

Accountancy Europe  
M. Florin Toma, AcE President  
M. Olivier Boutellis-Taft, AcE Chief Executive  
Avenue d'Auderghem 22-28/8  
B-1040 Brussels

Paris, April 10th 2020

Ref: JBO.MCP.CBA.20200089

**Re: AcE Cogito Paper « Interconnected standard setting for Corporate Reporting ».**

Dear Florin and Olivier,

1. The CNCC (Compagnie Nationale des Commissaires aux Comptes) and the CSOEC (Conseil Supérieur de l'Ordre des Experts-Comptables) are pleased to provide their views and input on the AcE Cogito Paper « Interconnected standard setting for Corporate Reporting ». The CNCC and the CSOEC believe that currently information provided by listed companies in Europe does not enable the users to get a holistic view of a company's performance, risks and opportunities. Non-financial information (NFI) is crucial for companies, investors and other stakeholders to achieve a better understanding of the business model, the strategy, the economic position, the main risks, the social and environmental responsibilities and the performance of a company, and how it creates value in the long term. It is important that the European accountancy profession participates in the discussions to stimulate the debate on the future of non-financial information reporting. Therefore, we would like to share with you what is relevant for the French accountancy profession as a sound approach to interconnected standard setting for corporate reporting.
2. First, we wish to point out some results of the Alliance for Corporate Transparency analysis of companies' reporting, whose main objectives were to analyse how European companies have implemented the requirements of the Non-Financial Reporting Directive (NFRD) and to recommend how the EU framework for non-financial reporting can be improved.
3. The results highlight the level of quality of the NFI disclosure, as being less than the high-quality disclosure expected. For example, the NFI disclosure is not clear enough in terms of concrete issues, targets and principal risks. The general information that most companies provide does not allow readers to understand their impacts and by extension their development performance and position, as required by the NFR Directive. There is also a need to connect NFI reporting to financial reporting effectively. Indicators definitions used for social and environmental issues are not standardised. As regards the commitment to respect human rights, generally most companies do not provide any information to understand their human rights due diligence system, and how this commitment is put into practice. As NFI reporting is not regulated, the presentation and designation, as well as structure and content of information, vary significantly across companies and

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consequently NFI are difficult to compare. Moreover, the various audit/assurance practices on NFI across Member States do not ensure for users the reliability of the NFI disclosures across the EU.

4. Secondly, we have noted that hundreds of initiatives including NFI reporting frameworks, standards and guidelines, as well as legislative regulations have been developed such as for example the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, the <IR> Framework, the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the legal requirements of the NFRD but that none of those initiatives or organisations have taken the lead at international level to make significant advances in addressing NFI reporting comprehensively.
5. Following an increasing demand for reliable and relevant NFI (including KPIs) from investors and other stakeholders that would enable them to direct capital to sustainable and green companies, and noting that some of them are already calling on some frameworks to be used by the entities in which they report, we are convinced that there is a need for clear non-financial reporting standards for companies to apply.
6. In this regard, we note that there is more than 10 years of experience in the European Union (including on a voluntary basis) of providing and analysing NFI that led the market to a certain degree of maturity. We consider that presently it is time to take an holistic view of the requirements of the different NFI reporting frameworks, standards and guidelines (GRI, SASB, MSCI, other non-financial rating agencies criteria, etc...) to define what could be the main non-financial information and KPIs that an entity should report on. This information could be across companies (like on CO2 emissions and some social matters) as well as sector-specific on some other issues. Having a core set of common as well as sector-specific metrics precisely defined would enable comparability of NFI.
7. We also note that some SMEs, who may not necessarily be listed, may also be faced with increased requests by their capital providers or clients to provide the relevant NFI for their activities. It would be helpful for those SMEs if they have a clear reference available for the information they should provide, rather than having to figure out themselves within a plethora of frameworks what is the information they should report on.
8. As previously mentioned in our response to the FEE Paper on the future of Corporate Reporting in 2016, we think that standard setting should be performed at an international level because it is important that the NFI reporting requirements be the same for all entities operating globally and that it is crucial to maintain a global level-playing field for listed companies. But we are also of the opinion that it will take much time to set up global non-financial reporting standards and that it should remain the ultimate objective of standard setting in the long term. In the meantime, assuming that there is sufficient political will and support from key stakeholders concerned, we support the European Union taking action and being an experimental area that would contribute to global standard-setting ultimately.
9. In addition, we think that there should be an interconnection between financial and non-financial information. For example, Executive Vice-President of the European Commission, Valdis Dombrovskis<sup>1</sup>, invites EFRAG and IASB “to consider the broader impact of climate change on accounting standards – including, for example, the financial impact of stranded assets”. In fact some climate change impacts could be in the financial statements and others in NFI reporting outside the financial statements but both information needs to be interconnected. In the same way, as far as intangible assets are concerned, there is the same need to have a global vision of what is in the financial statements or outside for example in the management report.

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<sup>1</sup> Speech by Executive Vice-President Valdis Dombrovskis at the IFRS Foundation conference “Financial reporting: remaining relevant in a changing environment”.

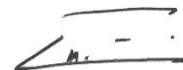
10. In January 2020, Executive Vice-President of the EC Valdis Dombrovskis declared at the Conference on implementing the European Green Deal – Financing the transition, that the European Commission will support a process to develop European non-financial reporting standards and that he will invite the EFRAG to start preparatory work on non-financial reporting standards as quickly as possible. We could imagine that the starting point for the EU could be the various existing frameworks and that the EC could also use expert assistance from those organisations. EU is well placed to take a leadership role, as no actor has made genuine progress on the objective of trying to integrate the best of the many existing frameworks.
11. As indicated above, although we support global standard setting for NFI as the ultimate objective, we are in favour of a progressive approach and we think that a European solution could be a first step towards this global objective. EU needs an urgent response in the short/medium term to address the urgent environmental issues companies face currently, such as climate change, as well as to assess how companies make efforts to move towards a sustainable economy and to create positive impacts on society and the environment.
12. We do not think that a European regional approach will take as long a time to set up as advocated in the Cogito Paper, if there is a European political will from key stakeholders to put priority on NFI reporting and progress quickly.
13. For instance, the European NFI reporting structure could be set based on the model of EFRAG, with a Board and a technical expert group, respectively in charge of key strategic decisions and governance for the first one and of development of NFI standards for the latter. A robust governance and a transparent and inclusive due process would also be critical elements of any future developments. To ensure the buy-in of relevant stakeholders of any outcome of a European NFI reporting structure, it would be important to identify key stakeholders who should be involved in the structure.
14. Finally, we are also convinced that NFI provided by companies need to be reliable and that investors and other stakeholders need assurance on this information, to make informed judgements about companies. In order to be able to provide assurance, it is important to have a reporting framework of quality, against which compliance can be assessed. The European NFI reporting structure in charge of developing NFI standards and more detailed requirements should elaborate standards beyond just general principles, such as defining the scope and reporting procedures for NFI reporting within groups, identifying non-financial key performance indicators and a core set of common metrics and other non-financial information that could be relevant for all companies to disclose.

We would be pleased to discuss with you any aspect of this letter you may wish to raise with us.

Yours sincerely,



Jean BOUQUOT  
President of the CNCC



Charles-René TANDÉ  
President of the CSOEC