CHALLENGES REGARDING THE NON-FINANCIAL REPORTING IN THE GLOBAL CONTEXT

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Abstract: *During the last years UE acknowledged the increasing role of corporate social responsibility. In this regard, in the accounting field, it was required the disclosure of non-financial information by the undertakings that are within the scope of the Directive 2014/95/EU for the financial year starting on 1 January 2017 or during the calendar year 2017. This allows managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection. Also this contributes to meet the needs of investors and other stakeholders as well as the need to provide consumers with easy access to information on the impact of businesses on society. The paper aims to present a dynamic analysis of the european legislation in the field, since 2014 to date, by underlining the role of non-binding guidelines issued by the European Commission in facilitating relevant, useful and comparable disclosure of non-financial information by undertakings.*

Keywords*: sustainable global economy, non-financial information, methodology and performance indicators for reporting, non-financial statement, key principles for reporting*

JEL Classification: *M48, O16, Q01.*

Non-financial information is generally seen as *environmental, social and governance (ESG)* information. *Corporate Social Responsibility (CSR)* is defined as "the responsibility of enterprises for their impacts on society"3. A strategic approach to CSR is increasingly important for competitiveness, as it can bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management and innovation capacity. In order to fully meet their social responsibility, enterprises should therefore have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in collaboration with their stakeholders. The aim of such a process is twofold: first, to maximise the creation of shared value, able to generate returns on investment for the company's owners/shareholders at the same time as ensuring benefits for other stakeholders. Second, to identify, prevent and mitigate possible adverse impacts which companies may have on society.

In this regard, at european level, was issued in 2014 the *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups*4. Some of the objectives underlying the issuance of Directive 2014/95 /EU are the following:

1) to increase the transparency of certain companies, and to increase the relevance, consistency, and comparability of the non-financial information currently disclosed, by strengthening and clarifying the existing requirements;

2) to increase diversity in the boards of companies through enhanced transparency in order to facilitate an effective oversight of the management and robust governance of the company;

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[3] This definition, introduced by the CSR Communication, is consistent with internationally recognised CSR principlesand guidelines, such as the OECD Guidelines, the ISO 26000 Standard and the UN Principles on Business and Human Rights.

[4] Hereinafter referred to as *Non-financial Reporting Directive*.

3) to increase the company's accountability and performance, and the efficiency of the Single Market.

In Romania, starting with 1st January 2017, for economic operators, were transposed within the national legislation the provisions of *Directive 2014/95/EU* by the *Order of Minister of Public Finance no. 1.938/2016 regarding the modification and completion of some accounting regulations*.

In this regard, ***for the financial year 2017***, the public-interest entities that applies the *Accounting regulations on the annual financial statements and consolidated financial statements approved by the Order of Minister of Public Finance no. 1.802/2014, as subsequently amended and supplemented,* as well those that applies the *Accounting regulations* in *accordance with the International Financial Reporting Standards approved by the Order of Minister of Public Finance no. 2.844/2016*[1]*, as subsequently amended and supplemented,* shall include in the management report a non-financial statement if those entities exceed on their balance sheet dates the criterion of the average number of 500 employees during the financial year.

In Romania, ***starting with the financial year 2018,*** the obligation to include a non-financial statement in the management report was extended to all entities which applies the above mentioned regulations if those entities exceed on their balance sheet dates the criterion of the average number of 500 employees during the financial year.

This non-financial statement contains, to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, information relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including:

a) a brief description of the undertaking's business model;

b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;

c) the outcome of those policies;

d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;

e) non-financial key performance indicators relevant to the particular business.

It should be specified that to an entity that does not pursue policies regarding one or more of the aspects mentioned in letter. a) - e) is requested, in the non-financial statement, a clear and reasoned explanation regarding this option.

Also, the non-financial statement shall also, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements.

An important provision states that where an undertaking prepares a separate report corresponding to the same financial year whether or not relying on national, Union-based or international frameworks and covering the information required for the non- financial statement, that undertaking is exempt from the obligation to prepare the non-financial statement, provided that such separate report:

a) is published together with the management report in accordance with the provisions of Section 9.1. "General publication obligation"[2] / Section 5.1 "General publication obligation"[3]; or

b) is made publicly available within a reasonable period of time, not exceeding six months after the balance sheet date, on the undertaking's website, and is referred to in the management report.reported in the annual financial statements.

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[1] Through which was replaced the Order of Prim-Minister, Minister of Public Finance no. 1.286/2012, as subsequently amended and supplemented.

[2] From the *Order of Minister of Public Finance no. 1.802/2014, as subsequently amended and supplemented.*

[3] From the *Order of Minister of Public Finance no. 2.844/2016, as subsequently amended and supplemented.*

The entities specify the frameworks on which they have relied for the presentation of the information contained in the non-financial statement, these may be national, Union or international frameworks.

According to the Non-financial Reporting Directive1 the European Commission issued non-binding guidelines on methodology for reporting non-financial information, including non-financial key performance indicators, general and sectoral, with a view to facilitating relevant, useful and comparable disclosure of non-financial information by undertakings, taking into account best practices, relevant developments and the results of related initiatives, both within the EU and at international level.

► These guidelines were issued in 2017, namely Guidelines on non-financial reporting (methodology for reporting non-financial information)2.

The aim of these *Guidelines* is to help companies disclose high quality, relevant, useful, consistent and more comparable non-financial (environmental, social and governance-related) information in a way that fosters resilient and sustainable growth and employment, and provides transparency to stakeholders. These non-binding guidelines are proposed within the remit of the reporting requirements provided for under the *Non-financial Reporting Directive*. They are intended to help companies draw up relevant, useful concise non-financial statements[3] according to the requirements of the directive.

When presenting non-financial information by entities, a number of key principles set out in *the Non-Financial Reporting Directive* should be considered, which are detailed in the *Guideliness*, respectively:

1. Disclose material information

When identifying and assesing the key issues which makes information material, materiality concept may be used, concept already used by those who prepare the financial statements, by the auditors and by the users of the respective information.

A new element to be taken into account when *assessing the materiality of non-financial information* by referring to information 'to the extent necessary for an understanding of the […] impact of (the company's) activity'[4].

The impact of a company's activity is a relevant consideration when making non-financial disclosures. Impacts may be positive or adverse. Material disclosures should cover both in a clear and balanced way. The non-financial statement is expected to reflect a company's fair view of the information needed by relevant stakeholders.

2. Fair, balanced and understandable

In order to evaluate and present objective non-financial information, should give fair consideration to favourable and unfavourable aspects, and information should be assessed and presented in an unbiased way.

The information may also be made more understandable by using plain language and consistent terminology.

Understandability may also be enhanced by explaining key internals of the information disclosed, such as measurement methods, underlying assumptions and sources.

3. Comprehensive but concise

Material information on certain categories of issues explicitly reflected in the Non-financial Reporting Directive should be disclosed as a minimum.

Material disclosures are expected to provide a comprehensive picture of a company in the reporting year. This refers to the breadth of information disclosed. However, the depth of

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[1] Article 2 and recital 17.

[2] Published in the Official Journal of the European Union C 215/05.07.2017, hereinafter referred to as Guidelines.

[3] Non-financial statement/Consolidated non-financial statement/Separate report, as appropriate, provided by the *Non-financial Reporting Directive.*

[4] Article 1(1) of the Non-financial Reporting Directive.

information reported on any particular issue depends on its materiality. A company should focus on providing the breadth and depth of information that will help stakeholders understand its development, performance, position and the impact of its activities.

The non-financial statement is also expected to be concise, and avoid immaterial information.

4. Strategic and forward-looking

The statement is expected to provide insights into a company's business model, strategy and its implementation, and explain the short-term, medium-term and long-term implications of the information reported.

Companies are expected to disclose relevant information on their business model, including their strategy and objectives. Disclosures should provide insight into the strategic approach to relevant non-financial issues; what a company does, how and why it does it.

By disclosing targets, benchmarks and commitments, a company may help investors and other stakeholders to put its performance in context. This may be helpful when assessing future prospects. External monitoring of commitments and progress towards targets promotes greater transparency towards stakeholders. Targets and benchmarks may be presented in qualitative or quantitative terms. As appropriate, companies may disclose relevant information based on science-based scenarios.

Forward-looking information enables users of information to better assess the resilience and sustainability of a company's development, position, performance and impact over time. It also helps users measure the company's progress towards achieving long-term objectives.

5. Stakeholder orientated

Companies are expected to consider the information needs of all relevant stakeholders. They should focus on information needs of stakeholders as a collective group, rather than on the needs or preferences of individual or atypical stakeholders, or those with unreasonable information demands.

Companies should provide relevant, useful information on their engagement with relevant stakeholders, and how their information needs are taken into account.

6. Consistent and coherent

The non-financial statement is expected to be consistent with other elements of the management report.

Making clear links between the information presented in the non-financial statement and other information disclosed in the management report makes the information more useful, relevant and cohesive. The management report should be viewed as a single, balanced and coherent set of information.

As contents are related to each other, explaining key linkages makes it easier for investors and other stakeholders to understand material information and interdependencies.

The content of the non-financial report should be consistent over time. This enables users of information to understand and compare past and present changes in a company's development, position, performance and impact, and relate reliably to forward-looking information.

Consistency in the choice and methodology of KPIs is important to ensure that the non-financial statement is understandable and reliable. However, updates may be necessary, as KPIs may become obsolete, or new and better methodologies be developed that improve the quality of information. Entities are expected to explain any changes in reporting policy or methodology, the reasons for changing them and their effects (for example by restating past information, clearly showing the effect of changing reporting policies or methodologies).

► In June 2019, the the European Commission published new guidelines on the publication of climate information under the heading of *Guidelines on non-financial* *reporting: Supplement on reporting climate-related information*1. Like the general guidelines published in 2017, the supplement on climate-related reporting is non-binding. Entities may chose alternative approaches to the reporting of climate-related information, provided they meet legal requirements.

The content of climate-related disclosures may vary between entities according to a number of factors, including the sector of activity, geographical location and the nature and scale of climate-related risks and opportunities. Because the methodologies and best practice in the field of climate-related reporting are evolving fast, the *Climate-related Guidelines* recognise that a flexible approach is necessary, entities and other organisations being strongly encouraged to continue to innovate and further improve climate-related reporting beyond the content of the guidelines. Entities should also ensure that their approach to climate-related reporting is regularly updated in line with the latest scientific evidence.

The *Climate-related Guidelines* do not encourage stand-alone climate reporting, entities being encouraged to integrate climate-related information with other financial and non-financial information as appropriate in their reports.

In the followings we will present the non-financial information required by the Non-Financial Reporting Directive, highlighting the details that the entities may consider when presenting them:

A. Regarding environmental issues, the non-financial statement must contain details on the current and predictable impact of the entity's operations on the environment and, as the case may be, on health and safety, the use of renewable and non-renewable energy, greenhouse gas emissions. greenhouse, water use and air pollution.

According to the Directive on non-financial reporting, the non-financial statement also includes the consequences on the climate change of the entity's activity and the use of the goods and services it produces, as well as on its commitments in favor of sustainable development, the fight against food waste and in the fight against discrimination and the promotion of diversity.

The Guidelines provides that entities should publish relevant information about the actual and potential impact of operations on the environment and how current and foreseeable environmental issues could affect the entity's evolution, results or position.

Such information may include: significant information on pollution prevention and control, environmental impact generated by energy consumption, direct and indirect atmospheric emissions, use and protection of natural resources (for example: water, soil) and protection of biodiversity, waste management, the environmental impact of transport or use and disposal of products and services, and the development of new environmentally friendly products and services.

Where appropriate, entities may refer to the significant information presented in the context of the specific environmental reporting requirements.

The Climate-related Guidelines propose the publication of climate information for each of the five reporting areas listed in the Non-Financial Reporting Directive:

a) the business model;
b) due diligence policies and procedures;
c) the results of the policies;
d) main risks and risk management and
e) key performance indicators.

For each reporting area, the guidelines identify a limited number of publications of recommended information. An entity should consider using the disclosures of recommended

[1] Published in the Official Journal of the European Union C 209/20.06.2019, hereinafter referred to as *Climate-related Guidelines*.

information to the extent necessary to understand the development, performance and position of the entity and the impact of its activity.

Following the recommendation for information releases for each reporting area, additional guidance is provided. The supplementary guidelines consist of more detailed information proposals that entities may consider to include in the publications of recommended information.

B. Regarding the social and employees aspects, the information provided in the non-financial statement can refer to the actions taken to ensure gender equality, the implementation of the fundamental conventions of the International Labor Organization, working conditions, social dialogue, respect for workers' rights, to be informed and consulted, respect for trade union rights, health and safety at work, dialogue with local communities and/or actions taken to ensure the protection and development of these communities.

The Guidelines provides that the entities should publish significant information on social and work-related issues. These include: implementation of the fundamental conventions of the International Labor Organization; diversity issues, such as gender diversity and equal treatment in employment (including age, sex, sexual orientation, religion, disability, ethnicity and other relevant issues); issues related to employment, including consultation and/or employee participation, employment and employment conditions; the relationship with the trade unions, including regarding respect for trade union rights; human capital management, including restructuring and career management, professional insertion, remuneration system, vocational training; health and safety at work; the relationship with consumers, including their satisfaction, accessibility, products with possible effects on the health and safety of consumers; the effects on vulnerable consumers; responsibility for marketing and research; and community relations, including the social and economic development of local communities.

Entities may find it useful to rely on widely recognized and high quality frameworks, such as the OECD1 Guidelines for Multinational Companies, the Tripartite Declaration of the International Labor Organization establishing principles on multinational companies and social policy or ISO 260002.

C. *With regard to human rights, the fight against corruption and bribery*, the non-financial statement may include information on preventing human rights abuses and/or on the instruments put in place to combat corruption and bribery.

With regard to respect for human rights, *the Guidelines* provides that entities should publish significant information about the impact of operations, real and potential, on holder's rights.

Expressing the commitment of entities to respect human rights is considered to be a good practice. This commitment can define what the entity expects from management, employees and business partners in terms of human rights, including core labor standards. The information may explain the rights of persons covered by the commitment, for example the rights of children, women, indigenous people, people with disabilities, local communities, small farmers, victims of human trafficking and the rights of workers, including those working on temporary contracts, supply chain workers or subcontractors, migrant workers and the families of those workers.

Entities should publish significant information on the due diligence process on human rights and on the procedures and mechanisms applied to prevent human rights abuses. These may refer, for example, to how human rights issues are dealt with in contracts concluded by entities with firms in the supply chain and how entities minimize the potential negative impact on human rights and take appropriate action in the case, where these rights are violated.

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[1] Tthe Organisation for Economic Co-operation and Development.
[2] The International Organisation for Standardisation's ISO 26000.

Significant published information may reflect how entities approach, inter alia:

- Guiding principles on business and human rights for the implementation of the UN framework "Protection, compliance and remedial measures";

- OECD guide for multinational companies; and

- Tripartite declaration of the International Labor Organization establishing the principles regarding multinational companies and social policy.

At the same time, *the Guidelines* stipulates that entities should publish significant information regarding the management regarding the fight against corruption and bribery and the registered cases.

Entities may publish information on the organization, decisions, management tools and resources allocated to fighting corruption and bribery.

Also, entities can explain how they evaluate the fight against corruption and bribery, take measures to prevent or minimize adverse effects, monitor their effective application and communicate on this subject internally and externally.

Entities may find it useful to rely on widely recognized, high quality frameworks, such as the OECD Multinational Companies Guide or the ISO 26000 standard.

Non-financial information similar to the ones listed above is also presented by ***the entities that are parent companies of a group*** which, on the balance sheet date on a consolidated basis, exceed the criterion of having an average number of 500 employees during the financial year, in a ***consolidated non-financial statement*** included in the consolidated report of the directors.

The provisions regarding the exemption of the obligation to draw up the consolidated financial statement are similar to those regarding the non-financial statement, respectively if a parent compiles a separate report corresponding to the same financial year, which refers to the whole group, whether or not this report is based on national frameworks. , of the Union or international, which includes the information required for the consolidated financial statement, the respective parent company is exempted from the obligation to draw up the consolidated financial statement, provided that this separate report:

a) to be published together with the consolidated report of the directors, in accordance with the provisions of Section 9.1. "General publication obligation" / Section 5.1 "General publication obligation"; or

b) to be made available to the public within a reasonable period not exceeding six months from the balance sheet date, on the parent company's website, and be mentioned in the consolidated report of the directors.

Exceptions are also provided for the preparation of the non-financial statement/consolidated financial statement, respectively for:

→ an entity that is a subsidiary - if the respective entity and its subsidiaries are included in the consolidated report of the directors or in the separate report of another entity, prepared in accordance with the provisions of the *Order of the Minister of Public Finance no. 1.802/2014*, with the subsequent modifications and completions, respectively of the *Order of the Minister of Public Finance no. 2.844/2016*, with subsequent modifications and completions;

→ a parent company which is also a subsidiary - if the respective exempt parent company and its subsidiaries are included in the consolidated report of the directors or in the separate report of another entity, prepared in accordance with the provisions of the Order of the Minister of Public Finance no. 1.802/2014, with the subsequent modifications and completions, respectively of the Order of the Minister of Public Finance no. 2.844/2016, as subsequently amended and supplemented.

For both the non-financial statement and the consolidated non-financial statement, *the statutory auditor or statutory audit company checks whether the non-financial statement/consolidated financial statement or the separate reports have been provided.*

The members of the administrative, management and supervisory bodies of an entity, acting within the limits of the powers conferred by national law, have the collective responsibility to ensure that the individual annual financial statements/consolidated annual financial statements, the directors' report/the consolidated reports of the administrators and the separate reports are prepared and published in accordance with the provisions of the *Order of the Minister of Public Finance no. 1.802/2014*, *with the subsequent modifications and completions, respectively of the Order of the Minister of Public Finance no. 2.844/2016, as subsequently amended and supplemented.*

Non-financial transparency is one of the main elements of any strategy for corporate social responsibility. It is estimated that an increased degree of transparency will strengthen the resilience and the results of the entities both in terms of financial and non-financial aspects. This will also in time lead to consolidation of economic growth and employment and greater trust among stakeholders, including investors and consumers.

Bibliography

1. Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups;

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3. Guidelines on non-financial reporting: Supplement on reporting climate-related information;

4. Order of Minister of Public Finance no. 1.938/2016 regarding the modification and completion of some accounting regulations.