

EUROPEAN LAB  
CONSULTATION ON FUTURE PROJECTS  
Feedback Statement  
October 2019



## Background

- 1 On 18 July 2019, a public consultation was launched on the European Lab future agenda that requested input to be provided by 30 September 2019.
- 2 The consultation proposed the following three future project topics and sought views on their prioritisation:
  - (a) **Project 1** - Reporting of social matters and human rights with three proposed specific areas of focus:
    - (i) Project 1.1 – Reporting on human rights and other social matters in the supply chain.
    - (ii) Project 1.2 – Reporting on human capital management.
    - (iii) Project 1.3 – Reporting on human capital and social capital impacts of climate adaptation and mitigation policies.
  - (b) **Project 2** – Reporting of non-financial risks and opportunities, and linkage to the business model.
  - (c) **Project 3** – Reporting on the materiality assessment process and outcomes for Environment, Social and Governance (ESG) matters.
- 3 Respondents were not asked to rank the projects but to assign priorities as highest, medium or lowest priority, with multiple choices possible.
- 4 The consultation also sought input on any possible alternative project that constituents would consider more important and urgent for Europe than the ones identified by the European Lab SG.

## Feedback received

- 5 The European Lab received responses from 51 constituents across 15 jurisdictions with a good mix of preparers, users, academics, accounting and audit professionals and other governmental or not-for-profit organisations. 47 letters were uploaded to [EFRAG's website](#) with the other three requiring anonymity.
- 6 The table below provides a breakdown of respondents by type and country.

Table 1 - Demographics

By country		Types of Respondents	
Austria	1	Academic	8
Denmark	3	User	6
France	4	Preparer	13
Germany	3	Auditor / Accountant	12
Italy	7	Consultant	2
Luxembourg	2	Other	10
Netherlands	1		
Norway	1		
Poland	4		
Portugal	3		
Romania	1		
Spain	2		
Sweden	2		
UK	6		
Pan-European	8		
Non-European/ Global	3		
<b>Total</b>	<b>51</b>	<b>total</b>	<b>51</b>

- 7 About two-thirds of respondents identified **Project 2** on non-financial risks and opportunities and linkage to the business model as the highest priority (67%) before Project 3 (41%).

Table 2 – Overall ratings<sup>1</sup>

% of respondents	Project 1.1	Project 1.2	Project 1.3	Project 2	Project 3
% Highest	22%	18%	12%	67%	41%
% Medium	31%	37%	33%	18%	31%
% Lower	47%	45%	55%	16%	27%

- 8 Preference for Project 2 is apparent across almost all categories of respondents except ‘other organisations’ (which comprises a vast array of public or not-for-profit European organisations or think tanks such as GRI, FESE, EFAMA Carbon Tracker) which expressed preference for project 3 on materiality (see Table 3).

Table 3 – Highest Priorities by type of respondents

Highest Priorities	Project 1.1	Project 1.2	Project 1.3	Project 2	Project 3
Academics	13%	13%	13%	88%	13%
Users	33%	17%	0%	83%	67%
Preparers	38%	15%	8%	62%	23%
Auditors/ Accountants	18%	33%	17%	83%	42%
Consultants	0%	0%	50%	50%	50%
Other organisations	10%	10%	10%	30%	70%

- 9 Supporters of Project 2 generally concurred with the rationale in the agenda consultation document in support of the project and provided the following additional comments:
- This project has the broadest implications to more businesses and has the ability to connect and bring together the 3 components of ESG using the linkage to the business model as the framework to structure the disclosures.
  - For users, understanding the material non-financial risks and opportunities an entity faces, their impact on and linkage to a sustainable business model over time is essential in making investing or lending decisions.
  - Users need to understand how a company’s business model might be affected by sustainability matters such as climate change and describe how the strategy may evolve in light of sustainability considerations. They need to understand risks and opportunities and threats that affect the key competitive success factors.
  - Companies need to be able to integrate non-financial risks and their opportunities in their business model to be able to address sustainability issues. Companies are having difficulties addressing these aspects properly and often only generic disclosures are provided.
  - Some respondents reported studies (Germany, Poland) showing that current reporting on non-financial risks and opportunities is in need of improvements: for instance the links with the entity’s strategy and business model, the actions

1 The percentages in the tables above and below represent the number of participants rating a project as Highest/Medium/Lower priority over the total number of respondents (respondents were allowed to identify more than one priority project).

to mitigate the risks, and the non-financial KPIs actually used by management for the operational and strategic decision-making process.

- (f) There is increased focus on non-financial risks and opportunities and increasing legislative requirements and related guidance.

10 The following suggestions were made to refine the scope of Project 2:

- (a) Companies need to better integrate the relevant sustainability risks and opportunities in their business management such as investment planning and risks management and include that in their reporting. The European Lab could review existing guidance in this area and good practices for integrating this information in the companies' reports. The TCFD categories (Governance, Strategy, Risk Management and Metrics) could be used as a basis to develop reporting on other categories of non-financial risks and opportunities.
- (b) The project is to be linked with integrated reporting and integrated thinking and will be helpful in implementing the revised non-binding guidelines and bring more cohesion and alignment between different reporting frameworks.
- (c) The project may help assess whether and how companies effectively integrate business model and risk reporting. It could contribute to the formulation of guidelines and recommendations to offer a more integrated disclosure. Insights on sectorial guidance would be of added value.
- (d) The project should look primarily at users' needs and how they use the information about the company's business model and its ability to react and adapt to the integrated risk management, highlighting also the opportunities arising from non-financial risks. A number of existing guidelines and frameworks have resulted in complex and non-connected disclosures with little value.
- (e) Disclosure on sources of competitive advantage need to be improved with a clear description of the entire competitive landscape (most companies forego on assessing competitive landscape which is a critical step in users' analysis of a company).

11 **Project 3 on reporting of materiality** came second in order of preference but attracted substantially less support than Project 2. Project 3 on Materiality is particularly supported by users (67%) and other organisations. Supporters of Project 3 generally concurred with the rationale in the consultation document that the assessment of materiality was central but challenging when applied to non-financial information.

12 However, preparers have generally rated it as low or medium priority (respectively 46% and 31%), as shown in the table below:

*Table 4 – Lowest Priorities by type of respondents*

Lowest Priorities	Project 1.1	Project 1.2	Project 1.3	Project 2	Project 3
Academics	50%	38%	38%	13%	50%
Users	33%	33%	67%	17%	17%
Preparers	31%	38%	46%	15%	46%
Auditors / Accountants	50%	33%	50%	8%	17%
Consultants	0%	50%	50%	0%	0%
Other organisations	80%	80%	80%	30%	10%

13 Not all respondents have explained the rationale for their rating of Project 3 but those who did, while acknowledging the importance of the topic, expressed doubt as to the value of a European Lab project on materiality because:

- (a) The complexity of the issue which is inherently highly judgmental;
  - (b) Guidelines and supporting material already exist as well as practical expertise;
  - (c) Although materiality remains important at country or unit level, risk assessment is the most important concept at corporate reporting level.
- 14 **Project 1 related to the reporting of social matters and human rights** received still considerable but less support across all categories of respondents. Some respondents indicated that, although they considered human rights and social matters important, there were benefits in first looking comprehensively at the value chain (Project 1.2) and analysing all the dimensions together and their interdependencies would make more sense. On an aggregated basis, about 30% of all respondents assessed either of the three 'Project 1 proposals' as higher priority.
- 15 The respondents also suggested **alternative** projects that could be considered for the European Lab future agenda (Appendix 1).

### European Lab Steering Group (SG) decision on second project

- 16 At its meeting on 15 October 2019 the European Lab SG considered the feedback received from its agenda consultation and noted the high level of participation to the consultation and the relatively high level of support received for the proposed projects
- 17 The European Lab SG decided that its second project, after the first project on Climate-related reporting, will address *Reporting of non-financial risks and opportunities and linkage to the business model*. (Project 2 in the consultation) which received vast support from respondents.
- 18 All the five projects had support from the public consultation but there were mixed views on which could be the third project. The European Lab SG will decide on a third project at a later point in time taking into account the feedback from the public consultation and lessons learned from the experience of the first two European Lab projects, including consideration of timing that ensures issuance of deliverables that can be incorporated into preparers' reporting cycles. To facilitate the choice of a third project, the European Lab SG also agreed to monitor developments and reporting practices related to the possible projects that were not chosen to be the second European Lab project (i.e. the three sub-topics on reporting on social matters and human rights; and reporting on materiality process and outcomes to ESG matters).
- 19 The European Lab SG will also consider whether and how to integrate the suggestions made by some respondents (paragraph 10 above) when developing a more detailed description of the project for the consideration of the European Lab SG at a future meeting.
- 20 The European Lab SG will ask the Project Task Force that will be established for the chosen project to consider, to the extent feasible, the perspective and impact on non-listed entities including SMEs, since ESG reporting may affect their business models and reporting practices (e.g. via SMEs being part of and needing to fulfil the supply chain conditions of large (listed) entities).
- 21 Lastly the European Lab SG took stock of the suggestions for alternative projects made by a limited number of constituents (see Appendix 1) but noted that several were considered to be outside the current remit of the European Lab which is not to develop reporting standards or guidelines but to stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good practices.

- 22 The European Lab SG expects to issue a call for candidates for the Project Task Force for the project on *Reporting of non-financial risks and opportunities and linkage to the business model* before the end of the year.

## APPENDIX 1 – Other suggestions made by respondents to the agenda consultation

### *Suggestions applicable whichever the selected project:*

- 23 Four respondents emphasised the European Lab should also consider the perspective of non-listed entities including SMEs. Although those entities are not in the scope of the Non-Financial Reporting Directive, ESG reporting will affect their business models and reporting practices, mainly due to the importance of those entities in the supply chains of large (listed) entities and ESG information is largely sourced from within the SME.
- 24 Two respondents also encouraged to consider implications on the financial information of the topics selected as future projects. Driving more coherency in reporting on financial and non-financial information is cornerstone and helps to ensure that the annual report provides cohesive reporting as users need decision-useful information from corporates about their business model, strategies, targets, risks and opportunities on short to long timescales.
- 25 One respondent suggested that the Lab should only undertake one project at a time, in order to facilitate adoption of good practices, across all companies and stakeholders.

### *Suggestions for alternative projects to the ones proposed in the consultation*

- 26 Some respondents suggested alternatives to the three projects in the European Lab's consultation. Each suggestion in the list below was generally supported by only one respondent except for the first four suggestions:
  - (a) Reporting non-financial Key Performance Indicators (NFKPIs) i.e. how to improve NFKPIs disclosure and links to value creation, comparability (4 respondents)
  - (b) Reporting on circular economy issues as regulations are increasing and affect companies. The European Lab could identify best ways to report on circular economy including waste management, reporting on management of loops within companies, groups and value chain (3 respondents). This topic was also identified at the European Lab roundtable event on 10 September 2019;
  - (c) Unification of ESG standards and move towards international non-financial reporting standards. Although it is acknowledged that this is not in the current remit of the European Lab to develop guidance, some suggested that its role could evolve in the future. A focus by industries could be useful (3 respondents);
  - (d) Consider 'systemic matters' such as verifiability of information, training of the accounting profession on ESG meters, information systems (2 respondents);
  - (e) Development of 'social KPIs' to measure the social impacts of companies (one respondent);
  - (f) Fostering more consistent measurement of the impact of business operations across the entire economy by developing key standardised metrics that increase comparability and consistency and enable tracking against public policy targets (one respondent);
  - (g) Building on the European Lab's first project on Climate-Related Disclosures with a TCFD focus, recommendations from the European Lab could be a blueprint for other environmental issues in line with the EU environmental

- objectives (e.g. climate change adaptation, transition to circular economy, pollution prevention and control, etc) (one respondent);
- (h) Reporting on information in line with the Sustainable Finance rules of the Sustainability Disclosures Regulation (SFRD) in particular regarding the description of the 'principal adverse sustainability impacts and indicators' (one respondent);
  - (i) Tax reporting transparency (one respondent);
  - (j) Reporting on sustainable loans. The European Lab could consider designing reporting templates that would complement the currently proposed EU Bond Standard reporting (one respondent);
  - (k) Reporting of supply chain greenhouse gas emissions (scope 3) which is inconsistent across companies (one respondent);
  - (l) Reporting on human rights and other social matters in the whole value chain (one respondent);
  - (m) Educational/Training sessions of the European Financial System and to detect disparity in maturities in Europe (one respondent);
  - (n) Consider the recent report made by the Chair of the ANC to the French Minister of Finance on the development of non-financial information calling for standardisation at European Level and a dedicated European Regulator on non-financial information. In this context, this respondent suggested that the lab's European Lab's role could evolve into working on harmonisation, setting guidelines and benchmark best practices
- 27 The following can be noted about the above suggestions:
- (a) Some of the suggested topics seem to be outside the current remit of the European Lab which is not to develop reporting standards or guidelines.
  - (b) Some other topics are addressing audit or verifiability matters that are also outside the scope of the European Lab activities.
  - (c) Other suggestions could be potentially suitable topics for the European Lab. However, as no public consultation was conducted specifically on those matters, their real level of support is difficult to ascertain. These topics have only been proposed by a few respondents.
  - (d) Other topics are described at a headline-level without sufficient substantiation of why they are suitable projects.

## APPENDIX 2 – List of respondents

Respondents	Type	Country
CL01 Frank Thinggaard - Aarhus University	Academic	Denmark
CL02 Jed Wrigley	User	Italy
CL03 Tuma Ursula - Academic	Academic	Austria
CL04 Simon Gleadhill - Howden Joinery Group	Preparer	UK
CL05 EFRAG Julie Castiaux - Deloitte Luxembourg	Auditor / Accountant	Luxembourg
CL06 Tord Andersso - RVA Consulting	Consultant	Sweden
CL07 Jonas da Silva Oliveira – Univ Institute Lisbon	Academic	Portugal
CL08 Ben Peters - Evenlode IM	User	UK
CL09 Christian Nielsen - Aalborg University	Academic	Denmark
CL10 Delphine Gibassier - Audencia	Academic	France
CL11 Thekla Wießner- Commerzbank	Preparer	Germany
CL12 Lorenzo Simoni - University of Florence	Academic	Italy
CL13 Chiara Crovini - University of Torino	Academic	Italy
CL14 Marc Labat	Consultant	Luxembourg
CL15 Caixa Geral de Depositos	Preparer	Portugal
CL16 Sara Arguello (Consejo Gen. de Economistas))	Auditor / Accountant	Spain
CL17 EFAA	Auditor / Accountant	Europe
CL18 CNC	Auditor / Accountant	Portugal
CL19 Danske Bank	Preparer	Sweden
CL20 Sanofi	Preparer	France
CL21 Crédit Mutuel de France	Preparer	France
CL22 Norwegian Institute of Public Accountants	Auditor / Accountant	Norway
CL23 Eumedion (Martijn Bos)	User	Netherlands
CL24 FESE	Other organisation	Europe
CL25 Norge Bank	Preparer	UK
CL26 Mazars	Auditor / Accountant	France
CL27 Andrea Gasperini (AIAF)	User	Global
CL28 Foundation for Reporting Standards (	Other organisation	Poland
CL29 Marianna Sorrente (Analyst AIAF)	User	Italy
CL30 MATERIALITY (Justyna Biernacka)	Other organisation	Poland
CL31 Thomas Linder (Academic)	Academic	Germany
CL32 Stowarzyszenie Emitentów Giełdowych	Other organisation	Poland
CL33 ECIIA	Other organisation	Europe
CL34 Uniper	Preparer	Denmark
CL35 Assirevi	Auditor / Accountant	Italy
CL36 EACB	Preparer	Europe
CL37 Polish Ministry of Finance - Accounting and Auditing Department	Auditor / Accountant	Poland
CL38 WMEBF	Other organisation	Germany
CL39 Carbon Tracker Initiative	Other organisation	UK
CL40 Hitachi LTD	Preparer	Non-European
CL41 EFAMA	Other organisation	Europe
CL42 S&P Global	User	UK

<b>Respondents</b>	<b>Type</b>	<b>Country</b>
CL43 GRI	Other organisation	Global
CL44 CDP Europe	Other organisation	Europe
CL45 UK FRC	Auditor / Accountant	UK
CL46 OIC	Auditor / Accountant	Italy
CL47 EBF	Preparer	Europe
CL48 Accountancy Europe	Auditor / Accountant	Europe
<b>Responses not uploaded</b>		
CLOX1 Anonymous (Preparer – Non Financial)	Preparer	Italy
CLOX2 Anonymous (Preparer –Financial)	Preparer	Spain
CLOX3 Standard Setter (response by e-mail)	Auditor / Accountant	Romania