



EUROPEAN COMMISSION
Impact Assessment Board

Brussels,
D(2012)

Opinion

Title **DG MARKT - Impact Assessment on the Proposal for an initiative on disclosure of non-financial information by companies.**

(draft version of 24 May 2012)

(A) Context

Non-financial information is generally seen as environmental, social and governance information. The Accounting Directives already address the formal disclosure of employee-related and environmental information. In the follow up to the Single Market Act, and building on the "EU 2020 Agenda on sustainable growth and jobs", the Commission has recently put forward a package of measures. The package includes the Corporate Social Responsibility (CSR) Communication and legislative proposals to revise the Accounting Directives and the Transparency Directive, with the aim of improving transparency, promoting sustainable business, and simplifying accounting rules for SMEs.

Governance information concerns specifically information on how companies are governed. With the publication of a Green Paper in 2011, the Commission has initiated a review of the current EU corporate governance framework.

(B) Overall assessment

The report needs to be improved in a number of respects. Firstly, the problem definition should be strengthened by better describing the nature and scale of the problem. The report should therefore better explain why there is a need for more transparency and what the concrete gaps are in terms of quantity and quality of information at present. In that context the report should better explain why there is a market failure and better substantiate why companies may not have sufficient incentives to provide the lacking information. It should also provide more robust evidence on the causal link between more non-financial information and more efficient markets/business and between more diverse boards and better performing companies. Secondly, the report should explain in more detail what each option entails and, in particular, what are, for each option, the main differences vis-à-vis the present situation. Thirdly, the report should strengthen the impact analysis by quantifying, where possible, the expected benefits and by better analysing the effectiveness of the different options in relation to the objectives identified, clearly highlighting the pros and cons of each option. Finally, the report should better explain the choices made regarding the preferred options and, in particular, why a different approach has been taken vis-à-vis recent proposals (e.g. CRD IV requirements regarding board diversity).

(C) Main recommendations for improvements

(1) Strengthen the problem definition. The report should reinforce the problem definition by better explaining what the precise nature of the problems is and who is affected. It should demonstrate and substantiate on the basis of robust evidence the stated lack of incentives for companies a) to take into consideration social, environmental or human rights aspects or b) to diversify their boards, and explain how the lack of transparency may affect the situation. The report should also better explain how many companies are concerned, whether the issues have a different relevance for different sizes of undertakings, what are the concrete gaps that need to be filled in terms of quality and quantity of information and why on-going initiatives, for instance at international level would not overcome these. The report should also significantly strengthen and better present the evidence, demonstrating the link between the problems and their consequences (i.e. less efficient markets and less performing companies). In that context the report should better present the evidence in relation to stakeholders' demands for obligatory provision of non-financial information and more board diversity, clearly differentiating key categories of stakeholders (i.e. undertakings, institutional investors, public administrations, citizens etc). In addition, the analysis of non-gender related diversity and other governance aspects need to be developed much further on the basis of credible evidence to better inform about their respective relevance. Where evidence is lacking or the identified data has limitations, this should be clearly explained.

(2) Better present the content of the options. The report should provide a more detailed description of the concrete content of the options and a more convincing explanation of the effectiveness of the preferred option. Regarding non-financial information, the report should better explain the differences between options 1 (disclosure in the annual report) and 2 (detailed reporting). The report should also more clearly present what is the added-value of those options vis-à-vis the current situation, i.e. what are the concrete information gaps they aim to fill. Regarding board diversity, the report should better justify why a less ambitious approach than the one followed in the recent CRD IV proposal has been adopted.

(3) Better assess and compare impacts. The report should reinforce the analysis of impacts by better assessing the effectiveness of each option i.e. how well it meets the objectives defined. The report should also present a broader description of the advantages and disadvantages of each option. The analysis of the options should clarify how many companies will be concerned and provide a clearer indication of the scale of the impacts. The presentation of the benefits of the options should be developed and quantification, where possible, provided. The report should also clarify what is the added-value of the preferred option for board diversity vis-à-vis the planned initiative on gender quotas.

Some more technical comments have been transmitted directly to the author DG and are expected to be incorporated in the final version of the impact assessment report

(D) Procedure and presentation

The report should identify monitoring and progress indicators for board diversity, including non-gender diversity. All statements should be underpinned by relevant and robust data/evidence. The summary in Annex 1 of stakeholders' views should be much more detailed, presenting clearly the different views expressed by categories of affected stakeholders. Endnotes should be moved to the main text as footnotes.

(E) IAB scrutiny process	
Reference number	2012/MARKT/008
External expertise used	No
Date of IAB meeting	20 June 2012