

EU Consultation

“Disclosure of non-financial information by companies”

AFEP response of January 25, 2011

Questionnaire

1. How would you consider the current regime of disclosure of non-financial information applicable in your country? * (compulsory)

Very poor Poor Sufficient Good Very Good

Please explain

In replying to this question, please provide information on what way current reporting provides useful information, and to what extent it is sufficiently tailored to the circumstances of the company. Please also comment on whether you find non-financial information useful for the decision-making of a company.

(optional) (maximum 10000 characters)

The French New Economic Regulations Act (NRE Act) of 2001 requires listed companies to publish social and environmental information in their annual reports. The Act was supplemented in 2002 by an implementing decree and a ministerial order that details the information that is expected to be disclosed.

French companies recognize that this legislation has promoted transparency on their CSR policies, and, in certain companies, the awareness of CSR issues. However, the French legislation has soon proved too detailed and not adapted to the international framework in which companies operate. French companies therefore regret that France has imposed heavy constraints on its companies without prior European harmonisation.

Indeed, the Grenelle 2 Act of 2010 further increased reporting obligations by extending them to non-listed companies above certain thresholds; by including world-wide subsidiaries and controlled companies into the mandatory reporting of a parent company; and by making the external verification of non-financial reporting processes compulsory. Companies would have favoured a more flexible approach, fitting their global activities, and waiting for a European non-financial reporting framework.

The non-financial information companies have to publish according to the NRE Act may be useful for external stakeholders such as NGOs and non-financial rating agencies. It does neither particularly help nor influence the decision-making process of the company itself.

2. Have you evaluated the effects, and costs and benefits, of any current corporate disclosure of environmental and social information? * (compulsory)

Yes No No opinion

Please explain (optional) (maximum 10000 characters)

AFEP has questioned its member companies on the costs that the current French corporate CSR disclosure regime represents. The following cost brackets are estimations per year and per company which do not reflect the indirect costs that are not easily identifiable (systems and staff that are not exclusively dedicated to CSR reporting but also to other forms of reporting).

- **Data collection, internal processing and consolidation:** between **50.000€ and 200.000€**
- **Data publication in the management report:** between **50.000€ and 100.000€**
- **External verification of reporting processes** (mandatory in France as of 2012) **and of CSR data** (on a voluntary basis): between **100.000€ and 750.000€** depending on the number of indicators verified and the extent of work undertaken by the independent third-party body (high or medium assurance level, review of systems and processes for collecting and processing the non-financial information, interviews, local inspections,...)

Please note that the **verification of CSR data relates to a limited number of indicators**, selected by the company, on a voluntary basis, according to their business sector.

3. 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?

Please explain

(optional) (maximum 10000 characters)

The current French disclosure regime for non-financial information has been considerably reinforced by the Grenelle 2 Act of 2010. The implementing decree is under discussion and it is not possible to evaluate at this stage whether the shortcomings of the NRE Act and its implementing decree will be amended. In view of the Grenelle 2 Act, AFEP had advocated the **postponement of extended non-financial reporting obligations for French companies prior to European harmonisation**.

AFEP member companies have asked for the following improvements:

- **information that is fully adapted to an international use** (the current list of social and environmental indicators and information to be disclosed is often based on purely French definitions that do not exist in other countries);
- **quantitative and qualitative information that is coherent with international reporting frameworks;**
- **specific approaches for different business sectors at international, or at least EU level;**
- **voluntary external verification of non-financial reporting processes.**

4. In your opinion, should companies be required to disclose the following (check all relevant boxes): (optional)

- 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

Please explain (optional) (maximum 10000 characters)

Appropriate key information should be determined in close cooperation with companies.

The principal business risks arising from social and environmental issues are sufficiently disclosed in the notes to the financial statements.

5. In your opinion, for a EU measure on reporting of non-financial information to achieve materiality and comparability it should be based upon (check all relevant boxes): (optional)

- Principles
- Key Performance Indicators (KPIs)
- Other

General for all economic sectors

Sector specific

Key performance indicators should remain within the remit of management. The public disclosure of such sensitive information could be detrimental to companies. Therefore, the focus should be the disclosure of the following **information**.

Social information

- Number of employees
- Number of employees by :
 - o activity
 - o gender
 - o region
- Number of new recruits
- Number of leaves
- Percentage of employees covered by collective bargaining agreements
- Information on the existence of internal social dialogue structures
- Rate of injury per million worked hours
- Information on the gravity of injuries
- Rate of absenteeism
- Percentage of employees having benefited from training during the year or number of training hours per year per employee
- Gender and management
- Information on the employment of handicapped employees

Environmental information

- Total water withdrawal (m³)
- Total energy consumption (GJ)
- Estimation of renewable energy consumption
- Direct CO₂ emissions (tonnes CO₂) for scope 1 only
- Indirect CO₂ emissions (tonnes CO₂) for scope 2 only
- Total waste production
- Information on the treatment of waste
- Number of sites with environmental management certification
- Information on the existence of a document explaining the environmental policy of the company

Other CSR issues

- Information on the way the company promotes the respect of fundamental ILO conventions by its suppliers and subcontractors
- Information on the existence of a company foundation
- Annual amount of donations and subsidies
- Information on the way the company takes into consideration the local impact of its activities in terms of employment and regional development

6. In your opinion, what should be the process to identify relevant principles and/or indicators (whether general or sector-specific)?

Please explain

In replying to this question, please 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.

(optional) (maximum 10000 characters)

AFEP considers that the Commission should make **reference** to existing international frameworks without endorsing them however. In addition, companies should be fully involved in selecting relevant indicators.

Indeed, past experience with international standards (e.g. IFRS) has demonstrated the importance of not unilaterally taking on board frameworks with no existing European amendment mechanism. Having a level playing field is important, but the EU should maintain its ability to tailor international standards to its own needs.

The same goes for sector specific principles and/or information. Only if a specific sector does not manage to come up with such principles and/or information, the Commission should be able to define them herself.

7. In your opinion, should companies be required to disclose the steps they take to fulfill the corporate responsibility to respect human rights? * (compulsory)

- Yes No No opinion

Please explain (optional) (maximum 10000 characters)

In addition to companies' responsibility to respect human rights with their direct suppliers, AFEP would like to underline the responsibility governments have to guarantee the respect of human rights in their respective countries. Companies cannot solely be made responsible for human rights problems occurring in certain countries.

8. In your opinion, should companies be required to disclose the risks they face and the policies they have in the field of corruption and bribery? * (compulsory)

- Yes No No opinion

Please explain (optional) (maximum 10000 characters)

The disclosure of risks and policies in the field of corruption and bribery should be made in the framework of generally accepted international principles.

9. In your opinion, what companies should be required to disclose non-financial information (check only one box)? * (compulsory)

- 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

Disclosure obligations for non-financial information should apply to **medium-sized and large companies (listed and non-listed)**. However, for companies drawing up consolidated information, non-financial information should be given on a consolidated basis only. **The companies included in the consolidation should be exempted from any obligation to publish non-financial information.**

10. 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?* (compulsory)

Yes No No opinion

Please explain

In replying to this question, please provide information on which issues seem to be the most relevant and why; and which institutional investors should be subject to such an obligation.

(optional) (maximum 10000 characters)

In France, art. 224 of the Grenelle 2 Act introduces an obligation for UCITS to disclose in their annual reports and in the documents intended for investors the way they take into consideration in their investment policies criteria with regard to the respect of social, environmental and governance issues.

UCITS and companies are subject to numerous transparency obligations. They believe that the same transparency obligations should be imposed on all players, including institutional investors.

11. In your opinion, should European policy promote the concept of "integrated reporting"?

Integrated reporting refers to a report that integrates the company's key financial and non-financial information to show the relationship between financial and non-financial performance (environmental, social, and governance).

* (compulsory)

Yes No No opinion

Please explain

In replying to this question, please indicate the advantages and disadvantages of an integrated report, as well as possible specific costs of integrated reporting.

(optional) (maximum 10000 characters)

Integrated reporting is a concept which has not reached sufficient maturity to be promoted by European policies. There are several reasons why integrated reporting should not be a general obligation:

- CSR disclosures are basically part of the management report, which is not subject to the same publication deadline as the annual financial report. Reducing the publication deadline for CSR disclosures would lead to lower quality disclosures: **CSR disclosures are inherently different** (essentially "non-monetary" information) and require very different resources and processes;
- **CSR disclosures** are in large part specific to industries and companies and **can hardly be standardised**;

- the difficulty of quantifying CSR information makes **consolidation often impractical**;
- it is at this stage **difficult to establish a relation between CSR disclosures and the annual financial report**.

12. In your opinion, should disclosed non-financial information be audited by external auditors? * (compulsory)

Yes No No opinion

Please explain

In replying to this question please provide any evidence you may have regarding costs of auditing non-financial information, as well as your views on other possible forms of independent reviews besides external auditing.

(optional) (maximum 10000 characters)

As of 2010, the French Grenelle 2 Act and its implementing decree mandate the verification of social and environmental information by an independent third-party body mandatory as follows: this verification consists on the one hand of the **verification of non-financial reporting processes**, and on the other hand of the **verification of obvious inconsistencies** of non-financial information only with regard to the overall knowledge the independent third-party (body in charge of the verification) has of the company. The latter does not imply specific/detailed work.

AFEP's member companies consider that this regime will be extremely costly. External verification of CSR reporting processes (mandatory as of 2012) and of CSR data (on a voluntary basis) is estimated by AFEP's member companies to cost between 100.000€ and 750.000€ annually, depending on the number of indicators verified and the extent of work undertaken by the independent third-party body (high or medium assurance level, review of systems and processes for collecting and processing the non-financial information, interviews, local inspections,...).

The introduction of an audit regime would be even more costly to companies. In addition, AFEP would like to reiterate its comments on the EU Green Paper on Audit Policy:

- **the statutory auditor should not necessarily play a role in the control of social and environmental information:** CSR disclosure is indeed **outside the scope of the statutory audit**. It is not related or directly related to the statutory audit (except for the exceptional cases where there is a link to the accounts). Thus, the provision of services in this area by a statutory auditor may impair its independence, unless a specific derogation is provided;
- **this field requires skills in the social and environmental areas which are not specific to audit firms;** in practice, only the largest audit firms have such skills, and assigning a mandatory role to the statutory auditor in this area would strengthen the oligopolistic nature of the statutory audit market; it is therefore **necessary to allow verifications by all qualified service providers, not only audit firms** (see the French example of the "independent third-party body" introduced by art. 225 of the Grenelle2 Act).

13. If you have relevant documents you want to share with us, please attach them here. (optional) (optional)

I attach additional documents