Disclosure of Non-Financial Information by Companies

EUROPEAN COMMISSION
DIRECTORATE GENERAL FOR INTERNAL MARKET AND SERVICES

PUBLIC CONSULTATION ON DISCLOSURE OF NON-FINANCIAL INFORMATION BY COMPANIES

Questionnaire

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

Good. Royal Dutch Shell plc is subject to UK Company Law, which incorporates the business review disclosure requirements as set out in the EU Fourth Company Law Directive. We believe that this provides a good framework within which companies have the flexibility to tailor their disclosures to their specific circumstances.

Sustainable development is firmly embedded in our day-to-day operations; we also include requirements for integrating environmental and social factors into the way we plan, design and take investment decisions on new projects. This means that sustainable development is automatically integrated within the way we assess our overall business performance and in the discussion of strategy and outlook, activities and risks within our annual report for shareholders.

We also provide a more detailed annual sustainability report (please refer to our responses to Questions 2, 6 and 11).

2. Have you evaluated the effects, and costs and benefits, of any current corporate disclosure of environmental and social information?

Yes. We believe it is important to demonstrate our focus on sustainable development by providing appropriate disclosure to our stakeholders. Whilst it is difficult to measure, we do believe the benefit to our shareholders from transparency in this area clearly outweighs the additional cost of providing this information.

In addition to disclosing environmental and social information in our annual report in accordance with UK/EU business review requirements, we provide a detailed annual Sustainability Report that focuses on a wide range of environmental and social issues most relevant to our business and that matter most to our stakeholders. This includes, amongst others, more detailed information about our work to reduce greenhouse gas emissions, improve energy efficiency of our operations, reduce use of fresh water through recycling and advanced technologies, our efforts to engage local communities, and how we continue to build our safety culture. We explain in our
response to Question 11 below why we do so separately from our annual report to shareholders, and partly this is to ensure that we report in a cost/effective manner.

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?

As explained in our response to Question 1, we believe that current UK requirements are fit-for-purpose, as they provide a sound framework within which companies have the flexibility to tailor their disclosures to their specific circumstances.

As a multi-national company, we would be particularly concerned if the Commission moved forward with additional mandatory requirements unilaterally. We do not believe this would be cost-effective, and it would be a risk to a competitive business environment.

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

☐ 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

Under UK Company Law (incorporating requirements of the EU Fourth Directive), the business review of a quoted company “must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include –

… Information about (i) environmental matters (including the impact of the company’s business on the environment), (ii) the company’s employees, and (iii) social and community issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies ….”

This also includes analysis using key performance indicators to monitor and report on performance.

We believe this provides a good framework within which companies have the flexibility to tailor their disclosures to its specific circumstances. Sustainable development is firmly embedded in our activities and this means that it is automatically integrated within the way we assess our
overall business performance and in the discussion of strategy and outlook, activities and risks within our annual report for shareholders. For example, the principal risk factors disclosed in our annual report describe the different societal, environmental, health, security and safety risks our staff and operations are exposed to. Furthermore, the annual report re-affirms our commitment to sustainable development and provides examples of the tangible steps taken and changes made in our operations in support of that commitment.

We would not support further mandatory disclosure requirements.

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):

☑ Principles
☐ Key Performance Indicators (KPIs)
☐ Other

☐ General for all economic sectors
☐ Sector specific

Please refer to our response to Question 4. We believe that the existing principle-based requirements ensure that each company can tailor its disclosure to its specific circumstances, taking into account materiality. We do not consider it would be useful or practical to develop specific mandatory EU measures for corporate reporting beyond the existing framework.

6. In your opinion, what should be the process to identify relevant principles and/or indicators (whether general or sector-specific)?

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.

Our sustainability reporting is in accordance with the Global Reporting Initiative (GRI) and in line with the International Petroleum Industry Environmental Conservation Association (IPIECA) guidelines. We also support the UN Global Compact and its 10 principles covering human rights, labour, environment and anti-corruption, and sections of our Sustainability Report cover our progress in these areas.
We do not support additional mandatory requirements where there is no obvious case or benefit to prescribe or regulate. Companies should have the flexibility to consider which international frameworks or alternative indicators are most appropriate for their business, either in meeting existing business review disclosure requirements or if they choose to go beyond existing legislative requirements in their annual report (or in separate sustainability reports) in meeting stakeholders’ expectations.

7. In your opinion, should companies be required to disclose the steps they take to fulfill the corporate responsibility to respect human rights?

No. Companies will already consider this issue when complying with the existing business review disclosure requirements. Consistent with our earlier responses, we do not believe it is necessary to develop additional mandatory disclosures for corporate reporting in this area.

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?

No. Please refer to our response to Question 7.

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

- Large listed companies
- Large companies (listed and non-listed)
- Medium-sized & Large listed companies
- Medium-sized & Large companies (listed and non-listed)
- All listed companies (Small, Medium & Large)
- All listed & non-listed companies (Small, Medium & Large)
- None
- Other

Although all except small companies must provide a business review, the current UK requirement to discuss environment and social matters is limited to quoted companies. In order to gain a more comprehensive understanding of CSR policies within the business community, including throughout the supply chain, it may be appropriate to extend this requirement to all large companies (excluding subsidiaries).

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?
We have no comment on this issue.

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

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).

No. Sustainable development is firmly embedded in our day-to-day operations; we also include requirements for integrating environmental and social factors into the way we plan, design and take investment decisions on new projects. This means that sustainable development is automatically integrated within the way we assess our overall business performance and in the discussion of strategy and outlook, activities and risks within our annual report for shareholders. There is no “disconnect” between financial and non-financial information.

We also provide an annual Sustainability Report. We do so separately for several reasons. A key issue is the length of the annual report, which many already consider excessive and does not provide sufficient focus on the key issues for investors. We believe that a separate sustainability report ensures it can receive proper attention.

Another issue is timing. Due to the nature of the information provided in our Sustainability Report, it is subject to different procedures and processes; it is important for the capital markets that we do not delay the publication of our annual report and that we report in a cost/effective manner.

It is also important to consider regulatory requirements. Our auditors are required to report on the financial statements and on the consistency of other information in the annual report (including the business review) with those financial statements. We do not consider it appropriate that the detailed information provided in our Sustainability Report can or should be subject to that audit opinion.

For example, whilst we continue to improve the integrity of the environmental and social data that is published, we recognise that there are inherent limitations to its accuracy and comparability in the absence of commonly accepted standards for such measures. Where appropriate, we do ask specialist bodies to provide a level of assurance. However the auditors of our financial statements do not necessarily possess the expertise and, in any case, providing the appropriate level of assurance in an annual report to shareholders would come at increased cost and potentially be part of the timing issue mentioned above.

In summary, sustainable development is fully integrated in our business activities and how these are reported to shareholders in our annual report. Companies have different approaches on reporting, with many choosing to go beyond existing legislative requirements either in their annual report or in separate sustainability reports. They may also choose to subject the disclosures to a form of assurance.
We believe that this flexibility should be retained. We do not believe that the European Commission should promote the concept of “integrated reporting” if this extends mandatory CSR reporting in annual reports beyond existing requirements.

We understand that a number of stakeholder groups are concerned about a move to mandatory integrated reporting because they feel it might reduce both the depth and breadth of existing CSR reporting. Due to the time constraints and also the raised assurance levels that might be required/expected across all the data, companies may decide to reduce their current voluntary reporting.

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

No. Please refer to our response to Question 11.