EUROPEAN COMMISSION

STATEMENT

Brussels, 15 April 2014

Improving corporate governance: Europe's largest companies will have to be more transparent about how they operate

The European Commission welcomes today's adoption by the European Parliament of the Directive on disclosure of non-financial and diversity information by large companies and groups. Companies concerned will need to disclose information on policies, risks and results as regards environmental matters, social and employee-related aspects, respect for human rights, anti-corruption and bribery issues, and diversity on boards of directors.

Internal Market and Services Commissioner Michel Barnier said: *"I am pleased that the European Parliament has adopted this Directive modernising the disclosure of relevant and useful non-financial information by large companies and groups. Companies, investors and society at large will benefit from this increased transparency. Companies that already publish information on their financial and non-financial performances take a longer term perspective in their decision-making. They often have lower financing costs, attract and retain talented employees, and ultimately are more successful. This is important for Europe's competitiveness and the creation of more jobs. Best practices should become the norm. I want to thank the European Parliament, particularly the rapporteur, Raffaele Baldassarre, and the shadow-rapporteurs, for their work on this file."*

The new rules will only apply to large companies with more than 500 employees, as the costs for requiring small and medium-sized enterprises (SMEs) to apply them could outweigh the benefits. In particular, large public-interest entities with more than 500 employees will be required to disclose certain non-financial information in their management reports. The scope includes approx. 6 000 large companies and groups across the EU.

The approach taken ensures that administrative burden is kept to a minimum. Companies will be required to disclose concise, useful information necessary for an understanding of their development, performance, position and impact of their activity, rather than a fully-fledged and detailed report. Furthermore, disclosures may be provided at group level, rather than by each individual affiliate within a group.

The Directive gives companies significant flexibility to disclose relevant information in the way that they consider most useful, or in a separate report. Companies may use international, European or national guidelines which they consider appropriate (for instance, the UN Global Compact, ISO 26000, or the German Sustainability Code).

The Directive provides for further work by the Commission to develop guidelines in order to facilitate the disclosure of non-financial information by companies, taking into account current best practice, international developments and related EU initiatives.

As regards diversity on company boards, large listed companies will be required to provide information on their diversity policy, such as, for instance: age, gender, educational and professional background. Disclosures will set out the objectives of the policy, how it has been implemented, and the results. Companies which do not have a diversity policy will have to explain why not. This approach is in line with the general EU corporate governance framework.

This Directive also represents a first step towards the implementation of the European Council conclusions of 22 May 2013 on the need for further transparency on tax matters and for ensuring country-by-country reporting by large companies and groups. The Commission supports this objective and will endeavour to deliver effectively on the review clause included in this legislation.

Next steps

In order to become law, the Commission's proposal needs to be adopted jointly by the European Parliament and by the EU Member States in the Council (which votes by qualified majority). Following today's adoption by the European Parliament, the Council is expected to formally adopt the proposal in the coming weeks.

Background

On 16 April 2013, the Commission adopted a proposal to enhance business transparency on social and environmental matters (IP/13/330). The European Parliament and the Council reached agreement on 26 February 2014.

This measure is part of the Commission's efforts to improve corporate governance in Europe and was announced by the Commission in the Single Market Act communication in April 2011 (IP/11/469), in the communication "A renewed strategy 2011–2014 for Corporate Social Responsibility" issued in October 2011 (IP/11/1238), and in the Action Plan for Company Law and Corporate Governance, adopted in December 2012 (IP/12/1340).

On 6 February 2013, the European Parliament adopted two resolutions ("Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth" and "Corporate Social Responsibility: promoting society's interests and a route to sustainable and inclusive recovery"), acknowledging the importance of company transparency on environmental and social matters.

See also MEMO/14/301.

More information:

http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm

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