

**PROGRESS REPORT OF THE PROJECT TASK FORCE ON PREPARATORY WORK
FOR THE ELABORATION OF POSSIBLE EU NON-FINANCIAL REPORTING
STANDARDS (PTF-NFRS)**

STATUS AND PRELIMINARY HIGH-LEVEL ASSESSMENT POINTS

Background

1. The European Commission adopted an updated Work Programme on 27 May 2020 that foresees the publication of a legislative proposal to revise the Non-Financial Reporting Directive (NFRD) in Q1 2021. One of the possible ways of enhancing the comparability, reliability and relevance of information disclosed by companies pursuant to the NFRD will be to mandate the use of a common set of non-financial reporting standards. Such standards could also facilitate the assurance of non-financial information, its enforcement and its digitisation using a taxonomy (tags) and a structured data standard.
2. Pursuant to the above, the European Commission has mandated EFRAG to undertake technical preparatory work to allow for the swift development, adoption and implementation of European standards, should that be the choice of the European Union following the wider revision of the NFRD. This mandate is being carried out by a multi-stakeholder Project Task Force that was appointed by the Steering Group of the European Reporting Lab @EFRAG.
3. This progress report is communicated by Mr. Patrick de Cambourg as Chair and on behalf of the Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (the Task Force) to the European Commission, as requested by the Task Force's mandate.
4. This report was prepared by the Chair based on the contribution from each working group, was presented and was discussed with the Task Force during two plenary meetings, held on October 26 and November 2, 2020. It was then amended on the basis of individual suggestions and finally approved through a "no objection" written procedure.
5. This report aims at providing the European Commission with a view of (i) the Task Force's organisation and activities up to October 31, 2020 and (ii) the preliminary high-level assessment points emerging from the assessment phase of the project, which is still under finalisation.

Task Force organisation and activities as of October 31, 2020

6. Following the official appointment of its members and Chair on September 4, and based on the mandate given by the European Commission, the Task Force developed an operational structure and work plan (the roadmap) that were presented, discussed and approved by the Task Force during its first plenary meeting, held on September 11.
7. The Task Force's roadmap follows a three-phase approach:
 - a. Phase I – Assessment until the end of October (with a possible overlap with Phase II during the first weeks of November). For this phase, the Task Force has been split into seven streams, each of them focusing on a specific aspect of the overall scope of work, as follows:

- i. A1 – The momentum and coherence of EU non-financial information requirements: responsible for mapping all current, developing and expected European initiatives having non-financial requirements and/or implications through a series of interviews with the relevant policy departments of the European Commission and a comparative analysis of European initiatives.
- ii. A2 - Possible input from existing initiatives: responsible for mapping and assessing the quality and robustness of two key dimensions of the current non-financial reporting landscape: (i) significant international initiatives (standards, frameworks or others) which are developing non-financial indicators; (ii) the indicators themselves. This is achieved through a questionnaire filled in in close cooperation with the initiatives themselves as well as the assessment of the non-financial indicators against a set of quality criteria.
- iii. A3 - Conceptual framework for non-financial information: responsible for reviewing, analysing and assessing core structural elements of existing international initiatives. The critical review and analysis of major standards and frameworks is articulated around nine key features: conceptual framework, categorisation and taxonomy, materiality, scope of reporting, time horizon, level of application, types of information, principles of quality of information and reporting, and links to global policy objectives.
- iv. A4 - Interconnection between financial and non-financial information: responsible for identifying the boundaries of financial information and mapping the complementarity of these two dimensions of corporate reporting based on an extensive review of non-financial information frameworks and of IFRS-related information through a series of criteria including connectivity opportunities and anchor points.
- v. A5 - Focus on non-financial information for financial institutions: responsible for identifying the challenges faced by financial institutions in reporting on the indirect impact of their asset management, banking and insurance activities. This is achieved by reviewing the existing and expected non-financial reporting regulations applying to financial institutions themselves and to their clients and counterparts, and highlighting potential gaps, overlaps and timing issues.
- vi. A6 - Current non-financial information reporting practices and formats: responsible for assessing management reporting practices and digitisation progress, as well as identifying hurdles for stakeholders, especially for small and medium-sized enterprises. The assessment relies on a combination of recently published research reports together with specific queries in appropriate databases made available by data providers.
- vii. A7 – Assessment, coordination and conclusion: responsible for identifying gaps and overlaps, coordinating the streams and promoting interaction.

- b. Phase II – Proposal, to start at the beginning of November and last until the end of December 2020. During this phase, possible scenarios will be designed, detailed recommendations elaborated, and formal outreach initiated. The detailed organisation of this phase is not yet finalised and will be based on the final assessment points highlighted in phase I.
- c. Phase III – Outreach and Conclusion, to take place in January 2021 to finalise the recommendations and integrate feedback from key stakeholders before the delivery of the final report by January 31.

Status report against the roadmap

- 8. All six technical streams were set up and operational a week after the kick-off meeting and a project management office was created.
- 9. Since then, four further plenary meetings took place:
 - a. On September 28, detailed work plans from each stream were shared and approved and the European Commission shared feedback on the results of the NFRD revision Public Consultation.
 - b. On October 12, status updates were shared by each stream.
 - c. On October 26 and November 2, the technical streams had the opportunity to present their high-level assessment points to the whole Task Force, allowing for constructive comments and input. Two draft versions of this Progress Report were shared and discussed.
- 10. The Task Force is now at a turning point, where all technical streams are finalising their detailed assessment work and the coordination stream is preparing the next phase, with a view to smoothly transition towards Phase II of the project – Proposal. An additional plenary meeting, scheduled on November 10, will discuss and decide on the organisation of Phase II and start its implementation.

Preliminary high-level assessment points

- 11. The following preliminary high-level assessment points derive from the work done by the six technical streams during the first seven weeks of the project. Some require further and deeper analysis in order to better substantiate informed and concrete propositions during Phase II. As a consequence, some of the points below might be amended as the assessment analysis concludes.

Clarifications regarding the following assessment points

- 12. The mandate to EFRAG refers to non-financial information. The Task Force understands that this refers to publicly available information and considers that information made available only to specific public authorities, such as regulators, does not fall within its remit except with regard to possible streamlining opportunities (for example environmental regulations) or to identify use-cases (for instance CRR). In addition, it is worth mentioning that certain Task Force members consider that the term “non-financial” does not reflect the objectives of the related information and that it would be of interest to consider a more positive terminology.

13. In the context of the work carried out by the Task Force, a data point should be understood as an elementary item of non-financial reporting which provides on a stand-alone basis a single, decision-useful piece of information. The clear identification of data points provides a basis for efficient standard-setting, for the orderly classification of information (via a taxonomy¹), and for efficient collection and storage of information as well as access (via tagging) to that information. Reporting on a topic may encompass one data point or a combination of data points. A data point can be a description, a statement, an indicator (KPI or metric), etc. A data point generally falls into one of the three following categories: qualitative (narrative), quantitative monetary (denominated in currencies), quantitative non-monetary (denominated in a defined unit of account). A data point can be retrospective (i.e. related to past events, flows, positions, etc.) or prospective / forward-looking (i.e. related to future events, flows, positions, targets, scenarios, etc.).
14. From a general standpoint, while concentrating on potential EU standard-setting activities (“Level 2”), the Task Force may put the emphasis on certain assessment points that are or could be of a legislative nature (“Level 1”). When this is the case the purpose is only to indicate the importance of those points and of the related policy and framework options as a foundation for the development of a robust set of standards.

A1. THE EU NON-FINANCIAL INFORMATION SYSTEM: MOMENTUM AND CHALLENGES TO ALIGNMENT AND STANDARDISATION

The establishment of a well-defined set of principles and relevant, reliable and comparable non-financial data aligned with EU policies is a prerequisite to the success of the current momentum in EU non-financial disclosure-related policies.

15. Together with the revision of the NFRD currently underway - which is critical and core to the effectiveness of the EU sustainability-related information system - the number and the innovative nature of identified and analysed EU requirements, both legislated and forthcoming, demonstrate significant momentum. These requirements have major direct and indirect implications in terms of non-financial information, both for preparers and for users along the non-financial data value chain.
16. This momentum is derived from the ambitious policy objectives adopted by the EU institutions in this area and appears to create a non-financial information ecosystem that is specific to the Union.
17. As a consequence, the EU non-financial disclosure ecosystem appears increasingly comprehensive but also complex, with potential inconsistencies emerging in terms of horizontal alignment (inconsistent requirements for a given data preparer) and vertical alignment (data outputs from data preparers not aligned with reporting obligations of data users).
18. There is a clear recent trend of establishing new sets of data points, which stems from the more recent EU disclosure initiatives (mainly Non-binding Guidelines, Taxonomy

¹ Not to be confused with the taxonomy of sustainable economy activities established under the Taxonomy Regulation.

- regulation, SFDR, Benchmarks). This trend signals that a simple set of data points cannot fit all needs and gives rise to new alignment and streamlining challenges.
19. Effective and efficient implementation of EU non-financial disclosure requirements is ultimately based on the relevance, comparability and reliability of the data both generated and used. The initial analysis indicates that there is room for more homogenous and clear definitions, principles and data preparation standards in support of a series of EU disclosure requirements. The current lack of systematic verification processes, in particular prior to publication, may also hinder data reliability.
 20. Clarifications via robust definitions, principles and standards can address and mitigate potential inconsistencies across disclosure requirements, such as:
 - a. Different treatment of materiality assessment across regulations: assessment by the data preparer coexists with mandatory disclosures based on an assessment predefined by the legislator.
 - b. New emerging disclosure areas addressed in different ways across regulations, including: substantial contribution to social and environmental objectives (Taxonomy, SFDR), goal-alignment (e.g. Taxonomy) and alignment with scenarios (e.g. Benchmarks), “do no significant harm” (DNSH) and adverse impacts (SFDR, Taxonomy); due diligence (NFRD, SFDR, Sustainable Corporate Governance initiative).
 - c. Some EU regulations adopt sector-specific (or asset-class specific) approaches, on top of generic requirements, to enhance the relevance of disclosures, while this is not the case for example in the current NFRD.
 - d. Proportionality considerations are embedded in some regulations (e.g. NFRD and consequently EU Taxonomy article 8, and SFDR) and absent from others, while trickle-down effects on SMEs are not systematically addressed.
 21. Robust Level 2 standards could address some of the identified gaps and potential vertical and horizontal misalignments and enhance data comparability, relevance and reliability. In any case, it appears that Level 2 measures will play a decisive role in successfully implementing the objectives and principles of ambitious EU disclosure requirements contained in Level 1 legislation.

A2. THE CONTRIBUTION OF EXISTING INITIATIVES

The number and diversity of existing initiatives means that further assessment steps are necessary to classify and assess initiatives and data points on the basis of robust criteria.

22. Apart from the EU initiatives, there is a large number of initiatives in relation to non-financial information standard-setting. Close to 100 relevant initiatives have been identified and are currently under detailed analysis.

Generic ² initiatives	16
Topical initiatives	27
Sector initiatives	28 of which 7 are multiple sectors, with one which has 77 sectors
SME initiatives ³	24
Total	95

23. Such a situation illustrates a significant, and constantly increasing, trend towards the development of new non-financial information references, suggestions, or recommendations. However, this trend encompasses a variety of approaches and focuses which, whilst providing different options for different company situations, also makes choices and implementation difficult and costly for reporting entities and hinders reliability and comparability.

1997-2009	10
2010-2015	12
2016-2020	19
Total	41

Generic and topical initiatives (41 with an identified date out of 43)

24. Most initiatives appear to be of a private nature (originating from service providers to think tanks, standard-setting organisations, coalitions of stakeholders or NGOs, professional associations...) and supported by specific communities of stakeholders expressing a commitment in terms of governance and/or financial support.
25. As a consequence of the private status of nearly all initiatives, reference to or adoption of recommendations by reporting entities is mostly voluntary. However, three elements nuance this observation. First, adoption by a significant number of preparers is encouraging other reporting entities to consider some initiatives as important references – SMEs for example have little choice but to elect for the references commonly used in the supply chain they are part of, or risk losing business opportunities. Second, initiatives have made extensive efforts to collaborate with governmental and/or stock exchanges initiatives to be referred to at legislative or regulatory level. Third, some other initiatives

² An initiative is considered generic when it aims to contribute to non-financial information as a whole, in opposition to focusing exclusively on certain topics or certain sectors.

³ The assessment as SME initiative is based on a self-declaration of the authors of the tools and does not guarantee its fitness for all SMEs.

- try to partner with other market participants in order to increase reference to or adoption of their recommendations by preparers.
26. Key factors to differentiate initiatives include their governance, approach to materiality, the type of recommendations (from general management principles to conceptual frameworks or standards per se) and their approach to sustainability. A preliminary study of generic initiatives has found that 69% specifically state that they apply a double materiality perspective and 25% a financial materiality perspective.
 27. Convergence and harmonisation efforts among some initiatives are taking place. These efforts include Memorandums of Understanding, Statements of Intent, Consultation processes and, from a technical standpoint, tables of translation from one initiative to another. They aim at promoting global approaches, the content, decision-making processes and timing of which are currently under consideration. Despite such efforts, the number of initiatives has continued to grow over the past years. A first analysis of convergence processes however highlights cross-references made by newer initiatives to a limited number of existing initiatives.
 28. More than 5000 KPIs or data points of a non-financial nature have been inventoried so far, of which more than 3000 are generic⁴, 700 relate to climate and environment (this is a gross amount of KPIs that does not take into account cross-referencing between indicators). They are currently under detailed assessment. The vast majority tends to concentrate on negative impacts rather than potential positive impacts. The notion of “positive impacts” remains vague and does not correspond to standardised language across different stakeholders and initiatives. In addition, some initiatives focus on intangible indicators (but mostly under sector or experimental approaches) in order to concentrate on what is not currently captured by financial information.

A3. CRITICAL CONCEPTUAL ORIENTATIONS

Major areas of conceptual differentiations have been identified which suggests the need for confirmation or clarification to provide a clear orientation for standard-setting.

29. There is a large spectrum of underlying concepts that guide the preparation of non-financial information. They may be implicit or explicit (i.e. presented in a published conceptual framework). As a consequence of this large spectrum, reporting practices may significantly differ, different user groups having different interpretations and focuses. Even if certain orientations have already been taken in the EU, there is a need for further guidance and policies based on explicit reporting principles and a standardised approach. The following conceptual points (inter alia) would benefit from further clarification to establish a clear playing field that would provide a comprehensive and widely endorsed basis for standard-setting.
30. Categorisation of topics and subtopics. Non-financial information can address a significant variety of topics, from environmental to people matters (including human rights), governance, or anti-corruption issues. Non-financial information does not have obvious borders and may evolve as new issues emerge and become more relevant over time. The manner in which topics are defined and organised is obviously relevant for how

⁴ See definition of a generic initiative – or KPI – under paragraph 22.

reporting entities structure and present information. Standards can also consider prescribing certain categories of information (e.g., policies, risks, targets, metrics) per topic, noting that there may be a different balance among various types of information for each topic. It is therefore critical to consider how this could be done and weigh the pros and cons of structuring and presenting topical information in a variety of ways, including subcategories of topics. The dynamic nature of issues, and how emerging topics can be incorporated as they become more relevant over time, are particularly important considerations. In addition, a clear and concise structure will also help to develop a data taxonomy for the necessary digitisation of sustainability information

31. **Materiality.** Materiality is to be understood as the approach for inclusion and prioritisation of specific information in corporate reports, considering the needs and expectations of the stakeholders of an organisation and of the organisation itself. Three main perspectives can be distinguished on this crucial topic: the first one (financial materiality) puts the emphasis on risks to the reporting entity's financial performance (outside-in, including the so called "rebound" effect); the second one (environmental and social (people) materiality) concentrates on the impacts on people, communities and the environment connected to a reporting entity's activities and business relationships (inside-out); the third one (double materiality) recommends to cover both in their own right, while recognising they overlap in part. The concept of double materiality is already reflected in the current NFRD (as clarified by the Non-binding Guidelines) and influences the preparation of non-financial information by a number of companies across the EU. The question then is how this concept of double materiality can be applied and operationalised in a manner consistent with the NFRD's objectives.
32. The approach to materiality usually derives from an understanding of the role of businesses in both the economy and society and how they should be accountable to stakeholders: from investors and lenders to a broader range of stakeholders (workforce, suppliers, customers, communities, public authorities and civil society, as well as investors and lenders). There are various definitions and concepts for materiality that may in themselves be technically clear and provide operational guidance aligned with the other underlying concepts, but they have not led to sufficiently relevant information being disclosed from a double materiality perspective. This is probably due to a lack of appropriate tools to meet the challenges of operational implementation of double materiality, including:
 - a. The application of social and environmental materiality currently often relies on certain stakeholders' views or interests, instead of an assessment related to the (actual or potential) impacts on people, communities and the environment.
 - b. Current guidance fails to adequately include the perspectives of affected and other relevant stakeholders in the assessment of impacts or in prioritisation for action and reporting.
 - c. Insufficient alignment between what companies are expected to prioritise for reporting and what they are expected to prioritise for action. (This will become especially relevant in the context of possible new legislation on mandatory human rights and environmental due diligence, at national and EU level).
 - d. Existing non-financial standards, frameworks and proposals have diverging approaches to prescribing material topics and information. Hence, what is

material can be defined by the standard-setter or the reporting entity or on the basis of a mix of both.

33. Scope of reporting. Many users consider that non-financial information should include information related to the whole value chain of the company, including supply chain operations (upstream) as well as products sold and services rendered down to their end-of life (downstream), far beyond the boundaries applied to financial information, which covers only the reporting entity's own operations (scope of financial consolidation). It is generally considered important to include the whole value chain when assessing how companies can create (and/or destroy) value through their activities, including through business relationships and when acting together with other stakeholders, while keeping sight of a need for proportionality across the value chain, in order not to impose unmanageable burden on smaller reporting entities (see below A6).
34. Time horizon. While financial information, as expressed by financial statements, is essentially retrospective, it is generally considered important to put the emphasis on the forward-looking dimension of non-financial information in addition to retrospective information on performance. Time horizons that are considered adequate to address the sustainability challenges ahead may vary considerably.
35. Sector-agnostic, sector-specific and entity-specific approaches. Non-financial information may be approached from a generic standpoint (allowing inter-sector comparisons) or from a sector-specific standpoint (putting the emphasis on a "best-in-class" comparison) or from a combination of both. In addition, the EU Taxonomy has brought the perspective of economic activity or asset specific information (allowing a more granular comparison of company performance). Standardised approaches may also leave flexibility to introduce elements of entity-specific information. Such an approach could increase relevance but reduce comparability and could take its point of departure in the business model, as built into the current NFRD. A standardised approach could also include elements such as governance oversight, and related policies and procedures, and strategy on topics covered by the NFRD and connections between those topics. Proper standard-setting implies clarification in this domain, balancing comparability and flexibility in order to accommodate the constraints and capabilities of entities of all sizes and sectors.
36. Types of information. For non-financial information, both qualitative and quantitative (both non-monetary and monetary) information are equally important, including where qualitative information provides essential context for the interpretation of numerical data or when numerical data illustrate or support qualitative information. The different types of non-financial information are not always clearly defined. The obvious differences with financial information (as reflected in Financial Statements), which is monetary by construction, are also not always clearly taken into account. On the basis of a prima facie comparison with financial information (which has reached a high level of maturity and recognition), there is a risk of focusing excessively on non-financial information expressed in monetary and quantitative terms and of perceiving non-financial information simply as an extension of financial information. There is therefore a need to better define the specificities of non-financial information within the confines of an integrated approach.
37. Principles (characteristics) of quality of information and reporting. The current quality of non-financial information and non-financial reporting does not meet users' extremely diverse needs and has been found to be insufficient when compared to the EU's clearly

stated objectives. The gap is generally considered to be significant. As regards the principles of quality of non-financial information (data points at the most granular level), there is a lack of precision on the expected attributes of the information, both for standard-setting and preparation purposes. It may be observed that while existing conceptual frameworks are converging on general attributes (faithful representation, relevance, comparability, reliability...) and that those attributes may not be fundamentally different from the ones associated with quality financial information, a clear definition of such attributes is necessary to align non-financial and financial information quality. There is also agreement on the need to further explore connectivity between non-financial and financial information (see below under A4) as a quality to be introduced in order to establish coherent and comprehensive corporate reporting. As regards the principles of quality of non-financial reporting (organisation and presentation of data points), there is also a lack of precision that creates difficulties for reporting entities to prepare understandable non-financial statements and for users to access meaningful information (see below under A6). Adopting principles of quality seems therefore to be a prerequisite to achieving the necessary level of quality for proper non-financial information and reporting, aligned with the adopted concepts and similar to the ones defined for financial information.

38. Linkage to Global Policy Priorities. Global policy priorities, including the 2030 Agenda for Sustainable Development (SDGs) and the Paris Agreement, and globally adopted objectives and standards, notably ILO Labour Standards, UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, reflect commonly accepted goals aiming at advancing sustainable development. Businesses are considered key in contributing to the achievement (or not) of these goals. A key consideration is how global priorities may be reflected in reporting standards for companies, also taking into account their dynamic nature. Any reference to global policy priorities and related standards or initiatives should consider the risk of reporting entities referring to those global policy priorities (such as SDGs, that may be considered communicating a certain legitimacy or credibility) without significantly aligning their strategy with these goals (including through their materiality assessment process). The articulation between global and EU policy objectives should also be considered.
39. General remark. From a preparer's perspective, to the extent that a conceptual framework for future standard-setting defines an ideal structure for non-financial reporting, it is considered important to allow preparers adequate time to transition towards meeting those expectations (see A6 below).

A4. THE CHALLENGES OF INTERCONNECTING FINANCIAL AND NON-FINANCIAL INFORMATION

The principle of interconnecting financial and non-financial information is widely shared but it remains technically and operationally challenging to create a seamless relationship between financial information, which has clear boundaries, and non-financial information, for which key concepts are still under development.

40. The idea of integrating the various dimensions of corporate reporting (reporting for investors and capital providers as well as for a broader range of stakeholders) is increasingly supported. In this regard, interconnecting financial and non-financial information appears to be a key feature for quality corporate reporting.
41. The major strength of financial information comes from the existence of a robust and generally accepted conceptual framework. In this context, the boundaries of financial information are well established, based upon the following key concepts:
 - a. financial information is designed to serve primarily the information needs of providers of financial capital as well as business owners and managers themselves, with a scope based on “financial materiality”;
 - b. the boundaries of the entity are defined on the basis of a relatively clear concept of control (scope of consolidation);
 - c. financial information is primarily monetary and retrospective with a strong emphasis on neutrality and availability of data which can be reliably determined;
 - d. liabilities are reported if there are probable cash outflows resulting from past events; low levels of probability do not generate financial liabilities;
 - e. to be recognised, assets have to be under the control of the reporting entity allowing it to benefit from the resulting future cash inflows; in this context the recognition of internally generated intangibles is limited;
 - f. applying the “double entry” accounting approach, every entry to an account (e.g. a component in the profit or loss) requires a corresponding and opposite entry to a counterpart account (e.g. a component of the statement of financial position) and this contributes to the arithmetical robustness of financial statements.
42. A substantial part of non-financial information as identified in various non-financial information frameworks covers the “information space” beyond the clearly defined boundaries of financial reporting. Major evolutions of these boundaries are not expected in the short or medium term, even though the non-financial information space is still developing as of today.
43. Although the principle of “connectivity” is widely accepted, there are insufficient guidelines to ensure adequate reporting of issues at the boundaries of financial and non-financial information (such as impairments or intangible assets), to avoid gaps or overlaps, and to organise synergies (continuity/coherence) both ways. This would include for example how to deal with the future financial implications of ESG impacts or with differences in the reporting boundaries.
44. Some priority issues for addressing the challenge of interconnection have been identified at this stage, including:

- a. monetary indicators or information deemed not relevant for financial information per se but relevant for non-financial information purposes;
 - b. monetary indicators with ESG attributes;
 - c. scenario analysis;
 - d. impact valuation;
 - e. risk quantification;
 - f. location of narrative information related to capitals other than economic capital.
45. These priorities demonstrate that, beyond the need for a technically operational approach to connectivity, there is a need to consider including connectivity as a general principle of quality.
46. The above-mentioned priorities will be further analysed in order to develop recommendations in the context of potential future non-financial reporting standard-setting.
47. In addition, the location of the information (separate report or embedded in mainstream report or management report) may also play a role, as well as the identification of “anchor points” to the financial statements, such as reconciliations with monetary data or consistency of management’s assumptions and scenarios. These potential methods for structuring or creating connectivity will be further analysed.

A5. THE SPECIFIC SITUATION OF FINANCIAL INSTITUTIONS

The dual role of financial institutions as preparers and users of non-financial information highlights the challenges of their reporting obligations, especially on their - main - indirect impacts, and calls for a significant effort on availability and quality of data.

48. To facilitate the transition towards a greener and more inclusive economy, the EU has decided to activate the sustainable finance lever. This policy decision has significant non-financial information implications for financial institutions (asset managers/owners, banks, insurance companies). In addition, institutions may also make management decisions and take public commitments with ESG dimensions that may have non-financial information implications. Beyond reporting on their own activities, like any reporting entity, these institutions find themselves confronted with specific challenges as regards non-financial information related to their investment and lending portfolios as well as, for insurance activities, the provision of insurance cover.
49. As of today, prudential regulations introducing non-financial reporting requirements are developed independently from other non-financial reporting provisions, leaving obvious links and synergies between the two largely unaddressed. Also, the implementation, timing and requirements of the various regulations are seen as an area for improvement.
50. Financial institutions are at the same time preparers and key users of non-financial information. On the one hand, they are requested to disclose the impacts generated by their own operations (direct impact), while on the other hand they are requested to disclose the impacts deriving from their products, services and interactions with clients

and third parties (indirect impact). This latter aspect of financial institutions non-financial reporting appears as the most critical of the two. It raises specific questions, for example about the appropriate level of reporting (entity level, product or service level, asset or counterpart level...) or the choice between static versus dynamic disclosure (stock vs inflows/outflows), and is not consistently addressed by existing or upcoming regulations, leaving considerable discretion to the reporting financial institutions.

51. At this stage, sustainable finance mainly focuses on investment activities and products, with an emphasis on climate-related matters, particularly on climate change mitigation and adaptation, in alignment with European public policies. In this area, multiple definitions, classification and calculation methodologies coexist for climate indicators. Clarification and harmonisation of such definitions and methodologies are missing or under development (SFDR RTS). Also, beyond climate, other environmental topics (including the four other environmental objectives defined in the Taxonomy Regulation), and social and governance topics, are less developed at the moment and need a broader integration.
52. In contrast, banking (lending, trading, clearing, ...) and insurance (personal and corporate protection provisions) seem to be less central to the execution of sustainable finance strategy, although they nevertheless entail significant sustainability risks and impacts. Consequently, non-financial reporting provisions for banking and insurance in existing and upcoming European non-financial regulations are relatively less advanced than is the case for investment activities.
53. One other challenge of the dual role of financial institutions lies in the fact that to be able to report on the indirect impact of their activities, financial institutions rely entirely upon the availability and quality of non-financial data they can obtain from investees. These investees might or might not be subject to similar non-financial reporting requirements, or any non-financial reporting requirement at all, such as micro and small entities for example. In addition, the existence of multiple frameworks and standards used by reporting companies does not foster comparison. Addressing this gap would appear to be a priority.
54. Another challenge relating to data availability relates specifically to forward-looking information and impact or performance measurement. In order to reorient capital flows towards Taxonomy compatible activities, aligned with their own as well as the larger European sustainable goals – both in terms of trajectory and timing of execution – financial institutions need to perform fundamental analysis of the performance of the economic activities performed in relation with the EU Taxonomy. This analysis can supplement longer-term risks and scenario analysis, by providing point in time assessment of an entity's alignment to the goal(s). Such analyses depend on the availability of non-financial information that is comparable in terms of format (if qualitative data is useful, quantitative data is also needed), time-horizon and content (transparency on methodology used to produce the reported data). As of today, reported forward-looking information is either largely narrative or, when quantitative, based on assumptions and methodologies that lack transparency. The same applies to impact and performance reporting, where information available is often more about the steps and actions taken to reach objectives than about progress against such objectives. Clear and consistent guidance around forward-looking and performance measurement information is a key success factor for financial institutions to play their role in the European sustainable finance strategy.

A6. INCONSISTENCY IN REPORTING PRACTICES, REQUIREMENTS AND SYSTEMS

The large and increasing number of reporting requirements and provisions, together with their heterogeneity (in scope, objective, implementation – voluntary or mandatory –, technology, ...), are a source of numerous inconsistencies in reporting practices, ultimately failing to address users' needs while being a burden for preparers of non-financial information, whose specificities and capacities (from large companies to SMEs) are not sufficiently considered.

55. Despite their increasing number, reporting provisions pursuing different objectives for different users fail to provide consistent guidance about what information to report (scope, breadth, depth), how and where. In this context of high complexity, companies are unsure whether they provide non-financial information that would be considered of good quality by users while at the same time being relevant to their main impacts, risks or policies. Users, on the other hand, struggle to locate and sometimes make sense of the reported data. This situation is further complicated by the lack of uniform requirements for monitoring of compliance and independent verification of the data.
56. Mirroring the fast-growing number and diversity of reporting provisions, non-financial disclosures have significantly increased in a somewhat unfocused manner. An increasing amount of non-financial data is disclosed in a variety of different places outside of the annual report or sustainability report via external links and complementary online content (investor briefs, press releases, newsletters, websites...). This makes it difficult for users to find decision-useful information and introduces uncertainty about whether or not the provided information is different between the different formats. The diversity of disclosure formats also makes it difficult for users to assess the relevance, comparability and reliability of the disclosed information.
57. The focus and momentum on environmental related matters both at policy level and in reporting frameworks is reflected in the efforts and focus put on reporting about climate or other environmental issues. In comparison, information given about other topics of interest to users seem to be less developed and elaborate.
58. Different reporting provisions put different emphasis on reporting of actual data compared to providing information on progress over time, on outcomes and on impact and/or on providing a forward-looking perspective. Existing provisions appear to focus rather on documentation and reporting per se instead of driving real action. As a consequence, reporting entities' efforts tend to be directed at describing policies rather than focusing on the impacts of such policies and highlighting the link between "risks, policies and impacts". Although reporting increasingly includes references to the Paris Agreement or Global Policy Priorities (see above under A3), the extent of reporting specific targets to measure progress is limited (e.g. failure to report on targets on climate change, and measurement of actions to manage human right risks). This may be explained by challenges in the quantification of some of the topics (especially social issues), the lack of standardised metrics and also the lack of maturity in the systems and processes which support the generation of this information.
59. Non-financial reporting provisions currently tend to focus on large and listed companies, meaning that some users' needs are not met. In that regard, the situation of SMEs that are part of the supply and value chain of companies subject to mandatory non-financial reporting is a challenging one. Existing reporting requirements have not been tailored to

consider their limited resources and capacities, making their contribution to the overall non-financial reporting objectives a source of problems both for them and for the multitude of stakeholders that wish to use their data and information. Specific consideration on how to include SMEs in the non-financial reporting landscape at a reasonable cost and effort for them appears to be missing. As such, upcoming new provisions for non-financial reporting for large and listed companies should not simply be scaled down for SMEs. Instead, a tailored approach towards SMEs is expected.

60. Beyond SMEs, preparers of all sizes are pointing at the difficulty to find the right balance between satisfying the needs of a broad universe of users (having very different perspectives, expectations and therefore needs) and their own reporting needs, while keeping reporting costs at a reasonable level. In addition, while asking for clarification about a non-financial reporting target structure, all preparers are also expressing the need for a proportionate approach to a staged implementation based on a proper cost / benefit analysis.

From a digitisation perspective, the non-financial reporting ecosystem is diversified in many ways, inflating costs, creating operational and compliance risks, and ultimately hampering access.

61. Regulators apply their own standards, data definitions (if any) and validation rules for similar non-financial data elements and metrics. In the EU currently there is no digital taxonomy of non-financial data allowing for efficient and consistent access to such non-financial data (with the exception of Spain, although even the Spanish taxonomy⁵ is little used in practice).
62. This lack of cohesion in standards and (digital) taxonomy⁶ results in higher entity and regulatory costs in terms of time and resources. It also weakens the auditability of information and increases risks due to increased subjectivity, differences in interpretations, misinformation, and inadvertent partial compliance or non-compliance. Also, the assembling, dismantling, and repackaging of data in the required format can cause compliance issues and unintentional information errors when filing.
63. Same inconsistencies and insufficiencies apply to access controls, validation rules and data format specifications. These differences and gaps increase the complexity and challenge the usefulness of a compliance ecosystem.
64. The flows and interfaces between input, throughput and output across various systems are not aligned and often require manual intervention to ensure that the output of one system is reprocessed in the necessary format to be validated for submission to the next system.
65. Modes of information submission differ for different forms and types of information.

⁵ Not to be confused with the taxonomy of sustainable economy activities established under the Taxonomy Regulation.

⁶ Same as above.

APPENDIX – GLOSSARY

Benchmarks	<p>EU Regulation 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks</p> <p>https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2089&from=EN</p>
CRR	<p>Capital Requirements Regulation</p> <p>https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0575&from=EN</p>
DNSH	<p>Do Not Significantly Harm, term used in the Taxonomy and in the SFDR</p>
EFRAG	<p>European Financial Reporting Advisory Group, private association established in 2001 with the encouragement of the European Commission to serve the public interest. Its Member Organisations are European stakeholders and National Organisations having knowledge and interest in the development of IFRS Standards and how they contribute to the efficiency of capital markets.</p> <p>https://www.efrag.org/About/Facts</p>
European Reporting Lab @EFRAG	<p>The European Lab was established by EFRAG, following the call by the European Commission in its March 2018 Action Plan on Financing Sustainable Growth. The European Lab serves the European public interest and its objective is to stimulate innovation in the field of corporate reporting in Europe.</p> <p>https://www.efrag.org/Activities/1807101446085163/European-Lab-facts</p>
IFRS	<p>International Financial Reporting Standards, accounting standards adopted (subject to endorsement) by the EU in 2002 with which all EU-listed companies producing consolidated financial statement must comply</p> <p>https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/amending-and-supplementary-acts/acts-adopted-basis-regulatory-procedure-scrutiny-rps_en</p>
ILO Labour Standards	<p>Since 1919, the International Labour Organization has maintained and developed a system of international labour standards aimed at promoting opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and dignity.</p> <p>https://www.ilo.org/global/standards/lang--en/index.htm</p>
KPI	<p>Key Performance Indicator</p>
NFRD	<p>Non-Financial Reporting Directive, Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014</p> <p>https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN</p>

Non-binding Guidelines	Refers to the guidelines on non-financial reporting published by the EU to accompany the implementation of the NFRD in 2017 (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=EN) and in 2019 for climate-related information (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=EN)
OECD Guidelines for Multinational Enterprises	The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. http://www.oecd.org/daf/inv/mne/48004323.pdf
Paris Agreement	The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C (versus pre-industrial levels). It was agreed at the Paris climate conference (COP21) in December 2015 and is currently ratified by close to 190 parties, including the EU and its Member States.
PTF-NFRS	Project Task Force on preparatory work for the elaboration of possible non-financial reporting standards
SDGs and Agenda 2030	SDGs refers to the 17 Sustainable Development Goals that were adopted at the United Nations Sustainable Development Summit on 25 September 2015 within the 2030 Agenda for Sustainable Development. https://sdgs.un.org/goals
SFDR	Sustainable Finance Disclosure Regulation: EU Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN
SFDR RTS	The Regulatory Technical Standards on ESG disclosures under development under the EU Regulation on sustainability-related disclosures in the financial services sector Regulation (SFDR).
SMEs	Small and Medium Enterprises
Sustainable Corporate Governance Initiative	This Sustainable Corporate Governance initiative - currently under public consultation - aims to improve the EU regulatory framework on company law and corporate governance. https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance
UN Guiding Principles on Business and Human Rights	The Guiding Principles seek to provide an authoritative global standard for preventing and addressing the risk of adverse human rights impacts linked to business activity. https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

Taxonomy Regulation	EU Regulation 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN
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