



## SUSTAINABLE FINANCE: ACHIEVING HIGH QUALITY & CONSISTENT REPORTING

Today's economy needs to undergo an urgent and radical transformation to achieve climate-neutrality and sustainability. To realise such a shift, we need high-quality data on environmental, social and governance (ESG) matters, as this data is the basis for sustainable decision-making. Companies are increasingly reporting on ESG matters. However, the relevance, quality and comparability of the reported information needs to improve in order to meet stakeholder expectations<sup>1</sup>. Better non-financial information will improve the assessment of ESG risks and opportunities and will eventually lead to sustainable investments.



As a first step in this direction, Accountancy Europe recommends five steps to revise the Non-Financial Reporting Directive (NFRD) and strengthen non-financial reporting requirements.

### NON-FINANCIAL REPORTING: WHAT THE EUROPEAN COMMISSION CAN DO

In this context, we suggest to:

- **Expand the scope beyond large publicly listed entities (PIEs)**

Such entities represent only a minor part of the European economy. Expanding the NFRD's scope should capture all those companies that significantly impact the environment due to their sector's environmental and social profile. Stakeholders are interested in non-financial information to better understand a company's performance, its future developments and impact on society. Reporting on non-financial matters makes businesses better assess, measure and manage their risks and performance on specific ESG-metrics. That could lead to lower funding costs, fewer and less significant business disruptions, stronger consumer loyalty and better relations with stakeholders.

- **Indicate a minimum set of mandatory reporting criteria**

The NFRD should specify indicators and disclosures for the most imperative matters to improve the comparability and consistency of the disclosed information. This reporting criteria should be developed and introduced by sector to ensure relevance and to avoid boilerplate disclosures. Comparable, consistent information is important for stakeholders to: 1) analyse a company's performance and its value creation within society 2) compare corporate information with other businesses in the same sector. Comparable information will also assist investors in their ESG-driven investment decisions.

- **Require companies to disclose their non-financial information in the annual management report**

Currently there is a reporting gap: including non-financial information in the annual management report will ensure integration between non-financial and financial disclosures. It will also allow users to have direct access to non-financial information. Such non-financial disclosures need to pertain to matters that are material to the company and its value creation. To ensure that the non-financial disclosures reflect the company's reality, the board and the management should take responsibility; they must act to prevent and mitigate the company's environmental and social cost.

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<sup>1</sup> Alliance for Corporate Transparency study <https://www.allianceforcorporatetransparency.org/>

- **Introduce minimum reporting criteria for forward-looking disclosures**

Providing information on scenario analysis and clear targets is especially important to shift to a climate-neutral and sustainable economy. Even though this is now in its infancy, the latest trends indicate that this will become a regular reporting practice. This would strengthen insights into potential future ESG-related risks and opportunities that companies might face. Much more than past performance, disclosures relating to strategy, objectives and targets provide important insights when assessing the company's future development, resilience and the long-term goals.

- **Ensure the reliability of reported information**

Stakeholders, including investors, voice the need for independent assurance on non-financial information. Non-financial reporting practice is still evolving, and it is important, at a minimum, to ensure that such information is verifiable, as in it could be subject to assurance now or in the future.

## **NON-FINANCIAL REPORTING: WHAT ACCOUNTANTS CAN DO**

The accountancy profession supports the move towards a sustainable economy because they can:

1. **Support the implementation of measuring and monitoring processes**

Accountants can support companies in establishing robust indicators and processes for measuring and reporting their ESG performance. This includes improving internal control processes and evaluating their quality.

2. **Assist companies in providing better corporate information**

Accountants can help improve how a company communicates with its stakeholders, building on legislative requirements and best practices. To inform investors for their capital allocation decisions, reporting should disclose relevant financial and non-financial information. Accountancy Europe has explored [the future of corporate reporting](#) and promotes presenting corporate information via a [Core & More approach](#). This involves focusing on what really matters and linking financial and non-financial information in corporate reports.

3. **Provide independent assurance**

Independent assurance is a key instrument to ensure if information is trustworthy for the market to function efficiently. It can enhance the quality and reliability of non-financial information that companies report. Accountants have the skills to audit information and processes independently. Accountants identify issues and report on the company's material weaknesses which lead to improved processes.

## **NEXT STEPS**

Accountancy Europe is contributing to more transparent and credible disclosures in the process towards a sustainable economy. Our views here will become the basis for further discussion with stakeholders. We are inviting the Commission to consider our suggestions and continue the dialogue with the accountancy profession.



Please contact [vita@accountancyeurope.eu](mailto:vita@accountancyeurope.eu) to discuss this further with us.

## **ABOUT ACCOUNTANCY EUROPE**

Accountancy Europe unites 51 professional organisations from 36 countries that represent **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).