

EU directive on non-financial reporting

Department for Business, Energy and Industrial Strategy

RPC rating: fit for purpose

Description of proposal

The IA states that the quality and quantity of non-financial reporting currently fails to address adequately the asymmetry of information that exists between companies and investors. In addition, there is no standard reporting framework across Europe to allow for a consistent comparison of companies. The proposal is to transpose the EU directive on non-financial reporting into UK regulations. The directive places additional requirements, in relation to anti-bribery and diversity reporting, on large quoted and unquoted companies with more than 500 employees.

Impacts of proposal

Costs

The IA states that there will be familiarisation costs for all 537 companies and their subsidiaries that are in scope of the directive. In addition, those companies which are not already meeting the requirements of the directive will incur additional reporting costs. The Department uses responses to a survey, based on 400 computer-assisted telephone interviews of quoted and unquoted companies, to estimate the time it will take them to familiarise themselves with, and meet the additional reporting requirements of, the regulations.

The IA explains that some quoted companies and their subsidiaries will have to report on their approach to anti-bribery and corruption matters. Using the Forecasting Analysis and Monitoring Environment (FAME) database, the IA estimates that the 61 quoted companies will each incur first year costs of £632 and ongoing costs of £429, and the 6,906 subsidiaries will each incur first year and ongoing costs of £474 and £322, respectively.

In addition, based on the survey results, the IA explains that some quoted companies and subsidiaries will also have to report on their approach to diversity. Using the FAME database and survey results, the IA estimates that 113 companies will incur first year and ongoing costs of £763 and £440, respectively, and 12,662 subsidiaries will incur first year and ongoing costs of £572 and £330, respectively.

The IA explains that some unquoted companies and subsidiaries will have to report on environmental matters, employee, and human rights matters, and start using key performance indicators to meet the requirements of the UK enhanced strategic report to which quoted companies already adhere. The IA estimates that 148 large unquoted companies will incur a first year cost of £3,713 and ongoing costs of £2,363, and 2,430 subsidiaries will incur first year and ongoing costs of £2,785 and £1,772, respectively. In addition, some unquoted companies and their subsidiaries, having to report on anti-bribery and corruption, will incur familiarisation and additional reporting costs. The Department estimates that 92 unquoted companies will incur first year costs of £951 and ongoing costs of £455, and 1,519 subsidiaries will incur first year and ongoing costs of £713 and £341, respectively.

The Department assumes that companies in scope of the directive, but already meeting their requirements, will still incur costs of familiarisation with the new obligations and reporting formats. The IA estimates that 328 large quoted companies and 55 large unquoted companies, already reporting on anti-bribery and corruption, will incur familiarisation costs of £296 and £450, respectively. In addition, 276 large quoted companies already reporting on diversity will incur a one-off cost of £277.

In total, the IA estimates the total first year costs to companies in scope of the regulations to be £19.34 million and ongoing costs, in subsequent years, to be £11.69 million. These costs consist mainly of the small burdens placed on a large number of subsidiaries.

Benefits

The IA states that stakeholders will benefit from the availability of better non-financial information and that this will help investors to make more informed investment decisions. In addition, increased transparency and accountability will encourage companies to assess non-financial risk and opportunities better and incorporate this into their business strategies and models.

Quality of submission

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £11.6 million. As the measure is of EU origin, it is a non-qualifying regulatory provision that will not be accounted for under the business impact target. The IA considers another option which, on top of the preferred option, would also “dis-apply” the current reporting requirements on smaller quoted companies. This option is estimated to cost £1.7 million per year less than the preferred option; this represents the foregone saving, in EANDCB terms, of maintaining these standards.

The IA provides sufficient analysis for the RPC to validate the EANDCB. Compared to the estimates at the consultation stage, the costs reflected in the present IA cost have now increased substantially. The IA explains that previous estimates were based on just two responses from a survey and the present estimates use interim results of a survey from an ongoing research project, which the Department considers to be more robust.

As the regulations implement the minimum requirements of the directive, the regulations are, therefore, non-qualifying regulatory provisions. The scope of the directive does not extend to businesses with fewer than 500 employees. The UK currently has reporting requirements for quoted companies with fewer than 500 employees and the Department's intention is to maintain these requirements. In line with the Small Business, Enterprise and Employment Act 2015, as there is not a regulatory provision coming into force or ceasing to be in force on businesses with fewer than 500 employees, maintaining these standards will not be reported or accounted for under the business impact target. However, the Department explains that the option to dis-apply the standards for smaller firms is not recommended because of the resulting loss of information about small quoted companies and the lack of support, during the consultation, from stakeholders. The IA states that the opportunity to reduce the burdens on smaller companies should be considered separately, as the directive approaches its date for review.

Departmental assessment

Classification	Non-qualifying regulatory provision (EU)
Equivalent annual net direct cost to business (EANDCB)	£11.6 million
Business net present value	-£108.27 million
Societal net present value	-£108.27 million

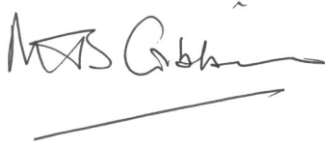
RPC assessment¹

Classification	Non-qualifying regulatory provision (EU)
EANDCB – RPC validated	£11.6 million
Business impact target (BIT) score	£58.0 million

¹ For reporting purposes, the RPC validates EANDCB and BIT figures to the nearest £100,000.

Opinion: final stage IA
Origin: European
RPC reference number: RPC-3469(1)-BEIS
Date of implementation: by 6 December 2016

Small and micro business assessment	Not required (European origin)
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