

April 9th 2013

Dear Mr Pietro Bertazzi,

Response to Draft non-paper, “Report or Explain, A smart policy approach for non-financial information disclosure”

Introduction

The **Climate Disclosure Standards Board (CDSB)** and **CDP** welcome the opportunity from the Global Reporting Initiative (GRI) to provide comments and feedback on the draft non-paper, “*Report or Explain, A smart policy approach for non-financial information disclosure*”.

CDSB and CDP openly welcome and support the EU’s proposals to develop non-financial reporting practices and the intent behind GRI’s non-paper. It is at the core of our organizations’ missions to see companies reporting their material environmental information in mainstream annual financial reports. CDSB’s Climate Change Reporting Framework has been recognized as a sub-set of integrated reporting and is documented as best practice by companies and investors for¹ reporting non-financial information in mainstream reports.

Comments

The Expert Group on Disclosure of Non-Financial Information Meeting Report from Monday 12 September 2011 cited that only 2,500 out of 42,000 large EU companies formally disclose non-financial information on a yearly basis and that even when these disclosures are provided, the information did not meet adequately the needs of users². We also note that it is increasingly understood that financial statements capture less than 20% of corporate risks and value creation potential, with the balance deriving from intangible factors such as human capital and resource efficiency³. Thus, CDSB and CDP question whether the comply or explain approach proposed in the non-paper will result in the desired outcome of companies reporting material non-financial information in a decision useful format for investors. We draw your attention to the rationale behind the prospective amendments to the Accountancy Directives 78/660/EEC and 83/349/EEC, which are aimed at strengthening existing reporting requirements for large companies across the EU.

As it presently stands, the EU Accounts Modernization Directive⁴ states:

“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

¹ This is demonstrated by case studies in www.cdsb.net/Frameworkguide

² http://ec.europa.eu/internal_market/accounting/docs/news/20110912-egdnfi-report_en.pdf; corporateregister.com

³ <http://www.eurosif.org/policy/lobbying-activities/corporate-transparency>

⁴ Among other things the aim of the EU Modernization Directive was to encourage and increase comparability and consistency across member states in the level of narrative reporting presented in the annual report.

performance indicators relevant to the particular business, including information relating to environmental and employee matters;”

Despite the EU Accounts Modernization Directive having been in force since 2005, we would argue that this requirement has not been enforced nor have companies disclosed substantive ESG information that could be useful for investors.

Based on our understanding of the level of compliance with existing EU and UK requirements on non-financial reporting, CDSB and CDP believe that European institutions should make reporting on material ESG information more, not less, stringent and no longer an option subject to interpretation but a formal requirement.

We also highlight that this draft non-paper focuses on, and demonstrates only one of many, possible approaches to non-financial reporting. CDSB’s Consistency Report and associated material produced by the OECD reveals a significant variety of approaches to climate change-related reporting alone. GRI’s *Carrots and Sticks* report⁵ reveals similar variety in sustainability reporting approaches. Given the existing variety of approach, we fear that it is unrealistic to believe that one approach (i.e. comply or explain) will prevail.

Whilst we are very supportive of the GRI’s Sustainability Reporting Framework; we have concerns about it being used as a standard method of compliance with requirements set out in law (even on a comply or explain basis). This is because the scope of reporting rules are often linked to or prescribed by financial consolidation. We therefore see a mismatch between the wide boundary of sustainability reporting and the narrower boundaries of financial consolidation.

In addition to the broader feedback above we propose the following clarifications, calls for evidence and adjustments to strengthen the non-paper further:

- Lines 14-17 – this sentence equates/conflates sustainability and non-financial disclosure. Sustainability serves a particular purpose that may require disclosure of non-financial things but is not necessarily non-financial disclosure.
- Lines 17-18 suggest that the EU leads the way in this space and lines 14-15 suggest that other jurisdictions got there first.
- Line 19-22 – there is no evidence we believe in the marketplace to support this statement, thus, the statement is the author/organization’s understanding or belief and should be noted as such.
- Line 23 – we do not judge that the case has been proven that transparency leads to greater accountability, however, we feel it is a laudable outcome and suggest wording be included along the lines of “the hypothesis is that”....
- Line 35 – a definition of “publicly traded” needs to be included for clarification.
- Line 41 – “it is a basic common principle” – we understand it to be the case that parties can coalesce around a principle, but can then implement it through fragmented and diverse practices – It is not clear how coalescing around report or explain will lead to harmonization.

⁵ <https://www.globalreporting.org/resource/library/Carrots-And-Sticks-Promoting-Transparency-And-Sustainability.pdf>

- Line 55 – we suggest you provide a link to where sustainability reporting leads to innovation as this statement, as far as we are aware, is unproven.
- Line 70 – we do not understand the use of the 3rd word in this line “or”. It implies that non-financial disclosure is another terms for sustainability reporting. Note; bullet 1 re: lines 14-17 – the concepts of sustainability reporting and non-financial reporting should not be conflated or equated.
- Line 116 – it should read “the importance of sustainability reporting” not “the importance of non-financial disclosure”.
- Line 160 – we suggest that you define to what and to whom the information is material.
- In the table on page 7 – we highlight that CDP is not just sectoral guidance and is subject matter specific covering carbon, forests, cities, supply chains and water. We suggest categorizing it as “subject matter / content related”.
- We also recommend that you include CDSB’s Climate Change Reporting Framework as sectoral guidance in the table on page 7. More information on CDSB’s framework for reporting climate change-related information in companies’ mainstream annual reports can be found at www.cdsb.net/ccrf. CDSB’s framework is to be expanded in 2013 to include forests and water.
- Lines 246-247 need to be added onto the end of the sentence from the words “if the subject matter is relevant to value creation activities”.

CDSB and CDP would be very happy to expand on any of the above points at any stage and thank GRI once again for the opportunity to comment on their draft non-paper.

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