

Value of Non-Financial Reporting

Quantifying Value to Investors

Department for Business and Trade

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Executive summary

Introduction

Companies in the UK that satisfy certain criteria are required to disclose non-financial information (NFI) as legislated via the Companies Act (2006), requirements such as modern slavery statements, and the FRC's corporate governance code. These requirements place a material burden on the reporting companies. There is a need, therefore, to evidence the corresponding benefits of non-financial reporting (NFR) to provide a full-as-possible account of its use and value, to better support ongoing policy development concerning NFR requirements.

Research objectives and overall approach

This study had two overall objectives related to developing evidence on the benefits of NFR:

- 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.

The first of these objectives was addressed in Phases 1 and 2 (eftec, 2024), whilst the second was the focus of Phase 3 of the research (this report). Two complementary workstreams were carried out in Phase 3, each of which was developed based on the findings from preceding phases. These were: (i) design, test, and implement a stated preference (SP) survey for both professional and private investors; and (ii) conduct a series of consultation workshops with asset managers.

Stated preference survey implementation

The stated preference survey was developed between September and November 2023. The initial draft was tested through a series of 15 one-to-one interviews. These led to several changes and refinements to the survey, including the explanatory information presented, the length of the survey overall, and the number of choices respondents were asked to make.

The final survey design featured two choice tasks: (i) a best-worst scaling (BWS) task; and (ii) a discrete choice experiment (DCE). The BWS asked respondents to make choices on specific pieces of information that they would prefer to have when making an investment decision. The DCE asked respondents to select the set of regulatory requirements for NFR that they most preferred, based on the environmental disclosures, social disclosures, and governance disclosures, level of assurance, and format of those requirements, traded-off against the average dividend yield of UK listed companies under that set of requirements (Figure ES1).
















Option	No Change	A	B
Environmental information	 Some requirements for environmental disclosures	 Some requirements for environmental disclosures	 Some requirements for environmental disclosures
Social information	 Some requirements for social disclosures	 Additional requirements for social disclosures	 No requirements for social disclosures
Governance information	 Some requirements for governance disclosures	 Additional requirements for governance disclosures	 No requirements for governance disclosures
Information format	 No requirements for specific format	 Specific measures and metrics required in reports	 Specific measures and metrics required in reports
Level of assurance	 No requirements for assurance of disclosures	 No requirements for assurance of disclosures	 Disclosures required to be externally assured
Annual average dividend yield for listed companies <i>(dividend yield is the dividend per share divided by the share price)</i>	4.00% per annum <i>(an annual return of £400 based on a portfolio containing £10,000 in listed companies)</i>	3.50% per annum <i>(an annual return of £350 based on a portfolio containing £10,000 in listed companies)</i>	4.50% per annum <i>(an annual return of £450 based on a portfolio containing £10,000 in listed companies)</i>

Figure ES1: Example Task 2 choice card, as seen in the survey

A total of 400 respondents participated in the survey (213 private and 187 professional investors), all of whom were recruited from the Research in Finance (RiF) panel. The sample of 213 private investors was generally representative of those that hold UK shares – i.e. wealthier individuals with pensions or who are engaged in decisions on their portfolio. The sample of 187 professional investors mainly comprised of retail intermediaries, which reflects the investment space at large as most professionals within the sector are in retail roles. Respondents generally found the choice tasks easy to complete, and those who found them difficult noted that this was due to the trade-offs offered and the consideration required.

Asset manager consultation workshops implementations

Six workshops were conducted with senior staff of asset management firms. Each workshop lasted between 30 minutes to an hour and were designed gather company level information on the resources (specifically time and money) that firms devote to gather, analyse, and use NFI (much of which is included in NFR). A cost-based approach was applied to estimate a minimum NFI value for asset managers, which is presented as an indicative order of magnitude estimate due to the small sample size. Participants were also asked to provide an overview of the uses of NFI in their firm and their preferences for current and future requirements for NFI. This gave further insight about what those representatives thought was working well in terms of NFI, what gaps existed, and how the information available to them might improve in the future.

Key findings

The findings from both phases were combined to provide a rounded view on value for non-financial reporting within the UK, and the key findings were:

- 1 The provision of NFR through the current requirements is estimated to be worth between £11 billion to £26 billion per year to UK investors.** This value is the amount of additional dividend yields that would need to be provided to UK investors as compensation for removing the reporting requirements across environmental, social and governance topics for UK-listed companies. This annual aggregate benefit is equivalent to 15-35% of the current dividends paid annually by FTSE100 companies (£77.8 billion in 2023) and represents 0.1% to 0.4% of the total AUM in the UK (£13 trillion per FCA, 2024).
- 2 An indicative estimate of the current expenditure (both internal and external) by UK asset managers to use NFI is £140 million to £230 million per year.** As the benefits of NFI to these firms should be at least as great as the opportunity cost of obtaining and using it, this represents an estimate of the minimum value asset managers place on NFI. Given the magnitude of the overall estimate of the benefits of current NFR requirements (Key finding 1), it is likely that this is a very conservative estimate of the benefit of NFI to asset managers as direct users. It would be reasonable to assume that considerable surplus value is derived by asset managers from the use of NFI.
- 3 Investors use a broad range of company information in their decision-making (and reporting in the case of some professional investors). Non-financial information that can be used to assess risk exposure and company performance is used by the widest range of investors.** Investors generally expect NFI to inform them about: (i) how well a company is managed; (ii) the risks a company is exposed to; (iii) opportunities available to a company; and (iv) the long-term performance of a company. Some information, such as on governance or the general risks and opportunities faced by companies, is commonly used by most investors, and therefore in aggregate is valued more highly. Preferences over other types of information is either dependent on the type of company being evaluated or the preferences of the investors themselves.
- 4 The benefits of NFR to investors could be increased by up to £6.6 billion to £16 billion per year through requirements that lead to better assurance of the information included in NFR and better comparability of that information across companies.** Findings from the survey align to insights from the investor interviews and asset manager consultations, showing investors generally preferred efforts that focus on the comparability of information between companies, the accessibility of information within the reports, and the overall quality of that information.

Application

The results from this peer-reviewed study are fit for the purpose of assessing the benefits of the current requirements and policies for NFR (such as in the Post Implementation Review, 2022) and in assessing the potential benefits for future policies regarding NFR.

They can be applied to the specified groups of beneficiaries, but separate results for direct users - asset managers based on opportunity cost - should not be interpreted as additive to private investor benefits. It is likely that the benefits to professional investors (including asset managers) are embedded in benefits to private investors, particularly since private investors are the final beneficiaries. Therefore, estimates made based on overall UK investment by UK households captures the total benefits from NFR in the UK.

Table ES1.1: Value of the current environmental, social, and governance requirements

Aspects of NFR or change to NFR	Estimated WTA (increased dividend yield to compensate perceived loss of information)	Estimated benefit to UK investors holding UK based, UK listed shares directly and indirectly (£, billions per year)
Current environmental disclosure requirements (compared against no disclosure requirements)	0.57 percentage points (0.32 to 0.82)	£5.9 bn (£3.3 to £8.4 bn)
Current social disclosure requirements (compared against no disclosure requirements)	0.45 percentage points (0.26 to 0.64)	£4.6 bn (£2.6 to £6.6 bn)
Current governance disclosure requirements (compared against no disclosure requirements)	0.79 percentage points (0.48 to 1.09)	£8.1 bn (£4.9 to £11.2 bn)
Total for current disclosure requirements (compared against no disclosure requirements)	<i>1.81 percentage points (1.06 to 2.55)</i>	<i>£19 bn (£11 to £26 bn)</i>

Values for other aspects of NFR, and values estimated through different approaches, are provided in Section 4 of the report.

Conclusion

This study finds that investors in the UK support and benefit from UK requirements regarding environmental, social, and governance information. Investors believe that the UK non-financial reporting regulations - as legislated in the Companies Act 2006, and other associated reporting regulations - lead to more and better quality non-financial information being available. The benefits of the current NFR regulations to UK investors in assessing the risks and benefits of investing companies are in the range of £11 billion to £26 billion per year.

The information available to investors plays an important role in understanding risks and opportunities when investing in companies. If investors had less or worse quality non-financial information it would negatively impact their ability to assess investments. Conversely, investors would also benefit from improved assurance and comparability in NFR. This study found there

is greater demand for improvements of this nature compared to simply increasing the volume of ESG information that is made available.

The findings from each of the three phases of this study support the others, and the results are aligned to relevant previous research. As such, the evidence presented in the report and the overall findings of this project are suitable for assessing the benefits of NFR to investors.

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Abbreviations, Acronyms, and Glossary

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 topics 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 an 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.
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.
SFDR	Sustainable Finance Disclosure Regulation	An EU regulation aiming to improve the quality of sustainability disclosures, specific in financial markets.
TCFD	Taskforce on Climate-related Financial Disclosure	An organisation created by the Financial Stability Board 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-tcf.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 Phase 3 of the 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. “NFR” specifically refers to information that is disclosed as required by UK regulations and statutes, whereas “NFI” is a broader set of information that provides insight into the company. This can include, but is not restricted to, information mandated by regulations. It summarises the asset manager consultations, the design and implementation of a stated preference survey and the associated analysis and findings of both approaches. The report concludes with estimates of the value of NFR for use in policy analysis – including estimates from multiple value perspectives and for different regulatory requirements.

The preceding phases of the study – summarised in “Defining the Users and the Benefits of NFR” (eftec, 2024) – included a literature review, policy review, survey on the use of NFI, and a series of interviews with investors and investing professionals on the use of NFI. The valuation framework and suggested approach to estimate the value of NFR presented in that report was implemented in Phase 3.

This section introduces the background and aims of this research and presents a summary of findings from the previous phases of the project which provide context for this report. The overall report structure is also presented.

1.1 Background

Companies in the UK that satisfy certain criteria¹ 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, and the FRC’s corporate governance code. These requirements place a material burden on the reporting companies. There is a need, therefore, to evidence the corresponding benefits of non-financial reporting (NFR) to provide a full-as-possible account of its use and value, to better support ongoing policy development concerning NFR requirements.

The stated policy objective for NFR requirements is to increase transparency and accountability around non-financial risks faced by a company and its policies to mitigate those risks². Underlying this is the asymmetry of information around a company’s activities between directors and company management, its investors, and wider stakeholders. The logic model underpinning the policy places particular emphasis on the importance of NFR to investors and how it should: (a) facilitate more 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 better outcomes than profit and shareholder returns (see “Defining the Users and the Benefits of NFR”; eftec, 2024).

¹ The criteria are most commonly based on number of employees, size of revenue, what sector they operate in, and whether they are listed on an exchange.

² Post-Implementation Review of the Secondary Legislation Implementing the EU Directive on Non-Financial Reporting (Directive 2014/95/EU) (2016) and Companies Act Reforms (2013).

Previous research carried out for DBT (formerly 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 organisations³. The findings from this research have helped evidence the logic model in Post-Implementation Review (PIR) of NFR legislative requirements (see Table 1.1).

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

Context	<ul style="list-style-type: none"> • Prior to the NFR regulations: <ul style="list-style-type: none"> ○ Businesses, wider stakeholders and investors were not finding NFI disclosures as useful as they could have been in their business and investment decisions; and ○ Only limited or non-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 regarding firms’ operations and problems with asymmetric information.
Inputs	<ul style="list-style-type: none"> • The regulations require companies to gather and disclose more useful and comparable information on their risks and wider impacts.
Outputs	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 terms of scope, timing or scale.
Impacts	<ul style="list-style-type: none"> • More informed investment, business and other decisions lead to overall better social outcomes.

1.2 Research aim

The study had 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.

The first of these objectives was addressed in Phases 1 and 2, whilst the second was the focus of Phase 3 of the research (this report). Two complementary workstreams were carried out in Phase 3 to address this objective, each of which was developed based on the findings from preceding phases: (i) design, test, and implement a stated preference (SP) survey for both professional and private investors; and (ii) conduct a series of consultation workshops with asset managers.⁴

The evidence developed in Phase 3 addresses a key evidence gap for: (i) ongoing review of the current NFR requirements; and (ii) policy development to streamline reporting regulations for companies. In support of the policy use of the research results, this report presents economic value evidence on the benefits of NFR, in terms of user willingness to pay (WTP) and willingness to accept compensation (WTA) for changes in

³ Frameworks for standards for non-financial reporting (Eunomia,2020) and Stakeholder perceptions of non-financial reporting (PwC, 2020).

⁴ As noted in effec (2024) 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 scope of the research.

reporting requirements. These values form the basis for: (i) estimating individual and aggregate values across beneficiaries (private and professional investors); and (ii) an overall assessment of the benefits of the current NFR requirements. The evidence provided by the study also opens up further research questions on the wider benefits of NFR which are explored in terms of potential future research to support policy development.

1.3 Defining users and benefits of NFR

The following outlines the main outcomes from the preceding phases of the study.

1.3.1 Valuation framework

A simplified value chain for NFR is presented in Figure 1.1. The chain starts with regulators (e.g. the Government and associated ministerial departments, the Financial Reporting Council, etc.) who specify the reporting requirements and regulations that are consistent with the overall legislative framework for corporate disclosures. These regulations are to be met by the “suppliers”, which are the companies that produce NFR. Users - mainly asset managers and consultants - directly “consume” NFR, whilst investors are the “beneficiaries”, who benefit from the information contained in NFR (alongside other information) when making investment decisions.⁵ In this chain, non-financial reports and the information they contain is the “good” being consumed or benefitted from, which is at least partially a result of the regulatory framework.

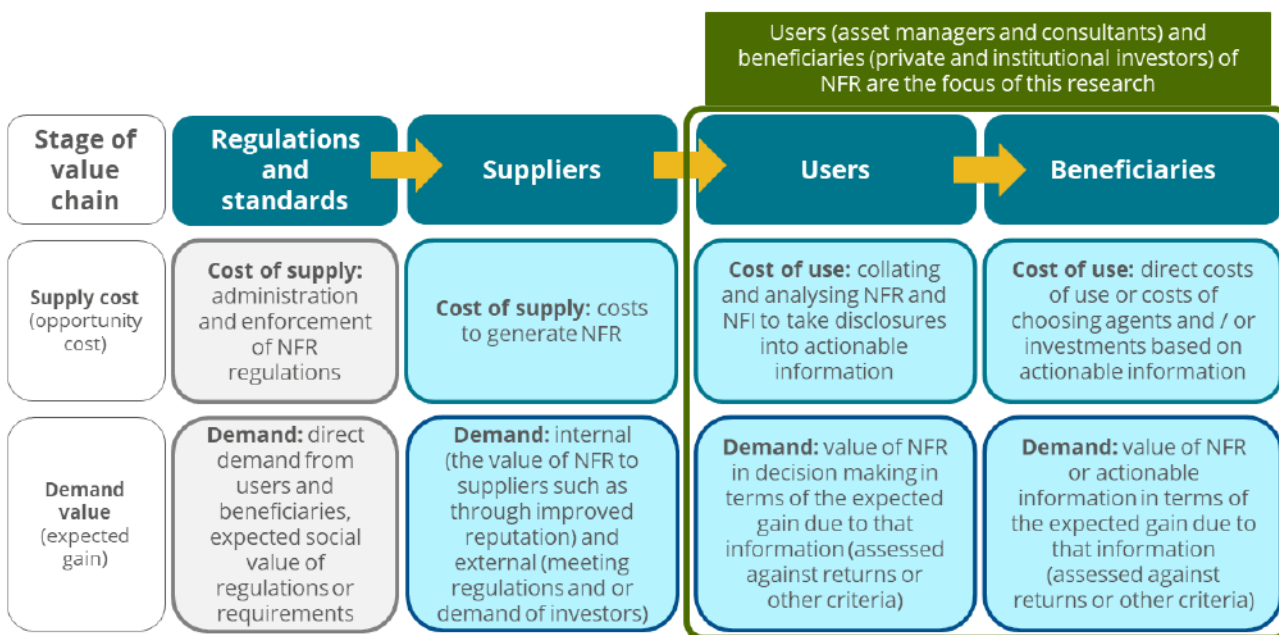


Figure 1.1: Value chain for NFR from supply (opportunity cost) and demand perspectives

As Figure 1.1 indicates, the value of NFR can be examined through: (i) a cost-based approach, estimating the costs incurred while using that information (opportunity cost, supply) or (ii) a demand-based approach estimating the WTP for the information. Conceptually, the former approach represents the minimum value

⁵ 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).

of NFR to users, as rational users should benefit from the information at least as much as it costs to use it. The latter approach represents a more complete view of the value of NFR for a given user or beneficiary group, since it includes what the user or beneficiary would be willing to pay for the information over and above the opportunity costs to obtain and access – in other words, the consumer surplus.

1.3.2 *Headline findings*

The “Value of Non-Financial Reporting: Defining the Users and the Benefits of NFR” report (eftec, 2024) presented eight key findings that helped shape the Phase 3 approach (Table 1.2). These are grouped in three categories: (i) the scope of NFR in terms of a “good” to be valued; (ii) the users and beneficiaries; and (iii) expectations for users’ and beneficiaries’ preferences for the provision of NFR and NFI.

Table 1.2: Key findings on the users and benefits of NFR

Category	Key finding
Defining the good to be valued	Investors and their agents make little distinction between NFI that is required by regulation and NFI that is not.
	Strategic and directors’ reports are often long and complicated and hence labour intensive to use.
	NFI is combined with financial information to create a broader set of ‘actionable information’ or ‘knowledge’ that is used in decision making.
Users and beneficiaries of NFR and NFI	Investors do not have to directly interact with strategic or directors’ reports to benefit from them.
	Consultancies and asset managers are both beneficiaries (consumers) and suppliers of NFI.
Preferences for the provision of NFR	The relative importance of various aspects of financial and non-financial information varies widely between investors.
	NFI is used in assessing investments against screening (exclusionary) criteria and ensuring alignment with broader investor aims (soft screening).
	Investors are concerned about the materiality, availability, timeliness, comparability, and verifiability of NFI.

1.3.3 *Approach to quantifying the value of NFR to investors*

The Phase 3 research approach directly followed the recommendations set out in eftec (2024), which consisted of two workstreams carried out between September 2023 and May 2024: (i) asset manager consultation workshops (see Section 2); and (ii) stated preference survey (see Section 3). The overall results and findings are brought together in a synthesis with key findings and estimates of the benefits of NFR, both in terms of the current and possible future reporting requirements (see Section 4).

Following from eftec (2024), the final beneficiaries of NFR are understood to be private investors (households). While other types of investors – including asset managers and other professional investors – also have a demand for NFR, their demand is reflected in the overall benefit that they provide to private investors as a part of their services. This is recognised in the research approach and estimation of aggregate values. The benefits of NFR were captured through the stated preference survey with private investors. Users’ preferences for NFR were captured through the consultation workshops and the professional

investor sample of the survey. In the reporting, these two perspectives are combined to give a fuller account of what drives demand for NFR – which is a combination of private investors preferences and the steps taken by professionals to fill those needs in turn.

1.4 Report structure

This report is structured as follows:

- **Section 2: Asset manager consultations workshops.** This section presents the approach and results for the asset manager consultation workshops.
- **Section 3: Professional and private investor survey.** This section presents the development, testing, and implementation of the stated preference survey, along with the results and analysis from the survey.
- **Section 4: Discussion and application.** This section presents a set of key findings based on the results from the asset manager consultations and the stated preference surveys, and further presents the benefit estimates for NFR alongside guidance on the use of that evidence in policy applications.
- **Section 5: Conclusion.** The report concludes with a summary of the project, the main research findings, recommendations for future research, and some concluding remarks.

The report is also supported by appendices as follows:

- **Appendix 1: Aggregation.** The calculations and other data used to aggregate WTP and costs for the use of NFI across all relevant investors in the UK.
- **Appendix 2: Survey script and showcards.** The survey materials for the stated preference survey.
- **Appendix 3: Supporting information for the stated preference survey.** Additional information on the stated preference survey (including full descriptions of the attributes and levels and the corresponding regulation where applicable) that is not presented in the main body of the report.
- **Appendix 4: Summary statistics.** Summary statistics of the responses to the stated preference survey, split by the professional and private investor survey versions.
- **Appendix 5: Econometric model results.** The econometric modelling results, including pooled model estimations and individual model estimations for private and professional investors, respectively.
- **Appendix 6: Peer review note.** The peer review of Dr. Gaetano Grilli is provided as a note, which includes his comments on quality and findings of the research, as well as his recommendations.

2. Asset manager consultation workshops

Asset managers and large investing firms are understood to be primary users of NFR and other NFI disclosed by companies. They are well-positioned to describe how NFR benefits the investment sector within the UK and how it influences investing decisions.

However, asset managers were not well represented on the RiF panel through which the professional and private investor survey was implemented as shown in Section 3. More engagement was needed with this group to better understand their views and preferences. As such, six workshops recruited through the Investment Association (IA) were conducted with senior staff from asset management firms.

The workshops were designed to understand the resources (specifically time and money) that firms devote to gather, analyse, and use NFI (much of which is included in NFR). This was used in the cost-based approach to estimate a minimum NFI value for asset managers, which is presented as an indicative order of magnitude estimate due to the small sample size. The workshops also provided an overview of the uses of NFI in this sector and preferences for current and future requirements for it.

This section reports on the approach to the asset manager consultation workshops and the sample and results of those workshops.

2.1 Approach

This section outlines the approach to gather data on the benefits investment firms and asset managers derive from: (a) the current non-financial reporting (NFR) requirements in the UK; and (b) their preferences for potential future changes to those requirements. A series of consultation workshops with representatives of Investment Association (IA) member firms were carried out to gather information on their current resource costs for using NFI, as well as other supplementary insight on their use of those reports.

Implementation

The consultation workshops ranged from 30 minutes to 1 hour in duration and were conducted online via video conference over Microsoft Teams. Each consultation was held with a single member firm of the IA and moderated by Research in Finance (RiF).⁶ Multiple representatives of a member firm could participate to allow firms to respond to different types of questions (if needed). The workshops were held in two waves – the first wave of three interviews was held in January and February 2024, and the second wave was held in April to May 2024. The first wave of workshops helped confirm the feasibility of the approach. Findings and feedback informed updates to the workshop materials ahead of the second wave.

Consultation workshop structure and content

Table 2.1 outlines the topics covered in the workshops. Ahead of the workshop, participating firms were provided with information on the purpose, agenda, and key information that would be covered and requested during the session. This allowed firms to select appropriate representatives and to prepare the

⁶ Individuals from eftec and DBT also observed but did not actively participate in the sessions.

required information in advance. To help facilitate discussion, the initial sessions used prompts (such as diagrams of the uses of NFR). However, as the workshops progressed, it became clear it was possible to cover more topics without these materials, which sometimes slowed the pace of the conversation.

Table 2.1: Consultation workshop structure and key questions

Section	Key questions / exercises
Introduction – questions about the firm and a short introduction to the topic (NFR)	<ul style="list-style-type: none"> • What sector does your firm operate in? • What is your main client type? • What is your firm’s size in terms of revenue, number of employees, and assets under management, and debt under management? • What types of investments does your firm invest in or sell, and what investing strategies do you use?
Current NFR regulations – summary of the current NFR regulations	<ul style="list-style-type: none"> • What aspects of these regulations do you think are most important? • Do you trust the information you get from NFR currently? Why or why not? • Do you request information from companies that is not included in NFR, and if so, what is that information?
Resource costs and use of NFI – questions on how much time and expenditure the consultees’ firms spend on NFR, and why	<ul style="list-style-type: none"> • How many people at your firm, do you think, spend at least part of their average week gathering and analysing information from NFR? • What is the amount of time those employees spend with NFR or NFR outputs? • How much (if anything) do you pay to access analysis of NFR? • Why does your firm currently spend that amount using NFR? • What would make you use NFR less? More?
Preferences for future regulation of NFR – questions on what the consultees’ firms would like to see in the future of NFR	<ul style="list-style-type: none"> • Present 1-2 exercises in line with the stated preference survey, completed during the session. • What aspects of NFR (choosing from the list used in the stated preference survey) do you think are the most important to improve, if any? • How would improved NFR regulations change your firms use of that information?

2.2 Sample

Participating firms

A sample of six global asset management firms (Table 2.2) were interviewed. The participating firms manage assets both in the UK and abroad and their operations are reflective of a range of investing strategies, clients, and target markets.⁸ The average assets under management (AUM) across the six firms is approximately £425 billion, with a range of £10 billion to over £1 trillion. Average total revenues are around £1.2 billion per year, with a range of £10 million to £3 billion per year. The participants - while small in terms of number of firms – account for around £2.5 trillion in AUM out of the total AUM of IA members of approximately £9.1 trillion (IA, 2024). The sample therefore represented some of the larger asset managers operating within the UK.⁹

⁷ An NFR output is any kind of information that is available as a result of NFR. This could include analyst reports, internal memos, or specific metrics or measures that use NFR data.

⁸ Where firms had offices in multiple countries, participants were asked to focus on their UK based operations and their use of UK based NFI and NFR.

⁹ However, it is important to note that the firm AUM and UK AUM are not measured in the same way, as the participants came from firms with international operations.

Participating individuals

A total of eight senior representatives including executive level - such as Head of Corporate Finance and Stewardship, Global Heads of ESG Investing, and Chief Sustainability Investment Officers - attended the consultation workshops. Each participant was familiar and actively engaged with how their firm uses NFI, and was accordingly well-placed to answer questions about NFI, what the purpose and perceived value of the information was, and what the firm would like to see from NFI provision in the future.

Due to differences in role, as well as difference in firm strategy, some participants were more familiar with how NFI influences “conventional” investment decisions, and some with how NFI fits into responsible investment and ESG strategies. The range of perspectives gave a rounded view of how NFI is used and its value. Moreover, whilst all firms have major offices in the UK (and the participants were UK based), a significant proportion of assets were international, and as such participants were able to give global perspectives on the use of NFI, wider initiatives concerning standards and reporting (e.g., ISSB, SFDR, etc.) alongside views on the UK NFR requirements.

Table 2.2: Characteristics of the asset management firms interviewed ^a

Firm #	Total AUM (£, billions) ^b	Revenue (£, millions per year) ^b	Total employees	Investment professionals
1	£200-500	£200-500	1,000-5,000	200-500
2	£200-500	£200-500	1,000-5,000	200-500
3	£10-100	£10-100	100-500	50-100
4	£200-500	£1000+	5,000-10,000	1000-5000
5	£200-500	£1000+	1,000-5,000	500-1000
6	£1,000+	£1000+	1,000-5000	1000-2000
Sum	£2,500	£7,300	17,767	5,743
Average	£425	£1,200	2,961	957

Notes: (a) Exact information for each firm was provided but is not given here to ensure the anonymity of the participating firms.
(b) Where firm data was provided in USD, exchange rates were applied consistently across figures.

2.3 Results

The overall finding from the consultation workshops is that the use of NFI by asset managers is widespread and serves multiple purposes. Those purposes can be broadly divided into decision-making and reporting. Using NFI including sourcing, collating, analysing and interpreting that information for these purposes was reported to have significant opportunity costs in terms of both time and resources. Asset managers also reported that this information was becoming increasingly important to their activities and were generally supportive of efforts to “improve” NFR. The preferences for future NFR requirements typically included improving the materiality and quality of the information that was available, as well as improving the alignment between companies’ and investing firms’ reporting requirements.

2.3.1 Use of NFI in decision-making

All participants reported using NFI in their decision-making processes, typically in a context where it directly informed an investor's assessment of a company's long-term financial performance (Box 2.1). This finding supports similar findings from Phases 1 and 2, which indicated that a wide range of company information is used by investors in assessing long-term financial performance, and that the range of information that is "financially material" may go far beyond the information included in company accounts and financial statements.

Asset managers reported using NFI to:

- Understand investment risk (such as stranded asset risk);
- Identify company potential and new investment opportunities (such as by looking at how emerging markets or social trends may improve some companies' performance over time);
- Assess wider investment objectives; and
- Interpret financial information (such as by understanding what is driving changes to company revenues and costs over time).

It was explained by participants that these types of assessments were carried out using a variety of processes, which included positive screening (inclusionary criteria), negative screening (exclusionary criteria), and comparisons across firms of similar industries or investment potential. Regardless of the process or area of application, the usefulness of NFI was generally evaluated on the basis of materiality, availability, timeliness, comparability, and verifiability. These aspects were mentioned across the consultations, and can roughly be described as follows:

- Materiality - whether the information is useful in the context of decision making;
- Availability - whether the information is available (and how it is available);
- Timeliness - how recent the information is and how frequently it is provided;
- Comparability - how the NFI can be used to make judgements between firms and over time; and
- Verifiability – the level of confidence the user has for NFR, based on its transparency, assurance and auditability.

Evaluations of the usefulness of NFI were also dependent on the user purpose and the decision-making context.

Box 2.1: Quotes on use and definition of NFI

"Information is only non-financial to the extent you can't put a particular cost or benefit on an impact/risk associated with the financial information." – Asset Manager #6

"The whole point of ESG to us is that it is financially material. The metrics used are selected on the basis they could have a financial outcome on the company if not handled or used properly."

– Asset Manager #5

Assessing investment risk

The main aspects of risk that were discussed in relation to the use of NFI were¹⁰:

1. **Transition risks** – risks a company faces due to extensive political, legal, technological, and regulatory changes related to societal mitigation and/or adaptation to some major transition. For the most part, transition risks were referred to in relation to climate, and the transition away from the use of fossil fuels.
2. **Physical risks** – the direct and indirect risk of damage to assets held as a result of changes in environmental and social conditions (such as through flooding, drought, social unrest, or conflict in an area).
3. **Governance or management risk** – the risks a company faces due to potential mismanagement in the future such as through poor decision-making, legal prosecution, and/or harm to reputation through the behaviour of executive leadership.

Transition and physical risks were mainly described by participants as arising from growing *economic* awareness of environmental and social challenges, while governance and management risks through growing *societal* awareness and involvement in environmental and social issues (Box 2.2). As such, asset managers understood their use of NFI as providing key insight into upcoming regulatory changes as well as in predicting which investment classes would most likely be at risk from changing environmental conditions.

Box 2.2: Quotes on use of NFI in addressing risk

“We think providing lots of this data helps companies manage their risks much more, which allows them to be better businesses.” – Asset Manager #3

“Current regulations do not address emerging risk and issues. [...] What is financially material today is not a good predictor of what will be in 10 years’ time.” – Asset Manager #6

Assessing investment potential

Some asset managers also reported using some forms of NFI to assess company potential (ability to grow). This mainly related to identifying undervalued investments based on anticipated changes such as emerging markets for goods or services, new technologies, or changes in social preferences for goods, services, or even how companies operate (Box 2.3). Participants further noted that assessing potential upside often involved data that was not currently available on a large scale. One participant described this as “looking at what’s next” and went on to note that the data sources won’t exist on “what’s next” at a wide scale as the market has not fully engaged those assessments yet.

¹⁰ These risks are loosely based on the TCFD classifications of climate-related risks (TCFD, 2017). Whilst asset managers were found to consider a much wider range of risks, this framework is still useful as an organisational structure.

Box 2.3: Quotes on use of NFI in assessing investment potential

“What the market cares about today might not be what the market cares about tomorrow. So, if you're trying to find something that's potentially undervalued, then they [financial measurements] are obscure in that [use for assessing future value].” – Moderator summary of point, agreed by Asset Manager #3

Assessing wider investment objectives

Participants also referred to their use of NFI in response to an increasing share of clients wanting to achieve investment objectives other than financial returns (Box 2.4). Indeed, most participants reported increased demand for investment funds addressing a wider set of investment objectives (other than pure financial returns). NFI was described as a critical input into decisions for such funds, feeding into in-house models assessing the impacts that companies have (e.g. carbon emissions, other environmental impacts, social missions, labour practices).

Where the NFI provided by firms cannot meet the investor demand for these wider investment objectives, participants reported spending significant amounts of money and resources on third-party data providers or contacting the firm directly and requesting they fill the data gaps. Furthermore, as one participant explained, there is often a large gap between share price and underlying company financials (profit and loss statements and asset sheets), meaning that company value from an equity price perspective is driven by non-financial factors such as brand, reputation, and intellectual property. These kinds of factors can only be understood and analysed through looking at NFI, as they do not show up on company balance sheets or other financial statements¹¹

Box 2.4: Quotes on use of NFI in assessing investment opportunities

“I like to think that we're long-term investors and that these disclosures will help us analyse the impacts of companies more accurately for the long term. So, it's a cost worth doing [the additional reporting burden on companies] I would say.” – Asset Manager #1

“We do have quite a growing number of clients who want to achieve investment objectives other than just pure financial return: they have environmental objectives, social objectives. They want to do something more positive for the environment and society using their investments.” – Asset Manager #6

2.3.2 Use in reporting

Asset managers offer financial products, and as such have their own reporting requirements for disclosing NFI. This “circular” use of NFI (using NFI to produce subsequent NFI) is not a focus of this research, but it was evident that participants used NFI in this way. The reports that asset managers produce are often to meet some statutory requirement (such as when offering a labelled fund), but also are produced to meet investor demand for information. Typically, it was explained that the more sophisticated the investor, the more information they will want, which is consistent with findings for institutional investors in Phases 1 and 2.

¹¹ Note this interpretation of NFI may not directly overlap with ESG, as it includes things like patents and other intellectual property.

In this use case, the NFI required is dictated by the type of investment product being offered and the firm's own requirements. In many cases, company level NFI will be available to aggregate to the fund level. In some cases, however, asset managers reported a misalignment between the companies' requirements and their own, meaning that the asset manager had to acquire additional information (see Section 2.3.4).

2.3.3 Opportunity costs for using NFI

Participants were asked to estimate:

- Their current spend on gathering NFI through third parties (such as analysis reports, consulting inputs, or ESG rating information); and
- The number of current employees working with NFI on a regular basis, followed by their best estimate of the proportion of time those employees spent using NFI to get a full-time equivalent employee estimate.

The time and resources participating firms said they spend to gather, review, analyse, and use NFI are reported in Table 2.3. Estimated expenditure for obtaining NFI from third parties (such as MSCI, which was used by most firms) ranged from £0.3 to £10 million per year, and the number of employees ranges from 10 to 300 full-time equivalent per firm, with 60 to 550+ employees per firm having regular engagement with NFI.

Table 2.3: Estimated costs of using NFI – self reported data from asset managers

Firm #	External spend on NFI (£, millions per year) ^a	Full-time employees working on NFI ^b	Total cost of using NFI (£, millions per year) ^c	Total cost of using NFI (£ per £1 million of AUM) ^d	Total cost of using NFI (% of total revenue)
1	£1.6m to £2m	90 to 110	£5.4m to £6.3m	£20 to £25	1% to 1.5%
2	£7.9m to £10.1m	45 to 55	£10.8m to £11.3m	£45 to £55	3% to 3.5%
3	£0.3m to £0.4m	9 to 10	£0.7m to £0.8m	£50 to £60	1% to 1.5%
4	£1.3m to £1.7m	45 to 55	£3.3m to £3.8m	£10 to £15	0.1% to 0.5%
5	£0.5m	250 to 300	£10.4m to £12.9m	£30 to £35	0.5% to 1%
6	£5m	220 to 270	£14m to £16.2m	£10 to £15	0.5% to 1%
Average	£2.7m to £3.4m	110 to 135	£7.4m to £8.6m	£28 to £31	1.1% to 1.3%
AUM weighted average			£10.8m to £12.6m	£17 to £20	N/A
Revenue weighted average			N/A	N/A	0.6% to 0.7%

Table notes: (a) Two out of the six asset managers provided a “figure range” (e.g. 6 figures, or millions). Where this was the case, the mid-point of that range has been used (e.g., £5m).
 (b) Full time employees are the number of employees working on NFI multiplied by the proportion of time working with NFI by those employees. This proportion of time was reported to be around 50% of employee time for four out of the six asset management firms and was assumed to be 50% for the remaining two firms.
 (c) Please refer to Appendix 1 for further details on this calculation.
 (d) These numbers have been rounded to ensure the anonymity of participating firms.

From the figures presented in Table 2.3 it is evident that asset managers spend significant amounts of time and money to collect and use NFI, both in terms of absolute figures and as a percentage of their AUM and annual revenues. The sample average of annual expenditure per firm for using NFI was around £8 million per year. See Appendix 1 for further detail on the assumptions needed to estimate their expenditure. To

provide context, Table 2.3 also presents this figure as: (i) £ spent on NFI per £ million AUM assets under management (approx. £17 to £20 per £1m AUM); and (ii) a proportion of annual revenue (approx. 0.6%). Note that these estimates correspond to the use of NFI rather than to NFR.¹²

As mentioned in Section 1.3.1 above, these (opportunity) cost estimates can be used as a proxy for the minimum value of NFI – given that firms would not incur the costs, if the benefit of use was not deemed to be *at least* equivalent to the cost of use. They can be further applied to similar firms across the UK to yield an indicative aggregate minimum benefit estimate for the use of NFI - see Section 4 for aggregate benefits estimates and Appendix 1 for detailed calculations) Such an aggregate estimate is informative even with the small sample of participating firms, since they represent a sizeable portion of total AUM within the UK (see Section 2.2).

2.3.4 Preferences for future NFR requirements

Participants were also asked their views on current and future requirements concerning NFR. They were supportive of continued requirements for reporting in order to get consistent and material information across the companies that they invest in. Participants also hoped that these requirements would become more globally aligned and harmonised over time, mainly focusing on alignment across regulatory frameworks, alignment of requirements between companies, and regulating information to be of higher quality and transparency.

Support of maintaining the existing requirements

One representative stated that it is often in a firm's best interest to disclose NFI due to investor demand for information – going as far as to suggest that most information would be available in the absence of regulation. However, most others disagreed with this view, pointing out that it was often difficult or costly to obtain information they wanted, if the information was not covered under the current requirements – such as Scope 3 emissions (of GHG Protocol) or specific information like risks per geographic or operational region. Irrespective of the level of supply that might occur in a counterfactual of no regulations, which could be debated, participants were generally supportive of maintaining the current level of NFR requirements to maintain the current levels of information provision by companies.

Many participants felt that the removal or deterioration of requirements would be seen as “backsliding” and regressive with regards to their own goals and those of their clients (Box 2.5). It was also broadly agreed that NFI disclosure was an area that would continue to grow in coming years, as investors strive to better understand the value that companies can offer investors in the medium to long term.

Box 2.5: Quotes on current NFR regulations

“I don't believe this bureaucracy-for-the-sake-of-bureaucracy type argument.” – Asset Manager #3

“I think it would be a very backward step for the UK to actually mandate less non-financial data being disclosed.” – Asset Manager #3

¹² To provide equivalent estimates for NFR only, assumptions would be needed on the percentage of NFI that comes from NFR.

Alignment of requirements between companies and investors

Asset managers have their own reporting requirements that vary based on the types of financial products that they offer and the firms that they invest in (see Section 2.3.2). However, there was a preference for more coherency, so that they could better align their own reporting requirements to those of the companies they invest in. It was observed that there are currently gaps between these two sets of requirements.

Most participants also held the view that reports could be streamlined such that only “material” information is disclosed. This would enable substantive efficiencies across the market through reducing the need for asset managers to seek the information through direct requests to the company or third-party providers, which are expensive.

International harmonisation

More broadly there was a strong preference for greater international alignment and harmonisation. As noted, the majority of asset managers hold assets worldwide, and it was highlighted that it can be challenging to assimilate and compare the current volume of NFR reporting across different jurisdictions (Box 2.6). While there was support for, and understanding of, the motivations for greater requirements, harmonisation would reduce the compliance burden across jurisdictions - both for reporting companies by streamlining what they report, and for firms in reporting on their financial products. It would also improve the consistency of information available to asset managers when they are selecting investments across multiple markets.

Box 2.6: Quotes on international harmonisation of requirements

“I think supranational commonality is very important.” – Asset Manager #3

“We do believe it's beneficial for companies to have a global standard or global common baseline that they can report on.” – Asset Manager #5

“Different countries have different regulations, with loss of consistency and comparability. It is really inefficient, so we are asking for consistency of regulation referring to one single standard.” – Asset Manager #6

Comparability and materiality of information

Related to the harmonisation of reporting frameworks, asset managers generally were supportive of efforts to improve the comparability of information across companies and especially noted that currently comparisons could be difficult with the variety of information provided. However, asset managers also noted that in some cases these differences were reasonable, due to the sector or size of the reporting companies. As noted in eftec (2024), investors only seek information deemed material (either to their own reporting requirements or to their decision-making processes), and that information is likely to vary across investment types. It was also noted that this information did pose a burden on reporting companies and their investors – and that forcing companies to report immaterial information would increase such cost further.

There were two key dimensions to comparability and materiality of information: company sector and company size. It was highlighted that current reporting requirements were not targeted enough at industry specific details, with one participant citing the medical and mining sectors as opposites of information-types to disclose - the former falling within social NFI and the latter as environmental NFI. Size was also considered, and there were specific concerns about the high cost and resource intensity placed on small and medium-sized companies under a standardised set of reporting requirements.

One commonly cited way to provide flexibility within a common framework is through materiality filters, such as a “disclose or explain” framework. Participants noted that this kind of framework could incentivise direct disclosure on comparable metrics without overly burdening companies. It was also noted that allowing companies to assess materiality themselves might encourage companies to choose the best data points for verifiability within a common reporting framework, by offering a range of measures specific to their industry or sector on which to report. Finally, regarding the burden on small companies, participants suggested tailored financial (tax breaks) or legal (training) support to be introduced alongside new regulation to ease the compliance burden.

Box 2.7: Quotes on materiality

“There’s got to be some materiality level applied to them – there should be an ability for the company to say ‘that’s not material for us, so we shouldn’t disclose it’, a sort of comply or explain.” – Asset Manager #4

“When it’s kind of voluntary, you just get companies disclosing completely different things, and then that actually makes it hard to compare and contrast.” – Asset Manager #1

Transparency and quality of information

Participants generally cited assurance and transparency as an area for improvement (Box 2.8). It was noted that sometimes company disclosures and third-party estimates were in conflict, forcing the asset manager to select which data point to use, and some participants emphasised this as they preferred direct disclosures that came directly from companies over third party estimates. Improved assurance of NFI was important, even though views varied on how this could be achieved.

Box 2.8: Quotes on transparency and quality of information

“You want points to be accurate to be transparent with their methodology with how it was calculated and the materiality assessments that were undertaken to determine why it is those data points that are being disclosed.” – Asset Manager #1

“A first point of call is the company. That’s where we think that we’ll find the highest quality data. It should be the most timely.” – Asset Manager #2

“We’re sort of agnostic in terms of what the delivery mechanism is. We prefer an aggregated source because it’s much easier.” – Asset Manager #3

3. Professional and private investor survey

Section Summary:

The qualitative research that was administered through Phases 1 and 2 research informed the design of the stated preference survey. The survey was used to quantify investor preferences for non-financial reporting requirements. A stated preference approach was preferred due to its flexibility and widely recognised ability to value current and future levels of provision of non-market goods and services in a consistent framing.

A series of cognitive interviews were carried out to test the structure and content of the survey, and gauge respondent understanding. The findings were positive, but there were elements of the survey that required further development through iterative testing.

The survey featured two stated preference choice tasks: (i) best-worst scaling (BWS); and (ii) discrete choice experiment (DCE). A total of 400 respondents participated in the survey (213 private and 187 professional investors), all of whom were recruited from the RiF panel. The sample of 213 private investors was generally representative of wealthier individuals who are typically closely engaged in decisions on their portfolio. The sample of 187 professional investors mainly comprised of retail intermediaries, which reflects the investment space at large as most professionals are in retail roles. Respondents generally found the choice tasks easy to complete, and those who found them difficult noted that this was not due to survey complexity, but rather the trade-offs offered and deciding which option they preferred required careful consideration. Results from the quantitative research largely align with those found through the qualitative research.

This section reports on the approach to designing the survey, implementation and results, including the validity testing of the results.

3.1 Approach

3.1.1 Overview

This study used a stated preference (SP) approach to quantify investor preferences for NFR, as well as its format and assurance measures. The SP approach is a survey-based economic valuation method that presents respondents with choices that simulate real marketplaces to measure their preferences and valuations for particular goods and services. Within the context of this study, the good valued was NFR, which was specified in terms of the regulatory requirements for disclosures and characterised in terms of environmental, social and governance (ESG) themes.

There are alternative methodological approaches that can be applied to value non-market outcomes – expanding on the cost and demand-based approaches mentioned in Section 1.3.1. This includes revealed preference, production function methods (where ESG disclosures would be valued as an input), and cost-based approaches (a summary of approaches is available in Table 3.1). Each has pros and cons, both conceptually and practically, but on balance a stated preference approach was identified as a pragmatic

choice, given its flexibility and ability to value current and potential future requirements for NFR in a consistent framing.

Table 3.1: Outline of selected non-market valuation methodologies

Methodology	Advantages	Limitations
<p>Revealed preference (e.g., recreation demand model or hedonic pricing model). Preferences for the provision of non-market outcomes are inferred from the observed behaviour, such as visits to a particular site or changes in property values. Changes in behaviour reveal marginal values for a site or environmental good. Characteristics that are to be valued need to be observed and quantified, as well as those of potential substitutes.</p>	<ul style="list-style-type: none"> Valuations are based on observed (market) choices and preferences Analysis is suited to identify localised and site-specific impacts Broader valuations can be inferred based on observed preferences 	<ul style="list-style-type: none"> Can only be applied within bounds of current / previous provision of a good or service level, and generally is best suited to persistent effects Dependent on data availability and ability to differentiate (identify) effects of interest
<p>Stated preference (e.g., contingent valuation, discrete choice experiment). Preferences and values for the provision of non-market outcomes are estimated from simulated market choices via surveys.</p>	<ul style="list-style-type: none"> Flexible approach that can produce values for current and future levels of provision of a good/service Only approach that is widely accepted to also elicit non-use values 	<ul style="list-style-type: none"> Relies on simulated market and valuations scenarios Survey-based methods can be subject to various biases
<p>Subjective wellbeing approaches Values for the provision of non-market outcomes are inferred by estimating the impact on a measure of individual wellbeing, using a wellbeing dataset along with previously observed interventions leading to the outcome in question, and then converting that effect into a monetary amount by estimating the equivalent amount of income that would have the same effect on individual wellbeing.</p>	<ul style="list-style-type: none"> Aims to measure wellbeing directly rather than relying on specification of a simulated market and valuation scenario Broader valuations can be inferred based on wellbeing responses 	<ul style="list-style-type: none"> Can only be applied within bounds of current / previous provision of a good or service level, and generally is best suited to persistent effects Dependent on data availability and ability to differentiate (identify) effects of interest
<p>Cost-based approaches Values for the provision of non-market outcomes are inferred by estimating either the costs imposed by loss of provision (e.g., reduction in ESG disclosures) or the costs of using the existing or more provision (e.g. increasing regulation on format and assurance). Costs can be measured in terms of value of time spent as is the case here, or cost of mitigation, abatement, replacement and so on depending on what is provided and lost / gained.</p>	<ul style="list-style-type: none"> Values are linked to market prices associated with achieving targeted outcomes Can be used to assess the efficiency of policy options reaching a target once that target is set 	<ul style="list-style-type: none"> Does not account for consumer surplus in the assessment of policy options (especially in terms of the additional value/benefit of going beyond some target).

Stated preference methods can be broadly defined and are associated with a wide range of terminology and evidence outputs. However, within the range of available formats, the discrete choice experiment (DCE) and dichotomous choice contingent valuation (DCCV) are the theoretically valid methods for measuring user demand and estimating willingness to pay (WTP) for the provision of non-market goods (Johnston et al., 2017). Other methods such as rating and scaling approaches can provide quantitative views on priorities but are not consistent with underlying economic theory (Louviere et al., 2010), and do not directly estimate willingness to pay.

Based on the evidence needs of this study, the DCE format was the primary option for valuing NFR in terms of component parts (an attribute-based valuation). The best-worst scaling (BWS) method using a progressive choice format was also chosen to provide complementary evidence in the form of relative preferences for varying outcomes, such as specific elements of companies' disclosures.

3.1.2 *Development and testing*

The survey was developed from September to December of 2023 via a process that included several iterations of the content and design of the choice tasks. The initial development of the survey followed from the findings presented in eftec (2024), and the survey was then tested over a series of 15 one-to-one interviews with different types of investors. This process and the survey design itself was informed by good practice guidance for stated preference methods (Johnston et al., 2017) and a review of previous studies on the value of NFI, as well as broad literature on the value of information.

Survey design considerations

As a flexible methodology, there are several aspects of stated preference survey design – particularly the choice tasks – that are of particular importance to ensure the validity of the resulting valuation evidence. These include:

- **Choice task(s) type and layout.** There are many different choice task formats that can be used, all with strengths and weaknesses. The choice task type and layout are driven by the type of evidence needed, but also by what respondents would find credible and would be able to complete without excessive mental effort. The objective of the design stage is to minimise the difficulty of the task while still including all of the necessary information for the respondent to make choices and for the study to reveal the preferences of interest. Often this requires trade-offs, such as limiting the scope of the choices respondents are asked to make.
- **Payment mechanism.** To estimate the value of NFR, the choice task(s) requires a trade-off between the quality or quantity of information and a monetary amount, or something that has a known or easily estimated monetary value. The payment mechanism has to be relevant and credible within the context of the choices, otherwise respondents may not buy-in to the choices they are asked to make. Design of the payment mechanism requires both an understanding of the evidence need and the choice context. The payment mechanism can then be tested through interviews and pilot testing. In this study, the annual average dividend yield on listed companies was determined to meet those criteria and tested well in interviews.
- **Attributes and levels.** Attributes are the characteristics of the good or service to be provided and levels are the different levels that can be assigned to those attributes. Usually, one of those

attributes represents the payment mechanism to enable the trade-off mentioned above. In this case, the attributes of NFR are environmental, social, and governance disclosures (which could be present or absent at differing rates)¹³, as well as the format of the information and the level of assurance of that information. The attributes that are included in the design and the number and value of levels is decided on the basis of the same credibility and relevance considerations as mentioned for payment vehicle, including qualitative research and cognitive testing.

- **Survey sequencing and choice framing.** How the choices are presented, and the order of those choices matter to how respondents understand the task they are being asked to complete and the choices they make. There is various good practice guidance for survey sequencing to avoid anchoring effects.¹⁴ Ultimately, however, this is best addressed through qualitative research and cognitive testing, ideally by testing multiple options.

Literature review of the value of information literature

There is a body of stated preference literature that examines the types of trade-offs between information and financial performance – and while useful for this project to some extent - there is no other study in the literature that uses stated preference methods to estimate the value non-financial reporting requirements.

Several studies have traded-off financial performance against non-financial performance, often expressed as performance for some measure of ESG. For example, Berry and Yeung (2013) examined a simple choice between “good ethical performance” and financial performance. They found that ethical performance is valued in the same order of magnitude as financial performance. The success of that study indicates that: (i) trading off financial performance with non-financial performance is a legitimate question to ask investors in a survey setting; and (ii) that investors are willing to make these types of trade-offs.

In a study looking specifically at sustainability investing decisions, Seifert et al. (2022) asked investors to allocate funds to different investments that have either financial or environmental information, or both. They found that both kinds of information do indeed increase the share of funds allocated. This type of “allocation” experiment is frequently used, but they do not explicitly establish the value of that information. Rather, they establish that the information is used to make investment choices when it is available.

Some of the literature has also used a DCE format. Gutsche and Ziegler (2019) presented investors with choices across equity funds with the following attributes: (i) sustainability criteria of the fund; (ii) transparency of the fund; (iii) provider of the fund and annual interest rate (if a fixed interest product); and (iv) subscription fee, net return over the past year, and net return over the past five years (if an equity fund). This study demonstrates the use of several potential payment mechanisms, including fees, historical returns, and future returns. Once again, though, the study was concerned with the provision of information indicating some level of performance, rather than the value of the information itself.¹⁵

¹³ ESG was used as a convenient framing for describing different aspects of NFR. However, it is important to acknowledge that NFR does not always fit neatly into these categories.

¹⁴ See for example Li et al. (2021).

¹⁵ Gutsche and Ziegler (2019) is also useful as a comparison point on the value of transparency. For fixed return investments, investors were willing to pay around a quarter of a percentage point for transparency, and two tenths of a percentage point for sustainability criteria. For equity funds, investors had higher willingness to pay for both transparency and sustainability criteria (around 0.85 percentage points for both), indicating that the presence of risk may increase the value of the information provided. These comparisons are re-visited in Section 3.3.3 (validity testing) and Section 4.1.1 (the current value of NFR).

The current literature therefore indicates three key points: (i) there is an evidence gap on the value of NFR requirements that extend beyond the UK context to wider jurisdictions; (ii) stated preference studies have been successful in using financial returns (both guaranteed and historical) as a payment mechanism for non-financial information; and (iii) research to date does show that investors place significant value on company information where that information indicates good performance.

Recommendations from phases 1 and 2

The research from phase 1 and 2 of this research (eftec, 2024) provided a set of recommendations for the survey design, which included a target sample, and survey structure, potential choice tasks, attributes and levels, along with potential risks to the approach (see Section 4.3 of eftec, 2024). These recommendations formed the basis for the initial survey development. Combined with the evidence need, certain design elements were agreed upon at an early stage with DBT. Examples include: (i) the feasible target sample of private and professional investors; (ii) the use of a DCE design with a monetary element to estimate the demand for NFR requirements; and (iii) an additional exercise to gather information on relative preferences over specific pieces of information.

Cognitive interviews

Cognitive interviews are one-to-one interviews aimed at testing survey content. Overall, the interviews revealed that the structure and content of the survey was found to be effective, even in early drafts of the survey. However, there were elements that required adjusting over the course of the survey, which were as follows in Table 3.2.

Table 3.2: Main findings from the cognitive interviews

Aspect of the survey	Findings
Survey understanding	Overall respondents understood the survey purpose, found it credible and were broadly clear on what they were being asked to do in the choice tasks.
Showcards / visual material	Feedback on the showcards and visual material was generally positive and indicated that they helped respondent understanding. Observations from cognitive interviews helped further refine the visual material (e.g. using GIF instructions for choice tasks).
Terminology	Generally, respondents understood the language and key terms used in the survey. Wording that was not immediately understood by respondents usually required specific definitions and descriptions to be added. For instance, some respondents struggled to gauge the full scope of “non-financial disclosures” as defined by the study without explicit explanation. Familiarity with some specifics of the current NFR requirements also tended to be limited, hence an explicit explanation was needed.
Ease of survey completion	The survey was seen as clear, engaging and relevant by most respondents. This contributed to the perception that it was relatively easy to complete and of reasonable length. Some respondents, though, commented on there being a lot of information to process. Indeed, initial respondents noted that the first few iterations of the survey content were heavily text based. This led to further refinement of text and visual material to convey more of the essential information around NFR requirements.
BWS / progressive choice for relative preferences on company disclosures	In the initial iterations of the choice tasks, respondents struggled to make choices as they were unsure of the trade-offs and how to weigh up different aspects of reporting against assurance. The attribute descriptions were shortened to improve understanding, and improved instructions were provided in the form of an animated GIF that fully explained the layout and choice process.
DCE for NFR requirements	Respondents noted that differentiating between attribute levels (the NFR requirements across ESG categories as presented in the survey) required close attention to the supporting descriptions. The descriptions were iteratively updated throughout the testing, and references to commonly understood frameworks were added. Trading-off requirements with a cost attribute was in principle credible, but some reinforcement was required to rationalise the cost to investors. This was further mitigated by specifying the cost attribute in terms of change in dividend yield, which was more relatable to the full set of investors and was also viewed as credible in relation to company’s compliance costs.
Motivation and/or reasoning across the NFR choice experiments	There were diverse responses on the importance of ESG information as well as its format, assurance and cost, but most respondents found each of the attributes at least somewhat important to them. Overall, it was evident that respondents recognised the value in non-financial information and that it is useful to them as investors, but the specifics of what mattered could vary substantially.
Overall survey feedback	Overall, the initial drafts of the survey were found to be a little long and complicated – in particular, the choice task instructions. The feedback received in this regard helped to improve the survey flow and balance of information. The improvement was evident in positive feedback received in later interviews.

3.1.3 Survey structure and content

Two survey versions were developed: one for private investors and one for professional investors. The general survey structure and content were the same between the two versions as shown in Table 3.3. The full survey scripts are provided in Appendix 2 for reference.

Table 3.3: Survey structure and content

Section	Content / questions	Purpose
Section A	Respondent background	Determine who is answering the survey
Section B.1	Use and experience with non-financial and financial disclosures	Introduce the topic to the respondent and determine their current uses of the information, in terms of motivation and time
Section B.2	Choice task 1: Choices between pieces of information	Quantify relative preferences for information and its assurance
Section C.1	Choice task 2: Introduction	Introduce the attributes of the choice experiment and provide instructions for completing the task
Section C.2	Choice task 2: Choices on regulation packages	Quantify relative preferences for aspects of reporting regulations and the potential costs of those regulations (in terms of forgone dividends)
Section C.3	Choice task 2: Follow-ups	Better understand how respondents found the task and how they made choices
Section D	Further follow-ups	Determine respondents' perception of the consequentiality of their choices and their motivations
Section E	Respondent / company profile	Collect information on the characteristics of the respondents that might influence their WTP for NFI disclosure (sector, AUM, age, etc.).

Introduction and screening criteria

The survey began with an introduction that described its topic, purpose and why respondents were being asked to participate, and how the results would be used. The introduction also provided information on how response data would be managed and the data-protection policies in place to gain informed consent from respondents.

Respondents were then asked a series of screening questions on their background as an investor (i.e. the types of investments they hold and the value of their assets for private investors; their role and the type of company they work in for professional investors).

Professional investors were asked about their role/title in their organisation, what this role involves task-wise, and what sort of investments or assets they work with. While similar questions were asked to the private investors, additional questions were also asked, such as the value of their assets, how they manage their portfolio, as well as how often they buy or sell securities, debts or derivatives.

Participation was limited to respondents who invested or managed investments in publicly traded companies. For example, those who only invest in government bonds were excluded from the survey as the research topic concerns company reporting and as such it would be less relevant to their role.

Use and experience with company disclosures

The following section of the survey focused on current uses of company disclosures, starting by asking respondents to identify the information they use in investing from a list of possible sources, and then moving specifically towards their use of non-financial disclosures. This section also asked about the amount of time spent with those sources of information, and what respondents expected that information to indicate about the companies they were researching.

Company information progressive choice task

The first choice task used a best-worst scaling (BWS) format to elicit preferences for different aspects of company disclosures. Respondents were asked to select their most preferred and second most preferred combinations from sets of company information paired with some level of assurance in the context of making an investment decision (see Figure 3.1). This is a “progressive choice” format, which provides a full ranking of preferences across the option sets presented. Each respondent was shown six sets of options (choice cards) and made twelve choices in total (six most preferred and six second-most preferred options).




Option A	Option B	Option C
Annual statement on how the company manages business risks which includes actions they've taken to manage corporate fraud and assurance over the reliability of NFR including annual reverse stress testing.	Major shareholders and their activities relating to the company.	Information about climate risks and opportunities including the effect of those risks and opportunities on the financial position and performance of the company over the short-long term.
 <p>Externally Assured</p>	 <p>Not Assured</p>	 <p>Externally Assured</p>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Figure 3.1: Example Task 1 choice card, as seen in the survey

The progressive choice task had two purposes. The first was to gather information on respondents' preferences for various aspects of company information and the assurance of that information. This choice data was then used to quantify preferences over information (see Section 3.4). The second purpose was to introduce some of the key concepts and the types of information respondents might expect to see in non-financial reports; effectively serving as a “warm-up” to the second choice task that followed. This approach was found to be effective in one-to-one testing, as respondents became more familiar with the content and context of the choices through repetition.

The two attributes (disclosure item and assurance) included in the tasks and the levels (options) for those attributes were selected based on the findings from eftec (2024), the evidence need, consultation with DBT, and the survey testing process. The first attribute (the type of company information) featured 18 possible aspects of company disclosures (the ‘levels’ - see Appendix 3 for the full list as well as the requirement they related to), each of which was related to some current or potential reporting requirement. The second attribute - assurance - had three levels: (i) no assurance; (ii) internal assurance; and (iii) external assurance. These are the same levels that were specified in the DCE task (see below).

Before making their first choices, respondents were provided with instructions – in the form of an animated GIF – on how to complete the choice task.

Non-financial reporting regulations choice experiment

The core component of the survey was the discrete choice experiment (DCE) on NFR regulations. The task presented respondents with seven repeated choices for NFR regulation “packages”, which were defined by five attributes: (i) the required environmental information; (ii) social information; (iii) governance information; (iv) format of reporting; and (v) level of assurance. The provision of each regulation package was presented with an associated dividend yield for FTSE100 companies. The levels for the information attribute and the dividend yield could both increase and decrease, whilst the information format and level of assurance could only improve (on account of more strict requirements). See Appendix 3 for the full set of attribute descriptions and levels, as well as the regulation that those correspond to where applicable.
















Option	No Change	A	B
Environmental information	 Some requirements for environmental disclosures	 Some requirements for environmental disclosures	 Some requirements for environmental disclosures
Social information	 Some requirements for social disclosures	 Additional requirements for social disclosures	 No requirements for social disclosures
Governance information	 Some requirements for governance disclosures	 Additional requirements for governance disclosures	 No requirements for governance disclosures
Information format	 No requirements for specific format	 Specific measures and metrics required in reports	 Specific measures and metrics required in reports
Level of assurance	 No requirements for assurance of disclosures	 No requirements for assurance of disclosures	 Disclosures required to be externally assured
Annual average dividend yield for listed companies <i>(dividend yield is the dividend per share divided by the share price)</i>	4.00% per annum <i>(an annual return of £400 based on a portfolio containing £10,000 in listed companies)</i>	3.50% per annum <i>(an annual return of £350 based on a portfolio containing £10,000 in listed companies)</i>	4.50% per annum <i>(an annual return of £450 based on a portfolio containing £10,000 in listed companies)</i>

Figure 3.2: Example Task 2 choice card, as seen in the survey

Each choice card included a status quo option (labelled “No Change”) and two alternative options (A or B) that involved changing at least one attribute of the reporting requirements. The no change option was included so as not to force respondents to choose a change option that did not represent value for money for them.

The choice cards (the full set of options presented) were generated via an experimental design, which was specified to optimise the amount and variety of preference information generated from the choices made, given the sample size of respondents.¹⁶ The design featured 21 choice cards in total, grouped in three

¹⁶ A d-efficient design was used to specify the attribute levels shown on each card (Bliemer & Rose, 2005; Ferrini & Scarpa, 2007). The purpose of the experimental design is to ensure that the effects of interest can be adequately and efficiently estimated from the available sample size.

blocks of seven cards. The design specified the combinations of attribute levels for each choice task seen by a respondent, i.e., it determined which levels of attributes were presented on a given choice card. The response data from the pilot survey was used to update the respective experimental designs, with the purpose of improving the efficiency of the design in terms of the precision of model estimations of WTP for changes in provision of non-financial information.

Each respondent was randomly assigned to a block (of seven cards), the order of which was rotated across respondents to reduce ordering effects. Similar to the progressive choice task, respondents were provided with instructions prior to starting the choice task in the form of an animated GIF.

Follow-up questions

The BWS choice task was followed by a question regarding respondents' motivations for their choices. In testing, the BWS task was observed to be generally easy to understand, so questions around ease/difficulty of the exercise were not included.

The DCE was followed by a comprehensive set of questions that probed respondents' reasons for their choices and potential issues related to their understanding of the choice task which could identify biased (or systematic) responses. The follow-up questions included:

- The ease / difficulty of the choice task, and reasons for difficulty if relevant;
- Which attributes were of the highest importance when making choices, as well as methods in which the respondents chose their options;
- Reasons for serial selection of the "no change" option (if relevant);
- Motivations for their choices in terms of use and/or non-use values; and
- The perceived credibility of the choice questions in terms of policy consequentiality (i.e. do respondents believe that their answers to this survey will influence the future of NFR regulations).

Respondent profile

The final section of the survey collected supplemental information on the respondent for use in analysis and segmentation of results. This section was different between the private and professional survey versions:

- The private investor survey prompted respondents to provide information about their demographic and socioeconomic profile (including age, gender, ethnicity, employment status, household composition and education level); and
- The professional investors were asked questions around their company and role (i.e. years spent in the sector, annual revenue, etc.).

In both versions, the closing questions asked for general feedback on the survey in terms of the ease or difficulty of completion for the entire survey and whether it was engaging or otherwise. See Appendix 2 for the full list of questions and Appendix 4 for summary statistics.

3.2 Implementation

The survey fieldwork was completed in two waves: private investors in December 2023 and January 2024 and professional investors in January and February 2024. Respondents for both waves were recruited from the RiF panel and were compensated for completing the survey.¹⁷

3.2.1 Pilot surveys

Both surveys were launched first as pilots with around 20% of the total sample (Private: n=45, Professional: n=52). The fieldwork was then paused, and the initial responses were analysed to examine patterns in the data (i.e. whether the survey was working as expected, checking answers to follow-up questions around ease/difficulty). Overall, the results of the pilot were positive. Respondents generally found the survey and choice tasks easy to complete, and respondents who found the choice task difficult did so because it was genuinely difficult to decide which option they preferred, rather than any fundamental issues with understanding the survey. It appeared that respondents engaged well with the survey content and minimal amendments were made to prior to the full launch of the survey.¹⁸

3.2.2 Survey sample

A total of 400 respondents completed the survey, of which 213 were private investors and 187 were professional investors. Sample representativeness for the private investors was verified against the Financial Lives Survey (FCA, 2023a) and against sector-level data from the Annual Survey of Hours and Earnings (ASHE) for the professional investors sample (ONS, 2023b).

Private investor sample

Private investors (those actively investing in stocks) are a small subset of the UK population – according to (FCA, 2023a). Only 37% of UK adults hold any investment outside of property and the proportion of the population that does hold investments tends to be wealthy older males. As the aim of this research is to estimate benefits to investors, and not the general population, representativeness is assessed against data on UK investors where it is available (Table 3.4).

This private investor sample (n=213) included a higher proportion of individuals with larger investment portfolios than the average UK investor but was generally representative of those investors on most other criteria. Given the lack of specific data on investment holdings, the direct survey results have not been re-weighted. The full set of summary statistics on the respondent profile is available in Appendix 4. Other aspects of the respondent profile indicate that the sample generally contained investors that are more active in their own portfolios than the average UK investor. This possibly suggests that sample would be more engaged or familiar with company disclosures and hence reasonably informed on the survey topic.¹⁹

¹⁷ Compensation was paid directly to the respondent (or to a charity of their choice), and compensation varied depending on the profile of the respondent, with more difficult to reach respondents generally receiving more compensation.

¹⁸ Given the questionnaire changed only minimally between the pilot and main surveys, data and responses from the pilot were included in the main analysis and hence results for the survey.

¹⁹ Whether this constitutes a form of bias in the sample is not clear cut. Better informed respondents can still have positive or negative perceptions and preferences towards NFR and NFI. Potentially, though, that could be more “certain” or demonstrate a stronger level of preference based on their experience, compared to a less experienced individual. This effect would primarily manifest in the noisiness of the survey data, rather than a potential skew or bias.

Respondents were also asked to consider the use of information both by themselves and their advisors, and therefore should have responded based on their underlying preferences for the information.

Table 3.4: Private investors sample profile (n=213)

Aspect	Observations on the survey sample (private investors only; n=213)	Other available data (From FCA, 2023a unless noted otherwise)	Comparison
Age	<ul style="list-style-type: none"> 61% of respondents were over the age of 55 11% were under the age of 34 	<ul style="list-style-type: none"> Only 32% of those under the age of 34 hold investment products, against 48% of those over 75 Older UK investors are much more likely to have more investible assets^a as the mean portfolio for those under 34 is £17k, and over 55 is £65-95k (depending on age cohort) 	A sample weighted towards older individuals does reflect the pool of investors in the UK. Older individuals are more likely to have investments and hold more of them in total (as a cohort). While the achieved sample may not be strictly representative, it does reflect the trends observed in the UK.
Gender	<ul style="list-style-type: none"> Male: 78% Female: 21% Other: 1% 	<ul style="list-style-type: none"> 46% of men hold investment products, against 29% of women Men hold investible asset portfolios of around £52k on average, while women hold portfolios of around £34k 	The likelihood of women to hold investment products and the difference in investible assets indicates that a sample weighted heavily towards male respondents may reflect investors in the UK.
Portfolio size	<ul style="list-style-type: none"> 15% of respondents had a portfolio worth less than £50k 54% of respondents had a portfolio worth more than £250k Median value of £350k^(b), approximate average value of £750k 	<ul style="list-style-type: none"> 80% of the total sample had investible assets^(a) under £50k Only 6% of the total sample had investible assets over £250k Categorical data indicates that the likelihood of holding investments is directly and positively correlated with amount of investible assets 	The average portfolio (investible assets) of the private investor sample is much larger than that of the average UK household and is likely to also be larger than the pool of UK investors as well.
Types of investments held	<ul style="list-style-type: none"> 88% with an ISA 71% with a workplace pension 68% directly holding company stocks 67% with a private pension 	<ul style="list-style-type: none"> 21% of all UK adults hold shares, and 17% has a "stocks and shares" ISA 72% of all UK adults have some form of private pension. However, the median pension was around £10k 	The sample has a higher proportion of investors directly holding stocks than FCA (2022) would suggest, but the relative ratios for higher wealth individuals appear similar.
Portfolio held in UK companies	<ul style="list-style-type: none"> Average: 46% Median: 40% 	<ul style="list-style-type: none"> ONS (2022) estimates that 42% of UK quoted shares are held by UK individuals or organisations holding those shares on behalf of UK individuals The IA (2023) estimates that in 2021 roughly 25% of UK-managed funds are held in UK-based equities 	The IA (2023) data suggests that the sample may have reported larger holdings in UK companies than UK investor population at large. As this was self-reported, it is possible that investors have over-estimated their UK holding.
Method of investing	<ul style="list-style-type: none"> 81% primarily investing without advice from a financial advisor 12% primarily investing with advice 	<ul style="list-style-type: none"> 8% of UK adults in 2022 received regulated financial advice Of those 31% with large portfolios (£100k plus) received regulated advice 	The survey sample had a larger proportion of individuals that were primarily investing without advice than reported in FCA (2022). However, due to the wording of the question, respondents may still have received some advice.

Notes: (a) investible assets are defined by FCA (2022) as cash plus financial and equity investments, excluding property and other real investments.

(b) weighted median based on interval mid-points (ranging from £250k to £500k).

Professional investor context and survey sample

According to the Investment Association (IA, 2023), which represents the investment management sector in the UK, there are a total of 46,200 investment professionals directly employed in the sector. Of those, 40% are engaged in investment management or fund management – suggesting that around 18,000 hold positions directly involved in investing decision-making or advice. On the retail side, the FCA (2022) estimates that there are approximately 37,000 financial advisors. In aggregate, ASHE (ONS, 2023) estimates that there are just over 100,000 individuals employed as “investors in finance” in the UK.

The sample of 187 professional investors contained professionals in retail investing (68%; roles such as independent financial advisors, discretionary fund managers), institutional investing (20%; roles such as pension trustees), and consultants (12%, roles such as investment consultants). Across those roles, the sample was represented by experienced individuals (61% with over 10 years of experience) and had a high proportion of male respondents (83%) (Table 3.5). The full set of profile responses are available in the summary statistics (Appendix 4). The representativeness of the professional investor sample can be compared against the ONS ASHE data (ONS, 2023b) (Table 3.5). Overall, the professional investor sample was older on average and had a higher proportion of men than the population of investment professionals in the UK. Variation around these demographics would not be expected to bias the overall preferences for NFR.

Table 3.5: Professional investor sample profile (n=187)

Aspect	Survey sample	Comparison data (ONS, 2023b unless noted otherwise)	Comparison
Age ^(a)	<ul style="list-style-type: none"> • 18 – 34: 32% • 35 – 49: 40% • Over 50: 28% 	<ul style="list-style-type: none"> • 16 - 34: 50% • 35 - 49: 34% • Over 50: 17% 	The professional sample has a higher proportion of older respondents, and a much lower proportion of younger ones.
Gender	<ul style="list-style-type: none"> • Male: 83% • Female: 13% 	<ul style="list-style-type: none"> • Male: 62% • Female: 38% 	The professional survey is much more heavily male than the sample as a whole.
Years of experience in the investment sector	<ul style="list-style-type: none"> • 0 to 5 years: 16% • 6 to 10 years: 24% • More than 10 years: 61% 	<ul style="list-style-type: none"> • N/A 	Based on the age comparison, it is expected that respondents had more experience on average than the investment industry as a whole.
Role	<ul style="list-style-type: none"> • 68% retail investment sector (19% IFAs, 16% paraplanners, 16% DFMs) • 20% institutional sector (4% trustees) • 12% consultants (8% investment consultants) 	<ul style="list-style-type: none"> • 37,000 financial advisors (includes IFAs and DFMs) (FCA, 2023) • 18,000 in investment (asset) management involved in decision making or advice. (IA, 2023) • Just over 100,000 labelled as “investor in finance” 	As the sample intentionally did not include asset managers (see Section 2), the sample is weighted more heavily toward retail investors. The investors and those that work in client-facing roles make up a high proportion of the overall investment sector.

Notes: (a) the survey and the ASHE data sets use different age range intervals. To align the two, one-half of those respondents in the 45-54 band were added to the 35-44 band to make the comparison for the 35-49 band from ASHE, and similarly for the Over 50 band.

3.3 Results and analysis

3.3.1 Use and perceptions of company disclosures including NFI

Both private and professional investors reported using company disclosures (85% of private investors, 89% of professional investors) as a part of their routine investing activities, and the majority also reported using non-financial information (77% of private investors, 69% of professional investors). In terms of time spent, private investors reported spending just over 1 hour per week with disclosures, while professional investors spent closer to 1.5 hours per week. This is the same range as a similar set of questions included in the “User’s survey” (eftec, 2024), which covered more detail around what types of disclosures investors were using, including breakdowns by role and position.²⁰ The general trend observed is that professional investors use disclosures more than private investors, and that asset managers and consultants spend more time than other types of professional investors on average.

Investors gave multiple motivations for using non-financial disclosures, which centred around understanding company risk exposure, management, and long-term performance (Figure 3.3). These motivations were similar between investor types, as was the level of trust in the information – with the majority (around 65%) stating they “somewhat trust” NFI. It is also notable that the use of NFI tended to focus on longer-term perspectives – a finding also consistent with the previous research (eftec, 2024).

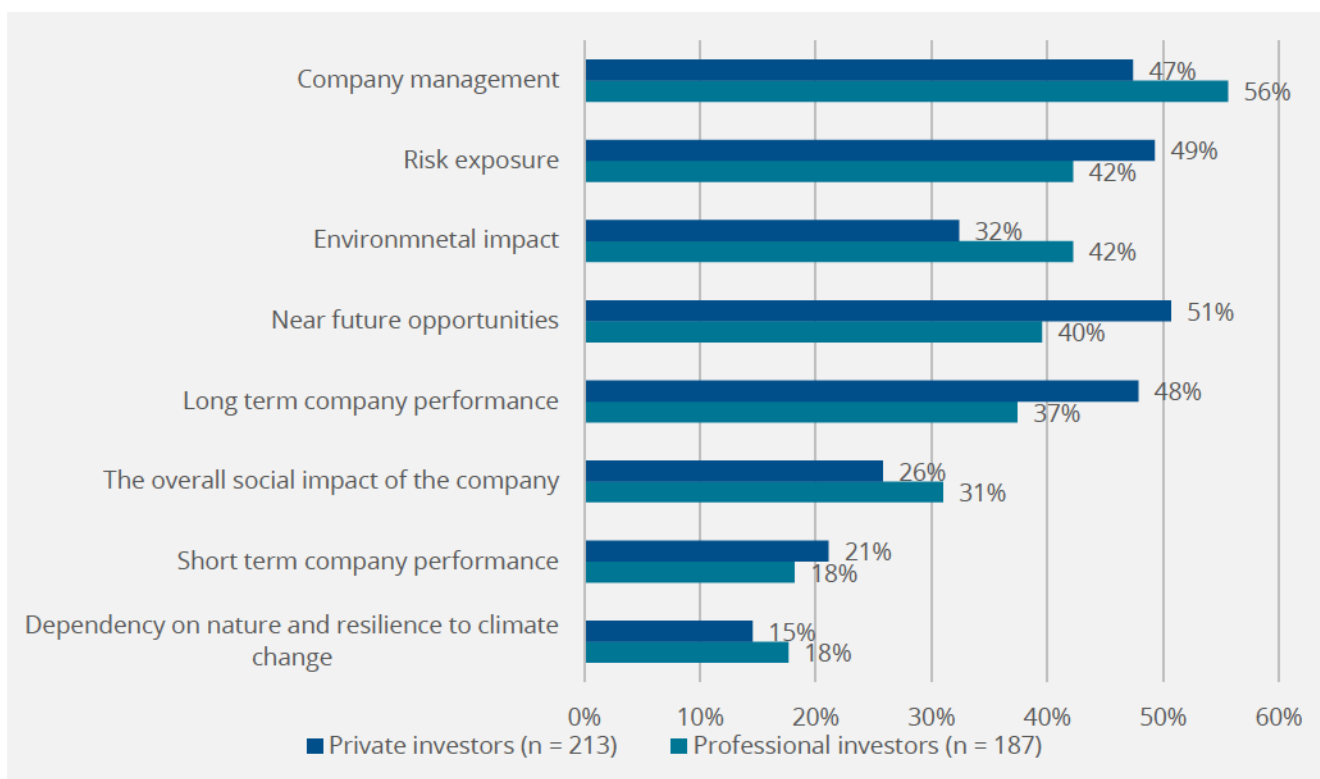


Figure 3.3: Expectations of what NFI disclosures will help investors assess (respondents allowed to select up to three items)

²⁰ A more thorough review of the time spent, and types of disclosures being used by investors is included in eftec (2024) (which drew on a larger data set). Summary statistics for the responses from this survey can be found in Appendix 4.

3.3.2 Potential benefits of increased ESG disclosures

The majority of respondents indicated that increased NFR requirements (specifically additional ESG information) would benefit them (82% to 93% depending on the change and the investor type; Figure 3.4).²¹ How investors thought they would benefit depended on the type of information provided, indicating some heterogeneity of preferences for company information. However, across both samples, aligning portfolios to ethical views and minimising exposure to risk were the top two benefits. Respondents also tended to view this information in terms of long term returns, rather than the short term.

When asked about the benefits of increased requirements for the format of that information within the report, the most commonly mentioned benefit was being able to compare information across companies more easily (Figure 3.5).

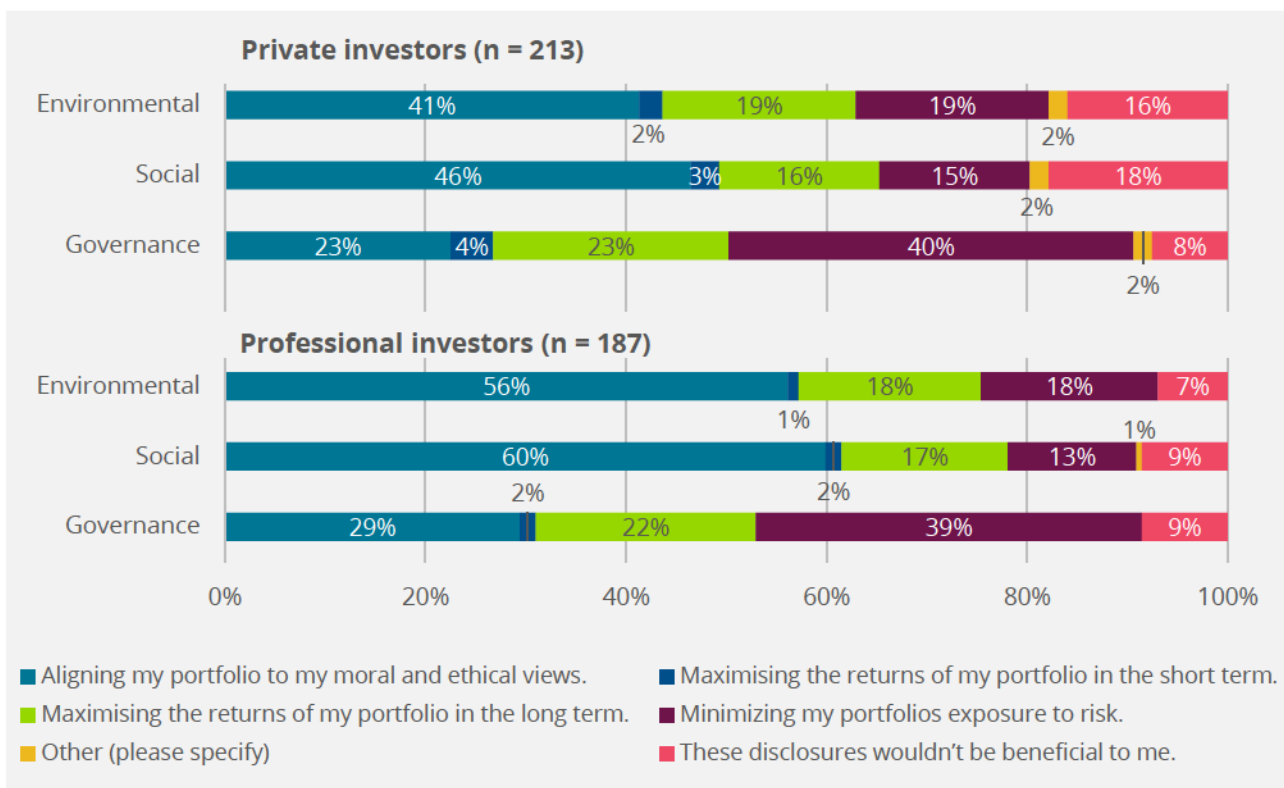


Figure 3.4: Perceived benefits of increased ESG disclosures (n = 400)

²¹ An ESG framing is used here as these are readily understood categories of information that are used across many NFI frameworks as well as company reports. There is also, though, more “general” aspects of NFI, such as broad company opportunities or risks. Notwithstanding, as the primary choice exercise was framed around ESG categories, these were main emphasis of this question.

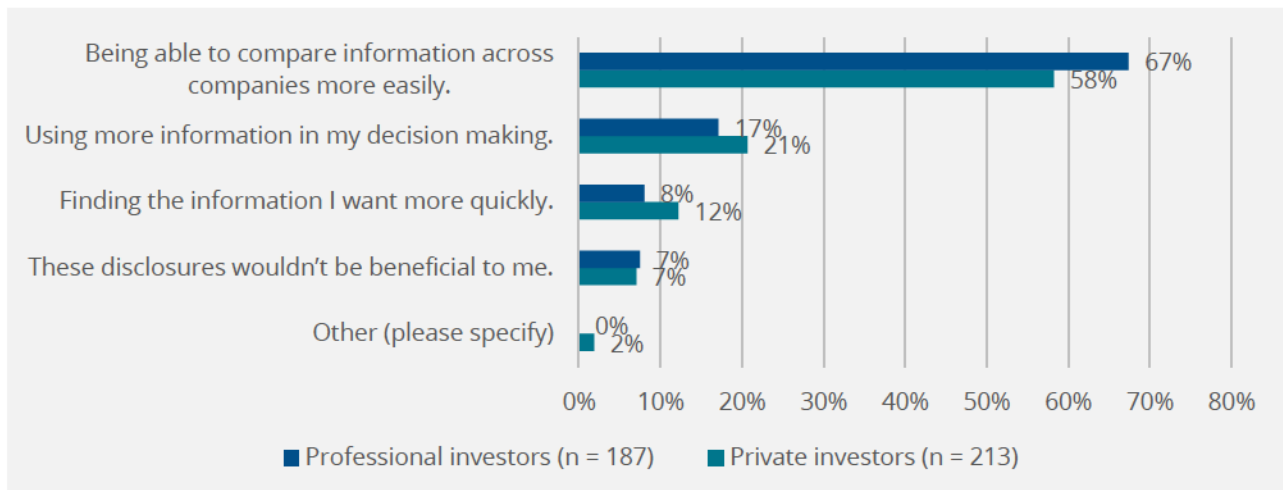


Figure 3.5: Perceived benefits of increased format requirements (n = 400)

3.3.3 Choice models

As described in Section 3.1.3, the survey included two tasks (choice experiments): (i) a best-worst scaling (BWS) progressive choice exercise over company information and level of assurance; and (ii) a discrete choice experiment (DCE) over potential change to non-financial reporting requirements within the UK. The responses from both tasks were analysed using econometric models, which quantified investor preferences over the options presented.

BWS progressive choice exercise on specific company disclosures

The BWS progressive choice exercise was analysed using a rank-ordered logit model, which estimates a set of coefficients for each attribute based on respondents’ choices in terms of the relative ranking information. These coefficients are then further transformed into “odds ratios” (ORs), which can be interpreted as quantifying the strength of preference that respondents assign to each attribute (based on the likelihood of selecting an attribute/level).

Three models were estimated: (i) a pooled model, which includes both the private and professional investors’ responses; (ii) a private investor only model; and (iii) a professional investor only model. The outputs and code of all three models are provided in Appendix 5. Only the results from the pooled model are presented here (Table 3.6), as the differences between the three models were minimal in terms of the overall order of preferences for company disclosure information.

Odds ratios are reported relative to a base case (OR = 1). For company information this is “information regarding gender pay gaps”, and for assurance this is “no assurance”. For example, the OR for “statements of business conduct including the ethical policies for the company” is 4.24. This means that the strength of preference for this aspect of company disclosures is around 4.2 times stronger than company information regarding gender pay gaps. It is important to note that the base level may still be of value to investors - it was simply placed as the least preferred of the information items presented.

The model estimates reveal a number of key findings:

- Externally assured information was preferred more than internally assured which, in turn, was preferred more than no assurance. Overall, a given piece of information was twice as likely to be selected if it was externally assured than if it was not assured.
- Information relating to describing a company's exposure to risks and available opportunities tended to be preferred over information that generally described a company's management or current performance. For example, information on the "Board and/or committee composition and how it takes decisions, how the company is run, and compliance with the corporate governance code" was over four times more likely to be selected than the "directors' statement of how they have promoted the success of the company" (s172 statement).
- No particular "type" of information (ESG or otherwise) was uniformly preferred to another, and there was information within each category (environmental, social, governance, financial, or general information) that was preferred to information from every other category. This includes certain types of financial information – demonstrating that there is not a strict hierarchy between financial and non-financial information. In short, the specifics of the information made available to investors matters.
- Information that represents a clear improvement (such as moving from reporting Scope 1+2 GHG emissions to reporting Scope 1-3 GHG emissions) was clearly preferred to the lower level.

Table 3.6: Progressive choice exercise results - Calculated odds ratios for company information included in disclosures (n=400) (Base: Information regarding gender pay gaps in the company)

Category	Information description	Odds ratio	Visualisation of preference
Env.	Limited information on current GHG emissions (Some scope 1 and scope 2 emissions).	1.32 (0.98 to 1.77)	
Env.	Percentage of revenue that comes from activities that align to UK overall environmental targets.	2.45 (1.92 to 3.14)	
Env.	Information on GHG emissions including current scope 1-3 emissions (which includes supply chain), future targets, and strategies to meet those targets including transition plans to net-zero emissions.	3.82 (2.76 to 5.28)	
Env.	Information about climate risks and opportunities including the effect of those risks and opportunities on the financial position and performance of the company over the short-long term.	3.89 (2.8 to 5.4)	
Env.	Environmental information necessary to understand the development, performance, or position of the company's business.	4.07 (3.15 to 5.26)	
Social	Information regarding gender pay gaps in the company.	1 (base)	
Social	Information on employee matters including a gender breakdown of employees, directors, and senior managers.	1.06 (0.75 to 1.5)	
Social	Statement on impacts and risks relating employees, suppliers, other stakeholders, and the community.	4.80 (3.66 to 6.30)	
Social	Information on company process towards adequate human rights due diligence, anti-corruption, tax governance and compliance and employee awareness of competition laws and regulations.	7.33 (5.28 to 10.18)	
Gov.	Statement on how the directors' have promoted the success of the company.	1.73 (1.34 to 2.23)	
Gov.	Statements of business conduct including the ethical policies of the company.	4.24 (3.18 to 5.66)	
Gov.	Annual statement on how the company manages business risks which includes actions they've taken to manage corporate fraud and assurance over the reliability of NFR including annual reverse stress testing.	8.07 (6.14 to 10.59)	
Gov.	Information on the company board and/or committee composition, how the company is run, how boards take decisions, and information on compliance with the corporate governance code.	8.81 (6.56 to 11.82)	
Gov.	Information covering a fair review of the company's business, principal risks, performance, development, position of business including trends that might affect future development/performance.	13.26 (9.58 to 18.35)	
Fin.	Major shareholders and their activities relating to the company.	2.19 (1.64 to 2.94)	
Fin.	Company expenditure on Research and Development.	3.16 (2.36 to 4.24)	
Fin.	Director pay information, including director pay changes compared to average employee pay changes.	3.56 (2.56 to 4.94)	
Gen.	Information on a company's remuneration policy, the role of the committee and shareholder voting information.	2.43 (1.79 to 3.32)	

Discrete choice experiment on non-financial reporting requirements

The discrete choice experiment (DCE) was analysed using both conditional logit (CL) and mixed logit (MXL) model specifications.²² Each of the NFR requirement package attributes (environmental, social, and governance disclosures, the level of assurance, and the format of information) were modelled independently as factor variables (i.e. non-linear) where the ‘current level’ is the base (see Section 3.1.3). The dividend yield (“cost” attribute) was modelled linearly.

The primary results from the models are the mean (central) coefficient estimates, which are primarily interpreted based on their sign (positive/negative) and their statistical significance. In combination these results indicate whether respondents were influenced by the levels of the attributes and in what direction. In other words, the coefficient for an attribute shows whether the change in that attribute increases or decreases the likelihood of selecting an option with that level of attribute. The MXL model also estimates the distribution of preferences for the attributes in terms of their standard deviations across respondents. A statistically significant standard deviation signals that there is observed variance across respondent preferences, i.e. some respondents have significantly different preferences than the average (usually in terms of magnitude of preference, but sometimes in terms of direction). This is also called preference heterogeneity. Note that for standard deviation estimates, there is no interpretation for the sign of the coefficient (positive/negative), only the statistical significance.

The interpretation of the model estimates is as follows²³:

- **Annual average dividend yield:** A positive and statistically significant result means respondents were sensitive to the dividend shown for each option and were more likely to choose options with higher annual dividend yields. Professional investors appeared to be less sensitive to dividend yield, but this is not a statistically significant result.
- **Environmental, social, and governance information:** In all three disclosure areas, respondents had a strong preference against deterioration to no requirements (negative, statistically significant coefficient). However, there was no overall strong preference (i.e. statistically significant) for extending beyond the current requirements. Most of the coefficient estimates have statistically significant standard deviations however, indicating a mix and varying strengths of preference for extending requirements across the sample.
- **Format of reporting:** The positive and statistically significant coefficient for ‘reporting format’ indicates respondents overall preferred an enhancement over current requirements.²⁴ There was limited distinction though in preferences for the nature of the enhancement – i.e. the specific measures and metrics required versus a specific standardised format. Again, a strong degree of

²² The CL model is commonly used for analysing discrete choice experiments and is based on some practical but restrictive assumptions about respondent preferences - mainly that preferences are the same across all respondents. As such CL models can provide useful estimates of preferences and are computationally less intensive than other models but will not perform well (in terms of modelling criteria) where heterogeneity of preference is expected. The MXL model specification addresses this shortcoming, by allowing the utility coefficient to vary across users instead of being fixed at the same level for all; hence it allows coefficient estimates to vary over respondents according to some distribution reflecting their preferences. Due to this, the MXL model was preferred for this analysis.

²³ Note – all results are “all else equal”, representing the independent effect of the change in the attribute on the likelihood of a respondent selecting an option (NFR requirement package). For models that include interaction effects, see Appendix 5.

²⁴ This result indicates that respondents preferred improvements in standardised formats (and therefore enhanced comparability) of the information already being produced, rather than an increase in the amount of information required.

preference heterogeneity was observed for changes related to standardised format (as signified by the statistically significant standard deviation parameters).

- **Level of assurance:** Respondents had strong preferences for external and internal assurance over no assurance. The mean (average) result indicates that external assurance is weakly preferred to internal assurance (more so in the case of private investors).
- **Status quo:** No added weight placed on the status quo option, indicating that overall investors' preferences are well explained by the attributes of the choice rather than the label. Additionally, this result shows that investors were readily trading-off NFR requirements with dividend yield to select their preferred packages.

Table 3.7: DCE main model estimation results (MXL models)

Attribute (and level)		Professional (n = 187)	Private (n = 213)	Pooled (n = 400)
		Coefficient estimate (Standard deviation)	Coefficient estimate (Standard deviation)	Coefficient estimate (Standard deviation)
Average dividend yield		1.36***	1.64***	1.83***
<i>Difference for professional investors</i>		N/A	N/A	-0.5657
Environmental disclosures requirements	No requirements	-1.14*** (1.31***)	-0.70** (0.99***)	-0.9492*** (1.23***)
	Additional requirements	0.25 (1.46***)	0.12 (0.99***)	0.13 (1.20***)
Social disclosure requirements	No requirements	-0.97*** (1.03***)	-0.53*** (0.83***)	-0.69*** (0.80***)
	Additional requirements	-0.36* (0.36)	-0.19 (0.36)	-0.25* (0.24***)
Governance disclosure requirements	No requirements	-1.25*** (0.96***)	-1.3*** (1.04***)	-1.27*** (-0.76***)
	Additional requirements	-0.44 (0.94***)	-0.16 (0.64***)	-0.31* (0.98***)
Format of disclosure requirements	Specific measures and metrics	0.76*** (0.41)	1.17*** (0.45)	0.99*** (0.38)
	Specific measures and metrics in a standard format	0.74*** (-0.48)	0.89*** (0.83***)	0.82*** (-0.59**)
Assurance requirements	Internally assured	0.64** (0.55)	0.38 (0.01)	0.52*** (0.22)
	Externally assured	0.64*** (0.85***)	0.81*** (0.52**)	0.70*** (-0.65***)
ASC (No change option)		-0.51 (1.45***)	-0.14 (2.15***)	-0.24 (1.67***)
Model Fit		Observations: 3,927 Wald chi ² : 101.44 Prob > chi ² : 0 Log-likelihood: -1215.4	Observations: 4,473 Wald chi ² : 131.71 Prob > chi ² : 0 Log-likelihood: -1363.1	Observations: 8,400 Wald chi ² : 213.47 Prob > chi ² : 0 Log-likelihood: -2594.3

Notes: * Denotes statistical significance at the 10% level; ** denotes statistical significance at the 5% level; *** denotes statistical significance at the 1% level.

The choice model estimates provide the basis for estimating investor willingness to pay (WTP) for additional NFR requirements and willingness to accept compensation (WTA) for weaker NFR requirements, in terms of a marginal change in dividend yield²⁵ (Table 3.7).

The loss to investors from reduced NFR requirements ranges from 0.45 percentage points of annual dividend yield for social disclosures to 0.79 percentage points of annual dividend yield for governance disclosures. Generally, it is observed that higher value is placed on avoiding weaker requirements for governance disclosures, followed by environmental and then social disclosures. However, the overlapping 95% confidence intervals imply that it is not possible to draw this conclusion outright as to the hierarchy of investor preferences.

Table 3.8: Willingness to pay and willingness to accept for changes to NFR requirements

Reduced requirements	Investor WTA (percentage points of dividend yield per year)
No requirements for environmental disclosures	-0.57*** percentage points (-0.82 to -0.32)
No requirements for social disclosures	-0.45*** percentage points (-0.64 to -0.26)
No requirements for governance disclosures	-0.79*** percentage points (-1.09 to -0.48)
Enhanced requirements	Investor WTP (percentage points of dividend yield per year)
Additional requirements for environmental disclosures	0.09 percentage points (-0.12 to 0.30)
Additional requirements for social disclosures	-0.19* percentage points (-0.38 to 0.001)
Additional requirements for governance disclosures	-0.18 percentage points (-0.41 to 0.06)
Specific measures and metrics required in reports	0.65*** percentage points (0.37 to 0.93)
Specific measures and metrics in a standardised format required in reports	0.52*** percentage points (0.34 to 0.71)
Disclosures required to be internally assured	0.31*** percentage points (0.11 to 0.52)
Disclosures required to be externally assured	0.46*** percentage points (0.28 to 0.64)

Notes: * Denotes statistical significance at the 10% level; ** denotes statistical significance at the 5% level; *** denotes statistical significance at the 1% level.

For additional information requirements (E, S, and G), it is not possible to conclude that investors value more *volume* of disclosures as the WTP estimates for all three are not statistically different from zero.²⁶ In

²⁵ Investor WTP (WTA) is calculated as the marginal rate of substitution between the marginal utility of the NFR requirement (its coefficient estimate) and the marginal utility of dividend yield (the coefficient estimate for the cost attribute).

²⁶ The WTP estimate for enhanced social disclosures is marginally statistically significant (at the 10% level), but it has the “wrong” sign, implying that investors would need to be compensated for receiving more information. However, the 95% confidence interval spans zero, which means it is not possible to conclude that investor WTP is negative for this change to the NFR regime.

other words, it is not possible to conclude that investors are willing to trade-off reduced annual dividend yield for more NFR requirements for these topic areas.

Much stronger results in terms of investor preferences are evident for enhancing *the format* and *assurance* of NFR. Higher average WTP values are observed for improvements that specify metrics and measures (mean WTP equivalent to 0.65 percentage points of annual dividend yield) and standardised format (mean WTP equivalent to 0.52 percentage points of annual dividend yield) compared to either internal or external assurance (0.31 to 0.46 percentage points), but again the 95% confidence intervals overlap so it is not possible to conclusively present this hierarchy of preference.

These results are subsequently used to estimate the aggregate benefits of NFR (Appendix 1 and Section 4).

3.3.4 Validity testing

Stated preference methods are adaptable and can therefore be applied to a wide range of settings to goods and services. However, they require careful application to ensure that the results and value estimates are valid and robust, where validity is understood as the minimisation of bias within the reported estimates. To maximise the validity of this study good practice guidance for applying stated preference design and analysis (Bateman et al., 2002; Johnston et al., 2017) was followed. Validity testing is centred around key concepts - the “3 Cs” (see Table 3.8) - which are integral to the survey design and analysis phases.

Table 3.9: The 3 Cs and validity testing

Validity Type	Validity Issues	Approach
Content validity – assessed via the design and implementation of a survey, including the content of the survey, how data is analysed, and how the results are reported.	<p>Do respondents understand the survey purpose and explanatory material?</p> <p>Are the simulated market and choice tasks credible?</p> <p>Is the potential for biases in responses minimised (e.g., hypothetical, anchoring, protests, strategic response)?</p>	<p>Addressed in the survey design and testing via iterative test-retest approach using cognitive interviews (one-to-one interviews).</p> <p>Addressed in survey design through qualitative research. Tested for in the analysis tasks to identify systematic patterns in responses.</p>
Construct validity – assessed via a comparison of the study results against expectations from other studies, economic theory, and qualitative findings.	<p>Do results align with reasonable expectations based on: (a) underlying economic theory; and (b) findings from similar studies (convergent validity)?</p>	<p>Tested for in the analysis tasks in terms of statistical significance of results as expected based on theory and literature review.</p>
Criterion validity – assessed via comparison of value estimates against “true” values. If evidence to assess this is lacking, comparisons against other similar goods or methods (such as other value of information studies) can be made (convergent validity).	<p>Do economic values align with reasonable expectations based on observed values (markets or experiments involving economic transactions or other studies)?</p>	<p>Two methods were used to estimate the value of NFI – a cost-based approach and an SP approach.</p> <p>This is not practically possible to test for in context of NFI as there are no comparable markets or other value of information studies. The second-best option is to assess through the convergent validity test as above.</p>

Content validity

Content validity is an assessment of the validity of the survey design and implementation (Table 3.8). The assessment involves examining whether: (a) respondents understood the choice exercises; (b) their responses were credible; (c) they were informed enough to form consistent and valid preferences; and (d) they answered according to those preferences.

The development process for this study included: (i) the initial phases of research to understand investors' views and preferences for NFR requirements; (ii) survey design based on practitioner experience and expert input; (iii) cognitive interviews to test understanding and content of the survey for both private and professional investors; and (iv) pilot survey stage for both samples to verify results and survey feedback. Appropriate modifications were made to the survey at all stages of the development process (Section 3.1.2 and Section 3.2.1). Table 3.9 provides the resulting assessment of the content validity.²⁷ Overall, it is judged that the study does satisfy the major aspects of the criterion that are highlighted.

Table 3.10: Assessment of content validity

Aspect of content validity	Overall assessment	Reasoning
Respondents' understanding of the choice tasks	Respondents had an understanding of the choice tasks	Around equal proportions of respondents found the survey easy versus difficult (42% easy versus 37% difficult for private investors; 35% easy versus 41% difficult for professional investors). Of those that did find the choice task difficult, the majority responded that it was because it was difficult to choose which scenario(s) they preferred, rather than complexity of the exercise itself.
Attribute non-attendance and trade-off behaviour	Most respondents gave responses indicating that they meaningfully participated in the choice tasks	No individual attribute was ignored, as shown by respondents rating of the importance of each attribute (see Appendix 4). Most respondents selected at least one scenario with a change – i.e. a trade-off between dividend yield and ESG / format and assurance. Around 6% (n=23) were identified as serial status quo respondents (i.e. chose the “no change” option for every choice in the DCE).
Perceived consequentiality of choices	Respondents found the choices to be at least somewhat consequential.	80% of private and 70% of professional investors noted that they believe that this survey will have an impact on the future financial reporting regulations, and a similar proportion that this survey would impact the costs passed on to investors due to increases in financial reporting regulations (Private: 80%, Professional: 71%).
Overall engagement in the survey	Respondents found the survey easy overall, and generally provided positive feedback	55% of private and 50% of professional investors found the survey “very easy” or “easy”, against 20% and 24% that found it “difficult” or “very difficult”, respectively. The most common feedback on the survey was “interesting” (Private: 77%; Professional: 66%) and “educational” (Private: 34%; Professional: 19%). The most common negative feedback was “too long” (Private: 9%; Professional: 12%).

Construct validity

Construct validity is an assessment of the study's results against expectation from other studies, economic theory, and qualitative findings (Table 3.8). This can be checked through a series of common tests – such as comparisons against existing studies, and within the econometric analysis and choice model estimation

²⁷ Note that some aspects of content validity are assessed in the survey design phase via respondent feedback in the cognitive interviews that form part of the iterative testing process for the development of survey materials.

to check for the expected effects in results (such as sensitivity to scenario cost). Table 3.10 provides a summary of construct validity, which was shown to meet key expectations across all assessed factors.

Table 3.11: Assessment of construct validity

Aspect of construct validity	Overall assessment	Reasoning
Direction of preferences	Econometric models show the expected direction of preferences	The main effects model has statistically significant coefficient estimates with the expected sign (direction of effect) for most of explanatory variable (choice task attribute levels).
Observed non-linear effects	Non-linear preference, where they were observed, align to expectations	Non-linear preferences were observed for ESG levels, formatting of reports, and level of assurance. Most effects align to expectations, with reasonable interpretations that are consistent with insights from the qualitative research.
Cost sensitivity (budget constraint)	Choices were observed to be sensitive to the average annual dividend percentage	Sensitivity to dividends is a generally expected result based on economic theory and is a key aspect of estimating marginal WTP from DCEs. Statistically significant sensitivity to cost was observed in both private and professional investor models.
Comparison with qualitative research	Results are consistent with findings from qualitative research conducted in the design phase	Overall, the findings from the quantitative research align with those from the qualitative research. Results show that both private and professional investors have a preference towards enhanced levels of NFR in relation to assurance and format. The quantitative research additionally shows that there is not, however, an overall strong preference for extending beyond the current requirements in terms of the volume of information that is required.

Criterion validity

In general, criterion validity is difficult to directly assess for studies on the value of (freely available) information (including NFR) as there are no markets that provide reference values. However, convergent validity can be assessed through a comparison to findings from similar studies – in this case against studies on the value of information to investors. Table 3.11 provides a summary of results from comparator studies.

Table 3.12: Assessment of convergent validity

Study	Key finding	Method used	Comparison
Kadan and Manela (2019)	The value of subscribing to monthly employment reports was estimated to be 0.9% of investor wealth per year and the value of Federal Reserve interest rate decisions was estimated to be 1.9% of wealth per year.	The authors develop a model for the value of information, and then estimate real values by using data on variations in options prices.	Both studies find that the value of information is substantial to investors. Based on their findings, information values in the range of 1-2% of investor wealth per year are reasonable and comparable to the value of NFR based on the stated preference data in this study).
Farboodi et al. (2022)	The value of macroeconomic information (mainly GDP) to investors was estimated to be around 0.25% to 1% of investor wealth per year, depending on their portfolio size and investing style.	The authors use a “noisy rational expectations framework” and data on excess returns in panel data on stock prices in the USA to estimate the value of certain types of information.	

4. Discussion and application

Section Summary:

The results and insights from the asset manager consultations (Section 2) and the stated preference survey (Section 3) are combined to assess the value of NFI and NFR to investors in the UK. This includes estimates of the aggregate benefit of the current NFR requirements and of changes to those requirements. Guidance notes are also provided for how these results can be applied in policy analyses.

The results are presented in a set of key findings that build on the insights from the previous phase of this research project. They are summarised according to the overall value of NFR, the relative importance of different aspects of NFR, and investor demand for increasing NFR requirements.

This section presents the key findings of the research, alongside values and guidance for their use.

4.1 Key findings on the use and value of NFR

4.1.1 *The current value of NFR*

Key finding 1: The provision of NFR through the current requirements is estimated to be worth between £11 billion to £26 billion per year to UK investors.

The value is the amount of additional dividend yields that would need to be provided to UK investors as compensation for removing the reporting requirements across environmental, social and governance topics for UK-listed companies (see Appendix 1 for calculations). This is based on the characterisation of the current reporting requirements that was presented to respondents in the stated preference survey (DCE choice task - see Appendix 3), compared to the complete removal of those requirements. As such the estimated annual benefit reflects the value to investors of maintaining the current UK regulatory framework. This annual aggregate benefit is equivalent to 15-35% of the current dividends paid annually by FTSE100 companies (£77.8 billion in 2023)²⁸, and represents 0.1% to 0.4% of the total AUM in the UK (£13 trillion per FCA, 2024).

More broadly, it is evident from the survey results and the supporting qualitative research that investors generally believe that NFR regulations lead to more and better quality NFI being available (see Box 4.1). However, investors also indicated that there are ways the value of those regulations and the information companies provide could be increased (see Section 4.1.3), meaning the current regulations should not be viewed as optimal.

Asset managers hold similar views (see Section 2.3), and those consultations provide another way of estimating the value of NFI (Key finding 2).

²⁸ AJ Bell Dividend Dashboard (2023). Available at: https://www.ajbell.co.uk/group/sites/ajbell.co.uk/files/AJB_Dividend_dashboard%20July%202023_0.pdf

Box 4.1: Quotes on the use and value of the current NFR requirements

"I was very keen to take the view of ESG, that it should be looked at for the products that we rate because it is a risk. So if you are not taking those matters [ESG] into consideration, it will have a financial risk but also a reputational risk." – Market analyst

[When asked about the currently available NFR] "It facilitates the conversations and engagements which in turn drives change, increases disclosure, increases better reporting and you have this circular loop that just keeps getting better." – Institutional investor

Key finding 2: An indicative estimate of the current expenditure (both internal and external) by UK asset managers to use NFI is £230 million per year.

As the benefit of NFI to these firms should be at least as great as the opportunity cost of obtaining and using it, this represents an estimate of the minimum value asset managers place on NFI.

An aggregate benefit estimate for the sector can be calculated relative to either total AUM or total revenues by UK firms. This should be interpreted as indicative of the potential order of magnitude of benefits due to the small sample size (see Section 2) and because the cost-based approach gives conservative estimates of user value. Based on total AUM – which was approximately £13 trillion in 2023 (FCA, 2024) – minimum aggregate annual benefit for the sector is estimated to be approximately £230m (based on AUM weighted average of £18 per £1m AUM). If only IA members are counted, AUM is approximately £9 trillion (IA, 2024) and the corresponding minimum annual aggregate benefit is £160 million. Finally, aggregating over total annual revenue – which is estimated to be around £23.3 billion across the IA members in 2022 (IA, 2023) – the minimum annual benefit is approximately £140m (based on revenue weighted average of 0.6% per £1m of revenue).

Given the magnitude of the overall estimate of the benefits of current NFR requirements (Key finding 1), it is likely that this is a very conservative estimate of the benefit of NFI to asset managers as direct users. It would be reasonable to assume that considerable surplus value is derived by asset managers from the use of NFI, including the subset of this information that stems from current NFR requirements. Indeed, asset managers provided a wide range of reasons for using NFI in their decision-making, which generally can be categorised into use in assessing investment risk, investment potential, investments against wider objectives, and interpreting financial information. It was also noted by most asset managers that the use of NFI was increasing over time, and that the types of analysis that they were doing was not possible using only financial information.

Further, it was recognised that NFR requirements were either necessary to ensure provision of the NFI asset managers need, or that getting that information in lieu of the requirements was costly (such as through direct requests from companies or purchasing third party data). Some of this engagement with companies and the use of third party data is likely to continue regardless of new requirements. Indeed, it was observed that firms prefer to verify data themselves (through engagement) or have information reported to them in large databases of comparable data points (through third party providers). It was recognised, though, that the availability of information now (even through third parties) was largely due to the existing reporting requirements. Moreover, there was a recognition that costly data gathering activities could be reduced (or made cheaper) through enhanced assurance and standardised format requirements.

4.1.2 Uses and relative importance of NFR

Key finding 3: Investors use a broad range of company information in their decision-making (and reporting in the case of some professional investors), but some information is generally more valuable than others.

Uses of NFR and NFI

When asked about NFI broadly (i.e. NFI as a category of information compared to financial information), investors expect NFI to inform them about: (i) how well a company is managed; (ii) the risks a company is exposed to; (iii) opportunities available to a company; and (iv) the long-term performance of a company (see Figure 3.3, Section 3.3.1 and Section 3.3.2). However, when asked about specific areas of information (ESG), investors indicate a different set of uses. Environmental and social information was viewed as being most valuable in aligning to their (or their clients) moral and ethical preferences, while governance information was viewed as being most valuable in assessing risk.

Further, it is notable that NFR requirements and NFI generally tended to be viewed by investors in relation to long term performance as opposed to short term performance. This viewpoint was clear in the types of use investors expect for ESG information (Figure 3.4), where short term performance was rarely selected, as well as what NFI was used for generally (where responses for long term performance over short term performance were 2:1; Figure 3.3). The asset managers consultations generally supported this viewpoint, with asset managers noting that NFI had uses in assessing long-term returns and performance (Box 4.2).

Box 4.2: The use of NFI for assessing long-term performance and returns.

Moderator: *“If these proposed changes ended up increasing the costs to the firm, would you still want to pursue those changes knowing that it might impact profitability or your returns in the short term?”*

Response: *“I like to think that we're long term investors and that these [non-financial] disclosures will help us analyse the impacts of companies more accurately for the long term.” – Asset Manager*

“Where we're looking at a specific weak point that we want them [a company] to improve on, that could be disclosure, it could be making long-term commitments, it could be decarbonisation strategy and we will target that and track that over time.” – Asset Manager

Relative importance of NFR

Some information, such as on governance or the general risks and opportunities faced by companies, is commonly used by most investors, and therefore in aggregate is valued more highly. Preferences over other types of information is either dependent on the type of company being evaluated or the preferences of the investors themselves. For example, there could be few users but some individual aspects of NFR could be highly valued.

The overall value of the current regulations can be broken down into the value for the environmental, social, and governance aspects of those regulations based on the relative preference within the choice model (Table 4.1). The central values for these aspects suggest that requirements for reporting information on company governance provides the most benefits to investors of the current regulation (£8.1 billion per year), followed by information on environmental risks and performance (£5.9 billion per year) and social risks and performance (£4.6 billion per year). These preferences are supported by the investor interviews

(eftec, 2024), asset manager consultations (Section 2), and the results from information choice task to some degree (Table 3.6; Section 3.3.3).

However, the interviews and choice task results also demonstrate that preference for information within each category (E, S, and G) varies substantially – such that some types of information from one “area” (such as company performance and policies on human rights) is more valuable than some types of information in another (such as the statement on how the directors have promoted the success of the company; s172 of Companies Act 2006). Based on the interviews with investors and asset manager consultations, the relative value of information comes down to its materiality in decision-making – i.e., how that information can inform an assessment of investment risk, potential, and performance against some wider set of criteria (Box 4.3).

Table 4.1: Value of the current environmental, social, and governance requirements

Aspects of NFR or change to NFR	Estimated WTA (increased dividend yield to compensate perceived loss of information)	Estimated benefit to UK investors holding UK based, UK listed shares directly and indirectly (£, billions per year)
Current environmental disclosure requirements (compared against no disclosure requirements)	0.57 percentage points (0.32 to 0.82)	£5.9 bn (£3.3 to £8.4 bn)
Current social disclosure requirements (compared against no disclosure requirements)	0.45 percentage points (0.26 to 0.64)	£4.6 bn (£2.6 to £6.6 bn)
Current governance disclosure requirements (compared against no disclosure requirements)	0.79 percentage points (0.48 to 1.09)	£8.1 bn (£4.9 to £11.2 bn)
Total for current disclosure requirements (compared against no disclosure requirements)	<i>1.81 percentage points (1.06 to 2.55)</i>	<i>£19 bn (£11 to £26 bn)</i>

Box 4.3: Quotes on the relative value of different types of information

*[Asked if there is equal weight for E, S, and G] – “No because the ‘G’ is around 35% of the overall grade. The rating of the environmental depends on the macro sector. Because there are more indicators for industry or companies, it is more heavily rated. Basically the weights depend on the number of indicators in each section.” – **Secondary market data provider***

*“When you look at quite a lot of companies who have had big problems, you can see it in the governance and you can see it in the experience and you can see in that that they don’t have the financial expertise.” – **Asset manager***

4.1.3 Investor demand for enhanced reporting requirements

Key finding 4: The benefits of NFR to investors could be increased by up to £11.4 billion per year through requirements that lead to better assurance of the information included in NFR and better comparability of that information across companies.

Based on the choice task results, enhanced assurance requirements would result in an aggregate benefit of approximately £4.7 billion per year, and further comparability would result in £6.7 billion per year (Table 4.2; calculations in Appendix 1) (as defined in the choice tasks, see Appendix 3).²⁹ An overall preference from investors for more environmental, social and governance requirements was not evident in the choice models. This indicates that as an overall group, investors would prefer a focus on better organised current information as opposed to simply more information *per se*.

These findings align to insights from the investor interviews and asset manager consultations, in which investors generally preferred future requirements and initiatives for NFI to focus on how comparable information is between companies, how accessible information is within the reports, and the overall quality of that information (including that information being transparent enough to audit and review) (Box 4.4).

Table 4.2: Value of increased reporting requirements.

Aspects of NFR or change to NFR	Estimated WTP (in terms of change in dividend yield)	Estimated benefit to UK investors holding UK based, UK listed shares directly and indirectly (£, billions per year)
Enhanced requirements for the format of NFR (over the current requirements)	0.65 percentage points (0.37 to 0.93)	£6.7 bn (£3.8 to £9.5 bn)
External assurance of NFR (compared to the current requirements)	0.46 percentage points (0.28 to 0.64)	£4.7 bn (£2.8 to £6.5 bn)
Increased environmental, social, or governance disclosure requirements (compared to the current requirements)	0 percentage points	£0

²⁹ Based on the amount UK investors were willing to pay - in terms of forgone dividend yields - to increase the reporting requirements on UK-listed companies.

Box 4.4: Quotes on increased assurance and comparability requirements

“We highlighted that data quality was a bit of an issue. I could definitely see a scenario where maybe two or three years in the future where data quality has improved, companies reporting on these metrics, asset managers reporting gets better.” – Institutional investor

“Independent verification [of information] is useful. You want to avoid greenwashing and issues there.” – Institutional investor

“Standardisation is on [area for improvement]. Targets is another one. The link between those targets and whoever needs to get paid for those targets so the link between the money and actions aligned. Also context. As much as we can explore the data, it is always useful when the company also provides a bit of context.” – Asset manager

Asset manager

“Hopefully it is audited but we have to trust the information that is in there. Once more regulation comes into place to make sure that at least you get assurance of information before it is published.” – Asset manager

“Certainly in the ESG space, if there was a bit more standardisation so you can compare company A with company B a little bit easier, that would make a big difference because at the moment people seem to be talking about what they want to talk about [in company reports]. There are one or two things which are pretty universal. If there could be like a factsheet or a one page so I could compare Shell with BP, say. That is very difficult to do but that would make life easier.” – Discretionary fund manager

Discretionary fund manager

However, despite the overall emphasis for better alignment and assurance, it was observed in the interviews and consultations that some investors would also value *additional* information being made available. What information mattered most varied across investors. This is consistent with the results from the choice task which were highly heterogenous with regards to the provisional additional information. Therefore, expanded reporting requirements that increase the amount of material information would provide additional benefits to certain subsets of investors rather than the overall investor population. This view was recognised by some of the asset managers that were interviewed, who indicated that they are currently requesting additional information from companies to use in their own assessments and reporting, as that information is not currently required the regulations (Box 4.5).

Box 4.5: Quotes on increased E, S, and G reporting requirements

“The more data, the more transparency that that we can get will only benefit us and investment decisions and conversations.” – Asset Manager

“When you are looking at climate data, we still have poor coverage with Scope 3 emissions. I think that is an issue but it doesn't stop us doing stuff.” – Institutional investor

“A key area is that we have lots of data gaps where companies don't disclose. Sometimes it is because they don't have to so therefore they don't.” – Institutional investor

4.2 Policy evidence and guidance on the use of values

4.2.1 Values for the benefits of NFR and NFI

Table 4.3 summarises annual aggregate benefit estimates for NFR requirements (current and improved) as reported throughout Section 4.1 to various investor beneficiary groups. These values are aggregated across the investment by UK investors – and therefore include the benefits to professional investors (which flow through to private investors). These results can be used in policy analyses concerning the benefits of current and future NFR requirements to UK investors.

Table 4.4 reports the minimum annual aggregated benefit estimates of NFI for UK asset managers. The calculations and assumptions used in both sets of estimates are provided in Appendix 1.

Table 4.3: Estimated benefits of aspects of or changes to NFR to investors in UK listed companies

Aspects of NFR or change to NFR	WTA/WTP (in terms of change in dividend yield)	Benefit to all investors holding UK based UK listed shares (£, billions per year)	Benefit to UK investors holding UK based, UK listed shares directly and indirectly (£, billions per year)	Benefit to UK private investors directly holding UK based, UK listed shares (£, billions per year)
<i>Current disclosure requirements compared against no disclosure requirements</i>				
Current environmental disclosure requirements	0.57 percentage points (0.32 to 0.82) (WTA)	£14 bn (£8 to £20 bn)	£5.9 bn (£3.3 to £8.4 bn)	£1.5 bn (£0.8 to £2.1 bn)
Current social disclosure requirements	0.45 percentage points (0.26 to 0.64) (WTA)	£11 bn (£6 to £16 bn)	£4.6 bn (£2.6 to £6.6 bn)	£1.2 bn (£0.7 to £1.7 bn)
Current governance disclosure requirements	0.79 percentage points (0.48 to 1.09) (WTA)	£19 bn (£12 to £26 bn)	£8.1 bn (£4.9 to £11.2 bn)	£2.1 bn (£1.3 to £2.9 bn)
Total for current disclosure requirements	1.81 percentage points (1.06 to 2.55) (WTA)	£44 bn (£26 to £62 bn)	£19 bn (£11 to £26 bn)	£4.7 bn (£2.8 to £6.7 bn)
<i>Improved / increased NFR requirements compared against the current requirements</i>				
Increased requirements for the format of NFR (over the current requirements – see technical report for definitions)	0.65 percentage points (0.37 to 0.93) (WTP)	£16 bn (£9 to £23 bn)	£6.7 bn (£3.8 to £9.5 bn)	£1.7 bn (£1.0 to £2.4 bn)
External assurance of NFR (compared to the current requirements)	0.46 percentage points (0.28 to 0.64) (WTP)	£11 bn (£7 to £15 bn)	£4.7 bn (£2.8 to £6.5 bn)	£1.2 bn (£0.7 to £1.7 bn)
Increased environmental disclosure requirements (compared to the current requirements)	0.09 percentage points (-0.12 to 0.3)	£0	£0	£0
Increased social disclosure requirements (compared to the current requirements)	-0.19 percentage points (-0.38 to 0)	£0	£0	£0
Increased governance disclosure requirements (compared to the current requirements)	-0.18 percentage points (-0.41 to 0.05)	£0	£0	£0
Total for increased disclosure requirements (compared against current requirements)	1.11 percentage points (0.55 to 1.57)	£27 bn (£16 to £38 bn)	£11.4 bn (£6.6 to £16.0 bn)	£2.9 bn (£1.7 to £4.1 bn)

Table 4.4: Minimum value of current NFI to UK based asset managers (based on opportunity cost)

Aggregation group and method	Total AUM or revenue for beneficiary group	Estimated resource cost by AUM or by revenue	Estimated aggregate opportunity cost for using NFI (minimum value of NFI)
UK Asset Managers - AUM	£13 trillion in total UK AUM ^a	£18 per £1m of AUM (average across firms)	£230m per year to UK asset managers.
IA members - AUM	£9.1 trillion in total AUM across IA members ^b	£18 per £1m of AUM (average across firms)	£160m per year to IA members.
IA members - revenue	£23.3 billion of total revenue of across IA members ^b	0.6% of annual revenue (weighted average across firms)	£140m per year to IA members.

Notes: (a) Figure per the FCA (2024); (b) Figure per IA (2024)

4.2.2 Application of results

The results from this study are fit for the purpose of assessing the benefits of the current requirements and policies for NFR (such as in the Post Implementation Review, 2022) and in assessing the potential benefits for future policies regarding NFR.

They can be applied to the specified groups of beneficiaries, but separate results for direct users - asset managers based on opportunity cost - should not be interpreted as additive to the private investor benefits. It is likely that the benefits to asset managers are embedded in benefits to private investors, particularly since private investors are the final beneficiaries.

Moreover, while the results reported here are specifically for investors in UK companies, there are likely to be other beneficiaries from NFR (such as the companies themselves, CSOs, company employees, and wider society) (as noted in eftc (2024) and the PIR (2022)). The benefit estimates presented here are expected to be additional to most benefits to other groups that are not covered in this study, as the benefits to private investors are unlikely to overlap with wider benefits to society. The exception is any benefits to companies themselves, which may be captured in the benefits to those companies' investors (similar to how benefits to asset managers are also captured in benefits to households).

The distribution of the benefits from NFR are also expected to be uneven across households in the UK (Table 4.5), due to income and wealth inequality across those households. Benefits per household are a function of the stocks held by those households, and as there are large differences in stocks held per household, the benefits will differ widely. The estimates by decile suggest that almost 50% of the benefits of NFR accrue to the 10% of wealthiest households in the UK, and the bottom 30% of households by wealth would have marginal (if any) benefits from NFR. This is important from a distributional perspective – especially if the costs of NFR requirements are not directly passed onto investors (who benefit) but rather to consumers (who may not benefit).

Table 4.5: Distribution of benefits by household wealth

Households by wealth decile	Average household holdings in UK shares based on proportional ownership to household's invested wealth	Estimated annual benefits of the current NFR regulations to households	Decile's relative percentage of total benefits
10th (Highest) wealth decile	£171,000	£3,100 (£1,800 to £4,400)	48%
9th wealth decile	£83,000	£1,500 (£900 to £2,100)	23%
8th wealth decile	£46,000	£800 (£500 to £1,200)	13%
7th wealth decile	£28,000	£500 (£300 to £700)	8%
6th wealth decile	£15,000	£300 (£200 to £400)	4%
5th wealth decile	£9,000	£200 (£100 to £200)	2%
4th wealth decile	£6,000	£100 (£100 to £200)	2%
3rd wealth decile	£2,000	£0 (£0 to £100)	1%
2nd wealth decile	£400	£0 (£0 to £0)	0%
1st (Lowest) wealth decile	£-	£0 (£0 to £0)	0%
Average (mean)	£36,000	£700 (£400 to £900)	N/A

5. Conclusions

Summary

Overall, this study finds that investors in the UK support and benefit from UK requirements regarding environmental, social, and governance information. Investors believe that the UK non-financial reporting regulations - as legislated in the Companies Act 2006, and other associated reporting regulations - lead to more and better quality non-financial information being available

The information available to investors plays an important role in understanding risks and opportunities when investing in companies. If investors had less or worse quality non-financial information it would negatively impact their ability to assess investments. Conversely, investors would also benefit from improved assurance and comparability in NFR. This study found there is greater demand for improvements of this nature compared to simply increasing the volume of ESG information that is made available.

The findings from each of the three phases of this study support the others, and the results are aligned to relevant previous research. As such, the evidence presented in the report and the overall findings of this project are suitable for assessing the benefits of NFR to investors.

This section concludes by summarising the main findings of the research. Recommendations for further development of the economic evidence for forest biodiversity are also presented.

5.1 Summary of research findings

The two overall objectives of this project were to: (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 difference elements of NFR and changes to requirements.

The logic model (see Table 1.1) hypothesises that the UK NFR requirements lead to more and better information being available to UK investors, and that those investors in turn use that information to make better investing decisions based on their own investing goals. This research provides substantial evidence using various methods to demonstrate that this overall hypothesis is valid. It has been observed throughout the research that investors do perceive that the UK non-financial reporting regulations lead to more and better quality non-financial information being available, and this information plays an important role in understanding risks and opportunities when investing in companies. Further, the research demonstrates some of the primary uses of information within that model, and highlights some of the key criteria that non-financial information must meet to be useful – mainly that information must be material, verifiable, and comparable across investments.

The benefits of the current NFR regulations to UK investors is estimated to be around £19 (±8) billion per year. This is the amount is the benefits to all UK investors based on their holdings of UK based and listed shares. It is estimated through the amount of additional dividend yields that would need to be provided to UK investors as compensation for removing the reporting requirements across environmental, social and governance topics for UK-listed companies.

From this research it is evident that policy interventions that would reduce the information available to investors would negatively impact their ability to assess their investments. There is not currently widespread demand for more ESG information per se, but there is demand for improved quality of that information. In particular, investors have a strong preference for changes to the regulatory regime that would improve assurance and comparability of NFR. The additional benefits of these measures are estimated to be in the region of an additional £11 billion per year.

5.2 Recommendations

This research has addressed a key gap in evidence base concerning the value of NFR. The combined findings from the qualitative and quantitative components of the study add considerable insight on the potential scale of benefits and what underlies the value to investors. There are opportunities to further improve the evidence to support policy analyses.

First, a further set of asset manager consultations would help to better understand the current opportunity costs of using NFI, including differentiation of those opportunity costs by firm type and size which would enable better aggregation of benefits across the UK asset management sector. More interviews would also provide further insight into what this key group of users would like to see in future NFR requirements.

Second, while this research demonstrates that the benefits of NFR to investors is substantial, there are several other groups that may also benefit from NFR and NFI that are not captured in this study. To fully account for the benefits of NFR to society, the value of the information to other beneficiaries (CSOs, employees, wider society) would need to be quantified. This could be accomplished using a similar approach to this study. Other methods could also be used, such as case studies examining how companies may (or may not) use the information included in their NFR to improve their own approaches to risks and opportunities.

Third, there are other methods that could be explored to examine the value of NFI. Examples include looking at panel data and information events (such as in Farboodi et al., 2022; Kadan and Manela, 2019) or case studies for how NFR regulation impacts on industry behaviour with a potential estimate of downstream household level benefits due to NFR reporting. As explored in Sections 3 and 4, the studies reviewed as a part of this research largely agree with the findings of this study.

Finally, if specific policy options are developed, the methods used in this report could be repeated to test investor preferences and investor WTP or WTA for those options. Investors responded positively to this research throughout the process, noting that they were generally happy that the DBT was engaging with them to get their views on the future of NFR. Thus, they are likely to be willing to engage further.

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Appendix 1 Aggregation

 Appendix 1: Aggregation

Appendix 2 Survey script and showcards

-  [Appendix 2a: Survey script \(Private\)](#)
-  [Appendix 2b: Survey script \(Professional\)](#)
-  [Appendix 2c: Showcards \(Private\)](#)
-  [Appendix 2d: Showcards \(Professional\)](#)

Appendix 3 Supporting information for the stated preference survey

This appendix provides additional information about the development, content, and implementation of the stated preferences survey. The full survey script is available in Appendix 2, the survey showcards are available in Appendix 2, and the summary statistics, including sample profile, are available in Appendix 4.

A3.1 Best worst scaling (progressive choice) task

The levels used in the progressive choice task are provided in Table A3. 1 and Table A3.2.

These attributes and levels were developed in collaboration with DBT and other stakeholders to have a mix information in the choice task covering: (i) current UK requirements; (ii) requirements seen in other reporting frameworks (such as in the EU); and (iii) types of information commonly seen in company reports. The wording of the information and assurance levels has also been altered in some cases to be easier for respondents to understand, based on testing in one-to-one interviews. Overall, the final set of attributes and levels is intended to give a broad range of information that might be included in NFR to better understand what kinds of information investors prefer most.

References to the source of the information is provided in Table A3. 1 and Table A3.2. In the case of the assurance attributes (Table A3. 1), this information was also shown to respondents. In the case of the disclosures themselves (Table A3.2), only the information description itself was shared, while the “category” and the source is provided here for reference.

Table A3. 1: Progressive choice task– assurance attribute

Level	Short description	Long description (as seen by respondents)
1	Not assured	<ul style="list-style-type: none"> Disclosures would not be assured beyond the company's minimum duty to report accurate information. Disclosures would be audited to ensure information is not materially misstated. <p><i>These requirements are set out in the Companies Act (2006) and by the Financial Reporting Council (FRC).</i></p>
2	Internally assured	<ul style="list-style-type: none"> Disclosures would be assured by an internal assurance group, which would be tasked with transparently verifying all non-financial information. Disclosures would be audited to ensure information is not materially misstated. <p><i>These requirements are the minimum recommended level by the EU non-financial reporting directive and implemented by some EU member states.</i></p>
3	Externally assured	<ul style="list-style-type: none"> Disclosures would be assured by an external organisation that specialises in the verification of non-financial information. Disclosures would be audited to ensure information is not materially misstated. <p><i>These requirements are the enhanced recommended by the EU non-financial reporting directive and implemented by some EU member states.</i></p>

Table A3.2: Progressive choice task- disclosure attributes

No. (Level)	Disclosure (specific piece of information, as seen by respondents)	Category	Related requirement, regulation, or recommendation
1 (1)	Information about climate risks and opportunities including the effect of those risks and opportunities on the financial position and performance of the company over the short-long term.	Env.	Related to the recommendations of TCFD ^(a) as well as CA06 s414CA and 414CB ^(b)
2 (2)	Limited information on current GHG emissions (Some scope 1 and scope 2 emissions).	Env.	Required under the Directors Report (CA06 Regulations 2013 "Regulation 7") ^(c)
3 (3)	Information on GHG emissions including current scope 1-3 emissions (which includes supply chain), future targets, and strategies to meet those targets including transition plans to net-zero emissions.	Env.	Disclosure of Scope 1 and 2 emissions and climate-related targets is currently required for certain entities under the Directors Report and Strategic Report respectively. Scope 3 emissions, requirements to disclose information about transition plans is included in IFRS S2.
4 (4)	Environmental information necessary to understand the development, performance, or position of the company's business.	Env.	Currently required as a part of the Strategic Report (s414C, part 4b) ^(e)
5 (5)	Percentage of revenue that comes from activities that align to UK overall environmental targets.	Env.	Policy paper and commitment under the 2019 and 2023 governments (Green finance strategy) ^(f) Also related to the EU Green Taxonomy.
6 (7)	Statement on impacts and risks relating employees, suppliers, other stakeholders, and the community.	Social	A requirement loosely based on the s172 statement (CA06) ^(g)
7 (8)	Information on company process towards adequate human rights due diligence, anti-corruption, tax governance and compliance and employee awareness of competition laws and regulations.	Social	EU "minimum safeguard" for company activities and reporting ^(h)
8 (13)	Information on employee matters including a gender breakdown of employees, directors, and senior managers.	Social	This is required by CA06 s414c for quoted companies ⁽ⁱ⁾
9 (14)	Information regarding gender pay gaps in the company.	Social	UK statutory guidance, but not required to be included in annual reports ^(j)
10 (9)	Statements of business conduct including the ethical policies of the company.	Gov.	Common practice which covers "principles" of the FCA handbook ^(k)
11 (10)	Statement on how the directors' have promoted the success of the company.	Gov.	Currently required as a part of the s172 statement (CA06) ^(g)
12 (11)	Annual statement on how the company manages business risks which includes actions they've taken to manage corporate fraud and assurance over the reliability of NFR including annual reverse stress testing.	Gov.	Draft Companies Regulations 2023 ^(b) , introduced and since withdrawn
13 (12)	Information on the company board and/or committee composition, how the company is run, how boards take decisions, and information on compliance with the corporate governance code.	Gov.	FRC Corporate Governance Code and associated guidance ^(l)
14 (6)	Information covering a fair review of the company's business, principal risks, performance, development, position of business including trends that might affect future development/performance.	Gov.	As required under the Strategic Report (CA06 s414c) and as a part of the Directors Report ^(g)

No. (Level)	Disclosure (specific piece of information, as seen by respondents)	Category	Related requirement, regulation, or recommendation
15 (15)	Information on a company's remuneration policy, the role of the committee and shareholder voting information.	General	The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 ^(a)
16 (16)	Company expenditure on Research and Development.	Financial	A line item that appears in many financial reports and is required under CA06 s172 ^(b)
17 (17)	Major shareholders and their activities relating to the company.	Financial	The FCA has some requirements for reporting shareholders
18 (18)	Director pay information, including director pay changes compared to average employee pay changes.	Financial	Reporting remuneration is required by the Companies Act.

Table notes:

- (a) <https://www.fsb-tcfd.org/recommendations/>
- (b) <https://www.legislation.gov.uk/ukpga/2006/46/section/414CA>
- (c) <https://www.legislation.gov.uk/ukdsi/2013/9780111540169/regulation/7>
- (d) <https://www.ifrs.org/news-and-events/news/2022/12/issb-announces-guidance-and-reliefs-to-support-scope-3-ghg-emiss/>
- (e) <https://www.legislation.gov.uk/ukdsi/2013/9780111540169>
- (f) <https://www.gov.uk/government/publications/green-finance-strategy>
- (g) <https://www.legislation.gov.uk/ukpga/2006/46/part/15/chapter/5/crossheading/directors-report/enacted>
- (h) https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf
- (i) <https://www.legislation.gov.uk/uksi/2013/1970/part/2/made>
- (j) <https://www.gov.uk/government/publications/gender-pay-gap-reporting-guidance-for-employers><https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/>
- (k) <https://www.handbook.fca.org.uk/handbook/PRIN/2/1.html>
- (l) <https://www.legislation.gov.uk/uksi/2019/970/contents/made>

A3.2 NFR requirements DCE

Table A3.3 provides the attributes and levels used in the discrete choice experiment (DCE). Prior to completing the choice task, respondents were provided with information on each of the attributes, through a set of visual materials (see Figure A3.1 to Figure A3.6). In addition, respondents were provided with visual instructions on how to complete the choice task. Similar to the selection of attribute levels for the BWS task, these levels were selected to show a range of potential information that might be included in NFR, based on the current UK requirements and requirements or suggestions seen in other frameworks.

REPORTING REGULATIONS

Some aspects of non-financial reporting regulation for UK companies include:






-  **Environmental disclosures** – impacts (such as carbon emissions) and risks (such as risks due to climate change)
-  **Social disclosures** – impacts (such as community programs) and risks (such as exposure to forced or child labour from suppliers).
-  **Governance disclosures** - how the company is managed (such as director pay or company board structures) and statements on the company’s performance (such as directors’ statements).
-  **Information format** – whether the company is required to use certain measurements or formats when reporting the information from the three categories above.
-  **Assurance of information** – the information they include in their disclosures.

Figure A3.1: Summary of attributes as shown to respondents

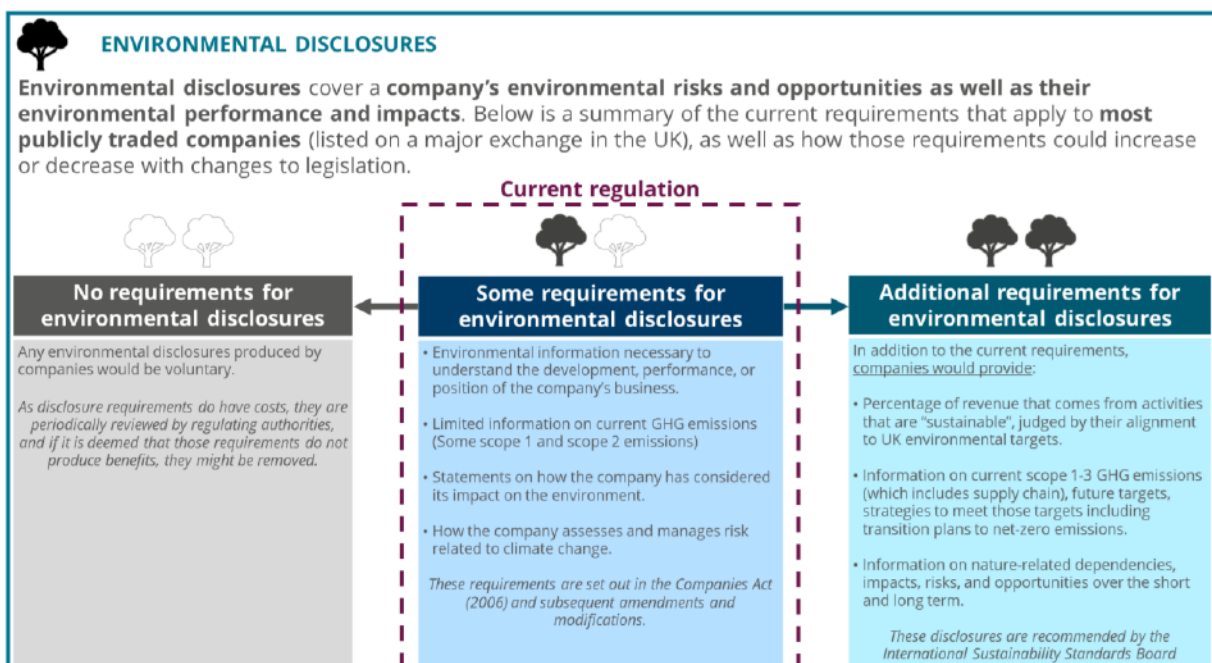


Figure A3.2: Environmental disclosure levels as shown to respondents

SHOWCARD 3

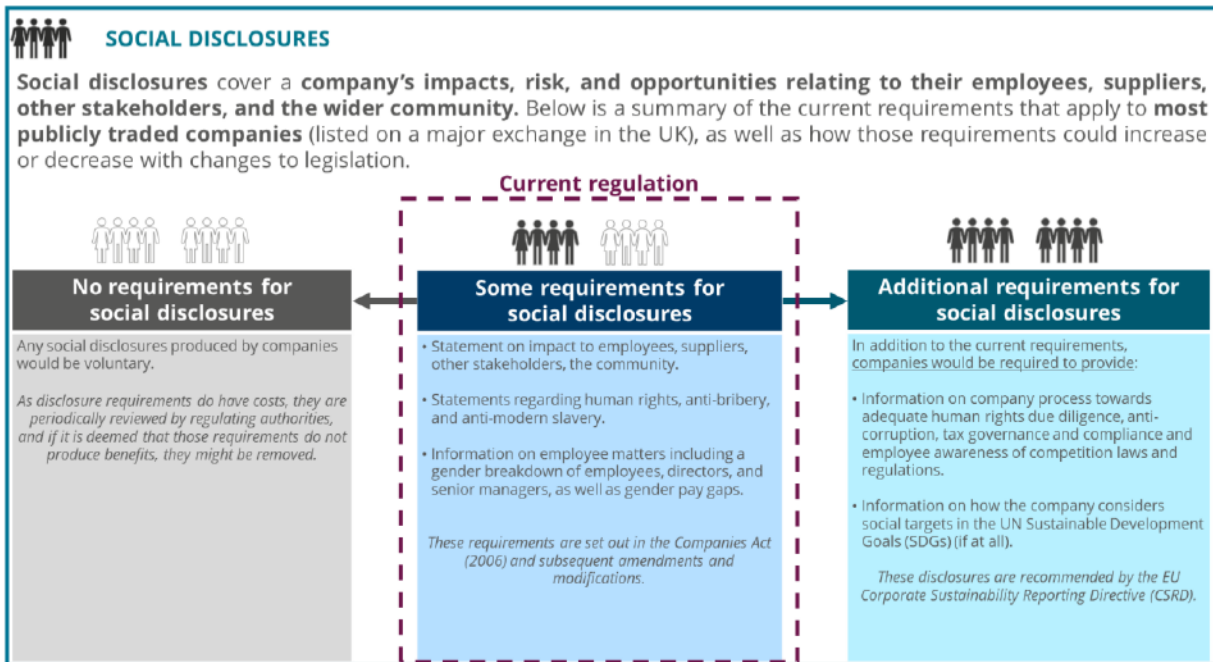


Figure A3.3: Social disclosure levels as shown to respondents

SHOWCARD 4

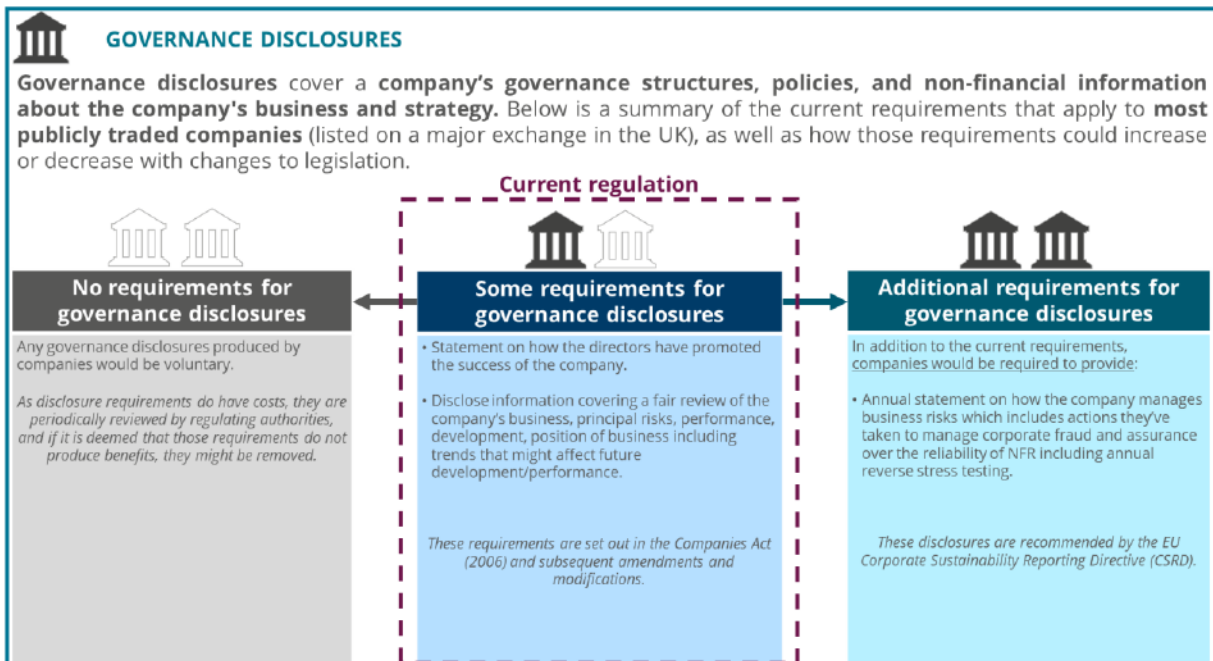


Figure A3.4: Governance disclosure levels as shown to respondents

SHOWCARD 5

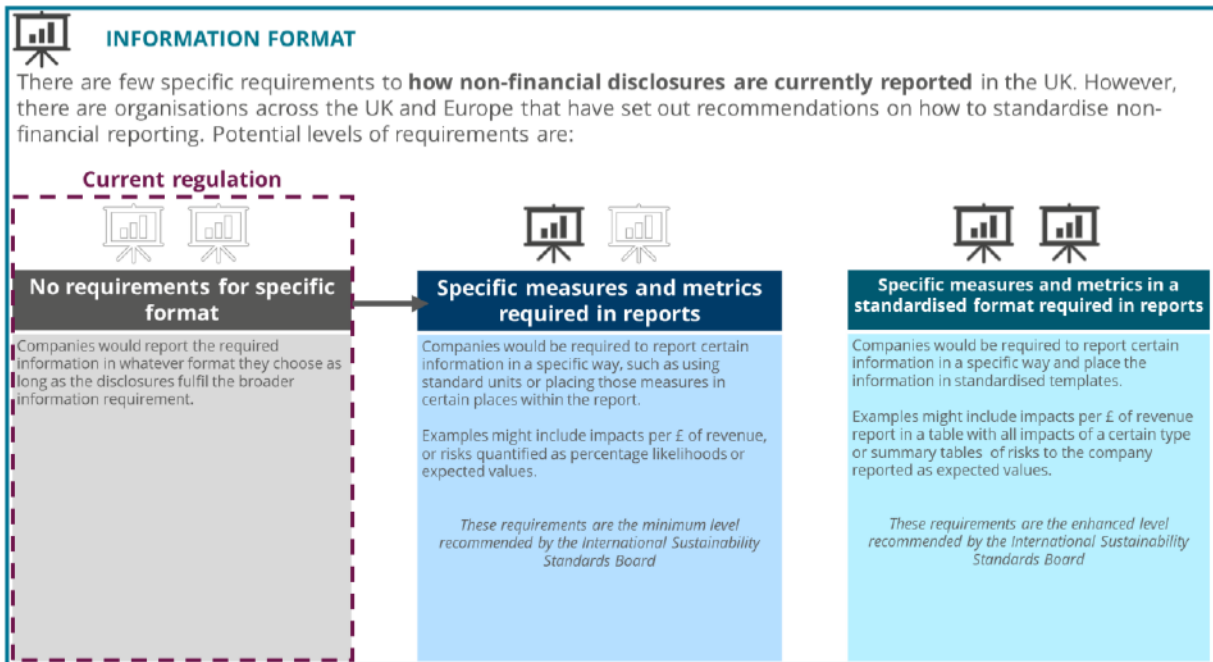


Figure A3.5: Information format levels as shown to respondents

SHOWCARD 6

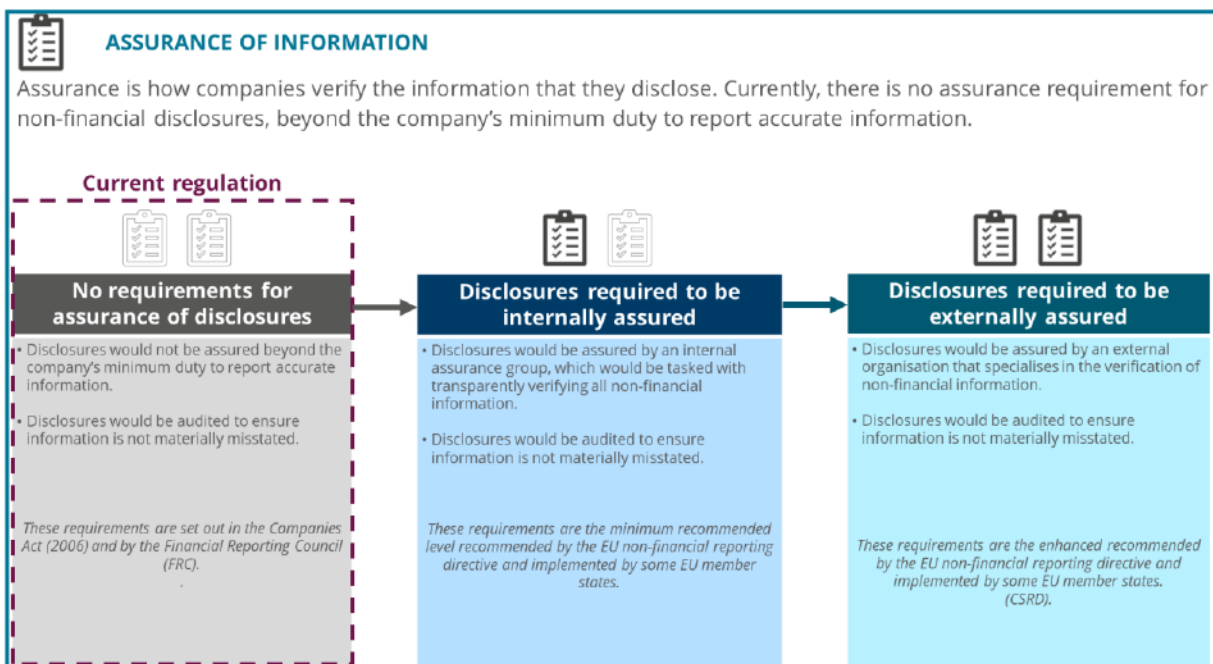




Figure A3.6: Assurance of information levels as shown to respondents

Table A3.3: Attributes and levels for the discrete choice experiment (and source of that requirement)

Attribute	Level 1	Level 2	Level 3
Environmental disclosures	No requirements for environmental disclosures <i>No requirement to disclose any environmental information. Companies may still do so on a voluntary basis.</i>	Some requirements for environmental disclosures <i>The current requirements as set out in the Companies Act (2006) and subsequent amendments and modifications.</i>	Additional requirements for environmental disclosures <i>Disclosures required as per the recommendations of the Green Finance Institute (GFI).</i>
Social disclosures	No requirements for social disclosures <i>No requirement to disclose any environmental information. Companies may still do so on a voluntary basis.</i>	Some requirements for social disclosures <i>The current requirements as set out in the Companies Act (2006) and subsequent amendments and modifications.</i>	Additional requirements for social disclosures <i>Disclosures required as per the recommendations of the EU Corporate Sustainability Reporting Directive (CSRD).</i>
Governance disclosures	No requirements for governance disclosures <i>No requirement to disclose any environmental information. Companies may still do so on a voluntary basis.</i>	Some requirements for governance disclosures <i>The current requirements as set out in the Companies Act (2006) and subsequent amendments and modifications.</i>	Additional requirements for governance disclosures <i>Disclosures required as per the recommendations of the EU Corporate Sustainability Reporting Directive (CSRD).</i>
Format of reporting	No requirements for specific format <i>Companies report the required information in whatever format they choose to fulfil the broader disclosure requirements.</i>	Specific measures and metrics required in reports <i>The minimum level recommended by the International Sustainability Standards Board.</i>	Specific measures and metrics in a standardised format required in reports <i>The enhanced level recommended by the International Sustainability Standards Board.</i>
Level of assurance	No requirements for assurance of disclosures <i>The requirements as set out in the Companies Act (2006) and by the Financial Reporting Council (FRC).</i>	Disclosures required to be internally assured <i>The minimum recommended level by the EU non-financial reporting directive and implemented by some EU member states.</i>	Disclosures required to be externally assured <i>The enhanced recommended requirements by the EU non-financial reporting directive, implemented by some EU member states. (CSRD).</i>
Dividend yield (price variable)	Seven levels were used, all expressed in terms of average annual dividend yield for listed companies: 3.50%, 3.75%, 3.90%, 4.00%, 4.10%, 4.25%, and 4.50% annual average dividend yield.		


Appendix 4 : Summary statistics

 Appendix 4a: Summary statistics (Private)


 Appendix 4b: Summary statistics (Professional)

Appendix 5 : Econometric models

 Appendix 5a: Econometric models (Progressive choice)

 Appendix 5b: Econometric models (DCE)

Appendix 6 Peer review note

 Appendix 6: Peer review note

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