Exploration on the use of non-financial information by institutional investors and analysts

Publication date: 16-Feb-2021
Classification: AFM - Publiek

The Dutch Authority for the Financial Markets

The AFM is committed to promoting fair and transparent financial markets.

As an independent market conduct authority, we contribute to a sustainable financial system and prosperity in the Netherlands.

Table of Contents

1. Summary 4

2. Introduction 7

3. Usage of NFI by investors and analysts is still limited, and companies can encourage wider use by providing relevant non-financial reporting 9
   - 3.1 Investors and analysts could devote greater attention to the impact of NFI aspects on long-term value creation 10
   - 3.2 Companies could offer better insight into their business model and long-term value creation 13
   - 3.3 Companies can make progress in relation to connectivity and the consistency of NFI 14
   - 3.4 Standardisation of non-financial reporting is important for investors and analysts 15

Appendix 1 Objectives, design and population 17

Appendix 2 Statutory provisions and frameworks with respect to NFI 19

Appendix 3 List of companies in the desktop analysis, earnings calls, capital markets days and GMSs 21

Appendix 4 List of abbreviations 23

1. Summary

The Dutch Authority for the Financial Markets (AFM) carried out an exploratory study in 2020 to establish the current usage of non-financial information (NFI) by investors[1] and analysts and the provision of NFI by companies.

In recent years, public focus letters from parties including the interest group Eumedion[2], the Dutch Investors' Association [3] (VEB) and internationally from BlackRock[4] have called for more attention to NFI[5] and NFI reporting. The passages on responsible investing on the websites of institutional investors show that their interest in NFI is increasing.

Based on the exploration, the AFM notes that use of NFI by investors and analysts is still limited, and that companies could encourage wider usage by investors and analysts with relevant and reliable non-financial reporting. Standardisation of non-financial reporting and prospective legislation and regulation, such as the EU sustainable finance taxonomy[6], can also give a positive boost to the use of NFI by investors and analysts. Companies can assist this process by reporting relevant NFI.

Investors and analysts make only limited mention on non-financial aspects during public contacts such as earnings calls and shareholder meetings (GMSs). The interviews reveal that NFI is discussed mostly during private one-on-one contacts between investors and companies. Investors also indicate that NFI is not currently a decisive consideration in actual investment decisions. In their view, this is partly due to the lack of relevant and reliable NFI. Investor interest in non-financial aspects appears to be driven primarily by external factors such as pressure from stakeholders and legislation and regulation relating to sustainability. Investors and analysts also frequently focus on the short-term costs of non-financial aspects and are less interested in their long-term impact. This is remarkable, since non-financial factors will increasingly affect a company's future cash flows and therefore will become increasingly important to investors.

Based on the exploratory study, the AFM urges investors and analysts to devote more attention to non-financial aspects and the role of non-financial risks in a company's success in the long term and the sustainability of its business model during public contacts such as earnings calls and the GMS. The investors state that companies can contribute to this by making progress in their reporting in the area of connectivity, for instance by clearly stating the effects of their non-

---

[1] The interviews were held with asset managers and pension providers, among others. Reference in this report to 'investors' concerns only institutional investors. We did not hold interviews with retail investors.
[2] https://www.eumedion.nl/clientdata/215/media/clientimages/2021-Focus-Letter.pdf?v=201123142531
[3] Speerpuntenbrief 2020 VEB: https://www.veb.net/media/6183/veb-speerpuntenbrief-2021-nl.pdf
[4] BlackRock CEO letter 2021: https://www.blackrock.com/nl/particuliere-beleggers/2021-larry-fink-brief-ceo
[5] For the purpose of this exploratory study, NFI is taken to mean information relating to the environment, social matters and governance (ESG), but also intangible assets.
[6] EU Sustainable Finance taxonomy: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en#regulation

financial performance and risks on their future financial performance. Integrated Reporting (IR) could be an appropriate means of doing this.

The key observations and focus items for investors, analysts and companies are stated below.

Investors and analysts could devote greater attention to the impact of NFI aspects on long-term value creation

Our review of the minutes of earnings calls and GMSs reveals scant attention to NFI during these public contacts between the company and the analysts and investors in attendance. The AFM calls on investors and analysts to devote greater attention to NFI and the role of non-financial aspects and risks in a company's long-term value creation.

Companies could offer better insight into their business model and long-term value creation

In the opinion of investors, companies do not always provide a good account of their business model in their management reports, even though insight into the sustainability of a business model and the value it can create in the long term is important to investors. This is also important in relation to external developments such as climate change, use of energy resources and CO_2 emissions.

Companies can make progress in relation to connectivity and the consistency of NFI

During the interviews, analysts, investors and a proxy advisory firm stated that companies could improve the connectivity and consistency of the information presented in their annual reporting. The interviews showed that clear information from companies on the effect of their non-financial targets on their financial performance (investment and costs) and the influence of these targets on their financial return was an important consideration in the decisions made by investors. The investors also stated that clear targets set by companies in relation to NFI and reporting on the achievement of and progress towards these targets would be helpful.

Standardisation of non-financial reporting is important for investors and analysts

The limited availability and incompleteness of NFI, the lack of comparability and the absence of uniform definitions are seen as obstacles to actually including NFI in investment decisions. Uniform definitions and assurance by an external party that is subject to supervision could, according to the investors, contribute to making NFI relevant and reliable. In its response to the consultation by the IFRS Foundation on the formation of an international standard setter for non-financial reporting, the AFM argued that an international standard for NFI is needed in order to increase the comparability, consistency, relevance and reliability of NFI[7].

[7] See the response of the AFM to the consultation of the IFRS Foundation on the formation of an international standard setter for non-financial reporting: https://www.afm.nl/nl-nl/professionals/nieuws/2020/december/standardsetter-niet-financiele-verslaggeving

2. Introduction

The transition to a sustainable society is one of the most important challenges of our time. Sustainability is thus a prominent item on the political agenda: The Netherlands has committed to achieving the sustainability goals of the Paris Climate Agreement concluded in 2015 and the United Nations (UN) Sustainable Development Goals.

Much new regulation is on the way, especially in Europe, to encourage the sustainability transition in the financial sector and put this on the right course. This new regulation is a consequence of the EU Action Plan for Financing Sustainable Growth[8]. The European Commission is expected to put forward a proposal for a revision of the Non-Financial Reporting Directive (NFRD) in Q1 2021[9]. There is also national regulation already in place. For instance, the Decree on the Disclosure of Non-Financial Information (Besluit bekendmaking niet-financiële informatie, or BNFI) requires large listed companies, insurers and banks to report on NFI aspects in their management reports. The combination of already existing regulation and the new regulation expected in the near future means that companies will be subject to high demands in the areas of sustainability and reporting.

Financial markets participants (including asset managers and pension providers) can contribute to making companies more sustainable by focusing on sustainability aspects in a company's business operation. For this, investors need to be well informed when making their decisions. In addition to financial information, NFI should also be provided that is relevant, comparable and reliable (see also appendix 2 for an overview of the statutory requirements and frameworks for companies in relation to NFI). Investors will then be better placed to understand the risks to which a company is exposed. Relevant NFI is necessary for insight into non-financial performance and the risks associated with a company's business operation. Non-financial factors will indeed become increasingly important for a company's future cash flows, and this information will therefore become increasingly important to investors. The AFM is accordingly encouraging an improvement in the quality of this reporting, and is a strong proponent of relevant IR.

In the past years[10], the AFM's focus has been mainly on raising awareness and encouraging the use of IR and compliance with the BNFI. To encourage relevant non-financial reporting, it is also important to have insight into the current status of usage of NFI by investors and analysts and the provision of NFI by companies. This is the focus of this exploratory study. The AFM hopes that the insights gained from the exploration will encourage companies to provide relevant, reliable and comparable NFI. In addition, the AFM hopes to encourage investors and analysts to devote

---

[8] EU Action Plan for Financing Sustainable Growth: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_nl

[9] See the AFM's response to the consultation for the revision of the NFRD: https://www.afm.nl/nl-nl/nieuws/2020/juni/reactie-consultatie-nfrd

[10] See In Balance 2018: https://www.afm.nl/nl-nl/nieuws/2018/dec/onderzoek-nieuwe-verslaggevingsregels and In Balance 2019: https://www.afm.nl/nl-nl/nieuws/2019/dec/waardecreatie-wint-aan-belang

greater attention to NFI, to ask companies NFI-related questions during public contacts and to include NFI in their investment decisions.

The exploration comprises a review of the minutes of earnings calls[11] and GMSs held in 2020, involving 40[12] of the 50 companies listed in the AEX and AMX indices. The presentations of Capital Markets Days held by these companies were also reviewed, where available. Additionally, interviews[13] were held with four asset managers, four analysts, four pension providers, four investor relations managers at AEX- and AMX-listed companies and one proxy advisory firm[14].

The structure of this report is as follows. Section 3 lists the findings from the exploratory study. The objectives, design and population of the exploratory study are stated in appendix 1. Appendix 2 gives an overview of the statutory provisions with respect to NFI and the relevant frameworks for companies. Appendix 3 contains a list of the companies whose publicly available documentation we have reviewed, and appendix 4 gives a list of abbreviations.

[11] An earnings call is usually a conference call between a company's management and analysts, investors and the media, during which listed companies discuss the results in a reporting period.
[12] Only companies subject to supervision in 2020 with more than 500 employees were included in the analysis.
[13] Given the limited number of interviewees, the findings of these interviews cannot be generalised. This reporting is exploratory in nature.
[14] A proxy advisory firm is an organisation that advises institutional investors on how to vote at a GMS.

3. Usage of NFI by investors and analysts is still limited, and companies can encourage wider use by providing relevant non-financial reporting

Based on the exploration, the AFM notes that use of NFI by investors and analysts is still limited, and that companies could encourage wider usage by investors and analysts with relevant and reliable non-financial reporting. Standardisation of non-financial reporting and prospective legislation and regulation, such as the EU sustainable finance taxonomy, can also give a positive boost to the use of NFI by investors and analysts. Companies can assist this process by reporting relevant NFI.

Investors and analysts only rarely bring up non-financial aspects during public contacts such as earnings calls and shareholder meetings. The interviews reveal that NFI is discussed mostly during private one-on-one contacts between investors and companies. Investors also indicate that NFI is not currently a decisive consideration in actual investment decisions. In their view, this is partly due to the lack of relevant and reliable NFI. Investor interest in non-financial aspects appears to be driven primarily by external factors such as pressure from stakeholders and legislation and regulation relating to sustainability. Investors and analysts also frequently focus on the short-term costs of non-financial aspects and are less interested in their long-term impact. This is remarkable, since non-financial factors will increasingly affect a company's future cash flows and therefore will become increasingly important to investors.

Based on the exploratory study, the AFM urges investors and analysts to devote more attention to non-financial aspects and the role of non-financial risks in a company's success in the long term and the sustainability of its business model during public contacts such as earnings calls and the GMS. The investors state that companies can contribute to this by making progress in their reporting in the area of connectivity, for instance by clearly stating the effects of their non-financial performance and risks on their future financial performance. Integrated Reporting (IR) could be an appropriate means of doing this.

The three key observations and focus items for investors, analysts and companies are stated below. Section 3.1. lists the findings of the analysis of the minutes of earnings calls and the GMS and the analysis of Capital Markets Days presentations, along with insights relating to these public contacts from the interviews. Section 3.2. and 3.3. concern a number of focus items for companies. The concluding paragraph of this section deals with the importance of standardisation of NFI.

3.1 Investors and analysts could devote greater attention to the impact of NFI aspects on long-term value creation

Analysts devote limited attention to NFI during earnings calls

Our review of the minutes of earnings calls shows that there was little attention paid to NFI during these public contacts between AEX- and AMX-listed companies and the participating analysts. 14 (8 AEX- and 6 AMX-listed) of the 40 companies whose earnings calls were reviewed mention non-financial aspects of the company's business operation or strategy. We saw no notable differences across sectors among the companies that mentioned NFI. The analysis shows that analysts asked questions on aspects of sustainability in relation to NFI during earnings calls with 4 of the 40 companies. Where questions were asked, the focus was on climate and the social aspects relating to human resources and good employment practices.

The interviews with a number of analysts showed that they felt that companies did not give adequate attention to NFI during earnings calls and that there was limited time available during public contacts, meaning that the focus during these contacts was on the company's (short-term) financial performance. They stated that individual calls with companies were a regular occurrence, but that these calls also focused mainly on financial information and performance. To stress the importance of NFI, the AFM calls on analysts and companies to devote greater attention to these aspects during their public contacts.

> *Quote from one analyst: "NFI is important, but it is not something that we look at during quarterly meetings or earnings calls. We focus on financial information."*

Capital Markets Days do offer information on non-financial aspects

Reference is regularly made to companies' capital markets days during earnings calls. 33 of the 40 companies in the population held a capital markets day in 2019 or 2020 or issued an update on the company's strategy by similar means. 23 of these presentations (from 12 AEX- and 11 AMX-listed companies) included the non-financial aspects of the company's business with respect to the environment, climate and personnel[15]. In many cases, reference was made to UN sustainable development goals that were relevant to the company in question. Of the remainder, five companies made no mention of these non-financial aspects and five included a very limited presentation of their status with respect to their non-financial targets and performance. We saw no notable differences across sectors among the companies that mentioned NFI.

NFI only becomes important if costs are involved

The analysts interviewed stated during the interviews that they do ask NFI-related questions if they have been asked by investors to include these aspects in their analysis. Apart from this, the

[15] The AFM has not had access to any questions or comments from analysts or investors with respect to NFI during the capital markets days.

analysts said that there was little added value for them to come between asset managers and companies and from their point of view it was sufficient that asset managers should themselves enter into a dialogue with companies regarding NFI.

The investor relations managers noted that analysts have little interest in NFI and were unsure how to incorporate NFI in their investment recommendations. During the interviews therefore, we asked the analysts to explain which NFI they currently considered to be relevant to their analysis. The Anglo-Saxon[16] parties stated that governance-related information for instance such as diversity in the composition of the board, how the company addressed its compliance with the obligations under the Corporate Governance Code and directors' remuneration was relevant in their view. But they also stated that these were not issues that they would raise with the company during a call. Climate-related issues such as CO_2 emissions might be mentioned occasionally during one-on-one discussions, but the focus was generally very much on the financial return. In the opinion of these analysts, NFI only becomes an important issue when it will cost money or if it would involve external regulation (such as government regulation). The non-Anglo-Saxon analysts stated in their interviews that NFI was a very general term and that the information published in annual reports related to the past and not the future. And that it was information on the future that was relevant. Non-financial key performance indicators (KPIs) can offer insight into a company's future cash flows.

Quote from Analysts: "NFI only becomes important if costs are involved."

At the GMSs, it is mainly investor interest groups that show interest in previously announced NFI themes

12 of the 40 AEX- and AMX-listed companies addressed NFI at their GMSs, involving 5 AEX- and 7 AMX-listed companies. We saw no notable differences across sectors among the companies that mentioned NFI. Questions were put forward by the interest groups Eumedion, the Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling, or VBDO) and the Dutch Investors Association (the VEB) on themes they had previously announced such as governance, climate and human rights. These themes were chosen by the investor interest groups on the basis of international trends relating to sustainability, the dialogue with their stakeholders, regulation and prominent issues arising from consultations. Attention was thus paid to a living wage throughout supply chains, the UN sustainable development goals in relation to the company's strategy and the reporting on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in relation to climate adaptation. There were also questions on aspects of compliance. Retail investors sometimes put questions on aspects of sustainability, for instance because they were also clients and saw opportunities for improvement in relation to services. In a few cases, these questions led to declarations that companies were

[16] This exploratory study involved interviews with two Anglo-Saxon and two non-Anglo-Saxon analysts.

prepared to address social problems in their supply chains. However, the responses to these questions were mostly general in nature, usually a statement that the company was looking at the issue or an explanation of the current status. To stress the importance of NFI, the AFM calls on investors and companies to devote greater attention to these aspects during their public contacts.

NFI is frequently discussed prior to the GMS and during one-to-one discussions

The interviews with investors and investor relations managers revealed that there are often preliminary discussions between companies and investors in which NFI is also mentioned[17]. The discussion of NFI during the GMS itself was therefore more limited. Institutional investors make little or no mention of NFI issues during GMSs.

To explain why there is little attention to NFI during a GMS, the pension providers and asset managers interviewed stated that they had access to the company and accordingly discussed NFI issues during their one-to-one contacts. A number of parties stated that a Eumedion representative spoke on their behalf at the GMSs and therefore also covered the NFI issues.

Investor demand for NFI apparently driven by external factors

The interviews and our desktop analysis shows that investor interest in non-financial aspects appears to be driven mainly by external factors such as pressure from stakeholders and legislation and regulation relating to sustainability.

The investor relations managers interviewed stated that they are seeing a clear shift among investors towards attention to NFI, with the emphasis on questions relating to governance (such as compliance and remuneration). They note that there is also greater interest in climate-related and social aspects, partly as a result of the European Green Deal, the imminent Sustainable Finance Disclosure Regulation (SFDR), the COVID-19 pandemic and the discussions relating to diversity. This impression was confirmed by the analysts and the proxy advisory firm.

Quote from Investor Relations: "Investor interest in NFI and particularly ESG appears to be increasing, partly due to imminent regulation and the COVID-19 pandemic"

Based on the observations in this paragraph, the AFM calls on investors and analysts to devote greater attention to the role of non-financial aspects and risks in a company's long-term value creation. Investors say that they benefit from better explanation from companies on their business model (see section 3.2) and that they have more insight into the financial impact of non-financial factors and risks (see section 3.3).

[17] The focus of these discussions is on publicly available information. This does not affect the obligation of companies to make price-sensitive information publicly available without delay.

3.2 Companies could offer better insight into their business model and long-term value creation

Comprehensibility of business model and reporting on value creation

Companies are expected to provide information in their management reports that will enable users of these reports to establish whether, to what degree and in what manner the company creates value and will create value in the future[18]. In addition, companies are expected to report on how their business model affects the retention of value, value creation and/or destruction of value (see also appendix 2 for an overview of the statutory obligations and frameworks for companies in relation to NFI). The AFM considers it important that companies report on the totality of the value that they generate. Value is expressed in other aspects that add value for society, not only in the financial figures. For instance, the influence on social circumstances or the reduction of harmful effects for the environment.

In its Monitoring Report for financial 2019, the Corporate Governance Monitoring Committee[19] noted, for instance, that too often, reporting on long-term value creation is solely procedural and not sufficiently substantive. The Committee expects companies to clearly outline their strategy and to link this to the value the company adds in the longer term.

Under the EU Guidelines on non-financial reporting[20], a company's business model should describe how the company generates and maintains value with its products or services over the long term. In the opinion of investors, companies do not always provide a good account of their business model in their management reports, even though insight into the sustainability of a business model and the value it can create in the long term is important to investors.

The pension providers interviewed stated that it is important that the business model is comprehensible. Information on a company's business model enables them, for instance, to estimate whether the business model contributes to the retention of clients over the long term. The pension providers also considered it important that companies report on the effects and risks of their operations and products in their management report. They discuss this issue with companies. The interviews moreover revealed that although investors sometimes initiate a discussion of NFI, NFI is at best a minor issue in their actual investment decisions.

[18] See Section 1 Long-term value creation in the Dutch Corporate Governance Code 2016.
[19] See the Monitoring Report for financial 2019: https://www.mccg.nl/nieuws/6007/Rapport-monitoring-boekjaar-2019
[20] Article 4.1 (a) Guidelines for non-financial reporting.

3.3 Companies can make progress in relation to connectivity and the consistency of NFI

Reporting of relevant financial and NFI in an integrated report

During the interviews, analysts, investors and a proxy advisory firm stated that companies could improve the connectivity and consistency of the information presented in their annual reporting. The interviews showed that clear information from companies on the effect of their non-financial targets on their financial performance (investment and costs) and the influence of these targets on their financial return was an important consideration in the decisions made by investors. When referring to connectivity, the investors we interviewed were referring to, among other things, explaining the financial impact and consequences of non-financial aspects and risks. In addition, they stated that it would assist their decision-making if companies explained how their non-financial targets with reference to climate adaptation, reducing waste or protecting biodiversity for instance affect their financial performance (in terms of investment and costs) and how these targets affect their financial return over time. Integrated reporting (IR), in which companies disclose the non-financial indicators that actually contribute to long-term value creation, could be useful here. The investors stated that clear targets set by companies in relation to NFI and reporting on the achievement of and progress towards these targets would be helpful.

NFI in the management report is usually too superficial

There is a link between aspects such as customer satisfaction, innovation, other non-financial aspects and financial results. Explaining the connection between non-financial aspects and financial risks will mean that investors pay more attention to these aspects. The pension providers acknowledged that it helps them to pay greater attention to NFI aspects if a company itself pays attention to these aspects and explains their connection with financial risks, opportunities and results. One of the pension providers mentioned as an example that companies that provide good NFI have better governance and have devoted more serious consideration to this subject. The same pension provider also noted that he expected such companies to ultimately deliver a better financial return. But in his view, the NFI provided in management reports was usually not sufficiently detailed. In such cases he engaged in dialogue with the companies concerned. This view has also been

> *Quote from a pension provider: "If a company itself provides NFI, this helps to increase attention for this issue."*

> *Quote from a pension provider: "Companies that provide good NFI have devoted serious consideration to this and have good governance with respect to NFI. We believe this will deliver a better return, but unfortunately the NFI provided is often incomplete and not sufficiently comparable."*

mentioned in previous AFM reports[21], which noted that there was room for qualitative improvement in the annual reporting of AEX and AMX companies on BNFI elements and long-term value creation.

Room for improvement on consistency and comparability of NFI

The interviews with asset managers and pension providers revealed that there is room for improvement regarding the consistency of the NFI disclosed in companies' annual reporting. As an example, they said that despite the increased interest in climate-related themes such as CO_2 emissions, a lot of information was not available and different measurement methods were used. They stated that the NFI provided by companies in their management reports was hard or impossible to compare[22]. Standardisation of this reporting was seen as important and could contribute to comparability (see section 3.4).

Investors see a good ESG rating as important, but the methodology used is opaque

Some investors use ESG ratings to some extent for the purpose of comparison between companies with respect to NFI and thus include this aspect in their analysis. At the same time, they see the reliability of ESG ratings as a problem due to the lack of supervision and uniformity, along with the high costs and lack of available data. In the interviews with investor relations and the proxy advisory firm, it was clearly noted that the various ESG rating agencies use different approaches and that some are more focused on the dialogue with the company concerned, while others focus more on factual information. This was partly due to the lack of transparency regarding the methodology, the governance and the reporting by the ESG rating agencies. This means there can be large differences between rating agencies (MIT, 2019)[23]. In the joint position paper from the Dutch and French supervisors, the AFM argues that providers of sustainability data and related services should be regulated[24].

3.4 Standardisation of non-financial reporting is important for investors and analysts

Standardisation is needed

The investors and analysts who participated in the interviews need standardisation. The limited availability and incompleteness of NFI, the lack of comparability and the absence of uniform definitions are seen as obstacles to actually including NFI in investment decisions. The multiplicity

---

[21] See our 2018 In Balance Report: https://www.afm.nl/nl-nl/nieuws/2018/dec/onderzoek-nieuwe-verslaggevingsregels and our 2019 In Balance Report: https://www.afm.nl/nl-nl/nieuws/2019/dec/waardecreatie-wint-aan-belang

[22] See the AFM's 2020 Trend Monitor: https://www.afm.nl/nl-nl/verslaglegging/trendzicht2020

[23] See the article "Aggregate Confusion: The Divergence of ESG Ratings": 'The correlation between the ESG ratings of the same companies from five different rating agencies ranges from 42% to 73%, with an average of 61%.' https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533

[24] See the position paper from the AMF and the AFM: https://www.afm.nl/nl-nl/professionals/nieuws/2020/december/reguleer-aanbieders-duurzaamheidsdata

of frameworks and standards relating to NFI does not help the comparability of NFI or decision-making by investors.

The investor relations managers at companies interviewed also stated that there was currently a multiplicity of frameworks for non-financial reporting, and that they need clarity with respect to non-financial reporting.

Quote from Investor Relations: "There is a tangle of frameworks. Greater clarity regarding how we are supposed to report NFI would be helpful."

The AFM is a proponent of an international standard for NFI in the reporting of large Public Interest Entities (PIEs). The AFM believes such a standard is needed in order to make NFI more comparable, consistent, relevant and reliable[25]. The AFM therefore supports IR, in which all the relevant financial and NFI on an organisation is presented together[26].

It is however important that an international standard for non-financial reporting takes account of the fact that there are differences between sectors, and also the risk that companies will only report the minimum information that is required. This would be detrimental to transparency and a company's true story.

Which reporting of NFI should be standardised?

In answer to the question of which NFI should be reported in a more standardised way, the points raised were standard information on CO_2 emissions, the energy transition and information on compliance with the requirements of the Corporate Governance Code. It was also stated that it would help investment decision-making if companies reported on the effects and risks of these items and that it was currently difficult to obtain reliable or verifiable data in these areas.

Reliability of NFI

Uniform definitions and assurance by an external party that is subject to supervision could, according to the investors and analysts, contribute to reliable NFI.

Quote from an analyst: "A challenge is that a lot of non-financial data is (sic) not audited. Reliability of the information is an issue."

[25] See the response of the AFM to the consultation of the IFRS Foundation on the formation of an international standard setter for non-financial reporting: https://www.afm.nl/nl-nl/professionals/nieuws/2020/december/standardsetter-niet-financiele-verslaggeving

[26] See the AFM's response to the consultation for the revision of the NFRD: https://www.afm.nl/nl-nl/nieuws/2020/juni/reactie-consultatie-nfrd

Appendix 1 Objectives, design and population

Objective

The AFM strongly believes it is important that companies provide reliable and relevant reporting to stakeholders. In this context, the AFM has carried out an exploratory study of the current status of usage of NFI by investors and analysts and the provision of NFI by companies.

The exploratory study is a follow-up to previous reviews of non-financial and integrated reporting and is also part of the objective set in the AFM's 2020 agenda[27] regarding the transition to a sustainable economy and society.

The aims of the exploratory study are firstly to encourage companies to improve their reporting, and secondly to encourage investors to put questions on non-financial results in their contacts with companies.

Design and population

The exploration consisted of an analysis of the publicly available minutes of contacts (earnings calls and GMSs) between analysts, investors and 40 of the 50 companies in the AEX and AMX indices. Only companies subject to supervision in 2020 with more than 500 employees were included in the analysis. An analysis was also made of the presentations by these companies on their capital markets days. Additionally, interviews were held with four asset managers, four analysts, four pension providers, investor relations managers at four AEX- and AMX-listed companies and one proxy advisory firm. The interviews with asset managers included the chief investment officer, the head of asset management, buy-side analysts and the head of equity research. The interviews with the pension providers included, among others, portfolio managers.

The parties approached for the interviews were selected in order to achieve a combination of large, globally operating institutions and smaller institutions. The interviewees are employed in the Netherlands, the United Kingdom and France. Given the limited number of interviewees, the findings of these interviews cannot be generalised. This reporting is exploratory in nature. In its analysis of the minutes of earnings calls and GMSs, the AFM devoted attention to the following items:

- Whether and if so, which companies included NFI in their presentation and disclosures;
- Which non-financial aspects were disclosed by the company in its presentation;
- Which investors and analysts were present;
- Whether and if so, which investors and analysts put questions on non-financial topics;
- On which non-financial topics were questions asked.

We retained the same structure during the interviews as far as possible, and the topics we asked about included the following:

[27] See the AFM's 2020 agenda: https://www.afm.nl/nl-nl/verslaglegging/agenda-2020

- Role and importance of NFI:
    - The type of NFI used by investors and analysts;
    - What sources were used for NFI;
    - How NFI could be presented for this to be relevant in investment decisions;
- Reliability of NFI:
    - Which factors contribute to making NFI reliable;
    - What limitations apply to the use of NFI, and what was the experienced quality of the NFI in reporting;
- Investment process and decisions:
    - Which NFI is relevant to analysis and investment decisions;
    - How NFI is included in analysis and investment decisions;
- Monitoring and evaluation of investments:
    - Which information sources were used for the monitoring and evaluation of investments;
- Influence through dialogue and voting behaviour:
    - What was the role of NFI in dialogues and voting behaviour;
    - What was the role of stakeholders in the voting behaviour of financial markets parties;
- Trends in NFI:
    - The influence of standards and regulation on NFI and reporting;
    - Which were the recurring themes in the non-financial area.

The questions put were the same in all the interviews, however in order to obtain a broader perspective and take proper account of the experience and interests of the interviewees, organisation-specific questions were also put and the interviewees were given the opportunity to share their experiences and interests. To ensure openness in the interviews, it was explained in advance that the interview was being held on a voluntary basis as part of an exploratory study and that all input would be presented in anonymous form.

Appendix 2 Statutory provisions and frameworks with respect to NFI

Companies are subject to various statutory provisions relating to NFI. There is also a range of non-binding regulation and frameworks which prescribe that companies report NFI. An overview of some of the statutory provisions and frameworks relevant to NFI is given below.

Statutory provisions:

Decree on Disclosure of NFI (Besluit bekendmaking NFI)[28]

With effect from the 2017 financial year, large public interest entities with more than 500 employees are obliged to report on these items as a result of the enactment of the Decree on Disclosure of Non-Financial Information (Besluit bekendmaking niet-financiële informatie) in their management reports as part of their annual reporting.

Decree on Disclosure of Diversity Policy (Besluit bekendmaking diversiteitsbeleid)[29]

With effect from the 2017 financial year, large listed companies have to include a description of the diversity policy they have formulated for the composition of their management and supervisory boards in their management report. They also have to state their objective with this policy, and they have to explain how they have implemented the policy and report on the results of the policy in the financial year to which the management report relates. If a listed company does not have a diversity policy, they must state this in their declaration and also explain why they have no policy in this area.

The Dutch Corporate Governance Code[30]

The Code states that companies must consider their long-term value creation and that they must report on this. The Code stresses the importance of assigning a central priority to long-term value creation as part of good corporate governance.

Non-binding regulations and frameworks:

Non-binding guidelines from the European Commission[31]

The Commission has issued non-binding guidelines relating to the methodology for the reporting of NFI, including general and sector-specific non-financial essential performance indicators, with

---

[28] See the Decree on Disclosure of Non-Financial Information (Besluit bekendmaking niet-financiële informatie): https://wetten.overheid.nl/BWBR0039355/2017-03-24

[29] See the Decree on Disclosure of Diversity Policy (Besluit bekendmaking diversiteitsbeleid): https://wetten.overheid.nl/BWBR0038951/2016-12-31

[30] See the Dutch Corporate Governance Code: https://www.mccg.nl/?page=5178

[31] See the non-binding guidelines of the European Commission: https://eur-lex.europa.eu/legal-content/NL/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=LT

the aim of making it easier for companies to report relevant, useful and comparable NFI. Under the EU guidelines for non-financial reporting, a company's business model should for instance describe how the company generates and maintains value with its products or services over the long term.

TCFD recommendations[32]

The TCFD recommendations, a private initiative set up under the aegis of the Financial Stability Board, provide one of the most practical frameworks. The definitive recommendations from this Task Force were published in June 2017. The TCFD recommendations concern climate-related and environmental risks.

[32] See the TCFD recommendations: https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

Appendix 3 List of companies in the desktop analysis, earnings calls, capital markets days and GMSs

Company	Index (at 01-01-2020)
Aalberts N.V.	AEX
ABN AMRO Bank N.V.	AEX
Adyen N.V.	AEX
Aegon N.V.	AEX
Ahold Delhaize N.V., Koninklijke	AEX
Akzo Nobel N.V.	AEX
ASML Holding N.V.	AEX
ASR Nederland N.V.	AEX
DSM N.V., Koninklijke	AEX
Heineken N.V.	AEX
IMCD N.V.	AEX
ING Groep N.V.	AEX
KPN N.V., Koninklijke	AEX
NN Group N.V.	AEX
Philips N.V., Koninklijke	AEX
Prosus N.V.	AEX
Randstad N.V.	AEX
Unilever N.V.	AEX
Vopak N.V., Koninklijke	AEX
Wolters Kluwer N.V.	AEX
Altice Europe N.V.	AMX
AMG Advanced Metallurgical Group N.V.	AMX
Arcadis N.V.	AMX
ASM International N.V.	AMX
BAM Groep N.V., Koninklijke	AMX
Basic-Fit N.V.	AMX
BE Semiconductor Industries N.V.	AMX
Boskalis Westminster N.V., Koninklijke	AMX
Corbion N.V.	AMX
Flow Traders N.V.	AMX
Fugro N.V.	AMX
Grandvision N.V.	AMX
Intertrust N.V.	AMX
Just Eat Takeaway.com N.V.	AMX
OCI N.V.	AMX
PostNL N.V.	AMX
SBM Offshore N.V.	AMX

Signify N.V.	AMX
TKH Group N.V.	AMX
Wereldhave N.V.	AMX

Appendix 4 List of abbreviations

AFM - the Dutch Authority for the Financial Markets

AEX - Amsterdam Exchange Index

AMX - Amsterdam Midcap Index

GMS - General Meeting of Shareholders

BNFI - Decree on the disclosure of non-financial information

CEO - Chief Executive Officer

EU - European Union

ESG - Environmental, social & governmental

IFRS - International Financial Reporting Standards

IR - Integrated reporting

KPI - Key Performance Indicator

NFI - Non-financial information

NFRD - Non-financial Reporting Directive

PIE - Public Interest Entity

SFDR - Sustainable Finance Disclosure Regulation

TCFD - Task Force on Climate-related Financial Disclosures

VEB - The Dutch Stockholders' Association (Vereniging van Effectenbezitters)

VBDO - Vereniging van Beleggers voor Duurzame Ontwikkeling, the Association of Investors for Sustainable Development

UK - United Kingdom

UN - United Nations

The Dutch Authority for the Financial Markets
T 020 797 2000 | F 020 797 3800
PO Box 11723 | 1001 GS Amsterdam
www.afm.nl