

Directive 2014/95/EU (Directive on non-financial reporting) and Croatian legislation

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Harmonization and implementation of
Corporate Social Responsibility EU Directives

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Directive 2013/34/EU, Directive 2014/95/EU and Croatian Act on Accounting

- One year after the adoption of Directive 2013/34/EU, ***Directive 2014/95/EU has been adopted amending Directive 2013/34/EU*** regarding the disclosure of non-financial information and the information about the diversity of certain large undertakings and groups
- Large undertakings and groups, along financial reports, need to report non-financial information
- Starting ***January 1st 2017*** reporting of non-financial information became more **detailed**

Disclosure of **non-financial information**

- EU under the disclosure of non-financial information includes information on the ***impact of companies on the environment and the society***, and consist information related to, ***at least*** (Directive 2014/95, Article 21a of the Act of Accounting):
 - ***environmental,***
 - ***social and employee matters***
 - and issues regarding ***respect for human rights, anti-corruption and bribery matters***

Disclosure of **non-financial information**

In order to enhance ***the consistency and comparability*** of non-financial information disclosed throughout the Union, reports should contain measure taken regarding:

Environmental matters

- details of the current and foreseeable impacts of the undertaking's operations on the environment, and, as appropriate, on health and safety,
 - the use of renewable and/or non-renewable energy, ,
 - greenhouse gas emissions,
 - water use and
 - air pollution.
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Social and employee-related matters

- ensure gender equality,
 - implementation of fundamental conventions of the International Labour Organisation, working conditions, social dialogue, respect for the right of workers to be informed and consulted, respect for trade union rights, health and safety at work and the dialogue with local communities, and/or the actions taken to ensure the protection and the development of those communities.
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Human rights, anti-corruption and bribery

- include information on the prevention of human rights abuses and/or on instruments in place to fight corruption and bribery.

Options for Member States

- Where the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and **reasoned explanation for not doing so** (Article 21a of the Act of Accounting). - Report or Explain
- Informations relating to impending developments or matters in the course of negotiation can be **omitted in exceptional cases** where, in the **duly justified opinion** of the *members of the administrative, management and supervisory bodies*, the disclosure of such information would be seriously prejudicial to the market position of the undertaking. (Article 21 of the Act of Accounting).

Reporting frameworks

- **In providing non-financial information, undertakings which are subject to this Directive may rely on** (Directive 2014/95, Article 21a of the Act of Accounting):
 - National frameworks,
 - Union-based frameworks such as the Eco-Management and Audit Scheme (EMAS) or
 - International frameworks, such as:
 - the United Nations (UN) Global Compact,
 - the Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework,
 - the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises,
 - the International Organisation for Standardisation's ISO 26000,
 - the International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy,
 - the Global Reporting Initiative,
 - or other recognised international frameworks.
 - Non-binding guidelines by the Commission including general and sectoral non-financial key performance indicators.

Required reporting of non-financial information - Public interest entities (PIE)

Table 1. Entities required to report non-financial information

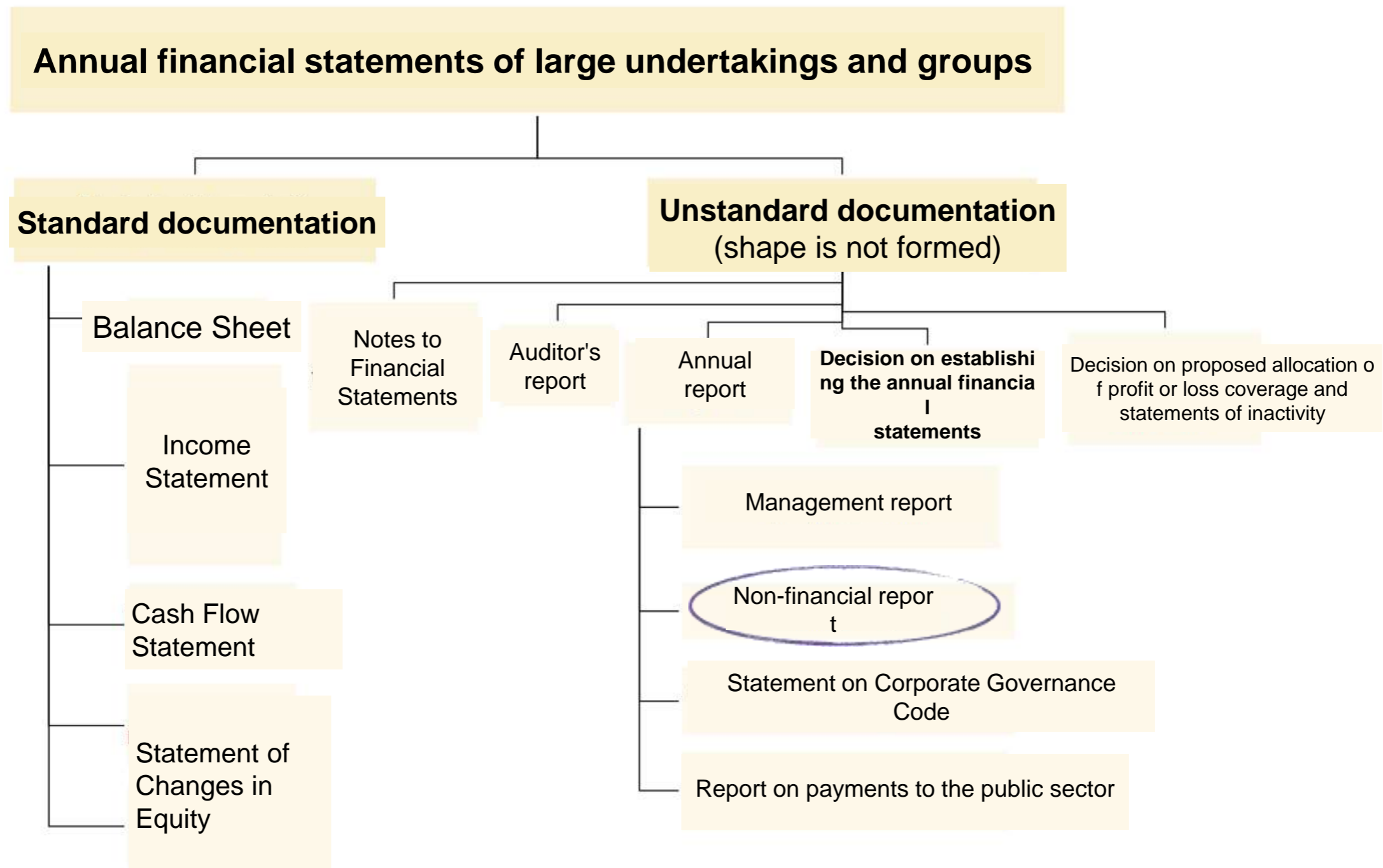
PUBLIC INTEREST ENTITIES (Article 5. and 6. of Labour Act)	<ul style="list-style-type: none"> • companies with transferable securities on regulated capital markets of any of the EU member states, • banks, • savings banks, • building societies • institutions for electronic money, • insurance companies, • reinsurance companies, • leasing companies, • UCITS (Undertakings for the collective investment in transferable securities) funds management companies, • AIF (Alternative investment funds) management companies, • UCITS funds, • Alternative investment funds, • pension companies that manage mandatory pension funds, • pension companies that manage voluntary pension funds, • voluntary or mandatory pension funds and pension insurance companies, • societies for supplementary pension purchase, • factoring companies, • investment companies, • Stock Exchange, • MTF (Multilateral trading facility) operators, • Central depository and clearing company • operators of the central register • operators of the clearing and settlement system and operators of the investor protection scheme 	LARGE UNDERTAKINGS AND PUBLIC INTEREST ENTITIES – which exceed two of the following three criteria:	
		Total assets	150.000.000,00 kn (20.000.000,00 €)
		Total revenue	300.000.000,00 kn (40.000.000,00 €)
		Average number of 500 employees during the financial year	*500 employees starting January 1st 2017. according to the Directive 2014/95/EU

Non-financial report (*Non-financial statement*) and Consolidated non-financial report

- Public-interest entities which are parent undertakings of a large group exceeding on its balance sheet dates, on a consolidated basis, the criterion of the average number of 500 employees during the financial year shall include in the consolidated management report a consolidated non-financial statement containing information to the extent necessary for an understanding of the *group's development, performance, position and impact of its activity*, relating to, **as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, including** (Directive 2014/95, Article 21a of the Act of Accounting):
 - (a) **a brief description** of the group's business model;
 - (b) **a description of the policies** pursued by the group in relation to those matters, including due diligence processes implemented;
 - (c) **the outcome** of those policies;
 - (d) **the principal risks** related to those matters linked to the group's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the group manages those risks;
 - (e) **non-financial key performance indicators** relevant to the particular business.

Annual financial report of undertakings and groups

Table 1. Graphic display of annual financial statements of large undertakings and groups



Corporate governance statement

- The content described in Article 22 of the Act of Accounting, **supplemented** by the Article 1, paragraph 2 of Directive 2014/95/EU

Table 1. The content of the Statement of Corporate governance code

Act of Accounting (Article 22)	a) the Corporate governance code which refers to the social dimension of doing business and is used voluntarily by entrepreneurs, and corporate governance practice that goes beyond the required national legislative framework, as well as sources where it could be found b) possible deviations from or reasons for not implementing the Corporate governance code, if they occurred c) a description of main features of systems of internal control and risk management in the company relating to the process of financial reporting d) information on takeover bids if the company falls under the Directive 2004/25/EU e) description of the shareholders' work as well as description of their rights and ways in which they can use those rights in their advantage f) the structure and activities of administrative, managerial and supervisory bodies with their respective committees
Act of Accounting (Article 22)	g) description of diversity policy of administrative, managerial and supervisory bodies within the company with regard to age, gender, education or profession; goals of diversity policy, ways in which it is implemented and results from the reported period* * it prevents the phenomenon of „groupthink“ i.e. excessive similarity of opinions between members of the group

Disclosure of non-financial report

Two options:

1. published together with the management report

Or

2. made publicly available within a reasonable period of time, not exceeding six months after the balance sheet date, on the undertaking's website (5 years), and is referred to in the management report.

Audit of non-financial reports

- Statutory auditors and audit firms ***should only check*** that the non-financial statement or the separate report has been ***provided***.
- In addition, it should be possible for Member States to require that the information included in the non-financial statement or in the separate report be ***verified*** by an independent assurance services provider. (Article 21a of the Act of Accounting).

Penalties

- Penalty for undertakings which haven't disclosed non-financial information is **1.333 euro to 13.333 euro**
- Black list
 - Ministry of Finance will publish undertakings which **need to report** non-financial information
 - For companies which fail to report non-financial information, Ministry of Finance will publish on their web site a **“black list”**

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Open question

- An undertaking which is a ***subsidiary undertaking shall be exempted*** from the obligation of publishing a non-financial information (Directive 2014/95/EU and Article 21a of the Act of Accounting)
 - Directive hasn't give an option for Mamber States
 - Challenge for Croatian gonverment

Thank you for your attention!

Do you have any questions?

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