Getting Non-Financial Reporting Right:
EU Commission Guidelines Clarify Expectations Towards Business

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The European Coalition for Corporate Justice (ECCJ), the WWF European Policy Office and Amnesty International welcome the European Commission’s Guidelines on Non-Financial Reporting (NFR).

The Guidelines are, despite some shortcomings, a valuable guide to EU companies on complying with both the spirit and letter of the new EU legislation on disclosure of non-financial information. The EU Directive on Non-Financial Reporting, which Member States had to transpose by the end of 2016, requires certain EU companies to disclose information on their impact on society, human rights, environment and other areas.

The guidelines provide useful clarifications for the application of the Directive. These clarifications are especially essential to provide an understanding of how to assess the materiality of the information to be disclosed – which lies at the heart of non-financial disclosure. The explanations of which aspects need to be reflected in the reports will help businesses ensure that reporting does not end up as simple boilerplate disclosure.

In particular, we agree that the frequency and severity of business’s impacts on society, and the interests and expectations of relevant stakeholders are important factors for the selection process, with “investors, workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups, social partners and civil society” identified as potential stakeholders. We further welcome that the guidelines put a strong emphasis on the need to report on supply chains and other business relationships.

“These guidelines send a clear and strong message to business. They must be transparent about risks of human rights abuse in their supply chains. They must also allow people who are potential victims to understand if their rights are at risk,” said Nele Meyer, Senior Executive Officer from Amnesty International.

We further welcome the guidelines’ reference to the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises as the key standards for reporting on human rights. The UNGPs and the OECD Guidelines have codified the internationally recognized standards on the responsibility of corporations to respect human rights.

The NFR Directive has introduced a shift in the purpose of reporting: from placing the focus on the risk to the company only, to likewise taking risks to people into account. Unfortunately, the Commission missed an opportunity to offer more practical guidance to companies on how to identify and assess their human rights impacts.

We particularly welcome the clarification that companies who have not yet developed policies to address risks in their supply chain may not refrain from disclosing information about principal impacts and risks under the so-called comply or explain regime. Likewise, the fact that companies are allowed not to disclose certain information if that is “seriously prejudicial to [their] commercial position”, should not relieve them from disclosing this type of sensitive information in broader terms, or in a summarised form.

We regret that the guidelines do not adequately cover other essential issues, including resource efficiency indicators, best practices for the publication of the reports, or business’ impact and contribution to climate change scenarios.

“We welcome that the guidelines call for disclosure of forward looking information based on climate scenario analysis – a key recommendation of the FSB Task Force on climate-related financial disclosures published today.
Disappointingly, the guidelines do not explicitly refer to a 2°C climate scenario while the Task Force does. For WWF, 2°C alignment is critical to achieving the Paris Agreement,” explains Sebastien Godinot, Economist at WWF European Policy Office.

“These new corporate disclosure rules are part of a fundamental shift in assessing corporate performance and mark a significant step forward for improved corporate transparency,” says Jerome Chaplier, ECCJ Coordinator.

“For NFR to have a strong impact, EU Member States need to thoroughly monitor and enforce the Directive’s application. Companies have to produce quality reports that accurately cover their impacts and risks and plans to address them, especially in regards to supply chains in the global south,” concludes Mr Chaplier. (END)

Background:

Under the NFR Directive, up to 8,000 large EU companies will report annually - starting with 2017 - on their principal risks regarding environmental, social and employee matters, respect for human rights, anti-corruption and bribery issues, and board diversity. Companies will publish their first reports in 2018. The Directive will be revised end of 2018.

Companies are required to report on the human rights, environmental and social impacts of their global operations, as well as their policies and due diligence procedures for identifying, preventing, mitigating and addressing those impacts. Companies will have to disclose information in relation to their own operations and business relationships.

Our organisations have welcomed the Directive as an important step towards corporate transparency. We also call on the EU and its Member States to explore legislative reforms that establish a duty on companies to carry out human rights due diligence. Legislations passed in France and underway in The Netherlands illustrate the growing mandate for EU mandatory human rights due diligence legislation.

The European Coalition for Corporate Justice has created a short explanatory video about the Directive that can be viewed at this address.

The European Coalition for Corporate Justice (ECCJ) is the only European coalition bringing together campaigns and national platforms of NGOs, trade unions, consumer organisations and academics in order to promote corporate accountability, with 21 member groups representing over 250 organisations from 15 countries.

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Amnesty International is a global movement of more than 7 million people who take injustice personally. We are campaigning for a world where human rights are enjoyed by all.

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WWF’s mission is to stop the degradation of the planet’s natural environment and to build a future in which humans live in harmony with nature.

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