

10 June 2020

## Responses to the public consultation on the revision of the non-financial reporting directive

Dear Sirs,

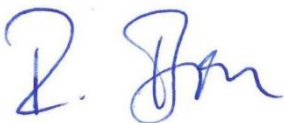
The Committee of European Audit Oversight Bodies (CEAOB) appreciates the opportunity to comment on the European Commission's public consultation on the revision of the non-financial reporting directive published on 20 February 2020.

The content of this response has been prepared by the International Auditing Standards Subgroup and has been adopted by the CEAOB. The comments raised reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.

Our responses to the questions which we selected in the consultation document are presented hereafter. They are focused on the issues raised in the consultation related to provision of assurance on non-financial information. In this respect, the term "assurance provider" used in the responses means the individual / body responsible for assurance on non-financial information. The use of this term does not reflect any specific view regarding the individual or body that should provide assurance on non-financial information.

We look forward to providing any further input over the development of this project. Please feel free to contact us, should you need any further information about the content of our responses to the consultation.

Yours faithfully,



Ralf Bose  
Chairman

**Public consultation on the revision of the non- financial reporting directive**

**CEAOB responses to selected questions in the EC consultation on NFRD**

**1. Quality and scope of non-financial information to be disclosed**

**Question 1. To what extent do you agree or disagree with the following statements about possible problems with regard to non-financial reporting?**

	1. totally disagree	2. mostly disagree	3. partially agree and partially disagree	4. mostly agree	5. totally agree	Don't know / no opinion/not relevant
The lack of comparability of non-financial information reported by companies pursuant to the NFRD is a significant problem						X
The limited reliability of non-financial information reported by companies pursuant to the NFRD is a significant problem				X		
Companies reporting pursuant to the NFRD do not disclose all relevant non-financial information needed by different user groups						X

**Comments on question 1**

The CEOB believes that requiring assurance to be provided on non-financial information could enhance the reliability of the non-financial information, and the users' confidence in this reliability.

**Question 6. How do you find the interaction between different pieces of legislation?**

- There is a need to streamline

### Comments on question 6

The CEAOB notes that there are different pieces of legislation covering various areas of non-financial information such as for example the NFR Directive or the Sustainable Finance Disclosure Regulation, and the CEAOB welcomes streamlining their requirements. Moreover, the Transparency Directive should be amended to ensure that its provisions remain consistent.

In addition, coordination of these different pieces of legislation with the Audit Directive 2006/43/EC and Audit Regulation EU No 537/2014 could be necessary if assurance on non-financial information may be provided by statutory auditors.

## 2. Standardisation

**Question 19.1 - Do you consider that other European public body/ies or authority/ies should be involved in the process of developing a European non-financial reporting standard**

Yes

**Question 19.2 - Please specify which other European public body/ies or authority/ies you consider should be involved in the process of developing a European non-financial reporting standard and to what extent- Please rate from 1 to 4 as explained above (please use digits only)**

	Name of other European public body or authority (no more than 3):	Please rate from 1 to 4 as explained (please use digits only)
Other European public body or authority # 1	<b>CEAOB</b>	<b>3</b>
Other European public body or authority # 2		
Other European public body or authority # 3		

### Comments on question 19.2

The development of a non-financial reporting standard (or framework) would be beneficial to European stakeholders by providing a common framework for the preparation of non-financial information in the European Union.

The CEAOB would like to underline the need for a robust non-financial reporting framework, as a prerequisite for the provision of the required assurance on the information. The CEAOB is of the view that the development of this framework should benefit from a strong European steer to incorporate the European public needs, and should be made available in a timely manner.

In order to take into consideration the needs and protection of the users of this information, the development of the framework should involve the participation of a wide range of stakeholders.

If there were a European non-financial reporting standard to be developed, the CEAOB should be consulted on the issues related to assurance during the process, if statutory auditors are allowed to provide assurance on non-financial information.

#### 4. Assurance

**Question 25. Given that non-financial information is increasingly important to investors and other users, are the current differences in the assurance requirements between financial and non-financial information justifiable and appropriate?**

- To a reasonable extent

##### Comments on question 25

Given the increasing interconnections between non-financial information and financial information, the CEAOB is of the opinion that requiring the same level of assurance to be provided on both should be aimed at for the future.

However, it seems difficult to achieve a consistent level of assurance at the current stage of maturity of non-financial reporting, which is far from the maturity of financial information frameworks.

**Question 26. Should EU law impose stronger assurance requirements for non-financial information reported by companies falling within the scope of the NFRD?**

- Yes

##### Comments on question 26

Yes, the CEAOB considers that the EU law should impose stronger assurance requirements for non-financial information. Requiring assurance on the non-financial information will allow for enhanced reliability and improved quality of non-financial information.

**Question 27. If EU law were to require assurance of non-financial information published pursuant to the NFRD, do you think that it should require a reasonable or limited assurance engagement on the non-financial information published?**

- Limited

##### Comments on question 27

The maturity of the non-financial reporting framework(s) is far from the maturity of financial information frameworks. While accounting and audit frameworks are well established for financial information, reporting and assurance on non-financial information are rather new areas. As such, it would be premature to require reasonable assurance at the current stage and until a shared understanding has been developed by the various stakeholders as well as an appropriate framework.

Therefore, at this stage, the CEAOB believes that only limited assurance on the non-financial information should be required. In order to require a higher level of assurance a sound and credible framework for non-financial reporting should be in place.

In the longer term, requiring the same level of assurance to be provided on financial and non-financial information could be aimed at, i.e. reasonable assurance, as far as the non-financial information



framework developed and applied would allow for assurance to be provided on this information. In this perspective, a gradual approach may be considered, for example by requiring stronger assurance requirements on key specified non-financial indicators.

If the scope of the NFR directive were to be broadened, the need for proportionality for the procedures to be carried out to provide assurance on non-financial information disclosed by Small or Medium Entities should also be considered.

**Question 28. If EU law were to require assurance of non-financial information published pursuant to the NFRD, should the assurance provider assess the reporting company's materiality assessment process**

- Yes

**Comment on question 28**

The reporting company's materiality assessment process will have an impact on the granularity of non-financial information produced. Therefore, it is important to clarify the concept of materiality to allow for a shared understanding between preparers, users of information and assurance providers.

In our view, as part of the assurance procedures, it is crucial that the assurance provider evaluates the reporting company's materiality assessment process as it is an essential part of the preparation of the non-financial information.

**Question 29. If assurance of non-financial information was required by EU law, should the assurance provider be required to identify and publish the key engagement risks, their response to these risks and any related key observations (if applicable)?**

- Yes

**Comments on question 29**

The CEAOB believes it would be beneficial to allow for observations to be provided in the assurance report rather than limiting the content of the report.

The CEAOB considers that providing information in the assurance report issued, along the same lines as the requirements set by Article 10(c) of Audit Regulation (EU) No 537/2014 for audit reports would be beneficial for the users to obtain better understanding of the approach taken by the assurance provider and the risks at stake, as long as the additional information does not impair the final opinion/conclusion.

The content of the future non-financial reporting requirements/standard(s) and the level of assurance required on the non-financial information will however influence the answer to this question.

**Question 30. If assurance of non-financial information was required by EU law, do you think that assurance engagements should be performed based on a common assurance standard?**

- Yes

**Question 30.1. If you answered yes in reply to the previous question, please explain whether there is an existing assurance standard that could be used for this purpose or whether a new standard would need to be developed:**

**Comments on question 30.1**

The development of a common assurance standard on non-financial information would facilitate consistency in approach by assurance providers and consistency of the related assurance. It would also help to meet the objective of comparability of information.

In the process of developing this assurance standard, it would be useful to consider whether to:

- adapt, enhance and develop the general provisions of ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Information* which is a generic existing standard developed by the IAASB for any assurance engagement other than audits or reviews of historical financial information and;
- incorporate provisions stemming from the standards that have been developed by national standard setters in some European countries.

We would like to stress the need for the CEAOB to be involved in the standard setting process for a new common assurance standard that might be developed, and in any future issue related to the assurance of non-financial information.

**Question 31. Do you think that an assurance requirement for non-financial information is dependent on companies reporting against a specific non- financial reporting standard?**

- Yes

**Comments on question 31**

Assurance can be provided regarding the compliance with, and implementation by the company of a given reporting standard, provided the company clearly refers to the reporting standard used to prepare the related information.

If the company does not use any specific reporting standard, it will prove difficult to express any assurance.

In any case, the CEAOB would also like to underline the need for a robust non-financial reporting framework, as a prerequisite for the provision of the required assurance on the information.

**Question 32. Do you publish non-financial information that is assured?**

- Don't know / no opinion / not relevant

## 5. Digitalisation

**Question 35. Please provide any other comments you may have regarding the digitalisation of sustainability information**

**Comments on question 35**

Prior to considering the tagging of non-financial information, getting feedback from the ESEF Regulation implementation would be useful. The CEOB notes that it is too early at this stage to draw any lessons from the ESEF tagging experience, since the ESEF requirements only apply from 1 January 2020.

The pre-requisite to the tagging of non-financial information is the development of a taxonomy. In this respect, the first necessary step is to achieve harmonisation and standardisation of the non-financial information. As such, the development of a common non-financial information reporting standard is essential.

The CEOB would also like to flag that a specific requirement in the legislation would be needed if the tagging is to be subject to the same assurance provisions as tagged financial information.

On the one hand, tagging non-financial information is expected to facilitate its accessibility, reduce the cost of collection for users (e.g. asset managers, banks and insurers) and help to promote research activities requiring data series. On the other hand, tagging would require a certain implementation delay, development of specific software and some additional costs for companies.

## 6. Structure and location of non-financial information

**Question 38. If companies are allowed to publish the required non-financial information in a report that is separate from the management report, to what extent do you agree with the following approaches?**

	1. totally disagree	2. mostly disagree	3. partially disagree and partially disagree	4. mostly agree	5. totally agree	Don't know / no opinion / not relevant
Legislation should be amended to ensure proper supervision of information published in separate reports					X	
Legislation should be amended to require companies to file the separate report with Officially Appointed Mechanisms (OAMs).					X	
Legislation should be amended to ensure the same publication date for management report and the separate report					X	

### Comments on question 38

Whether non-financial information is in a separate report outside the management report or not, the CEOB considers that all those reports should be subject to the same level of supervision, the same



accessibility and the same publication date. As such, the European legislation should be adapted accordingly.

**Please provide any comments or explanations to justify your answers to questions 36 to 39:**

The CEAOB believes that the level of assurance to be provided on the non-financial information should be stronger than the current level of assurance provided on the management report (for details, see our responses on question 27 about the level of assurance).

Indeed, the assurance opinion provided on the management report by the statutory auditor is on whether the management report is consistent with the financial statements and has been prepared in compliance with the law.