

Deloitte regulatory news alert

Disclosure of non-financial and diversity information - get ready

On 15 November 2014, the Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups ("The Directive") has been published in the Official Journal of the European Union.

The objective of the Directive is to increase European companies' transparency and performance on environmental and social matters and, therefore to contribute effectively to long-term economic growth and employment. More transparency will help companies to better manage the opportunities and non-financial risks.

This Directive seeks to ensure equal rules for all, to reduce the costs for companies operating in more than one Member State and ensure that investors are well informed. Indeed, investors are nowadays more interested in non-financial information in order to have a comprehensive understanding of a company's development, performance, position and impact of its activity. They thoroughly analyse this information in their investment decision process.

Targeted companies

The new rules will only apply to **large public-interest entities**. Smaller companies will have no new requirements.

Large Companies *	Public-interest entities ** ("PIEs")	Listed companies
		Credit institutions
		Insurance undertakings
		Other public-interest entities
		<i>So designated by Member States because of their activities, size or number employees</i>

* having an average number of more than 500 employees and exceeding either a total balance sheet of EUR 20 million or a net turnover of EUR 40 million in the meaning of Art.3 (7) of the Directive 2013/34/EU

** defined by Art. 2 a, b, c, d of the Directive 2013/34/EU

Content of the non-financial statement/consolidated non-financial statement

Three CSR areas	Type of non-financial information
1. Environmental matters	A brief description of the undertaking's business model
	A description of the policy pursued by the undertaking in relation to those CSR matters, including due diligence processes implemented
2. Social and employee-related aspects	The outcome of the above policies
	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
3. Human rights, anti-corruption and bribery matters	Non-financial key performance indicators relevant to the particular business

Disclosure at group level/each individual affiliate within a group

If you are a parent undertaking that meets all of the criteria (as specified above), you shall include in the consolidated management report a consolidated non-financial statement in accordance to the reporting obligations.

An undertaking (parent undertaking), which is a subsidiary undertaking, shall be exempted from the reporting obligations, if the undertaking (exempted parent undertaking) and its subsidiary undertakings are included in the consolidated management report or the separate report of another undertaking.

Comply or explain principle

A company that does not pursue a specific policy on one of the non-financial areas is required to provide an explanation for not doing so.

Format of the non-financial statement

The Directive provides companies with significant flexibility to disclose relevant information. The non-financial statement may be published according to one or the other of two ways:

Legal basis	Where	Standards	Check by external expert
Core requirement	Integrated in the management report (or in the consolidated management report)	National, EU-based or international frameworks ***	Required from statutory auditor
Member State option	In a separate report (Sustainability report)	National, EU-based or international frameworks ***	Not required by the Directive - Member State to decide whether verification by an independent assurance services' provider is needed (ISAE 3000 is currently best practice)

*** can be used as long as the relevant framework is specified

Companies that will publish the above listed non-financial information into their management report, may use international, European or National guidelines according to their own characteristics and business environment. The report of the statutory auditor should contain an opinion concerning the consistency or otherwise of the above referred management report with the annual accounts.

Some of the companies and groups within the EU already prepare non-financial reports on a voluntary basis (Sustainability report). If Luxembourg opts for the related exemption, those companies should not be subject to the obligation to provide a non-financial statement in the management report, provided that the Sustainability report is either published together with the management report or is made publicly available within six months period, on the company's website, to which reference is made in the management report.

Guidance on reporting

The EU Commission shall publish non-binding guidelines on methodology for reporting non-financial information, including non-financial key performance indicators, general and sectoral, by 6 December 2016.

New disclosure in the corporate governance statement

Companies should increase the diversification of the Board of directors in order to ensure an efficient control of the direction and strong governance of companies. The description of the diversity policy must be included in the corporate governance statement, together with the objectives and the results achieved. Companies which do not apply a diversity policy will be requested to explain why. This new requirement will not apply to small and medium enterprises.

Transposition

Member States will have two years to transpose the Directive into national legislation. Companies concerned will start reporting for the financial year starting on 1 January 2017 or during the calendar year 2017.

Deloitte Contacts

Your Deloitte experts may assist you in development of your CSR strategy and preparation of your first non-financial/sustainability report or verification.

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