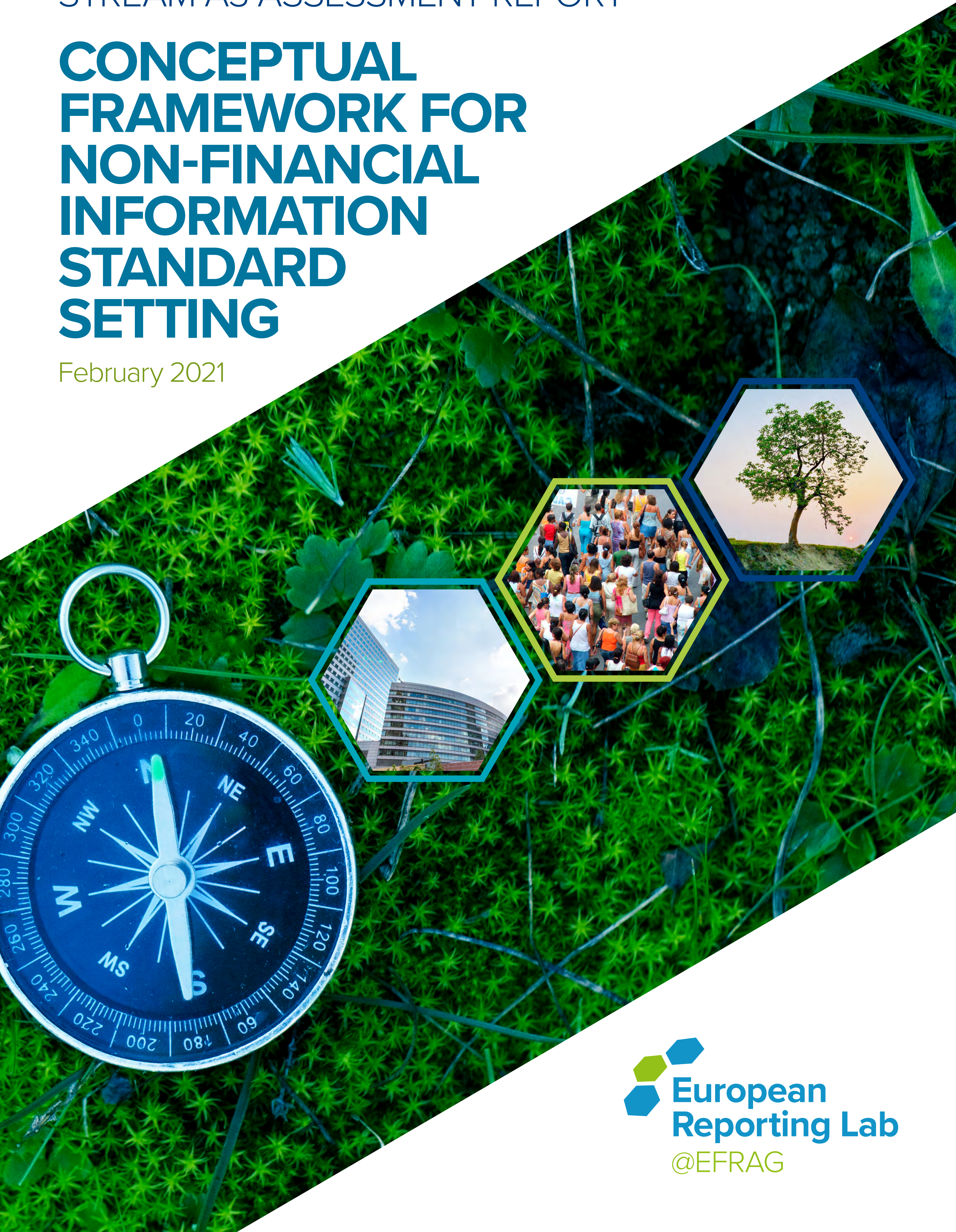
APPENDIX 4.3:
STREAM A3 ASSESSMENT REPORT

CONCEPTUAL FRAMEWORK FOR NON-FINANCIAL INFORMATION STANDARD SETTING

February 2021



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DISCLAIMER

This appendix forms part of a series of seven documents, comprising the report and its appendices prepared by the European Lab Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS), for submission to the European Commission in response to a mandate including a request for technical advice dated 25 June 2020.

The contents of the PTF-NFRS report and its appendices are the sole responsibility of the PTF-NFRS. The European Lab Steering Group Chair has assessed that appropriate quality control and due process had been observed to the extent possible within the context of the relevant mandate and the timeframe allowed, and has approved the publication of the PTF-NFRS report and its appendices. The PTF-NFRS report and its appendices do not represent the official views of EFRAG and are not subject to approval by the EFRAG governance bodies: EFRAG General Assembly and the EFRAG Board; or the European Lab Steering Group.

As regards the views expressed in the PTF-NFRS report and its appendices the following observations and clarifications should be noted:

- the PTF-NFRS report taken as a whole reflects a very large consensus;
- it is understood that members of the PTF-NFRS are not expected to endorse each and every one of the 54 detailed proposals in the PTF-NFRS report and may have different views on some of them;
- in addition the views expressed may not reflect the views of the organisations or entities to which individual PTF-NFRS members may belong;
- the assessment work for the different project focus areas, presented in Appendices 4.1 to 4.6 to the PTF-NFRS report, was the result of separate sub-groups of the PTF-NFRS, for which only peer review within the PTF-NFRS was performed.

Links are included in the PTF-NFRS report and its appendices to facilitate readers accessing the reference or source material mentioned. All such links were active and functioning at the time of publication.

Questions about the European Lab and its projects can be submitted to EuropeanLab@efrag.org.

EXECUTIVE SUMMARY

1 Based on the workplan that was presented and adopted by the PTF during its kick-off meeting on September 11, 2020 Stream A3 focused on the following assessment objectives:

a) review existing (explicit or implicit) frameworks and standards and summarise possible technical qualities expected from NFI standards,

b) consider the organisation of the current non-financial topics (Environmental, Social and Governance (ESG) and Human Rights matters) in light of the NFRD and its revision, and alignment with other EU legislative acts (environmental objectives of the taxonomy for instance),

c) assess the scope of reporting of existing frameworks and standards and identify perspectives on reporting of impacts of the whole value chain,

d) address the different materiality perspectives and identify approaches based on existing methodologies to assess materiality,

e) consider NFI more forward-looking rather than retrospective, documentation of objectives and scenario to report on the company's transition towards sustainable business model,

f) consider a standard structure composed of generic, sector and company specific issues and metrics,

g) analyse the range of metrics between absolute values, performance indicators and intensity ratios,

h) consider linkage with global policy priorities.

2 The assessment of each objective is structured as follows:

a) Definition and relevance of the topic;

b) Analysis; and

c) Key considerations for a potential EU NF Reporting Standards.

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INTRODUCTION AND OBJECTIVES

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5 In the analysis phase, stream A3 developed questions that together paint a picture of the current state of play of non-financial reporting related to the assessment objectives.

6 For each assessment objective, stream A3 assessed the NFRD and the following six existing frameworks and standards:

a) GRI Standards;

b) IIRC and the <IR> Framework;

c) SASB Standards;

d) United Nations Guiding Principles Reporting Framework;

e) EU Taxonomy; and

f) the TCFD recommendations.

7 These six frameworks and standards are considered by the European Commission (as evidenced by the reference in the current NFRD itself and/or in the consultation document on its revision, as well as the mandate of the PTF) and the PTF itself to be leading in non-financial reporting and are therefore included as core resources in the assessment.

8 Stream A3 has assessed additional frameworks, standards and guides when these resources deemed to be providing additional insight in the specific question raised. For example, when addressing the assessment objective ‘linkage with global policy priorities’, resources reflecting on these global policy priorities, such as the Sustainable Development Goals (SDGs), were included in the assessment.

9 The additional resources assessed include, but are not limited to, the GHG Protocol, the Eco-Management and Audit Scheme (EMAS), the Science Based Target initiative, the SDGs and the Future Fit Business Benchmark.

10 A summary of the key considerations for all the topics can be found at the end of the document as salient assessment points.

DETAILED ANALYSIS OF THE CURRENT STATE OF PLAY

CATEGORISATION AND TAXONOMY

Definition and relevance

11 Current non-financial information addresses a varied and (over time potentially) dynamic set of topics and sub-topics. Certain categories of information may be prescribed per topic (e.g., policies, risks, targets, metrics).

12 The manner in which topics are defined and organised is relevant for how reporting entities structure and present information and may influence how their materiality may be assessed in particular sectors and companies.

13 Article 19a) of the NFRD requires that non-financial statements contain information "relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

a) a brief description of the undertaking's business model;

b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;

c) the outcome of those policies;

d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;

e) non-financial key performance indicators relevant to the particular business."

14 For each non-financial matter specified in the NFRD (i.e., environment, social and employee issues, human rights, anti-corruption and bribery), the EC 2017 Non-Binding Guidelines on Non-Financial Reporting explain what kind of relevant information a company is expected to disclose.

15 In addition, for each category of non-financial information specified in the NFRD (i.e. business model, policies, outcomes, risks and key performance indicators), the EC 2017 Non-Binding Guidelines on Non-Financial Reporting provide additional elements explaining what information companies should disclose.

16 The consultation on the NFRD revision asked whether companies should be required to disclose information about any non-financial matters in addition to those already specified in the NFRD (i.e. environment, social and employee issues, human rights, and anti-corruption and bribery). Approximately 50 different non-financial matters were mentioned. The most frequent responses to this question were the Taxonomy Regulation, governance, and the supply chain; other responses make reference to lobbying, animal welfare, and consumer matters, amongst many others[1].

17 Given the demands of users following on from the NFRD consultation, there is a strong need for categorisation. Without proper categorisation, a report containing the numerous non-financial matters identified may be unstructured and difficult to read.

18 Some of the respondents such as users and preparers stressed the need for more concrete and detailed definitions of what non-financial information should be disclosed. Some national standards setters even propose to make a description of the content to be included in each category (environment, social and employee issues, human rights, anti-corruption and bribery).

1 Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive (2020)

19 Moreover, some preparers state that governance matters could be treated more broadly, without being limited to bribery and anti-corruption matters only. The scope of the governance matters could cover other topics relevant to business ethics and business conduct.

20 In addition, the consultation asked if companies should be required to disclose information about additional categories of non-financial information in addition to those already specified in the NFRD (i.e. business model, policies, outcomes, risks and key performance indicators). Approximately 240 different categories were mentioned. The most frequent category submitted by respondents is targets and companies' progress towards them. Other frequently mentioned categories were climate scenario analysis, forward-looking information, contribution to the UN Sustainable Development Goals, sustainability strategy, materiality assessment, the link between board remuneration and sustainability performance, and information aligned with the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation.

21 However, some preparers are concerned about a possible expansion of non-financial reporting when additional topics are included. They prefer not to expand the amount of requested information but to harmonise the existing requirements among Member States and stop the fragmentation of different frameworks.

22 Key question in PTF's analysis of the categorisation and taxonomy is: What are the different ways in which non-financial information can be organised and categorised and how can this be captured in a conceptual framework?

Analysis

What high level categories do existing initiatives use and based on what rationale (if that is expressed)?

23 High-level categorisations (may be dubbed 'themes', 'series', 'pillars', 'capitals' etc.) are generally variations of E, S and G (the broader concepts of sustainability) and are regularly expanded with areas that may well be part of ESG but are often separately presented as main categorisations: such as climate change, human rights, strategy, business model, tax, corruption, or general 'economics'.

24 Some key standards/frameworks address one dimension of sustainability reporting (e.g. UNGP Reporting Framework for human rights, EU Taxonomy for the environment, TCFD for climate) but still with category-specific subdivisions.

25 Within the main analysed frameworks and standards:

a) NFRD requires disclosure for each of the topics: Environmental, Social and employee matters, Respect for human rights, Anti-corruption and bribery matters. In particular,

(i) Environmental matters should contain details of the current and foreseeable impacts of the undertaking's operations on the environment, and, as appropriate, on health and safety, the use of renewable and/or non-renewable energy, greenhouse gas emissions, water use and air pollution;

(ii) As regards Social and employee-related matters, the information provided in the statement may concern the actions taken to ensure gender equality, implementation of fundamental conventions of the ILO, working conditions, social dialogue, respect for the right of workers to be informed and consulted, respect for trade union rights, health and safety at work and dialogue with local communities, and/or the actions taken to ensure protection and development of those communities;

(iii) Concerning Respect for human rights, non-financial statement could include information on the prevention of human rights abuses;

(iv) With regards to Anti-corruption and bribery matters, non-financial statements could include a description of the instruments in place to fight corruption and bribery.

b) The GRI Standards are divided into Topics, 200, 300, and 400 series[2], which include numerous topic-specific Standards, that guide companies in reporting information on impacts related to economic, environmental, and social topics. However, to prepare a sustainability report in accordance with the GRI Standards, an organisation has to apply also GRI 102: General Disclosures that require companies to disclose specific information about their business model, strategy, governance and risk management.

c) The <IR> Framework[3] aims to provide insight about the resources and relationships used and affected by an organisation – these are collectively referred to as the capitals. The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organisation. They are categorised in this Framework as: financial, manufactured, intellectual, human, social and relationship, and natural capital, although organisations preparing an integrated report are not required to adopt this categorisation or to structure their report along the lines of the capitals. Concerning the definition of capitals:

(i) Financial capital is described as the pool of funds that is available to an organisation for use in the production of goods and services, and obtained through financing (such as debt, equity or grants) or generated through operations or investments.

(ii) Manufactured capital is the set of manufactured physical objects that are available to an organisation for use in the production of goods and services (buildings, equipment, infrastructure).

(iii) Intellectual capital includes intellectual property and the so-called organisational capital.

(iv) Human capital is represented by people's competencies, capabilities and experience, and their motivations to innovate.

(v) Social and relationship capital is the set of institutions and relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being.

(vi) Natural capital represents all the environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation.

d) SASB sustainability topics[4] are organised under five broad sustainability dimensions: Environment, Social Capital, Human Capital, Business Model and Innovation, Leadership and Governance.

(i) The Environment dimension includes environmental impacts.

(ii) The Social dimension relates to the expectation that a business will contribute to society in return for a social license to operate.

(iii) The Human dimension addresses the management of a company's human resources as key assets to delivering long-term value.

(iv) The dimension of Business Model and Innovation addresses the integration of environmental, human, and social issues in a company's value-creation process.

(v) The dimension Leadership and Governance involves the management of issues that are inherent to the business model or common practice in the industry and that are in potential conflict with the interest of broader stakeholder groups, and therefore create a potential liability or a limitation or removal of a license to operate.

(vi) These 5 sustainability dimensions are divided into 30 General Issue Categories (that represent broad sustainability-related business issues). General Issue Categories allow for cross-industry comparisons of closely

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2 The GRI 200, 300 and 400 series include topic-specific standards. To prepare a sustainability report in accordance with the GRI Standards, an organisation applies the Reporting Principles for defining report content from GRI 101: Foundation to identify its material economic, environmental, and/or social topics. These material topics determine which topic-specific Standards the organisation uses to prepare its sustainability report (GRI 101: Foundation 2016)

3 IIRC, The International <IR> Framework (2013)

4 SASB Conceptual Framework (2017)

related industry-specific Disclosure Topics. The disclosure topics included in SASB's industry-specific standards are a sub-set of this universe of sustainability issues, tailored to the industry's specific context.

e) TCFD[5] addresses one dimension of sustainability reporting but does include category-specific subdivisions, which are discussed in key question 2. At the moment, the EU Taxonomy also addresses one dimension, although in future Regulatory Technical Standards, other ecological and social issues will be addressed.

Moreover, within the additional resources analysed:

f) The WEF IBC Measuring Stakeholder Capitalism Report (2020) tries to overcome fragmentation and to drive global alignment, and guides companies to report in a consistent and more comparable way on key dimensions of sustainable value. The initiative is divided into four pillars: Principles of Governance, Planet, People and Prosperity. Under each one of the four pillars several main themes can be found, which include the core metrics and disclosures derived from various existing frameworks;

g) ISO 26000 is divided in 7 core subjects: organisational governance, human rights, labour practices, environment, fair operating practices, consumer issues and community involvement and development. Moreover subjects 2-7 include in total 36 sub-issues

26 Most of the standards and frameworks require also specific key reporting elements (e.g. policy, outcomes, impacts, risks, targets and progress against targets) per category.

	Sustainability dimensions mentioned by the framework/standard						**Information required**			
Framework/ standard	Division	Environment	Social/ People	Governance	Economics (including Profit)	Anti- corruption	Business model	Risks	Strategy/Policy	Performance
Main analysed frameworks/standards										
GRI	3 Topics[6]									
IIRC	6 Capitals[7]									
SASB	5 Dimensions[8]									
UNGP RF[9]	-									
Taxonomy Regulation	6 objectives[10]									
TCFD[11]	-									
Additional resources considered										
ISO 26000	7 core subjects[12]									
WEF IBC	4 Pillars[13]									

5 Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures (2017)

6 https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/

7 IIRC, The International <IR> Framework (2013)

8 SASB Conceptual Framework (2017)

9 UN Guiding Principles Reporting Framework (2015)

10 Regulation (EU) 2020/852, article 9

11 Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures (2017)

12 ISO 26000:2010 Guidance on social responsibility

13 WEF "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation White Paper" (2020), p.12

27 Rationale in terms of categorisation is generally not made explicit, most of the frameworks/standards adopt the widespread categorisation that refers to the ESG dimensions but without a clear explanation of the reason behind this choice. From the examples below it becomes clear the rationale usually covers the 'why' of sustainability reporting rather than the rationale for specific categorisations within a standard or framework

28 Within the main analysed frameworks/standards:

a) GRI sees sustainability reporting as an organisation's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development. Through this process, an organisation identifies its significant impacts on the economy, the environment, and/or society and discloses them in accordance with a globally accepted standard. The underlying question of sustainability reporting is how an organisation contributes, or aims to contribute in the future, to the improvement or deterioration of economic, environmental, and social conditions at the local, regional, or global level. Therefore, the aim is to present the organisation's performance in relation to broader concepts of sustainability. This involves examining its performance in the context of the limits and demands placed on economic, environmental or social resources, at the sectoral, local, regional, or global level. This concept is often articulated with respect to the environment, in terms of global limits on resources and pollution levels. But it is also relevant with respect to social and economic objectives, such as national or international socioeconomic and sustainable development goals.

b) IIRC, through Integrated Reporting, wants to promote a more cohesive and efficient approach to corporate reporting and aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time. The primary reasons for including the capitals in this Framework are to serve as part of the theoretical underpinning for the concept of value creation and as a guideline for ensuring organisations consider all the forms of capital they use or affect[14].

29 Moreover, within the additional resources analysed the following rationales are mentioned:

a) For WEF IBC Measuring Stakeholder Capitalism Report, pillars are aligned with essential elements of SDGs; themes are derived from a review of existing standards and considered to be most important to society, planet and economy; five criteria are used for metric prioritisation[15].

b) German Sustainability Code is an entry point to sustainability reporting, its rational is to act as an easily implementable and structured framework for NFRD and UNGP.

c) For EMAS, the rationale is to provide the public and other interested parties with information on compliance and environmental performance and ensure relevance and comparability of reported data.

d) For the Sustainable Development Goals Disclosure (SDGD) Recommendations, no specific rationale is given, other than convergence with existing standards and frameworks (the SDGD-recommendations attempt to take exiting reporting along IR, GRI and TCFD-lines to the level of SDG risks and opportunities; for ease of application / adoption it builds on existing reporting practices).

30 The connection of main categories to financial reporting is often left implicit (e.g. NFRD or GRI 100). The Economic series of GRI is fairly general, with a focus on economic impact (inside-out perspective), and appears to have some difficulty positioning the information suggested compared to information in other reports (such as the management report, that has an outside-in perspective, and is focus on financial implications).

14 The Background Paper for <IR> explain how financial and manufactured capitals are the ones organisations most commonly report on. IR takes a broader view by also considering intellectual, social and relationship, and human capitals (all of which are linked to the activities of humans) and natural capital (which provides the environment in which the other capitals sit).

15 The following criteria were used to filter and prioritise all themes and metrics: 1. Consistency with existing frameworks and standards 2. Materiality to long-term value creation 3. Extent of actionability 4. Universality across industries and business models 5. Monitoring feasibility of reporting

Where are sub issues/topics allocated within categories?

31 High-level categories are usually subdivided into more granular sub-topics, with varying degrees of granularity.

32 Frameworks can refer to other frameworks for a more granular subdivision, as in the case of IIRC that refers to GRI Standards, or the SDGs Recommendations that assume the application of GRI, UNGC and the work of the Impact Management Project.

Framework/ standard	Allocation of topics/sub-issues within categories
Main analysed frameworks/standards	
GRI	The GRI disclosures are divided into sub-topics under the main topics (Economic, Environment, Social) with a high level of granularity of sub-topics. • Economics – GRI 200 series. GRI 201: Economic Performance, GRI 202 Market presence, GRI 203 Indirect economic impact, GRI 204 Procurement practices, GRI 205 Anti-corruption, GRI 206 Anti-competitive behaviour, GRI 207 TAX (new) • Environment – GRI 301: Materials, GRI 302: Energy, GRI 303: Water and effluents, GRI 304: Biodiversity, GRI 305: Emissions, GRI 306: Waste, GRI 307: Environmental compliance, GRI 308: Supplier environmental assessment • Social – GRI 401: Employment, GRI 402 Labour management relations, GRI 403 Occupational health and safety, GRI 404 Training and education, GRI 405 Diversity and equal opportunity, GRI 406 Non-discrimination, GRI 407 Freedom of association and collective bargaining, GRI 408 Child labour, GRI 409 Forced or compulsory labour, GRI 410 Security practices, GRI 411 Rights of indigenous peoples, GRI 412 Human rights assessment, GRI 413 Local communities, GRI 414 Supplier social assessment, GRI 415 Public policy, GRI 416 Customer health and safety, GRI 417 Marketing and labelling, GRI 418 Customer privacy, GRI 419 Socioeconomic compliance[16]
IIRC	<IR> Framework does not foresee specific KPIs to disclose on the six capitals, but only provides their content element. In the document "CAPITALS. Background paper for <IR>", a correlation table is present-ed crossing GRI sustainability topics with a selection of the <IR> Framework capitals (natural, social and relationship, human).[17]
SASB	The 5 broad sustainability dimensions are divided into the following sub-topics (26 sustainability-related business issues/general issue cate-gories): • Environment. This dimension includes 6 general issue categories: GHG Emissions, Air Quality, Energy Management, Water & Wastewater Management, Waste & Hazardous Materials Management, Ecological Impacts. • Social Capital. This dimension includes 7 general issue categories: Human Rights & Community Relations, Data Security, Customer Privacy, Product Quality and Safety, Customer Welfare, Selling Practices & Product Labelling. • Human Capital. This dimension includes 3 general issue categories: Labour practices, Employee Health and Safety, Employee En-gagement, Diversity & Inclusion • Business Model and Innovation. This dimension includes 5 general issue categories: Product Design & Lifecycle Management, Busi-ness Model Resilience, Supply Chain Management, Materials Sourcing & Efficiency, Physical Impacts of Climate Change. • Leadership and Governance. This dimension includes 5 general issue categories: Business Ethics, Competitive Behaviour, Management of Legal & Regulatory Environment, Critical Incident Risk Management, Systemic Risk Management[18]

16 GRI 101, Foundation, p. 3

17 Capitals Bankground paper for <IR>, p.17

18 SASB Conceptual Framework (2017), p.2-3

Framework/ standard	Allocation of topics/sub-issues within categories
UNGP RF	The UN Guiding Principles Reporting Framework focuses companies' reporting on their salient human rights issues. Companies need to address 8 overarching questions and 4 information requirements about the definition of the focus of the reporting (i.e. Statement of salient issues, Determination of salient issues, Choice of focal geographies, Additional severe impacts) in order to meet the minimum threshold to say that it has applied the UN Guiding Principles Reporting Framework. Contents falls in three parts: • Governance – policy commitment and embedding of respect of hu-man rights • Defining the focus of reporting (salient issues/severe impacts) • Management of salient human rights issues (specific policies, stakeholder engagement, assessing impact, integrating findings and taking action, tracking performance, remediation)[19]
Taxonomy Regulation	The EU taxonomy identifies the following 6 environmental objectives on which needs to be reported (article 9): • climate change mitigation; • climate change adaptation; • the sustainable use and protection of water and marine resources; • the transition to a circular economy; • pollution prevention and control; • the protection and restoration of biodiversity and ecosystems For each objective, core reporting elements are turnover and CAPEX and OPEX (article 8). The Taxonomy will be further developed to incorporate also Social objectives, in addition to environmental objectives, to identify substantial contributions in addition to minimum safeguards.[20]
Additional resources	
German Sustainability Code	20 reporting criteria in four categories. Each of the 20 reporting criteria is supported by a checklist of specific disclosures requirements, also including KPIs from GRI or EFFAS. For some criteria additional (voluntarily applicable) disclosures that aim for compatibility with the NFRD and UNGP. • Strategy: strategic analysis and action, materiality, objectives, depth of value chain; • Process management: responsibility, rules and processes, control, incentive schemes, stakeholder engagement, innovation and product management • Environment: Usage of natural resources, resource management, climate-relevant emissions • Society: employment rights, equal opportunities, qualifications, human rights, corporate citizenship, political influence, compliance with regulations and policies[21]
GHG Protocol	GHG Protocol applies to greenhouse gas emissions which are usually attributed to the "E" pillar. GHG emissions are attributed to 3 scopes (top categorisation level), and emissions within scope 3 are attributed to 15 categories (8 for upstream sources and 7 for downstream sources). The categorisation is one-dimensional.[22]
Natural Capital Protocol	Content is focused on natural capital, broadly defined as the stock of renewable and non-renewable natural resources on earth (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits or "services" to people. Impact drivers can be classified along the lines of main categories, such as water use, ecosystem use, GHG emissions, pollutants, or waste. These categories are not prescribed.[23]
SDGD Recommendations	Not specified. With regard to specific indicators etc. the SDGD recom-mendations assume application of GRI, UNGC and the work of the Im-pact Management Project.[24]

19 UN Guiding Principles Reporting Framework

20 Regulation (EU) 2020/852, article 9

21 www.nachhaltigkeitsrat.de/en/projects/the-sustainability-code

22 Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard Revised edition

23 Natural Capital Coalition, Nature Capital Protocol (2016)

24 Sustainable Development Goals Dislcosure (SDGD) Recommendations (2020)

Framework/ standard	Allocation of topics/sub-issues within categories
WEF IBC Measuring Stakeholder Capitalism Report (2020)	Up to seven sub-themes under each pillar, high granularity: • Governance: purpose, governance body, stakeholder engage-ment, ethical behaviour, risk and opportunity oversight • Planet: climate change, nature loss, freshwater availability, air pollu-tion, water pollution, solid waste, resource availability • People: Dignity and equality, health and well-being, skills for the future • Prosperity: employment and wealth generation, innovation for products and services, community and social vitality Two ambition levels: 21 core metrics and 34 expanded universal metrics No differentiation between content elements (strategy, risks, targets etc.) and ESG-related KPI[25]

Summary of sub allocations:

	First level	Second level	Third level
Main analysed frameworks/standards			
GRI	3 Topics	34 Topic Specific	Disclosures
IIRC	6 Capitals	Reference to GRI for 3 Capitals	-
SASB	5 Dimensions	26 Sustainability-Related Business Issues	77 Industries with specific metrics
UNGP Reporting Framework	-	8 Overarching Questions and 23 Supporting Questions	Suggestions for relevant information for each Question
Taxonomy Regulation	-	6 Objectives	3 KPIs
Additional resources			
German SC	4 Categories	20 Reporting Criteria	Specific Disclosures Requirements
GHG Protocol	-	3 Scopes	For Scope 3, 15 Categories
SDG	-	Reference to GRI and UNGC	-
WEF	4 Pillars	21 Core Metrics and 34 Expanded Universal Metrics	-

33 Categorisation can be also divided in another dimension, based on the sector. Some frameworks/standards adopt both dimensions (over-arching issues divided into a more granular subdivision and sector specific) while other consider only one. Within the frameworks and standards analysed there is also the possibility of using a specific taxonomy for sector specific reporting (NACE, SICS)[26]. Within the core analysed frameworks/standards:

a) SASB's Sustainable Industry Classification System™ (SICS™) groups industries with similar business models and sustainability impacts. The SASB focuses on 11 sectors divided to 77 industries).

25 WEF, Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation White Paper (2020)

26 Other industry classifications that are available on the market are the Global Industry Classification Standard (GICS®) and the Industry Classification Benchmark (ICB).

b) Concerning the EU Taxonomy, the TEG recommendations are structured around the EU's NACE[27] (Statistical classification of economic activities in the European Community) industry classification system, and the TEG has set technical screening criteria for economic activities within priority macro-sectors. This classification system was selected for its compatibility with EU Member State and international statistical frameworks and for its broad coverage of the economy.

34 Moreover, within additional resources analysed:

a) Organisations that comply with EMAS-requirements are publicly registered. Classification system used is NACE.

b) nFIS (Polish Non-Financial Information Standard) Annex 2 uses sector and macro sector classification used by the Warsaw Stock Exchange, which is in turn a variation of NACE.

Key considerations for a potential EU Sustainable Standard

35 The categorisation, both in terms of high-level topics and of subdivisions, has the potential to be an important structuring element, guiding how reporting entities structure and present information.

36 Reporting standard benefits from a clear structure, with a high-level definition of overarching categories able to cover the broader sustainability themes. The high-level categorisation might, in fact, serve as an umbrella for a more granular subdivision, where different topics can be allocated and, eventually, progressively updated in line with the evolving scenario and the consequent emerging issues. A clear and well-defined structure can ease the application of a sectoral approach and/or various types of information (e.g. strategy, risks, performance) to each category. Moreover, it can support the future development of a data taxonomy for the necessary digitisation of sustainability information.

37 This current assessment tends to prove that common practice of E, S and G high-level categorisation could provide a certain consensus, being recognised as a clear and effective division for some users and preparers. This type of categorisation is often used by financial market participants, although it resembles the categorisation of people, planet, profit, also often used for sustainability reporting. One potential drawback is that the ESG categorisation might be too narrow and not able to include a wider range of cross-cutting issues (e.g., bribery, anti-corruption, tax, corporate advocacy).

38 How to reflect the interrelation of different topics is a key item in order to obtain a relevant positioning of all topics. (i.e., categorisation should take into consideration the fact that some topics residing clearly within the broad sustainability field are overarching and cannot be easily contained in one high-level area) For example, climate change issues are clearly part of the environmental topic, but also have relevance for society, human rights and governance topics.

39 The analysis demonstrates that a clarification of labels or definitions used for each category is needed and on which topics these categories are based. Changing the vocabulary can help facilitate a change in focus and priority.

40 Specifically, clarity is needed that human rights encompasses all forms of impacts on people that rise to the level of undermining their basic dignity and equality. It includes categories such as health & safety and diversity & inclusion.

41 Much attention has to be brought to the key term social. The language of social tends to dehumanize by aggregating issues into a broader category where attention to vulnerable people can be easily lost or traded off against benefits for others. Often social is also used to reflect positive philanthropic contributions by the company to communities (e.g., donations or volunteering) to the exclusion of impacts on people. Comparative analysis between the terms social and people is to be considered. In this context it is also relevant to note that GRI's draft revised Universal Standards social has been replaced by people.

42 From the analysis of the main frameworks/standards it also appears that the categorisations adopted by the frameworks seem to lack a covering of economic aspects closely related to their impact on society and the planet (for example Tax responsibility or avoidance, anti-corruption and bribery, public subsidies) and do not fully consider the interrelation between financial information already provided by companies and sustainability information.

27 NACE stands for Nomenclature des Activités Économiques dans la Communauté Européenne

43 For environmental issues, the EU taxonomy is commonly accepted and is a logical choice to structure environmental subdivisions across the six environmental objectives identified.

MATERIALITY

Definition and relevance

44 The concept of materiality has been considered by the Workstream as the approach for inclusion and prioritisation of specific information in financial, non-financial or sustainability reporting, considering the needs of and expectations from the stakeholders of an organisation. The International Federation of Accountants observes that 'materiality works as a filter through which management sifts information.' Materiality is therefore key for ensuring the relevance of reported information, not only to direct report users but also to a broader set of stakeholders.

45 Art. 2 (16) of the Accounting Directive[28] defines materiality from a financial standpoint, that is 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'.

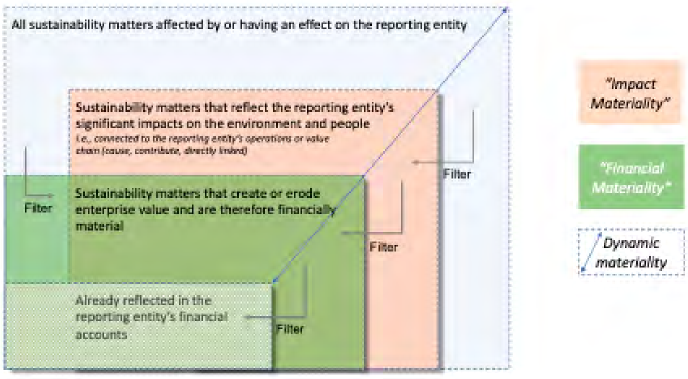
46 Art. 19a (1) of the NFRD requires, 'information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity [...]'.

47 The 2019 Non-Binding Guidelines on non-financial reporting: Supplement on reporting climate-related information highlight that, as indicated in the Commission's 2017 Non-Binding Guidelines on Non-Financial Reporting, the reference to the 'impact of [the company's] activities' introduced a new element to be taken into account when assessing the materiality of non-financial information. In fact, the Non-Financial Reporting Directive has a 'double materiality' perspective:

a) The reference to the company's *'development, performance [and] position'* indicates financial materiality (inside-out), in the broad sense of affecting the value of the company as it relates to ESG issues. This perspective is typically of most interest to shareholder and other investors[29].

b) the reference to *'impact of [the company's] activities'* indicates environmental and people materiality (outside-in, or 'impact materiality'). This perspective is typically of most interest to those who are concerned with the impacts of companies on environment, people and communities, including citizens, consumers, employees, business partners, ethical investors, communities and civil society organisations[30].

48 The materiality perspective of the Non-Financial Reporting Directive thus covers both 'financial materiality' and 'impact materiality'.



28 The Accounting Directive was amended by the NFRD, inserting article 19a).

29 Please note that there are many different categories of investors who have complex motivations (e.g. profitability, shareholders' return, human rights and environmental performance).

30 EC 2019 Non-Binding Guidelines on non-financial reporting: Supplement on reporting climate-related information, pages 4 and 5

49 This double materiality perspective means that as it concerns the NFRD, stakeholders should be provided with information on the outside-in and inside-out impacts.

50 The consultation on the NFRD revision shows that many respondents (e.g. preparers, financial authorities, national standard setters) supported the concept of double materiality as introduced in the EC June 2019 non-binding guidelines on climate-related non-financial information, however they considered that such a concept should be further clarified and explicitly included in the revised NFRD.

51 A vast majority of respondents expect that any future standard should leads for report preparers to disclose more information about the materiality assessment process and about the resulting material issues[31].

52 Key question in the PTF's analysis of the Materiality is: 'How can the approach to materiality in the future European non-financial reporting standard lead to reporting organisations disclosing more relevant non-financial information?'

Analysis

Concepts and definitions of materiality

53 Materiality is an important concept in most existing financial information and non-financial information reporting standards and frameworks. However, definitions, perspectives and the level at which the materiality approach is applied differ significantly.

54 The definition of materiality varies depending on the report users and objectives of the framework or standard. The definitions for materiality or related concepts to include and/or prioritise report content are either based on:

a) the influence of the reported information on decision-making of the user (IFRS, SASB, GRI, Sustainable Development Goals Disclosure (SDGD)), and/or

b) the organisation's ability to create (or destroy) value (IIRC, WEF/IBC, SDGD); and/or

c) the relevance of impacts on people and environment (GRI, UNGP RF, EMAS).

55 Three different materiality perspectives are recognised amongst the existing frameworks and standards:

a) financial materiality;

b) environmental and people materiality or impact materiality; and

c) double materiality that covers both perspectives, recognising they in part overlap.

56 Materiality is often explicitly connected to risks and impacts (NFRD, IIRC, TCFD, UNGP RF). Depending on the abovementioned perspectives, existing frameworks and standards either refer to risks and impacts of non-financial issues on the organisation (outside-in) or the risks and impacts of the organisation on different non-financial issues (inside-out). When a risk or actual impact surpasses a certain threshold, it may qualify to be relevant or important enough to be included in the reported and hence classified as material information. For example, the NFRD explains that 'a number of factors may be taken into account when assessing the materiality of information.' Among these '(...) principal risks are relevant considerations'[32]. The IIRC Framework provides that 'the process to determine materiality applies to both positive and negative matters, including risks and opportunities and favourable and unfavourable performance or prospects'[33].

57 Determination of material topics and subtopics differs in existing frameworks and standards. Some leave it to the report preparer to determine material topics and sub-topics (e.g. GRI); in other standards material topics are predefined (e.g. SASB). The materiality assessment process (and its disclosure) has more importance in standards that leave more

31 Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive (2020)

32 European Commission Guidelines on non-financial reporting, 2017, p. 6

33 IIRC, The International <IR> Framework (2013), p. 18

discretion to the report preparer because it will help the report user to comprehend the choices made by the preparer (e.g. IIRC).

58 The definition of materiality included in the standards and frameworks (consisting of core frameworks and standards analysed and additional sources), the objective, the user, the materiality approach and the level of prescription of materiality information is reported in the following table:

Core framework/ standard	Mission/objective	Audience	Materiality definition	Materiality perspective/ approach	Material topics determined by
GRI	"GRI envisions a sustainable future enabled by transparency and open dialogue about impacts. This is a future in which reporting on impacts is common practice by all organisations around the world. As provider of the world's most widely used sustainability reporting standards, we are a catalyst for that change."[34]	All stakeholders	"Relevant topics, which potentially merit inclusion in the report, are those that can reasonably be considered important for reflecting the organisation's economic, environmental, and people impacts, or influencing the decisions of stakeholders"[35]	People and environmental/ Impact materiality*[36]	Reporting Entity (based on extensive guidance)
IIRC	"The IIRC's purpose is to promote prosperity for all and to protect our planet. The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors."[37]	Financial capital providers	"An integrated report should disclose information about matters that substantively affect the organisation's ability to create value[38] over the short, medium and long-term."[39]	Financial Materiality	Reporting Entity (limited guidance)

34 Information provided by GRI in response to PTF questionnaire.

35 GRI 101 – Foundation (2016), p. 10

36 According to GRI, its standard, "focuses on environmental and social materiality, a sub-set of this information will also be financially material at any given moment in time. GRI has always highlighted that all sustainability issues have the potential to become financially material – and the point in time when this occurs for an individual entity depends on time horizon, business model, context. The GRI Standards center around the company's conduct and activities, and how these impact environment and society and eventually the company itself. The GRI Standards do not cover external risks to the company, which are unrelated to the company's conduct." [Information provided by GRI in response to PTF questionnaire]

37 Information provided by IIRC in response to PTF questionnaire.

38 In the IIRC Framework, reference to the creation of value: a) includes instances when value is preserved and when it is diminished, and b) relates to value creation over time (i.e., over the short, medium and long-term).

39 IIRC, The <IR> Framework (2013), p. 18

Core framework/ standard	Mission/objective	Audience	Materiality definition	Materiality perspective/ approach	Material topics determined by
SASB	"The mission of the SASB is to establish and improve industry specific disclosure standards across financially material environmental, social and governance topics that facilitate communication between companies and investors about decision-useful information."[40]	Financial capital providers	"Information is material if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."[41] "A topic is financially material if omitting, misstating, or obscuring it could reasonably be expected to influence investment or lending decisions that users make on the basis of their assessments of short-, medium-, and long-term financial performance and enterprise value (new proposal of definition included in the SASB Exposure Draft on Conceptual Framework)"[42]	Financial Materiality	Determined by standard setter on a sector basis (based on historical evidence)
UN Guiding Principles Reporting Framework	"Building a world where business gets done with respect for people's dignity"[43]	All stakeholders	Companies should report on their salient human rights issues: those human rights that stand out because they are at risk of the *most severe negative impact* through the company's activities or business relationships.[44]	People and environmental/ Impact materiality	Reporting Entity (with detailed materiality process requirements)
Taxonomy Regulation	Providing a classification system to drive towards environmental and sustainability activities[45]	Financial capital providers		People and environmental/ Impact materiality*	Level 2 legislation
TCFD	Increase transparency on material climate-related business risks; help organisations assess whether climate-risks are material for their financial filings[46]	Financial capital providers		Financial Materiality	Standard setter

40 Information provided by SASB in response to PTF questionnaire.

41 SASB Conceptual Framework, p. 9

42 SASB Exposure Draft on Conceptual Framework, p. 7

43 Information provided by Mazars Shift in response to PTF questionnaire

44 UN GP Reporting Framework, p. 22-24

45 EU Taxonomy Regulation 2020/852

46 Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures (2017)

Core framework/ standard	Mission/objective	Audience	Materiality definition	Materiality perspective/ approach	Material topics determined by
Additional sources					
EMAS	Inform the "public" and interested parties of an organisation of compliance with environmental legal requirements and environmental performance of an organisation[47]	All stakeholders	environmental statement shall include information on an organisation's significant environmental aspects and impacts[48]	People and environmental/ Impact materiality*	Standard setter
Future Fit Business Benchmark	Strategic management tool for companies and investors to assess, measure and management the impact of their activities[49]	Financial capital providers and other stakeholders		Double Materiality*	Standard setter
German Sustainability Code	Entry point to sustainability reporting, act as easy implementable and structured framework for NFRD and UNGP[50]	All stakeholders	"Sustainability topics are considered material if they fall into one or more of the following categories: • Sustainability topics entailing opportunities or risks for the course of the business, the annual financial statements or the company's situation (outside-in perspective), • Sustainability topics which are either positively or negatively affected by the company's business activities, business relations or products and services (inside-out perspective); • Sustainability topics which are defined as material by key stakeholders (stakeholder perspective)"[51]	Double Materiality	Standard setter
Natural Capital Protocol	Identify, measure, value and disclose impact and dependency on natural capital to include it in business decision making[52]	Undefined	"An impact or dependency on natural capital is material if consideration of its value, as part of the set of information used for decision making, has the potential to alter that decision"[53]	Double Materiality	Reporting entity

47 EU Regulation No 1221/2009, Recital 17, p. 2
48 EU Regulation No 1221/2009, Art. 2 (Definitions), p. 4
49 https://futurefitbusiness.org/
50 https://www.nachhaltigkeitsrat.de/en/projects/the-sustainability-code
51 Information provided by German Council for Sustainable Development in response to PTF questionnaire.
52 Natural Capital Protocol, p. 2
53 Natural Capital Protocol, p. 43

Core framework/ standard	Mission/objective	Audience	Materiality definition	Materiality perspective/ approach	Material topics determined by
SDGD Recommendations	"Identification of material sustainable development risks and opportunities relevant to long-term value creation for organisations and society"[54]	Financial capital providers and other stakeholders	"Material sustainable development information is any information that is reasonably capable of mak-ing a difference to the conclusions drawn by: (a) stakeholders concerning the positive and negative impacts of the organisation on global achievement of the SDGs, and; (b) providers of finance concerning the ability of the organisation to create long-term value for the organisation and society".[55]	Double Materiality	Reporting entity

** Materiality is not an explicit concept*

59 The table shows that there are different approaches to materiality in existing frameworks and standards. A considerable number of standards prescribe material topics or specific metrics for reporting (e.g. SASB or German Sustainability Code). For standards and frameworks that do not prescribe material topics, the materiality definition and guidance for its application by reporting organisations has naturally more prominence and importance. The materiality perspectives and determination applied or mandated by standards and frameworks are often closely connected to their target audience, as well as their related missions and objectives.

Materiality assessment process

60 The materiality assessment process is most often presented as 'guidance' and involves the identification, evaluation and prioritisation of topics and a decision on how and what to disclose for different sustainability topics or sub-topics.

61 In most cases, specific factors/criteria are provided (and usually not prescribed) that can be applied in the assessment process. Inputs in assessing the factors and criteria can be quantitative (or even monetary) thresholds as well as qualitative criteria (like stakeholder importance or severity of impact). Reporting standards/frameworks focused on a single sustainability topic use comparable approaches to identify issues an organisation needs to act and report upon:

a) The UNGP Reporting Framework (UNGP RF) requires identification of 'salient human rights issues,' which reflect the reporting entities' connection to the most severe impacts on people's human rights;

b) The EU Eco-Management and Audit Scheme (EMAS)[56] requires the identification of all direct and indirect environmental aspects with a significant impact on the environment, assessing the potential to cause environmental harm, the fragility of local/regional/global environment, the size, number, frequency and reversibility of the aspect/impact, the existence and requirement of relevant environmental legislation and the importance to the stakeholders and employees of the organisation.

62 Where material topics are prescribed, the materiality assessment processes are conducted by the standard setter instead of the reporting entity. For example, SASB identifies sustainability issues that are likely to affect the financial

54 Sustainable Development Goals Disclosure Recommendations, p. 6

55 Sustainable Development Goals Disclosure Recommendations, p. 9

56 EMAS does not use the "materiality" but a comparable concept of "significance". The environmental statement includes information on an organisation's significant environmental aspects and impacts. The environmental aspects are element of an organisation's activities, products or services that has or can have an impact on the environment" (inside-out perspective). The environmental impacts are changes to the environment, whether adverse or beneficial, wholly or partially resulting from an organisation's activities, products or services.

condition or operating performance of companies within an industry, and therefore are most important to investors. Instead, GRI or IIRC do not prescribe material topics to disclose, leaving the reporting entity to conduct that process.

63 Some standards require reporting on the materiality assessment process for defining report content, notably GRI, UNGP RF and EMAS and explicit stakeholder inclusion in the materiality assessment is common practice in sustainability reporting (GRI, IIRC, UNGP RF, EMAS, German Sustainability Code, NFRD guidance).

64 GRI explains that a process of stakeholder engagement can serve as a tool for understanding the reasonable expectations and interests of stakeholders, as well as their information needs. It is important for the organisation to document its approach to identifying stakeholders; deciding which stakeholders to engage with, and how and when to engage with them; and how engagement has influenced the report content.

65 According to IIRC, stakeholder engagement is needed to identify relevant matters, consider topics or issues that are important to key stakeholders. IIRC explains also that an understanding of the perspectives of key stakeholders is critical to identifying relevant matters.

66 The UN GP Reporting Framework explains that companies may use a "traditional" materiality process for their broader annual, sustainability or integrated report that involves feedback from external stakeholders. If so, they can benefit from that process to explain to stakeholders how they identified their salient human rights issues, including any inputs from those who may be directly affected, and the conclusions they reached. They can then seek these stakeholders' feedback on their conclusions and whether any key considerations have been overlooked. In the event that a company applies a definition of materiality to its broader annual, sustainability or integrated report that sets narrower criteria for the inclusion of issues, this may exclude certain salient human rights issues or certain information about how such issues are managed. If so, the reporting company should provide a clear reference to where that additional information can be found, for example, in a separate report or a specific location on its website.

Key considerations for a potential EU Sustainable Standard

67 Most non-financial reporting standards and frameworks offer definitions and concepts for materiality supported by operational guidance. However, taken all together this has not led to sufficiently relevant information being disclosed from a double materiality perspective. This is due in part to a number of challenges in the operational implementation of double materiality, including:

a) that in practice the materiality assessment related to people and the environment is often carried out with an implicit financial materiality lens, i.e. a focus on the risks to the company. In such cases, the applied methods do not accurately ascertain the needs, expectations and priorities of key stakeholder groups, and limit an assessment related to the (actual or potential) impacts that the reporting entity can have on people, communities and the environment;

b) there is a lack of clarity on how reporting entities should include perspectives of affected and other relevant stakeholders in their assessment of impacts and prioritisation (for action and reporting);

c) the insufficient alignment between what companies are expected to prioritise for reporting and what they are expected to prioritise for action (this will become especially relevant in the context of new legislation on mandatory human rights and environmental due diligence, at national and EU level).

68 Existing non-financial standards and frameworks (researched in this report) apply different approaches for identifying material topics and information. What is material is in some cases defined by the standard setter, in others by the reporting entity or in a third variant by a mix of both. While higher levels of prescription may help in some cases to the comparability and reliability/assurability of information, it may come at the cost of becoming a tick-the-box exercise by report preparers and failing to provide a comprehensive picture of a company's development, performance and impact. The NFRD revision and a future European reporting standard will need to find a smart mix of prescription and flexibility for determining report content.

69 Where a NFRD revision would suggest any change in current established approaches, the above analysis suggests that it will be critical for the ESS to consider why current guidance and approaches have not led to sufficiently relevant

information being disclosed from a double materiality perspective and to consider what it would need to highlight through the standards it sets and communicates to support and enable the necessary changes to happen..

SCOPE OF REPORTING

Definition and relevance

70 The 'scope of reporting' refers to the scope of what a company should report on regarding its activities, products and services and associated risks and impacts (positive and negative). The scope of reporting is closely related to the topic of materiality, as well as strategy and governance.

71 In financial reporting frameworks, the scope of the entity is defined based on the concept of control and dominant influence (scope of consolidation). In non-financial reporting (NFR), however, the sustainability impacts, risks and opportunities of the reporting entity typically extend beyond the legal scope of the reporting entity and may include:

a) suppliers and the supply chain (upstream);

b) customers, end users (downstream);

c) subsidiaries that are outside the scope of consolidation and/or group companies over which the reporting entity does not have legal control (midstream).

72 In order to understand the impacts and risks, threats and opportunities of the reporting entity from a double materiality perspective, it is necessary for NFR to extend beyond the entity's 'scope of control'[57]. Specifically, there is a need to go beyond 'company, group or control' and extend non-financial information on topics considered material to impacts concerning, for example, 'business relationships' (in this context, companies not fully consolidated) and the 'value chain', where relevant. In any case, it is necessary to consult stakeholders about the impact of the 'organisation' in the relevant areas.

73 The consultation on the NFRD revision shows that the supply chain is one of the most frequently mentioned non-financial matters respondents would like companies to be required to report on, in addition to the non-financial matters already specified in the NFRD.[58]

74 The current NFRD does not include clear requirements about this topic. For example, the supply chain and the value chain are only included insofar as it is deemed relevant and proportionate by the company when reporting on due diligence processes and principal risks:

a) Recital 6 of the NFRD states that 'The non-financial statement should also include information on the due diligence processes implemented by the undertaking, also regarding, where relevant and proportionate, its supply and subcontracting chains, in order to identify, prevent and mitigate existing and potential adverse impacts.'

b) Recital 8 of the NFRD indicates that The undertakings which are subject to this Directive should provide adequate information in relation to matters that stand out as being most likely to bring about the dematerialisation of principal risks of severe impacts, along with those that have already dematerialised. (...) The risks of adverse impact may stem

57 Article 2 of the Accounting Directive defines the following concepts:
- 'parent undertaking' means an undertaking which controls one or more subsidiary undertakings;
- 'subsidiary undertaking' means an undertaking controlled by a parent undertaking, including any subsidiary undertaking of an ultimate parent undertaking;
- 'group' means a parent undertaking and all its subsidiary undertakings;
- 'affiliated undertakings' means any two or more undertakings within a group;
- 'associated undertaking' means an undertaking in which another undertaking has a participating interest, and over whose operating and financial policies that other undertaking exercises significant influence. An undertaking is presumed to exercise a significant influence over another undertaking where it has 20% or more of the shareholders' or members' voting rights in that other undertaking.
- Article 21 of the Accounting Directive explains the scope of consolidated financial statements and reports and article 22 provides the requirement to prepare consolidated financial statements.

58 Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive (2020), p.9.

from the undertaking's own activities or may be linked to its operations, and, where relevant and proportionate, its products, services and business relationships, including its supply and subcontracting chains.

c) Article 19a) of the NFRD provides that non-financial statement contains information including the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks.[59]

75 An expanded 'scope of reporting' beyond the scope of control of the reporting entity is referenced in the EC's 2017 Non-Binding Guidelines on Non-Financial Reporting, specifically regarding materiality and the business model:

a) 'Materiality is a concept already commonly used by preparers, auditors and users of financial information. A company's thorough understanding of the key components of its value chain helps identify key issues and assess what makes information material.'

b) 'A number of factors may be taken into account when assessing the materiality of information. These include:

(i) Business model, strategy and principal risks: a company's goals, strategies, management approach and systems, values, tangible and intangible assets, value chain and principal risks are relevant considerations.

(...)

(ii) Impact of the activities: companies are expected to consider the actual and potential severity and frequency of impacts. This includes impacts of their products, services, and their business relationships (including supply chain aspects).'

c) 'The following items constitute a non-exhaustive list of thematic aspects that companies are expected to consider when disclosing non-financial information:

(...)

(iii) Respect for human rights – Companies are expected to disclose material information on potential and actual impacts of their operations on right-holders. ... The information may explain whose rights the commitment addresses, for instance ... the rights of workers, including those working under temporary contracts, workers in the supply chains or sub-contractors, migrant workers, and their families. Companies should consider making material disclosures on human rights due diligence, and on processes and arrangements implemented to prevent human rights abuses. This may include, for instance, how a company's contracts with businesses in its supply chain deal with human rights issues, and how a company mitigates potential negative impacts on human rights and provides adequate remedy if human rights have been violated.

(...)

(iv) Others – Supply chains – Companies, where relevant and proportionate, are expected to disclose material information on supply chain matters that have significant implications for their development, performance, position or impact. This would include information needed for a general understanding of a company's supply chain and of how relevant non-financial matters are considered in managing the supply chain.'

d) 'Key performance indicators – ... Disclosing high quality, broadly recognised KPIs (for instance, metrics widely used in a sector or for specific thematic issues) could also improve comparability, in particular for companies within the same sector or value chain.'[60]

59 Article 19a) (1)(d) of the Non-financial Reporting Directive.

60 EC 2017 Non-Binding Guidelines on Non-Financial Reporting, p. 5, 6, 13, 16, 17.

76 Furthermore, the value/supply chain and the life-cycle concept are referenced in the EC's 2019 Non-Binding Guidelines on Non-Financial Reporting: Supplement on reporting climate-related information:

a) 'When assessing the materiality of climate-related information, companies should consider their whole value chain, both upstream in the supply-chain and downstream.'

b) 'Both of these kinds of risk – risks of negative impacts on the company and risks of negative impacts on the climate – may arise from the companies own operations and may occur throughout the value chain, both upstream in the supply-chain and downstream.'

c) 'When reporting on their climate-related risks, dependencies and opportunities, companies should, where relevant and proportionate, consider their whole value chain, both upstream and downstream. For companies involved in manufacturing activities this means following a product life cycle approach that takes account of climate issues in the supply chain and the sourcing of raw material, as well as during the use of the product and when the product reaches end-of-life. Companies providing services, including financial services, will also need to consider the climate impacts of the activities that they support or facilitate. When SMEs are part of the value chain, companies are encouraged to support them in providing the required information.'[61]

77 However, relatively few reporting entities report that they apply the NFRD reporting guidelines; the Alliance for Corporate Transparency 2020 report indicates that only 5% of the top 1000 listed companies in the EU reference these guidelines[62].

78 There is the concern among some that expanding the scope could lead to greater costs and administrative burdens, including from preparers responding to the Commission's 2020 consultation on the revision of the NFRD. They stressed the need to ensure sufficient time for collection and analyses of data from the supply chain companies as well as subsidiaries and argued for a difference between the deadline for financial and non-financial reports. Regarding the expansion of the scope, it is necessary to focus on prioritisation in terms of impacts and risks.[63]

79 The question that the PTF considered in its analysis related to Scope of reporting is: 'How can a future standard setter provide clarification and guidance on how companies can meet the expectations related to an expanded scope for reporting (especially as compared to financial reporting), while providing equally robust guidance on how inevitable prioritisation of impacts, topics and issues to report on can take shape?'

Analysis

To what extent do the existing frameworks and standards provide a minimum scope? If the scope is specified, does it go beyond the first tier (and this optional or not)?

80 The frameworks and standards reviewed show that there are very different approaches regarding the scope of reporting. Most frameworks and standards reviewed go beyond the first tier and include specific approaches to this type of reporting (e.g. GRI, SASB, IIRC, UNGP Reporting Framework (UNGP RF), the Eco-Management and Audit Scheme (EMAS)).

81 Some standards/frameworks require that the scope of the reporting also includes the value chain (e.g. GRI and SASB (if material), GHG Protocol, UNGP RF). Other standards/frameworks allow reporting to go beyond own operations on a voluntary basis.

Main analysed frameworks and standards

82 The GRI Standards enable companies to disclose their significant impacts on the economy, environment, and society ('inside-out'). This includes both impacts a company causes and contributes to, as well as impacts that are directly linked

61 EC 2019 2019 Non-Binding Guidelines on Non-Financial Reporting: Supplement on reporting climate-related information, p. 8, 11.

62 This finding may be caused by the European Commission statement in 2017 Non-Binding Guidelines on Non-Financial Reporting and therefore may not be reflective of the actual use of the Guidelines: *"This document does not constitute a technical standard, and neither preparers of non-financial statements nor any party, whether acting on behalf on a preparer or otherwise, should claim that non-financial statements are in conformity with this document."* (page 4 of the Guidelines).

63 Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive (2020), p. 65.

to its activities, products or services through a business relationship, including relationships with entities in its value chain. The GRI Standards thus cover the significant impacts of a company throughout the entire value chain. For some organisations, their most significant impacts may take place upstream or downstream in their value chain, instead of within their own operations. The GRI topic-specific Standards are designed to cover the entire value chain, and where relevant, include specific disclosures about the value chain.

83 The GRI Sector Standards highlight the business relationships that are relevant to the sector and the sector's reporting, in particular those where evidence exists of a contribution to a significant impact of the sector, those that pose a risk of significant impacts occurring and those that have consistently been identified as relevant or inadequately considered in examples of reporting by the sector. This is intended to further encourage organisations to consider any business relationships in their value chain, or that are otherwise relevant, when identifying their material topics and preparing their reporting.

84 The <IR> Framework[64] encourages organisations to look beyond traditional financial reporting boundaries to identify the range of factors that materially affect value creation, preservation or erosion. The extended reporting boundary, therefore, looks beyond the scope of control and significant influence to consider the risks, opportunities and outcomes arising from joint arrangements, subsidiaries and other forms of investment. In determining the reporting boundary, the organisation also considers the perspectives of its key stakeholders and relationships, employees, customers, suppliers, business partners, communities and other individuals/entities.

85 The reporting boundaries for disclosures that conform with the SASB standards[65] shall include all parent and subordinate entities that are consolidated for financial reporting purposes. The entity should disclose information about unconsolidated entities to the extent that the entity considers such information necessary to understand the effect of one or more SASB disclosure topics on the entity's financial condition or operating performance.

86 Companies are not expected to report on its entire value chain, but there are relevant SASB Standards for the suppliers and customers for nearly every company, so those suppliers and customers across the value chain would provide a complete picture of the value chain by reporting on their own operations.

87 In line with the UN Guiding Principles, the UNGP Reporting Framework[66] expects companies to prioritise for reporting (just as they do for action) the most severe potential impacts on people, whether they be in their own operations, in the first tier of their value chain or in their extended value chain. Proximity to the company is not relevant when identifying the relative severity of human rights risks and therefore not a criterion for determining their inclusion in company reporting.

88 The EU Taxonomy[67] puts emphasis on life-cycle considerations rather than supply chain / value chain. Life-cycle considerations are mainly mentioned in:

a) article 2: defining substantial contribution to the circular economy;

b) article 17: *'take into account the life cycle, including evidence from existing life-cycle assessments, by considering both the environmental impact of the economic activity itself and the environmental impact of the products and services provided by that economic activity, in particular by considering the production, use and end of life of those products and services'*.

89 The Task Force on Climate-related Financial Disclosures (TCFD)[68] has developed voluntary climate-related financial disclosures, which are structured around the areas governance, strategy, risk management, and metrics and targets. The disclosures are mostly focused on the company's operations, but companies are encouraged to look beyond its boundaries since climate-related issues are persistent across the value chain. For example:

64 IIRC, The International <IR> Framework (2013)

65 SASB Conceptual Framework (2017)

66 UN Guiding Principles Reporting Framework

67 Regulation (EU) 2020/852

68 Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures (2017)

a) organisations should consider including the impact on their businesses and strategy in the several areas, among which the supply chain and/or value chain;

b) when using scenario analysis, organisations should consider their exposure to transition risks and physical risks, including those risks arising in their value chain.

90 The following table shows the scope of the main frameworks/standards reviewed:

Main Frameworks/standards	Scope of reporting
GRI	• Own operations of the group comprising fully-owned subsidiaries and Joint Ventures (financial consolidation approach) (regarding own operations, the company is free to decide which entities it includes in its sustainability reporting. If the company's sustainability reporting does not cover all entities included in its consolidated financial statements/equivalent documents, the company is required to state which entities are excluded from its sustainability reporting) • Products sold / Services rendered • Entire value chain • Broader social impacts[69]
IIRC	Financial boundaries (financial reporting) and value creation boundaries (risks/opportunities/outcomes) with stakeholders/other entities.[70]
SASB	Reporting on risks in value chain insofar as they are financially material.[71]
UNGP Reporting Framework	Reporting on salient human rights impacts in own operations and value chain
Taxonomy Regulation	Life-cycle considerations instead of value chain
TCFD	Climate-related issues, including those arising in their value chain, when these have a potential financial impact on the company.

Additional sources analysed

91 EMAS differentiates between direct (environmental aspect associated with activities, products and services of the organisation itself over which it has direct management control) and indirect (environmental aspect which can result from the interaction of an organisation with third parties and which can to a reasonable degree be influenced by an organisation) environmental aspects that need to be considered in environmental management and reported on in the environmental statement. When determining significant environmental aspects (the reference point for reporting) the organisation has to consider a life cycle perspective, meaning that it also has to identify indirect environmental aspects in the value chain of its products and services. However, the core environmental indicators are designed in such a way that they are more suitable for reporting on own operations than on supply chain performance.

92 In the German Sustainability Code the scope is that of the annual report (control concept). However, the reporting organisation must expand this scope where specific reporting criteria require value/supply chain information.

93 The GHG Protocol requires companies to report at least scope 1 (direct GHG emissions) and scope 2 (indirect GHG emissions resulting from production of acquired electricity, heat, steam etc.) emissions. The GHG Protocol requires company to set their boundaries in terms of: equity share, financial control and operational control. All other indirect GHG in the company's whole value chain (scope 3) may be accounted and reported voluntarily.

69 Information provided by GRI in response to PTF questionnaire.

70 IIRC, The International <IR> Framework (2013)

71 SASB Conceptual Framework (2017)

94 The following table shows the scope of the additional sources analysed:

Additional sources	Scope of reporting
EMAS	Direct environmental aspects (what can be controlled by the organisation) as well as indirect environmental aspects (what can be influenced by the organisation) that relate to an organisation's activ./prod./serv, considering a life cycle perspective.
German Sustainability Code	Scope of control (annual report) with exceptions for specific supply chain disclosures.
GHG Protocol	Scope 1 (direct), Scope 2 (indirect acquired), Scope 3 (up- and downstream).

To what extent do the standards and frameworks reviewed require reporting tied to the business model?

95 A description of the business model in a company's non-financial reporting is needed to better understand a company's risks, opportunities and involvement with impacts in the value chain, as well as the company's sustainability strategy for future transition. The standards/frameworks analysed reveal that the NFRD (including EC non-binding guidelines), IIRC, SASB, UN Guiding Principles Reporting Framework explicitly mention or refer to the business model.

96 Article 19a) of the NFRD specifies that the information in the non-financial statement should include a brief description of the undertaking's business model.

97 The EC 2017 Non-Binding Guidelines on Non-Financial Reporting explain that:

a) 'a company's business model describes how it generates and preserves value through its products or services over the longer term. The business model provides context for the management report as a whole. It provides an overview of how a company operates and the rationale of its structure, by describing how it transforms inputs into outputs through its business activities. In more simple terms, what a company does, how and why it does it.'

b) 'when describing their business model, companies may consider including appropriate disclosures relating to:

(i) their business environment;

(ii) their organisation and structure;

(iii) the markets where they operate;

(iv) their objectives and strategies; and

(v) main trends and factors that may affect their future development.'

c) 'companies may consider using KPIs to explain their business model, main trends, etc.'

d) 'companies are expected to highlight and explain when material changes to their business model have taken place in the reporting year.'

98 The EC 2019 Non-Binding Guidelines on Non-Financial Reporting: Supplement on reporting climate-related information indicate that:

a) 'It is very important for stakeholders to understand the company's view of how climate change impacts its business model and strategy, and how its activities can affect the climate, over the short, medium and long-term. To adequately report on climate related matters, companies will need to take a longer-term perspective than they normally do for financial reporting'.

b) 'Companies that do not appropriately consider their business model and strategy in light of climate change may both cause negative effects on the climate and experience negative impacts on their business such as on the profit and loss statement, financing, future regulatory burden, and "licence to operate". On the other hand, identifying new climate-related opportunities may strengthen the business model and earnings outlook of a company.'

99 IIRC states that at the core of the organisation is its business model, which draws on various capitals as inputs and, through its business activities, converts them to outputs (products, services, by-products and waste). The organisation's activities and its outputs lead to outcomes in terms of effects on the capitals. The capacity of the business model to adapt to changes (e.g., in the availability, quality and affordability of inputs) can affect the organisation's longer-term viability.

100 SASB specifies that sustainability accounting includes identifying the impacts that environmental, social and human capital issues have on business models, financial performance, and long-term enterprise value, and how businesses adapt corporate strategy, risk management, and governance in response.

101 TCFD recommends that companies disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.[72]

102 Within the context of the legal-regulatory context, when approaching the definition of a sustainable business model, the evolution undergone by the principles of drafting financial information should not be forgotten, in particular on the qualitative aspects. In this regard, the IFRS, in its guidelines relating to information on climate change[73], is updating its principles to ensure that each organisation takes a rigorous approach to explain its business model and strategy, including a description of the long-term drivers of its success. The declaration that imposes the IFRS is not mandatory, but companies that choose to take it into account, either independently, or because it is imposed on them by the regulators, will have to do so by necessarily considering also the risks and opportunities in the ESG field.

Key considerations for a potential EU Sustainable Standard

103 Some users of non-financial reports state that non-financial reports should include information related to the whole value chain of the company, including supply chain operations (upstream) as well as products sold and services rendered down to their end-of life (downstream). In other words, NFR should extend beyond the scope defined in financial reporting, which covers only the reporting entity's own operations (scope of financial consolidation).

104 There is considerable diversity in definition of 'scope' across existing frameworks/standards, and even sometimes within the same framework/standard, which means there is a not an easy approach that a future standards setter can replicate. The future standard setter could consider distinguishing what type of information may be limited to the company's own operations and what information should cover the whole value chain.

105 It is generally considered important to include the whole value chain when assessing how companies can impact people and the environments, as well as create (and/or destroy) value through their activities, including through business relationships and when acting together with other stakeholders. At the same time, when companies are making inevitable prioritisation assessments (including for materiality determination) under such an expanded scope, there needs to be clear guidance on how they should make such prioritisation in line with widely agreed frameworks and guidelines. These state that companies should do such prioritisation—both for taking action and reporting—based on an analysis of 'severity of impact.'

FORWARD-LOOKING INFORMATION AND TIME HORIZON

Definition and relevance

106 While performance information, both financial and non-financial, is by definition retrospective, corporate reporting also includes forward-looking information, such as financial outlook and risk scenario analyses. Forward-looking non-financial information is generally found in sustainability reporting, as well as in some parts of the management review in annual reports.

72 Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures (2017), p.14.

73 IFRS Educational material: Effects of climate-related matters on financial statements, November 2020.

107 In the consultation on the review of the NFRD, respondents were asked 'whether companies should be required to disclose information about additional categories of non-financial information in addition to those already specified in the NFRD (...). The most frequent category respondents submitted is targets and companies' progress against targets. Other frequently mentioned categories were climate scenario analysis [and] forward-looking information (...)'[74].

108 Disclosing forward-looking information is often required or recommended by existing non-financial frameworks and standards. The type of information and extent of forward-looking disclosures vary significantly, as do the time horizons that are considered adequate to address the sustainability challenges ahead.

109 The key question in PTF's analysis in relation to time horizon is: 'What is the role and value of forward-looking information, what may be included in forward-looking information, which time horizons could be applied and how could forward-looking non-financial information be made meaningful?'

Analysis

Required or recommended forward-looking information

110 Most frameworks and standards reviewed require or recommend some form of forward-looking information. The type of forward-looking information required or recommended may vary significantly and may include, among others, strategic outlook, scenario-analyses and (projected performance against) science-based targets.

111 Several existing standards and frameworks require or recommend disclosure of targets and performance against targets. Only a limited number of these standards and frameworks specifically require or recommend science-based targets or policy-based targets (e.g. based on global or EU policy commitments such as the ILO Conventions or the Sustainable Development Goals ('SDGs')). The table below summarises the approach to forward looking information for each main standard or framework analysed.

74 Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive (2020), p.10

Framework/ standard	Types of information (emphasis added)
GRI	When preparing a sustainability report, the reporting organisation should present information for the current reporting period and at least two previous periods, as well as future short and medium-term targets if they have been established (GRI 101). GRI 102: General Disclosures includes the following reporting requirements and reporting recommendations: *Reporting requirement 102-14:* The reporting organisation shall report the following information: A statement from the most senior decision-maker of the organisation (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy for addressing sustainability. *Reporting recommendation:* When compiling the information specified in Disclosure 102-14, the reporting organisation should include: 2.1.1 the overall vision and strategy for the short-term, medium-term, and long-term, with respect to managing the significant economic, environmental, and social impacts that the organisation causes, contributes to, or that are directly linked to its activities, products or services as a result of relationships with others (such as suppliers and persons or organisations in local communities); 2.1.2 strategic priorities and key topics for the short and medium-term with respect to sustainability, including observance of internationally-recognised standards and how such standards relate to long-term organisational strategy and success; 2.1.6 outlook on the organisation's main challenges and targets for the next year and goals for the coming 3–5 years; Disclosure 102-15:Key impacts, risks, and opportunities *Reporting requirements* The reporting organisation shall report the following information: A description of key impacts, risks, and opportunities. *Reporting recommendation:* 2.2 When compiling the information specified in Disclosure 102-15, the reporting organisation should include: 2.2.6 the impact of sustainability trends, risks, and opportunities on the long-term prospects and financial performance of the organisation; 2.2.7 information relevant to financial stakeholders or that could become so in the future; 2.2.8 a description of the most important risks and opportunities for the organisation arising from sustainability trends; 2.2.11 table(s) summarizing targets for the next reporting period and medium-term objectives and goals (i.e., 3–5 years) related to key risks and opportunities;[75]

75 GRI 101: Foundation (2016) and GRI 102: General Disclosures (2016)

Framework/ standard	Types of information (emphasis added)
IIRC	IIRC's Guiding Principles 3A 'Strategic focus and future orientation' and 3B 'Connectivity of information' provide guidance on reporting on the future: 3.3 An integrated report should provide insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long-term, and to its use of and effects on the capitals. 3.4 Applying this Guiding Principle is not limited to the Content Elements 4E Strategy and resource allocation and 4G Outlook. It guides the selection and presentation of other content, and may include, for example: • Highlighting significant risks, opportunities and dependencies flowing from the organisation's market position and business model • The views of those charged with governance about: - the relationship between past and future performance, and the factors that can change that relationship, - how the organisation balances short, medium- and long-term interests, - how the organisation has learned from past experiences in determining future strategic directions. 3.6 The key forms of connectivity of information include the connectivity between […] The past, present and future. An analysis by the organisation of its activities in the past-to present period can provide useful information to assess the plausibility of what has been reported concerning the present-to-future period. The explanation of the past-to present period can also be useful in analysing current capabilities and the quality of management. Content Element 4G 'Outlook' describes the expected forward-looking disclosures: 4.34 An integrated report should answer the question: What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance? 4.35 An integrated report ordinarily highlights anticipated changes over time and provides information, built on sound and transparent analysis, about: • The organisation's expectations about the external environment the organisation is likely to face in the short, medium and long-term • How that will affect the organisation How the organisation is currently equipped to respond to the critical challenges and uncertainties that are likely to arise. 4.37 The discussion of the potential implications, including implications for future financial performance, ordinarily includes discussion of: • The external environment, and risks and opportunities, with an analysis of how these could affect the achievement of strategic objectives The availability, quality and affordability of capitals the organisation uses or affects (e.g., the continued availability of skilled labour or natural resources), including how key relationships are managed and why they are important to the organisation's ability to create value over time. 4.38 An integrated report may also provide lead indicators, KPIs or objectives, relevant information from recognised external sources, and sensitivity analyses. If forecasts or projections are included in reporting the organisation's outlook, a summary of related assumptions is useful. Comparisons of actual performance to previously identified targets further enables evaluation of the current outlook.[76]
SASB	The SASB's approach to sustainability accounting consists of defining operational metrics on material, industry-specific sustainability topics likely to affect current or future financial value. • Sustainability accounting information can be forward-looking to the extent that it helps management describe known trends, events, and uncertainties that may reveal an actual or potential impact on the financial condition or operating performance of a reporting entity. • SASB metrics—both qualitative and quantitative— will thus be of interest to investors and creditors, thereby helping to communicate and to more completely represent company performance. Each SASB standard provides general disclosure guidance for issuers, including forward-looking statements.[77]

76 IIRC, The International <IR> Framework (2013)

77 SASB Conceptual Framework (2017), p.5

Framework/ standard	Types of information (emphasis added)
UN GP Reporting Framework	In using the UN GP Reporting Framework, companies should endeavour to show how they have progressed in their implementation of the Guiding Principles and how they intend to continue to improve. The Reporting Framework describes several opportunities to report forward-looking information. Questions in Section C4 (on Integrating Findings and Taking Action) relate to how the reporting company tries to ensure that potential impacts related to each salient issue do not materialize. This includes efforts to ensure that actual impacts do not continue or recur in the future. The focus is therefore on forward-looking actions by the company. Implementation guidance to the supporting question A2.5, “What lessons has the company learned during the reporting period about achieving respect for human rights, and what has changed as a result?” states that this question offers an opportunity to describe forward-looking plans or targets for continued improvement in the next reporting period or beyond (e.g. changes made or planned to a policy, process or practice in order to better manage one or more human rights impacts).[78]
Taxonomy Regulation	The taxonomy does not require forward-looking information. However, capex is an indicator for potential future turnover alignment with the EU taxonomy.[79]
TCFD	The Task Force encourages organisations to undertake both historical and forward-looking analyses when considering the potential financial impacts of climate change, with greater focus on forward-looking analyses as the efforts to mitigate and adapt to climate change are without historical precedent. This is one of the reasons the Task Force believes scenario analysis is important for organisations to consider incorporating into their strategic planning or risk management practices. Scenario analysis can be qualitative, relying on descriptive, written narratives, or quantitative, relying on numerical data and models, or some combination of both. Reasons to consider using scenario analysis for climate change: a) Scenario analysis can help organisations consider issues, like climate change, that have the following characteristics: - Possible outcomes that are highly uncertain (e.g., the physical response of the climate and ecosystems to higher levels of GHG emissions in the atmosphere), - Outcomes that will play out over the medium to longer term (e.g., timing, distribution, and mechanisms of the transition to a lower-carbon economy), - Potential disruptive effects that, due to uncertainty and complexity, are substantial. b) Scenario analysis can enhance organisations’ strategic conversations about the future by considering, in a more structured manner, what may unfold that is different from business-as-usual. c) Scenario analysis can help organisations frame and assess the potential range of plausible business, strategic, and financial impacts from climate change and the associated management actions that may need to be considered in strategic and financial plans. d) Scenario analysis can help organisations identify indicators to monitor the external environment and better recognise when the environment is moving toward a different scenario state (or to a different stage along a scenario path). This allows organisations the opportunity to reassess and adjust their strategies and financial plans accordingly. e) Scenario analysis can assist investors in understanding the robustness of organisations’ strategies and financial plans and in comparing risks and opportunities across organisations. TCFD recommends describing the targets used to manage climate-related risks and opportunities and the company’s performance against these targets.[80]

112 Additional resources consulted that require science-based targets or policy-based targets are the Science Based Target initiative, the GHG Protocol and the Future Fit Business Benchmark.

78 UN Guiding Principles Reporting Framework (2015), p.4, 6 and 7

79 Regulation (EU) 2020/852

80 Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures (2017), p.26

Resource	Types of information (emphasis added)
Future Fit Business Benchmark	FFBB requires companies to adopt a time horizon for the reporting which is aligned with the time horizon of the systemic risks (and related goals) it is designed to address. There is not a one-time horizon. Forward-looking requirements are aligned with the objective necessity. FFBB guides companies to report on pt. IV – transition plans. The rest is not explicitly required but should be reported where appropriate. The Future Fit Business Benchmark is based on science-based and policy-based target-setting, such as human rights norms as defined in UN instruments, Planetary boundaries and SDGs.[81]
GHG Protocol	The GHG Protocol encourages companies to establish GHG emissions reduction targets and report against these targets. Forward looking targets are quantitative and the same accounting rules apply to the targets as to all backward-looking reported data and info!mation. The GHG-protocol encourages companies to establish science-based GHG emissions reduction targets and report against these targets. The GHG-protocol introduces the base year in its reporting requirements: "A meaningful and consistent comparison of emissions over time requires that companies set a performance datum with which to compare current emissions. This performance datum is referred to as the base year emissions. For consistent tracking of emissions over time, the base year emissions may need to be recalculated as companies undergo significant structural changes such as acquisitions, divestments, and mergers."[82]
Science Based Target initiative	Targets (forward-looking) are set based on an indicator against which companies need to report regularly (e.g. yearly), starting from a baseline (retrospective). Targets must cover a minimum of 5 years and a maximum of 15 years from the date the target is submitted to the SBTi for an official validation. SBTi suggests ways in which forward-looking information may be reported on: a) One of the components of science-based target setting is an emissions scenario, defining the magnitude and timing of emissions reductions; at a minimum, an SBT should lead to emissions reductions from scope 1 and 2 sources that are consistent with well-below 2°C scenarios. Companies are encouraged to pursue greater efforts towards a 1.5°C trajectory. Companies should report on emissions scenario and methods used to set targets. b) Emissions scopes that are and are not included in the target (e.g., whether scope 3 emissions are excluded because they do not account for a significant portion of total emissions) and any future plans to include them[83]; c) How the company will cut emissions: While most companies will not have a fully engineered plan for meeting their SBT at the outset, they may be able to provide near-term examples of the steps they will take to reduce emissions. The Science-Based Target initiative requires both science-based and policy-based targets (GHG-protocol, United Nations Convention on Biological Diversity (UNCBD), United Nations Framework Convention on Climate Change (UNFCCC), United Nations Convention to Combat Desertification (UNCCD) and SDGs).[84]

113 Financial reporting standards generally require companies to report historical figures up to two years backwards. In non-financial information, a longer time period is often considered to be necessary since the related topics are of a longer-term nature. For instance, it is more insightful for stakeholders to understand the development in a company's emission over the last 10 years, than only a comparison between the current and last two years.

114 Providing information over a longer time period (both retrospective and forward-looking) may increase the volume and may decrease the comprehensibility of a report. A potential way to overcome this issue in relation to climate is the base-year concept, as can be found in the GHG-protocol. The organisation reports its progress against the base year figures to provide meaningful insight in its development over a longer period in an aggregated manner, thereby not flooding the stakeholders with too many details for all years covered.

115 Forward-looking information may be reported in several time frames, such as short-term, medium-term and long-term. Inherently, long-term forward-looking information is subject to more uncertainty and a higher estimation risk than short-term information. Companies may connect longer-term goals with shorter term action targets and a transition plan to work towards the long-term goal and to explain the steps towards the greater goal to investors. An example is the

81 Future Fit Business Benchmark Methodology Guide (2020)

82 The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard Revised Edition

83 SBTi Criteria and Recommendations Version 4.1 (April 2020) stresses that targets should be recalculated, as needed, to reflect significant changes that could compromise relevance and consistency of the existing target. Scope 3 emissions become 40% or more of aggregated scope 1, 2 and 3 emissions is one of the changes that should trigger a target recalculation.

84 Science Based Target initiative

Science Based Target initiative, where companies are asked to provide near-term examples of the steps they will take to reduce emissions. Periodical reports on progress against the targets and updates of the transition plan ensures that the long-term goal remains up to date and within reach.

116 The relevance of reports is generally considered to increase when a meaningful connection is made between retrospective information and forward-looking information. Companies may explain how their current state and performance impact their ability to be successful in the future. The reviewed standards and frameworks provide different ways to promote this interconnectivity.

a) GRI does not require a direct connection between past-present-future but recommends combine retrospective and forward-looking information in the statement from the most senior decision-maker about sustainability. Recommended forward-looking information includes the company's vision and strategy, main challenges, targets and goals. The recommended retrospective information includes the company's view on performance with respect to targets and key events, achievements and failures during the reporting period.

b) The <IR> Framework[85] is one of the few frameworks that specifically calls out the 'past-present-future' interconnectivity. The Framework requires companies to disclose the organisation's activities, performance (financial and other) and outcomes in terms of the six capitals in the past, present and future. This analysis can provide useful information to assess the readiness of the company to be successful in the current and future context. However, it may be difficult for preparers of the report to disclose the 18 different lenses in a structured and comprehensible manner, nor does it necessarily cover those impacts (positive and negative; past, present or future) that cannot be connected to value creation and the capitals.

c) SASB considers that accounting can be forward-looking to the extent that it helps management describe known trends, events, and uncertainties that may reveal an actual or potential impact on the financial condition or operating performance of a reporting entity. This approach is more limited in promoting interconnectivity between past-present-future than IIRC.

d) In using the UN GP Reporting Framework, companies report how they have progressed in their implementation of the UN Guiding Principles and how they intend to continue to improve, including through actively preventing identified potential impacts from occurring or other ways to address them. This offers an opportunity to describe forward-looking plans or targets for continued improvement in the next reporting periods and link this to past performance, as well as targets and metrics set.

Time horizon

117 Most standards and frameworks define the time horizons to be applied in reporting as short-term, medium-term and long-term. However, the time span of short-term, medium-term and long-term is not defined in most standards and frameworks. Furthermore, factors that should be considered when defining the time horizons vary significantly between the standards and frameworks reviewed. Only a few standards recommend or require reporting organisations to describe how they determined the time horizons applied.

85 IIRC, The International <IR> Framework (2013)

Framework/ standard	Types of information
GRI	According to GRI, "Horizons are defined in terms of the definition of the term 'impact' that can refer to positive, negative, actual, potential, direct, indirect, short-term, long-term, intended, or unintended impacts."[86]
IIRC	IIRC encourages reporting organisations to define their own time horizons considering several factors: "The future time dimension to be considered in preparing and presenting an integrated report will typically be longer than for some other forms of reporting. The length of each time frame for short, medium and long-term is decided by the organisation with reference to its business and investment cycles, its strategies, and its key stakeholders' legitimate needs and interests. Accordingly, there is no set answer for establishing the length for each term."[87] With these considerations in mind, the following descriptions avoid assigning specific time frames; instead, organisations are encouraged to define time scales that suit their unique circumstances. • Short term effects include immediate, event driven impacts, such as those arising from health and safety infractions or the identification of design flaws that prompt product recalls. For practical purposes, some organisations treat the annual reporting cycle as a suitable measure for the short term; this milestone provides an opportunity to share progress over the past year, as well as expectations between now and the next report. • Medium term effects are those that extend beyond the short term as defined by the organisation. • Long-term effects cover a more extensive time range and are generally more strategic than operational in nature. Again, the distinction between medium- and long-term effects is defined by the organisation.
SASB	SASB standards provide investors with decision-useful information on the sustainability issues that are reasonably likely to materially affect near-, medium-, or long-term business value.[88]
UN GP Reporting Framework	The UN GP Reporting Framework does not specify time horizons.
Taxonomy Regulation	The final report of the TEG and the EU Taxonomy Directive consider 'medium-term' and 'long-term' climate goals and impacts but do not define the time horizons in years or descriptive terms.[89]
TCFD	TCFD identifies the short-, medium- and long-term time horizons and recommends organisations to disclose "a description of what they consider to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organisation's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms".[90]

118 Additional resources consulted provide additional ways to define time horizons.

86 GRI 101: Foundation (2016)

87 IIRC, The International <IR> Framework, p.32

88 SASB Conceptual Framework (2017), p.10

89 Regulation (EU) 2020/852 and Taxonomy: Final report of the Technical Expert Group on Sustainable Finance (2020)

90 Final Report – Recommendations of the Task Force on Climate-Related Financial Disclosures (2017), p.20

Framework/ standard	Types of information
Future Fit Business Benchmark	The FFBB requires companies to adopt a time horizon for the reporting which is aligned with the time horizon of the systemic risks (and related goals) it is designed to address. So, there is not one-time horizon for everything. However, the forward-looking requirements are always aligned with the objective necessity.[91]
GHG Protocol	The GHG Protocol defines long-term as ten years to facilitate long-term planning for large capital investments with GHG benefits. However, they recognise that a five-year target period may be more practical for organisations with shorter planning cycles.[92]
Natural Capital Protocol	The Natural Capital Protocol does not prescribe time horizons. Instead, the framework requires the identification of the temporal boundaries for the assessment of natural capital impacts.[93]
Science Based Target initiative	SBTi defines the following time frames: 0-5 years: short term, 5-15 years: mid-term, beyond 15 years (up to 2050): long-term. SBTi focuses on medium- and long-term targets – rather than on short term targets.[94]

119 As is apparent from this analysis, the actual period in years that is meant by short-term, medium-term and long-term varies greatly among standards and frameworks. Amongst others, varies per topic to be reported on.

120 Furthermore, the sector in which a business operates is likely to play a significant role in determining the time span of what is considered short, medium and long-term. For instance, the fashion industry sells several collections every year and may consider long-term to be not much longer than a year, while in the forestry sector long term is more than 50-years, the time needed to grow a forest.

Key considerations for a potential EU Sustainable Standard

121 In non-financial reporting (when compared to financial reporting), reporting over a longer time period, both retrospective and (in particular) forward-looking, is often deemed necessary due to the nature of the topics. Assessing available methods and tools that assist reporting organisations in disclosing the information in a comprehensive yet understandable manner will be helpful in a next step

122 Time horizons that are considered adequate to address the sustainability challenges ahead may vary a lot. There is not a common understanding of the definition of short-term, medium-term and long-term in existing standards and frameworks and the latter may have different objectives that may be related to the determination of time horizons. It is important that organisations define what short-term, medium-term and long-term means in their business and for their organisation, and report on this to provide stakeholders with sufficient insight. The analysis suggest that one option could be for the standard setter to provide set time horizons for preparers and/or offer guidance to companies on how to determine time horizons and explain those in their reporting, including set criteria for target-setting by companies, whether science-based, policy-based or results-based.

123 Longer-term goals have an inherent higher degree of estimation uncertainty. Furthermore, based on the analysis, it may be challenging for stakeholders to assess easily how a company's shorter-term activities aim to achieve the long-term goal whilst avoiding risks of unrealistic goals and green-washing. Setting and disclosing shorter-term goals in the context of a transition might help operationalising and reporting on the longer-term goals as does a comparison between goals, targets and achievements.

124 Connecting forward-looking information with retrospective information is key for the company to provide insights into its ability to be successful in the short-term, medium-term and long-term, given the current and future context.

91 Future-Fit Business Benchmark Methodology Guide (2020)

92 The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard, Revised Edition, p.80

93 Natural Capital Coalition "Nature Capital Protocol" (2016), p.41

94 Science-Based Target Setting Manual (2020)

125 A meaningful comparison of historic, current and forward-looking information requires a consistent method of aggregating and reporting information; however, the discipline is in its early stages and still evolving significantly. Methods and historical figures may need to be updated to follow new insights and developments for proper inclusion of emerging best practices.

LEVEL OF APPLICATION

Definition and relevance

126 Reporting organisations can present information on different levels of consolidation. Levels of reporting may include the whole capital group (parent company and its subsidiaries as per consolidation scope), country/regional level, subsidiary level, site level (asset or business unit), portfolio level and activity level (among others), depending on the nature and size of the company, the complexity of its structure, the nature and severity of impacts, and the nature of information that is reported.

127 A potential EU NF Reporting Standard will need to consider whether it should require that companies report at different levels of application, in terms of Parent Company level, subsidiary level or sector specific level For example, a relevant question is whether subsidiaries should produce their own NF statements (if they meet the personal scope definition of the NFRD), even if their parent produces a consolidated NFS[95]

128 Furthermore, non-financial information may be approached from a generic standpoint (allowing inter-sector comparisons) or from a sector-specific standpoint (putting the emphasis on a 'best-in-class' comparison) or from a combination of both.

129 The consultation on the NFRD asked respondents whether a standard should include sector-specific elements. 80% of all respondents favoured the inclusion of sector-specific elements in a reporting standard.[96]

130 In addition to generic indicators that apply to all entities, standardised approaches may leave flexibility to introduce elements of sector-specific or entity-specific indicators. Such an approach can increase relevance but potentially reduce comparability and could take its point of departure from the business model, as referenced in the current NFRD. A standardised approach could also include elements such as governance oversight, strategy, and related policies and procedures.

131 Both materiality assessment and the data gathering process are impacted by the level of application.

a) Some sustainability topics may be more material for companies in some sectors or industries than others. Many existing standards and frameworks provide sector-specific guidance and urge reporting organisations to provide information that is comparable to other organisations in the same sector or industry.

b) Some sustainability data must be gathered on more granular levels to be reported at the corporate level, while other sustainability data must be both gathered and reported on a granular level to be consolidated on a sector or meta sector level, for example EU Taxonomy turnover, CAPEX and OPEX or GHG emissions.

132 Key question in PTF's analysis is how the level of application may be reflected in standard setting reporting requirements for companies, thereby considering the relevance, comparability and reliability of non-financial information and the needs of the intended audience and other stakeholders.

95 Subsidiaries may be involved with major impacts and risks and it may desirable that they would be required to report separately. For example, consider a bank that plays a critical role in a national EU economy and is a subsidiary of an EU based parent company. It could be very relevant for stakeholders in that country to know what is the exposure to climate risks of the subsidiary bank (rather than just the exposure of the whole banking group).

96 Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive (2020)

Analysis

Company level and more granular reporting

133 Most standards and frameworks reviewed require reporting at company level, whereby the company level is understood as the whole capital group or the parent company[97], and do not explicitly mention more granular reporting.

134 Some of the standards and frameworks reviewed explicitly allow for more granular reporting, usually organised by geography or market area, such as GRI and the UN Guiding Principles Reporting Framework.

a) Examples of GRI allowing more granular reporting can be found in GRI 102-8. GRI 102-8 requires companies to report the total number of employees by employment contract by region. Similarly, when applying GRI 401-1, GRI requires companies to report the number of new employees and their turnover by age group, gender and region. Furthermore, the GRI 207-4 Global Standard for Public Reporting on Tax introduces public country-by-country reporting of business activities, revenues, profit and tax. It requires reporting of financial, economic, and tax-related information for each jurisdiction in which the organisation operates.

b) The UN Guiding Principles Reporting Framework urges reporting companies to focus on salient human right issues to ensure reporting is focused and relevant. In the process of identifying those issues, companies may choose to focus on specific geographies. They may identify different geographies in relation to different issues. If reporting on the salient human rights issues focuses on particular geographies, the company is urged to explain how that choice was made.[98]

135 The EU taxonomy focuses on economic activities, whereby companies are required to disclose their Taxonomy-aligned turnover, CAPEX and OPEX on a company level, but must calculate the Taxonomy-alignment per activity. Other disclosures, such as project-level disclosures, can be made.[99]

136 Additional sources consulted, such as the GHG Protocol, the Eco-Management and Audit Scheme ('EMAS') and the Polish Non-Financial Information Standard ('nFIS'), allow or require for site-level reporting (business unit, plant level):

a) The GHG Protocol[100] is primarily designed to be used on the company level. However, the standard also provides requirements and guidance enabling it to be used on virtually all granularity levels: up to the level of a sector, meta-sector, regional or even global economy and down to business unit, plant or even activity level. An interconnected GHG Protocol Product Life Cycle Standard allows for GHG emissions accounting for particular products. Furthermore, GHG Protocol requires companies to report any significant emissions changes that trigger base year recalculations. This information is relevant on site-level and the standard requires the company to report it on that level.

b) The intention of EMAS is 'to ensure local accountability, [therefore] organisations shall ensure that the significant environmental impacts of each site are clearly identified and reported within the corporate environmental statement.'[101]

c) The main standard of nFIS allows for companies to report on a more detailed level (than the company level) such as asset level or unit level when considered appropriate by the reporting company.

137 The review shows that the required or recommended level of application of reporting differs based on the standard's or framework's objectives, theory of change, intended audience and the level where impacts or risks typically occur (both outside-in and inside-out perspective). Most standards and frameworks foresee reporting on the company or group level but ask for more granular information if impacts or risks vary significantly among sites, geographies, assets or specific activities of a company.

97 It means controlling entity, subsidiaries and others in which the parent exercise significant influence

98 UN Guiding Principles Reporting Framework with implementation guidance (2015) – B3 Choice of focal geographies

99 Taxonomy: Final report of the Technical Expert Group on Sustainable Finance (2020)

100 Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, Revised Edition

101 Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 on the voluntary participation by organisations in a Community eco-management and audit scheme (EMAS)

Sector-specific reporting

138 The table below includes an analysis of the availability of sector-specific disclosures and metrics and the objective for recommending or requiring sector-specific information of the six standards / frameworks primarily analysed.

Framework/ standard	Sector specific standards	Text
GRI	Provides sector-specific standards	"The GRI Sector Program develops Sector Standards that provide organisations with authoritative guidance on the most likely material topics for reporting in their sector and the information they should report on these topics. The program aims to cover all high-impact sectors, starting with those with the highest impact on sustainable development. The first of these sectors are: oil and gas, coal, and agriculture and fishing, for which projects are underway."[102]
IIRC	No	"The Framework (...) Is written primarily in the context of private sector, for-profit companies of any size but it can also be applied, adapted as necessary, by public sector and not-for-profit organisations."[103]
SASB	77 industry-specific standards	"The SASB develops sustainability accounting standards at the industry level, focusing on issues that are closely tied to resource use, business models, and other factors at play in the industry"[104]
UNGP Reporting Framework	Not applicable	The Framework does not specifically mention sector-specific reporting.
Taxonomy Regulation	Economic activity focus (more granular than sectors)	"Assessing alignment with the Taxonomy should be performed by economic activity rather than by sector or industry. The TEG recommendations are structured around the EU's NACE (Nomenclature des Activités Économiques dans la Communauté Européenne) industry classification system, and the TEG has set technical screening criteria for economic activities within priority macro-sectors."[105]
TCFD	Guidance on financial sector expectations to companies potentially most affected by climate change and the transition to a lower-carbon economy.	"Importantly, the Task Force's recommendations apply to financial-sector organisations, including banks, insurance companies, asset managers, and asset owners." "For the financial sector and certain non-financial sectors[106], supplemental guidance was developed to highlight important sector-specific considerations and provide a fuller picture of potential climate-related financial impacts in those sectors." "The level of detail provided in disclosures should enable comparison and benchmarking of risks across sectors and at the portfolio level, where appropriate."[107]

102 www.globalreporting.org/standards/sector-program/

103 IIRC, The International <IR> Framework, p.4

104 SASB Conceptual Framework (2017), p.16

105 Taxonomy: Final report of the Technical Expert Group on Sustainable Finance (2020), p.35

106 Energy, Transportation, Building Materials, Agriculture, Food and Forest Products

107 Final Report – Recommendations of the Task Force on Climate-Related Financial Disclosures (2017), p.iii, p. iv and Appendix 3

139 The table below includes additional sources consulted for the analysis of sector-specific disclosures and metrics, and objectives for recommending or requiring sector-specific information.

Source	Sector specific standards	Text
EMAS	Guidance on sector-specific indicators and improvement of environmental performance	"The Sectoral Reference Documents (SRDs) on Best Environmental Management Practice provide guidance and inspiration to organisations in specific sectors on how to further improve environmental performance." "Each SRD includes the following elements: • Best environmental management practices; • Environmental performance indicators; • Benchmarks of excellence."[108]
German Sustainability Code	Sector-specific reporting guidance for a limited number of sectors	"A number of industry associations have developed sector-specific reporting supplements. These provide concrete guidance such as information about key aspects and examples relating to the individual Code criteria"[109]
GHG Protocol	Provides guidance to report on sector level across 50 sectors	GHG Protocol is primarily designed to be used on the company level. The standard provides requirements and guidance enabling it to be used on virtually all granularity levels: up to the level of a sector, meta-sector, regional or even global economy and down to business unit, plant or even activity level.[110]
nFIS	Materiality of topics assessed	Categorisation of ESG topics is done also at a sector level (50 sectors) and macro sector (8 macro sectors)[111]

140 A review of existing frameworks and standards shows that there are many different approaches to the level of application. Some standards only include generic guidance, whereas others combine generic and sector-specific guidance. Other differentiating factors are the balance between generic and sector-specific reporting, and what topics are considered relevant for generic or sector-specific reporting.

141 About half of the standards and frameworks reviewed provide guidance concerning topics that are material or metrics that should be disclosed in some sectors (GRI, SASB, EU Taxonomy), as do several of the additional sources consulted (EMAS, German Sustainability Code, nFIS).

142 Few standards and frameworks provide guidance for all sectors (SASB does). In some cases, only some sectors are covered and there is work in progress for other sectors (GRI, EU Taxonomy).

143 Key considerations in current standards and frameworks for requiring or advising disclosure of sector-specific metrics or indicators are:

a) Facilitating comparability of information among companies in the same sector or industry; and

b) Ensuring that specific indicators or metrics that are deemed material for certain sectors or industries are reported on by preparers.

108 https://ec.europa.eu/environment/emas/emas_publications/sectoral_reference_documents_en.htm

109 https://www.deutscher-nachhaltigkeitskodex.de/en-GB/Home/DNK/DNK-for-industry

110 Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard Revised edition

111 Foundation for Reporting Standards, non-Financial Information Standard (2019)

Company level and more granular reporting

144 It is likely relevant for providing and obtaining a complete picture of the company's non-financial performance and forward-looking plans (from both lenses of the double materiality perspective) to disclose information on a level of application more granular than the capital group (such as country/region or site/activity). This could include adding a component specific to subsidiary, country/region, site or activity where it is likely to create substantial additional insight. The relevance can be assessed, including dependence on the nature of the topic: for environmental topics, such as water scarcity, geography is often of incremental importance; and for workforce composition and levels of unionisation, country by country or site by site reporting can offer additional insight or may be relevant for public interest considerations. The structure of the company may also be a relevant determinant.

145 Defining the different levels consistently poses a significant challenge. The definition of capital group is well established by financial reporting standards, but there is no standard definition for the other levels yet. This may cause issues for organisations when preparing the reports, or for users when comparing organisations.

146 Another challenge may be that the recommended or required levels of application may not align with the business model or operations of a company, nor with where the most severe impacts can be found in a company's value chain. For instance, an economic activity may be performed at several sites, as well as several economic activities may be performed at a particular site. At the same time, different reporting users might be interested in different level of disclosure, impacting on the granularity of the information disclosed. Requiring disclosures on a certain topic on a specific level may create incomplete or irrelevant information.

147 Current company level indicators related to People are often inadequate and therefore provide insufficient basis for defining indicators at the granular company (or even sector) level.

Sector-specific reporting

148 Several existing frameworks and standards recommend or require sector-specific disclosures and/or metrics. The sectors identified, or the way sectors are categorised, differ between the standards.

149 Should it wish to mandate sector specific reporting requirements, harmonisation with the other official EU classification of sectors and economic activities (such as NACE) should be analysed, as it's currently being used in the EU Taxonomy. In addition, internationally, other classifications of sectors and economic activities may be used, such as the Industry Classification Benchmark ('ICB') and the Global Industry Classification Standard ('GICS').

150 Some topics are relevant to all sectors as generic; others are critical for only one sector and the standard setter will have to consider how to account for this in its standard setting architecture.

151 Work already done by the TEG for the Taxonomy Regulation is a first step for identifying specific sector requirements. The Taxonomy prioritises sectors that have the potential to make a substantial contribution to climate change mitigation or climate change adaptation.

TYPES OF INFORMATION

Definition and relevance

152 Companies are required to disclose 'information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity' (article 19a Directive 2014/95/EU).

153 Recital 8 of the NFRD states that 'the undertakings ... should provide adequate information' and should include material narratives and indicator-based disclosures, commonly referred to as key performance indicators (KPIs).

154 Article 19a(1) / 29a(1) of the Non-Financial Reporting Directive contains a broad requirement for undertakings to disclose information 'to the extent necessary for an understanding of the [undertaking's / group's] development, performance, position and impact of its activity, relating to [...] environmental [...] matters [...]'.

155 Considering their specific circumstances and the information needs of investors and other stakeholders, companies are expected to provide a fair and balanced view by using general, sectoral and company-specific information and metrics.

156 During the NFRD Public Consultation, most respondents stated that there were problems in particular with regard to comparability of non-financial information but also in terms of reliability and relevance (82% of all the respondents believe a common standard would solve the problems identified).

157 Some of the respondents to the NFRD Public Consultation, such as users and preparers, stressed the need for more concrete and detailed definitions of what types of non-financial information should be disclosed.

158 The Consultation also highlighted that reporting entities face difficulties in providing consistent, comparable and reliable non-financial information in part due to the existence of a variety of frameworks and standards requiring different types of information.

Analysis

Qualitative and quantitative information

Main analysed frameworks and standards

159 In its guidelines, NFRD specifies the cases when it is necessary to use quantitative or qualitative information. In particular:

a) Guidelines article 3.4: 'By disclosing targets, benchmarks and commitments, a company may help investors and other stakeholders to put its performance in context. This may be helpful when assessing future prospects. External monitoring of commitments and progress towards targets promotes greater transparency towards stakeholders. Targets and benchmarks may be presented in qualitative or quantitative terms. As appropriate, companies may disclose relevant information based on science-based scenarios.'

b) The Guidelines on climate related reporting furthermore provide a number of recommended quantitative indicators.

160 GRI Standard specifically requires – for each material topic – to report the management approach disclosures for that topic, that is a narrative description about how the topic is managed, and a specific disclosure to be chosen within the Topic Specific Standards (200, 300, 400) that is typically a quantitative KPI, or report other appropriate disclosures, if the material topic is not covered by an existing GRI Standard.

161 Some frameworks are not granular in terms of specific quantitative and qualitative information to disclose (IIRC, UNGP). The IIRC Framework[112] is principle-based. The intent of the principle-based approach is to strike an appropriate balance between flexibility and prescription that recognises the wide variation in individual circumstances of different organisations while enabling a sufficient degree of comparability across organisations to meet relevant information needs. This Framework does not prescribe specific key performance indicators (KPIs), measurement methods or the disclosure of individual matters. Quantitative indicators, such as KPIs and monetised metrics, and the context in which

112 IIRC, The International <IR> Framework (2013)

they are provided can be very helpful in explaining how an organisation creates value and how it uses and affects various capitals. While quantitative indicators are included in an integrated report whenever it is practicable and relevant to do so:

a) The ability of the organisation to create value can best be reported through a combination of quantitative and qualitative information.

b) It is not the purpose of an integrated report to quantify or monetise the value of the organisation at a point in time, the value it creates over a period, or its uses of or effects on all the capitals.

162 SASB provides companies with standardised quantitative—or, in some cases, qualitative—metrics intended to measure performance on each disclosure topic or an aspect of the topic. Indicators are retroactive and can be either quantitative (in amounts or percentages) or descriptive (e.g. corporate policies). Sustainability accounting metrics should be accompanied by a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, where not addressed by the specific accounting metrics, including strategy, competitive positioning, degree of control, performance, and trends over time [113]

163 The UNGP Reporting Framework[114], like the IIRC Framework, is not granular in terms of specific quantitative and qualitative information to disclose. In its implementation guidance it says that relevant information for the company's disclosure could include processes, key performance indicators and/or criteria/metrics that the company can use to better understand its own human rights impacts, risks and other useful data as a means of answering the assessment questions.

164 The EU Taxonomy[115] require non-financial undertakings to provide specific monetary KPIs when disclosing their alignment with the Taxonomy, that is also based on extensive technical criteria for assessing whether an activity is taxonomy-aligned (article 10 to 15).

a) Monetary KPIs:

(i) Proportion of their turnover derived from products or services associated with environmentally sustainable economic activities under the Taxonomy Regulation;

(ii) Proportion of their CapEx related to assets or processes associated with environmentally sustainable economic activities under the Taxonomy Regulation;

(iii) Proportion of their OpEx related to assets or processes associated with environmentally sustainable economic activities under the Taxonomy Regulation.

b) Qualitative information: furthermore, in its call for advice, the Commission is considering whether it should require, in its delegated act, that non-financial undertakings must disclose additional information to supplement the three KPIs. ESMA considered that such supplementary information alongside the three KPIs could enable users of non-financial information to better understand the KPIs, by:

(i) Providing information on how the KPIs were prepared,

(ii) Describing how the KPIs should be interpreted (i.e. providing a narrative explanation of the numerical information presented by the KPI),

(iii) Providing context around the KPIs (e.g. by providing comparatives for how the non-financial undertaking performed on the same KPI in previous years or information on the target the undertaking had set for itself for each KPI for the year in question).

113 SASB Conceptual Framework (2017), p. 20

114 UN Guiding Principles Reporting Framework

115 Regulation (EU) 2020/852

165 The TCFD requires both qualitative and quantitative information: the first category includes, for instance, narrative description of governance, strategy and risk management approach concerning climate-related issues; while the second category includes, for instance, metrics and targets concerning climate-related risks and opportunities, such as Scope 1, 2 and 3 carbon emissions, or the quantification of the financial impacts of climate-related risks and opportunities over the organisations' business, financial planning and strategy.

Additional Sources Analysed

166 GHG protocol[116] focus primarily on quantitative information: it requires predominantly quantitative information on GHG emissions. Some additional explanatory information is also provided in qualitative form in reports.

167 Natural Capital Protocol[117] establishes that the valuation of natural capital can be:

a) Qualitative: e.g. opinion surveys, deliberative approaches, relative valuation;

b) Quantitative (numerical but NOT monetary): e.g. structured surveys, indicators, multi-criteria analysis;

c) Monetary: e.g. market and financial prices (if available), production function, cost-based approaches, revealed or stated preference approach.

Quality of information

168 Although a general classification on types and quality of information based on the analysed frameworks and standards would be highly useful, there is not clear convergence among them. The landscape is characterised by is a wide range of indicators and metrics, each with their own structure and requirements, without a common basis to build upon.

169 Most frameworks and standards provide a set of reporting principles (see section above) that also reflect on the type of targets, metrics and other information that should be disclosed by reporting entities.

170 A few frameworks go beyond that and provide a more detailed prescription of quality of information (e.g., GRI and SASB, see next).

171 GRI Standard Reporting principles for defining quality:[118]

a) Accuracy: the reported information shall be sufficiently accurate and detailed for stakeholders to assess the reporting organisation's performance.

b) Balance: the reported information shall reflect positive and negative aspects of the reporting organisation's performance to enable a reasoned assessment of the overall performance.

c) Clarity: the reporting organisation shall make information available in a manner that is understandable and accessible to stakeholders using that information.

d) Comparability: the reporting organisation shall select, compile, and report information consistently. The reported information shall be presented in a manner that enables stakeholders to analyse changes in the organisation's performance over time, and that could support analysis relative to other organisations.

e) Reliability: The reporting organisation shall gather, record, compile, analyse, and report information and processes used in the preparation of the report in a way that can be subject to examination, and that establishes the quality and materiality of the information.

f) Timeliness: The reporting organisation shall report on a regular schedule so that information is available in time for stakeholders to make informed decisions.

116 Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard Revised edition

117 Natural Capital Coalition, Nature Capital Protocol (2016)

118 GRI 101, Foundation, p. 13

172 At the accounting metrics level, SASB considers the following set of criteria when evaluating potential metrics to measure performance on aspects of each sustainability topic[119]:

a) Fair Representation: a metric adequately and accurately describes performance related to the aspect of the disclosure topic and it is intended to address or is a proxy for performance on that aspect of the disclosure topic.

b) Useful: a metric will provide useful information to companies in managing operational performance on the associated topic and to investors in performing financial analysis.

c) Applicable: metrics are based on definitions, principles, and methodologies that are applicable to most companies in the industry based on their typical operating context.

d) Comparable: 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.

e) Complete: individually, or as a set, metrics provide enough data and information to understand and interpret performance associated with all aspects of the sustainability topic.

f) Verifiable: metrics are capable of supporting effective internal controls for the purposes of data verification and assurance.

g) Aligned: metrics are based on those already in use by issuers or are derived from standards, definitions, and concepts already in use by issuers, governments, industry associations, and others.

h) Neutral: metrics are free from bias and value judgment on behalf of SASB, so that they yield an objective disclosure of performance that investors can use regardless of their worldview or outlook.

i) Distributive: metrics are designed to yield a discernible range of data for companies within an industry or across industries allowing users to differentiate performance on the topic or an aspect of the topic.

173 The Report 'Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe'[120], recommends the definition of a general classification system, 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).

174 From the workstream's understanding of the literature, each piece of disclosure, be it narrative or quantitative, should be evaluated against key criteria, to test its capacity for providing valuable insight to stakeholders.

175 Accordingly, it is important to recognise the value of and need for qualitative indicators when it comes to impacts on people. The human experience cannot be reduced to numbers, and most quantitative data will require qualitative information for its reasonable interpretation. In this case key criteria may be represented by:

a) Indicative capability: Whether an indicator or metric provides a true signal of the likelihood that the company's practices are reducing negative outcomes and increasing positive outcomes for people and planet or is unrelated or weakly related to such outcomes.

b) Measurability: in the case of quantitative metrics, whether the issue at hand can reasonably be measured by a company without an excessive amount of conjecture and unknowns that would render it too arbitrary to be of value

119 SASB Conceptual Framework (2017), p.19

120 Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe, Patrick de Cambourg, (2019)

176 Contextualisation: the extent to which an indicator can be relied upon for insight absent contextual information to enable its interpretation; and the extent to which variations in such contextual information mean that a quantitative indicator does not provide for comparability

177 The literature also suggests that the metrics chosen should be meaningful to different stakeholders and they must ultimately be comprehensible and capable of communicating meaningful progress, or otherwise, towards sustainable development. Suggested indicators must also be scientifically valid, cost-effective, measurable and feasible to collate. They must be capable of indicating progress over time and therefore must have a dynamic quality and be capable of capturing both positive and negative qualities.

Key considerations for a potential EU Sustainable Standard

178 Definition and assessment of indicators and metrics for their potential value in the context of reporting, whether at the sector-agnostic or sector -specific level are currently missing. Such clarification will help to provide clarity and predictability for companies regarding the indicators and metrics on which they should focus their reporting.

179 For non-financial information, both qualitative and quantitative information is important. Further clarification of where and how to use quantitative and qualitative information, considering also where the combination of the two is needed and where qualitative information provides essential context for the interpretation of numerical data or when numerical data illustrate or support qualitative information.

180 Some current indicators and metrics existing in EU standards provide little insight into how well a company is minimising its negative impacts and maximising its positive impacts on people and planet. Some other indicators, that are assumed to provide comparability across companies, in fact fail to do so in practice, risking misleading conclusions by investors. It is therefore important to identify and define key criteria to test indicators and/or metrics capacity for providing valuable insight to stakeholders.

181 It is important to take into consideration that for certain topics established and well recognised quantitative indicators exist and have proven their quality, robustness and usability (for example GHG emissions accounting, where metrics provided by GHG Protocol and ISO 14064-1:2018 have become global standards). At the same time some topics currently lack such quantitative indicators, or they are at a relatively early stage of development, proliferation or use (for example measuring circular economy issues). Usually in such cases, where quantitative metrics are lacking, qualitative indicators are temporarily used.

182 It should not be precluded that certain indicators may exist or emerge that can be applied at a sectoral level while meeting the quality criteria. Industry initiatives may play a particular role in identifying such indicators, and experience over time with company-determined targets and indicators may point to others.

REPORTING PRINCIPLES

Definition and relevance

183 The definition of ‘reporting principles’ used by this workstream is that of reporting principles being a set of abstract concepts guiding Non-financial Reporting (NFR) regarding process, content, quality, assurance and the presentation of Non-financial Information (NFI). Reporting principles are a key element of a Non-financial Reporting (NFR) framework, with other key elements being the objectives of NFR, a specification of topics for NFI covered by the framework, specific reporting standards guiding the generation of NFI under each topic, and a governance structure for developing reporting standards.

184 The lack of a clear definition of reporting principles in the NFRD is a contributing factor to the problems seen with the current practice of NFR in the EU. The great majority of users responding to the Commission’s 2020 online consultation on the revision of the NFRD sees problems with the limited reliability, limited comparability, and incompleteness of reported NFI. These problems may in part be addressed through the mandatory application of a clear set of reporting principles to NFR in the EU.

185 The NFRD non-binding guidelines define a set of six 'key principles' which can be understood as reporting principles according to the definition given above: 1) disclose material information, 2) fair, balanced and understandable, 3) comprehensive but concise, 4) strategic and forward-looking, 5) stakeholder-oriented and 6) consistent and coherent. However, it is reported that only 5% of the largest 1.000 listed companies in the EU refer to the NFRD non-binding guidelines in NFR[121], and this may be caused by the fact, that the Commission stated in the 2017 Guidelines that 'this document does not constitute a technical standard, and neither preparers of non-financial statements nor any party, whether acting on behalf on a preparer or otherwise, should claim that non-financial statements are in conformity with this document.' These reporting principles have been defined with the objective of disclosing non-financial information in a relevant, useful, consistent and more comparable manner[122]. However, in addition to being voluntary, these principles are seen by many as being too general and not systematic enough to function as the reporting principles of an EU NFR framework.

186 The revision of the NFRD thus raises the question of what the role of Reporting Principles should be, and how they should be constructed in order to guide NFR standard setting as well as preparers in providing relevant and useful information to stakeholders, thereby contributing to the achievement of sustainability objectives.

187 Key question in PTF's analysis of the Reporting Principles is: 'What role can Reporting Principles play within an EU NFR framework and how can they contribute to the realisation of the objectives in the NFRD'.

Analysis

188 The Non-Binding Guidelines (2017) define 6 Key principles that companies should follow to define the content of their Non-Financial Statement, in order to guarantee the correct understanding of an undertaking's development, performance, position and impact in relation to required matters[123]:

a) Disclose material information: the Accounting Directive (2013/34/EU) defines material information as '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'.

b) Fair, balanced and understandable: the non-financial statement should give fair consideration to favourable and unfavourable aspects, and information should be assessed and presented in an unbiased way. The non-financial statement should consider all available and reliable inputs, taking into account the information needs of relevant stakeholders. Users of information should not be misled by material misstatements, by the omission of material information, or by the disclosure of immaterial information. The non-financial statement should clearly distinguish facts from views or interpretations.

c) Comprehensive but concise: material disclosures are expected to provide a comprehensive picture of a company in the reporting year. This refers to the breadth of information disclosed. However, the depth of information reported on any particular issue depends on its materiality. A company should focus on providing the breadth and depth of information that will help stakeholders understand its development, performance, position and the impact of its activities. The non-financial statement is also expected to be concise and avoid immaterial information. Disclosing immaterial information may make the non-financial statement less easy to understand since it would obscure material information. Generic or boilerplate information that is not material should be avoided.

d) Strategic and forward-looking: the statement is expected to provide insights into a company's business model, strategy and its implementation, and explain the short-term, medium-term and long-term implications of the information reported.

121 The Alliance for Corporate Transparency Research Report 2019: An analysis of the sustainability reports of 1.000 companies pursuant to the EU Non-Financial Reporting Directive

122 Guidelines on non-financial reporting (methodology for reporting non-financial information) (2017/C 215/01)

123 EC 2017 Non-Binding Guidelines on Non-Financial Reporting, art 3, p. 6-9

e) Stakeholder oriented: companies are expected to consider the information needs of all relevant stakeholders. They should focus on information needs of stakeholders as a collective group, rather than on the needs or preferences of individual or atypical stakeholders, or those with unreasonable information demands.

f) Consistent and coherent: 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.

Main analysed frameworks and standards

189 GRI considers its Reporting Principles fundamental to achieving high quality sustainability reporting. An organisation is required to apply the Reporting Principles if it wants to claim that its sustainability report has been prepared in accordance with the GRI Standards. The Reporting Principles are divided into two groups: principles for defining report content and principles for defining report quality[124].

190 Reporting principles for defining content:

a) Stakeholder Inclusiveness: the reporting organisation shall identify its stakeholders and explain how it has responded to their reasonable expectations and interests.

b) Sustainability Context: the report shall present the reporting organisation's performance in the wider context of sustainability.

c) Materiality: the report shall cover topics that reflect the reporting organisation's significant economic, environmental, and social impacts or that substantively influence the assessments and decisions of stakeholders.

d) Completeness: 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 organisation's performance in the reporting period.

191 Reporting principles for defining quality:

a) Accuracy: the reported information shall be sufficiently accurate and detailed for stakeholders to assess the reporting organisation's performance.

b) Balance: the reported information shall reflect positive and negative aspects of the reporting organisation's performance to enable a reasoned assessment of the overall performance.

c) Clarity: the reporting organisation shall make information available in an understandable and accessible manner to the stakeholders which use that information.

d) Comparability: the reporting organisation shall select, compile, and report information consistently. The reported information shall be presented in a manner that enables stakeholders to analyse changes in the organisation's performance over time, as well as to compare the reporting entity with other organisations.

e) Reliability: The reporting organisation shall gather, record, compile, analyse, and report information and processes used in the preparation of the report in a way that can be subject to examination, and that establishes the quality and materiality of the information.

f) Timeliness: The reporting organisation shall report on a regular schedule so that information is available in time for stakeholders to make informed decisions.

124 GRI 101: Foundation 2016 – Global Reporting Initiative

192 IIRC, a principle-based framework, identifies 7 Guiding Principles to guide companies in defining the report content and the quality of information[125]:

a) Strategic focus and future orientation: an integrated report should provide insights into the organisation's strategy, and how it relates to the organisation's ability to create value in the short-, medium- and long-term and to its use of and effects on the capitals.

b) Connectivity of information: an integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors affecting the organisation's ability to create value over time.

c) Stakeholder relationships: an integrated report should provide insights into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, considers and responds to their legitimate needs and interests.

d) Materiality: an integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short-, medium- and long-term.

e) Conciseness: an integrated report includes enough context to understand the organisation's strategy, governance, performance and prospects without being burdened with less relevant information.

f) Reliability and completeness: an integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

g) Consistency and comparability: the information in an integrated report should be presented on a basis that is consistent over time and in a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value over time.

193 SASB takes a systematic approach to its standards-setting activities to ensure that its standards are material for each industry and cost-effective for issuers and decision-useful for investors[126].

194 To achieve these objectives, SASB standards are:

a) Evidence-based: they are based on an assessment of whether sustainability topics are likely to be of interest to the reasonable investor, and whether they are reasonably likely to have material impacts on the financial condition or operating performance of the company

b) Market-informed: SASB considers the views of all stakeholders, however its determinations are guided by its core objectives to provide the users and providers of financial capital with material, decision-useful, cost-effective disclosures

c) Industry-specific: they focus on issues that are closely tied to resource use, business models, and other factors at play in the industry.

195 SASB considers the following set of principles when identifying sustainability topics to be disclosed by companies[127]:

a) Potential to affect corporate value: through research and stakeholder input, SASB identifies topics that can or do affect operational and financial performance through three channels of impact: (1) revenues and costs, (2) assets and liabilities, and (3) cost of capital or risk profile.

b) Of interest to investors: SASB addresses issues likely to be of interest to investors by assessing whether a topic emerges from the total mix of information available through the existence of, or potential for, impacts on five factors: (1) direct financial impacts and risk; (2) legal, regulatory, and policy drivers; (3) industry norms, best practices, and competitive drivers; (4) stakeholder concerns that could lead to financial impacts; and (5) opportunities for innovation.

125 IIRC, The International <IR> Framework (2013), p. 16

126 SASB Conceptual Framework (2017), p. 12-17

127 SASB Conceptual Framework (2017), p. 18

c) Relevant across an industry: SASB addresses topics that are systemic to an industry and/or represent risks and opportunities unique to the industry and which, therefore, are likely to apply to many companies within the industry.

d) Actionable by companies: SASB assesses whether broad sustainability trends can be translated into industry-specific topics that are within the control or influence of individual companies.

e) Reflective of stakeholder (investor and issuer) concerns: SASB considers whether there is consensus among issuers and investors that each disclosure topic is reasonably likely to constitute material information for most companies in the industry.

196 The UN Guiding Principles Reporting Framework define several cross-cutting principles that should guide reporting in line with the Framework. They are[128]:

a) Setting human rights reporting in the business context: readers of a company's human rights disclosure should understand the broader context of what the company does. Relevant information includes the company's business model, organisational structure, governance, strategy and operations.

b) Meeting a minimum threshold of information: any company claiming to use this Framework should comply with specific threshold that is designed to be attainable by any company that has begun to address human rights within its business.

c) Demonstrating ongoing improvement: in using the Reporting Framework, companies should endeavour to show how they have progressed in their implementation of the Guiding Principles and how they intend to continue to improve.

d) Focusing on respect for human rights: a company should ensure that its disclosure does not obscure or detract from the required disclosure it provides in this Reporting Framework.

e) Addressing the most severe impacts on human rights: companies should focus their human rights disclosure on the most severe actual and potential impacts on human rights associated with their activities and business relationships.

f) Providing balanced examples from relevant geographies: companies should ground their disclosure as far as possible in specific information, including balanced examples of how impacts related to their salient human rights issues have occurred and been prevented, mitigated or remedied during the reporting period.

g) Explaining any omission of important information: companies should always indicate the eventual omitted information and explain its reasons for the omission.

197 The EU Taxonomy requires undertakings which are subject to the requirement to disclose non-financial information under the Non-Financial Reporting Directive to include, either in their (consolidated) non-financial statement or in a separate report, information on how and to what extent their activities are associated with environmentally sustainable economic activities under the Taxonomy Regulation. The EU Taxonomy should be used to provide readers with any contextual information needed to understand a company's Taxonomy-related turnover and expenditures[129].

198 TCFD includes 7 main principles that companies should follow to identify the content of the disclosure[130]:

a) Relevant information: the organisation should provide information specific to the potential impact of climate-related risks and opportunities on its markets, businesses, corporate or investment strategy, financial statements, and future cash flows.

b) Specific and complete: an organisation's reporting should provide a thorough overview of its exposure to potential climate-related impacts; the potential nature and size of such impacts; the organisation's governance, strategy, processes for managing climate-related risks, and performance with respect to managing climate-related risks and opportunities.

128 UN Guiding Principles Reporting Framework (2015)

129 Regulation (EU) 2020/852

130 Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures (2017), p. 67

c) Clear, balanced, and understandable: disclosures should be written with the objective of communicating financial information serving the needs of a range of financial sector users (e.g., investors, lenders, insurers, and others). This requires reporting at a level beyond compliance with minimum requirements. The disclosures should be sufficiently granular to inform sophisticated users but should also provide concise information to those who are less specialised. Clear communication will allow users to identify key information efficiently. Disclosures should show an appropriate balance between qualitative and quantitative information and use text, numbers, and graphical presentations as appropriate. Fair and balanced narrative explanations should provide insight into the meaning of quantitative disclosures, including changes or developments they portray over time. Furthermore, balanced narrative explanations require that risks as well as opportunities are portrayed in a manner that is free from bias.

d) Consistent over time: disclosures should be consistent over time to enable users to understand the development and/or evolution of the impact of climate-related issues on the organisation's business. Disclosures should be presented using consistent formats, language, and metrics from period to period to allow for inter-period comparisons. Presenting comparative information is preferred; however, in some situations it may be preferable to include a new disclosure even if comparative information cannot be prepared or restated.

e) Comparable: disclosures among organisations within a sector, industry, or portfolio should be comparable. They should allow for meaningful comparisons of strategy, business activities, risks, and performance across organisations and within sectors and jurisdictions. The level of detail provided in disclosures should enable comparison and benchmarking of risks across sectors and at the portfolio level, where appropriate.

f) Reliable, verifiable, and objective: disclosures should provide high-quality reliable information. They should be accurate and neutral. Future-oriented disclosures will inherently involve the organisation's judgment (which should be adequately explained). To the possible extent, disclosures should be based on objective data and use best-in-class measurement methodologies, which would include common industry practice as it evolves. Disclosures should be defined, collected, recorded, and analysed in such a way that the information reported is verifiable to ensure it is high quality. For future-oriented information, this means assumptions used can be traced back to their sources. This does not imply a requirement for independent external assurance; however, disclosures should be subject to internal governance processes that are the same or substantially similar to those used for financial reporting.

g) Provide on timely basis: information should be delivered to users or updated in a timely manner using appropriate media on, at least, an annual basis within the mainstream financial report.

Additional Sources Analysed

199 Other frameworks analysed mention similar principles, such as EMAS where the indicators should be comprehensible, representative, comparable in the sector, comparable over time; the German Sustainability Code that explicitly mentions some general reporting requirement on how processes ensure reliability, comparability and consistency of the data used for reporting; the ISO 14007 and 14008 that require companies to apply quality principles for determining environmental costs and benefits following the principles of accuracy, completeness, consistency, credibility, relevance, transparency; the Natural Capital Protocol integrates four principles for natural capital assessment: relevance, rigor, replicability, consistency.

200 Accounting directive article 6: items presented in the annual and consolidated financial statements shall be recognised and measured in accordance with the following general principles: Relevance and faithful representation are the fundamental qualitative characteristics of useful financial information. Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented[131].

a) Relevant financial information is capable of making a difference in the decisions made by users. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value, or both. Materiality is an

131 IASB Conceptual Framework for Financial Reporting 2018

entity-specific aspect of relevance based on the nature or magnitude (or both) of the items to which the information relates in the context of an individual entity's financial report.

b) Faithful representation means representation of the substance of an economic phenomenon instead of representation of its legal form only. A faithful representation seeks to maximise the underlying characteristics of completeness, neutrality and freedom from error.

c) Comparability enables users to identify and understand similarities in, and differences among, items.

d) Verifiability helps to assure users that information represents faithfully the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

e) Timeliness means that information is available to decision-makers in time to be capable of influencing their decisions

f) Understandability: Classifying, characterising and presenting information clearly and concisely makes it understandable. While some phenomena are inherently complex and cannot be made easy to understand, to exclude such information would make financial reports incomplete and potentially misleading.

201 The Sustainable Development Goals Disclosure (SDGD) Recommendations define 7 principles for SDG Disclosures that align closely with IR, GRI and TCFD, namely[132]:

a) Strategic focus and future orientation: SDG Disclosures should reflect the extent to which consideration of the SDGs and the sustainable development issues that they address are integrated into the organisation's processes. This includes processes for considering risk and opportunity influencing strategy and the organisation's business model to create long-term value for the organisation and the society.

b) Stakeholder inclusiveness: SDG Disclosures should reflect the outcome of the reporting organisation's process to identify its key stakeholder groups, including communities it impacts, and should explain how it has responded to their reasonable expectations and interests.

c) Conciseness: SDG Disclosures should be concise so that relevant information is not obscured, nevertheless SDG Disclosures must satisfy the Principle of Completeness.

d) Connectivity of information: SDG Disclosures should demonstrate that consideration of sustainable development issues and impact on the achievement on the SDGs is integrated into the organisation's: business model, consideration of risks and opportunities in the external environment, strategy to create value and avoid harm, risk management, and other key organisational processes. SDG Disclosures should convey the interrelatedness of the SDGs and the interdependencies between the sustainable development issues that affect the organisation's ability to create long-term value for organisations and the society.

e) Consistency and comparability: Changes that occur through the application of these Principles should be disclosed so that the SDG Disclosures are comparable over time and across organisations.

f) Completeness, balance, understandability: SDG Disclosures should be complete, balanced and understandable. They should report on the organisation's impact on the achievement of the SDGs in a balanced way and without material error. For SDG Disclosures to be complete and comply with the Fundamental Concept of Sustainable Development context and relevance and the Fundamental Concept of Materiality, they may need to address issues and impact in the organisation's value chain but outside its boundary.

g) Reliability and verifiability: quantified SDG Disclosures should be reliable and verifiable.

h) Timeliness: SDG Disclosures should be provided on a timely basis such that users can make informed decisions.

132 IFAC, Sustainable Development Goals Disclosure (SDGD) Recommendations, 2020

202 The table below represents the most frequent principles contained in the analysed frameworks and standards, organised by way of more generic clusters in order to provide an overview of the different sets of principles.

Cluster of main principles	GRI	IIRC	SASB
Stakeholder Inclusiveness / Relationships / orientated	Stakeholder Inclusiveness	Stakeholder Inclusiveness	Reflective of stakeholder
Materiality / Relevance	Materiality	Materiality	of interest to investors; relevant across an industry
Completeness / Comprehensive / Balance	Completeness Balance	Completeness	
Strategic focus and future orientation / forward looking		Strategic focus and future orientation	
Timeliness / Provided on a timely basis	Timeliness		
Conciseness / Understandable / Clarity	Clarity	Conciseness	
Reliability /Accuracy / Verifiability	Accuracy Reliability	Reliability	
Consistency / Comparability	Comparability	Consistency and comparability	actionable by companies
Connectivity		Connectivity of information	Potential to affect corporate value

203 From the analysis of the frameworks and standards the workstream identified the following clusters:

a) Stakeholder Inclusiveness / Stakeholder Relationships / Stakeholder orientated: identify and include relevant stakeholders in preparing the non-financial disclosure, considering and responding to their interests and needs.

b) Materiality / Relevance: approach for inclusion and prioritisation of specific information in financial, non-financial or sustainability reporting, considering the needs of and expectations from the stakeholders of an organisation.

c) Completeness / Comprehensive / Balanced: provide all (material) information, based on valid criteria and not influenced by personal opinions, of different nature (both positive and negative) that ensure an adequate understanding by stakeholders of the activities of the organisation.

d) Strategic focus and future orientation / Strategic and forward-looking: consider the organisation's strategy and how it relates to the organisation's ability to create value in the short, medium and long-term.

e) Timeliness / Provided on a timely basis: report regularly and in a timely manner, thus allowing stakeholders to make informed decisions in time.

f) Conciseness / Understandability / Clarity: information must be understandable and accessible by all relevant stakeholders involved (regardless of their activity), presented clearly and not obscured by redundant information.

g) Reliability / Accuracy / Verifiability: information must be reported in a detailed, reliable and complete manner, with a clear reference to methodology and processes used to prepare the report that allows the verifiability of the information.

h) Consistency / Comparability: information and metrics should be selected and presented in way that enables users to analyse changes over time and compare them with similar information about other entities.

i) Connectivity: provide a comprehensive vision, in which the interconnections between the different areas and documents are highlighted, in such a way that it is possible to understand the creation of value in the organisation.

UNGP Reporting Framework	TCFD	SDGs	EU Guidelines	Natural Capital Prot.	IASB
		Stakeholder inclusiveness	Stakeholder orientated		
Addressing the most severe impacts on human rights	Relevant information		Disclose material information	Relevance	Relevance
Explaining omission; Balanced examples; min. threshold of information	Complete, Balanced	Completeness Balance	Comprehensive Fair, Balanced		Faithful representation
Demonstrating ongoing improvement		Strategic focus and future orientation	Strategic and forward-looking		
	Provide on timely basis	Timeliness			Timeliness
Setting human rights reporting in the business context	Clear, understandable	Conciseness; Understandability	Understandable Comprehensive but concise		Understandability
Focusing on respect for human rights	Reliable, verifiable	Reliability and verifiability		Replicability	Verifiability
	Consistent over time Comparable	Consistency and comparability	Consistent and coherent	Consistency	Comparability
		Connectivity of information	Consistent and coherent		

204 An effort to analyse the current literature as it relates to reporting principles can be found in the 2019 report 'Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe'[133] for the French Ministry of Finance. In this report six main quality principles were defined: faithful representation; relevance; understandability; comparability; verifiability; and timeliness. Moreover, the report suggests that, when considering the non-financial reporting it could also be important to consider two main principles that arise from the analysed standard: Stakeholder engagement and Connectivity with financial information.

205 The report also provides definitions for the abovementioned quality principles, based in part on the analysis of definitions from existing reporting frameworks[134]:

a) Faithful representation: Non-financial information conveys a faithful representation of the reality it depicts: a faithful representation should be complete, neutral and free from error.

b) Comparability: Non-financial information is presented: on a basis that is consistent over time, on a way that enables comparison with other organisations.

c) Relevance: Non-financial information is relevant when it has substantive influence on the assessments and decisions made by all stakeholders under a double materiality approach.

d) Understandability: Non-financial information is presented in a clear and understandable manner for all stakeholders.

e) Verifiability: Non-financial information is verifiable, and auditable when required. All assumptions data, caveats, and methods used are transparent, traceable and fully documented.

133 http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/4.%20Qui%20sommes-nous/Communique_de_presse/Report-de-Cambourg_extra-financial-informations_May2019_EN.pdf

134 Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe, Patrick de Cambourg, (2019), p. 194

f) Timeliness: Non-financial information is reported on a regular schedule so that the information is available in time for stakeholders to make informed decisions.

g) Connectivity: Non-financial information is prepared in a way which, when read in conjunction with financial information, gives a comprehensive picture of the combination, interconnection and dependencies between the factors generating the reporting entity's overall performance and social contribution.

To what extent do certain principles reflect the different audience focus?

206 The different initiatives are often directed to audiences with different focuses, which appears to be an important driver in defining the set of reporting principles:

a) The intended audience for GRI are all stakeholders, it provides both specific principles for preparing information and guidance for narrative reporting. It enables all organisations – regardless of size, sector or location – to report about their impacts on the economy, the environment, and/or society.[135]

b) IIRC is principles-based, so its approach is to strike an appropriate balance between flexibility and prescription that recognises the wide variation in the individual circumstances of different organisations while enabling a sufficient degree of comparability across organisations to meet relevant information needs. Here the intended audience historically has been investors. However, in early 2020, the IIRC explored a shift – still under consultation – in emphasis from "provider of financial capital" to "providers of other forms of capital", enlarging the audience to a wider range of stakeholders, in line with the fundamentals of integrated reporting and encouraging disclosure on the full range of capital on which organisations rely or have an effect.[136]

c) SASB Standards are developed for use in statutory financial filings for the benefit of investors and others who rely on such filings. Their focus is on *"…material factors likely to affect [a company's] ability to create long-term value"*[137]. It enables companies around the world to identify, manage and communicate financially-material ESG and sustainability information to their investors.

d) The reporting principles of TCFD, where the intended audience are the investors, are practically identical to those of the GRI. It "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".[138]

e) IASB aims at providing high quality, transparent and comparable information for investors, provides world capital markets with a common language for financial reporting, promotes capital market stability through transparent financial reporting and promotes consistent application of standards.[139]

Key considerations for a potential EU Sustainable Standard

207 Reporting Principles are one of the key elements of a non-financial reporting framework, in addition to objectives, reporting standards and the governance of an EU NFR standard setter. There is a large spectrum of underlying concepts guiding the preparation of non-financial information that may be implicit or explicit (i.e. presented in a published conceptual framework). Because of this large spectrum, reporting practices differ significantly.

208 An examination of major NFR frameworks (GRI Standard, IIRC, SASB, TCFD, UNGP Reporting Framework) shows that all frameworks have reporting principles. However, the terminology, clarity of definitions of these principles and the extent to which they are operationalised varies greatly across initiatives.

135 GRI 101: Foundation (2016)

136 Consultation Draft International <IR> Framework (2020)

137 SASB Conceptual Framework (2017)

138 FSB, "Proposal for a Disclosure Task Force on Climate-Related Risks," (2015)

139 https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/

209 Moreover, the NFRD itself does not define a clear set of reporting principles and, while the non-binding guidelines to the NFRD define six "key principles", these lack the precision and systematic nature that are required in order to effectively guide standard setting and report preparers.

210 According to this workstream Reporting Principles can play a dual role:

a) They can be a guide for the standard setter in developing the standards themselves, including defining process, content, quality, assurance and the presentation of Sustainability Information.

b) They can also be a reference point for preparers to guide them in defining the content of their report, as well as other reporting decisions they need to make: during the reporting process preparers might face ongoing dilemmas and decisions for which there is no detailed requirement or guidance by the standard setter. In such cases, the preparer may refer to the Reporting Principles, as a general guide to resolve key questions.

LINK TO GLOBAL POLICY PRIORITIES

Definition and relevance

211 Global policy priorities, including the 2030 Agenda and the Paris Agreement, EU policy priorities such as the EU Sustainable Finance Action Plan, and globally adopted standards, notably ILO Labour Standards, UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, reflect commonly accepted goals aiming at advancing sustainable development.

212 The EU has committed to the implementation of these and other global policy priorities, pledging to address adverse impacts on society and advancing sustainable development.

213 Many existing standards and frameworks reference one or more of the global policy priorities. Businesses are considered key in contributing to the achievement (or detriment) of the goals included in these priorities and often report on (some of) them by applying the existing standards and frameworks.

214 Given the commitments of the EU and the importance of the role of businesses in reaching the goals included in the policy priorities, it is key to provide sufficient guidance and tools to businesses.

215 Key question in PTF's analysis is how global priorities may be reflected in standard setting reporting requirements for companies, also considering their dynamic nature.

Analysis

216 From the frameworks and standards reviewed, several initiatives include a specific reference to the SDGs in their framework, standards or other main documents. However, there is only a limited number of initiatives that has explicitly attempted to integrate the SDGs in their core framework or standard. At most, initiatives map the linkages between their initiatives and key concepts, targets and indicators.

Framework/ standard	Link with SDGs
GRI	GRI started to consider the SDGs in the development of its most recent Standards, such as GRI 207: Tax 2019, GRI 303: Water and Effluents 2018, GRI 306: Waste 2020 and GRI 403: Occupational Health and Safety 2018. Previous GRI Standards are not specifically built on the SDGs. GRI has developed both mapping documents and tools for integrating the SDGs into GRI reporting[140]: 1. GRI, UNGC and PwC have developed a handbook of indicators to make reporting on the SDGs more straightforward and easier to execute ('Business reporting on the SDGs: Analysis of the goals and targets'). This Analysis is an inventory of possible disclosures per SDG, at the level of the 169 targets. 2. GRI, UNGC, Shift and PwC have developed 'Business reporting on the SDGs: Integrating the SDGs into Corporate Reporting: A Practical Guide'. This is a three-step guide to embed the SDGs in existing business and reporting processes. It makes clear that when it comes to negative impacts connected to the business, they should be prioritised based on their salience (i.e., their relative severity) and then connected to relevant SDGs, whereas for beneficial products and services the company may start with specific SDGs and prioritise both their actions and reporting based on where they feel they can contribute most.[141] 3. GRI, UNGC and PRI have published the report 'In focus: Addressing investor needs in business reporting on the SDGs' to guide preparers in addressing investor needs within their reporting. 4. GRI, UN Global Compact and WBCSD have developed the SDG Compass that provides guidance for companies on how to align their strategies as well as measure and manage their contribution to the realisation of the SDGs. 5. GRI has published 'Mapping the SDGs against the GRI Standards'. This is a linkage document to show which GRI Standards can be used to report on specific SDGs.
IIRC	The IIRC published "The Sustainable Development Goals, integrated thinking and the integrated report". The report proposes a five-steps approach to align the content of the integrated report with SDGs, although not providing specific indicators or metrics to disclose. The report addresses how, through efforts to transform the six capitals to create value for themselves and for others, organisations can make a material contribution to the SDGs, as well as clarify how they are mitigating or alleviating any detrimental effects.[142]
SASB	SASB recently mapped SASB standards to the SDGs in its Whitepaper[143] but does not explicitly reference to SDGs in its Conceptual Framework or Standards.
UN GP Reporting Framework	WBCSD and Shift have developed guidance and case studies about how respect for human rights can have positive impacts that contributes to the SDGs[144].
Taxonomy Regulation	Regulation (EU) 2020/852 – the EU Taxonomy – mentions the SDGs as a core element of all Union actions and policy initiatives. However, the Taxonomy nor the Technical Report explicitly attempt to align with the SDGs. "The 2030 Agenda has at its core the Sustainable Development Goals (SDGs) and covers the three dimensions of sustainability: economic, social and environmental. The Commission communication of 22 November 2016 on the next steps for a sustainable European future links the SDGs to the Union policy framework to ensure that all Union actions and policy initiatives, both within the Union and globally, take the SDGs on board at the outset."[145]
TCFD	The TCFD does not mention the SDGs explicitly in its final report with recommendations on climate related financial disclosures[146].

140 https://www.globalreporting.org/public-policy-partnerships/sustainable-development/integrating-sdgs-into-sustainability-reporting/

141 https://www.unglobalcompact.org/library/5628

142 https://integratedreporting.org/resource/sdgs-integrated-thinking-and-the-integrated-report/

143 SASB Industry guide to the Sustainable Development Goals (June 2020)

144 Shift (with WBCSD), The Human Rights Opportunity (2018) https://shiftproject.org/wp-content/uploads/2018/08/TheHumanRightsOpportunity_Shift.pdf

145 Regulation (EU) 2020/852

146 Final report – Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

217 Other resources consulted provide guidance on how companies may report on the SDGs.

Source	Link with SDGs
UNDP	Recently, UNDP issued a first public consultation draft of its 'SDG Impact Standards for Enterprises'[147]. These Standards are impact management standards designed to promote sustainable development and advance Enterprises' contributions towards the SDGs.
WEF IBC Measuring Stakeholder Capitalism Report (2020)	The WEF-paper[148] identifies the SDGs as the roadmap for alignment of businesses to long-term goals of society. The metrics recommended by WEF are organised in four pillars – Principles of Governance, Planet, People, and Prosperity – which are aligned with the elements of the SDGs. The SDGs are mapped to the four pillars. For instance, SDG 6, 7, 12, 13, 14 and 15 are mapped to pillar Planet.
German Sustainability Code	The German Sustainability Code mentions the SDGs as relevant context but does not include a systematic alignment of code criteria to the SDGs. The Code requires that, as part of reporting on objectives, organisations shall state how their sustainability goals are based on the SDGs.
SDGD Recommendations	The SDGD-recommendations are specifically aimed at the communication of implications for and impact on achievement of the SDGs. The SDGD also maps the 17 SDGs to the IR-value creation process, relating each of the 6 IR-capitals to a specified set of possibly relevant SDGs. The SDGD-recommendations provide an additional layer to existing reporting on company level metric and indicators. I.e. no indicators or metrics are proposed and it basically assumes reporting along the lines of IR, GRI, and/or TCFD as a condition sine qua non.

218 Exceptions to the absence of integration between frameworks and SDGs include IIRC, GRI, and the UNGP Reporting Framework, for which guidance is available on the alignment between their standards and the SDGs.

219 The guidance developed by WBCSD and Shift[149] on how to strategically align between the UNGPs and the SDGs focuses on the connection between tackling risks to, or negative impacts on, people's human rights, and positive outcomes for people that align with SDG targets. It challenges assumptions that action and reporting that contribute to the human dimensions of the SDGs will be found primarily in new products and services, and points out that the single greatest contribution of most companies to this human dimension will come through tackling negative impacts and risks in their operations and value chains. It illustrates this connection through case studies related to force labour, child labour, land-related rights and women's rights. The guidance is closely aligned with the guidance developed by the UN with GRI, Shift and PWC on 'Business Reporting on the SDGs.'[150]

220 SASB's Whitepaper considers the following benefits of linking the SASB standards to the SDGs:

"Definitely by understanding the important interconnections between SASB standards and the SDGs, investors can:

- *Identify financially relevant SDG targets by industry.*
- *Inform engagements with companies regarding the links between specific SDGs and financial performance.*
- *Inform allocation of capital to industries based on their potential to impact specific SDG targets."*

"Meanwhile, companies can:

- *Identify financially relevant SDG targets by industry.*
- *Prioritise activities to address the SDGs that are aligned with industry-specific drivers of value.*
- *Gather decision-useful performance information on company-specific activities related to key SDGs."* [151]

147 SDG Impact Standards – Enterprises Impact management for Enterprises committed to contributing positively to sustainable development and the SDGs. First public consultation draft (October 2020)

148 WEF, Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation White Paper (2020)

149 Shift (with WBCSD), The Human Rights Opportunity (2018) https://shiftproject.org/wp-content/uploads/2018/08/TheHumanRightsOpportunity_Shift.pdf

150 https://www.globalreporting.org/public-policy-partnerships/sustainable-development/integrating-sdgs-into-sustainability-reporting/

151 SASB Industry guide to the Sustainable Development Goals (June 2020) page 6 and 10

221 The IIRC publication "The Sustainable Development Goals, integrated thinking and the integrated report" mentions that integrating SDGs in the framework helps integrated thinking in contributing to the SDGs:

"Integrated Reporting cannot provide all the answers. Encouraging organisations to integrate sustainable development considerations is challenging and requires a concerted effort led from the top (see Adams, 2014). It requires leaders to "build support for the global goals as the right growth strategy" in their companies (BSDC, 2017, p15).

However, by aligning the SDGs to a conceptual reporting framework (the Framework) this document provides the conceptual rigour required to support integrated thinking in contributing to the SDGs. It is hoped that integrated reporters will respond to these challenges and that those organisations that are embracing the SDGs will be able to use the Framework as a means of demonstrating how their value creation process contributes to sustainable development." [152]

222 The consultation on the NFRD also allowed respondents to provide their views on what standards potentially reflecting global policy priorities should be incorporated in a potential European Sustainable Standard. The first five frameworks or standards that were most mentioned by the respondents to the consultation were OECD, ILO Standards, ISO, UN GC and SDGs[153].

223 Most frameworks reviewed include specific references to one or more global priorities.

Framework/ standard	Link with global policy priorities
NFRD	While drafting the non-binding Guidelines to the NFRD, the European Commission reviewed several existing frameworks. The principles and contents described in the Guidelines are built on existing frameworks and initiatives, among which the ILO Labour Standards, UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Specifically: "Companies are expected to disclose material information on social and employee matters. These include: the implementation of fundamental conventions of the International Labour Organisation (...)" "Companies should provide material disclosures on due diligence processes implemented, including, where relevant and proportionate, on its suppliers and subcontracting chains. (...) For example, OECD Guidance documents for several sectors, UN Guiding Principles on Business and Human Rights, the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, or ISO 26000 provide useful guidance on this." "Companies, where relevant and proportionate, are expected to disclose material information on supply chain matters that have significant implications for their development, performance, position or impact. (...) Material disclosures may reflect how a company approaches, among others, the OECD Guidelines for Multinational Companies, the UN Guiding Principles on Business and Human Rights, and relevant industry-specific frameworks such as the FAO-OECD Guidance for Responsible Agricultural Supply Chains." "Companies should consider making material disclosures on human rights due diligence, and on processes and arrangements implemented to prevent human rights abuses. (...). For instance, in line with the Indigenous and Tribal Peoples Convention, 1989 (No. 169) of the International Labour Organisation (ILO)."[154]
GRI	GRI does not mention the global priorities in its universal standard. However, GRI refers to standards as external sources to guide reporting organisations in complying with its specific standards. For example: "GRI 412 addresses the topic of human rights assessment. The international standard that establishes the expectations of responsible conduct for organisations with respect to human rights is the United Nations (UN) 'Guiding Principles on Business and Human Rights', endorsed by the UN Human Rights Council in 2011. (...) Organisations are responsible for their impacts on the entire range of internationally recognised human rights. These rights include, at a minimum, all rights set out in the International Bill of Rights and the principles set out in the International Labour Organisation (ILO) 'Declaration on Fundamental Principles and Rights at Work'."[155]

152 The Sustainable Development Goals, integrated thinking and the integrated report (2017) page 7

153 Summary Report of the Public Consultation on the Review of the Non-Financial Reporting Directive (2020)
The categories OECD, ILO Standards, and ISO consolidate responses mentioning different frameworks developed by these bodies, for example, the OECD Guidelines on Multinational Enterprises, OECD guidelines on due diligence, ILO labour standards, ILO child labour guidance, or various ISO standards such as 26000, 14001, and 14064.

154 Guidelines on non-financial reporting (methodology for reporting non-financial information)

155 GRI 412: Human Rights Assessment (2016), p.4

Framework/ standard	Link with global policy priorities
IIRC	The <IR> Framework does not mention the global priorities explicitly.
SASB	SASB's conceptual framework does not mention the global priorities explicitly, however it's reporting standards include references to, amongst others, ILO and OECD.
UN GP Reporting Framework	UNGP mentions in the commentary to foundational principle 12 the International Bill of Human Rights, which consists of the Universal Declaration of Human Rights and the two Covenants on Civil and Political Rights, and on Economic, Social and Cultural Rights, as well as the ILO Principles concerning fundamental rights that underpin the eight ILO core conventions. "The responsibility of business enterprises to respect human rights refers to internationally recognised human rights – understood, at a minimum, as those expressed in the International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work."[156]
Taxonomy Regulation	Regulation (EU) 2020/852 – the EU Taxonomy – requires that for economic activities to be Taxonomy-aligned, the activities should comply with minimum safeguards. These minimum safeguards include the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the ILO's declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights.[157] The EU Taxonomy Regulation is one of the steps in the EU Sustainable Finance Action Plan.
TCFD	The final report of the TCFD does not mention the global priorities explicitly[158].

Key considerations for a potential EU Sustainable Standard

224 Global policy priorities reflect commonly accepted goals aiming at advancing sustainable development and addressing adverse impacts of society. Businesses are considered key in contributing to the achievement (or detriment) of these goals. It will therefore be important to make a meaningful link between the global policy priorities, their objectives and architecture and future EU non-financial guidance for corporate action and reporting.

225 Any reference to global policy priorities should consider the risk of so called "green washing" and "blue washing" (or „SDG washing"). This refers to the risk of intentional or unintentional exploitation of global policy priorities for communication purposes by reporting companies, without aligning the company's strategy with the goals included in the global policy priorities.

226 The assessment report shows that it is of critical importance that a true integration of the priorities in the strategy of reporting organisations and their business model takes place and that this is also reflected in an organisation's sustainability reporting.

227 Moreover, where global policy priorities are, or are due to be, integrated into EU regulations, it will be particularly important that reporting standards align with those regulations. Of particular note in this regard is the EU's Sustainable Governance Initiative and the specific proposal for the development of mandatory human rights and environmental due diligence legislation, in line with the expectations set out in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. It will be essential that the due diligence requirements set with regard to companies' impacts on the environment and people (including workers) are appropriately reflected in the standards developed by the standard setter for companies' sustainability reporting. This will help ensure that reporting requirements support, rather than distract from, the effective management of these issues, and that there is no burden on preparers to reconcile inconsistent or competing expectations between the two sets of requirements.

156 Guiding Principles on Business and Human Rights – Implementing the United Nations "Protect, Respect and Remedy" Framework (2011)

157 The UNGPs and OECD Guidelines are not minimum safeguards in the meaning of something every company will or can have done as a baseline before then looking at things they are trying to achieve in line with the taxonomy. Respect for human rights is an aim that companies are continually trying to achieve and that no company has 'complied with,' because meeting the UNGPs and OECD Guidelines are not a compliance exercise.

158 Final report – Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

228 Data alignment is a key consideration for a future reporting standard. Also when a future standard will not be directly build on or refer to global policy priorities such as the SDGs, the EU could consider aligning the data needed for reporting on the contribution to the goals. This enables companies to prepare themselves to be ready to submit data about SDGs that enables monitoring the state of art at country level or at industry level.

SALIENT ASSESSMENT POINTS

229 There is a large spectrum of underlying concepts that guide the preparation of non-financial information. They may be implicit or explicit (i.e. presented in a published conceptual framework). As a consequence of this large spectrum, reporting practices may significantly differ, different user groups having different interpretations and focuses. Even if certain orientations have already been taken in the EU, there is a need for further guidance and policies based on explicit reporting principles and a standardised approach. The following conceptual points (inter alia) would benefit from further clarification to establish a clear playing field that would provide a comprehensive and widely endorsed basis for standard-setting.

Categorisation of topics and sub-topics

230 Non-financial information can address a significant variety of topics, from environmental to people matters (including human rights), governance, or anti-corruption issues. Non-financial information does not have obvious borders and may evolve as new issues emerge and become more relevant over time. The manner in which topics are defined and organised is obviously relevant for how reporting entities structure and present information. Standards can also consider prescribing certain categories of information (e.g., policies, risks, targets, metrics) per topic, noting that there may be a different balance among various types of information for each topic. It is therefore critical to consider the dynamic nature of issues, and how emerging topics can be incorporated as they become more relevant over time. In addition, a clear and concise structure will also help to develop a data taxonomy for the necessary digitisation of sustainability information.

Materiality

231 Materiality is to be understood as the approach for inclusion and prioritisation of specific information in corporate reports, considering the needs and expectations of the stakeholders of an organisation and of the organisation itself. Three main materiality perspectives are recognised amongst the existing frameworks and standards: financial materiality; environmental and people materiality or "impact materiality"; and double materiality that covers both perspectives, recognising they in part overlap.

232 The quality of non-financial reports relies in large part on the quality of the materiality assessment process that was used to define the contents of the report. Some standards guide companies to conduct the materiality assessment, but none provide clear criteria or (qualitative or quantitative) thresholds that report preparers or standard setters can use to define report content.

233 Most non-financial reporting standards and frameworks offer definitions and concepts for materiality supported by operational guidance. However, all together this has not led to sufficiently relevant information being disclosed from a double materiality perspective. This is due in part to a number of challenges in the operational implementation of double materiality, including an implicit financial materiality lens when assessing the materiality of issues related to people and the environment, the lack of clarity on how reporting entities should include perspectives of affected and other relevant stakeholders in their assessment of impacts and prioritisation (for action and reporting) and the insufficient alignment between what companies are expected to prioritise for reporting and what they are expected to prioritise for action.

Scope of reporting

234 Many users consider that non-financial information should include information related to the whole value chain of the company, including supply chain operations (upstream) as well as products sold and services rendered down to their end-of life (downstream), far beyond the boundaries applied to financial information, which covers only the reporting entity's own operations (scope of financial consolidation). It is generally considered important to include the whole value chain when assessing how companies can create (and/or destroy) value through their activities, including through business relationships and when acting together with other stakeholders. At the same time, when companies are making inevitable prioritisation assessments (including for materiality determination) under such an expanded scope,

there needs to be clear guidance on how they should make such prioritisation in line with widely agreed frameworks and guidelines. These state that companies should do such prioritisation—both for taking action and reporting—based on an analysis of "severity of impact."

Time horizon

235 While financial information, as expressed by financial statements, is essentially retrospective, it is generally considered important for sustainability reporting to put the emphasis on the forward-looking dimension of non-financial information in addition to retrospective information on performance. Time horizons that are considered adequate to address the sustainability challenges ahead may vary a lot. It is important that organisations define what short-term, medium-term and long-term means in their business and for their organisation, and report on this to provide stakeholders with sufficient insight. Connecting forward-looking information with retrospective information is key for the company to provide insights into its ability to be successful in the short-term, medium-term and long-term, given the current and future context. Key consideration for a future non-financial reporting standard is to provide guidance and tools to reporting organisations to create this interconnectivity.

Sector-agnostic, sector-specific and entity-specific approaches

236 Non-financial information may be approached from a generic standpoint (allowing inter-sector comparisons) or from a sector-specific standpoint (putting the emphasis on a "best-in-class" comparison) or from a combination of both. In addition, the EU Taxonomy has brought the perspective of economic activity or asset specific information (allowing a more granular comparison of company performance). Standardised approaches may also leave flexibility to introduce elements of entity-specific information. Such an approach could increase relevance but reduce comparability and could take its point of departure in the business model, as built into the current NFRD. A standardised approach could also include elements such as governance oversight, and related policies and procedures, and strategy on topics covered by the NFRD and connections between those topics. Proper standard-setting implies clarification in this domain, balancing comparability and flexibility in order to accommodate the constraints and capabilities of entities of all sizes and sectors.

Types and quality of information

237 For non-financial information, both qualitative and quantitative (both non-monetary and monetary) information are equally important, including where qualitative information provides essential context for the interpretation of numerical data or when numerical data illustrate or support qualitative information. The different types of non-financial information are not always clearly defined. The obvious differences with financial information (as reflected in Financial Statements), which is monetary by construction, are also not always clearly taken into account. On the basis of a prima facie comparison with financial information (which has reached a high level of maturity and recognition), there is a risk of focusing excessively on non-financial information expressed in monetary and quantitative terms and of perceiving non-financial information simply as an extension of financial information. There is therefore a need to better define the specificities of non-financial information within the confines of an integrated approach.

Principles (characteristics) of quality of information and reporting

238 The current quality of non-financial information and non-financial reporting does not meet users' extremely diverse needs and has been found to be insufficient when compared to the EU's clearly stated objectives. The gap is generally considered to be significant. As regards of quality expected from information included in sustainability, there is a lack of precision on the characteristics of the information, both for standard-setting and preparation purposes. It may be observed that while existing conceptual frameworks are converging on general attributes (relevance, faithful representation, comparability, reliability…). There is also agreement on the need to further explore connectivity between non-financial and financial information as a quality to be introduced in order to establish coherent and comprehensive corporate reporting. As regards the principles of quality of non-financial reporting (organisation and presentation of data points), there is also a lack of precision that creates difficulties for reporting entities to prepare understandable non-financial statements and for users to access meaningful information. Adopting principles of quality seems therefore to be a prerequisite to achieving the necessary level of quality for proper non-financial information and reporting, aligned with the adopted concepts and similar to the ones defined for financial information.

Global policy priorities

239 The Paris Agreement and the 2030 Agenda represent objectives that are commonly tied to a broad set of salient impacts and risks. Together with the ILO Conventions, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human rights, they represent global policy priorities that reflect commonly accepted goals and business conduct standards aimed at advancing sustainable development and addressing adverse impacts of business on society. Businesses are considered key in contributing to the achievement (or detriment) of these goals. By making clear and meaningful links between these policy priorities and corporate reporting, companies can be better guided to take appropriate action and can be held accountable for their contribution to policy goals and compliance with global standards. The current NFRD non-binding guidelines have incorporated transparency around the implementation of said standards and frameworks as part of material disclosure regarding human rights topics. Consistency with global policy objectives and standards/frameworks can contribute to easier application and possible adoption of a future EU SI standard in other jurisdictions.

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