Value of Non-Financial Reporting

Defining the Users and the Benefits of NFR

Department for Business and Trade

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Executive Summary

Companies in the UK that satisfy certain criteria based on the number of employees, revenue, and whether they are listed on an exchange are required to disclose non-financial information (NFI) as legislated via the Companies Act (2006), subsequent amendments, and other requirements such as modern slavery statements.

The stated policy objective for the non-financial reporting (NFR) requirements is to increase transparency and accountability of the risks faced by companies as well as the actions and policies companies have undertaken to mitigate these risks. The rationale for the regulations the asymmetry of information on a company's activities between company management and its stakeholders, including investors.

NFR is usually provided within the strategic and directors' reports and made publicly available through integrated annual reports (typically available online). Companies may also make voluntary disclosures on NFI through a variety of formats, but these are often not subject to regulations and may not be a consistent source of NFI across companies and across time.

The logic model underpinning the current UK NFI disclosure[1] requirement places particular emphasis on the importance of NFI to investors[2] and how it should: (a) facilitate more informed investment decisions through greater comparability across companies' reporting; and (b) result in better outcomes for society overall by directing capital flows to companies and activities that produce socially desirable outcomes. NFR generates this value by making information about companies available to investors so that they can make better decisions to align their investment choices to their overall investing goals such as returns, level of risk, or other aims.

Existing qualitative evidence indicates that investors place, in general terms, significant value on NFI (PwC and BEIS, 2019; PwC, 2021a). There is, though, little quantitative evidence on the benefits of NFI or NFR to investors that could be used to estimate a total overall benefit value. Quantitative evidence on the relative value of different types of NFI - such as environment, social, and governance (ESG) information - is also lacking.

[1] NFI disclosure and NFR differ. NFR refers primarily to the strategic and directors' reports, whereas NFI encompasses all non-financial disclosures – voluntary or required. This distinction is not universal, however. Strategic and directors' reports, which may include voluntary disclosures alongside mandatory ones, and mandatory disclosures do include some items that sit outside of these two reports. However, the strategic and directors' reports are the two predominate disclosure requirements, and this definition is a useful shorthand for where regulations are the driver of the disclosure.

[2] The term "investors" is used here to describe all investors – retail investors (i.e. household investors and their agents), institutional investors (i.e. pension funds and large banks, etc.), professional investors (asset managers), and investment consultants (i.e. information providers). These different groups have different interactions and values for NFR and NFI – which is explored further throughout this report.

Research aims and approach

eftec and Research in Finance (RiF) were commissioned by the Department for Business and Trade (DBT) to address the evidence gap on the value of NFI and NFR to investors. The project had two overall objectives: (A) examine and test the logic model and assumptions concerning the value of NFI and NFR[3] to investors; and (B) assess the economic value of NFI, including the relative value of different elements of NFI. In essence the requirement was for the project to formulate and execute an approach that translates the logic model to circumstances in which the value of NFI and NFR to investors can be quantified and measured in monetary terms.

The evidence produced by the project will inform the Government's review of NFR requirements,[4] allowing quantified benefits for key user group(s) – in this case investors - to be compared to estimates of the regulatory cost imposed on reporting companies. It is recognised that the focus on investors does not reflect the full value of NFI or NFR, but it is expected to represent a fair proportion of the benefit that is derived from the regulatory framework.

A key challenge in estimating the value of NFI is that it is typically a non-market good[5], as it is generally available free of charge. There is no price for its provision that can be observed from existing markets from which its value can be reliably inferred. Various approaches can be used to estimate the value of non-market goods, which are largely grouped between revealed preference and stated preference methods. Each approach shares a common starting point, which requires defining: (1) the "good" to be valued; (2) the users (beneficiaries); and (3) the mechanism through which users accrue those benefits. The initial part of this report considers these three definitions and the relationships between them. From that common point the valuation methodologies that can be used to estimate the value of NFI are assessed.

Research phases

To answer the research question and develop a framework for estimating the value of NFI and NFR, this report draws together the findings from a desk-based evidence review, and two initial phases of primary research carried out in Spring – Summer 2023:

- **Phase 1 – Scoping (literature review and user survey):** This phase was primarily concerned with understanding how investors think about NFI and NFR and exploring who the specific users of that information might be. It involved: (i) a review of a range of literature, including academic papers and other relevant empirical studies, research reports (including previous research published by the then Department for Business, Energy & Industrial Strategy - BEIS),

[3] The value of NFI will be greater than the value of NFR as what is published as NFR is a sub-category of all NFI. It is also difficult to disentangle what NFI is available due to demand on companies versus the regulations themselves, and counterfactual data on disclosures is not available to directly test the influence of regulation. Therefore, estimating the value of NFI is an easier overall task.

[4] https://www.gov.uk/government/consultations/smarter-regulation-non-financial-reporting-review-call-for-evidence

[5] There are some markets for NFI – such as through the services provided by MSCI, Sustainalytics, and others. These companies often provide both NFI data and analysis – and are therefore both consumers of NFI from companies and sellers of NFI to investors and other stakeholders.

commentaries from investor initiatives, government regulations and a small selection of recent non-financial reports issued by companies; and (ii) a preliminary user survey (aimed at a basic understanding of the use of NFR by different types of UK investors and investor agents). The user survey collected 1,699 responses, split between private (750) and professional (949) investors.

- **Phase 2 – Qualitative research (interviews):** This phase further explored who the users of NFR are, what types of information they use, and how they use that information. This was carried out through a series of twenty-five 45-minute interviews across a range of investor types (private investors, institutional investors, asset managers, and consultants). This research was aimed at reinforcing and expanding on the findings of Phase 1 to help determine the valuation framework and sample population for the valuation of NFI in Phase 3.

The findings outlined in this report provide the basis for the research approach for Phase 3, which will implement a valuation study that will estimate the value of NFI to investors.

Research scope and context

The reporting requirements for NFI disclosures varies depending on the country a company reports within (often the country in which it is headquartered and listed) and aspects of the company itself (annual revenue, or number of employees, listed-status, area of activity). This study focuses on the NFR regulations in the UK, but companies headquartered in the UK may be influenced by other jurisdictional regulations, especially if they are listed or operate internationally.[6] Further, companies may disclose based on the demands of investors.

NFR regulation is also undergoing changes. The UK Government is conducting a review of the NFR requirements in a series of stages. The first of these was the call for evidence that concluded in 2023[7] and is being followed by a series of reforms.[8] There is also considerable ongoing international activity aimed at greater alignment of non-financial disclosure regulations between countries. Examples include: (i) the International Sustainability Disclosure Standards (ISDS) which have been developed by the International Sustainability Standards Board (ISSB); and (ii) the International Financial Reporting Standards (IFRS) S1 and S, which were published in June 2023 and has since been adopted (either in part or in whole) by several jurisdictions.[9][10] Although the focus of this research is on UK NFR disclosure regulations, the wider international context is of relevance since it may influence UK regulatory framework in the coming years.

[6] Note the inverse also applies – companies headquartered elsewhere but that trade in the UK may be required to disclose information based on the UK regulations.

[7] More information available at: https://www.gov.uk/government/calls-for-evidence/smarter-regulation-non-financial-reporting-review-call-for-evidence

[8] More information available at: https://www.gov.uk/government/news/prime-minister-to-announce-major-reform-package-to-boost-apprenticeships-and-cut-red-tape-for-thousands-of-small-businesses

[9] I More information available at: https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/

[10] The latest Green Finance Strategy *'Mobilising Green Investment'* (available at: https://www.gov.uk/government/publications/green-finance-strategy) has set out the UK's adoption and endorsement mechanism for ISDS.

There are also differences in how companies report under the UK regulations. NFR comes in a variety of formats, volume of information, and level of detail – based on sector of operation, position on ESG topics, size, and reputation, to name a few. However, most disclosures do feature similarities. Above a minimum size, NFR would be expected to be mainly contained in a strategic and directors' report and is often framed in the context of risks and opportunities a company faces. Further, it is typical that disclosures include information structured around the ESG topics, and certain information is mandated, such as how the directors have acted in the interest of the company or Scopes 1 and 2 green-house gas (GHG) emissions for companies above a certain size.

Findings on the users and benefits of NFR

The user survey on NFI and the investor interviews were analysed to both test the logic model for the benefits of NFR and to inform the development of the quantitative phase of this research. This survey also helped to identify the different "groups" of users. In brief, these are: private investors (households and individuals); institutional investors (large organisations investing pooled assets); professional investors which includes investor agents (discretionary fund managers and independent financial advisors) and asset managers (firms managing large amounts of assets on behalf of either individuals or other organisations); and consultants, which fill niche roles within the investment space.

The key findings from the user survey and investor interviews were:

Key findings relating to the "good"

1. **Investors and their agents make little distinction between NFI that is required by regulation and NFI that is not.** The source of information matters so far as it helps investors judge the quality and relevance of information against a set of criteria - materiality, availability, timeliness, comparability, and verifiability (see key finding 8 below).

2. **Strategic and directors' reports are often long and complicated and hence labour intensive to use.** This means that beyond an initial audience of analysts and consultants, many in the investment sector use secondary information that is developed from the disclosures contained in the original reports.

3. **NFI is combined with financial information to create a broader set of 'actionable information' or 'knowledge' that is used in decision making.** Within the value of information literature, this pathway is expressed as *data* → *information* → *knowledge* → *decision* → *action* (Glynn et al., 2022). The types of information included in "knowledge" and the weights placed on them will vary between individuals and firms. However, data in this framing is not used in abstract, and therefore comparability between information points (both within a company and between companies) is critical to using it to generate knowledge.

Key findings relating to the users and beneficiaries

4 **Investors do not have to directly interact with strategic or directors' reports to benefit from them.** Within the investment sector, the group of regular users for NFR is small (mainly asset managers and certain types of consultants – per key finding 1), but the outputs that they create in the form of secondary NFI or directly actionable information ('knowledge') provide benefits to a wide range of beneficiaries from fund managers using analysis reports to small private investors buying funds.

5 **Consultancies and asset managers are both beneficiaries (consumers) and suppliers of NFI.** The information required by investors influences the types of NFI that consultancies and asset managers review and use in their decision making. However, since investors rarely have access to the same range of information or level of expertise as asset managers, what they demand is subject to advice provided by these firms (in terms of NFI information provided and how much weight is put on different types of NFI).

Key findings relating to investor preferences

6 **The relative importance of various aspects of financial and non-financial information varies widely between investors.** This suggests that beneficiaries value NFI differently depending on underlying preferences and goals (e.g. motivated by rate of return, social outcomes, environmental outcomes, risk aversion, etc.) Key dimensions include ESG and risk assessment.

7 **NFI is used in assessing investments against screening (exclusionary) criteria and ensuring alignment with broader investor aims (soft screening).** Many investors will use NFI to assess an investment against a set of criteria, such as environmental or social performance. These can be hard criteria, such that an investor only invests in companies above some threshold, or soft criteria such that companies are comparatively assessed on some measure as part the decision-making process. The metrics used in these screening assessments are therefore essential to certain investing strategies that they inform – such as ESG investing.

8 **Investors are concerned about the materiality, availability, timeliness, comparability, and verifiability of NFI.** Materiality and availability are key – as the information needs to be available to be used and needs to make a difference to 'knowledge' to have value (see key finding 3). The value of NFI could be enhanced if it is also verifiable and comparable across companies.

Valuing the benefits of non-financial reporting

A simplified value chain approach that distinguishes between resources employed in the provision and use of information (the opportunity cost) and demand (the expected gain) is used to map the flow of *benefits of NFR*. The chain starts with regulators (Government bodies or other organisations – such as the Financial Reporting Council) who specify the reporting regulations - that are consistent with the overall legislative framework – to be met by the “suppliers”, which are the companies that produce NFR. The users of NFR are those that directly interact with NFR (mainly asset managers and consultants), and the beneficiaries are the investors, who benefit from the information contained in NFR (alongside other information) when making investment decisions.[11]

For the users and beneficiaries (which represent various types of investors), the value of NFR can be estimated either by: (i) gathering information on the costs they incur to use that information (opportunity cost); or (ii) their demand as measured by their willingness to pay (WTP) for that information (Figure ES1). The former represents a minimum value of NFR, as rational users would benefit from information at least as much as it costs to use it. The latter represents a more complete view of the value of NFR for a given user or beneficiary group by including the consumer surplus of NFR, i.e. what they would be willing to spend over and above the opportunity cost to have access to the information.

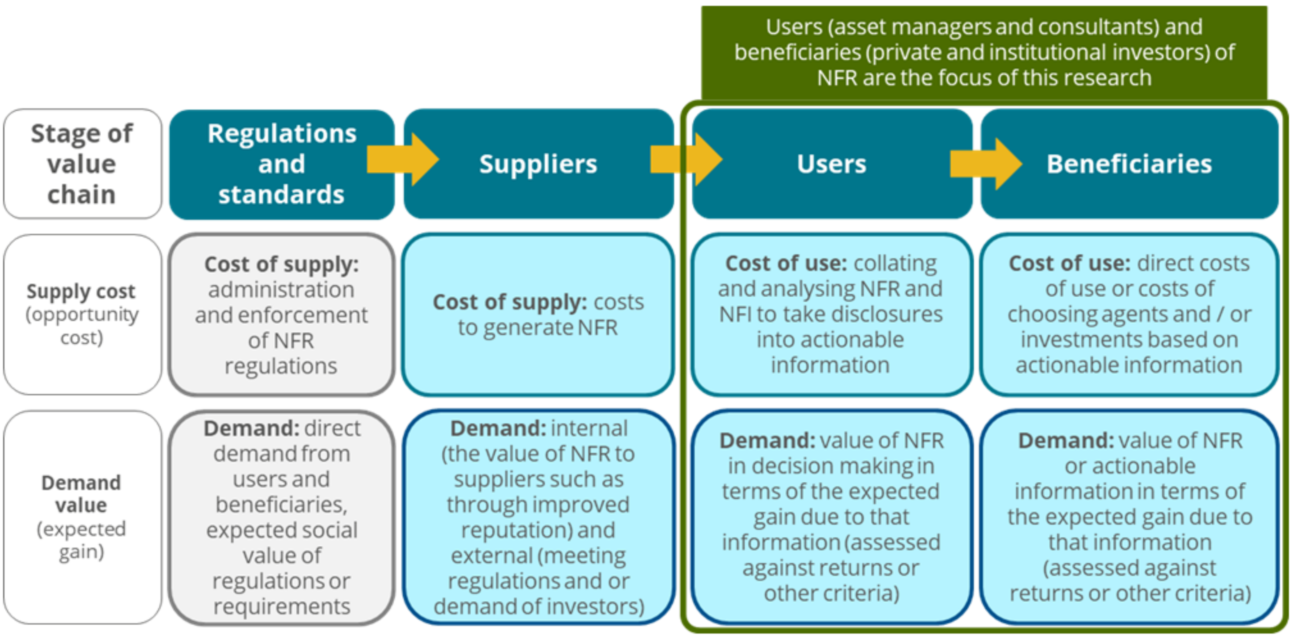


Figure ES1: Value of NFR from the supply (opportunity cost) and demand (expected gain) perspectives

[11] Some individuals or organisations may be in more than one category based on their activities. For example, asset managers are users of NFI in their decision frameworks, suppliers of NFI in their own reports, and beneficiaries of NFI where that information increases their profits through better decisions or through gaining clients. However, the distinction between suppliers, users, and beneficiaries are still useful in understanding how and why NFI has value (and to whom).

There are four approaches to valuation that could be used in this research:

- **Market value** – while NFR are available free of charge, there are markets for NFI products based on NFR from which price data can be gathered. Suppliers include, for example, MSCI, Morningstar, Bloomberg, and others.

- **Resource cost** – information on the opportunity cost (mainly labour and supplier cost) of using NFR and NFI can be collated to estimate the minimum benefit of using that information to investors under the assumption that benefit is greater than or equal to the cost of use.

- **Revealed preference** – by observing existing behaviour (such as the selection of fund managers), preferences regarding the choice criteria of the behaviour can be estimated as long as they can be observed (such as fund managers use of NFI).

- **Stated preference** – WTP for NFR can be elicited through survey of users or beneficiaries. Such a survey could ask about the preferences for the provision of NFR and include a simulated market where respondents can trade-offs money for the provision of the NFR.

Combined with the value perspectives in the simplified value chain (Figure ES1), there are three framings which could be used to estimate the value of NFR: (i) the opportunity cost to users (estimated via market values and/or resources costs); (ii) the opportunity cost to beneficiaries (estimated via market values, resources costs, or revealed preference); and (iii) users' and beneficiaries' WTP for NFR (estimated via stated preference or revealed preference).

Proposed approaches for Phase 3 research

There were two preferred approaches for the quantitative phase (Phase 3) of this research:

- **Resource cost approach:** A series of consultation workshops responded to by asset management firms, which are the group that uses NFR directly most often based on the findings of this report. The workshops would collate data on the current opportunity costs for gathering, analysing, and using NFR and NFI. Data would include expenditure on third-party NFI and the cost of any employee time spent on reading, collating, or analysing NFR and NFI. By combining this information with data on the asset management firms' characteristics, an indicative value for the use of NFI could be estimated and applied across the asset management sector, generating an overall estimate for the current opportunity cost of the use of NFI. The participants would be recruited via a trade association to ensure access to these firms (such as the Investment Association[12]).
- **Stated preference approach:** An online survey responded to by groups of beneficiaries (likely private investors, institutional investors, and those in the retail investing sector). This approach could directly establish demand for NFR or NFI within the segments that are

[12] https://www.theia.org/

surveyed and elicit their WTP for different aspects of that information. In principle, this strategy would estimate the total benefit investors get from NFI.[13] As a survey-based approach, it is also possible to collect supplemental information on investor characteristics, attitudes and perceptions to obtain a rich dataset to explain preferences and values.

These approaches are preferred as they are feasible from a practical implementation perspective and examine the value of NFR through two framings that were identified in the qualitative research – the use of NFR by asset managers, and the demand for NFI by investors. These two approaches should be supported by desk-research on the current markets for NFI where that data is available, and previous literature on both the value of NFI and the value of information generally.

[13] Assuming the respondents are well informed on both the good (NFI) and how it factors into their investment decisions.

Contents

Abbreviations & Acronyms

Abbreviation or Acronym	Term or Phrase	Explanation or definition
AUM	Assets Under Management	The total assets that are invested by an asset manager on behalf of their clients.
CSO	Civil Society Organisation	Voluntary, community, or non-profit organisations, usually operating towards a specific cause or purpose.
CSR	Corporate Social Responsibility	Business model that helps companies become more socially accountable to their stakeholders, and the public.
CSRD	Corporate Sustainability Reporting' Directive	Law mandating that organisations report sustainability disclosures across several topic including environmental and social issues, and improvements in non-financial reporting.
DBT	Department for Business and Trade	Government body which supports business to invest, grow and export. Previously part of the then Department for Business, Energy and Industrial Strategy (BEIS)
DFM	Discretionary Fund Manager	Professional investor that manages investment portfolios – including buying and selling investments – on their clients' behalf.
ESG	Environment(al), Social, and Governance	Set of aspects investors consider when they invest in companies which relate to environmental, social and governance issues.
FRC	Financial Reporting Council	Independent regulator for auditors, accountants, and actuaries.
N/A	Harmonisation	Harmonisation in this report refers to the alignment of regulations and standards for non-financial information disclosure across jurisdictions, regulators, and other standard setters.
IFA	Independent Financial Advisor	State regulated financial advisor that offers independent advice on financial matters, including recommending suitable financial products from across the entire financial market.
IFRS	International Financial Reporting Standards	The IFRS Foundation is a not-for-profit responsible for developing global accounting and sustainability disclosure standards, known as IFRS Standards.
ISSB	International Sustainability Standards Board	The ISSB is developing—in the public interest—standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.[a]
NFI	Non-Financial Information	Information that provides insight into the broader matters (against financial information) that affect the performance of the entity over the longer term that is relevant for shareholders (FRC, 2022).
NFR	Non-Financial Reporting	Any disclosures required by UK regulations and statutes, including but not limited to the statement required by s414CA CA2006 – non-financial and sustainability information which is part of the strategic report.
NFRD	Non-Financial Reporting Directive	Law requiring certain companies to disclose their non-financial information.

Abbreviation or Acronym	Term or Phrase	Explanation or definition
PIE	Public Interest Entity	A company that is traded on a regulated market, is a credit institution (bank) that meets certain size criteria, or a insurance institution that meets certain criteria. [b]
PIR	Post Implementation Review	A review of a policy against its stated objectives. In this report, PIR will refer to BEIS (2022) unless otherwise stated.
RiF	Research in Finance	A research firm based in London and one of the major contributors to this report.
RP	Revealed Preference	Method of valuing non-market goods by data which is already available.
N/A	Standardised Format	Standardised format or other similar terms refer to aligning the metrics, measures, and data provided in disclosures, as well as aligning how that information is presented.
SP	Stated Preference	A survey-based method for valuing non-market goods, by creating a simulated market.
TCFD	Taskforce on Climate-related Financial Disclosure	An organisation created by the Financial Stability Borad to "develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks—risks related to climate change." [c]
TNFD	Taskforce on Nature-related Financial Disclosures	"A market-led, science-based and government-backed initiative providing organisations with the tools to act on evolving nature-related issues" that aims to "provide decision makers in business and capital markets with better quality information through corporate reporting on nature that improves enterprise and portfolio risk management."[d]
WTA	Willingness to Accept (compensation)	A minimum monetary amount that a respondent is willing to accept to sell a good or service, to tolerate a loss or to forgo an improvement.
WTP	Willingness to Pay	A monetary amount that a respondent is willing to pay for a good or service, to prevent a loss or to secure an improvement.

Table Notes:
(a) See more at https://www.ifrs.org/groups/international-sustainability-standards-board/ (accessed 7 March 2024)
(b) See more at https://www.legislation.gov.uk/ukpga/2006/46/section/519A (accessed 7 March 2024)
(c) See more at https://www.fsb-tcfd.org/about/ (accessed 4 March 2024)
(d) See more at https://tnfd.global/about/ (accessed 4 March 2024)

1. Introduction

This report has been prepared by Economics for the Environment Consultancy (eftec) in collaboration with Research in Finance (RIF). It presents the findings of Phases 1 and 2 of research commissioned by the Department for Business and Trade (DBT) to estimate the value of non-financial reporting (NFR) and non-financial information (NFI) to investors. It summarises findings from a literature review, a survey on the use of NFI, and a series on interviews with investors and investing professional on the use of NFI. The report concludes with a valuation framework for NFI and two valuation approaches proposed for Phase 3, the quantitative phase to estimate the value of NFI.

Improving the understanding of the value of NFI will address a key evidence gap for: (i) reviews of the current regulations and (ii) policy development to streamline reporting regulations for companies to make them fit for purpose.

1.1 Background

Companies in the UK that satisfy certain criteria based on number of employees, size of revenue, and whether they are listed on an exchange are required to disclose non-financial information (NFI, definition in Box 1.1) as legislated via the Companies Act (2006), subsequent amendments, and other requirements such as modern slavery statements.

The stated policy objective for non-financial reporting (NFR, definition in Box 1.1) regulations is to increase transparency and accountability for the non-financial risks faced by companies as well as the actions and policies companies have undertaken to mitigate these risks (BEIS, 2022). The rationale for the regulations is an asymmetry of information on a company's activities between company management and its stakeholders including, but not limited to, investors.

Box 1.1: Definition of non-financial information (NFI), non-financial reporting (NFR), and company disclosures

NFI, NFR, and company disclosures are critical concepts within this report. There is little convergence on a specific definition of NFI or NFR within the academic literature (Stolowy & Paugam, 2018; Haller et al., 2017) or even between users of that information. However, generally, NFR is used to refer to company reporting on social, human, environmental, or corporate responsibility topics.

This research takes a regulatory view to the definition, meaning that NFR mainly refers to the strategic and directors reports within the UK context:

Non-financial reporting definition: any disclosures required by UK regulations and statutes.

The definition of 'non-financial' is also not universal. A Law Commission report (2014; pg. 112) defines non-financial factors in a way related to motivation – all factors which could not be used to understand the financial performance or risk of an investment. For this research, this definition is too narrow, and does not align with the expectation that non-financial information is material to expectations for financial performance and risk.

Rather, this study uses the current definition of NFI from the Financial Reporting Council (2022):

Non-financial information definition: *"Information that provides insight into the broader matters [beyond financial data] that affect the performance of the entity over the longer term that is relevant for shareholders". (pg. 71, FRC, 2022, Brackets added for clarity.)*

Finally, disclosure is defined according to it's generally accepted definition:

Disclosure definition: *"The act of making something known or the fact that is made known [by a company]" (Cambridge Dictionary, bracket included for this context)*

In this framing, NFR is a subset of NFI and company disclosure. NFI also includes some aspects of disclosure, but these two concepts do not completely overlap – financial disclosure is not NFI, and NFI that is not supplied by companies – such as general market reports - are not disclosures.

Finally, NFR and NFI also relate to, but are not the same as information about environmental, social and governance (ESG) or corporate social responsibility (CSR). These are framings that are often used to structure the themes common to NFI, and indeed many companies may use them to structure their reporting. However, NFI can extend beyond ESG or CSR, to include topics like brand, reputation, intellectual property, and human resources.

The logic model underpinning NFR regulations (Table 1.1) places particular emphasis on the importance of NFR to investors and how it should: (a) facilitate better informed investment decisions through greater comparability around companies' reporting; and (b) result in better outcomes for society overall by directing capital flows to companies and activities that produce socially desirable outcomes.

Table 1.1: Logic model for NFR regulation (adapted from BEIS, 2022)

Context	• Prior to the NFR regulations: o Businesses, wider stakeholders and investors were not finding NFI disclosures as useful as they could have been in their business and investment decisions; and o Only limited or not comparable non-financial information was presented in reports. • This potentially led to worse decisions from the point of view of society (and investors), due to opacity on firms' operations and problems with asymmetric information.
Inputs	• The regulations require companies to gather and disclose more useful and comparable information on their risks and wider impacts.
Outputs	• Users take information from these disclosures, turn it into actionable information through analysis or comparison, and then use that actionable information within their decision-making processes.
Outcomes	• Companies, investors, and other stakeholders have better understanding and decision making based on non-financial risks and performance. • Companies, investors and wider stakeholders change some decisions in scope, timing or scale.
Impacts	• More informed investment, business and other decisions lead to overall better social outcomes.

Within the regulatory framework, there is a need to further evidence the use and benefits of NFR to provide a full-as-possible account of the value of NFR regulations versus the burden of compliance that is placed on companies to disclose this information. While this evidence on use and benefits should be generated for all users of NFR, **this research focuses on investors** as they are a large user group and are expected to be significant beneficiaries (see Section 3.1.1).

Previous research carried out for BEIS has explored various dimensions of NFR and its impact, providing a wide-ranging view across companies, employee representatives, investors and professional organisations, and wider civil society organisations (CSOs) (Eunomia, 2020; PwC, 2021a). While this research provided useful context on the potential ways in which NFR might create value, it did not estimate how large that value might be. This evidence gap is increasingly important, especially as NFR regulations are becoming more rigorous at the international scale. For example, the EU recently amended the 'Non-Financial Reporting Directive' (NFRD) with the 'Corporate Sustainability Reporting' Directive (CSRD), which will take effect in 2024. These new rules are more demanding than the previous regulations and now require that certain sustainability information be assured (European Commission, 2023). Other examples include the introduction of IFRS S1 and S2, which set out suggested regulations on sustainability-related risks and climate-related risks.[14]

A ready estimate of the value of NFI or NFR[15] to investors (see definitions in Box 1.2) is not possible in the absence of a direct market and transactions for non-financial disclosures by companies. The regulations mandate that disclosures are made publicly available and free of charge, and therefore the total demand for NFR is currently unmeasured. Nevertheless, it is possible to estimate this demand and determining the value of NFR which is the objective of this study.

1.2 Research aims

This study has two overall objectives: (a) examine and test the logic model and assumptions concerning the value of NFR to investors; and (b) assess the economic value of NFR information, including the relative value of different elements of NFR.

In essence the requirement is for the study to formulate and execute a methodological approach that translates the high-level logic model (Table 1.1) to specific circumstances in which the value of NFR (or NFI) to investors can be quantified and measured in monetary terms. The intention is that the evidence produced by the study will inform the Government's review of NFR regulations[16], allowing estimates of the regulatory cost imposed on reporting companies to be compared to the quantified benefits for key user group(s).

Note that the research scope is focused on the value of NFI and NFR to investors. It is recognised that this does not reflect the full value of NFR, but it is expected to represent a sizable proportion of the benefit that is derived from the regulatory framework. Other ways in which NFR has value are highlighted, but the assessment of these benefits is beyond the remit of the current research.

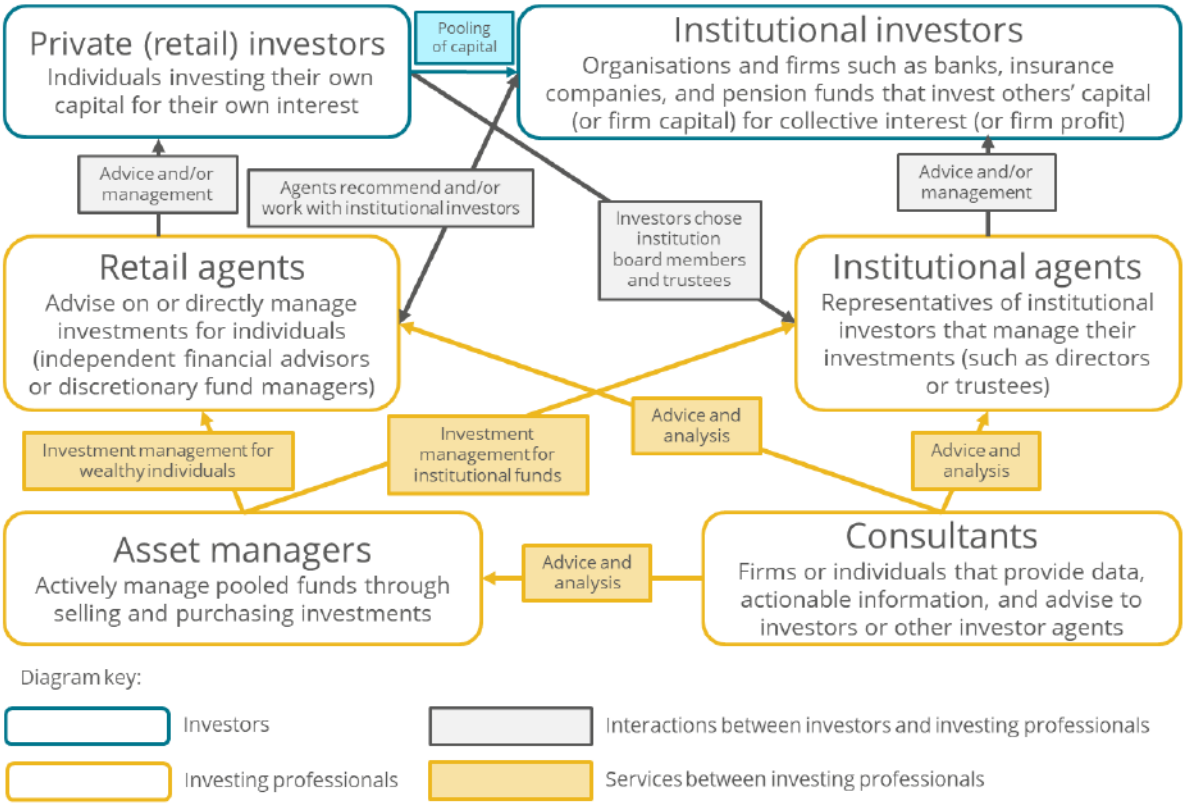
[14] International Financial Reporting Standards (IFRS) https://www.ifrs.org/projects/completed-projects/2023/general-sustainability-related-disclosures/

[15] The value of NFI will be greater than the value of NFR as NFR is contained within NFI. It is difficult to disentangle what NFI is available due to demand on companies versus the regulations themselves, and counterfactual data on disclosures is not available to directly assess the influence of regulation. Therefore, estimating the value of NFI is an easier overall task.

[16] https://www.gov.uk/government/consultations/smarter-regulation-non-financial-reporting-review-call-for-evidence

Box 1.2: Defining and differentiating investors

There are multiple types of investors, as well as multiple types of firms and individuals that act on behalf of those investors (referred to as investor agents). Within this report, the following structure and definitions are used. In practice the linkages can be far more complicated than shown here, but in broad terms these distinctions reflect the research to date and findings from this study.



Investors are the primary capital providers and can be grouped into two main categories:

- Private (retail) investors – individuals investing on their own behalf for their own interest and/or that of their household and family.
- Institutional investors – organisations that pool capital to purchase investments on behalf of their members and/or shareholders. There are many types of institutional investors which include banks, pensions schemes and funds, and insurance groups.

Investor agents are those that act on behalf of investors, and can broadly be categorised as:

- Institutional agents – the direct representatives of institutional investors. These agents include trustees and pension directors. They act on behalf of their organisation and are often selected by the members or shareholders of that organisation (which would be private investors).
- Retail agents – agents that advise or manage investments on behalf of individual investors, such as independent financial advisors (IFAs) or discretionary fund managers (DFMs). They act on behalf of their clients and can be individuals or part of a larger firm. Firms providing these services include Hargreaves Lansdown, AJ Bell, and Fidelity.
- Asset managers – firms that invest pooled funds on behalf of a client (such as a pension fund or a group of retail investors). Asset managers will often have many funds with different stated objectives and may also be integrated directly with institutional investors. The largest asset managers in the UK are BlackRock, Legal & General, Fidelity, and Baillie Gifford.
- Consultants – firms or individuals that provide advice and/or actionable information to investors or investor agents. There are a variety of types, such as data providers, ESG metric providers, or market forecasters. Major examples include MSCI, Bloomberg, Institutional Shareholder Services group, and Sustainalytics.

1.3 Research approach

The research question for this project – "what is the value of NFI?" – sits within the literature on the value of information. The value of information (Box 1.3) is commonly understood as the contribution of that information in making better decisions, such as in assessing an option against a desired set of outcomes in the face of uncertainty (Keisler et al., 2014). In the context of investing, the expected value of information in assessing an investment is traded off against the opportunity cost of using that information.

Box 1.3: The value of information

The value of NFI can be situated in the broader literature on the value of information. This area of study looks at the benefits (both potential and realised) of having information available, specifically in 'decision situations' (Glynn et al., 2022). Specifically, NFI in investing is a form of imperfect information as investment decisions are made with uncertainty on the expected returns, risks, and other impacts that an investment may have. There are several mechanisms through which that information might have value. For example as: (i) instrumental value of information - its value in better decision making; and (ii) intrinsic or physic value of information - its value outside of a decision context, such as in an earlier resolution of some uncertainty.

These dimensions of value can be difficult to distinguish, as investors' willingness to pay (WTP) for information or the cost of their time spent with information might be motivated by either consideration (or both in some proportion). The "data to decision" pathway model, such as data → information → knowledge → decision → action (*illustrated in Glynn et al., 2022)* represent how individual data points are used by decision makers to determine future actions. For data or information to have instrumental value, it must influence the next step at each step the pathway. This framing illustrates the importance of certain aspects of non-financial information: materiality and comparability.

- Materiality – information must be influential on knowledge and decisions resulting from that knowledge to have instrumental value. Materiality can further be considered as a spectrum, where information may have differing levels of importance (materiality) based on how it is used to develop knowledge.
- Comparability – investing is a comparative task, where two or more options will be compared to determine if investment package A or investment package B is preferred. Therefore, the information informing those decisions must be comparable.

This research is centred on the value of NFI to investors, which is expected to be beneficial for the purpose of informing better investment decisions - either to align to some set of preferences for non-financial impacts or to better evaluate the future financial returns of the investment. Both potential and realised value are relevant in this research, but demonstrating realised value requires an ex-post analysis of decision making, which is unlikely to be possible. Rather, the emphasis is on perceived value of information and understanding it in the context of the decisions and actions it may influence.[17]

Non-financial information is often a non-market good – the information is generally available free of charge on disclosing company websites – and therefore the amount a user would pay for the good cannot be observed from existing markets. There are common approaches for valuing non-market goods:

- Review the existing academic research on the value of non-financial information.
- Observe supply and demand in related markets, such as the market for environment, social, and governance (ESG) industry products (i.e. data, analysis and insights, third party ESG ratings, etc). Revenue and sales data on this information can be observed from some providers (such as MSCI and Bloomberg).
- Observe existing investor behaviour (such as the selection of fund managers) through surveys or through existing datasets. This data can then be analysed used to estimate investors preferences over the aspects of the behaviour that are observed (such as if the fund managers use of NFI could be quantified).
- Use stated preference methods to measure the demand of investors and the other potential users for NFI via simulated markets.
- Examine user costs associated with compiling NFR insights.

Regardless of the valuation approach, it is also important to understand the factors that affect the demand for NFI and NFR. Insights on what investors want from NFI, and therefore from the regulations, could inform long-term policy thinking. Understanding investor uses of and preferences for NFI will also indicate how the value of NFI and NFR may change over time. Finally, understanding what motivates investors' demand for NFI will help shape the valuation approach, and the questions that should be asked to estimate the benefits of regulations on the disclosure of that information.

This report addresses three fundamental and preliminary questions for the design and development of a (non-market) valuation approach, namely: (1) what is the "good" to be valued; (2) who are the users (beneficiaries); and (3) how does the good generate value for the users (beneficiaries)? Once these three questions are explored, an additional question can be asked: (4) what valuation methods can be used to estimate the benefits? While questions (1) and (2) are answered in part by the research question itself (i.e., NFR and investors), more specific investigation is required to address question (3) and to provide the basis for the design of a valuation study (4).

This report draws together the findings from two initial phases of research carried out in Spring – Fall 2023:

[17] The study of information and how it creates "knowledge" (actionable information) typically includes explicit frameworks as well as implicit assumptions, beliefs, and mental models (Glynn et al., 2022) about the underlying data and information. This suggests that in the context of NFI, understanding both the explicit uses of the information (such as for assessing some screening criteria) and the feelings and attitudes towards that information are important to a fuller understanding of the value of NFI. The question, therefore, is not only "Does non-financial information have value?", but also "Are the things that non-financial information informs investors about important to them?" The answer to the latter changes over time. Investors' understanding of the risks and impacts that investments have influences decision models both explicitly and implicitly. This, in turn, will inform their demand (and value) for information.

- **Phase 1 – Scoping (literature review and user survey):** This phase was primarily concerned with defining the good and exploring who the users or beneficiaries might be. It involved: (i) review of academic papers and other relevant empirical studies, research reports, commentaries from investor initiatives, review of the regulations, as well as a small selection of recent non-financial reports issued by companies; and (ii) a preliminary user survey aimed at a basic understanding of the use patterns of NFI by different types of UK investors and investor agents.
- **Phase 2 – Qualitative research (interviews):** The qualitative research phase of the project further explored who the users of NFI and NFR are, what types of information they use, and how their use of that information differs. This phase was aimed at determining a credible overall framing and sample population for the valuation of the provision of NFR (Phase 3).

The findings outlined in this report provide the basis for the methodological approach for Phase 3, which will implement a valuation study that will estimate the value of NFI (or, if possible, NFR).

1.4 Report structure

This report is structured as follows:

- **Section 2: Overview of non-financial reporting.** A summary of the current NFR regulations in the UK, current trends in the evolution of NFR regulations, and the scope of corporate reporting.
- **Section 3: Demand for non-financial information.** Findings from Phases 1 and 2 of this research project – the literature review, the user survey on NFI, and the investor interviews. This section concludes with the key learnings for the development of Phase 3 of this project.
- **Section 4: Methodological approach.** The conceptual framework in which to consider the value of NFR, and the four potential approaches that can be used to quantify that value based on the framework. Two of these - a stated preference survey and consultations to determine opportunity cost - are identified as the preferred approaches.
- **Section 5: Conclusion.** A summary of the research to date and the next steps for Phase 3 (the suggested approaches).
- **Appendices.** Supporting content covering: (1) UK NFR regulations; (2) NFR case studies; (3) NFI user survey questionnaire; (4) NFI user survey summary statistics; (5) Investor interview guides; and (6) Investor interview summaries.

2. Overview of non-financial reporting

Non-financial information disclosures are common practice among large firms in the UK – especially those that are listed on a stock exchange – and recent trends indicate that this type of reporting will continue to increase. This is due both to the demand for NFI from investors, and to an expansion of the scope of information that must be legally disclosed via the NFR regulations.

The NFR disclosure regulations in the UK vary based on company size measured in terms of employees and revenues, whether the company is listed on a regulated exchange, and the business sector the company operates in. The regulations are also continuing to evolve in line with proposed international frameworks, such as ISSB.

Most companies subject to non-financial reporting report on the same broad set of themes – the environmental, social and governance aspects of their activities, risks, and opportunities. However, there is currently little consistency in the detail of what and how information is reported. Future initiatives are expected to bring more consistency across non-financial disclosures, just as financial reporting was standardised over time.

2.1 Non-financial reporting regulations

Reporting regulations for non-financial disclosures vary depending on the country a company reports within and aspects of the company itself (size, listed-status, area of activity). This study focuses on the NFI disclosure regulations in the UK, specifically on the regulations for directors' and strategic reports. Companies operating in the UK may also be influenced by other regulations, especially if they are listed internationally. While there is demand and support for general alignment in regulations between countries (Section 2.1.2), this has not yet been consistently achieved. Therefore, while wider disclosure regulations beyond the UK are outside of the scope of the central research question, the wider international context and alignment of reporting regulations is of relevance as it may influence the UK regulatory framework in the future.

2.1.1 Current regulations within the UK

The main aspects of UK NFR regulations are mapped in Figure 2.1. A true map of NFR reporting regulation would be very complex, as multiple legislations and guidance may apply depending on the size and activities of the business. For example the Companies Act 2006 Regulations (2013)[18] set out the requirements for the strategic and directors reports, while the Streamlined Energy and Carbon Reporting (SECR) regulations set out the requirements for greenhouse gas (GHG) reporting,[19] and most governance reporting regulations are set out under the UK Corporate Governance Code (FRC, 2018).[20]

[18] https://www.legislation.gov.uk/ukdsi/2013/9780111540169

[19] https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance

[20] https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/

Companies Act 2006, 414A: Requirement for the company to produce a strategic report

"a review of the company's business and a description of principal risks and uncertainties facing the business."

414C: "The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company)."

Requirement for the company or parent of a group to produce a "non-financial and sustainability information statement" in the strategic report (414CA-CB) - this provides information on the company's performance and strategy, social issues, and environmental issues, including risks.

Requirement for the company to produce a "s.172(1) statement" within the strategic report - describes how the directors have had regard to:

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

Streamlined Energy and Carbon Reporting (SECR) requirements - Requirement for the company or parent of a group to report on/disclose the greenhouse gas emissions in the Directors Report if the group or subsidiaries meet the size threshold and consume over 40,000 kWh of energy – this includes information on direct and indirect emissions.

Requirement for the company or parent of a group to include within the "non-financial and sustainability information statement" in the strategic report on climate-related financial disclosures – this provides information on climate related risks and how this impacts the company's performance and strategy.

Various other legislation (UK based):

- **Statements regarding human rights, anti-bribery, and anti-modern slavery. (Modern Slavery Act 2015)**
- **Information on employee matters including a gender breakdown of employees, directors, and senior managers, as well as gender pay gaps. (Gender Pay Gap Reporting)**

Figure 2.1: Broad mapping of UK NFR regulation

Typically, existing non-financial reporting requirements do not specify the metrics to be reported; the regulations are open to interpretation as to the format and metrics reported on in disclosures (Appendix 1). There are exceptions; for example, s.414c of the Companies Act (2006) does include specific requirements about gender breakdowns in reporting. Generally, though, the framework was developed so that companies would report what they deemed to be material to their business.

2.1.2 Developments in non-financial reporting

Numerous organisations and initiatives are aiming to change aspects of NFR. Broadly, the goals of these initiatives are: (i) to streamline the size and structure of NFR; (ii) for NFR to cover more topics of concern (especially for environmental and social topics); and (iii) for NFR to include more comparable information – such as specific measurements, metrics, and goals. Recommendations for changing NFR also commonly involve encouraging alignment between existing reporting regulations domestically and internationally. A selection of these developments is summarised in Table 2.1 to illustrate the breadth of relevant initiatives.

Table 2.1: Developments in NFR organised by initiative or organisation (ordered by scale, then year)

Initiative or organisation	Scale and adoption (if relevant)	Detail and key recommendations
Global Reporting Initiative (GRI)	International (first developed in 1997)	• Voluntary standards which help organisations understand their impact on environmental, social and governance issues. • Different sets of standards - some are universal principles (Universal standards) under which such types of disclosures can be prepared, others facilitate reporting on sectoral or topical. • Standards can be used as a framework to either report specific information for specific users, or to prepare sustainability reports.
International Sustainability Standards Board (ISSB)	International (first began development in 2021)	• In development by the International Sustainability Standards Board (ISSB) – which was formed COP26. • Aims to support and provide advice on sustainability disclosures in support of investor and financial market needs. Intended to support disclosure with facilitates more efficient market allocation decisions. • Have published two standards: 'S1', the general sustainability disclosures; and 'S2', climate related disclosure. • Contains guidance on governance, strategy, risk management, metrics and targets.[21] • Similar in style to European Sustainability Reporting Standards (ESRS) and Taskforce for Climate related Financial Disclosures (TCFD).
Taskforce for Climate related Financial Disclosures (TCFD)	International (Adopted in the UK reporting regulations as of 2022)	• Recommendations for a set of governance, strategy, risk management and metrics and targets relating to climate impacts and risks. • The intention of the recommendations is that they are adoptable by all organisations (and types), and that disclosures, including metrics, are reported in financial filings. • The analyses and disclosures should be forward-looking to facilitate decision making and have a strong focus on transition to a low carbon economy. • Legislation is Section 414CB CA2006.

[21] **Governance** - the overall organisations approach to overseeing management of sustainability issues; **strategy** - how sustainability impacts the business model and decision making; **risk management** - processes around identifying and managing sustainability-related risk; and **metrics and targets** - what indicators it uses to measure and monitor sustainability related risks and opportunities, and progress against these.

Initiative or organisation	Scale and adoption (if relevant)	Detail and key recommendations
Taskforce for Nature related Financial Disclosures (TNFD)	International (Recommendations delivered in 2023)	• Recommendations and guidance regarding organisational reporting on nature-related issues. • TNFD recognises existing frameworks and aims to be consistent with those, such as following the materiality assessments from ISSB and TCFD. • Recommends disclosures that follow six requirements (materiality, disclosures, location, integration, time horizons, and engagement) and reports on four pillars (governance, strategy, risk and impact managements, metrics and targets).
Non-Financial Reporting Directive (NFRD)	European Union (2014-2022)	• Aimed to improve the quality of non-financial reporting in EU Member States (i.e., increase transparency and accountability around non-financial risks and policies) and improve cross-bord comparability of accounting frameworks. • The now outdated NFRD requirements are the same as those under UK law for large companies to publish on the same matters as described in paras 7 and 8 s414C CA2006.
Sustainable Finance Disclosure Regulation (SFDR)	European Union financial markets (effective 2021)	• Require a range of organisations[22] that created financial products to disclose specific information regarding approaches to the integration of sustainability risks including policies; and the consideration of adverse impacts on sustainability factors. • Disclosures are to be for both entities and financial products, qualitative or quantitative in nature, published on investment business' websites, and kept up to date. • Nine mandatory indicators in respect of the environment, and five in respect of social and governance matters as well as 46 voluntary indicators; half of which are environment related and the other relating to matters of anti-corruption and rights. • A template is required for reporting such information, facilitating comparison and harmonisation across investing business and Member States.
Corporate Sustainability Reporting Directive (CSRD)	European Union (as of 2023), replaced the NFRD (above)	• Requires that all large and listed companies[23] disclose information on their risks and opportunities arising from social and environmental issues, and on the impacts of their activities on people and environment, with an aim to measure and evaluate sustainability of corporate performance. • Expects to encompass approximately 50,000 companies in total. • Aims to provide investors with information to assess risks from climate change and other sustainability issues.
European Sustainability Reporting Standards (ESRS)	European Union under CSRD (as of 2023)	• Developed by the European Financial Reporting Advisory Group (EFRAG) • A thematic and cross purpose (best practice requirement and disclosure guidance) set of standards for sustainability reporting. • Ten thematic standards: five environmental (climate change, pollution, water and marine resources, biodiversity and ecosystems, and resources and circular economy); four social (workforce, workers in the value chain, affected communities, and customers and end-users); one governance (business conduct). • Provides specific guidance on metrics and targets to report for each theme, as well as materiality assessments. • Cross references other guidance (such as TNFD).

[22] See Article 2 of Regulation (EU) 2019/2088 for full details.

[23] The exact regulations are slightly more precise, see "Which companies are in scope" here: https://www.grantthornton.co.uk/insights/what-does-the-csrd-mean-for-the-uk/

Initiative or organisation	Scale and adoption (if relevant)	Detail and key recommendations
Financial Conduct Authority (FCA) Consultation Paper 22/20	UK (published 2022)	• Anticipated to be similar to SFDR. • Expected rules for: (i) sustainable investment labels (i.e., labelling and marketing of investments which have a sustainable focus, improvement or impact); (ii) consumer-facing disclosures; (iii) entity and product disclosure (much like the SFDR rules); (iv) naming and marketing (i.e., claims around sustainability must be fair, clear and not misleading; and (v) requirement for distributors. • Aimes to increase transparency and protect consumers from greenwashing.
Mobilising Green Investment; 2023 Green Finance Strategy[24]	UK (published 2023)	• Policy paper that sets out the UK government ambitions for sustainable investment and includes the blueprint for the introduction of a set of disclosure requirements against the International Disclosure Sustainability Standards developed the ISSB, as well as the introduction of a UK Green Taxonomy and the disclosure of company's plan to Transition to net zero . • Proposed requirement that claims must be credible: assets managers and owners, including those of investment products, will be required to provide evidence as to the claims that they are making. • Recognises the importance of harmonisation and interoperability between jurisdictions.
Taskforce for Nature related Financial Disclosures (TNFD)	UK based (Launched Sept 2023)	• Market-led, voluntary recommendations. • Design to disclose impacts and dependencies on nature, as well as incorporate those in decision making. • Expected to be in the same style as TCFD. • Aims is to align to ISSB to support disclosure of nature-evolving risk and opportunity.

24 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1149690/mobilising-green-investment-2023-green-finance-strategy.pdf

2.2 Scope of company reporting

Companies, especially corporations that are listed on an exchange, typically disclose vast amounts of information in various types of reports. This disclosure is partially driven by mandates – from national or international regulations – but it can also be driven by investor demand. Voluntary disclosures can occur in a variety of ways, such as through press releases, sections within reports, or via direct investor requests. Other information on companies may also be publicly available that is not directly disclosed by the companies themselves. This could be in the form of:

- Third-party data;
- Ratings, such as ESG metrics or bond credit ratings;
- Stock performance data;
- News stories;
- Broader market analysis; and
- Other bespoke metrics of analysis.

The information that is not disclosed by companies can come from a wide range of organisations, including CSOs (e.g. CDP, a non-profit charity that reports on companies' environmental impacts), governments (such as overall market forecasts by central banks), news organisations, or produced by consultancies and market research organisations (such as Bloomberg and MSCI). This information may also be built upon data originally disclosed by companies (such as ESG metrics based on company data), be entirely independent of company disclosures, or contain a mixture of both.

Financial versus non-financial information is a common categorisation of disclosures, and an important one in terms of the current regulations. Financial information reported by companies is strictly governed under the regulations and has a common set of standards – to the extent that financial statements between companies have also identical formats and information reported.[25] Financial disclosure is not the focus of this research, but the decisions that NFI informs are rarely independent from financial information and disclosures, and as such the value of NFI cannot be properly understood without also considering its relationship to financial information.

Figure 2.2 provides a simple representation of the types of company information that can be available to investors. This diagram illustrates the difficulty in distinguishing the value of NFR versus the value of NFI. While there will be a lot of information available outside of the strategic and directors' reports required by regulations, other non-financial information that is available on a company may change in quality or quantity due to the reports a company produces. For example, third party ratings and consultancy reports are likely to depend on the information produced via NFR.

[25] Financial disclosures are overseen by the Financial Conduct Authority (FCA) and Financial Reporting Council (FRC) within the UK. They are also regulated under the Companies Act (2006).

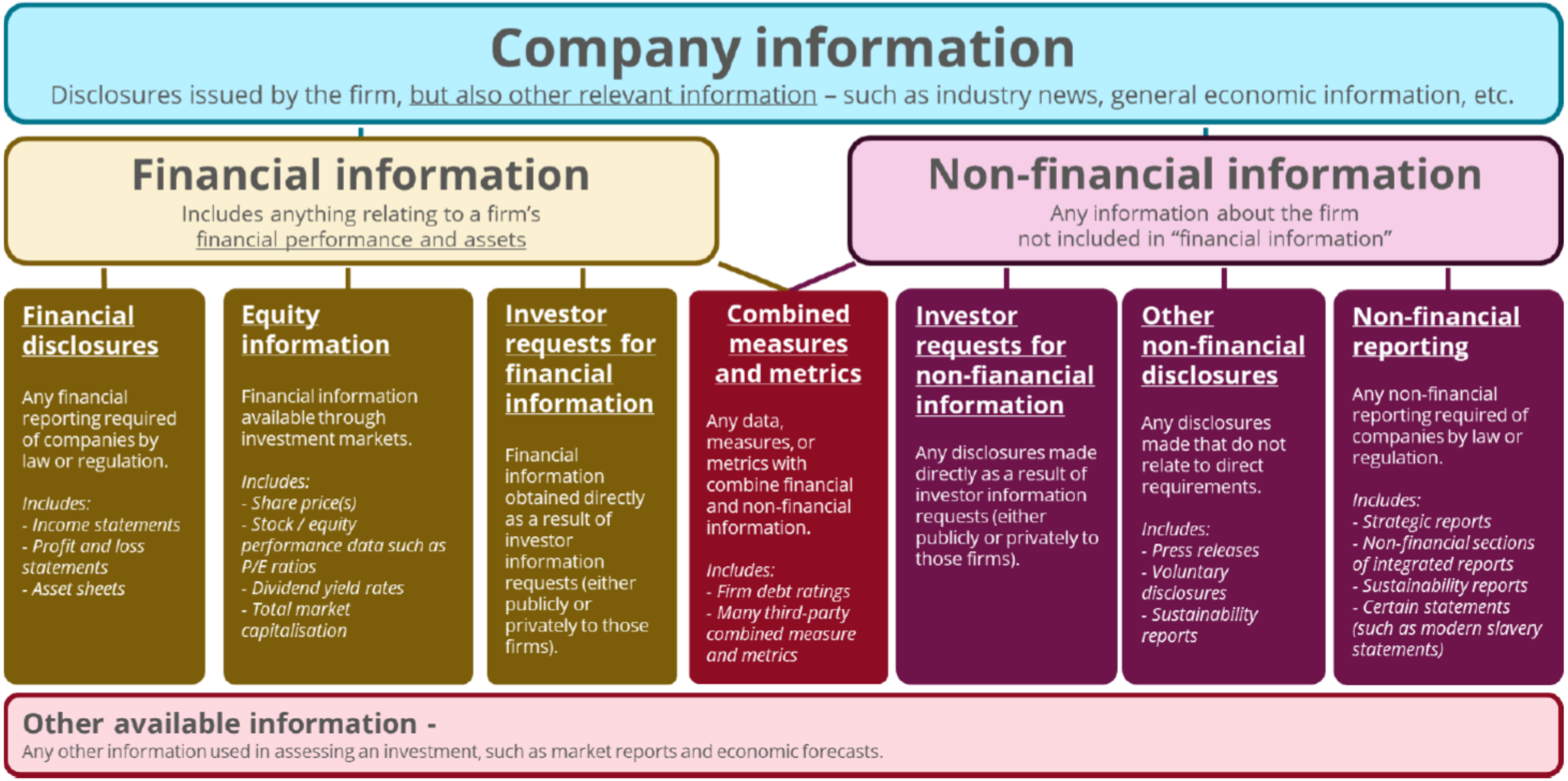


Figure 2.2: Overview of the types of company information available to investors.

2.2.1 Comparison of non-financial disclosures

There are broad similarities in the scope and content of NFR produced by companies in the UK – especially for very large, listed companies - as would be expected from the regulations that govern those reports. The detail, however, can vary widely from company to company. These similarities and differences are illustrated in Table 2.2, which summarises and compares NFI disclosures from three large companies: Mondi Group, Unilever, and Shell (see Appendix 2 for further detail on disclosures). All three companies are listed FTSE100 companies on the London Stock Exchange, and all provide large amounts of information within their NFR, but with different focuses, measures, and metrics used throughout. The main similarities between these reports include:

- All three are structured with a strategic, governance, and financial statement section within an integrated report;
- All three begin with a chair's message, include a breakdown of risks and their mitigation, and an explicit s172 statement;
- All three have information on their plan to transition to low carbon operations (as per TCFD), and
- All three begin with summaries that cover a selection of the information that is covered within the report.

Table 2.2: Broad overview of non-financial disclosure content from case studies of large (as defined by the Companies Act, 2006), listed companies.

Theme or aspect	Mondi Group (2023)[26]	Unilever (2023)[27]	Shell PLC (2023)[28]
Format of overall reporting	256-page integrated annual report	226-page integrated annual report	388-page integrated annual report
Strategic reporting	Pages 12-83 of the integrated annual report	Pages 2-76 of the integrated annual report	Pages 2-131 of the integrated annual report
Risk reporting	17 principal risks in five categories (pandemic, strategic, financial, operational, and compliance) reported along with potential impacts and mitigation actions	14 principal risks reported along with potential impacts and mitigation actions	27 principal risks in four categories (strategic, operational, conduct and culture, and other) reported along with potential impacts and mitigation actions
Section 172 statement	Stakeholder engagement is described across employees, customers, suppliers and contractors, communities, investors, and partner and industry associations.	Stakeholder engagement is described across shareholders, employees, consumers, customers, suppliers and business partners, and planet and society.	Stakeholder engagement is described both across stakeholder categories, but also across topics, such as strategic updates, financial strength, operation plan, and investment.
Assurance	Independent Assurance by ERM	Independent Assurance by PWC	Organisation within Shell (SIAI)
Other disclosures	Examples include: • Sustainable development report • GRI & SASB Index 2022 report	Examples include: • "Planet and Society Hub" on their website	Examples include: • Public response to CDP information request • Energy Transition Progress Report

[26] Mondi group integrated report available at: https://www.mondigroup.com/en/investors/results-and-reports/
[27] Unilever integrated report available at: https://www.unilever.com/investors/annual-report-and-accounts/
[28] Shell integrated report available at: https://reports.shell.com/annual-report/2023/

2.2.2 Structure of non-financial disclosures

As noted in Section 2.2.1 there are common organisational structures and themes within NFR – especially within the strategic reports. One common structure is using ESG to comment on different areas of company performance – for example, the Unilever (2022) integrated report contains an "Our People and Culture" section, a "Planet and Society" section, and a "Governance Report".

Another common feature, which may be paired with ESG framings, is a risk and opportunities framing. Risks are a common theme and necessary area of reporting for strategic reports, and hence is a clear way to present different aspects of the companies' performance when paired with current performance and future opportunities. Note that companies may use elements of each structure throughout their overall report.

ESG framing

Eunomia (2020) (as reported in the BEIS NFR Post Implementation Review (2022)) reviewed the NFR topics that tend to be featured under the broad themes of environment, social, and governance (adapted in Table 2.3):

Table 2.3: Reporting topics organised by environment, social, and governance themes

ESG area	Specific topics
Environment	• Greenhouse gas emissions • Resource usage • Waste • Climate change measures • Pollution • Biodiversity
Social	• Diversity • Health and safety • Human rights • Stakeholder engagement
Governance	• Board and staff remuneration • Employee data (retention, development, turnover, etc.) • Procurement policy / supply chain management • Anti-corruption and anti-bribery

The ESG structure provides one potential framing for reporting that can meet the regulatory requirements for the directors and strategic reports. ESG can also goes beyond those requirements, depending on the themes and the detail of those themes that is being reported. Regulatory requirements themselves are also often non-specific and subject to interpretation.

How information is presented in strategic reports

The three strategic reports included in Table 2.2 rely on descriptive and narrative information in order to describe the companies' risks, aims, and strategies. Unlike financial accounts with comparable structures, strategic reports tend not to have a common structure so that the same type of information, such as GHG emissions data, will appear in different parts of a report. The result is that specific information can be difficult to find. This may be due, at least in part, to the information that strategic reports convey. For example, risks and opportunities can be difficult to quantify, in which case a narrative approach may indeed be more appropriate.

Assurance and verification

Currently, there is no requirement for company NFR to be externally audited (BEIS, 2022). As the NFR case studies show (Table 2.2) both internal and external reviews are presented. Indeed, the evidence from the PIR (*ibid.*) indicates this is a major factor for the level of trust given to an NFR by users of that information. Eighty percent of respondents in the Eunomia Investor Survey (2020) indicated that external assurance would be helpful in improving trust in the information. This is one reason why many companies (including those in Table 2.2) report working closely with NGOs on their ESG strategy and participating in voluntary industry initiatives aimed at improving best practice. Selected examples include RE100[29] (businesses with commitments to renewable energy use), Roundtable on Sustainable Palm Oil[30] (aims to implement global standards on certified sustainable palm oil), and the Forest Stewardship Council[31] (provides sustainability labels and standards for forest products).

[29] More information: https://www.there100.org/
[30] More information: https://rspo.org/
[31] More information: https://fsc.org/en

3. Demand for non-financial information

Many different stakeholders – representatives of the company, investors, employees, and wider society - have motivations for engaging with and using the NFI that companies disclose. Among these, investors are a key group of potential users and beneficiaries, as their use of NFI in investment decisions can allow them to better align those actions to their set of preferences and aims. Three research methods were used to explore how investors think about, use, and benefit from NFI: a literature review, a user survey, and a series of one-to-one in-depth interviews.

The **literature review** explored the current understanding of how various stakeholder groups interact with NFI, and their motivations and values for that information. There is a large body of both academic and grey literature on this topic, which generally supports the assertion that a wide range of stakeholders may benefit from companies' disclosure of NFI. Benefits to investors are clear, with both the theoretical and empirical literature supporting the hypothesis that mandatory disclosure of NFI by companies can lead to better overall decision making.

The **user survey** was implemented in March 2023 through the Research in Finance (RiF) panel to gather information from private investors, institutional investors, and investor agent on their use of NFI and NFR (total sample of 1699, with 750 private investors and 949 institutional investors and investor agents). Results from the survey give perspective on the current rate of use and attitudes towards NFR, which is used to shape the future research. In particular, it demonstrates the scale of the use of NFR, which is widespread, and also that asset managers and institutional investors are most likely to engage with NFR.

The **in-depth interviews** were conducted with a total of 25 investors (21 professional investors across a range of roles and 4 private investors). The interviews provided insights on: (i) how NFI is often used in a re-packaged form by investors; (ii) how information flows between user groups; (iii) attitudes on current NFR and preferences for future changes; and (iv) the overall perception of the value NFI has to investors.

A key set of insights are summarised from these three methods, structured around defining the good (NFI), the beneficiaries of NFI, and the use and preferences for NFI. The insights were used to develop the valuation framework and approaches for the quantitative Phase 3 of this research in Section 4.

3.1 Overview of NFI users and their uses

A basic proposition from the PIR (BEIS, 2022) is that different stakeholders will have different motivations for their use of NFR (or NFI) (Table 3.1). As such, different stakeholders' preferences for the content of those reports will also be expected to vary in terms of the themes, specific metrics, assurance, etc. that are included. For example, investors are likely to use the information from NFR to develop actionable information (knowledge, in "value of information" terms) that will inform their choices over some set of investment(s). Therefore, investors would be expected to prefer information that helps them better assess the expected value of investment – such as information on risks and opportunities. CSOs, on the other hand, might use NFI to compare company performance on social outcomes and influence those that have worse performance to improve. They could be expected to prefer information on companies' comparative social impacts. It is also possible that the demand for disclosure information may significantly overlap between groups, and indeed the evidence review (Section 3.1.1 to 3.1.5) often finds similarities across user groups.

Table 3.1: Users and their uses for NFR (or NFI) (adapted from BEIS, 2022)

User (stakeholder) group	Motivations for using NFR or NFI
Companies creating NFR[a]	• Managing and communicating risk • Setting and communicating strategy • Managing brand or corporate reputation • Engaging their workforce
Institutional investors and asset managers	• Informing investment decisions • Engagement with companies • Meeting regulations (including their own reporting requirement)
Retail investors	• Informing investment decisions • Engagement with companies
Employees and potential employees	• Informing decisions about who they work for
Wider group of civil society organisations (CSOs: e.g., NGOs and think tanks)	• Reviewing or influencing corporate policy and/or strategy

Table notes: (a) – companies that create NFR are suppliers but can also "use" their own NFR for a variety of motivations. See section 3.1.1 for more information

3.1.1 Companies' use of disclosures

Broadly, there are two ways in which companies can be users and beneficiaries of the NFI that they themselves compile and disclose: external communication and internal monitoring. Osmanagić Bedenik and Barišić (2019) further expand on these "internal" benefits of disclosure:

1) *"Increased understanding of risks and opportunities;*
2) *Emphasizing the link between financial and nonfinancial performance;*
3) *Influencing long-term management strategy and policy, and business plans;*
4) *Streamlining processes, reducing costs and improving efficiency*
5) *Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives;*
6) *Avoiding being implicated in publicized environmental, social, and governance failures; and*
7) *Comparing performance internally, and between organizations and sectors." (quote list from Osmanagić Bedenik and Barišić (2019) section 3.1).*

These points are mirrored in the summary of a survey conducted by PwC (2019) on behalf of BEIS. In that research, 60% of the surveyed firms (n=129)[32] noted that disclosing NFI had benefited their

[32] The sample of 129 companies had revenues ranging from £10 billion+ (12%) to less than £100 million (25%), and tens of thousands of employees (17%) to less than 500 (24%).

company, with 39% believing that these benefits will increase over time, and 43% stating that they believe current or prospective investors use non-financial information to make decisions. A few key themes in terms of the information communicated and its benefits were brought out in that research by PwC (*ibid*.): (i) improved articulation of strategy and purpose; (ii) reduced costs of borrowing and improved securities performance; (iii) attracting and maintaining workforce; and (iv) managing reputation.

By disclosing information, companies have an avenue through which they can communicate various aspects of their performance, including areas in which they excel, comparative advantages they may have, and risks they may be addressing (PwC, 2021b). The potential audience for this includes investors, but also regulators, consumers, and wider civil society organisations (such as NGOs and think tanks). In this context, companies could be motivated to only disclose that NFI which is favourable to the company (sometimes referred to as "greenwashing", such as in Lyon and Maxwell, 2011), which points to one way in which regulated disclosure may differ from unregulated disclosure. Cost of capital is one way in which this benefit of external communication can be measured. A FRC literature review (2020) comes to mixed conclusions on the relationship between the cost of capital and reporting – sometimes finding conflicting findings even within the same country (Zhou et al., 2017 and Barth et al., 2017, both in the context of South Africa). However, theoretical literature strongly supports a link between reporting and lower capital costs (Bertomeu and Cheynel, 2016), and the bulk of the empirical evidence appears to at least weakly support the same conclusion (Michelon et. al., 2020).

Companies may also use the process of developing NFI for disclosure as an internal means to monitoring their performance. For example, the process of ensuring compliance with the disclosure regulations, responding to investor requests for information, and meeting any voluntary NFI initiatives may lead to better information being available within the company for strategy setting and decision making.[33] More widely NFI may enable comparison and benchmarking against industry group peers to develop or maintain some competitive advantage. Action on these kinds of benchmarks could lead to improvements in overall performance, both in financial and non-financial terms – but only if the information being gathered and reported is material.[34]

Previous research also indicated that companies providing NFR believed that stakeholders were using that information (around 60% of interviewed companies; PwC on behalf of BEIS, 2019, pg. 43), with an even higher percentage of listed companies taking that view. Most companies also indicated that their NFR disclosures had made them more attractive to investors (ibid), a finding that broadly aligns with the current logic model underpinning non-financial reporting requirements (BEIS, 2022).

These two potential benefits are balanced against the costs of generating and disclosing NFR. As highlighted by the Quoted Companies Alliance (2023), annual reports have expanded in recent years – and company managers often see the requirements as confusing and costly. A specific analysis of

[33] This is in effect the cliched quote "what gets measured gets managed."

[34] What is material may differ based on the underlying preferences and aims of the management and stakeholders of a company. There is not a singular set of information that is material for all groups, as alluded to by the different motivations in Table 3.1.

the costs of reporting are outside of the scope of this report, but it is clear there are opportunity costs to reporting, and that companies would not have net benefits if the costs outweigh the benefits.

In a recent reply to a DBT call for evidence, UK Finance (2023) outlined some of these costs and the underlying reasons their members believe those costs are disproportionate to the benefits:

- Reporting regulations are "fragmented and complex" – requiring companies to be familiar with and comply with several codes, standards, and laws. Some of these are out of date, leading to disclosures that are "largely obsolete".
- Non-financial disclosure is a more recent area of reporting than financial disclosure, and hence companies cannot be expected to meet similar standards.
- NFR regulations do not directly align with investor needs for information, and hence companies may incur both the costs of reporting and the costs of addressing investor information requests.
- The burden can be especially high for small companies, or companies that have just achieved one of the reporting thresholds.

UK Finance (2023) still supports non-financial reporting regulation, in particular those that would lead to harmonisation and streamlining of the reporting requirements (such as ISSB):

> *"As both a preparer and user of sustainability reports, the financial services sector supports disclosure of sustainability-related risks, impacts and transition plans by firms, because this is critical to measuring exposure across lending and investing portfolios. For these disclosures to be meaningful, data needs to be consistent and comparable." (ibid, pg. 2)*

3.1.2 Investors

The demand by investors for NFI does have a solid foundation within the theoretical and empirical literature. As seen in the value of information literature, any information that could be expected to lead to a better assessment of return should be used if the improvement in expected return outweighs the opportunity cost (see Box 1.3). The relationship holds in the empirical literature where analysts' forecast accuracy is positively associated with NFR quality (Michelon et. al., 2020). Further, non-financial disclosures have been observed to impact equity prices and shocks to those prices (*ibid.*) – specifically in relation to the disclosure of information on greenhouse gas (GHG) emissions (Liesen et al., 2017) and ESG performance (Grewal et al., 2019).

Investor demand for ESG information is also currently increasing (Eunomia on behalf of BEIS, 2020). One of the main drivers for investors' use of NFR is understood to be the analysis of related risks and expected returns. Based on survey data from 2017, Amel-Zadeh and Serafeim (2018) find four main uses for ESG information by investors: predicting investment performance; meeting client demands; overall product strategy; and ethical considerations. As seen in a more recent investor survey (i.e. PwC on behalf of BEIS, 2021), while there is variation in how much investors use this information, the main motivations remain largely the same.

The general understanding is that investors will have access to NFI in some form when making investment decisions, but the extent to which they directly "consume" NFR can vary. Based on a sample of investor interviews, around half of retail investors (n=504) had read about the non-financial performance of companies they were looking to invest in (Eunomia on behalf of BEIS, 2020). Those interviewed identified four key drivers of their use of NFI: (i) changing attitudes of society; (ii) increasing environmental pressures on businesses; (iii) growing interest in ethical investments; and (iv) increasing risks to company reputation from poor non-financial performance.

As seen in the case studies (Section 2.2.1), a major framing of NFI is through risk: risk to the reputation of a company on social issues; risk from environmental impacts; or risk due to the governance structure of a company. Investors are interested in these types of risks (Amel-Zadeh and Serafeim, 2018; PwC on behalf of BEIS, 2019; Eunomia on behalf of BEIS, 2020). Amel-Zadeh and Serafeim (*ibid.*) note that integration of risk can be accomplished through valuation model integration, negative screening (omitting a company from consideration based on poor performance), and positive screening (selecting companies based on good performance compared to their peers).

Institutional investors are also understood to be increasingly using NFR to create and market their own investment products based around ESG performance which retail investors are increasingly demanding. Within the EU, investments carrying certain labels are required to report on ESG performance (Sustainable Finance Disclosure Regulation, Articles 8 and 9), and the FCA has similar standards in the UK (FCA, 2023). These requirements are currently increasing, and demand for these types of funds is also increasing and – it currently sits at around 5% of all AUM for asset managers in the UK (Investment Association ,2022).

Finally, many investors are also encouraging companies to embed ESG concepts directly into their management and strategy[35] (PwC, 2022), or even moving to ESG integration (CFA Institute and PRI, 2018)[36]. In the case on investment funds, this might involve using ESG information to balance portfolios and engaging in "active ownership", which uses voting rights to influence ESG outcomes (Amel-Zadeh and Serafeim, 2018).

Those acting on the behalf of investors and firms that create investment products are also subject to increasing regulation on ESG topics and claims. The FCA is currently consulting on sustainable disclosure requirements[37], and the EU has regulatory technical standards in the form of the Sustainable Finance Disclosures Regulation (SFDR).[38] This includes the regulation of all funds from the "do no significant harm" criteria, as well as mandatory reporting to accompany funds that advertise ESG performance (Articles 8 and 9 of the SFDR). Due to these requirements (existing or forthcoming) many investors such as EU banks, venture capital funds, and other financial market participants will be required to verify aspects of the NFI of the securities they include within investment products.

[35] 85% of a sample of 80.
[36] ESG integration is a process of incorporating ESG aims and ESG data throughout organisational processes.
[37] https://www.fca.org.uk/publications/consultation-papers/cp22-20-sustainability-disclosure-requirements-sdr-investment-labels
[38] https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en

3.1.3 Employees

There are conflicting views on the link between company NFI and employee perceptions. The PIR (2022) presents several clear pathways that connect NFR and worker views on the reputation of the company. This view, however, is contested. Axjonow et al. (2018) finds no link between company NFI and 'non-professional' stakeholders' perceptions of those firms, indicating that those views are developed based on other evidence. On the other hand, Eunomia on behalf of BEIS (2020) finds that given a choice in which working at a company with good ESG performance is paired with equal pay, almost all prospective employees would choose that option, but when trade-offs are involved, ESG performance appears to be less important. Eunomia (2020) does not account for how those prospective employees learn about the ESG performance, however. To that end, interviews conducted by Eunomia (*ibid*.) indicate that around 25% of potential and current employees have read the NFR or ESG reports of their respective firms. Younger respondents were particularly likely to have read these reports. Therefore, in a competitive labour market, this could be a key area of differentiation.

3.1.4 Wider stakeholders

Eunomia and BEIS (2020) identify wider civil society organisation stakeholders such as NGOs and think tanks as further beneficiaries of NFR. Many large companies and organisations have joined networks with specific ESG aims, such as the Ellen Macarthur Foundation[39] which promotes circular economy, or the Roundtable on Sustainable Palm Oil[40] which aims to implement sustainability standards on palm oil production. These organisations, as part of their mission, typically verify some of the ESG metrics of their member companies, certify certain activities as being aligned to a set of goals, and publish information.

Other examples of third-party organisations are ESG certification groups, such as B-Corp[41]. The disclosures prepared for these organisations go beyond the NFR requirements[42] in most cases, and the certifications these organisations offer are usually based on a specific set of ESG aims. Most companies that acquire these certifications advertise them, using the certification logos in marketing materials or packaging (such as Ben and Jerry's, Lily's Kitchen, or Tony's Chocolonely).

3.2 User survey on NFI - investors

The NFI user survey which was implemented in March 2023 through the RiF panel to gather information from the investment sector on their uses of NFI and NFR. The survey was also used to gain insight on the composition of the panel to better understand the sample frame that could be provided for further quantitative research in Phase 3. Results from the user survey informed the design of the research materials for the qualitative interviews carried out in Phase 2 (see Section 3.3).

[39] https://ellenmacarthurfoundation.org/network/who-is-in-the-network

[40] https://rspo.org/

[41] https://www.bcorporation.net/en-us/

[42] While the documentation and certification process to obtain B-Corp status is not always made public, certification requires that companies submit information to be scored across five areas: governance, workers, environment, community, and customers. Over 200 questions are asked of the company requiring specific responses.

3.2.1 Scope and aims

The aim of the survey was to refine the understanding of the user population for NFR amongst investors – especially those that could be sourced from the RIF panel. The prior expectation was that the user population would comprise of those responsible for analysing companies to assess their inclusion in funds and trusts and associated due diligence, i.e. fund managers, research analysts, investment consultants, portfolio managers, discretionary fund managers, and private investors. The survey was also designed to capture wider uses of NFI by those sampled, such as informing company engagement and dialogue, shareholder voting and/or resolutions.

3.2.2 Survey content

The survey design started with a long list of questions based on three primary areas of inquiry: who the respondent was and what their organisation does; whether the respondent uses NFR or NFI; and how the respondent uses that information. The long list of questions was then reduced to 10 questions for professional investors and 11 questions for private investors as summarised in Table 3.2. The full survey scripts are provided in Appendix 3 for reference.

Table 3.2: Summary of the NFR user surveys (further detail in Appendix 3)

Topic area	Professional investors (agents) survey	Private investor survey
The role of the respondent	What is your job title and role within your organisation?	Which best describes your current employment situation?
	Which of the following does your role include?	Through which method(s) have you purchased investments?
	How long have you been in this role?	How involved do you get in the decision-making process with your financial adviser / planner / wealth manager?
	Which of the following best describes the industry/ sector in which your firm operates?	Do you analyse or review individual companies?
	-	What is the total amount of money you have to invest?
Uses of NFR	What is your level of involvement in analysing companies for potential investment or offering research/ recommendations to other investors?	What kind of company reports / information, if any, do you tend to review when you assess companies for potential investment?
	What kind of company reports, information or data do you tend to review in your role as described above?	How much time do you think you spend reviewing non-financial reports and information?
	How much time do you think you spend reviewing non-financial reports and information?	Which of these non-financial reports and information do you spend the most time with?
Follow-ups and demographic questions	What is your gender?	What is your gender?
	In what year were you born?	In what year were you born?
	Where is your office located?	Where are you located?

3.2.3 Sampling

The survey was implemented through the RiF panel, which contains a mixture of professional and private investors from across the UK and Europe. Recruitment specifically targeted UK-based panellists with sampling quotas for the size of the professional and the private investor segments. The survey was initially launched as a pilot, which collected responses from 106 investor agents and 43 private investors. The subsequent full launch of the survey included some minor changes to the wording of questions as well response options. The final sample included 949 investor agents and 750 private investors, totalling 1,699 investors overall.

3.2.4 Results

The topline summary statistics for the survey responses are provided in Appendix 4. Selected results and analysis are presented here. The demographic profile of respondents is shown in Table 3.3.

Table 3.3: Demographic profiles of professional and private investor samples

Demographic characteristic		Institutional investors and investor agents (n = 949)	Private investors (n = 750)
Gender	Male	78% (62% in ASHE)	83%
	Female	20% (38% in ASHE)	17%
	Prefer not to say	2%	0%
Year of birth	Before 1950	1% (not comparable)	17%
	1950-1959	6% (not comparable)	29%
	1960-1969	18% (not comparable)	23%
	1970-1979	27% (not comparable)	14%
	1980-1989	24% (not comparable)	11%
	1990-1999	23% (34% in ASHE)	6%
	2000+	1% (14% in ASHE)	0%
Region	North East	3%	4%
	North West	9%	9%
	East Midlands	6%	6%
	West Midlands	8%	6%
	Yorkshire and the Humber	7%	6%
	East of England	5%	8%
	London	26%	22%
	South West	11%	10%
	South East	13%	18%

Table note: ASHE: Annual Survey of Hours and Earnings is an annual survey of around 300,000 using the information from the HMRC PAYE records. The information used to estimate overall employment and earnings by role and sector. The data can be searched to look for specific trends, but this level of granular data is not publicly available. This project made several data requests in order to obtain comparable data.

For both the professional and private samples, the majority of respondents were male (78% of professional, 83% of private), and the largest proportion of respondents were also based in London or the South East (39% of professional, 40% of private). For private investors, most of the sample (69%) was over the age of 50, and for investor agents the majority was under 50 (74%). The sample of professional investors is in line with ASHE data for similar roles, even though the sample trends towards higher percentage of male respondents and a higher percentage of older respondents (ASHE, 2022, specific data request). Comparative data for the private investor segment is not broadly available. Another survey on retail (private) investors (Eunomia, 2020) had similar trends for age, a more even distribution between men and women, but did not ask for questions on location. The RiF panel has a higher proportion of wealthy individuals compared with the overall UK population, as can be seen in comparisons against UK wealth data (see sample profile – household investors for further discussion).

Sample profile – investor agents

The breakdown of the investor agent sample by sector is shown in Figure 3.1. The retail sector includes roles such as independent financial advisors, paraplanners, and wealth managers. The institutional sector contains trustees and pension fund managers. The asset management sector includes fund managers, portfolio managers, and fund of funds managers.

The majority of respondents worked in the retail investing sector (75%), with fewer employed in institutional investment or asset management (14% and 9%, respectively). This broadly aligns with other surveys and statistics (ASHE, 2023) on investor agents, which indicate that around 72% of those working in investing are in the retail sector, 22% in the institutional sector, and 6% in the asset management sector (ASHE, 2022, specific data request).

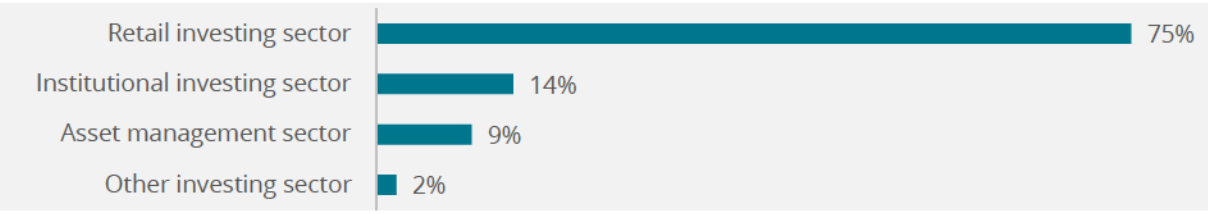


Figure 3.1: Investor agent sample by general sector of employment (n=949)

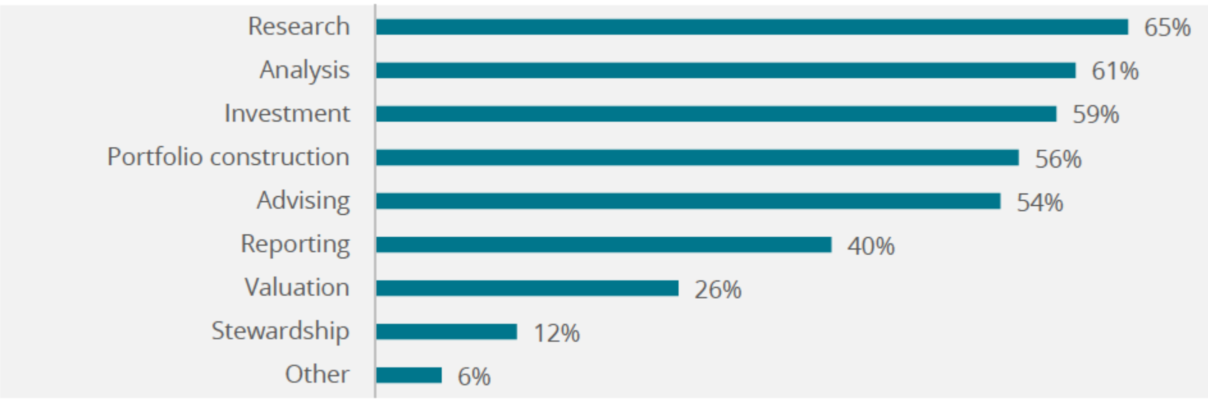


Figure 3.2: Investor agent sample by aspects of role description (n=949)

Within the sample, most respondents were involved in research and analysis as a part of their role (65% and 61% respectively; Figure 3.2). Respondents also often indicated that they were involved in investment, portfolio construction, and/or advising (59%, 56%, and 54%, respectively). Less than 1% of professional respondents did none of these activities. This aligns to a high proportion (77%) indicating they have at least some involvements in offering research or recommendations to other investors (Figure 3.3).

Figure 3.3: Investor agent responses for involvement in offering research or recommendations to other investors (n=949)

Sample profile – household investors

A high percentage (42%, n=750) of respondents from the private investor sample were retired (Figure 3.4) and have a large amount of money to invest (72% over £100k; Figure 3.5). Most private investors also stated that they analyse individual companies at least occasionally (80%, Figure 3.6), and a majority of investors responded that at least some of their portfolio is invested directly in specific companies, as opposed to only investing in pooled investments (such as mutual funds; Figure 3.7). Finally, when asked how they purchase investments, most respondents indicate that they use an online platform or fund supermarket (84%; Figure 3.8). Of those that use a financial advisor, responses were varied as to the level of involvement in investment decisions (Figure 3.9).

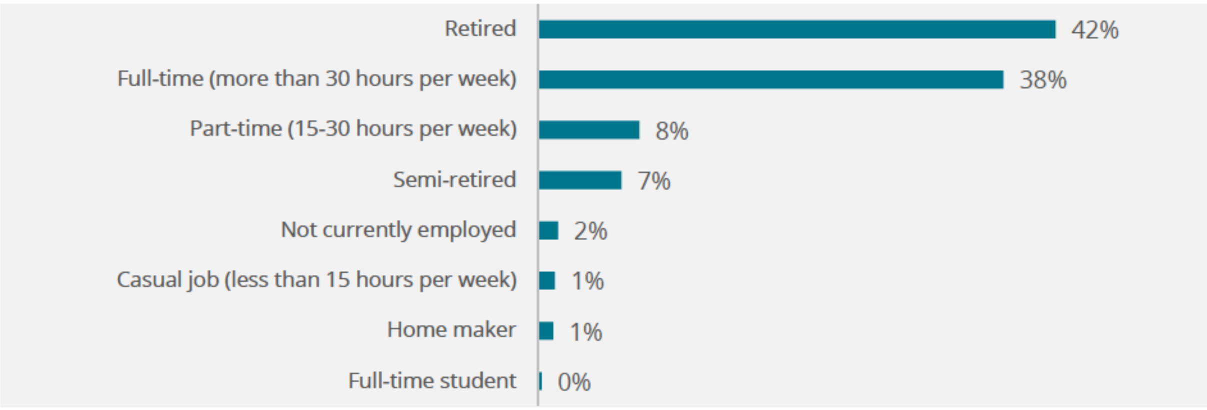


Figure 3.4: Private investor sample by employment status (n=750)

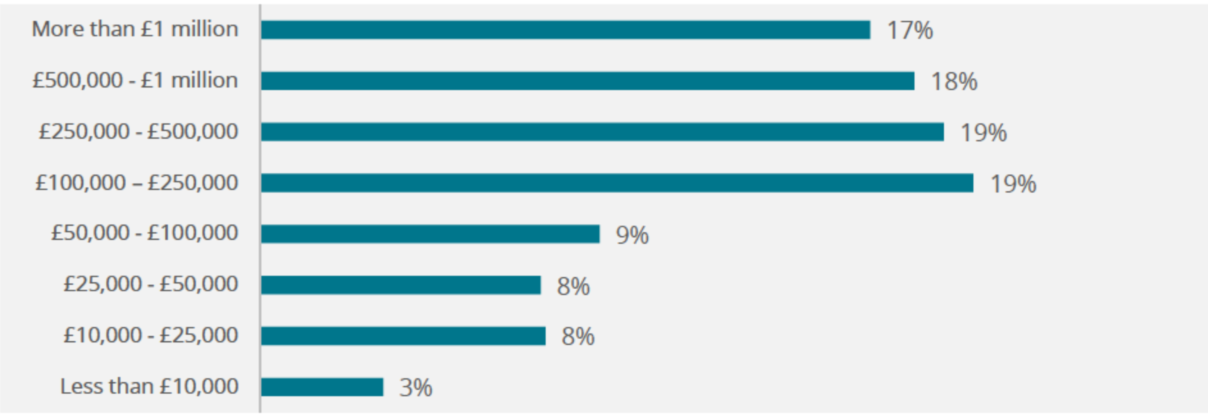


Figure 3.5: Private investors sample - amount of money to invest (outside of main property) (n=750)

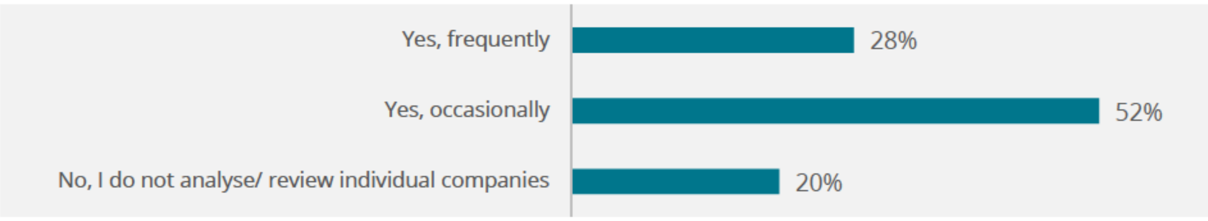


Figure 3.6: Private investors sample - frequency of analysis and/or review of individual companies (n=750)

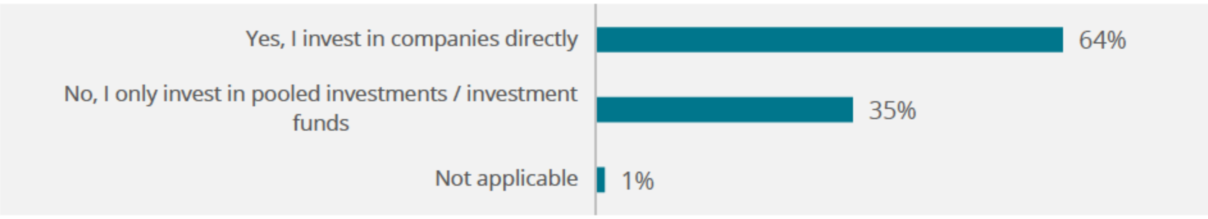


Figure 3.7: Private investors sample - direct investment in companies (n=750)

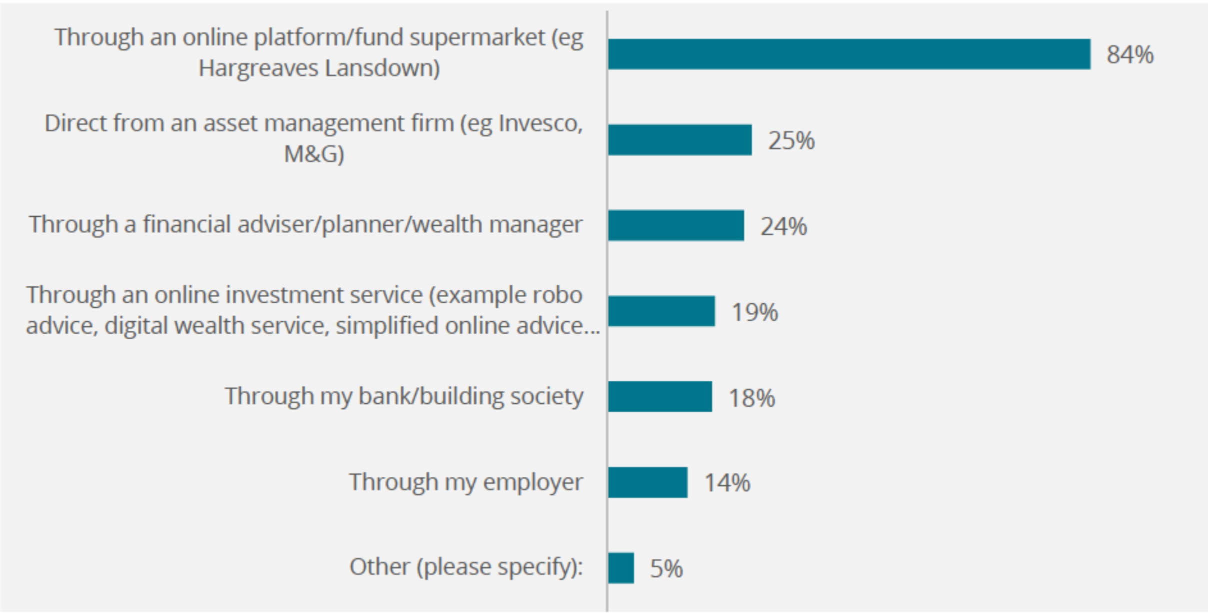


Figure 3.8: Private investors sample - methods of investing (n=750, multiple responses allowed)

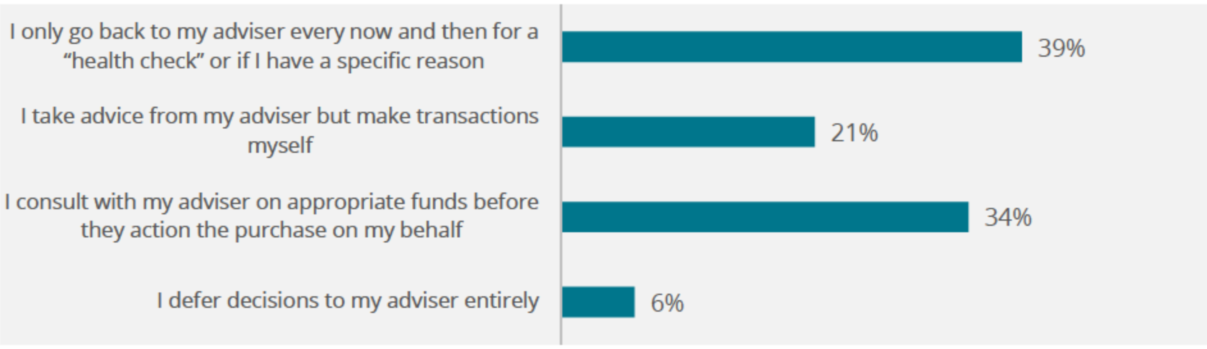


Figure 3.9: Private investors sample - use of financial advisors (n=750, multiple responses allowed)

Uses of non-financial information or reporting

The total time spent with NFR by investor type is profiled in Figure 3.10 across all 1,699 respondents. The results suggest that those in the retail space – both professionals and private individuals – are overall less likely to use NFI. The use of NFI by asset management and the institutional investing sector varies by individual and by role, with the average use being around two hours per week for the institutional sector and three hours per week for asset management sector. For private investors, there was no observed correlation between the amount of time spent with NFR and the amount a respondent had to invest (see Appendix 4).

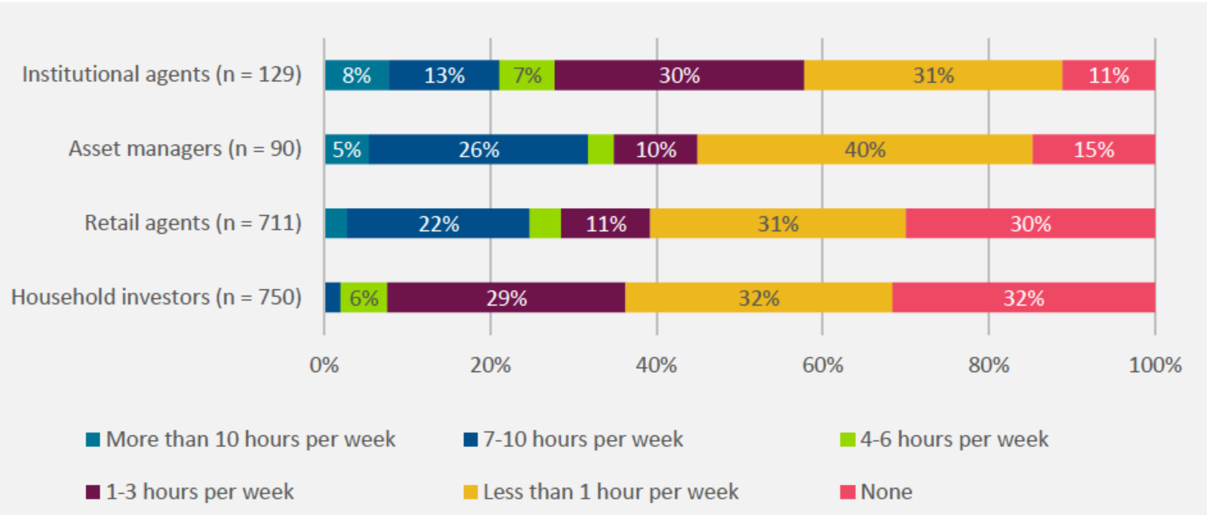


Figure 3.10: Time spent with NFI by investor type. (Note – private investors were asked a qualitative version of this question, which has been translated. See Appendix 4 for the summary statistics).

Of the information available, investor agents responded that they review 3rd party market analysis reports and company financial reports and statements most frequently. In contrast, private investors were most likely to respond that they review company financial reports as well as news and media stories (Figure 3.11). Overall, it is evident that both professional and private investors consider a wide range of information, but that the review of NFR – the strategic and directors' reports required by the regulations - is comparatively uncommon (30-42% of individuals, depending on segment). However, NFR is likely to feature as an input to some of the more widely used information reviewed, so their importance may be understated by this finding.

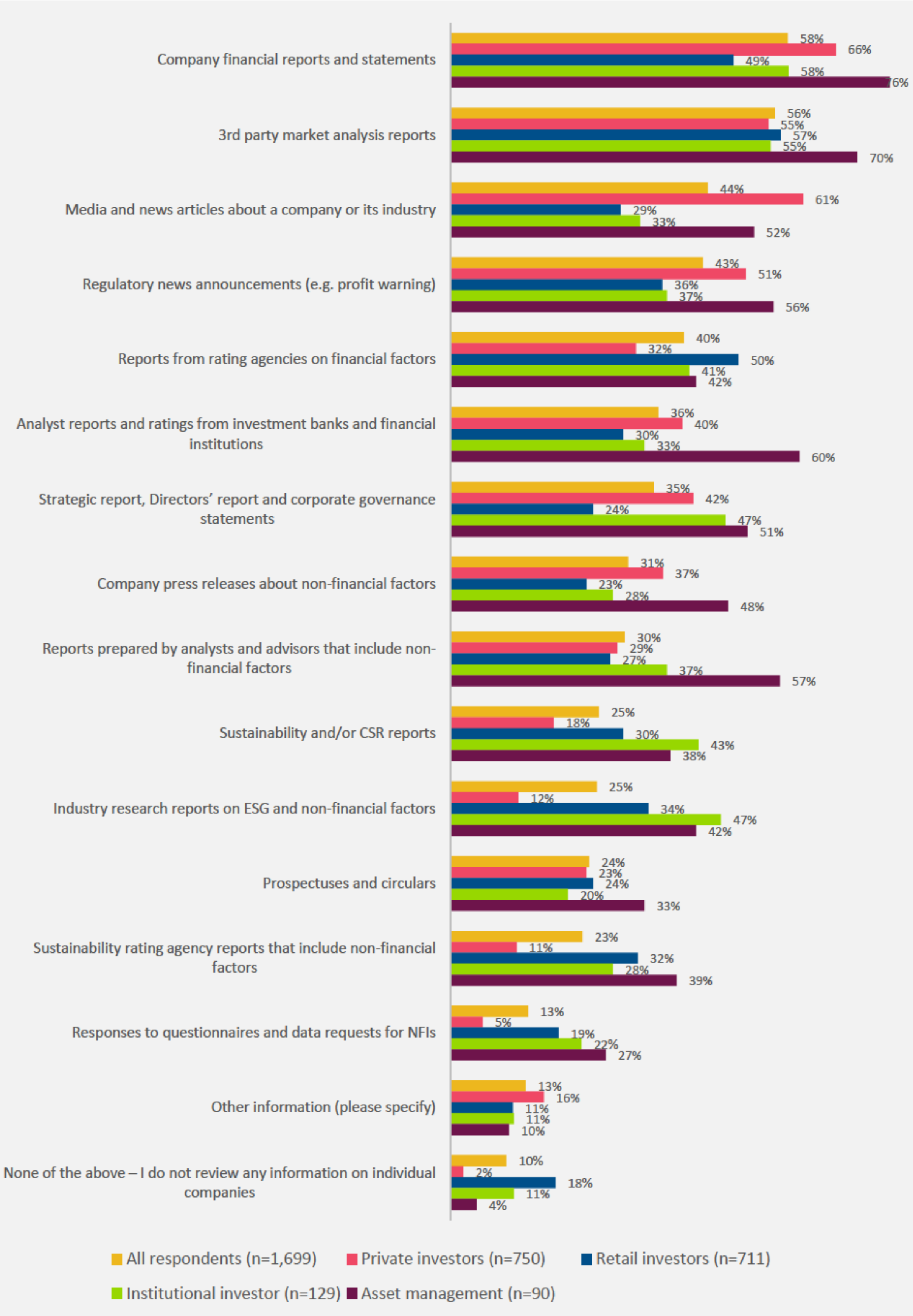


Figure 3.11: Reports, information, and other data reviewed by each investor sample segment

3.3 Investor interviews

The investor interviews were carried out between April and June 2023 during the qualitative research phase. The interviews were conducted by RiF through their panel to gather insights on how private investors and professional investors (including those working in retail investing, asset management, institutional investing, and consulting) perceive, use, and value NFI and NFR.

3.3.1 Scope and aims

The purpose of the qualitative research was to explore in more depth how NFI is used by different groups within investing (e.g., asset managers, institutional agents, retail investing agents, household investors), what their preferences for that information are, and what informs their values for that information. This included probing how NFR is used in several common investment activities, such as: (i) general research and analysis on investments; (ii) engagement with companies; (iii) shareholder voting; (iv) decisions to invest or divest in specific companies; (v) decisions about lending or purchasing debt instruments; and (vi) balancing portfolios of investments.

The findings from these interviews help form a view on the target population(s) for Phase 3, the potential framings that can be used to elicit the value of NFR to investors, and if and how NFR and NFI can be characterised in terms of attributes for a valuation scenario (i.e., the level of assurance or number of companies required to report). More generally the findings help interpretation of subsequent research results, including added depth on the context and motivation for preferences observed by investors.

3.3.2 Methodology and implementation

Sample

The qualitative research consisted of **25 one-to-one interviews**, lasting a maximum of 40 minutes in length. The sample consisted of:

- Four private investors;
- Three professionals working in retail investing markets (IFAs or DFMs);
- Seven professionals working in asset management;
- Eight professionals working in institutional investing, consisting of three trustees, two investment consultants, one head of stewardship, one fund director and one pension director.
- Three professionals working at firms offering secondary market ESG and NFR analysis (commercial providers such as MSCI or ISS ESG).

The main emphasis of the sampling was to reflect views from institutional investors and asset managers, who were identified as the groups most likely to engage with NFR directly from the literature review and users survey (Section 3.2). Other user types such as private investors, retail investor agents, and consultants were also included to explore other potential avenues of value of NFR that might be considered in the next phase of research.

To ensure that the sample was comprised of participants that could speak knowledgably on NFI, NFR, as well as on behalf of their firms, the individuals included in the sample were screened to meet the following criteria: (i) influence asset management or investing decisions (if applicable); (ii) spend some of their average week using NFR, ESG, or other NFI related outputs (minimum of 1 hour); (iii) have at least 4-5 years of experience in their role; (iv) willing to provide insight about the types of information they review and the types of decisions it influences; and (v) willing to speak about time and resources devoted to certain tasks, including questions on spending.

Some of the points above were not achievable for every interviewee, so case-by-case decisions were made during recruitment to meet the overall sample quotas – especially for the recruitment of institutional investors and asset managers.[43]

Interview guide

A version of the full interview guide can be found in Appendix 5.

3.3.3 Key findings

Overall, the interviews confirmed – subject to the limited sample size - that the three primary user groups that directly interact with NFR on a consistent basis are asset managers, investment consultants (including ESG data/research providers), and a subset of private investors that make their own primary investing decisions. Headline findings from the interviews included:

- Investors and their agents were usually able to describe how they use non-financial information (and often framed these in terms of ESG concepts), even if they were unfamiliar with NFR.
- Non-financial reports were perceived as often long, complicated documents, that are very labour intensive to review, especially if that review is occurring across numerous companies/investment opportunities.
- Non-financial information is combined with financial information (as expected) and compared across investments to aid in decision making.
- An investor or investor agents' demand for non-financial and financial information depends on the type of decisions they make (such as the choice of individual companies to invest in, choice of fund to invest in, or choice of firm to invest with).

The topline summaries from each interview can be found in Appendix 6.

Financial and non-financial information

NFR and NFI were widely regarded as covering 'softer' elements including 'people' information such as the details on fund managers, teams, experience and philosophy, as well as consideration of ESG issues and positions. This contrasts with financial measures, which are viewed as being

[43] Note that due to the logistical challenges of achieving the sample for each type of role, no quotas were used to control for age, gender, or income. This is not expected to have a large influence on the results and findings reported here, which are about trends and patterns in use.

comparatively "black and white". NFI tends to be reported in narrative style (Section 2.2) which reinforces this perception.

Investor demand for non-financial information

An overarching finding from the interviews was that the supply and demand of NFI is often "filtered" as information passes from one group to another.

Generally – as indicated in Figure 3.12 - the supply of information flows downwards – from the firms that produce NFI through their disclosures, to consultants and asset managers, down to fund managers and trustees, and eventually on to household investors (specifically those that rely on agents for advice or management of their portfolios).

The demand for information flows upwards. Investors may choose funds based on a set of preferences regarding the environmental or social performance of their portfolio, which in turn requires that the fund managers hire asset managers that can obtain that performance. To prove that they meet those criteria, companies must therefore disclose the necessary information to those asset managers – either via direct engagement or in the form of their annual disclosures.

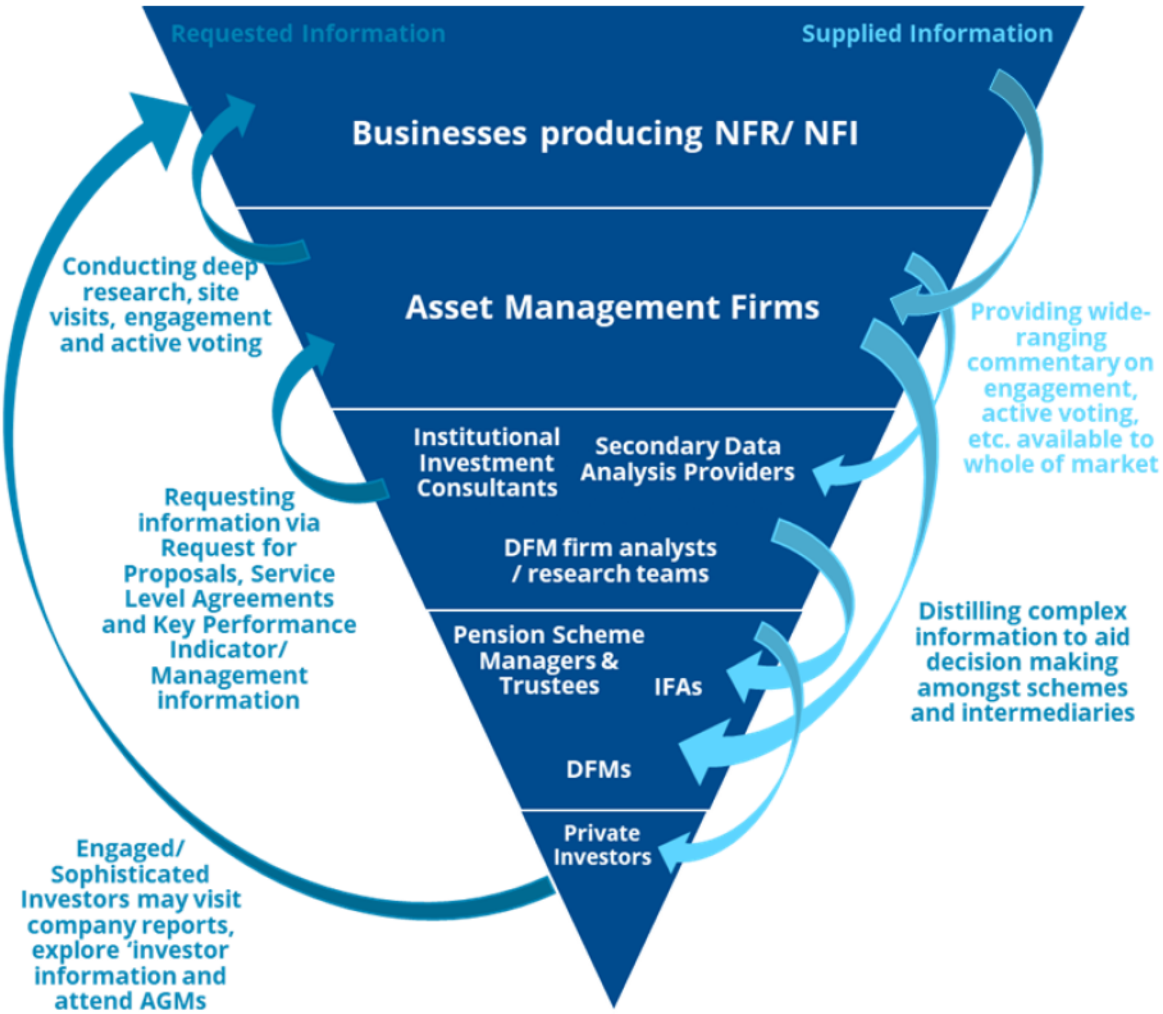


Figure 3.12: Information flow for non-financial information (provided by RiF)

Asset managers, and consultants in particular, were observed to be an influential group both in supplying NFI to other investors and investor agents and driving the supply of NFI through information requests and shareholder engagement. The interviews reinforce the point that the non-financial disclosures that are made by companies are not always a response to the legal requirements, and in fact sometimes can go far beyond those requirements (Box 3.1).

Box 3.1: Quote on voluntary reporting

"[Speaking on ESG Reports] For example, where companies are trying to be in the best place to attract people and one of the ways to do that is by providing more information etc."

– ***Asset manager (research analyst)***

Complexity of company disclosures

NFR as supplied directly from companies was often considered too complex in its original format. Those towards the bottom of the information flow (e.g. pension schemes, IFAs and private investors) tend to require the information to be filtered and condensed by users towards the top (investment consultants and secondary market analysis providers), in order to make it more useable and accessible (Box 3.2).

Box 3.2: Quotes on depth, structure, and types of information in NFR

"You don't want to be going through masses of information. You just want it straight to the point and also the information that is relevant. If there is information that is missed off there, as an individual investor you should just say no. If that information is not available, I need to move on and find something else." – ***Private investor***

"…comparability across all of them [NFR] which helps but it could be sector specific because there are nuances, and it is quite difficult to just have everyone doing the same reporting. Some[thing] like TCFD works pretty well and also TNFD, the nature version…"

- Institutional Investor (brackets for clarity)

"When we screen companies for inclusions within our funds, we have negative screens and positive screens. The negative screen is pretty obvious. Then for positive screens we are looking at six core areas. So business ethnics, community, corporate governance, employment & labour, environment & climate change and human rights. We are looking at non-financial information. Obviously, there is some financial information there with the revenue alignment, Capex (Capital Expenditure) and Opex (Operating Expenditure) but overarchingly we are looking for a holistic understanding that a company is effectively managing their risk in these areas and we are looking for evidence of that."

- Asset Manager (Responsible Investment Analyst)

Environment, social, and governance information

Environmental impacts were generally viewed as easier to quantify (e.g. carbon intensity/ emissions) than social and governance measures. However, environmental performance or impact can sometimes be given in measures which are not well-known and/or hard to assess across companies. Alongside this, the environment is the more widely known and more tangible element, and therefore generally more talked about both by companies and their investors (Box 3.2). There was generally approval of moves towards standardised formats in ESG metrics, such as TCFD and TNFD.

Preferences for future disclosures

Standardising the formatting of reports was a top priority for users of NFR, even though all acknowledged that this would be hard to do in practice and understand the complexity of the 'ideal'. Indeed, few interviewees were able to suggest concrete steps towards achieving this, but the ability to compare is desired. Assurance or verification from a third party was also a high priority, which would increase trust and confidence in the information that was disclosed by companies.

However, despite the lack of standardised format of reporting with regard to data and metrics, the story, narrative and commentary provided by NFR is acknowledged as valuable and powerful in providing insight into the future pathway of a company (the 'direction of travel'), and ultimately an insight into a company's likelihood of stability or profitability.

Box 3.2: Quotes on preferences for NFR

"We are looking for things that are going to be objective. It is quite easy for companies to produce massive glossy reports, well-funded by their marketing departments but we are always looking for what is the real story behind what they are trying to say? That is particularly the issue with the environmental things because everybody tells you about the environmental policy and they are doing all these things and reducing their carbon emissions and recycling and so on and so forth. It is really important to dig behind that and see what is the impact of these things? Where are the case studies to support the claims that have been made? There is an incredible amount of greenwashing, both by companies and by fund managers." ***– Institutional Investor (Trustee)***

"It slightly feels like people will talk about the thing that they think they are doing the best [...] A bit of standardisation, a one page that contained 20 metrics or something, that would be the sort of thing really that would make life a lot easier, because at the moment everyone seems to come up with something that their company does particularly well on the non-financial reporting and they obviously go on about that. Then the exercise really becomes a complete waste of time for everyone."
– Private Investor Agent (Discretionary Fund Manager)

3.4 Discussion

The evidence review, the user survey, and investor interviews help build a picture of the demand for and uses of NFR. The combined insights form the basis for the proposed methodological approach for Phase 3 and next steps for the project, including alternative options for design of a valuation survey (Section 4). The following summarises the key findings in relation to how the good to be valued might be characterised in a valuation study and the benefits that are derived from NFR.

3.4.1 The good – non-financial information & reporting and other company information

The "good" as posed in the central research question (Section 1.2) is NFR as it exists within the current UK framework of regulations and reporting requirements. However, the investor interviews combined with the existing literature (PwC, 2022; Eunomia, 2020; PwC, 2019) suggest that the good from the investor perspective may be much broader than this.

Key finding 1: Investors and their agents make little distinction between NFI that is required by regulation and NFI that is not. The source of information matters so far as it helps investors judge the quality and relevance of information against a set of criteria - materiality, availability, timeliness, comparability, and verifiability (see key finding 8 below).

Investors – specifically asset managers and institutional investors - often consider a wide set of NFI when doing analysis, producing recommendations, or making investment decisions. Further, the investors' focus in analysing an investment option is on the performance and expected outcomes of the investment. The quality, availability, and comparability of information are important as these allow identification and comparison of a wide set of performance indicators and outcomes across companies and investment options.

Key finding 2: Strategic and directors' reports are often long and complicated and hence labour intensive to use. This means that beyond an initial audience of analysts and consultants, most in the investment sector use secondary information that is produced from the disclosures contained in the original reports.

Most of the investors interviewed and the previous research indicate that NFR in its current form requires teams of people to analyse and aggregate it to transform it into actionable information. There are firms that specialise in these activities, and some investment firms are large enough to do this in house. Many investors, however, do not read the primary NFR, but rely on analysis and aggregation provided by others, either as a part of providing firms wider services (such as an asset manager) or as a standalone service (such as subscribing to analysis packages).

Key finding 3: NFI is combined with financial information to create a broader set of 'actionable information' or 'knowledge' that is used in decision making. Within the value of information literature, this pathway is expressed at data →information →knowledge →decision →action (Glynn et al., 2022). The types of information included in "knowledge" and the weights placed on them will vary between individuals and firms. However, data in this framing is never used in isolation, and therefore comparability between information points (both within a company and between companies) is critical to using it to generate knowledge.

Investor demand is therefore for information that will best help improve their decision making at the least cost. The critical criterion is that the expected value of the information be greater than the opportunity cost of using it, as they seek to maximise their investing outcomes. Most commonly, this is financial returns within a certain set of constraints set out risk preferences and/or ethical objectives.

An expected hierarchy of information has been observed, where financial information tends to be considered to be more important than NFI, as it is perceived by investors to be more relevant to understanding how an investment will perform in the future. However, investors stated that financial information is not a perfect predictor of future performance, and therefore the risk and governance information in NFI is valuable in decision-making.

3.4.2 The users and beneficiaries

Following from above, it is evident there is a key differentiation between the (direct) users of NFR, i.e. those who read and interpret the strategic and directors' reports, and the wider beneficiaries from the provision of NFR. The benefits to investors from NFR mainly arise from better informed decisions and engagement with companies. This does not require direct use of NFR by all beneficiaries. Much of the information included in financial disclosures can be summarised by others and still benefit investors that never engage with the primary documents. However, as the aims of this research are both to understand the value of NFR and how it might be improved, the primary users are a very important group to engage. This is where the direct experience and familiarity with NFR lies, in terms of the content, structure and quality. Beneficiaries in contrast, are less well informed on these aspects of NFR that stem from the regulatory framework.

Key finding 4: Investors do not have to directly interact with strategic or directors' reports to benefit from them. Within the investment sector, the group of regular users for NFR is small (mainly asset managers and certain types of consultants – per key finding 1), but the outputs that they create in the form of secondary NFI or directly actionable information ('knowledge') provide benefits to a wide range of beneficiaries from fund managers using analysis reports to small private investors buying funds. Therefore, the group of direct users of the information is much smaller than the group of beneficiaries, and this small group of individuals are also concentrated within a relatively small number of firms (see Box 4.1 for further details on employees within the investment sector).

Key finding 5: Consultancies and asset managers are both beneficiaries (consumers) and suppliers of NFI. The information required by investors influences the types of NFI that consultancies and asset managers review and use in their decision making. However, since investors rarely have access to the same range of information or level of expertise as asset managers, what they demand is subject to advice provided by these firms (in terms of NFI information provided and how much weight is put on different types of NFI).

3.4.3 Preferences for non-financial reporting

Given the variety of users and beneficiaries, it is also evident that preferences for NFR are heterogeneous.

Key finding 6: The relative importance of various aspects of financial and non-financial information in decision making varies widely between investors. Beneficiaries can value NFI differently depending on underlying preferences and goals (e.g. motivated by rate of return, social outcomes, environmental outcomes, risk aversion, etc.) Key dimensions include ESG and risk assessment.

While some interviewees indicated that NFR and NFI were very important to their decision-making, others indicated that financial information was of much higher importance. This observation relates to key finding 3, and the level of importance is often related to how the information was used within the decision-making process. Investor preferences are wide ranging, reflected in the range of funds and investment products that are available. Some investors prefer high-risk, high-upside investing, some prefer lower-risk profiles, and others prefer to consider other outcomes from their investments such as social impacts. The increase in the amount invested in ESG funds over the past decade indicate that more investors may be focused on the wider outcomes. However, the investor interviews show that there is still a high priority on expected returns. Within the categories of ESG, preferences were also not consistent, which often reflect underlying motivations (i.e. personal preferences) for their use of the information.

Key finding 7: NFI is used to assess investments against screening (exclusionary) criteria and to ensure alignment with broader investor aims (soft screening). These criteria vary based on investor preferences, and can be hard criteria, such that an investor only invests in companies above some threshold, or soft criteria such that companies are comparatively assessed on some measure as part the decision-making process. The metrics used in these assessments are therefore essential to the investing strategies that they inform – such as specific themes within ESG investing – and it was evident from interviews that NFI can have a major role in meeting objectives, especially those that are not solely financial returns. However, investors also noted that NFI can be used to give a better view of how a company is run, which can influence the interpretation of financial information. Therefore, NFI screening may also be used where financial returns are the primary investor objective.

Key finding 8: Investors are concerned about the materiality, availability, timeliness, comparability, and verifiability of NFI. Materiality and availability of NFI is key – as the information needs to be available to be used and needs to make a difference to 'knowledge' (see key finding 3) to have value. The value of NFI could be enhanced if it is also more readably verifiable and comparable across firms. One consistent preference was for transparent and high-quality information. As NFR is self-reported, there is a concern that it could be misleading or inaccurate. Many firms have their reports assured by third parties (see Section 2.2) to address such concerns, but there are currently no regulatory requirements to do so.

4. Valuing non-financial reporting

This section summarises the potential approaches that could be used to value non-financial reporting. It presents a value chain for NFR and demonstrates how economic value can be estimated at each stage based on either the opportunity cost of using information (supply) or users' demand.

Alternative methods that can estimate these supply or demand values are outlined (market value, resource cost, revealed preference, and stated preference), with a summary of how each could be implemented (along with examples, where available).

The preferred approaches for Phase 3 are identified (resource cost and stated preference) along with an overview of the proposed implementation, sample, method, and evidence that would be developed by each.

4.1 Value of non-financial reporting

The starting point for estimating the value of non-financial reporting in terms of a non-market good is to understand how its provision benefits different groups, what complement and substitute goods may exist, and how the provision of the good may occur (i.e. either directly "consumed" or via some product with steps involving other inputs).

4.1.1 NFR value chain

Figure 4.1 sets out a basic value chain for the provision of NFR to the investment sector. The regulatory framework and standards set by national and international organisations influence the (mandatory) information that is produced by firms, who are the "suppliers" of NFR. These are the companies who are obligated to provide corporate disclosures. They may also voluntarily disclose information to regulators, investors and other stakeholders (see Section 2.2 for a discussion of disclosure).

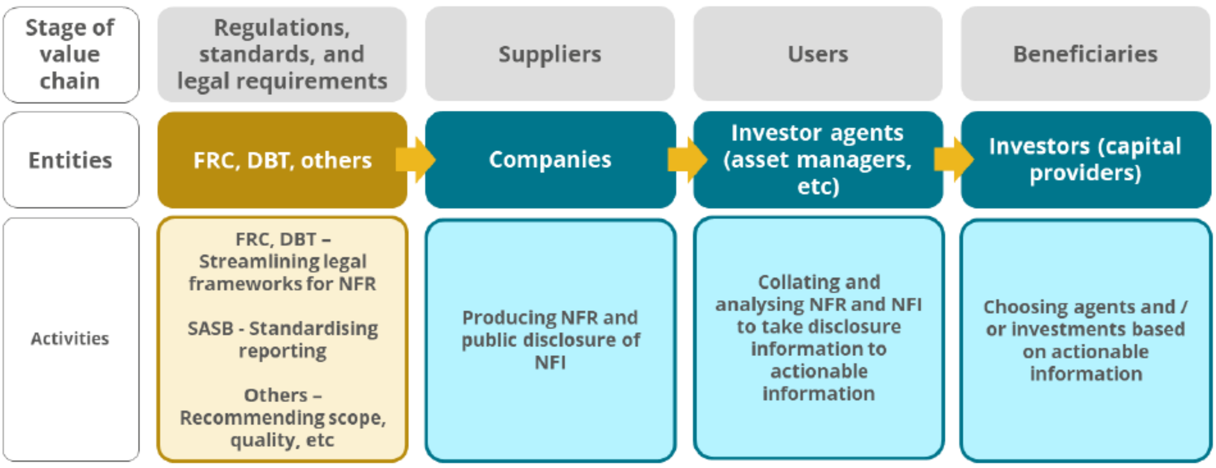


Figure 4.1: Basic value chain for NFR for the investment sector

The direct users of NFR are a subset of the investors, comprised primarily of investor agents (e.g. asset managers), consultants and other third parties (e.g. rating agencies, ESG data providers) (see Section 3.4). Their value added is to collate, analyse and aggregate the contents of NFR provided by individual companies, potentially combining it with wider disclosure information (financial and NFI) (the "complementary" inputs), and ultimately translating it from disclosure information to actionable information. The beneficiaries of this actionable information are asset owners ("capital providers") who either use the insights that are provided to make their own decisions over asset managers to employ, investments and funds to buy-in to, or benefit from actions of their agents making more informed decisions in allocating their capital.

Note that what is not included in this value chain is the wider potential and ultimate impact of NFR. As shown in the logic model (Table 1.1), this final social impact could occur due to more informed investment and business practices. The mechanism through which the wider social value is created is a longer-term proposition, involving the reallocation of capital over time via more informed investment to companies that create better overall social outcomes – not only generating financial returns for their investors, but also increasing the social value of the companies themselves.

4.1.2 Opportunity cost and demand for non-financial information

For each step of the value chain for NFI, there are two dimensions of economic value to consider: (i) the opportunity cost of providing and using NFI (i.e. consuming and creating actionable information); and (ii) the demand for NFR expressed as what users are willing to pay to obtain the information, based on their preferences (i.e. what is made available, what complements and substitutes are available, and how they intend to use it) (Figure 4.2).

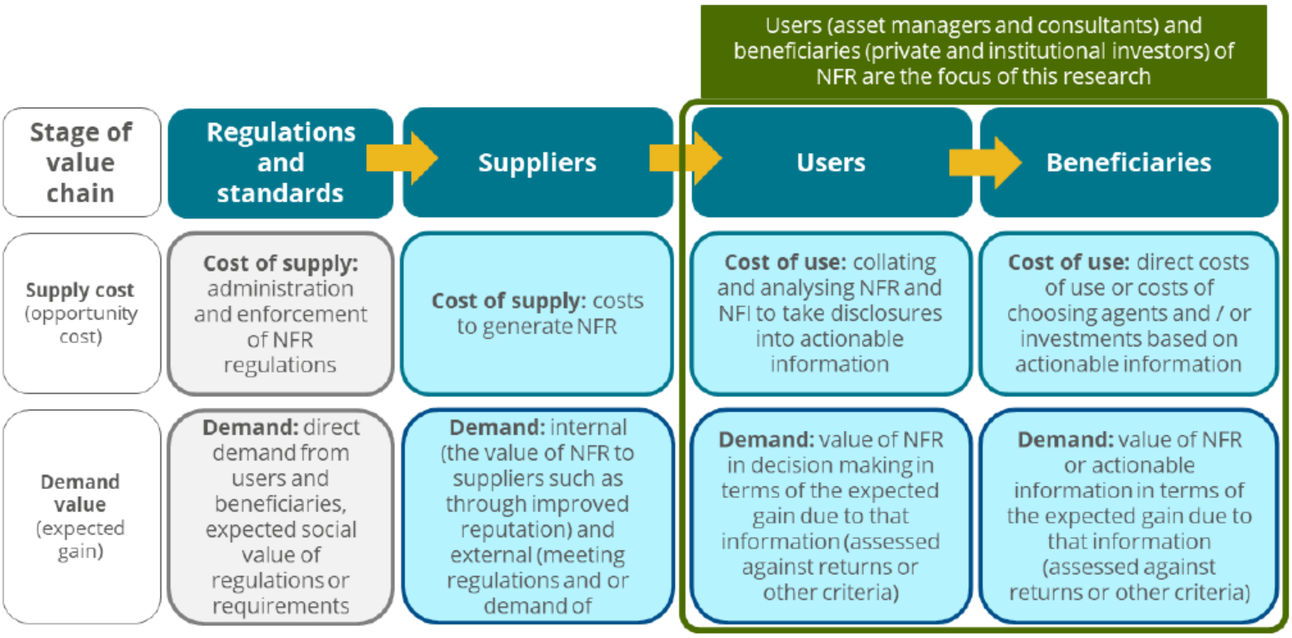


Figure 4.2: Value of NFI from the supply (opportunity cost) and demand perspectives.

For users, the opportunity cost measures the value of resources (e.g. labour input) employed in collecting and interpreting NFR as part of the process of analysing and aggregating it into actionable information. The basic assumption is that the value of NFR to the user should at least be equal to the opportunity cost. For example, if an asset manager spends one day reviewing NFR information, then the value of that information to them must be worth at least as much as any other activity they could have done in that day (such as reviewing financial information)[44]. User opportunity cost therefore represents the minimum value of the provision of NFR to them.

From the demand perspective, the value of NFR is measured by users' willingness to pay (WTP) to secure its provision. In the case of a good that is provided free of charge, like NFR, user WTP consists entirely of the surplus they gain from its provision (over and above the "price" they pay, which is zero for such 'non-market' goods). The basic assumption is that users will have a good understanding of the benefit they derive from the provision of NFR – as an input to the services they carry out and offer to clients or as a direct input into their own investing activities (if they are both user and beneficiary). Consequently, their maximum WTP would be the same as the benefit NFR yields. Hence in comparison to opportunity cost, the demand perspective reflects a more complete measure of the value of the provision NFR to the user.

For beneficiaries, the demand value for *NFI* is the value they place on their ability to better align their investments to their preferences (e.g. tolerance of risk, desired returns, or other criteria like environmental and social impact).

4.1.3 Investor decisions and criteria

A further step to understanding the value of NFR to the investment sector is to consider the objectives and primary decisions it can inform as shown in Table 4.1. Note that here, it is more relevant to expand the scope to NFI since it is reasonable to assume that a broader set of information will influence the decisions for both investors and their agents (Table 4.1).

[44] Likewise, if an asset owner is willing to choose an agent that charges a higher fee to have better ESG integration within their investment portfolio, then this is their opportunity cost for aligning their investments to their preferences.

Table 4.1: Investors and agents objectives, decisions, and the use of NFI in those decisions.

User/beneficiary	Objective	Primary decisions	NFI in decision framework
Asset managers (users and beneficiaries)	Maximise return of the fund or asset group within certain preferences set out by their investors (often aggregated across many investors)	What investments to include within a fund and when to purchase / sell those investments.	• Assessment of costs to use information • Assessment of quality of information • Assessment of relative importance of information • Informs risk • Informs potential upside • Informs alignment on investments to client preferences for other outcomes (e.g. environmental and social)
Consultants (primarily users)	Advise others to assist them in achieving their objectives	What information to present to clients, and how to best package that information.	• Assessment of costs to use information • Assessment of quality of information • Assessment of relative importance of information
Institutional investor agents (users and beneficiaries)	Maximise returns for clients and fund members within a set of aggregated preferences for their client base	What fund / asset manager to use and how much to invest with that manager.	• Assessment of managers' ability to use NFI • Assessment of managers' costs to use NFI • Assessment of relative importance of using that information • Informs alignment on investments to client preferences for other outcomes (e.g. environmental and social)
Retail investor agents (users and beneficiaries)	Maximise returns for clients based on the preferences of that individual client	What funds, securities, fixed assets to select or recommend. What platform / services to use to select investments and make recommendations.	• Assessment of costs to use information • Assessment of quality of information • Assessment of relative importance of information • Informs risk • Informs potential upside • Informs alignment on investments to client preferences for other outcomes (e.g. environmental and social)
Private and institutional investors (primarily beneficiary of NFR)	Maximise returns within a set of preferences for other outcomes (such as environmental or social outcomes)	What investments to select and how much to invest. What platform / services to use to select investments.	• Assessment of costs to use information • Assessment of quality of information • Assessment of relative importance of information • Informs risk • Informs potential upside • Informs alignment on investments to personal preferences for other outcomes (e.g. environmental and social)

Following Table 4.1, the use (and the use value) of NFI largely depends on three primary aspects within the value chain: (i) the cost of using the information; (ii) the quality of that information; and (iii) the relative importance of that information, which includes how it may complement or substitute other disclosure information, and ultimately how material it is to their preferences for outcomes of interest. Materiality, within this framing is determined by the further three common dimensions with the decision framework – how does the information inform risk, upside potential, and alignment to any other preferences the investor may hold.

Based on key finding 8 (Section 3.4.3) and Phases 1 and 2, some expectations can be set for these dimensions:

- **Cost of using NFR (or NFI)** – all else being equal, users would be expected to prefer lower cost (e.g. easier to collate, interpret and compare across companies).
- **Quality of NFR (or NFI)** – all else being equal, users would be expected to prefer higher quality information, where quality can be defined in terms of:
    - **Transparency, assurance and verification –** investors would be expected to prefer information that is assured and/or transparent up to some threshold at which they trust that information.
    - **Consistency across time and firms –** investors would be expected to prefer more consistency in reporting, both over time and across firms. This consistency could be in terms of methods, metrics, units, context, or format used.
    - **Amount and depth of information –** generally, users of NFR indicate that the current reports are lengthy and complicated. However, it is not clear whether users would prefer shorter reporting if this led to less overall information being provided.
    - **Companies reporting –** investors would be expected to prefer to have information available on the types of firms that they will make investing decisions on. Therefore, it is expected that investor preferences will be based on the type of investing that they do.
- **Information within NFR (or NFI)** – users' (and beneficiaries') assessment of the materiality of NFI is expected to vary widely from firm to firm or individual to individual. The assessment of this materiality can be further broken down by:
    - **Main themes –** while some users place a high importance on environmental performance (such as carbon intensity), others may place a high importance on governance structures (such as the independence of board members). Preferences on themes often come down to the objectives of the user.
    - **Detail of reporting –** preferences for what information is reported within a theme, and how that information is presented will also vary. For example, some interviewees indicated a preference for a narrative style of reporting, while others preferred a strictly quantitative approach. Some may also prefer more assessment of current risk, while others may prefer more assessment of social impact.

4.2 Valuation methods

There are four framings to value NFR, which are combinations of the user or beneficiary and measure of value (cost and WTP). Table 4.2 shows these framings and matching valuation methods, which are:

- Market value – while NFR is available free of charge, there are markets for NFI products based on NFR from which price data can be gathered. Suppliers include, for example, MSCI, Morningstar, Bloomberg, and others.
- Resource cost – information on the opportunity cost (mainly labour and supplier cost) of using NFR and NFI can be collated to estimate the minimum benefit of using that information to investors under the assumption that benefit is greater than or equal to the cost of use.
- Revealed preference – by observing existing behaviour (such as the selection of fund managers), preferences regarding the choice criteria of the behaviour can be estimated as long as they can be observed (such as fund managers use of NFI).
- Stated preference – willingness to pay (WTP) for NFI can be elicited through survey of users or beneficiaries. Such a survey could ask about the preferences for the provision of NFR and include a simulated market where respondents can trade-offs money for the provision of the NFR.

Table 4.2: Valuation methods for each framing of the value of NFR

Overall framing	Potential methods
Opportunity cost of users (primarily asset managers and consultants)	Market value Resource cost
Opportunity cost of beneficiaries (all investors)	Market value Resource cost Revealed preference
User's and beneficiaries (all investors) WTP for NFR	Stated preference Revealed preference

4.2.1 *Market value*

Market value method involves observing data from related markets to infer or estimate the value of the market good or goods that are complements, substitutes, or that contain or are improved by another good. In this case estimates of the value of NFR could be made based on observations for the market value of NFI, based on assumptions about the relationship between NFR and NFI.

The NFI that is sold in markets by companies represents a "value-added" product when compared with NFR, and as such it would be expected that the value of NFI is greater than the value of NFR. NFI sold in markets is also a heterogeneous product – varying across a wide range of dimensions. These products may even be tailored to the preferences of a specific user. As such, estimating the proportion of the value of NFI that is attributable to NFR would require further data to understand how the latter contributes to the former.

A high-level review of the market data available also presents other challenges in terms of the central research question of this project. Many of the firms that sell NFI are international and do not report their revenues by country, and others do not differentiate between their NFI products and the other types of analysis they sell. Finally, there are some firms that sell NFI that are not required to report their revenues at all, and therefore the total size of this specific market can be estimated but is not known.

While the available market data is not sufficient to answer the research questions of this project, the data that is available does serve as a useful reference point (Table 4.3). Note also that none of these estimates are for UK only markets – most companies that offer NFI and ESG services do so globally.

Table 4.3: Select examples of available market data for non-financial and ESG information.

Source	Measure	Value(s)
Opimas (2022)[45]	Estimate of total revenue from ESG data services globally	$1 billion (2021)
MSCI Annual Report (2022)[46]	Total revenue from MSCI's ESG and climate services (global)	$228 million (2022), up from $71 million (2018)
Morningstar (2022)[47]	Total revenue from Morningstar Sustainalytics (global)	$103 million (2022)

4.2.2 Resource cost

Resource cost methods involves gathering data on the costs (time, physical space, money, etc) incurred to use a good or service. The cost represents the minimum value the user places on that good, as the opportunity cost of obtaining the good or service should be at least as large as the benefit it provides (see Section 1.3). Applying this to NFR, the primary costs in question are the time spent to use NFR and any cost paid to third-party information providers. This cost will be most evident for the primary users of NFI who process NFR disclosures into actionable information (i.e. collate, analyse, aggregate, interpret that information). For the beneficiaries, the costs of having NFI included in the actionable information may become embedded, such as part of the management fee paid to an asset manager.

Some previous research to estimate resource costs for using NFI have been undertaken. ERM (2022) surveyed asset managers in the US and found that firms were spending on average $1,372,000 annually to the use of climate data in their investment decision making. This includes $487,000 per year on third-party data. In the UK, significant time is also spent with NFR and NFI (Eunomia 2020; PwC, 2021), but the data currently available is not detailed enough to generate an overall estimate of the resource use. However, results from the user survey on NFI (Section 3.2) allow a sketch of this approach to be set out (see Box 4.1). While the survey was not designed to support this kind of analysis, it does give an indication of how this approach can be implemented, and the kinds of data

[45] Available at: https://www.opimas.com/research/742/detail/
[46] Available at: https://www.msci.com/documents/1296102/37143064/MSCI+INC._Annual+Report_2022_BMK.pdf
[47] Available at: https://s21.q4cdn.com/198919461/files/doc_financials/2022/ar/2022-Annual-Report-FINAL.pdf

needed to reach an estimate of the value of NFR or NFI. This example also indicates that a refined version of the user survey on NFI could be used to reach a better estimate of the current value of NFI.

Box 4.1: Example approach to determine the value of NFR using resource costs

The results obtained from the user survey on NFI can be used to illustrate how the value of NFI can be estimated. What follows are a series of steps to go from the information observed to an overall estimate of the value of NFI – the results should not be used for further assessment.

Step 1: The response data shows the average time spent with NFR and NFI per respondent (using the low bound of each response option, and 0.5 for "less than 1 hour per week):

- Asset management sector = 2.8 hours per week
- Institution investing sector = 1.7 hours per week
- Retail investing sector = 1.4 hours per week

Step 2: This time per individual will need to be annualised and aggregated. Without further data, this exercise will assume that the responses gathered are representative of the sectors as a whole.

Step 2a: Assuming a working year of 44 weeks (52 weeks – 2 weeks of public holiday – 6 weeks of annual leave), the estimated annual time per individual is (rounded up or down):

- Asset management sector = 123 hours per year
- Institution investing sector = 75 hours per year
- Retail investing sector = 62 hours per year

Step 2b: ASHE data (ASHE, 2022, specific data request)[48] can be used to estimate the total number of people working in each sector within the UK:

- Asset management sector = 4,800 individuals working in fund management that also participate in "investing activities".
- Institution investing sector = 21,000 individuals that work doing "investing activities" that are not working in retail banking or other ancillary financial services.
- Retail investing sector = 68,000 individuals working in "investing activities" not included in the above two categories.

Assuming that the survey respondents are representative of their respective sectors, the total time spent annually reviewing NFR and NFI data is estimated to be:

- Asset management sector = 590,000 hours per year
- Institution investing sector = 1.5 million hours per year
- Retail investing sector = 4.2 million hours per year

The representativeness of the sample is a weak assumption, leading to likely overestimate of the total hours in each sector. If, for example, the actual use of NFI by asset managers were one hour less per week, their total cost of use via this method would almost half.

[48] Based on 2021-2022 ASHE data for several SIC and SOC codes relating to investment roles and investment sectors. Primarily of interest are SOC 2422 (management accountants), and SIC codes 64191, 64192, 64209, 64301, 64929, 64991, 65110, 66110, 66190, 66210, 66220, 66290, 66300 which describe various industries related to finance and investing.

Step 3: Next, the unit resource cost needs to be established. One method is to start with the average salary for each sector, which is available for ONS (2022) data:

- Weekly income for "Finance and Business Services" = £1,135 (Annual = £59,000)

Assuming there are, on average, 2000 work hours per year and a 1.5:1 employer cost to salary ratio[(a)], the average opportunity cost for each hour spent is roughly:

- £59,000 * 1.5 / 2,000 = £44.25 per hour
- This approach does rely on broad assumptions about salary and cost to employers, both of which would be expected to be highly variable. There is no reason to believe, however, that those working with NFR are not "average" in terms of salary and cost to companies.

Step 4: Finally, the total cost can be estimated by multiplying the time spent by the cost per hour:

- (590,000 + 1,500,000 + 4,200,000) * £44.25 = **£278 million per year**

This value does not differentiate between NFR and NFI – and to do so would require making assumptions on (i) the percentage of time spent directly with NFR and (ii) the percentage of NFI's value that can be traced back to NFR. The total cost figure can be compared against the total investment industry revenue (£25 billion in 2021; Investment Association, 2022), or operating costs (£19 billion in 2021; Investment Association, 2022), to get an idea of the value of NFI in terms of the value of the sector (1-2% of the total value).

Box notes: (a) example calculator of employer costs available at: https://accountingservicesforbusiness.co.uk/true-cost-of-an-employee-calculator

4.2.3 *Revealed preference*

Revealed preference methods involve observing choices made by individuals or companies to estimate the value the choice reveals. These methods require that the choice be observed alongside other information, so that the factors involved in making the choice can all be considered, in particular the available options and the characteristics of those options. This data then represents the choice set, and by analysing the choices made within the set, usually by many individuals, preferences can be estimated.

In the case of NFR and NFI, an example of using revealed preference might be to observe asset owners' (capital providers) choices of investment funds, based on the funds' use of NFI in selecting securities. This type of method relies on the choice set and the characteristics of each choice being observable and hence can be very difficult to implement, as it requires sufficient data to be used as a control, as well as full (or close to full) information on the choice set. In the case of NFR and NFI, such information is not readily available as the choices users or beneficiaries make about NFI or NFR are not already recorded. The only way to observe such choices would be to ask the users or beneficiaries. If a survey approach will be used, the more efficient use of the survey would be to ask both revealed and stated preference questions (see below for this method).

4.2.4 Stated preference

Stated preference methods use specially designed surveys that present respondents with simulated choices for the provision of a good (in this case, either NFR or NFI). Through their (repeated) choices, their preferences can be observed, and values can be inferred. The approach is flexible as the simulated market can be set up for any good so long as the market is credible and understood by respondents. This is why surveys can cover goods that are already known as well as future scenarios that are yet to be experienced.

The central component of a stated preference survey is a (set of) task(s) in which respondents are asked to make choices on the provision of a good (NFR or NFI). These can be choices between improved, maintained, or deteriorated levels of provision of the good. The repeated choices made by respondents helps to reveal the factors (or attributes of a good) they prioritise when making their preferred selection.

If one of the factors is cost (or price of the good), respondents' choices also reveal how they trade off money for the good, which allows the value they derive from its provision to be expressed in monetary terms. Most commonly, this value is measured in terms of the respondent's willingness to pay (WTP) to secure the provision of the good or improvements to it. WTP can also be to avoid the loss (or deterioration) of the good. This measures the benefit that the respondents derive from improved or maintained (avoided deterioration) provision of the good, in terms of the monetary amount they are prepared to give up to secure that level of provision. Instead of cost, risk or time, can also be used to derive a monetary measure (by converting time to money as in Box 4.1, for example), but these are less commonly used.

In the absence of an easily observable market for NFR, the stated preference method is an attractive option. In addition, it can estimate values for changes to the provision of NFR or NFI as well as the value of NFR as it is currently provided.

4.3 Proposed approaches

Of the approaches outlined in Section 4.2, two potential approaches are preferred for Phase 3 based on two criteria: (a) feasibility of practical implementation; and (b) the type of evidence they would create. Market values, while available for some types of NFI, are limited to products sold by third party providers. This data is therefore difficult to use to develop values for the underlying information, as it is bundled with other services. Further, this value would represent only one portion of the costs associated with the use of NFI (the other being time). So rather than the information available from NFI sellers, it would be better to acquire data from NFI users, which is the resource cost approach as described in 4.3.2.

A revealed preference is not pragmatic in relation to the central research question due to the amount of data it requires. There are specific aspects of investing behaviour related to NFR that could be used – such as the level of investment in ESG funds – but this approach would not be able to describe what is motivating that investment and what portion of the investment is due to any specific set of data. A stated preference method, however, creates a valuation scenario where the availability of NFI is central to the choice, and therefore is able to describe the value of that information, as opposed to behaviours that result from its availability.

Based on this assessment, the stated preference and resource cost methods are the preferred approaches for Phase 3.

4.3.1 Stated preference survey

Rationale

The stated preference method could directly establish demand for NFR or NFI within the segments that are surveyed and elicit willingness to pay (WTP) for NFI with different characteristics. In principle, this strategy would ensure that all possible uses of NFR (NFI) information by investors and their agents are reflected in the estimated values. It is also possible to collect supplemental information on investor characteristics, attitudes and perceptions to obtain a rich supporting dataset to explain preferences and values.

Implementation

A stated preference survey would be implemented online using the RiF or similar panel of investors and investor agents (beneficiaries and users). The main groups that could be surveyed using the RiF panel are private investors, professionals in the retail sector, professionals in the institutional sector, and potentially professionals in the asset management and consulting sector. These sample groups are further detailed in Table 4.4. There are trade-offs in the utilisation of each sample, but generally a "broad" approach is preferred as it has the greatest chance of producing a large sample, which can then be segmented through the collection of demographic and occupational information. Based on the composition of the RiF panel, it is likely to be difficult to obtain large samples for some groups (such as professionals in asset management).

Table 4.4: Potential sample groups for stated preference survey

Sample group	Relative expected sample size	Available information on overall population	User / beneficiary of NFR
Private investors	Large (many individuals)	Very limited	Primarily beneficiary
Professionals in retail investing	Large (>60k+ total individuals according to ASHE data)	Some (available via ASHE)	Primarily beneficiary
Professionals in institutional investing	Medium (>20k+ individuals according to ASHE data)	Some (available via ASHE)	Primarily beneficiary
Professionals in asset management or consulting	Small (<5k individuals according to ASHE data)	Some (available via ASHE)	Primarily user

Note: see Box 4.1 as well as Section 3.2 for demonstrations of how ASHE data can be used.

Overall survey structure

Stated preference surveys generally follow a five-part structure (Table 4.5). The development of the survey would be iterative, in line with stated preference good practice, and the survey would be tested with a series of one-to-one interviews to ensure that the respondents understand the survey and can meaningfully answer the questions, in particular the choice tasks. The framing of the survey may need to differ based on the user / beneficiary group that is being surveyed, and this can be accomplished by using survey variants or by scripting the survey to pair respondents with information and questions based on their previous responses.

Table 4.5: Typical stated preference survey structure

Section	Content
Section A: Screening questions and quotas	• Screening for respondent group (role, time in role, etc) • Quotas questions (if used)
Section B: Introduction to NFI	• General introduction to NFI • Views and uses of NFI
Section C: Choice task(s)	• Choice task(s): Simulated market choices of comparison exercises for some set of aspects of NFR or NFI • Follow-up including difficulty questions on these exercises
Section D: Follow ups	• Follow-up questions specific to each choice tasks • Credibility and consequentiality questions • Motivations behind choices
Section E: Respondent profile	• Location, education, income, etc.

Choice task formats

There are several formats of choice tasks that could be used (Table 4.6). Each task format could be used in this survey, and further testing will be required to determine the preferred format.

Table 4.6: Stated preference choice task formats

Format	Description	Evidence created	Strengths
Best-worst scaling (BWS)	A repeated choice exercise where respondents are asked to select most (best) and least (worst) preferred aspects of a single scenario.	Quantifies individuals' preferences (best used to measure relative preferences)	Can estimate preferences weights for a longer list of attributes, and also generates a full preference ranking for each choice set
Paired comparison (PC)	A repeated exercise where respondents are asked to choose between two alternative options/scenarios. Could be attribute-based or bundled, and/or include trade-off with monetary amounts.	Quantifies individuals' preferences and can estimate marginal values, depending on the attributes included.	Usually viewed as an "easier" choice format (i.e. lower cognitive burden) since respondents only choose between two options each time,
Discrete choice experiment (DCE)	A repeated choice exercise, where respondents are asked to choose preferred option/scenario from 2 or more alternatives.	Quantifies individuals' preferences and estimates marginal values.	Generates more information on preferences to estimate marginal values.
Dichotomous choice contingent valuation (DCCV)	A single choice question, where the respondent selects yes/no to a payment amount for a single scenario	Values a discrete change in the provision of a good or policy.	The most "incentive compatible" choice format

The major distinctions in the type of evidence different choice tasks would create are based on whether: (i) the task generates economic evidence on relative preferences (i.e. BWS, PC, DCE) or marginal values (DCE, DCCV) or both; and (ii) the task is repeated (BWS, PC, DCE) or a single choice question (DCCV). These two distinctions determine the size of dataset created for any given sample size, and how the economic evidence developed through modelling can be used. As the marginal values for changes for NFR regulations are an important component of the evidence need, a paired comparison, DCE, or DCCV will need to be included within the survey.

The framing of these choice tasks is particularly important, as the tasks need to be for a good (and for aspects of that good) about which respondent can make a meaningful choice. The cost of the good also needs to be credible in the context of the choice.[49] Based on the primary decision information included in Table 4.1, framings using the choices between investment platforms (private investors), analysis services (retail sector) and fund managers (institutional sector) would be both similar enough to use a common set of attributes and match the primary decision framework of investors.

[49] For example, asking a question directly about changing the NFR regulations and including a cost attribute would be difficult, as there is no credible cost that can be applied to that change when NFR is provided for free. Therefore, alternative ways to ask about cost must be included.

Attributes and levels

The evidence need and the framing of the task will dictate the selection of attributes and levels. The starting point for this list can be the dimensions of interest based on the evidence need for the NFR requirements, which are broadly: (i) which companies should be required to report; (ii) what is required within those reports; (iii) how should they be required to report; (iv) and how should what they report be assured or validated (if at all). The attributes used in a choice task should be able to be mapped back to these dimensions (Table 4.7).

Table 4.7: Potential attributes based on dimensions of NFR

Primary dimensions of NFR	Corresponding attributes
Which companies are required to report	• Number of companies that report overall • Types of companies that report (size, area of business, listed status, public interest, etc)
What is required in a report	• Main reporting themes (environment, social, governance) • Specific KPIs and measures • Sectors of companies that must report
How they are required to report	• Qualitative versus quantitative • Frequency of reporting • Goals, actions, and risks • Format and groups of disclosures (such as strategic reports, directors' reports)
How those reports are validated and assured	• What is assured (section, specific measures) • Who assures (third parties, government, etc)

Notably, Table 4.7 does not include any attributes related to cost or information outside of that related to NFR. However, a cost attribute would need to be included to develop estimates of marginal value. The likely cost attribute would be an annual management fee for the choice of investment platform and the choice of asset manager, and an annual subscription fee for the choice of analysis services.

Evidence

This approach would model relative preferences for changes to NFI based on choices made in the simulated market (Figure 4.3). When combined with the cost attribute, the relative preferences can be used to estimate marginal values for the changes in each of the other attributes. The marginal values can be aggregated across attributes and either the respondent population or market wide financial sums (such as total dividends paid by FTSE100 companies) to estimate the value of different change (to NFR provision) scenarios.

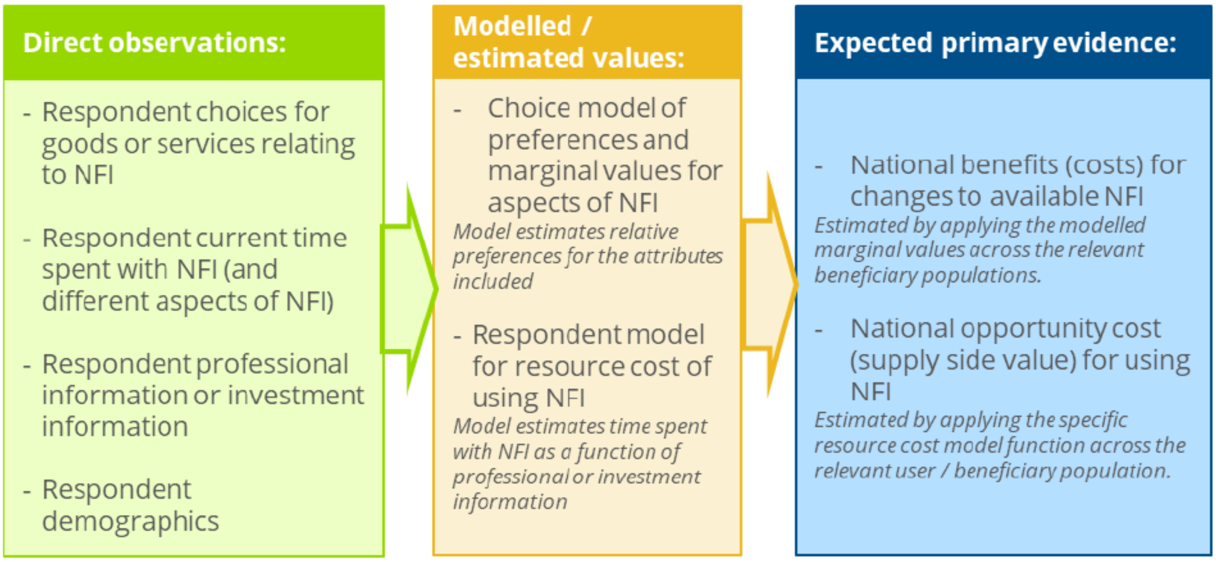


Figure 4.3: Evidence map for stated preference approach

Risks

Potential challenges, however, include the risk of hypothetical bias and ensuring content validity (ensuring that the choices are realistic and understood), along with constraints on practical implementation due to limited panel sizes, potential for low response rates and high research costs for a niche target population. As a novel application of an SP study, specific attention will be needed for the "cost" attribute – particularly since investment analysts and fund managers are not necessarily the individuals responsible for "buying" data and information.

Literature on value of information would be consulted to learn about previous experience of mitigating these risks. More importantly, an extensive developmental work would be undertaken involving iterations of design and testing using one-to-one interviews, focus groups (if relevant for this sample) and pilot surveys.

4.3.2 Resource cost (consultation workshops)

Rationale

The user survey on NFI indicates that a resource cost approach is a viable option for estimating the minimum value of NFI (or NFR) to a particular user or beneficiary group(s). This depends on being able to collect sufficient data for the analysis and that critical assumptions can be supported by an appropriate level of evidence.

Implementation

The proposed approach would use a series of consultation workshops with asset management firms to collect data on the opportunity costs of using NFI. This data would be aggregated across firms, and then analysed to develop estimates of the overall resource costs for using NFR within the asset management sector. This sector is the preferred sample, as asset managers represent the groups that are most likely to be users of NFR. As similar approach has been used before in the US (ERM, 2022) – although that study used a survey as opposed to consultations.

The consultation workshops would be implemented via a series of interviews with a moderator, where firms would be invited to attend with one or multiple participants. As responses would be coming at the firm level, the format should facilitate the questionnaire being responded to by multiple individuals over a period of several days (even weeks). Ideally, a trade organisation such as the Investment Association (IA) or the UK Sustainable Investment and Finance Association (UKSIF) would participate as a research partner, and be able to coordinate as full as participation as possible.

The firm questionnaire approach would require a development and testing phase, to test both understanding of the questionnaire and the potential respondents' willingness to provide the information requested.

Workshop topic guides

The consultation workshops would cover:

- Number of employees, assets under management, areas of specialisation, and their offerings in the market.
- Their resource costs associated with using NFR or other NFI including internal resource costs (employee time) for gathering and using NFR, as well as any third-party analysis or data that is purchased (such as ESG ratings information).
- How NFR and NFI feature in their decision-making process including how important certain types of information are in considering investment, or what types of exclusion criteria they have associated with NFI.
- What NFI they would like to use, but don't have access (or ready access) to.
- What changes they would like to see in the NFR requirements in future such as regulations around consistency of reporting or assurance of the information that is provided.
- Open-ended feedback on NFR regulations and the current state of NFI.

Evidence

This approach would aim to model the firm level resource costs for using NFR - as a function of assets under management and firm characteristics (Figure 4.4). This function could then be applied across the total sector within the UK to obtain a total resource cost value for NFR (or NFI), either aggregating across the number of firms or across total assets under management (AUM). Evidence could also be produced to estimate the resource costs of using specific aspects of that information, as well as a set of preferences for specific aspects of NFR – such as the relative importance of environmental, social, and governance topics. How much evidence on the specific use and preference can be developed depends in large part on the questions included in the questionnaire and the response rates to those questions.

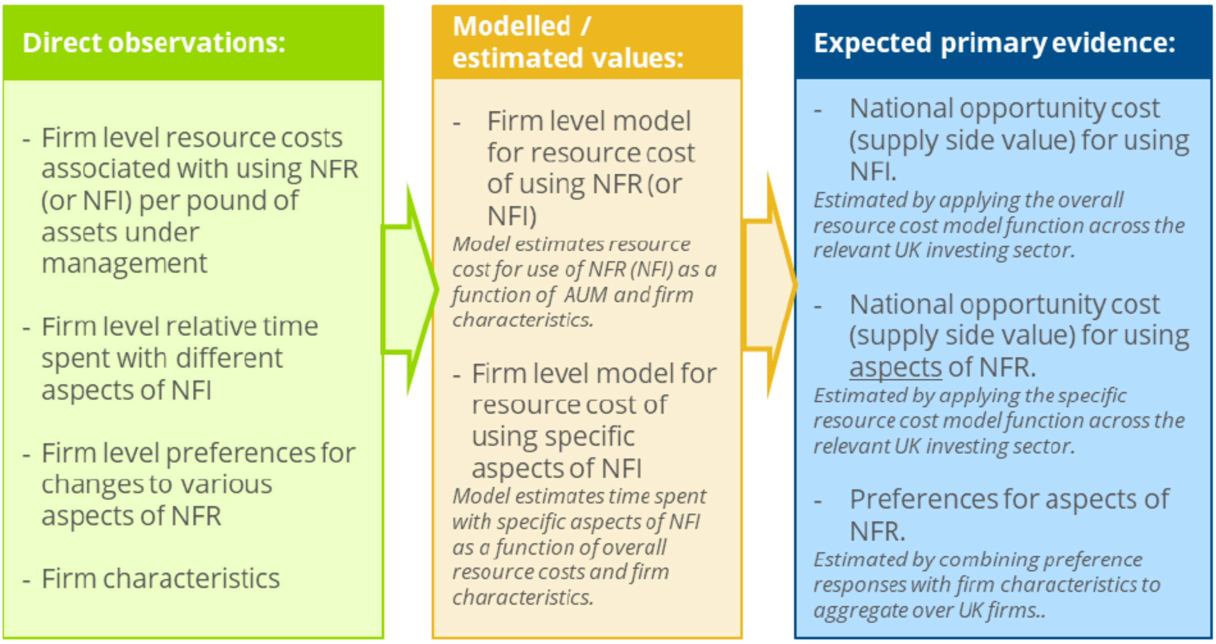


Figure 4.4: Evidence map for firm consultation workshop approach

Risks

There is no guarantee that firms will voluntarily provide information about the resource costs in using NFR and firms may not have good information readily available. ERM (2022, pg. 11) notes that "For some investor respondents, breaking down costs on climate-related activities in the categories ERM provided may have been difficult given their costs may be embedded within larger internal cost structures and included within different management pillars."

A sample of at least ten firms will be necessary to begin to develop order of magnitude estimates of value, with the precision of the estimate depending on the variance in the costs observed from firms. While costs would be expected to vary between asset managers, the categories of costs are expected to be the same based on the Phase 2 findings.

5. Conclusions

Phases 1 and 2 of this study have examined the benefit of NFR to investors. This report provides initial insights into the decision-making processes in which NFR and NFI are used, as well as a qualitative understanding of the preferences and motivations for using NFR and NFI.

The total value of this benefit has not yet been quantified, but the proposed approaches for Phase 3 will attempt to develop this evidence. The conceptual framework for the value of NFR suggests alternative way to take the research forward in order to estimate the value of NFR to investors.

The preferred approaches for Phase 3 are a series of consultation workshops and a stated preference survey. This approach will estimate the value for NFR from two different perspectives – the opportunity cost of using NFR (a supply side value) and the WTP for different aspects of NFI (demand side). The two approaches target different segments, covering both "users" and "beneficiaries" of NFR, with intent of providing complementary economic value evidence. The next steps of this project are to agree upon the approach(s), and then implement them. This development of the research in Phase 3 is expected to be iterative, utilising inputs from DBT, the steering group, the project advisors, and a further set of one-to-one interviews to test materials.

Whilst the scope of the research is limited to investors, consistent with the PIR (BEIS, 2022, this report highlights that other groups that are likely to benefit from the availability of NFI. To obtain a full estimate of the value of NFR for use in policy analysis, wider research could also be undertaken on the benefits of NFR to these groups. This research could take a similar approach as presented in this study for investors – that is, an initial phase to understand who benefits and why, a phase to develop a method to quantify those benefits, and then a phase to implement that method. The results from this proposed research could then be combined with the findings from this study to gain a comprehensive view of the benefits of NFR, as well as provide wider-ranging insight on what various stakeholders want to see included in NFR in the future.

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Appendix 1 NFR regulations in the UK

A selection of the current NFR requirements in the UK is summarised in Table A1. The table is not exhaustive but represents a selection of requirements set out in the Companies Act 2006 across a range of ESG issues for which NFR is now required in various aspects and degrees of detail.[50]

Table A1: Summary of NFR reporting requirements in the UK by entity type

Company type	Scope of reporting
Small	• Exempt from requirements to prepare a strategic report (and also s172 statement)
Medium **Not** qualifying for medium-size company exemption	• Must contain a strategic report in line with Sections 1 – 5 s414C CA 2006. • Must prepare a s172 statement
Medium Qualifying for medium-size company exemption	• Must contain a strategic report in line with Sections 1 – 5 s414C CA 2006 but not required to report Section 4 (KPIs) in so far as it relates to non-financial information • Not required to prepare a s172 statement
Large <500 employees or <£500 million turnover	• Must contain a **Strategic Report** in line with Sections 1 – 5 s414C CA2006 • Must complete a s172 statement • Must report **Streamlined Energy and Carbon Reporting (SECR)**. This includes as a minimum: o Annual energy use (kWh) and associated GHG emissions (CO_2e) o Emissions intensity ratios o Narrative around methodologies of calculation, steps taken to improve energy efficiency, and prior year comparisons o If low energy use (<40MWh), a statement that the organisation is a low energy user
Large >500 employees >£500 million turnover	• Must report as per large company requirements above • Prepare a non-financial and sustainability information statement under s414CA CA2006 • Where the company has >500 employees and >£500 million turnover, also subject to the **Climate-related disclosures**
PIE Unquoted >500 employees	• Must report as per the large company requirements above • In addition, it must report under s414CB CA2006
PIE Quoted 500 employees	• Must report as per the unquoted large PIE requirements above • Must also report on the **UK corporate governance code**. Entities with a premium listing are required to comply with the principles of the code or explain why not o Audit, risk, and internal controls processes o Remuneration • Must also report Sections 7 & 8 of s414C CA2006
Not PIE Quoted >500 employees	• Must report as per the large company requirements above • Must report on the UK corporate governance code

[50] Some legislation that is not expected to be a significant influence on research design for this project but is nonetheless important source of NFI is not included (e.g., reporting on modern slavery under the Modern Slavery Act 2015).

Climate related disclosures

The UK introduced The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations in 2021 (The Regulations 2021). This legislation applies to the largest organisations which are expected to make up a significant proportion of turnover (revenue) across the UK (see Section 1.1.3). The legislation is in effect for financial years commencing on or after 6 April 2022 for large public interest entities (PIEs), AIM-listed, and private entities (the latter with turnover > £500 million and employee numbers > 500).

The new requirements under CA2006 s414CB(2A) require the following detail to be addressed:

- Description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities;
- Description of how the company identifies, assesses, and manages climate-related risks and opportunities;
- Description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process;
- A description of:
    - The principal climate-related risks and opportunities arising in connection with the company's operations, and
    - The time periods by reference to which those risks and opportunities are assessed;
- A description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy;
- An analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios;
- A description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and
- A description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.

Requirements for Large PIEs – S414CB CA2006

Under s414CBof CA2006, there are additional requirements for Large PIES. These are outlined below:

- The non-financial and sustainability information statement must contain information, to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to, as a minimum;
    - Environmental matters (including the impact of the company's business on the environment);
    - The company's employees;
    - Social matters;
    - Respect for human rights; and
    - Anti-corruption and anti-bribery matters.
- The information required by subsection (1) must include:
    - Brief description of the company's business model;
    - Description of the policies pursued by the company in relation to the matters mentioned in subsection (1)(a) to (e) and any due diligence processes implemented by the company in pursuance of those policies;
    - Description of the outcome of those policies;
    - A description of the principal risks relating to the matters mentioned in subsection (1)(a) to (e) arising in connection with the company's operations and, where relevant and proportionate:
        - Description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk;
        - Description of how it manages the principal risks; and
    - Description of the non-financial key performance indicators relevant to the company's business.

Duty to prepare a strategic report – S414C CA 2006

(1) The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

(2) The strategic report must contain—

(a) a fair review of the company's business, and

(b) a description of the principal risks and uncertainties facing the company. [F2 Section 414CZA (section 172(1) statement) and sections 414CA and 414CB (non-financial [F3 and sustainability] information statement) make further provision about the contents of a strategic report.]

(3) The review required is a balanced and comprehensive analysis of—

(a) the development and performance of the company's business during the financial year, and

(b) the position of the company's business at the end of that year, consistent with the size and complexity of the business.

(4) The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—

(a) analysis using financial key performance indicators, and

(b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

(5) In subsection (4), "key performance indicators" means factors by reference to which the development, performance or position of the company's business can be measured effectively.

(6) Where a company qualifies as medium-sized in relation to a financial year (see sections 465 to 467), the review for the year need not comply with the requirements of subsection (4) so far as they relate to non-financial information.

(7) In the case of a quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—

(a) the main trends and factors likely to affect the future development, performance and position of the company's business, and

(b) information about—

(i) environmental matters (including the impact of the company's business on the environment),

(ii) the company's employees, and

(iii) social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies. If the report does not contain information of each kind mentioned in paragraphs (b)(i), (ii) and (iii), it must state which of those kinds of information it does not contain.

(8) In the case of a quoted company the strategic report must include—

(a) a description of the company's strategy,

(b) a description of the company's business model,

(c) a breakdown showing at the end of the financial year—

(i) the number of persons of each sex who were directors of the company;

(ii) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)); and

(iii) the number of persons of each sex who were employees of the company.

Appendix 2 Case studies on NFR

Box A2.2: Mondi Group Non-Financial Reporting

The company/organisation

Mondi is a multi-national corporation that mainly produces product packaging. They employ around 21,000 people with an annual turnover of around £8 billion. Mondi operates across six continents and is headquartered in Weybridge, UK. Mondi has been listed on the London Stock Exchange and the Johannesburg Stock Exchange since 2007.

The format of NFR

Mondi's NFR in 2021 was presented as a "Sustainable Development report".[51] The report is a standalone document, presented in a slide-deck style report (114 pages) forwarded by the CEO and Chair of Sustainable Development. The report is framed through "MAP2030", which is a company plan that outlines the progress that they have made to date and sets out the actions needed over the next decade to meet certain KPIs and company goals.

The main "themes" that are included in their NFR

Mondi Group's report is organised into three general areas, with several sub-areas:

- Business model, strategy, and mission ("Our Sustainability Approach")
- MAP2030:
  - Sustainability ("Circular Driven Solutions");
  - Employee satisfaction and human rights ("Created by Empowered People");
  - Climate change ("Taking Action on Climate"); and
  - Business practices and governance ("Bult on Responsible Business Practice")
- Governance, reporting standards, and assurance ("About this report")

General organisational aims reported in their NFR

The general non-financial goals of the company are organised within the MAP2030 structure (Table 2).

Table 2: MAP2030 goals

Sustainable solutions	Employee satisfaction	Climate action	Governance
Make packaging reusable, recyclable or compostable	Build skills supporting long-term employability	Reduce GHG emissions in line with targets	Sales and distribution training to audit schemes
Avoid waste by keeping materials into circulation	Purposeful employment	Zero deforestation	Integrate sustainability to capex investments
Stop unsustainable packaging	Work-life experience, safety and mental health	Safeguard biodiversity and water resources	Employee training on sustainability
			Audits with company mills and converting operations

Measurable goals and KPIs reported in NFR

The themes are supported by several measurable goals or KPIs. Targets communicated within MAP2030 include:

[51] https://www.mondigroup.com/media/15145/mondi-group-sustainable-development-report-2021.pdf

- All operations being certified by ISO 14001[52] by 2025
- Reduce water use in water stressed areas by 5% by 2025
- Reduce specific effluent load to the environment by 5% by 2025
- Reduce NOx emissions by 5% by 2025
- Reduce waste to landfill by 20% by 2025

Risks identified

With regards to human rights, risks include health and safety, recruitment, and employment practices as well as air pollution, disregard for land tenure and indigenous rights. Mondi looks at five broad risk topics, which include:

- **Pandemic** – Impact of Covid-19 on the way Mondi group operates
- **Strategic** – Risks Mondi is exposed to due to their industries/counties in which they operate, including climate related risks
- **Financial risks** – Risk of becoming financially unstable
- **Operational** – Physical and transitional risks arising due to climate change (such as availability of sustainable substitutes)
- **Compliance** – Compliance with all of the regulations/legislations Mondi group is subject to

All of the mentioned risks, relate to recent environmental and climate related pressures.

Assurance of NFR

The report features an independent assurance statement issued by ERM Certification and Verification Services Limited. The assurance engagement scope questions:

- Whether the report is fairly presented in accordance with standards
- Whether the 2021 data for the KPIs are fairly presented in all material respects
- Whether the disclosures relating to the KPIs in the report are consistently presented in the integrated report
- Whether the disclosures relating to GHG emissions comply with the requirements

Beyond formal assurance, Mondi also report that they work closely with NGOs such as WWF, the Alliance for Water Stewardship, Climate Group, and New Plastics Economy. These relationships may also be seen as an informal assurance process that gives credibility to the NFR.

[52] ISO 14001 is a member of a group of standards (14000) which are related to environmental management aimed at minimising the negative affect on the environment.

Box A2.3: Unilever Non-Financial Reporting

The company/organisation

Unilever is a consumer goods company offering a wide range of products from household cleaning supplies and hygiene products to sweets, condiments, and ready meals. Headquartered in London and operating in around 190 countries, Unilever employs around 148,000 people, with a revenue of around £50 billion (2022) and a net income of around £8 billion (2022). Unilever was founded in 1929 and is listed on the London Stock Exchange (1938), Euronext Amsterdam Stock Exchange (1930), New York Stock Exchange (1952), and Indonesia Stock exchange (1981), as well as being a FTSE 100 company.

The format of NFR

Unilever's integrated report[53] (205 pages) focuses on three main aspects of their operations:

- Strategic Report
- Governance report
- Financial statement

These broad topics provide insight into Unilever's activities ranging from the review of the year, which features an overlook on the company's actions towards shareholders and impact on the environment, to full financial results and a guide on how to run Unilever as an effective business.

The main "themes" that are included in their NFR

The non-financial information reported within the Unilever Strategy Report includes their aims and impact regarding the health of the planet and society. They are focused on four main aspects of ESG plans:

- Environmental impacts and aims:
  - Climate change ("Climate action");
  - Waste ("A waste-free world");
  - The environment ("Protect and regenerate nature").
- Social impacts and aims ("creating a fairer and more inclusive world"):
  - Living standards;
  - Equity, diversity, and inclusion; and
  - Advise younger generations.
- Social impact of their products:
  - Both general and dental hygiene value of their products; and
  - Increase the nutritional value of their products.
- Aims and actions regarding human rights.

Measurable goals and KPIs reported in their NFR

Specific goals and targets regarding three of the areas above were mentioned by the non-financial reporting aspect of the annual report and accounts and are shown in Table 3.

[53] Available at: https://www.unilever.com/investors/annual-report-and-accounts/

Table 3: Unilever measurable goals and KPIs reported in their NFR

Environmental ambition	Health and Wellbeing	Fair society
Net Zero[54] by 2030	Double the number of products that deliver positive nutrition	Spend 2 billion EURO with diverse businesses worldwide
Halve GHG emissions by 2030	70% of portfolio to meet WHO-aligned nutritional standards by 2022	Reskill or upskill employees by 2025
Protect and regenerate 1.5 million hectares of land	95% ice-cream to contain a max. of 22g of sugar per serving by 2025	-
100% sustainable sourcing	95% ice-cream to contain a max. of 250 cal. Per serving by 2025	-
50% virgin plastic reduction by 2025	5% of foods portfolio to help consumers reduce their salt intake to no more than 5g per day by 2022	-
Maintain zero non-hazardous waste to landfill	Through branding, help customers improve their health and wellbeing	-
Halve food waste in operations by 2025	-	-

Risks identified

The risks that were identified by Unilever as being the most relevant to their business are the following:

- **Brand preference –** Maintaining the brand reputation
- **Portfolio management –** Management of investments
- **Climate change –** Disruptions in operations due to climate change
- **Plastic packaging –** Availability of sustainable substitutes for packaging
- **Customers –** Risks associated with customer engagement
- **Talent –** Ensuring a talented workforce
- **Supply chain –** Arranging an effective manufacturing process
- **Safe and high-quality products –** Ensuring quality and safety of products
- **Systems and information –** Having a secure system and management of information
- **Business transformation –** Secure realignment of business practices
- **Economic and political instability –** Risk associated with adverse economic and political conditions
- **Treasury and tax –** Financial risks relating to treasury and tax
- **Ethical –** Ensuring ethical practices throughout business operations
- **Legal –** Risks associated with compliance with legislations

Assurance of their NFR

Independent assurance of Unilever's annual report was given by PwC[55]. The scope of the report was reviewing:

- Selected information and selected statement
- Professional standards applied and level of assurance

[54] Defined by Unilever as "ensuring that the emissions associated with our business and products are reduced towards zero as far as possible, with residual emissions balanced by carbon removals, through either natural or technological carbon sequestration (for example, reforestation or carbon capture and storage), thereby achieving a 'net zero' position." (from https://assets.unilever.com/files/92ui5egz/production/bbe89d14aa9e0121dd3a2b9721bbfd3bef57b8d3.pdf/unilever-climate-transition-action-plan-19032021.pdf; pg. 6)

[55] Independent limited assurance report to the directors of Unilever PLC: PwC Independent Limited Assurance Report 2020 (unilever.com)

- Quality control
- Work done
- Unilever's responsibilities
- PWC's responsibilities

Unilever also reported working with NGOs include the Ellen MacArthur Foundation, New Plastics Economy Initiative, WWF, as well as membership of various industry initiatives, such as the European Plastics Pact and the Ocean Fund, which may represent an informal level of assurance of NFR.

Appendix 3 User survey scripts

Appendix 3 - Survey scripts

Appendix 4 Survey summary statistics

Appendix 4 Summary statistics

Appendix 5 Investor interview guides

Appendix 5: Investor interview guides

Appendix 6 Investor interview summaries

Appendix 6: Investor interview summaries eftec

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