



TRAINER NOTES UNIT 2.3: NFIR FRAMEWORKS AND STANDARDS

Slide 2 Definition

There is no universal textbook definition for these concepts! The following definitions are not claiming to set a standard or to be complete by any means, much more they are supposed to help trainers and participants to reflect the “reporting environment”. Lines between concepts sometimes are blurry and it is not important to find definite labels. The definitions are meant to help understanding similarities and differences in terms of structure, function, hierarchy and interdependence in the context of NFIR. More generally formulated they are supposed to help understanding the purpose and function of the different concepts.

Slide 3 Political Agenda

Political Agenda is what we consider as a set of rules, ideas, or beliefs that are mostly drawn up by values. It has a guiding function at a higher level and therefore only provides broad orientation and classification. Political agenda can be an impulse for NFIR by companies and frequently the reporting is linked back to e.g. action plans. Examples for political agenda relevant for NFIR are the Sustainable Development Goals, EU CSR Strategy and National Action Plans.

Slide 4 Operating standard

An Operating Standard is a set of requirements, guidelines or characteristics based on industry requirements. As the name says, it has an operational function in terms of a practical application for processes, materials, products or services. Most operating standards are highly specific concepts by nature. In NFIR they are subject of reporting and frequently quoted to comply with certain disclosure obligations. Sometimes they are referred to as a reference for KPI within reporting frameworks and therefore can shape those. Examples for operating standards in the context of NFIR are ISO 14.001, OHSAS 18.000 and SA 8.000.

Slide 5 Reporting Framework

A Reporting Framework is drawn up from a set of subjects, indicators and measures. Reporting frameworks are inspired by values and based on requirements, therefore providing a linkage between operating standards and political agenda. They have an information function, which they fulfill by categorizing, compiling and summarizing data. Examples for reporting frameworks in the context of NFIR are the UN Global Compact (UNGC), the Global Reporting Initiative (GRI), German Sustainability Code (DNK).



Slide 6 Hierarchy

The pyramid of hierarchies depicts the relationships and the flow of information between the different concepts explained before. Two things are especially important to point out here: the levels and outcomes for each of the concepts. One example for outcomes is the EU Directive. As a product of a political agenda, it now influences reporting standards.

At a first impression this hierarchy might look a bit complicated, but if you look at the single connections most of it is common sense i.e. that a political agenda produces action plans and laws or that management policies will effect processes at business level. The hierarchy shows how reference frameworks create a connection between the political and business level. The different cycles have the effect that the political decisions trickle down to business level and business level practices can find their way up into political agenda.

Slide 7 Intersection

The graphic is a simplified scheme, in order to help understanding the intersection between the different concepts. Of course, reality is more complex as companies usually apply more than one operating standard and even those multiple operating standards will not cover all the information. Also depending on the materiality analysis, different information will be disclosed under the same reference framework: this can be true for different companies, but also for the same company over time.

Slide 8 Cascaded Reporting

The Directive and in most cases its transposition into member state law has left a lot of room for the formats that non-financial information can be disclosed in. As a result a wide variety of different reports has developed. Many companies even publish several reports with different aims and addressed towards different audiences. We have come to refer to this as cascaded reporting. This is because the quantity and quality of information varies greatly between these formats and they are often interlinked. Imagine it as if a waterfall of information was split up into smaller falls leading to reservoirs that are connected back later on by side arms. Some of these streams are very clear while others have picked up some sediments and are quite murky at times. This can make it hard to see through, especially when trying to understand which information is legally binding and which is not or what is marketing prose and what has to be considered valuable non-financial information.

This overview and the terms used are what we have found to be the highest common factor. Integrated Reports connect financial and on-financial Information, in their function as annual reports they are legally binding. By connecting the different types of information they create new context, integrated reports thus have a higher informational value than just the sum of the two types of information. Integrated reporting is not to be confused with combined reporting.



In Combined Reports, non-financial statements are issued as part of the annual report, but in a separated section without connecting the two types of information. Non-financial statements are legally binding and usually only cover the core requirements from the EU Directive. Companies use them to be 'on the safe side' by reporting the minimum making it easier to be provided with assurance. Companies that publish non-financial statements many times also issue more elaborate documents containing detailed non-financial information on a broad range of topics.

These are for example called either Corporate (Social) Responsibility or Sustainability reports. In our opinion, the references in the non-financial statements to these other reports are somewhat of a legal grey zone. On the one hand, these reports are not considered as part of the legal obligation of NFIR, on the other hand, they are needed to understand how and what is reported in the non-financial statement. It is often unclear to what extent these CR, CSR or sustainability reports are legally binding. However many of them make a claim to be prepared in compliance with a reporting framework and thus are required to fulfill at least these standards. It can also be argued that these reports are especially directed towards ranking agencies whose analyses are relevant for sustainable finance indices and therefore the reports have to be considered information that is theoretically able to affect stock listings.

The weakest level of non-financial reporting in terms of quality is carried out in so-called CR, CSR or sustainability brochures. These brochures usually are marketing tools that do not follow any standards and are subject to creative freedom. These brochures are not relevant for NFIR analysis.

Slide 9 Reporting Frameworks

Directive EU/2014/95 lists a number of reporting frameworks that can be used for NFIR. In addition to this some national reporting frameworks may be mentioned in the national implementation laws. The following reporting frameworks are listed: Eco-Management and Audit Scheme (EMAS), United Nations Global Compact (UNGC), Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework, Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, International Organisation for Standardisation's ISO 26000, International Labour Organisation's (ILO) Tripartite Declaration of principles concerning multinational enterprises and social policy and the Global Reporting Initiative (GRI).

In this list of reporting frameworks a wide variety of approaches can be found. Without going too much into detail, the most important differences should be pointed out with the following examples.

EMAS is a topic specific reporting framework and would therefore not be sufficient to cover all aspects of NFIR required by the directive. Still it has a high reputation and is spread widely in its use among companies.

The UNGC is based on 10 broadly formulated principles that are mostly kept at an abstract level. Companies therefore are very free in choosing how and what to report under this reporting framework and have to develop their own practice.



Slide 10 Global reporting Initiative (GRI)

The GRI is a multi-stakeholder initiative and provides a comprehensive and detailed methodology for NFIR. This is an important difference when comparing it to other reporting frameworks that have been set up for example solely by the business side. As one stakeholder group in GRI trade unions are represented by the Trade Union Advisory Committee (TUAC) and therefore actively involved in further developing GRI through its technical bodies.

GRI covers a broad range of governance, economic, ecologic and social topics and provides links to the SDGs and therefore by providing a broader Sustainability Context connects to political agenda.

At the same time, the consideration of existing operating standards and specific indicators combined with a precise formulation of requirements leads to a more uniform NFIR and thus yields a better comparability.

As a number of studies has shown, GRI is the most widely used reporting framework in Europe.

These reasons have led to the decision in the drafting of the Curriculum for the Further Education of Non-financial Analysts to focus on GRI when going into the details of analysis.

Slide 11 GRI Structure and Options

The GRI gives companies two general options for reporting: Core and Comprehensive. Within these two options there are plenty possibilities to adapt the reporting to an individual fit. In order to understand the differences you first have to look at the overall structure of the GRI.

Since 01. July 2018 the consolidated set of GRI standards has to be applied, when we talk about GRI Standards we always refer to this.

The GRI standards are divided into subsets of disclosures: universal (100), economic (200), environmental (300) and social (400). Within these subsets you have different indicators for disclosure.



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