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**PRINCIPLES FOR DISCLOSURE OF NON-FINANCIAL INFORMATION  
ACCORDING TO THE REGULATORY FRAMEWORK IN THE EUROPEAN UNION**

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**Emil Asenov**

University for National and World economy - Sofia, Bulgaria emilasenov@gbg.bg

**Abstract:** Disclosure of non-financial information is of particular importance for the realization of corporate social responsibility and the transition to a sustainable economy, which combines long-term profitability, social justice and environmental protection. In order to present the various aspects of their activity, enterprises in the European Union have to publish annual non-financial statements. In these non-financial statements entities should present in consolidated form information about the implementation of their corporate policy and to bring it to the attention of a wide range of interested parties. Issues that concern the presentation of non-financial information have been subject to attention and regulation by the European institutions for a long time. This year, in line with the requirement of the "Directive 2013/34 / EU on disclosure of non-financial and diversity information", the European Commission published "Guidelines on non-financial reporting methodology for reporting non-financial information". The aim is to provide balanced and flexible guidance on reporting non-financial information in a way that helps companies disclose material information consistently and coherently. As much as possible, these guidelines should help ensure comparability across companies and sectors.

This approach recognises the broad diversity of businesses and sectors involved, and of circumstances that companies need to reflect in their reporting. Significant efforts have been made to avoid a 'one-size-fits-all' approach and an overly prescriptive methodology. The guidelines recognise the importance of linkages and inter-relations of information (connectivity), whether it is between different aspects of non-financial information or between financial and non-financial information. By such means the framework for non-financial reporting in EU has been finalized and completed. It defines a number of principles for setting up the non-financial statements.

According to these principles non-financial statements should contain essential information that provides understanding about the development, results, the condition of the enterprise and the impact of its activities. Objective, balanced and comprehensible information, which addresses both favorable and unfavorable aspects of the entity's operations. Wide-ranging, but brief, non-financial information that provides opportunity to adequately assess the performance of the enterprise. Strategic and future-oriented information describing the entity business model, its strategy and objectives. Information tailored towards the interested parties, which takes into account the information needs of all stakeholders.

**Keywords:** non-financial information, accountability principles, non-financial declaration, European Union.

**INTRODUCTION**

Disclosure of non-financial information is of particular importance for the realization of corporate social responsibility and the transition to a sustainable economy, which combines long-term profitability, social justice and environmental protection. In order to present the various aspects of their activity, enterprises in the European Union have to publish annual non-financial statements. In these non-financial statements entities should present in consolidated form information about the implementation of their corporate policy and to bring it to the attention of a wide range of interested parties. Issues that concern the presentation of non-financial information have been subject to attention and regulation by the European institutions for a long time. This year, in line with the requirement of the "Directive 2013/34 / EU on disclosure of non-financial and diversity information", the European Commission published "Guidelines on non-financial reporting methodology for reporting non-financial information". The aim is to provide balanced and flexible guidance on reporting non-financial information in a way that helps companies disclose material information consistently and coherently. As much as possible, these guidelines should help ensure comparability across companies and sectors.

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## 1. DISCLOSURE OF MATERIAL NON-FINANCIAL INFORMATION

Directive 2014/95/EU states that the companies concerned shall "include in their activity report a non-financial statement containing information to the extent necessary to understand the company's development, performance, state and the impact of its activity"<sup>206</sup>.

Materiality is a principle that is already widely applied in the activity of the financial information compilers, auditors and consumers. The in-depth understanding of the company regarding the basic components of its value chain helps to identify the key issues and to consider what makes the information material.

The significance can be marked as a degree of importance specific for a particular aspect, index or piece of information, and it defines the threshold at which the information becomes significant enough to be included in the report. The term "material information" can be defined as "Such a piece of information which omission or misrepresentation could reasonably be expected to affect the decisions taken by the users on the grounds of the company's financial statements. The material nature of the individual positions is assessed with regards to other identical positions."<sup>207</sup>

An important requirement that needs to be taken into account when assessing the material nature of a particular non-financial information is the extent to which it provides the needed 'degree necessary to understand [...] the impact of (the activity of the company)'.<sup>208</sup>

Another important new requirement as to the materiality of the information is that it shall address issues which "stand out as the most likely reasons for realizing the major risks of severe impacts, along with those that have already been realized."<sup>208</sup>

The impact of the activity of a company is also an important prerequisite and reason for the disclosure of specific non-financial information. The impacts may be both positive or unfavourable. The severity of these impacts shall be considered in the light of their extent and seriousness. The risks of unfavourable impacts may arise from the company's own actions or may be related to its business activity and, if applicable and proportionate, to its products, services and business relationships, including to its supply chain and its chain of subcontractors. Disclosure of material information shall cover and describe the types of impacts in a clear and balanced manner.

The materiality of non-financial information shall be considered in the individual context for each company. Information that may be material in one context may not be the same in another context. Companies can report a range of potential problems different in their scope. Each company considers which information is material on the grounds of its analysis of how important is this information for the company's understanding of development, performance, state and the impact of its activity.<sup>209</sup>

A number of factors may be taken into consideration when assessing the materiality of the information. They include:

- Business model, strategy and major risks: the objectives, strategies, approach and management systems, values, tangible and intangible assets, the value chain and the main risks for a company are important considerations;
- Major sector issues: Probably one and the same issues will be essential for companies operating in the same sector or sharing supply chains. The topics that have already been identified by competitors, customers, or suppliers are likely to be a matter of interest for the company;
- Interests and expectations of the relevant parties concerned: the companies are expected to show attitude towards the relevant parties concerned and to seek a good understanding of their interests and worries;
- Impact of the activity: the companies are expected to report the actual and the potential severity and frequency of impacts. This includes the impact of their products, services and business relationships (including aspects of the supply chain);
- Factors related to the public policies and regulation: the public policies and regulation can affect the specific circumstances of a company and to influence the materiality.

<sup>206</sup> Article 1(1) of the Directive. 2014/95/EU

<sup>207</sup> Article 2(16) of the Accounting Directive (2013/34/EU)

<sup>208</sup> Recital 8 of the Directive 2014/95/EU

<sup>209</sup> For example, companies could use the preliminary analysis referenced in Annex I of the EMAS Regulation (Regulation (EC) No 1221/2009 of the European Parliament and of the Council of 25 November 2009 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009R1221>)

## **2.OBJECTIVE AND BALANCED NON-FINANCIAL INFORMATION**

The non-financial statement must objectively review the favorable and unfavorable aspects and the information must be impartially assessed and presented.

The general content of the report as well as the information regarding the specific issues shall be presented in such a way as to give an objective picture of the efficiency of the organization by avoiding the selective approach, the release of material information, or the use of such a format of information representation that could have improper or inadequate influence on the considerations or assertions of anyone who reads the report.

The non-financial statement shall consider all available and reliable input data, taking into account the needs of information by the parties concerned. The consumers of information shall not be misled by misrepresentation of material information due to the omission of material information or due to the disclosure of non-material information.

The non-financial statement must clearly distinguish the facts from the points of view or interpretations. The information can become more objective and accurate, for example by:

- Relevant rules for corporate management (for example, some independent members of the board of directors or a committee at the board of directors shall be responsible for the sustainability and/or transparency);
- Strong and reliable evidence, internal control and reporting systems;
- Effective commitment of the parties concerned;
- Independent external audit services.

## **3.COMPREHENSIBLE NON-FINANCIAL INFORMATION**

The information can also become more comprehensible by using clear language and consistent terminology, and where appropriate, by providing some definitions of the technical terms.

The material information shall be provided in the relevant context in order to facilitate its comprehension. The company's performance can be presented, for example, in view of its strategies and broader objectives. With regards to this, the companies need to describe how the non-financial issues are related to their long-term strategy, the major risks and policies.

The companies must submit their reasons regarding determination of the scope and the limits of the disclosed information, in particular when certain information refers only to one or several of its segments or when it excludes specific segments.

The information in the report shall be provided in a comprehensible and accessible manner to the parties concerned, which will use the report.

The comprehensibility can also be improved by explaining the basic internal elements of the information disclosed, such as evaluation methods, key assumptions and sources.

In order to understand correctly the company's development, performance, state and the impact of its activity, both qualitative and quantitative information shall be disclosed. While the quantitative information can effectively report on some non-financial issues (key performance indicators, goals, etc.), the quality information provides context and makes the non-financial statement more useful and easier to understand. Combining the textual descriptive information reporting with quantitative information and means of visual presentation makes communication more effective and transparent.

Using the common business language, in addition to the national language of the company to disclose information may improve the transparency of the company and help making the information more accessible to relevant investors and the other parties concerned.

## **4. PRESENTATION OF FULL NON-FINANCIAL INFORMATION**

In order to appropriately evaluate the company performance, the full non-financial information that is material shall be included in the report by declaring the limits of activity, the area and the timeframes of the report. The decision as to whether certain information is material for the parties concerned shall be based on consultations with them, and on the review of a wide range of issues of public interest. The characteristics of the national policy or international agreements, for example, may serve as materials for clarifying such issues.

In this context, it is stated in the Directive that the relevant companies must "include in the activity report a non-financial statement containing information to the extent required to understand company development, performance,

state and impact of its activity, referring at least to the ecological and social issues and the issues, related to the employees, respect for human rights, the fight against corruption and bribery"<sup>210</sup>.

At minimum, the material information on certain categories of issues explicitly covered by the Directive shall be disclosed. These issues include:

- environmental and social issues and the issues related to the employees,
- respect for human rights,
- the issues related to the fight against corruption and bribery.

The company shall also disclose any other material information.

Disclosure of material information is expected to ensure complete overview of the company during the accounting year. This is related to the scope of the disclosed information. However, the depth of the reported information on each individual issue depends on its materiality. The company shall focus on providing such scope and depth of the information that will help the parties concerned understand the company development, performance, state and the impact of its activity.

#### **5. PRESENTATION OF OPTIMAL BRIEF NON-FINANCIAL INFORMATION**

By default, the non-financial statement shall be brief, avoiding the inclusion of non-material information in its scope. The disclosure of non-material information can make the non-financial statement difficult to understand, as it may divert attention from the material information. General or clichéd information, which is non-material by its nature, shall be avoided. In order to be brief, the non-financial statement may include internal cross-references or indicative marks, the repetitions may be limited and links to other information may be shared (').

For example, the company may focus on the material information by removing the general information, restricting the details, avoiding the elements that are no longer related thereto, using cross-references and indicative marks, etc.

#### **6. STRATEGIC AND FORWARD-LOOKING ORIENTED NON-FINANCIAL INFORMATION**

The non-financial statements that the companies will present are expected to describe the company business model, its strategy and implementation, and to explain the short-, medium- and long-term effects from the reported information.

The business model presentation shall also include appropriate information on the company strategies and objectives. Disclosure of information shall give an idea of the strategic approach to the relevant non-financial issues; What does the business do, how and why it does it.

The provision of such information shall not prevent the adequate consideration of the commercial sensitive information. The relevant data may be presented in a broader sense still providing useful information to the investors and the other parties concerned.

By disclosing the objectives, targets, and commitments, the company may help the parties concerned to put its performance into a specific context. This can be useful in assessing the future perspectives. The external monitoring of the implementation of the commitments and the progress towards the objectives encourage the greater transparency towards the parties concerned. The goals and the benchmarks can be presented in a qualitative or quantitative manner. Where appropriate, the companies may disclose relevant information on the ground of science-based scripts.

The future-oriented information enables the consumers of information to better assess the stability and sustainability of company development, performance, state and the impact of its activity over the time. It also helps the consumers to measure company progress towards the long-term objectives.

#### **7. NON-FINANCIAL INFORMATION ORIENTED TO STAKEHOLDERS**

The companies are expected to consider the needed information of all stakeholders . They shall focus on the information needs of stakeholders as a collective group rather than the needs or preferences of the individual or unusual parties concerned or those with unsubstantiated information requirements. The stakeholders concerned may include, among the others: investors, workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups, social partners and the civil society.

Companies shall provide appropriate and useful information about their commitment to the relevant stakeholders concerned and how their information needs are taken into account. The company can provide information about its

<sup>210</sup> Article 1(1) of the Directive. 2014/95/EU

commitment to the stakeholders concerned and explain how this affects its decisions and performance and the impact of its activity.<sup>211</sup>

Many of the companies that need to submit non-financial statements have a wide range of stakeholders potentially concerned. In line with each systematic approach to their integration, the companies need to develop certain procedures in order to characterize the specific groups and the priorities among these groups with the purpose to interact with them. It is important for the organizations to clearly and openly state their approaches determining who to interact with and how best to do so.

## 8. CONSISTEND AND COHERENT NON-FINANCIAL INFORMATION

It is expected that the non-financial statement is in compliance with the other elements of the company's activity report.

Establishing clear links between the information provided in the non-financial statement and the other information disclosed in the activity report makes the information more useful, relevant and consistent. The activity report shall be considered as a single, balanced and coherent set of information.

Since the content is interconnected, the interpretation of the main links makes it easier for the investors and the other parties concerned to understand the material information and the interdependencies.

The content of the non-financial report shall be logically consistent over the time. This enables the consumers of information to understand and compare the previous and current modifications in company development, performance, state and the impact of its activity, as well as to trust the future-orientated information.

Consistency in the selection and methodology of the key performance indicators is important to guarantee the comprehension and reliability of the non-financial statement. However, updates may be required as the key performance indicators may become out-dated or new and better methodologies can be developed that may improve the quality of the information. Companies are expected to explain any changes in the policy or methodology of reporting, the reasons for the changes and the consequences thereof (for example, by recalculation of the previous information, clearly demonstrating the impact of the changes on the policy or methodologies of reporting).

## CONCLUSION

The implementation of these principles by the firms in EU will enable them to disclose high-quality, relevant, useful, up-to-date and more comparable non-financial (environmental, social or managerial) information.

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- [6] Директива 2013/34/ЕС на Европейския парламент и на Съвета от 26 юни 2013 година относно годишните финансови отчети, консолидираните финансови отчети и свързаните доклади на някои видове предприятия допълнена от Директива 2014/95/ЕС на 22 октомври 2014 година за изменение на Директива 2013/34/ЕС по отношение на оповестяването на нефинансова информация и на информация за многообразието от страна на някои големи предприятия и групи .
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<sup>211</sup> For instance, ISO 26000 and the OECD Guidelines for Multinational Enterprises provide useful guidance on this.

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