Issue fiches for the non-binding guidelines on non-financial reporting

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1 Disclose material information

The Directive foresees that non-financial information shall be disclosed to the extent necessary for the understanding of the company's development, performance, position and impact of its activity. Whether an issue is material may depend on company's specificities, sectoral and geographical context. Companies are expected to exercise judgment as regards the materiality of information.

Article 1 of the DIRECTIVE sets out that companies concerned:

"[…] shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity […]"

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 may help identify key issues, and assess what makes information material.

In the context of the Accounting Directive (2013/34/EU) material information is defined 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. The materiality of individual items shall be assessed in the context of other similar items"*[1].

The Directive introduces a new element to be taken into account when assessing the materiality of non-financial information by referring to information *"to the extent necessary for an understanding of the [ ] impact of (the company's) activity"*[2].

Recital 8 of the DIRECTIVE indicates that *"the undertakings which are subject to this Directive should provide adequate information in relation to the matters that stand out as being most likely to bring about the materialization of principal risks of severe impacts, along with those that have already materialized.*[3] *[ ]".*

The impact[4] of a company's activity is an important consideration when disclosing non-financial disclosures. The non-financial statement is expected to reflect a company's fair view of the information needs of relevant stakeholders.

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[1] Accounting Directive Article 2(16).

[2] Article 1(1) of the DIRECTIVE.

[3] Recital 8 of the DIRECTIVE also indicates that "[ ] *the severity of such impacts should be judged by their scale and gravity. The risks of adverse impact may stem from undertaking's own activity or may be linked to its operations, and where relevant and proportionate, its products, services and business relationships, including its supply and subcontracting chains".*

[4] Impacts may be positive or adverse. Material disclosures should cover both in a clear and balanced way.

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Material information must be assessed in a context. Information that may be material in one context may not be in another. Issues to be considered for inclusion in the non-financial statement are company-specific, taking into account concrete circumstances and sectoral considerations and a company's specificities. Companies within an industry are likely to share similar non-financial challenges, for instance because of the resources they may rely upon to produce goods and services, or the effects they may have on society and the environment.

Companies are faced with a wide range of potential issues on which they might report. A company must exercise judgment at assessing which information is material, based on its analysis of the relative importance of such information for an understanding of the company's development, performance, position and the impact of its activities. In order to exercise such judgment, the materiality assessment should take into account internal and external factors[5].

Example

A bank may consider that its own water consumption in offices and branches is not a material issue to include in its management report. In comparison, the bank may consider that social and environmental impacts of projects that it funds and its role to support the real economy of a region are material information.

In assessing the materiality of information, a number of factors may be taken into account, including, for example:

- Business model, strategy and principal risks: a company's values, goals, strategies, management approach and systems, tangible and intangible assets, value chain and principal risks should be taken into account.
- Main sectoral issues: Similar issues are likely to be material to companies operating in the same sector or sharing supply chains. Topics already identified by competitors, customers or suppliers are likely to be relevant for a company[6].
- Interests and expectations of relevant stakeholders: In order to assess material information, companies are expected to engage with relevant stakeholders and seek a good understanding of their interests and concerns. Among others, this may include, as appropriate, investors, workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups and civil society.
- Impact of activities: Companies are expected to consider the actual and potential severity and frequency of impacts in their materiality assessments. This includes

[5] For an example of potential aspects, companies could use the preliminary analysis referenced in Annex I of the EMAS Regulation Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009R1221.

[6] For example, EMAS Sectoral Reference Documents identify best practices and indicators related to environmental aspects.

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impacts of their products, services, and their business relationships (including supply chain aspects or dependencies).

- Public policy and regulatory drivers: Current and future trends in regulations and public policies may have an effect on companies' opportunities and risks, and may influence materiality.

Example
A company may consider that impacts through its upstream supply chain are relevant and material issues and report on its upstream impacts and dependencies . Impacts may be direct or indirect. For example a company producing mineral water may consider specific measures taken to protect the hydric resources it relies upon.

It is best practice for companies to disclose relevant information on the government arrangements and processes by which their materiality assessment has been made.

For example, companies implementing a quality management system or an environmental management system (e.g. ISO 14001 or EMAS), or perform an environmental Life Cycle Assessment may rely on them to support their materiality assessment and therefore disclose information on aspects identified as significant through these assessments.

Example
A company having impacts on land use and ecosystem change (for example deforestation) directly or through its supply chain may consider appropriate disclosures on the due diligence applied.

Materiality assessments are expected to be reviewed periodically to ensure that matters reported continue to be material overtime. Reviews should be more frequent in the most dynamic and innovative companies and sectors, or in companies changing and adjusting their business models or policies, including on due diligence, while less so in more stable circumstances.

Example
A company which is involved in the supply chains of minerals from conflict-affected and high-risk areas may consider appropriate disclosures on the due diligence applied to ensure that it respects human rights by not contributing to conflict.

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2 Fair, balanced and understandable

The non-financial statement is expected to address positive and negative aspects with no bias in the selection or presentation of information and no misstatements. The non-financial statement is expected to be written in clear language.

The non-financial statement should give fair consideration to favourable and unfavourable aspects, without bias in the assessment or presentation of information.

The non-financial statement should consider all available and reliable inputs and other evidence, taking into account the information needs of relevant stakeholders. Users of information should not be misled by material misstatements such as, for example, the omission of material information, or the undue selective disclosure of immaterial information.

The non-financial statement should reflect a significant effort to clearly distinguish facts from a company's view or interpretation of them.

Fair and accurate information may be enhanced by, for example, robust and reliable internal control and reporting systems; effective stakeholder engagement; independent external assurance; appropriate corporate governance arrangements (for instance, certain independent board members or a board committee entrusted with the responsibility over sustainability matters).

Understandability may be enhanced by using plain language and consistent terminology, avoiding boilerplate text and, where necessary, providing definitions for technical terms.

In order to increase understandability, material information is expected to be provided with appropriate context. A company's performance may, for example, be presented with reference to its strategies and broader goals. Companies are expected to describe how non-financial issues relate to its long term strategy, principal risks and policies.

It may be relevant for a company to clearly explain, as appropriate, scope and boundaries of the information disclosed, in particular if certain information only concerns one or several segments of a company, or excludes specific segments.

Companies should also explain key internals of the information disclosed, for instance, measurement methods, underlying assumptions, sources, etc.

The non-financial statement is not merely about providing lists of key performance indicators (KPIs). In order to properly understand a company's development, performance, position and impact, both qualitative and quantitative information should be disclosed. While quantitative information may be an effective mean to report non-financial information (i.e.: KPIs, targets,…), qualitative information provides appropriate context and improves the overall usefulness and understandability of the non-financial information

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disclosed. A combinaison of narrative reporting, quantitative information and visual presentation supports[7] enhances communication effectiveness and transparency.

Example

A company which discloses a KPI may enhance transparency by providing information on: its purpose and link to the company strategy; definitions and methodology; source, assumptions and limitations; scope of activities concerned; benchmarks; targets; trends; changes in methodologies (if any); qualitative explanations of past and foreseen performance.

[7] For example: graphs, diagrams, charts, etc

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3 Comprehensive but concise

The Directive foresees that companies report on all information that is necessary for an understanding of the company's development, performance, position and impact. The non-financial statement is also expected to be concise.

Article 1 of the DIRECTIVE sets out that companies concerned:

"[…] shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters […]"

The Directive foresees that the non-financial statement should include all information that is necessary for an understanding of a company's development, performance, position and impact.

Material information on certain categories of issues explicitly reflected in the Directive should be disclosed as a minimum: environmental, social and employee matters, respect of human rights, anti-corruption and bribery matters. Companies should also disclose information on any other issues to the extent that such information would be material.

Disclosures are expected to be comprehensive. This refers to the breadth of information disclosed. However, information does not need to be exhaustive for the statement to be considered comprehensive. The depth of information reported on any particular issue depends on its materiality. Companies should focus their efforts on the information that is more relevant to understand their development, performance, position and the impact of their activity.

The non-financial statement is also expected to be concise, and avoid immaterial information. Including such immaterial information could impair the understandability of the non-financial statement, by obscuring material information. Generic or boilerplate information that is not material to the company should be avoided.

In order to achieve conciseness, the non-financial statement may include internal cross references or signposting in order to limit repetition, and provide links to other information.

Example
A company may summarize information, focus on material information, remove generic information, limit details, avoid elements that are no longer relevant, use cross-reference and signposting, etc.

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4 Strategic and forward-looking

The statement is expected to provide insight into the company's strategy and its implementation. Where relevant, it is expected to give due regards to the short term, medium term and long term implications of the facts and circumstances reported.

Companies are expected to disclose material non-financial information on their strategy and objectives. Disclosures should provide insight into the strategic approach to relevant non-financial issues; what a company does, how and why it does it.

The disclosure of objectives and targets enables stakeholders to put the position and performance of the company in a context, and may be helpful when assessing future prospects. Objectives and targets may be presented in qualitative or quantitative terms.

Example

A company may disclose how it is moving towards a sustainable business strategy and how environmental, social and governance aspects can support the achievement of those business goals. It could also disclose targets relating to KPIs reported, and explain the uncertainties and factors which may underpin forward-looking information and future prospects.

Where relevant, the non-financial statement should provide information on the short-term, medium-term and long-term implications of the policies, facts and circumstances reported.

Forward-looking information enables users of information to better assess the resilience and sustainability of a company's development, position, performance and impact over time; and measure progress towards achieving long-term objectives.

Example

A company may disclose the potential impact of climate change scenarios on its expected results, strategy and activities.

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5 Stakeholder oriented

Companies are expected to provide due consideration to the information needs of all relevant stakeholders[8].

As appropriate, this may include, among others: investors, workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups and civil society.

Companies are expected to provide insight into the nature, quality and process of their engagement with relevant stakeholders, and how their information needs are taken into account.

Example

A company may disclose information on its engagement with relevant stakeholders, and explain how this may influence its decisions, actions, performance and the impact of its activities.

[8] Focus would be on the information needs of relevant stakeholders as a collective group, rather than of individual or atypical stakeholders, or those with unreasonable information demands.

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6 Consistent and coherent

The non-financial statement is expected to be consistent with other elements of the management report and coherent over time.

Effective linkages between pieces of information presented within the non-financial statement and other information disclosed in the management report could enhance the overall usefulness and relevance of information, and increase its cohesiveness. Ultimately, the management report should be viewed as a single, consistent set of information.

Key linkages are expected to be highlighted and explained, so that users of information can realise and understand the most relevant relationships and interdependencies of information disclosed in the management report.

Within the non-financial statement, contents are related to each other. Explaining these linkages is important so that companies provide a fair and comprehensive view of their development, performance, position and the impact of their activities. The non-financial statement should be, on its own, a balanced and coherent set of information.

The content of the non-financial report is expected to be coherent over time. This enables users of information to understand and compare past and present changes in the company development, position, performance and impact, and relate reliably to forward-looking information. For example, consistency in the choice and methodology of KPIs is very important for understandability and reliability (updates may be necessary, as KPIs may get obsolete or new and better methodologies improve the quality of information). In the case of changes in their reporting policy or methodology, companies are expected to explain them, their rationale and their effects (including, as appropriate, restatements of past information, showing clearly the effect of changing reporting policies or methodologies).

Example

A company may identify relationships and linkages between its business model and other content elements. For instance, it could explain principal risks affecting a specific part of its business model using a relevant and consistent methodology.

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7 Reporting Frameworks

Companies may rely on existing reporting framework for disclosing non-financial information

In line with the Directive, a company may rely on high quality, broadly recognised national, EU-based or international frameworks when preparing its non-financial statement. Some of them are horizontal; others are sector or thematic issue-specific. Some target exclusively disclosure of non-financial information; others refer to transparency in a broader context.

Usually, relying on a widely recognized framework developed with due process provides companies with a structured reporting approach to key issues of broad interest, limits administrative burden, and enhances comparability.

Article 1 of the DIRECTIVE sets out that companies concerned *"[…] may rely on national, Union-based or international frameworks, and if they do so, […] shall specify which frameworks they have relied upon"*.

A company relying on one or several frameworks in order to report material non-financial information, should disclose which framework(s) it has used for which specific disclosures. This disclosure would enhance clarity and comparability.

Recital 9 of the Directive provides examples of existing reporting frameworks. However this list should not be viewed as exhaustive.

Recital 9 of the DIRECTIVE states:

"In providing this information, undertakings which are subject to this Directive may rely on national frameworks, Union-based frameworks such as the Eco-Management and Audit Scheme (EMAS), or international frameworks such as the United Nations (UN) Global Compact, the Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the International Organisation for Standardisation's ISO 26000, the International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy, the Global Reporting Initiative, or other recognised international frameworks. "

Companies may also consider using other reporting frameworks such as for example *the International Integrated Reporting Framework, the Sustainability Accounting Standard Board standards, CDP, CDSB, the Organisation Environmental Footprint Guide* or others.

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8 Business Model

Companies are expected to describe how a company generates and preserves value over the long term.

Article 1 of the DIRECTIVE sets out that the non-financial statement contains information including:
a. *"a brief description of the undertaking's business model;"*

It is frequently understood that the business model describes how a company generates and preserves value through its products or services over the longer term. The business model provides appropriate 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.

When describing their business model, companies may consider including appropriate disclosures relating to their business environment, their organisation and structure, the markets where they operate, their objectives and strategies, and main trends and factors that may affect their future development.

As appropriate, companies may consider using key performance indicators (KPIs) to help the understanding of the business model, main trends and factors.

Companies are expected to explain their business model in a clear, understandable and factual manner. A business model is a matter of fact case. Companies should explain how they have chosen to undertake their business in a clear and objective manner. Companies should avoid disclosures of promotional or aspirational nature which distract attention from material information.

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

Example
A company may consider including specific disclosures explaining:
- The main products it makes, and how they meet the needs of consumers/customers;
- How these products are made, and what makes the production approach competitive;
- The characteristics of the market where it operates, and how it is expected to evolve.
- The natural and social environment in which it operates and how those affect its business.

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9 Policies and due diligence

Companies are expected to describe the company's management approach to material issues as well as the assessment of actual or potential impacts arising from its activities or through its business relationships. Descriptions are expected as regards measures taken to implement policies as well as regards actions taken to mitigate adverse impacts.

Article 1 of the DIRECTIVE sets out that the non-financial statement contains information including:
b. "*a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;*"

Companies should provide a fair and comprehensive view of their policies.

Companies may consider appropriate disclosures on their approaches to key non-financial aspects, main objectives, and how they are planning to deliver on those objectives. In doing so, companies may explain how management decisions and resource allocations relate to objectives, risk management and intended outcomes. For example, companies may explain their governance risks and opportunities[9], including the oversight of such risks and opportunities by the board.

Example
A company may consider disclosing information on who in its organisation and governance structure is responsible for setting a specific policy, implement and monitor it, and how investors and other stakeholders may be involved.

Due diligence processes relate to policies, and also to risk management and intended (and actual) outcomes. It is commonly understood that due diligence processes are undertaken by a company with the objective of ensuring that it delivers against a concrete objective (e.g.: to ensure that carbon emissions are below a certain level). The objective of due diligence processes may be to identify, prevent and mitigate existing and potential adverse impacts.

Companies should provide disclosures on due diligence processes implemented, and may consider including appropriate information on the decision process to set them up, and how they are intended to work, in particular as regards prevention and mitigation of adverse impacts. Companies may also consider relevant information on setting targets and measuring progress.

Example
A company may consider disclosures on company policies aiming at avoiding the use of hazardous chemicals, substances of very high concern or biocides, in its products, operations

[9] For instance, on aspect related to climate-related risks and opportunities, or employment conditions.

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and supply chain; and on company policies on research, development and use of safe alternatives. Companies may explain how they approach quality, safety and environmental impact of the chemicals that they use, and how they meet the requirements of legislation on chemical safety (e.g.: REACH, CLP).

Companies are expected to highlight and explain when material changes to their main policies and due diligence processes have taken place in the reporting year.

Example

A company may consider disclosing the following information as regards health and safety:

- Policies in the workplace
- Contractual obligations negotiated with suppliers and sub-contractors
- Resources allocated to risk management, training, monitoring, internal and external auditing

Companies may not have developed policies on certain matters that they still consider material. Then, as regards disclosures relating to policies on those specific matters, companies should provide a clear and reasoned explanation.

Article 1 of the DIRECTIVE sets out that *"where the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so."*

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10 Outcome

Companies are expected to explain to what extent the objectives have been achieved and what are the actual outcomes of the policies.

Article 1 of the DIRECTIVE sets out that the non-financial statement contains information including:
c. *"the outcome of those policies;"*

Companies should provide a fair and comprehensive view of the outcome of their policies.

The non-financial information disclosed by companies should help the measuring, monitoring and managing of their performance.

Relevant disclosures on outcomes of policies may provide useful information as regards strengths and vulnerabilities of a company. Companies are expected to provide material information explaining the outcome of the business processes stemming from those policies in the reporting period. The non-financial statement should reflect the results of a company's operations and activities. Companies are expected to explain outcomes in a fair, comprehensive and useful manner.

Companies may consider explaining how financial and non-financial outcomes relate, and how this relation is measured and managed over time.

The analysis of outcomes should include relevant non-financial key performance indicators (KPIs). Companies are expected to disclose those KPIs which they consider most useful to monitor and assess progress. Companies may also consider to present and explain this information in relation to the company targets, and benchmarks against peer companies where appropriate.

Example
A company may consider including specific disclosures explaining:
- Actual carbon emissions, or carbon intensity[10], comparison vs. targets, evolution over time;
- Mitigating effects of policies implemented;
- Plans to reduce carbon emissions.

[10] Or for instance: actual use of hazardous chemicals, substances of very high concern, or biocides in its products, operations or supply chain

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11 Principal risks and their management

Companies are expected to provide a fair, coherent and comprehensive description of its principal risks together with an explanation of how they are managed and mitigated. A description is also expected as regards their likelihood, circumstances and possible effects.

Article 1 of the DIRECTIVE sets out that the non-financial statement contains information including:
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;"*

Companies should disclose information on their principal risks and on how they are managed. Those risks may relate to their operations, their products or services, and/or their business relationships. This includes short, medium and long term risks. Companies are expected to explain how principal risks may have an effect on their business model, operations, financial performance and the impact of their activities.

A company is expected to disclose the full range of principal risks, regardless of whether they stem from a company's own decisions or actions, or from external factors over which it has no direct control, and to explain the processes used to identify and assess such risks.

Companies are expected to identify and explain principal risks in a way as specific as possible, including appropriate assessments of likelihood, circumstances and possible effects including where appropriate the use of scenario analyses.

Disclosures, where relevant and proportionate, should include material information on supply and subcontracting chains.

Disclosures should also include how a company manages and mitigates principal risks.

A company is expected to highlight and explain when material changes to its principal risks, or to the way it manages them, have taken place in the reporting year.

Example
A company may consider including specific disclosures on:
- Malfunctioning products with possible effects on consumers' safety;
- Policies implemented to address the issue;
- Remediation measures addressed to consumers already affected by those products.

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12 Key Performance Indicators

Companies are expected to disclose consistently Key Performance Indicators that are appropriate for assessing progress against objectives, monitoring of principal risks, measuring development, performance, position and impact. Information enabling the reported KPI to be understood is also expected.

Article 1 of the DIRECTIVE sets out that the non-financial statement contains information including:
e. *"non-financial key performance indicators relevant to the particular business;"*

The non-financial statement should include material narratives and indicator-based disclosures. In order to give a fair and comprehensive view of their policies, outcomes, and principal risks, companies are expected to use a smart mix of qualitative and quantitative information. This includes relevant key performance indicators (KPIs).

Companies are expected to report KPIs that are consistent with metrics actually used by them in their internal management and risk assessment processes. This enhances the overall relevance and usefulness of the disclosures, and effective transparency.

Companies should disclose key performance indicators that are necessary to understand their development, performance, position and impact of their activity. Some KPIs may be useful for a broad variety of companies and business circumstances. Other KPIs have more to do with issues and circumstances of a given sector. Companies are encouraged to disclose material KPIs, both general and sectoral. Companies, taking into account their specific circumstances and the information needs of investors and other stakeholders, are expected to provide a comprehensive picture of their business, including a "smart mix" of general, sectoral and, as used for internal management purposes, company-specific KPIs.

Companies are expected to disclose high quality KPIs that are broadly recognized metrics, widely used in their sector or for specific thematic issues, which could also improve comparability of information reported across companies.

Quantitative information is generally highly appreciated by users of information as it helps measuring progress, checking consistency over time, and comparability.

KPIs are also considered effective tools to connect qualitative and quantitative information, and to build linkages, enabling companies to provide a balanced and comprehensive view in a concise and effective manner.

KPIs should be used consistently over reporting periods in order to provide reliable information on progress and trends. Reported KPIs may, of course, evolve over time because of business or technical reasons. In these cases, companies should explain the reasons for changing. They may consider appropriate resetting of past information, and explaining clear and effectively how to factor these changes.

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Companies are expected to explain data collection, methodology, frameworks relied upon, and analysis of the KPIs that they disclose. Companies should present the information in a way that makes possible the understanding of KPIs disclosed. For example, companies may explain why KPIs increased or decreased in the reporting year, and how KPIs might evolve in the future.

Companies are expected to present KPIs, where appropriate, in the context of targets, past performance, and comparison with peers.

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13 Thematic aspects

The Directive foresees that reported information should relate at least to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. It is expected that it also include material information on specific aspects such as supply chain matters and conflict minerals if appropriate.

Article 1 of the DIRECTIVE sets out that companies concerned *"shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters […]"*.

Disclosures provided by companies should provide a material, balanced and comprehensive view of their development, performance, position, and the impact of their activities. Companies are expected to explain clearly how thematic issues may have a material effect on their development, performance, position, or impact.

In certain circumstances companies may consider that disclosing detailed information about impending developments or matters in the course of negotiation would be seriously prejudicial. Then, disclosing summarised information that is not seriously prejudicial may meet substantially the overall transparency objective.

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 […]."*

Thematic aspects are often inter-connected. For instance, an environmental issue related to the operations or products of a company may also have an impact on the safety and/or health of consumers, employees, or suppliers. Companies are expected to provide a clear, fair and comprehensive view that encompasses all relevant aspects of an issue.

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

a. Environmental matters

A company is expected to disclose relevant information on the actual and potential impacts of its operations on the environment, and, on how current and foreseeable environmental matters may have significant implications for its development, performance, position or impact.

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This may include where appropriate material disclosures on pollution prevention and control, environmental impact from energy use, direct and indirect atmospheric emissions[11], protection of biodiversity and water resources[12], waste management, environmental impacts from transportation or from the use and disposal of products and services, development of green products and services.

For example, the Commission Recommendation 179/2013 includes in its Annexes the Product Environmental Footprint (PEF) and Organisation Environmental Footprint (OEF) methods. These are life cycle assessment methods that enable companies to identify for each product or entire organisation (i) the most relevant impacts and (ii) their contributing processes and emissions along the supply chain. The environmental impacts can be reported separately (the method covers 15 different impact categories including climate change, water depletion, land use, etc) or as a single aggregated score.

Companies are expected to refer, where appropriate, to relevant information on existing environmental reporting requirement[13].

Example
A company may consider key performance indicators such as:
- Energy consumption from non-renewable sources and energy intensity;
- Greenhouse gas emissions in metric tons of CO_2 equivalent and GHG intensity;
- Emissions of other pollutants (measured in absolute value and as intensity);
- Extraction natural resources
- Biodiversity impacts of its activities
- Waste management (e.g. recycling rates).

b. Social and employee matters

Companies are expected to disclose relevant factors as regards social and employee matters, including the implementation of fundamental conventions of the International Labour Organisation and, as appropriate, diversity issues, such as gender diversity and equal treatment in employment and occupation (including age, gender, sexual orientation, religion, disability and other relevant aspects); employment issues, including employee

[11] This includes greenhouse gas emissions, emissions of toxic substances, emissions of eutrophying and acidifying substances
[12] Including disclosure related to biotic and abiotic resources, use of land and freshwate
[13] Such as obligation deriving from EU Directives (Industrial Emissions Directive, Emissions Trading System, Water Framework Directive, REACH, Landfill Directive, End-of-Life Vehicles Directive, Waste Electrical and Electronic Equipment and Restriction of Hazardous Substances Directives, EPRTR, etc.

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consultation and/or participation, employment and working conditions; trade union relationships, including respect of trade union rights; human capital management including management of restructuring, career management and employability, remuneration system, training; health and safety at work; consumer relations, including consumer satisfaction, material information relating to products with possible effects on consumers' health and safety; responsible marketing and research; community relations, including social and economic development in the communities.

Companies are expected to rely on appropriate frameworks, for instance on the OECD Guidelines for multinational enterprises, and on the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

Example

A company may consider key performance indicators based on aspects such as:

- Gender diversity or other aspects of diversity;
- Employees entitled to parental leave, by gender;
- Workers who participate in activities with high risk of specific accidents or diseases;
- Number of occupational accidents, types of injury or occupational diseases;
-Employee turnover;
-Ratio of employees working under temporary contracts;
-Average hour of training per year per employee;
-Employee consultation processes;

c. Respect for human rights

Companies are expected to disclose material information relating to potential and actual impacts of their decisions and activities on right-holders.

It is considered best practice that the company expresses its commitment to respect human rights. Such commitment may define what the company expects from its personnel, business partners in relation to human rights. The information may explain whose rights the commitment addresses, such as employees, including those working under temporary contracts, children, indigenous communities, smallholder farmers, workers in the supply chains, migrant workers and their families or other.

It is considered best practice that companies disclose how they prevent human rights abuses, including their contracts with businesses in its supply chain contain appropriate terms regarding human rights, how they mitigate potential impacts related to human rights and provide adequate remedy in case of human rights violations.

Companies are expected to rely appropriately on the Guiding Principles on Business and Human Rights implementing the UN ‘Protect, Respect and Remedy’ Framework, the OECD

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Guidelines for multinational company, ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

Example
A company may consider key performance indicators such as:
- Occurrences of severe impacts on human rights deriving from the company's activities or decisions;
- Specific disclosures on how the company receives, handles and addresses complaints and provides remedies to human rights violations, including how many times remedies had been provided;
- Operations and suppliers at significant risk of human rights violations;
- Specific preventive actions as regards forced or compulsory labour and child labour in certain geographic areas of the company's activity with high risk of exposure to abuse,
- Engagement actions with relevant stakeholders with a view to prevent forced or compulsory labour and child labour.

d. Anti-corruption and bribery matters

Companies are expected to disclose material disclosures relating to how they manage anti-corruption and bribery matters, and occurrences.

Companies may consider, among others, relevant disclosures relating to policies, organisation, decisions, management instruments, allocation of resources to fight corruption and bribery.

Companies may also consider explaining how they assess fighting corruption and bribery, take action to prevent or mitigate adverse impacts, monitor effectiveness, and communicate on the matter internally and externally.

Companies are expected to rely appropriately the OECD Guidelines for multinational companies.

Example
A company may consider key performance indicators based on aspects such as:
- Internal control processes and resources dedicated to avoid corruption and bribery;
- Employees having received appropriate training;
- Use of whistleblowing mechanisms.

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e. Supply chain aspects

Companies, where relevant and proportionate, are expected to disclose material information on supply chain matters that may have significant implications for their development, performance, position or impact. This would include information necessary for a general understanding of a company's supply chain, as well as how relevant non-financial aspects are considered in the supply chain management.

When companies consider that disclosing detailed information about impending developments or matters in the course of negotiation would be seriously prejudicial, they may meet the overall transparency objective by disclosing summarised information that is not seriously prejudicial.

Companies are expected to rely on the OECD Guidelines for Multinational Companies as well as, as appropriate, on relevant industry-specific frameworks, such as, among others, the FAO-OECD Guidance for Responsible Agricultural Supply Chains.

Example
A company may consider key performance indicators based on aspects such as:
- Suppliers that are monitored using labour practices criteria;
- Monitoring of suppliers considered to be exposed to high risks of incidents of child labour or of forced labour.

f. Conflict minerals

Companies are expected to disclose relevant information on due diligence for responsible supply chains of tin, tantalum, tungsten and gold from conflict-affected and high-risk areas.

Disclosures should be consistent with the Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High-Risk areas, including its supplements. Companies are expected to disclose relevant information on their performance as regards their conflict minerals due diligence policies, practices and results; and the steps taken to implement the "five-step framework"[14] for risk-based due diligence in the mineral supply chain as set out in the OECD Due Diligence Guidance, taking into account their position in the supply chain.

Companies are expected to disclose key performance indicators (KPIs) relating to the nature and number of risks identified, to the measures taken to prevent and mitigate them; and to how the companies strengthen their due diligence efforts over time.

[14] OECD (2016), OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: Third Edition, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264252479-en

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Specific Key Performance Indicators

For instance, the proportion of direct relevant suppliers having adopted and implemented a conflict minerals due diligence policy consistent with the OECD Due Diligence Guidance; the proportion of tin, tantalum, tungsten or gold originating in conflict–affected and high-risk areas; the proportion of immediate downstream purchasers contractually requiring conflict minerals due diligence information consistent with the OECD Due Diligence Guidance.

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14 Board diversity disclosure

Companies are expected to provide a clear and understandable description of the company's board diversity policy, including its objectives and the diversity factors considered, as well as the implementation of the diversity policy and the results achieved

Article 1 of the DIRECTIVE requires ***large listed companies***[15] to disclose in their corporate governance statement:

"a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies with regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, the statement shall contain an explanation as to why this is the case."

Diversity aspects

Companies should specify the diversity criteria applied and explain the rationale behind them. When selecting these criteria, companies should consider all relevant diversity aspects with a view to ensure that the board has sufficient diversity of views and sufficient competences for a good understanding of current affairs as well as longer-term risks and opportunities related to the company's business. In assessing the necessary profiles for optimal board diversity, the company should take into account the nature and complexity of its business as well as the social and environmental context in which it operates.

The diversity aspects should, in general, cover age, gender, or educational and professional backgrounds, but also, where relevant due to the company's geographical presence and the business sector in which it operates, geographical provenance, international experience, expertise in relevant sustainability matters, employee representation and other aspects, such as for example socio-economic background or ethnic origin.

Objectives

Companies should define and disclose specific measurable targets with respect to relevant diversity aspects. When a company's board is sufficiently large, it is best practice to set ambitious quantitative targets, in particular regarding gender balance.

Implementation and results

[15] While the disclosure requirements concerning non-financial information apply to large public-interest entities with more than 500 employees, the disclosure requirements concerning board diversity apply only to large listed companies.

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Companies should disclose the processes used to ensure that the objectives of their diversity policy are applied in the succession planning, selection, nomination and evaluation. They should also disclose what role the competent board committees play in those processes. Companies should also disclose whether the information about diversity criteria and objectives was given to shareholders in the context of the election or renewal of board members.

Companies should disclose the status of the implementation and the results at least since the last statement, with regard to all the diversity aspects of the policy. If the diversity objectives are not met, the company should disclose the expected timeframe within which these objectives are to be met.

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