

JBCE – DIGITALEUROPE JOINT POSITION PAPER ON THE NFRD REVIEW

11th June, 2020

The Japan Business Council in Europe (JBCE), DIGITALEUROPE and their respective members welcome the current review on the non-financial reporting directive and the subsequent legislative proposal. This represents a key opportunity to improve the current reporting framework in the EU, further improve trust and relationship between stakeholders and set realistic and achievable objectives for companies.

DIGITALEUROPE and JBCE therefore recommend the following five actions for the European Commission:

A. Develop a thorough impact assessment on an enlarged NFRD scope

JBCE and DIGITALEUROPE recognise the calls from civil society, consumers, and policymakers for the responsibility and transparency requirements for companies to be increased. As suggested by many stakeholders, the Commission could consider enlarging the scope of the NFRD to include more non-financial companies. If so, we urge the Commission to **carefully assess and analyse the costs, impacts and benefits for all stakeholders**, including financial companies and non-financial companies, as it is critical to define, from the onset, an appropriate and balanced scope. Furthermore, this assessment should also cover legislations linked to the NFRD, such as the Sustainable Finance Taxonomy. Indeed, newly covered companies would need to develop the ability to disclose non-financial information, as well as identify, collect, and calculate the proportion of taxonomy-aligned economic activities.

Additionally, in anticipation of this assessment, JBCE and DIGITALEUROPE believe the current NFRD scope to be appropriate. We believe the Commission should rather prioritise improving the current implementation of non-financial reporting, through additional guidelines and sharing best practices on non-financial reporting.

B. Maintain a principle-based approach to non-financial reporting: autonomy on materiality decision-making and promoting quality of non-financial information

For JBCE and DIGITALEUROPE, non-financial reporting represents an essential tool: firstly, it is a **communication and disclosure tool** through which companies and stakeholders – including investors – can **exchange on value-creating processes**. Additionally, from our experience, non-financial reporting should be complemented by additional tools, such as stakeholders' dialogues and ESG investor relations, as they have the dual benefit of **generating trust and building capacity among stakeholders**, and provide essential **context to non-financial reports**. Secondly, non-financial reporting is an **internal management tool** allowing companies to develop and evaluate their approach to different sustainability objectives. This enables companies to **rationally shift their business model** as they endogenise non-financial reporting objectives within their **long-term strategy and future management decisions**.

In practice, non-financial reporting can only remain a meaningful tool if companies **retain the flexibility and discretion to decide what is material**:

- based on the impacts and improvements that are important to the given company;
- depending on the nature of the company's business, the perspective of top management, corporate culture and "to whom" as described in 'double materiality'.

The Commission should therefore support a **principle-based approach** as it is the only viable way for companies to meaningfully explain their business in a dynamic and changing environment.

Furthermore, JBCE and DIGITALEUROPE welcome the calls for companies to **disclose how they define their materiality assessment processes**. This will further encourage trust between stakeholders and develop their understanding of the **implications of reporting for companies**. We

therefore encourage the Commission to share proper guidance and best practices on materiality, including materiality assessments and methodology.

Finally, a critical aspect to underline within non-financial reporting is the quality of the information disclosed: **non-financial information is not exclusively quantitative and even quantitative data is not always self-explanatory or comparable**. The data only becomes meaningful to our partners and stakeholders when companies can explain the context and narrative behind, especially for information related to social aspects. Focusing too much on comparability would undermine the real value of non-financial information, which derives from a company's capacity to voluntarily install an integrated reporting approach aimed at improving decision-making and risk management.

C. Promote a global approach

JBCE and DIGITALEUROPE have a diverse and multinational company membership with activities, subsidiaries, and supply chains all over the world. In that respect, we believe the review on the non-financial reporting directive should be a key opportunity for the Commission to promote **a global perspective within corporate disclosures**. This will enable companies to **streamline reporting processes** across their **whole supply chain**, and hence provide a more comprehensive and accurate report of their activities to investors and other stakeholders. Moreover, in the context of EFRAG's mandate to develop an EU standard, we call upon EFRAG to take a collaborative approach in line with global standards, with like-minded partners.

D. Carefully evaluate the benefits of assurance for non-financial information

JBCE and DIGITALEUROPE recommend prudence on the use of audits and assurance mechanisms for non-financial information. As highlighted above, non-financial information is not always quantitative which makes it particularly difficult, if not impossible, to evaluate financial and non-financial information in a similar manner. Furthermore, non-financial information is always understood in a specific context which prevents its quality from being easily audited. Finally, obligatory assurance on non-financial information could be counter-productive as they would lead to companies disclosing less information – to reduce the risk of being sanctioned – rather than increasing it.

On the other hand, according to our members, auditing non-financial information by third parties can be valuable to **assure the existence** of the information or **appropriateness of the process taken to identify materiality**; never, however, to judge the quality of such information.

E. Assessing the impact of digitalisation on NFRD

DIGITALEUROPE and JBCE welcome the improvements and innovation that digitalisation tools, such as the tagging function, bring and will continue to bring to non-financial reporting. Nonetheless, many uncertain elements remain which could lead to **skewed and biased non-financial statements**. As mentioned, non-financial information – because of its nature¹ – **always needs and deserves context** which digitalised tools for non-financial statements could potentially reduce or prevent. We therefore call upon the Commission to carefully **assess, in partnership with key stakeholders, the impact of digitisation processes** on non-financial reporting before taking any decision on this matter.

¹ Not always quantitative and self-explanatory

About DIGITALEUROPE



DIGITALEUROPE represents the digital technology industry in Europe. Our members include some of the world's largest IT, telecoms and consumer electronics companies and national associations from every part of Europe. DIGITALEUROPE wants European businesses and citizens to benefit fully from digital technologies and for Europe to grow, attract and sustain the world's best digital technology companies. DIGITALEUROPE ensures industry participation in the development and implementation of EU policies. DIGITALEUROPE's members include in total over 35,000 ICT Companies in Europe represented by 73 Corporate Members and 40 National Trade Associations from across Europe: www.digitaleurope.org



About the Japan Business Council in Europe (JBCE)

Founded in 1999, the Japan Business Council in Europe (JBCE) is a leading European organisation representing the interests of over 80 multinational companies of Japanese parentage active in Europe. Our members operate across a wide range of sectors, including information and communication technology, electronics, chemicals, automotive, machinery, wholesale trade, precision instruments, pharmaceutical, railway, textiles and glass products. <http://www.jbce.org>