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EUROFILING XBRL WEEK IN FRANKFURT 6-7-8-9 JUNE 2017

19th XBRL Europe day | Eurofiling 23rd workshop | Tutorials | Academic Track

EU NON-FINANCIAL DIRECTIVE (2014/95/EU) & TRANSPOSITION IN SPAIN

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EUROPEAN DIRECTIVE FOR NON-FINANCIAL REPORTING (2014/95/EU)

Who is going to be affected? Public interest organisations with more than 500 employees (~6000 large companies in EU)

How should be disclosure the non-financial statement?

Management Report or a separate non-financial statement referenced within the Management Report

When? From January 1st, 2017

Current status: waiting for a final version of the non-binding guidelines in non-financial reporting.

PILLAR 1. REPORTING PRINCIPLES

Pillar 1. The main goal is to produce a non-financial information:

1. Quantitative (measuring and monitoring) + qualitative (context) + with visual support
2. Material, comparable, comprehensive, and concise – without double interpretations
3. Stakeholder-oriented
4. Fair, balanced and understandable
5. Strategic and forward-looking: disclosure of objective measure progress towards achieving long-term objectives
6. Comply or explain

This text is subject to AECA's interpretation to the draft of the Non-Binding guidelines produced by the European Commission to facilitate consultation with stakeholders in February 2017.

PILLAR 2. CONTENT

Pillar 2. The expected content of the non-financial statement would be the following:

1. Business model
2. Policies and due diligence
3. Outcomes (how financial and non-financial outcomes relates)
4. Opportunities and risks that affect the business
5. Sectorial and geographical scope.
6. Thematic aspects (often inter-connected):
 - a) Environmental matters
 - b) Social and employee matters
 - c) Respect for human rights
 - d) Anti-corruption and bribery matters
 - e) Supply chain aspects
 - f) Conflict minerals
7. Board diversity disclosure



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ABOUT REPORTING FRAMEWORKS

- FLEXIBILITY: No particular Reporting Framework or KPIs are required to disclosure the non-financial statement.
- SOME FRAMEWORKS ARE REFERENCED BUT THEY ARE NOT EXCLUSIVE: EMAS, UN Global Compact, OECD, ISO 206000
- AT THIS STAGE, THE FOCUS IS ON COMPLYING WITH PRINCIPLES AND CONTENTS



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SPANISH TRANSPOSITION

In January 2017, the Institute of Accounts and Audit of Accounts (ICAC) submitted for public consultation a draft law which explained in detail each of the modifications.

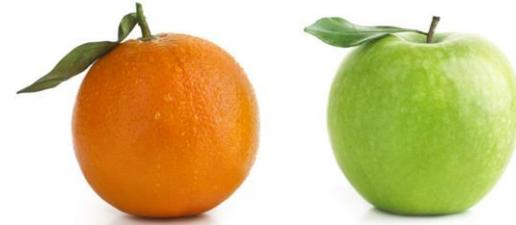
Laws affected:

1. The Code of Commerce
2. Consolidated text of the Companies Act
3. The Audit and Accounts Act



Current status: Waiting for the final version of the law.

AECA'S COMMENTS



TO ENABLE BETTER COMPARABILITY

AECA recommends:

1. To be more explicit about how those recommended (not exclusive) frameworks can be used to (1) achieve a minimum level of comparability between companies reports and (2) guide the national transpositions.
2. The inclusion of specific non-financial KPIs which allows a minimum level of comparability between all companies.
3. **To make an explicit mention about centralization of information**, as it is an important matter to enable comparability.

AECA'S COMMENTS

INCLUSION OF ESEF TO BE ALIGNED WITH ESMA REQUIREMENTS

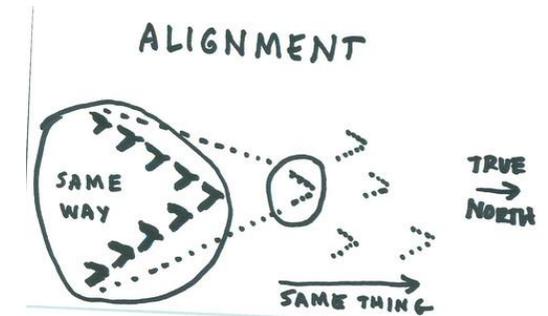
“Fair accurate information may be enhanced by, for example, robust and reliable internal control and reporting systems”.

AECA recommends to align the Non-Financial statement requirements with ESMA regarding the inclusion of ESEF (European Single Electronic Format) and therefore, XBRL as a way to enhance accurate information.

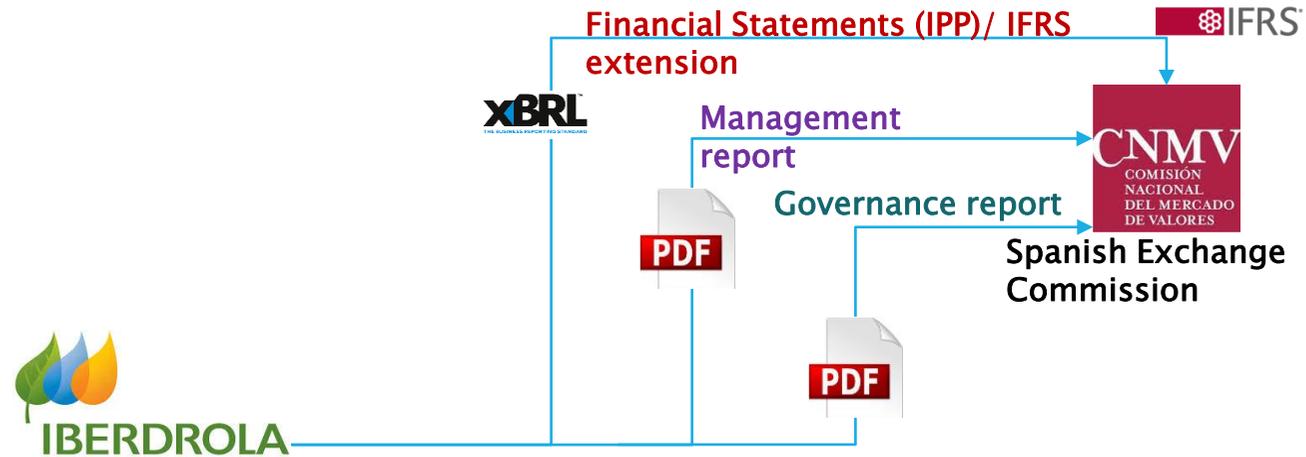
Reporting systems needs digital standards.

In Spain, the management report is always submitted together with the Financial Statement (in XBRL format) to the Spanish Security and Exchange Commission (CNMV).

It means that, for the Spanish listed companies: Financial Statement and Management report belong to the same reporting process.



FINANCIAL STATEMENT (ESMA) AND MANAGEMENT REPORT (NFRD)



AECA'S COMMENTS



DATA RELIABILITY: AUDIT AND VERIFICATION PROCESSES

The Directive states that *"The Member States shall ensure that the statutory auditor or audit firm checks whether the non-financial statement has been provided."*

In interpreting this rule, we can understand two different things:

- (1) It is only necessary the mere contribution of such information: Checking whether the non-financial statement is referenced or it is part of the management report or,
- (2) It is also necessary to check whether the non-financial statement contains the contents expected.

Verification should not only consist of checking that a document entitled "non-financial statement". Instead, its content should reasonably adjust to what the European Directive requires.

For example, in Spain, the current management report, the auditors are required to assess whether the content and presentation of the management report is consistent with what is required by legislation (Article 5.1.f Spanish Audit Act). In this case, the level of assurance required is less than in financial reporting, in line with that required by NIA 720 (Revised).

AECA'S COMMENTS



COMPLY OR EXPLAIN CAN DRIVE TOWARDS A LACK OF TRANSPARENCY

Article 1 of the DIRECTIVE provides that *"Member States may allow information relating to impending developments or matters in the course of negotiation to be omitted in exceptional cases where [...] the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking [...]."*

AECA recommends being more explicit in which circumstances a company may consider not to disclose certain information. This can represent an "escape door" against transparency. Companies can easily "escape" to disclose certain actions and decisions regarding key environmental and social matters for example.

AECA'S COMMENTS

ABOUT WHO CAN AVOID TO BE AFFECTED



According to this “A parent undertaking which is also a subsidiary undertaking shall be exempted from the obligation set out in paragraph 1 if that exempted parent undertaking and its subsidiaries are included in the consolidated management report or the separate report of another undertaking, drawn up in accordance with Article 29 and this Article.”

In case a company belongs to a group and consolidate, it does not have to publish their non-financial report. This fact is against the transparency principles with impact on users. It limits the possibility to compare and analyse their corporate strategy.

CONCLUSIONS

Current situation: The European Non-Binding Guidelines on non-financial reporting and the Spanish laws are in **draft version**.

In Spain, Listed companies should comply with this coming regulation during the submission of the management report at the beginning of 2018.

For a better and useful corporate transparency, AECA recommends to do some work in the following related areas:

1. More concreteness on data requirements is needed to enable comparability.
2. Introduce the recommendation of ESEF to be aligned with Financial Reporting practices.
3. Data reliability through detailed audit and verification requirements.
4. Avoid the lack of transparency due to leaving too open the comply or explain details.
5. Avoid that subsidiaries do not disclosure non-financial information.

THANK YOU

aeca Spanish Accounting and
Business Administration Association
Research project on integrated scoreboard using XBRL

More information:

<http://is.aeca.es/observaciones-de-aeca-a-la-transposicion-de-la-directiva-europea-informacion-no-financiera/>

<http://is.aeca.es/aeca-presente-en-la-comision-europea-en-bruselas-debatiendo-sobre-las-futuras-directrices-de-la-directiva-sobre-informacion-no-financiera/>

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