

Only one out of 500 companies will have to report on non-financial impact, under new EU rules

The European Commission's revised Non-Financial Reporting Directive (NFRD) published today lacks ambition and clarity. Only about 0.2% of EU-based companies are addressed, neither quantified comparable results nor incentives are considered. The definition of concrete standards is delegated to private entities. Including meaningful reporting standards such as the Common Good Balance Sheet would be key for success.

Brussels, 21 April 2021 - The European Commission's new proposal on the revised NFRD, issued today, is an important step to reduce harm done to people, society and the planet by companies. However, to ensure the Directive delivers the social and environmental objectives, the European Parliament and Member States should broaden the scope, define more detailed reporting standards, make external audit mandatory and offer legal incentives to reward responsible companies, claims the Economy for the Common Good (ECG).

Most companies in the EU and globally fail to disclose relevant information¹ on sustainability, human rights and other ethical issues. Given the pressing need to address global challenges such as climate change, loss of biodiversity or inequality, and the rapidly increasing interest in companies' sustainability performance by customers, investors and for future generations, there is an urgent need for tightening reporting obligations. The ECG thus strongly welcomes the EU Commission's initiative to reform the NFRD, applied since 2017. However, the new proposal falls short of the expectations and, if unamended, will not lead to the significant change that society needs.

Broadening the scope of sustainability reporting to include small and medium companies (SMEs)

"The new proposal does not cover non-listed small and medium companies, not even those in high-impact sectors. SMEs make up half of the EU's GDP and two thirds of employment," says Christian Felber, founder of the Economy for the Common Good. Only an estimated 0.2% of companies² will be covered under the legislation. "To really root out abuses and environmental harm, the EU should define proportionate reporting requirements for smaller companies. The ECG model³ is an example of how this can be done in a rather straightforward way, and at reasonable cost." Some 800 SMEs have done one or more Common Good Balance Sheets⁴ voluntarily as they deem it meaning- and purposeful.

¹ See https://germanwatch.org/sites/default/files/Full%20Disclosure%202021-3_Reform%20of%20the%20EU%20Non-financial%20Reporting%20Directive.pdf

² See https://ec.europa.eu/eurostat/cache/digpub/european_economy/bloc-3b.html?lang=en and <https://epthinktank.eu/figure19e28093keyfiguresonsmesintheeuropeanunion/>

³ The European Economic and Social Committee approved an opinion on the ECG model in 2015 with a majority of 86%.

⁴ https://www.ecogood.org/wp-content/uploads/2020/04/ecg_compact_balance_sheet_workbook.pdf

More ambitious social standards - defined by Parliament and Council

The ECG movement is critical that, the concrete standards, according to the Commission's proposal, will be developed in a delegated act by private entities. *"Human rights, climate stability, biodiversity protection, tax justice and political lobbying and influencing are not issues to be regulated by private standard setters", Felber contests. "Instead, the European Parliament and the Council should define the concrete reporting content using the most ambitious frameworks in all fields. Especially, the social standards need to be ambitious and far-reaching, including the limitation of inequality, de-concentration of property, sanctions over tax avoidance and caps on political lobbying", says Felber.*

ECG: Put financial and non-financial reporting on an equal footing

"Non-financial information should be placed on an equal footing with financial information, in terms of scope, auditing, comparability and legal consequences" states Felber. The ECG model and its Common Good Balance Sheet provide quantified and comparable results to which regulators could link legal incentives: from public procurement and economic promotion to taxes and finance to market access. Such intelligent incentives would correct the current system error where externalizing costs provides a competitive advantage for firms. The ECG model would reward companies that internalize costs and externalize benefits and thus contribute to the European transition towards sustainability.

The ECG movement calls on EU policy-makers in the European Parliament and on Member State representatives to amend the Commission's proposal and (1) extend non-financial reporting to all companies which fall under the obligation of financial reporting, (2) define social and ecological standards using the most ambitious existing frameworks, (3) ask for quantified and comparable results which are externally audited, and (4) link positive and negative legal incentives to higher/lower scores - in order to use market forces for promoting society's goals and values: from human rights and dignity to social cohesion to climate stability to increasing biodiversity.

About the Economy for the Common Good

The Economy for the Common Good (ECG) is a social movement advocating for a future-fit economic model which is beneficial to all stakeholders of an organization: employees, suppliers, customers, business partners, the local community and society at large, as well as the Planet and future generations. It is a model which puts the Common Good, meaning the well-being of the people and the respect for all life, as its primary goal and purpose. The ECG movement is constantly growing and gaining supporters across EU Member States. So far, 800 organizations, mainly companies, but also schools, universities, municipalities, and cities, have used our Common Good Balance sheet as a means to do their "non-financial" reporting, including to meet their obligations under the current Non-Financial Reporting Directive.

Further Information: ecogood.org

For questions about the Economy for the Common Good and the Non-Financial Reporting Directive or interview requests, please contact:

press@ecogood.org

Stella Schaller, International PR Coordinator

Phone: +49 178 557 6224