

Reporting by Corporate Issuers (NFRD)

DUFAS Position Paper on Reporting by Corporates

Summary



EU corporate issuers

DUFAS welcomes the non-binding EU 'Guidelines on reporting Climate-related information', issued by the European Commission in June 2019 and the announced review of the NFRD.

Unless companies start reporting on these items in a consistent and complete way, asset managers will not be able to credibly demonstrate the alignment of their strategies and portfolios with the Taxonomy and the SFDR.

DUFAS believes that development and improving reporting under the NFRD is crucial for building the pathway to a more sustainable society. Under the current NFRD there is a lack of (i) comparable information, (ii) sufficient reliable information and (iii) relevant information needed by different user groups, as reported by companies falling under the NFRD. **We welcome therefore a full review of the NFRD and urge the European legislator to prioritise review of the NFRD.**

DUFAS believes that the lack of comparability and the limited reliability of non-financial information is an issue that needs to be addressed in the revision of the NFRD. In general, the issue with non-financial information is that there is much data available, but there is a lack of material/relevant ESG-data. Therefore, DUFAS proposes to specify a small set of generic KPI's and several sector specific KPI's that needs to be reported upon. Key performance indicators should have relevance for all companies like Taxonomy-compliant revenue, CO2 footprint, pay ratio, tax transparency etc. Secondly there should be room for specific KPIs for different sectors.



Reporting framework & standardisation

DUFAS is of the opinion that for the reporting framework some sort of standardization is highly desirable, but this does not necessarily have to result in one reporting framework. For reporting under NFRD, frameworks such as the CDP, TCFD and GRI are the most relevant other frameworks to consider. The TCFD recommendations are already embedded in the updated non-binding guidelines for climate-related reporting.

It would be welcome from the perspective of the investment community to make the TCFD alignment logic (governance, strategy, risk management (and opportunity exploration), KPIs and metrics) required and rely on the underlying standards, as listed by the TCFD to report. We believe therefore that elements of existing standards/frameworks like GRI, SASB, TCFD and CDP could be incorporated into NFRD. Some form of standardisation is needed to spur the digitization of non-financial data and to set up a centralized electronic ESG-database.

Scope of reporting by entities

Investors are increasingly using sustainability data about companies – also in the non-listed space. DUFAS believes that expanding the scope of the NFRD to more companies helps asset managers in meeting sustainability-related reporting requirements.

We support the idea to expand the scope to include all EU companies with securities listed in regulated markets, regardless of their size. Moreover, we are in favour of expanding the scope to large companies established in the EU but listed outside the EU as well as to large companies not established in the EU that are listed in EU regulated markets.

It would be beneficial to start SME reporting on a voluntary basis, but move to mandatory overtime (phase-in approach). Reporting should be mandatory for all listed companies (moving beyond the comply or explain approach) at least on a limited set of indicators.



Assurance

DUFAS believes that the European legislator should impose stronger assurance requirements for non-financial information reported by companies falling within the scope of the NFRD. This should in principle be based on a reasonable assurance engagement. The existing international assurance standard, ISAE 3000 for assurance over non-financial information issued by the International Federation of Accountants (IFAC) could be used for these purposes.

Stronger assurance requirements for non-financial information reported by companies falling within the scope of the NFRD is important. DUFAS believes that the ultimate goal should be that reasonable assurance becomes standard for non-financial information. However, in the near term, limited assurance is more realistic as most companies are not yet ready for reasonable assurance. Moving from limited to reasonable assurance requires a significant effort from reporting entities and substantially increases the costs of assurance.

Application of the principle of materiality

In our view, there is a need to clarify the concept of 'material' non-financial information in NFRD. Several existing reporting frameworks provide guidance on the type of non-financial information that is financially material per sector regarding the sustainability issues that may affect the development, performance and position of the company. Some of these frameworks have broad acceptance among corporates and investors, thereby contributing to standardization. These frameworks could be further strengthened by explicitly linking ESG-metrics to financial metrics.

Structure and location of non-financial information

DUFAS believes that believe that companies should be required to disclose all necessary non-financial information in the management report instead of publishing it in a separate publication. This will make the information more accessible for stakeholders. We would welcome a decision to abolish the option to publish non-financial information in a separate report.

Questions or suggestions?

A lot is happening in the field of sustainability. We are constantly adapting our positions accordingly, where necessary. For questions or suggestions, or our latest opinions on sustainability, please feel welcome to contact Randy Pattiselanno, DUFAS manager strategy & regulatory affairs, at rp@dufas.nl.