BUSINESSEUROPE

SPEAKING POINTS

17 June 2011

EUROPEAN ROUNDTABLE ON INTEGRATED REPORTING
FEDERATION OF EUROPEAN ACCOUNTANTS (FEE)
AVENUE D'AUDERGHEM 22-28
BRUSSELS
17 JUNE 2011

ROUNDTABLE DISCUSSION
11.20 – 12.50 HOURS

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Introduction:

Integrated Reporting is part of Corporate Social Responsibility (CSR). Integrated Reporting provides transparency about a company's strategy and performance towards creating sustainable value. CSR refers to the action of companies to integrate sustainability concerns into their business operations which determines its strategy and performance.

Some facts:

A. Many companies are reporting on non-financial impacts of their business activities

- For many companies, transparency has become a fundamental part of business strategy. During recent years, more and more companies have seen the benefits of being transparent about their business operations and communicating their corporate conduct to account for social and environmental performance towards stakeholders and society at large.

B. Sustainability reporting is voluntary

- Companies are required to produce detailed financial reports in accordance with binding financial reporting standards. But CSR is voluntary. This is addressed by companies in their voluntary sustainability reports.

C. There are many ways for companies to be transparent

- Stakeholders have different information needs which means that information can be provided in different formats and to a different degree of detail for the various stakeholder groups such as customers, employees or shareholders.

D. Disclosure obligations increase costs for companies

- Last but not least, obligations to disclose CSR information engender costs for companies.

What do we think about this:

The reason for CSR reporting

- BUSINESSEUROPE supports very much the efforts made by companies in reporting or disclosing CSR practices and policies. This is a positive development and companies should be acknowledged for their efforts in this field.

- Companies that assume this do so in the belief that CSR has or could have a positive return in terms of business position in the market, image, coherence with company ethics, risk management, etc.

- The issue of disclosure of environmental and social information should be seen in a wider context of transparency. It is part of CSR as it focuses on the reporting of a company's performance. During recent years, more and more companies have seen the benefits of being transparent about their business operations, in terms of identifying costs, risks, possible solutions and opportunities. The benefits of integrating CSR into their business strategies and reacting to the demands of consumers, investors and society at large for more information.

- Disclosure of non-financial information, including through sustainability reporting, has developed extensively, particularly in the last two decades. Studies have shown a rapid increase in CSR reports since the mid-1990s. According to a 2008 study by KPMG, 80% of the 250 largest enterprises worldwide now report on their social and ecological behaviour. The remaining 20% choose not to provide information through an annual report, but on a more ad-hoc basis with stakeholders. Some of this 20% also choose to include corporate responsibility data in their annual financial report. In some industries – for example oil & gas, energy, chemicals and forestry – the number of companies reporting is even higher.

- As said, we view corporate disclosure of this information in a positive way. However, it will only remain a benefit to businesses if the different size, nature and challenges faced by individual companies are respected.

Mandatory or voluntary

- It is essential to recognise that a growing number of companies, not forced by any regulation or by public authorities, voluntarily disclose information on the impact of their business activities from an environmental and social point of view. They do so in the belief that this can have a positive return in terms of business position in the market, image, etc. Laying down strict obligations will jeopardise this essential added value.

- The decision to disclose should be taken by the company itself, based on its own convictions, its size, the specific nature of its business and the challenges it faces. Companies need to have freedom and flexibility to be transparent. The form in which corporate disclosure takes place should thus not be prescribed for companies; it should be for them to individually adapt themselves according to their specific nature.

Commercially sensitive information

- Also, some information could be sensitive from a competition point of view. There is a difference between assessing and disclosing risks. Where companies have undertaken an analysis of risks and opportunities and taken these into account in their strategy, it should be for that individual company to decide if and how it discloses that information.

Legislation

- We should also not forget that a number of issues relevant to sustainability reporting, such as equal opportunities and environmental obligations are often covered by legislation. The issues of human rights, corruption and bribery are also amply covered by legislative obligations. Of course, companies have to comply with these rules.

- This is important as CSR refers to the action of companies to integrate sustainability concerns into their business operations which goes beyond complying with legislative obligations. The decision on how to disclose information on these issues should be for individual companies depending on whether such disclosure is relevant for them and their stakeholders.

- Encouraging improvements in corporate disclosure of CSR should focus on providing support and assistance for companies. For example, awareness raising campaigns and exchange of experience between companies and organisations active in the area of CSR. Initiatives in which large companies assist their suppliers in starting to disclose information.

Prescriptive EU rules

- As stated, there are several ways for companies to be transparent. Depending on the issues on which a company focuses or the stakeholders with which it communicates, it will decide what way is most suitable. Some will publish a sustainability report that is more or less in conformity with international guidelines whilst others will be disclosing information simply by being close to or involved in the community in which they conduct business. A small local company may not use specific disclosure tools because the local community can see how it is operating on a daily basis.

- Lack of formal reporting on CSR in a specific or described manner does thus not mean that the information is not reaching stakeholders. CSR can be very well integrated without the need for a report. For analysts and investors, for example, reports are much less important than individual one-to-one meetings. Other tools, including providing information via websites, through dialogue or interviews can be equally effective.

- Detailed prescriptive rules at EU level would also harm the innovation and dynamism in company practices that is already occurring in this field. Considering that sustainability reporting is often done at global level by multinational companies it would be more logical to just promote existing international guidelines which many companies are already following than issuing mandatory detailed rules at regional – EU – level. Prescriptive rules could also hamper the use of existing codes of conduct, developed at company level, which function effectively at present.

- The introduction of detailed indicators for disclosure could also lead to companies focusing on a tick-box exercise rather than finding solutions jointly with their stakeholders. Setting rigid disclosure requirements could thus be counterproductive.

Reducing administrative costs for businesses

- One of the priorities of the EU is to reduce administrative costs for businesses. There is even a target of 25% by 2012. A significant amount of business costs stems from financial reporting and it is obvious that obligations to disclose non-financial information or financial information on operations in third countries in the context of country-by-country reporting will increase costs for businesses.

- Costs deriving from collecting and checking the information to be disclosed and costs that will increase even more if the information also has to be audited. Especially for small and medium-sized enterprises, disclosing social and environmental information entails a heavy burden in terms of costs and administration which can outweigh any benefits.

- The Commission should reduce administrative costs and ensure that any measures in this area have a positive return in terms of competitiveness. This is very important to stimulate further uptake of CSR by companies.

- BUSINESSEUROPE does thus not believe that there should be any obligations to externally audit disclosed non-financial information as this would significantly increase costs. Companies should be free to decide whether an external audit is necessary to ensure credibility of the information that it is disclosing, whether the benefits justify the costs.

- Also, it is unlikely that audit can provide a high level of assurance on non-financial information. Asking the auditor to provide assurance on forward looking information, such as business risk, will add an extra layer of uncertainty that could even endanger the independence of the auditor as he or she would have an incentive to meet the estimates expressed earlier by choosing appropriate accounting treatment.

- What we need is flexibility instead of rigid rules. Otherwise we will just increase costs and reduce innovation which in turn could seriously discourage any further positive improvements in corporate disclosure of CSR world-wide.