



## Pervenche Berès

MEP from 1994 to 2019, European Parliament

# Why Small and Mid-caps should welcome non-financial reporting

EU non-financial reporting is this part of information that financial reporting in itself cannot deliver even though they are key to value security and stability of financial markets. The answers to the Covid-19 should not water down this need.

In its February 2020 consultation document on the review of the non-financial reporting directive (NFRD), the Commission questions (cf. 40) expanding the “scope to include all EU companies with securities listed in regulated markets, regardless of their size”. Earlier, the Commission had acknowledged that to widen the scope of the directive “could reduce the burden for companies of having to respond to individual requests for information from sustainability rating agencies and data providers”.

But before answering the scope, one should consider aspects affecting any companies. The development of non-financial reporting should not be seen as a way for green washing or to develop a new hierarchy regarding financial reporting. The quality of the latter is a pre-condition for the former. The current legal tool is a directive with options for Member States. There are now strong arguments to move to a regulation. For example, one area where this option regime has proved to create damage and confusion is when it comes to the control regime. The proper format should be a compulsory control by third-party independent bodies. The foreseeable review of NFRD is also an opportunity to clarify what is the standard for this reporting, to start with the format including obligation related to prospectus or key information document. But this could also be an opportunity to build a common culture around the Task force on climate related financial disclosures (TCFD) recommendations taking into account the entry into force of the taxonomy. One of the questions that will need to be answered is how to increase comparability and consistency between companies reporting without jeopardizing innovation or capacity of a reporting format to capture the specificity of a business.

Currently NFRD only applies to Public-interest entities with more than 500 employees, large banks and insurances listed or not. It allows Member state to define a wider scope, option that has been used by some Member states. In terms of competition and internal market, it would be more appropriate to close this option with a regulation. Regarding Small and Mid-Caps, one could argue that it would be in their best interest to enter the scope of non-financial reporting because more and more investors will ask for it, it will become part of a business model and it will help

the due diligence process when, following the OECD guidance, “entreprises should carry out to identify, prevent, mitigate and account for how they address these actual and potential adverse impacts in their own operations, their supply chain and other business relationships”.

The question could then arise, should this be accompanied by three categories standards: compulsory, recommended and encouraged to adjust the proportionality argument? One could also consider in which sector the Mid cap is active to define its obligations. But in the end, it should be recalled that nature of risk doesn't always relate to the size of the business, this is true for financial risk, no doubt it is also true for non-financial ones. ●