



EUROCHAMBRES

Connecting **business** to Europe

Position Paper

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DISCLOSURE OF NON-FINANCIAL INFORMATION BY COMPANIES

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Introduction

The European Commission intends to improve and expand the disclosure by enterprises of non-financial information. The current online consultation on this subject by the European Commission focuses on social and environmental issues.

In recent years the European Commission hosted different workshops and held consultations to examine the need to develop the European accounting directives. The consultation on the disclosure of non-financial information is connected to the consultation on the “Green Book on audit policy” and a consultation on “financial reporting on a country-by-country basis by multinational companies”. These consultations contain proposals that would limit the freedom of enterprises, would create new burdens for enterprises and would require the disclosure of additional information.

In its position paper on the “Green Book on audit policy” EUROCHAMBRES stresses the need for proportionality of proposed regulation in the field of auditing. Some of the current proposals however would increase the expenses of auditing which will further lead to less efficiency and higher costs. Other proposals would reduce the freedom of companies, e.g. by limiting the companies’ choice of the auditor or by limiting companies’ possibilities to seek best advice and consultancy.

The European Commission also supports the work of the “Laboratory on Valuing Non-Financial Performance” that is part of the “European Alliance on Corporate Social Responsibility (CSR)”, and announced its intension to put forward a new policy initiative in the field of CSR in the Single Market Act.

With the consultation on the disclosure of non-financial information, the European Commission proposes to add additional information requirements to the 4th directive, the so-called “accounting directive”. The amended 4th directive still only asks companies to provide information “to the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters”. Member States have the possibility to exclude small entities from the obligation to produce an annual report and have the possibility to reduce the required content of the annual report on non-financial key performance indicators for medium sized companies.

For the European Commission the disclosure of non-financial information is important in the context of the current economic crisis and the challenge of sustainable development. Better disclosure of non-financial information should be a tool to further increase the number of European enterprises that fully integrate sustainability and responsibility into their strategies and operations in a more transparent way.

EUROCHAMBRES feels the discussion on the disclosure of non-financial information is important in relation to the accounting strategy of European companies. The European Commission announced that the accounting directives would be revised in a way that would take into account the position of small and medium sized companies. The plan of the European Commission to extend the disclosure on non-financial information seems to contradict this intention. EUROCHAMBRES would like to make some general remarks on the consultation.

1. The current regime of disclosure of non-financial information is satisfactory

According to the European accounting directives, entities have to establish and disclose their accounts, notes and annual reports in a detailed way. As far as it is necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. EUROCHAMBRES states that the current regime of disclosure based on European accounting directives is appropriate. Creditors, banks, business partners, the addressees of the enterprise accounts receive significant information. An extension of non-financial information is unnecessary.

2. Avoid additional burdens resulting from accounting

The complexity of the accounting directives increased in recent years. The rules became more detailed and the number of notes augmented. This was not only the case for listed companies. As a reaction, the European Commission announced to simplify the accounting directives taking into account the position and needs of small and medium sized entities. EUROCHAMBRES feels however, that additional disclosure of non-financial information runs against this deregulatory strategy.

3. Competition instead of regulation – voluntary instead of mandatory disclosure

Enterprises undertake a wide range of social and environmental activities. Some enterprises report in detail on these activities, others provide information on their website and other enterprises just do it without (explicitly) reporting on it.

Consequently, enterprises which already publish a sustainable development report or provide detailed information on their websites on their social and environmental activities value the current consultation of the European Commission very differently to those companies which do not report on their social and environmental activities.

Considering the burden and costs to analyse and to edit this kind of information, EUROCHAMBRES calls for voluntary, optional reporting on such activities. The choice to provide information must remain a strategic one for enterprises.

4. Corporate Social Responsibility on a voluntary basis

EUROCHAMBRES supports Corporate Social Responsibility (CSR) activities and encourages enterprises – large and small – to voluntarily adopt CSR practices. National, regional and local Chambers across the EU provide CSR support to enterprises and help them understand how this can add value to their business. Best practice initiatives could assist companies and could be a market-based guidance to act in a sustainable way.

While EUROCHAMBRES recognizes that CSR is a dynamic concept, CSR is and must remain a voluntary commitment. Voluntary initiatives by nature go well beyond the regulatory baseline and often generate better results. For some enterprises, information on CSR activities could be an important benefit to illustrate the enterprise and its culture. CSR should not be an issue for

the legislator – neither at European nor national level. Obligatory standards limit the freedom of companies, raise costs and the bureaucratic burdens and make CSR unattractive. Therefore EUROCHAMBRES rejects a mandatory disclosure.

Conclusion

EUROCHAMBRES welcomes the debate on the future of accounting policy and stresses that the voluntary nature of CSR should be preserved and that the disclosure of non-financial activities should therefore remain optional. Accordingly, the concept of "integrated reporting" should not be pursued.

EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 93% of which are SMEs – through members in 45 countries and a European network of 2000 regional and local Chambers.

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