eurosif supports the concept of “integrated reporting”, favouring a combined approach to corporate reporting as one of the levers to embed sustainability in corporate strategy & management practices (as recommended in the March 2010 European Combined Reporting Alliance position paper).²¹ The position paper was submitted jointly by Eurosif, EFFAS, the European Laboratory: Valuing non-financial performance, the Prince’s Accounting for Sustainability Project, Railpen, and WICI Europe.

Corporate reporting has evolved from including only financial information to also disclosing how non-financial issues are addressed by businesses. As discussed in the first of the six EU workshops on disclosure of environmental, social and governance information,²² in 2007, nearly 50% of the world’s largest 250 companies had at least some integration of ESG information in their annual (financial) report. However, less than 5% had a single, fully integrated financial and ESG report.

Without considering that integrated reporting is the sole way of effectively disclosing ESG information, Eurosif wishes to stress the fact that according to a 2007 survey, 75% of the readers of the GRI sustainability reports believe that future sustainability reporting should be integrated in the annual report.

²⁰ Text available in French only on the French SIF website at : [http://www.frenchsif.org/pdf/textes-de-loi/Grenelle%20Art 224 225 226 texte%20final.pdf](http://www.frenchsif.org/pdf/textes-de-loi/Grenelle%20Art%20224%20225%20226%20texte%20final.pdf)

²¹ Position paper available at: <http://www.eurosif.org/policy/positions>

²² Available at: http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/reporting-disclosure/swedish-presidency/wks-1/index_en.htm



Eurosif also wishes to highlight a recent workshop on Integrated Reporting, as part of the newly formed IIRC (International Integrated Reporting Committee). This initiative concluded that 1) the current mainstream corporate reporting needs massive reframing in order to reflect the way stakeholders engage in valuing company performance and 2) integrated reporting is the right strategy to refresh the materiality, consistency and comparability of company valuation models.²³

From a broader perspective, publicly reporting on the financial and non-financial impact/results/risks can be a means by which companies will help restore the societal confidence that was challenged during the current global economic slowdown. From a more practical perspective, integrated reporting increases company efficiency, improves innovation, has positive brand positioning effects and can improve supply chain sustainability.

11. Auditing companies' non-financial information

Exact question in the EC consultation document: "In your opinion, should disclosed non-financial information be audited by external auditors?" (Eurosif's answer highlighted)

- **Yes**
- No
- No opinion

Eurosif recommends that in the longer term, non-financial information (narrative information and KPIs) be subject to a similar level of assurance as financial information. This will improve the quality of this information and provide investors with confidence in relation to the completeness and reliability of information disclosed. In 2008, a total of 3000 companies were expected to publish CSR reports, but only about 750 aimed to include a third-party assurance statement to address the reports' credibility and completeness, according to Assure View, a report from Corporate Register.²⁴ While there are hundreds of assurance providers in the industry, there are only three major provider types: the AA1000 principles, GRI Guidelines, and the ISAE 3000 standard. The report finds that without a "common language", there is confusion as to which of the many assurance approaches provides the most credibility and certainty.

Finally, Eurosif wishes to point out the recent changes on the French regulation (Art. 225 of the Grenelle II Law) that requires listed companies or those with over 500 employees to report how they address ESG issues in their annual reports and to have the reports audited by independent third parties.

²³ More information about the workshop outcomes can be found at:
<http://www.hbs.edu/environment/docs/HBS%20Integrated%20Reporting%20Workshop%20-%20Executive%20Summaries%20-%20draft%2011-8-10.pdf>

²⁴ <http://www.corporateregister.com/astudy/>



APPENDIX: About Eurosif

EUROSIF, the European Sustainable Investment Forum, is the pan-European network whose mission is to develop sustainability through European financial markets. Eurosif works as a partnership of the national Sustainable Investment Forums (SIFs) within the EU and with the support and involvement of Member Affiliates. Recognised as the premier European forum for sustainable investment, Eurosif's Member Affiliates are drawn from leading pension funds, asset managers, NGO's, trade unions, academic institutes and research providers, together representing assets totaling over €1 trillion. Eurosif's work includes a focus across asset classes - equity and fixed income markets, microfinance, renewable energy, property, private equity and hedge funds - all centred around the industry trends and future legislation affecting this space. The key benefits that Eurosif affiliate members receive include EU interfacing, SRI information and European wide initiatives that integrate Environmental, Social and Governance (ESG) issues into the financial services sector.

For the full list of Eurosif Member Affiliates, please see www.eurosif.org

Eurosif has two main roles: (1) to provide an international forum that allows members and member affiliates to work together on issues pertaining to Sustainable & Responsible Investment (SRI, see below for definition of SRI and its market size in Europe) and Corporate Governance in the EU financial services sector, and (2) to collect input from members and member affiliates and then communicate their ideas and initiatives to European policy makers, including the European Commission as well as the European Parliament. Therefore, this note is mainly driven from and by the interest and expertise of our membership.

Sustainable and Responsible Investment Definition

Eurosif continues to use the term "SRI" as the most readily acknowledged expression for this field and defines SRI as follows:

Sustainable and Responsible Investing (SRI) is a generic term covering any type of investment process that combines investors' financial objectives with their concerns about Environmental, Social and Governance (ESG) issues.

Market Size

Eurosif recently published the latest Sustainable and Responsible Investment (SRI) figures and trends in its "European SRI Study 2010". This unique study highlights the scale of European SRI as well as European and National trends across nineteen countries. Based on a survey of asset managers and self-managed asset owners, we found that total SRI assets under management (AuMs) have reached €5 trillion as of December 31, 2009, corresponding to a remarkable growth given the financial crisis over the past two years since the study was last published.