

**Sent as attachment to the electronic questionnaire**  
European Commission  
DG Financial Stability, Financial Services and Capital  
Markets Union  
SPA2 00/093  
1049 BRUSSELS  
Belgium

Date 11 April 2016  
Our reference LcBs-16032360  
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Subject Public consultation on non-binding  
guidelines on methodology for reporting  
non-financial information

Dear madam, sir,

The Netherlands Authority for the Financial Markets (hereafter: “AFM”) appreciates your call for public consultation of the non-binding guidelines on methodology for reporting non-financial information, following the Directive on disclosure of non-financial and diversity information by certain large undertakings and groups (hereafter “Directive”). The AFM is committed to promoting fair and transparent financial markets. In our view, non-financial information is an indispensable element of transparency. Therefore, apart from responding to the questions in the questionnaire, we would like to highlight four key elements of our view in this letter: 1. on the interdependence between financial and non-financial information, 2. on the desirable level of detail, 3. on the content of the guidelines and 4. on the (future) role of ESMA.

1. Financial and non-financial information provide shareholders and other stakeholders with a meaningful, comprehensive view of the strategy, position and performance of companies. Because financial and non-financial aspects of an undertaking are intrinsically linked, both types of information are interdependent and complementary.

Non-financial information should reflect the key non-financial drivers of a company’s business model, as well as the risks and policies related to these drivers. Non-financial information should address the typical areas of environmental matters, social and employee aspects, respect for human rights and anticorruption and bribery issues, as well as provide insight on other non-financial aspects and developments which highly affect the activities and main risks and opportunities of an undertaking (such as markets and technology). The risks and the risk policies are highly relevant on the continuity assumptions of an undertaking. Because of the interdependence of financial and non-financial aspects, the AFM supports the development of integrated reporting.

2. At this stage, it does not seem fit to develop a detailed framework on EU level. Many listed European undertakings already report (some aspects of) non-financial information. They do so voluntarily or (depending on the sector and the jurisdiction) while required. Following the implementation of the Directive, the entire population of undertakings covered by the Directive will report on non-financial aspects in 2018 (over calendar year 2017). Having no full implementation yet, we think it is too early to develop a detailed framework on EU-

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level. Fortunately, there are existing global frameworks which companies can benefit from. Therefore, at this stage, we do not recommend to duplicate the work already done by international councils, such as the IIRC and GRI, but rather to give some complementary guidance.

3. In our view, the guidelines should ensure the relevance, reliability and verifiability of the non-financial information and its relation to financial information. Firstly, the EU-guidelines on non-financial information should make sure that the non-financial information is relevant (i.e. material). Investors and other stakeholders do not seek tick-the-box information, but information which really reflects entity-specific key outcomes, risks and policies. We note materiality has proved to be a difficult concept, even with regard to financial information. Developing guidelines to assess materiality (for all stakeholders) would therefore be a priority. Secondly, the non-financial information should be reliable. Without the management taking responsibility for the correctness of the non-financial reporting (on outcomes, risks and policies) and the reporting process, the information is of little value. Thirdly, the non-financial information should be verifiable. If there is no way to verify the non-financial information, it has little value. And last, but not least, it is important to show the impact of the non-financial information on the financial information.

4. Further principle-based codification on EU-level would be a logical next step, but only after the full application of the Directive in 2018. In our opinion, the European Securities Markets Authority (“ESMA”) should play a key role in that codification process. ESMA is well positioned to undertake this. First of all, ESMA has the investor protection and market functioning perspective. The investor benefits from adequate non-financial reporting. An undertaking that does not sufficiently care for aspects of human rights, environment and bribery, and/or does not adequately mitigate the risks involved there, will in the longer term not turn out to a good investment and will lose its license to operate. This means that from the viewpoint of a responsible and reasonable investor, all stakeholders of a company are important. ESMA embodies this reasonable investor perspective. Moreover, ESMA bundles the expertise of people working in the different jurisdictions of the EU and it has the experience of developing guidelines and regulations. In future codification, it would be recommendable to allow ESMA to develop the framework. ESMA would be able to use its network to reach out to investors and other stakeholders, like the IASB and the IIRC. For the current non-binding guidelines to be developed, the Directive clearly states that it is the task of the European Commission, while ESMA is (unfortunately) not mentioned. Still, we would recommend you to seek ESMA’s assistance in this endeavour.

We wish you and your colleagues wisdom in further developing the non-binding guidelines.

Yours sincerely,  
Netherlands Authority for the Financial Markets

G.J. Everts  
Board Member