CDSB
Climate Disclosure Standards Board

2nd March 2014

Dear Mark Jackson,

Non-financial information directive: query re: separate report feedback.

Thank you for the opportunity to comment on Directive 2014/95/EU.

Your questions asked for our thoughts on whether the presentation of a separate report containing non-financial information, published up to six months after the balance sheet date, is helpful.

CDSB monitor research and evidence that indicates what is and what is not working well in corporate reporting. We believe that the option for companies to prepare a separate report and to publish it at a later date than the rest of the mainstream report is a retrograde step. Our concerns and reasons are set out below.

Starting with a brief resume of the law (Article 19 , Directive 34) sets out the contents to be included in a management report including (per paragraph 1, sub paragraph 3), the requirement for analysis of (non-financial) key indicators, and information relating to environmental and employee matters to an extent necessary to understand the business.

Article 19a by Directive 95 states that the management report (for companies within scope) shall include a non-financial statement (again, to the extent necessary for an understanding of the business) relating to "as a minimum, environmental social and employee matters, respect for human rights, anti-corruption and bribery matters."

There is some duplication between the requirements in Article 19 ((1) sub paragraph 3) and the requirements in Article 19a. Although Article 19a helpfully states that "undertakings fulfilling the obligation set out in paragraph 1 shall be deemed to have fulfilled the obligation relating to the analysis of non-financial information set out in the third subparagraph of Article 19(1)." In other words, the "non-financial information" set out in both Article 19 and 19a may be provided once in the management report to satisfy the requirements in both Articles.

Article 19a (Sub paragraph 4) then allows member states to exempt companies from the requirement to provide a non-financial statement in the management report (presumably for the purposes of both Article 19 and 19a), provided that the specified information for the corresponding financial year appears in a separate report, which must be referred to in the management report and published either with the management report or at least six months after the balance sheet date.

Our reading of the easement in subparagraph 4 of Article 19a is that the required information must still be provided, but that it can be reported outside the management report *and* at a different time from the publication of the management report.

We imagine that the easements about the placement and publication dates of non-financial information are

designed to relieve administrative burdens and to limit the length and volume of management reports. Considered in isolation as a way of reducing report volume and recognizing the different timescales over which some companies prepare financial and non-financial information respectively, the easements are arguably effective. However, the overall effect of the easements on wider corporate reporting objectives are in our view seriously counter-productive.

The wider objectives to which we refer recognize that the assessment of corporate performance relies on information about financial *and* social *and* environmental *and* governance strategies, results and outcomes. The wider objectives recognize that corporations create (and destroy) value through using and affecting a range of resources or capitals. The provision of financial information alone fails to take account of the contagion that environmental degradation and social inequality can cause to destabilize financial systems. The UK's introduction of the requirement to deliver a strategic report is, we believe, designed to encourage management to take a strategic and holistic view of all resources and relationships on which the performance and position of the company depends.

Directive 95 goes some way to recognizing this through the type of information it requires certain corporations to provide. However, to require that non-financial information is provided, but allow it to be provided in a different place and at a different time from financial and governance information, conveys the impression that non-financial information performance is not as important, relevant or material as financial performance in assessing the condition and prospects of the organization.

We argue that non-financial information should be reported with the same rigor, in the same place and at the same time as financial information as both are equally relevant to an assessment of corporate performance. We contend that stocks and flows of certain environmental assets, resources and services should be equated with stocks and flows of financial assets, goods and services, as being essential for an understanding of corporate performance (whilst recognising that natural capital is not commodifiable, exchangeable and replaceable in the same way as financial capital). In short, natural and social capital must be equated with financial capital as being collectively essential for an understanding of corporate performance and for the continuance of economic, social and environmental systems.

The easements suggested in Article 19a (subparagraph 4) encourage 'disintegrated' reporting rather than the type of integrated reporting that many have championed through the IIRC. We predict that providing a statutory licence for non-financial information to be provided through separate channels and at different times from the financial statements and management reports will lead to the quality of the different elements of reporting being variable; to a lack of coherence in communicating how non-financial performance is relevant to the organization's business model and strategy execution; and to further fragmentation in thinking, communicating and acting.

At the very least, we argue that, where it is material for understanding the organization's performance, condition, value creation potential and prospects, non-financial information *must* be included in the management report. It seems to us that the words "to the extent necessary for an understanding" of the business are sufficient to require information to appear in the management report regardless of the separate report easement, unless the words "subject to Article 19a sub paragraph 4" are inserted. Allowing material information simply to be cross-referenced to another source that might not be subject to the same

quality control as the financial statements and management reports, goes against established requirements and expectations that material information must appear in mainstream filings. In our experience, this significantly decreases investors' trust in, and thus use of the reported information.

As you know, mainstream filings such as financial statements and management commentary take place within an existing framework of rules and standards. In particular, the IASB's Conceptual Framework for Financial Reporting sets out the characteristics of useful financial reporting, and we think it is safe to assume that the Conceptual Framework is widely used as a way of informing the preparation and presentation of financial statements and supporting information. One of the characteristics is "understandability." The IASB's staff (see attached paper) has considered the relative merits of reporting information in multiple places. They point to concerns about the scattering of information leading to some information being hidden, and the corresponding impairment of understandability.

As well as the overall impression that relegation of non-financial information to a separate report conveys, we envisage certain practical difficulties to do with reporting information in a different place and at a different time from other information. For example, how will this affect assurors (see paragraph 16 of the preamble to Directive 95 which says that statutory auditors and audit firms should only check that the non-financial statement or the separate report has been provided)? What if, after the date on which financial statements and management reports are published (say 3 months after the balance sheet date), something emerges in the "separate" report that the assuror regards as having a potentially material effect on information already published? Furthermore, can the separate report be any type of report or web page? If there is wide variation in what the separate report is called or where it is placed, how will readers find it easily? Lastly, how does allowing non-financial information to appear in another place of the reporters' choosing, support the Directive's objectives of increasing consistency and comparability?

In conclusion, despite our strong support for non-financial information to be integrated into the management report as being equally essential for an understanding of the company's performance and prospects, we do understand and sympathise with the desire to make corporate reports shorter. However, there is a difference between allowing a certain category of information to be relegated to a separate report and published at a separate time, and putting in place measures that allow for (financial and non-financial) cross-referencing, which helps companies to focus on what is really material to achieving the objective of reporting and allows for two reporting periods of equivalent length to be treated as coterminous. In other words, we think that the Commission's objectives of reducing administration and report volume could have been achieved in a less extreme way than whole scale relegation of non-financial to a separate place and a separate time from other information.

If you have any further questions or would like to discuss our response in more detail please get do get in touch with the CDSB Secretariat.

Best regards,

Lois Guthrie & Mardi McBrien
CDSB Secretariat

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About CDSB
CDSB is a consortium of business and environmental organizations formed at the World Economic Forum's annual meeting in 2007. Its purpose is to jointly develop and advocate an international reporting framework for the integration of information related to environmental matters into mainstream corporate reports such as an Annual Report. CDSB develops a reporting framework designed to elicit climate change-related information of value to investors in mainstream financial reports. Created in line with the objectives of financial reporting and rules on non-financial reporting, the CDSB Framework seeks to filter out what is required to understand how climate change affects a company's financial performance, specifically in the mainstream corporate report.

For more information visit http://www.cdsb.net and follow us on twitter @CDSBGlobal.

STAFF PAPER

30 June 2014

Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting

Project	**Disclosure Initiative—Principles of disclosure**		
Paper topic	Placement of information—cross-referencing		
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This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

Purpose of this paper

1. The purpose of this paper is to obtain feedback from GPF and CMAC regarding placement of information, specifically the use of cross-referencing[1], in financial reporting.

2. In this session we would like to focus the discussion on cross-referencing of information required by IFRS as part of the notes that the entity may present elsewhere than in the financial statements, ie in other statements, regulatory reports or any other separate location (eg separate web pages).

Background

3. We have heard that duplication of information in financial reporting contributes to the ‘disclosure problem’, because it increases disclosure unnecessarily. Thus duplication increases the cost for preparers, and ultimately, for the users, of financial statements (investors and analysts).

[1] For the purposes of this discussion, a cross-reference is an instance within the primary financial statements that refers to related information elsewhere within the primary financial statements or outside of those statements. A cross-reference can exist as an index, a note reference on the face of a primary financial statement or a description in the notes.

4. Some Standards currently give entities the option not to duplicate information that is already presented elsewhere, and incorporate the information by cross-reference from the financial statements to some other statement, such as a management commentary or risk report (see Appendix A). These existing options to avoid duplication are considered by some as exceptions that only apply to the disclosures listed as requirements in that particular Standard.

5. We are exploring whether these specific options should be replaced by a general option that applies across IFRS. Furthermore, some constituents recommended to explore whether the use of cross-referencing should be considered for other circumstances, ie in addition to duplication of information for the same reporting period.

Circumstances for cross-referencing

8. Some examples of circumstances for the use of cross-referencing provided to us are[2]:

   (a) duplication of information that already has to be provided in other statements or documents (regulatory filings for example) for the same reporting period. For example, in addition to those examples listed in IFRS 7, disclosures about capital management in accordance with IAS 1 *Presentation of Financial Statements* are argued to be similar to those requirements of Basel Pillar III disclosures for financial institutions;

   (b) duplication of long-standing information in different reporting periods. For example unchanged accounting policies, lists of information about subsidiaries or definitions of specific terms; and

   (c) information considered by the entity as not being material for users, but whose complete omission would probably cause the need for justification for that omission to regulators and other parties.

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[2] We have also received suggestions regarding the use of cross-references to solve the issue of information complexity. This assumes the existence of two types of users in respect of their level of financial knowledge: more sophisticated and less sophisticated users. The solution proposed was to leave more complex information out of the primary financial statements- instead making a cross-reference to it, to reduce disclosures. We do not think that cross-references would be a solution to this particular issue. This issue may be discussed in another paper, which deals with structure and organisation of the information.

9. We think that cross-referencing is, with conditions, a way of resolving the issue of duplication of information, thereby avoiding unnecessary disclosure, ie as noted in paragraph 8 scenarios (a) and (b). We are less convinced of using cross-referencing for scenario (c), because it does not relate to duplication, although it is an issue that needs to be assessed.

What are the concerns?

10. Notwithstanding the above benefits, we think that the use of cross-referencing may impair the understandability of information in a complete set of financial statements when:
    (a) multi-level/extended linking happens, ie cross-referencing from one document to another document to another document etc.
    (b) too many cross-references are used.
11. We think that these two examples above may create:
    (a) scattered information; and
    (b) hidden relevant information.
12. Other possible concerns include:
    (a) the diminishment of status/or the concept of financial statements; and
    (b) inconsistency with audit, regulatory and legal restrictions in different jurisdictions.

Conditions/restrictions on the use of cross-referencing

13. If the option to use cross-referencing is extended, we think we should establish the right conditions/restrictions for cross-referencing. These conditions aim to reach an adequate and controlled way of cross-referencing, avoiding impairment of understandability, among other concerns, thereby ensuring the same quality of the information.
14. For example, IFRS 7 *Financial Instruments: Disclosures* effectively describes the following conditions/restrictions regarding use of cross-referencing:

(a) When it addresses duplication.

(b) When the information is incorporated into the primary financial statements via the cross-reference.

(c) When the 'home' or source of the information is available to users of the primary financial statements on the same terms as the primary financial statements and at the same time.

15. Another possible condition/restriction, for the purpose of transparency, would be to provide a list in the notes of all cross-reference sources used. This list would be placed prominently, for example adjacent to the statement of compliance with IFRS, which would mitigate understandability impairment as discussed above.

Question 1—Cross-referencing as a solution

Do you agree that cross-referencing is the right solution for the problem of duplication of information as described in paragraphs 8(a) and 8(b) above? If not, please state your arguments.

Are there other circumstances for using cross-referencing?

Question 2—Concerns about using cross-references

Do you have any concerns regarding the use of cross-referencing? Do you see any practical, legal or audit issues?

Question 3—Cross-referencing conditions

If you agree that cross-referencing is useful in some circumstances, in what conditions should cross-referencing be used?

Appendix A—Overview of cross-reference guidance for presenting information elsewhere

IFRS 7 paragraph 21B:
An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

IFRS 7 paragraph B6:
The disclosures required by paragraphs 31–42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

IFRS 7 Basis for Conclusions:
The Board also noted that some entities might prefer to present the information required by the IFRS together with material such as a management commentary or risk report that is not part of the financial statements. Some entities might be required by regulatory authorities to provide in a separate report information similar to that required by the IFRS. Accordingly, the Board decided these disclosures should be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time.

IFRS 1 paragraph 32:
To comply with paragraph 23, if an entity presents an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of IAS 34:

(a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
   - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and
   - (ii) a reconciliation to its total comprehensive income in accordance with IFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.

(b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.

(c) If an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes in each such interim financial report in accordance with paragraph 23 and update the reconciliations required by (a) and (b).

IAS 34 paragraph 33 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, IAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

IFRS 4 paragraph 39(d) requires an insurer to disclose information about credit risk, liquidity risk and market risk that paragraphs 31–42 of IFRS 7 would require if insurance contracts were within its scope. Such disclosure includes:

(a) summary quantitative data about the insurer's exposure to those risks based on information provided internally to its key management personnel (as defined in IAS 24); and

(b) to the extent not already covered by the disclosures discussed above, the information described in paragraphs 36–42 of IFRS 7.

The disclosures about credit risk, liquidity risk and market risk may be either provided in the financial statements or incorporated by cross-reference to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.