



Federation of European Accountants  
Fédération des Experts comptables Européens

# Factsheet

*Standing for trust and integrity*



June 2014

## EU Directive on disclosure of non-financial and diversity information by certain large undertakings and groups

The European Parliament (EP) adopted on 15 April 2014 the Directive on disclosure of non-financial and diversity information by certain large undertakings and groups which will amend the existing accounting legislation to increase the relevance, consistency and comparability of information disclosed. The Directive will enter into force once adopted by the Council and published in the Official Journal of the European Union (expected after summer 2014). The indicative expected transposition date for EU Member States is autumn 2016, meaning that companies might be required to publish their first reports for the year 2017. It is expected that new requirements will warrant greater effectiveness of disclosure of non-financial information as well as harmonise and streamline current reporting practices, while, retaining a degree of flexibility.

### Background

---

On 16 April 2013 the European Commission (EC) adopted a proposal for a Directive amending the Accounting Directives<sup>1</sup> regarding disclosure of non-financial and diversity information. The objective was to improve companies' transparency and performance on environmental and social matters in order to ensure a level playing field across the EU and to promote a sufficient degree of diversity in the boards of companies. This proposal was a step in a series of initiatives highlighting the need to improve quality and transparency of non-financial information<sup>2</sup>.

This Factsheet updates the previous FEE Factsheet issued in July 2013 following the EC publication of its legislative proposal on non-financial information. The purpose of this Factsheet is to outline key aspects of the new legislation.

### Highlights of the New Legislation

---

#### New non-financial and diversity disclosure requirements

##### Further transparency

The new legislation introduces additional non-financial disclosure requirements for large public interest entities (as explained below in the section dealing with the scope of the new disclosure requirements) to include a **non-financial statement** in their **management report** containing information on:

- Environmental matters,
- Social and employee-related aspects,
- Respect for human rights,
- Anti-corruption and bribery issues.

---

<sup>1</sup> Fourth and Seventh Accounting Directives on Annual and Consolidated Accounts, 78/660/EEC and 83/349/EEC, respectively. These two Directives had been revised to become the Accounting Directive of 26 June 2013 which was published in the Official Journal of the European Union on 29 June 2013.

<sup>2</sup> In April 2011, the EC Communication "Single Market Act - Twelve levers to boost growth and strengthen confidence" noted that "new business models are being used, in which [...] societal concerns are taking precedence over the exclusive objective of financial profit" and announced that the EC will present a legislative proposal on the transparency of the social and environmental information;

In October 2011, the EC issued a communication "A renewed EU strategy 2011-14 for Corporate Social Responsibility" reiterating and confirming its commitment to improving company disclosure of social and environmental information;

On 6 February 2013, the European Parliament adopted two resolutions on respectively "Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth" and "Corporate Social Responsibility: promoting society's interests and a route to sustainable and inclusive recovery".

- The Statement should include:
  - (a) a brief description of the undertaking's **business model**,
  - (b) a description of **policies**, including **due diligence processes** implemented,
  - (c) **outcomes** of these policies,
  - (d) the **risks** relating to those areas and how the company manages those risks and
  - (e) non-financial **key performance indicators** relevant to the particular business.
- For making these disclosures, undertakings may rely on national, EU-based or international frameworks, such as the UN Global Compact, the Guiding Principles on Business and Human Rights implementing the UN "Protect, Respect and Remedy" Framework, the OECD Guidelines for Multinational Enterprises, ISO 26000, the ILO Tripartite Declaration of principles concerning multinational enterprises and social policy, the Global Reporting Initiative, or other recognised international frameworks. Undertakings will need to specify which framework was used for such reporting.
- The Directive adopts a "report or explain" approach - an undertaking that does not pursue policies in one or more of these areas is required to explain why this is the case.

### Diversity policy

- The legislation will require large listed undertakings to disclose their diversity policies in relation to the administrative, management and supervisory bodies, including information on the age, gender and educational and professional backgrounds of their members.
- This diversity related information should be included in the **corporate governance statement** and will have to contain the objectives of such a policy, its implementation and the results obtained.
- If no such policy is applied, the corporate governance statement should contain an explanation as to why this is the case.
- The statutory auditor or audit firm shall check that the required information has been provided ("existence check").

### Scope of the new disclosure requirements

#### Non-financial disclosure

- The requirements related to transparency apply only to large undertakings which are public interest entities with more than 500 employees<sup>3</sup>. This includes listed companies as well as some unlisted companies, such as banks, insurance companies, and other companies that are so designated by Member States because of their activities, size or number of employees.
- On this basis, it is estimated that approximately 6.000 public interest entities in the EU will be affected by these new requirements.
- Undertakings may be exempted from the obligation to prepare a non-financial statement when a separate report corresponding to the same financial year and covering the same content is provided.
- An undertaking which is a subsidiary undertaking is exempted from the obligation to include a non-financial statement if the undertaking and its subsidiary undertakings are included in the consolidated management report or the separate report of another undertaking.
- Statutory auditors and audit firms should only check that the non-financial statement or the separate report has been provided ("existence check"). In the absence of such reporting, they would have to check that an explanation is provided.
- Member States may require that the information included in the non-financial statement or in the separate report is verified by an independent assurance services provider.

---

<sup>3</sup> For the purposes of non-financial disclosure, the EC has increased the reporting threshold of listed and/or large companies to 500 employees (250 in the new Accounting Directive).



## Next steps

---

**Entry into force:** This Directive shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

**Guidance:** The EC will develop guidelines to facilitate disclosure of non-financial information by companies. The guidelines are expected to be published no later than 24 months after the entry into force of this Directive.

**Review:** The EC will submit a report to the EP and the Council on the implementation of this Directive, including, among other aspects, its scope, its effectiveness and the level of guidance and methods provided. The report will be published at the latest four years after the entry into force of this Directive, and shall be accompanied, if appropriate, by legislative proposals.

**Transposition:** Member States shall implement the laws, regulations and administrative provisions necessary to comply with this Directive by [...]two years after the entry into force of this Directive].

## Further information

---

Further related information is accessible via this link:

[http://ec.europa.eu/internal\\_market/accounting/non-financial\\_reporting/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm)

FEE Factsheet 2013:

[http://www.fee.be/images/Fact\\_Sheet\\_EC\\_Legislative\\_Proposal\\_on\\_disclosure\\_of\\_non-financial\\_and\\_diversity\\_information.pdf](http://www.fee.be/images/Fact_Sheet_EC_Legislative_Proposal_on_disclosure_of_non-financial_and_diversity_information.pdf)

FEE Factsheet on The New June 2013 Accounting Directive:

[http://www.fee.be/index.php?option=com\\_content&view=article&id=1379&Itemid=106&lang=en](http://www.fee.be/index.php?option=com_content&view=article&id=1379&Itemid=106&lang=en)

## About FEE

**FEE (Fédération des Experts-comptables Européens – Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 47 institutes of professional accountants and auditors from 36 European countries, including all of the 28 EU Member States.**

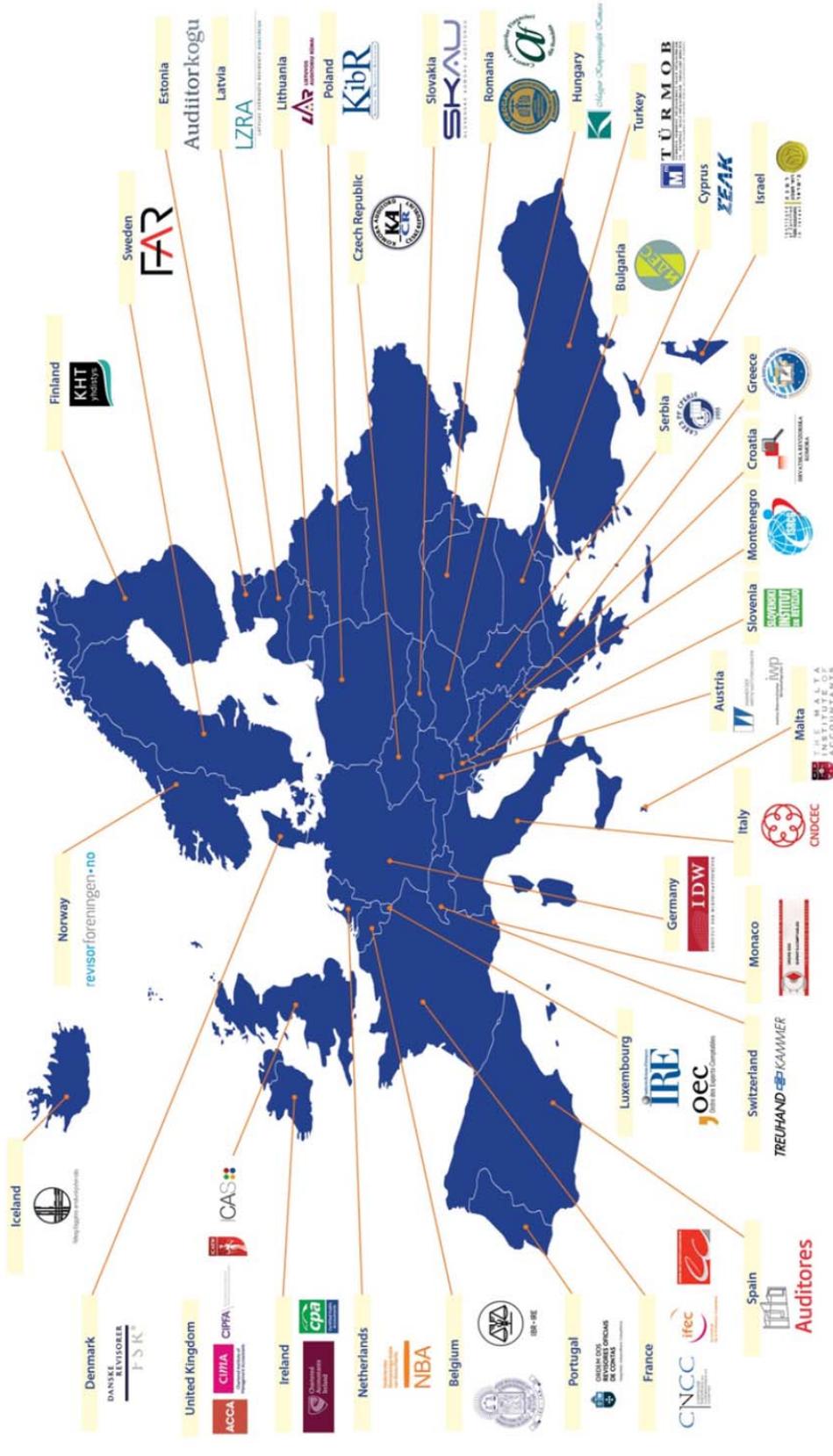
FEE has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education, who all contribute to a more efficient, transparent and sustainable European economy.



Federation European of Accountants  
Fédération des Experts Comptables Européens

*Standing for trust and integrity*

## FEE and its Members



FEE is a Regional Organisation of IFAC, the International Federation of Accountants