United Nations Global Compact

EUROPEAN UNION DIRECTIVE 2014/95/EU ON NON-FINANCIAL DISCLOSURE

FREQUENTLY ASKED QUESTIONS FOR BUSINESS PARTICIPANTS

> "The Directive is a positive step which **benefits active UN Global Compact participants** from around the world who are already disclosing relevant non-financial information annually. They are **ahead of the legislative curve.**"
>
> – Georg Kell, *Executive Director*
> UN GLOBAL COMPACT

2014

April 2014
EU Parliament adopts Directive.

September 2014
EU Council adopts Directive.

October 2014
Directive **enters into force** and national laws must incorporate procedures to comply within two years.

2015

2016

December 2016
EU Commission non-binding guidelines available & Directive transposed into **national laws**.

2017

2018
Companies report on FY2017.

2018

→What has happened?

New legislation has been adopted by the European Union (EU) on disclosure of non-financial and diversity information by large companies and groups to improve organizations' disclosure of social and environmental information and raise transparency to a similarly high level across all sectors and EU member states.

→How does the Directive relate to the Communication on Progress (COP)?

The Directive states that to comply, companies may use the UN Global Compact and other international, European or national guidelines as applicable. **COP disclosure requirements are necessary but not always sufficient.** Though they help Global Compact participants comply with their national versions of the Directive, full compliance may require additional disclosure items.

→To whom does the Directive apply?

According to EU estimates, it applies to some **6,000 large public-interest entities** (including but not limited to companies) with more than 500 employees. It does not apply to small companies, nor to subsidiaries included in the consolidated reporting of the headquarters.

→What themes does the Directive encompass?

The Directive compels companies to disclose environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters. These **encompass all of the UN Global Compact's issue areas** – human rights, labour, environment and anti-corruption.

The Directive compels companies to disclose the following in the management report: **business model, policies and policy outcomes, due diligence processes, management of principle risks, performance indicators.** Similarly, GC Advanced COPs must include commitments, strategies and policies; management systems; and monitoring and evaluation mechanisms.

→What is the potential impact of non-financial reporting?

- Improve company **performance** and increase **trust**
- **Manage change** towards a sustainable global economy by combining long-term profitability with social justice, environmental protection and ethical business
- Help the **measuring, monitoring** and **managing** of companies' performance and their impact on society
- **Meet the needs** of investors and other stakeholders and provide consumers with **easy access** to information on businesses' impact on society

→What are Global Compact Local Networks doing collectively and individually?

European **Local Networks** have worked together and created action plans related to the Directive as appropriate to their context and priorities. These include:

- **Guiding** companies on the ways in which their COP sets them on the way to complying with the Directive and national law;
- **Influencing** public policy developments in European countries in response to the Directive;
- **Contributing** to the process of turning the directive into national law; and
- **Supporting** companies to comply with the new legislation using tools and resources offered by the Global Compact.

→What trends have been observed?

Sustainability reporting is becoming a **mandatory requirement** in a number of countries and sectors. For example, **19 of the G20 member states** have at least one mandatory social and/or environmental reporting initiative, while **9 of 32 national securities commissions** on the board of the International Organization of Securities Commissions (IOSCO) have implemented at least one mandatory regulation on social and environmental matters .*

These are complemented by **voluntary initiatives**. For instance, the 4th generation Sustainability Reporting Guidelines by the **Global Reporting Initiative** and the **International Integrated Reporting Framework** debuted in 2013. At the national level, the **Sustainability Accounting Standards Board** (SASB) in the US focuses on materiality of non-financial issues to investors and specific performance metrics within each industry for integrated disclosure in regulatory filings.

**Source: UN Sustainable Stock Exchanges 2014 Report on Progress, p 18 & 22*

FURTHER READING IN THE DIRECTIVE

- Read the Directive and FAQs
- Consult sections 6 & 8 of the preamble regarding scope of reporting on the value chain, plus references to external assurance and the "report or explain" principle throughout the text.