Non-financial Reporting

Key asks

- **Streamline non-financial reporting to reduce duplication and administrative burden:** Simplify the reporting process to eliminate duplication and reduce the cost and administrative load on companies, ensuring reporting requirements are efficient and effective.
- **Ensure consistency in reporting requirements across jurisdictions:** Work with international leaders to establish uniform reporting standards across all jurisdictions, with clear exclusion clauses to prevent companies from being required to report on the same data under different or overlapping regulations.
- **Pause mandatory reporting requirements until legislative frameworks are finalised:** Suspend the implementation of mandatory reporting requirements until all legislative details are fully defined. This will prevent rushed timelines that place undue pressure on companies and ensure that they have the necessary resources to comply effectively.

Introduction

Non-financial reporting offers companies an opportunity to disclose information beyond traditional financial metrics, providing stakeholders with insights into key areas of value creation that are not reflected in financial statements. These reports typically address themes related to environmental, social, and governance (ESG) factors. Driven by increasing demand from a wide range of stakeholders, companies have been faced with an overwhelming array of new frameworks and reporting tools.

While the push for businesses to meet environmental and social justice goals is a positive development, the sheer volume of reporting mechanisms can be overwhelming and complex. This challenge is particularly pronounced for enterprises with fewer resources, where non-financial reporting can shift from being a tool for meaningful change to an administrative burden, potentially diverting resources away from actual ESG improvement efforts. To address this, it is crucial that non-financial reporting be streamlined using globally recognised standards, ensuring sustainability information is presented in a focused, concise way that allows for comparison across companies both nationally and internationally.

Benefits of non-financial reporting

- Non-financial reporting allows businesses to **identify ESG-related conflicts**, empowering organisations to take proactive steps toward addressing these issues.
- While financial reporting provides quantitative data, non-financial reporting offers qualitative insights that contribute to a **more comprehensive narrative** about a company's impact on its stakeholders – employees, customers, suppliers and the surrounding community and environment.

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- By highlighting areas such as employee wellbeing, resource circularity, and process safety, non-financial reporting can uncover previously overlooked issues, enabling businesses to make adjustments that **improve efficiency and overall performance**.
- Identifying ESG challenges helps to **manage risks** and avoid potential consequences that could threaten a company's stability.
- Non-financial reporting provides **transparency** between a business and its stakeholders by providing insightful information that guides strategic decisions and reinforces **accountability** for company leadership.
- Open reporting fosters greater trust and credibility among employees and consumers, cultivating stronger loyalty and enhancing the company's **reputation**.
- Demonstrating a holistic approach to value creation can attract more investment and facilitate access to capital. To maintain its leadership in the green transition, the UK must work to **attract inward investment**, or risk losing green industries – and the associated benefits like jobs and innovation – to more proactive nations.

Challenges of non-financial reporting

- Some reporting directives are complex and overlap with other frameworks, causing businesses to duplicate their reporting. This reinforces the negative perception of non-financial reporting as an administrative and cost burden.
- Unlike traditional financial reporting, non-financial reporting is less established, with limited guidance for businesses aiming to meet requirements. This lack of support can lead to difficulties in data collection, presentation, and progress monitoring, potentially undermining the purpose of the reporting frameworks.
- The absence of standardisation across various reporting mechanisms, both nationally and internationally, makes it difficult to draw comparisons between companies. As a result, stakeholders may struggle to fully understand and assess the ESG credentials of different businesses.

Existing reporting mechanisms

As mentioned above, there are already numerous sustainability reporting mechanisms in place in the UK, or that impact UK companies.

International Sustainability Standards Board (ISSB) / UK Sustainability Reporting Standards (UK SRS)

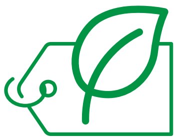
The ISSB, established under the IFRS Foundation, has developed a set of internationally recognised standards used by businesses worldwide. This global focus allows stakeholders to compare organisations across different regions and provides businesses with the opportunity to benchmark themselves against international competitors. The ISSB's first two frameworks, IFRS S1 and IFRS S2, published in June 2023, address general reporting requirements and climate-related disclosures. However, the ISSB remains committed to evolving these standards to meet investors' information needs on other ESG matters over time. The UK is currently assessing the suitability of IFRS S1 and IFRS S2 for endorsement in the UK. If this process concludes with an affirmative endorsement decision, it will result in the creation of the first two UK SRS, based upon the ISSB Standards. Due to the interoperable nature of the ISSB Standards, CIA supports the government's use of these standards as the basis for UK-specific sustainability disclosures.

Transition Plan Taskforce (TPT)

In the UK, the TPT claims to have developed the gold standard for transition planning and is widely recognised across the globe. At COP26, as part of its ambition to become the global hub for transition finance, the UK government committed to making transition plans mandatory for UK firms by the end of 2023. However, this has not yet been realised, with a consultation on the commitment expected in the first half of 2025. Despite this delay, companies are already responding to stakeholder demands for greater transparency, recognising the importance of publishing such information from both sustainability and investment perspectives. Transition plans are crucial for outlining the steps a company will take to decarbonise, addressing climate risks and incorporating scenario analysis. By demonstrating how climate strategy aligns with overall business goals, transition plans can help attract transition finance and drive companies toward

net-zero. Transition plans also provide the opportunity to identify uncertainties in company strategies, which can inform the development of government policy.

The CIA supports the integration of transition plans into UK sustainability disclosures. For the chemical sector, these plans are particularly valuable as they outline how companies aim to mitigate risks and track the progress of innovative technologies. Recognising the inherently evolving nature of transition plans, regular updates are necessary. Nevertheless, these updates should strike a balance between staying current with the latest scientific, environmental and policy developments, and minimising additional administrative strain on companies. Furthermore, following the conclusion of the TPT's mandate in October 2024, the IFRS has assumed responsibility for the TPT Disclosure Framework as part of the ISSB's effort to streamline global standards. This centralisation of sustainability reporting under a respected, non-governmental body reinforces CIA's support for the adoption of transition plans within the UK sustainability reporting landscape.



Sustainability Disclosure Requirements (SDR) and Investment Labels (IL)

The UK regulator, the FCA, introduced a package of measures aimed at improving trust and transparency in sustainable investment products, curbing greenwashing at the financial product level and guiding the allocation of retail capital. Their anti-greenwashing rule applies to all FCA-authorised firms that make sustainability-related claims about financial products and services. Additionally, the FCA has introduced investment labels, disclosure requirements, and naming and marketing rules for UK asset managers, as well as targeted regulations for distributors of investment products to retail investors in the UK.

While the use of investment labels is voluntary, CIA agrees the anti-greenwashing rule is essential for ensuring that sustainability claims are clear and not misleading. The rule complements the naming and marketing regulations, while also providing the FCA with a clear framework to challenge firms on their sustainability-related claims. The anti-greenwashing rule came into effect at the end of May 2024, with companies subject to the naming and marketing rules needing to comply by 2 December 2024. It will be interesting to observe how firms adapt to these requirements. As a high-emitting sector, the chemical industry requires investment to develop innovative technologies and scale up existing projects. If the SDRs achieve their goal of directing more transition finance into the economy, that will be a positive outcome. However, it is crucial that anti-greenwashing efforts align with growth to ensure sustainable progress.

UK Green Taxonomy (UKGT)

A taxonomy is a classification tool that provides a shared framework for identifying economic activities that contribute to climate, environmental, or broader sustainability goals. A green taxonomy specifically aims to boost sustainable finance investments and combat greenwashing. Globally, around 20 jurisdictions have established taxonomies, with many more, including the UK, considering their implementation. It should be recognised that taxonomies are location specific given the varying makeup of local economies and transition pathways. Nonetheless, some UK companies are already subject to existing taxonomies, including a significant portion of CIA members who operate across Europe and the UK. Consequently, in developing a UK taxonomy, CIA advocates for international interoperability as far as possible whilst still taking into account context-specific adjustments. Major divergence from other regions' requirements introduces complexity, oftentimes duplication, and tends to lead to the perception of a taxonomy as an administrative burden for businesses, rather than a useful tool to finance the transition. Given widespread familiarity with the EU taxonomy among UK businesses, we would encourage using this framework as the foundation of any future UK edition. Nevertheless, we would encourage the UK government to streamline the requirements and adopt the principle of consistency across regulations by ensuring common definitions, calculation methods and facilitating third-party verification and assurance.

Aligning with the EU taxonomy involves evaluating key design features, such as the 'Do No Significant Harm' principle. This principle stipulates that for an economic activity to be considered environmentally sustainable, it must not only make a significant positive contribution to one or more of the environmental objectives (see Box 1), but also avoid causing significant harm to any of the 6 environmental objectives. Application of DNSH requires careful consideration given the challenges it will face in is application. The EU's approach has already shown the

Box 1: Article 9 – Environmental Objectives

1. Climate Change Mitigation
2. Climate Change Adaptation
3. The Sustainable Use and Protection of Water and Marine Resources
4. The Transition to a Circular Economy
5. Pollution Prevention and Control
6. The Protection and Restoration of Biodiversity and Ecosystems

barriers the DNSH approach has created in large-scale deployment of solar PV technology which carries the potential for negative impacts on other environmental objectives but is key for renewable energy generation. Overall, we recommend a risk based and holistic approach that recognises trade-offs in defining DNSH.

The timeline for reporting is also a critical factor; governing bodies should review existing reporting obligations to identify areas where convergence could be beneficial or potentially burdensome and set deadlines accordingly. This is especially relevant for financial reporting deadlines, as any deadline before April would likely pose a challenge for most companies. Like other environmental regulations, taxonomies should reflect the most current scientific, technological, and policy developments. To balance this need with the resources required, we recommend that the UK adopt a practice similar to other jurisdictions by incorporating an update clause every 3 years.

Nonetheless, it is essential that companies are given adequate time to process and adapt to any changes. Therefore, we would recommend implementing a set period of one year – similar to the timeframe suggested by the Platform on Sustainable Finance to the EU – after legislative changes are made before reporting entities are expected to act on them. Additionally, no changes should be introduced near the end of a reporting cycle, where companies would be expected to implement them immediately. This would be unreasonable as it does not allow sufficient time for proper interpretation, potentially leading to inaccurate data or non-compliance. It should also be noted that, given our recommendation for alignment with the EU Taxonomy, the UK would need to align with EU updates so as the two regulations remain comparable. We also think it is important for Government to note the significance of updates 'declassifying' economic activities from sustainable to unsustainable. If this were to occur in the midst of an ongoing investment project then all progress to date on that project would be hindered and future developments uncertain. We would suggest that when the UK Taxonomy undergoes updates, this should not impact ongoing investment decisions until a project has come to completion. Finally, after 2 years of implementation we would ask for a policy review and impact assessment to ensure that the Taxonomy is working as expected. If it is not, then this should allow for changes at a policy/legislative level to improve effectiveness and efficiency.

EU Corporate Sustainability Reporting Disclosure (CSRD)

The CSRD aims to enhance the transparency and accountability of non-financial reporting, offering stakeholders deeper insights and attracting more investment. Its key elements include double materiality, requiring companies to assess both their impact on society and the environment, as well as how these factors affect enterprise value; sustainability reporting standards as stipulated in the European Sustainability Reporting Standards (ESRS); and assurance of reporting by an accredited independent third party. This regulation is comprehensive, covering all aspects of sustainability to broaden the scope of management and encourage businesses to create strategies that improve non-financial aspects.

Although the EU's CSRD has been anticipated for some time, the first year of compliance is nearly here, with its impacts extending beyond EU Member States. It also brings into scope numerous non-EU companies with substantial business activity in the EU, making it important that the UK recognises its significance. Despite the CSRD's promising objectives, it has faced criticism for its complexity, prompting the EU Commission to initiate a review of its core green laws in an effort to streamline reporting requirements and reduce bureaucratic burdens.

The CIA welcomes the CSRD's principles aimed at harmonising ESG reporting and promoting a transition to a more sustainable economy. However, we caution against the UK simply replicating the EU regulation. Given the cross-jurisdictional nature of the CSRD, the UK must clarify how it plans to enforce equivalent rules. Any adopted version should be rigorously refined and tailored to the UK context, ensuring clarity on the intended audience for the reports. We also recommend implementing a system of eco-equivalents, where companies that already report specific data points through recognised accreditations like ISO, SBTi, and others are not required to report the same information again.

While the CSRD aims to bring sustainability reporting onto similar footing as financial reporting, it remains a novel concept for businesses. As a result, companies require more time to prepare for and implement CSRD-like requirements. The CIA recommends that the UK allow for longer transitional periods before mandatory compliance is enforced, while still permitting companies to begin voluntary reporting earlier should they choose.

Studies published in the summer of 2024 estimate the cost of CSRD compliance to range from €320,000 for small to medium companies; to over one million euros for the largest firms.[1] While we acknowledge the importance of sustainability reporting, it should not come at the expense of actual transition efforts, particularly as companies face challenges in allocating the significant resources needed in the current economic climate. Furthermore, PwC's

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[1] Restitution de l'enquête sur la CSRD, C3D, juin 2024; Implementation of ESRS: initial observed practices from selected companies, state of play as of Q2 2024, EFRAG, juillet 2024.; Etude sur les moyens humains et financiers dédiés à la CSRD, Ici&Demain, juillet 2024.

2024 Global Survey revealed that over half of businesses believe the CSRD will negatively impact the quality of data collected.[2] Streamlining the CSRD's questions and data requirements would reduce the burden and cost for companies, ultimately supporting a smoother transition and more effective achievement of the EU Green Deal's sustainability goals.

Another costly element of the CSRD for businesses is the auditing requirement. To make this process more efficient, we suggest spacing mandatory audits over a longer period, while still allowing companies to report voluntarily on an annual basis if they choose. Furthermore, since auditors may have different approaches, with some stricter than others, a harmonised set of standards is essential to ensure fair treatment for all companies. In line with our call for extended transitional periods, a moratorium on sanctions for auditors would help ensure proper CSRD implementation and allow time to streamline the regulation.

Finally, to ensure a level playing field, there should be internationally mandated standards that ensure the same level of transparency from other regions, particularly China and the US. The EU has already expressed concerns that the CSRD could reduce competitiveness, so it is essential that we learn from the challenges encountered during the development of the CSRD. By doing so, we can create world-leading standards that not only facilitate a sustainable transition but also strengthen UK businesses in the process.

EU Corporate Sustainability Due Diligence Disclosure (CSDDD/CS3D)

On 25th July 2024, the Directive on corporate sustainability due diligence entered into force. Its primary goal is to promote sustainable and responsible corporate behaviour within companies' operations and across their global value chains. The new regulations require companies to identify and address the human rights and environmental risks associated with their activities, both inside and outside of Europe. Key responsibilities include identifying and mitigating potential and actual adverse impacts on human rights and the environment in a company's own operations, their subsidiaries and, where relevant, across their value chains and business partnerships. Additionally, the Directive mandates that large companies develop and implement a transition plan for climate change mitigation, aligned with the 2050 climate neutrality goal of the Paris Agreement and intermediate targets set by the European Climate Law. The rules apply to large EU companies and partnerships, as well as large non-EU companies with significant business activities in the EU. While micro-companies and SMEs are not directly covered by the Directive, they could be indirectly impacted as part of the broader value chains.

The CIA acknowledges and supports the European Commission's commitment to prioritising administrative burden relief and simplification in its agenda. This is particularly important in the context of the CS3D, which will indirectly affect many SMEs and non-EU countries already struggling to meet the requirements of the EU Green Deal. In light of this, the CIA advocates for a simplification of the CS3D, with a focus on clarifying priority areas and providing additional guidance. Many companies already have extensive experience implementing due diligence policies, including those related to human rights, supply chain management, and corporate social responsibility, on a voluntary basis. Therefore, it is crucial to involve businesses early in the process to ensure the rules are practical and applicable to companies and their broader value chains.

Similar to the CSRD, companies will require adequate time to plan for any changes in the CS3D, especially given the increased focus on their relationships with suppliers both inside and outside the EU. Therefore, guidelines and implementing legislation should be adopted at least two years before companies are required to comply on a mandatory basis. If this timeline is not feasible, the transition period should be extended to prevent companies from resorting to greenwashing in an attempt to avoid penalties for non-compliance.

Furthermore, harmonisation and interoperability of rules should remain core principles. Fragmentation among Member States and within the regions of value chain partners could lead to confusion and negatively affect competitiveness. It is crucial that Member States closely align with the agreed EU framework when transposing the Directive into national law. Additionally, outside the EU, country-specific versions should be adopted that are compatible with the EU framework to ensure seamless interoperability.

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[2] PwC 2024 Global CSRD Survey | PwC

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