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### Background Information

- **For the purpose of analysis of this consultation you want to be identified as**
  - **User**

- **Please specify the user type**
  - **Analyst**

- **Name(s) (of respondent and of your organisation / company)**
  - **Open reply**

- **EIIRIS**
  - **Country where your organisation / company is located**
    - **UK - United Kingdom**

- **Please provide the name and location of parent company**
  - **Open reply**

- **EIIRIS Foundation UK - United Kingdom**

- **Your address**
  - **Open reply**

- **Your e-mail address**
  - **stephen.hine@eiiris.org**

- **Short description of the general activity of your organisation / company**
  - **Open reply**

EIIRIS is a leading global provider of independent research into the environmental, social, governance ('ESG') and ethical performance of companies. An independent, not-for-profit organisation, we work to help our clients develop the market in ways that benefit investors, asset managers and the wider world. Our mission is to empower responsible investors with independent assessments of companies and advice on integrating them with investment decisions.

- **Is your organisation registered in the Interest Representative Register?**
  - **Yes**

- **If your organisation is not registered, you have the opportunity to register here before you submit your contribution. Responses from organisations not registered will be published separately from the registered organisations.**
  - **Open reply**

- **Please specify the Register ID number in the Interest Representative Register**
  - **79646875128-91**

- **Can the Commission contact you if further details on the information you submitted is required?**
  - **Yes**

- **Publication: Do you object to**
Questionnaire

1. How would you consider the current regime of disclosure of non-financial information applicable in your country? - single choice reply - (compulsory

Please explain

In replying to this question, please provide information on what way current reporting provides useful information, and to what extent it is sufficiently tailored to the circumstances of the company. Please also comment on whether you find non-financial information useful for the decision-making of a company.

- open reply - (optional)

The term 'non-financial information' is used this consultation and EIRIS would like to comment firstly on this categorisation. In EIRIS' opinion, 'non-financial information' is often in fact financial information or has a potential impact on the financial sustainability of a company. Such information might include disclosure on environmental, social and governance risks (or opportunities) and evaluation of these risks by the company. This information has materiality for the financial health of a company. Often financial value can be placed upon 'non-financial information' by analysts. Corporate reporting on non-financial issues has increased in quantity and quality over the last decade, but there still remain gaps in reporting and the quality of reporting itself remains patchy. Whilst the EU Accounts Modernisation Directive (2003/51/CE) and the Transparency Directive (2004/109/EC) are steps in the right direction, they do not go far enough towards best practice because they are arguably too vague and permit companies to report nothing or very little, even when those companies may have substantive sustainability and materiality issues to report on. However, these directives are a starting point for building more comprehensive mandatory reporting regulations which would need to be backed up by full and proper guidance. Any EU reporting regulation or guidance could build on the emerging best practice as illustrated by national reporting regulations in countries such as Denmark, France and Sweden. We particularly welcome initiatives such as the Global Reporting Initiative ('GRI'), and, in particular, the GRI sector-reporting guidelines, as forming a recognised, consistent format for non-financial reporting. Companies use different guidelines for different areas (e.g. environment, climate change and bribery etc). In particular areas (e.g. health and safety) no metrics to support peer comparison have been created yet. This makes the comparability of data poor. DEFRA, the GRI, the United Nations Global Compact and the OECD are providing useful frameworks that companies can use to report. In particular, ISO standards, with the requirement for third-party verification, are useful. As is evident, there are many standards in existence already. What is needed is not necessarily further standards, but rather the amalgamation of these, where appropriate, or at least ensuring that for one particular area e.g. climate change, one reputable standard emerges. For example, with regards to information relating to climate change, this could be the framework produced by the Carbon Disclosure Standards Board. Having multiple sets of standards on themes is useful, but it would be better to have unified principles, and fuller and proper guidance, to bring these standards together, so investors are not confused by the proliferation of standards and their different systems of measurement. We have also read the second draft response to this consultation by EUROSIIF, of which EIRIS is a member. We endorse EUROSIIF's submission.

2. Have you evaluated the effects, and costs and benefits, of any current corporate disclosure of environmental and social information? - single choice reply - (compulsory

Please explain - open reply - (optional)

Whilst EIRIS is not a reporting company, we are aware that many investors feel strongly that appropriate use and analysis of ‘non-financial information’ helps to form a better picture of a company’s current and future performance, and in particular, its strategy. There is also evidence that companies themselves find ‘non-financial information’ useful in determining decision-making. EIRIS has not done so, but our investor clients do use ‘non-financial information’ (and our analysis of them) when considering risks in their portfolio and therefore the financial consequences of investment strategies and decisions. We believe this ‘non-financial information’ is of benefit and has financial value. A company may find it easier to attract capital (and other forms of investment) if it reports on environmental, social and governance (‘ESG’) matters. Part of making a compelling business case to investors is if a company has analysed all risks from so-called ‘externa[l]s’ and doing so in a forward-looking manner using ESG factors as part of long-term business strategy and planning, if this disclosure is thorough and complete, it can save time in the long run, by proactively reacting to these issues and reducing the necessity of investors and others subsequently asking basic questions.

3. If you think that the current regime of disclosure of non-financial information should be improved, how do you suggest that this should be done?
Please explain (optional)

Best practice in non-financial reporting would provide a way for companies to understand how investors and others are incorporating externalities. Investors seek information that is comparable across companies, consistent over time, material and reliable, linked to financial information and related to risk. As stated in our response to Question 1 of this consultation, EIRIS views ‘non-financial information’ and indicators as often having a substantial financial aspect to them. These sorts of factors are seen as being “material” to a company’s financial performance. However, there is a need to balance materiality and sustainability. There is a danger that not all sustainability issues are seen to be material at all, or to be sufficiently material for some companies to report on them. For instance, whilst fishing is clearly a sustainability issue, fish may not be anything like a leading material risk for supermarkets (as opposed to fish processors), yet unless supermarkets adopt sustainable fishing practices there could be no more fish. We would prefer for there to be a good set of reporting principles, preferably on a ‘comply or explain’ basis that would make appropriate reference to sustainability and materiality. We would suggest that current UK company law does not get this balance on narrative reporting correct and therefore we would urge the European Commission to look at the previous Operating Financial Review (‘OFR’) and the guidance on it issued by the Accounting Standards Board as a potential model for achieving the balance between materiality and sustainability. It is important to recognise that any EC reporting standard or principles should be globally applicable, given how companies operate on an international basis.

4. In your opinion, should companies be required to disclose the following (check all relevant boxes): - multiple choices reply- (optional)

Whether or not they have a CSR policy, and if they do, how they implement that policy and what the results have been
The principal business risks and opportunities arising from social and environmental issues, and how they are taken into account in company strategy.
Key information regarding issues such as employee engagement (e.g.: employee training policy, equality and diversity, etc.);
customer satisfaction (e.g.: customer loyalty); public perception of the company (e.g.: stakeholder dialogue); environmental policies (e.g.: energy efficiency, waste reduction); and innovation (e.g.: R&D expenditure).

Other policies on human rights; policies on bribery & corruption
Other, please specify: -open reply- (compulsory)

Please explain -open reply- (optional)

In reference to the response given by us in Question 9, we feel that some flexibility needs to be exercised. The resulting requirements need not be so onerous. The ‘comply and explain’ model should permit companies to exercise appropriate judgement and the guidelines to allow appropriate flexibility. The Global Reporting Initiative lays out methods to assist companies to implement environmental, social and governance (‘ESG’) reporting over time and without necessarily having to report on everything when first starting to report and EIRIS supports this. It might be advisable for companies that are listed, yet of small size, to be graded less onerously than those who are medium or large size and listed. For companies that are large and non-listed, including those held by private equity, full reporting is best practice. Non-listed companies that are large should however, have more onerous requirements than small non-listed companies. Greater information would also aid third-party verification and auditing strategy for disclosure by companies. If these are to be used for auditing non-financial information, they need to clearly state the coverage, the methodology used for assessment (e.g.: desk-based versus site visit) and the frequency of checks. It would also be good for companies to disclose information on supply-chain management. In particular, the issue here would be to what extent a company’s policies vertically apply to its supply chain. It would also be good for a company to disclose information about its collaborative efforts to encourage and implement ESG disclosure, such as support for industry initiatives and also to disclose if it has been an advisor to government as a public policy leader.

5. In your opinion, for a EU measure on reporting of non-financial information to achieve materiality and comparability it should be based upon (check all relevant boxes): - multiple choices reply- (optional)

Principles
Key Performance Indicators (KPIs)

5a) In case you consider that Key Performance Indicators (KPIs) would be useful, would you think that they should be (check all relevant boxes): - multiple choices reply- (compulsory)

General for all economic sectors
Sector specific

5b) Please indicate which indicators you would consider to be the most relevant for all economic sectors: -open reply- (optional)

human resources, including employee diversity overall environmental, social and governance management identification of key environmental, social and governance risks

http://ec.europa.eu/yourvoice/ipm/forms/dispatch?userstate=View&id=8828696473214... 7/02/2011
6. In your opinion, what should be the process to identify relevant principles and/or indicators (whether general or sector-specific)?

Please explain

In replying to this question, please comment on whether the Commission should endorse or make reference to any existing international frameworks (or a part of them), such as Global Reporting Initiative (GRI), UN Global Compact, the OECD Guidelines, ISO 26000, or other frameworks; or whether companies should be required to select relevant indicators together with their investors and other stakeholders and to disclose information according to such indicators, depending on the use that different stakeholders would make of such information.

- open reply- (optional)

In our opinion, it makes sense to look at existing reporting frameworks and also to look at national government best-practice reporting requirements, as found in countries like Denmark, to inform the process of identifying relevant principles and KPIs. The key matter is getting the guidelines right, rather than having an absolute and definitive set of KPIs. We endorse EUROGIP’s position that it would be helpful to look at the following: o Global Reporting Initiative guidelines; o the work of the European Federation of Financial Analysts Societies (EFFAS); o the work of the International Corporate Governance Network; o the work of the Carbon Disclosure Standards Board; o the work of the OECD Guidelines for Multinational Companies, and o the work of the UN Global Compact and the voluntary standards set out in the ISO 26000 initiative. Additionally, it would be good to take into account the work of the International Integrated Reporting Initiative. Whilst EIRIS primarily serves the interests of the investment community, we recognise the importance of other stakeholders (e.g. NGOs) in this process and believe that the resulting KPIs should also address their concerns. There need not be a conflict between this and the reporting requirements of investors in that many stakeholder concerns can and do have a direct impact on a company’s financial and broader sustainability. In terms of metrics, sophisticated metrics that take into consideration industries’ risks and opportunities and their relevant impact are needed (and for some issues, the size of a company and its region of its operations will need to be weighted in). The Global Reporting Initiative has a very practical checklist of issues. Other topic-specific frameworks such as the Carbon Disclosure Project would also help inform this.

7. In your opinion, should companies be required to disclose the steps they take to fulfill the corporate responsibility to respect human rights? - single choice reply- (compulsory)

Yes

Please explain - open reply- (optional)

This is very important. A set of standards or principles that covered the disclosure on human rights by companies should be based upon the work of the Special Representative of the United Nations Secretary-General on business and human rights, John Ruggie. John Ruggie’s work is based on extensive global consultation with stakeholders including companies, lawyers, NGOs and communities, and is based on best practice concepts regarding policies (that they should be based on the key human rights instruments), systems (including risk assessment, consultation and monitoring) and disclosure on human rights. A company’s responsibility for direct or indirect human rights impacts extends to its overseas subsidiaries, contractors, joint ventures and its supply chain.

8. In your opinion, should companies be required to disclose the risks they face and the policies they have in the field of corruption and bribery? - single choice reply- (compulsory)

Yes

Please explain - open reply- (optional)

Yes companies should disclose the risks they face and the policies they have in the field of corruption and bribery. For an example of best practice, we recommend that the Commission looks at the work of Transparency International, which is a global civil society organisation leading the fight against corruption. It raises awareness of the damaging effects of corruption and works with partners in government, business and civil society to develop and implement effective measures to tackle it. Transparency International has developed guidelines for different areas within the anti-corruption movement, including its ‘Business Principles for Countering Bribery’.

9. In your opinion, what companies should be required to disclose non-financial information (check only one box)? - single choice reply- (compulsory)

Other

Other, please specify - open reply- (compulsory)

It might be advisable for companies that are listed, yet of small size, to be graded less onerously than those who are medium or large size and listed. For companies that are large and non-listed, including those held by private equity, full reporting is best practice. Non-listed companies that are large should however, have more onerous requirements than small non-listed companies. We feel that some flexibility needs to be exercised. The resulting
10. In your opinion, should institutional investors be subject to specific or additional disclosure requirements, for example to disclose whether and how they take into account environmental and social issues in their investment decisions?  

| Single choice reply (compulsory) | Yes |

Please explain

In replying to this question, please provide information on which issues seem to be the most relevant and why; and which institutional investors should be subject to such an obligation.

The indirect impact of financial institutions through their investments and other operations on environmental, social and governance ('ESG') issues is increasingly recognised as crucial to sustainability if still poorly understood and monitored. Without capital markets and the support of investors the majority of economic activity could not take place. This is part of the 'supply-chain management' (or 'value-added management') outlined in our response to Question 4 (with the 'supplied' goods here being the money flows). The growth in signatories in the United Nations Principles for Responsible Investment points to a desire by asset owners to apply best practice in ESG and responsible investment. Also, it in turn puts the onus on asset managers to report on how they take into account environmental and social issues in their investment decisions. Therefore EIRIS would welcome a mandatory comply and explain reporting framework (with accompanying full guidance) requiring institutional investors to explain how (not just whether) they implement ESG factors in their investments through their Statements of Investment Principles and their mandates to asset managers. These should also make reference to how they seek to encourage longtermism in their investments. We endorse EUROSIF’s proposal for a mandatory EU Statement of Investment Principles and please see their response for further commentary. There are a number of reporting requirements for institutional investors in different states and it would be good to have a unified set of reporting requirements for all the European Union. This should be done in part to protect the long-term financial sustainability of companies and investors.

11. In your opinion, should European policy promote the concept of "integrated reporting"?

| Single choice reply (compulsory) | Yes |

Integrated reporting refers to a report that integrates the company’s key financial and non-financial information to show the relationship between financial and non-financial performance (environmental, social, and governance).

Please explain

In replying to this question, please indicate the advantages and disadvantages of an integrated report, as well as possible specific costs of integrated reporting.

Integrated reporting (with the appropriate metrics) would permit and embed externalities into mainstream accounts. This would enable a valuation of currently hidden costs (e.g. climate change and biodiversity) and the application of the ‘pollution pays’ principle (equally applicable for social issues). However, please note that it would be necessary to ensure that integrated reporting does not end up diluting company reporting on issues that may not always appear to be material, but have a sustainability impact. Please see our response to Question 3 above.

12. In your opinion, should disclosed non-financial information be audited by external auditors?  

| Single choice reply (compulsory) | Yes |

Please explain

In replying to this question please provide any evidence you may have regarding costs of auditing non-financial information, as well as your views on other possible forms of independent reviews besides external auditing.
External auditing brings credibility, greater accountability and transparency to the reporting process. Currently, there are industry-body best-practice standards in existence for some non-financial information (e.g. the International Council on Mining and Metals). As long as independence can be proven, then this form of reviewer is acceptable and credible. If non-financial information was to be audited by auditors, auditors' liability and responsibility would need to be defined (similarly to financial auditors). Auditors reports should not be limited to only stating if what has been audited is true, but also making suggestions for improvement in scope, detail and the quality of reporting. This would provide an extra layer of reassurance for report users (as long as the auditor responsibility and independence are credible).

13. If you have relevant documents you want to share with us, please attach them here. (optional) - multiple choices reply- (optional)