Ensuring the relevance and reliability of non-financial corporate information:

an ambition and a competitive advantage for a sustainable Europe

May 2019

Report submitted to the Minister for the Economy and Finance

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For her organisational support, the author and the rapporteur would like to thank Sylvie Mailhos
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Abbreviations

ACCA	Association of Chartered Certified Accountants
ACT	Assessing Low-Carbon Transition
ADEME	Environment and Energy Management Agency (*Agence de l'Environnement et de la Maîtrise de l'Energie*)
AFEP	French Association of Private Companies (*Association française des entreprises privées*)
AFNOR	French Standardisation Agency (*Association française de normalisation*)
AICPA	Association of International Certified Professional Accountants
AMF	*Autorité des Marchés Financiers* (Financial Markets Authority)
CDP	Carbon Disclosure Project
CDSB	Carbon Disclosure Standards Board
CERES	Coalition for Environmental Responsible Economies
CRD	Corporate Reporting Dialogue
CSR Europe	Corporate Social Responsibility Europe
DPEF	Extra-Financial Performance Declaration (*Déclaration de performance extra-financière*)
EFFAS	European Federation of Financial Analysts Societies
EFRAG	European Financial Reporting Advisory Group
EMAS	Eco-Management and Audit Scheme
EpE	Companies for the Environment (*Entreprises pour l'Environnement*)
ESG	Environmental Social & Corporate Governance
ESMA	European Securities and Markets Authority
FTE	Full-time equivalent
Eurosif	European association for the promotion and advancement of sustainable and responsible investment
FASB	Financial Accounting Standards Board
FSB	Financial Stability Board
GHG	Greenhouse gases
GRI	Global Reporting Initiative
HLEG	High-Level Expert Group on Sustainable Finance
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
ILO	International Labor Organization
IPIECA	International Petroleum Industry Environmental Conservation Association
IOSCO	International Organization of Securities Commissions
ISO	International Organization for Standardization
LCA	Life-Cycle Assessment
LTECV	Energy Transition and Green Growth Act (*Loi de transition énergétique pour la croissance verte*)
Medef	*Mouvement des Entreprises de France* (France's employer federation)
NFRD	Non-Financial Reporting Directive
NGO	Non-Governmental Organisation
NRE	New Economic Regulations Act (*Nouvelles regulations economiques*)
OECD	Organisation for Economic Co-operation and Development

OTI	Independent third-party body (*Organisme tiers indépendant*)
PCG	General Chart of accounts *(Plan comptable général)*
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SEC	Securities and Exchange Commission
SER	Social and Environmental Responsibility
SRI	Socially Responsible Investing
TCFD	Task-Force on Climate-Related Financial Disclosures
TEG	Technical Expert Group
UN	United Nations
UNDP	United Nations Development Programme
UNEPFI	United Nations Environment Programme – Finance Initiative
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum
WICI	World Intellectual Capital Initiative
WWF	World Wildlife Fund
XBRL	eXtensible Business Reporting Language

Throughout this report, the term "non-financial" is used in reference to Directive 2013/34/EC of the European Parliament and of the Council. Otherwise, the term "extra-financial" is used.

Engagement letter

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RÉPUBLIQUE FRANÇAISE

LE MINISTRE

Paris, 15 January 2019

Dear Mr President,

For the financial sector to take stock of global warming-related challenges, the information available on the environmental impact of economic activities must be improved so that investment and financing flows can be redirected.

Driven by this firm conviction, France tabled a proposal in 2015 that the Financial Stability Board (FSB) should work on the issue of transparency on climate-related risks. The FSB brought representatives of the private sector together to form the Task Force on Climate-related Financial Disclosures (TCFD). In July 2017, the TCFD published its recommendations, which make an initial contribution to establishing a framework for financial sector entities to take climate risks into consideration. This framework was inspired by the French framework for institutional investors and asset managers.

In addition to the TCFD, many other non-profit or private-sector organisations propose extra-financial reporting standards internationally. Discussions amongst these organisations are taking shape within the Corporate Reporting Dialogue, but have not yet led to tangible results. However, it is urgent to move towards greater coherence and comparability between these transparency standards.

The development of extra-financial transparency requirements has led to thinking about how companies can integrate extra-financial performance aspects into their communication with investors and, more broadly, with their stakeholders. This has occurred not only in France, where the New Economic Regulations Act established a framework in 2001, but also more recently within the European Union, where a framework became mandatory for large companies and certain groups under Directive 2014/95/EU as regards disclosure of non-financial and diversity information. This framework will be supplemented with the regulation on disclosures relating to sustainable investments and sustainability risks, which is currently under consideration at European level.

.../...

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The Ministerial Private Office Support Unit of the economy and finance ministries automatically processed personal information when handling the correspondence which preceded this letter. Pursuant to Articles 34 to 36 of the French Data Protection Act no. 78-17 of 6 January 1978, all interested parties are entitled to access and correct their personal information. To do so, send a letter to Ministère de de l'Economie et des Finances - Bureau des Cabinets - Secteur MVQ - Télédoc 181 - 139 rue de Bercy 75572 Paris - Cedex 12.

In this context, I wish to entrust you with the task of developing extra-financial reporting standards for companies at international and European levels. It is my wish that extra-financial information should eventually attain a status comparable to that of financial information. To achieve this, it is necessary to define the conditions for producing quality information that allows for comparability of the most relevant data and provides useful support for decision-making not only by investors, but also – first and foremost – by companies themselves so that they can effectively steer the energy transition in their business.

For this purpose, you will prepare an overview of the various existing frameworks and initiatives. You will then assess their relevance from the standpoints of: the quality and reliability of the extra-financial information produced by these frameworks from the users' perspective; the cost of implementing these systems from the perspective of preparers and companies; the capacity for checking information, as well as the robustness of these frameworks' governance and of the conditions in which they were developed. You will examine how this information is presented and how it is related to a company's financial data.

Starting from this foundation, you will provide guidelines for a G20 initiative to promote a harmonised extra-financial reporting framework. You will give your opinion on whether it is opportune to adopt a unified international framework, or instead preferable to harmonise existing frameworks. You will give details on the development structure for this framework, which must respect the diversity of economic and social models and comply with the requisite subsidiarity in the definition of the general interest by the various participating jurisdictions.

At European level, the Commission has made useful proposals in its Action Plan on Sustainable Finance. These proposals must still be specified and made operational. You will make proposals to further these initiatives during the next legislature, notably with a view towards improving the presentation of extra-financial information by taking account of the stakes of the growing digitalisation of content.

While doing this work, you will confer, at French, European and international levels, with the various stakeholders that produce, use or set standards for extra-financial information.

To carry out this task, you can rely on the resources of the Directorate General of the Treasury. I would ask that you submit an intermediary report in March 2019, followed by your final conclusions by 30 April 2019.

Yours sincerely,

Bruno Le Maire

Summary and proposals

Summary

State-of-play

There is currently real momentum surrounding corporate extra-financial information but this expresses itself as part of a proliferation of initiatives which lack both coordination and consistency.

This momentum is well established and is grounded in the combination of an expectation and the presence of three factors: a community of committed stakeholders, frameworks of standards representing promising progress and changing practices in companies and on the part of investors.

The stakeholders' ground-breaking commitments have given way to more global and bolder initiatives which are nevertheless essentially private approaches:

- ✓ *All the stakeholders agree as to the limits of financial information. Whilst it provides a crucial foundation, it is now viewed as being unable to reflect - by itself - the complicated nature of companies and their contribution to value creation.*
- ✓ *A wealth of academic research has laid the groundwork and offers up theoretical options and experimental solutions that inform the progress of extra-financial information.*
- ✓ *There are a plethora of private standard setting initiatives and some of them are turning their leader organisations into global "standard-setters".*
- ✓ *A number of European public authorities have rolled out ambitious initiatives and the European Union has shown a real desire to move things forward although it has not yet ventured into the sphere of detailed standard setting. The situation is more nuanced elsewhere in the world.*
- ✓ *Through an exemplary approach, some companies and certain non-governmental organisations have introduced particularly proactive strategies.*

Numerous frameworks have emerged and they provide possible solutions to structure the content of extra-financial information although standards have not yet converged:

- ✓ *General frameworks represent substantial progress in terms of content but could still be improved.*
- ✓ *Sector or industry standards do have practical advantages but may be somewhat simplistic, especially if they are slated to replace general frameworks.*
- ✓ *Climate-related theme-based frameworks have progressed significantly meaning that convergence can be considered.*

- ✓ *Other theme-based frameworks covering environmental issues (other than those focusing on the climate, social affairs and governance matters) are less mature and are still overly-general in nature.*

- ✓ *Frameworks covering intangibles seem to have stalled. General frameworks focus more on risks than opportunities or positive contributions. Collective thinking on companies' means of value creation, which is central to understanding the business world, has difficulty expressing itself in the shape of relevant extra-financial information.*

- ✓ *Many stakeholders are advocating a convergence and stabilisation of standards.*

Extra-financial reporting is a rapidly growing trend, but this progress is coming up against major operational issues:

- ✓ *Although it would appear that the general quality standards used for the various frameworks could possibly converge, reporting structures are both complicated and fragmented. The clarity of extra-financial information suffers as a result.*

- ✓ *Due to a lack of public standardisation, the numerous options on offer generate excessive flexibility, which hampers comparisons.*

- ✓ *In spite of the barriers, issuers are giving real momentum to extra-financial reporting. This phenomenon is heightened by the marshalling of investors who are themselves looking to meet the expectations of their principals and who are faced with issues concerning the quality and relevance of extra-financial data.*

- ✓ *External control of extra-financial information has not been mainstreamed but methodological resources can be developed in the short-term. To date, extra-financial data has not provided a strong level of assurance.*

- ✓ *Downstream oversight has not yet been used to the full extent of its usual capabilities as regards supporting and verifying practices.*

- ✓ *Rating agencies are striving to provide appropriate resources but are being held back by operational issues, the lack of reliable enough basic data and strategic challenges.*

Whilst the momentum we are witnessing is very real, it is still delicate as extra-financial data remains broadly incomplete and cannot be easily compared as it comes up short in terms of quality.

Extra-financial information is beset by a lack of overall consistency, quality and legitimacy. This situation calls for action as, if a decisive step forward is not taken, the momentum could prove to be short-lived.

<u>The way-forward and proposals</u>

Making real progress based on the momentum already underway means that four aspects must be formulated: the goal, the methodology, the targeted system (in four pillars) and the operational organisation.

The suggested goal is simple to state, but sets an objective that is commensurate with the challenge: "to provide all corporate stakeholders with high-quality extra-financial information to assess their contribution to sustainable economic, financial and social development".

In terms of methodology, we can and should learn from accounting standards while factoring in any specificities and complexities that are inherent to a new and different field. Five actions are possible:

- ✓ *Act at all relevant levels. The various levels (global, European Union, national) can be used as part of a "gradual convergence" scenario. For each level, convergences can be organised based on points of agreement. Even if the EU level appears to be relevant for the development of extra-financial information to meet the suggested goal, the global and national levels are sources of major developments.*

- ✓ *Establish a realistic action plan to integrate initial achievements and create added value by carrying out successive syntheses based on a strict "critical path". The idea is to use syntheses to combine the best available elements with a catalytic reaction that introduces new elements.*

- ✓ *Right from the start, introduce into the development process possibilities offered by information technologies, as well as the constraints arising from them.*

- ✓ *Achieve public legitimacy for the principles and standards used in preparing extra-financial reporting. The aim is to ensure that the framework is clarified by public acknowledgement, which implies an appropriate institutional process and restrictions on flexibility (although various levels of requirements and/or options are provided for).*

- ✓ *Provide impetus for the process by combining proportionality, voluntary action and exemplarity. Much progress needs to be made because the goal is far-reaching. Progress cannot be decreed, it must be organised. Hence the idea of an approach that is tailored to the field and based on incentives using a non-negotiable base.*

The targeted package is based on four pillars that form the core of a standardised approach:

- ✓ *Pillar 1 focuses on general quality principles and a general classification of extra-financial information, both of which can be agreed upon at global level:*

    - *General quality principles: "extra-financial information must provide faithful representation, and be relevant (for investors and other stakeholders), understandable, comparable, verifiable, timely and connected to financial information".*

These principles are the result of a synthesis of the principles adopted by the various available frameworks, which converge in many respects. "Relevance" should be understood as incorporating a forward-looking aspect. The inclusion of "other stakeholders" underscores the fact that information should not only be useful to investors, although information useful to investors often overlaps with that needed by other stakeholders.

- *General classification: distinguishing between qualitative and quantitative information, supplemented by distinctions based on the type of information (governance, strategy, policies and methodologies for qualitative information; monetary, non-monetary for quantitative information) and on their temporality (position, dedicated resources, targets/objectives) leads to a general classification system involving ten categories that facilitates international understanding and structures any detailed taxonomy.*

✓ *Pillar 2 focuses on content standardisation. It prioritises the European level and can be partly driven by international cooperation. It has two dimensions, a general one and a sector-specific one:*

- *A general framework of standards forms the basis: it can be structured with several levels of requirements, thus leaving a wide margin for proportionality and voluntary action over and beyond a minimum core. An initial version (phase 1) can be considered for 2021/2022. It should largely be the result of a synthesis of achievements, with added value being provided by the organisation in terms of standards combined with public legitimacy.*
- *Additional sector-specific frameworks are needed to reconcile overall relevance with the need to adapt to each company's activities. Intra-sector comparability is the natural complement to inter-sector comparability.*

✓ *Pillar 3 focuses on standardisation of presentation, which is essential in terms of accessibility and digitisation. There are two basic aspects – a standard format and a detailed taxonomy - and a possible approach: the concept of an international core:*

- *A standardised format is used to organise non-financial information under a clear set of headings by providing a single format and ensuring a link with financial information. A standardised format does not mean standardised content for each heading, some of which are intended to remain broadly open. The idea is to allow users to follow a marked-out path. The standardised format can be recommended or mandatory. The exemplarity of easy access to data may be sufficient.*
- *A detailed taxonomy is essential for digitisation. All extra-financial information must be "tagged" to enable it to be read and used easily by information technologies.*
- *The idea of a minimum core could be applied at international level provided that it includes a limited set of essential information and that it does not replace more comprehensive approaches that better reflect the complexity of situations in which companies find themselves. At European level, this base could correspond to an initial level of requirements in the event of a fairly broad application of standards.*

✓ *Pillar 4 deals with accountability:*

- *Governance: extra-financial information must quickly be added to the governance mechanisms put in place for financial information. Companies and users have a*

shared interest in ensuring that the development and approval of this information is organised at the right level within the company.

- *External control: it must be widespread, with the conditions being specified in advance. The quality of extra-financial information cannot be achieved without appropriate external controls, which ensure internal rigour and certainty for third parties. This is the natural complement to the growing importance of governance in this area.*
- *Supervision: To provide support and certainty, supervision must be gradually phased in.*

Implementation of a project such as this involves setting up an organisation, international cooperation to support future efforts and the adoption of a strict timetable:

- ✓ *European-level standardisation: the idea is to operate in project mode by marshalling the necessary human and financial resources. Although these are successive syntheses that build on past achievements, the effort required to achieve the proposed bold goal should not be underestimated. For a variety of reasons, the appropriate level is the EU one, without excluding efforts at global and national levels.*

- ✓ *International cooperation: this is necessary for convergence, both between public authorities and with private organisations working on these issues.*

- ✓ *Timetable: the urgency of the matter – which has been noted on more than one occasion, in particular with respect to climate change – calls for a tight timetable with an initial deadline as early as 2021/2022 and subsequent deadlines of 5 to 7-10 years.*

The results of a cost-benefit analysis are promising.

More generally, and from a more strategic perspective, Europe can be the "land of choice" for extra-financial information. Developing this corresponds to a strong sensitivity expressed by EU citizens and to the momentum already observed, driven largely by the companies themselves.

The proposed goal is an important part of a forward-looking European identity. Achieving it would also be a competitive advantage for Europe and its businesses, particularly as it would enable them to build a more inclusive, robust and sustainable economy, with an eye to taking full advantage of ongoing development transitions and attracting investors looking to provide long-term financing.

20 proposals

OBJECTIVE

P1 Provide all corporate stakeholders with high-quality extra-financial information to assess their contribution to sustainable economic, financial and social development.

METHODOLOGY

P2 Act at all relevant levels (global, European Union, national).

P3 Integrate initial achievements and create added value by carrying out successive syntheses.

P4 Introduce digitalisation right from the start.

P5 Achieve public legitimacy for the principles and standards used in preparing extra-financial reporting.

P6 Provide impetus for the process by combining proportionality, voluntary action and exemplarity.

PILLAR 1/ GENERAL FRAMEWORK

P7 Define general quality principles for extra-financial information.

P8 Determine a general classification scheme for extra-financial information.

GLOBAL LEVEL

PILLAR 2: SUSTAINABILITY STANDARDS

P9 Define a general framework (including SDGs), according to three or four levels of requirements.

P10 Define supplementary sector-specific frameworks.

EUROPEAN LEVEL & COOPERATIVE EFFORTS

PILLAR 3: SUSTAINABILITY REPORTING STANDARDS

P11 Define a standard extra-financial reporting structure.

P12 Define a taxonomy for extra-financial information.

P13 Assess the possibility of establishing a minimum level of requirement with an eye to creating a base.

EUROPEAN & NATIONAL LEVEL

PILLAR 4: ACCOUNTABILITY PRINCIPLES

P14 Define rules and a code of governance with respect to how extra-financial information is drafted.

P15 Mainstream external controls for extra-financial information and define the conditions.

P16 Bring supervisory mechanisms online.

EUROPEAN & NATIONAL LEVEL

EUROPEAN STANDARD-SETTER

P17 Entrust a standard-setter in the public sphere with drafting content and reporting standards in project mode.

INTERNATIONAL COOPERATION

P18 Foster cooperation between public authorities.

P19 Foster cooperation competent private bodies.

TIMELINE

P20 Establish an ambitious, three-phase critical path: 2019–2022 / 2022–2025 / 2025–2029.

Report

Introduction

A company's resilience is closely linked to the resilience of the environmental and social ecosystem in which its activities take place. Companies are also stakeholders in their environment, particularly during times of transition – whether the transition is energetic, ecological, demographic, social or digital. Companies are seen as one of the linchpins of economic and societal development, and rightly so. For this reason, they are both parties to and drivers of change. This position and these interactions make companies essential sources of information.

Within this context, our remit was to study ways of consolidating the development of extra-financial reporting by companies, so that, in the long run, it gradually takes on a status comparable to that of financial information. According to the terms of the engagement letter, this report aims to define the conditions for the development of high-quality extra-financial information – enabling companies to effectively manage the ecological, energy and solidarity transitions in their area of activity. In addition, with an eye to providing useful support for investors and other stakeholders, the report aims to encourage greater harmonisation and comparability of extra-financial information. After an overview of the various existing standards and initiatives, we assess the relevance of extra-financial information in terms of quality, reliability, presentation, implementation cost and verifiability, as well as its association with financial data.

To meet these objectives, our task force carried out a broad-based consultation, which enabled us to identify the existence of an active, committed community. We would like to thank everyone (nearly 250 individuals) for their unstinting contributions. Given the time-limit to the assignment, the task force regrets that it was not possible at times to deepen our exchanges, all of which deserved further exploration. We also reviewed the extensive documentation available on the subject.

The content of the exchanges and the copious documentation confirm the importance of extra-financial information today, as well as the existence of real prospects for development, such that it can become a full-fledged part of a company's overall information.

As part of this, the task force observed the wide range of stakeholders connected with a company, which makes it difficult to define objectives, quality principles, content and formats as well as the operational organisation of extra-financial reporting. The task force's work was also part of the broader context of the growth of sustainable finance, which calls for better information on the environmental and social impact of economic activities for the purpose of redirecting investment and financing flows.

It should be recalled that, as defined in the engagement letter, extra-financial reporting covers a broader field of information than climate reporting, although it plays a crucial role in the fight against climate change, and as a result is also intended to cover environmental issues (including biodiversity), social and governance issues and, more generally, the intangible aspects of value creation.

The purpose of this report is therefore to field proposals for the promotion of an internationally harmonised framework, as part of the completion of the work of the Task Force on Climate-Related Disclosures and the many private and public initiatives underway in

the EU and beyond. The report also aims, at European level, to define conditions for the preparation, governance, audit and supervision of structured extra-financial reporting, which helps investors make decisions in relation to sustainable finance, helps companies as they take part in implementing European environmental and social policies and helps all stakeholders by meeting civil society's high expectations.

CHAPTER 1

THE STAKEHOLDERS IN EXTRA-FINANCIAL INFORMATION: FROM EARLY COMMITMENTS TO A GENUINE FORWARD MOMENTUM

1.1 A preliminary observation: at present, financial information is not sufficient by itself to reflect a company's complex reality

The benefits of undeniable achievements: solid foundations, maturity, stability and recognition

The rich history of financial information has produced undeniable benefits.

First, it has **strong, acknowledged foundations**. Without claiming to be exhaustive, it is useful for the purposes of our report to recall the main ones:

- ✓ Financial accounting is technically reliable, because accounting records set out a company's transactions in a comprehensive and mathematically accurate manner (a system that, thanks to double-entry bookkeeping and cross-checking, is self-verifying).

- ✓ It has changed over time:

  - By moving from recording cash-based accounting to accrual accounting;
  - And, more recently, by attaching items of current value (notably fair value) for certain activities to historical cost entries.

- ✓ By recording all past and expected cash flows, it uses the same standard – a monetary standard – to report not only end-of-period positions (balance sheet), but also on the flows themselves for each period (income statement, cash flow statement).

- ✓ It is the result of a known and widely-recognised standardisation process – and public institutions give it a high legal value ("accounting standards") and make it mandatory.

- ✓ Finally, financial information is in direct contact and in harmony with other frameworks that are applicable to the company – in particular law, taxation, management, financing and financial markets. It reflects the obligations arising from them and, in return, produces the information necessary for their proper implementation.

Second, financial reporting has reached **a high level of maturity and stability**, particularly for public-interest undertakings:

- ✓ Over the past twenty years, a proactive standardisation convergence movement has made it possible to achieve a reasonable level of compatibility, and therefore comparability, at international level:

  - Since the recognition of the IASB's standardisation work[1] by the European Union in 2002,[2] IFRS has gradually positioned itself as the benchmark standard for many jurisdictions;
  - Endorsement procedures have been put in place in many jurisdictions,[3] but local variants remain limited.

[1] www.ifrs.org.
[2] Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.
[3] See the inventory drawn up by the IASB: "Pocket guide to IFRS Standards: the global financial reporting language".

- IFRS thus enjoys widespread international recognition: the EU and many countries have adopted the framework, Japan offers the option (chosen by a large proportion of listed companies), and both China and Japan have embarked on a convergence process.
- Only the United States (via the FASB),[4] which had initially initiated a convergence approach with the IASB, finally abandoned this goal, which, for a number of technical and institutional reasons, was seen as too ambitious. It currently has a comprehensive, autonomous national mechanism: although convergence is no longer in the works, the parties are currently trying to avoid differences between two mechanisms that have many common points.
- The action plans issued by the IASB and the FASB do not currently make it possible to anticipate major changes in current standards in the short term. Both frameworks can therefore be considered stable from the standpoint of the current economic and financial environment, which itself is stable. This is particularly true for IFRS, which recently completed several important standardisation projects that were needed to adapt or finalise the platform: the adoption of IFRS 9 (financial instruments, in response to the 2008–2009 economic and financial crisis), IFRS 15 (revenue), IFRS 16 (leases) and IFRS 17 (insurance contracts, currently being finalised). The impression of constant change is in fact due to recent experience (since 2002 for IFRS preparers), which cannot be extrapolated to the coming period, except in the case of a major crisis.

In addition, at EU level, for companies not covered by IFRS as endorsed, i.e. mainly unlisted companies, a regularly updated directive[5] also introduces a reasonable level of harmonisation. This harmonisation is often wrongly considered to be not far-reaching enough: in reality, a careful examination of its principles shows that they have a good level of coherence and relevance.[6] This does not, of course, rule out ongoing efforts to gradually improve the framework thus created, particularly to achieve more in-depth accounting harmonisation and to promote harmonisation of tax bases.

This trend towards standardisation has gone hand-in-hand with the globalisation of financial markets, the growth in international trade and, more generally, economic development. It has also accompanied the development of the EU's internal market, although there is room for improvement. It provides stakeholders (companies, investors and financiers, among others) with a stable platform that consists of two main accounting "languages": IFRS and US Gaap, which are relatively closely related and enshrined by mutual recognition. In many respects, these two languages are based on a shared economic and financial culture.

[4] www.fasb.org.
[5] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013.
[6] "Summary report of the public consultation on the fitness check on the EU framework for public reporting by companies 21 March-31 July 2018", 31 October 2016.

A positive assessment, but strongly mitigated by its relatively limited scope: increasing disconnection with the reality of businesses and conceptual limits

At first glance, accounting standardisation appears to be a largely positive phenomenon. This is not the end of the story, however, because the stable accounting platform thus created is now the subject of a series of observations that strongly mitigate this assessment and reduce the scope of the resulting financial information.

These observations fall into two categories: a disconnection between accounting translation and value, and the conventionally limited nature of accounting relevance.

The first observation is that of an **unavoidable, growing disconnection between book value and intrinsic value**:

- ✓ There is now a very significant gap between book value and market capitalisation.[7] It should be noted that market capitalisation expresses a value for minority shareholders. For transactions that result in control of the company (e.g. a takeover bid), the gap is obviously even wider.

- ✓ This observation highlights a key point: by construction – and despite its robustness – financial accounting, which records individual transactions and reflects the resulting flows and positions, cannot aim to reflect the value of the complex whole that makes up a company, of which the stock market valuation at a given time is only one expression. The whole is more important than the sum of the parts.

- ✓ This reminder dispels any illusion of a possible reconciliation between accounting and valuation. Some had wanted to see a more widespread use of a full fair value model as a way of achieving this, when in reality "fair value" is only one way of valuing assets, liabilities and transactions. Even if individual items are valued at fair value, the whole remains different from the sum of the parts. These theories – inspired by economic schools based on market primacy – are no longer relevant, and the consensus today is that fair value should be used only for those activities or transactions for which it is considered the most relevant valuation method. Although the dividing line is sometimes shifting and various preferences are expressed to determine the predominant or default system: accounting standards currently enshrine a "mixed model" that combines historical cost and current value.[8]

- ✓ Even more revealing, the gap between book values and transaction values is widening in many sectors. There are many reasons for this, but the gap is highest for companies active in the field of new information technologies. As a result, there are those who assume, and probably rightly so, that financial accounting, which originated in the industrial economy and has been able to adapt to a large extent to the financialisation of the economy and the development of the service sector, is struggling to adapt to an economy in which the intangible is prevalent. The more an economy is based on the intangible, the less that intangibility it is expressed in financial information.

[7] As evidenced, for example, by paragraph 2.13 of the EFRAG report, "What do we really know about goodwill and impairment? A quantitative study", September 2016.
[8] Chapter 6 of the IASB's "Conceptual Framework for Financial Reporting", issued in March 2018, presents the two main valuation methods.

- ✓ This observation naturally leads one to put the scope of financial information into perspective, and to confine it to what it is capable of, namely to provide a retrospective measure of monetary quantities. Many analysts note how they are constantly searching for information on the companies they analyse that is much broader than that provided by financial information as codified in accounting standards.

- ✓ It also leads us to seek reasons for the gap and its variation over time, both retrospectively and prospectively. Corporate information is first and foremost a decision-making tool: strategic and management decisions by the management team and its governing bodies, decisions to invest in or finance third parties, decisions by employees to contribute, decisions by customers and suppliers to buy or sell to the company, and so on. Good information must therefore be as predictive as possible. Therefore, the purpose of seeking additional information is twofold: first, to complete an accounting inventory, which is important but relative; and second, to identify and analyse the key risks and opportunities that will influence the company's future development and performance.

The second observation is that of the **inherent limitations of financial accounting arising out of the concepts and conventions that have been adopted**, which explains why, by construction, financial accounting reflects only part of the complex reality of the company:

- ✓ Generally speaking, the primary audience of financial accounting is investors and creditors,[9] and it is also seen to be useful to other stakeholders. This bias reflects a primacy of shareholders and, to a lesser extent, of financiers. This is a prism that does not necessarily reflect the complexity and multiplicity of the capital deployed (whether financial, human, natural, etc.) and does not necessarily meet the expectations of other stakeholders.

- ✓ Accrual accounting[10] is based on the key concept of obligation, and its corollary, the concept of control. In addition to past cash flows, it is therefore limited, by agreement, to booking expected cash inflows and outflows resulting from obligations entered into by third parties for the benefit of the company and obligations entered into by the company for the benefit of third parties: these cannot be booked without a legally demonstrable obligation. Thus, in particular, everything that is free – free being generally understood as the absence of any counterpart to be provided by the beneficiary – is not currently subject to being booked.

- ✓ The concept of accounting obligation is the subject of normative definitions and a wealth of literature that is largely based on contract law. It should be noted that when judgment is called for, particularly in situations involving the notion of risk and where the reality of the obligation is discussed and debatable, a rather restrictive definition prevails.[11] Only then, and not always, uncertainties become a matter for information in the notes: this is particularly the case with possible risks and contingent flows.

[9] See paragraph 1.5 of the IASB's "Conceptual Framework for Financial Reporting", March 2018.
[10] See paragraph 1.17 of the IASB's "Conceptual Framework for Financial Reporting", March 2018. In chapter 4, the elements of the financial statements depend on the entity's obligations and control over them.
[11] The border between a provision and a contingent liability is dealt with in IAS 37, while IAS 38 addresses the border between capitalised costs and contractual commitments that are not capitalised but are disclosed in the notes.

- ✓ Over and beyond the existence of obligations, the relevance of the convention of booking at historical cost is a matter of debate:

  - On the one hand, it may not accurately reflect current costs
  - On the other hand, it is based on the principle of prudence, which means that losses are booked as soon as they are likely, and profits are booked only when they are achieved. As a result, this introduces an asymmetry which is seen to be "conservative".[12]

- ✓ When fair value is required or possible, its basis and use are also topics of discussion:

  - In particular, it reflects profits that are not necessarily accompanied by expected cash inflows at a given time and that reflect market values that may be volatile and representative of certain transactions ("level 1" in the event of the existence of a liquid market) or simply estimates with a significant degree of uncertainty ("level 2" or "level 3" based on simulations)[13] and
  - Losses faces the same problems, although to a lesser degree, because historical cost and fair value generally coincide when the current value is below the acquisition cost.

- ✓ In accordance with the principle of prudence and the definitions used for assets, there is therefore a great "reluctance" to book intangible assets that the company has created:

  - Intangible assets are booked very restrictively: when there is a legally separable asset, when it generates identifiable future cash flows and only to the extent of the costs incurred to create it.[14]
  - This results in many intangible assets being left outside the scope of financial accounting, even though they are the result of "significant investments", which are then booked as expenditure for the period, and are essential to the company's future performance.

- ✓ On the other hand, acquired intangible assets are generally recognised,[15] whether it concerns direct acquisition of an asset, which is booked by the acquiring company, or an indirect "block" acquisition, which is booked at the level of the consolidation of one company acquiring another:

  - In the above-mentioned cases, separable assets are recognised as such for their acquisition value (direct acquisition) or for their estimated market value (indirect acquisition). In the event of an indirect acquisition, the residual goodwill is recognised as goodwill in the consolidated financial statements, and this general intangible asset, which cannot be separated, is maintained as an asset as long as it has not lost value.[16]
  - Incidentally, in the event of a business acquisition, there is therefore a temporary reconciliation between historical cost (cash outflow or equivalent) and fair value (the price agreed for the transaction that is deemed representative of the value).

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[12] IAS 37 deals with the asymmetry between booking an asset (which must be virtually certain in accordance with IAS 37.35) and a liability (which must be probable in accordance with IAS 37.13(a)).
[13] The three levels of fair value are described in IFRS 13.72-90.
[14] IAS 38.51.
[15] IAS 38.25-47.
[16] IFRS 3.

- This leads many observers to point to an accounting paradox insofar as an imbalance is created, inevitable in many respects given the conventions adopted, between "created wealth" and "acquired wealth".
- The debate around this point is still relevant, particularly in the work of the IASB[17] and the FASB,[18] which have initiated discussions on this topic. Some favour a less restrictive recognition of the intangible assets created, but such an approach runs up against the aforementioned concepts and definitions. Others want to institute a systematic amortisation of goodwill, but this would destabilise the established platform and, more fundamentally, widen the gap mentioned previously.
- There does not seem to be an obvious "way out" in the context of financial accounting. On the other hand, in the first analysis, it lies at the heart of extra-financial information.

This twofold observation highlights two essential points about the relevance of financial information:

✓ On the one hand, the notion of accounting obligation of legal origin leads to potentially significant liabilities being overlooked as long as they are only contingent and cannot be associated with probable cash outflows.

✓ On the other hand, the concepts of obligation and control as well as the principle of prudence lead to very significant intangible assets – which are only recognised in the event of a transaction – being left outside the scope of financial accounting.

The lessons of accounting standardisation: complementarity and awareness of limitations

Given the achievements and limitations of accounting standards, it is not surprising that financial information is seen as both necessary and of relative importance.

The first question we must ask ourselves, therefore, is: can financial accounting go beyond its limits and become more relevant?

The prevailing feeling is that attempts to change the "accounting paradigm" today would be risky. Instead, it would be more helpful to retain what has been achieved (even if it means amending it probably marginally), to boost its relevance and to develop extra-financial information, in an attempt to achieve an overall coherence between financial and extra-financial information.

This desired coherence arises from the basic idea that risks and opportunities – which cannot yet be booked under existing rules – are, in many cases, pre-accounting and pre-financial in nature. Changes in expectations, company commitments and new legal obligations may lead to the inclusion of elements within the scope of accounting that are not currently so. There is thus a continuum and, over time, a transition from extra-financial to financial information. This leads to promoting the overall coherence of information in a spirit of complementarity.

[17] The IASB re-started the debate on the treatment of goodwill following the post-implementation review of IFRS 3.
[18] In October 2018, the FASB included in its research program a project on the monitoring of goodwill and the recognition of certain intangible assets.

The second question is: can we take advantage of the lessons of accounting standards to achieve a reasonable level of consistency, complementarity and quality when it comes to extra-financial information?

The general feeling is that, drawing on organisational experience and proven procedures, the shift towards developing extra-financial information could be significantly stepped up. Nevertheless, to take into account what has been or can still be observed in terms of accounting standardisation, we should immediately point out that this acceleration must be structured around two main objectives: avoiding the potential pitfalls of any standardisation process and, above all, being fully aware of the limits of the transition.

With regard to the first objective, it seems **essential to resolve ex-ante the question of the legitimacy of standards**, by avoiding the risk of standards seen as "ungrounded". How they are drawn up, their conceptual bases, whether to make them optional or mandatory and their gradual implementation must factor in the domain, existing accounting cultures, current and anticipated technical and sociological developments and, ultimately, the geographical levels at which they will be implemented (i.e. national, EU, international) – without this being to the detriment of comparability.

With regard to the second objective, it seems useful to point out that **the development of extra-financial information will not solve the question of value**. Relevant extra-financial information is generally seen as a key component in a valuation approach, but it cannot replace it. Here too, individual assessment of each element is not a replacement for an overall assessment. This is all the more true as extra-financial information refers – and will continue to refer – to a number of measurement standards, which is not the case for financial information, for which the single standard is monetary. Although the notion of pre-financial information is given prominence, the shift away from multiple non-monetary measures to a monetary measure is and will remain a challenge. The financial accounting standard-setter and the extra-financial accounting standard-setter, regardless of their ambitions and proactivity, must avoid trying to stitch together a Frankenstein's monster.

1.2 A great deal of academic research has paved the way and provides content

Thanks to the perception of the inadequacies of financial information, but also autonomously, academic research has developed a variety approaches aimed at better understanding the company, its value creation mechanisms and its interactions with its "ecosystem" or civil society and, as a result, at contributing to better corporate communication.

The increasing integration of extra-financial performance into corporate reporting is the result of a proliferation of theoretical developments, which have gradually fed society's responses to the challenges posed by contemporary ecological and social crises (such as climate change, biodiversity loss, ecosystem degradation) and attempts to explain the "value" of companies.

The concept of externalities at the heart of extra-financial corporate reporting

To start with, **factoring in the externalities of economic activities** has stimulated the growth of companies' social and economic responsibility, as described below.

Initially proposed by Henry Sidgwick in 1880, then Alfred Marshall in 1890, then expanded by Arthur Cecil Pigou in 1920 in *The Economics of Welfare*, **the concept of externalities makes it possible to account for non-market interdependencies** between utility and production functions. The existence of external effects, whether direct or indirect, of market interactions (which imply, in the standard representation, a relationship between two economic agents) therefore constitutes a market failure. However, since the agents' decisions are based on private costs and benefits resulting from their choices, the presence of externalities gives rise to a gap between private and social costs (borne by the population as a whole): this gap thus reveals a decentralised market balance that does not correspond to a state of Pareto efficiency.

We thus distinguish two types of externalities:

- ✓ Negative externalities, with the example of pollution being the commonly used;
- ✓ Positive externalities such as public transport infrastructure or the education system.

In addition, the spatial dimension of externalities makes the economic analysis of their consequences a particularly complex tax: Charles Tiebout's (1956) work in this area made it possible to define local public goods, representing cases of positive externalities (and thus not rival and not exclusive in a given geographical area, which has influenced Paul Krugman's work on the new economy geography).

The concept of externalities is thus at the heart of corporate social and environmental responsibility, and particularly of extra-financial reporting. As a tool for providing transparency and guidance for a company, particular its CSR policy, extra-financial reporting provides a means for internalising a company's externalities, with the emphasis placed most often on negative externalities (such as pollution), but also on positive externalities (such as the implementation of training programmes).

Theoretical trends in extra-financial reporting: the sustainable development model; stakeholder theory; the concept of CSR and the rise of socially responsible investment

An analysis of theoretical trends that have gradually fueled extra-financial reporting allows us to better understand the proliferation of initiatives that have taken place since the second half of the 20th century.

The sustainable development model

The **sustainable development model** emerged in the early 1970s in the wake of the contemporary reflections on the sustainability of the dominant economic growth model since the Industrial Revolution, the discovery of abundant (and non-renewable) natural resources and, in particular, the advent of marginalism based on the work of Jevons and Walras:

- ✓ This model questioned the accumulation of productive capital and the seemingly unlimited nature of the possibilities of increasing production through extensive (demographic) and intensive (boosting capital intensity) growth.

- ✓ In 1972, **the so-called "Meadows" report** expressed concern about the limits of growth, due to the finite nature of natural resources and increasing damage to the environment. This report was followed by the **Brundtland report** (1987), which defined the notion of sustainable development as adopted by the Rio de Janeiro Earth Summit in 1992. This now widely accepted definition ("development that meets the needs of the present without compromising the ability of future generations to meet their own needs"), emphasises the needs of economic agents (referring to the notion of "capabilities" in the sense of Amartya Sen (2010)), and promotes a more forward-looking analysis of economic growth.

- ✓ Later, , in line with Solow's (1993) work, the World Bank developed **the "heritage" approach to sustainability**, aimed at a broader understanding of wealth (stock), with a view to including all the components of capital (i.e. productive capital produced, human capital, natural capital, social and institutional capital) that contribute to the production of well-being for present generations and which can be transferred to the future so that future generations achieve, in turn, at least equivalent well-being. This approach to sustainability has been adopted by the United Nations Global Compact initiative and its ten key principles (see section 2.1).

- ✓ Finally, the concept of "**planetary boundaries**" (Rockström, 2009; Steffen, 2015)[19] informs the sustainable development model, aiming to limit the impact of human activities to a level that allows humanity to have access to the essential functions of the biosphere in a predictable and stable manner. This notion is based on a scientific approach that has identified nine processes and systems that regulate the stability and resilience of the earth system, which together provide the living conditions on which human societies depend:

  - Climate change
  - Biodiversity loss
  - Global disturbances in the nitrogen and phosphorus cycle
  - Land use
  - Ocean acidification

[19] Rockstrom, J. et al. (2009). Planetary Boundaries: Exploring the Safe Operating Space for Humanity. *Ecology and Society 14* (2009), Nykvist, B. et al. (2013). *National environmental performance on planetary boundaries: A study for the Swedish Environmental Protection Agency*—Report 6576.

- Depletion of the ozone layer
- Atmospheric aerosols
- Use of fresh water
- Chemical pollution.

The stakeholder theory

The stakeholder theory, which has proved crucial in the development of corporate governance concepts and stakeholder values, has its roots in the United States in the early 20th century:

✓ Around that time, there was a significant shift from individual to social responsibility, caused by the increasing interdependence of social actors (Clark, 1916; Follett, 1918). This took place against a backdrop in which only the legal ownership of the company was enshrined in law (the shareholders were the company's sole beneficiaries).

✓ In 1932, Berle & Means, noting the increasing separation between ownership and management in large companies and, concurrently, the development of social pressure on directors to acknowledge their responsibility to all stakeholders whose well-being may be affected by company decisions, pioneered the **understanding of the company as a social institution**.

✓ In 1984, the philosopher Edward Freeman proposed a reversal of the 1970 Friedman doctrine, according to which a company's sole social responsibility is to increase profits. He posited that, since a company's profit is the result of its activity and its interactions with its stakeholders (employees, customers, suppliers, public authorities, society, the environment, etc.), then its objective is to meet the needs of the latter, which will enable it to earn profit.

✓ This is the theory that introduced the concept of a **company's stakeholder value** that was developed by Charreaux and Desbrières (1998), who formulated a global measure of the income created by the company in relation to the various stakeholders, and not only with the shareholders.

The concept of CSR

The **concept of social responsibility** was introduced by Howard Bowen, who laid the conceptual groundwork in 1953, in line with Berle and Means' work on stakeholders mentioned above:

✓ It is based on two precepts:
  - **Business decisions should converge towards a given society's commonly accepted values**
  - **This convergence should be the result of a voluntary decision by the company within a state institutional framework**

✓ The separation of ownership from management, the gradual dispersion of shareholders and the professionalisation of company management offer favourable conditions for questioning the interests of shareholders as the sole aim pursued by companies.

- ✓ Later, in 1997, Elkington developed his famous **Triple Bottom Line** concept (People, Planet, Profit), which provided a new managerial and accounting framework for companies that went beyond standard measurements of economic profit by integrating social and environmental dimensions and stipulated that organisations must increasingly report on their activities to a variety of stakeholders with different interests.

- ✓ The Global Reporting Initiative (see section 2.1) has adopted this concept as part of the development of its reporting framework; and both companies and audit firms have gradually taken inspiration from the tools offered by Elkington to measure the social and environmental performance of economic activity. In France, following the adoption of the law on new economic regulations (2001), the Grenelle Process was initiated in line with the Triple Bottom Line concept.

- ✓ The **Triple Bottom Line** concept was subsequently criticised for not maintaining or preserving natural and human capital. As a result, the **Triple Depreciation Line** concept was developed by Jacques Richard and Alexandre Rambaud in 2015 (see below).

Socially responsible investment

Finally, **socially responsible investment** (SRI) in companies that meet so-called environmental, social and governance criteria has emerged in an economic, political and institutional context that encourages corporate environmental and social responsibility:

- ✓ Over and beyond initiatives taken by companies themselves, the rise of institutional investors, particularly pension funds, has been a key factor in the development of corporate governance (Aglietta and Reberioux, 2004; Plihon, 2003).

  CSR then emerged as a vector for value creation and corporate transformation. Porter and Kramer (2006) have highlighted the interdependence between a company and the territory in which it operates: level of infrastructure, quality of the country's governance and legislative framework, level of demand from consumers and civil society, quality of staff education and training, etc.

- ✓ This creates favourable or unfavourable conditions for a CSR policy that creates value for all stakeholders (see Porter and Kramer, 2011, on shared value).

Intangible capital as a measurement tool

Intangible capital theories, which initially appeared in an effort to explain the differences in value between stock market value and book value (Francis and Schipper, 1999; Cazavan and Jeny, 2004), justified by neoclassical theory (Denison, 1967) and by technological progress, began to emerge in the 1960s:

- ✓ **Human capital theory**, which was developed by Gary Becker[20] in 1964, defines the set of productive capacities that an individual acquires through the accumulation of general or specific knowledge and know-how:

[20] G. S. Becker, *Human Capital, A Theoretical and Empirical Analysis*, Columbia University Press for the National Bureau of Economic Research, New York, 1964

- Since the stock of intangible human capital can thus accumulate or degrade, it increases when it is the subject of investment (and vice versa), determining differences in productivity and, by assumption, in income, between companies.
- Gary Becker underlines the inseparability of intangible capital: "It is fully in keeping with the capital concept as traditionally defined to say that expenditures on education, training, medical care, etc., are investments in capital. However, these produce human, not physical or financial, because you cannot separate a person from his or her knowledge, skills, health, or values the way it is possible to move financial and physical assets while the owner stays put."
- Moreover, investment in human capital is essentially characterised by training: Becker distinguishes between general human capital, which remains attached to the worker independently of his or her company, and company-specific capital, which increases workers' productivity in the company that trained them but little or no outside it.

✓ The **theory of innovation** was initially proposed by Joseph Schumpeter (1939), who made a distinction between disruptive and incremental innovation. It was then defined by Everett Rogers (1962), who highlighted the five principles determining the diffusion of innovation:

- Relative advantage
- Compatibility
- Complexity
- Trialability
- Observability.

This theory amounts to putting research and development and all intangible assets at the heart of the company's performance (Cozzarin, 2003).

✓ The **theory of endogenous growth**, an outgrowth of human capital theory, was developed by Romer (1986), Lucas (1988) and Barro and Salla i Martin (1995). It is based on the idea of self-sustaining growth (contrary to Solow's theory) through the human capital tool that allows technological progress to be considered endogenous. Savings invested in training thus proves to be a powerful growth accelerator. This theory was extended by Amartya Sen (2000) who sees capability theory as an extension of human capital theory, taking into account the role of education without limiting it to the labour market alone.[21]

✓ Finally, **research on the knowledge economy** (Foray and De Perthuis, 1997; Foray, 2000) has made it possible to characterise the knowledge economy as a continuous increase in the share of intangible capital in productive organisations and through the spread of information and communication technologies, which represent the foundations of economic growth.

✓ As an extension of economic theory, the **development of intangible investments has led to the emergence of new theories, known as "resource-based", highlighting the role of individual and organisational skills in the creation of value and financial performance of companies** (Eccles, 1999). The informational power of intangible assets has thus appeared in financial theory and has informed empirical studies on the link

[21] Amartya Sen: "The benefits of education, thus, exceeds its role as human capital in commodity production. The broader human-capability perspective would record - and value - these additional roles. The two perspectives are, thus, closely related but distinct."

between investment in research and development and the future profitability of the company (Lev and Sougiannis, 1996).

- ✓ Similarly, there are many theoretical contributions from consultants, practitioners and management teachers, including those of Edvinsson and Malone[22] or Sveiby.[23]

It is this work that has informed the initiatives on intangible capital that we will discuss later, from the Thesaurus to the initiatives of the Directorate General for Enterprise and several private stakeholders (see section 2.4).

Natural capital as a new extra-financial frontier?

Among capital other than financial capital, natural capital has been largely ignored by economic analysis, starting from the industrial revolution (Daly, 1994).

In a hunter/gatherer economy, then an agricultural economy, production per unit of time was considered as the return on capital stock – i.e. natural capital – which the work of classical and physiocratic economists in the 18th century[24] highlighted the central role given to natural capital (land) in the production of the economies of the time.

The industrial revolution, followed by the economy's shift towards services, marked a decline in the place in the economic system that was assigned to nature. These two phenomena showed that production was the result of the combination of productive capital and labour, and that it depended only to a minor extent on natural capital (as illustrated by the work on the national accounts in the 1930s and the Cobb-Douglas production function). According to utilitarian and neoclassical theories, natural heritage is considered immutable and unalterable ("since they cannot be multiplied or exhausted, they [natural resources] are not the subject of economics", as described by Say (1803) in his *Treatise on Political Economy*). In addition, natural resources have long appeared through intermediate consumption of raw materials, i.e. the market part of what comes from natural capital, and therefore as exogenous data.

Today we take a fundamentally different view:

- ✓ In the 1970s, with the appearance of the Meadows report (see above) and the oil shocks, nature gradually regained a place in economic analysis, in line with the work of Hotelling (1931) on the treatment of non-renewable natural resources.

- ✓ Focus gradually shifted to pollution and nature's ability to assimilate it.

- ✓ Today, nature is seen as a supplier of goods and services, closely linked to human well-being (as illustrated by the work of the UN-led Millennium Ecosystem Assessment), and considered as a whole, although still largely absent from indicators and most economic analyses.

[22] L. Edvinsson et M. Malone: "Le capital immatériel de l'entreprise: identification, mesure, management". Mazars/ Maxima 1999.
[23] KE Sveiby: "The New Organizational Wealth: Managing and Measuring Knowledge-Based Assets". Mazars/Maxima 2000.
[24] Quesnay, 1774 : "Que le souverain et la nation ne perdent jamais de vue que la terre est l'unique source des richesses".

- ✓ **Natural capital can be considered as an ecosystem that generates flows of ecosystemic goods and services that are used by humans** (Ollivier, 2010). This ecosystem is defined by a set of physical, chemical and biological variables (representing stocks) that interact with each other to form ecosystem functions that are the basis of ecological services (supply, regulation, cultivation). A distinction is also made between the renewable and non-renewable components of natural capital.

The preservation of natural and human capital – the concept of the Triple Depreciation Line

The Triple Depreciation Line concept was developed by Jacques Richard and Alexandre Rambaud (2012, 2015). It extends the accounting structure – which was designed to preserve financial capital through historical cost accounting and planned depreciation – to natural and human capital. This concept is based on four assumptions:

- ✓ The company's use of natural and human capital implies an obligation on the part of the company to preserve it. Although the use of natural capital may be regulated in some jurisdictions, uses leading to externalities do not entail an obligation to compensate for the damage caused.

- ✓ Repeated use of natural and human capital leads to their overexploitation and degradation (despite the difficulties of determining thresholds, given the complexity of ecosystems and the multiple interactions between agents);

- ✓ Reporting on natural and human capital must be fully integrated into companies' financial statements (integrated reporting of natural and human capital), through a combination of monetary and non-monetary data;

- ✓ Finally, the natural and human capital used by the company is necessary to achieve its objectives (i.e. appropriation of renewable and exhaustible resources, destruction of ecosystems through infrastructure, homogenisation of living systems, etc.), including the generation of profits.

The Triple Depreciation Line concept thus aims to integrate social and environmental issues directly into companies' balance sheets and income statements:

- ✓ Conceiving of human and natural capital as liabilities (and not assets) with a view to understanding them as a "social and ecological debt" to be maintained or even repaid

- ✓ Conversely, conceiving human and environmental assets as the uses made of these entities (in order to detail their uses)

- ✓ And thus conceiving the degradation of human beings and environmental entities as an early amortisation (guaranteeing the maintenance of liabilities)

The Triple Depreciation Line is being implemented via the CARE[25] model (discussed in section 1.3).

[25] CARE : Comprehensive Accounting in Respect of Ecology

Extra-financial reporting as a signal to stakeholders and as a strategic management tool

All these theories contribute sustainable development issues being taken into account, and even integrated, by and within companies. Companies are committed to assessing and optimising their societal impact beyond their legal lifetime, and to taking environmental and social criteria into account in their investment strategies and activities, regardless of their capital configuration. However, these challenges highlight the sensitive balance between a company's microeconomic challenges and its more macroeconomic focus on sustainability, difficulties that we will highlight throughout this report.

Nevertheless, non-financial reporting also aims to respond to the concerns of countries' sustainable development, in order to encourage companies to report to all stakeholders about their social and environmental responsibility commitments at the juncture between economic profitability, respect for the environment and social performance. There are a number of persistent definitions of the notion of stakeholder, making several theories coexist: stakeholders are thus conceived in their broad sense, the one proposed by Freeman (1984), described above.

It should also be pointed out that Bon (2009) highlighted the difficulties of the terminological shift from social responsibility (in the sense of Carroll, 1979: a legal, economic, ethical and discretionary responsibility) to sustainable development: the company is able to identify and satisfy the expectations of its stakeholders, in a broad sense (Freeman, 1984), but sustainable development remains an issue shared by all (its stakeholders are therefore no longer merely beneficiaries or captives of its policy). However, this should not dilute the company's responsibility or transfer costs to its stakeholders. In addition, Bon (2009) stresses that sustainable development "cannot be decreed, it must be built", thus insisting on the collective reflection specific to the challenges of the company that constitutes a sustainable development policy.

Several lessons can be learned from the academic research and theoretical developments that we have briefly touched:

- ✓ **The company constantly interacts with a complex set of stakeholders, and its resilience depends on the environmental and social ecosystem in which its activities take place**

- ✓ **This resilience implies a good knowledge and effective consideration of all the company's risks and opportunities**

- ✓ **Each company is unique, and if it seems natural and fundamental to treat extra-financial reporting from the perspective of sustainable development in the general interest, the company must communicate on all its interactions: it is an "object" of information, but also an "actor" in its environment**

- ✓ **Reporting must not only be static, but also dynamic, especially at a time of major transitions: energetic, ecological, demographic, social and digital.**

The construction of extra-financial reporting must be seen in the wake of the theoretical developments in social and environmental responsibility and stakeholder theory as described above. Extra-financial reporting also benefits from a rich history and intense regulatory activity, which we will cover in section 1.3.

1.3 The European Union expresses political will to make progress in this area: from pioneering initiatives to fresh impetus

Pioneering efforts in the 1990s and 2000s

In 1993, Jacques Delors, president of the European Commission, called on European companies to take part in the fight against social exclusion by joining a European Business Network for Social Cohesion. This launched the development of the issues of sustainable development and corporate responsibility – as well as the associated regulations within the Member States. In March 2000, the Lisbon European Council called for a sense of corporate responsibility in the area of social and sustainable development. In the United Kingdom, in March 2000, the Blair government appointed a Minister for Corporate Social Responsibility.

At international level, it is worth noting that the United Nations Global Compact (see section 1.5) was created in 2000. The International Labor Organization (ILO) issued its Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1997-2000), followed by the OECD's publication of its Guidelines for Multinational Enterprises.

In July 2001, the European Commission published its Green Paper, "Promoting a European framework for Corporate Social Responsibility". This laid the foundation for a European CSR policy in an economic area that was then integrated and open to international capital to mitigate any risk of unfair competition and to promote, beyond its borders, a European model that respects internationally recognised social, environmental and economic standards.

In particular, the Green Paper stated that:

- ✓ "Corporate social responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment" and

- ✓ "Although the prime responsibility of a company is generating profits, companies can at the same time contribute to social and environmental objectives." It should be noted in this respect that the European Parliament, in its resolution quoted below, stressed that CSR should not only be an optional supplement to the normal activities of the company, but "should become an essential part of the activity of all companies".

In 2002, The European Parliament published its report on the Green Paper – **the recitals of which illustrate the proliferation of initiatives on the subject at European level at the time, as well as the high degree of anticipation by MEPs of the debates that currently concern us** on extra-financial corporate reporting:

"The European Parliament […]:

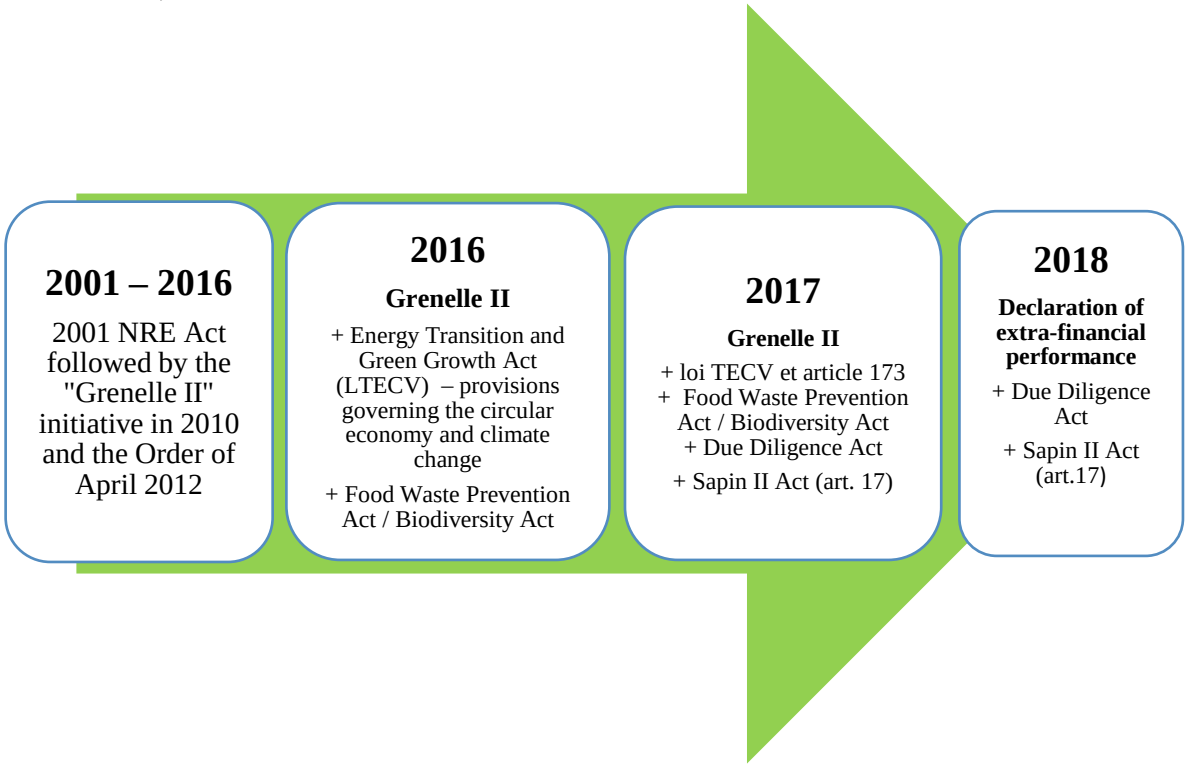
- ✓ *Considers that social and environmental practice by European companies should be subjected to similar scrutiny as competitive practices; […]*
- ✓ *Encourages the Commission to elaborate a broad and more precise definition of corporate social responsibility, not as a marginal concept but as a key objective for a future-oriented company policy, and guiding principle for European socio-economic policies;*
- ✓ *Invites the Commission to bring forward a proposal […] for social and environmental reporting to be included alongside financial reporting requirements."*

- ⇨ All the recommendations adopted by the above-mentioned international and Community bodies are based on the **principle of consensual management** – their application requiring close consultation between various stakeholders – and **enshrine the role of economic power in the formation of the general interest, without however, at this stage, putting forward a normative approach**.

- ⇨ France's approach was a pioneer in this field, with the adoption of the law on new economic regulations (known as the "NRE Act") on 15 May 2001.

An overview of French regulatory initiatives: from CSR reporting to extra-financial performance reporting, a strategic management tool for companies

In France, the growth in extra-financial corporate reporting since the late 1990s has been accompanied by an increase in the regulation of this reporting. Following the enactment of the Directive 2014/95/UE dated 22 October 2014 amending the accounting directive as regards disclosure of non-financial and diversity information by certain large undertakings and groups into French law, reporting now benefits from a significant regulatory framework covering all environmental, social and societal issues.[26]



As a reminder, the **management report** (which as such does not have a legal definition, despite the fact that its content is precisely defined by law) is the document by which the

[26] Order No. 2017-1180 of 21 July 2017, for the purpose of enacting the non-financial Directive in French law, amended Articles L. 221-7, L. 225-37-4, L. 225-102-1, L. 823-10, L. 950-1 and R. 225-104 and R. 225-105 to R. 225-105-2 of the French Commercial Code, L. 511-35 of the French Monetary and Financial Code, L. 322-26-2-4 of the French Insurance Code, L. 931-7-3 of the French Social Security Code, L. 114-17 of the French Mutual Insurance Code, L. 524-2-1 of the French Rural and Maritime Fisheries Code and Article 8 of the Law of 10 September 1947 on the status of cooperatives, repealed Article L. 931-7-5 of the French Social Security Code and created Article L. 310-1-1-1 of the French Insurance Code.

entity's managers and governing bodies report to the legislative body on their management during the past financial year and communicate all material information about the entity and its outlook. It is prepared by the same bodies as those responsible for the company's **annual financial statements** (i.e. balance sheet, income statement, notes), which the management report is intended to accompany. All listed and unlisted commercial companies (except for those meeting the definition of small companies, which are exempt from preparing a management report for the financial years ending on or after 11 August 2018) and private legal entities not engaged in commercial activity are required to prepare a management report.

The management report should not be confused with:

- ✓ The **reference document**: companies whose shares are listed for trading on a regulated market or multilateral trading facility may prepare an annual reference document that sets out the company's organisation, activity, financial situation, results and outlook (established by AMF Instruction DOC-2016-04, based on the 2004 Prospectus Regulation, Articles 212-13, 222-2 and 222-9 of the general regulations of the AMF and the recommendations of the European Securities and Markets Authority (ESMA)). This document, which also facilitates financial market transactions, may form an integral part of the prospectus (in the context of a capital increase, or an issue or an admission of financial securities, and subject to prior approval by the AMF).

- ✓ The **annual report**, also codified by the AMF, which listed companies must publish within three months of the end of their financial year. The annual report includes the annual financial statements, the management report and any information likely to have an impact on the share price.

- ✓ The **many other reports that companies publish voluntarily**, without any legal or regulatory constraints of form and content (such as a sustainable development report or a health, safety and environment report, etc.), **or as part of a regulated framework** (i.e. social audit, gender equality report).

A significant change in the French regulatory context since the early 2000s

- ✓ At a time when there is international and European encouragement for companies to become involved in sustainable development, Article 116 of the **NRE Act of 15 May 2001** structured and made mandatory the framework for listed companies in terms of the extra-financial reporting in their management reports (an obligation that was codified in Article L. 225-102-1 of the French Commercial Code). This has thus increased the volume of information to be provided and extended its scope to the largest companies in the commercial, financial, mutual insurance, cooperative and benefits sectors.

- ✓ Article 225 of the **Act of 12 July 2010** concerning a national commitment to the environment (the "**Grenelle II**" Act) subsequently extended this mechanism by supplementing Article 116 of the NRE Act by adding a social pillar and broadening the scope of the companies concerned (i.e. those not listed on a regulated market – public limited companies (SA), partnerships limited by shares (SCA) and limited European companies (SE)). It also expanded the scope by creating, a regulatory list for listed companies with 42 reporting items (for financial years starting after 31 December 2011). This article also required mandatory data checking by an independent third-party body.

- ✓ **The decree of 24 April 2012 relating to corporate transparency obligations in social and environmental matters**, codified in the French Commercial Code, introduced new elements to extra-financial reporting:

  - Extension of the scope of companies required to submit mandatory reports to unlisted companies with more than 500 employees and whose annual turnover or balance sheet total exceeds 100 million euros,
  - Increase in the information required to 42 items grouped under three themes: social (employment, labour relations, health and safety), environment (pollution and waste management, energy consumption) and sustainable development commitments (social impacts, relations with stakeholders, respect for human rights, etc.),
  - Introduction of the concept of "comply or explain". Companies may choose to omit information on certain subjects but must justify the non-disclosure,
  - The report must provide information about actions taken by the company and its subsidiaries, and must be submitted to a third party auditor.

- ✓ Entering into force on 30 December 2015, the **Decree n° 2015-1850 related to Article 173-VI of the Energy Transition and Green Growth Act** (LTECV) requires investment management companies and the entities mentioned in the third paragraph of Article L. 533-22-1 of the Monetary and Financial Code to publish information on how ESG criteria, particularly concerning climate risks, are taken into account with respect to investment policy and on the means implemented to contribute to the energy and ecological transition[27]. The decree sets out the information to be published concerning these criteria and specifies the climate-related information that can be issued. The financial stakeholders covered by the decree must describe how they take these issues into account and, where applicable, indicate that they do not take them into account. However, no specific method is imposed. **This allows a diversity of approaches to be taken, depending on the nature of the activities and the investment typologies of each stakeholder**.

- ✓ The **Decree of 19 August 2016 adopted pursuant to Article 173-IV of the LTECV and the Food Waste Prevention Act of 11 February 2016** (notably Article 4) amended Article R. 225-105 of the French Commercial Code relating to environmental information contained in companies' management reports and added two elements:

  i. Relating to the circular economy, with actions to combat food waste (i.e. measures for prevention, recycling, reuse and other forms of waste recovery and disposal)

  ii. With regard to climate change, Article 173-IV incorporates the notion of reporting on significant greenhouse gas emissions generated by the company's activity, in particular through the use of the goods and services it produces.

Drafting and adopting the non-financial directive: an essential first step towards harmonisation

Directive 2014/95/EU of **22 October 2014** as regards disclosure of non-financial and diversity information by certain large undertakings and groups, known as the "Non-Financial

[27] In this respect, Article 173-VI amended and extended to institutional investors the provisions of Article L. 533-22-1 of the French Monetary and Financial Code introduced by Article 224 of the Grenelle II Act. Until then, the Grenelle II framework was indeed applicable to portfolio management companies of UCITS and certain alternative investment funds.

Directive", introduced a social and environmental reporting obligation at European level (it came into force on 1 January 2018).

This Directive is part of a context that included the European Commission's publication of the a communication entitled "A renewed EU strategy 2011-14 for Corporate Social Responsibility", which was adopted in October 2011, as well as a series of European Parliament resolutions on the subject in 2013. There was also, in light of the growing number of national initiatives within the EU, a need for coordination, in particular for companies operating in more than one Member State.

It amends **Directive 2013/34/EU of 26 June 2013** on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings (the "Accounting Directive"), particularly through the insertion of **Article 19a** on the non-financial reporting of EU-based public-interest entities with more than 500 employees, at consolidated level (including listed companies, credit institutions and insurance companies). It also amends **Article 20** ("Corporate Governance Statement") by supplementing it with elements relating to diversity (including age, gender, and educational and professional backgrounds) and Article 29 ("Consolidated Management Report") by supplementing it with **Article 29a** entitled "Consolidated Non-Financial Statement". This is the first European directive to set out the way forward in non-financial reporting, and its enactment into national law has required some adjustments to existing legislation.

Moreover, recital 9 of the Directive states that:

"In providing this information, undertakings which are subject to this Directive may rely on national frameworks, Union-based frameworks such as the Eco-Management and Audit Scheme (EMAS), or international frameworks such as the United Nations (UN) Global Compact, the Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Organisation for Standardisation's ISO 26000, the International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy, the Global Reporting Initiative, or other recognised international frameworks."

On 5 July 2017, the European Commission published its guidelines for the inclusion of a non-financial statement in the management report - thereby clarifying how the 2014 Directive will be implemented and taking into account the Sustainable Development Goals (SDG) and the objectives of the Paris Agreement. The basic principles of the guidelines are as follows:

- ✓ Publish material information:[28] here, the **materiality** of the information published is at issue. This depends on the company's business model, strategy and primary risks, sectoral issues, the interests and expectations of the stakeholders concerned, the impact of the company's activities, particularly in relation to its supply chain, and public policies and regulatory incentives.

28 Under the terms of Article 2, paragraph 16 of the 2013 Accounting Directive, "material" means the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking. The materiality of individual items shall be assessed in the context of other similar items.

- ✓ Information must be **faithful, balanced and understandable** (i.e. the role of corporate governance systems, the strength and reliability of data and internal control systems, interaction with stakeholders and independent external audits), as well as logical and consistent.

- ✓ **Complete and concise** information, targeted at stakeholders

- ✓ A strategic and forward-looking vision.

The guidelines are based on a variety of existing national, European and international frameworks, which are detailed in the Appendixes 4, 5 and 9).

An enactment of the Directive that gives concrete form to a structuring approach but that reveals varying sensitivities

In France, the Order of 19 July 2017 relating to the publication of non-financial information by certain large undertakings and groups and its implementing decree of 9 August 2017 have changed the extra-financial reporting system.[29] As from 1 September 2017, companies must formalise a **non-financial statement**. This must be included in the management report (approved by the Board of Directors or the Management Board), presented to the General Meeting of Shareholders (within six months of the end of the financial year) and made public.

- ✓ The non-financial statement thus aims to be a **strategic management tool for the company, focusing on material information**.

- ✓ The risk-based approach is at the heart of the reporting system. In addition, the so-called principle of relevance (i.e. "materiality") has been bolstered, in comparison with exhaustiveness: a list of detailed information is mentioned under the new system, but is only required in the statement on extra-financial performance if it is relevant to the main risks and policies identified. Justifications for absence now focus on the absence of a policy with regard to a given risk ("comply or explain").

Scope of information required by the non-financial statement: the materiality approach

- ✓ Companies are no longer required to complete a precise, predetermined list of extra-financial information that is identical for all companies. Under the terms of Article L. 225-102-1 of the French Commercial Code,[30] the scope of the information concerned is as follows:

  - The company's business model (or, where applicable, of all companies for which the company prepares consolidated financial statements)
  - Information on the primary risks relating to major extra-financial themes (environmental information about the company's activity (i.e. climate change, the circular economy, combating food waste) and taking into account the social consequences of the company's activity)

[29] Via amendments to Articles L. 225-102-1 and R. 225-104 to R. 225-105-2 of the French Commercial Code d (initially introduced by Article 225 of the Grenelle II Act of 2010 and its 2012 implementing decree)

[30] Independent Third Party Organisations must certify that the statement of extra-financial performance is included in the management report (See Section 5.1)

- Policies and the procedures implemented to carry out those policies and their results
- Key performance indicators

It should be noted that for companies listed on a regulated market, the DPEF must include information on the effects of the company's activity in terms of respect for human rights and anti-corruption efforts.

✓ In particular, it is noted that:

- If the company does not apply a policy with respect to one or more of these risks, the statement shall include a clear and reasoned explanation of the reasons for doing so.
- Much of the information noted above must be included among the risk factors in a dedicated section in the 2004 Prospectus Regulation, provided that they have a material financial impact.
- By reference to Article L. 233-16 of the French Commercial Code, the same scope applies to financial and extra-financial information (i.e. continuity in the approach with respect to the scope of consolidation). The scope of consolidation includes the parent company, the companies it exclusively controls and any jointly-controlled companies: exemptions must be presented and justified in the statement of extra-financial performance.

<u>Entities concerned</u>

✓ The entities concerned are of two kinds:

- Listed companies (whose shares are listed for trading on a regulated market. These include public limited companies (SAs), partnerships limited by shares (SCAs), European companies with their registered offices in France, general partnerships, finance companies, investment companies, parent companies of finance companies, financial holding companies when they take one of the above-mentioned legal forms) and similar companies (i.e. credit institutions, insurance companies), if their net turnover exceeds 40 million euros or their balance sheet total exceeds 20 million euros.
- Unlisted companies (public limited companies (SAs), partnerships limited by shares (SCAs), SCEs, general partnerships (SNCs), credit institutions, finance companies, investment companies, parent companies of finance companies, financial holding companies regardless of their legal structure, mutual insurance companies, cooperative companies, benefits institutions, mutual companies and mutual associations), whose net turnover or balance sheet total exceeds 100 million euros.
  Since 2017, there has been both an exemption for certain "listed" SMEs and certain subsidiaries, as well as an inclusion of other entities (i.e. assessment of eligibility thresholds at consolidated level; integration of public interest entities and certain benefits institutions).

In addition, several recent pieces of legislation have strengthened the regulatory framework resulting from the Directive, thus helping to **broaden the scope of reporting required** from companies:

✓ **The so-called "Sapin II" Act of 9 December 2016**, which updated the French legal framework by incorporating commonly-accepted principles in the **fight against corruption**. It requires the companies concerned and their managers to put in place, as

from 1 June 2017, measures and procedures to combat corruption by adopting a risk prevention approach (Article 17)

- ✓ **The Due Diligence Act of 27 March 2017**, which requires the companies concerned to establish and implement a due diligence plan that includes the companies they control, subcontractors and suppliers with whom the parent entity or ordering company has an established commercial relationship.

- ✓ The Career Choice Act of **5 September 2018** (in particular Article 84) requires the companies concerned by this Act to provide information about **measures taken in support of people with disabilities**;

- ✓ The Act of **30 October 2018** on the balance of trade relations in the agricultural and food sector and promoting healthy, sustainable and accessible food for all (notably Article 55) requires the companies concerned to report on the **means taken to combat food insecurity, respect for animal welfare and responsible, equitable and sustainable food**; and

- ✓ The Anti-Fraud Act of **23 October 2018** (notably Article 20 thereof) requires the companies concerned by the law to communicate on the effects of their activity on the fight against tax evasion (i.e. primary risks related to the activity; due diligence procedures; key performance indicators).

In the other European Union countries, the enactment of the Directive has revealed differences between Member States in terms of the scope given to extra-financial reporting

- ✓ The enactment of Directive 2014/95/EU into Member States' legislation between 2015 and 2017 revealed differences between EU Member States in the scope of the companies concerned, the scope of application in terms of indicators and information to be provided, the structure and format of the reporting, and the audit and penalties applicable in the event of non-compliance. **It should be noted that France stands out due to its more forward-looking stance with respect to extra-financial reporting, while Germany is rather more conservative** (see summary table in Appendix 5). Nevertheless, several Member States have exceeded the Directive's scope of companies with 500 or more employees, in particular Sweden, Denmark and Greece. In terms of reporting scope, France and Italy have introduced additional requirements. Only France and the United Kingdom require the inclusion of extra-financial reporting in the management report.

- ✓ It should be noted that only two of the Directive's requirements have not been taken into account by a number of Member States when enacting them into national law:

  - The <u>penalties for non-compliance</u> recommended in Article 51 of Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings ("Member States shall provide for penalties applicable to infringements of the national provisions adopted in accordance with this Directive and shall take all the measures necessary to ensure that those penalties are enforced. The penalties provided for shall be effective, proportionate and dissuasive") have not been enacted in Estonia, the Netherlands and Spain.

In all other Member States, the enactment of Article 51 has been adapted to each country's particular context. Thus, in Germany the applicable penalty may be a fine of 10 million euros or 5% of the company's total annual turnover or twice the gains made as a result of non-compliance. In a large number of Member States, the applicable penalties are specified in the country's commercial code (or equivalent) or civil code. In Malta, for example, the penalty applies to the individual held liable, for an amount of 1,164 euros, while in Portugal, the penalty also applies to the individual held liable for an amount between 50 and 1,500 euros. In the United Kingdom, the penalty (the amount of which is defined on a case-by-case basis) also applies to the individual held liable.

- The so-called "safe harbor principle" is established in Article 19a: "Member States may allow information relating to impending developments or matters in the course of negotiation to be omitted in exceptional cases where, in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking, provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance, position and impact of its activity". Denmark, Estonia, France, Norway and Slovakia have not enacted this clause. In France, this provision has not been included because of the existence of the "comply or explain" clause, which is considered sufficient.

✓ Also of interest are the UK's initiative regarding the update of its Strategic Report and the recommendations issued by the FRC in 2018 following the European directive on non-financial information (see Appendix 5). The Strategic Report centralises all information that will be included in the management report.

The European Commission's action plan for sustainable finance and the evolution of extra-financial reporting

With its action plan on financing sustainable growth published on 8 March 2018, the European Commission has – 25 years after President Delors' call for European companies to be more social responsible – once again laid the foundations for a stronger European Union commitment to sustainable development. The plan promotes sustainable finance as a reference framework for the regulation and functioning of European financial markets. This is one of the priorities of the Capital Markets Union and the EU's climate action and sustainable development programme. This plan is also largely based on the report by the High-Level Expert Group on Sustainable Finance (HLEG), published on 31 January 2018.

This action plan has three objectives:

(i) Reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth (i.e. close the annual investment gap required to achieve the European Union's 2030 climate and energy objectives)

(ii) Manage financial risks stemming from climate change, environmental degradation and social issues (in line with the risk typology described by Mark Carney in September 2015)

(iii) Foster transparency and long-termism in financial and economic activity

On this last point, the Commission highlights the key role of corporate extra-financial reporting in providing a real long-term vision of economic activities:

"Transparency of market participants' activities is essential to a well-functioning financial system. Corporate transparency on sustainability issues is ***a prerequisite to enable financial market actors to properly assess the long-term value creation of companies*** *and their management of sustainability risks. Corporate reporting is ineffective when longer-term risks are not fully transparent and thus cannot be taken into account.* ***Corporate transparency on sustainability will not only inform market participants, but also help to steer companies in a more sustainable and long-term direction.*** *[…]In this context, the Commission welcomes and encourages private initiatives on disclosure that promote easily accessible information on sustainable finance.* ***Sustainability and long-termism go hand in hand****."*[31]

It is against the backdrop that the action plan launched two initiatives to boost extra-financial corporate reporting:

✓ **<u>Revision of the guidelines on non-financial information (by Q2 2019), by including an annex dedicated to climate reporting</u>**

The Commission's objective: to adapt its guidelines to the recommendations of the TCFD, to achieve greater convergence between financial and extra-financial information

The Commission's objective is to adapt the guidelines to the recommendations of the TCFD as well as to the future classification of sustainable economic activities (the draft Taxonomy Regulation). Without clear and reliable extra-financial information, the Commission emphasises that the financial sector is poorly positioned to redirect its investments towards sustainable sectors and companies. In this way, the Commission recalls the benefits expected from greater transparency in the extra-financial area (a better understanding of the risks and opportunities faced by companies, lower cost of capital through better allocation of investments, controlled reputation risk, etc.).

As part of this, the Commission has entrusted the Technical Expert Group on Sustainable Finance (TEG) with the task of studying revision of the guidelines and drawing conclusions from them to inform the Commission's future work. This expert group published a progress report in early 2019, which was submitted for consultation. Seventy respondents commented on its proposals and the Commission used the TEG's conclusions and reactions to them to develop the annex to the climate guidelines (which should be read in conjunction with national texts enacting Directive 2014/95/EU).

The preamble to the Annex also recommends that companies should not limit themselves to ad hoc climate reporting but rather should seek a better convergence of this type of reporting with existing financial and extra-financial information (thus incorporating the provision already mentioned in Article 1 of the Directive).

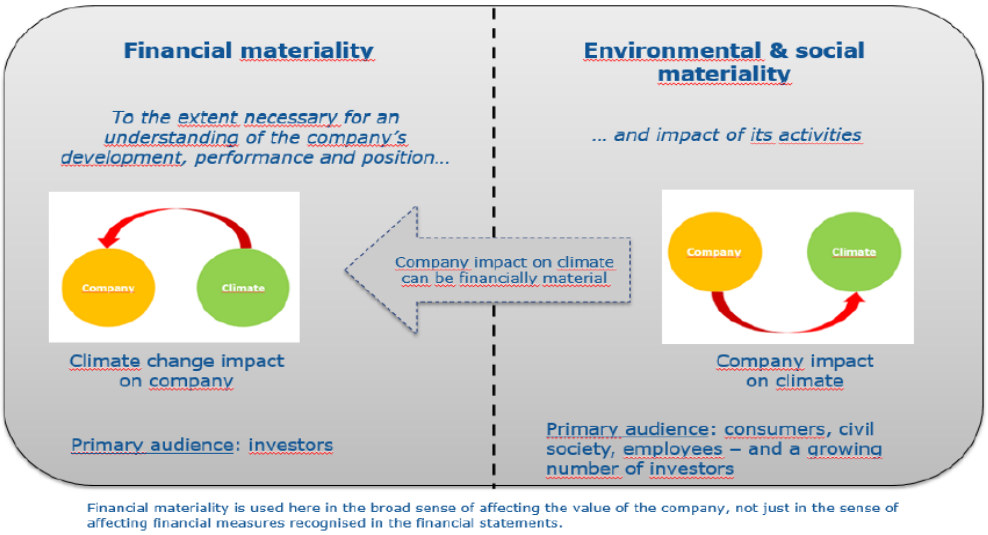
[31] Action plan for sustainable Finance of the European C Commission, 8 march 2018: https://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:52018DC0097&from=FR

Materiality in the annex to the guidelines dedicated to climate reporting

One of the new features introduced in the annex provided for by the Commission is the clarification it provides for a second definition of the concept of materiality – this can be considered in two ways, namely:

(i) **Financial materiality** (any factor that must be taken into account for understanding a company's development or performance); and/or

(ii) **Environmental and social materiality** (any factor that must be taken into consideration for understanding a company's external impact). Thus, the annex dedicated to climate reporting should be used by companies when at least one of these two perspectives is relevant.



Source: European Commission consultation document (page 8) "The double materiality perspective of the Non-Financial Reporting Directive in the context of reporting climate-related information" (February 2019)

In addition, the Commission specifies that materiality should be assessed in terms of risks as well as opportunities (with a view to redirecting investment flows towards the most virtuous issuers, over and beyond a risk control mindset). This should not be underestimated, as they can contribute to climate change mitigation or adaptation. The Commission emphasises that climate change risks can result from the company's activity or from activities in its supply chain (upstream and downstream), but also from the company's dependence on natural capital.

Differentiation of the European Commission's recommendations on climate reporting

The Commission has therefore chosen to differentiate its recommendations depending on the level of companies' exposure to the underlying issues:

i. A first category (Type 1), including information that companies should consider publishing when it is necessary for a proper understanding of its development, performance, position and the impact of its activities

ii. A second category (Type 2), including other information that a company may consider disclosing depending, among other factors, on the extent of the climate risks and opportunities it has identified.[32]

The recommendations are thus divided into five categories, reflecting the five pillars on which the non-financial reporting directive is developed (business model, policies and due diligence processes, outcomes, principal risks and their management, key performance indicators). The set represents a total of 40 new recommendations for the first four (i.e. business model, policies and due diligence processes, outcomes, principal risks and their management) and 12 key performance indicators (see Appendix 6).

The revised guidelines are scheduled to be published in June 2019.

✓ **The creation at the end of 2018 of the "European Corporate Reporting Lab" as part of the EFRAG (European Financial Reporting Advisory Group)[33]**

Its role is to stimulate innovations in the field of corporate reporting in the EU by facilitating dialogue between companies, users and other relevant stakeholders. The Lab will initially focus on extra-financial information and its practices, in line with the TCFD's recommendations (remit of the first working group created in February 2019).

Other themes along these lines include environmental accounting and, in the medium term, integrated reporting, digitisation and innovations in the various other aspects of corporate reporting. The Lab's steering committee consists of 17 members.[34] It is chaired by the President of EFRAG[35] and co-chaired by the Head of the relevant Commission Directorate-General.[36] The topics of the next working groups will be the subject of a public consultation scheduled for June 2019. EFRAG's European Corporate Reporting Lab is a forum for discussion on non-financial topics. It deals with the connection between the development of extra-financial information and accounting standardisation (EFRAG's advisory role as part of IFRS's accreditation, which is its primary activity). This forum may make suggestions, under the supervision of its steering committee.

[32] It should be noted here that the European Commission has not to date provided further guidance on which companies may be affected by the Type 2 recommendations.
[33] Non-profit organisation set up in 2001 whose role is to advise the European Commission on accounting matters.
[34] Including Elisabeth Gambert (Afep), Sébastien Godinot (WWF Brussels), Arlene McCarthy (Bloomberg) and Hilde Blomme (Accountancy Europe).
[35] Jean-Paul Gauzès.
[36] Alain Deckers (DG FISMA, European Commission).

1.4 Outside the European Union, a mixed panorama

This section gives an overview of the various public initiatives outside the European Union, as well as casting light on regulatory changes in the US, Canada, Japan and China[37].

Public initiatives

A large number of public initiatives have been launched outside the EU, especially since the early 2000s:

- ✓ The **United Nations Global Compact,** launched by Kofi Annan in 2000. France is a member of its Government Group (and held the presidency in 2018)

- ✓ The **OECD Guidelines for Multinational Enterprises**, created in 1976, remain the most comprehensive international framework for corporate social responsibility. Since 2011, the OECD has published a series of sectoral guidance documents to assist companies and stakeholders in their implementation of the Guidelines (for example, the Due Diligence Guidance for Responsible Mineral Supply Chains was published in 2011, with a new edition in 2016; the OECD-FAO Guidance for Responsible Agricultural Supply Chains was published in 2016)

- ✓ The **Group of Friends of Paragraph 47 of the Rio+20 Declaration** on sustainable development of June 2012, a group spearheaded by France, which has held the chair since its beginnings. **The goal is to be a precursor in implementing extra-financial reporting public policy,** as a means to measure the private sector's contribution to sustainable development. In addition, the Group of Friends of Paragraph 47 has committed to strengthening extra-financial reporting in talks for the 2030 Agenda – in line with the **SDG target 12.6** (i.e. "encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle")

From a regulatory standpoint, as explained in Section 1.3 above, **public authorities have mainly intervened to legitimise and establish a minimal level of requirements** – e.g. with the guidelines on non-financial reporting (2017) or the guides published by Japan's METI in 2018 (see below) on sustainable development reporting.

The Integrated P&L Alliance – involving the OECD, the European Commission and the World Bank – illustrates **public authorities' preference for relying on existing private-sector initiatives**. Another characteristic is the participation of government authorities or standard-setting organisations such as the IASB or the IOSCO, as well as boards of directors of organisations in charge of reporting frameworks such as the GRI, the SASB the IIRC (see 1.4.1 below).

[37] See Appendix 9 for further details on the regulatory frameworks for these countries.

Regulations outside the EU: some progress has been made, but still incomplete[38]

The US regulatory framework is grounded in the concept of "materiality" and lacks ambition due to political bargaining

Listed companies in the US refer chiefly to **Regulation S-K**, under the provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, in order to provide relevant information about their business: description of the business (notably information about compliance with US environmental regulations); description of any ongoing litigation that could result in claims of more than 10% of total consolidated assets; description of risk factors (no specific reference to ESG risks); and the Management Discussion and Analysis – a report aimed at providing the information needed to understand the company's financial statements. According to the SEC's interpretation issued in May 1989, the SEC considers Regulation S-K reporting to be mandatory whenever there is definite uncertainty that could have a material effect on a company's financial statements.

In February 2010, **the SEC published its guidance on disclosure related to climate change** (and its physical effects) and on legislative and regulatory developments regarding the fight against climate change and impact on the financial performance of listed companies.[39] This reporting is an integral part of Regulation S-K reporting described above.

The SEC's document notes that in 2007, institutional investors had already submitted petitions to the SEC regarding the importance of specific climate change reporting. It also notes that aside from certain sector-based rules (e.g. in the energy sector) of the SEC and the Environmental Protection Agency, a wide variety of NGOs require information (e.g. the Climate Registry) or issue frameworks (e.g. GRI, CDP) enabling listed companies to publish climate-related information.

It is worth emphasising that as early as the 1970s, the SEC published guidelines for listed companies to include the financial impact of compliance with environmental legislation in their reporting, based on the materiality of the information provided (SEC Release 33-5170, 19 July 1971). In the 1970s and 1980s, the SEC worked on combining materiality requirements better within the reporting framework laid out under Federal laws and regulations. In a 1976 case (TSC Industries *v.* Northway), the Supreme Court ruled: "the question of materiality, it is universally agreed, is an objective one, involving the significance of an omitted or misrepresented fact to a reasonable investor […] A fact is material 'if there is a substantial likelihood that a reasonable shareholder would consider it important'."

Lastly, **the Dodd Frank Act requires transparency from US listed companies on several kinds of information deemed material to investors' choices in terms of social responsibility**, via its provisions related to conflict minerals (Section 1502), to coal mines operated by securities issuers (Section 1503), to payments made to foreign governments for resource extraction (Section 1504) and to the ratio or executive to employee compensation (Section 953(b)).

Despite advances on this topic in the US (financial impact of environmental rules in the 1970s, publication of guidelines as of 2010, categories of climate-related risks, growing investor awareness since the 2000s), **the fact that there is no definition of "sustainability" in US law and the lack of political ambition** (no ESG focus in financial regulations or in US

[38] For more information on the countries mentioned in the report, see Appendix 9.
[39] https://www.sec.gov/rules/interp/2010/33-9106.pdf

companies; positioning of the SEC and the US Treasury) **have somewhat limited the extra-financial reporting of US companies.**

Canada's regulatory framework is recent, non-binding and focused on climate reporting

In Canada, accounting and financial regulatory authorities have been proactively tackling the topic of extra-financial information since 2010. They ramped up their efforts in 2018 as part of a government-wide effort to foster sustainable finance.

As such, the Canadian Securities Administrators (a group that brings together the financial market regulators for Canadian provinces in the aim of creating a harmonised Canadian securities regulatory framework) published:

- ✓ In 2010, recommendations regarding environmental reporting (for assessing climate risk, monitoring and evaluating climate impacts), which requires forward-looking information

- ✓ In 2011, recommendations on executive bodies' management reports (without including details on the report content)

- ✓ In April 2018, a first series of recommendations on implementing the TCFD. Note that the Ministry of Environment and Climate Change and the Ministry of Finance created a panel of sustainable finance experts in 2018 to issue recommendations on the information to be published about climate change, building on the TCFD's recommendations. At this stage, the consultation based on an interim report ended in late January and the final report is due out in mid-2019.[40] Moreover, the Canadian accounting profession is proactive in the field of climate-related extra-financial information, and has published many reports on this topic since 2008.

In December 2018, Canada's Accounting Standards Board published non-binding recommendations on performance reporting. These recommendations are not limited to ordinary financial information; they also focus on relevant extra-financial performance metrics. These recommendations are nevertheless non-binding for companies and constitute major principles more than specific recommendations.

Thus, the Canadian authorities – in collaboration with the private sector – have made significant headway on climate reporting, **albeit without establishing binding requirements** and by showing substantial hesitation to add additional obligations despite clear political support for the TCFD's recommendations. In addition, extra-financial reporting on social issues is still underdeveloped in Canada.

Japan has gradual strengthened its extra-financial reporting, consistent with policymakers' determination to enhance corporate governance

The advances made in Japan on extra-financial reporting are part of **corporate governance reform**, an integral part of the third focus area in Prime Minister Shinzo Abe's economic strategy. For a long time, Japan has lagged behind other developed economies in terms of corporate governance, and its practices in this area are not yet in line with its high level of economic development. Japan has reportedly now become No. 2 worldwide in terms of integrated reporting by companies.

[40] https://www.canada.ca/fr/environnement-changement-climatique/services/changements-climatiques/groupe-experts-financement-durable.html

Hence we note several public- and private-sector initiatives, including a code of conduct for institutional investors, published by the Japan Financial Services Agency (JFSA) in 2014 (updated in May 2017). Nevertheless, the real turning point for extra-financial reporting in Japan came in June 2015 when a corporate governance code took effect. This code was sponsored by the JFSA and uses the OECD's corporate governance principles and the provisions of the Companies Act (amended in 2014).

The corporate governance code requires that companies take appropriate measures to meet the challenges of sustainable development. This includes social and environmental stakes (Principle 2.3). It also emphasises that these dimensions are an integral part of corporate risk management, with careful oversight by the board of directors on these matters (to fulfil the board members' fiduciary duties).

Principle 3 of the corporate governance code specifies which disclosure principles are applicable to companies, including non-financial reporting: "This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risks and governance."

In addition, in 2018, the Ministry of Economy, Trade and Industry (METI) published its Guidance for Collaborative Value Creation to promote transparency by companies and to foster dialogue between issuers and investors. This guidance gives strong emphasis to the connection between sustainable growth, incorporating ESG issues, and capital allocation strategy (i.e. measuring intangible capital). In December 2018,[41] the METI published its Guidance on Climate-related Financial Disclosures, for the implementation of the TCFD recommendations in Japan, following the final findings of a research group on the TCFD recommendations (set up in August 2018). This guidance includes comments on the TCFD recommendations, as well as sector-specific recommended disclosures (for the automobile, iron and steel, chemicals, electrical and electronic, and energy sectors). In its guidance, the METI specified that it would draft best practice guides for implementing the TCFD recommendations but would not revise its guidance in the future.

Since 2015, Japanese authorities have clearly made efforts to strengthen the extra-financial reporting of Japanese companies, especially on climate matters (most reporting obligations involve climate), as part of the reform of corporate governance (in order to fuel a recovery in the Japanese economy). Changes in regulatory requirements, combined with more widespread implementation, are aimed at gradually making Japan a key country in extra-financial reporting. The Japanese authorities that we consulted with during our research have confirmed that Japan is closely monitoring all international and European trends in extra-financial reporting. They wish to provide a framework for Japan's multinationals that is consistent with practices elsewhere in the world.

In China, extra-financial reporting is fairly recent and is focused on the environmental aspects, still lagging behind its trading partners and the rising expectations of investors

Social and environmental responsibility is a fairly new subject in China despite increasing support from the Chinese government. Extra-financial reporting was only introduced into Chinese law in 2006, under the impetus of government-owned enterprises and the Shenzhen and Shanghai stock markets, with a provision requiring listed companies to publish an ESR report and to disclose extra-financial information to investors. Thus, there are now a dozen laws about ESR, including an important law on workplace safety that took effect in 2002.

[41] https://www.meti.go.jp/english/press/2018/pdf/1225_006b.pdf

Article 5 of the Chinese companies code stipulates: “in its operations, a company must comply with laws and administrative rules, social ethics and business ethics. It must act in good faith, accept government and public supervision, and bear the weight of its social responsibilities.”

This growing obligation for extra-financial reporting has come hand in hand with more stringent environmental regulations, notably under pressure from civil society, due to the significant deterioration in the environment and demand for greater traceability in industrial production. For instance, a 2008 decree required the 31 local environmental agencies to publish information in the press on companies that were not complying with environmental standards.

In addition, a 2017 rule issued by China Securities Regulatory Commission (CSRC) requires all listed Chinese companies and equity issuers set up extra-financial reporting by 2020. This stricter regulatory framework is backed by stronger shareholder engagement in Chinese companies (within the limits of local governance rules and the proportion of foreign investors in the share capital of local companies) and growing pressure from investors in China, notably due to the ramp-up of green bond issues.

Extra-financial reporting in China has developed recently, especially on environmental issues, but it is still well behind other that of other countries. Increasingly stringent requirements from financial regulators are nevertheless likely to drive extra-financial reporting trends and meet the expectations of Chinese society and of foreign investors.

1.5 Private-sector standards are flourishing and ambitious

Our task force noted that extra-financial disclosure standards are currently mainly driven by the private sector. This observation calls for two general introductory remarks:

- ✓ The distinction between private and public initiatives is obviously influenced by the constitutional, institutional and legislative circumstances. Within the EU, any initiative that does not originate in a decision made in compliance with the EU's institutional rules is automatically deemed to be "private". This classification in no way means that such initiatives are not worthwhile or influential, but it ranks them within the hierarchy of norms derived from Roman law. We can note, in passing, the need to avoid the frequent misunderstandings between the legal culture referred to above and other traditions that give more importance to the mainstreaming of best practices when it comes to the emergence of law and related regulations.

- ✓ In all cases, law and its practical applications interact in such a way that – quite fortunately – the line between the two is permeable. For example, the guidelines established by the EU to apply the Directive allow room for private initiatives (which are explicitly referred to in the Directive) without automatically consecrating such initiatives. And conversely, private-sector initiatives endeavour to situate themselves within the framework of any existing public initiatives.

In this report, we apply the conventional approach of using the terms "private-sector norms" or "private-sector standards" to refer to standards established by private-sector initiatives, and we reserve the term "standards" for norms or standards that are established or approved as part of a public-sector institutional process.

The task force has identified multiple initiatives which can be summarised as follows:

i. **General scope initiatives**, promoting global objectives, offering global frameworks and general principles, including in some cases management principles
ii. Initiatives on the **content of information**, dealing with environmental, social and governance issues
iii. Topical initiatives related to a **specific issue** (such as climate change)
iv. Initiatives aiming at **integration of the extra-financial data** within the financial accounting**.**

Nature of the initiatives	Initiatives' names
General scope initiatives	– SDGs and Global Compact of United nations – ISO 26000 – International Integrated Reporting Council (IIRC) – "Core and More" initiative
Initiatives on **content related to environmental, social and governance issues**	– Global Reporting Initiative (GRI) – Sustainability Accounting Standards Board (SASB)
Topical initiatives on: ✓ Intangibles ✓ Climate issues ✓ Other issues	– WICI – Carbon Disclosure project (CDP) – CDSB – Task-Force on Climate-related Financial Disclosures (TCFD) – Natural Capital Coalition – WBCSD
Initiatives aiming at **accounting of extra-financial information**	– CARE model – The "universal accounting" model

After a short description of the abovementioned initiatives, the report will present an analysis of the three main actors (*i.e.* GRI, SASB and IIRC) and a presentation of the current status of the international accounting standards setters. The content of the initiatives will be further detailed in Chapter 2.

General scope initiatives, promoting global objectives, offering global frameworks and general principles, including in some cases management principles

✓ SDGs and Global Compact of the United nations

In September 2015, the member states of the United Nations adopted a 15-year programme: the "2030 Agenda for Sustainable Development". This followed on the heels of the Millennium Development Goals. This ambitious agenda of 17 global goals is a framework for tackling inequality, exclusion and injustice, addressing the issue of climate change and the erosion of biodiversity, and ending extreme poverty. All stakeholders – namely governments, citizens, non-profits, the private sector, and public institutions and entities – are called on to help achieve these goals.

Private-sector companies, via the Global Compact, are active stakeholders with a key role to play in making Agenda 2030 a success. The ESR strategies that have already been implemented within their organisations are therefore often defined as their contribution to sustainable development and are therefore the central focus for SDG monitoring.

Works are under way to bring the private-sector standards of GRI and SASB more in line with the TCFD conclusions and recommendations (see Section 2.3).

✓ **ISO 26000 "Guidance on social responsibility"**

ISO 26000 is a voluntary international standard aimed at defining the concept of social responsibility. It endeavours to give organisations guidelines and to describe the principles and themes of social responsibility. As such, it is a common international resource for anyone wishing to build legitimacy in terms of social responsibility.

The process breaks down into seven key core subjects: organisational governance, human rights, labour practices, environment, fair operating practices, consumer issues, and community involvement and development. These subjects help the organisation identify the relevant fields and actions to be implemented.

ISO 26000 was published in 2010 and has not been updated since then. Certain issuers have referred to it as their benchmark (34% of issuers according to the Afep/Medef survey carried out as part of the task force).

Given its age and its characteristics, the people interviewed by the task force did not make many comments about ISO 26000.

✓ **The International Integrated Reporting Council (IIRC)**

In 2013, the IIRC published its International <IR> (integrated reporting) Framework.[42] Integrated reporting is an approach aimed at stating concisely how an organisation's strategy, governance, performance and outlook result in short-, medium- and long-term value creation given its environment.

This approach fosters coherent information for equity providers and financial investors. The integrated report is an "umbrella" report designed to encompass all the other reports published by a company (financial and non-financial alike) in order to give investors a comprehensive, coherent and overarching view.

Companies are analysed in terms of six kinds of capital: financial, manufactured, intellectual, human, social and relationship, and natural. Mentioning these six capitals is recommended but remains optional as the corporate entity may select the ones that are significant having regard to its activity.

In addition to this breakdown around six kinds of capital, the framework gives guidelines for drafting an integrated report: presenting strategic priorities and future orientations, connectivity of information, stakeholder relations, selectiveness, concision, reliability and

[42] http://integratedreporting.org/resource/international-ir-framework/

completeness of information, coherence and comparability of data. Thus, the IIRC framework is a behavioural standard, not a prescriptive metrics-based one.

The task force met with representatives of the IIRC. The ensuing discussions were very open, and the IIRC stated that the framework is indeed intended as a "host structure" for various kinds of corporate financial and non-financial communication, which can refer to different content frameworks. It is also designed as a way to organise an approach based on the two key concepts of integrated thinking and integrated reporting. As such, the framework does not contain standards per se, but rather a methodological and behavioural framework. The approach is based on the idea that companies with "integrated" management will ultimately outperform. This approach is focused primarily on investors, but as it is open-ended, it can take other stakeholders into account. The IIRC's ambition is to roll the framework out globally.

The task force met with users, analysts and many observers who shared their generally positive opinion on the IIRC. Its very open, pragmatic and forward-thinking approach means that it can be tailored to each company's needs and implemented over time. Basically, it is fairly easy to claim to follow the general spirit of the IIRC framework, even though a closer look reveals a high level of underlying requirements.

✓ **Accountancy Europe's Core & More initiative**

Accountancy Europe (formerly the Federation of European Accountants) published a document in September 2017 for discussions about corporate reporting: "Core & More: an opportunity for smarter corporate reporting". [43] The aim is to think solely about how the information published by companies is presented. In this approach, there are no indications on how to prepare the contents of the information, the metrics or the frameworks to be used.

Faced with the increasing needs for information from multiple stakeholders, the diverse range of information published (financial and non-financial), the links between information and the need for a structured message, Accountancy Europe proposes a new reporting presentation concept. It is twofold: 1) The "core" part is a central module including the essential and broad information about the company's business. This core is useful for all stakeholders. 2) The "more" section contains specific modules with details on certain topics, so that interested stakeholders can gather only the information that is useful to them.

Generali adopted this principle in its integrated report, which it has published since 2017.[44] The task force did not receive many comments about this initiative, which appears to be based on principles and encouragement but whose practical scope should give rise to additional developments.

[43] https://www.accountancyeurope.eu/publications/core-more-smarter-corporate-reporting/

[44] Group annual integrated report 2018, page 4 - https://www.generali.com/investors/reports-and-presentations: "The group reporting approach is based on the integrated thinking and Core&More concept."

Initiatives on content related to environmental, social and governance issues

✓ The Global Reporting Initiative (GRI)

GRI is an NGO founded in 1997 by CERES (Coalition for Environmentally Responsible Economies) and UNEP (United Nations Environment Programme). Its goal was to develop a framework for high-quality "sustainability" reporting.

After developing several versions of recommendations (the first version, G1, was in 2002), based on multi-party working groups until G4 in 2013, GRI started a codification and ranking process, leading it to put forward a more general framework with the publication of "private standards" in 2016.

Concurrently, GRI stated that it was a standard-setter and updated its governance, as described below.

The GRI Sustainability Reporting Standards and subsequent metrics are aimed at providing a fairly comprehensive framework for communicating on the economic, environmental and social impacts of a company, and thus to meet the ESR reporting needs of various stakeholders (see Sections 2.1 and 2.2 for a detailed analysis of contents).

The task force met with GRI representatives. The ensuing discussions were very open, and GRI indicated that its standards are well recognised worldwide, and it is eager for this recognition to receive official government backing so that these standards can act as a global benchmark.

In addition, the task force met with users, analysts and many observers who shared their mixed opinions on GRI. They all recognised the pioneering, ground-breaking and worthwhile nature of GRI's approach. Some interviewees acknowledged that the GRI standards have genuine merit as a benchmark for high-quality extra-financial information. Others regretted a lack of actual innovative value-added and a lack of ambition in the past few years, and viewed the insufficient sector-by-sector approach to be a major weakness. Lastly, many stated that GRI's governance reform (analysed below) does not necessarily fulfil expectations in that regard, despite general praise for GRI's current executives.

✓ The Sustainability Accounting Standards Board (SASB)

SASB is a US-based non-profit created in 2011. It describes itself as a standard-setter.

On 7 November 2018, SASB published a set of industry-specific "private-sector standards" for sustainable development. These standards cover financially-material issues in 77 different sectors across the economy.

This publication followed on the release of a conceptual framework (published in 2013, then in 2016) that described the principles used to draft the standards.

These standards are aimed at giving financial investors and equity providers detailed information for each sector on the risks and opportunities of a company's operations due to social and environmental dimensions. Working groups comprised of sector specialists defined a deliberately small number of relevant metrics based on sector expertise and data

generally used on the market (see Sections 2.1 and 2.2 for a detailed analysis of the contents).

The SASB's definition of "sustainability" corresponds to the social and environmental responsibility of companies although governance-related aspects are not specifically covered by these standards.

The task force met with SASB representatives who, in a very open discussion, stated that the most recent publication of standards and sector indicators was, in their view, a key step towards a straightforward, pragmatic approach that would drive action by companies, data aggregators and investors. They expressed their strong determination to work towards a global rollout of these industry-specific standards.

The task force also met with users, analysts and many observers. Their opinions of the SASB standards were also mixed. Many interviewees recognised the value and appeal of the industry-specific approach. However, many also noted the lack of a common foundation and the oversimplified nature of certain metrics due to the deliberately small number of metrics and a US-centric approach. For many interviewees, the SASB governance structure (analysed below) is not suitable for a global rollout irrespective of the expertise of SASB's current executives.

Topical initiatives

✓ **Intangibles: WICI Network**

The WICI Network was created in October 2007 under the leadership of the Enhanced Business Reporting Consortium in the US,[45] the EFFAS (European Federation of Financial Analysts Societies),[46] and Japan's METI (Ministry of Economy, Trade and Industry).[47] This network's sole focus is on improving the reporting of intangibles.

Its aim is to develop: 1) a voluntary reporting framework that explains why intangible assets can generate value; 2) recommendations for setting up and monitoring sector metrics; and 3) an XBRL taxonomy.

Despite its clear conceptual appeal, this approach did not spark many comments from the people interviewed by the task force. This situation may be due to the priority given to analysing risk factors and the resources available for the WICI initiative.

Climate-focused initiatives are the current issue. The growing collective awareness, over the past 20 years, of the climate emergency has sparked many reporting initiatives on this topic. Notably:

[45] A consortium created by the AICPA (American Institute of CPAs): "The Enhanced Business Reporting Consortium (EBRC) is a collaborative, market-driven initiative that provides an opportunity for users and providers of capital to work together for the public interest to improve the quality of information provided to capital markets. The Consortium will work to promote greater transparency by developing an internationally recognized, voluntary framework for presentation and disclosure of value drivers, non-financial performance measures and qualitative information."
[46] Headed up by Ferrara University.
[47] Headed up by Waseda University.

- ✓ **The Carbon Disclosure Project (CDP)**

CDP is an NGO created in 2000 that is fighting for transparent environmental information by economic and administrative stakeholders. Since 2003, CDP has been running an annual campaign, based on a questionnaire, to gather information about companies' greenhouse gas emissions. Since 2010, this survey has included the oil & gas sector.

Also in 2010, CDP expanded its scope by launching annual surveys on water management ("CDP Water") and in 2013, an additional survey on forest management ("CDP Forests"). Until 2016, its assessment method was based on the Climate Disclosure Score and the Climate Performance Band. The data collected is fed into a database, which has now become a benchmark in terms of carbon emissions data.

- ✓ **The CDSB**

The Carbon Disclosure Standard Board (CDSB) was founded in 2007 under the impetus of the World Economic Forum. The CDSB proposes a framework for reporting environmental and climate information that places equal emphasis on financial capital and natural capital.

- ✓ **The Task Force on Climate-related Financial Disclosures (TCFD)**

The TCFD[48] is a working group set up in late 2015 during the COP21 by the G20 Financial Stability Board. Its goal is to foster transparency in climate-related financial information. In 2017, the TCFD issued its recommendations for climate reporting.

The European Commission is currently in a consultation process aimed at incorporating these recommendations into its own recommendations following on from the Non-Financial Reporting Directive.

The other specific initiatives deal with natural capital (including biodiversity issues) and human capital.

- ✓ **The Natural Capital Coalition**

The Natural Capital Coalition was created in 2012 by 14 international organisations representing all types of stakeholders. Its purpose is to promote integrated thinking about all kinds of natural capital[49] in decision-making processes.

This coalition published a Natural Capital Protocol in 2016 and updated it in 2018. The goal of this protocol is to provide a framework for company executives to obtain reliable, credible and actionable information on protecting natural capital.

The aim is not to create new standards, but to build on existing methods[50] and create more standardised approaches focused on action and implementation issues. This

[48] https://www.fsb-tcfd.org/

[49] "Natural capital is another term for the stock of renewable and non-renewable natural resources (e.g. plants, animals, air, water, soils, and minerals) that combine to yield a flow of benefits to people."

[50] See "The path towards the natural capital protocol: a primer for business" (diagram on p. 11).

approach is the foundation for the EP&L (environmental profit & loss) statement published by certain groups (such as Kering, BASF and Philips; see Section 1.6).

✓ **The WBCSD**

The World Business Council for Sustainable Development (WBCSD) is an association of the largest multinational firms whose purpose is to share experiences and achievements in the field of sustainable development via thematic working groups.
WBCSD aims to take part in development policy, boosting companies' contribution to sustainable progress, promoting sustainable development in the working world, and helping countries build a sustainable future.

In 2017, the WBCSD published its "Social & Human Capital protocol",[51] which includes definitions, guidelines and a reporting framework for social aspects.

The task force met with users, analysts and many observers who shared their generally positive opinions on the existing climate reporting frameworks, notably because they have a longer track record (meaning that the related metrics have already been developed). The principles and metrics included in the standards are deemed fairly robust (alongside the TCFD, the CDSB and the CDP). However, the task force noted difficulties related to the specific reporting for various emissions "scopes" in particular. With regard to the reference frameworks focused more broadly on environmental issues, following its analysis and discussions, the task force noted that the organisational and methodological aspects need to be strengthened. This is the aim of numerous ongoing initiatives, e.g. at the OECD.

All these initiatives are mentioned in the guidelines subsequent to the Directive on Non-Financial Reporting. These guidelines were published by the Commission in 2017 (see Appendices 2 and 4), and the very governance structure of some of these initiatives is reviewed later on in this report. Meanwhile, the specific proposals are analysed in greater detail in Chapter 2 (reference framework content) and Chapter 3 (reporting structures).

Moreover, there are **less well-known initiatives aimed at incorporating extra-financial factors into accounting**. The task force discussed this topic with the promoters of two such para-accounting initiatives:

✓ The CARE model ("Comprehensive Accounting in Respect of Ecology ")[52]

This model, developed since 2015, aims to incorporate accounting and environmental issues directly into accounting standards and to include them on companies' balance sheets and P&L statements. Similar to financial capital, the aim is to build a model that preserves and maintains natural and human capital, as well. This proposal is currently being experimented in France with support from ADEME in the "Farms of the Future" project.

Beginning with the observation that apparently free resources actually entail hidden collective costs, this model adds natural or social "capital" to assets and liabilities, then monitors it over time by accounting for costs associated with maintaining and developing this non-financial capital.

[51] https://docs.wbcsd.org/2019/02/Social_and_Human_Capital_Protocol.pdf
[52] Researchers Jacques Richard and Alexandre Rambaud developed this model in 2015.

✓ The "universal accounting" model

The "universal accounting" model[53] assesses the monetary value of an organisation's ESR actions by relying on stakeholders to determine the most relevant criteria for defining and steering an action.

- The aim then is to quantify these metrics and assign a monetary value to them. This value will be included in the P&L statements so that the results of the action are visible. This approach has been developed since 2007. McDonald's France experimented with it for a few years.

These models are experimental and enjoy support from certain individuals contacted by the task force. Some of our contacts stated that these models make the interesting but challenging wager of translating into monetary terms certain concepts that currently "do not have a price" due to the lack of legal obligations (see Section 1.1 above) and inserting them into traditional accounting frameworks. Thus, setting conventions for determining the valuations is crucial, and there is not yet consensus on this point. The mixture of data types (monetary and non-monetary) allows for an interesting overview, in theory, of performance for all factors. However, this mixture also raises the risk of being perceived as unreliable as it translates non-financial factors into monetary terms based on conventions.

NGO-type governance structures with ambitions for setting global standards: the example of three standard-setters with a general focus, GRI, SASB and IIRC

"At the SASB, our work sits at the intersection of two extraordinary market forces – companies, and their investors. We enable the supply side – the companies – to better meet increasing investor demand for material, decision-useful data on sustainability performance […] The SASB standards may challenge legacy thinking and bust some myths, but I hope we can convince all of you that they are also a natural evolution of modern finance. Whether you're a multi-billion dollar pension fund or kid in South America relying on your mom for financial advice, ESG is not a separate wedge in the colour-coded pie chart of asset allocation. Material ESG risks – and opportunities – are embedded in all asset classes. It's the whole pie. To understand and manage exposure to risk, you need good data on material factors. You need the SASB. It's as simple as that."

Source: SASB Symposium Speech, Dr Jean Rogers, founder and former chairwoman of the SASB, 30 November 2017

"The practice of disclosing sustainability information leads to increased transparency […] As the pioneer of sustainability reporting, I can safely say that GRI has been right at the helm, leading this effort of increasing corporate transparency. GRI has also evolved its reporting framework over the years, corresponding with how our collective understanding of sustainability issues has evolved. For example, our interpretation of sustainability has expanded to include several topics that affect the long-term viability of the socio-economic fabric of our world – topics such as human rights and anti-corruption, to name a few. During this period, leading companies have also evolved to hold themselves accountable for an ever-wider range of impacts. The sustainability reporting process initially began with in-depth reporting about impacts within the four walls of the business, but it has progressively expanded to include impacts outside of the business, such as within value chains, among

[53] https://www.cabinetdesaintfront.fr/la-comptabilite-universelle

consumers and within communities affected by business operations. GRI has played an indispensable role in this evolution."

Source: Q&A with GRI Chief Executive Tim Mohin, 4 October 2017.

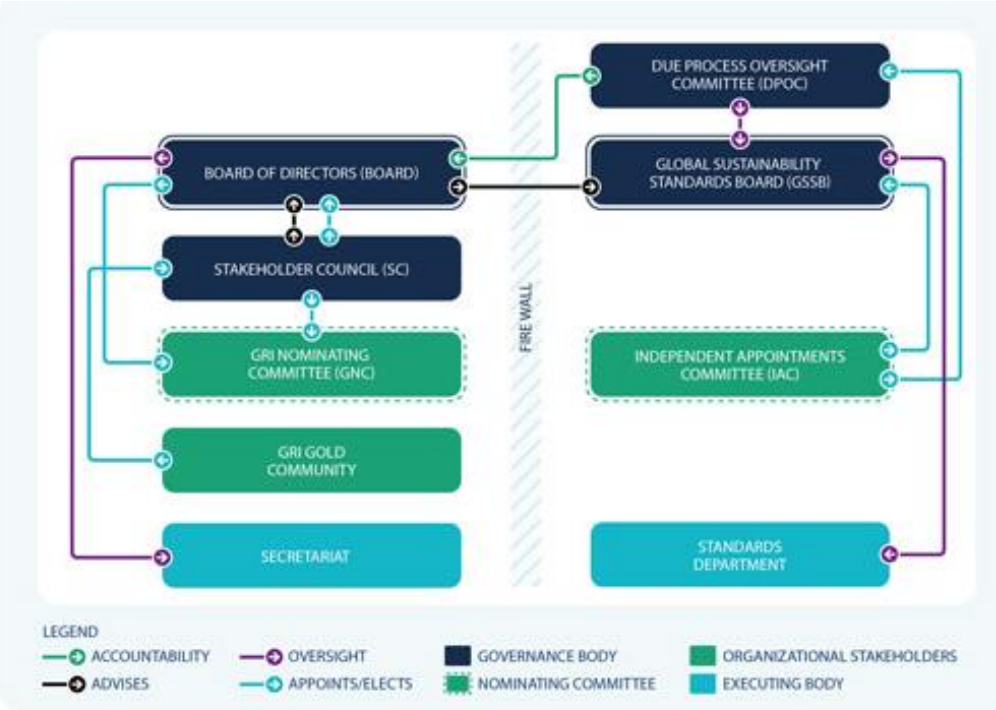
As these quotes illustrate, the organisations that are backing existing frameworks currently assert an international ambition. Their influence with companies and investors is partially attributable to the fact that they come from the private sector, which probably enables them to understand users' needs and constraints more easily. GRI and SASB define themselves as "standard-setters", just like standard-setters driven by public-sector initiatives or officially recognised by the authorities, such as the IASB or the Basel Committee. In this environment, IIRC considers itself more as a think-tank.

Almost all the reporting frameworks described above are therefore characterised by their private-sector origins and the major role of committed, motivated and influential stakeholders (including foundations focused on these topics, such as Bloomberg, as well as large companies and major audit/consulting firms) in their governance structures, their promotional efforts and their development.

Their governance is also concentrated inasmuch as the processes for appointments and for supervision are similar to those of a "club" of individuals from various backgrounds who nevertheless share the same convictions and determination to take action.

- ✓ GRI's board of directors is chaired by an American with nearly 25 years' experience in a UK/US network of international consultants.

  - GRI is an NGO, with a multi-party and circular governance. Since its governance structure was revamped in 2014, it has had a board of directors, which advises the Global Sustainability Standards Board, created in 2014 and whose members are appointed by the Independent Appointments Committee. The latter committee is strictly separate from the committee that appoints members to the board of directors. Note that the 15 members of the board of directors are appointed by the GRI Nominating Committee for four-year terms. A Due Process Oversight Committee includes representatives of companies, employees, investors and civil society; its members are also appointed by the Independent Appointments Committee. The Due Process Oversight Committee reviews and supervises the work by the Global Sustainability Standards Board. The Stakeholder Council gathers nearly fifty members and is the formal stakeholder forum within the GRI governance structure and advises the Board on strategic issues. Its key functions include appointing Board members and making recommendations on future policy, business planning and activity.

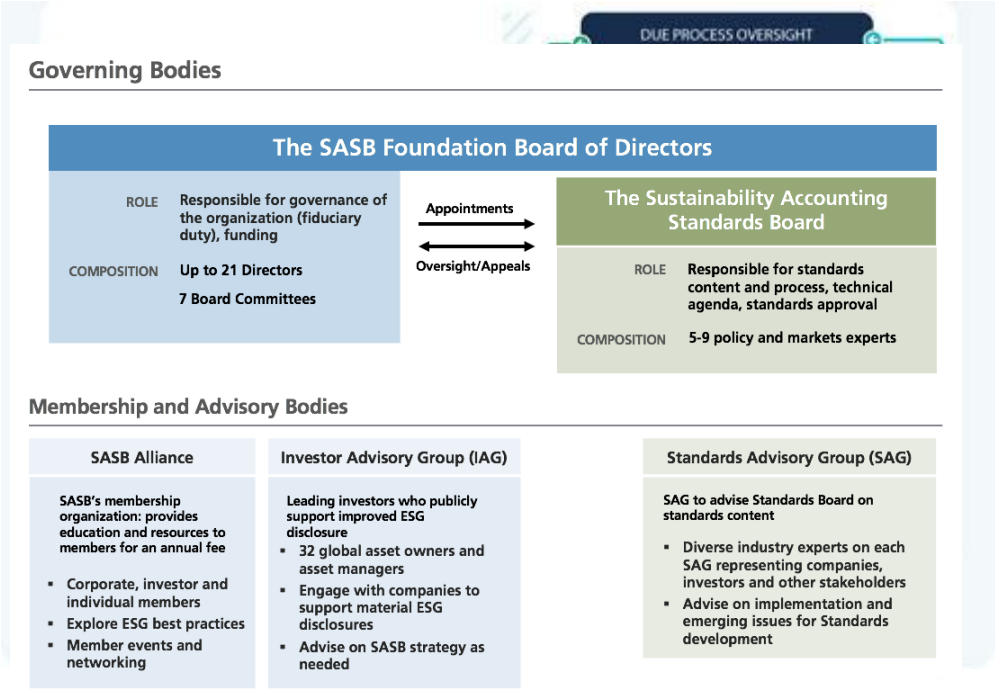


Source: Global Reporting Initiative website (24 April 2019)

- GRI's financing comes from corporate foundations and government entities (one-third of total funding). The "Big 4" make a relatively small contribution (Deloitte and KPMG each gave €100,000 in 2017). The largest contributors are the Swiss State Secretariat for Economic Affairs, the Swedish International Development Cooperation Agency; the UK Department for International Development; the World Council for Sustainable Development; the Norwegian Ministry of Foreign Affairs; the Australian Department of Foreign Affairs and Trade). Two-thirds of funding comes from its reporting and training services, as well as members' dues.
- GRI's operating budget for 2017 was around €12m (source: 2016-17 annual report).

✓ The SASB was founded by Jean Rogers, an American citizen and former consultant from an international consultant network.

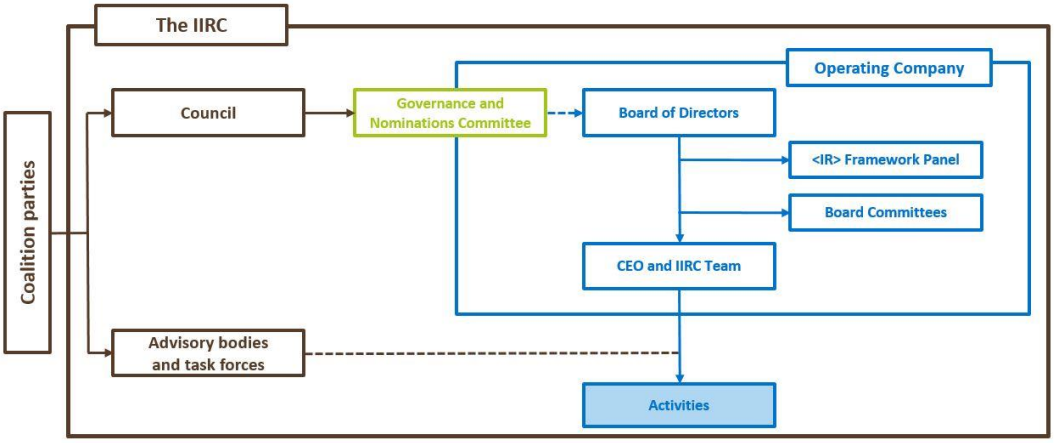
- Its board of directors is chaired by Robert Steel, who was previously deputy mayor in the administration of New York City mayor Michael Bloomberg. It is co-chaired by Mary Schapiro, a former chairperson of the SEC and the CFTC, who has also served as Michael Bloomberg's special adviser since October 2018.
- Its board members include members of the international networks of auditing firms, as well as one of the founders of Bloomberg Financial Markets.
- The SASB is a foundation including a board of directors for the SASB Foundation and a Standards Board. The board of directors appoints members to the Standards Board, whereas the Standards Board supervises and can appeal decisions by the board of directors.
- The largest contributors to the SASB (whose total contribution in 2016-17 was more than $2m) are Bloomberg Philanthropies, the Big 4 and a few foundations (including the Rockefeller Foundation).
- The SASB's operating budget was around $7m in 2017 (source: 2017 annual report).



Source: SASB website (24 April 2019)

✓ The IIRC is an NGO whose governance structure comprises a board of directors and a Council. The Council appoints members of the Governance and Nominations Committee, which in turn appoints the board members.

- The board is chaired by Barry Melancon, CEO of the Association of International Certified Professional Accountants (AICPA-CIMA). Only a few board members are from the accounting profession (ACCA, PwC). The Council is chaired by Dominic Barton, a former McKinsey general manager, and includes nearly 80 members whose role is to contribute to collective and multi-stakeholder discussions of the future of integrated reporting. It includes representatives of the Big 4, of the accounting and audit professions (including IFAC and DIPAC), of the financial services industry and of companies, the CFA Institute, as well as the CEOs of GRI (Tim Mohin), CDSB (Richard Samans) and Steven Gunders (SASB), IOSCO, IASB, World Bankand a few NGOs (including Transparency International).
- Amongst the members of the board, Council and the Governance and Nominations Committee, members come from very diverse backgrounds (much more so than for GRI and the SASB).



Source: IIRC website (24 April 2019)

- With regard to the IIRC's financing, nearly half comes from companies ("business and other reporter entities"), a third from the accounting profession (AICPA-CIMA; ACCA; Deloitte; EY; PwC; KPMG; Global Accounting Alliance; International Federation of Accountants; etc.), and the remaining quarter comes from civil society, public funds and stock market platforms.
- The IIRC's operating budget for 2017 came to around £1.7m (source: 2017 financial statements).

Note also that the SASB and the IIRC benefit from staff from the Big 4 or other corporations on secondment, or even pro bon research by these firms:

- At the SASB, these contributions in kind were valued at around $560,000 in 2017 (source: 2017 annual report).
- For the IIRC, staff on secondment accounted for 30% of total staff in 2017.

International accounting standard-setters: in the role of outside observers

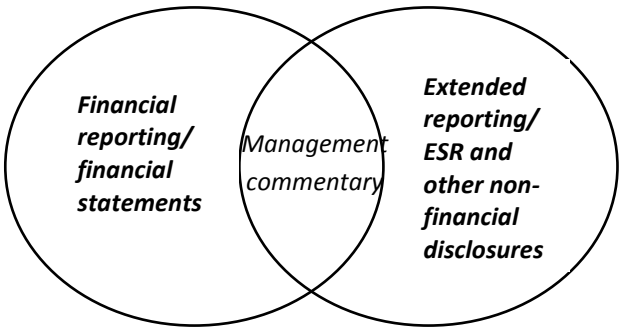
According to their mission statement, the scope of application for the works of the international accounting standard-setters (IASB and FASB) is **solely financial**:

> *The IFRS Foundation is a not-for-profit, public interest organisation established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting standards – IFRS Standards – and to promote and facilitate their adoption.*[54]
>
> *The collective mission of the FASB, the Governmental Accounting Standards Board (GASB) and the FAF is to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and to educate stakeholders on how to most effectively understand and implement those standards.*[55]

The question of the boundaries between accounting and financial information arises frequently, notably with regard to defining intangible assets, and the content of the

[54] IFRS Foundation annual report
[55] https://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176154526495

management commentary. The scope of corporate reporting can be represented schematically as follows:[56]



In 2010, the IASB published an initial "practice statement" on the potential content of the management commentary. The IASB's ambition was to provide a reference framework for the countries that have adopted IFRS. The management commentary, according to the practice statement, aims to provide integrated information on the context that could be useful to better understand financial information: retrospective views (positive and negative impacts) and prospective items on potential impacts on future financial performance. The document is structured in five main sections[57], which is an interesting point. Thus, it is a first step towards non-financial disclosure. The practice statement's approach is different from the one followed by the Chapter 5 "management report" of the European Directive: content (less compared to the practice statement); non-financial statement (not covered by the practice statement) and governance statement (partially included by the practice statement).

The practice statement is currently being revised, notably to include recent developments on the need for climate-related information following the TCFD talks.

The task force understand that this update will detail the content of the document based on the 2010 approach. No new concept is expected. Hans Hoogervorst, chairman of the IASB, repeated this on 2 April during a speech at a conference at Cambridge University:[58] "I do not think the IASB is equipped to enter the field of sustainability reporting directly." Nevertheless, the IASB is monitoring this topic within the Corporate Reporting Dialogue (see Chapter 2).

With regard to the FASB, the topic of extra-financial information does not clearly seem to be a concern for the SEC or to be part of the FASB's mandate. The members of the FASB board did not wish to express an opinion on this topic.

In addition, this issue was debated in late 2018 at Oxford University following the publication of a green paper by the academics Richard Barker and Robert G. Eccles.[59] The title of the paper was: "Should FASB and IASB be responsible for setting standards for non-financial information?" It gave rise to a debate at Oxford on 12 December 2018.[60]

[56] Based on the IASB's presentation for its "management commentary" project
[57] See paragraph 24 "Elements of management commentary" : the nature of business; management's objectives and its strategies for meeting those objectives; the entity's most significant resources, risks and relationship (3R) , the results of operations and prospects and the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.
[58] https://www.ifrs.org/news-and-events/2019/04/speech-iasb-chair-on-sustainability-reporting/
[59] Oxford University and Said Business School
[60] https://www.youtube.com/watch?v=IyzkKFgp6NU

This paper noted the growing need for non-financial information, often with an ESR bent, along with the proliferation of "standard-setters" in the field. As these stakeholders are chiefly NGOs, lacking sound financial backing, the sustainability of their actions is, in the authors' view, a serious cause for concern. Hence the two academics decided to research their paper with the idea in mind of placing non-financial standards and sustainable development issues in the hands of established institutions that are recognised in the field of accounting standards.

Our task force noted the following pro/con arguments:

Pros In favour of including non-financial information in accounting standards	**Cons** Against including non-financial information in accounting standards
Investors and financial users need non-financial information	Investors are not the only stakeholders. How can information be explained to other stakeholders?
These frameworks need to be included, and the IASB/FASB would have the credibility and the methodology to do so	The IASB/FASB lack ESR expertise
Need for comparable information	Comparability is more relevant within business sectors
Need for standardisation rather than the current proliferation of abundant, diverse and hard-to-understand information	Standardisation is a complex process given the wide breadth of topics. The crucial information has not yet been defined. Need to define what is meant by "non-financial information"

Following these debates, the audience was divided on the topic (half of the audience was in favour of an inclusion in the accounting standard setting, half against). This debate continues in 2019 and should ultimately lead to a white paper being published by year end. At this stage, international accounting standard-setters are clearly standing as observers on the side-lines with regard to extra-financial reporting.

The private sector plays a crucial role in designing extra-financial reporting frameworks, but this nevertheless requires dialogue with public authorities to avoid the subsequent risk of "endogamy".

1.6 Innovative companies and NGO scrutiny: a few examples

Over the past few years, private-sector players have been the driving force in drafting extra-financial reporting frameworks, and more broadly, in credentialing the social and environment commitments and performance of companies. The involvement of public authorities has mainly focused on supporting private-sector initiatives and, to a certain extent, lending legitimacy to extra-financial reporting approaches. Meanwhile, NGOs are exerting more pressure and scrutiny on the quality of companies' extra-financial reporting.

Other private-sector initiatives for developing extra-financial information have been launched, but these are more in the joint planning stages rather than leading to a significant change in practices

We note a series of private-sector initiatives, including the following ones which stand out thanks to their level of acceptance and ambition in terms of extra-financial reporting:

- ✓ **Accounting for Sustainability** (A4S),[61] created under the aegis of the Prince of Wales in 2004, initiated discussions to ensure that financiers take the shift to sustainable development and start thinking about the risks and opportunities associated with environmental and social issues. A4S has also been involved in the creation of IICBA and participates in many international initiatives such as the Natural Capital Coalition and the Commonwealth Climate & Law Initiative.

- ✓ In France, **EpE, the French Association of Companies for the Environment,** created in 1992, brings together around 40 major French and international companies from all economic sectors and represents French stakeholders within the WBCSD. These companies wish to better incorporate the environment into their strategic decisions and daily management. Thus, EpE has published a series of reports and recommendations on climate reporting and corporate climate strategy (since 2015), managing the biodiversity impacts on the value chain (2016), and measuring and managing water resources (2015) as well as a report exploring the feasibility of carbon neutrality by companies by 2050 (May 2019).

- ✓ The **"Reporting 3.0" platform** was launched in 2012 by Ralph Thurm (a German whose work experience includes stints at Deloitte and GRI). It notable includes companies, as well as big 4 audit firms.

  This platform is based on the conviction that corporate reporting has a major influence on economic trends. With this in mind, the platform has developed four "blueprints" for a "green and inclusive" economy. One of these blueprints relates to reporting: "Reporting for a Green, Inclusive and Open Regenerative Economy". According to the platform's philosophy, reporting should be defined and should evolve in close connection with the other three blueprints, so that the entire approach resembles an ecosystem: "Accounting for Future Fit Reporting", aimed at including the net impact of positive/negative externalities; "Data Integration, Contextualisation and Activation for Multicapital Accounting", integrating data and leveraging them for multi-capital accounting; and "Information and Reporting Demands for New Business Models", i.e. adapting reporting and accounting to emerging business models.

[61] https://www.princeofwales.gov.uk/initiatives

This initiative belongs to an integrated reporting perspective, along the lines of discussions about GDP alternatives (e.g. the Stiglitz-Sen-Fitoussi Commission) and the 2012 Rio+20 agenda, as well as all the work aimed at updating corporate reporting (GRI, IIRC, TCFD, SASB, Natural Capital Coalition, UNEP Inquiry) – and more broadly aimed at achieving the SDGs.

Nevertheless, the overall structure remains complex, at the border between reporting, management and corporate organisation – ultimately converging with the creation of a "Future Fit Business Benchmark" that connects the global challenges (namely, destabilisation of ecosystems, climate change, loss of biodiversity, and energy/food/health crises, etc.) and benefits for companies (success in a circular economy, improved staff productivity, reduced exposure to fossil fuels, avoiding reputational and financial costs due to regulatory changes, etc.).

- ✓ **Social Accountability International**, a US-based NGO founded in 1997 and grouping together representatives of large companies worldwide (for instance, its board of directors is chaired by the former chairman of the Gap Foundation), whose task is to promote workers' fundamental rights around the world, published the **SA8000 standard** in 1997. It is currently the **leading social certification standard for factories** and companies around the world. SA8000 measures social performance in **eight areas important to social accountability in workplaces, anchored by a management system element that drives continuous improvement in all areas of the standard** (child labour, forced or compulsory labour, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, remuneration and management system).

  The standard comes with a set of resources to help companies measure and improve their management and performance systems in order to meet the standard's requirements. An independent evaluation is then carried out by an accredited entity (at present, none of the accredited entities is French).

- ✓ **B-Corp certification**, aimed at promoting a more accountable, transparent business model with a positive environmental impact, was launched in 2007 by US-based NGO B-Lab (whose founder sought to reform the economic system to include a civic focus). This certification is awarded to companies that have extra-financial social and/or environmental objectives in line with the required accounting and transparency requirements.

  To obtain B-Corp certification (which is reassessed every two years), a company must get enough points on a 200-question survey covering various themes such as governance, stakeholders, the business model, accounting, staff, wages, ecological impacts, etc. B-Corp certification also has a community-based, participative dimension: the B-Corp community joins together in working groups to improve its practices. Thus, since it was created, B-Corp certification has fostered a community in around 50 countries, comprising more than 1,600 certified companies (around 30 French companies currently hold this certification, including Natures & Découvertes, Camif and Birdéo). Obtaining this label turns into a communication issue on a corporate entity's commitment to environmental issues.

The development of "environmental profit & loss" statements in large European companies has paved the way for including a company's resource use in its operations and strategy

Over the past few years, environmental or integrated accounting methodologies have been developed in companies. Examples include the "Environmental Profit & Loss" (EP&L) developed by Kering and the "Integrated Profit & Loss" developed by BASF. The task force met with these companies.

Kering's EP&L is a pioneering initiative in environmental profit & loss accounting. This reporting and accounting management tool has become an operating resource for reducing the business's environmental footprint across the full value chain

The Environmental Profit & Loss (EP&L) was launched in 2011 by Puma (which was a Kering group company at the time). The EP&L was rolled out for the full Kering group in 2015 (the group's main brands are Gucci, Yves Saint Laurent, Boucheron, Bottega Veneta and Alexander McQueen). **The EP&L aims to provide a comprehensive view of the group's business in order to measure its environmental impact, to translate that impact into monetary terms, and to implement solutions to reduce the impact significantly** (in terms of the supply chain, manufacturing processes or the transformation of raw materials). An "EP&L intensity" metric is also published. Kering thus seeks to meet the requirements of the Natural Capital Protocol. Its methodology is designed in collaboration with PwC (see Appendix 10 for a more detailed description of the method).

To measure its environmental impact, Kering looks at CO_2 emissions, water consumption and pollution, soil use, air pollution and waste production across the supply chain (raw materials > transformation of raw materials > manufacturing > assembly > operations and retail shops).

Then, the **EP&L translates this environmental impact into a monetary amount in order to have a metric and an overview of the environmental costs of the business.** This monetary translation is carried out by PwC consultants and updated every three years in collaboration with Kering.[62] More generally, it leverages "Science-Based Targets" (SBTs) and allows Kering to update its sustainable development strategy with regard to the environment, water and biodiversity. Thus, Kering's sustainable development goal set in 2017 was to reduce its greenhouse gas emissions across the full value chain by 40% by 2025.

The environmental challenges and opportunities highlighted by the EP&L therefore help the group **define guidance, metrics and quantified goals in order to improve raw material management**: the group's main suppliers are involved in the EP&L (from raw material production to final product assembly), thus strengthening collaboration for controlling the environmental impact of business by using sustainable resources (thanks to implementation of supply standards) or, if necessary, harnessing innovations (in order to replace raw materials deemed unsustainable in EP&L terms).

Kering uses the EP&L in connection with its "Kering Standards" for raw materials and manufacturing processes. These standards are revised annually and should allow for: compliance with the precautionary principle when using technology; compliance with international and national regulations; secure and verifiable traceability; compliance with the most stringent animal welfare standards; preventing the deterioration or destruction of natural ecosystems; committing to a reduction in climate impacts; guaranteeing ethical treatment of people working on the supply chain. For instance, the standard for silk covers mulberry silk,

[62] Kering reserves the right to challenge PwC's assumptions used for this calculation.

which accounts for 95% of global silk production, and focuses on the early stages of sericulture (cultivating silkworm cocoons and spinning) in order to make the activities as sustainable as possible, to reduce chemical additives, to ensure efficient, responsible use of water and renewable energies, and to guarantee stringent standards for working conditions: at the very least, users of silk within the group must ask for details on the origins of the silk and must make every effort to include certified organic silk in their supply chain.

On a more practical level, a mobile app for the group's product designers applies the EP&L methodology as a means to visualise the environmental impact of certain standard products, from raw material extraction to sales, for four kinds of luxury goods. The environmental impact is shown in geographic terms and based on the design and supply choices.

We note that Kering works closely with the European Commission, France's Ministry for the Ecological and Inclusive Transition, the UK Environment Agency, and China's Ministry of Ecology and Environment in order to expand its EP&L. Efforts are ongoing but are not far enough along to be communicated by Kering or the aforementioned public authorities.

BASF's "Value to Society P&L", an integrated accounting resource that covers environmental and social impacts and is ultimately intended to feed into the company's integrated reporting

Since 2013, German petrochemical and agrochemical group BASF has been developing an integrated P&L known as "Value to Society". It is substantially based on a methodology similar to that of Kering. It nevertheless encompasses social impacts and reflects the positive and negative effects of its business. Like Kering, BASF relies on valuation methods designed by PwC.

BASF's method covers the full value chain (corporate level > project level > business unit & product level) and includes the following categories: **(i)** economic (profit, depreciation and write-downs); **(ii)** social (taxes, wages and related income, human capital, workplace health and safety); and **(iii)** environmental (air pollution, greenhouse gas emissions, soil use, water consumption and pollution, waste).

The "Value to Society" method yielded a positive impact from 2013 to 2017, with the total impact spread evenly across economic, social and environmental aspects.

Aside from their obvious usefulness and innovative aspects, **the initiatives spearheaded by Kering and BASF currently lack standardisation (notably with regard to the scope of application and the key metrics) and thus comparability.** For example, the social value of carbon varies significantly amongst the companies that publish an environmental and/or social P&L.

The absence of standardisation therefore makes it impossible to audit EP&L or Value to Society P&L, particularly on the databases used or on monetary translation methodologies. These shortcomings thus result in companies using EP&L or Value to Society P&L as a definite communication and operational tool, and only to a slighter extent as a strategic reporting tool throughout their value chain.

Aside from a lack of commitment to a social value of carbon in line with international recommendations, **this absence of standardisation is partly the result of the lack of key metrics for environmental and social issues. Such metrics could drive convergence in the methodologies** developed by these companies.

Therefore, in March 2019, BASF was a leader in the launch of the **Integrated P&L – Shaping the future of accounting** initiative, alongside BNP Paribas, Deloitte, EY, KPMG, Lafarge Holcim, Novartis, Olam and PwC, amongst other companies, and including participation from academics, the Natural Capital Coalition and the IIRC. This initiative aims to set up an NGO with a limited lifespan of three years in order to standardise a model for integrated accounting and environmental/social impact valuation, to align these companies' reporting approaches and make them genuine resources for determining strategy, and lastly, to publish the results through the OECD in close cooperation with the World Bank and the European Commission's Environment Directorate-General.

Companies are subject to increased pressure and closer scrutiny from NGOs

NGOs have gradually taken on a **driving role in critically analysing companies' extra-financial performance**. Thus, over time, they have become key stakeholders for companies, enabling business to consolidate commitments to sustainable development and to enhance relations with all stakeholders (in some cases via partnerships). **Conversely, NGOs can also exert pressure by increasing scrutiny on companies' sustainable development actions.** Extra-financial reporting is a key part of this, both as a business transparency tool and as a prerequisite for developing sustainable finance.

With this in mind, some 20 NGOs published an appeal to the European Commission in late November 2018: "**The European Commission must take action to improve the reporting obligations of companies on sustainability issues**".[63] This appeal included detailed recommendations (such as including an extra-financial statement in the annual report; laying out a clear structure for companies' extra-financial reporting; specifying reporting requirements across the value chain; bolstering requirements in terms of monitoring and controlling extra-financial reporting; ensuring the implementation throughout each company's ecosystem, including SMEs; extending executives' fiduciary duties to include sustainability strategy and targets; facilitating data centralisation in open data format, and specifying minimum sector metrics to ensure standardisation and comparability of extra-financial information). The NGOs signing this appeal included WWF, Transparency International, Oxfam, ShareAction, Amnesty International and Global Witness.

More broadly, NGOs have gradually taken on the topic of extra-financial reporting by ramping up their staff, especially teams working with European institutions in Brussels, and by participating in the European Commission's efforts (including the Technical Experts Group as part of the action plan on sustainable finance) and the European Reporting Lab@EFRAG (mentioned above).

In 2018, several NGOs (Transparency International, WWF, CORE Coalition, Future Fit Foundation, Business and Human Rights Resource Center) created the Alliance for Corporate Transparency,[64] a three-year research project tasked with assessing progress in the ESR reporting and transparency of European firms. This alliance published its first report in March 2019. **The task force's analysis of the action of private actors has thus revealed a very large number of initiatives, the structuring of which - particularly between companies and NGOs - is still in its early stages.**

[63] http://corporatejustice.org/news/11351-ngos-call-on-the-eu-commission-to-clarify-the-legal-framework-for-corporate-sustainability-reporting
[64] https://www.allianceforcorporatetransparency.org/

CHAPTER 2

EXTRA-FINANCIAL INFORMATION CONTENTS: FROM MULTIPLE FRAMEWORKS TO CONVERGING STANDARDS

In the following sections, currently-available frameworks are examined in terms of the contents of the reporting. In Section 3.1, frameworks that focus on the principles for extra-financial disclosure or the reporting structure are reviewed.

Frameworks that emphasise the substance or content of extra-financial information can be categorised according to their objectives:

- ✓ Some frameworks have a general aim, seeking to handle all the extra-financial subjects deemed relevant by their promoters. These are reviewed in Section 2.1;

- ✓ Some general frameworks have a strong sector focus (i.e. "sector frameworks"). These are assessed in Section 2.2;

- ✓ Other frameworks have a theme-based approach aimed at promoting an in-depth analysis of a chosen theme. Frameworks focusing on climate and the environment are examined in Section 2.3, while other theme-based frameworks are reviewed in Section 2.4;

- ✓ Lastly, frameworks with a general approach to companies covering intangibles are reviewed in Section 2.5.

Each framework is analysed based on how long it has been in existence. The abundance of different frameworks mentioned earlier in this report is reflected in a wide range of approaches. After describing and assessing the main frameworks, the issue of the compatibility or complementary fit between different approaches must be addressed.

The following sections do not claim to be exhaustive. The emphasis is on the main frameworks mentioned during the task force's work, and there may be unintentional omissions.

2.1 General frameworks represent substantial progress in terms of content but could still be improved

General frameworks that emphasise the content of extra-financial information currently stand at various levels of completion but none of them appears to be finalised at present.

A general framework with a 20-year track record and wide recognition: the Global Reporting Initiative (GRI) standards

The corpus of GRI standards was published in 2016 (and has been supplemented since then on some points). Its structure and developments aim to provide comprehensive coverage of extra-financial subjects. It is more than 500 pages long, and is divided into two parts:

- ✓ The first part, around 100 pages long, contains "**Universal Standards**". This is the GRI 100 series.
- ✓ The second part, more than 400 pages long, includes "**Topic-specific Standards**" covering three selected themes: economy (GRI 200 series), environment (GRI 300 series) and society (GRI 400 series).

The universal standards cover both the "foundation" (basic principles, GRI 101), general disclosures (GRI 102) and the management approach (GRI 103). Some of these standards (notably those related to reporting quality) are analysed in comparative terms in Section 2.2, but it is worth noting here **a few distinctive features of the GRI approach**:

- ✓ From the foundation (GRI 101), we note:
  - An **inclusive view,** which determines stakeholders on a broad and comprehensive basis. This is a key factor for the approach, which aims to incorporate all stakeholders, even those that are not necessarily in a position to easily express their expectations.
  - A view of materiality that is based on the organisation's impacts on all fields in the reporting (or on the conditions in which the various stakeholders must give their opinions or make decisions). Materiality is thus viewed as reflecting the organisation's impacts **on** the economy, the environment or society, and not as taking into account the risks that the economy, the environment or society can raise **for** the organisation.
  - A certain degree of **flexibility in implementation** thanks to a choice of two different levels: a "core" or minimum level, which is rooted in selecting information needed to be in compliance, and a "comprehensive" level that provides for more information to be reported. In practical terms, the report can be stand-alone or included with other documents using a system of cross-references. An organisation may decide to apply only some standards, with appropriate information about this partial implementation. In any case, GRI must be informed that its standards are being used either comprehensively or in part.
- ✓ General disclosures (GRI 102) are mainly connected to governance and cover 56 headings:

- 13 disclosures related to the organisation's profile. Note information on the supply chain and use of the precautionary principle.
- 2 headings related to the organisation's sustainability strategy, with a more "policy" focus: management statement on this subject, and a general analysis of key impacts, risks and opportunities.
- 2 headings on ethics and integrity: a description of values and norms of behaviour for the organisation, and mechanisms for advice and concerns about ethics.
- 22 headings related to governance: general governance structure, with a strong emphasis on sustainability governance.
- 5 headings on stakeholder engagement: list of stakeholder groups, procedures for stakeholder relations, identifying key topics of concern.
- 12 headings related to reporting practice, including the list of material topics, the level of reporting chosen and any possible outside oversight. The list of material topics (GRI 102.47) is a crucial stage in the process that must be connected to the management approach mentioned below. This stage sets up the reporting framework in which the organisation has decided to position itself by listing the major topics on which it will report based on the significant impact for stakeholders.

Overall, this general information gives a fairly broad overview of the organisation and its activities, as well as a more detailed description of its governance procedures, notably with regard to sustainability matters.

✓ As for the management approach (GRI 103), the requested information is supposed to provide a fairly detailed explanation of **each major selected theme** listed in application of GRI 102.47:

- An explanation of the material topic and its "Boundary" (i.e. direct and/or indirect impacts) is required first of all.
- Then, the company's approach must, in theory, be described comprehensively: policies implemented and commitments made, goals and targets, resources used, any mechanisms for handling damage, and assessment mechanisms for the management's approach.
- To round out the listed information, the standard sets a fairly high level of requirements in principle, notably within a dynamic perspective. However, these requirements are dependent on the organisation having a structured process for the topic in question ("**if** the management approach includes that component"). Thus, incentives are given, but the standard is pragmatic inasmuch as an organisation can adapt its reporting to its own level of structure for the topic.

The GRI 200 series (around 60 pages long) **addresses economic topics, with six standards including 13 topic-specific disclosure**s**.** This series is fairly general and appears to have some difficulty positioning the information suggested therein compared to information in other reports (such as the management report). We have the following observations:

✓ The connection with financial information lacks structure. The standard for economic performance (GRI 201) is written from the perspective of direct economic value generated and distributed, from a standpoint more closely connected to national accounts and macroeconomic aspects than with the organisation's performance per se. If the major

categories mentioned here are presumably of an accounting nature, they do not seem to have been reconciled with the actual financial statements.

- ✓ Climate change is addressed in terms of economic performance, but very succinctly (in a page and a half). Here, the focus is not on impacts, but on risks and opportunities **for** the organisation. While the methods presented are generally relevant, there are no metrics. Granted, GRI addressed this issue in 2016, prior to the TCFD.

- ✓ For the rest, the information required addresses the main economic themes generally cited by stakeholders as a list of qualitative and/or quantitative information related to:

  - Pension schemes
  - Government aid received
  - Starting salaries and percentage of "local" executives
  - Indirect impacts, especially in terms of infrastructure and "public" services
  - Purchasing policies, notably with regard to "local" suppliers
  - Anti-corruption practices
  - Anti-competitive behaviour

The GRI 300 series (around 120 pages long) **addresses environmental topics, with eight standards including 32 topic-specific disclosures.**

The eight standards cover raw materials, energy, water and effluents, biodiversity, greenhouse gas emissions, effluents and waste, environmental compliance, and supplier environmental assessment. We have the following observations:

- ✓ These topics focus on the main environmental concerns, and the standards initially call for describing the various legal contexts that the company may face due to its geographical setup in different countries and the policies it has implemented on all topics.

- ✓ The information has a largely quantitative focus (e.g. weight and volume of materials used, electricity consumption, volume of treated wastewater, volume of toxic emissions, etc.).

- ✓ Some topics are also viewed in terms of trends or goals to be achieved: this is the case for treatment of wastewater (303-1) and for potential biodiversity impacts (304-2), where the company's impact on its environment can be assessed.

The GRI 400 series addresses social aspects and is the largest portion, with 19 standards and more than 36 minimal disclosure headings, covering all aspects of labour law (including labour/management relations, occupational health and safety, training and education, diversity and equal opportunity, pay and benefits, workplace security, human rights, local labour law, etc.), supplier relations (and suppliers' enforcement of labour law) and client relations (product information and handling of disputes). We have the following observations:

- ✓ The standards focus primarily on getting an explanation of the regulatory environment in which the company operates and describing its current procedures.

The information requested is very comprehensive and detailed. It is mainly quantitative and describes the environment and working conditions for employees (e.g. the number of employees hired over the period, the number of employees on parental leave, the percentage of employees returning to work after parental leave, etc.)

All this information in the GRI 200, 300 and 400 is worthwhile but it is more list than an orderly set of economic data that would give a coherent overview of the organisation's economic impacts. While this information is interesting, the stakeholders interviewed by the task force, and investors in particular, often noted that this information is general and of relative usefulness.

GRI has also developed sector-specific metrics rolled out with the G4 in the early 2010s for just ten business sectors:[65] airport operators, construction and real estate, electric utilities, event organisers, financial services, food processing, media, mining and metals, NGOs, and oil and gas. These sector metrics are a supplement to the standard corpus and are still applicable today. On 4 April, GRI launched a new sector programme[66] to develop sector standards by calling for applicants for "project working groups" (15 members each) for each of the two priority sectors selected ("oil and gas" and "agriculture"), with the objective of publishing these standards by the end of 2020. Note that in the meantime, the previous sector standards remain applicable. The GRI governing bodies have asked for a mapping with the SASB framework as part of this project (see the comparative analysis of the three selected sectors in Section 2.2).

Following this in-depth examination, the task force regards GRI as having contributed to the orderly development of retrospective non-financial information that is fairly comprehensive, but its application principles leave a wide leeway to flexibility and can therefore detract from the forward-looking dimension, comparability and relevance of the information:

- ✓ GRI recommends a standardised grid of approaches and analyses for all governance, environmental and social topics. This exhaustiveness has ensured its success with a large number of major companies worldwide required to publish ESR data (i.e. 70% of the 250 largest global firms that publish an ESR report state that they use GRI as their reference). This gives the GRI approach a certain degree of comparability, based on the use of a common taxonomy.

- ✓ The metrics allow for a relatively comprehensive overview of governance, environmental and social topics, but they are mainly descriptive and quantitative. Contrary to the GRE standards' recommendations, few of these metrics focus on the company's strategy or ongoing actions, and they are not well connected to the financial strategy.

- ✓ Moreover, the organisations that report using the GRI principles have considerable leeway in their reporting and can choose to publish using the core framework or the comprehensive framework. They can then select the metrics that they consider to be the most relevant and suitable for their business, in a "comply or explain" approach. Lastly, they define their own specific calculation methods for a certain number of metrics. The application of these rules and reporting are not uniform across organisations, even though they are relevant over time for a given organisation. Comparability of publications is

[65] https://www.globalreporting.org/information/sector-guidance/Pages/default.aspx
[66] https://www.globalreporting.org/standards/work-program-and-standards-review/gri-sector-program/?dm_i=4J5,67ONU,QM6U1D,OH2UG,1

therefore not as strong, and reference must be made to additional information before any comparability exercises can be carried out. Hence GRI's choice to continue to develop sector standards.

Reference to the Sustainable Development Goals (SDGs): a comprehensive approach broken down at the corporate disclosure level

To materialise the global approach in the Sustainable Development Goals, the 17 SDGs are broken down into 169 targets, then 244 indicators (even though these indicators have received less media attention are less well-known by stakeholders and are only partially defined):

Goals	Targets	Indicators
SDG 1. End poverty in all its forms everywhere	7	14
SDG 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture	8	13
SDG 3. Ensure healthy lives and promote well-being for all at all ages	13	27
SDG 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	10	11
SDG 5. Achieve gender equality and empower all women and girls	9	14
SDG 6. Ensure availability and sustainable management of water and sanitation for all	8	11
SDG 7. Ensure access to affordable, reliable, sustainable and modern energy for all	5	6
SDG 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	12	17
SDG 9. Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation	8	12
SDG 10. Reduce income inequality within and among countries	10	11
SDG 11. Make cities and human settlements inclusive, safe, resilient, and sustainable	10	15
SDG 12. Ensure sustainable consumption and production patterns	11	13
SDG 13. Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy	5	8
SDG 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development	10	10
SDG 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss	12	14
SDG 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels	12	23
SDG 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development	19	25

The SDGs have the advantage of having been adopted worldwide: they are therefore a universal benchmark that is binding for governments and all stakeholders. For companies, the difficulty lies in breaking the SDGs down to their level:

- ✓ The goals and targets are generic and are mainly addressed to governments to guide their sustainable development strategy. The indicators break down the various targets and are all quantitative, but they do not give exact definitions of the terms used. An observation at a given point (i.e. at the starting point) allows progress to be measured compared to the determined target (i.e. the end point). The trend in indicators over time is the truly relevant metric.

- ✓ Of course, not all SDGs are applicable to private companies, which are just one kind of stakeholder for overall sustainable development. In addition, their potential involvement depends on their business sector.[67] However, given their economic and social role, companies have an important part to play, and in analysing their value chain, which includes many stakeholders (employees, clients, suppliers, local government, regional players, etc.), they can contribute to many SDGs, especially those related to production and labour. Thus, the aim for a company is to identify the SDGs that it can contribute to and to quantify its own targets prior to monitoring its progress.

- ✓ Within the UN, the Global Compact initiative, launched in 2000, is directly targeted to giving companies worldwide the incentives to adopt a socially-responsible attitude. In this framework, companies commit to adopting and promoting the SDGs:[68]

  - The ten Global Compact principles lay a foundation for a simple, universal and voluntary framework based on four categories:

    i. Human rights (1. Businesses should support and respect the protection of internationally proclaimed human rights; and 2. Make sure that they are not complicit in human rights abuses)

    ii. Environment (3. Businesses should support a precautionary approach to environmental challenges; 4. Undertake initiatives to promote greater environmental responsibility; and 5. Encourage the development and diffusion of environmentally friendly technologies)

    iii. Labour (6. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 7. The elimination of all forms of forced and compulsory labour; 8. The effective abolition of child labour; and 9. The elimination of discrimination in respect of employment and occupation)

    iv. Anti-corruption (10. Businesses should work against corruption in all its forms, including extortion and bribery)

  - Thus, the Global Compact has the ambition of being a "catalyst and supporter of commitments, actions and innovations by companies [...] and has the objective of translating these SDGs into 'business' language".[69]
  - In order to support companies in this voluntary approach, and in order to better define the relevant indicators, the Global Compact approached GRI in 2017-2018 to propose

[67] Thus, an agri-food company can specifically contribute to SDG 2, whereas a medical company can contribute more broadly to SDG 3.

[68] Ban Ki-moon, then Secretary-General of the United Nations, stated: "Businesses must give concrete meaning to their actions and must respect the ties between all cultures and peoples." (2012)

[69] Source: UN Global Compact website, consulted on 1 April 2019. https://www.globalcompact-france.org/p-136-les-odd-et-le-global-compact.

a practical guide[70] on SDG reporting explaining the approach to be adopted (i.e. the main principles to be retained in the choice of priority actions to be carried out by the organisation; the definition of its own business targets by SDG, the selection and monitoring of relevant indicators) and proposing a "transition table" between the SDGs and the GRI indicators.

- Tim Mohin, GRI Chief Executive, thus stated when publishing the Global Compact-GRI 2017 guide *Business Reporting on the SDGs: An analysis of the goals and targets*: "At a time when the revenues of large companies exceed the GDP of many countries and supply chains stretch around the world, the private sector plays a vital role in achieving the Sustainable Development Goals. This analysis of the goals and targets is a first step towards a unified mechanism to help companies report on the SDGs in a comparable and effective way. By reporting on their progress, companies will improve their performance which will enable meaningful progress towards achieving the SDGs."
- As an example, concerning target 13.1 ("Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries") of SDG 13 ("Climate Action"), the guide identifies a series of company-specific themes (e.g. monitoring climate change risks and opportunities) and available reporting fields corresponding to this specific theme (e.g. the identification of climate change risks to society, in particular those relating to the company's potential to bring about substantial changes in the company's business, income or expenses, namely: risk factor; description; potential impact; timeframe; direct/indirect impact; magnitude of impact...), their unit of measurement (if available) and metric (e.g. Climate Disclosure Project framework). The guide mentioned above offers advice to companies on how to integrate SDGs into their non-financial reporting, in particular on the interconnections to be made between SDGs throughout the value chain of an activity. The indicators themselves are not detailed and do not offer a precise calculation formula.
- Companies have become increasingly aware of their social role and many of them have adopted a communication related to the SDGs, even if it remains partial on the objectives deemed relevant for them. (78% of French Afep/Medef member companies surveyed as part of the task force's assignment declare that they are either in compliance or partially using the SDGs.)

Without constituting a reference framework per se, the SDGs therefore propose a universal framework for reflection on all aspects of CSR, constituting a significant paradigm shift in the action of companies in terms of sustainable development.

The Global Compact, which remains the foundation of companies' commitment to the United Nations, allows companies to both implement the ten founding principles and provide concrete support for the MDGs. As objectives, SDGs are action commitments that are relatively well internalised by companies, particularly in the context of defining their strategy. The MDGs enable them to build a bridge between civil society's expectations in terms of sustainable development and their contribution, even if these expectations are most often focused on themes related to the sovereign functions of States. Generally speaking, although companies are still in the process of adopting the SDGs, they recognise the relevance of the SDGs in order to clarify their strategy while highlighting the important work involved in the concrete and operational implementation of these 17 goals and their targets.

[70] Business Reporting on the SDGs: « *Integrating the SDGs into corporate reporting: a practical guide* », August 2018.

A more recent general purpose approach based on a sectoral approach: SASB indicators

Like the practices of the international accounting standard setters IASB and FASB, the SASB standards are developed by reference to a conceptual framework, the latest version of which was adopted in February 2017. [71]

The approach is implemented on the basis of two deliberate choices justified in the conceptual framework:

- ✓ The standards are industry-specific,[72] in order to focus on relevance and comparability; and
- ✓ The standards are intended to inform investors,[73] which places the approach in a targeted, and therefore not necessarily inclusive, perspective.

The SASB framework is based on five main dimensions for the development of its standards:

- ✓ The environment
- ✓ Social capital
- ✓ The employees
- ✓ The business model
- ✓ Innovation and the managerial dimension.

The SASB describes its standards as originally designed to prepare certain information for inclusion in the MD&A and other relevant sections of documents to be filed with the SEC, but now states that it is not limited to US companies. The standards are voluntary and can be used in conjunction with other sustainability reporting models.

This conceptual framework sets out the principles for developing standards by sector of activity. Thus, for each of the sectors analysed, the aim is to:

- ✓ Determine the relevant dimensions (five dimensions in 30 subjects); and

- ✓ Identify significant (material) elements that are useful to an investor and easy to implement with low costs:

  - By focusing the analysis of relevant topics on the potential impact on the company's value, the investor's interest, relevance to the sector, the feasibility of implementation and whether or not a consensus between issuers and investor is reflected;
  - According to the criteria of faithful representation, usefulness, applicability, comparability, completeness, verifiability, alignment with other existing criteria, neutrality and dispersion; and
  - The characteristics of information obtained that is objective, measurable, complete and relevant.

[71] Initial version published in 2013.

[72] "Each industry has its own sustainability profile" (CF, p4). 11 industries subdivided into 79 sectors initially, then reduced to 77. Industry and sector nomenclature set in the Sustainable Industry Classification System (SICS).

[73] "SASB standards are intended to help issuers identify and more effectively disclose the information today's investor need to make informed decisions" (CF, p6) to support "fundamental analysis, comparison and benchmarking, portfolio management, active engagement" (CF, p7).

After five years of analysis of the practices of large international issuers and the work of specific working groups by sector of activity (also including members of European companies), the SASB proposed a relatively small number of indicators per sector: from around ten indicators to a maximum of thirty, depending on the relevance of the subjects according to the importance of the impact of environmental and social issues in the sector concerned.

Indicators are retroactive and can be either quantitative (in amounts or percentages) or descriptive (e.g. corporate policies).

In total, all sectors combined, 981 indicators are proposed (253 descriptive and 728 quantitative). No positioning with respect to a given target or strategy is required by the indicators. The application of this standard remains voluntary on a comply-or-explain basis.

By construction, the SASB does not offer a common indicator for all sectors, even if some themes are regularly repeated and more or less modified: the search for intra-sector comparability is privileged. Some topics of interest may be found from one standard to another without the underlying indicators being systematically the same.

Due to their recent publication, these standards are not applied by a large number of companies at this stage,[74] but the simplicity of their implementation seems likely to appeal to some issuers.

The SASB offers a specific reference framework for each sector of activity with quantitative, descriptive and essentially retrospective data. The targeted and pragmatic nature of the approach has clear advantages, even if it can be simplistic, especially in the absence of a common core, as illustrated by the comparative analysis presented in Section 2.2 below.

Work is underway to harmonise the various criteria in the framework of **(i)** works with the CDSB and SASB on the implementation of the TCFD's recommendations (report issued on 1 May 2019); and **(ii)** as part of the Corporate Reporting Dialogue between the five bodies proposing extra-financial reference frameworks (see Section 2.6).

[74] Only 18% of French Afep/Medef member companies interviewed by the task force stated that they were either in compliance or partial compliance with SASB.

2.2 Sector or industry standards, originating from general frameworks, which are slated to either supplement or replace the latter, do have practical advantages but may be somewhat simplistic

For a number of years, the search for heightened relevance of extra-financial information has prompted the above-mentioned standard-setting bodies to roll out a sector-specific standardisation policy. Its goal is to foster comparisons by highlighting the "business line" relevance.

In light of the foregoing, the task force sought to compare the sector-specific approach of the reporting frameworks most often used by businesses, namely those of the GRI and the SASB. It chose to look at reporting topics and their related metrics in three separate industries: oil and gas, media and entertainment, and food processing.

These industries were chosen for the following reasons:

- ✓ Each covers one or more sectors of the economy (the extractive and food processing industries belong to the primary and secondary sectors whereas media and entertainment are part of the tertiary sector);

- ✓ They have an international dimension, in particular as regards the value chain for the oil and gas, and food processing industries, and

- ✓ Their operations take in environmental, social and societal issues which are of special significance in light of the ecological, social and digital transitions.

The comparison draws on the GRI's G4 Guidelines and their Sector Supplements (for the relevant sectors), on one hand, and the industry standards published by the SASB in October 2018, on the other (see section 2.1). Although the GRI's general standards, which became mandatory for reporting by user companies alone in July 2018, have replaced the existing G4 Sector Disclosures, the latter are still recommended for businesses operating in the relevant sectors.[75]

In early February 2019, the GRI unveiled its GRI Sector Program[76] as, with an eye to achieving the SDGs, it considers that extra-financial reporting requires greater clarity. This applies in particular to each sector's most significant impacts as regards sustainable development. The GRI's sector prioritisation, on the basis of the Due Process Protocol, led to work being started in Q1 2019 on the oil, gas and coal sector, on one hand, and the agriculture sector, on the other. These two standards, that are set to replace the current G4 Sector Disclosures, are scheduled to be published for public consultation before the end of 2019. They should be definitively approved by the GRI's Global Sustainability Standards Board in June 2020.

The complementary aspects and differences between these two frameworks allow the priorities, merits and shortcomings of each of them to be pinpointed and for conclusions to be

[75] Airport operators, construction and real estate, electric utilities, event organizers, financial services, food processing, media, mining and metals, NGOs and oil and gas.

[76] Approved by the GRI's Global Sustainability Standards Board on 7 February 2019. Download: https://www.globalreporting.org/standards/media/2235/gri_sector_program_description.pdf

drawn as to their relevance and extent of stabilisation, and as regards changes to their potential use by businesses and their stakeholders.

The oil and gas sector

The GRI's sector-specific guidance stands out in terms of its comprehensive nature and its application to almost all oil and gas activities worldwide.

The GRI issued an Oil and Gas Sector Supplement in 2012, which was reorganised in light of the publication of revised standards in December 2016. This guidance applies to the entire oil and petroleum gas industrial process from deposits to the end consumer, and to the entire life cycle of oil and gas projects (from the environmental impact assessment stage to dismantling, and including the construction, operational and maintaining in operational conditions stages).

Besides the required General Standard Disclosures (i.e. strategy and analysis, organizational profile, identified material aspects and boundaries, stakeholder engagement, report profile, governance, ethics and integrity), the GRI requires the sector to report on the following three categories:

- ✓ The economic category for which the required indicators are fairly commonplace and are consistent with the GRI standards concerning economic indicators, namely:
  - Payments to governments (required in France pursuant to Article L.225-102-3 of the Commercial Code for oil, gas and mining companies registered and/or listed in an EU Member State, in compliance with the EU Accounting and Transparency Directives);
  - Risks and opportunities relating to changes to the carbon price;
  - Market presence (including in particular local content);
  - Respect for community customs and values;
  - Procurement practices; and
  - The volume and type of proved reserves of existing deposits[77].
- ✓ The environmental category is comprehensive and contains a large number of indicators:
  - The materials used in the hydraulic fracturing process, including a battery of specific chemicals. This category applies more to companies which extract non-conventional hydrocarbons such as shale gas, the large majority of which are based in the United States according to the International Energy Agency[78];
  - Consumption and energy intensity – including the energy intensity of operations and the amounts invested in renewable energy;
  - Water management, covering total water withdrawal by source and the water sources that are significantly affected by withdrawal;
  - The company's policy for protecting ecosystems and, in particular, biodiversity (local initiatives; percentage of operating sites in which biodiversity risk has been assessed and monitored);

[77] Bearing in mind the fact that transparency concerning reserves is currently hard to achieve as standards are not harmonised at international level and as the International Energy Agency has no specific remit to monitor the accuracy of the reserves reported by the industry.
[78] International Energy Agency, World Energy Outlook 2018.

- Greenhouse gas emissions, taking in scopes 1, 2 and 3 and emissions of air pollutants; and
- Effluents and waste relating to energy transformation.

✓ The social category, comprising issues concerning labour practices and decent work, human rights, society-related aspects and product responsibility:

- Labour relations practices as regards the principles laid down by the International Labour Organization (working conditions, occupational safety and health management systems, taking account of the specificities relating to vulnerable workers, occupational accidents and work-related diseases);
- Practices regarding safety in the workplace and respect for human rights;
- Respect for the rights of the indigenous peoples in the relevant activity zones;
- Respect for local communities (impact assessment and mitigation, stakeholder engagement strategies, rollout of community development programmes) and the monitoring of operations with potential negative impacts on local communities (including emergency preparedness and the capacity to react to emergencies, and involuntary resettlement procedures for populations);
- Implementation of anti-corruption policies;
- Transparency of public polices and lobbying;
- Monetary value of fines and non-monetary sanctions for non-compliance with laws and regulations.

✓ In all, an oil and gas company is able to disclose information on 25 indicators, the majority of which (13) belong to the social category. **Out of these 25 indicators, the GRI has flagged up five as being specific to the oil and gas industry**: oil reserves, emergency preparedness, involuntary resettlement of populations, asset integrity and process safety, and fossil fuel substitutes.

Examining the above-mentioned reporting topics and the related metrics reveals a fairly high level of qualitative reporting that refers to conventional international and/or sector standards (for instance, use of the guidance established by the IPIECA, the global oil and gas industry association for environmental and social issues, which represents over half of worldwide oil production). Quantitative data is usually required in the environmental category whilst it comes as no surprise that the social category refers more widely to qualitative data.

Besides the reference to materials used in the hydraulic fracturing process which primarily applies to the sector's companies based in the US, most of the reporting indicators have international reach.

But, there are no indicators covering the industry's energy efficiency which is, however, crucial as part of the energy transition.

For instance, the GRI standards core index table (i.e. "common core" standards, followed by the indicators which the company considered substantive) and Total's CSR reporting, published by Total in 2017,[79] demonstrate the comprehensiveness of the GRI in terms of reporting, whilst remaining in line with the company's practices – due to the fact that all the

[79] Total, 2017 GRI Standards Core Index. Available online: https://www.sustainable-performance.total.com/en/reporting/reporting-standards/global-reporting-initiative-gri

reporting topics tabled by the GRI were published in the corresponding reports (i.e. Registration Document (annual report); Climate Report; Human Rights Briefing Paper and Sustainable Performance Website). In this respect, discussions between the task force and Total representatives brought to light some correlation with the GRI whose materiality principle provides a certain flexibility when using the standards.

The SASB industry standards for the oil and gas sector appear to lack exhaustiveness and financial materiality, and too narrowly focus on the North American industry.

The oil and gas industry standards drawn up by the SASB in October 2018 are broken down into three separate standards which are specific to each stage of the value chain, with each having its own indicators: one covering "upstream" operations (exploration and production); one covering "midstream" operations (industrial refining and petrochemical activities); and one covering "downstream" operations (distribution and marketing). Service activities are dealt with separately. Stakeholder consultation on the standards began in late 2013 and there were several phases of dialogue, the last of which took place in early 2018 (prior to publication of the standards in October 2018).

The task force focused on the exploration and production standard due to the environmental and social issues connected with this phase of oil and gas development, and the changing nature of activities in this field (i.e. shale gas, offshore drilling and the deployment of renewable energy). The standards on refining and distribution operations were subject to a targeted analysis which is set out below.

- ✓ The exploration and production standard has 14 disclosure topics and 30 related metrics:

  - Four environmental disclosure topics: greenhouse gas emissions (scope 1), air quality, water management and biodiversity impacts;
  - Three social disclosure topics: security, human rights and rights of indigenous peoples, community relations, and workforce health and safety;
  - A specific disclosure topic on reserves valuation and the deployment of renewable energy;
  - Three governance disclosure topics: business ethics, management of the legal and regulatory environment, and risk management; and
  - Three specific activity metrics (sharing the production of oil, natural gas, synthetic oil and synthetic gas in thousands of barrels per day, number of offshore sites and number of terrestrial sites).

- ✓ It should be noted that **there are less comprehensive indicators and metrics compared to the GRI's sector-specific guidance**, in particular regarding the following aspects, the substance of which is nevertheless non-negligible for investors or other stakeholders:

  - A number of indicators set out in the GRI's sector-specific guidance do not appear in the SASB standards. These include:
    - Payments to governments – the lack of this indicator may be due to the fact that the SASB standards were initially destined for American companies as part of their reporting to the Securities and Exchange Commission. No taxes are levied at federal level on oil and gas extraction and production companies as such taxation is at the initiative of the federal states;
    - The use of chemicals in the hydraulic fracturing process;
    - Energy intensity (of special importance for hydraulic fracturing);

- Effluent and waste management; and
- Greenhouse gas emissions on scopes 2 and 3; scope 3 is still the most relevant for the oil and gas industry (i.e. use of sold products, in particular for transportation, heating and cement)[80].

– A number of indicators are less detailed or are highly qualitative, unlike those of the GRI. These include:
  - Relations with local communities (local content, as described by the IPIECA in its oil and gas industry guidance on voluntary sustainability reporting from 2010, procurement practices and the local value chain, etc.);
  - Protection of biodiversity;
  - Labour relations and workforce health and safety: the SASB focuses on a number of metrics which do not allow for proper comparisons between companies on the basis of the definition relating to each of them (i.e. frequency of declared incidents, breakdown of employees by type of employment contract, average number of training hours on these issues) and a reference to promoting a culture of safety on the sites. As a result, these aspects demonstrate the bias in favour of addressing social issues in a highly quantitative manner and do not appear to be geared towards full and complete compliance with international standards.

✓ In respect of the remaining indicators, the GRI and SASB standards are consistent in both their goals and reach.

Consequently, the following aspects should be highlighted, in terms of two factors: first, the SASB's determination to focus on financial materiality and, secondly, the commitment to operate outside its initial borders:

✓ **The lack of key indicators for the oil and gas industry** (i.e. scope 3 greenhouse gas emissions, waste management, workforce health and safety practices), which nevertheless carry major financial materiality as regards the transition and litigation risks faced by the sector.

✓ **The addition of new indicators compared to the industry's practices and the recommendations of extra-financial rating agencies, in particular in the standards concerning refining and marketing activities.** For instance, for its indicator regarding the ecological impacts of the activity, the midstream standard requires the percentage of land owned, leased, and/or operated within areas of protected conservation status or endangered species habitat – whilst, currently, this type of metric is not sufficiently operational for oil companies operating on the international stage.

✓ Reference to the **disclosure of proved or probable reserves**, namely those which are unproven from a commercial standpoint, has been strongly criticised by the industry and, in particular, by the IPIECA:

[80] For instance, for the years 2013 to 2017, Total reported on scopes 1, 2 and 3 (Climate Indicators" in $MtCO_2eq$. Available online: https://www.sustainable-performance.total.com/en/climate-indicators. In 2017, its scope 1 emissions (operated direct GHG emissions, 100% of emissions from sites operated by the Group) were around 36.2 $MtCO_2eq$; its scope 2 emissions (indirect emissions) were around 3.8 $MtCO_2eq$; and its scope 3 emissions (other indirect emissions: use by customers of products sold for end use – the most significant of the items relating to the GHG Protocol) were around 400 $MtCO_2eq$.

"We are concerned with references to proven and probable reserves throughout (EM0101-11, EM0101-12, TA04-04-01, EM0101-20). We do not believe investors would benefit from the disclosure of this additional reserves detail. Disclosure of this kind would be detrimental and potentially misleading as it focuses on risks of future hypothetical changes to the political or regulatory environment. These disclosures of reserves in specific geographic areas are also more granular than those required under U.S. securities regulation and create competitive harm regardless of whether competitors have similar disclosure requirements. In addition, these proposed reserves disclosures are based on the presumption that energy development in such areas cannot be done in a way that mitigates risks".

(Excerpt from the letter of 10 January 2018 to Jean Rodgers, ex-Chair of the SASB from Brian Sullivan, Executive Director of the IPIECA[81]).

- ✓ The IPIECA referred to the "undue burden" created by transparency for the indicators and metrics relating to the three standards (upstream, refining and downstream) as the majority of oil companies are now integrated and operate right across the value chain:

"SASB's Exploration & Production, Midstream and Refining & Marketing Standards all apply to integrated oil and gas companies. Performing a segment-by-segment materiality assessment and reporting on all of the metrics would place an undue burden on IOCs due to the organizational time and resources that would be required. We appreciate that SASB recognizes companies are in the best position to determine their own material risks, but third-party raters/rankers may suggest otherwise. This will likely lead to confusion as to what data should be reported, and potentially require companies to spend time and resources assessing what to report at the expense of improving performance. We believe investors are best served by understanding a company's risk management approach and having confidence in a robust risk management process".

(Excerpt from the letter of 10 January 2018 to Jean Rodgers, ex-Chair of the SASB from Brian Sullivan, Executive Director of the IPIECA[82]).

- ✓ The majority of the metrics refer to the **American legislative and regulatory framework**, concerning, inter alia, the production of regulations by specialist agencies (Securities and Exchange Commission, Food and Drug Administration, Environmental Protection Agency, etc.), with very few addressing international standards (except, for instance, protected geographical areas as regards biodiversity).

- ✓ As previously noted when examined the GRI standards, the publication of hydraulic fracturing indicators concerns almost exclusively American oil and gas exploration and production companies.

"With regards to accounting metric "TA04-03-01. Percentage of hydraulic fracturing sites where ground or surface water quality deteriorated compared to a baseline", this is US-centric and incorrectly assumes that similar sampling requirements to those in Wyoming and Colorado are in place in other states and other nations, which is not the case".

[81] Available online: https://www.sasb.org/wp-content/uploads/2018/02/IPIECA_Letter_011218.pdf
[82] Ibid.

(Excerpt from the letter of 10 January 2018 to Jean Rodgers, ex-Chair of the SASB from Brian Sullivan, Executive Director of the IPIECA[83]).

✓ Against the backdrop of the SASB's consultation of oil and gas industry stakeholders, the IPIECA compiled key ESG indicators for the industry, together with guidance, in 2015 (see table below).

ISSUE	INDICATOR
Environmental Issues (Section 4)	
• Climate change and energy	E1: Greenhouse gas emissions
	E2: Energy use
	E3: Alternative energy sources
	E4: Flared gas
• Biodiversity and ecosystem services	E5: Biodiversity and ecosystem services
• Water	E6: Fresh water
	E7: Discharges to water
• Local environmental impact	E8: Other air emissions
	E9: Spills to the environment
	E10: Waste
	E11: Decommissioning
Health and safety issues (Section 5)	
• Workforce protection	HS1: Workforce participation
	HS2: Workforce health
	HS3: Occupational injury and illness incidents
• Product health, safety and environmental risks	HS4: Product stewardship
• Process safety and asset integrity	HS5: Process safety
Social and economic issues (Section 6)	
• Community and society	SE1: Local community impacts and engagement
	SE2: Indigenous peoples
	SE3: Involuntary resettlement
	SE4: Social investment
• Local content	SE5: Local content practices
	SE6: Local hiring practices and performance
	SE7: Local procurement and supplier development
• Human rights	SE8: Human rights due diligence
	SE9: Human rights and suppliers
	SE10: Security and human rights
• Business and transparency	SE11: Preventing corruption
	SE12: Preventing corruption involving business partners
	SE13: Transparency of payments to host governments
	SE14: Public advocacy and lobbying
• Labour practices	SE15: Workforce diversity and inclusion
	SE16: Workforce engagement
	SE17: Workforce training and development
	SE18: Non-retaliation and grievance system

Source: IPIECA, Oil and gas industry guidance on voluntary sustainability reporting, 2015.[84]

[83] Ibid.

[84] Available online: http://www.ipieca.org/resources/good-practice/oil-and-gas-industry-guidance-on-voluntary-sustainability-reporting-3rd-edition/

The media and entertainment sector

The GRI's sector-specific guidance provides exhaustive indicators and broad coverage of the companies to which it may apply, which is not limited to media firms (in the broadest sense, including the cinema industry, for instance) and also caters for advertising and public relations agencies, and social media. *The sector-specific indicators are all qualitative and cover protecting fundamental rights, fostering pluralism and diversity, and respecting journalistic ethics (especially the confidentiality of sources and privacy).*

The GRI issued a Media Sector Supplement in 2012, which was reorganised in light of the publication of revised standards in December 2016.

Besides the required General Standard Disclosures (i.e. strategy and analysis, organizational profile, identified material aspects and boundaries, stakeholder engagement, report profile; governance, ethics and integrity), the GRI requires the sector to report on economic, environmental and social categories:

Besides the common indicators which also apply to the oil and gas industry – which nevertheless have different metrics – **the GRI has identified nine indicators which are specific to the media sector in the social category – on the basis of a solely qualitative approach.** These are:

- ✓ Protection of the freedom of expression. The chosen approach is qualitative with the goal being to comprehensively describe the factoring of freedom of expression into the management of the media in question to comply with Article 19 of the Universal Declaration on Human Rights:

  - Principles by which the organisation operates in the context of restrictions on freedom of expression;
  - Enabling companies to actively exercise their right to freedom of expression (e.g. telecommunications technology/infrastructure, literacy programs, accessibility to content and services);
  - Pluralism of ideas and views;
  - Transparency regarding public policy and lobbying;
  - Principles to avoid self-censorship;
  - Right of rectification and of reply; and
  - Audience interaction.

The chosen sub-indicators are fairly generic and are more geared towards large media organisations or social media.

- ✓ The portrayal of human rights, in particular those of "minorities" (i.e. women, children, people with disabilities, indigenous communities, religious and ethnic groups, other social groups). The guidance emphasises the transparency of management's approach to the representation of minorities in media content and to the measures rolled out to ensure the absence of any content inciting hatred (i.e. absence of discriminatory content, absence of unnecessary references to people's physical characteristics, cultural practices or religious beliefs);

- ✓ Protection of cultural rights;

- ✓ Protection of intellectual property – on the basis of a qualitative approach (i.e. acknowledging and protecting copyright in all disseminated content);

- ✓ Protection of privacy (i.e. individuals referred to in disseminated content, confidentiality of sources, non-violation of privacy during news gathering, protecting sources' privacy);

- ✓ Content creation (i.e. editorial independence, content quality, plurality and diversity);

- ✓ Content dissemination (accessibility and protection of vulnerable audiences);

- ✓ Audience interaction (users' privacy, child/youth protection, personal identification, etc.); and

- ✓ Media literacy.

The SASB industry standard is characterised by the concentration of indicators compared to the GRI and by an approach that combines qualitative and quantitative metrics on indicators which are specific to the media and entertainment sector (similar to those of the GRI, excluding the sector's economic and environmental issues which have non-negligible financial materiality).

Like its GRI equivalent, the standard established by the SASB for the media and entertainment sector in October 2018 covers a wide range of stakeholders extending beyond paper, radio, television and digital media. However, the SASB does specify that a special Internet, Media & Services Industry standard applies to media companies specialising in Internet content, in particular, social media. Stakeholder consultation on the standards began in 2012 and there were several phases of dialogue, the last of which took place in early 2018 (prior to publication of the standards in October 2018).

The SASB requires publication of **three key indicators**:

- ✓ Protection of media pluralism:

  - The percentage of gender and racial/ethnic group representation for executives, for professionals and for all others. It should be noted that collecting "racial" data, which has been common practice in the US since the end of the 18th century, is banned in France. For instance, public statistics bodies do not ask the citizens polled to place themselves on a list of racial or ethnic groups but to provide basic information pertaining to their civil status. As it stands, such a metric does not appear to be able to be used in France;[85]
  - A description of the approach to ensuring pluralism in news media content.

- ✓ Protection of journalistic integrity and sponsorship identification, comprising:

  - The amount of legal and regulatory fines and settlements associated with libel or slander
  - Revenues from embedded advertising; and

[85] Status in Europe is more various as some countries authorize compilation of this type of data.

- A description of the approach to assuring journalistic integrity (truthfulness and exhaustiveness of information, independence of content, protection of privacy)

✓ Protection of intellectual property and anti-hacking measures (descriptive approach)

As a result of having these three social and societal indicators, the SASB therefore excludes the publication of economic (for instance, the GRI requires the disclosure of subsidies received by the government and NGOs, as well as investments needed in infrastructure and advertising) and **environmental** (for instance, the GRI requires disclosure of volumes of materials consumed and the implementation of a recycling policy for materials and energy savings) **indicators**.

The media's environmental impact, bearing in mind the consumption of resources during the paper manufacturing and shipping stages, and also during the recycling of materials, is nevertheless one of the key challenges currently facing the sector. Similarly, the resilience of the business models of many media companies as part of the expansion of digitalisation also seems to be a crucial issue. Such indicators contain certain financial materiality against a backdrop of environmental and digital transitions.

By focusing on the issues of media pluralism and journalistic integrity, the SASB standard is therefore grounded in ESG considerations which, whilst being crucial for investors, (i.e. maintaining trust in the media and protection of the freedom of expression; ethics in the press and protection of intellectual property) nevertheless exclude major environmental[86] and economic issues (including for investors), as flagged up in a report published by Eurosif in 2012.[87]

The food processing sector

The food processing sector harbours major transparency issues due to growing societal expectation on production processes, the industry's environmental impacts and the rollout of responsible agricultural and industrial practices as witnessed by the increasing number of charters and certification procedures in this sector. In addition, the sector is characterised by the fragmentation of its value chain at international level through the relative integration of local sectors, the expansion of brands and products in developed countries and the supply of raw materials and assembly in developing countries. The value chain takes in a broad range of companies (suppliers of agricultural machines and seed, chemicals, animal health tests, packaging, producers, distribution companies, etc.). Lastly, the increasing influence of distribution firms means that negotiating powers are sliding towards the downstream part of the sector.

In light of the foregoing, it seems pertinent to carry out a comparison of the GRI and SASB standards for the food processing sector with an eye to understanding the related transparency issues and the possible differences in terms of the sector's environmental, social and societal priorities.

[86] It should nevertheless be noted that the Internet Media and Services Industry standard contains more indicators and, most importantly, the environmental footprint of hardware infrastructure (i.e. energy and water consumption, integration of environmental considerations to strategic planning for data center needs).
[87] Eurosif, Media Sector Report, June 2012. Available online: http://www.eurosif.org/media-sector-report-2012/

Once again, the GRI's sector-specific guidance seeks to be exhaustive by covering issues concerning health, environmental and social impacts of the value chain, and working conditions along the supply chain – whilst ignoring a number of key issues surrounding the sector's environmental issues (water, energy, recycling packaging) and opting for an essentially qualitative based approach.

The GRI issued a Food Processing Sector Supplement in 2010, which was reorganised in light of the publication of revised standards in December 2016.

Besides the required General Standard Disclosures (i.e. strategy and analysis, organizational profile, identified material aspects and boundaries, stakeholder engagement, report profile, governance, ethics and integrity), the GRI requires the sector to report on economic, environmental and social categories. Apart from the indicators which are in common with the two previously studied sectors, by tabling different metrics, the GRI has identified two specific indicators: programmes to promote nutritious and affordable food, and a detailed description of policies to ensure animal welfare throughout the value chain.

The GRI's guidance therefore has the following three strands:

- ✓ Economic indicators, broken down as follows:
  - Direct economic value generated and distributed, with a metric on the programmes rolled out to promote healthy lifestyles for consumers and a metric on government assistance during the production stage (owing to both positive consequences, regarding the promotion of responsible practices and economic development, and negative ones, due to the possible marginalisation of smaller-scale producers and potential negative consequences for public health which may be caused by such assistance); and
  - The sourcing strategy throughout the value chain on a range of aspects (protecting natural resources, minimising toxicity, fair trade, fair compensation for labour, traceability, presence of genetically modified organisms, animal welfare, etc.), following international standards in this respect.
- ✓ Environmental indicators, namely:
  - The identification of materials used; and
  - The number of operational sites owned, leased and managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas, where the onus is placed on water restoration.
- ✓ Social and societal indicators which are of utmost importance due to the global value chains attached to the food processing industry:
  - Labour/management relations, focusing on the implementation of social dialogue throughout the value chain and the percentage of working time lost due to industrial disputes, strikes and lock-outs, by country;
  - A description of any lobbying activities undertaken;
  - Programmes to promote nutritious and affordable food;

- A detailed description of policies to ensure animal welfare with specific quantitative metrics;
- Sub-indicators which are specific to production sites; to nutritional information on products and to communication about distribution practices; and
- More broadly, a description of major environmental and social impacts throughout the value chain.

The SASB industry standard is characterised by its environmental (energy, water, packaging lifecycle, sourcing) and societal (labelling and marketing, food safety issues) slant and excludes the social aspects of working conditions, and takes a mostly quantitative approach.

The SASB requires the publication of eight key indicators:

- ✓ Energy management, namely operational energy consumption and its breakdown (i.e. grid electricity, electricity from renewable energies);

- ✓ Water management, broken down as follows: total water withdrawn by source and the percentage of water consumed (by region, with the onus on water-stressed regions), the number of incidents of non-compliance with water regulations and a description of water management risks;

- ✓ Food safety, based on the principles of the Global Food Safety Initiative[88] and certification by that body, together with an independent audit using a set of quantitative criteria;

- ✓ Health and nutrition: revenue from products labelled and/or marketed to promote health and nutrition attributes, description of the process to identify and manage products of concern for the health of consumers;

- ✓ Product labelling and marketing, focusing on quantitative data (i.e. advertising aimed at children, revenue from products labelled as containing genetically modified organisms (GMOs) and those labelled as non-GMO, non-conformance with regulatory labelling and/or marketing codes, and fines associated with legal proceedings);

- ✓ Packaging lifecycle management, including quantitative metrics concerning recycled materials and a description of strategies to reduce the environmental impact of packaging;

- ✓ Environmental and social impacts of ingredient supply chains (i.e. quantitative metrics concerning the percentage of food ingredients sourced that are certified to third-party environmental and/or social standards, audit of suppliers based on standards of the same nature and non-conformance rate across the value chain); and

[88] The Global Food Safety Initiative (GFSI) was set up in 2000 and works on a volunteer basis. It brings together key actors in the food industry to collaboratively drive continuous improvement in food safety management systems around the world, in particular in order to reduce food safety risks, audit duplication and costs while building trust throughout the supply chain. Internationally, the GFSI has recognised a series of standards concerning agriculture, agents and brokers, packaging materials, storage and distribution, etc. Since 2011, American legislation has required heightened food safety audits and has encouraged an increasing number of organisations to consider the Global Food Safety Initiative as a compliance resource. https://www.sgsgroup.fr/fr-fr/agriculture-food/food/gfsi-certification

- ✓ Sourcing of ingredients, namely the percentage of ingredients sourced from water-stressed regions, a list of priority food ingredients and discussion of sourcing risks due to environmental and social considerations.

The GRI's guidance and the SASB's industry standard contain a large number of common indicators, in particular on issues concerning nutritional health, responsible marketing and labelling, and sourcing risks. **Nevertheless, these two frameworks diverge on a number of aspects which are vital for the sector**:
In respect of the environment, the SASB ignores issues relating to raw materials and biodiversity – while the GRI relies, without any special emphasis, on general standards for information on energy and water management. All these concerns contain certain financial materiality in instances of water stress and energy transition. What is more, the SASB does not address animal wellbeing.

Neither framework calls for transparency in waste management, nor the disclosure of greenhouse gas emissions, in spite of the fact that this indicator is crucial in light of the ecological impact of major food processing firms.[89]

- ✓ In the social field, the SASB does not address working conditions which are nevertheless a major supply chain issue due to the risks of exploitative working conditions upstream in the value chain, especially in developing countries. The rollout of preventive systems, audit procedures and appeal channels in the event of poor practices in the food processing sector are *de rigueur* in many countries; and

- ✓ To sum up, the SASB requires more granular information on factoring in environmental and social risks across the value chain, via quantitative metrics with a focus on sourcing risks and aspects concerning energy and water management.

According to a white paper issued by the World Business Council for Sustainable Development (WBCSD) in 2017 on extra-financial reporting in the food and agriculture sector,[90] the ESG issues which are the most published by the reporting companies (96 in all, see table below) are GHG emissions, supply chain responsibility, energy and water management, waste management, and health and food safety issues.

Conversely to the corporate practices examined by the white paper, it should be noted that there are no GHG emission indicators in the two frameworks and that the GRI does not address waste management.

[89] According to the FAO (World Agriculture towards 2030/2050, published in 2012) and McKinsey (Purchasing the global opportunity in food and agribusiness, published in 2015), the food processing sector accounts for around 30% of global greenhouse gas emissions.
[90] WBCSD, Materiality in corporate reporting: a White Paper focusing on the food and agriculture sector, 2017. Available online: https://docs.wbcsd.org/2017/form/WBCSD_Materiality_Report.PDF
It should be noted that the table refers to the SASB's provisional standards which were published prior to October 2018.

ESG issue[a]	SASB Consumption 1 Standard				FAO	GRI[b]	Benchmark
	Agricultural products	Meat, poultry, dairy	Processed foods	Food retailers		Food processing	Number of companies reporting
GHG emissions	✓	✓			✓	×	48
Supply chain responsibility	✓	✓	✓	✓		✓	45
Energy mgmt	✓	✓	✓	✓		×	44
Waste		✓		✓		×	43
Health and safety	✓	✓				×	43
Materials						✓	42
Water mgmt	✓	✓	✓		✓	×	39
Product safety	✓	✓	✓	✓		✓	33
Labor protection	✓			✓		✓	31
Product labeling			✓	✓		✓	29
Biodiversity and land use change	✓	✓			✓	✓	27
Product packaging			✓	✓		✓	24
Animal welfare						✓	22
Customer protection	✓	✓	✓	✓		×	22
Product marketing			✓	✓		✓	22
Compensation				✓		✓	15
Political advocacy	✓					✓	8
Data security				✓		✓	6
Soil pollutants					✓		4
Air pollutants					✓		3

Current development lessons from the sector-specific approach

The first thing to be noted is that, following their publication in November 2018, the SASB's industry standards represent a major aspect of this organisation as they extend to all economic activity. For its part, the GRI has tended to only cover a dozen or so sectors although new developments were announced in February 2019. However, the sector-specific guidance has only ever been intended to be an addition to the general standards. This is a fundamental difference which needs to be borne in mind when carrying out a comparison.

In light of the foregoing, and without drawing final conclusions regarding the sectors covered by the GRI and the SASB,[91] the comparative study of the three chosen sectors (oil and gas, media and entertainment, and food processing) has brought to light significant differences in the approach to corporate extra-financial reporting which can be summarised as follows:

[91] Extra-financial rating agencies, such as Vigeo Eiris, have conducted their own examinations of the materiality of the SASB's industry standards: studying the Vigeo Eiris analysis and discussions with the task force have confirmed a number of significant "materiality gaps" in many sectors (i.e. oil and gas, tobacco, etc.).

- ✓ The GRI's sector-specific guidance, which is an addition to the general standards, has the following features:

  - Comprehensive coverage of the required economic, environmental and social information: the indicators most frequently address all the ESG issues in a given sector, bearing in mind the fact that the "economic" category often represents the interface between the company's financial and societal challenges (for instance, payments to government, procurement practices, etc.);
  - The GRI's relatively qualitative approach in respect of the indicators put forward has more in common with the management report or the Management Discussion & Analysis than with uniquely quantitative metrics. This is even more the case for social issues for which contextualisation and the identification of applicable regulations are vital. Obviously, this situation makes it harder to digitalise information; and
  - The wide range of indicators reflects the GRI's multi-stakeholder approach, including in the "economic" category. This, in turn, creates a certain complexity. The GRI appears to be getting companies to "tell a story" based on the ESG issues connected to their business activity rather than ensuring that the indicators can be both measured and compared. This is especially true for the food processing sector, amongst the industries studied, which stands out due to the exhaustiveness of the indicators and their broadly qualitative approach with regard to the proposed metrics, unlike the SASB which has a resolutely quantitative approach for this sector.

- ✓ For their part, the SASB's industry standards have the following features:

  - The scope of required information is narrower and focused on investors' expectations, with a "bias" due to the market consensus reached with an eye to publishing the standards. In this respect, the example of the media and entertainment sector is telling with the SASB only requiring the publication of ESG information on three key indicators in the societal category. On the other hand, the GRI takes a broader view and includes, for instance, the environmental issues concerning this sector. This oversight of the scope of required information goes hand in hand with the positive fact that the SASB's standards are organised so as to be understandable and intelligible for the targeted stakeholders, i.e. investors (the standards' format fosters ease of use).
  - The SASB's grounding in the proposed metrics is deliberately quantitative: for the three sectors under review, the publication strategy is strongly geared towards quantitative metrics, which can therefore be measured and compared, even in fields, such as the social category, which remain subject to a qualitative approach. This strategy, which carries the advantage of making reporting operational and ensuring intra-sector comparability, may be implemented at the expense of the necessary contextualisation of the indicator (especially in the social and societal field) and of the regulations specific to each country (in this respect, the media and entertainment sector indicator on ethnic group representation for executives and professionals in a company is telling as this metric cannot be published by companies operating in countries where "racial" statistics are banned);
  - However, quantitative metrics are often accompanied by qualitative ones enabling the published figures to be illustrated;
  - The studied sectors give little room to GHG emissions and, where applicable, the onus is only on scope 1 emissions; and

- The majority of legislative and regulatory references are American, with the exception of a number of references to international standards for certain sectors, (for instance, the GHG Protocol and ILO principles). More broadly, there is often a "US-centric" prism in the selection of ESG indicators for each sector (as shown by references to hydraulic fracturing in the oil and gas industry)[92].

✓ <u>More generally, the two frameworks have two common denominators</u>:

- Neither seems totally exhaustive for the sectors under review. The different approaches and coverage reflect different targets as well as the complexity of a consensus on the key environmental and social issues in a climate of transition;
- The indicators and metrics laid down by both frameworks do not enable the relevant companies, at least in the oil and gas and food processing sectors, to easily position themselves against a backdrop of transitions. Besides the indicators enabling the company's strategy to be classified in respect of a given indicator (therefore remaining broadly qualitative and hardly comparable), the scarcity of forward-looking indicators emphasises these frameworks' lack of momentum in a context of environmental, social and digital transitions which are, nevertheless, of utmost importance.

[92] As such, on 22 May 2019, SASB announced the expansion of the "Investor Advisory Group" made up of asset managers and owners, with the arrival of fifteen new members from Canada, France (AXA Investment Management), Japan, Norway and the United Kingdom. Barbara Zvan (Strategy and Risk Manager for the Ontario Teachers' Pension Plan) was appointed to lead this committee on 28 May 2019.

2.3 Climate-related standards have progressed significantly meaning that an initial stage of standard convergence can be considered

Climate-related reporting (which covers all information on the climate scorecard and GHG emissions for a given structure) is far and away the most advanced form of reporting at present, both in terms of metrics, framework and transparency principles, for businesses and financial stakeholders. This conclusion arises from the climate emergency and collective awareness over the past two decades, which has led to collective emulation and a large number of initiatives.

A key step in this direction was certainly Mark Carney's speech in September 2015 on "Breaking the tragedy of the horizon – climate change and financial stability" when the current Governor of the Bank of England and former Chairman of the Financial Stability Board called for extra-financial information to be bolstered, in terms of both content and presentation, to support public policies and allow investors to assess the risks and opportunities created by climate change (with better knowledge of the issuer's circumstances). He also drew attention to the age of extra-financial information schemes and their (too great) diversity ("the existing surfeit of existing schemes and fragmented disclosures means a risk of getting "lost in the right direction"). By advocating the establishment of the TCFD, he ended his speech with the words: "By managing what gets measured, we can break the Tragedy of the Horizon"[93].

Here, we can differentiate between what is covered by reporting frameworks, which are broadly principles-based, and by standards putting forward metrics for calculating GHG emissions. In this respect, a series of initiatives are also being developed to boost transparency concerning the GHG emissions, and emission trajectories, of businesses and financial stakeholders.

The vast majority of these initiatives were mentioned in the NFRD's non-binding guidelines which were published in 2017 and which are subject to a detailed appendix (see appendix. 4).

The "principles-based" frameworks of the CDSB and the TCFD are destined for businesses for the disclosure of climate-related information to inform decision-making by investors and therefore reallocate capital flows to protecting the environment

The **Climate Disclosure Standards Board** (CDSB) was formed in 2007 at the annual meeting of the World Economic Forum. It provides a climate change reporting framework that seeks to filter out what is required (principle of materiality) to understand how climate change affects a company's financial performance.

The CDSB stresses that it does not offer reporting indicators and metrics as it considers that it is more pertinent to rely on existing standards and guidance. Instead, it **provides a framework composed of key reporting principles and requirements** (i.e. governance, management's environmental policies, strategy and targets, explanation of the material current and anticipated environmental risks and opportunities, material sources of

[93] On 21 March 2019, Mark Carney in his speech "A New Horizon", declared after a feedback of the implementation status of the TCFD recommendations: "*The momentum behind the TCFD's voluntary disclosure is creating a virtuous circle by encouraging learning by doing. As companies apply the recommendations and investors increasingly differentiate between firms based on this information, adoption will continue to spread, disclosure will become more decision-useful and efficient, and its impact will grow*".

environmental impact, performance and comparative analysis, the effect of environmental impacts on the organisation's future performance, consistent use of indicators and metrics as part of reporting, reporting on an annual basis, etc.), **covering natural capital and climate change.**

The CDSB published its first reporting framework in 2010, before revising it in 2013 (by expanding the scope beyond GHG emissions) and again in 2015, putting forward a reporting strategy including environmental information connected with natural capital (i.e. air, water, land, minerals, forests, biodiversity and ecosystem health) and climate change (i.e. GHG emissions). In April 2018, the CDSB brought its framework into line with the TCFD's recommendations.

Today, the CDSB's reporting framework is based on the following set of core references:

i. The TCFD recommendations;

ii. The IASB's standards and principles and the IFRS' Management Commentary – by adapting their qualitative characteristics to transparency in environmental matters and by using the main principles for the materiality of information[94];

iii. National legislative and/or regulatory arrangements (such as Article 173 of the French Energy Transition and Green Growth Act or the SEC's 2010 Commission Guidance Regarding Disclosure Relating to Climate Change);

iv. The sector-specific guidance published domestically by many countries, such as the environmental reporting guidelines issued by the Department for Environment, Food and Rural Affairs in the UK in 2013;

v. International standards in which mention is made of the GRI, the IIRC, the ISO, the OECD, the PRI and the UN Global Compact; and

vi. The work of CDSB Board members (SASB, WBCSD, Ceres, World Resources Institute).

[94] The proximity of the CDSB with IFRS should be noted and this was flagged up by people interviewed by the task force. In addition, in March 2018, the CDSB published a guide called "Uncharted waters: how can companies use financial accounting standards to deliver on the TCFD's recommendations?" which sought to pinpoint the financial reporting standards which could help companies comply with the TCFD's recommendations.

The framework, which was revamped in 2018, provides for a better match between the CDSB's guiding principles and reporting requirements and the TCFD's recommendations, in particular regarding information to be provided, as set out in the table below:

TCFD	CDSB	SASB
PURPOSE OF PRINCIPLES		
Principles for Effective Disclosures Intended to "help achieve high-quality and decision-useful disclosures that enable users to understand the impact of climate change on organizations."	Guiding Principles and Reporting Requirements Principles [P] are designed to ensure that environmental and climate information in mainstream reports is useful to investors, is correct and complete, and supports assurance activities. Requirements [REQ] are designed to encourage standardized disclosure of environmental and climate information that complements and supplements other information in mainstream reports.	SASB Criteria for Accounting Metrics Designed to ensure the delivery of material, decision-useful information to the capital markets in a way that is cost-effective
ALIGNMENT OF PRINCIPLES		
Disclosures should present relevant information	[P1] Environmental information shall be prepared by applying the principles of relevance and materiality [P5] Disclosures shall be clear and understandable	SASB metrics are applicable to most companies in the industry
Disclosures should be specific and complete	[P2] Disclosures shall be faithfully represented [P3] Disclosures shall be connected with other information in the mainstream report [P7] Disclosures shall be forward-looking	SASB metrics are complete, capturing a fair representation of performance
Disclosures should be clear, balanced and understandable	[P2] Disclosures shall be faithfully represented [P5] Disclosures shall be clear and understandable	SASB metrics are useful to decision-makers and neutral (free from bias)
Disclosures should be consistent over time	[P4] Disclosures shall be consistent and comparable	SASB metrics are comparable over time
Disclosures should be comparable among organizations within a sector, industry, or portfolio	[P4] Disclosures shall be consistent and comparable	SASB metrics are comparable across peers within an industry
Disclosures should be reliable, verifiable, and objective	[P2] Disclosures shall be faithfully represented [P6] Disclosures shall be verifiable	SASB metrics are verifiable
Disclosures should be provided on a timely basis	[REQ 9] Disclosures shall be provided on an annual basis	SASB metrics are useful to decision-makers

Source: CDSB & SASB, **Getting started on TCFD implementation**, published on 1 May 2019

As described in Section 1.5, the TCFD (whose work was initiated in December 2015, under the umbrella of the Financial Stability Board and chaired by Michael Bloomberg) was asked with drawing up principles, in order to apply to both financial and non-financial sectors, regarding the disclosure of climate-related extra-financial information, in respect of risks and opportunities. Against a backdrop of growing physical risks and transition related to climate change, heightened transparency enables investors to assess the climate change-related risks and opportunities for their capital allocations decisions and to prioritise the long-term in their investment decisions.

The TCFD's recommendations specify the **climate reporting information in companies' reference documents in four key areas** (i.e. governance, strategy, risk management, metrics and targets), within a broader perspective than simply publishing the company's carbon footprint.

Consequently:

- ✓ As regards governance, companies should describe the board's oversight of climate-related risks and opportunities and management's role in assessing and managing those risks and opportunities;

- ✓ As regards strategy, companies should describe the climate-related risks and opportunities the company has identified over the short, medium and long term, the impact of those risks and opportunities on the company's businesses, strategy and financial planning and the resilience of the company's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario;

- ✓ As regards risk management, companies should describe their processes for identifying and assessing climate-related risks, the processes for managing those risks and how they are integrated into the company's overall risk management;

- ✓ As regards metrics and targets, companies should disclose the metrics and targets used to measure and quantify climate-related risks and opportunities, disclose scope 1, scope 2, and, if appropriate scope 3 greenhouse gas emissions and the related risks, and describe the targets used by the company to manage climate-related risks and opportunities, and performance against targets.

The TCFD also recommends using scenario analysis to assess the degree of robustness of organisations in the face of climate change. Lastly, for non-financial industries and, in particular the energy, agriculture, food and forest products, transportation, and materials and buildings sectors, the TCFD has developed supplemental guidance (i.e. integration of climate-related risks and opportunities into decision-making and strategy formulation matrices (R&D, adoption of new technologies, investments, restructuring, depreciation or deterioration of assets, etc.).

To date, **around 625 companies and organisations** (representing market capitalisation of almost USD seven trillion), including 340 financial institutions which manage assets of more than USD 107 trillion, **have expressed support for the TCFD's work**[95] – alongside a number of governments (France, Belgium, Sweden, UK) and financial regulators (Australia, Belgium, France, Hong Kong, Japan, Netherlands, Singapore, South Africa, Sweden, UK). The TCFD's 2018 Status Report, which was published in September 2018, aims to promote adoption of its recommendations by financial and non-financial companies (See Status Report Summary in appendix no. 7).

In its action plan on sustainable finance (see section 1.3), the European Commission sought to improve the transparency of information published by companies. To this end, it revised its guidelines on non-financial reporting to make them compatible with the TCFD's recommendations.

For instance, the TCFD has spurred a large number of private initiatives, including the flagship Transition Pathway Initiative (TPI), with an eye to fostering fulfilment of the TCFD's recommendations and bringing investment decisions into line with the goals of the

[95] According to information gathered by the task force from the TCFD Secretariat in early May 2019. This number is expected to increase in the coming months, taking into account the commitment of Japanese companies, for example, and the announcements that will be made at the G20 Osaka Summit (28-29 June 2019).

Paris Agreement. The TPI was launched in January 2017 as a joint initiative between the Church of England National Investing Bodies (Church of England Pensions Board, the Church Commissioners and CBF Funds) and the British Environment Agency Pension Fund, with support from FTSE Russell, the Grantham Research Institute on Climate Change and the Environment, the London School of Economics and the Principles for Responsible Investment. It is now led and supported by a large number of asset owners and asset managers, representing an aggregate total of over GBP 2,000 billion. The TPI enables investors to evaluate the quality of companies' management of their GHG emissions, to evaluate how companies' planned or expected future carbon performance compares to international targets and national pledges made as part of the Paris Agreement, and to publish this information online through a publicly-available resource. Stakeholders can therefore use the TPI to inform their investment research, their investment decisions, the measures taken to comply with their commitments and decisions regarding the exercising of voting rights.

As their approach is broadly similar, being focused on the financial materiality of climate change-related risks and opportunities, **the CDSB and the SASB have been working together since 2017 on their joint alignment with the TCFD**. The task force was able to consult their "**TCFD Implementation Guide**" which was published on 1 May 2019. The guide is for companies looking to implement the TCFD's guidelines as effectively as possible.

Part II of the TCFD Implementation Guide ("Getting Started") first puts forwards a series of recommendations in order to, initially, integrate climate assessment, monitoring and management into companies' routine business activities then, subsequently, to publish information which is transparent, significant and relevant for stakeholders, who are, first and foremost, the investors. The cornerstone for implementation is to secure the support of the board of directors and executive leadership for assessment and reporting initiatives, as shown by the following diagram taken from the guide:

Source: CDSB & SASB, **TCFD Implementation Guide, Part II: Getting Started**, published in 1 May 2019

By highlighting core practical examples, the guide then allows for implementation of the TCFD's recommendations by applying the principles, indicators and metrics of the CDSB and the SASB – by emphasising the fully complementary nature of the three approaches.

A number of current initiatives are geared towards providing a specific reporting framework for greenhouse gas emissions and precise metrics to provide heightened transparency for companies' decarbonisation strategies

By way of introduction, it should be noted that it is not easy to measure the transition risks and opportunities connected with shifting the economy towards a low-carbon model. We need to distinguish between:

- ✓ **Measurement of the carbon footprint** to assess a company's impact in terms of GHG emissions and its dependency on emissions (i.e. the emissions required for a given company's business activity throughout its value chain). This involves dividing emissions released into the air into "scopes" (i.e. on one hand, scopes 1 & 2 for direct and indirect emissions relating to a company's energy consumption, for which the company has significant responsibility as it is able to implement direct leverage actions; and scope 3 for all emissions upstream and downstream of the company's value chain – a scope which is vital but complicated as the company very often shares responsibility with other stakeholders[96])

- ✓ **Measurement of avoided emissions** – enabling a company's contribution to overall emission reduction to be objectivised (via the generated climate benefits) – originating from actions outside the above-mentioned scopes 1, 2 and 3; and

- ✓ **Measurement of a company's decarbonisation strategy** – a field in which the TCFD provides useful references (in particular, as regards climate-related opportunities, as set out in page 11 of the Final Report published in 2017).

In this respect, the Carbon Disclosure Project (CDP**)** is a not-for-profit charity which runs the **global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts**. The CDP currently gathers together around 525 investors, accounting for almost USD 96 billion in managed assets in 2018. Over 7,000 companies and more than 600 towns and cities replied to its questionnaires on climate change, water, forests and the supply chain in 2018; as a result, in 2018, 120 states and regions were able to measure their environmental impact.

Since 2003, the CDP has been running an annual campaign, using a questionnaire, in order to compile information on companies' GHG emissions (including in the oil and gas industry since 2010). The CDP has gradually widened its scope by issuing annual reports on water management (Global Water Report) and on impacts on forests (Global Forests Report).

The CDP's questionnaires are comprehensive and highly specific, and enable companies to disclose information on their activities in a wide range of sectors:

- ✓ In respect of climate-related risks and opportunities:

  - Describe the governance mechanisms into which climate-related issues are integrated

[96] The breakdown into scopes was instigated by the Greenhouse Gas Protocol, in close collaboration with the WDCSB (see appendix no. 8). Available online: https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

- Risks (by type: current and emerging regulation, technology, legal, market, reputational, physical, upstream and downstream in the value chain) and climate-change related opportunities in the short, medium and long term
- The management processes and associated reporting mechanism within the company (at the level of the company and its assets)
- Where and how the impact of the risks and opportunities on the company's businesses have been factored into the financial planning process
- The integration of climate-related issues into the business strategy; and
- Emissions targets and the associated performance – and information on emissions reductions initiatives and low emission goods and services, together with emissions data for the three scopes

✓ Additional metrics (energy consumption, waste management, emissions of gases other than GHGs, oil reserves, etc.)

✓ The company's status in respect of third party verification/assurance of its GHG emissions by scope and location

✓ The carbon pricing systems used by the company; and

✓ The company's engagement across the value chain with policy makers and within trade associations on climate change-related issues

<u>In addition, two French initiatives should be mentioned due to their commitment to climate-related reporting vis-à-vis companies and their goal of building methodologies for the effective implementation of the energy transition</u>:

The Assessing Low Carbon Transition (ACT) Initiative

This joint ADEME/CDP initiative aims to bolster climate-related reporting practices and to identify which companies are actually shifting to a low-carbon model and which have made significant progress, irrespective of their size or markets. **The ACT Initiative's approach is therefore resolutely holistic and proactive by assessing and forecasting the relevant company's low-carbon trajectory**. The Initiative is characterised by its assessment and ranking mechanism which allow independent information to be provided on the alignment of companies' strategies and their climate-based performance in relation to sectoral decarbonisation approaches, to provide them with explanations of these sectoral approaches so as to forestall the related transition risks (with an eye to including the scenarios set out by the National Low-Carbon Strategy) and therefore to enable them to disclose relevant information vis-à-vis the TCFD's recommendations.

The first pilot stage of the ACT project took place internationally in 2016, involving 24 companies across three sectors (electric utilities, auto manufacturing and retail) and, in 2017, with French SMEs/mid-tier companies so as to adjust incumbent methodologies to match the issues faced by smaller companies. By 2021, the goal of the ACT Initiative is to extend to all the economy's non-financial sectors, in particular oil and gas, cement and transportation. The ADEME advised the task force that the ACT method is used in different manners as mature businesses use it to assess their climate strategies whereas, for SMEs/mid-tier companies, the Initiative helps structure their approaches.

It should also be mentioned that, with the ACT Initiative, the ADEME and CDP are taking part in the work of the World Benchmarking Alliance to build a Corporate Climate Action Benchmark to help achieve SDG 13 on climate action. This demonstrates the ADEME's determination to disseminate the ACT method internationally to bolster companies' climate-related reporting by acting as an instrument to steer their gradual decarbonisation. In addition, the AENETA project, designed to activate a European ACT network, began in April 2018 and includes a series of work areas over three years, including the development of sectoral methods and associated assessment tools in order to cover the main non-financial sectors targeted by the TCFD and the assessment of hundreds of European and international companies.

The Net Zero Initiative

This second initiative, which was unveiled in September 2018 by the consulting firm, Carbone 4, aims to define and encourage corporate carbon neutrality, in consultation with major firms (including Engie, L'Oréal, the RATP, EDF, Havas, the BPCE Group and Orange) and an independent scientific committee. The impetus for the Initiative was the difficulty in comparing companies' carbon neutrality declarations for which the boundaries are often imprecise and arbitrary.

The Net Zero Initiative therefore aims to ensure consistency and interaction between existing concepts and methods (Science Based Targets, a joint initiative of the UN Global Compact, the WWF, the World Resources Institute and the CDP, which was launched in 2015 and which is striving to match GHG emission reduction objectives, by sector, with climate science data, the above-mentioned ACT method, avoided emissions methodology, etc.) To this end, the Initiative is heading towards "a pathway and not a factual situation" by making companies commit to a transformation process, using harmonised indicators for actual emission reduction (i.e. reduction of emissions on scopes 1, 2 and 3 – or induced emissions; and reduction of emissions outside the company's scope – or avoided emissions) and become involved in increasing global CO_2 sinks (i.e. development of sequestration and storage – or negative emissions). The Net Zero Initiative also intends to measure all emissions via triple entry carbon accounting: induced emissions, avoided emissions and negative emissions.

It is therefore clear that corporate climate-related reporting has progressed although a number of caveats remain (i.e. going beyond "ordinary" reporting on scopes 1, 2 and 3 to achieve carbon neutrality, rolling out a holistic and forward-looking approach to greenhouse gas emissions to join a decarbonisation trajectory), **which two French initiatives, the ACT Initiative and the Net Zero Initiative, are attempting to address,** by working together with the private sector and academia.

2.4 Theme-based frameworks other than those relating to the climate are often general or specific and cannot yet be considered mature standards

Theme-based frameworks concerning the environment, other than those relating to the climate

Environmental reporting, which goes beyond climate change-related reporting as such, is less extensive owing to scientific and technical (i.e. current problems with measuring the loss of biodiversity, the entire natural capital, etc.) and political (collective awareness of the deterioration of ecosystems and the massive loss of biodiversity manifested itself later than for global warming) considerations.

Consequently, unlike the corporate climate impact methodologies that led to the TCFD being set up, risk analysis relating to the loss of biodiversity cannot yet rely on standardised data and methodologies. There is no homogenised, or more broadly, accepted data which could enable companies and financial institutions to measure and disclose the impacts of their assets portfolio or businesses on biodiversity, to assess the related risks and opportunities and alter their practices.[97]

There are however a number of initiatives which, at present, have not been fully developed and coordinated:

The Eco-Management and Audit Scheme Regulation

The EMAS Regulation is an EU regulation[98] on the voluntary participation by organisations in a Community eco-management and audit scheme. Although it is not a reporting framework as such, its content is governed by the process for certifying the environmental statement. Moreover, this regulation is one of the frameworks mentioned in the recommendations of the Non-Financial Reporting Directive.

The environmental statement must disclose the entity's environmental policy, the scope for environmental progress and describe the environmental management system. In addition it must contain a clear assessment of the environmental problems and issues relating to activities, a quantified summary of pollutant emissions, waste production, consumption of raw materials, energy, water and, where applicable, an analysis of other major environmental aspects, a list of other factors and indicators that characterise environmental results, an overview of the environmental management policy, programme and system.

The Natural Capital Protocol

As already mentioned in section 1.5, the Natural Capital Protocol provides a forum for discussions on natural capital by striving to include existing standards without offering a specific reporting framework. Its goal is to build standardised methodology to ensure better understanding and quantification of companies' impacts and dependencies vis-à-vis

[97] This is why, in early 2019, the Minster for the Ecological and Inclusive Transition commissioned a joint WWF /AXA task force to work on rolling out global biodiversity assessment measures, in the run up to the G7 Environment Meeting in May 2019 (report published on 6 May 2019).
[98] Regulation (EC) No 761/2001, revised in 2002 and 2004.

ecosystems. The Natural Capital Coalition will submit a report to the European Commission in the summer of 2019.

The Carbon Disclosure Standard Board

In 2013, CDSB, as described above, expanded the scope of its framework beyond GHG emissions to encompass all natural capital.

The European Commission's Business@Biodiversity Platform

The Platform was set up in 2010 to help companies understand, quantify and reduce their impacts on biodiversity. In conjunction with the work of the Natural Capital Protocol, the Platform identifies initiatives for the implementation of accounting indicators and/or proposals.

The Global Biodiversity Score

In 2015, in France, the Deposits and Consignments Fund (*Caisse des dépôts et consignations*) biodiversity economy task force began looking at how to build biodiversity footprint methodology[99] for companies across all economic sectors with the dual goal of maintaining the cross-cutting approach specific to ecosystem services whilst focusing the analysis on the subject of biodiversity[100].

As biodiversity-related issues are so vast, the work is still ongoing at both European and international levels.

Social and human capital-related frameworks

As human and social aspects are central to the issues faced by economic stakeholders, a number of non-profit organisations and NGOs have attempted to come up with a better definition of this field and of the resulting indicators.

The scope of human capital extends to all aspects relating to employees of a company or an organisation (i.e. their skillsets, capacity to innovate, motivation, loyalty to their employer, etc.) whereas that of social/relationship capital (taking the English meaning of the world "social") covers all the social relationships forged by companies. This is a huge field taking in customer/supplier relations, the application of labour law and human rights to its own employees as well as those of its suppliers and subcontractors, poverty and modern slavery. Due to this very broad scope, social/relationship capital is one of the hardest to measure and there are no specific international indicator standards but simply principles and frameworks that structure the approach to responsibility.

In this respect, the **UN Guiding Principles**[101] lay the foundations for corporate social responsibility. They were endorsed by the UN Human Rights Council in 2011 and represent the benchmark principles on business and human rights. They implement the UN's "Protect,

[99] http://www.mission-economie-biodiversite.com/wp-content/uploads/dlm_uploads/2017/12/N11-TRAVAUX-DU-CLUB-B4B-INDICATEUR-GBS-FR-BD.pdf

[100] CDC Biodiversité (2017). *Vers une évaluation de l'empreinte biodiversité des entreprises : le Global Biodiversity Score.* Les cahiers de Biodiv'2050 : Club B4B+. Mission économie de la biodiversité, n°11

[101] https://www.business-humanrights.org/en/un-guiding-principles

Respect and Remedy" Framework. Whilst confirming states' existing obligations to respect, protect and fulfil human rights, these Guiding Principles recognise the requirement for companies to also respect them, by introducing a principle of due diligence.

All companies, regardless of their size, must identify, prevent and mitigate any violations of human rights, and account for how they address adverse impacts. Where applicable, companies must compensate victims of human rights harms, or contribute to compensation mechanisms. The human rights obligations are binding on companies for their own business activities and also for the activities of their subsidiaries or their entire sphere of influence such as, for instance, suppliers or subcontractors. This extends companies' responsibility to wherever they may operate. These Guiding Principles provide a behavioural standard for companies' responsible attitudes but do not, under any circumstances, represent a reporting framework with indicators.

In February 2019, the **WBCSD,**[102] a Geneva-based organisation of around 200 leading businesses and partners, published the Human & Social Capital Protocol[103] along the lines of the Natural Capital Protocol. Based on the assumption that employee well-being is central to the good running of company activities, the goal is to provide a strategic discussion framework taking in all aspects of human and social capital. The Protocol, which draws on more than twenty company case studies and feedback from an extensive public consultation, describes in four major stages the process for companies to identify this capital, to identify the relevant indicators, their measurement and design, and the implementation of action plans. The idea is to put forward an action-oriented and harmonised approach. The Protocol does not provide specific indicators as such and each organisation has to identify the indicators which are the most appropriate for its purposes.

ShareAction's **Workforce Disclosure Initiative**[104] (WDI) also deserves a mention. It focuses exclusively on human capital and the working conditions for companies' employees and for their supply chain. The Initiative was unveiled in 2017 by a UK-based NGO which advocates heightened transparency and responsible investment and has been backed by investors (120 signatories). It was based on the fact that, previously, workforce reporting was not sufficiently meaningful and comparable. 2017 was a pilot year and 90 companies disclosed their data based on a series of questions established by the WDI in 2018. WDI methodology is set out in its 2018 Guidance Document[105] which contains the rationale for the issue at hand (Why this is important*)*, the guiding principles and the relevant questions that need to be asked to establish this reporting by structuring it around topics and, where necessary, mentioning potential references to other frameworks (GRI, UN, etc.) The selected topics are governance, assessment of risks and opportunities relating to the workforce, workforce composition and wage levels, employee turnover, training, occupational health and well-being, labour law, the supply chain and the strategy as regards subcontracting and impacts on the workforce.

The WDI therefore offers an explanatory approach to human issues which unify existing approaches. Disclosure is on a voluntary basis and the data collected is made available online and free-of-charge. The WDI is set to continue working in this area with an eye to offering companies examples of best practices and case studies in 2020.

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[102] World Business Council on Sustainable Development.
[103] https://www.wbcsd.org/Programs/Redefining-Value/Business-Decision-Making/Measurement-Valuation/Social-Human-Capital-Protocol
[104] https://shareaction.org/wdi/
[105] https://shareaction.org/wp-content/uploads/2018/07/WDI_Survey_Guidance_2018.pdf

Up until now, the general approach chosen for human and social/societal aspects has been to offer tools to structure approaches by **defining general behavioural principles.** There is no social indicators framework as such and companies are therefore obliged to select what they consider to be the most appropriate indicators from among those set out in their countries' legislation or in more general frameworks such as those of the GRI or the SASB (see section 2.1).

Even for so-called simple indicators such as the workforce, the definitions are not precise enough. This can cause inconsistent implementation and therefore give rise to information which is not directly comparable. For instance, there are possible divergences on indicators used for:

- ✓ The date to be used to count the workforce (presence at the start or end of the month, calculation of an average)
- ✓ Employment contracts to be taken into account: open-ended contracts (full or part time?), fixed-term contracts, apprenticeship contracts, interns; and
- ✓ Taking account of sick leave and maternity leave

Theme-based frameworks concerning governance

Governance-related principles are not set out as such in a framework. However, Directive 2013/34/EU provides in its Article 20 that relevant undertakings "shall include a corporate governance statement in their management report" and that this statement must make reference to the corporate governance code to which the undertaking is subject.

In France, the Corporate Governance Code for Listed Companies, which is published by the Afep/Medef, was updated in 2018 to explicitly include environmental and social issues. In its Article 1.1, the Code stipulates that the board "[…] shall promote long-term corporate value creation by taking account of the **social and environmental issues attached to the company's activities**. Where applicable, it shall table any changes to the articles of association which it may consider necessary". As a result, social and environmental considerations have become a definitive feature of companies' daily concerns.

2.5 General reference frameworks oriented towards intangibles are limited and essentially cover qualitative information

A number of stakeholders, often from academia and from management and strategy consulting firms, have decided to focus on intangibles from a positive standpoint (by introducing the notion of intellectual capital) and on their contribution to value creation. These include, purely as an illustration in view of the abundant documentation (especially academic with a strategic view, see section 1.2 above) on the subject, the WICI (World Intellectual Capital/Assets Initiative) network, the Intangibles Monitoring Centre in France and the IIRC.

Tools for self-awareness, awareness raising and training on the concept of intangibles contributing to the creation of value in companies have been implemented. Until recently, discussions concerning intangible / intellectual capital were often almost exclusively focused on the accounting issues of R&D expenses and their capitalisation, whether authorised or not by accounting standards. Although non-capitalised R&D expenditure is part of a company's intangible value, it is only one item amongst many others. It is most common to define intangible capital as comprising the following three asset categories:

- ✓ Human capital: includes all tacit or implicit knowledge, talents, experiences and know-how of employees;
- ✓ Structural capital : includes organizational routines, procedures, work methods, information systems, databases, technology and research and development;
- ✓ Relational capital: includes everything that links the company to its environment (shareholders, partners, customers, suppliers, etc.).

As these items are, by their very nature, specific to each company according to its background, environment and strategy, and as they are hard to quantify and measure, the benchmark standards or frameworks are still highly indicative or generic and are largely given over to descriptions and explanations.

This is why, as a rule, these frameworks are not generally widely-used as benchmarks. Standardisation procedures for extra-financial information focus more on risks than on opportunities. At least, broadly speaking, companies are able to decide on the development of information on the "opportunities dimension" and can therefore freely refer to the factors of success that justify the "wealth" that accounting information does not express, and to the outlook in terms of changes.

The task force considers that this segment of extra-financial information could warrant increased development of standards.

The WICI network

As described in Section 1.5, the WICI network focuses exclusively on intangibles reporting and on improving this reporting.

The WICI Intangibles Reporting Framework[106] was published in September 2016 and has the following features:

- ✓ The Framework provides a definition of intangibles (which is fundamentally equivalent to the concept of intellectual capital and offers a supplement to intangible assets as described in IAS 38)[107]
- ✓ Intangibles are considered under the categories of organisational, human and relational capital
- ✓ The Framework is principles-based and does not prescribe the order of the three main sections of intangibles reporting
- ✓ The Framework describes how to build indicators and provides examples; and
- ✓ Lastly, the indicators are articulated on three levels, general, industry-specific and organisation-specific.

Indicators for ten sectors have been drawn up by regional working groups. The most-recent indicator, which was published in January 2019, deals with the Food and Beverage industry and was tabled by WICI Europe and France.

Industry	Jurisdiction	Publication date	Number of KPIs
Food and Beverage KPIs	OI-WICI France	January 2019	38
Oil and Gas	NIBR/WICI Italy	April 2016	56
Electricity Sector	WICI Europe	September 2013	111
Mining	WICI US/Gartner		
High Technology	WICI US/Gartner		
Automotive	WICI Japan	June 2010	24
Electronic Devices	WICI Japan	June 2010	23
Pharmaceuticals	WICI Japan	May 2010	16
Telecommunications	WICI Eur/EFFAS	October 2010	59
Fashion and Luxury	WICI Eur/EFFAS	May 2011	114

The indicators are identified on the basis of relevance and materiality in the value creation process for the sector's companies. However, the creation of formal documentation has not been standardised and varies according to the teams which drafted it. The indicators are essentially quantitative at a given date and there is no positioning in relation to a target.

[106] http://www.wici-global.com/framework
[107] IAS 38: Intangible Assets, accounting standard on how to account for intangible assets.

In France, the WICI has been hosted since 2015 and supported by the *Observatoire de l'Immatériel*[108]which also conducts its own work on intangibles.

The Observatoire de l'Immatériel

The *Observatoire de l'Immatériel* is a non-profit organisation which was set up in 2007 and which aims to unify all stakeholders around intangibles, put forward innovative approaches, share know-how, influence decision-makers and spur all the players into action[109].

In June 2012, the *Observatoire de l'Immatériel* and the Ministry for the Economy and Finance, represented by the Directorate General for Enterprise (DGE), executed an agreement governing collective action on "corporate intangibles". The purpose of the agreement is to build a toolkit for companies relating to the management, assessment and leveraging of corporate intangible assets. This actually takes the form of an intangible capital assessment framework called Thesaurus, which was published in 2011 (first part) and in 2015 (second part),[110] with the initial goal of supplementing the IAS-IFRS.

This method changes on a regular basis and is updated, autonomously, by a consulting firm Goodwill Management[111]: it assesses companies with a rating out of 20 on their intangible assets. The approach is more of an assessment than a reporting procedure although a number of tests have been conducted on the latter objective. The method relies on identifying metrics which are specific to each company and which are, at present, hardly able to be mainstreamed.

In addition to other actions, the *Observatoire de l'Immatériel* published a summary schedule of 26 indicators covering 10 categories of intangible assets in July 2015.

In order to concretise this schedule and encourage company managers (VSEs/SMEs) to make use of it, a framework focusing principally on the various value creation items for companies and their differentiating features (intangible resources) and with an essentially educational goal, was designed and put online under the Cap'Immatériel[112] banner in September 2018. This framework sets out 10 categories of intangibles (Manager, Employee, Client, Trademark, Knowledge, Organisation, Digital Transformation, Partner, Shareholder and Regional Ecosystem) covering 26 topics. Factsheets with suggestions for quantitative and qualitative indicators are also available online and allow the proposed approach, which has a more strategic dimension and which allows for better knowledge and better management of the company and its environment than reporting, to be structured.

The International Integrated Reporting Council (IIRC)

Owing to its objectives (managerial behaviour, reporting methodology, reporting approach/ structuring), the IIRC does not provide a framework on intangibles as such. Nevertheless, the International <IR> Framework gives intangibles a true place by categorising and describing three capitals (out of six) which are usually considered as constituting intangibles (see above):

[108] http://observatoire-immateriel.com/
[109] See « Les fondamentaux de l'Immatériel » published in 2017.
[110] Available on the Observatoire de l'Immatériel website.
[111] Thésaurus Capital Immatériel 2019: the practical framework for measuring corporate intangible assets.
[112] https://www.cap-immateriel.fr/referentiel/

- ✓ Intellectual capital: Organizational, knowledge-based intangibles, including: intellectual property, such as patents, copyrights, software, rights and licenses, "organizational capital" such as tacit knowledge, systems, procedures and protocols.

- ✓ Human capital: People's competencies, capabilities and experience, and their motivations to innovate, including (i) their alignment with and support for an organization's governance framework, risk management approach, and ethical values; (ii) the ability to understand, develop and implement an organization's strategy; (III) the loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate; and

- ✓ Social and relationship capital: The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes: (i) shared norms, and common values and behaviours, (ii) key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders, (iii) intangibles associated with the brand and reputation that an organization has developed, (iv) an organization's social license to operate.

The scope covering intangibles is therefore the same as that of the WICI with a compatible and consistent framework. These two bodies signed a cooperation agreement on 10 October 2016[113]. Incidentally, on 23 March 2019, they published a joint position paper on "SDGs and Intangibles".[114]

[113] http://integratedreporting.org/wp-content/uploads/2016/10/WICI-and-IIRC.pdf
[114] http://www.wici-global.com/wp-content/uploads/2019/03/20190323.pdf

2.6 Frameworks are expected to converge and stabilise

The Corporate Reporting Dialogue (CRD)

Due to the increasing number of topics, the difficulty in making extra-financial information consistent and the growing number of global initiatives geared towards structuring either all the topics or just some of them, a number of stakeholders joined forces in 2014 to set up an initiative called the Corporate Reporting Dialogue[115] (CRD) which "strives to strengthen cooperation, coordination and alignment between key standard setters and framework developers that have a significant international influence on the corporate reporting landscape".

The work has the following specific objectives:

- ✓ Communicate about the direction, content and ongoing developments of reporting frameworks, standards and related requirements;
- ✓ Identify practical ways and means by which respective frameworks, standards and related requirements can be explained and aligned, notably to avoid potential conflict, inconsistency and duplication between them;
- ✓ Clarify and resolve any emerging issues from their respective activities and other matters of common interest;
- ✓ Share relevant and significant information of direct interest to each other; and
- ✓ Express a common voice on areas of mutual interest, where possible, to engage with interested parties, including regulators.

The CRD is hosted by the IIRC and is made up of the following eight stakeholders (Six in the non-financial sphere and two accounting standard-setters):

- CDP: Carbon Disclosure Project
- CDSB: Climate Disclosure Standards Board
- GRI: Global Reporting Initiative
- IIRC: International Integrated Reporting Council
- ISO: International Organization for Standardization
- SASB: Sustainability Accounting Standards Board
- IASB: International Accounting Standards Board
- FASB: Financial Accounting Standards Board (observer)

The CRD's initial work focused on principles of materiality which are inherent to any discussions on the disclosure of extra-financial information. Most of the stakeholders agree that a comprehensive approach is not relevant and that only meaningful information should be communicated (information that is material for the relevant organisation either in terms of strategy or monetary amount). This concept therefore appears in most of the frameworks.

[115] https://corporatereportingdialogue.com/

Consequently, the CRD examined the concept of materiality as identified by its members and, in 2016, it published a Statement of Common Principles of Materiality.[116]

Although materiality may be defined differently depending on how the information is used (for strictly financial purposes or including all stakeholders), a **proposal for a common definition is emerging:** "Material information is any information which is reasonably capable of making a difference to the conclusions stakeholders may draw when reviewing the related information".

Up to now, work on the other reporting principles has not achieved a consensus and has not led to specific publications. This can be explained by the fact that the CRD is made up of organisations that operate according to different logics and with their own agendas.

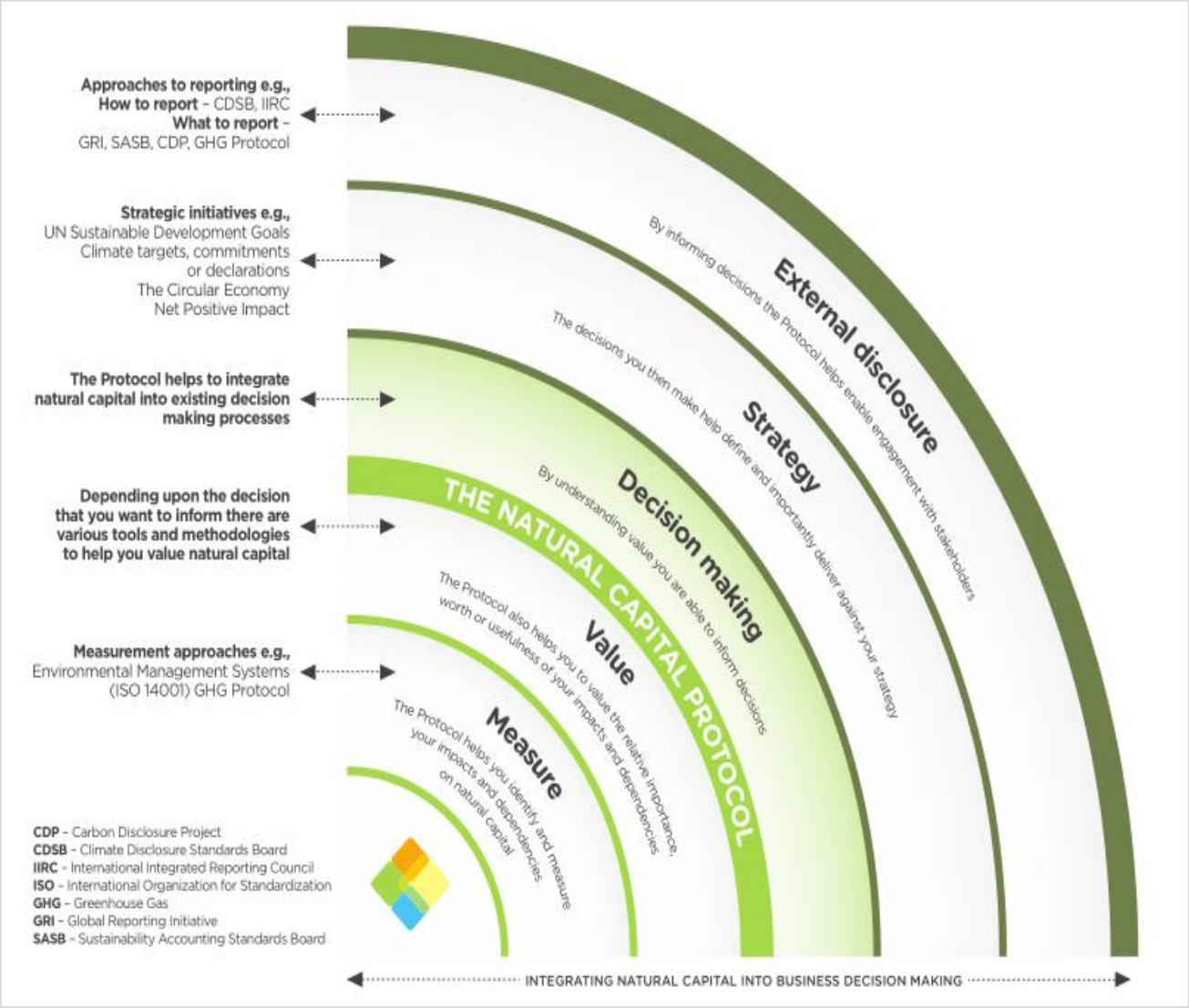
In the short term, the CRD focuses its work on taking into account the recommendations of the TCFD in the approach of each of its members (excluding the IASB and FASB). It has published a consultation document in this respect[117] (the consultation was opened until 30 April 2019 and roundtables were organised in April and May 2019). The task force was able to participate in these discussions and although it noted an ambition for convergence, it also noted a desire to differentiate between each of the CRD's members (taking into consideration the differences in approaches and objectives that characterize them).

The first objective is for the CRD to submit its reports at the UN Climate Summit at the end of September 2019. Besides this highly pragmatic project, and according to information obtained by the task force, the CRD is looking into the strategic issue of the feasibility and possible conditions for convergence.

Although, since 2014, there has been rapprochement/cooperation between the various private "standard-setters", which was initially limited, the trend appears to have adopted a potentially more proactive trajectory **since early 2019** (see appendix 9 on the various memoranda of understanding between the different organisations). **In the absence of public measures, the outcome of these initiatives in the short and medium terms is hard to predict. They do however undeniably represent the expression of strong expectations and are helping move extra-financial information forward.**

[116] https://corporatereportingdialogue.com/publication/statement-of-common-principles-of-materiality/
[117] https://corporatereportingdialogue.com/better-alignment-project/#consultation

The following diagram drawn up by the Natural Capital Protocol sets out the positioning of the frameworks which are most frequently used (i.e. CDP, CDSB, GRI, IIRC, ISO, GHG and SASB) on companies' value chains and therefore shows the potential interaction between these different frameworks:



CHAPTER 3

EXTRA-FINANCIAL REPORTING: AN EMERGING DISCIPLINE BESET BY PRACTICAL CHALLENGES

3.1 General principles: potential for common ground

The bias of the destination of information

Like accounting standards, which specify the intended audience of financial information (principally investors and providers of financial capital – see the table below), extra-financial reporting frameworks indicate those stakeholders for whom the information is intended, although standard-setting bodies also recognise that other stakeholders might find the disclosures useful.[118] The Corporate Reporting Dialogue (CRD) has published a Landscape Map[119] detailing the intended audience for the following frameworks: IASB, FASB, IIRC, GRI, SASB and CDSB. The task force has updated the list to include the WICI and TCFD frameworks.

Body	Purpose	Intended audience
IASB	*Provide high quality, transparent and comparable information **for investors**, provide world capital markets with a common language for financial reporting, promote capital market stability through transparent financial reporting and promote consistent application of standards*	Investors
FASB	*Establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities to provide decision-useful information to **investors and other users of financial reports***	Investors
GRI	*Enabling **all organizations** – regardless of size, sector or location – to report about their impacts on the economy, the environment, and/or society.*	All stakeholders
SASB	*Enable companies around the world to identify, manage and communicate financially-material ESG and sustainability information **to their investors.***	Investors
IIRC	*Help organizations explain to **providers of financial capital** how they create value over time*	Investors
CDSB	*Help organizations prepare and present environmental information in mainstream reports with the same rigor as financial information, to provide consistent, comparable and clear decision-useful information **for investors***	Investors
WICI	*To provide useful information for decision making, and in particular resource allocation decisions, primarily to the organization's management as well as to the providers of financial capital including investors, creditors, and analysts.*	Management and Investors
TCFD	*Could promote more **informed investment, credit [or lending], and insurance underwriting decisions** and, in turn, "would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.*	Investors

[118] See IASB-FASB conceptual framework.
[119] See https://corporatereportingdialogue.com/landscape-map/

As the table above shows, GRI disclosures are intended for a wide audience. The fact that all the other frameworks and standards are geared primarily towards investors (and, in the case of the WICI, management) introduces inherent bias – in terms of the overall approach, the underlying principles and, ultimately, the indicators used.

Materiality: a common principle across all frameworks and standards

Materiality was found to be a common feature of all the frameworks and standards. The CRD began by mapping definitions of the term before producing a summary (see Section 2.6). The definition of materiality is no longer a matter of debate: whether or not a disclosure is deemed material depends entirely on user perceptions.

A degree of consistency on other reporting principles

The table below shows the other principles that shape reporting requirements under the various frameworks and standards, and that guide organisations in preparing and presenting their information. Those principles that appear most frequently come first in the table.

Principle Terms used	**IASB/ FASB**[120]	**Directive UE**[121]	**IIRC**	**WICI**	**GRI**	**SASB**	**CDSB**	**TCFD**
Comparability	X		X	X	X			
Comparable						X		
Consistent & comparable		X					X	X
Faithful representation	X	X					X	
Fair representation						X		
Reliability			X		X			X
Verifiability	X							
Verifiable		X				X	X	X
Completeness		*implicit*	X		X	X		
Specific & complete								X
Timeliness	X	*implicit*			X			
Timely basis								X
Understandability	X						X	X
Clear & understandatble					X			
Clarity		X						

[120] Common conceptual framework for IASB and FASB principles, published in 2010 following harmonisation work between both organisations

[121] Directive 2013/43/UE – Article 4 « General provisions» and Article 6 "General principals for financial information."

Principle Terms used	**IASB/ FASB**[122]	**Directive UE**[123]	**IIRC**	**WICI**	**GRI**	**SASB**	**CDSB**	**TCFD**
Neutral						X		X
Balanced					X			
Future oriented Forward looking			X	X			X	
Conciseness			X	X				
Objectivity						X		
Objective								X

The SASB framework stands alone in the inclusion of three additional terms in its criteria: "aligned", "distributive" and "measurability".

As the table above shows, the most commonly mentioned terms (in descending order of frequency) are:

- ✓ Comparability;
- ✓ faithful/fair representation;
- ✓ verifiable/verifiability;
- ✓ completeness.

The following terms appear less frequently:

- ✓ timely basis;
- ✓ understandable/understandability;
- ✓ neutrality and objectivity (which are similar in meaning to "faithful representation");
- ✓ conciseness.

Harmonising how these principles are defined would be a welcome move, since it would help to avoid misunderstandings among stakeholders. Based on the latest, published versions of the various standards and frameworks, the task force sees no impediment to arriving at a unified definition of these principles. The task force conducted a detailed comparison of the proposed definitions for each of the four most commonly occurring principles:

[122] Common conceptual framework for IASB and FASB principles, published in 2010 following harmonisation work between both organisations

[123] Directive 2013/43/UE – Article 4 « General provisions» and Article 6 " General principals for financial information."

Comparability:

Body	Definition	Remarks
IIRC	*The information should be presented:* *• On a basis that is consistent over time* *• In a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time*	⇘ Consistent over time ⇘ Comparable with other organisations
GRI	*The reporting organization shall select, compile, and report information consistently. The reported information shall be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and that could support analysis relative to other organizations*	⇘ Consistent over time ⇘ Comparable with other organisations
SASB	*Metrics will yield primarily (a) quantitative data that allow for peer-to-peer benchmarking within the industry and year-on-year benchmarking for an issuer, but also (b) qualitative information that facilitates comparison of disclosure;*	⇘ Comparable with other organisations
WICI	*Organizations' reporting of material intangibles (as well as of combinations of intangibles) for their specific value creation may be useful in comparing and contrasting organizational visions. In addition, organizations should continue providing information on material intangibles and their combinations as well as the related KPIs to empower users to* ***compare them over time****. Reporting of KPIs related to intangibles can be comparable if other entities also report on the same or similar KPIs.*	⇘ Consistent over time ⇘ Comparable with other organisations
CDSB	*To elicit information of value to investors in a way that is consistent so as to enable a level of comparability between similar organisations, reporting periods and sectors.*	⇘ Consistent over time ⇘ Comparable with other organisations
TCFD	*Disclosures should be comparable among companies within a sector, industry, or portfolio.* *Disclosures should be consistent over time.*	⇘ Consistent over time ⇘ Comparable with other organisations

On this basis it is possible to conclude that, for disclosures to be "comparable", they should be:

i. consistent over time, and
ii. comparable with other organisations (within or outside a given industry or sector).

Faithful/fair representation:

Body	Definition	Remarks
IIRC	*The reliability of information is affected by its balance and freedom from material error. Reliability (which is often referred to as faithful representation) is enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit or similar functions, and independent, external assurance.*	⇘ Free from error ⇘ Verifiable
GRI	*The reporting organization shall gather, record, compile, analyze, and report information and processes used in the preparation of the report in a way that they can be subject to examination, and that establishes the quality and materiality of the information.*	⇘ Verifiable ⇘ High-quality
SASB	*A metric adequately and accurately describes performance related to the aspect of the disclosure topic it is intended to address, or is a proxy for performance on that aspect of the disclosure topic*	⇘ High-quality (adequate and accurate)
CDSB	*To ensure that disclosures are complete, neutral and free from error in order to be useful*	⇘ Free from error
TCFD	*Disclosures should provide high-quality reliable information. They should be accurate and neutral—i.e., free from bias.*	⇘ Free from error

⇒ On this basis it is possible to conclude that, for disclosures to be a "faithful representation", they should be free from error.

Verifiable/verifiability (similar in many ways to "faithful representation"):

Body	Definition	Remarks
SASB	*Metrics are capable of supporting effective internal controls for the purposes of data verification and assurance;*	⇘ Verifiable
CDSB	*To ensure information that forms the basis for disclosures is verifiable.*	⇘ Verifiable
TCFD	*Disclosures should be defined, collected, recorded, and analyzed in such a way that the information reported is verifiable to ensure it is high quality.*	⇘ Verifiable

⇒ On this basis, there appears to be room for consensus on a harmonised definition of "verifiable/verifiability".

Completeness (a term that is not properly defined, but implies that the disclosures should be relevant):

Body	Definition	Remarks
IIRC	*A complete integrated report includes all material information, both positive and negative.* (linked to the notion of *reliability* stated above)	⇘ Link with the notion of "materiality"
GRI	*The report shall include coverage of material topics and their Boundaries, sufficient to reflect significant economic, environmental, and social impacts, and to enable stakeholders to assess the reporting organization's performance in the reporting period.*	⇘ Link with the notion of "materiality"
SASB	*Individually, or as a set, the metrics provide enough data and information to understand and interpret performance associated with all aspects of the sustainability topic;*	⇘ Link with the notion of "materiality"
TCFD	*Disclosures should be specific and complete*	

⇒ "Completeness" goes hand in hand with "materiality".

Connectivity between financial and non-financial information: a key challenge

Many of the stakeholders interviewed by the task force stressed the importance of clear links between financial and extra-financial information in order to obtain a global and coherent set of information and to avoid bulk of information with no link between them. The principle of **connectivity of information** (or global coherence) is explicitly mentioned in the IIRC, WICI and TCFD frameworks and is a *de facto* principle of the European Directive insofar as it amends EU Accounting Directive 2013/34/EU. Art. 3(6) (Consistent and coherent) of the EU Guidelines on Non-financial Reporting states the following:

> "The non-financial statement is expected to be consistent with other elements of the management report.
> Making clear links between the information presented in the non-financial statement and other information disclosed in the management report makes the information more useful, relevant and cohesive. The management report should be viewed as a single, balanced and coherent set of information."

Yet it remains difficult to articulate how this connectivity plays out in practice.

As the task force's interviews confirmed, all of the stakeholders agree that, insofar as it shines a spotlight on strategy, business model, and ESG risks and opportunities, extra-financial reporting gives a clearer picture of an organisation as a whole. Indeed, some extra-financial disclosures might be considered "pre-financial information" in the sense that, long term, they

could inform financial statements. Consequently, **there are certain linkages between the financial and extra-financial aspects of how an organisation creates value**.

It comes as no surprise that integrated reporting (and integrated thinking more generally) draws on these linkages: "Integrated reporting is a new way for organisations to think about and report on how they create lasting value. By combining aspects of financial and extra-financial performance, it gives a picture of an organisation's medium-to-long-term strategy and its overall performance."[124] Likewise, senior executives are increasingly using integrated thinking as a day-to-day management and strategy tool.

"Connectivity of information" is a guiding principle of the IIRC framework. The concept, which draws on the notion of integrated thinking,[125] highlights the need for organisations to:

- ✓ Give a holistic picture and demonstrate linkages between factors;
- ✓ Clarify the relationship between past, present and forward-looking information;
- ✓ Explain interdependencies and trade-offs between the capitals, and how changes affect the ability of the organisation to create value;
- ✓ Report on research and development, investment and environmental policies, as well as on customer relationships, and how these factors could impact the organisation's financial statements;
- ✓ Contextualise KPIs with qualitative information;
- ✓ Be transparent as regards the information shared internally with management;
- ✓ Ensure consistency across all communications.

Beyond mere reporting, connectivity of information is a useful principle for organisations to follow for other reasons:

- ✓ **Internally**, it increases awareness of the multi-dimensional nature of performance and, by helping organisations identify and monitor risk, leads to improved strategic and operational management (and, ultimately, more responsible management practices).
- ✓ **Externally,** it helps organisations better manage externalities with their stakeholders, gives third parties a clearer picture of how an organisation creates value (including in areas not captured by financial statements), makes risk easier to predict, and allows an organisation to prevent reputational risk and manage its image and brands dynamically. In short, organisations with connected information are able to build a compelling narrative and communicate in ways that are easily comprehensible.

[124] Medef, CSR Commission, *Retours d'expérience sur le reporting intégré*, November 2017

[125] The IIRC defines "integrated thinking" as follows: "The active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term."

In practice, however, it remains difficult to articulate the relationship between financial and extra-financial information – not least how such information changes with the passage of time – because:

- ✓ A potential risk reported in one financial year may, in subsequent years, become a constructive obligation and, later, give rise to a liability (or an asset);
- ✓ There is an ongoing "dialogue" between "moral" and legal obligations, and rule changes may require organisations to factor in externalities that were not previously recognized;
- ✓ The concept of "pre-financial information" adds a further layer of complexity, and organisations need to identify future events that could trigger inward or outward resource flows.

Moreover, connecting financial and non-financial disclosures in a way that is easy to understand requires detailed contextual and narrative information. **Consequently, it would appear difficult to arrive at a harmonised definition of "connectivity of information" above and beyond its general principles.**

3.2 Corporate reporting: a complex, disparate landscape

General framework in the European Union

The simplified overview below describes the open-ended corporate reporting structure as derived from two European Directives:

- ✓ Directive 2013/34/EU:
  - chapters 3 and 4, which cover financial statements and notes to financial statements
  - chapter 5, which covers mandatory reports and the content of those reports: the management report (Art. 19), the non-financial statement (Art. 19a), and the corporate governance statement (Art. 20)

- ✓ Directive 2004/109/EC,[126] which contains additional reporting requirements for listed companies, including what information they are required to report on securities transactions, what reports they must publish (including the management report), when they must publish them (no later than four months after the end of the financial year), and which bodies supervise them.

The European corporate reporting structure, which remains largely generic, may be summarised as follows:

Management report	Non-financial statement for listed companies	Corporate governance statement
Fair review of the development and performance of the organisation's business and of its position, together with a description of the principal risks and uncertainties that it faces. Analysis consistent with the size and complexity of the business.	Information on the organisation's performance and impact of its activity relating to environmental, social and employment matters, as well as respect for human rights, anti-corruption and bribery matters.	Reference to the corporate governance code to which the organisation is subject.
An indication of the organisation's likely future development and activities in the field of research and development.	Description of the organisation's business model, the policies pursued and the outcome of those policies, and the principal associated risks.	Description of the internal control system.
Specific information on branches, financial instruments, and financial risk management.	Reporting of non-financial key performance indicators.	The organisation's diversity policy and objectives.

[126] Amended by Directive 2013/50/EU

The following conclusions may be drawn from the above:

- ✓ The provisions are succinct;
- ✓ The framework is extremely generic;
- ✓ The rules are silent on the reporting format.

Accessibility of extra-financial information: poor coordination and no clear, comprehensive reporting structure – at national and European levels

The consequences of an ever-growing body of reporting requirements are twofold: first, the European framework is not properly harmonised (even within the Accounting Directive itself), and second, the Directive has not been transposed uniformly into Member States' domestic law:

- ✓ Under the European framework, organisations have two options for reporting extra-financial information: either **(i)** within the management report (in accordance with Art. 30 of the 2013 Accounting Directive), or **(ii)** in a separate report (mentioned explicitly in the management report) published on the organisation's website no later than six months after the end of the financial year.

- ✓ Transposition of the Directive into Member States' domestic law (see below and Appendix 5) has further polarised reporting practices, leaving even attentive readers struggling to find the information they need, especially when seeking to compare organisations in different countries.

French extra-financial reporting legislation, which pre-dates European law and includes obligations arising from the 2001 New Economic Measures Law and the Grenelle Environment process, imposes stricter requirements. It set out a precise list of subjects that organisations must report on (after conducting a materiality assessment), requires organisations to disclose the information in their management report, and imposes tough external verification (covering both content and compliance with reporting obligations). The framework has been tightened further in recent years, with new rules on duty of vigilance, anti-corruption planning and climate reporting. While French legislation has its merits (it encourages organisations to adopt robust extra-financial reporting practices, to be more concise on materiality, and to be transparent about the methods they use), it nevertheless remains complex. In France, organisations must include a detailed Statement on Extra-Financial Performance in their management report. However, the law does not explicitly define what this report entails (see chapter 1). The decree merely provides a list of the items it should contain. As a result, organisations are free to structure their management report – and to incorporate it into their registration document – as they see fit.

Likewise, in its Guide to Compiling Registration Documents,[127] the *Autorité des Marchés Financiers* (AMF) does not specify what format listed companies should use. Annex 1 (p. 62) provides the following guidance:

> *The contents of the registration document are defined by the European Regulation implementing the Prospectus Directive. In the context of a financial transaction, the registration document may be incorporated into a prospectus filed with the AMF for approval, enabling the organisation to satisfy its reporting requirements and have its registration document examined within five working days.*
>
> *The AMF is often asked how the registration document should be presented, how it relates to the annual financial report and other documents presented to the General Meeting of shareholders, how it should be distributed, and how the statement by the person responsible for the document should be drafted. For ease of reference, the AMF has put together a list of answers to frequently asked questions about how to compile registration documents.*
>
> *Are there any rules on how a registration document should be formatted?*
>
> *In practice, registration documents fall into one of two categories:*
>
> - *Registration documents for equity securities, which follow the format laid down in Annex I to the European Regulation.*
> - *Free-form registration documents, especially those following the format of an annual report. The AMF General Regulation states that the "registration document can take the form of an annual report to shareholders". In its guide on financial reporting for companies listed on Euronext Paris, the AMF states that "the annual financial report, or the registration document, may serve as the basis for the report presented to the General Meeting of shareholders, provided that it is supplemented with the information required by the French Commercial Code". Free-form registration documents must include a comparative table containing the sections laid down in Annex I to the European Regulation.*
>
> *Organisations may therefore opt for either of these formats, as their communication policy and needs dictate. As a general rule, however, the registration document is not intended for shareholders and private investors, but instead provides abundant and detailed information for financial analysts and institutional investors.*

The following questions, raised by the stakeholders that the task force interviewed, point to difficulties around the structure of the Statement on Extra-Financial Performance:

- ✓ Should the Statement on Extra-Financial Performance explicitly mention, or at least refer to, the business model, risk and taxation information contained in the organisation's annual report and the registration document? How should this information be presented?

- ✓ How does the Statement on Extra-Financial Performance tie in with the concept of integrated reporting? Should the Statement on Extra-Financial Performance form the opening section of the registration document?

[127] https://www.amf-france.org/Reglementation/Doctrine/Doctrine-list/Doctrine?docId=workspace%3A%2F%2FSpacesStore%2F0781ea1e-6eef-495e-ae23-7dbac9e435c4&category=I+-+Emetteurs+et+information+financi%C3%A8re&docVersion=3.0

- ✓ Should the climate report (as required by Art. 173 of the Energy Transition and Green Growth Act, and as recommended by the TCFD) appear in the Statement on Extra-Financial Performance, or should it be dealt with separately?

- ✓ Should details of the duty-of-care plan appear in the Statement on Extra-Financial Performance or in a standalone document? Organisations must report on "main risks" in their Statement on Extra-Financial Performance[128] and on "risks of serious harm" in their duty-of-care plan. Are these concepts one and the same?

- ✓ How much detail should the Statement on Extra-Financial Performance provide about the organisation's anti-corruption plan (as required under the Transparency, Anti-Corruption and Economic Modernisation Act)?

While organisations are required by law to publish a Statement on Extra-Financial Performance and a management report, there are no rules or even guidance – in the Directive or elsewhere – on how extra-financial information should be laid out. Organisations are free to choose their own format. **This lack of standardisation creates a complex regulatory landscape and makes extra-financial information difficult to use and analyse.**

In an exploratory paper[129] presented at the Accounting research symposium in December 2018, Hervé Stolowy, Luc Paugam and Emmanuel Da Costa examined disparate extra-financial reporting practices and formats among CAC 40-listed firms for the 2017 financial year. The authors found that the organisations in question:

- ✓ Disclosed extra-financial information in multiple reports (between 1 and 4 per company, and in 2.37 reports on average)

- ✓ Used a variety of different names for these reports – not least the registration document, for which they found no fewer than seven different names:

  - "Registration Document"
  - "Registration Document and Financial Report"
  - "Registration Document" (also referred to as "Integrated Report")
  - "Registration Document" (also referred to as "Integrated Report"" and "Financial and Sustainability Report")
  - "Registration Document, including Integrated Report"
  - "Annual Report" (equivalent to registration document and financial report)

[128] According to Art. 2 of the decree of 9 August 2017 implementing ordinance no. 2017-1180 of 19 July 2017 on the disclosure of extra-financial information by certain large companies and groups, and to Art. R.225-105(I) of the French Commercial Code, the Statement on Extra-Financial Performance should include: "1° A description of the main risks inherent in the company's or group's activities including, where relevant and proportionate, risks inherent in its business dealings, products or services".
According to Art. 1 of the law of 27 March 2017 on the duty of vigilance for parent companies and main contractors, and to Art. L.225-102-4 of the French Commercial Code: "The plan contains reasonable duty-of-vigilance measures to identify risks and prevent serious harm to human rights and fundamental freedoms, to public health and safety, and to the environment, from the activities of the company and of the companies under its control".

[129] Stolowy H., Paugam H., Da Costa E., *Reporting non financier des sociétés du CAC 40 : multiplicité des règles et hétérogénéité des pratiques*: http://www.anc.gouv.fr/cms/sites/anc/accueil/recherche/etats-generaux-de-la-recherche-c.html

- “Registration Document” specifically mentioning “CSR” on the cover page.

✓ The companies adopted equally inconsistent titles for their other reports:

- “Integrated Report”
- “Integrated Report: Reference Document Extract”
- “Integrated Report” (title in English)
- “CSR Report”
- “CSR Report: Reference Document Extract”
- “Sustainability Report” (title in English)
- “Environment/Climate Report”
- “CSR/Integrated Report”
- “Annual Extra-Financial Report”
- “Essentials”
- “Activity”.

There is every reason to question why organisations publish other reports beyond their registration document which, it could be argued, is itself an “integrated” report insofar as it gives a comprehensive overview of the company’s business, strategy, aims and external relationships. Although companies lay out their registration documents differently, they typically follow a similar format: overview of the company and its business, corporate governance, strategy, risks, corporate social responsibility, financial information, investor relations, and regulated information (board of directors’ or supervisory board’s report, statutory auditors’ report). What, then, is the purpose of an integrated report (as defined by the IIRC) other than to clarify how the various disclosures are connected (see Section 3.3 below)?

Publishing multiple reports adds confusion to corporate communication. In the task force’s view, organisations should publish fewer reports and present their extra-financial information in a more standardised format for the sake of clarity and comparability.

3.3 Too much choice: how flexibility obstructs comparability

Pick-and-choose approach to content

As the review of legislation and standards earlier in this report shows, the **decision on which extra-financial indicators to report is left almost entirely to issuers**. Given the sheer breadth and variety of subjects that these disclosures cover, there is little scope for establishing a uniform, exhaustive extra-financial reporting framework.

Issuers (as detailed below) can pick and choose which standard(s) or framework(s) they wish to follow. In France, for instance, companies that follow the GRI framework tend to include a "comparative table" at the end of their registration document, between the GRI indicator list and their own indicators, indicating the relevant page(s) of the report. Some issuers refer to more than one reporting framework, and some even go so far as to create their own framework.

Schneider Electric is an illustrative case in point. In its 2018 registration document, the firm states that it adheres to the following standards and frameworks:

- ✓ United Nations Global Compact
- ✓ ISO 26000 (for supplier relations)
- ✓ GRI (including a comparative table)
- ✓ SASB (industry-specific sustainability accounting standards)
- ✓ TCFD.

Schneider Electric has also developed a set of internal ethical standards and guidelines for day-to-day management and, since 2018, has published a set of "Schneider Sustainability Impact" indicators.

Schneider Electric Financial and Sustainable Annual Report – page 96[130]

> *"For each of its five major challenges (Climate, Circular Economy, Ethics, Health and Equity, Development), Schneider Electric sets ambitious objectives, which will require the Group to improve each year. The 2018-2020 Schneider Sustainability Impact (SSI) is written into the 2015-2020 corporate program and includes 21 key performance indicators. Once each performance is converted into a score based on 10, the average of these scores indicates the overall performance of the SSI, with all the indicators having the same weight."*

As the above analysis shows, none of the frameworks has binding rules on:

- ✓ how exhaustive the indicators should be, and
- ✓ which subjects should be covered?

Nevertheless, all of the frameworks have a **materiality assessment** as their centrepiece (as does the European Directive; see Chapter 1 for more details). In other words, the issuer should

[130] https://annualreport.se.com/index.html – see pages 94-104

report on those subjects that, in its judgement, best represent its business – and select its indicators accordingly. In choosing their disclosures, organisations follow the "comply or explain" model, i.e. they either comply with the standard or explain why they have not done so. Conversely, issuers tend not to justify their choice of indicators, and are free to select them as they see fit. **The organisations questioned by the task force said they appreciated this flexible approach, since it enabled them to select only those indicators that were relevant to their business.**

In summary, the fact that issuers are free to pick and choose what they disclose means that, at present, there is no implicit path towards a common, structured and comparable reporting method. In practice, because organisations follow (or, in the case of integrated reporting, claim to be inspired by) more than one framework, **they produce idiosyncratic reports that make comparison between issuers – and across sectors – an almost impossible task**.

The challenges of electronic extra-financial reporting

This complex, disparate landscape poses a major obstacle to electronic reporting, despite universal acknowledgement that shifting away from paper-based reporting would help issuers reach a wider audience, and make their disclosures more easily exploitable (in terms of structure and ease of access). This was a view shared by all of the users of extra-financial information interviewed by the task force: companies (for comparability reasons), ESG analysts, investors, and other stakeholders more generally (for information access reasons).

It stands to reason, however, that such a shift to electronic reporting can only happen if there is a **standardised reporting framework** (with a pre-defined format), and if all issuers adhere uniformly to that standard (even if they do so voluntarily). Yet, as the detailed analysis above demonstrates, that is far from the case at present:

- ✓ Issuers use a variety of different frameworks, with no standardised naming convention or structure
- ✓ Quantitative indicators and metrics are poorly and inconsistently defined, which makes it difficult to develop a structured classification system
- ✓ Descriptive, narrative information, and qualitative indicators, make up a large part of extra-financial disclosures

However, the more structured frameworks (GRI, SASB and CDP) already include a classification system for quantitative and qualitative indicators, for electronic collection and referencing purposes. Moreover, talks are ongoing within the EU on a new sustainability taxonomy – a classification system of climate, environmentally and socially sustainable activities – to support implementation of the TCFD recommendations. There are no plans for a similar classification system for the other frameworks and standards, which are more open-ended and merely offer a set of principles.

Financial information systems have traditionally been designed to aggregate historical accounting data, expressed in monetary units, according to a given accounting standard. Although it is now technically possible (with XBRL language) to "tag" both monetary and non-monetary information, **electronic financial reporting remains neither optimal nor**

stabilised.[131] Aside from various national initiatives, efforts at EU level should lead to a situation where, by end-2022, all issuers whose securities are admitted to trading on a regulated market in Europe use a harmonised electronic format for financial reporting.

Electronic extra-financial reporting poses an even greater challenge because the information comes from a variety of sources and non-integrated systems (HR, payroll, supply chain, individual suppliers, customer relations, customer feedback and satisfaction surveys, disputes and whisteblowing reports, etc.). **Consequently there is, in practice, no electronic system for extra-financial reporting.**

Extra-financial reporting covers a vast range of subjects, and disclosures are often qualitative and forward-looking in nature. Any shift towards structured, electronic reporting will necessarily require **an overhaul of existing information systems** so that they capture this largely qualitative information – information that companies already possess, but that is not systematically collected, stored, compiled and linked to reporting indicators. The current trend among listed companies, according to an internal study performed by Afep/Medef early 2019, is to have a central head office team (typically between three and ten people) working solely on extra-financial reporting (regardless of format), supported by focal points in functional departments and subsidiaries who gather and feedback relevant information.

The analysis above shows that, for the time being, European-level efforts should continue to focus on electronic financial reporting. Extra-financial reporting should become a priority at a later stage.

[131] EU rules on electronic financial reporting stem from Directive 2013/50/EU amending the Transparency Directive (2004/109/EC), which requires companies to prepare their annual financial reports in a single electronic reporting format from 1 January 2020. The classification system, developed by the European Securities and Markets Authority (ESMA), is based on the XBRL standard and on the IFRS taxonomy, which has been updated annually since 2010. The new standard will be phased in. For financial years commencing on or after 1 January 2020, companies will only be required to prepare their summary financial statements in the new electronic format. The requirement will cover disclosures contained in the notes to the consolidated annual financial statements (including explanatory and qualitative information) from 1 January 2022 onwards.

3.4 Extra-financial reporting: a movement that is gaining momentum

Extra-financial reporting moves forward in most developed countries

Recent notable advances in extra-financial reporting can be attributed to two factors: rising demand from investors and the public, and a growing body of laws and regulations in many parts of the world, not least **in Asia and the European Union**.

In a 2017 report, KPMG looked at the CSR reporting practices of 4,900 companies. It found that three-quarters of the firms had issued some form of CSR report in 2017, with a reporting rate of 60% or more in every sector (the highest rates were in those sectors with the greatest environmental and social impact, such as oil & gas, chemicals, mining and automotive).

Companies are increasingly embracing CSR reporting, no doubt as a consequence of ever-tougher domestic rules on extra-financial disclosures, a tightening of corporate governance practices, and the growing influence of institutional investors. According to a joint WBCSD and CDSB study,[132] Japan is now second worldwide for integrated reporting – a trend consistent with recent advances in corporate governance in the country (see Appendix 9). The picture is similar in South Africa, Australia and the United Kingdom, where the law encourages companies to prepare integrated reports. Based on information gathered by the task-force, extra-financial reporting is much less common practice in the United States, however, despite important legislative advances (financial impacts of compliance with environmental laws since the 1970s, growing investor awareness since the early 2000s[133], publication of guidelines in 2010, and development of a climate risk typology). This situation can be attributed to a number of factors: the fact that there is no legal definition of "sustainability", a lack of political ambition (ESG performance is not specifically addressed in U.S. corporate and financial law), and American business culture, in which companies, fearful of being sued, prioritise risk prevention over extra-financial reporting.

In France, large companies are stepping up their extra-financial reporting practices and building ESG factors into risk mapping and strategy for two reasons. First, they are now **required, by law, to prepare a Statement on Extra-Financial Performance**. And second, in its 2016 report on corporate social, societal and environmental responsibility, the **AMF recommended** a "more integrated approach when this enables investors to better assess the value creation strategy and overall performance of the company". Moreover (see Section 1.6 below), some large groups have taken a proactive stance and published environmental – or even integrated – profit and loss accounts. In an internal Afep-Medef survey of 35 companies, carried out as part of the task force's work, 63% said they had published an integrated report – and most of the remainder said they had referred, at least in part, to the IIRC framework.

[132] https://www.cdsb.net/sites/default/files/wbcsd_japancasestudy_online_final_2019.pdf
[133] See Appendix 9 for more details.

Why companies have embraced extra-financial reporting

In economics, transaction cost theory (Coase, 1937 and Williamson, 1975) refers to the cost of providing for a good or service through the market, serving as a guide for, among other things, resource allocation decisions. When information is asymmetrical, adverse-selection risk[134] can limit investment in a security. That risk should push issuers towards higher levels of disclosure, provided that the cost of disclosure does not outweigh its benefits.
Based on empirical evidence, this theory explains why issuers seeking investment tend to over-disclose extra-financial information.

In sociology, new institutionalism explains how institutional pressures force organisations (in this case, companies) to become more similar (i.e. to show isomorphism), including in how they disclose extra-financial information. These pressures come in three guises: coercive (legal or political pressures), normative (pressure to adhere to professional codes of conduct), and mimetic (pressure to copy successful competitors). This school of thought explains why companies operating in certain industries or countries, in fiercely competitive markets, or under intense media scrutiny, tend to disclose more information. On that basis, a particular type of company is likely to be more transparent about its disclosures than others: a large company, listed on multiple exchanges, with little debt and a high number of shareholders, widely tracked by analysts, and operating in either a tech-heavy industry or a sector known for its environmental or social impact.

The work of Patricia Crifo and Antoine Rébérioux (2015)[135] on changing corporate governance models is worth mentioning at this juncture.

Recent institutional developments, coupled with changes in shareholder structure and the emergence of sustainable finance, have radically altered the two leading models of corporate governance: shareholder and stakeholder. Differences between the two models are narrowing with the passage of time – on capital structure, disclosure requirements, board composition, and emphasis on stakeholders and sustainability.

In both the United States and Europe, disclosure requirements – fueled by the financial scandals of the 1990s and 2000s, and growing calls for transparency among investors – have become an increasingly powerful tool for enforcing stricter discipline and accountability among senior executives. The emergence of corporate governance codes and associated international principles – following the "comply or explain" model – are a case in point. The growth of socially responsible investing has merely added to the burden on executives, and seen sustainability rise to prominence in the governance agenda. Integrated corporate governance has progressively become the norm, as companies look longer term and focus on social value creation.

[134] Information asymmetry can cause investors to shield themselves against bad investments by offering an average price that is below the fair value of a good investment but higher than the fair value of a bad investment. That, in turn, can eliminate the best investments from the market, leaving only poorer-quality investments behind.

[135] P. Crifo and A. Rébérioux (2015), "Gouvernance et responsabilité sociétale des entreprises : nouvelle frontière de la finance durable", *Revue d'économie financière*, no.117, pp. 205-223.

	Actionnarial	Partenarial	Intégré (finance durable)
Objectif	Valeur pour les actionnaires	Valeur pour toutes les parties prenantes	Valeur sociale
Marchés financiers	Très actifs	Limités	Actifs
Actionnariat	Dispersé	Concentré, par blocs	Avec des investisseurs institutionnels de long terme
Discipline et contrôle	Externe Marché	Interne Contrôle (ex : audit)	Principes harmonisés de gouvernance (ex : l'OCDE)
Politique RSE	Oui si elle accroît la performance financière	Oui	Oui
Incitations et horizon	Court terme, incitations financières fortes	Long terme, incitations financières faibles	Long terme, mix incitations financières et non financières
Conseil d'administration	Représente les intérêts des actionnaires	Dominé par les parties prenantes	Diversifié

Source: P. Crifo and A. Rébérioux (2015), "Gouvernance et responsabilité sociétale des entreprises: nouvelle frontière de la finance durable", *Revue d'économie financière*, no.117, pp. 205-223.

Likewise, extra-financial reporting is no longer "merely" a matter for CSR and corporate communications teams. Companies now see **extra-financial information as integral to the management of their business**, with board members actively involved in reviewing and approving disclosures. Some companies such as Kering (which the task force consulted; see Section 1.6) publish environmental profit and loss accounts (or EP&Ls). Again, a similar rule applies: the EP&L ties in closely with the company's overall strategy, including its sustainability strategy.

There are several underlying reasons for this trend:

- ✓ Corporate governance models are evolving (see above), in terms of both shareholder structure (more looking for a long-term stability) and board diversity (more independent directors and ad-hoc committees).

- ✓ Changing regulations have given boards an increasingly prominent role in extra-financial reporting. In France, companies must include their Statement on Extra-Financial Performance in their management report, which the board of directors or executive board must approve. For instance, Art. 173 (III) of the Energy Transition and Green Growth Act requires companies to address climate risk in the chairman's annual report.

- ✓ Companies are following the regulator's recommendations. In its 2016 report on extra-financial reporting practices, the AMF noted that CAC 40-listed companies were increasingly incorporating CSR aspects into their management and governance processes, and made the following recommendation: "The AMF recommends that companies that have, within their board of directors or supervisory board, a specialised committee to deal with social and environmental issues should provide specific information about its membership, remit and findings, as well as its links with other board committees. The AMF also invites issuers to specify the frequency with which problems related to sustainable development and social and environmental responsibility are included in the agenda of one or more specialised board committees."

- ✓ Shareholders are increasing the pressure on directors at general meetings, demanding greater transparency on extra-financial aspects and raising concerns about social and/or environmental controversies that could pose reputational and regulatory risk.

In recent years, these developments have caused a discernible spike in extra-financial reporting workload for CSR and sustainability departments. The above-mentioned internal Afep-Medef survey revealed that, on average, extra-financial reporting costs for a large company (including information system upgrades) stand at around €170,000 per year[136]. Of the 35 companies that responded to the survey, half said extra-financial reporting costs were "high but not disproportionately so", while one-quarter described them as "excessive". The same survey (confirmed during interviews conducted by the task force) found that head office payroll costs for extra-financial reporting equate to three full-time equivalent (FTE) staff, albeit with significant disparities according to company size and structure. In addition, that figure does not always include non-CSR staff who contribute to extra-financial reporting throughout the year (either at head office or, for instance, at production sites or in local subsidiaries).

An ongoing learning process: inconsistent practices in a quest for completeness

Through its observations and analysis, the task force found that extra-financial reporting is very much an ongoing learning process in which companies:

- ✓ **constantly adapt their practices as extra-financial reporting standards and frameworks evolve**: the introduction of the Statement on Extra-Financial Performance was very much a watershed moment and, more recently, the publication of SASB industry-specific standards has forced European companies to rethink their reporting practices

- ✓ **test out a diverse array of value-chain models** (to comply, among other things, with duty-of-care obligations, as well as with extra-financial reporting framework and rating agency rules on subcontractors and group make-up), **stakeholder maps** (according to where they are positioned within their ecosystem, what influence they have, and what commitments they have made to their stakeholders), **issue matrices** (from the generic to the specific, depending on the nature of their business and their ecosystem), and **business process and governance alignment models**

- ✓ **rework their KPIs** (environmental, social and societal) to fit stakeholder expectations and business operations.

The task force found that **companies cast a wide net when selecting which reporting standards and frameworks to follow** and, in most cases, combine several to create their own distinctive model:

- ✓ Companies tend to draw inspiration from a multitude of frameworks and standards – both "methodological" (such as CDSB for climate disclosure) and "behavioural" (such as IIRC) – and pick and choose those principles and concepts they wish to adopt, rather than following them to the letter.

- ✓ In a quest for compliance, companies use standards and frameworks that provide appropriate ESG indicators and metrics, such as GRI, which is the most commonly used standard by companies in France and worldwide (most of the companies covered by the

[136] This figure, coming from the Afep/Medef study performed in the frame of this report early 2019, is at this stage widely approximative and would benefit from a deeper analysis.

global KPMG report cited above used the GRI G4 Sustainability Reporting Guidelines in 2017).

More often than not, however, the task force found that compliance was a retrospective exercise, i.e. companies prepare their reports first, then include a comparative table showing where relevant disclosures for the GRI standards and/or guidelines appear in their Statement on Extra-Financial Performance, sustainability report, or elsewhere.

The French company Total's extra-financial reporting practices are especially telling:

✓ On its standalone sustainable performance website, Total states that it publishes its financial and extra-financial disclosures in its annual registration document. It also publishes reports detailing its sustainability strategy and policies:

- an integrated report (chapter 1 of the registration document)
- an extra-financial performance statement (chapter 5 of the registration document)
- a duty-of-care (or vigilance) plan
- dedicated thematic reports (a climate report and a human right briefing document).

GRI standard	Disclosure	Sources	Related SDGs
102-9	Supply Chain	web – SP, Supply Chain management web – SP, Value creation for stakeholders *Total operates in 130 countries and has more than 100,000 suppliers worldwide, most of which are managed locally at subsidiary level. Such information is not consolidated at corporate level.*	
102-10	Significant changes to the organization and its supply chain	RD 2017 p. 27 – 1.6.2, A revamped operational structure RD 2017 p. 246 – Note 2, Changes in the Group structure	
102-11	Precautionary principle or approach	RD 2017 p. 74-86 – 3.1 Risk factors *Note: the precautionary approach or principle is not addressed separately; it is integrated in our risk management processes.*	
102-12	External initiatives	RD 2017 - p. 98-99, 3.5.3 Action principles Total's Code of Conduct p. 9 web - SP, Safety Health Environment Quality Charter web - SP, Fundamental Principles of Purchasing web - SP, Global Agreement with IndustriAll Global Union web - SP, Charter regarding indigenous and tribal peoples web – SP, Business ethics web – SP, Reporting standards Human Rights Guide Integrity Guide	
102-13	Memberships of associations	web – SP, Business ethics web - Total, OGCI: ten Oil & Gas companies working together for the climate web – SP, IPIECA membership web – SP, UN Global Compact membership web – SP, List of professional associations which Total supports or is a member *This list is non-exhaustive as Total is a member of many initiatives and encourages collective action*	

Source: Excerpt of Total's comparative table showing linkages between its extra-financial disclosures for 2017-2018 and the GRI standard (published July 2018).[137]

[137] Available online at: https://www.sustainable-performance.total.com/sites/shared/sustainable/files/atoms/files/gri_disclosures_report_2017_vdef.pdf

As mentioned earlier, more and more companies are adhering to so-called "thematic" frameworks such as CDP (which is growing in popularity worldwide), the TCFD Recommendations, and two widely used UN frameworks: the **Global Compact** and the **SDGs**. **Yet these frameworks are less reporting standards *per se* and more a set of extra-financial reporting objectives that companies follow in order to cater to demand from investors and other external stakeholders** (such as NGOs and extra-financial rating agencies).

In addition to the somewhat generic frameworks listed above, the task force found that many companies also follow (again, often partially) a wide range of industry- and subject-specific standards and frameworks. Examples include IPIECA (for oil & gas companies), the Equator Principles (for financial institutions), focused ISO standards (e.g. ISO 30001 for risk management), and the Gimélec Industry Guide to CSR Reporting (for electrical equipment manufacturers).

A movement borne out by empirical academic research

A growing body of empirical research has emerged over the past two decades, especially in the United States, with academics appearing to find a positive correlation between extra-financial disclosure and social and financial performance.

Various studies have demonstrated a link between how transparent an organisation is and how "virtuous" is it perceived to be, and between good corporate governance and overall performance:

- ✓ Gompers *et al.* (2003)[138] found that good corporate governance (as measured by the level of shareholder rights) correlates positively with overall performance (as measured by equity prices and revenue growth).

- ✓ Christensen (2016) also supported the premise that transparency and virtue go hand in hand, demonstrating that companies with transparent social reporting practices are less likely to face future legal action for corruption or discrimination.

It is worthwhile noting, at this juncture, that many academics have concerns about the methods used to measure social performance:

- ✓ The methodological drawbacks most frequently cited by academics concern confusion, and even inconsistency, in how samples are selected and variables are measured, and in what causal links are tested (Orlitsky *et al.*, 2003) – due in large part to a lack of uniformity in social performance metrics. Some academics question whether measuring "corporate social responsibility" is, in fact, a worthwhile exercise, insofar as it is a poorly defined concept that blurs the lines between financial and social/environmental performance, ethics, and legal responsibility.

- ✓ Empirical research into the linkages between social and financial performance is complicated further by the sheer number of social performance metrics, each with their

[138] P.A. Gompers, J.L Ishii and A. Metrick, "Corporate Governance and Equity Prices", *Quarterly Journal of Economics*, Vol. 118, No. 1, pp. 107-155, February 2003.

own set of criteria and variables (Pava and Krausz, 1996; Frooman, 1997; Griffin and Mahon, 1997; McWilliams and Siegel, 1997; Balabanis, Phillips and Lyall, 1998; Margolis and Walsh, 2003; Orlitsky, Schmidt and Reynes, 2003).

- ✓ There are also lingering doubts as to whether some investment decisions (in specific companies and/or sectors) are genuine examples of impact investing, and whether investors' financial motives might differ from one investment type to the next.

A positive link between social performance and financial performance as measured by accounting indicators

Most empirical research finds a positive link between a company's social performance and its financial performance as measured by accounting indicators (Russo and Fouts, 1997; Kassinis and Soteriou, 2003; Fiede *et al.*, 2015; Chopra and Wu, 2016). Early empirical studies perhaps failed to produce compelling findings because they focused on endogenous variables (the best-performing companies are those that can afford to channel resources into environmental and social issues). But, as methods improved over time, later researchers were able to discount these endogenous effects ("all else being equal") and confirm the correlations identified by their predecessors. Researchers have also found that companies that do well on social performance also tend to produce more robust financial information. For instance, Kim *et al.* (2012) observed that, the more socially responsible a firm is, the more reliable its accounting indicators.

A positive correlation between ESG factors and financial and stock performance[139]

Correlation between ESG factors and stock performance

Numerous studies have found a positive correlation between environmental performance and stock performance (Lanoie and Laplante, 1992; Thomas, 2001; Grajam *et al.*, 2001; Graham and Maher, 2006; Bauer and Hann, 2010; Albertini, 2013). The same correlation holds true for those companies that manage their workforce responsibly (Kane *et al.*, 2005; Brammer *et al.*, 2009; Edmans, 2011; Faleye and Traham, 2011). Friede *et al.* (2015) conducted a meta-analysis of more than 2,000 empirical studies since the 1970s. They found that, in 90% of cases, the studies showed no negative correlation between ESG and financial performance. In fact, in the vast majority of cases, there is a positive correlation, which often remains stable over time (Borgers *et al.*, 2013). Khan (2016)[140] looked at the value implications of sustainability investments, finding that firms with good ratings on material sustainability issues outperform firms with poor ratings, while the same does not hold true for immaterial sustainability issues – in other words, performance depends to a large extent on which ESG criteria are selected.

[139] In his speech on 21 march 2019, Mark Carney outlined: « The outperformance of strong ESG companies is uncorrelated with underlying factors such as return on equity or capital employed, and reflects greater earnings stability and lower share price volatility «.

[140] M. Khan (2016), "Corporate Sustainability: First Evidence on Materiality", *The Accounting Review*, Vol. 91, No. 6, pp. 1697-1724, November 2016.

Correlation between ESG factors and portfolio performance

There is growing evidence[141] (including Clark *et al.*, 2015) of a positive link between ESG performance and long-term, risk-adjusted portfolio performance (a so-called "sustainability premium"). Similarly, divestment and exclusion strategies have no negative bearing on portfolio performance.

It is important to note, however, that investors adopt a broad range of ESG and responsible investing strategies (ESG filters, best-in-class/best-in-universe strategies, exclusions, thematic funds, engagement strategies, impact investing, etc.). Likewise, investment and resource-allocation decisions differ markedly according to investors' objectives (risk management, alignment with ethical or social values, yield, social or environmental objectives, and even reputation risk management).[142]

Correlation between ESG factors and sovereign bond spreads

A noteworthy econometric study by Capelle-Blanchard, Crifo *et al.* (2018)[143] revealed a tangible link between ESG performance and sovereign bond spreads in OECD countries. The authors found that the link was strongest on social and governance dimensions (less so on the environmental dimension, largely because of the period covered by the study), and that the effect was amplified in euro area countries in a pre-crisis context. ESG performance, as a marker of states' long-term engagement, wields not insignificant influence on sovereign bond spreads.

The task force found that, more often than not, there is a positive correlation (although not necessarily a causal link) between a company or fund's ESG performance and its financial performance. It would appear that those firms that integrate ESG factors into their strategy, operations and investment decisions are (like states) more likely to remain engaged over the long term, and be better governed – an important determinant of financial performance.

[141] Clark, G.L., Feiner, A. and Viehs, M., *From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance*, 5 March 2015; Deutsche Asset and Wealth Management, *ESG and Corporate Financial Performance: Mapping the global landscape*, December 2015; "Corporate Sustainability: First Evidence on Materiality", *The Accounting Review*, Vol. 91, No. 6; NN Investment Partners and ECCE, *The materiality of ESG factors for equity investment decisions: academic evidence*, 2016.

[142] See below.

[143] Capelle-Blanchard, Crifo *et al.*, "Environmental, Social and Governance (ESG) performance and sovereign bond spreads: an empirical analysis of OECD countries", *Journal of Banking and Finance*, 2018.

3.5 A movement amplified by investor engagement

«In the future, climate and ESG reporting will likely be at the heart of mainstream investing. Investors will tailor their investments and fulfil their fiduciary duties through: better quality and more widely available data on sustainability and performance; superior data analytics through the advent of AI and Machine Learning; and more informed judgements of strategic resilience».

Source: Mark Carney, «A New Horizon», speech on 21 March 2019

"BlackRock's Investment Stewardship engagement priorities for 2019 are: governance, including your company's approach to board diversity; corporate strategy and capital allocation; compensation that promotes long-termism; environmental risks and opportunities; and human capital management. These priorities reflect our commitment to engaging around issues that influence a company's prospects not over the next quarter, but over the long horizons that our clients are planning for."

Source: Excerpt from Larry Fink's (Chairman and CEO, BlackRock) 2019 letter to CEOs, 17 January 2019.[144]

Financial sector expectations and engagement on the rise, especially since the Paris Agreement

The financial sector has taken stock of shifting global trends on the environment, society and digital technology, and come to the inevitable conclusion that business can no longer ignore climate change, with all its environmental, social and societal consequences. Its impact stretches far and wide, from undermining the financial performance of companies in energy, real-estate, transport and other sectors, to causing a dramatic crash in the value of fossil fuel-linked securities. Indeed, the mutually reinforcing relationship between financial system vulnerability and climate change impacts has prompted the financial sector, and regulators, to acknowledge the emerging threat of systemic climate risk (Aglietta and Espagne, 2016).[145] Consequently, the objectives of sustainable finance may be summarised as follows: to achieve greater financial stability, to better capture and address social and environmental externalities and long-term risks and opportunities, and to ensure the financial sector plays a stronger role in fostering more sustainable economic growth. In other words, finance is not just about filling the green investment gap to achieve the Paris Agreement target, but also – as Art. 2 of the agreement itself states – about making finance flows consistent with a pathway towards climate-resilient development.

The financial sector is now taking climate issues seriously, in particular since the Paris Agreement was adopted in December 2015. This movement is characterised by three features:

i. The financial sector is stepping up its engagement in efforts to achieve the Paris Agreement targets: investors and asset managers are engaging in stakeholder activism, banks and insurance companies are unilaterally divesting from – or at least limiting their

[144] https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

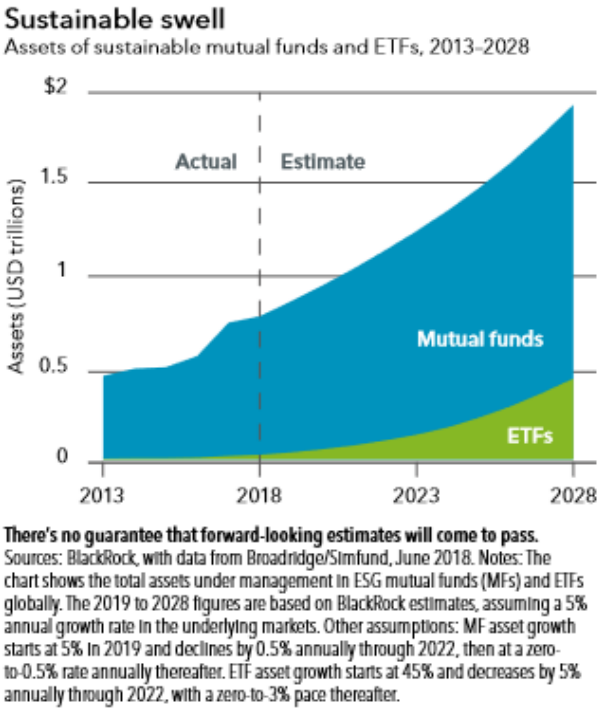
[145] A situation in which climate change impacts cause shocks that spread through a process of contagion, leading to abrupt financial destabilisation.

exposure to – the coal sector, and insurers and reinsurers are doing to more to support climate resilience and protect against the growing threat of climate risk

ii. Financial institutions, especially institutional investors, are adopting new practices (beyond their public engagements as mentioned above): institutions are being more transparent about how they factor ESG criteria into investment decisions, and adhering in growing number to the Principles for Responsible Investment (and the relevant principles for banks and insurance underwriters), while industry federations are publishing operational and implementation guides for clients, credit institutions, insurers and investment management companies.

For instance:

- ✓ In 2019, investment management company BlackRock (one of the firms interviewed by the task force) published a client-facing report entitled *Sustainability: The future of investing*.[146] In the report, the company says it expects to see exponential growth in ESG investing over the coming years (fuelled primarily by passively managed funds – see chart below), explains the rationale behind its decision to integrate ESG criteria into its investment strategies (see Section 3.4 below on ESG and financial performance), and outlines its sustainable investing practices.



Source: BlackRock Investment Institute, *Sustainability: The future of investing*, February 2019.

- ✓ Given the intrinsic characteristics of passive management, it is also important to highlight the crucial role of active management: for example, in January 2019, Amundi published a study entitled "The Alpha and Beta of ESG investing", in which the European leader in asset management (in terms of assets under management) has analysed the impact of ESG

[146] BlackRock Investment Institute, *Sustainability: The future of investing*, February 2019. Available online at: https://www.blackrock.com/us/individual/literature/whitepaper/bii-sustainability-future-investing-jan-2019.pdf

criteria on the performance of its portfolios (over the period 2010-2017). The results of the active management study highlight ESG investment, since 2014, as a source of outperformance in Europe and North America. The report highlights as well as the virtuous circle created by the intrinsic added value of ESG analysis. According to Amundi, this impact on performance is the result of the exponential increase in the interest of investors, mainly institutional investors, in ESG approaches (which generates flows towards best-in-class equities, stimulating their prices and performance). Furthermore, in October 2018, Amundi announced a three-year strategic plan to strengthen its commitment to responsible investment so that, by 2021, ESG analysis is integrated into all of its funds and initiatives promoting investment in projects with environmental and social impact.

- ✓ More and more institutional investors and asset owners are also becoming aware of their role in taking climate risk (and more broadly ESG dimensions) into account in asset allocation policy and asset management. For example, the report "173 reporting nuances - season II: Analysis of climate and ESG reporting by the main French institutional investors" published by Novethic (met by the task force) at the end of 2018 highlights : [147] :

  - Progress on taking climate risk into account: in 2018, majority of investors analysed in the study report in measure and report the carbon footprint of their portfolios. This is now an unavoidable preamble to the implementation of climate analysis, even if current financial management methodologies are still imperfect, poorly adapted and far from standardised.
  - Although the most committed players assess their climate risks more specifically according to the 2015 Paris Climate Conference 2°C objective, and exclusion procedures are widespread across large volumes of assets (specifically targeting controversial companies and the tobacco industry), the deployment of true low-carbon allocation strategies is confined to a very small number of players and impact measurement remains currently limited.
  - The coverage ratio of ESG analysis of the portfolios has increased, mainly from the assessments made by management companies and specialised rating agencies (see Section 3.8).

iii. <u>The green investing sector is adopting market-standard practices</u>: **(a)** the green bond market is growing (by volume, liquidity, and diversification across sectors and geographies) and new frameworks are being introduced (taxonomies, principles and standards), **(b)** green investment funds are gaining traction, and **(c)** new service and information providers are emerging (rating agencies, analysts, index providers, reporting and data management tool developers).

The responsible investing sector is enjoying strong growth, buoyed by rising demand for socially and environmentally responsible portfolios that deliver a performance profile that is distinctive from conventional investments. [148]

[147] The task force also notes the diversity of studies published in 2018 on the ESG analysis of French investors - including these by EY, Indefi and Beyond Ratings. Most of the lessons learned from these studies are confirmed for the most part by each other and reflect the first government assessment of the application of article 173-VI of the LTECV (forthcoming publication).

[148] Refer, for example, to the study published by Deloitte in April 2019 entitled: "Investors and Responsible Investing: How do investors and advisors view responsible investing in 2019? «.

Responsible investing: what it means and how it is growing

In the course of its interviews, the task force observed a series of trends that shed important light on the key role that extra-financial information is playing in the growth of sustainable finance:

✓ **Socially responsible investing is gaining popularity**:

It is important to point out, at this juncture, that responsible investing is a **fluid, constantly evolving concept** that means different things to different investors – from exclusion lists to stakeholder engagement, and everything in between (for instance, giving due weight to positive and negative externalities through improved financial management practices, or factoring ESG dimensions into investment decisions).

So-called "positive" responsible investing involves one of three strategies[149]:

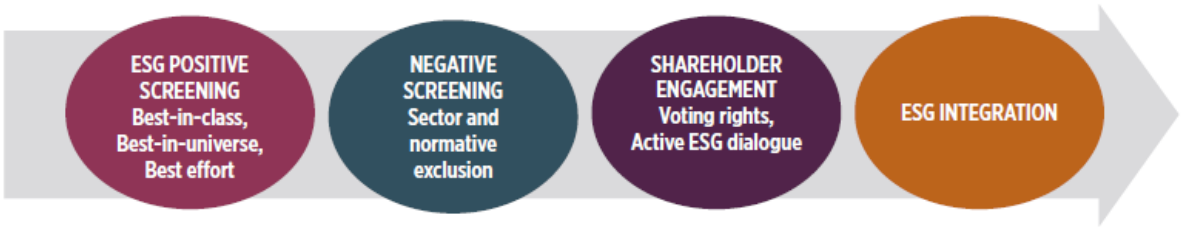
i. "Best in class": investing in those companies that set the gold standard for sustainability within a given sector or industry (without necessarily excluding any sectors or industries);

ii. "Best in universe": selecting and weighting the best-performing investments within a universe (here, contrary to the "best in class" strategy, investors may exclude particular sectors or industries on the basis of inadequate ESG performance);

iii. "Best effort": investing only in those companies that have made the most "effort" on sustainability issues (i.e. not necessarily the "best in universe" on ESG performance).

In addition, ESG integration happens to differing degrees. In some cases, ESG analysis is made available to mainstream analysts and fund managers, but no standardised process exists (known as "non-systematic ESG integration"). In other cases, ESG analysis is systematically considered by fund managers and analysts. And in other cases still, the conventional management process includes mandatory investment constraints.

The task force observed a diverse range of practices among asset managers, as well as marked differences in institutional investors' investment and asset-allocation policies.



Source: Edmond de Rothschild Asset Management, *Responsible Investing Policy*, September 2017.[150]

The task force's interviews revealed that, while demand for responsible financial products is growing, it remains very much a niche market – not least because, by law, financial advisers

[149] It should be highlighted that behind these different practices, the task force noted the absence of a full and complete comparison between funds, which are built on different methodologies and with different degrees of maturity.

[150] Available online at: https://www.edmond-de-rothschild.com/SiteCollectionDocuments/asset-management/isr/EDRAM-responsible-investment-policy.pdf

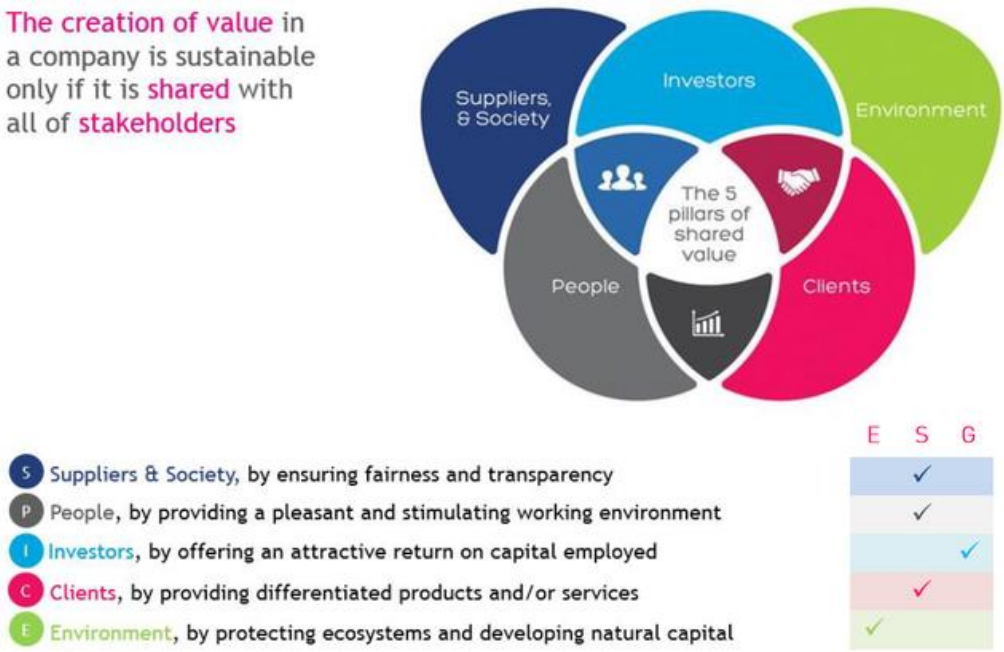
are under no obligation to obtain information (from retail or institutional investors) about portfolio performance expectations (unless the investor is demonstrably risk-averse).

In any event, ESG integration differs across asset classes. For fixed-income products, risk is assessed at a fixed point in time. For stocks, meanwhile, there is a greater emphasis on future cash flows (i.e. a forward-looking approach). Moreover, complex temporal, sectoral and geographical considerations make it difficult for managers to allocate multi-asset funds strategically.

For example, in an effort to circumvent these problems, Sycomore Asset Management (met by the task-force, has made developed with BNP Paribas, I-Care & Consult and Quantis two proprietary responsible investing methods:

- ✓ The **Net Environmental Contribution** (NEC) metric, launched in 2017, measures the extent to which businesses are aligned with the ecological and energy transition and with global warming targets. Intended for both retail and institutional investors, it produces a score ranging from -100% (for business that are highly damaging to natural capital) to +100% (for companies with a strong positive net impact, offering clear solutions to environmental and climate-related challenges). The NEC metric draws on over 200 databases, studies and labels (from government and environmental agencies, think tanks and NGOs) and considers the full life cycle of products and services.

- ✓ The **SPICE** fundamental analysis model (internally used at Sycomore Asset Management) uses a set of qualitative and quantitative criteria to measure how a company creates value for each of the five stakeholders that it covers (Suppliers & Society, People, Investors, Clients, Environment). The model influences risk premium and target prices as calculated by the firm's analysts.



Source: Report published on 30 June 2018 relating to the asset management company Sycomore AM and complying with the requirements of Art. 173-VI of the Energy Transition and Green Growth Act.[151]

[151] https://en.sycomore-am.com/5be1c5f9-Sycoway_as_an_Investor_UK_web.pdf

Based on the information gathered during the interviews, the task force believes that the best practices outlined above should form the basis of ESG integration going forward.
More generally, responsible investing is enjoying buoyant growth in France. Financial and extra-financial analysts are increasingly merging to form new investment management companies, many companies are deciding to become 100% SRI, and there is a general trend towards establishing common methodological frameworks. **The interviewees were keen to stress that France's financial sector should remain in the driving seat.**

- ✓ **Stock exchanges are leading from the front**, especially in the European Union, through both unilateral measures and joint initiatives such as the International Network of Financial Centres for Sustainability which, until 2020, will be co-chaired by France (Finance for Tomorrow) and China (Shanghai Green Finance Committee).

  At **Euronext**, the euro area's largest stock exchange, the General Counsel is responsible for overseeing group ESG policy and keeping the group's Managing Board informed about ESG initiatives. In the fourth quarter of 2018, a new ESG Task Force was created to support the General Counsel and develop the group's ESG strategy. In the same year, according to its registration document filed with the Netherlands Authority for the Financial Markets (AFM), Euronext also launched a pan-European stakeholder consultation process to identify the most relevant ESG-related issues that should inform its ESG strategy in 2019 and beyond (inviting contributions from advisory committees, clients, shareholders, analysts, investors, regulators, NGOs, and more). In 2008, Euronext joined forces with global experts and NGOs to become the first stock exchange to launch a pan-European CO_2 emissions index – the Low Carbon 100 Europe, which represents the 100 sector and industry leaders with the lowest carbon emissions. The updated version, published in 2015, factors in avoided emissions as a result of product and service innovation and, in doing so, singles out companies that – through their operational performance and the products they sell to their customers – are making a positive contribution to the ecological transition. Euronext also partnered with extra-financial rating agency Vigeo Eiris in 2013, launching a set of ESG indices that are updated every six months.[152]

On 23 April 2019, the **London Metal Exchange** – the world's leading exchange for non-ferrous metal futures – announced action on responsible sourcing. By 2022, companies that are red-flagged for child labour or corruption will be excluded from the roster of listed brands.[153] Nasdaq published a Global ESG Reporting Guide at the end of May 2019, for listed and unlisted companies to meet their ESG reporting obligations.

- ✓ **The European Commission Action Plan on Sustainable Finance marks a major step forward**:

  The European Commission Action Plan on Sustainable Finance sets out a strategy to support responsible investing in the European Union. Measures include:

  - **Establishing a harmonised EU classification system for sustainable activities** to ease investment decision-making and steer the flow of capital towards climate change

[152] https://www.euronext.com/en/product-news/nyse-euronext-and-vigeo-expand-range-of-esg-indices
[153] London Metal Exchange, *LME launches consultation on the introduction of responsible sourcing standards across all listed brands*, 23 April 2019. Available online at: https://www.lme.com/News/Press-room/Press-releases/Press-releases/2019/04/LME-launches-consultation-on-introduction-of-responsible-sourcing-standards-across-all-listed-brands

adaptation and mitigation activities, and to support the development of sustainability indices and European standards and labels

- **Establishing EU standards and labels for sustainable financial products**, building on a broad body of existing labelling schemes (such as the ISR and TEEC labels in France, plus more focused environmental and social labels) to make the way financial products are labelled, and the information provided to investors, more reliable (e.g. establishing an EU Ecolabel for financial products covered by the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, and introducing an EU standard for green bonds)
- **Incorporating sustainability considerations into financial advice**, by amending the MiFID II and Insurance Distribution Directive (IDD) delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment
- **Developing low-carbon benchmarks** (political agreement was reached on the Benchmarks Regulation in March 2019), based on minimum methodological standards (such as the total carbon footprint of the issuer's portfolio, and assessments across different emissions categories)
- **Clarifying the duties incumbent on investors, insurance companies, pension funds and asset managers as regards their investment, asset allocation, risk management and governance strategy**, and requiring asset managers to increase transparency towards end-investors on **how they integrate sustainability factors in their investment and risk-materiality decisions**

Responsible investing as a strategic asset: more effort needed on extra-financial information quality and accessibility

The task force found, from its analysis and discussions with institutional investors, that there are a number of barriers to further growth of sustainable finance:

- ✓ Labelling schemes are too numerous and hard to distinguish;
- ✓ ESG assets and transition-related issues are difficult to define;
- ✓ Investors use data from a broad range of sources, depending on their investment strategy – including internal data on direct investments, raw data from data providers, rating agency assessments, and insights from in-house analysts at investment management companies (a segment that is growing as dependency on rating agencies declines);
- ✓ Investors are keen to see linkages between financial and ESG ratings, and are viewing ESG performance through the same prism as financial performance (materiality);
- ✓ Investors' and issuers' ESG and climate disclosures are difficult to tell apart.

At a time when extra-financial reporting quality and accessibility are of paramount importance, most investors **describe extra-financial information as a "problematic" issue**, because:

- ✓ **There is too much information out there** and, although regulation is moving in the right direction, disclosures are not sufficiently focused

- ✓ **Disclosures are inconsistent and difficult to compare** because of the complexity of reporting structures and formats,[154] the sheer volume of regulatory requirements, and the fact that it is not easy to make long-term, cross-sector comparisons

- ✓ **Information is of variable quality** because the degree of standardisation differs across ESG dimensions (governance information tends to be highly standardised, environmental information somewhat less so, and social information barely at all)

- ✓ **Extra-financial information is not always reliable** because disclosures are not systematically audited and verified (see Section 3.6 and because assessments issued by extra-financial rating agencies are not comparable (see Section 3.8).

[154] The interviewees told the task force that investors take their data from a wide variety of sources, separating information published by companies (annual reports, management reports, sustainability reports, registration documents, investor presentations, etc.) and information coming from data providers, extra-financial rating agencies, external certification bodies and other stakeholders (such as NGOs and the media).

3.6 Extra-financial auditing: an emerging discipline that holds great promise

Extra-financial auditing: still optional, still marginal, but making an opportune move towards standardisation

Many of the interviewees that the task force met stressed the importance of having extra-financial information properly audited, but recognised the inherent challenges in achieving that aim. These views drew on the speakers' experiences of **financial auditing – a vital part of the information quality assurance process**. Although financial auditing has faced its own challenges, and undergone a series of reforms, its principles are now set in stone:

- ✓ Modern-day financial auditing practice has developed over the course of more than a century. Its underlying principles – who is involved in the process and what roles they play, what methods are used, how auditors work, and what their responsibilities are – have been reworked and refined with the passage of time. Often, changes to these principles have come at times of crisis, when it has become clear, among other things, that financial audits should provide an even greater degree of assurance.

- ✓ The past 20 years have seen two waves of reform. The first, in the early 2000s, came in the wake of a series of financial scandals (most notably the collapse of Worldcom and Parmalat, and the Enron scandal, which saw one of the world's biggest companies go bankrupt and sparked a tightening of regulations in the United States[155] and worldwide[156]). The second wave occurred in the late 2010s, when the subprime mortgage crisis brought the global financial system to the brink of collapse, prompting the EU to reform its audit rules[157] (rules which Member States have transposed into domestic law in recent years).[158] Contrary to appearances, these waves of reform were not about casting doubt on the value of auditing as a principle, but rather about a necessary shift in emphasis from auditing as a contractual to a public-interest exercise. Current debates in the United Kingdom[159] suggest that this shift remains an ongoing process, and that the current rules could well be bolstered further in the interest of better assurance. Financial auditing nevertheless remains a vital link in the assurance chain.

- ✓ The financial audit is the penultimate link in the quality and materiality assurance chain for financial disclosures (before regulatory oversight). The audit happens at the very end of the financial statement preparation process. Up until this point, the entire process is handled in-house. The audit is an external exercise, although the auditor has unrestricted access to the company and its information systems.

[155] The 2002 Sarbanes-Oxley Act and the creation of the Public Company Accounting Oversight Board (PCAOB).
[156] In France: the 2003 Financial Security Act and the creation of the *Haut Conseil du Commissariat aux Comptes* (High Council of the Order of Statutory Auditors, H3C).
[157] Regulation 2014/537/EU and Directive 2014/56/EU (April 2014).
[158] In France: ordinance no. 2016-315 of 17 March 2016.
[159] Competition and Markets Authority (CMA) report of 18 April 2019, and potential reform of the Financial Reporting Council (FRC).

- ✓ In other words, the audit comes after all the other, clearly identified links in the quality assurance chain:

  - a high-quality, credible and sufficiently well-recognised framework of reporting rules and principles
  - effective information systems and robust internal control procedures for the preparation of financial disclosures
  - a governance body that takes accountability for the company's disclosures, after consulting the external auditors

- ✓ A financial audit is an exercise in which a qualified, independent third party (an auditor) examines a body of information and expresses a reasoned conclusion based on that evidence. Its primary purpose is to ascertain whether a company's financial statements have been prepared regularly and sincerely, and whether they give a "fair representation" of the company's performance. By extension, most financial audits also cover financial information in its broadest sense, as included in the management report, registration document, and other reports and documents prepared by the company. In some cases, the auditors will also check whether the company has complied with certain legal obligations.

- ✓ Auditing standards are the culmination of a global standardisation process – one that began within the profession[160] but has since gained credibility through supervision by public authorities.[161] Country-specific versions of the standards have been written into appropriate legal and regulatory frameworks,[162] and governments have sought to clarify the remit and status of auditors on more than one occasion.

- ✓ Historically, the development of auditing standards has followed a similar trajectory to that of accounting standards. The IASC[163] (known as the IASB since the early 2000s, when it was placed under the authority of the IFRS Foundation) was founded in 1973. It was behind the accounting standard-setting and international harmonisation drive that has made the IFRS standards so successful today. The movement has its origins within the accounting profession, which felt the need to develop a robust accounting framework and to more clearly define how auditors work and the terms of their engagement. The nature of auditing changed when early voluntary initiatives gave way to formal obligations, at which point auditing shifted from being a contractual to a public-interest exercise under government supervision.

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[160] The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body supported by the International Federation of Accountants (IFAC), a non-profit organisation established in 1977 under Swiss law and headquartered in New York.

[161] Supervision by the Public Interest Oversight Board (PIOB), a foundation established in 2005 under Spanish law, itself supervised by the Monitoring Group, which appoints PIOB members. The members of the Monitoring Group are: the International Organisation of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the World Bank, the Financial Stability Board, and the European Commission.

[162] In the EU, by the Audit Directive (Directive 2014/56/EU of 17 May 2006, amended by Directive 2014/56/EU of 16 April 2014). Art. 26(2) reads as follows: "For the purposes of paragraph 1, "international auditing standards" means International Standards on Auditing (ISAs), International Standard on Quality Control (ISQC 1) and other related Standards issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB), in so far as they are relevant to the statutory audit."

[163] International Accounting Standards Committee.

- ✓ The IAASB's International Framework for Assurance Engagements[164] divides standards into three main categories:

  - International Standards on Auditing (ISAs)
  - International Standards on Review Engagements (ISREs)
  - International Standards on Assurance Engagements (ISAEs).

  Standards in the first two categories concern financial information (auditing and review of financial statements). The third category, which includes the ISAE 3000 (Revised)[165] standard, concerns assurance exercises other than auditing and review of financial information. This category includes **extra-financial information**. While assurance is a common feature of all three categories, the normative structure makes a clear, if somewhat artificial, distinction between financial auditing and review (financial statements), and other assurance exercises (other forms of reporting).

In the past 15 years, financial audit standard-setting bodies have branched out into extra-financial standards

- ✓ The IAASB's first extra-financial standard, ISAE 3000, was adopted in 2005 in response to growing demand within the profession for a framework covering non-financial audit and review exercises. The standard, which applies to "assurance engagements other than audits or reviews of historical financial information", is broad in scope and is defined by what it *does not* (as opposed to what it *does*) cover.

- ✓ ISAE 3000 (Revised), adopted several years later, introduced a series of improvements, although the basis remained the same. Like its predecessor, the revised version is similar in approach to financial audit and review standards (ISAs and ISREs). **While the standard provides a framework for extra-financial audit and review engagements, certain aspects remain necessarily generic because the landscape continues to evolve at such a rapid pace**:

  - The rules follows a similar pattern to other standards in areas such as acceptance of the engagement, assurance skills and techniques, ethical requirements, obtaining evidence, materiality, and reporting formats. In that sense the standard takes its cues from ISAs (which apply to financial information), transposing the relevant rules with only minor alterations.
  - Two key aspects of the standard are generic, however. The first concerns how it defines "subject matter information". Here, ISAE 3000 cannot draw on ISAs or ISREs because these have a narrow, clearly delimited focus (financial statements). Instead, the standard allows for much greater breadth, merely requiring that the "subject matter information" be defined in the engagement letter, or by law or regulation. The second relates to the "criteria" against which subject matter information is verified, and whether those criteria are suitable ("suitability of the criteria").[166] Given the sheer

[164] Adopted in 2005.
[165] Original standard adopted in 2005, revised version adopted in December 2013.
[166] "The criteria that the practitioner expects to be applied in the preparation of the subject matter information […] exhibit the following characteristics: a. Relevance. b. Completeness. c. Reliability. d. Neutrality. e. Understandability."

number of frameworks that exist, and that fact that many are idiosyncratic or lack detail, the standard emphasises two key principles: transparency and professional judgement.

- ISAE 3000 also follows exactly the same model as financial audit and review standards on the conclusion that auditors are expected to express, offering two options: "reasonable assurance" or "limited assurance". The key point here is that **the standard treats extra-financial information in almost exactly the same way as financial information for audit and assurance purposes** – an ambitious aim given that extra-financial reporting is an innovative and constantly evolving discipline. In that sense, ISAE 3000 represents a **deliberate move towards standardisation**.

✓ Since 2016, the IAASB – with that same purpose in mind – has continued its efforts to better characterise the extra-financial information covered by assurance engagements:

- In a 2016 discussion paper[167], the IAASB acknowledged the inherent properties of extra-financial information and identified 10 key challenges that practitioners face in their everyday work. These included the complexity of determining the scope of an engagement, evaluating the suitability of criteria in a consistent manner, addressing materiality with little guidance, and obtaining assurance with respect to narrative and future-oriented information.
- In early 2019, the IAASB opened a second consultation on "Extended External Reporting (EER) Assurance",[168] with the stated objective of publishing guidance for practitioners (as opposed to amending ISAE 3000 (Revised) or introducing a new standard). In its Consultation Paper, the IAASB recognises that "EER" is a broad concept, and that EER audit and review engagements cover disclosures that are separate from financial statements: "EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance matters". The two-stage consultation process is expected to run until end-2020.
- One noteworthy section of the Consultation Paper is the IAASB's "Four Key Factor Model for Credibility and Trust in relation to EER":
  - **i.** Sound EER Framework
  - **ii.** Strong Governance
  - **iii.** Consistent Wider Information
  - **iv.** External Professional Services and Other Reports.

✓ Standardisation initiatives are ongoing in the European Union as Member States implement the Non-Financial Reporting Directive:

- In France, the National Company of Auditors published December 2018 technical guidance[169] detailing what checks auditors should perform on the Statement on Extra-Financial Performance (part of the management report). The guidance distinguishes between two sets of circumstances. In all cases, the statutory auditor is legally required to check: (i) that the statement is present (by "reading" it), (ii) that the statement covers the subjects required by law, and (iii) that the statement is consistent with the

[167] IAASB Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting*
[168] IAASB Consultation Paper, *Extended External Reporting (EER) Assurance*, February 2019. The consultation closes on 21 June 2019.
[169] National Company of Auditors (CNCC), *Avis technique : Déclaration de performance extra-financière. Intervention du commissaire aux comptes- Intervention de l'OTI.*

financial statements and that the financial information it contains is sincere.[170] In this case, the statutory auditor's engagement comes under the NEP 9510 standard.[171] If the statutory auditor (or one of the statutory auditors) is also the independent third-party organisation required by law,[172] it must conduct further checks (detailed in the technical guidance) in the spirit of the ISAE 3000 (Revised) standard, and express a limited-assurance conclusion in a separate report.

- In Germany, the law allows an issuer to choose where to publish its Statement on Extra-Financial Performance: in its management report (as a standalone section or dispersed throughout the report), in a separate report, or on its website no later than four months after publishing its management report. In most cases, the independent third-party organisation merely confirms that the Statement on Extra-Financial Performance exists. If, however, the statement is dispersed throughout the management report, it normally expresses a reasonable-assurance conclusion.

✓ These developments show that, while much work has gone into building an extra-financial audit and review framework, there are inherent problems that cannot be overlooked:

- The standards are intended for accountants. Yet, even where the standards recommend or allow for independent third-party verification, accountants cannot claim a monopoly because, in practice, reviews and audits are typically performed by multi-disciplinary teams.
- A lack of standardisation in extra-financial information means that audit and review standards remain necessarily generic – and of limited practical use. There is a strong argument to suggest that, in the coming years, audit and review standards will need to evolve in parallel with frameworks governing the substance and format of extra-financial reporting.
- Lastly, extra-financial assurance is still a largely optional exercise, meaning that engagements are performed by relatively small teams of specialist practitioners (unlike financial audit teams).

✓ Initiatives have come from outside the accounting profession, too. For instance, AFNOR[173] has published a "Guide on performing the checks required by Art. L.225-102-1 of the French Commercial Code". The guide,[174] which was drawn up in the usual way and on a consensus basis by AFNOR's sustainability and social responsibility standardisation committee, explains how to check the Statement on Extra-Financial Performance and is intended primarily for companies and independent third-party organisations. The guide sets out how the exercise should be conducted, goes into detail on certain specific checks, and recommends that practitioners express a negative-assurance conclusion (based on the limited-assurance model).

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[170] *Avis technique.* Section 3.12, final paragraph.

[171] Norme d'Exercice Professionnel (NEP) 9510 (November 2018, replacing the 2009 standard), *Diligences du commissaire aux comptes relatives au rapport de gestion, aux autres documents sur la situation financière et les comptes et aux informations relevant du rapport sur le gouvernement d'entreprise adressés aux membres de l'organe appelé à statuer sur les comptes*. NEP 9510 is a version of the international ISA 720 standard adapted to the legislative and regulatory context in France.

[172] Checks by an independent third-party organisation are required for companies with a balance-sheet total or revenue in excess of €100 million, or with more than 50 employees.

[173] French Association for Standardisation

[174] FD X 30-024 January 2019, which updates and replaces FD X 30-024 October 2016.

Verifying extra-financial information: a technically challenging exercise

- ✓ As outlined earlier in this report, the first challenge facing practitioners stems from the fact that **extra-financial reporting frameworks are not stabilised** (in form or substance). Financial auditors can rely on comprehensive, detailed and mandatory accounting standards. Moreover, any options provided for in those standards are both limited and written into the standards themselves. The same cannot be said for extra-financial frameworks. Companies have a much wider choice of reporting options, and practitioners are expected to exercise professional judgement as to how those decisions have been made.

- ✓ The second challenge has to do with the sheer diversity of information that practitioners are expected to check:

  - Extra-financial disclosures combine both **qualitative and quantitative information**. Since qualitative information is by nature largely subjective, practitioners can only check whether issuers' disclosures are consistent, exhaustive and neutral, and are typically restricted to expressing limited-assurance (as opposed to reasonable-assurance) conclusions. Moreover, qualitative disclosures fall into two separate categories: those expressed in monetary units, and those expressed as non-monetary metrics (such as staffing numbers, time, or surface area). And while quantitative disclosures lend themselves to more "objective" verification, they too can be divided into sub-categories (in this case, three):
    - **i. Quasi-financial information expressed in monetary values** that, while not included in a company's financial statements, comes from the same systems. Auditors check these disclosures in a similar way to financial statements, and are able to express reasonable-assurance conclusions on their findings.
    - **ii. Management information expressed as non-monetary metrics**. In well-organised companies, these disclosures normally come from information systems that are integrated with accounting systems. Here, the challenge is twofold. First, auditors cannot verify the information on the same, stable basis as financial disclosures. And second, because this type of information tends to be less rigorous than financial and quasi-financial information, it demands a specific set of auditing procedures. Even so, auditors are able to express reasonable-assurance conclusions about disclosures falling to this category.
    - **iii. Approximate information, normally expressed as non-monetary metrics and based on benchmarks, extrapolations or statistical approaches** (professional or otherwise). This is the hardest type of information to verify because the company itself does not have an accurate picture of the metrics it is disclosing and is reliant on the reliability of other information sources. In this case, because auditors have no choice but to refer to external evidence, their conclusion is necessarily nuanced.
  - Likewise, there is an important distinction between **historical and forward-looking information**. While auditors can use observable, verifiable evidence and indicators to check historical information, forward-looking disclosures are qualitative because, in most cases, they take the form of forecasts or commitments. Even for quantitative forward-looking information, auditors can only check whether the figures are consistent, exhaustive and neutral – and are unlikely to be able to give the same degree of assurance from one disclosure to the next.

- As the above analysis demonstrates, there is an important dividing line to be drawn between financial information (about which auditors can express reasonable-assurance conclusions), and extra-financial information (which lends itself merely to limited-assurance conclusions).

Extra-financial auditing: clear demand, a move towards standardisation, but still a technically challenging, largely optional and marginal practice

✓ In most cases, companies elect to have their extra-financial disclosures audited on an optional basis:

- The European Union, which is known for its pioneering approach to extra-financial information, has retained a more conservative stance on external auditing – a fact laid bare in recital 16 in the preamble to the Non-Financial Reporting Directive: "Statutory auditors and audit firms should only check that the non-financial statement or the separate report has been provided. In addition, it should be possible for Member States to require that the information included in the non-financial statement or in the separate report be verified by an independent assurance services provider." Art. 19a and Art. 29a(5-6) of the Directive are drafted in a similar spirit. The statutory auditor merely checks that the Statement on Extra-Financial Performance is included in the management report.[175] Whether or not the auditor verifies the substance of the report is left to individual Member States' discretion.
- This conservative stance may well be down to the fact that the EU is wary of pushing forward too quickly in what remains an experimental discipline. Nevertheless, some Member States – especially France, Spain and Italy – have pressed ahead with making independent third-party verification a mandatory requirement. In France, Art. L.225-102-1(V) of the French Commercial Code states that extra-financial information "shall be audited by an independent third-party organisation" and that the audit "shall lead to an opinion that is sent to the meeting of shareholders" at the same time as the management report. Art. R.225-102-1 states that the independent third-party organisation must be accredited by the French Accreditation Committee (COFRAC), must be independent, must describe what checks it has performed, and must issue a "reasoned opinion" as to whether the statement complies with Art. R.225-105(I) and Art. R.225-105(II), and whether the disclosures are sincere pursuant to Art. R.225-105(I)(3) and Art. R.225-105(II). These requirements apply only to the Statement on Extra-Financial Performance. Checks of other reports remain optional. The statutory auditor may act as the independent third-party organisation, provided that it is accredited.[176]
- Outside the European Union, audits tend to be optional and the obligations are largely generic in nature.

✓ **It stands to reason that, where audits are optional, only a handful of companies willingly have their extra-financial information externally verified. However, many issuers told the task force that, even where frameworks were lacking, having their extra-financial disclosures externally audited had helped them become more rigorous and consistent in their reporting – and made their disclosures more reliable and material**.

[175] French Commercial Code, Art. L823-10(4).
[176] 25 of the 29 accredited independent third-party organisations are statutory auditors.

3.7 Regulators and supervisors: a potential supporting role at the post-reporting stage

Given that extra-financial reporting is still an emerging discipline, and that most requirements are non-binding in nature, **regulatory and supervisory authorities lack teeth and tend to play only a bit-part role at the post-reporting stage**.

Despite this, **some European and global regulators and supervisors are taking a more active interest in extra-financial reporting**, albeit on a limited basis at this stage:

- ✓ IOSCO's Committee on Issuer Accounting, Audit and Disclosure, which is co-chaired by Japan's Financial Services Agency and the U.S. Securities and Exchange Commission (and which counts the AMF's Corporate Accounting Director among its members), has sharpened its focus on extra-financial reporting:

  In January 2019, IOSCO published a "Statement on Disclosure of ESG Matters by Issuers", in which it highlights the need for issuers to integrate ESG matters into their strategy and reporting, and sets out what the organisation (and its Sustainable Finance Network in particular) is currently doing on this front:

  "*IOSCO encourages issuers to consider the materiality of ESG matters to their business and to assess risks and opportunities in light of their business strategy and risk assessment methodology. When ESG matters are considered to be material, issuers should disclose the impact or potential impact on their financial performance and value creation. In doing so, issuers also are encouraged to give insight to the governance and oversight of ESG-related material risks. Issuers can provide such insight, for example, by disclosing the methodologies they follow in their risk assessment, and the steps taken, and/or action plans developed, to address the risks that they have identified. The information provided by issuers should be balanced and should consider and reflect both risks and opportunities presented by material ESG matters. IOSCO reminds issuers that information disclosed outside of securities filings following a voluntary disclosure framework may also be required to be disclosed under security filings if it is material. […] IOSCO furthermore encourages issuers to clearly disclose the framework(s) that they have used (if any) in preparing and disclosing material ESG information.*"

  However, the organisation currently has around 200 members (including most national regulators, plus international institutions, stock exchanges, clearing houses and other bodies), and, since 2017, the United States has remained staunchly opposed to ambitious initiatives. For those reasons, **IOSCO is unlikely to make significant progress towards a common, international standard in the near term**.

- ✓ At ESMA, meanwhile, extra-financial reporting continues to rise up the agenda, not least as a consequence of ongoing work on the European Commission Action Plan on Sustainable Finance:

  The following statement comes from ESMA's 2019 Annual Work Programme: "Considering the increasing relevance of sustainability issues, ESMA will closely monitor the developments in this area and promote the creation of a common supervisory culture with regards to non-financial reporting".

On 26 October 2018, ESMA published details of the priorities that enforcers will consider when examining 2018 financial statements (the same year that the Statement on Extra-Financial Performance was introduced). In its statement, ESMA said: "In addition to the common enforcement priorities [….], ESMA highlights specific requirements relating to the sections of the annual financial report other than the financial statements […] These include the **requirements with regards to the disclosure of non-financial information with particular focus on: environmental and climate change-related matters**, explanation as to why certain policies were not pursued; and key performance indicators relating to non-financial policies."

ESMA therefore **requires full transparency on extra-financial reporting methodology, and on the scope that disclosures cover** (especially on environmental and climate change-related matters). It also expects issuers to use KPIs that are consistent with their internal control and risk assessment metrics, and to explain any changes from one year to the next.

ESMA has set up a Narrative Reporting Working Group, within its Corporate Reporting Standing Committee, to develop and promote common supervisory approaches and practices on extra-financial information disclosures and alternative performance measures. In 2019, the new working group will focus on exchanging experiences with a view to future harmonisation of supervisory practices on extra-financial reporting.

ESMA's current priorities are twofold: to encourage more issuers to disclose extra-financial information, and to harmonise supervisory practices on extra-financial reporting. The second priority is a longer-term ambition, given regulatory divergence and differing degrees of political engagement on the subject across EU Member States (including among financial regulators and supervisors).

In all of the non-EU countries that the task force examined, regulators and supervisors also intervene almost exclusively at the post-reporting stage – especially in the United States and Japan (although, here, regulators are taking an increasingly active stance) (see Appendix 9).

In France, the AMF's position at the end of the reporting chain means that its role is confined to reviewing corporate reporting practices. At present, it has no power to sanction firms who engage in sub-standard practices. In its strategic plan, however, the authority makes clear that it supports companies publishing more extra-financial information and intends to play a supporting role in that process:

- ✓ The AMF's role is to observe and review practices as issuers come to grips with new periodic reporting requirements (i.e. issuers must now include a Statement on Extra-Financial Performance in their management report, and all companies, listed or otherwise, must publish a corporate governance report – a requirement under the ordinance of 12 July 2017 – classified as "regulated information" under Art. 221-1 of the AMF General Regulation). In 2016, the AMF published a report on social, societal and environmental responsibility in 2016 (and will likely publish a second such report by end-2019), as well as a report on corporate governance and executive remuneration.

- ✓ In its 2016 report on social, societal and environmental responsibility, the authority examined the extra-financial information disclosed by a sample of 60 listed companies

(including 30 SMEs and mid-caps) in their 2015[177] registration documents. It found that all listed firms, regardless of size, were devoting increasingly more time and resources to extra-financial reporting, and developing new systems to track their performance. The AMF further concluded that, beyond regulatory aspects, companies were more committed to long-term targets, using clearer and more relevant indicators and, in some cases, choosing to provide information that includes both financial and extra-financial data.

- ✓ Based on its findings, the AMF made four recommendations – a deliberately limited number given that 2016 was a pivotal year from a regulatory perspective (entry into force of Art. 173 of the Energy Transition and Green Growth Act, and transposition of the European Directive): (i) increase the relevance of non-financial information, (ii) fuller account of the role of CSR in the company's strategy; (iii) reflect on ways to present financial and non-financial information coherently (the AMF favours an approach that promotes greater integration), and (iv) improve disclosure with respect to green bonds issuance.

The task force also learned that the AMF is currently finalising ambitious guidance on extra-financial reporting, reflecting EU-wide initiatives on sustainable finance and placing particular emphasis on reporting. The guidance is designed to help users make sense of a growing body of private initiatives and, drawing on the accumulated experience of European issuers and investment managers, map out a trajectory towards a more robust, unified European extra-financial reporting framework (for climate-related matters and beyond).

[177] The task force notes that the AMF will publish its next report on CSR by the end of 2019.

3.8 Extra-financial rating: a useful if challenging exercise

Extra-financial rating looks beyond a company or state's financial metrics to ascertain how it performs on environmental, social and governance aspects. Although the practice is gaining ground, it is not without its difficulties: data is in short supply, ratings are hard to compare from one agency to the next, and rating methods are still evolving. These problems aside, the growth of extra-financial rating is placing immense strain on companies, forcing them to disclose more information in ever more complex reports.

Post-2000 consolidation: conventional index providers, rating agencies and proxy advisory firms have branched out into extra-financial rating

The increasing burden of ESG reporting has given rise to a lucrative market for extra-financial rating agencies, with steep growth since the early 2000s. The sector has undergone a string of consolidation phases, especially during the recent financial crisis, and the number of firms has contracted sharply in the past few years, reaching an apparent point of stability. The market nevertheless remains fiercely competitive, as providers continue to launch an ever more diverse range of products and services.

Rating agencies can broadly be divided into two categories: generalists such as Vigeo Eiris, MSCI ESG Research, Sustainalytics and Oekom), and specialists like Ethifinance (SMEs), South Pole (carbon footprint), Trucost (environmental impact assessment) and ISS-Ethix (norm-based exclusion and controversial industries).

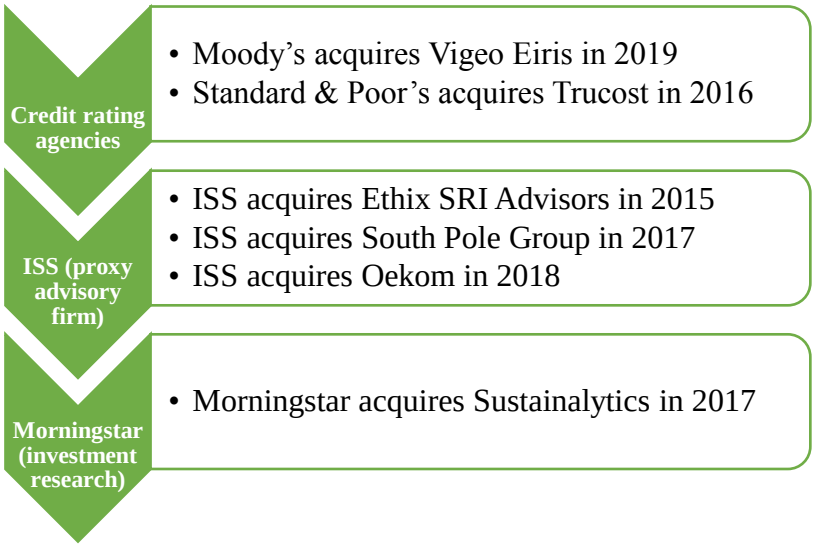
More often than not, generalist firms have their roots in mergers, acquisitions and alliances between established market participants in the 1990s, at a time when rating agencies struggled to build financially viable businesses and sought greater independence from the companies they were assessing:

- ✓ Vigeo Eiris: the 2002 takeover of Arese (France's first social and environmental performance assessment body), a 2005 alliance with Belgian agency Ethibel, the takeover of Italian firm Avanzi SRI Research, and a merger with British agency Ethical Investment Research Service (Eiris, founded in 1983);

- ✓ Sustainalytics: the 2008 merger of several SIRI Company entities (Sostenibilidad, Dutch Sustainability Research and Scoris);

- ✓ MSCI ESG Research: the 2010 takeover of RiskMetrics by index provider Morgan Stanley Capital International (MSCI), which had previously acquired proxy advisory firm Institutional Shareholder Services (ISS) in 2007 and two U.S.-based extra-financial rating agencies in 2009. MSCI ESG Research acquired U.S. agency GMI Ratings in 2014, and private equity firm Genstar Capital bought out ISS in 2017.

A second consolidation wave began in 2015, when ISS acquired Swedish agency Ethix SRI Advisors. The main drivers behind this second wave have been credit rating agencies (Moody's and Standard & Poor's), proxy advisory firm ISS, and investment research specialist Morningstar.



Two trends underpin this consolidation process:

- ✓ **Established financial data providers and conventional rating agencies have increasingly looked to branch out into extra-financial rating** – a trend that demonstrates both the importance of ESG analysis for market participants, and the symbiotic relationship between the disciplines of financial and extra-financial rating.

- ✓ **U.S. firms have come to dominate the extra-financial rating market**, which was once an almost exclusively European affair – a trend that underscores both Europe's industry-leading expertise and the fact that European firms have struggled to build viable, standalone business models for reasons of geography and synergy.

In March 2019, **Beyond Ratings** – the first issuer of sovereign, public finance and institutional ratings to systematically include ESG aspects in its criteria – was accredited by ESMA, becoming the only firm of its type out of 28 credit rating agencies recognised by the authority.

Extra-financial rating agencies: diverse services, equally diverse methods

Extra-financial rating agencies assess companies using information from two sources: issuers themselves, and the public domain. Assessment methods differ from one agency to the next, although the underlying principles remain the same:

- ✓ Agencies assess companies' (or, in the case of Beyond Ratings, public entities') ESG performance against a string of criteria (such as energy use, workplace accidents, or greenhouse gas emissions) and various standards, most of which are international and largely generic in nature (such as ILO Conventions, or the Ten Principles of the UN Global Compact).

- ✓ For each ESG criterion, an agency will look at what policies the company pursues, how it actions those policies, how effective those actions are, and how it reports on its performance. The agency then calculates an overall score, allowing investors to compare companies' performance on that particular ESG aspect. The main methodological

differences between sectors (and, for that matter, between agencies) stem from which criteria are selected, and how the weighting systems work.

- ✓ In the first instance, agencies assess companies against recognised standards (international principles and frameworks, typically the Ten Principles of the UN Global Compact, which cover key ESG aspects) and known controversies (monitoring various sources for evidence of involvement in controversial activities), before subsequently drilling down into more detail about the company's ESG risks, policies and performance.

- ✓ Many agencies also offer shareholder engagement services (especially ISS, which was originally a proxy advisory firm), as well as investment research services. Other agencies, such as Vigeo Eiris and Sustainalytics, provide green bond issuance consulting and environmental and social impact assessment services.

- ✓ **In the absence of a common framework, agencies have developed proprietary methods**, although they have sought to make their rating criteria comparable by drawing on a relatively standardised set of international standards.

From its interviews with rating agencies, the task force found substantial differences in both the assessment methods and information sources they use:

- ✓ The table below contains a summary of the practices employed by a sample of rating agencies interviewed by the task force[178]:

[178] Nevertheless, it shall be mentioned here that the task force was informed of the methodological particularities and services offered by the French rating agency EthiFinance, the European leader for the rating of small and medium-sized companies, both listed and unlisted. In 2017, EthiFinance joined forces with research provider Spread Research, registered as a financial rating agency with ESMA and as an External Credit Assessment Institution with the European Banking Agency and the European Insurance and Ocupational Pensions Authority (EIOPA).

Rating Agency	Main information sources	Rating method (summary)	Paying clients
ISS	- Uses public information (main source) - Sends a draft assessment to the issuer along with a questionnaire, followed by back-and-forth discussions	- Uses the following standards: ILO (labour practices), ISO, GRI (qualitative indicators) SASB (industry-specific standards) - Considers controversies - Does not consider which reporting framework(s) the issuer uses, but does consider verification by an independent third-party organisation ⇨ Issues a "corporate rating" on a scale from A+ to D-	Investors
Sustainalytics	- Conducts daily screening of press articles for evidence of involvement in controversial activities (this forms the basis of value chain evaluation and risk assessment) - Examines published reports, then engages in back-and-forth discussion with the company	- Uses historical information to produce a forward-looking analysis - ESG rating founded on three "building blocks": (i) corporate governance (governance standards, controversies) (ii) material ESG issues (for the company and its sub-industry) (iii) idiosyncratic ESG issues ⇨ The ESG rating is based on exposure to material ESG risks and how well those risks are managed	Investors
MSCI ESG Research	- Uses extra-financial information published by the company - Sends the assessment to the company and engages in back-and-forth discussion	- Maps ESG risks by sector then assesses ESG performance using reporting data - Does not consider which reporting framework(s) the issuer uses in assessing data quality ⇨ Issues a rating on a scale from AAA to CCC	Investors
Trucost	- Uses information published by the company and CDP data only - Engages in annual back-and-forth discussion with the company	- Uses approximate models (despite the inherent problems with approximating governance risks) that draw on CAPEX (investment) and other quantitative data - Does not consider which reporting framework(s) the issuer uses in assessing data quality ⇨ Does not issue ratings, but instead	Investors

Rating Agency	Main information sources	Rating method (summary)	Paying clients
		quantifies risks (plans to begin issuing ratings in 2019)	
Vigeo Eiris	Uses published reports and CDP data	- Employs a proprietary Equitics method, based on 300 "principles of action" from international frameworks and standards, to assess performance in six areas (environment, community involvement, business behaviour, human rights, corporate governance and human resources) against a set of 38 criteria, selected and tailored to specific industries on the basis of a materiality assessment (20-25 criteria "activated" for each industry) - Questionnaire covers nine aspects divided evenly across three "pillars": leadership, implementation and results[179] ⇨ Issues a score on a scale of 0 to 100	Investors and issuers

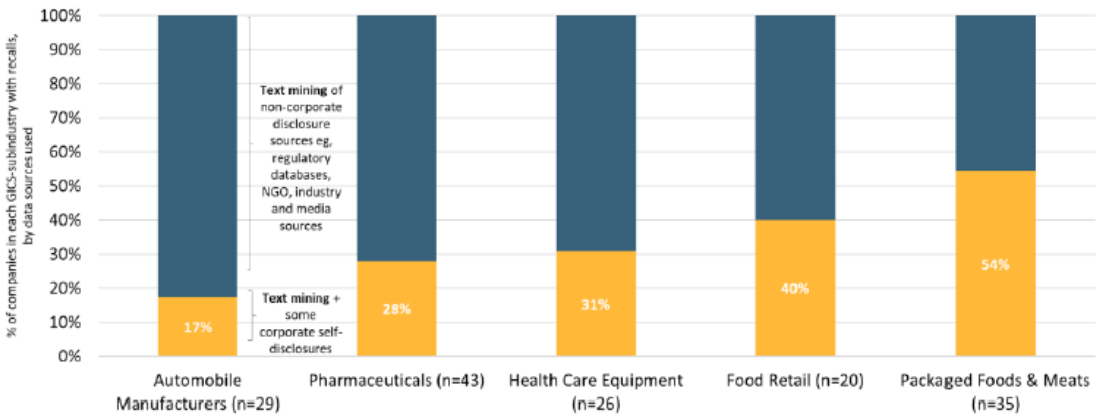
- ✓ One prominent feature of these rating methods is that they tend to be scalable, allowing agencies to build artificial intelligence into their practices (and assess thousands of companies every year), and to adjust the weighting of different ESG criteria.

- ✓ **Because extra-financial disclosures lack structure and are difficult to compare, agencies rely heavily on so-called "non-corporate" extra-financial information** (regulator databases, media, NGO data, raw industry data). The extent to which they use this type of information differs markedly from one industry to the next.

- ✓ In a report entitled "2019 ESG Trends to Watch", MSCI ESG Research highlights the critical role of alternative data (generated by artificial intelligence systems):

> "ESG investing has been a major beneficiary of this explosion of new data sources. Looking back at the past decade […], contextual, alternative data has always been used alongside voluntary corporate-disclosure data to assess companies' exposure to ESG risks. The use of alternative data was necessary because disclosure alone was so sparse and could tell investors relatively little about companies' latent and emerging ESG risks […] The "big data" revolution has allowed investors to become less reliant on voluntary corporate disclosure, as the universe of ESG information from alternative sources continues to expand at a pace that far exceeds improvements in voluntary disclosure."

[179] Vigeo Eiris' methodology is relatively more detailed than the methodology of the other agencies met by the task force, in that the task force had access via Vigeo Eiris to detailed information on their rating methodology. This element justifies the higher degree of accuracy within the table.



"n" references the companies flagged for product recalls. Source: MSCI ESG Research, MSCI ACWI as of 20 Dec 2018

Source: MSCI ESG Research, *2019 ESG Trends to Watch*, January 2019.

Rating agencies' sway over investors: a heavy reporting burden amid information scarcity

As well as meeting their extra-financial reporting obligations, companies have to complete rating agencies' questionnaires and engage in time-consuming back-and-forth during the rating process. There is little overlap between this process and other corporate reporting work:

- ✓ A January 2019 study by Medef, Afep, Cliff Investor Relations and the *Collège des Directeurs du Développement Durable* found that companies were struggling to deal with the sheer range of assessment methods employed by extra-financial rating agencies, and that issuers dealing with one agency had few takeaways they could carry over to the next. The study examined a series of rating agencies and organisations (CDP, EcoVadis, FTSE, MSCI, Oekom, RobecoSam, Sustainalytics and Vigeo Eiris), highlighting what each one does well and where its practices could be improved. Most of the respondents said they dealt primarily with two agencies: Vigeo Eiris and CDP.

- ✓ The findings highlighted three common problems: **completing the questionnaires and engaging in back-and-forth with agencies** (where it happens) **is a time-consuming process**, **agencies' assessment methods are opaque and unstable**, and **some of the assessment criteria** (such as engagement in controversial activities) **lack transparency**. Moreover, only around half of the companies that the task force interviewed said they actually returned agencies' questionnaires and answered their queries.

- ✓ The study also contains a set of recommendations on the following issues: dealing with governance and conflicts of interest, making rating methods more transparent (including consideration of whether the issuer uses an industry-specific standard), ensuring that companies receive a copy of the agency's report, improving the information-gathering process (pre-populating questionnaires), allowing the company to review the draft report, stabilising rating methods (including, as a bare minimum, providing information upfront

to help the company plan ahead), considering industry-specific issues, and being more transparent about the implications of involvement in controversial activities.

In spite of these problems and grievances, the data that rating agencies collect, and the assessments they produce, are a goldmine of information for investors. And while investors are shifting to proprietary models in growing number, they continue to hold rating agencies in high regard for the sheer breadth of extra-financial information they collect:

- ✓ While ESG analysts at investment management companies pick their way through the minefield of ratings by carrying out their own surveys and assessments, investors are increasingly turning to rating agencies for the information they provide (as opposed to their ratings *per se*).

- ✓ Many investors are placing their trust in a single agency, picking off-the-shelf services, opting for custom information packages or other special arrangements, or applying "geographical" or other filters that serve their particular interests. Other investors buy in services from multiple generalist and specialist agencies, especially if they are seeking information on carbon emissions and controversial activities.

- ✓ Some investors treat agencies merely as information providers, reprocessing the data – which typically comes from corporate reports and NGO publications, and often focuses on specific themes such as those mentioned above – before feeding it into their own analysis frameworks and weighting systems.

- ✓ Others still use proprietary models and bypass rating agencies altogether, preferring instead to work with academics.

The task force observed the following trends from its interviews with investors:

- ✓ **Investors rely heavily on extra-financial ratings to inform their ESG integration strategy** because:

  - extra-financial ratings are helping to drive progress in companies' CSR practices: as agencies adapt their methods and criteria, companies gain a clearer picture of those ESG issues that are rising to the top of the agenda in a changing world,
  - extra-financial rating agencies cast the net much wider than companies in terms of the information they collect (including geographical coverage).

- ✓ **The inherent challenges of extra-financial rating make reporting a headache for companies (as issuers) and investors (as users)** because:

  - quality takes precedence over performance (if a company fails to report on something, it is rated zero for that aspect, with no regard for whether the issue is material for the company, for its ESG performance, or for its size);
  - risk management and policy-driven indicators take precedence over a company's products and services;
  - the reliability of the data that agencies collect and assess is questionable, as more of the heavy lifting is left to artificial intelligence, and as neither issuers nor agencies comment on, or quantitatively analyse, the data;

- the data that agencies gather is not comparable over time, accentuating the need for forward-looking information (which involves costly R&D effort);
- agencies have different aims and priorities: some (such as MSCI ESG Research) focus on financial materiality, while others (like Oekom) are more interested in impact;
- agencies are opaque about the methods they use and how they weight their criteria (a complaint voiced equally by issuers), and it is hard to track the data they produce back to its source (because of how it is structured, and because agencies use artificial intelligence to produce it).

The extra-financial rating market: pressing challenges that underscore the need for better-structured information

Extra-financial rating agencies are under strain on several fronts:

✓ **The digital revolution is disrupting the market.**

All extra-financial rating agencies, without fail, are harnessing artificial intelligence and other new technologies to automate data collection and aggregation, and to tailor the information they provide to investors' particular visions, investment strategies and risk appetites. This trend will only accentuate in the coming years.

Agencies (and, for that matter, investors) are increasingly developing deeper, more specialised and more idiosyncratic ESG risk and performance analysis models as they look to capture weak signals, weight risk factors, interpret indicators, and structure materiality assessments (factoring in both how companies affect society and the environment, and how society expects them to conduct their business). The agencies and investors that the task force interviewed also expressed concern, without exception, that the growing role of artificial intelligence and raw data from industry giants such as Bloomberg was jeopardising human involvement in the rating process.

✓ **Extra-financial rating agencies must rethink how they are paid, and their business model more generally.**

The current business model, whereby investors and asset managers are agencies' only source of revenue, is untenable – even for those agencies that have been taken over by U.S. credit rating agencies and proxy advisory firms. Going forward, it seems likely that extra-financial rating will become just one line of business for much larger outfits such as traditional credit rating agencies.

✓ **The value that agencies add is under question.**

Can agencies branch out beyond their stock information sources (corporate disclosures) and rating role and widen the net to include information from other sources such as the media, NGOs and the courts? Increasingly, agencies are positioning themselves as "facilitators", helping users navigate the complex minefield of extra-financial information. Yet the viability of that business model is uncertain, as investors change the way they use extra-financial information and as more and more of them develop proprietary models.

- ✓ **Agencies need to address concerns around conflicts of interest.**

  Investors are agencies' primary source of revenue – an arrangement that provides a guarantee of independence. What is less obvious, however, is how agencies maintain a clear divide between rating services and other aspects of their business (such as index provision and proxy advisory services).

- ✓ **Sovereignty of information is a delicate issue**.

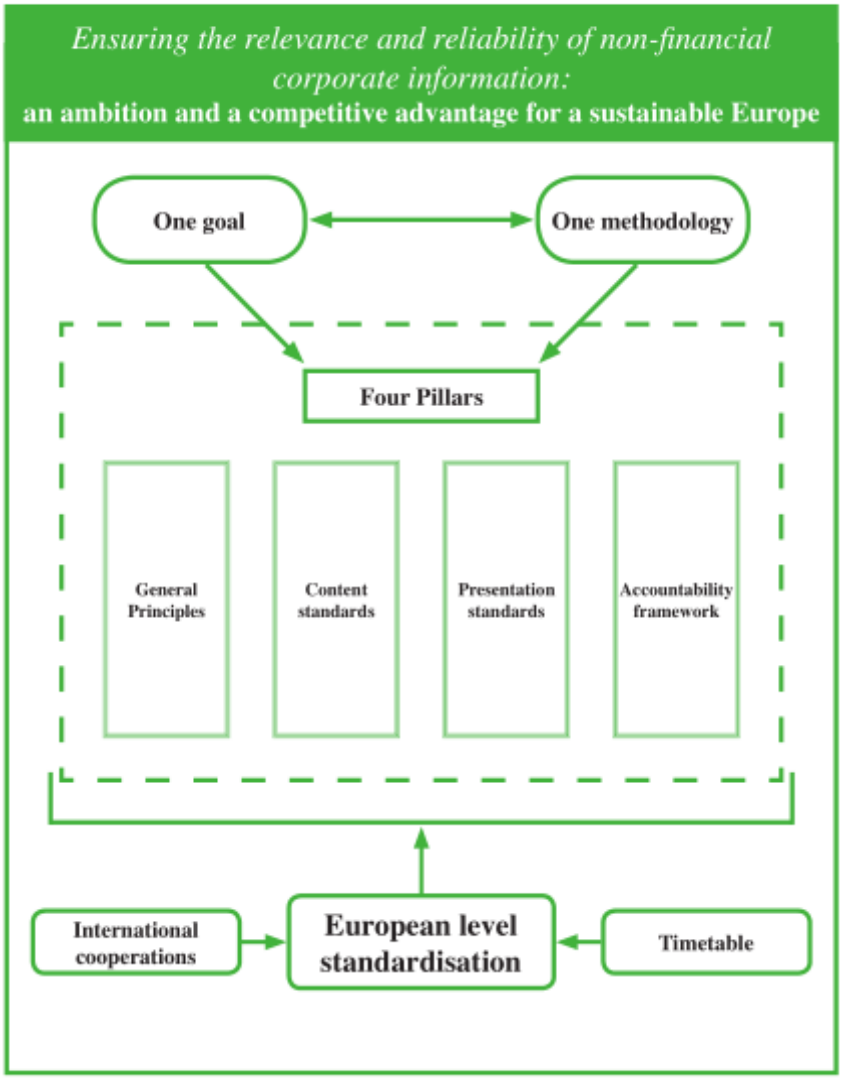
  As the extra-financial rating industry consolidates and U.S. firms gain a prominent foothold in the market, due care and consideration must be given to how agencies can continue to source data from a wide variety of sources, and issue unbiased ratings. The task force believes that extra-financial information should be collected and processed in a way that is sensitive to local economic and social priorities – in every region of the world, and the European Union in particular.

CHAPTER 4

20 PROPOSALS FOR SECURING RELEVANT AND RELIABLE EXTRA-FINANCIAL INFORMATION: TIME FOR A COHERENT STANDARDISATION

20 proposals for securing relevant and reliable extra-financial information

At the end of the inventory presented in the three previous chapters, the task force makes twenty proposals which are presented in detail in sections 4.1 to 4.5 below. The structure adopted to present these proposals is based on the suggested ambition, both necessary and possible, to consider principles of action as well as a rigorous method to move forward. It then focuses on the four pillars that articulate a complete system that is equal to the ambition and describes the organizational and planning principles essential for the success of such a project.



In the spirit of the task force, these twenty proposals constitute a set that makes it possible to consolidate the first achievements and, above all, to amplify an already strong dynamic by introducing legitimacy and coherence. Extra-financial "data" is key, for companies and all stakeholders alike: it is essential to give it a status comparable to that of financial "data" and to guarantee its relevance and quality. The time for standardization has come. In this field, Europe and its companies can "race to the top", develop an identity that promotes economic and social development and become an attractive center for responsible finance.

These twenty proposals can be summarized as follows:

OBJECTIVE

P1 Provide all corporate stakeholders with high-quality extra-financial information to assess their contribution to sustainable economic, financial and social development.

METHODOLOGY

P2 Act at all relevant levels (global, European Union, national).

P3 Integrate initial achievements and create added value by carrying out successive syntheses.

P4 Introduce digitalisation right from the start.

P5 Achieve public legitimacy for the principles and standards used in preparing extra-financial reporting.

P6 Provide impetus for the process by combining proportionality, voluntary action and exemplarity.

PILLAR 1/ GENERAL FRAMEWORK

P7 Define general quality principles for extra-financial information.

P8 Determine a general classification scheme for extra-financial information.

GLOBAL LEVEL

PILLAR 2: SUSTAINABILITY STANDARDS

P9 Define a general framework (including SDGs), according to three or four levels of requirements.

P10 Define supplementary sector-specific frameworks.

EUROPEAN LEVEL & COOPERATIVE EFFORTS

PILLAR 3: SUSTAINABILITY REPORTING STANDARDS

P11 Define a standard extra-financial reporting structure.

P12 Define a taxonomy for extra-financial information.

P13 Assess the possibility of establishing a minimum level of requirement with an eye to creating a base.

EUROPEAN & NATIONAL LEVEL

PILLAR 4: ACCOUNTABILITY PRINCIPLES

P14 Define rules and a code of governance with respect to how extra-financial information is drafted.

P15 Mainstream external controls for extra-financial information and define the conditions.

P16 Bring supervisory mechanisms online.

EUROPEAN & NATIONAL LEVEL

EUROPEAN STANDARD-SETTER

P17 Entrust a standard-setter in the public sphere with drafting content and reporting standards in project mode.

INTERNATIONAL COOPERATION

P18 Foster cooperation between public authorities.

P19 Foster cooperation competent private bodies.

TIMELINE

P20 Establish an ambitious, three-phase critical path: 2019–2022 / 2022–2025 / 2025–2029.

4.1 The current situation of non-financial information fully implies and justifies the expression of a real ambition for progress in this area

A pressing concern

Firstly, the task force notes that there is an **increasingly pressing requirement for comprehensive and consistent corporate information**:

- ✓ The limitations of financial information are now broadly identified and recognised, and most observers agree that progress on this reporting aspect is admittedly necessary, but insufficient to reflect each company's complex situation and interactions.

- ✓ There is therefore a widely-expressed need to better understand the situation in order to take appropriate action, and this is reflected in the appeal for greater accountability from companies via **comprehensive or integrated information** on their businesses, combining both financial and extra-financial data to provide consistency.

- ✓ Companies themselves are the most affected as this issue involves them directly, and they expressed the need for broad-based consistency and a clear framework for both their contribution and their obligations:

  - A large number of companies have now broadly taken on board the need for overall accountability on their performances, risks, opportunities and governance in both the way they manage their operations and how they communicate.
  - There is of course a degree of reticence to let developments go ahead unmanaged, particularly for reasons of confidentiality, excess regulatory burden, costs and competitiveness, but according to those involved, these issues are not insurmountable. Despite certain nuances noted by the task force and the inevitable questions on the pace of change, this trend is now well-established, and many companies are actually keen to take a proactive role in building on this progress. Beyond the mere marketing effects of more transparent communications, a fundamental trend is taking hold, and an issue that may initially have been viewed as a limitation is now in fact a driver for progress.
  - Against this backdrop, companies have identified a necessary twofold transition, impacting both management and communications: **(i)** moving from retrospective accountability towards forward-looking accountability, and **(ii)** moving from accountability on the impact on the company's performances towards accountability on the company's overall effects on its so-called ecosystem.

- ✓ Company stakeholders all voiced very high expectations:

  - Investors all highlighted the need to conduct their policies using comprehensive data – covering both financial and extra-financial aspects – to achieve an overall view of companies' past and future performances. Some adopt this approach due to fresh regulation, but most investors apply this strategy for more fundamental reasons, as it allows for better decision-making and enables them to better meet their saver clients' expectations, both professional and retail.

- Other company stakeholders – whether staff, clients, suppliers or vendors – also resolutely expressed their interest in comprehensive information. Companies lie at the heart of the value creation process, after profits are distributed among the various contributors who provide resources. These value creation mechanisms are felt to be more efficient and more responsible when comprehensive information is available, promoting a spirit of cooperation rather than conflict.
- Civil society is also a stakeholder, although interaction with the company is more indirect. The company is a key contributor to the social fabric and looking beyond mere financial transactions, the way it interacts with its broader environment can make a major contribution to the broader ecosystem's running, both in terms of the risks incurred and the benefits derived. This leads to increasing communication between the company and civil society, establishing the need for companies to provide – and for civil society to receive – relevant information.
- Lastly, public authorities must be able to provide more substance for their economic development policies, and this requires taking on board the value creation mechanisms within companies in order to make decisions on these aspects as part of their mandate within the broader institutional set-up. These authorities ensure that each stakeholder is granted the appropriate rights and also complies with its obligations, which are the foundations for a society based on the rule of law.

✓ More broadly speaking, there is a feeling of urgency among several participants, in particular on the causes and effects of climate change. However, beyond this vital issue, all stakeholders are driven by the realisation that certain key environmental resources are finite. Companies are not solely responsible for this aspect, but they do have a pivotal role to play in economic development and value creation, so they are one of the main forums for making progress on these vital challenges.

A set of conceptual and technical resources available, with room for improvement

Extra-financial information has moved well beyond academic theory, innovation and experimentation for quite some time already, and the task force's second point is that some conclusions can now be drawn from the progress made so far from both a conceptual and technical standpoint, in **light of mature and complementary extra-financial information resources and scope for future progress in this area, in order to take development a step further:**

✓ Looking to the conceptual framework, standards frameworks and indicators, there is a very active community of highly dedicated stakeholders. The number of participants involved in this community and the quality of work are developing quickly, and while this group may sometimes express interest in different areas, particularly as a result of different cultural contexts, it acts as a real potential source of action. The greatest challenge in this respect is probably reconciling moves to set more formal practices to better serve investors with efforts to meet public interest requirements.

✓ Provisions that cover the actual content of extra-financial information have developed from a wide range of initiatives in an independent and sometimes contradictory way. Only recently has there been an awareness that these various viewpoints need to be brought together to foster cooperation and integration, although initiatives witnessed so far have

run into technical hindrances or issues of influence. However, the task force believes that the stage are now set for consolidation of these aspects:

- There are more complementary features than differences, which points to the possibility of operational platforms that can take advantage of the benefits provided by each of the various parties involved;
- Differences on the overall information quality guidelines seem to be limited;
- A clear decision can probably be made on the issue of materiality;
- If we move beyond discussions on semantics and underlying ideology, scope for compromise can probably be found by acknowledging several degrees of requirements on extra-financial information within any given structure, and these depend on:
  - different types of stakeholders receiving the information i.e. investors' expectations as compared with all stakeholders' expectations;
  - differing degrees of complexity i.e. limited number of indicators vs. comprehensive range of indicators sought;
  - varying degrees of comparability i.e. quantitative and standardised vs. quantitative and specific to the company vs. qualitative/narrative.
- In the context of such convergence, it is up to public authorities to make the necessary choices, choosing the parameters that correspond to their objectives within the scope of possibilities opened by technical bodies, even if it means defining optional systems and/or different levels of requirements for different sizes of companies or different sectors.

✓ Provisions on the way extra-financial information is organised are still general or generic, as they attempt to cover all corporate communications situations. The task force believes that this progress can also be used beneficially:

- These provisions are primarily behavioural and methodological, and can be likened to the quality guidelines outlined above
- They can usefully be considered in developing standards as long as they comply with the relevant legal framework when they are actually put into practice
- Issues of reporting format are very largely based on national practices, so the relevant public authorities – both national and European – are responsible for developing and adapting them

Major difficulties in operational implementation

Thirdly and lastly, the task force notes that **current practical implementation difficulties act as a real hindrance to progress and absolutely must be resolved during the summary report phase**. The real challenge of extra-financial data must now be addressed:

✓ It was initially feasible to allow for considerable flexibility in implementing extra-financial information as a phase of transition was required. However, this period now seems to be over and this initial flexibility now appears to be a source of confusion rather than a springboard for future progress, so a new stage is required.

✓ Once the principle of reporting extra-financial information is established, the main challenges are the need for a minimal level playing field, and the importance of ensuring both data comparability and quality.

- ✓ Companies highlighted the severe difficulties they experience in implementing their own strategy in this field and in meeting expectations in an intelligible fashion. Companies that have made the most progress – and which have often allocated substantial resources to this issue – are concerned that the easy option will win out. Meanwhile companies that have not made the same headway would welcome tried-and-tested simple solutions. These concerns were often voiced to the task force, and all companies also mentioned the risk of undue costs and an excessive regulatory burden, which they feel could potentially be discouraging.

- ✓ Meanwhile, fund managers and direct investors – who are on the receiving end of data production – have considerable difficulties in conducting their business correctly and meeting fresh regulatory requirements and client expectations. During discussions with the task force, they expressed their efforts to conduct their analyses as best they can, both directly and/or with the support of ratings agencies and data or index providers. However, they all noted that they expect significant progress in both data quality and comparability. They feel that the current situation is not sustainable and there is a risk that a data oligopoly can develop and hinder their efforts to comply with their duties in an independent manner. The most proactive participants expressed their interest in raw data from the company itself, which had not been processed or passed via an intermediary, in order to round out the existing indices, summaries and ratings on hand. They feel that they should be responsible for forming their own opinions and that the quality of their decision-making hinges on this point.

- ✓ The other stakeholders and representatives of civil society voiced similar frustrations to those outlined by investors, although often to a much greater degree. Investors have a clear insight into companies as a result of their training, role and experience, as well as converging general interests, but this is not the case for other stakeholders: misapprehensions should therefore be tackled to ensure that the true fundamental issues can be addressed. Once again, data will be key: the debate should not be about the existence or reliability of data, but rather how it is interpreted and the ensuing overall conclusions.

- ✓ Lastly, the public authorities that the task force met with noted that stakeholders were at a crossroads in terms of operating restrictions: it is feasible to set goals and principles, but it is now also vital to put forward practical solutions, and find the ways and resources required to make true progress, otherwise the development of this new key aspect of corporate communications could be compromised. Expectations can vary in this respect, but they are high overall across the European Union. However, views on the pace of progress ahead are more varied at this stage.

The task force believes that **an initial summary report to provide an update and take action is required** in light of the **combination of genuine expectations, sufficient technical preparation and real operating difficulties.**

The term “initial summary report” is used as extra-financial information is set to continue changing in the foreseeable future. We are not yet seeing a stabilisation similar to the situation for financial information, partly as certain gaps need to be filled and the set-up needs to be considerably developed, and partly as the issues addressed are not financial, and so they are constantly changing due to environmental, social and technological developments and this will continue to be the case in the future. Furthermore, all issues are not covered, and it would

be advisable for fresh aspects to round out corporate information over time to support and structure its contribution to economic and social development.

An ambitious approach

When a goal is set, the way to achieve it will become clear, and the task force believes that taking a practical approach – with several levels, proportionality, and several phases – does not preclude an ambitious goal. There are differing viewpoints in this respect, and it is important not to set a goal without first considering the approach to be taken and the resources required. Many believe that taking a range of practical short-term actions is the right way to start targeting a distant and therefore uncertain goal.

However, experience shows that reconciling these two timeframes, the concrete short-term and the sustainable long-term, is a powerful source of action in both the public and private arenas, and the challenges raised by extra-financial communication can be suitably addressed by this type of approach. The task force therefore recommends focusing on the "path", while also clearly voicing the "destination", particularly as there are very real expectations and a real challenge on the ability to reach this goal, as well as the relevant timeframe. It is important to take a practical, concrete and stringent approach across all the various stages in order to meet these expectations, while also constantly focusing on the goal that many feel to be necessary.

The task force believes that this ambitious approach and the overarching aims could be summed up in simple terms as follows:

- ✓ In terms of actions: mobilise companies on the transition towards an inclusive and sustainable economy and financial system.

- ✓ In terms of transparency: provide comprehensive and reliable information for investors and other stakeholders on companies' contribution to sustainable economic and social development.

The focus on both of these objectives could highlight the importance of:

- Promoting an initiative to encourage companies to make the transition to a sustainable economy by targeting the SDGs as the ultimate goal;
- The need for reporting to be as extensive as possible, based on a body of sustainable and transparent indicators right along the value chain, that do their utmost to provide a forward-looking view on all environmental, social and governance aspects;
- A balance between extra-financial reporting target audiences (investors and other stakeholders), as a prerequisite for standardisation.

PROPOSALS

In conclusion to this section, and focusing on the objective of transparency, the task force suggests the following objective:

Proposal 1: Provide all corporate stakeholders with high-quality extra-financial information to assess their contribution to sustainable economic, financial and social development.

4.2 To meet the objective, mix approaches have to be put in place: standardisation convergence, added value summary, digitisation public legitimacy and proportionality and exemplarity

In order to achieve the proposed ambitious objective, fostering a necessary consensus and making progress overtime, this task force suggests five methodological steps:

- ✓ Focus on encouraging all potential areas for consensus at each relevant level by taking a **gradual convergence** approach;
- ✓ Develop a realistic and gradual action plan for each level that can be implemented over time by taking a **critical path** approach;
- ✓ Adopt a **technological pragmatism** approach to reconcile project management with IT developments, while ensuring the following point;
- ✓ Achieve public legitimacy for the principles and standards used in preparing extra-financial reporting;
- ✓ Set a degree of requirement for each level, taking on board risks and contributions by adopting a **proportionality** approach;

The mobilization of all relevant levels in a "gradual convergence" approach

In order to progress, the task force proposes to mobilise all levels of decisions: accordingly, **focal points can be developed on the basis of aspects that can garner consensus by taking a "gradual convergence" approach**.

The task force is aware that deciding the relevant levels of action is probably one of the most difficult tasks at hand, as the convictions voiced by the various participants and their determination to act can vary significantly overall at this stage. In light of this diverse range of opinions, the task force feels that it is advisable to put forward proposals across all levels, with the aim of developing action-oriented coalitions:

- ✓ An overall worldwide initiative would be warranted ideally, in light of the important challenges at hand and the pressing nature of many of them, primarily climate change. The task force thinks that the stage is not set for a comprehensive initiative at this stage, although it is vital to continue working towards this goal.
- ✓ A comprehensive initiative is admittedly difficult to develop, but the task force suggests that certain aspects be suggested to a broad-based consensus. This gradual step-by-step approach encourages a further step towards agreement at this level. For example, this could involve:
  - Quality principles that extra-financial information must comply with;
  - General principles of classification of extra-financial information;
  - A common basis of indicators, notably on climate-related indicators.

These points are broached in detail below. They may appear to lack ambition, but agreement on these issues would mark a major milestone.

- ✓ The task force believes that the European Union is a key forum for potential consensus on extra-financial information:

  - The majority of European citizens are highly aware of these issues;
  - European Union institutional bodies regularly voice their expectations in this arena and their determination to make progress;
  - Action plans are already under way on extra-financial information;
  - Current non-financial information provisions are or should be assessed as to their effectiveness;
  - Against this backdrop, the next European executive could and should take initiatives to address citizens' concerns and meet requests from the Union's other bodies, in particular the European Parliament.

- ✓ A European initiative is therefore both timely and relevant. The task force also thinks that the summary stage outlined in Section 4.1 could be conducted at European level and within the broader European Union framework. It would clearly be important to select the appropriate legal instrument when the time comes, i.e. directive or delegated regulation.

- ✓ A strong degree of harmonisation is obviously strongly advisable, but this type of initiative may involve compromises, including options being offered to Member States, and it will be important to be watchful on this issue:

  - It is important to remember that the excessive number of options prompted companies to abandon the Accounting Directive as the operating standard for financial information for listed companies, as they adopted IFRS instead;
  - The task force deems that it would not be politically suitable, or technically possible or opportune, to repeat this situation for extra-financial information;
  - The task force recommends restricting the use of options as much as possible;
  - If options are made available to Member States, the task force suggests that they be integrated into bundles or that Member States form groups to select the same options to restrict disparities and present straightforward and easily understandable outlines.

- ✓ The task force believes that there is also a determination to make progress beyond the European Union, and this could be used as a springboard to promote cooperation to take the matter forward:

  - This cooperative approach should enable participants to discuss and co-develop certain aspects, or even agree and work towards more broad-based initiatives. This type of cooperation is inherently flexible.
  - The task force believes that a cooperative approach should be explored and adopted. Discussions conducted by the task force with the various bodies were not sufficiently extensive due to the time allocated, but they were adequate to conclude that this is a promising possibility.
  - This could involve **organised cooperation with countries** that seek to meet some or all of the EU's goals. In this respect and merely by way of example, the task force notes that the United Kingdom could provide a potential area for cooperation in this respect, depending on the final Brexit scenario. Progress already made together on these issues and overlap on areas for focus should be leveraged, as these aspects can prove useful if we concentrate on shared goals rather than differences. Other countries are very aware of the challenges raised by extra-financial information and it is

important to remember that the European Union is often seen as a useful partner on these issues: there are high expectations for its actions and its initiatives are closely observed.

- This could also involve **cooperation organised with private sector bodies,** i.e. all bodies that act to promote extra-financial standards. They make a vital contribution that can be used as the building blocks to take this process further and more swiftly.
- In any case, the task force recommends taking a clear and transparent approach by setting out these various areas for cooperation in a simple and formal way via agreements that set goals (discussions, co-development), resources and the intended timeframe.

✓ Lastly, the task force thinks that national initiatives within European Union Member States can be used to round out the European-wide approach mentioned above, setting aside any potential transposition of this legislation into national law. There are some major areas of national legislation on corporate information that could be made more effective and align more closely with targeted progress on extra-financial information. This does not mean trying to outdo any areas of legislation, but rather modernising and making it effective, comprehensible and straightforward. Examples of this are provided at a later point in the report. These areas of legislation are obviously dependent on national contexts, so this requires a list and action plan for each Member State.

A critical path through step by step summaries in order to consolidate the decisions

In light of the situation in this area, the task force believes that the **development of extra-financial information remains a long-term goal that requires a critical path over time**, along with strict management, while not compromising an ambitious view of the target to be reached:

✓ Even if we apply the lessons learnt from accounting and financial standard-setting to step up the pace and if we assume that there will be relatively major efforts from the community that currently promotes the development of extra-financial information, this is still a vast initiative and it faces substantial political and technical challenges that will take time to address. The time required reflects the difficulty and the importance of the challenges at hand, so the task force believes that it is realistic to take a **5-7 year timeframe,** or even perhaps as much as 10 years if aligned with the SDGs, in light of the urgency of the various aspects. This is still highly ambitious as compared with the current situation.

✓ However, this goal does not rule out a **first short-term milestone at end-2021/ beginning 2022** for example. The task force considers that the circumstances lend themselves to a rapid synthesis of what has been achieved, this synthesis itself introducing a strong added value from the outset: it is both integrating and catalytic. Such a step has a strong symbolic character.

✓ This implies a division into phases that could be structured according to the usual organisation of project management of this nature, making it possible to reconcile concrete progress in the short term with a long-term strategy;

✓ Meanwhile, if this initiative is developed within the broader European Union framework, it will be important to work on overall convergence, based on cooperative approaches

and/or broad-based initiatives following on from changes in focus or if certain key issues become more pressing.

- ✓ Managing this type of project requires a stringent approach, and even if the community mentioned above is involved, and a cooperative approach is taken, appropriate resources will be needed. The legal aspect is also essential in many ways, but it is insufficient: it is both the culmination of in-depth work (particularly on standards) and a starting point for implementation by companies. The quality of work upstream and downstream is therefore as decisive as the legal aspect itself.

Technological pragmatism

Accounting and financial standardisation is currently running up against the emergence of new information technologies, and it is useful to draw a number of conclusions from this situation.

Extra-financial information can already use new information management technologies:

- ✓ New information technologies provide a great number of fresh opportunities, and the risks and scope of these possibilities are broadly unexplored, particularly as regards the following:

  - Information arrives in real time, so times for analysis, action and communication increasingly overlap;
  - There are growing numbers of information sources and companies are no longer necessarily the main source of information on their own businesses. There are now several sources from outside the company, and the volume of this type of information is increasing along with its influence;
  - The digitalisation of information can lead to a more simplistic view, although artificial intelligence is improving to help manage this complexity;
  - Information storage and processing capabilities can be deemed to be unlimited in practical terms, and this increases information management capabilities in the company and also on the company;
  - It has become difficult to assess the reliability of information. Faithful representation and materiality of information are subject to caution, and it is difficult to separate objective raw data from interpreted and subjective data. Data approved by governance bodies and/or checked by independent third parties is difficult to distinguish from unverified information.

- ✓ Against this backdrop, the standard-setting process must avoid a number of pitfalls:

  - The first could be referred to as “excessive standardisation”. It is ironic to observe that there can be long discussions on technical aspects of complex standards, while at the same time, technological resources can be used to organise data in a certain way and much more quickly, or provide several different takes on the same situation, depending on the various different viewpoints;

  - The second potential pitfall is when the standardisation process focuses exclusively on content, without setting any reporting structures, or at least outlining a basic format. The task force believes that it is vital to set out a reporting structure i.e. nomenclature

or taxonomy, format for financial statements. IFRS and US GAAP were faced with the issue of digitalisation, with XBRL, and this has proven to be a difficult experience both then and now, particularly in terms of governance aspects for converting hard copies of information into digital information, while also ensuring the reliability of this information and its verification.

- The third point is the issue of excessive data simplification, which allows for fast and simple digitalisation of information, but also makes for an overly simplistic view.

These various issues lead to risks on both data quality and comparability.

✓ The task force notes that data storage and processing capabilities mentioned above seem to put an end to the debate on the conciseness of corporate data. The volume of information provided is not a truly relevant issue as long as: (i) information can be analysed at several levels, (ii) information is outlined using a clear nomenclature (table of contents and cross-reference table) that supports both analysis by physical users as well as digital analysis, (iii) links are well organised, and (iv) the type and reliability of each piece of information are provided.

✓ The task force feels that the difficulties outlined are not impossible to overcome if the technological aspects are introduced as early as possible in the standard-setting process on the various difficult issues outlined in the paragraph above.

Legal value for extra-financial principals and reporting standards

The task force considers that **the necessary standardisation of non-financial information should benefit from the legitimacy conferred by its development and its adoption in the public sphere.**

According to the task force, future non-financial reporting standards shall have a legal level equivalent to that recognized in accounting and financial standards. This is the condition for the recognition of non-financial information as a fully-fledged dimension of the company's global information. This is not at odds with a non-financial reporting perimeter that combines obligations, standardised options and non-standard voluntary developments in a well measured way: if a good mix of obligations, incentives and practices is needed, a robust implementation of it must be based on a foundation of quality standards, recognised and legally enshrined.

The legal recognition of standards is a condition for the legitimacy of the overall system. In a given institutional system, it establishes an alignment between the technical methods essential for progress, developed as close as possible to operational reality, and the stakes of the general interest, as determined by the constitutionally responsible authorities.

For all the reasons mentioned in this report, the task force believes that the development and adoption of non-financial reporting standards should be organized today in the public sphere.

The task force feels that **legal value for the relevant guidelines is a major step in developing extra-financial information in an orderly way.** This stage is now both necessary and possible:

- ✓ Currently available standards are private in nature. They can refer to guidelines issued by public authorities, but bar certain exceptions, these references do not have any legal consequences, especially as these guidelines are not requirements.

- ✓ The task force believes that this situation is no longer compatible with the broadly-accepted view of the rule of law after the initial experimental/transition period. The system introduced by the Accounting Directive in the European Union is relatively brief, while further details are appropriately provided by guidelines, which cannot in themselves replace a set of standards. It is broadly considered that transposition of the directive led to a fairly wide range of regulation, and practical implementation is still deemed to be very diverse and uneven.

- ✓ It is important to make clear room for practical aspects, but many would like applicable rules to be clarified. There is still an excessive degree of confusion shrouding the efforts made by various parties and the stakes are too high for companies, stakeholders and civil society as a whole for this confusion to be allowed to last.

- ✓ It now seems to be an appropriate time to consider a fresh legal stage: **standards must be adopted in line with democratic practices that apply to this type of issue**. The task force believes that extra-financial information must be afforded a similar degree of **legitimacy** to financial information. The major economies cannot delegate this legitimacy as extra-financial information closely hinges on very pervasive economic, social and societal aspects, even more so than financial information. Clear progress can be made on alignment and even convergence by taking the cooperative approach outlined above.

- ✓ As already stated, sufficient technical preparation has been made to now consider embarking on Phase 1 including adoption of standards.

- ✓ Standards must not be confused with their scope of application, which can include obligations and options. The task force therefore notes that it believes that adopting standards does not necessarily solely involve obligations. However, it is worth remembering that standards are applicable for both the mandatory and optional aspects.

- ✓ The task force feels that legal recognition for standards frameworks should be conducted at EU level.

Proportionality, Optionality and exemplarity

The task force highlights that the **extent of requirements on extra-financial information must be decided on the basis of risks that the company faces and creates, as well as its contribution to economic and social development.** The principle of proportionality is well known and does not require extensive comments from the task force, but it is worth noting that this is an important principle for action and providing some reminders in terms of thresholds, optionality and materiality:

- ✓ A proportionality-based approach – built on size thresholds – is appropriate and has already been tried and tested, but the task force puts forward three recommendations:

- Consider reducing thresholds within reason, as some countries have already done, by embarking on a new stage and announcing it well ahead of time. The aim would be to cover a significant percentage of economic activity, otherwise efforts will not be consistent with the goals targeted.
- Check that threshold calculation methods are consistent, clear and suitable. The task force feels that harmonisation in this area is vital.
- Use business taxonomy efforts to include high-risk activities in the obligation scope, regardless of the size of the companies involved. The task force considers that high-risk sectors should be covered systematically.

✓ The flipside of proportionality is optionality: it is important to encourage companies that are not subject to extra-financial reporting obligations to provide this information on a voluntary basis. The task force is convinced that companies – even smaller businesses – should take this virtuous approach, setting an example that could encourage others. It would also be useful to offer simplified optional set-ups to avoid hampering companies with an excessive regulatory burden.

✓ The issue of proportionality also overlaps with the question of materiality:[180]

- The task force deems that proportionality means only requiring a company to communicate on issues that are significant for its own specific situation
- However, it feels that this approach should also involve two additional aspects:
  - On the one hand, the company should explain its decisions on materiality;
  - On the other hand, it is preferable that decisions taken be approved by external control.

[180] This is discussed at a later point in the report.

PROPOSALS

To conclude this section, the task force makes the following proposals:

Proposal 2: Act at all relevant levels (global, European Union, national).

Proposal 3: Integrate initial achievements and create added value by carrying out successive syntheses.

Proposal 4: Introduce digitalisation right from the start.

Proposal 5: Achieve public legitimacy for the principles and standards used in preparing extra-financial reporting.

Proposal 6: Provide impetus for the process by combining proportionality, voluntary action and exemplarity.

4.3 Relevance and quality of non-financial reporting is based on four pillars: principles, content, presentation and governance (accountability, control and supervision)

Based on the key principles selected to conduct the summary report stage, the task force proposes to set the relevance and the reliability of the extra-financial information based on four pillars:

- ✓ **The first pillar defining the general framework;**
- ✓ **The second pillar proposing content for Sustainability standards;**
- ✓ **The third pillar proposing presentation standards** (Sustainability reporting standards);
- ✓ **The fourth pillar defining the responsibility framework** (Accountability principles)**.**

Pillar 1: the general framework: general quality principles of the extra-financial information

The task force feels that **it is possible to garner consensus on the quality guidelines that should apply to all financial information:**

- ✓ They are all broadly based on the guidelines generally applied for accounting and financing information (IASB, FASB, Accounting Directive in particular) and their extension, mutatis mutandis, to extra-financial reporting appears both possible and advisable;
- ✓ There may be terminological differences, but the task force believes that they can be addressed. The set of generally recognised quality guidelines, which are sometimes classified into the most used groups, is based on the following **six aspects**, whether for individual pieces of information or for the entire organised body of overall information:
  - **Faithful representation**, sometimes also referred to as reliability: information must accurately reflect the reality it describes. This aspect can be likened to the principle of neutrality, which is sometimes used: information must not be distorted, but rather it must enable the reader to draw his/her own conclusions. It can also be equated with the principle of completeness when it refers to an organised set of information: faithful representation can only be achieved when information is complete;
  - **Relevance**: information must be adequate in terms of both quality and scope so that the reader can make an informed decision. Information must be meaningful on all aspects required for both understanding and decision-making, and in this respect, this principle can be likened to the issue of materiality, which is applied to the content of the information (not the selection of information). It is also similar to the principle of decision usefulness, which is sometimes used. Relevance should not only be static, it should be assessed dynamically and present information about future activities and performance (*forward looking*), even if this is more difficult;

- **Understandability**: information must be understandable for any reader with reasonable knowledge; it must be expressed and presented in a clear way, with no bias or ambiguity; this is similar to the principle of clarity that is sometimes used;

- **Comparability**: information must allow for comparison of the company from one reporting period to another i.e. over time: it must also allow for peer-to-peer benchmarking i.e. compared with the same type of information from other companies. This is similar to the idea of consistency, which is sometimes used to mean comparability over time;

- **Verifiability**: information must be able to be compared to supporting evidence;

- **Timeliness**: information must be prepared and made available swiftly i.e. within the timeframe required for recipients' decision-making.

✓ Looking beyond these six aspects, there are also some specific aspects of extra-financial information that should be mentioned here:

  - **Inclusiveness**: this is the issue of **relevance for whom**; it means deciding who are the recipients or users of the information on the company: are they investors only or also all stakeholders? Discussions on this issue have changed as financial information is now considered to be primarily intended – although not exclusively – for investors, who are known as primary users, while also useful for other stakeholders.

    However, this shift is not enough to address all stakeholders' information requirements. The task force notes that a great deal of information is useful for all recipients, but some information may be primarily intended for non-investor stakeholders. In this case, the task force recommends mentioning under the required "relevance" guideline that this means relevance for both investors and other stakeholders: those in charge of implementing quality guidelines should then add to information aimed at both user categories by providing information deemed useful primarily for the second category. The choice should of course be made clear via classification and/or nomenclature.

  - **Connectivity**: in some respects, extra-financial reporting is still emerging, and it adds to financial reporting practices where the practices for drafting and reporting information are already well established. The task force feels that corporate information is a comprehensive whole and that it is vital to develop and present extra-financial information in very close connection with financial information, in keeping with the concepts of connectivity, integrated thinking and integrated reporting promoted by the IIRC.

✓ Overall, there are seven quality guidelines – six along with the issue of connectivity – that may be summarised as follows: "extra-financial information must provide faithful representation, and be relevant (for investors and other stakeholders), understandable, comparable, verifiable, timely and connected to financial information."

- ✓ The task force notes that these aspects may seem obvious or lack ambition, but they actually involve relatively demanding requirements. The task force believes that these quality guidelines could be put forward for implementation worldwide, and this would provide a strong qualitative foundation, of a public nature, for developing extra-financial information.

Pillar 1: the general framework - a classification of the information

The task force feels that **it is important to put an end to the frequent confusion on the type of extra-financial information by applying a clear classification of this information based on its characteristics:**

- ✓ Unlike financial information, which relies on solely monetary information, extra-financial information has very varied characteristics, which have different meanings. The recipients of this type of information are often confused as to the characteristics of the information they receive, and different types of information are mixed up together. This confusion also makes it difficult to digitalise information correctly, and makes information difficult to verify, as those in charge of this process must adapt the type of opinion they issue to the type of the information they verify.

- ✓ The task force believes that there should be an initial degree of clarification and assurance for extra-financial information. This could involve reasoned classification, which would make it easier to standardise content, establish nomenclatures, and facilitate the work of preparers as well as verification, analysis, processing, digitalisation and assessment of volumes for each category.

- ✓ By way of example, classification could be based on the following distinctions:

  - An initial distinction should be made between qualitative information (**narrative**- N) and quantitative information (**quantitative** –Q);
  - Further distinctions could be made in the narrative information category as follows:
    - Distinctions in terms of subject i.e. **governance**-G, **strategy**-S, **policies**-P, **methodology**-M,
    - A distinction based on the time period covered is probably not required;
  - Further distinctions in the quantitative information category could be made as follows:
    - Distinction on the unit of measurement: **monetary**-Mo, **non-monetary**-nMo,
    - Distinction based on type of information: position at a given date, resources used, target (Position-P, resources-R, Targets-T).

- ✓ This process would lead to a set of ten standardised categories:
  - NG, NS, NP, NM
  - QMoP, QMoR, QMoT
  - QnMoP, QnMoR, QnMoT[181]

- ✓ This classification should probably also state which pieces of information are primarily intended for other stakeholders to help users analyse and process information documents.

[181] N/narrative, G/governance, S/strategy, P/policy, M/methodology
Q/quantitative, Mo/monetary, nMo/non-monetary, P/position, R/resources, T/target

This involves information where the financial impact cannot necessarily be projected on a predictable timeframe, but that is deemed to be vital by some or all non-investor stakeholders and can therefore be included in frameworks i.e. applying the inclusiveness criterion outlined above. The issue of this type of detail is somewhat complex and the task force considers that further analysis should be conducted during the summary phase, particularly as regards feasibility.

- ✓ This classification, applied to each aspect of information, could also allow for qualification of information during the external control process and therefore provide a level of assurance.[182]

- ✓ This classification may appear to be just a detail, or perhaps too precise or not precise enough. However, once it is finalised, this set-up would act as a powerful resource to support extra-financial information and the task force thinks that it could be put forward as a proposal for application worldwide. Such classification offers the necessary framework to an extra-financial information taxonomy.

Pillar 2: content standardisation – definition of a general framework

The task force believes that **it is key to draft and adopt an initial harmonised set of standards for general extra-financial information.**

- ✓ Each company faces a general range of challenges – and extra-financial information is designed to clarify these aspects – so the task force firmly believes that a general broad-based approach is therefore required. A purely sector-based approach may be useful, but it is insufficient (see details below on complementary sector-specific guidelines).

- ✓ A general set of standards should be comprehensive:

  - It should cover all the relevant information categories i.e. traditional ESG aspects (environment, social, governance) and intangible categories where possible;
  - The task force is aware that ESG categories have now achieved a much greater degree of maturity than intangible categories. It believes that it is also important to make progress on developing intangible categories with the aim of promoting faithful representation. The actual principle of providing information on these categories, as well as the inclusion of sections in frameworks and related nomenclatures are a major step, even if detailed content initially – and perhaps inherently – lacks standardisation and is broadly left to each sector or company to define;
  - The set of standards should cover all indicators deemed relevant for each category, based on the classification put forward.

- ✓ Readers should not be put off by the idea of a comprehensive framework as long as this extensive aspect includes on the one hand application of the principle of materiality and on the other hand, a carefully considered scope of mandatory information. A framework must be designed like a library where there are mandatory aspects or "must haves", recommended aspects or "good to have" and possible aspects, or "interesting to consider". Within the range of standardised information, it seems useful to establish a common core

[182] A/audited , R/reviewed

as outlined below, to establish the degree of usefulness and hence the potential mandatory aspect for each piece of information.

- ✓ The task force believes that the target framework should be a combination of existing frameworks, particularly the GRI (the SASB framework is addressed from a sector standpoint below). This summary combination would involve the following approach, based on due process:

  - Critical review of existing frameworks:
    - Classify information based on characteristics, as outlined above
    - Assess relevance and analyse based on usefulness
    - Potentially eliminate information not deemed useful where appropriate
    - Enhance standards on potentially mandatory information
  - Identification of any potential shortcomings:
    - Add categories where necessary
    - Identify and draft additional standards
  - Develop summary
  - Consultation
  - Implementation.

- ✓ On the basis of the aspects outlined above, the task force is clearly not in favour of mass implementation of any particular standard framework without the technical assessment outlined above and without the legal process and policy options discussed below. The task force considers that the summary work should be conducted in conjunction with private standard-setting bodies based on the terms outlined above.

Pillar 2: content standardisation – complementary sector-specific guidelines

The task force believes that **it is appropriate to draft and adopt sector-specific guidelines**:

- ✓ The task force thinks that the sector aspect of extra-financial information is key to ensuring that it is relevant. One of the most vital aspects for information is comparability, yet this is difficult to ensure and there is widespread acknowledgement that there are three stages of comparability:

  - Comparability of a company's performances between one time period and another, which ensures quality of the performance assessment system
  - Peer-to-peer comparability within the same sector, to conduct best-in-class comparisons and choices
  - Comparability across all sectors, to conduct broad-based best-in-universe comparisons and choices

  Peer-to-peer benchmarking within the same sector is vital and provides an extensive range of information, so the SASB's approach is laudable in this respect. However, as often mentioned, other stages are required, so the SASB's work must be included as a contribution within a broader overall summary approach.

- ✓ The task force's suggestions on developing and adopting sector-specific standards alongside general standards are, mutatis mutandis, the same as those expressed for general standards, although some additional aspects should be mentioned:

  - A careful analysis must be conducted of professional or general frameworks that could be used, in order to avoid an excessive geographical slant by providing a more comprehensive view.
  - The same applies to information and indicators required to characterise any given sector.
  - Setting aside considerations on general information or the common core, the sector view must not be overly simplistic, and it must take on board both narrative and forward-looking aspects, i.e. targets and scenarios.

Pillar 3: standardisation of presentation – definition of a taxonomy

The task force believes that **comprehensive corporate information can be better organised as part of a broader international standardisation effort.**

In light of the extensive and diverse range of regulation and practices, the task force purposely focuses here on principles, while also putting forward practical proposals.

The overall structure of information provided by companies is too complex:

- ✓ It is important to distinguish the following for companies, as they constantly issue a range of information:

  - Summary information that is published on a regular basis to comply with regulatory requirements, after approval by the highest governance bodies within the company;
  - All other information that is published by companies on a daily basis:
    - To various recipients
    - In several circumstances
    - On several issues
    - By managers with varying degrees of responsibility
    - Via several channels.

  Summary information must comply with very stringent quality requirements, but rules for drafting and publishing other information vary from one company to another in terms of procedures and internal control.

- ✓ We can list three categories for information that must comply with very stringent quality requirements and is generally subject to regulatory conditions:

  - Financial statements
  - Mandatory information outside financial statements: mandatory information can involve either general themes or sections (where content most often does not have to comply with a specific structure), specific themes (where content does not have to comply with a specific structure or content is relatively limited and defined), or specific information
  - Additional information provided at the company's behest, which can take various forms, and hinges on each company's communication policy

- ✓ The last two categories of information are published in the management report or in separate reports, and are often combined within one or several broad-based documents i.e. annual report, registration document, integrated report, etc. They can have various different designations, which makes the situation unclear.

- ✓ The connection between the financial statements and the management report is generally deemed to be vital, but it is not easy to establish the relationship between very standardised information (accounting and financial information) and other much less standardised information i.e. information in the management report. In light of this, there are many alternative performance measurements and sui generis indicators, although bodies such as the IASB endeavour to define some of them.

- ✓ Successive series of regulation have led to a wide range of information building up, ranging from the most general to the most detailed, as well as highly diverse structures from one country to another, depending on each area's traditional approaches. It is therefore particularly difficult to make comparative assessments for audiences who are not familiar with the history and practices in each country. It is challenging to achieve an overview of the overall structure for information, which leads to difficulties in both analysis and processing.

- ✓ Extra-financial information has to fit into this already complex structure, making analysis even more difficult. However, there is a degree of agreement on certain decisive issues:

  - Extra-financial information cannot be an integral part of financial statements, due to the fact that the different pieces of information in question are of different types and have different status, so it is important to avoid the risk of compromising accounting and financial information, which provides a well-understood foundation that must be maintained. The task force shares this view.
  - Extra-financial information should a priori be included in information that is provided outside the financial statements, either directly or via references made in this section.
  - If extra-financial information is standardised and/or mandatory and/or verified, it should be flagged as such.
  - The task force feels that integration and identification are important, but this requires a minimum degree of "generally accepted" structure.

- ✓ Analysis of European regulation (outlined in Section 3.2 above) provides an initial approach on the standard content for management reports by way of example (with the different related reports where appropriate). To take this approach a step further, it is important to:

  - Ensure the compatibility of information required for the management report, Statement on extra-financial performance, and corporate governance report, and organise it into one single document
  - Round out this consolidated view and provide greater detail by factoring in regulatory progress and best practices based on the completeness approach

- ✓ The task force believes that this type of standard content can be enhanced by providing sections or information reflecting intangible aspects that are discussed throughout the report:

- There has been less progress on considering these issues, as work has focused more on risks than on positive progress or opportunities, but intangible aspects are an integral part of comprehensive corporate information.
- Capital classifications that allow for an assessment of complex intangible aspects, such as those put forward by the IIRC for example, can act as a basis to enhance content and help organise it.
- Some of these aspects are open-ended areas as defined by the task force below. This enables companies to present their view of the situation and their prospects as they see fit, by moving beyond sets of standards. These areas cannot be subject to standardisation, at least initially, although it is important to remember that some currently mandatory or recommended information that is designed to be included in frameworks, is inherently ambivalent, depending on whether it is relative or absolute: it can express a risk, but can also reflect intangible's topic progress.

Against this backdrop, the task force thinks that **three areas for action** can be suggested, and these could work together to ultimately provide an intelligible and modern reporting structure that is suited to today's digital world.

The first area for action is to develop and adopt a taxonomy (nomenclature) for extra-financial information:

✓ The very concept of a taxonomy is a longstanding one. It applies in several fields i.e. natural sciences, chemistry, etc., and reflects a determination to implement a carefully thought-out classification. Taxonomies have proven to be highly effective.

✓ Two examples can be mentioned in the accounting field:

- <u>IFRS taxonomy</u>: IFRS are principles-based rather than prescriptive in terms of presentation format. This leads to variations in formats, which are often based on previous national systems developed via tried-and-tested practices. This makes national and international comparison more difficult and increases the number of alternative performance measurements. This situation has been seen as problematic for the sustainability of the set-up, with the IASB reacting over recent years and developing a taxonomy that provides for classification and tags for accounting information, whether figures or narrative, to make it accessible via a simple system, which in this case is XBRL. On the basis of this, the ESMA has been developing a central data system for financial information for listed companies, starting off with the balance sheet and P&L, with the appendix to be addressed at a later date. The FASB in the US took a similar approach a few years ago.

- <u>The French General Chart of Accounts</u>: the idea of developing and implementing a nomenclature and a mandatory financial statement format (*plan comptable général*, or general chart of accounts) has existed in France for a long time. This aspect had even taken a substantial role, even from a sector standpoint, to the detriment of the actual content to a certain extent. So to rebalance this situation, the *Conseil national de la comptabilité* (CNC, French National Accounting Board), and later the *Autorité des Normes Comptables* (ANC, French Accounting Standards Authority) focused on the content, but somewhat overlooked classification aspects. A more balanced approach is now being applied, and the ANC has embarked on an initiative to streamline and

modernise nomenclature and formats in order to better address the requirements created by digitalisation.

Document publication, automated processing (scoring for example), and tax declarations can all be developed on the basis of this single nomenclature, which makes for an efficient system.

- ✓ Certain extra-financial information issues can therefore be pre-empted by drawing on this experience of accounting taxonomies, by developing frameworks with the related nomenclature right from the beginning:

  - This means breaking down and tagging each piece of standardised information into consistent data portions;
  - The task force believes that the starting point could be the classification of extra-financial information (as put forward in Section 4.3 above) combined with standard management report content if necessary (format described below);
  - Each piece of information just needs to be provided with a rational digital identification, based on the major information categories.

- ✓ This type of taxonomy can provide consistency and clarity when an index is added to the presentation of each piece of standardised information, regardless of where it is located, particularly when information is inserted into more broad-based documents. A cross-reference table can also be added (depending on the template selected) to list mandatory information and its location. This applies even if the idea of a standard format, outlined below, is not adopted or if it is postponed.

- ✓ The task force's view is that this type of system would make for considerable simplification, clarity and relevance.

The second area for action is the development of a standard reporting structure (format) for organising company information using a common outline:

- ✓ The task force thinks that a standard structure or format is a very positive approach, as this enables users to read more easily, whether actual physical reading by users or in particular digital processing of information.

- ✓ A reporting format must not be restrictive to the extent that it hampers the meaning of the information. There is no reason not to have an open-ended format for the management report, or have fields where content can be included in any way. Unlike the financial statements, which include finite financial information that must be pinpointed at a given moment in time, the management report format can be infinitely incremental, and the only limitation is the reader's ability to absorb the information and computers' ability to process it.

- ✓ The aim here is not to define this kind of format, but rather take a technical approach, which can be based on regulatory content and best practices observed. The task force believes that this work can be conducted within the timeframes outlined for drafting the Phase 1 standards discussed above, alongside this process and in keeping with it. This is an appropriate place for extra-financial information.

- ✓ The task force's opinion is that there are two options as to the format:

  - Option 1: the standard format is left to the discretion of each company, trusting that each company will see this as a useful set-up and that users will also be in favour of this approach;
  - Option 2: the standard format is mandatory, as it is open-ended and enables companies to incorporate both their specific features and local legal specific aspects.

- ✓ In keeping with the principle of proportionality, the standard format could of course also include simplified versions.

For each jurisdiction, the third area for action involves modernising the corporate reporting structure:

- ✓ Whether as part of the application of a standard format or on countries' own initiative, national reporting regulations should in any event be modernised in order to adapt to fresh requirements, without leading to an excessive build-up of information, while also facilitating digitalisation of information.

- ✓ As part of this standard format process, it is important to set out national information and classify into the format's relevant sections (including in the open-ended sections if necessary) and qualify them based on the nomenclature for extra-financial information.

- ✓ In the absence of a standard format, it is important to conduct the same process on the basis of a clear national structure with the same goals.

The case for a minimum base of non-financial information

The task force raised the question, without deciding it at this stage, of the promotion of a non-financial information base. The task force believes that there should be two different approaches in this respect:

- ✓ An advanced model for countries or economic areas – such as the European Union – that have taken a political decision to adopt comprehensive information for their corporations;

- ✓ A core approach, which could be applied at a global level, along with quality guidelines or classification.

For companies under the **advanced model umbrella**, and in particular for the European Union, once the set of standards is developed and adopted, the task force suggests a **common core of mandatory information** as part of this framework**, while other information would remain optional and act as incremental levels for progress** in an effort to promote proportionality:

- ✓ It is important to reconcile the quality guidelines for extra-financial information with sufficiently straightforward and gradual application to ensure that standards are not dissuasive. The task force thinks that the idea of a common core of mandatory information is appropriate as part of the summary stage.

- ✓ An analysis of the content of the Statements on extra-financial performance, as transposed and applied, can act as a foundation to assess both the volume and type of extra-financial information reported. On the basis of this assessment, the task force puts forward two possibilities:

  - The first involves developing a single common core based on a summary of the highest levels of standards;
  - The second involves offering two alternative common cores, with one equating to the average observed during the assessment and the other equating to the highest levels of standards, with additional information deemed important being added to comply with any recent changes e.g. application of work by the TCFD.

- ✓ Information would be classified using the classification outlined above, subject to the principle of materiality with appropriate explanations.

- ✓ This common core would act as **level 1** of requirements in terms of content (potentially 1A and 1B in the event of alternatives), and would be mandatory.

- ✓ Beyond this common core, the task force believes that a **gradual progression could be set out with increasing degrees of requirement** i.e. level 2, level 3, etc. It appears reasonable to provide for a restricted scale of requirements of 4 or 5 levels. Each level would have standardised content in accordance with the framework.

- ✓ Companies would obviously be able to decide to restrict their disclosure to level 1, or have the option to provide disclosure in accordance with a higher level of requirement. They could manage this progress over time and adapt their extra-financial information strategy to take on board the results observed and the resources required.

- ✓ We feel that this type of approach is "virtuous" in that it sets out a minimum mandatory core and then provides a number of optional levels of more demanding requirements. Exemplarity can play an important role, particularly due to the pressing nature of expectations and momentum already witnessed in this area.

- ✓ The task force has looked at the option of offering a simplified model for companies not subject to extra-financial disclosure requirements and thinks that this type of model – adopted as an optional measure – is advisable and could be similar to a simplified version of level 1 above, or the core consisting of the ten aspects outlined below.

As part of this **common core approach**, which could be coordinated at a global level, the task force believes that a very small number of extra-financial information components could be proposed for disclosure by all companies that are not covered by a more demanding regulatory framework:

- ✓ Following on from the task force's various discussions, it outlines the following list of **ten aspects** as an illustration (including classification):

  - ESG governance (NG)
  - Identification and description of risks (and opportunities) related to ESG across the entire value chain (NP and NM)
  - Energy use and intensity (QnMoP)

- Water use and related intensity (QnMoP)
- Impact on biodiversity (NP)
- Greenhouse gas emissions (QnMoP)
- Health and safety monitoring (NP)
- Average number of training hours per employee (QnMoP)
- Ratio of starting wage to minimum wage and for each gender (QnMoP)
- Disclosure systems set up in the company i.e. lobbying, anti-corruption, money laundering, etc. (NP).

✓ Information sought is primarily simple narrative or quantitative information, and not very forward-looking. Beyond the usefulness of this information in terms of communication, it also has an educational use for the company itself and acts as a resource for awareness and a reminder, as well as providing a potential source of action.

The accountability framework: defining governance rules

Strenghtening governance (Pillar 4)

Governance on extra-financial data can be simplified:

✓ As has just been mentioned, extra-financial information should be included in comprehensive corporate information published after approval by each company's highest governance bodies.

✓ Some corporate governance codes have already added this type of provision, and these articles could be extended and enhanced to align with the best practices observed.

✓ The aim is for corporate governance bodies to take responsibility for extra-financial information:

- It is therefore important to firstly agree that extra-financial information should be an integral part of the management report in all its various potential components;
- In governance terms, this inclusion differentiates extra-financial information from accounting and financial information, which is subject to specific provisions;
- It is also important to ensure that the management report is subject to appropriate due diligence from the corporate governance bodies from a regulatory standpoint;
- From a practical point of view, three steps can be taken on extra-financial information:
  - Appoint at least one member of the board who acts as the official point of contact and is in charge of questions on this area and this information, and is responsible for reporting on the specific tasks to bodies responsible for approving the information,
  - Add updates on extra-financial information matters into the agenda for governance body meetings on a set basis, and at least systematically when the management report and accounts are being approved,
  - Make express mention of discussions and decisions from governance bodies on these issues in their meeting minutes.
  - These provisions should also be reconciled with those on the duty of vigilance, which is a positive measurement and useful practice when applied in a

proportionate way and where widespread application on an international basis is possible.

- ✓ It is worth mentioning that the task force believes that the issue of responsibility mentioned here is not intended to unduly increase executives' legal responsibility:

  - A reference to fiduciary duty is already strong in itself;
  - There is already a duty of responsibility as regards the management report, which can be stipulated if necessary;
  - Corporate governance codes can be amended to better address this aspect if necessary;
  - Name and shame processes are very useful if they are applied in a stringent, measured and impartial manner;
  - The terms of legal responsibility could of course be reviewed if any clearly inappropriate behaviour on extra-financial information is observed.

The generalisation of external control (Pillar 4)

Broader external control for extra-financial information should be considered and procedures should be specified:

- ✓ Feedback on the positive aspects of external control of the Statement of extra-financial performance suggests that widespread application of this approach could be considered for extra-financial information as a whole and geographically.

- ✓ According to the opinions heard, costs involved are low enough for the task force to take a positive view of the cost-benefit ratio.

- ✓ The task force notes the following points as regards procedures:

  - External control is particularly effective when there are standards on content;
  - External control is also particularly effective when there is a taxonomy as well as reporting formats;
  - Broader application could be introduced at the same time as implementation of Phase 1 standards;
  - From a technical standpoint, control standards can be outlined on the basis of work already conducted:
    - Assurance levels should be clarified,
    - This clarification can be based on the data classification put forward and the ensuing taxonomy,
    - An additional simple codification would help qualify the degree of assurance for each piece of information, which would make it easier for users to understand the information and would also ensure the feasibility of automatic processing: reasonable assurance for data produced alongside accounting information and retrospective quantitative non-monetary data, and moderate assurance for the rest;
    - The control report would be more simple as it could establish a direct connection with information that has been controlled, outline the degree of assurance for each type of information and where necessary draw observations with precise reference to the information in question.
    - The status of participants and their supervision must be organised specifically and appropriately, taking on board the specific features of the area being audited.

Activating supervision (Pillar 4)

Supervision of extra-financial information by the market authorities can be bolstered:

- ✓ The authorities met by the task force expressed their commitment to this aspect and their willingness to take action.

- ✓ Market authorities are obviously at the end of the information production chain and the effectiveness of their supervisory role depends on the following aspects:

  - Existence of frameworks (guidelines on quality, content, format)
  - Legal value for frameworks
  - Clear outline of mandatory aspects, along with options and details on these
  - Applicable governance principles
  - Existence and quality of external control

- ✓ Against this backdrop, it looks feasible to bolster supervision for extra-financial information alongside the development of this information itself:

  - The relevant authorities could initially contribute to an in-depth assessment of practices, as they already do or plan to do. In this respect, they could assess the best practices and inaccuracies observed. They could also contribute to the standardisation process and set up test-type structures that would enable companies to conduct initiatives that could be used as pilots or experiments.
  - After this initial stage, the relevant authorities' role and duties on extra-financial information should be specified where necessary.
  - Secondly, the authorities would take on their full responsibilities resulting from the first stage.

- ✓ In this context, the market authorities would move from a supporting and incentive role to a supervisory role, and also have the power to apply sanctions: these will need to be clearly outlined.

PROPOSALS

To conclude this section, the task force makes the following proposals:

PILLAR 1/ GENERAL FRAMEWORK

- **P7** Define general quality principles for extra-financial information.
- **P8** Determine a general classification scheme for extra-financial information.

GLOBAL LEVEL

PILLAR 2: SUSTAINABILITY STANDARDS

- **P9** Define a general framework (including SDGs), according to three or four levels of requirements.
- **P10** Define supplementary sector-specific frameworks.

EUROPEAN LEVEL & COOPERATIVE EFFORTS

PILLAR 3: SUSTAINABILITY REPORTING STANDARDS

- **P11** Define a standard extra-financial reporting structure.
- **P12** Define a taxonomy for extra-financial information.
- **P13** Assess the possibility of establishing a minimum level of requirement with an eye to creating a base.

EUROPEAN & NATIONAL LEVEL

PILLAR 4: ACCOUNTABILITY PRINCIPLES

- **P14** Define rules and a code of governance with respect to how extra-financial information is drafted.
- **P15** Mainstream external controls for extra-financial information and define the conditions.
- **P16** Bring supervisory mechanisms online.

EUROPEAN & NATIONAL LEVEL

4.4 A rigorous organization of non-financial standardisation in project mode is decisive

Organising standardisation of extra-financial information in the public sphere

The task force believes that **the standardisation required for extra-financial information must be afforded the necessary legitimacy by development and adoption in the public sphere.**

The task force believes that future standards on extra-financial information must be given an equal legal value to accounting and financial standards, to ensure that extra-financial information is viewed as an integral component of comprehensive corporate reporting. This is also compatible with an extra-financial information scope that combines mandatory and standardised optional aspects, as well as unstandardised voluntary developments, all brought together in a measured way. This range of obligations, incentives and practices is necessary, but solid application of these aspects must be based on a set of high-quality, recognised and legally valid standards.

Legal recognition for standards is required to ensure that the entire system is afforded legitimacy overall. In any given institutional set-up, this provides alignment between the vital technical aspects required for progress, drafted in close accordance with real operating circumstances, and issues of public interest as decided by the constitutionally responsible authorities.

The task force believes that extra-financial information standards should now be developed and adopted in the public sphere, in light of the various aspects outlined in this report.

In the task force's opinion, this can only occur by taking a cooperative approach with the relevant public stakeholders on these issues. The task force's goal was not to conduct this type of concertation, but it did hear some useful opinions on this issue and was able to make an initial analysis on some **potential ways for organising this process,** including the following seven:

- ✓ This approach should be taken in **pilot mode**, at least in the initial phase, regardless of the legal structure adopted. This objective involves steering the project with regular updates and deadlines, along with a delivery date (Phase 1: end-2021). It is important to avoid premature institutionalisation in this task force-oriented approach.

- ✓ The initiative should be conducted **independently**. This has an impact on the status of those in charge of technical aspects of the project and also has an effect on the way risks of potential interference with other priorities are managed, such as priorities resulting from accounting standardisation or supervision goals.

- ✓ The project implicitly requires a **strong, organised and confident relationship with the public authorities**. While it goes without saying, the task force would like to reiterate the importance of reconciling a task force's operating capabilities with its accountability towards public interest representatives, who must validate the way the initiative is

organised, regularly monitor progress and ultimately ensure that standards are translated into the appropriate legal framework.

- ✓ The success of this initiative depends on the one hand on participants' independence but also on the **contribution from all stakeholders** on the other hand. This requires a coalition, managed by the public authorities. It is important to take advantage of the experience outlined in this report and the current momentum. The project's operating structure must factor in this aim and this existing commitment that acts as a driving force.

- ✓ The project must also be driven by a **constructive cooperative approach**:

  - Technical cooperation with private bodies that consistently act across all aspects of extra-financial information i.e. GRI, SASB, IIRC, involved NGOs, etc. can facilitate the suggested summary stage: a great deal of work has been conducted and there is no need to repeat work already achieved on these areas. The task force believes that a lot can be gained by cooperating in this way on both substance and in terms of resources and time. Where relevant, this cooperative approach could include service agreements with financial compensation;
  - International cooperation with public or parapublic counterparts, involving a political and technical cooperative approach, aimed at promoting cross-fertilisation, potential convergence and more broad-based initiatives.

- ✓ The initiative requires a **special task force**. Experience of accounting standardisation shows that a high-quality, well-organised team is required to successfully conduct this process, particularly when working in pilot mode. It is difficult to get to the crux of the question when numbers are beneath a certain threshold, so this type of initiative needs a stable team of several tens of people throughout the duration of the project. The task force only gives an approximate – and fairly broad – figure, and probably inappropriate to provide more detail at this stage. However, the task force notes that this initiative requires substantial human resources and a large portion of the team could be made up of qualified staff from companies and bodies that work in this area on temporary secondment to this project, as long as their work conditions ensure their independence.

- ✓ In view of these various aspects, the project involves **the use of financial resources.** The task force believes that an approximate figure can be provided by the resources mobilised by private bodies as analysed in Chapter 1 and that these resources are not unreasonable in light of the fundamental challenges. These resources could be provided by the public authorities, the corporate community and partly by stakeholders who wish to encourage this progress by providing specific support. It is obviously advisable that the provision of financial or other resources does not compromise the task force's independence. At this stage, it is clearly too early to look beyond the principles that have just been mentioned in this respect.

Timetable

The critical path as described above involves a breaking down into phases that could take place as follows:

- Phase 1 (2019-2021/2022?): Consolidation phase including:
  - Technical work required to stabilise standards based on technical consensus with all stakeholders, and based on political agreement: content standards and reporting standards,
  - Enhancement via public/private cooperation,
  - Legal aspects, setting obligations and options,
  - Vital educational and explanation efforts to support companies' implementation,
  - Investors and other stakeholders take standards on board.
- Phase 2 (2022-2025?): Implementation of Phase 1 standards concurrent with continued efforts on Phase 2 standards, based on a similar approach to Phase 1. Assessment of Phase 1 and quality of implementation.
- Phase 3 (2026-2029?): Implementation and assessment of Phase 2 standards.

Meanwhile, if this initiative is developed within the broader European Union framework, it will be important to work on overall convergence, based on cooperative approaches and/or broad-based initiatives following on from changes in focus or if certain key issues become more pressing.

Managing this type of project requires a stringent approach, and even if the community mentioned above is involved, and a cooperative approach is taken, appropriate resources will be needed. The legal aspect is also essential in many ways, but it is insufficient: it is both the culmination of in-depth work (particularly on standards) and a starting point for implementation by companies. The quality of work upstream and downstream is therefore as decisive as the legal aspect itself.

PROPOSALS

To conclude this section, the task force makes the following proposals:

Proposal 17: Entrust a standard-setter in the public sphere with drafting content and reporting standards in project mode

Proposal 18: Foster cooperation between public authorities

Proposal 19: Foster cooperation competent private bodies

Proposal 20: Establish an ambitious, three-phase critical path: 2019–2022 / 2022–2025 / 2025–2029.

4.5 Favourable cost-benefit ratio for development of extra-financial information

It is difficult to conduct an objective comparison strictly speaking of costs and benefits resulting from the swift development of extra-financial information, as this type of comparison calls for many extra-financial parameters related to companies' intangible aspects as well as the public interest. However, these extra-financial parameters often address expected benefits and they therefore affect the denominator of the cost-benefit ratio more, and should logically improve any strictly monetary ratio.

Bearing in mind this caveat, the task force came to believe that **the feedback gained during the process point to a positive view of the cost-benefit ratio for swift and orderly development of extra-financial information**. While not claiming to outline an exhaustive list, the task force notes the following:

- ✓ Taking extra-financial aspects on board in company management appears to ensure better performances and therefore greater value creation on a comparative basis. While the relationship of cause and effect is not proven, an integrated approach adds a competitive advantage and all stakeholders are aware of this, first and foremost companies themselves.

- ✓ Current relative confusion on implementation in an environment that provides insufficient standards and stability leads to several costs that are difficult to estimate as they are often hidden. Companies need clear rules and a level playing field to grow effectively and confidently.

- ✓ Investors cannot gain a clear view, and this damages the markets' smooth running and efficiency. Greenwashing has a potentially high cost. Investors are therefore prompted to invest in systems that endeavour to support them in a context where data is not reliable.

- ✓ Data collection, storage and processing must start with raw and high-quality data to be truly efficient, neutral and transparent. As quality becomes more relative, information moves away from the source, thereby increasing the risk of bias and loss of meaning. It is important for companies to keep control of raw data.

- ✓ Data digitalisation is a strong source of relevance (availability and accessibility of information) and savings (cost of data) if it is conducted on a solid basis. Digitalisation requires standardised content, nomenclatures and formats.

- ✓ In light of the savings related to digitalisation and the scope for productivity and efficiency it creates, standardisation conducted on the basis of the conditions suggested would have a very limited cost.

Appendixes

Appendix 1 – People interviewed for the purpose of this report

1. Government bodies and public authorities

Members of the National Assembly
Mohamed Laqhila, Member of Parliament for the Bouches-du-Rhône *département*, Member of the Finance Committee of the National Assembly
François-Michel Lambert, Member of Parliament for the Bouches-du-Rhône *département* and Founder and President of the National Institute of Circular Economy, Member of the Committee for Sustainable Development and Spatial Planning of the National Assembly
Bénédicte Peyrol, Member of Parliament for the Allier *département*, Member of the Finance Committee of the National Assembly
Dominique Potier, Member of Parliament for the Meurthe-et-Moselle *département*, Member of the Economic Affairs Committee of the National Assembly

Office of the Minister of Economy and Finance
Emmanuel Monnet, Advisor on Financing of the Economy, Office of the Minister of Economy and Finance

Ministry of Economy and Finance
Hélène Pelosse, General Inspector of Finance, Inspectorate General of Finance
Sébastien Raspiller, Head of Department, Economic Financing Department, Directorate-General of the Treasury
Jo-Michel Dahan, Deputy Director, Sub-Directorate for Service Companies and Liberal Professions, Directorate-General for Enterprise
Françoise Brancourt, "Immaterial Economy Unit", Sub-Directorate for Service Companies and Liberal Professions, Directorate-General for Enterprise

Ministry of Ecological and Solidarity Transition
Elise Calais, Deputy Director of the Environmental Responsibility of Economic Actors, General Commission for Sustainable Development, Sub-Directorate of the Environmental Responsibility of Economic Actors
Sophie Barré-Bon, Assistant to the Head of Office, Office of the Commissioner General for Sustainable Development, Economy, evaluation and integration of sustainable development Department, "Responsible consumption and production" Unit

Environment and Energy Management Agency (ADEME)
Noam Leandri, Secretary General
Hervé Lefebvre, Head of the Climate Department
Robert Bellini, Deputy Head of Climate Service
Romain Poivet, Business Climate Strategy Expert, Climate Service
Edouard Fourdrin, Business Climate Strategy Expert, Climate Service

France Stratégie
Gilles de Margerie, General Commissionner

Gilles Bon-Maury, Permanent Secretary of the CSR Platform

French Financial Markets Authority (AMF)
Robert Ophèle, President
Benoît de Juvigny, Secretary General
Marie Seiller, Director of Accounting Affairs
Julie Ansidei, Head of Strategy and Sustainable Finance

Economic, Social and Environmental Council (EESC)
Guillaume Duval, co-rapporteur of the EESC opinion on sustainable finance
Philippe Mussot, co-rapporteur of the EESC opinion on sustainable finance

French Accounting Standards Authority (ANC)
Mathieu Floquet, Project Manager
Cédric Tonnerre, Director of International Standards

2. European and international administrations and public authorities

European Commission
Alain Deckers, Head of Unit "Accounting and Financial Reporting", Directorate-General for Financial Stability, Financial Services and Capital Markets Union
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Thomas Verheye, Principal Advisor, Green Finance and Investments, Directorate-General for Environment

European Financial Reporting Advisory Group
Vincent Papa, Associate Director

European Securities and Markets Authority (ESMA)
Steven Maijoor, President
Roxana de Carvalho, Head of the Corporate Affairs Department
Alessandro d'Eri, Senior Policy Officer, Corporate Finance and Reporting Investors and Issuers Department

3. Foreign administrations and public authorities

German Federal Ministry of Finance
Dr. Dirk Kramer, Division of Investment Funds, Executive Officer

German Federal Ministry of Justice and Consumer Protection
Dr. Susann Friedemann, Division of Accounting Law and Auditing Law, Staff Counsel

Dr. Christian Eichholz, Division of Accounting Law and Auditing Law, Head of Division

The German Society for International Cooperation (GIZ)
Christian Hudson, EU G7 G20 Support, GIZ International Services

German Accounting Standards Committee e.V. (DRSC)
Andreas Barckow, Chair

British Treasury Department (HM Treasury)
Chris O'Donovan, Senior Policy Advisor, Global Financial Markets, Financial Services Group
Cassie McGoldrick, EU Strategy, Financial Services Group

Dutch Ministry of Finance (Ministerie van Financiën)
Jochem Wissenburg, Policy Advisor, Financial Markets Directorate

Italian Ministry of the Environment, Territories and the Sea
Aldo Ravazzi Douvan, Chief Economist, Sustainable Development and International Affairs Branch
Andrea Molocchi, Senior Economist, Sustainable Development and International Affairs Branch
Gionata Castaldi, Senior Economist, Sustainable Development and International Affairs Branch

Swedish Ministry of Finance (Regeringskansliet, Finansdepartementet)
Åsa Knudsen Sterte, Sustainability coordinator, Financial Markets and Institutions
Sandra Frimann-Clausen Engel, Senior advisor Financial Markets and Institutions
Torbjön Malm, Deputy Head, Division for Real Estate and Company Law

Canadian Accounting Standards Board (AcSB)
Linda Mezon, Chair

Financial Reporting Council (FRC)
Paul Druckman, Chair of the Corporate Reporting council
Anthony Appleton, Director Accounting and Reporting Policy

China Ministry of Finance
Chen Yu, Director Accounting Standards Division II, Accounting Regulatory Department

United States Securities and Exchange Commission
Lisa Kohl, Counsel to the Director of Corporate Finance
Michael Coco, Chief, Office of International Corporate Finance Division of Corporation Finance

Financial Services Agency of Japan

Hiroyuki Natori, Deputy Director

4. International organisations

Organisation for Economic Co-operation and Development (OECD)
Timothy Bishop, Senior Advisor, Insurance, Private pensions and Financial markets Division, OECD Directorate for Financial and Enterprise Affairs
Robert Youngman, Head of the Green Finance and Investment Center, OECD Environment Directorate
Geraldine Ang, Senior Advisor, Green Finance and Investment Center, OECD Environment Directorate
Cristina Tebar-Less, Head of the Responsible Business Conduct Unit, Investment Division, OECD Directorate for Financial and Enterprise Affairs
Barbara Bijelic, Legal Expert, Responsible Business Conduct Unit, Investment Division, OECD Directorate for Financial and Enterprise Affairs

United Nations Global Compact
Laura Palmeiro, Senior Advisor

Task-Force on Climate-related Financial Disclosure (TCFD)
Eric Dugelay, Partner (Deloitte Sustainability Services) and member of the European Lab Project Task-Force on Climate-related reporting

International Accounting Standards Board (IASB)
Yulia Feijina, Project Manager
Mike Chapman, Technical manager

5. Private organisations offering reference frameworks or non-financial reporting standards

Global Reporting Initiative (GRI)
Tim Mohin, Chief Executive Officer
Peter Paul van de Wijs, Chief External Affairs Officer

International Integrated Reporting Council (IIRC)
Richard Howitt, Chief Executive Officer
Philippe Peuch-Lestrade, Strategic Senior Advisor IIRC, Permanent Representative in France and to the European Commission
Lisa French, Technical Director
Brigitte Raffegeau, Lead Networks Content

Sustainability Accounting Standards Board (SASB)
Steven Gunders, Treasurer of the Board and ex-interim CEO
David Parham, Director of Research and Projects

Climate Disclosure Standards Board (CDSB)
Mardi McBrien, Managing Director
Nadine Robinson, Technical Director
Michael Zimonyi, Policy and External Affairs Manager

Corporate Reporting Dialogue
Ian Mackintosh, Chair

Climate Disclosure Project
Susanne Dräger, Policy and Public Affairs Manager

AFNOR (French national Organisation for Standardisation)
Corinne Del Cerro, Head of Development, Environment and Social Responsibility, Orientation and Development Department
Thierry Crignou, Head of Department, Industrial Engineering and Environment Department
Ekatarina Loginova, Standardisation Project Manager, Industrial Engineering and Environment Department

6. Companies

Air liquide
Anastasiya Mindaa, Head of Special Projects Organisation and Accounting Methods
Camille Varin, Sustainable Development Manager

Airbus
Todd Ptak, Head of Risk Management and Statutory Affairs

Arkema
Julia Bosse, Lawyer

BASF
Andreas Horn, Coordination Climate Protection
Christian Heller, Corporate Sustainability Strategy – Project Lead Value-to-Society
Tanja Castor, Corporate Sustainability Strategy – Senior Expert Integrated Reporting
Hanna Luczkiewicz, BASF Brussels Office

Bouygues
Thomas Farfal, Group CSR Coordinator

Compagnie de Saint-Gobain
Sandrine Elbaz Rousso, Corporate Legal Director, Scholar, Governance
Fabienne Grall, Director of Corporate Social Responsibility

Danone
Jessica Jugganadum, Sustainability reporting manager

DSM

Jeff Turner, Vice-President, Sustainability
Simon Gobert, Sustainability Performance and Reporting Manager

EDF
Pierre Mazeau, Head of Corporate Social Responsibility

Engie
Christine Fedigan, Head of corporate climate policy

Eramet
Victoria Provenzano, CSR Public Affairs Officer

Kering
Michaël Beutler, Director of Sustainability Operations
François-Xavier Morvan, Sustainability Performance Manager
Paul Guyot-Sionnest, Institutional Relations Manager

Pernod Ricard
Julie Lejard, CSR Project Manager

Peugeot PSA
Karine Hillaireau, Head of Sustainability and Head of the Corporate Foundation

Sanofi
Emmanuelle Cordano, Corporate Social Responsibility – Head of Performance Reporting and Innovation

Scheneider Electric SA
Frédéric Pinglot, Sustainability Performance Manager

SCOR
Gregory Sudan, Research Director

Technicolor
Didier Huck, Vice President Institutional Relations and Corporate Social Responsibility

Thales
Emmanuel Bloch, Director of Corporate Responsibility Development

Total
Bertrand Janus, Head of Relations with Extra-financial Rating Agencies

7. French CSR Platform

Jean-Paul Raillard (Coop FR/SCOP)
Hélène Reversat (CPME)
Laurence Vandaele (C3D)
Isabelle Perru-Poupon (FEP)
Aurore Fries (France Chimite)
Mélanie Czepik (CSR Observatory)

Sophie Gaudeul (CFDT)
Gérard Mardiné (CFE-CFC)
Geoffroy De Vienne (CFTC)
Pierre-Yves Chanu (CGT)
Yves Hughet (ALLDC)
Pascale Thumerelle (ATD Fourth World)
Marc Darras (4D Association)
Rita Fahd (FNE)
Danielle Auroi (Citizen Forum for CSR)
Sylvain Boucherand (Humanity and Biodiversity)
Ghislaine Hierso (Les Petits Débrouillards)
Isabelle Cadet, Olivier Joffre, Odile Uzan (ADERSE)
Bettina Laville, Sarah Dayan (Committee 21)
Michel Capron, Jacques Richard (RIODD)
Philippe Castelnay (CGE)
Béatrice Bellini, Kathia Martin-Chenut (CPU)
Benjamon Enault (Consult'in France)
Natalia Pouzyreff (National Assembly)
Céline Branaaa (CNCDH)
Martin Clément (Human Rights Defender)
Charline Peltier (Department of Justice)
Geneviève Jean-Van Rossum (Ministry of Foreign Affairs)

8. Professional associations and interest representatives, trade unions

Afep
François Soulmagnon, Executive Director
Elisabeth Gambert, Director of CSR and International Affairs
François-Nicolas Boquet, Director of Environment & Energy
Le Quang Tran Van, Director of Financial Affairs
Odile de Brosse, Director of Legal Affairs

Medef
Michel Laviale, Chairman of the Financial Performance Working Group
Karine Merle, Deputy Director, Finance Economics Department
Lucie Togni, Project Manager - Sustainable Development Department

French Management Association (AFG)
Eric Pinon, President
Laure Delahousse, Deputy Executive Director
Audrey Hyvernat, Responsible Investment Manager
Marie-Pierre Peillon, Director of Research and Strategy ESG

French Insurance Federation (FFA)
Philippe Poiget, Director of Legal Affairs and Chief Executive Officer
Christine Tarral, Deputy Director, Financial, Prudential and Accounting Affairs
Valérie Cuisinier, Deputy Director, Financial, prudential and accounting affairs
Pauline Becquey-Helary, Sustainable Development Manager

Accountancy Europe
Olivier Boutellis-Taft, CEO
Hilde Bloome, Deputy CEO

French Intangible Observatory (*Observatoire de l'immatériel*)
Jérôme Julia, President and Senior Partner at the consulting firm Kea&Partners

Institute of Chartered Accountants
Charles-René Tandé, President

French Auditing Body
Jean Bouquot, President
Marie-Agnès Hans-Muris, Director of Technical Services, General Delegate of the Department of Public Interest Enterprises

French Federation of Multidisciplinary Firms (F3P)
Vincent Talvas, General Delegate
Eric Duvaud, Ernst and Young
Fanny Houillot, KPMG
Sylvain Lambert, PwC
Tristan Mourre, Grant Thornton
Edwige Rey, Mazars
Julien Rivals, Deloitte

Brigitte Pisa, Administrator for Agirc-Arrco and President of the AG2R La Mondiale Matmut summit association, member of the Board of the *Autorité des normes comptables*

French Society of Financial Analysts
Corinne Baudoin, Director, Head of the Extra-financial Analysis Commission

Finance for Tomorrow
Anne-Claire Roux, Director of Finance for Tomorrow, Paris Europlace
Natacha Boric, Project Manager
Valentin Georges, Project Manager, Groups and Publications

9. Non-governmental organisations and associations

COFRAC (French Accreditation Committee)
Guillaume Delage, Accreditation Manager
Diane Jarry, Head of the Buildings, Industries and Services Division

Forum for Responsible Investment (French SIF)
Grégoire Cousté, General Delegate
Thiên-Minh Polodna, Project Officer
Michael Auger, Research Officer

Orée
Patricia Savin, President
Nathalie Boyer, Executive Director
Daniel Baumgarten, Sustainable Development Director of Séchée Environnement and

Chairman of the CSR Reporting Working Group

WWF
Sébastien Godinot, European Policy Office
Ciprian Ionescu, Head of the Natural Capital Program

10. Financial market participants

AG2R La Mondiale Matmut
Philippe Dutertre, Investment Director
Delphine Lalu, Director of CSR and Foundations

AXA IM
Lise Moret, Head of Climate Strategy and Sustainability Standards

Blackrock
Martin Parkes, Director, Global Government Affairs and Public Policy
Edouard Dubois, Vice President Investment Stewardship
Laetitia Boucquey, Global Public Policy Group

Bloomberg
Mary Schapiro, Vice Chair for Public Policy and Special Advisor to the Founder and Chairman
Arlene McCarthy, Special advisor to the Founder and Chairman
Ava Zekri, Head of External Relations for France

ECOFI Investments
Cesare Vitali, Head of ESG Research and Sustainable Development

Edmond de Rothschild Asset Management
Jean-Philippe Desmartin, SRI Director

Euronext
Stéphane Boujnah, Chief Executive Officer and Chairman of the Management Board
Catherine Langlais, Director of Legal, Regulatory and European Affairs

Groupama Asset Management
Marie-Pierre Peillon, Director of Research and Strategy ESG

La Banque Postale
Nicholas Vantreese, Sustainable Development Manager

La Banque Postale Asset Management
Adrienne Horel-Pages, Director of Strategic Projects
André-Xavier Fougerat, Senior Corporate Analyst

La Française
Perrine Dutronc, Senior Adviser Responsible Investing

HSBC Global Asset Management
Xavier Desmadryl, Global Head of ESG Research & PRI

Mirova
Ladislas Smia, Co-Head of Responsible Investment Research

Oddo BHF Asset Management
Nicolas Jacob, Head of ESR Research

Société Générale
Pierre-Henri Damotte, Head of Group Accounting Principles

Sycomore Asset Management
Alban Préaubert, Manager and ESG Analyst

11. Rating agencies

Beyond Ratings
Valéry Lucas-Leclin, Managing Director

Institutional Shareholder Services (ISS)
Catherine Salmon, Managing Director, Corporate Governance Research
Lydia Sandner, Senior Associate, ESG Ratings and Regulatory Affairs

MSCI
Marion de Marcillac, Executive Director, Products, MSCI ESG Research (France)

S&P Global
Jean-Florent Helfre, Head of Business Development, Central and Southern Europe, Trucost

Sustainalytics
Hans-Ulrich Beck, Executive Vice President, Research Products
Christoph Matschke, Manager, Client Relations
Floriana Cau, Senior Associate, Client Relations

TK Blue
Philippe Payen, Advisor to the President

Vigeo Eiris
Fouad Benseddik, Director of Methods and Institutional Relations, member of the Vigeo Eiris Group Management Board
Elise Attal, Institutional Affairs Manager

12. Consulting firms

Carbone 4
Alain Grandjean, Founding Partner
Matthieu Maurin, Director, Carbone 4 Finance
Renaud Bettin, Head of the Carbon Neutrality Division, Carbone 4 Finance

Cabinet de Saint-Front
Jacques de Saint Front, Founding Partner
Pauline de Saint Front, CSR Director

Goodwill Management
Alan Fustec, Founding President
Arnaud Bergero, Director of Operations

13. Think-tanks, research centers and universities

Institute for Climate Economics (I4CE)
Michel Cardona, Senior Advisor, Financial Sector, Risk and Climate Change
Julie Evain, Research Fellow, Finance, Investment and Climate

Nomura Research Institute
Shit Mitsui, Senior Researcher

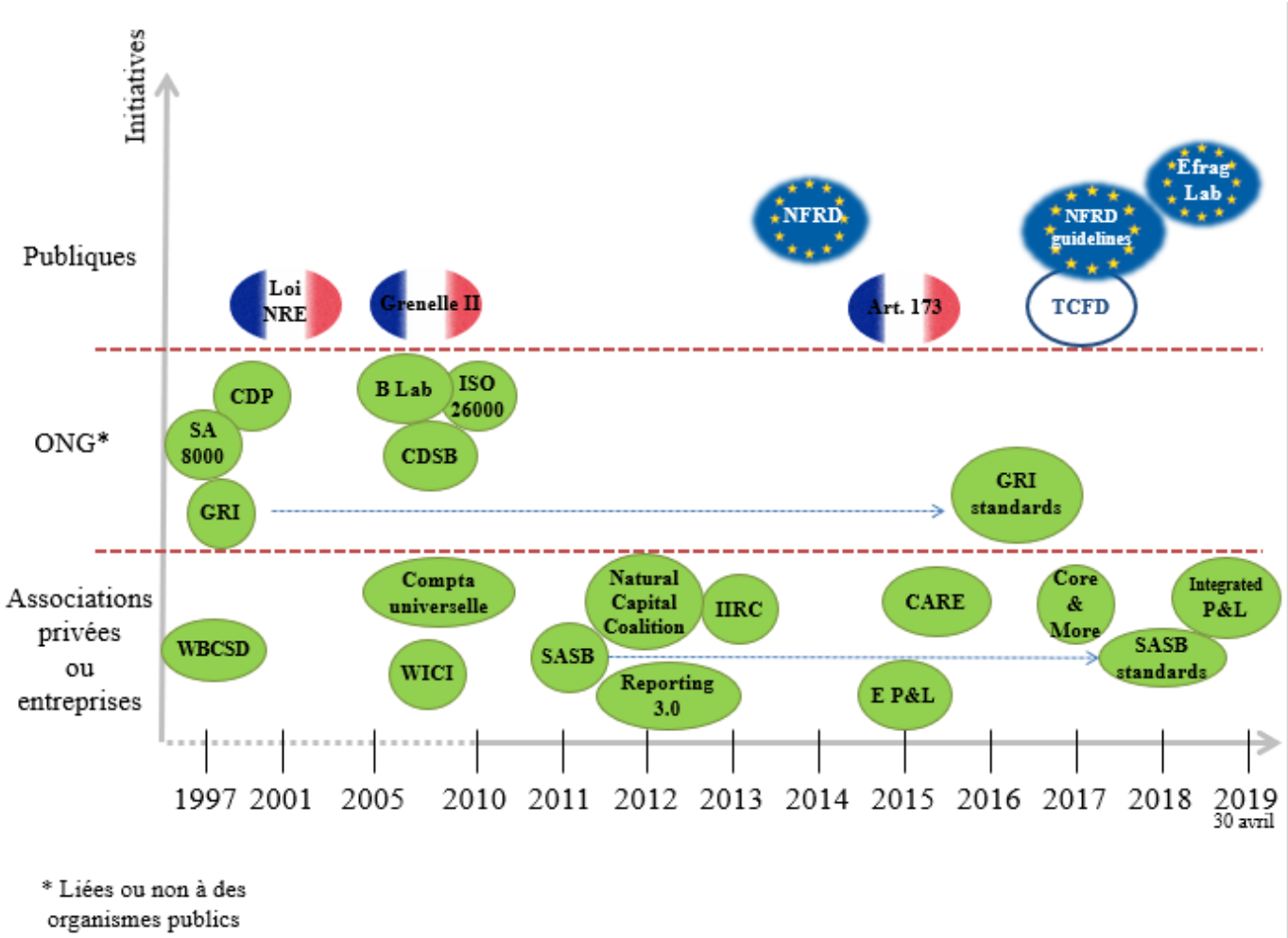
Novethic
Anne-Catherine Husson-Traoré, Executive Director
Nicolas Redon, Head of Climate Finance Programs

Academics
Delphine Gibassier, PhD in Management and Senior Research Fellow at the Lloyds Centre for Responsible Business at the University of Birmingham

Alexandre Rambaud, Associate Professor at AgroParisTech, in charge of accounting and financial analysis courses, researcher at CIRED, associate researcher at the University of Paris-Dauphine, co-head of the "Ecological Accounting" Chair

Appendix 2 - Chronology of major non-financial reporting initiatives in France, Europe and internationally

(The task force focused here deliberately on private and international para-public initiatives, to mention, with regard to public initiatives, only structuring initiatives in France and at the European level).



Abscissa axis – Dates from 1997 to April 30th, 2019

Ordinate axis (from bottom to top): Private associations or companies; NGOs; Public initiatives

Appendix 3 – Order of 9 August 2017 on the publication of non-financial information by certain large companies and groups of companies

JORF n°0187 of 11 August 2017

Text n°25

Decree No. 2017-1265 of 9 August 2017 implementing Ordinance No. 2017-1180 of 19 July 2017 on the publication of non-financial information by certain large companies and groups of companies

NOR: ECOT1711310D

ELI:https://www.legifrance.gouv.fr/eli/decret/2017/8/9/ECOT1711310D/jo/texte
Alias: https://www.legifrance.gouv.fr/eli/decret/2017/8/9/2017-1265/jo/texte

Target groups: companies exceeding certain thresholds in terms of balance sheet total or turnover and number of employees, independent third party organisation.

Purpose: rules relating to the publication of non-financial information in the management report provided for in Article L. 225-100 of the French Commercial Code.

Effective date: provisions applicable to reports relating to financial years beginning on or after 1 September 2017.

Notice: the decree completes the transposition of Directive 2014/95/EU of 22 October 2014. It specifies the thresholds at which certain companies are required to file the non-financial performance report and the content and presentation of this report. The declaration shall contain, where relevant to the main risks or policies pursued by the company, social, environmental, societal and, where applicable, information on human rights and anti-corruption issues. These headings are not exclusive of other information that the company would like to produce, for example on its commitment to support the National Guard by facilitating the operational activity of its reservist employees.

Finally, the decree determines the thresholds at which the information produced under this non-financial performance declaration must be verified by an independent third party body and the conditions under which the opinion of the independent third party body is issued.

References: the decree is issued for the implementation of Ordinance No. 2017-1180 of 19 July 2017 implementing Directive 2014/95/EU amending Directive 2013/34/EU as regards

the publication of non-financial and diversity information by certain large companies and groups. The provisions of the French Commercial Code amended by this decree may be consulted, as amended by this amendment, on the Légifrance website (http://www.legifrance.gouv.fr/).

The Prime Minister,

On the report of the Minister of Economy and Finance,

Having regard to Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards the publication of non-financial and diversity information by certain large companies and groups;

Considering the French Commercial Code, in particular Article L. 225-102-1;

Considering the Labour Code, in particular Article R. 2323-1-3 thereof;

Having regard to Order No 2017-1180 of 19 July 2017 on the publication of non-financial information by certain large companies and groups of companies;

The Council of State (Finance Section) heard,

Decree:

Chapter I: Provisions amending the Commercial Code

Article 1

The first paragraph of Article R. 225-104 of the French Commercial Code is replaced by the following four paragraphs:

"The thresholds provided for in the second and third paragraphs of I of Article L. 225-102-1, assessed at the closing date of the financial year, are set:

"1° For the companies mentioned in 1° of I of Article L. 225-102-1, to 20 million euros for the balance sheet total, to 40 million euros for the net amount of turnover and to 500 for the average number of permanent employees employed during the financial year;

"2° For the companies mentioned in 2° of I of Article L. 225-102-1, to 100 million euros for the balance sheet total, to 100 million euros for the net amount of turnover and to 500 for the

average number of permanent employees employed during the financial year.

"For the purposes of 6° of Article L. 225-37-4, the companies concerned are those that exceed two of the following three thresholds: a balance sheet total of 20 million euros, a net turnover of 40 million euros, an average number of permanent employees of 250."

Article 2

Article R. 225-105 of the same Code is replaced by the following provisions:

"Art. R. 225-105.-I. -The declaration of non-financial performance referred to in I of Article L. 225-102-1 and the consolidated declaration of non-financial performance referred to in II of the same article present the business model of the company or, where applicable, of all companies for which the company prepares consolidated accounts.

"They shall also present, for each category of information mentioned in III of the same Article:

"1° A description of the main risks related to the activity of the company or of the group of companies including, where relevant and proportionate, the risks created by its business relationships, products or services;

"(2) A description of the policies applied by the corporation or group of corporations including, where applicable, the due diligence procedures implemented to prevent, identify and mitigate the occurrence of the risks mentioned in (1);

"3° The results of these policies, including key performance indicators.

"Where the company does not apply a policy with respect to one or more of these risks, the statement shall include a clear and reasoned explanation of the reasons for not doing so.

"II. the declaration contains, where relevant to the main risks or policies mentioned in I of this article:

"A.-For all companies mentioned in I of Article L. 225-102-1, the following information:

"1° Social information:

"a) Employment:

"the total number and distribution of employees by gender, age and geographical area;

"-hirings and dismissals;

"-payments and their evolution;

"(b) Work Organisation:

"-the Organisation of working time;

"-absenteeism;

"c) Health and safety:

"- occupational health and safety conditions;

"accidents at work, in particular their frequency and severity, as well as occupational diseases;

"d) Social relations:

"the organisation of social dialogue, in particular the procedures for informing, consulting and negotiating with staff;

"-the review of collective agreements, particularly in the field of health and safety at work;

"e) Training:

"the policies implemented in terms of training, in particular in terms of environmental protection;

"-the total number of hours of training;

"(f) Equal treatment:

"measures taken to promote equality between women and men;

"measures taken to promote the employment and integration of disabled people;

"-the anti-discrimination policy;

"2° Environmental information:

"(a) General environmental policy:

"the company's organisation to take into account environmental issues and, where applicable, environmental assessment or certification procedures;

"the resources devoted to the prevention of environmental risks and pollution;

"the amount of provisions and guarantees for environmental risks, provided that this information is not likely to cause serious damage to the company in an ongoing dispute;

"b) Pollution:

"-measures to prevent, reduce or repair releases to air, water and land that seriously affect the environment;

"-the consideration of any form of pollution specific to an activity, in particular noise and light pollution;

"c) Circular economy:

"(i) Waste prevention and management:

"measures for the prevention, recycling, reuse, other forms of recovery and disposal of waste;

"-actions to combat food waste;

"(ii) Sustainable use of resources:

"water consumption and water supply according to local constraints;

"the consumption of raw materials and the measures taken to improve the efficiency of their use;

"energy consumption, measures taken to improve energy efficiency and the use of renewable energy;

"-land use;

"(d) Climate change:

"-significant items of greenhouse gas emissions generated by the company's activities, in particular by the use of the goods and services it produces;

"measures taken to adapt to the consequences of climate change;

"the reduction targets voluntarily set in the medium and long term to reduce greenhouse gas emissions and the means implemented to this end;

"(e) Biodiversity protection: measures taken to preserve or restore biodiversity;

"3° Societal information:

"a) Societal commitments to sustainable development:

"the impact of the company's activity on employment and local development;

"the impact of the company's activity on local populations;

"-the relationships maintained with the company's stakeholders and the terms of dialogue with them;

"-partnership or sponsorship actions;

"b) Subcontracting and suppliers:

"-the consideration in the purchasing policy of social and environmental issues;

"-the consideration in relations with suppliers and subcontractors of their social and environmental responsibility;

"(c) Fairness of practice: measures taken to promote consumer health and safety;

"B.-For the companies mentioned in 1° of I° of Article L. 225-102-1, the following additional information:

"1° Information relating to the fight against corruption: actions taken to prevent corruption;

"2° Information relating to actions in favour of human rights:

"(a) Promotion of and compliance with the provisions of the fundamental conventions of the International Labour Organisation relating to:

"-respect for freedom of association and the right to collective bargaining;

"- the elimination of discrimination in employment and occupation;

"- the elimination of forced or compulsory labour;

"- the effective abolition of child labour;

"(b) Other human rights actions.»

Article 3

Article R. 225-105-1 of the same Code is replaced by the following provisions:

"Art. R. 225-105-1.-I. -The declarations mentioned in I and II of Article L. 225-102-1 present the data observed during the financial year ended and, where applicable, during the previous financial year, in order to allow a comparison between these data. They include, where applicable, references to the amounts indicated in the documents mentioned in Article R. 232-1 of this Code.

"II -Where a company voluntarily complies with a national or international standard in order to fulfil its obligations under this article, it shall so indicate, indicating the recommendations of the standard that have been adopted and the procedures for consulting it.

"III - Without prejudice to the disclosure requirements applicable to the report provided for in Article L. 225-100, these declarations shall be made freely available to the public and easily accessible on the company's website within eight months of the end of the financial year and for a period of five years.»

Article 4

Article R. 225-105-2 of the same Code is replaced by the following provisions:

"Art. R. 225-105-2.-I. -The independent third party body referred to in V of Article L. 225-102-1 shall be appointed, as the case may be, by the Director General or the Chairman of the Executive Board, for a period not exceeding six financial years, from among the bodies accredited for this purpose by the French Accreditation Committee (COFRAC) or by any other accreditation body which is a signatory to the multilateral recognition agreement established by the European coordination of accreditation bodies.

"The independent third party body shall be subject to the incompatibilities provided for in Article L. 822-11-3.

"II -Where the information is published by companies with thresholds exceeding 100 million euros for the balance sheet total or 100 million euros for the net amount of turnover and 500 for the average number of permanent employees employed during the financial year, the report of the independent third party organisation shall include:

"a) A reasoned opinion on the compliance of the declaration with the provisions of Article R. 225-105, paragraphs I and II, and on the fairness of the information provided pursuant to paragraphs 3° of I and II of Article R. 225-105;

"b) The steps he has taken to conduct his audit engagement.

"III - A joint order of the Keeper of the Seals, Minister of Justice, and the Ministers responsible for ecology, economy and labour specifies the modalities under which the independent third party body carries out its mission.

"IV -Where a company voluntarily complies with Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation of organisations in a Community eco-management and audit scheme (EMAS), the declaration signed by the environmental verifier in accordance with the provisions of Articles 8 and 9 of Article 25 of that Regulation, Appendixed to the management report, shall constitute an opinion of the independent third-party body on environmental information.

"Information that is not verified by the environmental verifier referred to in the previous paragraph shall remain subject to verification by the independent third party body in accordance with the procedures set out in I, II, III and IV.»

Chapter II: Provision amending the Labour Code

Article 5

3° of the A of article R. 2323-1-3 of the Labour Code is replaced by the following provisions:

"3° For companies subject to the provisions of III of Article L. 225-102-1 of the French Commercial Code, environmental information presented pursuant to this III and mentioned in 2° of A of II of Article R. 225-105 of this Code.»

Chapter III: Miscellaneous and final provisions

Article 6

The second paragraph of Article R. 950-1 of the French Commercial Code is completed by the following paragraph:

"Articles R. 225-104, R. 225-105, R. 225-105-1 and R. 225-105-2 are applicable in their wording resulting from Decree No. 2017-1265 of 9 August 2017.»

Article 7

The provisions of this decree apply to reports relating to financial years beginning on or after 1 September 2017.

Article 8

The Minister of State, Minister for Ecological and Solidarity Transition, Keeper of the Seals, Minister of Justice, Minister of Economy and Finance, Minister of Labour and Minister for Overseas France are each responsible for the implementation of this Decree, which will be published in the Journal officiel de la République française.

Dated this 9th day of August, 2017.

Edouard Philippe
By the Prime Minister:

The Minister of Economy and Finance,
Bruno Le Maire

The Minister of State, Minister for Ecological and Solidarity Transition,
Nicolas Hulot

The Keeper of the Seals, Minister of Justice,
Nicole Belloubet

The Minister of Labour,
Muriel Pénicaud

The Overseas Minister,
Annick Girardin

Appendix 4 - Non-binding guidelines on methodology reporting non-financial information:
Frameworks and benchmarks mentioned in the introduction

The frameworks mentioned in the introduction to the guidelines, to which companies are invited to refer - without specific classification - can be divided in three main categories:

- International standards, going so far as to propose indicators;
- Guides; and
- National frameworks.

I. <u>Frameworks</u> (see detailed sheets below)

1. The Global Reporting Initiative,
2. The international reference framework for integrated reporting,
3. Le Sustainability Accounting Standards Board,
4. Le Climate Disclosure Standards Board (CDSB),
5. The CDP (formerly the Carbon Disclosure Project),
6. The Natural Capital Protocol,
7. The International Organisation for Standardisation standard ISO 26000.

II. <u>Guides</u>

Guides from the United Nations or country federations (OECD)

8. The United Nations (UN) Global Compact,
9. The United Nations Sustainable Development Goals, resolution of 25 September 2015 entitled "Transforming our world: the sustainable development agenda to 2030",
10. The "Guiding Principles for Business and Human Rights - Implementation of the United Nations Framework for Protection, Respect and Remedy",
11. The Reporting Framework in line with the United Nations Guidelines on Business and Human Rights,
12. The model guidance document on ESG information to be provided to investors under the UN Sustainable Stock Exchange initiative,
13. The International Labour Organisation's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy,
14. The OECD Due Diligence Guide for Responsible Mineral Supply Chains from Conflict or High Risk Areas and its supplements,
15. The OECD-FAO (Food and Agriculture Organisation) guide for responsible agricultural sectors,
16. The OECD Guidelines for Multinational Enterprises.

European Guides

17. The Community eco-management and audit scheme (EMAS) and the related sectoral reference documents,
18. EU guides on the environmental footprint of organisations and on the environmental footprint of products,
19. The publication of the European Federation of Financial Analyst Associations entitled "KPIs for Environmental, Social and Governance (ESG) Issues, A Guideline for the Integration of ESG information Financial Analysis and Corporate Valuation" (Key Performance Indicators (KPIs) for Environmental, Social and Governance (ESG) criteria, Guidelines for the integration of ESG criteria into financial analysis and business valuation).

III. National frameworks

20. The Strategic Reporting Guide of the Financial Reporting Council of the United Kingdom,
21. The Sustainable Development Code of the German Council for Sustainable Development.

GRI - Global Reporting Initiative

Inception date	1997
By	CERES (Coalition for Environmentally Responsible Economies) and UNEP (United Nations Environment Programme)
Status	NGO
Headquarters	Amsterdam
Source of funding	1/3 grants, 1/3 by members, 1/3 own activity (training, publications)
Scope of intervention	Sustainable development (economic, social and environmental performance) International dimension through representations & support in Brazil, China, Colombia, India, South Africa and the US.
Recipients	All stakeholders involved
Decision-making bodies	Board of Directors (15 members - Chairman: Eric Hespenheide) Chief executive: Tim Mohin
Full-time Board	No
Number of employees	87
Budget	12 M€ (annual report 2017 -18 months of activity)
Framework	GRI Standards for all reports published after 1 July 2018 based on Guidelines G4 (2013). Said to be a standard setter since 1 July 2018. Existence of sectoral reference frameworks in addition to the common core: Airport Operators, Construction and Real Estate, Electric Utilities, Event Organizers, Financial Services, Food Processing, Mining and Metals, NGO, Oil and Gas (these sectors were published in 2013 - base G4). New sectors covered from 2019, call launched in April 2019 for the creation of sectoral working groups.
Cooperations	Corporate Reporting Dialogue Bilateral agreements with SASB, IICBA, Global Compact Links with other standards: HKEX ESG reporting guide, CDP, SDG, EU NFR. Quoted in the NFD directive
Direct competitor	SASB (main differences in the materiality, sectoral approach of the SASB, and the very American side of the KPIs proposed by the SASB)
Ongoing projects	Tax transparency & payments to government
Outreach	Strong (to be qualified by statistics). More than half of the French groups use this standard. Existence of concordance tables No specific presence in France. In Europe, only in Amsterdam Aims to be the "IFRS for sustainable development".

IIRC – International Integrated Reporting Council

Inception date	2010
By	Prince of Wales (A4S), IFAC and GRI A global coalition of companies, investors, regulatory authorities, standards bodies, representatives of the accounting profession and NGOs.
Status	Global non-profit Organisation incorporated under British law
Headquarters	London
Source of funding	Council contribution (38%) Network contributions (32%) The Big 4 contribute both time and people
Scope of intervention	Integrated reporting and integrated thinking: an integrated report is a concise communication about how an Organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. Covers all aspects of the company.
Recipients	Investors
Decision-making bodies	President: Richard Howitt Chairman of the Board: Dominic Barton Technical advisory panel: Lisa French
Full-time Board	No
Number of employees	20
Budget	GBP 1.7m (2017 annual report)
Framework	Publication of a framework in 2013 based on guiding principles and reporting around six capital assets: financial, manufacturing, intellectual, human, social and societal, environmental.
Cooperations	Member of the Corporate Reporting Dialogue (IICBA provides the secretariat)
Ongoing projects	48 actions following the implementation feedback of the repository in order to specify the repository. Not intended to be extended to indicators.
Outreach	Strong growth since 2016 in Europe. Half of the CAC40 companies report that they are guided by the IICBA terms of reference. Globally, figures vary between 1500 and 1600 companies have adopted it, with two driving countries: South Africa (about 500 companies) and Japan (about 400 companies).

SASB – Sustainability Accounting Standards Board

Inception date	2011
By	Jean Rogers (now a member of the Board of the Climate Disclosure Standards Board) with the ambition of providing data for the US 10K.
Status	Independent association
Headquarters	San Francisco
Source of funding	Grants and donations Licenses and training
Scope of intervention	Development of sector-specific standards for ESG element reporting: environment; social capital; human capital; innovation and business model; leadership and governance. Development of specific indicators for 77 sectors, grouped into 11 industries: Health care, Financials, Technology and communications, Extractives & minerals processing, transportation, services, resource transformation, food & beverage, consumer goods, renewable resources and alternative energy, infrastructure.
Recipients	Investors and analysts
Decision-making bodies	President of the foundation: Mr. Bloomberg Chairman of the Board: Jeffrey Hales
Full-time Board	No
Number of employees	38
Budget	9.1 MUSD
Framework	Publication of a conceptual framework in 2016 and 77 sector standards in November 2018. Emphasis on "financial material information". Implementation of a Materiality map, rules of procedure and a commitment guide for investors. Developed through sectoral working groups and indicates that these standards are aligned with TCFD recommendations and are complementary to the GRI.
Cooperations	Member of the Corporate Reporting Dialogue. SASB complements global initiatives including the Global Reporting Initiative (GRI), the International Integrated Reporting Committee (IIRC), the Task Force on Climate-Related Financial Disclosures (TCFD), the CDP, and others.
Ongoing projects	Implementation guide planned for 2019 for companies on the implementation approach.
Outreach	About 50 user companies. In Europe, the use for the materiality matrix - and not for KPIs taken as such.

CDSB – Climate Disclosure Standards Board

Inception date	2007 (led by the World Economic Forum)
By	Louis Guthrie
Status	International consortium of business and environmental NGOs
Headquarters	London (hosted by the CDP, which provides the secretariat)
Source of funding	Grants and donations Licenses and training
Scope of intervention	Provides a framework for reporting environmental and climate information as rigorously as financial reporting. Equalize natural and financial capital. Participation with the WDCSB in the development of the "The reporting exchange" website in 2012.
Recipients	Investors and market regulators. Analysts for the impact on future cash flows
Decision-making bodies	CDSB Board of 10 members: Chairman - Richard Samans (World Economic Forum) Jeffrey Hales (SASB President) is a member of the Board Technical Working group (President Gordon Wilson of PWC)
Full-time Board	No
Number of employees	9
Budget	Not available
Framework	Publication of two reference frameworks: 1. Environmental information, natural capital & associated business impacts (1ère version en 2010) 2. Climate change reporting (2012)
Cooperations	Active in the Corporate Reporting Dialogue CDP, GRI, IIRC, Natural Capital Coalition, Natural Capital Alliance, SASB Is part of the implementation of the ODD
Ongoing projects	Support of recommendations, TCFD, implementation of an XBRL taxonomy
Outreach	About 400 companies

CDP Worldwide (ex. Carbon Disclosure Project)

Inception date	2000
By	Paul Dickinson
Status	International non-profit Organisation. Maintains a global database on the environmental performance of cities and companies (based on voluntary *reporting*)
Headquarters	HQ in London / CDP Europe is based in Germany
Source of funding	Donations and grants (56%), services (27%), contributions (17%)
Scope of intervention	Determines a "Level of engagement score" based on 4 criteria: 1. Leadership (A): Corporate best practices 2. Management (B): environmental management 3. Awareness (C): companies aware of the influence of environmental issues 4. Disclosure (D): the company provides all the required data and answers all the questions in the questionnaire Database on climate change, water, forests and the supply chain.
Recipients	Data for investors (more than 1600 European companies (6000 WW), 120 cities in Europe (620 WW) on the basis of voluntary reporting via questionnaires)
Decision-making bodies	Executive Chair: Paul Dickinson CEO: Paul Simpson
Full-time Board	Executive management board (yes)
Number of employees	223
Budget	£15m (31 March 2018)
Framework	Uses GHG Protocol (for carbon).
Cooperations	We Mean Business, NGOs (CRD, WWF, CI2)
Ongoing projects	ACT project with ADEME on an analysis by sector of activity (in progress: construction and real estate)
Outreach	Data publication (initially free of charge & now subject to a charge for companies). Carbon data reference database.

Natural Capital Coalition

Inception date	6 November 2012: creation of TEEB (The Economics of Ecosystems and Biodiversity for Business Coalition), which became the Natural Capital Coalition in 2014.
By	14 organisations: CIMA, Conservation international, Corporate Eco-forum, The Economics of Ecosystems and Biodiversity, FMO, Global initiatives, GRI, ICAEW, IFAC, IUCN, A4S, The world bank, WBCSD, WWF
Status	International non-profit Organisation. Today, it includes more than 300 Organisations. The Natural Capital Coalition is an international collaboration that unites leading initiatives and Organisations under a common vision of a world that conserves and enhances the natural capital.
Headquarters	Hosted by ICAEW
Source of funding	Development of the Natural Capital Protocol Project has been made possible with generous funding from Gordon and Betty Moore Foundation; IFC with the support of the Swiss State Secretariat for Economic Affairs (SECO) and the Ministry of Foreign Affairs of the Government of Netherlands; The Rockefeller Foundation; United Nations Environment Programme (UNEP); and UK Department for the Environment, Food and Rural Affairs (DEFRA). The Coalition is hosted by ICAEW.
Scope of intervention	Preservation of natural capital: identification and measures
Recipients	All stakeholders: civil society, academics, companies, NGOs, standard-setters, states.
Decision-making bodies	CEO Board: John Lelliott OBE (President of the ACCA Global Sustainability forum). 9 Board members
Full-time Board	No
Number of employees	10 (contractual, paid staff, secondments)
Budget	Not available
Framework	Publication in July 2016 of a "Natural Capital Protocol". Proposes a reference framework divided into 4 sectors of activity: apparel, food and beverage, forests products and finance
Cooperations	Collaborative project, link with ODDs
Ongoing projects	Biodiversity (target end 2019), data quality, Valuing the oceans
Outreach	Close link with the EP&Ls developed by PWC UK (Kering, Philips, BASF, etc.)

International Organisation for Standardisation
(ISO 26000 on corporate social responsibility)

Inception date	Standard published on 1/11/2010
By	Organisation created in 1947 and affiliated to the Economic and Social Council of the United Nations. Composed of representatives of national standards Organisations from 165 countries. AFNOR represents France.
Status	ISO 26000 is the result of a consensus of 99 countries and is not prescriptive (guidelines only) and therefore not certifiable.
Headquarters (secretariat)	Geneva
Source of funding	N/A
Scope of intervention	The ISO 26000 standard invites Organisations to focus their approach on seven central issues: Organisational governance, human rights, working relationships and conditions, the environment, loyalties of practice, consumer issues, communities and local development. These central questions aim to identify the relevant areas of action on which the organisation will be able to base its priorities and implement its own actions. It provides a general framework for other ISO standards such as: - ISO 14001: environmental management system - ISO 9001: quality management system
Recipients	All stakeholders involved
Decision-making bodies	AFNOR in France is based on an associative structure that includes several subsidiaries. Work by Standardisation committees according to subjects
Full-time Board	N/A
Number of employees	Working by consensus in working groups
Budget	N/A
Framework	Does not prescribe any specific standards
Cooperations	N/A
Ongoing projects	No update planned
Outreach	The standard is subject to a charge (310 euros) It is often cited as a reference by issuers

Appendix 5 - Transposition of the non-financial Directive in nine EU Member States

(In pink color are highlighted categories where the Member State has been more demanding than the Directive. In orange color, the categories where the Member State has not transposed the requirement of the Directive or is less stringent).

	Scope of the companies concerned	Scope of ESG indicators	Reporting framework	Sanction in case of non-compliance	Safe harbor principle	Comply or explain principle	Mandatory audit
France	More than 500 employees Turnover > 40 M€ (or) total balance sheet > 20M€ Public Interest Entities Also: Unlisted SAs and unlisted investment funds (if turnover > €100M)	More extensive approach than the scope required by the Directive (ESG factors + anti-corruption), *by* adding additional indicators relating to ESG factors, 42 specific *items* (from Grenelle II) and a higher level of detail required	Management report Within 8 months of the end of the financial year Availability on the company's website for 5 years	No applicable sanctions (except in the case of a complaint from a third party, financial sanctions may be imposed by the judge)	No	Yes	Mandatory for companies with more than 500 employees on the turnover or total balance sheet > 100M€ On the transmission & content of the Directive
Germany	More than 500 employees Turnover > 40 M€ (or) total balance sheet > 20M€ Public Interest Entities	Scope required by the Directive, with a distinction between social factors and factors relating to the company's employees	Annual report (or) Only on the company's website If not included in the annual report but in a separate report, up to 4 months after	In the event of non-compliance or delay in compliance (*i.e.* 9 months after the end of the fiscal year) - Sanctions determined on a case-by-case basis	Yes	Yes	Verification of transmission of the declaration only (no audit of compliance with the requirements of the

	Scope of the companies concerned	Scope of ESG indicators	Reporting framework	Sanction in case of non-compliance	Safe harbor principle	Comply or explain principle	Mandatory audit
			the end of the financial year				Directive)
United Kingdom	More than 500 employees Public Interest Entities	Scope required by the Directive, with a distinction between social factors and factors relating to the company's employees	Management report	On a case-by-case basis, the individual concerned is affected	Yes	Yes	Yes: verification of transmission and compliance with the requirements of the Directive
Spain	More than 500 employees Turnover > 40 M€ (or) total balance sheet > 20M€ Public interest entities (including pension funds and investment funds with more than 5000 clients)	Field required by the Directive	Management report (or) Dedicated report separate from the management report (or) Consolidated management report	No	Yes	Yes	Only on the presence of a declaration
Italy	More than 500 employees Turnover > 40 M€ (or) total	Scope required by the Directive supplemented by additional required	Management report (or)	Yes (omission, delay or non-compliance), with sanctions in the range of	Yes	Yes	Yes: verification of transmission and complian

	Scope of the companies concerned	Scope of ESG indicators	Reporting framework	Sanction in case of non-compliance	Safe harbor principle	Comply or explain principle	Mandatory audit
	balance sheet > 20M€ Public Interest Entities	information on ESG factors (e. g. GHG emissions; air pollution; discrimination prevention measures...), close to the definition of KPIs	Dedicated report separate from the management report	€20k to €150k			ce with the requirements of the Directive
Sweden	More than 250 employees Turnover > 350MSEK (or) total balance sheet > 175MSEK All companies (which meet at least 2 of the above requirements)	Field required by the Directive	Management report (or) Dedicated report separate from the management report	Yes (specified in the law on the management report)	Yes	Yes	Yes, only on the transmission of the Declaration
Nether-lands	*More than 500 employees* *Turnover > 40 M€ (or) total balance sheet > 20M€* *Public Interest Entities*	*Field required by the Directive*	*Management report* *(or)* *Dedicated report separate from the management report*	*Yes (specified in the accounting law)*	*Yes*	*Yes*	*Yes, only on the transmission of the Declaration*

	Scope of the companies concerned	Scope of ESG indicators	Reporting framework	Sanction in case of non-compliance	Safe harbor principle	Comply or explain principle	Mandatory audit
Denmark	More than 500 employees Turnover > 40 M€ (or) total balance sheet > 20M€ Public Interest Entities	Field required by the Directive	Management report (or) Dedicated report separate from the management report, with a specific reference within the management report	Yes, determined by the Danish Court of Justice, in accordance with the Financial Act	Yes	Yes	Yes: verification of transmission and compliance with the requirements of the Directive + Control by the supervisor (10 to 20% of listed companies every year, with a materiality approach)
	Companies with less than 500 employees must implement *reporting on*: human rights, climate change and environmental issues						
Greece	Scope required by the	Field required by the	Annual report	Yes (absence or delay of compliance),	Yes	Yes	Yes, only on the transmiss

	Scope of the companies concerned	Scope of ESG indicators	Reporting framework	Sanction in case of non-compliance	Safe harbor principle	Comply or explain principle	Mandatory audit
	Directive (also including companies in the following sectors: forests, mining sector, companies in which the State is a shareholder, with more than 500 employees)	Directive		with a sanction determined on a case-by-case basis			ion of the Declaration
	Companies with more than 10 employees, including sales > €700k (or total balance sheet > €350k) must *report on* environmental performance and employee aspects						

GERMANY

At the outset, the task force's discussions on non-financial reporting in Germany with the German Ministry of Finance, the CDSB and CDP (both based in Berlin), as well as BASF, highlighted the restrictive understanding of the concept of materiality (*i.e.* the impact of ESG factors on performance and the impact of the activity on ESG factors). The level of non-financial information provided is thus considered relatively low compared to France or Italy, for example. At government level, the German authorities are at this stage in a more "wait-and-see attitude" towards non-financial reporting, taking into account ongoing European developments.

State of transposition of the NRFD Directive in Germany:

- *Scope*: companies with more than 500 employees (listed companies, insurers, banks, except eligible SMEs), whose annual turnover exceeds 40 million euros (or) whose balance sheet total exceeds 20 million euros.
- *Format*: *annual management report* or separate report (but mentioned in the management report). Possibility of publishing on the company's website up to 4 months after the mention in the annual report (on this point, BASF, Deutsche Bank and Deutsche Börse AG stated that publication in a separate report was a "step back").
- *Scope of information required* (little detail in the transposition, compared to the FR and Italy): environmental issues; social issues; corporate governance (societal); human rights and fraud and the fight against corruption.
- *Definition of materiality*: impact on the company's performance and impact of the company's activity on its ecosystem.
- The *KPIs* relevant to the company's *business model* must be published (no suggestion in the regulations, unlike the FR).
- *Comply or explain*" model.
- *In the event of non-compliance*: the company, members of the Board of Directors and members of the Management Board are held liable.

  If the information provided is false, the director of the company may be fined (*criminal offence*), up to €10 million or 5% of the company's total annual turnover or double the profits made as a result of the non-compliance (or losses due to non-compliance).
- *Verification*: responsibility of the financial auditor for the submission of the non-financial information statement only (no mandatory content verification or verification by an independent body).

Existing regulations and recommendations

1. *German Accounting Standard* No. 20 (GAS 20) on the management report group (the equivalent of the French management report) updated on [1] June 2018 following the transposition of the *CSR directive implementation* Act

A large part of the standard is dedicated to *non-financial* information (*consolidated non-financial statement*). This standard sets out a framework for at least the topics to be addressed: companies with more than 500 employees must publish at *least* information on environmental, wage, social, human rights, and anti-corruption and fraud issues.

The company must explain the policies followed on these various topics, the identification of risks, the objectives it has set itself and the procedures put in place to obtain reliable information. The standard provides examples of possible indicators but does not impose any. The company is completely free to define the indicators to be used and how they are to be communicated (order, presentation, etc.). The latter can use existing standards (national, European or international) at[183] its choice. The standard even provides for the use of parts of different repositories as long as the chosen method is well explained but does not mention any of them.

2. The Code for Sustainable Development (since 2011)

After an extensive consultation period, Germany, through the *German Council for Sustainable Development (RNE),* published a Code for Sustainable Development, the first version of which was published on 13 October 2011.
The RNE was created in April 2001 by the Chancellery and is an advisory body to the federal government on sustainable development[184]. He is also responsible for representing the German position in the various international and European bodies. At the national level, it provides a structuring framework for the policies of each Lander. This committee is composed of 17 members, who have a 3-year mandate.
The code is a voluntary standard that allows Organisations and companies to publish their "sustainable" performance based on 20 criteria[185], including explaining their strategy and management of the sustainable issue and communicating environmental and societal opportunities and risks (see Appendix).
Companies that follow the Code issue a declaration of compliance and these declarations are public and freely accessible. This code was updated with the transposition of the Directive in 2017. Although no reference to a reference system is given in the body of the code, the checklist proposed in 2017 proposes points of attention for each criterion, in a "*comply or explain*" logic. These points refer to the GRI or EFFAS from time to time. This checklist is more like an analysis grid.
In 2017, the NRE published a framework for addressing the MDGs and set 11 priority themes for work from the MDGs.

[183] No Framework is explicitly mentioned in the GAS 20.
[184] It advises the government on its sustainable development policy and, by presenting proposals for targets and indicators, seeks to advance the Sustainability Strategy as well as propose projects for its realization. A further task is to foster social dialogue on the issue of sustainability. The objective here is to increase the level of awareness among all concerned and the population as to what sustainable development actually means by demonstrating the consequences of social action and discussing possible solutions.
[185] “The Sustainability Code: benchmarking sustainable business”, 2017 edition.

Private initiatives

1. BVI recommendations on responsible investment

[186]BVI is an association of German investment funds that aim to improve market stability and regulation. After publishing recommendations on the general principles of responsible investment, the BVI published *rules of conduct in* October 2016 which, in Part V, require fund managers to integrate environmental and social aspects into its governance analysis.
These principles are very general and require managers to establish appropriate criteria for analysis in this area.

2. *H4SF: Hub For Sustainable Finance Germany*

Created in 2017 by NRE and Deutsche Börse AG, this initiative aims to accelerate awareness of sustainable development for financial markets and to integrate ESG criteria into investment policies. This led them to publish 10 recommendations for sustainable finance in Germany and to organize in October 2017 the first sustainable finance summit in Germany under the aegis of the Ministry of Finance, joined by the Ministry of the Environment for the second edition in 2018.

Available practices and statistics

At the end of 2018, 477 companies claimed to comply with the *Sustainable Code*[187] and published 821 declarations, a significant increase compared to 2017 due to the implementation of the European Directive. The Code provides a structuring framework for analysis also for companies outside the scope of the Directive.

The indicators used by German companies are 84% derived from the GRI benchmark, the remaining 16% using indicators from EFFAS (*European Federation of Financial Analysts Societies*).

Actions in progress

For the NRE, the aim is to use the objectives of sustainable development by 2030, in order to align its policy by devoting its resources mainly to raising awareness among all stakeholders (civil society, teachers, etc.), *through* training activities and seminars, and by multiplying multi-stakeholder partnerships (*G20 Partnership with Africa*). According to interviews conducted by the task force, there are no plans to conduct further work on the issue of indicators.

186 After Lehman filed for bankruptcy in 2008, public confidence in the financial market was seriously undermined. This loss of trust in the capital market and its stakeholders also hit the investment sector. As a result, the German investment business has a strong interest in stabilizing the general environment for the capital markets. For this reason, BVI works constructively with legislators and regulators in order to achieve further improvements in terms of regulation. This holds true all the more when you consider that German investment funds neither caused the global financial crisis nor required state aid. Today, investment funds are already the most transparent and most highly regulated financial products.

187 Data published by the NRE.

Existing regulations and recommendations

1. Legal texts: the strategic report[188]

The strategic report (first applied in 2006) is the central element of the regulatory framework on the publication and content of financial and non-financial reports. It has been updated to take into account the elements of the transposition of the European non-financial information directive in 2018.
The non-financial information required is linked to environmental and employee information. For listed companies, we find the three pillars of CSR, respect for human rights and the fight against corruption and fraud with an analysis of risks (and not opportunities). The strategic report is not prescriptive on the framework and indicators to be used, but requires that the key indicators used be defined and explained.[189]

2. Recommendations issued by the FRC (Financial Reporting Council)[190]

- Practical guide on the strategic report

In July 2018, the FRC published specific recommendations on the preparation of the strategic report on the basis of best practices. The main objective is to get each preparer to "tell his story" on the basis of general principles with the ultimate goal of meeting the shareholder's needs and having an easy and coherent reading relationship between the different types of information.
The recommendations recommend an approach for determining key indicators according to materiality, specific to each company (no checklist) and indicate the general principles to be followed: the report must be fair, balanced, understandable, clear, concise but complete with a prospective vision if necessary.
They also provide examples of context, questions to ask, but no prescription on indicators to use (none of the commonly used reference frameworks are mentioned).

- UK Corporate Governance Code

It is a code of conduct for better governance with a general objective of preserving value in the long term (including sustainability objectives). The first version of the Code dates from 1992 and applies to listed companies. This code also remains exclusively on principles of behaviour.

- Works of the FRC-Lab

Last September, the FRC Lab launched a working group on the[191] reporting analysis of climatic and social elements. The objective is to identify the different practices, the content of

[188] Part 15, Chapter 4A of the Companies Act 2006
[189] 414CB (2)(e)
[190] The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

the reports, to identify best practices and the way in which the information is used by investors. The report is expected by the end of 2019.
In parallel, on 30 October 2018, the FRC launched another working group, the "The future of Coporate reporting", whose conclusions (scheduled for late 2019) could lead to proposals to amend the current regulations. The objective of this working group is to analyse current practices in terms of financial and non-financial reporting and covers all communication media (annual reports and others).

Private initiatives

1. The London Stock Exchange

In response to the growing demand for CSR information from the market and the possible impacts on corporate operations, the London Stock Exchange published a guide in January 2018 entitled "Your guide to ESG reporting". This educational guide explains the different issues and themes, how to identify them, the standards, the different existing reporting formats, the importance of green finance and responsible investments. According to this guide, the six essential standards are: the CDP, CDSB, GRI, Integrated reporting, SASB and the United Nations Global Compact[192]. Nevertheless, the guide focuses attention on the MDGs and TCFD recommendations that currently seem to be taking over.

2. A variety of think-tanks

Accounting For Sustainability (A4S),[193] created under the aegis of the Prince of Wales in 2004, initiated discussions to ensure that financiers take the shift to sustainable development and start thinking about the risks and opportunities associated with environmental and social issues. A4S has also been involved in the creation of IICBA and participates in many international initiatives such as the Natural Capital Coalition and the Commonwealth Climate & Law Initiative.

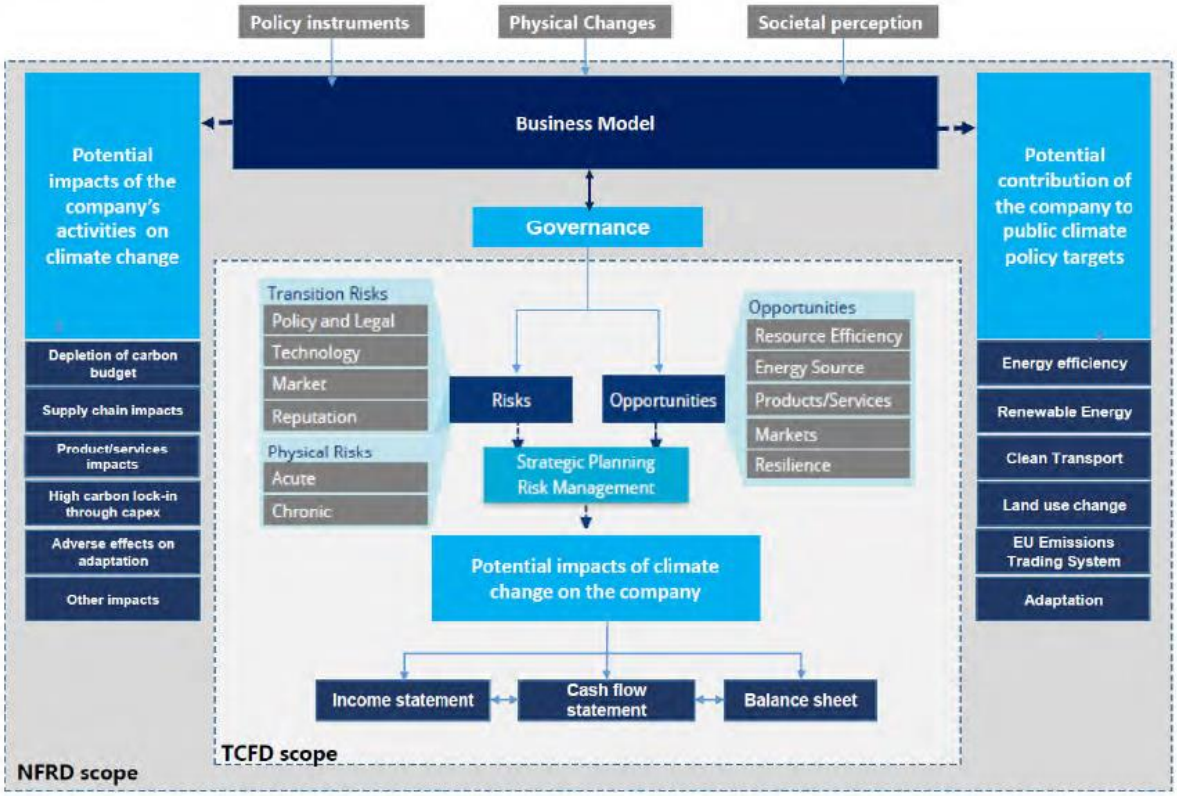
3. The accounting profession

The accounting profession also made an early commitment to sustainability with professional bodies such as ACCA or ICAEW and has produced many guides and tools for the profession to support companies in their ESG reporting efforts.

[191] https://www.frc.org.uk/news/september-2018/call-for-participants-in-new-lab-project-climate
[192] See page 24 of the guide: https://www.lseg.com/esg
[193] https://www.princeofwales.gov.uk/initiatives

Appendix 6 - The link between the TCFD's recommendations and the non-financial directive

Several differences in structure, objectives and requirements exist between the TCFD and the European Directive on non-financial information, which are particularly interesting to note in the context of the revision of the Directive's guidelines in the light of, in particular, the TCFD's recommendations.



Source: European Commission (*TEG on Sustainable Finance*), "*Report on climate-related disclosures*", January 2019

Also, we note that:

- ✓ The non-financial Directive has adopted a **risk-based approach**.
  - ⇘ *On the other hand*, the TCFD reference framework emphasizes both the risks and opportunities associated with climate change.
- ✓ **The Directive is addressed exclusively to companies**.
- ✓ The provisions of the Directive are based on the **concept of the company's business model**, namely "the way in which it creates value and preserves it in the long term through its products or services" (§4.1 of the Guidelines) on the basis of which the company's environmental, social and governance issues must be identified.

- *On the other hand, the* reference framework proposed by the TCFD is directly focused on the specific issue of climate change.

- *On the other hand*, the analytical framework proposed by the TCFD is also intended to guide investors in their investment choices.

In the February 2019 consultation document on the revision of the guidelines, the TEG and the European Commission conducted a comparative analysis to highlight **the extent to which each of the TCFD's recommendations could complement the guidelines of the directive**:

		NFRD Elements				
TCFD Recommended Disclosures		Business Model	Policies and Due Diligence Processes	Outcomes	Principal Risks and Their Management	Key Performance Indicators
Governance	a) Board's oversight		■			
	b) Management's role		■			
Strategy	a) Climate-related risks and opportunities				■	
	b) Impact of climate-related risks and opportunities	■				
	c) Resilience of the organization's strategy	■				
Risk Mgmt.	a) Processes for identifying and assessing				■	
	b) Processes for managing				■	
	c) Integration into overall risk management				■	
Metrics & Targets	a) Metrics used to assess					■
	b) GHG emissions			■		
	c) Targets			■		

Source: European Commission, Consultation Paper on the Revision of Non-Binding Guidelines on Non-Financial Information, February 2019

Appendix 7 - Summary of TCFD's Progress Report (September 2018)

On September 26, 2018, TCFD published its 2018 progress report on the implementation of the recommendations, published in June 2017.

[It should be noted that according to the exchanges between the task force and specialists and members of the TCFD, the conclusions and recommendations of the 2019 progress report - to be published in early June 2019 - will not differ substantially from those detailed below: the report will likely note progress in implementation, but also, in view of the climate emergency, the need for acceleration (i) in terms of transparency by companies across all sectors of the economy; and (ii) in terms of the use of scenarios to inform the resilience of corporate strategy].

For the record, the TCFD's recommendations specify the **climate reporting elements within the companies' reference documents for four pillars** (governance; strategy; risk management; indicators and metrics used), in a broader perspective than simply publishing the company's carbon footprint, as described in the table below extracted from the progress report:

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

The TCFD's 2018 progress report notes that:

- ✓ **The vast majority of the companies surveyed** (*i.e.* 1734 companies in 78 countries, including all G20 members) **published information online with at least one of the 2017 recommendations in** their annual financial statements, annual reports or sustainable development reports;

- ✓ **Disclosure practices vary significantly from one sector to another** (*i.e.* the energy sector being the best student) - the banking sector following the CFCT recommendations mainly from a risk management perspective.

- ✓ **European companies** remain the ones that most implement the recommendations.

In its report, the *Task Force* highlights the progress necessary to achieve full, uniform, comparable and useful *disclosure for* market participants:

- ✓ Although companies publish climate information (*i.e.* costs of projects carried out; investments with climate implications; measures of environmental impact), few publish the financial consequences of climate change on their business. However, **investors are asking for quantitative information on the potential and actual financial impacts of climate change** on companies;

- ✓ The TCFD recommendation to publish information on the resilience of companies' effective strategy based on more climate scenarios (including a +2°C scenario) remains the least followed of all the recommendations. In addition, the TCFD encourages companies to **publish more quantitative and qualitative information on how the company's strategy intends to respond to the risks and opportunities caused by climate change**;

- ✓ **The information published is often disseminated in a variety of reports** (financial statements; annual reports; integrated reports; sustainability reports), **mainly within sustainability reports**. The TCFD thus invites companies to concentrate their *disclosure* within a given report or, where appropriate, to make simple cross-references between reports in order to provide investors with the most complete information possible; and

- ✓ The TCFD recommends that companies **clarify more clearly in the reports the importance of projects related to climate change and their relevance to the company's overall strategy** (*i.e.* increasing the company's resilience to climate change; reducing operating costs, etc.).

In particular, in its report, the *Task Force* examined the *disclosure* practices of 25 management companies, based on publicly available reports (*i.e.* financial statements; sustainability reports). Its observations are as follows:

- ✓ Most management companies have described the role of the board of directors in overseeing climate change risks and opportunities, and the majority of them have focused on describing the role of *top management*. Less than half of them described the roles of the Board of Directors and management;

- ✓ None of the management companies studied provided information on the risks and opportunities associated with climate change in the short, medium and long term - or on how climate change was impacting their investment strategy;

- ✓ Most management companies provide information on the identification and assessment of climate-related risks, their management and the integration of these risks into their overall risk management; and

- ✓ Few management companies provide information on the GHG emissions associated with their investments.

Appendix 8 - Scope of greenhouse gas emissions and propagation of climate impacts to the financial and non-financial sectors

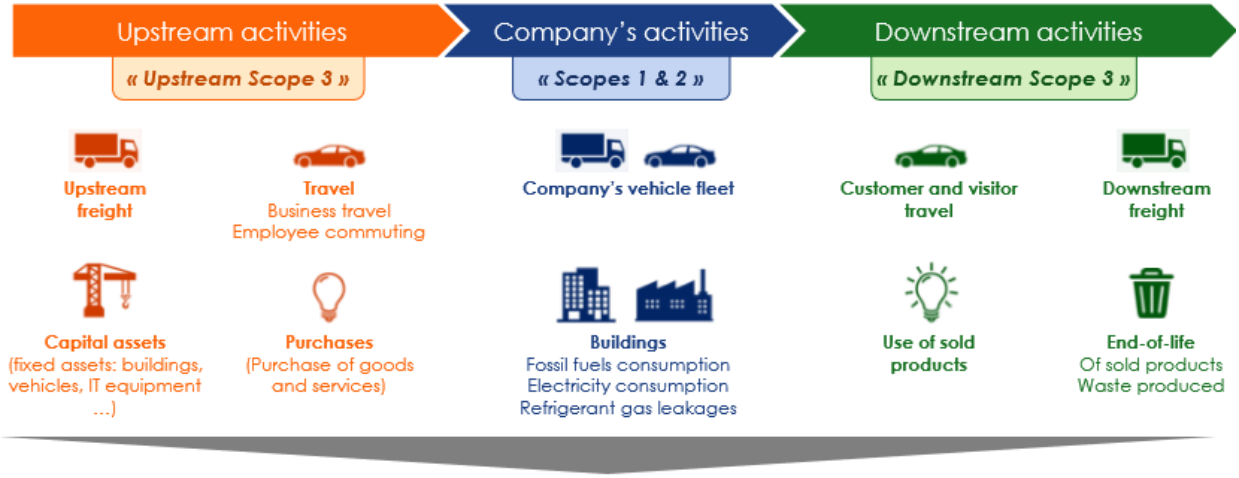
A greenhouse gas emissions balance sheet - the need to define the sources of emissions that will be taken into account in the balance sheet. This "operational scope" thus corresponds to the categories and items of emissions related to the activities of the selected organisational scope (*i.e.* sites, installations and skills included in the balance sheet.).

The main international standards and methods, first and foremost those resulting from the "GHG Protocol", define three categories of emissions[194]:

- **Direct GHG emissions (or "scope 1")**
  These are direct emissions from fixed or mobile installations within the organisational perimeter, i.e. emissions from sources owned or controlled by the organisation;

- **Indirect energy emissions (or "scope 2")**
  These are the indirect emissions associated with the production of electricity, heat or steam imported for the Organisation's activities;

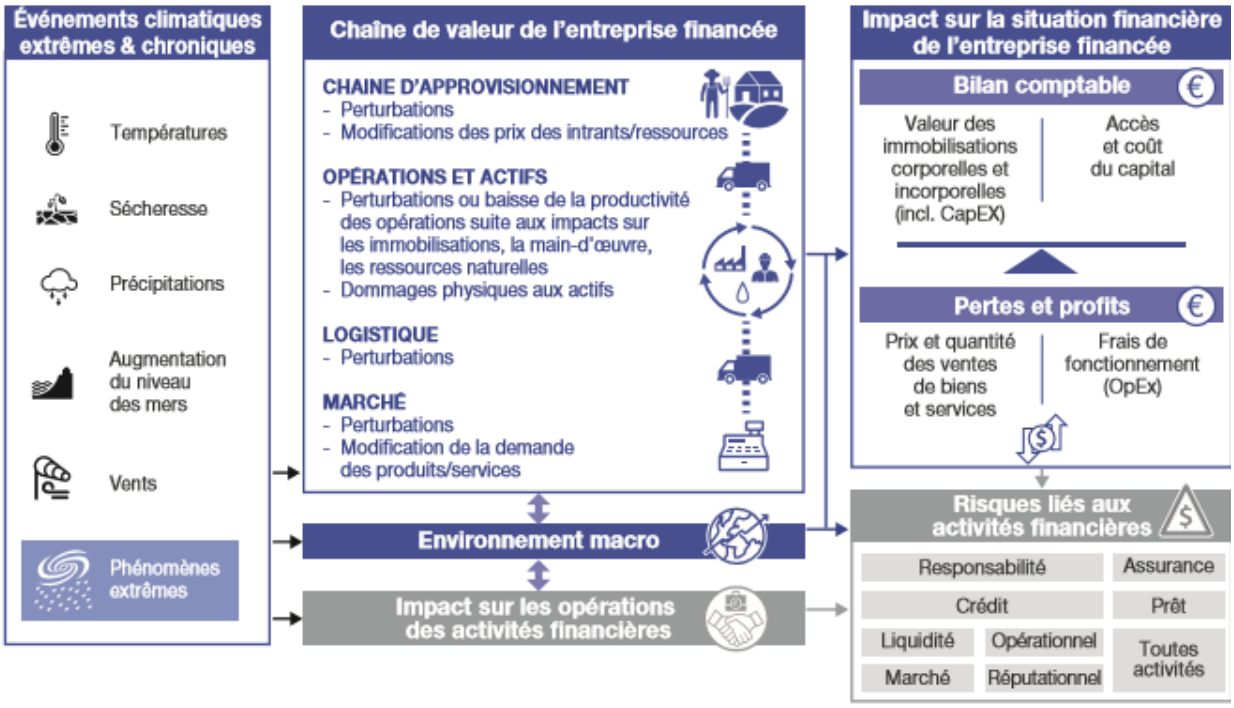
- **Other indirect emissions (or "scope 3")**
  These are other emissions indirectly produced by the organisation's activities that are not included in scope 2, but are nevertheless linked to the entire value chain (e.g. the purchase of raw materials, services or other products, employee travel, upstream and downstream transport of goods, waste management generated by the organisation's activities, the use and end of life of products and services sold, etc.).



Source: Typology of greenhouse gas emissions - Internal presentation of Carbone 4 Finance

[194] www.bilans-ges.ademe.fr/fr/accueil/contenu/index/page/bilan%2Bges%2Borganisation/siGras/1

Chains of propagation of climate impacts to funded industries and financial activities



Source: Institute for Climate Economics (January 2019)

Appendix 9 - Overview of non-financial reporting outside the European Union: United States; Canada; China and Japan

UNITED STATES

The notion of "*Corporate social responsibility*" was born in the United States in 1953: the company is considered as a moral being that must ensure the well-being of its employees, their families and the community. Today, the American conception of CSR remains marked by the involvement of the company in the local community, philanthropy (*i.e. the* role of corporate foundations) and patronage. In particular, the company will promote employee volunteering with associations and their financial contribution to causes.

The role of the State, which is traditionally more liberal, is also less marked on CSR-related issues than in France, with less heavy but also more disparate regulations. However, there is a greater focus on business ethics and governance issues, as illustrated by the Sarbanes Oxley Act (2002).

Regulatory framework for non-financial reporting in the United States

1. The S-K regulation on non-financial reporting

In line with the requirements of the *Securities Act of* 1933 and the *Securities Exchange Act of* 1934, the SEC requires, within the **S-K regulation** (17 CFR Part 29[195]), a series of non-financial information to be provided by listed companies, in the annual report or in certain periodic reports, including:

- The description of the company's activity (item 101);

  It should be noted that this item requires the publication of information relating to the company's compliance with US environmental regulations, namely concerning: (i) the material effects of the company's compliance with local, state and federal environmental provisions on the capital expenditures, revenues and competitive position of the company and its subsidiaries; and (ii) the substantial capital expenditures anticipated by the company for the development of environmental control infrastructure for at *least* year N and year N+1.

- That of any pending legal proceedings (item 103), other than ordinary proceedings in the course of business, the amount of which exceeds 10% of total consolidated assets. Regarding environmental lawsuits, they must be published if the potential amounts of claims exceed USD 100,000;

- A description of the risk factors weighing on the company, without specific mention of ESG risks (item 503 (c)); and

- The Management Discussion and Analysis which aims to provide such other information that the registrant believes to be necessary to an understanding of its financial condition, changes in financial condition and results of operations.

[195] https://www.law.cornell.edu/cfr/text/17/part-229

On the latter, in 1987, the SEC had commented the utility of the Management and Discussion Analysis report[196]: «*The Commission has long recognized the need for a narrative explanation of the financial statements, because numerical presentations and brief accompanying footnotes alone may be insufficient for an investor to judge the quality of earnings and the likelihood that past performance is indicative of future performance. MD&A is intended to give the investor an opportunity to look at the company through the eyes of management by providing both a short and long-term analysis of the business of the company*».

Reporting under Regulation S-K is considered mandatory by the SEC when there is a well-founded uncertainty that may have a material effect on the financial statements of the company concerned, pursuant to an interpretation of the SEC of May 1989.

2. <u>2010 SEC Guidance regarding disclosure related to climate change</u>

In February 2010, the SEC published an interpretation guide on reporting on the impacts of climate change (and its physical effects) and legislative and regulatory developments relating to the fight against climate change on the activity and financial performance of listed companies[197] - reporting being an integral part of the S-K reporting described above.

"*For some companies, the regulatory, legislative and other developments noted above could have a significant effect on operating and financial decisions, including those involving capital expenditures to reduce emissions and, for companies subject to "cap and trade" laws, expenses related to purchasing allowances where reduction targets cannot be met. Companies that may not be directly affected by such developments could nonetheless be indirectly affected by changing prices for goods or services provided by companies that are directly affected and that seek to reflect some or all of their changes in costs of goods in the prices they charge*".

The SEC document notes that as early as 2007, petitions from institutional investors were sent to the SEC on the importance of specific climate change reporting. It also notes that, in addition to the reporting required by certain SEC (e. g. in the electricity sector) and Environmental Protection Agency sectoral rules, a variety of non-governmental organisations requiring information (e. g. The Climate Registry) or repositories (GRI; CDP) allow listed companies to publish climate information.

It is worth noting that, as early as the 1970s, the SEC published guidelines on how listed companies should take into account in their reporting the financial impact of compliance with environmental laws, based on the materiality of the information provided (No. 33-5170, 19 July 1971). In the 1970s and 1980s, the SEC worked to better articulate materiality requirements for reporting under federal laws and regulations. In a 1976 decision (TSC Industries v. Northway), the Supreme Court stated: "*the question of materiality, it is universally agreed, is an objective one, involving the significance of an omitted or misrepresented fact to a reasonable investor[...]A fact is material "if there is a substantial likelihood that a reasonable shareholder would consider it important*".

[196] Securities Act Release No. 6711 (April 17, 1987), *Concept Release on Management's Discussion and Analysis of Financial Condition and Results of Operations*, 52 FR 13715.
[197] https://www.sec.gov/rules/interp/2010/33-9106.pdf

The SEC also advises listed companies to publish information on:

- The impact of legislation and regulations, in particular related to the items constituting the above-mentioned S-K regulation. The SEC insists that the company's assessment of its climate *reporting* should not be limited to the negative consequences of regulatory and legislative changes in environmental matters, but also to new opportunities presented by changes in environmental law (e.g. carbon allowance trading system, etc.);

- The impact of international environmental treaties on corporate activity;

- The indirect consequences of regulation or changing market practices, such as: lower demand for high-emission goods; higher demand for low-emission goods; increased competition for technological innovation; higher demand for renewable energy; and lower demand for services based on carbo-intensive energy sources. These elements can be published in the Management Discussion and Analysis report. The document highlights the reputational risk that can weigh on the company; and

- The physical impacts of climate change.

⇨ **According to the task force's discussions with the SEC (Division of Corporate Finance), no evaluation of the implementation of the 2010 climate guidance by issuers has been conducted to date. It is also not intended to be revised in light of the TCFD's recommendations.**

Evolution of non-financial reporting in the United States

- **Status of reporting by US listed companies**

Despite the progress of American regulations on the subject (financial impacts related to compliance with environmental rules since the 1970s; publication of guidelines since 2010; typology of risks related to climate risk; investor awareness since the early 2000s), **the absence of a definition of sustainability in American law and the lack of political ambition (absence of an ESG axis in financial regulation and American companies) have relatively limited extra-financial reporting by American companies. In addition,** it should be noted that the American corporate culture, which is largely based on risk prevention (in order to avoid legal action), does not encourage significant appropriation of non-financial reporting.

The KPMG (2017) report on social responsibility highlights the relative delay in the United States on this point - both in terms of reporting on social responsibility (81% of societal reporting in annual reports; against 83% in France, 92% in India and 98% in India) and in raising awareness of climate risk (49%; against 60% in the United Kingdom and Germany and 90% in France).

The above-mentioned KMPG report justifies the current state of reporting in the United States by: **(i)** increasing investor pressure; **(ii)** SEC S-K regulation (despite the low level of enforcement to date); and **(iii)** recent publication of industry benchmarks by SASB adapted to SEC regulatory requirements (which has substantially increased the rate at which companies publish ESG information in their annual reports).

Recent calls for an evolution of ESG reporting in the United States

In 2016, the SEC publicly consulted financial actors on the advisability of revising its regulatory reporting framework (Concept Release on Business and Financial Disclosure Required by Regulation S-K): this public consultation - which received more than 26,000 responses - highlighted clear stakeholder support for strengthening ESG reporting.

On October 1, 2018[198], a petition signed by investors and professional investor associations representing a total of more than $5 trillion in assets under management was sent to the SEC to initiate a regulatory process on ESG reporting, arguing that voluntary reporting is currently insufficient to meet investors' needs[199]. The petition highlights the following arguments:

(1) The SEC has clear statutory authority to require disclosure of ESG information, and doing so will promote market efficiency, protect the competitive position of American public companies and the U.S. capital markets, and enhance capital formation[200];
(2) ESG information is material to a broad range of investors today;
(3) Companies struggle to provide investors with ESG information that is relevant, reliable, and decision-useful;
(4) Companies' voluntary ESG disclosure is episodic, incomplete, incomparable, and inconsistent, and ESG disclosure in required SEC filings is similarly inadequate;
(5) Commission rulemaking will reduce the current burden on public companies and provide a level playing field for the many American companies engaging in voluntary ESG disclosure; and
(6) Petitions and stakeholder engagement seeking different kinds of ESG information suggest, in aggregate, that it is time for the SEC to regulate in this area.

On the **concept of materiality**, the petition illustrates the financial materiality of ESG information for investors today, and increasingly so, and highlights the increasingly material nature of non-financial information[201] (including, for example, cybersecurity - see the SEC's 2011 guidelines on the publication of cybersecurity risks) for "the reasonable investor", taking into account each company's own ecosystem.

⇨ **On this point, the SEC also recalled that it was in line with the Statement on Disclosure of ESG matters by issuers published on 18 January 2019 by the International Organisation of Securities Commissions (IOSCO) - although it did not vote in favour of publishing the text within IOSCO.**

«Jurisdictions' securities laws generally require that issuers disclose material risks and any other material information in the context of their business and performance which is also

[198] https://www.sec.gov/rules/petitions/2018/petn4-730.pdf
[199] Investors with $68.4 trillion of capital are committed to incorporating ESG factors in their investing and voting decisions as part of the United Nations' Principles for Responsible Investing, that institutional investors with over $95 trillion of invested capital support the Carbon Disclosure Project's annual survey and that global assets under management utilizing ESG factors and similar screens were valued at $22.89 trillion at the start of 2016 and constituted 26 percent of all professionally managed assets globally.
[200] "As Mark Carney, Governor of the Bank of England and Chair of the Financial Stability Board, said with respect to climate change, with "consistent, comparable, reliable, and clear disclosure" of firms' forward-looking strategies, both "markets and governments" can better manage the transition to a low-carbon future by supporting the allocation of capital to its risk-adjusted highest-value use in that transition" (page 5).
[201] Alan Beller, Foreword to SASB's Inaugural Annual State of Disclosure Report, December 1, 2016, available *at* https://www.sasb.org/blog-alan-beller-pens-forward-inaugural-annual-state-disclosure-report

in line with IOSCO's Principle 16. As a general matter, in these jurisdictions, materiality is therefore the determining factor in considering whether information must be disclosed to investors in filings made under securities laws».

Finally, the **petition calls on the SEC to define clear ESG reporting requirements - in particular on the standards used - for greater consistency, in order to reduce the reporting burden on companies and to achieve a level-playing field in this area**.

«Today companies are burdened with meeting a range of investor expectations for sustainability information without clear standards about how to do so. A number of promising frameworks have been promulgated over the previous decade or decades, many of which have been mentioned in this petition: GRI, SASB, CDP, and now TCFD being the most prominent. And yet, because there isn't clear guidance and an authoritative standard in the U. S. for all public reporting companies to use, different companies are using different frameworks and multiple mechanisms to disclose sustainability information. Thus, investors are still dissatisfied with the comparability of sustainability information, even between companies in the same industry».

- **Recent SEC pronouncements (2018-2019)**

- In a speech[202] given in September 2018, (Republican) Commissioner Hester M. Peirce highlighted the **difficulties of ESG reporting in terms of investors' fiduciary duties and a detailed understanding of environmental, social and governance issues**:

«The **difficulty in understanding the legal implications of using ESG to evaluate investments arises in part from the fact that the same investment may raise legal concerns or may be entirely appropriate depending on the fiduciary's intent**. For example, investing in a company that develops green technology is likely appropriate if the fund manager makes the investment because of a belief that green technology's popularity will make it a profitable investment. If, however, the manager makes the investment because of a belief that it is virtuous to support green technology regardless of its commercial prospects, it becomes less clear that the manager has fulfilled her fiduciary duty.

There are two problems with this conclusion. First, **given the breadth of topics that the term "ESG" purports to address, it is difficult to say that, for any company, it is the ESG factors in particular that have resulted in higher returns**. Second, **because ESG can mean so many things, a company may implement a number of policies that wind up counted as "ESG" measures that are simply the same good practices that companies have embraced for centuries**. The problem is that, because discrete, time-tested measures have good results, once they are dubbed "ESG," their success becomes an argument for implementing all kinds of unrelated, untested measures that conveniently share the ESG label.

Thus we arrive at the next problem with using ESG factors: **there are no clear standards**. Even if we were to accept—and I do not—that it is desirable to use funds held by large investors as a means of fueling social change, it is not clear that the factors managers now consider actually have the intended effects. In many instances, **ESG reporting has been presented as though it were comparable to financial reporting, but it is not.** While financial reporting benefits from uniform standards developed over centuries, **many ESG factors rely on research that is far from settled**. Counting the number of female directors

[202] https://www.sec.gov/news/speech/speech-peirce-092118

may tell you something about how well a company is run. Or it may simply tell you that the company has more female directors. There are studies going both ways. In most cases, the companies themselves are ill-equipped to make these determinations. **Does a company that brews beer really have the expertise to assess what energy source would be the best for the environment?**

Second, there is a **degree of subjectivity in the setting and application of standards**. Some ESG standards seem to reflect personal moral beliefs that may not be universally held. Some funds cite to ESG standards as a reason for no longer investing in companies involved in the firearms industry. Again, it is perfectly appropriate for any individual to choose not to invest in any industry she finds objectionable, and funds currently exist for individuals who want to screen out everything from guns to alcohol to gambling. But there is hardly uniform agreement among Americans on the subject of firearms, and many Americans see no harm in owning guns and gun stocks. Our capital markets should accommodate both groups.

Once a standard is set, deciding whether a company meets it can also be difficult. Is a company that operates on solar power up to snuff enough to satisfy environmental standards, even if it uses fossil fuel to power its own plant?».

- On 15 March 2019, the **SEC's Director of Corporate Finance (Division of Corporate Finance), William Hinman, opened the door to possible additional SEC regulation on ESG (wait-and-see) reporting**, including better consideration of ESG risks by the boards of directors of listed companies, particularly on climate (highlighting the 2010 guidelines mentioned above)[203]:

«Sustainability disclosure continues to be of interest to investors and other market participants, and the very breadth of these issues illustrates the importance of a flexible disclosure regime designed to elicit material, decision-useful information on a company-specific basis. We understand that investors continue to engage with companies on sustainability topics and that market participants across the globe are giving significant thought to the types of sustainability disclosures the market is seeking as it strives to efficiently allocate capital.

[…]

So it appears to me that the market is still evaluating what, if any, additional disclosure on these topics would provide consistently material and useful information. The marketplace evolution of sustainability disclosures is ongoing – companies certainly provide more sustainability information than they did ten years ago – and allowing this evolution to continue should provide market participants with a continued opportunity to sort out the types of information they find useful. Had we leapt into action and issued prescriptive sustainability disclosure requirements when people first began calling for them, I believe we would have stymied that evolution and stifled efforts to develop useful disclosure frameworks. **Substituting regulatory prescriptions for market-driven solutions, especially while those solutions are evolving, in my view, is something we need to manage with utmost care**. In the meantime, we are watching carefully as market-led approaches develop in this area, and we actively compare the information companies voluntarily provide – typically outside of their SEC filings – with the disclosure we see filed with us.

[203] https://www.sec.gov/news/speech/hinman-applying-principles-based-approach-disclosure-031519

As we approach this or other disclosure topics, **I am always cognizant that imposing specific bright-line requirements can increase the costs associated with being a public company and yet not deliver the relevant and material information that market participants are seeking. Adding requirements to the disclosure regime that do not deliver benefits that justify their costs decreases the attractiveness of our public markets, which in turn can reduce the number of public investment options available to all investors.**

As I've mentioned, an important objective of our disclosure framework is to allow investors to see the company through the eyes of management. **I encourage companies to consider their disclosure on all emerging issues, including risks that may affect their long-term sustainability**. And as they do so I would suggest they ask themselves whether their disclosure is sufficiently detailed to provide insight as to how management plans to mitigate material risks and how their decisions in the area of risk could be material to the business and their investors. Again, **this is a process where I believe it is helpful to think about how management engages with board members on the topic.** […]

One item the 2010 guidance does not touch upon is the board's risk management role in this area. Item 407(h) of Regulation S-K[10] and Item 7 of Schedule 14A require a company to disclose the extent of its board's role in the risk oversight of the company, such as how the board administers its oversight function and the effect this has on the board's leadership structure. The Commission has previously highlighted that this should provide investors with important information about how a company perceives the role of its board and the relationship between the board and senior management in managing the material risks facing the company. **To the extent a matter presents a material risk to a company's business, the company's disclosure should discuss the nature of the board's role in overseeing the management of that risk.** The Commission last noted this in the context of cybersecurity, when it stated that disclosure about a company's risk management program and how the board engages with the company on cybersecurity risk management allows investors to better assess how the board is discharging its risk oversight function. **Parallels may be drawn to other areas where companies face emerging or uncertain risks, so companies may find this guidance useful when preparing disclosures about the ways in which the board manages risks, such as those related to sustainability or other matters**».

- Finally, SEC Chairman Jay Clayton said in March 2019[204] about human capital reporting:

«**As I mentioned previously, I believe the Commission's disclosure requirements and disclosure guidance must be rooted in the principles of: (1) materiality; (2) comparability; (3) flexibility; (4) efficiency; and (5) responsibility.** I also believe that our disclosure requirements and guidance must **evolve over time to reflect changes in markets and industry while being true to these principles**, which in well-designed rules can be mutually reinforcing.

Turning to human capital, I believe that the strength of our economy and many of our public companies is due, in significant and increasing part, to human capital, and for some of those companies human capital is a mission-critical asset. **Disclosure should focus on the material information that a reasonable investor needs to make informed investment and voting decisions; yet, applying this and the other principles I mentioned to human capital in the**

[204] https://www.sec.gov/news/public-statement/clayton-remarks-investor-advisory-committee-032819

way businesses assess and disclose, and investors evaluate, for example, revenue or costs of goods sold, is not a simple task. That said, the historical approach of disclosing only the costs of compensation and benefits often is not enough to fully understand the value and impact of human capital on the performance and future prospects of an organisation.

With that as context, my view is that **to move our framework forward we should not attempt to impose rigid standards or metrics for human capital on all public companies**. Rather, I think investors would be better served by understanding the lens through which each company looks at its human capital. In this regard, I ask: what questions do boards ask their management teams about human capital and what questions do investors—those who are making investment decisions—ask about human capital? For example, how do investors use human capital information to make relative capital allocations among similar organisations? **Armed with general and sector-specific answers to these questions, we can better craft rules and guidance**».

- **Provisions relating to non-financial reporting within the Dodd Frank Act**

In a report published in October 2017 on the regulation of capital markets[205], the US Treasury recommended the **removal of several information requirements imposed by the Dodd Frank Act** (DFA) **and considered "non-material" for investor choice**, namely **corporate social responsibility** provisions such as those relating to conflict minerals (section 1502), coal mines whose issuers are operators (section 1503), payments made to foreign states for resource extraction (section 1504) and the remuneration ratio (section 953 (b)). The report indeed underlines:

«Treasury recognizes that the original support for such provisions was well-intentioned. However, federal securities laws are ill-equipped to achieve such policy goals, and the effort to use securities disclosure to advance policy goals distracts from their purpose of providing effective disclosure to investors. If the intent is to use the law to influence business conduct, then this effort will be undermined by imposing such requirements only on public companies and not on private companies. In addition, such requirements impose significant costs upon the public companies that are widely held by all investors». In the absence of effective legislation regarding the removal of these provisions from the DFA, the US Treasury recommends the SEC to set up an exemption rule for SMEs.
In this context, and at this stage, a bill was introduced in the House of Representatives in December 2017 to amend the Securities Exchange Act of 1934 to repeal section 1504 of the DFA on payments to foreign governments for natural resource extraction.

Additional elements

- Three statutory forms of mission enterprise (**Benefit Corporation** and, more marginally, the Social Purpose Corporation and the Public Benefit Corporation) have been gradually introduced in the United States, reversing the concept of fiduciary duty in American law. Indeed, until now, American corporate law has focused on the pursuit of profit maximization by companies for shareholders (i.e. the fiduciary duty of American executives).

[205] U.S Department of Treasury, *A Financial System That Creates Opportunities – Capital Markets*, October 2017. Available online.

In 2010, with the creation of the Benefit Corporation status, American corporate law underwent a certain transformation within the thirty states that have adopted this hybrid status, halfway between a traditional company and a non-profit association. Benefit Corporations are required to pursue a specific mission in order to achieve a general public benefit (public material benefit, namely: "a material, positive impact on society and the environment, as measured by a third-party standard, through activities that promote a combination of specific public benefits") and undertake to identify certain specific non-profit objectives, known as specific public benefits, including environmental preservation and the improvement of human health. In order to qualify as a Benefit Corporation (the creation of a Benefit Corporation being a voluntary act), the company must meet three conditions: (i) create a public material benefit, which it must ensure outweighs its financial interests; (ii) take into account the impact of decisions taken by the company's governance bodies on stakeholders; and (iii) publish an annual report on its social and environmental performance.

An important feature of Benefit Corporations is the obligation of managers to consider the interests of the different stakeholders (i.e. stakeholder theory as the dominant theoretical framework for CSR), as well as any other relevant factors when making decisions in the best interests of the company (according to the Maryland State Company Code, for example: "a third-party standard is defined as a recognized standard for defining, reporting and assessing overall corporate social and environmental performance"). This specific status also allows the manager to be protected in the event that he wishes to pursue a specific CSR mission in addition to the pursuit of financial profit (legitimization of the societal mission): he is thus relieved of any liability in the event of financial damage as long as his decisions have been taken in good faith in the general interest and in a prudent manner (legal protection against non-financial decisions associated with the rules of transparency and accountability).

- Under pressure from consumers, several private labelling initiatives are also developing in the United States. The most important, through the **B-Corp label**, is intended to promote a more committed, accountable, transparent and positive business model that has a positive impact on the planet. Labelling is granted to companies that have non-financial social and/or environmental objectives that are in line with the required accounting and transparency criteria, the creator's intention being to develop capitalism from a civic perspective. B-Corp certification is managed by an NGO, called B Lab and created in 2007: in order to obtain the B-Corp Label, which is reassessed every two years, a company must obtain a sufficient number of points on a 200-question questionnaire covering various topics such as governance, stakeholders, the economic model, accounting, staff, salaries, ecological impacts, etc. It should be noted that the B-Corp label also has a community and participatory dimension: the B-Corp community thus meets in working groups and reflection groups to improve its practices. Since its creation, the B-Corp label has also created a business community present in 40 countries and comprising more than 1,600 certified companies.

Existing regulations and recommendations

1. Accounting Standards Board (AcSB)[206]: publication of a performance reporting framework

As part of its work on the quality and relevance of financial information, AcSB participates in discussions on sustainable finance, taking into account environmental and social issues and published in December 2018 a framework for measuring performance reporting that is not mandatory. This framework is not limited to traditional financial reporting and includes recommendations on non-Gaap financial reporting, and any other relevant non-financial information that could be useful in measuring performance (example given in paragraph 24)[207].
This framework seeks to specify the qualities of the information required and gives the main principles for drawing up its information (materiality, constraints on cost/benefit analysis, choice of performance areas) and the characteristics of the information sought: relevance, faithful depiction, consistency, comparability, verifiability, timeliness, understandability, which are the same characteristics of financial information as those provided by the IASB in its conceptual framework. This performance reporting framework therefore remains based on principles to be followed, and it is up to the company or organisation to establish the content of its own reporting.

2. Recommendations issued by the Canadian Securities Administrators (CSA)

The CSA brings together the capital markets regulators of Canada's ten provinces and three administrative territories and is responsible for ensuring investor protection and market integrity in their jurisdictions[208]. As such, the CSA makes recommendations to listed companies on the presentation of disclosure. Companies should therefore refer to:

- National Instrument 51-102 Continuous Disclosure Obligations, Part 5 on Management, Discussion and Analysis, dated 2011 and may be considered as part of the management report of the governing bodies. However, no content details are given.
- CSA Staff Notice 51-333 Environmental Reporting Guidance, published on 27 October 2010, provides recommendations for reporting environmental information. Since the main objective is to assess climate risk, the recommendations are qualitative on the different types of risks, the way they are monitored and the potential impacts. Many examples illustrate the different types of possible risks, but no mention is made of the use of specific standards. Forward-looking information is also required (expected target)

[206] The Accounting Standards Board (AcSB) is an independent body with the authority to establish accounting standards for use by all Canadian entities outside the public sector.
[207] Non-financial or operational measures: number of volunteers, employees, members, active users or new stores, and performance ratings on production output, client service, safety and reliability.
[208] The market regulators of Canada's ten provinces and three territories are united in the *Canadian Securities Administrators* Association, which aims to provide Canada with a harmonized securities regulatory framework. This association has three objectives: (i) investor protection; (ii) the maintenance of fair, efficient and transparent markets; and (iii) the reduction of systemic risk. Within this framework, provincial and territorial authorities collaborate on the design of common regulations and programs. In particular, a passport system has been put in place, allowing market participants to access the markets of all provinces and territories concerned by dealing only with the market authority of the province in which their head office is located.

– CSA Staff Notice 51-354 Report on Climate-related Disclosure Project, published on April 5, 2018, provides an overview of climate practices. This is a general study on the regulations in force in Canada, the United States and Australia, on four of the most frequently cited optional standards (TCFD, IIRC, GRI and SASB) and on the practices of 78 Canadian groups. The report gives rise to proposals, at this stage, on a possible convergence of climate reporting frameworks on the TCFD recommendations.

Other government initiative on climate change

The Ministers of Environment and Climate Change and Finance established an expert panel on Sustainable Finance in 2018 to make recommendations on climate change reporting as a follow-up to the TCFD recommendations. At this stage, the consultation on the basis of an interim report has been completed since the end of January and the final report is expected by mid-2019[209]. This report could be the basis for more prescriptive regulation.

Private initiatives

The accounting profession in Canada (CPA Canada) is very active on the subject of climate change and CFTD recommendations, and has published numerous reports to this effect:

- ✓ Investor Perspectives on TCFD Recommendations, (December 2018)
- ✓ Canadian Perspectives on Implementing the TCFD Recommendations, (Juillet 2018)
- ✓ Climate Change Risk, Disclosure and the Evolving Role of Auditors, 2018
- ✓ Task Force on climate-related financial disclosures (TCFD): Overview
- ✓ State of Play: Study of Climate-related Disclosures by Canadian Public Companies, Juin 2017
- ✓ Climate Change Briefing: Questions for Directors to Ask, 2017
- ✓ Climate change-related disclosure: The regulators' perspective, Juin 2017
- ✓ An Evolving Corporate Reporting Landscape: A Briefing on Sustainability Reporting, Integrated Reporting and Environmental, Social and Governance Reporting, Juin 2015
- ✓ Climate Change Disclosures: Building a Better MD&A, 2008

The update of the study on climate change practices in Canadian listed companies is ongoing and is expected to be published in the second quarter of 2019.

Available practices and statistics

The results of the 2017 CSA study show that: 56% of issuers publish specific climate change information on a voluntary basis, the others either publish information that is difficult to understand or do not publish. Most issuers publishing climate change information indicate that they apply the GRI framework. This data may have changed since then with the finalization of the TCFD reports.

Ongoing actions and developments

- ✓ AsCB on the performance reporting framework: no action at the moment, pending feedback following the application of the performance reporting framework.

[209] ttps://www.canada.ca/fr/environnement-changement-climatique/services/changements-climatiques/groupe-experts-financement-durable.html

- ✓ Significant reluctance to add additional regulatory obligations for companies, but recognition of a complementary need for climate change recommendations and training. An alignment with the TCFD recommendations would be possible.

Appendix - 20 reporting criteria

Criteria	
	Related to the Strategy
1	**Strategic Analysis and Action:** The company declares whether or not it pursues a sustainability strategy. It explains what concrete measures it is undertaking to operate in compliance with key recognised sector-specific, national and international standards.
2	**Materiality:** The company discloses the aspects of its business operations that have a significant impact on sustainability issues and what material impact sustainability issues have on its operations. It analyses the positive and negative effects and provides information as to how these insights are integrated into the company's processes.
3	**Objectives:** The company discloses what qualitative and/or quantitative as well as temporally defined sustainability goals have been set and operationalised and how their level of achievement is monitored.
4	**Depth of the Value Chain:** The company states what significance aspects of sustainability have for added value and how deep in the value chain the sustainability criteria are verified.
	Related to the Management Process
5	**Responsibility:** Accountability within corporate management with regard to sustainability is disclosed.
6	**Rules and Processes:** The company discloses how the sustainability strategy is implemented in the operational business by way of rules and processes.
7	**Control:** The company states how and what performance indicators related to sustainability are integrated into its periodical internal planning and control processes. It discloses how suitable processes ensure reliability, comparability and consistency of the data used for internal management and external communication.
8	**Incentive Schemes:** The company discloses how target agreements and remuneration schemes for executives and employees are also geared towards the achievement of sustainability goals and how they are aligned with long-term value creation. It discloses the extent to which the achievement of these goals forms part of the evaluation of the top managerial level (board/managing directors) conducted by the monitoring body (supervisory board/advisory board.
9	**Stakeholder Engagement**: The company discloses how the socially and economically relevant stakeholders are identified and integrated into the sustainability process. It states whether and how an ongoing dialogue takes place with them and how the results are integrated into the sustainability process.
10	**Innovation and Product Management:** The company discloses how innovations in products and services are enhanced through suitable processes which improve sustainability with respect to the company's utilisation of resources and with regard to users. Likewise, a further statement is made with regard to if and how the current and future impact of the key products and services in the value chain and in the product life cycle are assessed.
	Relating to environmental aspects

11	**Usage of Natural Resource:** The company discloses the extent to which natural resources are used for the company's business activities. Possible options here are materials, the input and output of water, soil, waste, energy, land and biodiversity as well as emissions for the life cycles of products and services. .
12	**Resource Management:** The company discloses what qualitative and quantitative goals it has set itself with regard to its resource efficiency, in particular its use of renewables, the increase in raw material productivity and the reduction in the usage of ecosystem services, which measures and strategies it is pursuing to this end, how these are or will be achieved, and where it sees there to be risks.
13	**Climate-Relevant Emissions:** The company discloses the GHG emissions in accordance with the Greenhouse Gas (GHG) Protocol or standards based on it and states the goals it has set itself to reduce emissions, as well as its results thus far.
	Relating to social aspects
14	**Employee Rights:** The company reports on how it complies with nationally and internationally recognised standards relating to employee rights as well as on how it fosters staff involvement in the company and in sustainability management, what goals it has set itself in this regard, what results it has achieved thus far and where it sees risks.
15	**Equal Opportunities:** The company discloses in what way it has implemented national and international processes and what goals it has for the promotion of equal opportunities and diversity, occupational health and safety, participation rights, the integration of migrants and people with disabilities, fair pay as well as a work-life balance and how it will achieve these.
16	**Qualifications:** The company discloses what goals it has set and what measures it has taken to promote the employability of all employees, i.e. the ability of all employees to participate in the working and professional world, and in view of adapting to demographic change, and where risks are seen.
17	**Human Rights:** The company discloses what measures it takes, strategies it pursues and targets it sets for itself and for the supply chain for ensuring that human rights are respected globally and that forced and child labour as well as all forms of exploitation are prevented. Information should also be provided on the results of the measures and on any material risks.
18	**Corporate Citizenship:** The company discloses how it contributes to corporate citizenship in the regions in which it conducts its core business activities.
	Related to anti-corruption and fraud aspects
19	**Political Influence:** All significant input relating to legislative procedures, all entries in lobby lists, all significant payments of membership fees, all contributions to governments as well as all donations to political parties and politicians should be disclosed by country in a differentiated way.
20	**Conduct that Complies with the Law and Policy:** The company discloses which measures, standards, systems and processes are in place to prevent unlawful conduct and, in particular, corruption, how they are verified, which results have been achieved to date and where it sees there to be material risks. The company depicts how corruption and other contraventions in the company are prevented and exposed and what sanctions are imposed.

CSR is a relatively recent practice in China, although increasingly promoted by the state. Since **2006**, non-financial reporting has been incorporated into Chinese law, with the impetus of state-owned enterprises[210] and stock exchanges in Shenzhen and Shanghai[211]. The CSR reports of Chinese companies reflect the institutional pressures (legislation, standards, stakeholder expectations, etc.) that have been renewed and increased over the past decade. The provisions adopted by the Shenzhen and Shanghai stock exchanges in 2006 and 2008 created an obligation for listed companies to publish a CSR report, set targets and report by publishing information[212]. In 2012, 617 listed companies published a CSR report.

This **growing requirement for non-financial reporting is accompanied by increasing environmental regulation, due in** particular to pressure from civil society, significant environmental degradation (i.e. air, soil and water pollution) and a demand for greater traceability of manufacturing production. A 2008 decree requires local environmental agencies to publish information in the press about companies that do not comply with environmental standards**.**

Current regulatory framework

The development of CSR policies and guidelines in China is mainly the responsibility of the Ministry of Commerce, which considers CSR as a major factor in transforming the economic growth model.
There are a dozen important legislative texts structuring the legal approach to CSR with, since 2002, the law on occupational safety. In 2005, the law governing company law in China introduced a provision on CSR. Article 5 of the Business Code states in particular that "in its operations, a company must comply with laws and administrative regulations, social morality and business ethics. It must act in good faith, accept government and public supervision and bear the weight of its social responsibilities. In 2007, 2008 and 2009, several regulations continued this trend.

SASAC, an organisation emanating from the State Council, publishes guidelines to promote CSR in state-owned enterprises, foreign-invested enterprises and banks. The regulatory framework is strengthened by institutional action expressed through a central planning State, whose orientations are given by the Central Committee of the Chinese Communist Party (CCPC), which sets a guiding framework. The issues of economic transformation and mutation and CSR are clearly addressed. The policy of building a harmonious society is a reference framework for the whole country, for the local level and of course for the action of companies. Attempts at self-regulation by some professional associations complement a

[210] Chinese state-controlled companies are encouraged to communicate through a range of institutional mechanisms such as Labour Contract Law and in particular the Guidelines to the Stateowned Enterprises Directlyunder the Central Government on Fulfilling Corporate Social.
[211] A report published in 2017 by Syntao Green Finance, a China-based provider of ESG data, found companies listed on the Shanghai and Shenzhen stock exchanges have released more than 5,300 corporate social responsibility (CSR) reports. Another 5,600 have been released by non-listed companies (source : http://www.fundsglobalasia.com/june-2018/esg-china-gets-serious-about-esg)
[212] Since 2006, the law has required companies listed on the Shenzhen Stock Exchange to publish a CSR report (*SSE guidelines*) and in 2008, the Shanghai Stock Exchange published a CSR *Notice* and a guide (*Shanghai Environmental Disclosure Guidelines) for* listed companies.

system that, in addition to a set of technical provisions, encourages companies to set themselves ambitious CSR and governance objectives.

Ongoing developments in China

- By 2020, all listed companies and issuers will have to implement ESG reporting [213](CSRC regulations);
- There is increasing progress in ESG information collection, although China remains behind[214];
- There are local specificities of Chinese reporting standards that require investors to use local ESG analysts;
- There has been a significant increase in shareholder engagement; and
- There is real and growing investor pressure - particularly in that China is a leader in green bond issuance.

[213] The China Securities Regulatory Commission has introduced new requirements that by 2020 will mandate all listed companies and bond issuers to disclose ESG risks associated with their operations in their annual or semi-annual reports: http://english.sepa.gov.cn/News_service/media_news/201706/t20170614_415970.shtml .

[214] "Nonetheless, many Chinese companies have been slow to respond to investors' growing appetite for green finance. In 2016, less than a third of China's listed companies voluntarily published information related to their ESG risks and impacts, and that year, the China Forum of Environmental Journalists released a report concluding that only about 27% of the same companies created reports about their ESG performance. As recently as 2015, Shanghai's Fudan University found that ESG disclosures in the reports of 170 companies across 14 sectors listed on the Shanghai Stock Exchange was unreliable" (source: https://www.lexology.com/library/detail.aspx?g=61af067d-4fd6-4ad9-91d6-bb01037fb166). https://www.chinadailyhk.com/articles/167/146/232/1537364876798.html

Introductory elements on corporate governance in Japan (ongoing improvement)

Japanese corporate governance has long been one of the least advanced among developed economies, and significantly behind the country's level of development (OECD, 2015)[215], both because of the characteristics of the Japanese economic fabric (which is characterized by the existence of long-standing family businesses) and the gradual divergences with Anglo-Saxon corporate law during the second half of the 20th century.

However, corporate governance remains a central element of economic competitiveness, due to its significant influence on access to and allocation of equity capital and the monitoring of corporate performance. As a result, **poor corporate governance has hampered corporate financial performance** (with a significantly lower return on investment than that of European companies) **and has maintained a productive investment deficit**. In particular, Japan is characterized by **excessive cash accumulation** (*i.e.* hoarding liquidity on the balance sheet)[216], which hinders companies' ability to invest and increase basic wages in a context of sustainable deflation (IMF, 2014[217]), and makes it difficult for both exports and domestic consumption to recover.

Also, the **reform of the corporate governance framework is an integral part of the third axis of Shinzo Abe's economic strategy[218]**.

- ✓ Several measures have recently been taken to improve the governance framework for Japanese companies:
  - In January 2014, the **JPX-Nikkei 400 Index was** launched by the *Japan Exchange Group to* stimulate the stock market and create a more readable investment framework for international investors. This index is composed of 400 Japanese companies selected on the basis of quantitative criteria (such as return on equity and operating

[215] The boards of directors of Japanese companies are characterized by their **lack of efficiency and transparency**. They meet on average more frequently than in the United States, for example, but discuss more management details than the company's overall strategy. In addition, several recent scandals (*i.e.* falsification of accounts, abuse of corporate assets) have highlighted this lack of governance of Japanese companies.

[216] This **accumulation of cash is** justified by the Japanese business environment (the legal risk and high cost of bankruptcy proceedings, for example, favour the holding of precautionary savings by business leaders), the period of sustained deflation in Japan (which favours the holding of liquidity) and the financial crises (1997, 2008) which impose deleveraging processes. In addition, several studies show that in the absence of corporate governance, shareholders have a preference for liquidity hoarding (Dittmar et al. 2003).

[217] Aoyagi and Ganelli, "*Untash the cash! Corporate Governance reform in Japan*", IMF Working Paper 14/140, August 2014.

[218] As a reminder, Japan has not experienced sustained positive inflation since the late 1990s due to structural factors (accelerating population ageing, slowing down of the positive effects of technological catching-up) and cyclical factors (lasting effects of the 1997 and 2008 crises). Following his election in December 2012, Prime Minister Shinzo Abe launched a new economic strategy (***Abenomics***), based on *three* axes ("*three arrows*") and aimed at getting the Japanese economy out of deflation: (i) a fiscal consolidation path, combining short-term stimulus plans and medium-term fiscal consolidation; (ii) a *quantitative and* qualitative monetary easing monetary policy (QQE) committing the Japanese central bank to a 2% inflation target (initially two years ahead - subsequently extended); and **(iii) a series of structural reforms, with the priority objective of restoring business investment to its pre-crisis level and returning the economy to growth of around 2%** in **the medium term.**

income) and qualitative criteria (such as the presence on the Board of at least two independent external directors and the implementation of IFRS accounting standards);

- In February 2014, a **Stewardship Code for Institutional Investors**[219] was launched under the aegis of JFSA and revised in May 2017[220]. Institutional investors[221] adopting the code are required to engage in a constructive dialogue with the companies in which they invest with a view to greater supervision of key corporate decisions, including regular reporting on the exercise of their voting rights in accordance with the comply or explain principle;

- In June 2015, a **Corporate Governance Code** came into force, under the aegis of JFSA, based on the corporate governance principles established by the OECD and the Japanese Companies Act revised in June 2014. It is based on five main principles:

  (i) Respect for the rights and equal treatment of shareholders (including minority and foreign shareholders);
  (ii) Cooperation with non-shareholder stakeholders (employees, customers, local population) and the promotion of diversity;
  (iii) Communication and transparency of information (especially non-financial information);
  (iv) The Board of Directors must set the main strategic orientations and ensure effective, independent and objective control of the company. Companies must effectively **use at least two independent external directors**[222]; and
  (v) Companies must engage in a constructive dialogue with shareholders.

Recent developments

✓ In its thematic review on corporate governance published in April 2017[223], the Financial Stability Board (FSB) concluded that all FSB member jurisdictions, including Japan, have an effective corporate governance framework. In particular, the

[219] Principles for Responsible Institutional Investors, « Japan's Stewardship Code to promote sustainable growth of companies through investment and dialogue », 29 mai 2017. Available online: http://www.fsa.go.jp/en/refer/councils/stewardship/20170529/01.pdf
[220] This code of conduct for institutional investors is based on the ***UK Stewardship Code*** adopted in 2010.
[221] Institutional investors have accounted for almost half of Japan's shareholding since the early 2000s, while the latter has hitherto been characterized by the predominance of individual shareholders and Japanese financial and non-financial companies. The **"main bank" system**, which differs from the Anglo-Saxon system of corporate governance, has allowed close links between a company and the bank holding shares in that company, favouring the immobility of Japanese companies.
[222] Japanese companies are characterized by the domination on the board of directors of individuals with close ties to the company (e.g. long-term employees, directors from banks involved in financing the company) who play a central role in decision-making (source: OECD). In June 2014, the revised Company Law had encouraged the appointment of at least two independent external directors to the Board of Directors.
It should be noted that under Japanese company law, the external director must not have any current or past experience (as a director, corporate officer or employee) in the company or one of its subsidiaries. The independent director is free of interests and must not find himself in a situation likely to alter his independence of judgment or place him in a conflict of interest situation. As a reminder, in France, the Afep-MEDEF code defines an independent director as "a director [who] has no relationship of any kind whatsoever with the company, its group or its management that could compromise the exercise of his or her freedom of judgment" (article 9.1).
[223] FSB, "Thematic Review on Corporate Governance", 28 April 2017. Available online: http://www.fsb.org/2017/04/thematic-review-on-corporate-governance/

FSB highlighted transparency mechanisms on compensation (when it exceeds a given level), the mechanism for self-assessment by boards of directors of their performance and transparency to shareholders on the appointment process for members of the board of directors.

- ✓ **In its July 2017 review of Japan under Article IV, the IMF highlighted efforts to reform the corporate governance framework but reiterated the need to improve the compliance of companies**, including pension funds, with the codes that have entered into force. Their non-binding nature makes it essential for the Japanese government to provide impetus to change deeply rooted corporate governance practices. In this sense, the IMF also recommended that the government should be more ambitious in appointing external directors and in setting regulatory limits for cross-shareholdings[224].

- ✓ In this vein, the **GPIF[225] revised its investment principles and code of conduct in October 2017, in order to** comply with the applicable conduct requirements and to take into account ESG indices in its investment strategy. The adoption of principles of good conduct by the GPIF is also intended to inspire managers who work under delegation of GPIF management.

  In addition, in July 2017, the[226]GPIF announced the implementation of a **passive investment strategy in three Japanese non-financial indices**[227] (including one focusing on gender equality), allocating up to 10% of its equity portfolio to environmentally and socially responsible investments. The GPIF hopes that this new asset allocation strategy will encourage Japanese companies to improve their environmental and social performance while increasing their return on investment over the long term.

- ✓ The **Corporate Governance Code was revised in June 2018 by the Tokyo Stock Exchange** (TSE), based on proposals from the Committee of Experts on the Monitoring of the Japanese Stewardship Code and the Japanese Corporate Governance Code - co-chaired by JFSA and the TSE. The revision of the Code, which largely concerned shareholder remuneration and the reduction of cross-shareholdings, aims to make Japanese companies more attractive to foreign investors (with an increasing reporting requirement).

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[224] **Cross-shareholdings** refer to a situation in which two companies each hold a fraction of the other's capital. This system flourished in Japan in the second half of the 20th century and these business conglomerates now constitute a significant part of the country's industrial production.

The Government Pension Investment Fund (GPIF) is the public body managing most of the public pension reserves and the **largest fund in the world** (ahead of the Norwegian oil fund, called the Global Pension Fund and managed by the Bank of Norway) and is among the top 10 shareholders of 99% of Japanese companies. It manages approximately **157 trillion yen of outstanding amounts** (September 2017 data[225] - approximately $138 trillion) and behaves like an essentially passive fund, taking units based on the weightings of the Topix index (i.e. the Tokyo Stock Price Index, the Tokyo Stock Exchange index with the Nikkei 225).

[226] Reuters, "Japan's GPIF expects to raise ESG allocations to 10 percent", 14 July 2017.

[227] GPIF, "GPIF selected ESG indices", July 3, 2017. Available online.

The GPIF has selected three ESG indices: FTSE Blossom Japan Index; MSCI Japan ESG Select Leaders Index; and MSCI Japan Empowering Women Index.

Extra-financial reporting framework in Japan

The **Corporate Governance Code lays the**[228] foundations, through general principles, for taking into account long-term challenges within companies.

> **General Principle 2**
>
> Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.
>
> The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

The commentary to this principle underlines as follows:

> Companies have a variety of important stakeholders besides shareholders. These stakeholders include internal parties such as employees and external parties such as customers, business partners and creditors. In addition, local communities form the foundation for the on-going business activities of companies. Companies should fully recognize that appropriate cooperation with these stakeholders is indispensable in achieving sustainable growth and increasing corporate value over the mid- to long-term. Given the recent and growing interest in social and environmental problems worldwide, taking positive and proactive measures toward ESG (environmental, social and governance) matters may also be included as part of this cooperation.

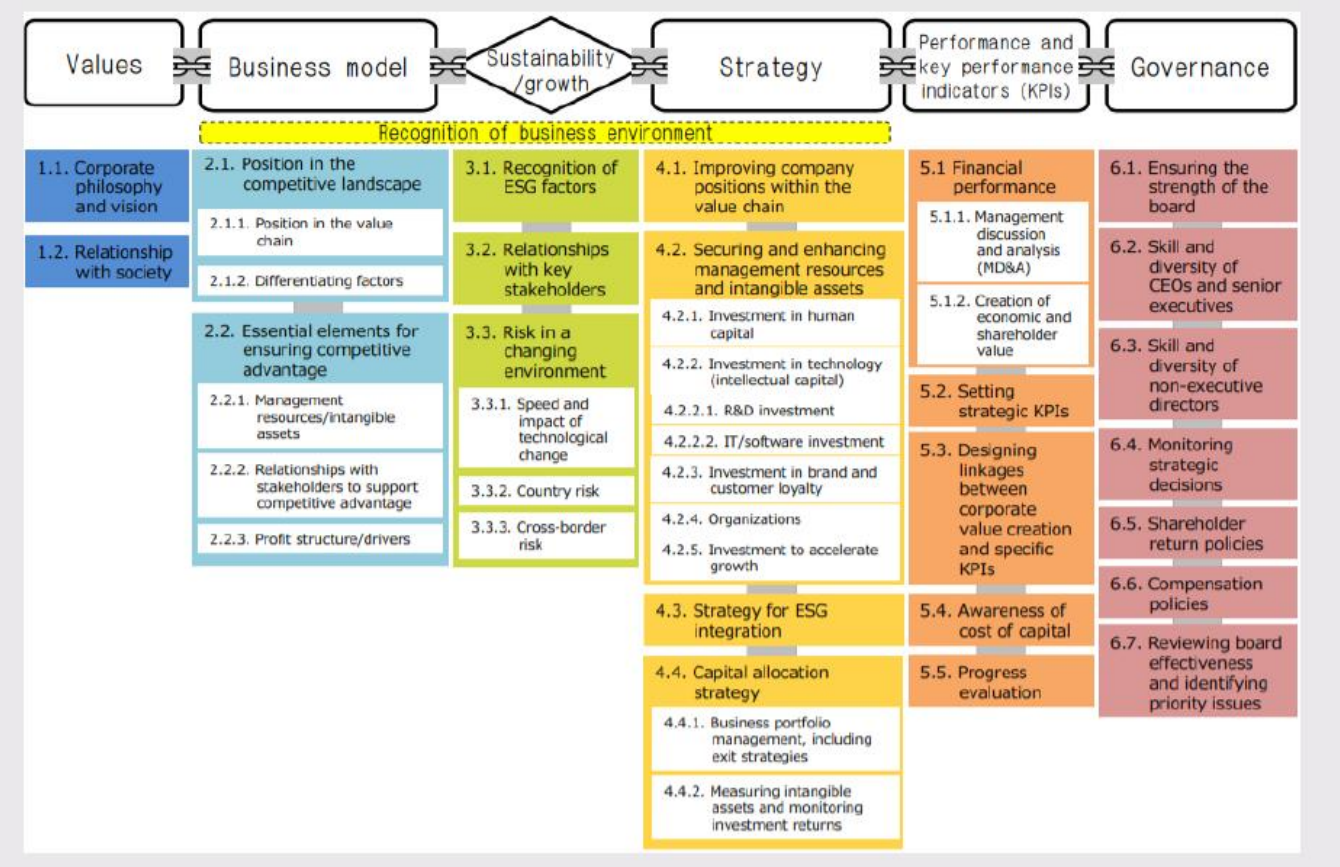
Companies must therefore take appropriate measures to address sustainable development issues, including social and environmental issues" (Principle 2.3). The Code also emphasises that taking these dimensions into account is an integral part of corporate risk management, with the **Board of Directors being vigilant on** these issues (fiduciary duty of the members of the Board of Directors).

Principle 3 of the Corporate Governance Code also specifies the disclosure principles applicable to companies, including reporting on non-financial information: "This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risks and governance".

[228] https://www.jpx.co.jp/english/news/1020/b5b4pj000000jvxr-att/20180601.pdf

Evolution of non-financial reporting practices in Japan[229]

According to the CDSB and the IICRD, **Japan is the second largest country in the world in terms of integrated reporting**, given regulatory advances and the publication by the *Ministry of Economy, Trade and Industry* (METI) of guidelines on value creation (*Guidance for Collaborative Value Creation*) to promote corporate transparency and dialogue between issuers and investors - which focuses particularly on the link between sustainable growth, ESG integration, capital allocation strategy (*i.e.* measuring intangible capital). There are about 20 mandatory ESG reporting provisions in Japan, the vast majority of which focus on environmental issues and a minority on social issues.



In 2017, the Japan Exchange Group joined the Sustainable Stock Exchanges Initiative, established a committee on sustainable finance and expressed support for the TCFD's recommendations. The GPIF signed the Principles for Responsible Investment in 2015 and socially responsible investment grew significantly by 143% between 2016 and 2017.

In December 2018[230], **METI published guidelines on the implementation of TCFD recommendations in Japan**, following the work of a study group on the implementation of TCFD recommendations launched in August 2018. These guidelines include comments on the TCFD's recommendations, including their relationship to the key principles of the Corporate Governance Code, as well as sectoral details (automotive; iron and steel; chemical industry;

[229] https://docs.wbcsd.org/2019/02/Corporate_and_sustainability_reporting_trends_in_Japan.pdf
https://www.bsr.org/en/our-insights/blog-view/esg-socially-responsible-investing-japan-exciting-new-era
https://esg.theasset.com/ESG/33728/financial-magazine-for-asias-decision-makers
http://www.sseinitiative.org/fact-sheet/japan-exchange-group/
[230] https://www.meti.go.jp/english/press/2018/pdf/1225_006b.pdf

electronics sector; energy). It should be noted that METI states in its guidelines that it will develop guides to good practice on the implementation of TCFD, but will not revise its Guidance in the future.

It should be noted that the METI Guidance explicitly refers to SASB standards as a useful disclosure framework to meet TCFD requirements (page 11 of the document).

Overview of the METI's TCFD guidance

- In order to realize substantial emission reduction based on the Paris Agreement, it is important to produce bold innovation and create mechanisms to secure private funds for them.
- By properly disclosing corporate efforts on climate change based on TCFD, **"the virtuous cycle between environment and economic growth"** is realized, in which investors fund the active efforts of companies and gain returns. This guidance was created to show the first step to implement disclosure based on TCFD

Chapter 1 (Introduction)

*TCFD; Task Force on Climate-related Financial Disclosures

- The idea of considering the ESG (especially climate change) factor in long-term investment decisions has advanced, and TCFD* published the final report in June 2017.
- This guidance boosts disclosure of companies based on TCFD **by adding commentary on the final report of TCFD**.
- It is not necessary to complete disclosure from the beginning, **it is important to start disclosure from where possible**.
- METI will **accumulate best practices for disclosure** based on TCFD and will **further revise guidance** in the future.

Chapter 2 (Commentary on TCFD recommendation)

Questions on TCFD recommendations by companies and financial institutions are resolved by commentary based on the opinions of financial institutions, actual disclosure practices and discussions at the time of formulation of TCFD recommendations.

[Explained items]

- **Media for information disclosure**
  - Material information should be disclosed in financial reports, but others can be reported in other media such as integrated reports etc.
- **Explanation of 4 themes of TCFD recommendation (governance, strategy, risk management, metrics and targets)**
  - Method of scenario analysis: Existing scenarios such as IEA's scenarios and how to analyze by referring them are introduced.
  - Methods of disclosing metrics and targets: Story-based disclosure on how they will lead to corporate value creation is recommended.
- **How to disclose in companies with different business models**
  - Disclosure according to the impact of each business models on climate change is recommended.
- **How to disclose in small and medium-sized enterprises**
  - Companies that is able to contribute to climate change should actively disclose their business opportunities.

Chapter 3 (Sector-specific guidance)

Desirable strategies as well as recommended disclosure items for different industries with different risks and opportunities for climate change are explained.

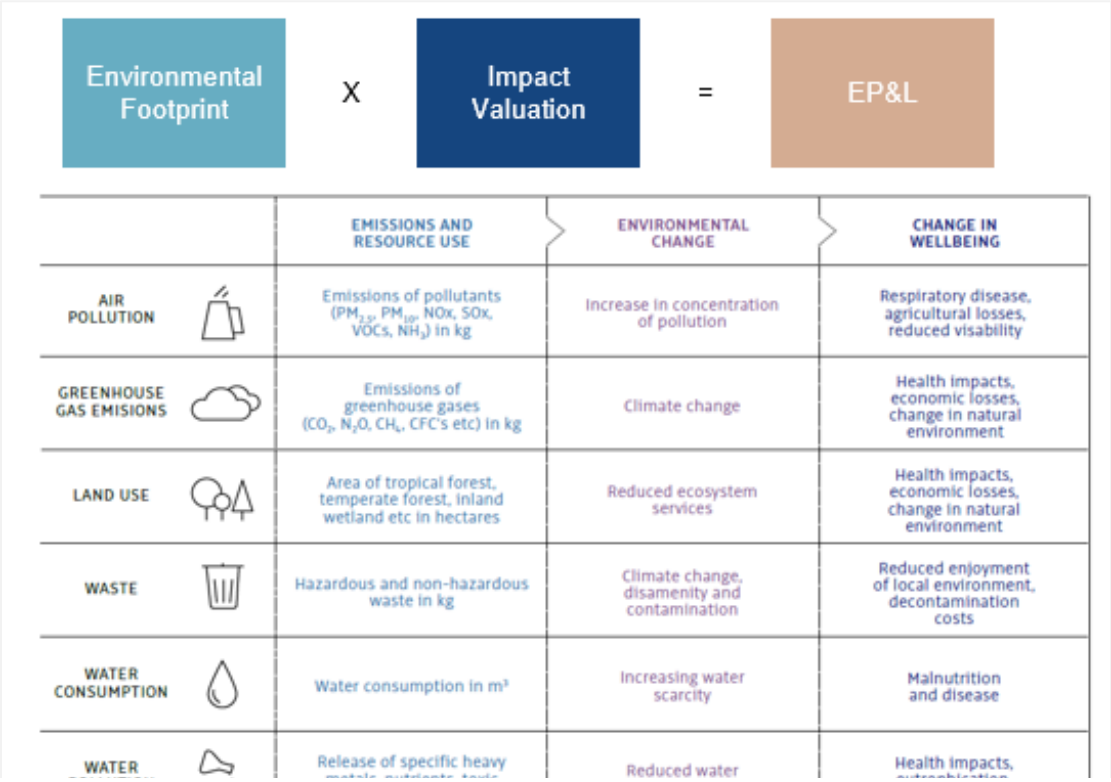
[Examples of recommended disclosure items]

- **Automobiles**
  - R&D of vehicles leading to emission reduction during driving phase
- **Iron and steel**
  - Efforts on improving efficiency (energy intensity) of production process
- **Chemicals**
  - Avoided emission by environmental contributing products and R&D efforts for them
- **Electrical and electronic**
  - IoT solution leading to emission reduction and development for energy saving technologies
- **Energy**
  - R&D for renewable energy and high efficiency power generation facilities

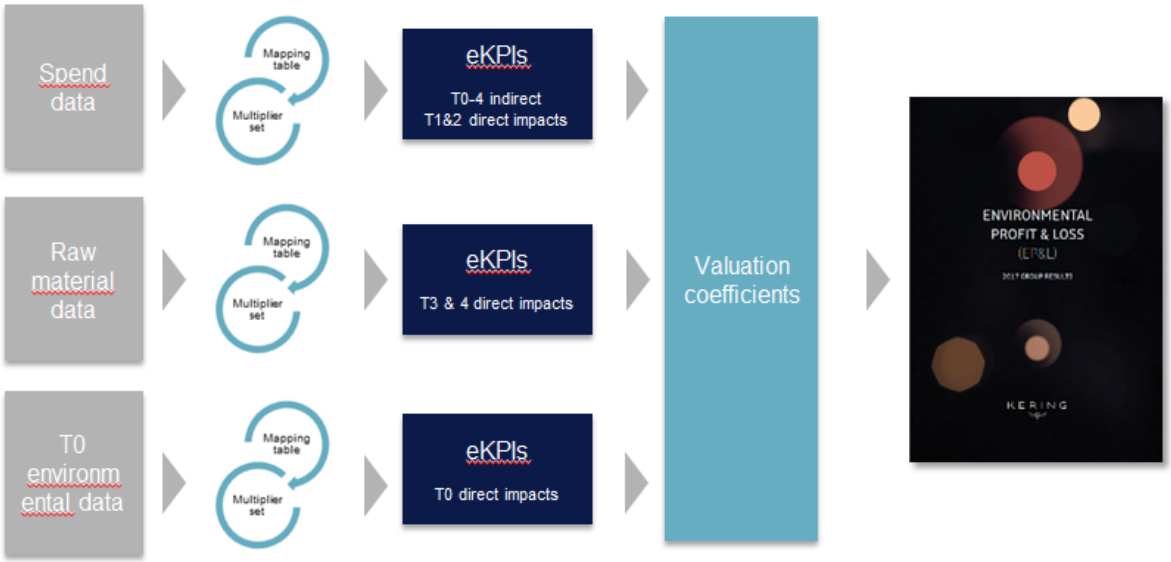
Appendix 10 - Kering's Environmental Profit & Loss (EP&L)

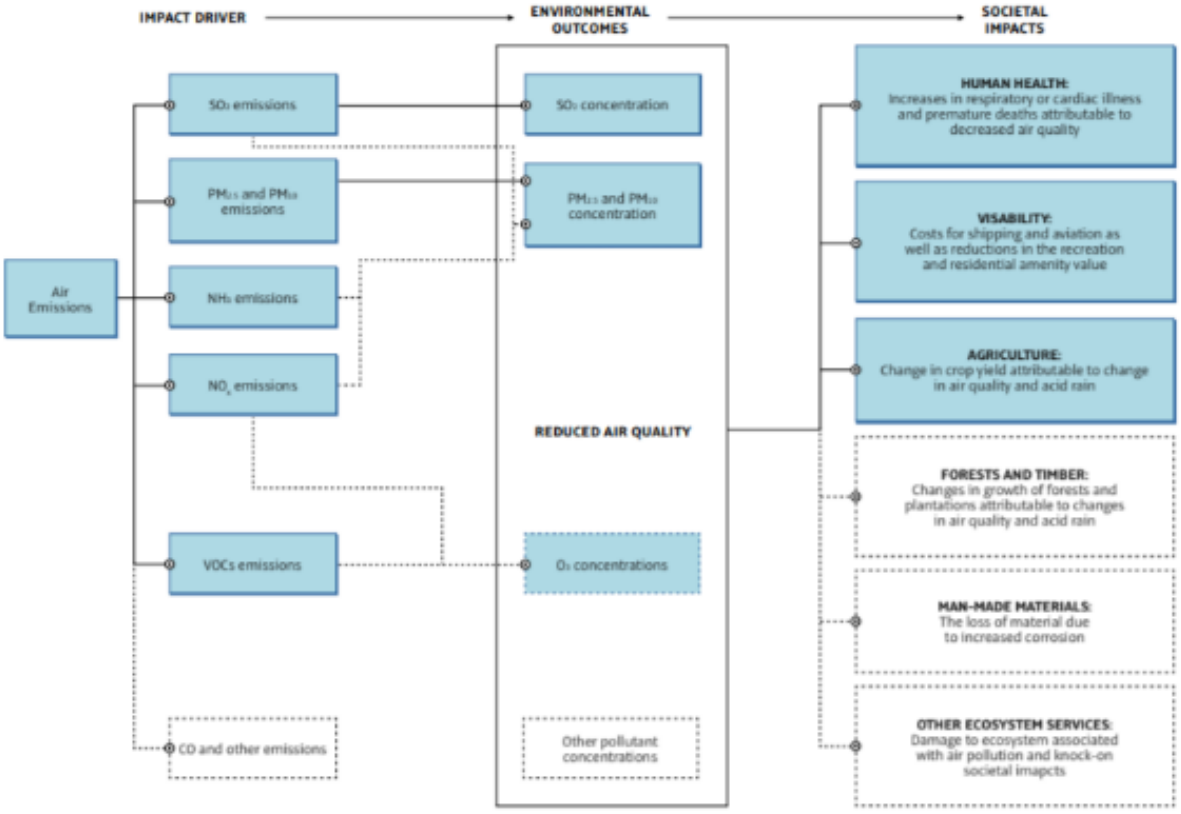
The objective followed by Kering is to provide a measure of the environmental impact (i.e. air pollution; greenhouse gases; land use; waste; water consumption and water pollution) of all the company's activities of its own activity (i.e. production and stores) but also of that induced by its subcontractors (i.e. those in charge of assembly, preparation of sub-components, processing of raw materials and production of raw materials).

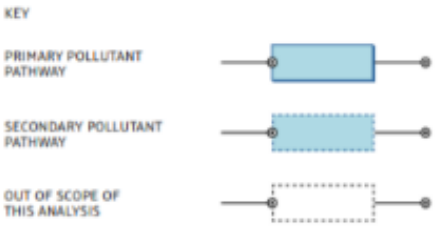
It can be summarized as follows, according to the information provided by Kering to the task force:



	EMISSIONS AND RESOURCE USE	ENVIRONMENTAL CHANGE	CHANGE IN WELLBEING
AIR POLLUTION	Emissions of pollutants ($PM_{2.5}$, PM_{10}, NOx, SOx, VOCs, NH_3) in kg	Increase in concentration of pollution	Respiratory disease, agricultural losses, reduced visability
GREENHOUSE GAS EMISIONS	Emissions of greenhouse gases (CO_2, N_2O, CH_4, CFC's etc) in kg	Climate change	Health impacts, economic losses, change in natural environment
LAND USE	Area of tropical forest, temperate forest, inland wetland etc in hectares	Reduced ecosystem services	Health impacts, economic losses, change in natural environment
WASTE	Hazardous and non-hazardous waste in kg	Climate change, disamenity and contamination	Reduced enjoyment of local environment, decontamination costs
WATER CONSUMPTION	Water consumption in m³	Increasing water scarcity	Malnutrition and disease
WATER	Release of specific heavy	Reduced water	Health impacts,




IMPACT DRIVER
ENVIRONMENTAL OUTCOMES
SOCIETAL IMPACTS
Air Emissions
SO_2 emissions
$PM_{2.5}$ and PM_{10} emissions
NH_3 emissions
NO_x emissions
VOCs emissions
CO and other emissions
SO_2 concentration
$PM_{2.5}$ and PM_{10} concentration
REDUCED AIR QUALITY
O_3 concentrations
Other pollutant concentrations
HUMAN HEALTH: Increases in respiratory or cardiac illness and premature deaths attributable to decreased air quality
VISABILITY: Costs for shipping and aviation as well as reductions in the recreation and residential amenity value
AGRICULTURE: Change in crop yield attributable to change in air quality and acid rain
FORESTS AND TIMBER: Changes in growth of forests and plantations attributable to changes in air quality and acid rain
MAN-MADE MATERIALS: The loss of material due to increased corrosion
OTHER ECOSYSTEM SERVICES: Damage to ecosystem associated with air pollution and knock-on societal imapcts


KEY
PRIMARY POLLUTANT PATHWAY
SECONDARY POLLUTANT PATHWAY
OUT OF SCOPE OF THIS ANALYSIS

1. **SPECIFY CHARACTERISTICS OF EMISSIONS LOCATION**

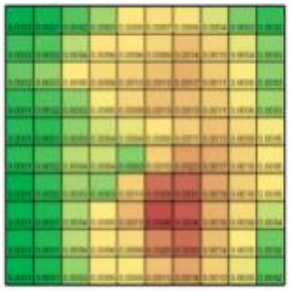
   A. Identify source of emissions and set a standardised dispersion grid around location
   B. Plot population density in grid
   C. Source 6 hourly weather data for the year, including wind speed, temperature and air mixing height above ground

Paris showing emission source:

2. **RUN DISPERSION MODEL TO ESTIMATE CHANGE IN CONCENTRATION**

   A. We use a dispersion model to estimate how pollutants move in air
   B. This takes into account detailed weather data from nearby weather monitoring stations

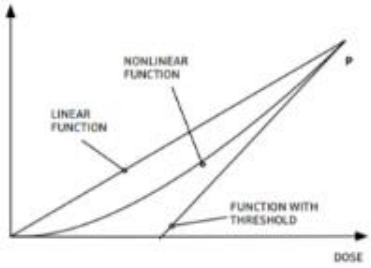
Dispersion of pollutants in air



3. **ESTIMATE CONTRIBUTION TO HEALTH ISSUES**

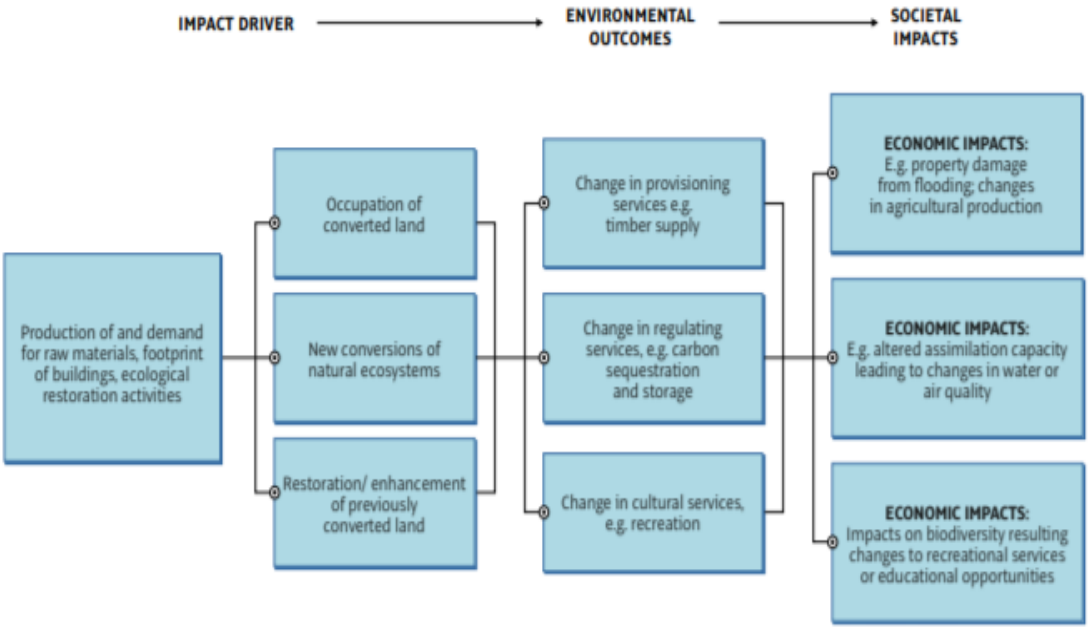
   A. The dispersion model combined with the population distribution tells us how many people are likely to be exposed, and to what level of pollution
   B. Dose response functions, derived from medical research, indicate the incremental likelihood that the exposed population will suffer health issues as a result of the emissions

Dose Response:



4. **RUN DISPERSION MODEL TO ESTIMATE CHANGE IN CONCENTRATION**

   A. In order to ascribe a value to the health impacts of air pollution we draw on the work of governments and institutions such as the OECD
   B. Policy makers must value health in order to prioritise public spending and there is an established method to do so
   C. The underlying values are based on people's willingness to trade off financial gains with an incremental level of risk to their health



Ap

The different proposals for non-financial reporting have over time led the various actors in the field to compare themselves, as well as, in particular, to highlight their common proposals. In addition to the joint initiative of the Corporate Reporting Dialogue, several joint multi-party documents and memoranda of understanding on the need to make progress on sustainable development reporting have been published[231] since 2010.

Common documents

First CSR instrument	Second CSR instrument	Name of paper
Global Compact	ISO 26000	An Introduction to linkages between UN Global Compact Principle and ISO 26000 Core Subjects (2010)
GRI	Global Compact	Making the connection. The GRI Guidelines and the UNGC Communication on Progress (2010)
GRI	ISO 26000	GRI and ISO 26000: How to use the GRI Guidelines in conjunction with ISO 26000 (2011)
ISO 26000	IICR	ISO 26000 and the International Integrated Reporting <IR> Framework briefing summary
SASB	GRI/IIRC	SASB, GRI and IIRC (Table on webpage)
CDSB	IICR	Making the connections (Table on webpage)
Global Compact	GRI	Business Reporting on the SDGs: An Analysis of the Goals and Targets (2017)
CDSB	SASB	Converging on climate risk: CDSB, SASB and the TCFD (September 2017)

[231] Source: D. Gibassier (2015).

Memorandum of Understanding

First CSR instrument	Second CSR instrument	Date
GRI	UNEP	2002
GRI	OECD	13 December 2010
GRI	CDP	24 May 2013
SASB	CDP	May 2013
CDP	Sustainability Consortium	
IICR	IFAC	7 September 2012
IICR	IASB	7 February 2013
IICR	GRI	1 March 2013
IICR	WICI	12 June 2013
IICR	CDP, CDSB	18 July 2013
IICR	SASB	16 January 2014
IICR	The Global Initiative for Sustainability Ratings	1 April 2014

Appendix 12 - Indicative Bibliography

(The task force consulted a very large number of books and reports, some of which are sometimes mentioned in footnote throughout the report. As such, this bibliography remains largely indicative).

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