CDSB Climate Disclosure Standards Board

Climate Disclosure Standards Board's (CDSB) response to the consultation on the review of the non-financial reporting directive

The following document details the CDSB's response to the European Commission's consultation on the review of the EU Non-Financial Reporting Directive (NFRD). Our conclusions have been drawn from the evidence gathered from our own review of the fifty largest companies publishing none-financial information. This review along with our key proposals for policymakers can be found at cdsb.net/fallingshort.

In addition to this, CDSB recently produced a tracked changes document of the original NFRD containing nine red lines for which we believe should be the basis of its review. This document can be found here.

1. QUALITY AND SCOPE OF NON-FINANCIAL INFORMATION TO BE DISCLOSED

Question 1: To what extent do you agree or disagree with the following statements about possible problems with regard to non-financial reporting?

	1	2	3	4	5	Don't know
The lack of comparability of non-financial information reported by companies pursuant to the NFRD is a significant problem.					X	
The limited reliability of non-financial information reported by companies pursuant to the NFRD is a significant problem.					X	
Companies reporting pursuant to the NFRD do not disclose all relevant non-financial information needed by different user groups.					X	

(1= mostly disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 2: Do you consider that companies reporting pursuant to the NFRD should be required to disclose information about other non-financial matters in addition to those currently set-out in Article 19a? Please specify (no more than three matters).

	Please specify which other non-financial matters (no more than 3):
Other non-financial matter #1	Climate change-related information While climate change nor biodiversity are not explicitly referred to in the NFRD under environmental matters, the June 2019 Guidelines on reporting climate-related information refer to the UN SDGs, the Paris Agreement and TCFD. Therefore, despite the absence of the terms from the language of the Directive, the NFRD's intention appears to cover climate and biodiversity under the auspices of "environmental matters". This ambiguity, however, has created uncertainties for preparers and inconsistences in reporting practice when comparing disclosures, with a lack of disclosures on climate.

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	It is currently unclear to report preparers that the requirement to report climate-related information is captured under the requirement to report on "environmental issues". There is thus a need to provide further clarity and explain that environmental matters should cover all natural capital related issues, including climate-related issues (mitigation and adaptation), pollution prevention and control, circular economy to reduce the inconsistencies between environmental and climate related disclosures. As an example, the 2018 CDSB and CDP study on the corporate climate and environmental disclosures under the Non-Financial Reporting Directive found that 60% of reviewed companies made disclosures on board oversight of environmental or sustainability policies but only 15% specifically mentioned climate-related policies. The same study found that 58% of companies provided information on management's role on environmental matters, but only 20% for climate-related matters. As such, both articles 19a and 29a in their first paragraph should make explicit reference to "climate" in the list of information to be disclosed as part of environmental issues. Implementation of the TCFD recommendations would further support the reporting of material and decision-useful information on climate-related matters and their financial impacts, as well as supporting more consistent reporting across Europe and globally. This would provide more clarity for the preparers on the relevant non-financial information to be disclosed under the NFRD and bring further alignment with the TCFD recommendations.

Question 3: Are there additional categories of non-financial information related to a company's governance and management procedures, including related metrics where relevant, (for example, scenario analyses, targets, more forward-looking information, or how the company aims to contribute to society through its business activities) that companies should disclose in order to enable users of their reports to understand the development, performance, position and impacts of the company? Please specify (no more than three).

1. *Disclosure requirements on the identification, the assessment and the management of climate and environmental risks to the business beyond principal risks by the business: CDSB's 2019 analysis found that some disclosures demonstrated confusion over whether the NFRD required specific non-financial risk disclosure in addition to existing principal risk disclosures. Because of that confusion, some businesses provided an additional standalone disclosure of identified 'non-material' risks relating to the topics covered under the Directive, where no principal risks relating to environment and climate change were identified. Additionally, 28% of companies did not disclose how environmental and climate-related risks are integrated into overall risk management, as recommended in the Directive's climate-related guidelines and the TCFD.*

2. *Governance disclosures in line with the TCFD recommendations*

- *Board oversight of environmental and climate change matters is not yet a disclosure obligation, although Article 20 of the Accounting Directive does require that companies include in their management report a corporate governance statement, including information regarding diversity policies within the company. We believe the same approach should be taken to strengthen governance requirements for other ESG issues beyond diversity policies.*
- *According to the 2018 CDSB and CDP study on the corporate climate and environmental disclosures under the Non-Financial Reporting Directive, less than half of companies (49%) disclosed both board oversight and management's role in assessing and managing environmental or climate change matters. This has increased to 64% in 2019, showing some, but not sufficient improvement.*
- *In addition to the quantity of companies reporting on governance matters, the quality of such disclosures needs improvement as well, as they often lack some company-specific context, as well as details regarding the board and the management's accountabilities.*
- *Given that the insufficient rate of reporting on governance-related matters, we believe that there is a need to strengthen governance disclosures by incorporating TCFD recommended disclosures a) and b) on governance into the 'corporate governance statement' in Article 20 and in the non-financial statement in 19a and 29a of the Accounting Directive.*

Specifically, governance disclosure requirements should include:

- *Board's and management's oversight of non-financial risks and opportunities, including the relationship between the two, with scope of responsibilities for each of the two; and*
- *Clear and transparent description of governance processes, such as the ones in place for financial reporting, possibly including a review by the chief financial officer and the audit committee. As an example, this could mean that companies would specify climate-related accountabilities within environmental disclosures, stating the committee or individual with oversight for the issues with enough detail on the specific arrangements or topics considered.*

3. *Disclosure requirements on the identification, the assessment and the management of climate and environmental risks to the business beyond principal risks by the business: CDSB's 2019 analysis found that some disclosures demonstrated confusion over whether the NFRD required specific non-financial risk disclosure in addition to existing principal risk disclosures. Because of that confusion, some businesses provided an additional standalone disclosure of identified 'non-material' risks relating to the topics covered under the Directive, where no principal risks relating to environment and climate change were identified. Additionally, 28% of companies did not disclose how environmental and climate-related risks are integrated into overall risk management, as recommended in the Directive's climate-related guidelines and the TCFD.*

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Investment in intangible assets currently represents the majority of investment carried out by the private sector in advanced economies.[1] There is a long-standing debate about the need for better reporting of intangible investments in company reports, including in relation to sustainability.[2] Irrespective of the potential future changes to accounting standards, it is likely to remain the case that a significant proportion of intangible assets will fail to meet the definition of an asset or the criteria for recognition as an intangible asset in the financial statements. The Accounting Directive currently makes no explicit reference to intangible assets in the Articles concerning the management report, other than the requirement to report about activities in the field of research and development in Article 19(2)(b).

Question 4: In light of the importance of intangibles in the economy, do you consider that companies should be required to disclose additional non-financial information regarding intangible assets or related factors (e.g. intellectual property, software, customer retention, human capital, etc.)?

Yes X	No	Don't know

In addition to the provisions of the NFRD, several other EU legislative acts require disclosures of sustainability-related information for financial sector entities:

- The Regulation on prudential requirements for credit institutions requires certain banks to disclose ESG risks as of 28 June 2022.
- The Regulation on sustainability‐ related disclosures in the financial services sector requires financial market participants to disclose their policies on the integration of sustainability risks in their investment decision‐ making process and the adverse impacts of investment decisions on sustainability factors, as of 10 March 2021.
- The Regulation establishing a framework to facilitate sustainable investment (the Sustainable Finance Taxonomy) creates new reporting obligations including for companies subject to the NFRD, starting in December 2021.

Question 5: To what extent do you think that the current disclosure requirements of the NFRD ensure that investee companies report the information that financial sector companies will need to meet their new disclosure requirements?

Not at all	To some extent but not much *X*	To a reasonable extent	To a very great extent	Don't know

1 https://voxeu.org/article/productivity-and-secular-stagnation-intangible-economy

2 The European Financial Reporting Advisory Group (EFRAG) is currently carrying out a research project on this topic. See http://www.efrag.org/Activities/1809040410591417/EFRAG-researchproject-on-better-information-on-intangibles. The United Kingdom's Financial Reporting Council issued a consultation document about business reporting of intangibles in 2019. See https://www.frc.org.uk/news/february-2019/consultation-into-improvements-to-the-reporting-of.

In order to ensure that the financial sector entities comply with the new disclosure requirements, laid down in the different pieces of legislation, in the most effective and efficient manner, there might be scope for better coherence between the different disclosure requirements.

Question 6: How do you find the interaction between different pieces of legislation (You can provide as many answers as you want)

It works well	There is an overlap	There are gaps	There is a need to streamline	It does not work at all	Don't know
	X	*X*	*X*		

Question 7: In order to ensure better alignment of reporting obligations of investees and investors, should the legal provisions related to non-financial reporting define environmental matters on the basis of the six objectives set-out in the taxonomy regulation: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy (5) pollution prevention and control; (6) protection and restoration of biodiversity and ecosystems?

Yes X	No	Don't know

Please provide any comments or explanations to justify your answers to questions 1 to 7.

Please see Appendix section 1. Evidence for more detail about current reporting practices that CDSB's proposed changes aim to address.

Location of the information:

CDSB strongly argues in favour of more transparent, consistent, comparable and decision useful environmental information. To ensure the quality of such information, there is a need to include any material information into the management report. This would be the best way to strengthen the linkages between financial and non-financial information and recognise the equal importance of both natural and financial capital.

This means in practice removing the current exemption within the Directive which includes the possibility to provide non-financial information outside the management report as well as the ability to make it available online up to six months after the balance sheet date. In addition to ensuring information accessibility, such provision would allow a greater governance of non-financial information within the company as well as better supervision of both financial and non-financial information. Non-financial statements reported outside of the management report are also not required to be filed in the Officially Appointed Mechanisms (OAMs) designated by Member States pursuant to Article 21(2) of the Transparency Directive, further hindering accessibility of this information.

While the non-binding guidelines on non-financial reporting have been revised in 2019 to integrate the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and to stimulate companies to include their non-financial statements into the company's management report, they are still non-exhaustive and non-binding.

Furthermore, such changes should not be costly for companies: our review found that 84% of the largest 50 companies were already providing disclosure in the management report, so it is not a big ask to standardise this. Additionally, disclosure outside of the main report drives to increased reporting burden, for example 4% produced a separate non-financial statement report in addition to their existing management and sustainability reports, leading to incoherence and duplication.

Primary audience of the information:

We recommended considering all investors, whether they have a specific ESG focus or not, as the primary audience of the non-financial information even if it may also satisfy other stakeholder's needs. Having multiple audiences with varying information needs can result in less clarity of the reported information and lengthy disclosures that contain information that is immaterial for investors.

We believe these investors will be the ones who will make the investment shift towards sustainable activities and projects to close the investment gap and help the EU reach its policy objectives when it comes to the European Green Deal and a more sustainable Capital Markets Union.

This is why the quality and the comparability of non-financial reporting should be ensuring the suitability of this information for investor decision-making processes.

Implementation of the TCFD recommendations:

In terms of scope, we believe that the NFRD disclosure requirements should cover all four parts of the Task Force for Climate-related Financial Disclosure (TCFD), in particular when it comes to governance in relation with strategy, risk management, metrics and targets, following the publication of European Commission's non bidding guidelines on reporting climate-related information in June 2019. As stated by the TCFD recommendations, Risk Management and Governance of ESG matters shall be disclosed regardless of materiality.

Board oversight of environmental and climate change matters is not a disclosure obligation under the NFRD, although the Directive does provide that companies include a corporate governance statement in their management report under Article 20. The approach taken on employees matters and diversity should be extended to all ESG matters.

Harmonisation of reporting requirements across legislations:

The various pieces of legislation creating reporting requirements either on companies or on investors need to be carefully looked at to avoid a silo approach between each of these stakeholders' requirements. This would ensure policy coherence as well as the usability of information by eliminating duplicative disclosures.

The current difficulties investors face are notably due to shortcomings that prevent them from being able to link the information reported by companies under the NFRD to their own new disclosure requirements under the Disclosure Regulation. In addition, investors might have difficulties to assess whether each of the company which is part of their investment portfolio company is performing the environmental objectives that will be set out in the EU's Taxonomy regulation.

2. STANDARDISATION

Note: in this section, the word "standard" is used for simplicity. This should not be read as a suggestion that all relevant reporting requirements must be specified in a single normative document. Rather, "standard" is merely used as a shorthand that could encompass a consistent and comprehensive set of standards. Reporting standards define what information companies should report and how such information should be prepared and presented.

A requirement that all companies falling within the scope of the NFRD report in accordance with a common non-financial reporting standard may help to address some of the problems identified in section 1 (comparability, reliability and relevance).

Question 8: In your opinion, to what extent would a requirement on companies to apply a common standard for non-financial information resolve the problems identified?

Not at all	To some extent but not much	To a reasonable extent	To a very great extent X	Don't know

Question 9: In your opinion, is it necessary that a standard applied by a company under the scope of the Non-Financial Reporting Directive should include sector-specific elements?

Yes *X*	No	Don't know

A number of non-financial reporting frameworks and standards already exist. Some, including the standards of the Global Reporting Initiative (GRI), the framework of the International Integrated Reporting Council (IIRC), and the standards of the Sustainability Accounting Standards Board (SASB), aim to cover most or all relevant non-financial issues.

Question 10: To what extent would the application of one of the following standards or frameworks, applied on its own, resolve the problems identified while also enabling companies to comprehensively meet the current disclosure requirements of the Non-Financial Reporting Directive, taking into account the double-materiality perspective (See section 4)?

	1	2	3	4	Don't know
Global Reporting Initiative		X			
Sustainability Accounting Standards Board			X		
International Integrated Reporting Framework			X		
Another framework or standard *				X	

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

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10.1 Do you consider that other standard(s) or framework(s), applied on their own, would resolve the problems identified while also enabling companies to comprehensively meet the current disclosure requirements of the NFRD?

Yes
No
Don't know / no opinion / not relevant X

10.2 Please specify which other standard(s) or framework(s) you consider, applied on their own, would resolve the problems identified while also enabling companies to comprehensively meet the current disclosure requirements of the NFRD, and to what extent:

	1	2	3	4
1. IASB Conceptual Framework & IFRSs			X	
2. TCFD recommendations			X	
3. CDSB Framework			X	

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

On 5 December 2019, the Economic and Financial Affairs Council adopted conclusions on deepening the Capital Markets Union, in which it invited the Commission to "consider the development of a European non-financial reporting standard **taking into account international initiatives**".
Most existing frameworks and standards focus on individual or a limited set of nonfinancial issues. Examples include the recommendations of the Task Force on Climate related Financial Disclosures (TCFD), the UN Guiding Principles Reporting Framework (human rights), the questionnaires of the CDP (formerly the Carbon Disclosure Project), and the standards of the Carbon Disclosure Standards Board (CDSB). Several approaches have also been developed at EU level in the environmental area, including the Organisation Environmental Footprint and reporting under the Eco-Management and Audit Scheme (EMAS).

Question 11: If there were to be a common European non-financial reporting standard applied by companies under the scope of the NFRD, to what extent do you think it would be important that such a standard should incorporate the principles and content of the following existing standards and frameworks:

	1	2	3	4	Don't know
Global Reporting Initiative		*X*			
Sustainability Accounting Standards Board				*X*	
International Integrated Reporting Framework			*X*		
Task Force on Climate-related Financial Disclosures (TCFD)				*X*	
UN Guiding Principles Reporting Framework (human rights)			*X*		
CDP				*X*	
Carbon Disclosure Standards Board (CDSB)				*X*	
Organisation Environmental Footprint (OEF)	*X*				
Eco-Management and Audit Scheme (EMAS)	*X*				
Another framework or standard *	*X*				

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

11.1 Do you consider that the principles and content of other existing standard(s) or framework(s) should be incorporated in a potential common European non-financial reporting standard?

Yes
No X
Don't know / no opinion / not relevant

Question 12: If your organisation *fully* applies any non-financial reporting standard or framework when reporting under the provisions of the NFRD, please indicate the recurring annual cost of applying that standard or framework (including costs of retrieving, analysing and reporting the information).

Name of standard or framework (max 3)	Estimated cost of application per year, excluding any one-off start-up costs.
N/A	N/A

Small and Medium-Sized Enterprises (SMEs) often do not have the technical expertise nor resources necessary to prepare reports in accordance with state-of-the-art, sophisticated standards. This may imply that requiring SMEs to apply the same standards as large companies may be a disproportionate burden for SMEs. At the same time, many SMEs are under increasing pressure to provide certain nonfinancial information to other businesses, in particular if they are suppliers of large companies. In addition, financial institutions are increasingly likely to request certain non-financial information from companies to whom they provide capital, including SMEs. In this respect, SMEs that do not provide non-financial information may experience a negative impact on their commercial opportunities as suppliers of larger companies or on their access to capital, and may not be able to benefit from new sustainable investment opportunities.

Question 13: In your opinion, would it be useful for there to be a simplified standard and/or reporting format for SMEs?

Yes X	No	Don't know

Question 14: To what extent do you think that a simplified standard for SMEs would be an effective means of limiting the burden on SMEs arising from information demands they may receive from other companies, including financial institutions?

Not at all	To some extent but not much	To a reasonable extent X	To a very great extent	Don't know

Question 15: If the EU were to develop a simplified standard for SMEs, do you think that the use of such a simplified standard by SMEs should be mandatory or voluntary?

Mandatory	Voluntary X	Don't know

In the responses to the Commission's public consultation on public corporate reporting carried out in 2018, just over half of the respondents believed that integrated reporting could contribute to a more efficient allocation of capital and agreed that the EU should encourage integrated reporting.

Question 16: In light of these responses, to what extent do you agree that the body responsible for developing a European non-financial reporting standard should also have expertise in the field of financial reporting in order to ensure "connectivity" or integration between financial and non-financial information?

Not at all	To some extent but not much	To a reasonable extent	To a very great extent X	Don't know

Question 17: The key stakeholder groups with an interest in and contributing to the elaboration of financial reporting standards have historically been investors, preparers of financial reports (companies) and auditors/accountants. To what extent to do you think that these groups should also be involved in the process of developing a European nonfinancial reporting standard?

	1	2	3	4	Don't know
Investors				X	
Preparers				X	
Auditors/accountants				X	

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Question 18: In addition to the stakeholders referred to in the previous question, to what extent to do you consider that the following stakeholders should be involved in the process of developing a European non-financial reporting standard?

	1	2	3	4	Don't know
Civil society representatives/NGOs		X			
Academics		X			
Other*				X	

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

*Please specify other categories (no more than three).

	1	2	3	4
1. Standard setters				X
2.				
3.				

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Question 19: To what extent should the following European public bodies or authorities be involved in the process of developing a European non-financial reporting standard?

	1	2	3	4	Don't know
European Securities Markets Authority (ESMA)				X	
European Banking Authority (EBA)		X			
European Insurance and Occupational Pensions Authority (EIOPA)		X			
European Central Bank (ECB)		X			
European Environment Agency (EEA)			X		
Platform on Sustainable Finance[3]			X		
Other*					

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

National accounting standards-setters of several EU Member States are represented in the European Financial Reporting Advisory Group (EFRAG), which acts as the EU's voice and technical advisor in relation to financial reporting.

Question 20: To what extent to do you consider that the following national authorities or bodies should be involved in the process of developing European non-financial reporting standards?

	1	2	3	4	Don't know
National accounting standards-setters				X	
Environmental authorities			X		
Other*				X	

1= not at all, 2= to some extent but not much, 3= to a reasonable extent, 4= to a very great extent

*Please specify other type of European public bodies or authorities that you consider should be involved in the process of developing a European non-financial reporting standard (no more than three).

	1	2	3	4
1. National Competent Authorities			X	
2. International regulators and supervisors outside of Europe				X
3. IOSCO and IASB				X

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Please provide any comments or explanations to justify your answers to questions 8 to 20.

Need for standardisation of non-financial information standards

CDSB supports a standardisation of the non-financial information in the management report. As a prominent provider of a framework to report non-financial information in mainstream corporate reports, we have been working with other standard setters in this space to bring more coherence to this area.

[3] Established under the Regulation on the establishment of a framework to facilitate sustainable investment (the "Taxonomy Regulation"), not yet published in the EU Official Journal.

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The standardisation of environmental information will ensure that companies report concise, consistent and decision useful non-financial information with the same rigour as for financial information to allow a global assessment of the company's current and future performance. This will allow investors to be able to understand and assess specific environmental matters within the organisation's strategy, performance and prospects and make informed investment decisions. The overall standardisation of the environmental information will also help minimising the reporting burden on companies and simplify the reporting process.

Despite support for standardisation, CDSB acknowledges that disclosures need to be tailored as much as possible to the specificities of the company's business model and activities. This means that disclosures should include sector-specific elements. Such requirements would need to be addressed with a sufficient level of granularity to ensure that the information provided is material, consistent and comparable. This means that the text of the NFRD itself might not be the best place to reach that level of granularity. Therefore, the NFRD should stick to provide general principles of reporting to be applied by all companies, while more specific tools could then be developed following these general principles.

As noted by ClientEarth's response, it is also important to acknowledge that the development and adoption of standards will not solve the problem entirely. As we have seen in the realm of financial accounting, it is critical that reporting standards are underpinned by an overarching 'true and fair view/materiality' principle in order to ensure that formal compliance with standards does not hide or undermine the provision of clear and comprehensive information to the market and public sphere.

Need for a better and stronger supervision of non-financial information

CDSB strongly supports a supervision of non-financial disclosures as strong as the one existing for financial information. We therefore strongly support the improvement of the "connectivity" between financial and non-financial information to ensure a shared and consistent regulatory approach.

Beyond this impact on the quality of information, this would ensure that companies are able to consistently report in their cross-border activities.

To reach that objective, it is necessary to provide National Competent Authorities as well as ESMA, with the relevant mandate and funding to support compliance through proactive supervision of "non-financial" information. Such supervisory powers should be included in all of ESMA's core activities beyond the recent amendments made to its founding Regulation as part of the "ESA review" published by the European Commission in September 2017.

Within the remit of its mandate, ESMA should keep considering the role it can play in promoting further supervisory convergence between Member States of the disclosure standards put forward in all the relevant initiatives both at European and at the international level.

Development of an EU non-financial reporting standard

CDSB is in favour of standardisation of non-financial information based on global standards. As companies have a global scope of activity around the world, we would be of the opinion that a global standard for non-financial information is the ideal situation to improve the consistency and the comparability of non-financial information across companies, countries and regions.

A reporting standard should also be developed after a thorough consultation of all stakeholders involved to make the most of already existing frameworks and gather the required evidence to reach the best outcome. This is why, we would like to stress the need to also involve standards setters within these discussions.

3. APPLICATION OF THE PRINCIPLE OF MATERIALITY

The NFRD requires companies to disclose information "to the extent necessary for an understanding of the development, performance, position and impact of [the company's] activities." This materiality principle implies that companies reporting pursuant to the NFRD must disclose (i) how sustainability issues may affect the development, performance and position of the company; and (ii) how the company impacts society and the environment. This is the double-materiality perspective.[4] The two "directions" of materiality are distinct although there can be feedbacks from one to the other. For example, a company that with severe impacts on the environment or society may incur reputational or legal risks that undermine its financial performance. 'Material' information is defined in Article 2(16) of the Accounting Directive as "the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking. The materiality of individual items shall be assessed in the context of other similar items." This definition is geared towards financial reporting, which is principally intended to serve the needs of investors and other creditors. By contrast, non-financial information serves the needs of a broader set of stakeholders, as it relates not only to the increasing impact of non-financial matters on the financial performance of the company, but also to its impacts on society and the environment. This may imply the need to provide an alternative definition of materiality for application in the context of nonfinancial reporting, or at least additional guidance on this issue.

Question 21: Do you think that the definition of materiality set-out in Article 2(16) of the Accounting Directive is relevant for the purposes of determining which information is necessary to understand *a company's development, performance and position*?

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent X	Don't know

Question 22: Do you think that the definition of materiality set-out in Article 2(16) of the Accounting Directive is relevant for the purposes of determining which information is necessary to understand *a company's impacts on society and the environment*?

No, not at all	To some extent but not much	To a reasonable extent X	Yes, to a very great extent	Don't know

Question 23: If you think there is a need to clarify the concept of 'material' nonfinancial information, how would you suggest to do so?

CDSB believes that the current definition of materiality should be more closely aligned with the IASB definition of materiality, similar to that of Article 2(16) of the Accounting Directive, in order to ensure concise information that is suitable for investor decision-making. Further clarification on "a company's impacts on society and the environment" within this definition should be elaborated further, given some of this information may also be "reasonably expected to influence decisions that users make" on the basis of such information.

In addition, it is important to note that materiality determination is dependent on the audience of the report. Having multiple audiences with varying information needs can result in less clarity of the reported information and lengthy disclosures that contain information that is immaterial for

4 See also the Commission's non-binding guidelines on reporting climate-related information, section 2.2, page 4 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)#page=4.

investors. The Commission has also recognised this in the NFRD inception impact assessment, stating that "Investors cannot take sufficient account of sustainability-related risks and opportunities, or of the social and environmental impacts of their investments. As a result, there are systemic risks to the economy from investments that do not adequately price in sustainability-related risks, and there are inadequate capital flows to companies that contribute to resolving sustainability-related problems."

Question 24: Should companies reporting under the NFRD be required to disclose their materiality assessment process?

Yes	No	Don't know
X		

Please provide any comments or explanations to justify your answers to questions 21 to 24.

Investors require information presented in a way that is suitable to their decision making. A symptom of the current definition of materiality in the Directive is that "Companies do not report all non-financial information that users think is necessary, and many companies report information that users do not think is relevant" (European Commission's Inception Impact Assessment consultation on the NFRD).

CDSB's study showed that only 68% of reviewed companies disclosed the process to determine the materiality of the reported information for their business. Among these companies, 82% only used non-financial criteria, 12% applied double materiality and only 6% used financial criteria. This means that the double materiality perspective embedded in the Directive is mostly not applied by companies and is not currently benefitting investors because of a lack of focus on investor materiality.

Additionally, this lack of common understanding around materiality leads to either omitting material information that should be disclosed or including information which is not material.

CDSB's study showed that for 42% of the sample of reviewed companies, potentially material information that should have been disclosed was not disclosed and that for 30% of the sample of reviewed companies, some reported information was considered to be not material. The most commonly noted omissions from reporting included information on risks (e.g. lack of long-term risk consideration, or failure to specifically consider climate risk) and industry-specific topics (such as water usage for energy sector companies, or natural resource dependency for materials and pharmaceutical companies). Instances of immaterial disclosure most commonly related to lengthy disclosures on outcomes, which were not necessarily recent or current developments, or were not clearly linked back to the organisation's stated policy objectives or material issues. As such, the Directive should be updated to establish more specific reporting obligations in relation to outcomes. For example, Art 19a(1)(c) should include an explicit requirement to disclose the performance of the company against targets set in relation to the company's impact on the environment and in relation to environmental material business risks.

An entity may disclose other information separate to the management report, to ensure completeness and satisfy wider stakeholder needs. This solution has been suggested elsewhere, such as the CORE and MORE approach suggested by AccountancyEurope.

The current definition of materiality in the NFRD ("to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity…") should therefore be clarified alongside the following guiding principles:

- *Consistency with existing definition of materiality in mainstream reports to ensure consistency between financial and non-financial information;*
- *Proportionality in the inclusion of material non-financial information with the possibility to cross-refers to sources of information outside the mainstream report where greater amounts of detail may be found should readers require it;*
- *Maintaining of organisation's specific materiality assessment and information instead of generic statements without elements of analysis, context or relation to some information in the financial statement; and*
- *Required disclosure of GHG emissions independently of the results of the materiality assessment*

Once the definition is clarified, we believe the TCFD recommendations could be applied in a more effective way to clarify that some "non-financial" matters may have material financial implications and as such, should be treated as financially material, just like any other financial, governance or other information.

Regarding Question 24, a description of the materiality assessment process is beneficial for an understanding of the reported information, provided that it is concise. Such a description may not necessarily provide an in-depth description of the methodology, but a concise summary of the materiality criteria applied and justification for these. Of the management reports assessed by CDSB, 32% did not disclose their materiality approach. Lack of clarity over how the materiality of environmental and climate-related disclosure was determined (whether using a double, environmental and social or financial approach) leads to a lack of clarity for the user and reduces the comparability of disclosures.

4. ASSURANCE

The NFRD requires that the statutory auditor or audit firm checks whether the nonfinancial statement has been provided if a firm falls within the scope of the Directive.

Article 34 of the Accounting Directive requires that the financial statements are audited, and that the statutory auditor or audit firm express an opinion whether the management report (i) is consistent with the financial statements for the same financial year; and (ii) has been prepared in accordance with the applicable legal requirements. Article 34 of the Accounting Directive also requires the statutory auditor or audit firm to state whether it has identified material misstatements in the management report and to give an indication of the nature of such material misstatements. However, the non-financial statement published pursuant to the NFRD – whether contained in the management report or a separate report – is explicitly excluded from the scope of Article 34 of the Accounting Directive. Consequently, the NFRD does not require any assurance of the content of the non-financial statement.

Question 25: Given that non-financial information is increasingly important to investors and other users, are the current differences in the assurance requirements between financial and non-financial information justifiable and appropriate?

No, not at all	To some extent but not much X	To a reasonable extent	Yes, to a very great extent	Don't know

Question 26: Should EU law impose stronger assurance requirements for non-financial information reported by companies falling within the scope of the NFRD?

Yes X	No	Don't know

There are two types of assurance engagement a practitioner can perform:

- Reasonable assurance reduces the risk of the engagement to an acceptably low level in the given circumstances. The conclusion is usually provided in a positive form of expression and states an opinion on the measurement of the subject matter against previously defined criteria.
- Limited assurance engagements provide a lower level of assurance than the reasonable assurance engagements. The conclusion is usually provided in a negative form of expression by stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated.

Question 27: If EU law were to require assurance of non-financial information published pursuant to the NFRD, do you think that it should require a *reasonable* or *limited* assurance engagement on the non-financial information published?

Reasonable	Limited *X*	Don't know

Question 28: If EU law were to require assurance of non-financial information published pursuant to the NFRD, should the assurance provider assess the reporting company's materiality assessment process?

Yes X	No	Don't know

Question 29: If assurance of non-financial information was required by EU law, should the assurance provider be required to identify and publish the key engagement risks, their response to these risks and any related key observations (if applicable)?

Yes *X*	No	Don't know

Question 30: If assurance of non-financial information was required by EU law, do you think that assurance engagements should be performed based on a common assurance standard?

Yes *X*	No	Don't know

If you answered yes in reply to the previous question, please explain whether there is an existing assurance standard that could be used for this purpose or whether a new standard would need to be developed.

Q28: If financial materiality is used for non-financial information, the assurance process of the materiality assessment process should be the same as that applied to financial reporting. However, we are not aware of parameters that would allow an auditor to do so for non-financial materiality determination processes.

Q30: Generally, concerning financial statements, the auditor is required to read the information presented in addition to the audited financial statements to - *Identify any significant inconsistencies between it and the audited financial statements;* - *Consider any observed significant misstatements of fact in those disclosures; and* - *Check that it conforms with local regulations.* *However, the purpose of the consistency check is not to provide assurance on the information published. Further, a financial statements audit performed according to the IAS 100-700 series is generally not suited to reach conclusions on specific and discrete disclosures such as environmental information prepared according to the CDSB Framework. The consistency check does not therefore represent assurance of environmental information and is not comparable to assurance activities carried out under ISAE 3000 and ISAE 3410.* *CDSB encourages organisations to engage with assurance providers to agree an appropriate assurance approach. Assurance engagements conducted according to existing standards such as International Standards on Assurance Engagements (ISAE) 3000, 3410, or similar national standards are suited to provide assurance on environmental information under the CDSB Framework.*

Question 31: Do you think that an assurance requirement for non-financial information is dependent on companies reporting against a specific non-financial reporting standard?

Yes	No *X*	Don't know

Question 32: If you publish non-financial information and that information is assured, please indicate the annual costs of such assurance.

CDSB has no comments on this matter.

If you provided an answer to the previous question, please describe the scope of the assurance services provided (issues covered, reasonable/limited, etc.).

Non-financial information assurance does not require a standard in order for assurance to be provided, although it would be helpful. *ICAEW publication below is useful in illustrating how sustainability assurance in the absence of a standard can occur (equally applicable to broader non-financial reporting):* *https://www.icaew.com/-/media/corporate/files/technical/audit-and-assurance/assurance/sustainability-assurance-your-choice.ashx?la=en*

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Please provide any comments or explanations to justify your answers to questions 25 to 32.

Although one can understand the difference in level of assurance between financial and non-financial information (in the general sense of the term) i.e. narrative reporting found alongside financial reporting, it is hard to justify the difference in level of assurance between non-financial information per the NFRD and other non-financial information. There are increasing expectations by investors, but practically there is not a significant ask for assurance providers to go beyond the limited assurance they are providing on other non-financial information already.

Assurance of non-financial information should therefore be in line with the level of assurance over other non-financial information per Article 34, which is considered to be limited assurance, as the statutory auditor(s) or audit firm(s) has to:

(b)state whether, in the light of the knowledge and understanding of the undertaking and its environment obtained in the course of the audit, he, she or it has identified material misstatements in the management report, and shall give an indication of the nature of any such misstatements

Not remaining consistent will result in undue confusion for market participants if there are different levels of assurance. Current non-financial assurance standards aren't adequate to fully address this issue – typically where reasonable assurance is provided on non-financial information is provided, it occurs on a bespoke, case-by-case basis. Requiring reasonable assurance will reduce comparability as well as the benefit of providing such a level of assurance at increased cost. Ultimately companies can request a higher level of assurance on the aspects of non-financial information they consider key, which is currently market practice.

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5. DIGITISATION

The EU has introduced a structured data standard, the European Single Electronic Format (ESEF) under the Transparency Directive. With effect from 1 January 2020 listed companies in the EU shall report their annual financial reports in XHTML (audited financial statements, management report and issuer's responsibility statements). Additionally, if the consolidated financial statements are prepared in IFRS, the XHTML document should also be tagged using iXBRL elements specified in the ESEF taxonomy. This allows the information to be machine-readable. This is expected to produce a number of benefits, including cost saving for users of annual financial reports, greater speed, reliability and accuracy of data handling, improved analysis, and better quality of information and decision-making.
Additionally, the Commission is exploring opportunities to establish a single access point for public corporate information. In this respect, the Commission expects the High-level Forum on CMU to examine this topic and formulate recommendations from the Capital Markets angle in the coming months.

Question 33: To what extent do you agree or disagree with the following statements regarding digitalisation of non-financial information?

	1	2	3	4	5	Don't know
It would be useful to require the tagging of reports containing non-financial information to make them machine-readable.					X	
The tagging of non-financial information would only be possible if reporting is done against standards.				X		
All reports containing non-financial information should be available through a single access point.					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 34: Do you think that the costs of introducing tagging of non-financial information would be proportionate to the benefits this would produce?

No, not at all	To some extent but not much	To a reasonable extent	Yes, to a very great extent X	Don't know

Question 35: Please provide any other comments you may have regarding the digitalisation of sustainability information:

As already stated in CDSB's response to the consultation document on fitness checks on the EU framework for public reporting by companies in 2018, digitalisation of sustainability information would have the following benefits:

- Ensuring consistency and comparability of both financial and non-financial information which shall be treated the same;
- Increasing the granularity of information disclosed
- Reduction of mechanical data entry;
- Improving transparency for investors and the public; and
- encourages more data analysis & comparison against external data; and

XBRL allows all stakeholders to effectively share and analyse information, improving the availability, quality and the usability of corporate reporting data.

Ultimately, the transposition of climate change-related information into a standard electronic format will facilitate the exchange of both financial and climate related information that are material for corporate reporting. The objective is that the data standard will establish the necessary links between financial business data and reporting and the new needs of information for a low carbon economy.

We believe that such a standard can promote the efficient use and exchange of information across the investment chain.

Digital reporting can also help in resolving the different information needs of various users. For example, information can be tagged with more detail on whether it is deemed financially or otherwise material, thereby allowing readers to view information that satisfies either element of double materiality or only financial materiality.

In 2012, CDSB and CDP have jointly developed an XBRL-based climate change reporting taxonomy, which comprises of both the CDP questionnaire and the CDSB Framework (more information at https://cdsb.net/xbrl). We would like to extend an offer to share our experiences and support, should this be helpful in this process.

Please provide any comments or explanations to justify your answers to questions 33 to 35.

CDSB has no additional comments

6. STRUCTURE AND LOCATION OF NON-FINANCIAL INFORMATION

The default requirement of the NFRD is that companies under scope shall include their non-financial statement in their annual management report. However, the NFRD also allows Member States to allow companies to disclose the required non-financial information in a separate report under certain conditions, and most Member States took up that option when transposing the Directive. Companies can be allowed by national legislation to publish such a report up to six months after the balance sheet date.
The publication of non-financial information in a separate report has a number of consequences, including:

- Separate reports that include non-financial information are out of the legal mandate of the national competent authorities, whose mandate over periodic reports is limited to the annual and semi-annual financial reports (which include the management report).
- Separate reports that include non-financial information are not required to be filed in the Officially Appointed Mechanisms (OAMs) designated by Member States pursuant to Article 21(2) of the Transparency Directive.

Question 36: Other consequences may arise from the publication of the non-financial statement as part of a separate report. To what extent do you agree with the following statements:

	1	2	3	4	5	Don't know
The option to publish the non-financial statement as part of a separate report creates a significant problem because the non-financial information reported by companies is hard to find (e.g: it may increase search costs for investors, analysts, ratings agencies and data aggregators).					X	
The publication of financial and non-financial information in different reports creates the perception that the information reported in the separate report is of secondary importance and does not necessarily have implications in the performance of the company.					X	

Question 37: Do you believe that companies should be required to disclose all necessary non-financial information in the management report?

Yes	No	Don't know
X		

Question 38: If companies are allowed to publish the required non-financial information in a report that is separate from the management report, to what extent do you agree with the following approaches?

	1	2	3	4	5	Don't know
Legislation should be amended to ensure proper supervision of information published in separate reports.					X	
Legislation should be amended to require companies to file the separate report with Officially Appointed Mechanisms (OAMs).					X	
Legislation should be amended to ensure the same publication date for management report and the separate report.					X	

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please provide any comments regarding the location of reported non-financial information.

CDSB supports the integration of non-financial information within the management report. Such changes should not be costly for companies: CDSB's review found that 84% of the largest 50 companies were already providing disclosure in the management report, so it is not a big ask to standardise this. Additionally, disclosure outside of the main report drives to increased reporting burden, for example 4% produced a separate non-financial statement report in addition to their existing management and sustainability reports. This can also lead to duplicative disclosure and presents challenges to report users in locating the information they require. For instance, examples were observed where companies' non-financial statement was located across multiple reports without necessarily providing clear linkage between these disclosures. This makes it difficult to find aspects of the information and significantly limits the ability to gain a coherent understanding of the company's policies. *Such figures echo the ones reported by ESMA in its 2019 report on enforcement of corporate disclosure showing that of the 145 non-financial statements examined, 67% were included directly in the management report, of which 9% via cross-reference, while 14% presented the nonfinancial statement separately but still within the annual financial report.* *This evidence justifies the removal of the current exemption within the directive. It is the easiest way to get to more consistent, comparable and decision useful information for investors who will not need to go to various documents depending on the company they want to invest in to find the non-financial information they need to assess the company's business, performance and prospects.* *On supervision, please see our comments in response to question 16.*

The management report, including the non-financial statement, aims to provide a company's stakeholders with the information necessary to understand the company's development, performance, position and impact. Some non-financial information is also reported in the corporate governance statement, which is also part of the management report.

Question 38.1 Please provide any comments regarding the location of reported nonfinancial information:

In order for information required to be disclosed under the NFRD to be trustworthy and useful for investors, it must be disclosed in the annual Management Report, filed with OAMs and subject to the same level of rigour and accountability as any other information that is relied on for investment decision-making. Unless this required there is a significant risk that investors and other stakeholders will be misled by inaccurate or misleading information being disclosed.

Question 39: Do you consider that the current segregation of non-financial information in separate non-financial and corporate governance statements within the management report provides for effective communication with users of company reports?

No, not at all	To some extent but not much X	To a reasonable extent	Yes, to a very great extent	Don't know

Please provide any comments or explanations to justify your answers to questions 36 to 39.

Information should be interspersed and positioned in the relevant sections of the mainstream report in such a way as to explain the links between the organisation's strategy and environmental performance. (see CDSB Framework Principle 3)

In our review of corporate Management Reports, CDSB has found it challenging to ascertain the materiality of non-financial information that was reported separately to its financial or governance-related counterparts. For example, having a non-financial principal risks disclosure in addition to a principal risks disclosure elsewhere in the report results in confusion as to the materiality of non-financial risks and their importance to the management to business. If the Commission's objective is to mainstream sustainable finance and ensure that the management of non-financial matters is business as usual, then non-financial information must be reported alongside its financial and other counterparts.

Information required to be disclosed under the NFRD should be disclosed in the annual Management Report, filed with OAMs and subject to the same level of assurance and accountability as any other information that is relied on for investment decision-making. It should be clearly signposted and electronically tagged in the Management Report and closely integrated with other disclosures in the Annual Report and financial accounts

The current approach, which allows Member States to permit companies to disclose NFRD-related information outside of the mainstream annual report severely undermines the consistency, quality and usability of disclosed information. In CDSB's own assessment of corporate Non-Financial Reports, we have often found it difficult non-financial disclosures outside of the Management Report.

7. PERSONAL SCOPE (WHICH COMPANIES SHOULD DISCLOSE)

The NFRD currently applies to large Public-Interest Entities (PIEs) with more than 500 employees. In practice this means large companies with securities listed in EU regulated markets, large banks (whether listed or not) and large insurance companies (whether listed or not) – all provided that they have more than 500 employees.
The Accounting Directive defines large undertakings as those that exceed at least two of the three following criteria:

(a) balance sheet total: EUR 20 000 000;
(b) net turnover: EUR 40 000 000;
(c) average number of employees during the financial year: 250.

Some Member States have extended the personal scope of the NFRD by lowering the threshold to 250 employees, in effect capturing all large PIEs.

Companies that are a subsidiary of another company are exempt from the reporting requirements of the NFRD if their parent company publishes the necessary non-financial information at consolidated level in accordance with the NFRD.
There are a number of potential arguments to support the extension of the personal scope of the NFRD:

- Changes in the legislative framework: following the adoption of the Regulation on sustainability-related disclosure in the financial services sector and of the Taxonomy Regulation, investors may require non-financial information from a broader range of investees in order to comply with their own sustainability-related reporting requirements.
- Large unlisted companies can have significant impacts on society and the environment. There may therefore be no *a priori* reason to differentiate between listed and non-listed companies in this respect. In addition, the difference in treatment between listed and non-listed companies in this regard may serve as a

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disincentive for companies to become listed, and therefore undermine the attractiveness of capital markets.

- Exempting PIEs that are subsidiaries limits the information about impacts on society and the environment, thus undermining the ability of stakeholders of such exempted subsidiaries to hold them accountable for their impacts on society and the environment, especially at local and national level.

Question 40: If the scope of the NFRD were to be broadened to other categories of PIEs, to what extent would you agree with the following approaches?

	1	2	3	4	5	Don't know
Expand scope to include all EU companies with securities listed in regulated markets, regardless of their size.				X		
Expand scope to include all *large* public interest entities (aligning the size criteria with the definition of *large undertakings* set out in the Accounting Directive: 250 instead of 500 employee threshold).					X	
Expand scope to include *all* public interest entities, regardless of their size.			X			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 41: If the scope of the NFRD were to be broadened to non-PIEs, to what extent would you agree with the following approaches?

	1	2	3	4	5	Don't know
Expand the scope to include *large non-listed* companies.						X
Remove the exemption for companies that are subsidiaries of a parent company that reports non-financial information at group level in accordance with the NFRD.						X
Expand the scope to include large companies established in the EU but listed outside the EU.					X	
Expand the scope to include large companies not established in the EU that are listed in EU regulated markets.					X	
Expand scope to include *all* limited liability companies regardless of their size.						X

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Question 42: If *non-listed* companies were required to disclose non-financial information, do you consider that there should be a specific competent authority in charge of supervising their compliance with that obligation?

Yes	No	Don't know
X		

If yes, please specify who in your opinion should carry out this task (National Competent Authorities, European Supervisory Authorities, other…) and how.

CDSB believes that there should be proper supervision for any type of company subject to the NFRD requirements. If a legal reporting requirement is in place, there needs to be appropriate supervision of such reporting in order to avoid misleading, unbalanced, or unreliable information, as well as to ensure that there is a fair burden to comply across all companies that are covered by the requirement. Such supervision should be done at the National Competent Authority level, with coordination and consistency checks by ESAs to ensure a level and fair playing field.

Please see our response to question 16 for further comments on supervision.

Regarding the question on removing the exemption for subsidiaries to report non-financial information, it is difficult to assess the impact of such a change without understanding the nature of businesses that would be captured. It is important to note that subsidiaries would by definition not be publicly traded, which may have implications on investor usefulness of such reports. This could be negative (i.e. some investors may only be interested in group-level disclosures, thus not being decision-useful) and/or positive (i.e. providing investors with more transparency within a potentially complex corporate structure).

Due to the nature of their activities, credit institutions and insurance undertakings have larger balance sheets than non-financial corporations. Hence, the vast majority of such institutions will exceed the balance sheet threshold in the definition of large undertakings set-out in the Accounting Directive. Moreover, the application of some public disclosure requirement of EU prudential regulation for credit institutions and insurance undertakings is defined based on various size thresholds.
For example:

- the Regulation on prudential requirements for credit institutions and investment firms includes in its definition of large credit institutions those with a total value of assets equal to or greater than EUR 30 billion;
- the same Regulation defines small and non-complex institutions as those that have EUR 5 billion or less total assets;
- the consultation paper published by EIOPA in October 2019 proposes to revise article 4 thresholds of Solvency II (below which entities are excluded from the scope of Solvency II), doubling the thresholds related to the technical provisions (from EUR 25M provisions to EUR 50M) and allowing Member States to set the threshold referring to premium income between the current EUR 5M and until a maximum of EUR 25M.

Question 43: To what extent do you agree with the following statements relating to possible changes of the personal scope of the NFRD for financial institutions?

	1	2	3	4	5	Don't know
The threshold criteria for determining which banks have to comply with the NFRD provisions should be different from those used by Non-Financial Corporates.						*X*
The threshold criteria for determining which insurance undertakings have to comply with the NFRD provisions should be different from those used by Non-Financial Corporates.						*X*

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please provide any comments or explanations to justify your answers to questions 40 to 43.

CDSB is in favour of increasing the scope of the directive by changing business size to 250 employees and above, as by definition of Public Interest Entities in the Accounting Directive.

While recognising the overall regulatory burden reporting can be for SMEs, we believe the number of employees is not the most relevant indicator to assess the materiality of risks related to ESG matters for a particular company. In addition, investors need to be able to assess such impact or risks across their whole portfolios independently of the companies' assets including in these portfolios.

8. SIMPLIFICATION AND REDUCTION OF ADMINISTRATIVE BURDENS FOR COMPANIES

Question 44: If your company publishes non-financial information pursuant to the NFRD, please state how much time the employees of your company spend per year carrying out this task, including time of retrieving, analysing and reporting the information? Please provide your answer in terms of full-time-equivalents (FTEs, 1 FTE= 1 employee working 40h a week during 250 working days per year). Please provide your answer for reports published in 2019, covering financial year 2018.

CDSB has no comments on this matter.

Please state the total cost per year of any external services, excluding the cost of any assurance or audit services, that you contracted to assist your company to comply with the requirements of the Non-Financial Reporting Directive. Please provide your answer for reports published in 2019, covering financial year 2018.

CDSB has no comments on this matter.

The majority of Member States have transposed the NFRD requirements into national legislation making very few changes to the wording of the legal provisions. Therefore, in the majority of the national legal frameworks, companies are required to comply with national legislation that is quite high level, not very prescriptive and do not require the use of any particular reporting standard.

Question 45: To what extent do you agree with the following statements?

	1	2	3	4	5	Don't know
Companies reporting pursuant to the NFRD face uncertainty and complexity when deciding what nonfinancial information to report, and how and where to report such information.		*X*				
Companies are under pressure to respond to individual demands for non-financial information from sustainability rating agencies, data providers and civil society, irrespective of the information that they publish as a result of the NFRD.			*X*			
Companies reporting pursuant to the NFRD have difficulty in getting the information they need from business partners, including suppliers, in order to meet their disclosure requirements.			*X*			

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Please provide any comments or explanations to justify your answers to questions 44 to 45.

While CDSB is not a reporting entity, we strongly believe in the value of non-financial reporting to support the long-term interests and resilience of businesses, as well as protection of investors and society.

While reporting is necessary to support efficient and resilient markets, inconsistency can cause additional burden and therefore unnecessary costs to report preparers. It is important to remind that a lot of companies are making it harder than it needs to be by using various frameworks and thus duplicating effort for different disclosures without proved benefits. The NFRD review could help to streamline the requirements, ensuring more comparable and consistent information within the management while making the life of preparers easier.

We could take the example of the integration by companies of TCFD recommendations. CDSB and CDP review of 2018 disclosure demonstrated few companies are currently considering their NFRD environmental matters disclosures and their climate-related information under TCFD in an integrated manner, leading to duplicative and overly lengthy disclosures. Whilst it may be expected that there is some improvement in this in 2019 reports, after the update of the directive's guidelines on reporting climate-related information, CDSB's 2019 study demonstrates that the opportunities the NFRD offers to streamline disclosures are not currently being taken.

Additionally, the use of the double materiality perspective could be leading to a greater reporting burden with often a lack of clarity from companies on the materiality criteria they are applying. The 2019 CDSB's study showed that only 68% of reviewed companies disclosed the process to determine the materiality of the reported information for their business. Among these companies, 82% only used non-financial criteria, 12% applied double materiality and only 6% used financial criteria Greater emphasis on financial materiality would likely lead to more streamlined and concise disclosures. This both would benefit companies in reducing their reporting burden and also better serves investors.

To sum up, we believe additional consistency and clarification in the reporting requirements at EU level will lead to a decrease of administrative burden for companies and public interest entities covered by the NFRD.