

Frequently asked questions: Guidelines on disclosure of non-financial information

What will change? What information will be disclosed and how?

The European Commission has adopted today non-binding guidelines on the disclosure of non-financial information by companies. Their objective is to help companies fulfil the [requirement to disclose relevant and useful information](#) on environmental and social matters in a consistent and more comparable way. Such disclosure obligations are set out in the Directive on disclosure of non-financial and diversity information by certain large undertakings and groups ([Directive 2014/95/EU](#)), which entered into force on 6 December 2014.

The Directive stipulates some minimum requirements on the disclosure of non-financial information by certain large companies, while avoiding any undue administrative burden, in particular for the smallest companies.

Companies concerned will disclose in their annual report relevant information on:

- policies, outcomes and risks, including due diligence that they implement;
- relevant non-financial key performance indicators;
- environmental aspects, social and employee matters, respect for human rights, anti-corruption and bribery issues.

The **guidelines are not mandatory** and are intended to help companies to comply with the reporting requirements. They do not add any legal requirements and closely follow the balance found by the Directive in terms of legal requirement, scope and flexibility for companies.

Companies retain significant flexibility to disclose relevant information in the way that they consider most useful. Furthermore, they may use international, European or national guidelines according to their own characteristics or business environment, such as UN Guiding Principles on Business and Human Rights, ISO 26000, or the German Sustainability Code.

Why has the Commission issued these guidelines?

Appropriate non-financial disclosure is an essential element to enable sustainable finance. These guidelines propose that any company should

disclose relevant information on the actual and potential impacts of its operations on the environment, and on how current and foreseeable environmental matters may affect the company. Greater and more relevant transparency is expected to lead towards a major reduction of greenhouse gas emissions and climate-resilient growth and jobs.

This builds on the Commission's goal to develop a comprehensive EU strategy on sustainable finance as part of the Capital Markets Union and fits into the on-going work of the [High-Level Group on Sustainable Finance](#) established by the European Commission.

Both the existing EU [Directive on the disclosure of non-financial information](#) (Art. 2) and these new guidelines reflect current best practices and most recent developments at international level, including lessons from the [UN Sustainable Development Goals](#), the [Paris Climate Agreement](#) and the industry-led [Task Force on climate-related financial disclosures set up by the Financial Stability Board](#).

Who will benefit from the guidelines?

Transparency leads to better performance. All companies that disclose information on social and environmental matters reap significant benefits over time. The results of the [impact assessment accompanying the Directive](#) showed in particular that such benefits included lower funding costs, fewer and less significant business disruptions, stronger consumer loyalty, and better relations with stakeholders.

Well-informed business and investment decisions have much better chances to succeed. Investors, lenders and other stakeholders will benefit from a more informed and efficient decision process. Similarly, society at large will benefit from companies managing environmental and social challenges in a more effective and accountable way.

The guidelines will support companies in this process. They are principle-based to help companies across all sectors and are designed to be practical, business-oriented and impact-driven. Companies that use these guidelines will be able to better integrate material environmental and social information in their business cycle, innovate and adapt their reporting to the particular circumstances of their business, and further rely as appropriate on other reporting frameworks.

How did you come up with the guidelines?

The Commission has undertaken extensive public consultations including a broad, web-based [public consultation in 2016](#) which attracted 355 responses from companies, business associations, investors, public authorities, international organisations, professionals, service providers, NGOs, civil society and other stakeholders from EU and EEA Member States, as well as from third-party jurisdictions. The consultation process also included expert interviews, workshops with stakeholders and a consultation with the High Level Expert Group on Sustainable Finance organised by the Commission.

What are the next steps?

The Commission will continue to closely monitor the evolution of relevant reporting developments in the EU and globally, and the outcome of related initiatives such as the [High Level Expert Group on sustainable finance](#).

In practical terms, the Commission is currently reviewing the effective transposition of the Directive into national legislation by Member States. As companies start applying the requirements of the Directive in 2018 (on 2017 information), the Commission will also closely monitor this process.

In particular, Article 3 of the Directive requires the Commission to review the implementation of the Directive.

Who is subject to the reporting requirement of Directive/2014/95/EU?

The Directive applies to large public-interest entities with more than 500 employees. This includes approximately 6 000 large companies and groups across the EU, including listed companies and some unlisted companies (e.g. banks, insurance companies and other companies) that were designated by Member States because of their activities, size or number of employees. This way, the Directive strikes a fine balance between reaping the benefits of enhanced transparency while avoiding any undue administrative burden, in particular for smaller companies.

What has been the approach to disclosures related to conflict minerals? Why is this important?

Under these guidelines, companies in the scope of the Directive are expected to disclose relevant information on the performance of their policies and practices related to conflict minerals due diligence, notably by using performance indicators. Disclosures should be consistent with the OECD Due diligence Guidance for Responsible Supply Chains from Conflict-Affected and High Risk areas including its supplements.

Such disclosure will increase transparency, allowing for shareholder and public scrutiny of company practices in this field. This will bring us one step closer to breaking the link between conflict and the trade in minerals, and will contribute to the development of conflict affected areas by ensuring they truly benefit from their natural mineral resources.

To avoid creating an undue administrative burden, enterprises will be able to assess the relevance and proportionality of the expected information in their specific business context and take it into account when disclosing due diligence information. Moreover, the Commission encourages companies to disclose relevant information in a way appropriate to their own circumstances, sector and size.

Is the issue of business and human rights addressed in the guidelines?

Yes. The guidelines propose that companies disclose material information on potential and actual impacts of their business on human rights.

The guidelines further suggest companies to express their commitment to respecting human rights. Companies should consider making material disclosures on human rights due diligence, and on processes and arrangements implemented to prevent human rights abuses.

According to the guidelines, material disclosures may reflect how a company approaches, among others, the Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework.

Are the conclusions of the UN COP21 Paris Climate Agreement reflected in the guidelines?

Yes. Both the Directive and the guidelines contribute to implementing the [Paris Climate Agreement](#). Greater, more useful and relevant transparency is expected to lead to financial flows more consistently with a pathway towards a major reduction of greenhouse gas emissions and climate-resilient growth and jobs.

The guidelines propose that any company should disclose relevant information on the actual and potential impacts of its operations on the environment, and on how current and foreseeable environmental matters may affect the company.

How do the guidelines relate to the UN Sustainable Development Goals (SDGs)?

The General Assembly of the [United Nations adopted the SDGs](#) in September 2015, and the European Commission responded with the publication of its Communication on 'The next steps for a sustainable European future' on 22 November 2016 Building on the disclosure requirements of the Directive, the proposed guidelines make an important contribution towards the Sustainable Development Goals.

How do the non-binding guidelines relate to other reporting initiatives?

The Directive and the guidelines cover material information on environmental and social matters in a broad way. Other initiatives may focus on specific thematic issues, or may have a different approach to disclosures, for instance, be more detailed and prescriptive, rely less on materiality of information, or target specifically the interaction between financial and non-financial information. In most cases, the frameworks that a company may use are complementary. Companies decide on what broadly-recognised framework(s) they would rely on.

The Financial Stability Board (FSB) established in December 2015 an industry-led Task Force to develop recommendations for voluntary climate-related financial disclosures. The Task Force published draft recommendations on 14 December 2016 for public consultation. The final report will be presented to the G20 Summit on 7-8 July 2017. Its recommendations are voluntary and focus on climate-related financial disclosure. The work of the Task Force has been monitored closely by the Commission and taken into account, as far as possible, in the guidelines. In contrast, the Directive sets out mandatory disclosures in a non-prescriptive manner, across all material environmental and social aspects.

Integrated reporting refers to the integration by companies of financial, environmental, social and other information in a comprehensive and coherent manner. Neither the Directive nor the guidelines require companies to comply with integrated reporting.

The Commission is monitoring with great interest the evolution of relevant reporting initiatives in the EU and globally.

What is the connection with the Commission's High-Level Expert Group on sustainable finance?

The Commission established in December 2016 a High-Level Expert Group on Sustainable Finance. The group will publish its recommendations for an overarching and comprehensive EU strategy on sustainable finance by December 2017.

Transparency and non-financial disclosures are included in the mandate of the High-Level Expert Group on Sustainable Finance, which has been included in the public consultation process leading to the proposed guidelines.

For More Information

[Directive on 2014/95/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups](#)

General information on [non-financial reporting](#)

Information on [Sustainable Finance and the High-Level Expert Group on Sustainable Finance](#)