

<p style="text-align: center;">ECODA REACTION TO THE EUROPEAN COMMISSION'S PROPOSAL ON DISCLOSURE OF NON-FINANCIAL AND DIVERSITY INFORMATION</p>
--

1. Some preliminary remarks

ecoDa is of the opinion that combining **diversity and non-financial reporting needs further reflection**. ecoDa prefers that those two issues be treated separately. Information on e.g. a gender policy (and its execution) might well fit in 'social' reporting (ESG). The information on the gender balance of the board of directors and the management committee might better fit with governance information (ESG). Such information might be considered highly relevant in the actual gender debate.

ecoDa asks the EU to **clearly specify what it is meant by non-financial reporting** in order to avoid the confusion with CSR. There are indeed widespread differences across EU countries what has to be understood by non-financial reporting; some have a rather focused definition in mind (as the UK) referring only to relevant information in relation to strategy execution and risks involved, while others (like e.g. France) do approach the extra information in a much broader way. ecoDa cannot support the directive if the information demanded is not clear or if the open-ended definition as stated under article 1A would remain.

2. The proposal on the disclosure of non-financial and diversity information offers quite a number of advantages:

- + This proposal supports the intention to **put more emphasis on the factors that impact the long-term success of enterprises** and the main risks incurred. This should help in countering the short-termism reigning in numerous investment and hence management circles.
- + The proposal tries to **balance the attention for financial as well as non-financial indicators of performance and success**. This is essential in order to counter the highly biased focus on financial performance (information).
- + Such information **offers investors and other stakeholders a better insight** into the strengths and weaknesses of an enterprise and allows improving the dialogue with all interested parties.

3. However, the proposal also brings along a number of important challenges and potential hurdles:

- Today there is **no European standard reference framework for disclosing such non-financial information**: for NF reporting, there is no equivalent to the IFRS framework for disclosing financial information. It would be useful to analyse how this proposal fits with the trend towards "integrated reporting", on the basis of international initiatives in this field.
- In general, it is **quite difficult to measure a number of qualitative non-financial indicators** or find generally accepted definitions and measuring techniques.
- The **relevant reference data are quite different** from one company to another, from one sector to another, from one country to another. Moreover, there is the question 'How to fit the European NF reporting proposal within individual countries' corporate governance frameworks, tax and corporate law.

- The obligation to publish non-financial and diversity information **might risk fostering more a culture of reporting instead of a culture of commitment and engagement.**
- Such additional obligations might seriously **increase directors' liabilities.**
- The risk of **revealing more strategic elements to competitors** should be limited and pleads against a wide-ranging, exhaustive reporting obligation. Therefore it might be wise to take into account the Commission's work in progress on Trade/Business secrets.

4. In conclusion, it is the view of ecoDa that:

- ❖ ecoDa would **like to stimulate and promote companies to take full benefit of the important positive effects of a balanced approach towards financial and non-financial reporting.** ecoDa hopes that this reflection on non-financial reporting might stimulate firms and their (sector) federations to organise an intensive dialogue with shareholders (organisations/representatives) and stakeholders to investigate the type of non-financial information that they consider crucial to have a better view on the long-term perspectives of the firm, the success of the strategy and the risks involved.
- ❖ However **ecoDa is not in favour of (already) developing legislation (directive) or mandatory rules on non-financial reporting,** certainly not at this moment in time. It would be more appropriate (i) in a first step to start with a recommendation and, (ii) in a second step, on the basis of an impact analysis, to decide if it is relevant to go a step forward into mandatory rules.
- ❖ But at the same time, ecoDa wants to **emphasize that directors are in favour of framing the recommended publication of non-financial and diversity information into a useful and relevant reference framework** that facilitates comparative analysis by shareholders and stakeholders. Leaving companies the complete choice to decide themselves on the format and the content of their non-financial and diversity disclosure could seriously hamper the usefulness and monitoring of such information. Moreover such approach would limit the benefit of installing a harmonised approach towards non-financial reporting.  
The European Commission should develop a European reference framework for defining and measuring non-financial data. To this end, the European Commission could develop an appropriate level of requirements for a European NF reporting framework. In the meantime, companies should use the existing Global Compact Framework.
- ❖ Before developing any type of recommendation or mandatory rule, ecoDa would like to first promote more reflection on the reporting of non-financial and diversity information. To this end, the EU should start with investing time and effort in (i) launching an **impact analysis of cost/benefit effects** of NF reporting in European countries that today have already advanced practices in this field (ii) **developing a model that offers sufficient flexibility via the principle of comply-or-explain.**
- ❖ As to the **disclosure on diversity,** such disclosure can give an interesting insight in the business policy on human resources and board composition, but the **details demanded are unnecessary complex.**

- ❖ It is clear that additional disclosure comes at a considerable cost. Therefore the **proposals should be proportionate** (with the size of the company and with its public status or not) and focused on items that really matter (must have is more relevant than nice to know). It is of great importance to define the priorities:
  - Carefully define the relevant scope in light of the costs involved and the relevance of such information.
  - What are minimal indicators all companies in the 'scope' should provide?
  - What could be specific indicators for certain 'sectors' (e.g. the environmental risks are quite different from one sector to another)?
  - What could be additional indicators, multinational companies should provide for all their establishments world-wide?
- ❖ Even through externally audited data increase the credibility and the reputation of the firm, ecoDa is not in favour of a mandatory approach. However ecoDa would like to raise the attention to the fact that such decision on the principle of an audit and on the level of assurance delivered might be recommended to avoid greenwashing.