Corporate governance: disclosure of nonfinancial and diversity information by certain large companies and groups

2013/0110(COD) - 16/04/2013 - Legislative proposal

PURPOSE: to increase the relevance, consistency, and comparability of non-financial information published by undertakings across the Union.

PROPOSED ACT: Directive of the European Parliament and of the Council (amendment of Council Directives 78/660/EE and 83/349/EEC).

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: the approach currently taken in the Accounting Directives on the publication of non-financial information has not produced the desired results. It is estimated that only a limited number of large companies (2500 out of the total of 42000 in the EU) regularly publish non-financial information. The quality of the information disclosed varies, making it difficult for investors and stakeholders to understand and compare companies' position and performance.

Furthermore, national requirements are significantly diverse, which adds to the lack of clarity for companies and investors who operate across the Internal Market. In addition, insufficient diversity in boards may lead to a similarity of views of the members of the board of directors and more resistance to innovative ideas.

The **need to improve the transparency of the social and environmental information** provided by companies in all sectors, in order to ensure a level playing field, has been acknowledged by the Commission in the <u>Single Market Act</u> and was reiterated in the Communication <u>"A renewed strategy 2011 – 2014 for Corporate Social Responsibility".</u>

The European Parliament, in its two resolutions on <u>"Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth" and <u>"Corporate Social Responsibility: promoting society's interests and a route to sustainable and inclusive recovery", acknowledged the need to increase transparency in this field and called the Commission to bring forward a legislative proposal.</u></u>

IMPACT ASSESSMENT: the impact assessment identified two main issues:

- 1) The inadequate transparency of non-financial information: the analysis has identified both a market and a regulatory failure as underlying causes of the problem. Following the assessment of policy options, the preferred option would be strengthening the existing obligation, by requiring a nonfinancial statement within the Annual Report.
- 2) The lack of diversity in boards of directors: the most appropriate option, at this stage, would be the disclosure of diversity policy. It is also the option that is preferred by most stakeholders compared to other options such as a compulsory diversity policy or to an action focusing only on recruitment policy.

LEGAL BASIS: Article 50 (1) of the Treaty on the Functioning of the European Union.

CONTENT: the proposal sets a requirement for certain large companies to disclose relevant non-financial and diversity information, ensuring a level playing field across the EU.

It pursues the following key objectives:

- to increase the transparency of certain companies, and to increase the relevance, consistency, and comparability of the non-financial information currently disclosed, by strengthening and clarifying the existing requirements;
- to increase diversity in the boardrooms of companies through enhanced transparency in order to facilitate an effective oversight of the management and robust governance of the company;
- to increase the company's accountability and performance, and the efficiency of the Single Market.

The main points of the proposed directive are as follows:

1) Non-financial information: the proposal will require certain large companies to include a statement in their Annual Report including material information relating to at least environmental, social, and employee-related matters, respect of human rights, anti-corruption and bribery matters. Within these areas, the statement will include (i) a description of its policies, (ii) results and (iii) risk-related aspects.

The obligation will only apply to those companies where the **average number of employees exceeds 500**, and exceeds either a **balance sheet total of EUR 20 million** or a net turnover of EUR 40 million. This threshold, higher than the one currently applied within the Accounting Directives (250 employees) limits any undue administrative burden. It is estimated that, on this basis, the new requirement would cover around 18.000 companies in the EU.

2) Diversity: the amendment will require large listed companies to provide information on their diversity policy, including aspects concerning age, gender, geographical diversity, and educational and professional background. The information will be included in the corporate governance statement and will have to contain the objectives of such a policy, its implementation and the results obtained. Companies not having a diversity policy will only be obliged to explain why this is the case.

BUDGETARY IMPLICATIONS: the proposal has no implications for the EU budget.