

Dear members of the European Commission,

Thanks for giving us the opportunity of participating in the second stakeholder's workshop.

AECA (The Spanish Accounting and Business Administration Association) recognises the potential value of this guideline to normalise and standardise non-financial reporting practices in companies mainstream financial filing.

AECA has identified six areas that we believe require more attention to maximise success.

1. Comparability
2. The role Digital reporting standards
3. Audit process
4. Comply or explain
5. Internal management and risk assessment
6. Scope of non-financial requirements

COMPARABILITY

We understand that the current position of the European Commission is not to propose any particular framework to facilitate the disclosure of the non-financial statement. Instead, this guideline represents a set of content and principles that companies (under local transposition) must comply. In this respect, the Commission does mention several reporting frameworks that can help to fulfil the contents required (EMAS, ISO26000, CDP, GRI, IIRC) being non-exclusive.

In this context, we do recommend to be more explicit about how those frameworks can be used to (1) achieve a minimum level of comparability between companies reports and (2) guide the local transpositions.

For that purpose, leave you below a couple of works that build a common structure of non-financial information using recognised reporting frameworks:

An implementation of the IIRC framework developed by AECA in collaboration with several major listed corporations along with the major regulatory bodies in Spain to facilitate the dissemination and comparability of non-financial information. There you can see how one information can be disclosed using more than one framework.
http://aeca.es/old/es/fr/gaap/csr/2012/IS-FESG_detailed-en.pdf

Landscape map from IIRC. This is the result of the Corporate Dialogue Working group and the main goal was to find alignments between frameworks, concretely CDP, SASB, FASB, GRI,

Considering these two references, we strongly recommend to include further details in sections 8,9,10,12,13,14. At least, following the same level of detail as the section 13 (Thematic aspects) is written. We would like to see more sentences like *“Companies are expected to rely on appropriate frameworks, for instance....”*

In page 18, would be good to mention how *“companies are expected to present KPIs, where appropriate, in the context of targets, past performance and comparison with peers”*. We recommend to introduce examples and frameworks (including the indicators) to rely on.

Our 11 years of experience in this field suggests that a minimum level of common information is needed to move towards a real comparability. So at least national governments should require a minimum number of common information to disclose, although they leave open that each company extend that model for internal management purposes.

Besides, would be good to make a more explicit mention that the **centralization of information** is an important matter to enable comparability.

THE ROLE OF DIGITAL REPORTING STANDARDS

Looking at page 5, we think that there is room for digital reporting standards such as XBRL. *“Fair accurate information may be enhanced by, for example, robust and reliable internal control and reporting systems”*. We propose to include the following line in that paragraph ***“and digital reporting standards, such as XBRL”***. Reporting systems need digital standards.

The reason is that XBRL is the most adopted technology in financial reporting and banking risk disclosure all over the world. XBRL is in use in more than 70 countries at present, implemented by over 135 regulators, covering some 20 million companies worldwide. XBRL has been recently recognised by the European Securities and Markets Authority (ESMA) to act as the European Single Electronic Format for reporting within securities markets. These evidences on supporting digital reporting standards should not be forgotten in the disclosure of non-financial information.

If the position of the Commission is to be flexible and non-exclusive with reporting frameworks, we believe that the same should be done with digital reporting standards, being non-exclusive to XBRL. Also SDMX and Linked data can be interesting. Which by the way, it is supported by The European Commission, via the Interoperability Solutions for European Public Administrations (ISA programme) as a relevant solution to enhance the interoperability and transparency between public administrations.

The Commission should take in consideration that sustainability and environmental reporting initiatives such as CDP, SASB and GRI are promoting the disclosure and use of their data through XBRL to enhance the adoption and impact of their data for decision-making purposes. Step by step the digital adoption in non-financial reporting areas is happening.

We strongly recommend reading the following paper (<http://bit.ly/2lBOMop>) that presents the inclusion of XBRL as a key digital reporting technology within the **TFCD recommendations**. This article has been written by CDP in collaboration with AECA, XBRL International, Eurofiling, CEN (European Committee for Standardization). In that study, key aspects for better reporting practices are explored such as how through XBRL the alignment across existing disclosure framework can be possible – enabling “build linkage” as it is mentioned on page 17 and the interconnection between thematic aspects (page 19) - , as well as, how XBRL could be useful for climate-related financial risk disclosure.

We encourage the Commission to explore, as a learning material, the work that our association is doing in Spain since 2006 in relation to the non-financial reporting practices in corporations. We interconnect different pieces of information from different domains using different reporting frameworks and XBRL as the enable technology. See the following presentation (http://is.aeca.es/wp-content/uploads/resources/Maria_Mora_Frankfurt%202012.pdf).

We are focused on turning data into decisions, by means of an open data platform whose main goal is to enhance the adoption of non-financial data, using XBRL as an enabler, offering advanced analytical capabilities to reporting firms, their stakeholders and general society. This applicable work counts with the collaboration and acknowledgement of several major listed corporations along with key regulatory bodies, such as the Bank of Spain, the Spanish Security and Exchange Commission and the Business Registers. More information: <http://is.aeca.es/en>

From a more practical perspective, we are following how the local transposition of this Directive will be tackled in Spain. We already know that the Spanish Security and Exchange Commission (CNMV) will have the responsibility to gather the non-financial statement. We think it is worth to mention that since 2005, the CNMV requires all Spanish listed companies (403 companies) to submit financial statements in XBRL format. These XBRL reports are free, open and accessible via the following portal <http://www.cnmv.es/ipps/default.aspx> . Thanks to the advance reporting practices adopted by the CNMV, nowadays we have access to 10 years of historical data in an open standard format (XBRL).

In the light of the draft documents that the Institute of Accounting and Accounts Auditing¹(ICAC) and the CNMV are sharing related to the transposition, it looks like that the non-financial statement will be included as part of the management report or as an external report referenced in the management report, complying with the Directive. We believe that the CNMV has room to facilitate the exchange and consumption of that information using XBRL. If the Directive does mention XBRL as a recommended solution (non-exclusive), probably it will help European governments (with current XBRL adoption) to consider in their (future) agendas the role of digital standards to support this reporting process. Alignments in contents and formats are equally necessary to achieve a comparable, unambiguous and material information.

We believe that the consideration of XBRL as part of the guidelines represents a solution aligned with the current corporate reporting practices adopted in Spain, as well as, the transparency strategies supported by the European Commission towards the Digital Single Market.

AUDIT AND VERIFICATION PROCESSES

There is no explicit mention about how to carry out the audit process of this non-financial information.

In this regard, the Directive states that "*The Member States shall ensure that the statutory auditor or audit firm checks whether the non-financial statement has been provided.*" However, in interpreting this rule, we can understand two different things:

- (1) It is only necessary the mere contribution of such information: Checking whether the non-financial statement is referenced or it is part of the management report or,
- (2) It is also necessary to check whether the non-financial statement contains the contents expected.

In our view, we believe that the second interpretation is the right one. Verification should not only consist of checking that a document entitled "non-financial statement". Instead, its content should reasonably adjust to what the European Directive requires. For example, in Spain, the current management report, the auditors are required to assess whether the content and presentation of the management report is consistent with what is required by legislation (Article 5.1.f Spanish Audit Act). In this case, the level of assurance required is less than in financial reporting, in line with that required by NIA 720 (Revised).

¹ <http://www.icac.meh.es/seccion.aspx?hid=2>

COMPLY OR EXPLAIN

We recommend being more explicit in which circumstances a company may consider not to disclose certain information (page 19). This can represent an “escape door” against transparency. Companies can easily “escape” to disclose certain actions and decisions regarding key environmental and social matters for example.

On the other hand, those sections in which the report contains information related to changes in trends, such as “the outcome of those policies”, should be accompanied by numerical data that enable the comparison of the assertions made. In this regard, for verification/audit purposes, it may be useful to connect "the outcome of those policies" with "non-financial key performance indicators", which reflect quantitative data. That makes the link between the company's claims and their quantification. In this way, the narrative statements will be concrete and unambiguous.

INTERNAL MANAGEMENT AND RISK ASSESSMENT

It is convenient for compatibility purpose that reporting on risks assessments and mitigation takes into account previous developments in the financial industry like those proposed by the Bank of International Settlements, in particular for Operational Risk, with specific adaptation for non-financial firms.

SCOPE OF NON-FINANCIAL REQUIREMENTS

According to this “A parent undertaking which is also a subsidiary undertaking shall be exempted from the obligation set out in paragraph 1 if that exempted parent undertaking and its subsidiaries are included in the consolidated management report or the separate report of another undertaking, drawn up in accordance with Article 29 and this Article.”

In case a company belongs to a group and consolidate, it does not have to publish their non-financial report. This fact is against the transparency principles with impact on users. It limits the possibility to compare and analyse their corporate strategy.

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ABOUT AECA

The [Spanish Accounting and Business Administration Association](#) (AECA) is the only professional Spanish institution that issues generally accepted Accounting Principles and Standards, and recommendations or studies concerning good practices in Business management. Founded in 1979, the mission of AECA is to achieve a continuous improvement in the competence level of business professionals. We believe that a good professional guarantees the development of organizations and the progress of society.

AECA associates come from a wide professional, entrepreneurial, academic and research set of the Spanish accounting and business management field. AECA associates include as well nearly all institutions, associations and professional corporations related to accounting and business management, and a large number of industrial, commercial and service oriented companies, especially from financial, audit and consulting firms.

AECA membership is open to all institutions, individuals and organizations related to research and practice in the management field. An important and growing group of professionals and entities from different countries of Europe and Latin America is also actively getting involved in the Spanish Accounting and Business Administration Association and its Research Commissions.

THE OBJECTIVES OF AECA

Its main task is to develop studies in the field of the Business Sciences aimed at improving management and information levels in the Spanish enterprise.

According to the 4th article of its Statutes, the objectives of AECA are:

- The scientific development of Accounting and Business Management.
- Promote scientific study among people linked to this disciplines (professors, civil servants, experts and businessmen).
- Establish contacts and knowledge exchange with other associations and institutions at a national and international level relating to Business Sciences.
- To create channels that allow greater spreading of Accounting and Business Management studies, together with the own works of the association.