



## In Balance 2017- part A

Survey of the Decree on the disclosure of non-financial information  
and integrated reporting

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## 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.

This is an English translation of the original Dutch text, furnished for convenience only. In the event of any conflict between this translation and the original Dutch text, the latter will prevail.

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## 1. Management summary

Pure self-regulation in the field of non-financial information is increasingly being replaced by partial regulation and associated guidelines. The Decree on the disclosure of non-financial information (hereinafter: the Decree) came into effect in 2017. The Decree obliges large public interest entities with more than 500 employees to include certain non-financial information in their company management reports. The European Commission has subsequently published non-binding guidelines (the EU Guidelines) to assist companies in their disclosure of relevant non-financial information in a more consistent and comparable manner. The (voluntary) recommendations of the Task Force on Climate Related Financial Disclosures (TCFD) were also published in 2017. The TCFD notes that it is important that companies are transparent with respect to the risks and opportunities of climate change for them. The AFM advises companies to take account of the EU Guidelines and the recommendations of the TCFD when including non-financial information in their management reports and financial reporting respectively. In 2018, the AFM will review compliance with the Decree in the 2017 management reports and will check the extent to which companies have taken account of the TCFD recommendations in their reporting on 2017. The 2016 Dutch Corporate Governance Code will also apply for the first time with effect from the 2017 financial year. This revised code assigns a central role to long term value creation, also taking account of non-financial aspects.

The publication of the Decree in March 2017 means that this reporting of non-financial information now also has a statutory basis in the Netherlands. The Decree is the consequence of the EU Directive published at the end of 2014 (2014/95/EU) in relation to the disclosure of non-financial information and information on diversity by certain large companies and groups.

By means of a questionnaire, the AFM has surveyed progress on the implementation of the Decree at large public interest entities with more than 500 employees in order to draw attention to timely and correct implementation of the new standards (preventive supervision)<sup>1</sup>. The aim of the survey was to gain an impression of:

- progress on implementation of the Decree;
- the impact of the Decree on the management report;
- any problems encountered by companies due to implementation of the Decree.

The survey also aimed to stimulate companies to take appropriate actions to ensure correct implementation.

The questionnaire also focused on integrated reporting as a result of previous reviews, as well as the recommendations of the TCFD. Companies can use the Decree to make further progress towards integrated reporting. The AFM also encourages companies to do this.

The questionnaire was sent to 91 companies and was completed by 77 of the recipients on a voluntary basis.

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<sup>1</sup> <https://www.afm.nl/nl-nl/nieuws/2017/juli/nfi-onderzoek-naleving>

Our conclusions from the responses by the companies are<sup>2</sup>:

- most companies had made a start on implementing the Decree;
- the development of a policy with respect to human rights and the identification of risks and non-financial performance indicators (KPIs) still requires the necessary attention;
- the use of framework rules<sup>3</sup> for the reporting of relevant non-financial information is essential;
- a quarter of the companies state that they are fully applying integrated reporting;
- the Decree is having a positive effect on cooperation between the various functions and departments at companies and the application of the integrated thinking and management concept.

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<sup>2</sup> We did not check the information collected from the questionnaires against other documentation such as financial statements or sustainability reports. The findings of this survey are a summary of the observations and standpoints of the listed companies themselves, which we reviewed at company level to establish the plausibility of the answers. See also appendix 1, objectives, scope and population.

<sup>3</sup> Framework rules include national and international reporting frameworks for non-financial information such as those stated in the EU Guidelines.

## 2. Introduction

As an independent market conduct authority, the AFM is committed to promoting fair and transparent financial markets and thus contributing to a sustainable financial system and prosperity in the Netherlands. It follows from this that the AFM is to some extent guided by principles of sustainability in its approach to risks in the financial markets.

The Netherlands has adopted the *Sustainable Development Goals* of the United Nations<sup>4</sup> and, specifically with respect to the approach to climate change, is bound by the Paris Climate Agreement<sup>5</sup>. Serious effort is required to achieve these international agreements, also by companies. The social momentum is thus shifting from the question of *whether* a transition to a sustainable society and economy is needed to the question of *how* this transition can be achieved as quickly and effectively as possible.

The sustainability transition means a shift to a system in which financial performance is not the only relevant consideration. There are new insights into factors that sooner or later will have a financial impact, such as direct or indirect exposure to climate-related risks. There is also increasing attention to other, non-financial factors that will determine the value creation of a company in the long term. This development is leading to increasing demand for and supply of information on companies' strategy, realisation of sustainability targets and non-financial performance. Investors are increasingly taking account of a company's performance on environmental, social and governance (ESG<sup>6</sup>) factors in their investment decisions. For example, a group of investors<sup>7</sup> recently called for the provision of more relevant non-financial information and more application of integrated reporting.

Until 2017, the reporting of this non-financial information was largely on a voluntary basis. After publication of the Decree on disclosure of non-financial information (the Decree) by the Dutch legislature in March 2017, this was given a statutory basis. The Decree is the consequence of the EU Directive published at the end of 2014 (2014/95/EU) in relation to the disclosure of non-financial information and information on diversity. The non-financial information has a basis in law as a result of this Decree. Further details of the Decree are described in section 4.

The Decree can lead to significant changes in the management reports of large public interest entities with more than 500 employees. The Decree is also expected to give a positive boost to the application of integrated reporting.

Integrated reporting enables companies to more effectively meet their stakeholders' need for information with respect to areas such as long term value creation and sustainability<sup>8</sup>. Integrated

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<sup>4</sup> The 17 sustainability development targets as formulated in 2015 by the United Nations in the [Agenda 2030](#), including: ending poverty, clean drinking water, sustainable and affordable energy, sustainable consumption and production, and dealing with climate change.

<sup>5</sup> [http://unfccc.int/paris\\_agreement/items/9485.php](http://unfccc.int/paris_agreement/items/9485.php)

<sup>6</sup> Or corporate, social, and environmental responsibility.

<sup>7</sup> [http://integratedreporting.org/wp-content/uploads/2017/09/Investor-statement\\_FinalS..pdf](http://integratedreporting.org/wp-content/uploads/2017/09/Investor-statement_FinalS..pdf)

<sup>8</sup> See also for instance principle 1.1 of the 2016 Corporate Governance Code, in which long term value creation is given central priority <http://www.mccg.nl/?page=5178>

reporting can thus play an important part in the transition to a more sustainable business model and a more sustainable economy.

The AFM has been devoting attention to the subject of integrated reporting for several years. After the baseline measurement in 2013, there have been reviews of this subject every year, aimed primarily at raising awareness and further encouraging the application of integrated reporting. This year's survey by the AFM is part of this strategy and specifically aimed at drawing companies' attention to the new rules before they come into effect. The AFM will continue to encourage companies to make further progress on integrated reporting in the coming years.

In addition, at international level (in IOSCO and ESMA) the AFM supports the development of a comply-or-explain model to make integrated reporting less voluntary for companies. The sizeable increase in various rules, directives and standards means it is important that companies report more consistently and in a manner that enables comparability.

The AFM will review compliance with the Decree in 2018. Also in 2018, the AFM will review the extent to which companies have included the recommendations of the Task Force on Climate Related Financial Disclosures (see section 4) in their 2017 financial reporting. There will be a review in subsequent years of the application of integrated reporting by listed companies as a follow-up to the AFM's thematic review in 2013.

Section 3 lists the findings from the questionnaire completed by the companies. Section 4 describes recent relevant regulation.

Appendix 1 describes the objectives, the scope and the population.

### 3. Introduction of the Decree on the disclosure of non-financial information and progress on integrated reporting

This section deals with the most relevant results of the survey on the basis of the questionnaires distributed on the introduction of the Decree and the progress of integrated reporting.

#### 3.1 Most companies have made a start on implementing the Decree. The development of policy with respect to human rights and the identification of non-financial risks and KPIs still requires the necessary attention

Most companies have addressed the implementation of the Decree. Only just under 20% of them had not made a start or were in the initial phase of implementation.

*According to the companies, the Decree does not involve much significant change and/or issues*  
Few companies expect the implementation of the Decree to lead to significant changes in their management reports for 2017. The changes these companies expect primarily concern the expansion of the management report to include sections on the non-financial information and the refinement of the risk management paragraph, KPIs and strategy. Over 70% expect no significant changes, since non-financial information is already presented in the management report in many cases.

Around 10% state that they have issues as a result of implementation. These concern materiality, KPIs and the formulation of policy, as well as the inclusion of items from the Decree in the current reporting structure. A quarter of the companies do not know if they will encounter problems because they are not far enough advanced in the process of implementation to express an opinion.

Many companies say that they have already made progress or much progress on the reporting of non-financial information, for example in separate sustainability reports. They expect to have to make only minor additions or other prioritisations in their management reports for 2017.

Nevertheless, we advise companies to check thoroughly whether the non-financial information that they present in for example sustainability reports meet the requirements of the Decree. The information reported in accordance with sustainability guidelines such as the Global Reporting Initiative (GRI) does not automatically mean that one can assume that this information meets the requirements pursuant to the Decree. In addition, inclusion of the information required under the Decree is mandatory in the Netherlands. Inclusion of non-financial information in separate sustainability reports and reference to this in the management report is not in compliance with the Decree.

*The policy on human rights and the identification of risks and KPIs still requires the necessary attention*

Under the Decree, companies have to report on policy, risks and performance (KPIs) in the areas of the environment, human resources, social aspects, human rights and anti-corruption. Figure 1 shows that most companies have developed a policy on all these areas. This is least the case with policy on human rights. Over 20% of the companies still have to develop a policy in this area.



Many of these companies have stated that human rights is not an issue that applies to them, for example because they do not operate internationally.

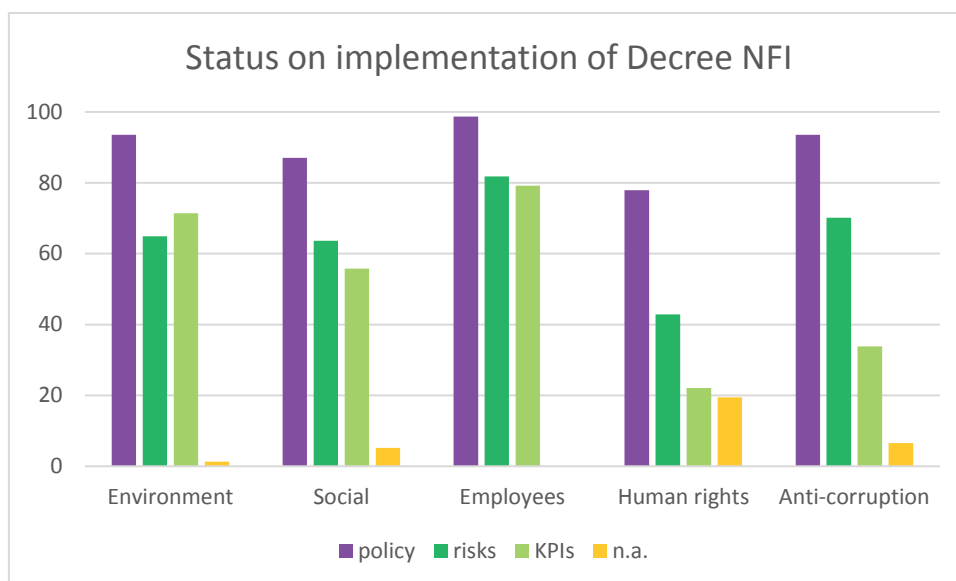


Figure 1: % of companies that have developed policy, risks and KPIs

The AFM wishes to remind companies to consider the entire value chain when reviewing the impact on human rights of their business operation and not to conclude too readily that a policy on human rights is not relevant to them.

In addition, the performance measures in the form of KPIs are not sufficiently developed.

Companies need to make progress in virtually all areas in this respect. Only a few companies have established KPIs in the fields of human rights, anti-corruption and combating bribery.

Companies also need to make progress on the identification of risks in the areas of the environment, social aspects and human rights.

In addition, we remind companies of their obligation to state the prescribed non-financial information they are not reporting and their reasons for not doing so in the 2017 management report.

### 3.2 The use of framework rules for the reporting of relevant non-financial information is essential

Around two thirds of the companies apply a framework for the reporting of non-financial information. Virtually all of them use the guidelines for sustainability reporting of the Global Reporting Initiative (GRI). The <IR> framework of the International Integrated Reporting Council (IIRC) was mentioned by slightly less than half of the companies. Fewer companies mentioned the Sustainable Development Goals, the UN Global compact, ISO26000 and TCFD.

Of the companies that do not yet use a framework (26 companies), only 20% say that they will apply a framework in their management report for 2017. The reasons cited for this include: it is

not compulsory, it is too early, the company is too small, there is no added value or no decision has as yet been made.

#### *EU Guidelines*

Around two thirds of the companies say that they will use the EU Guidelines for the implementation and reporting of non-financial information. The other companies do not yet know whether they will use the EU Guidelines. It is important that companies report relevant non-financial information. The use of the EU Guidelines for the content of the information is essential. Companies may also base their reporting of non-financial information on national or international frameworks. If so, they need to state the framework that they have used as a basis. The EU Guidelines include a non-exhaustive list of applicable frameworks.

Although the EU Guidelines are voluntary, if they (or other frameworks) are not applied, this raises the question of how the content of the reported non-financial information has been determined. There is a risk that the information will be too superficial or not reported in sufficient detail. The AFM accordingly advises companies to use the EU Guidelines when including non-financial information in their management reports.

#### *The TCFD recommendations*

Half of the companies say they will follow the recommendations of the TCFD. This is a positive score, especially since these recommendations have only recently been published (at the end of June 2017). The reasons why companies have adopted the TCFD recommendations include:

- how they see their role in society;
- demand from stakeholders; and
- wanting to be transparent regarding climate-related risks and opportunities, and the management thereof.

A majority of the companies that do not yet plan to apply the TCFD recommendations say that they are still studying the impact or are first giving priority to the implementation of the Decree. A third of these companies say that the TCFD recommendations have no or only limited relevance to their business. A few companies say that the TCFD recommendations only apply to the financial sector. This is not correct. The TCFD recommendations can be applied by any company for which climate-related risks are relevant. This includes companies such as drinks producers for which the use of water is essential.

Financial institutions must be able to include their exposure to climate-related risks in outstanding loans in their risk reporting (chain impact). From this perspective, it is therefore necessary that all companies report on the risks and opportunities of climate change for their operations. With reference to its mission (promoting fair and transparent financial markets), the AFM calls on companies to voluntarily adopt the Task Force recommendations and transparently state the consequences of climate change in their financial reporting.

### 3.3 A quarter of the companies state that they are fully applying integrated reporting. The Decree has a positive effect on internal cooperation and the concept of integrated thinking

Integrated reporting is a form of reporting that enables companies to provide information on the connection between strategy, governance, performance and prospects, and on the social, economic, financial and environmental context in which the company operates. Non-financial aspects are also reported, so that more information is provided on a company's actual value and value creation and the effects of the business strategy in the short, medium and long term.

#### *A quarter of the companies state that they are applying integrated reporting*

Around a quarter of the companies state that they are fully applying integrated reporting. The largest group (around 45%) states that they are currently applying certain aspects of integrated reporting. Of this group, around 30% will fully apply integrated reporting between now and 2019. Around a third of the companies are not currently applying integrated reporting or any aspects thereof. Only 30% of these companies are considering full application of integrated reporting in the coming years.

#### *The Decree on non-financial information is leading to more internal cooperation*

In around half of the cases, the implementation of the Decree has led to more, and in some cases also better cooperation between the various departments and functions. In the other cases, according to the respondents the Decree has not affected cooperation since the level of cooperation was already broad and good. The departments or functions involved with the Decree are: CEO, CFO, Sustainability, Corporate Reporting, Legal Affairs, Investor Relations, Internal Audit, Audit Committee and Corporate Communications. The financial department (the CFO and the Corporate Reporting department) is the most closely involved in the implementation and is also mentioned most often as leading by the companies. The Sustainability and Legal Affairs departments are closely involved (in around 65% of the cases) but do not usually have a leading role. The Sustainability department is leading in 20% of the cases.

#### *Integrated thinking and management is increasingly gaining ground*

The concept of integrated thinking and management is the basis of integrated reporting. Integrated thinking means that the company establishes the relationship between its strategy, the economic context, the environment, the social context, risks, and opportunities. The purpose of this is to create value over the medium to long term. 35% of the companies state that the Decree will lead to them applying the integrated thinking and management concept. Many of the other 65% say that they have already applied the integrated thinking and management concept in their business operation. This is an optimistic sign for the (future) application of integrated reporting: integrated reporting is actually in most cases a logical and easier step for companies in which the integrated thinking and management concept is embedded in the organisation.

*Certainty for the external auditor regarding the non-financial information*

External auditors need to include the non-financial information presented in their regular audits of the management report (check for consistency with the financial statements)<sup>9</sup>. These procedures form part of the audit of the financial statements, and do not constitute a separate assurance engagement. We are, however, seeing companies that are engaging external auditors for a (voluntary) additional limited or reasonable assurance engagement with respect to the non-financial information and integrated reporting.

Slightly less than 40% of the companies state that their non-financial information has been subjected to an additional audit by the auditor. In 76% of the cases this concerns a review, and in 24% of the cases an audit. These are sharp increases compared to previous years. The AFM's In Balance 2016 report<sup>10</sup> showed that around 20% of the companies had had their non-financial information audited by the external auditor. In almost all cases, this concerned a review.

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<sup>9</sup> See Section 5 of the Decree: "The auditor referred to in Section 393 (1) of Book 2 of the Dutch Civil Code checks whether the non-financial statements are formulated in accordance with this Decree and are consistent with the financial statements, and whether in light of the knowledge and understanding of the legal entity and its environment obtained during the audit of the financial statements the statement contains material misstatements."

<sup>10</sup> <https://www.afm.nl/en/nieuws/2016/nov/in-balans-2016>

## 4. Non-financial reporting regulation

This section looks briefly at a selection of recently issued regulation of non-financial information<sup>11</sup>. In the following order, we look at the Directive 2014/95/EU, the EU Guidelines, the Decree on the disclosure of non-financial information and the recommendations of the Task Force on Climate Related Financial Disclosures.

### *Directive 2014/95/EU*

The EU Directive (2014/95/EU)<sup>12</sup> on the disclosure of non-financial information and information on diversity by certain large companies and groups was published in 2014 (hereinafter: 'the EU Directive'). Under this Directive, public interest entities with more than 500 employees must include a non-financial statement. The Directive allows for the option of including this statement in the annual financial reporting or in a separate report. The legislature in the Netherlands has chosen to have the statement included in the management report. The statement must explain how these organisations deal with environmental, social and employee-related issues, respect for human rights and combating corruption and bribery. The Directive had to be adopted into national legislation by 6 December 2016.

### *EU Guidelines*

To assist companies in complying with the rules in the EU Directive, the European Commission published what are known as non-binding guidelines (Commission guidelines on non-financial reporting)<sup>13</sup> on 26 June 2017. These EU Guidelines contain a number of key principles that can be applied to the disclosure of non-financial information, as well as a description of the content of the non-financial information to be disclosed.

### *Decree on the disclosure of non-financial information*

The Dutch legislature implemented the EU Directive with the introduction of the Decree on the disclosure of non-financial information ('the Decree')<sup>14</sup> in March 2017. The Decree obliges large public interest entities (PIEs) with more than 500 employees to report on their policy, risks and performance with respect to environmental, social and employee-related issues, respect for human rights and combating corruption and bribery with effect from the 2017 financial year. PIEs are listed companies, banks, insurers and institutions designated by the government as public interest entities.

In addition, the Dutch legislature has regulated the requirements pursuant to the EU Directive with respect to diversity in the Decree on the disclosure of diversity policy. This Decree applies to large listed companies and is an addition to the statement on corporate governance that listed companies already have to formulate.

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<sup>11</sup> Other framework regulations such as the GRI standards and <IR>framework were included in the survey but are not addressed as this section deals only with relevant recent regulation.

<sup>12</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=NL>

<sup>13</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017XC0705\(01\)&from=NL](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=NL)

<sup>14</sup> For the Decree, see: <https://www.rijksoverheid.nl/documenten/besluiten/2017/03/23/staatsblad-100-2017-besluit-bekendmaking-niet-financiele-informatie>

### *The Dutch Corporate Governance Code 2016*

Long term value creation is an important element in the Dutch Corporate Governance Code 2016<sup>15</sup>. The management of a company needs to develop a vision with respect to long-term value creation and formulate an appropriate strategy that gives due care and consideration of the interests of all stakeholders. Executive and supervisory directors thus demonstrate that they are acting in a sustainable manner by making choices with respect to the sustainability of the strategy in the long term. The code also establishes that the management is responsible for a culture aimed at long term value creation for the company. The statement on the basis of best practice provision 1.4.3 (the internal control statement) by the management is not limited to the financial reporting risks alone. Material risks and uncertainties that are reasonably foreseeable also have to be included. According to the Corporate Governance Monitoring Committee, the term ‘value’ does not exclusively refer to profit or variables that can be expressed in monetary terms, it also concerns other facets, such as contributing to improving human rights and reducing harmful effects on the environment. The Dutch Corporate Governance Code 2016 also applies to listed companies with effect from the 2017 financial year.

### *Recommendations by the Task Force on Climate Related Financial Disclosures*

The Task Force on Climate Related Financial Disclosures (TCFD) issued its final report with recommendations at the end of June 2017<sup>16</sup>. The report shows that transparency regarding the consequences of climate change, in terms of both risks and opportunities, is of great importance when making decisions as to whether to insure risks and whether to invest in or provide loans to companies. The recommendations are intended to assist organisations to identify and publish information that investors, credit providers and insurers need to assess and price climate-related risks and opportunities. The TCFD recommendations therefore focus on the effects of climate change on companies: what risks are companies exposed to and how are they dealing with these risks?

The information has to be included in the annual financial reporting. The recommendations are structured around four themes that form the core of how organisations operate, namely: governance, strategy, risk management, and metrics and targets. The scenario analysis is another important element. Companies are called upon to disclose the potential effects of climate-related risks and opportunities on their business operations, strategies and financial planning under various potential future scenarios, including a scenario in which temperatures increase by 2 degrees Celsius. This provides insight into the significance of a fossil-poor world for their business operations and viability in the long term.

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<sup>15</sup> <http://www.mccg.nl/?page=3763>

<sup>16</sup> <https://www.fsb-tcfd.org/publications/>

## Appendix 1 Objectives, scope and population

### *Objectives*

We have surveyed progress on the implementation of the Decree at large public interest entities with more than 500 employees in order to draw attention to timely and correct implementation of the new standards (preventive supervision). The aim of the survey was to gain an impression of:

- progress on implementation of the Decree;
- the impact of the Decree on the management report;
- any problems encountered by companies due to implementation of the Decree.

The survey also aimed to stimulate companies to take appropriate actions in a timely manner to ensure correct implementation.

The survey follows previous reviews of the theme of integrated reporting. This is why this survey also includes questions on integrated reporting. Companies can use the Decree to make further progress towards integrated reporting.

### *Scope*

Our survey consisted of the distribution of a questionnaire to companies regarding the implementation of the Decree. The questions we asked included:

- the impact of the Decree on reporting;
- the progress made and problems encountered;
- the governance in relation to implementation;
- any issues that have arisen during implementation;
- the decree to which certainty regarding the non-financial information is provided by the external auditor.

In addition to this reporting, we can approach individual companies if the responses to the questionnaire raised questions from our side. These one-to-one contacts are of course not included in public reporting.

### *Population*

We distributed our questionnaire among all companies with more than 500 employees that:

- have the Netherlands as their home Member State;
- have issued shares or bonds in a regulated market;
- fall under the scope of the Decree.

In August 2017, we accordingly sent an online questionnaire to 91 companies subject to our supervision. 77 of these 91 companies completed the questionnaire. We did not check the information collected from the questionnaires against other documentation such as financial statements or sustainability reports for the purpose of this report. The findings of this survey are a summary of the observations and standpoints of the listed companies themselves, which we reviewed at company level to establish the plausibility of the answers. All the findings stated in

this report thus relate exclusively to these 77 companies and do not offer a general opinion regarding the market as a whole or companies other than these 77. In addition, most of the listed companies completed the questionnaire in the third quarter. As the end of 2017 approaches, there may be new developments affecting progress.

We further note that the population in this survey is not the same as the population in previous reviews of integrated reporting by the AFM. In the past, only companies whose shares were listed on Euronext Amsterdam were involved in the reviews. This year, debt issuers and Dutch PLCs with a listing outside the Netherlands that fall within the scope of the Decree are included for the first time. The findings of the survey should thus be viewed in this light.



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