

Value of Non-Financial Reporting

Policy summary

Department of Business and Trade

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Department for
Business & Trade

Value of Non-Financial Reporting

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Value of Non-Financial Reporting

Glossary of key terms

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.
ESG	Environment(al), social, and governance	Set of aspects investors consider when they invest in companies which relate to environmental, social and governance issues.
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.
RP	Revealed preference	Method of valuing non-market goods by data which is already available.
SP	Stated preference	A survey-based method for valuing non-market goods, by creating a simulated market.
WTA	Willingness to accept (compensation)	A minimum monetary amount that an individual 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 an individual is willing to pay for a good or service, to prevent a loss or to secure an improvement.

For a more complete glossary of terms relating to non-financial reporting and non-financial information, please see the Technical Report – “Value of Non-Financial Reporting: Quantifying Value to Investors” (eftec, 2024).

Summary findings

What information do investors want and use?

The information investors want when making investment decisions depends on their goals, but there are some key similarities across investors.

- Investors use **both financial and non-financial information** to assess investments.
- To be effective for use in decision-making, this information needs to be of **good quality** (using transparent data sources and assured) and **comparable** (across companies and/or time).
- Information can flow from companies to investors in many ways, such as third-party reports. **Regardless of how investors get company information, the origin is often company disclosure reports**, for both professional and private investors alike.

What is the current value of non-financial reporting (NFR)?

Information in UK non-financial reports is widely used and provides substantial value to investors.

- Non-financial information (NFI) often plays an important role in **understanding risks and opportunities** when investing in companies, regardless of the overall aims of that investor.
- Asset managers in the UK are estimated to be spending around **£140 to £230 million a year to use NFI in their investing activities.**
- The benefit of the current NFR regulations to UK investors is estimated to be in the range of **£11 billion to £26 billion per year.**
- Investors believe that the UK non-financial reporting regulations lead to **more and better quality non-financial information being available.**

What do investors want from the future of NFR?

Investors would like the quality of information in non-financial reports to improve.

- Investors would like NFR to be **better assured, more easily comparable across companies, and easier to use** in the future. These types of quality improvements could provide an added benefit of **£6.6 billion to £16 billion a year**.
- There is **not currently universal demand from investors for provision of a greater volume of ESG information**. However, it was observed in the interviews and consultations that some investors would value additional information being made available if material to decision making. This demand is variable based on investor preferences, with the types of information that matter most differing across investors.

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1. Research objectives and context

Policy context

- The stated policy objective for the UK NFR requirements is to increase transparency and accountability of non-financial risks faced by a company and its policies to mitigate those risks to enable more informed investment decisions.
 - Underlying this objective is the **asymmetry of information around a company's activities between directors and company management, its investors, and wider stakeholders.**
- Companies in the UK that satisfy certain criteria are required to disclose non-financial information (NFI) as legislated via the Companies Act 2006, supporting regulations, as well as other legislation and rules set by regulators. Some criteria are related to the 'size' of the company or 'type' of company.
 - Size is defined in the Companies Act 2006 and is based on no. of employees, revenue and assets; certain reporting requirements, however, may have different criteria.
 - Type can refer to whether a company is listed on an exchange, what industry the company is operating in, or the types of impacts the company has. The measure and criteria vary depending on the requirement.

Logic model for NFR

The policy question has been explored in a Post Implementation Review ([BEIS, 2022](#)). That review set out the following logic model:

Logic model for the expected outcomes and impacts of a set of NFR requirements (the 2013 and 2016 requirements)

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 not comparable non-financial information was presented in reports.• This potentially led to worse decisions from the point of view of society (and investors), due to opacity on firms' operations and problems with asymmetric information.
Inputs	<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 scope, timing or scale.
Impacts	<ul style="list-style-type: none">• More informed investment, business and other decisions lead to overall better social outcomes.

Wider context on the future of NFR

NFR requirements have evolved in recent years. Continuing efforts to improve NFR both from governments and other organisations often address four key areas:

- **Consistency within reporting** across company reports, especially those in the same industries;
- **Transparency of how reports are created** and where the non-financial data comes from, and assurance steps companies must adhere to;
- **Content and themes of reporting** in terms of what topics companies report over, how they report about those topics; and
- **Materiality assessments** and reporting burdens for companies, such as how companies determine what they should report based on their sector, size, and other factors.

At present (September 2024), there is an ongoing policy review of UK corporate reporting regulations. This review includes this research, a call for evidence, and a review of the NFR requirements UK companies need to comply with to produce their annual report.

TPT Transition Plan Taskforce

 IFRS

 Taskforce on Nature-related Financial Disclosures

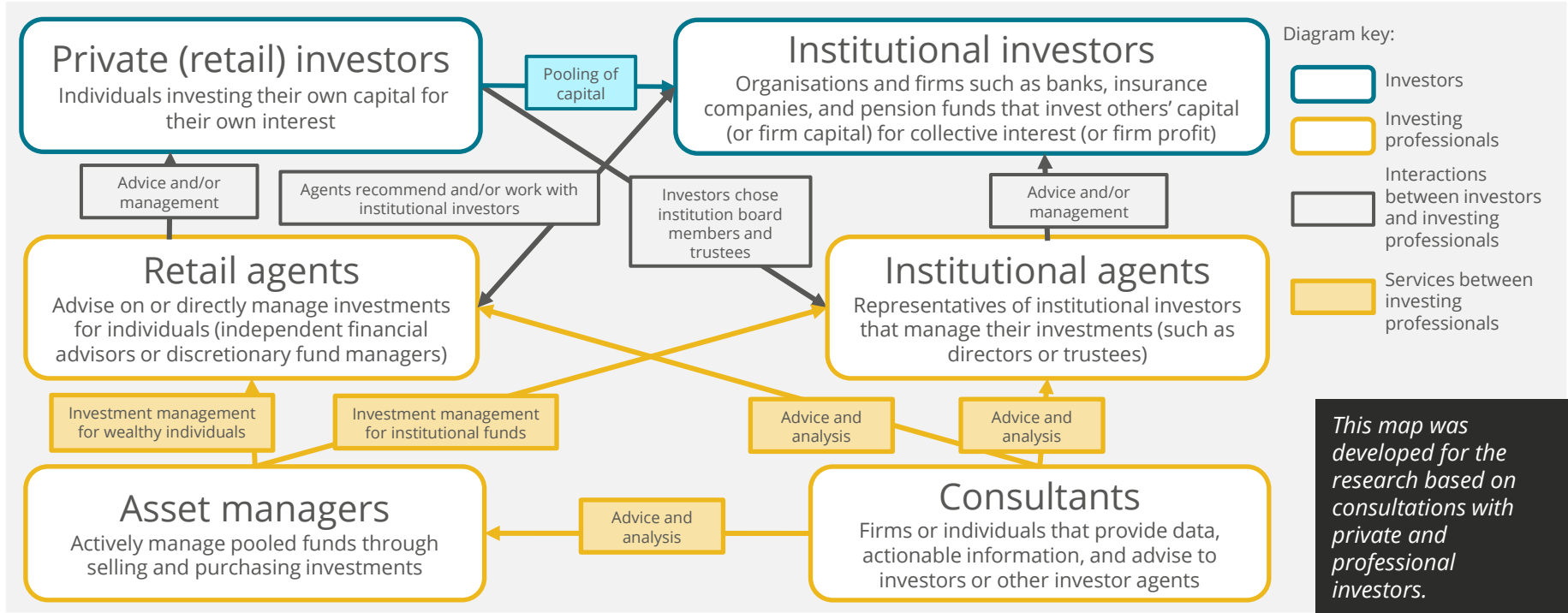
TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

 FINANCIAL CONDUCT AUTHORITY

Examples of organisations (past and current) aiming to improve NFR requirements

A map of investors

There are multiple types of investors, as well as multiple types of firms and individuals that act on behalf of those investors (referred to as investor agents). In this research following structure and definitions are used – which reflect the research to date and findings from this study.



This map was developed for the research based on consultations with private and professional investors.

Current evidence on the benefits of NFR

Previous studies have investigated how and why investors might benefit from NFR. This includes Eunomia (2020) and PwC (2019 and 2021), which informed the PIR. Industry groups have also published reports (e.g., IA, 2022; Quoted Companies Alliance, 2023). They suggest:

- A wide range of stakeholder's benefit from NFR and use non-financial information (NFI).
- The benefits to investors are clear – NFR can lead to better overall decision making.
 - Investors in the UK use NFR regularly.
 - This demand is currently increasing.
- Key drivers of investor use are:
 - Client pressure to address and report on multiple investment objectives;
 - Input into assessing emerging and future risk to investments; and
 - Identifying new investment opportunities

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

User (stakeholder) group	Motivations for using NFR or NFI
Companies producing NFR	<ul style="list-style-type: none">• Managing and communicating risk• Setting and communicating strategy• Managing brand or corporate reputation• Engaging their workforce
Institutional investors and asset managers	<ul style="list-style-type: none">• Informing investment decisions• Engagement with companies• Meeting regulations (including their own reporting requirement)
Retail investors	<ul style="list-style-type: none">• Informing investment decisions• Engagement with companies
Employees and potential employees	<ul style="list-style-type: none">• Informing decisions about who they work for
Wider group of civil society organisations (e.g., NGOs and think tanks)	<ul style="list-style-type: none">• Reviewing or influencing corporate policy and/or strategy

Further studies on the benefits of NFR and NFI

User (stakeholder) group	Selected study benefits
Companies producing NFR	<ul style="list-style-type: none">• Seven benefits of reporting to companies themselves are described in Bedenik and Barišić (2019) (see also “Defining the Users and the Benefits of NFR”, eftec, 2024).• External communication of performance – many companies believe that reporting allows them to communicate competitive advantages to shareholders (PwC, 2019; PwC, 2021)• Reduced cost of capital – An FRC (Michelon et al., 2020) literature review finds mixed results, but Bertomeu and Cheynel (2016) find a strong link between improved reporting and costs of capital.
Investors	<ul style="list-style-type: none">• The value of information literature shows that material information has value to decision making processes (see also “Defining the Users and the Benefits of NFR”, eftec, 2024).• Analyst performance in predictions is positively associated with NFR quality (Michelon et. al., 2020)• Four uses (Amel-Zadeh and Serafeim, 2018) include: (i) predicting performance; (ii) meeting client demand; (iii) investment product strategy; (iv) ethical considerations. A fifth based on interviews is own reporting requirements.
Employees and potential employees	<ul style="list-style-type: none">• Axjonow et al. (2018) finds no link between company NFI and ‘non-professional’ stakeholders’ perceptions of those firms, indicating that those views are developed based on other evidence. Eunomia (2020) links ESG performance to the company employees select to work for (albeit ESG performance is less important than compensation).
Wider group of civil society organisations (e.g., NGOs and think tanks)	<ul style="list-style-type: none">• There are several organisations that companies join with specific ESG aims, such as the Ellen Macarthur Foundation¹, Roundtable of Sustainable Palm Oil², and B-Corp³ (see eftec, 2024).• These organisations can verify data, certify that activities are aligned to some set of goals, and publish information on behalf of their members to achieve some set of goals (i.e., promoting a circular economy).

¹ <https://ellenmacarthurfoundation.org/network/who-is-in-the-network>

² <https://rspo.org/>

³ <https://www.bcorporation.net/en-us/>

2. Approach and implementation

Approach overview

This study was conducted in three phases: (1) scoping; (2) qualitative research; and (3) quantitative research. Phases 1 and 2 predominately addressed Objective A, while Phase 3 addressed Objective B.

Objective A: Examine and test the logic model and assumptions concerning the value of NFR to investors.

Research approach:

- A **literature review** on the uses and users of NFR provided the initial inputs to develop the valuation scenario(s) and sampling design.
- A **short online survey** provided data to further understand who NFR users are and how and why they use NFR and NFI.
- **1-to-1 interviews with investors** provided in-depth insights into the value, reasons for using, and preferences for NFR and NFI

Phases 1 and 2

Objective B: Assess the economic value of NFR information, including the relative value of different elements of NFR.

Research approach:

- An **online survey using a stated preference approach** was used to capture investor preferences and values for NFR.
- **Asset manager interviews** were used to capture the current costs of using NFR.
- **Statistical and econometric analysis** of the stated preference data alongside **resource cost analysis** of asset manager data was paired with **investment data** to estimate value of NFR and aggregate benefits to investors.

Phase 3

Phase 1 – Scoping

The scoping phase consisted of a literature review, with the aim of understanding the current use of NFR, as well as the policy context and wider landscape for NFR requirements. Findings informed the design of the user survey, which gathered 1,699 responses from UK investors to better understand who (by investor type) is currently using NFR (as well as other financial in non-financial disclosures).

Phase 1 overview:

Literature review

- Explored the current understanding of how various stakeholder groups use NFI, and their motivations and values for that information.
- There is a large body of both academic and grey literature on this topic.



User survey

- Gathered information from private investors, institutional investors, and investor agents on their use of NFI and NFR. Total sample of 1,699:
 - 750 private investors and
 - 949 institutional investors and investor agents.
- Implemented in March 2023

Phase 2 – Qualitative research

The purpose of the qualitative research was to explore in more depth how NFI is used by different groups within investing (e.g., asset managers, institutional agents, retail investing agents, household investors), what their preferences for that information are, and what determines the values of that information.

Phase 2 overview

Implementation:

- A series of 45-minute interviews to understand how, why, and how much investors and investing professionals are using NFI, and what they want from NFR.
- Conducted with a total of 25 investors:
 - 21 professional investors:
 - 3 retail investors (IFAs and DFMs);
 - 7 asset managers;
 - 8 institutional investors;
 - 3 analysts (secondary market).
 - 4 private investors
- Implemented in May and June of 2023.

Interview structure:

1. Introduction (including GDPR information)
2. Role and professional background
 - i. Analysis done (if any)
 - ii. How investment decisions are made
3. Knowledge and attitudes towards non-financial information
 - i. Use of NFR and NFI in investing
 - ii. Specific information used in investing
 - iii. What kinds of non-financial information would be useful in investing (both types of information, but also qualities of that information).
4. NFR requirements and use of non-financial reports
 - i. Thoughts about the NFI and NFR currently available
 - ii. What does the ideal non-financial report look like

Phase 3 – Quantitative research

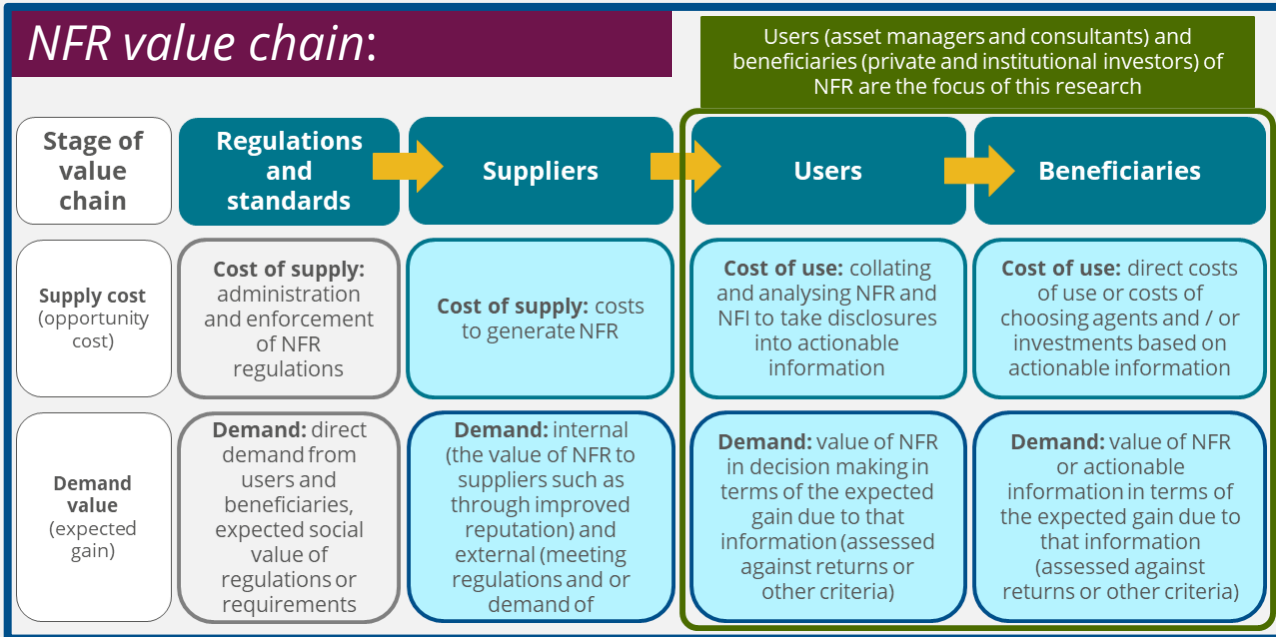
The quantitative phase of the research aimed to estimate the current value of NFR and NFI in the UK, as well as better understand the relative value of different aspects of NFR.

Phase 3 overview:

Based on the findings of Phases 1 and 2, two methods were used:

1. A series of asset manager consultations; and
2. A stated preference survey.

These methods were chosen as they explored different aspects of the NFR 'value chain' - the consultations focused on the opportunity cost of use, and the survey focused on the expected gains of using NFR.



Phase 3 – Asset manager consultations

The consultation workshops asked asset managers to quantify their cost of using NFR.
















Implementation	Firm #	Assets under management (£, billions)	Revenue (£, millions per year)	Employees	Investment Professionals
<ul style="list-style-type: none"> • A series of one-hour consultations with representatives from asset management firms. • Asked a variety of questions about the use of NFI. <ul style="list-style-type: none"> - The central question was about their costs to use this information – including how many employees are using NFI and NFR. • 6 global asset management firms were interviewed representing around £2.5 trillion in total AUM. Total UK AUM is around £13 trillion (FCA, 2024). 	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	18,000	5,750
	Avg.	£425	£1,200	3,000	960
<i>Characteristics of the asset managers interviewed in Phase 3</i>					

Phase 3 – Stated preference survey

The stated preference survey - a method commonly used in non-market valuation research – presented investors with a series of choice tasks about the provision of NFI and NFR to understand their preferences in the context of investing.

Implementation:

- Asked a variety of questions about investors’ use and demand for NFI.
 - Task 1 (progressive choice format¹) asked investors to choose between information when making investment decisions.
 - Task 2 (discrete choice experiment format² - see graphic) asked investors to make trade-offs between regulation packages and dividend yields.
- Developed and tested iteratively from September to December of 2023.
- 400 respondents completed the survey:
 - 213 private investors (Dec. 2023).
 - 187 professional investors (Jan. 2024).

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>

Example choice card from the survey.³

Study strengths and limitations

The study applied a combination of research approaches, including a novel applications of non-market valuation methods to develop evidence on the value of NFR.

Aspect of study	Strengths	Limitations
Scope	<ul style="list-style-type: none">• Focused on the use and value of NFR and NFI to investors, who are expected to be primary beneficiaries of NFR.• Explored both motivations and values for the use of this information.	<ul style="list-style-type: none">• Other stakeholders may also benefit from NFR requirements (see policy context).• Wider benefits are expected to be material to the overall assessment of NFR.
Approach	<ul style="list-style-type: none">• A wide range of methods were used to develop a broad evidence set.• Methods used are valid for this type of research and used in different areas of economics.• Method use is able to value currently or recently unexperienced changes.	<ul style="list-style-type: none">• Limited existing research to validate results.• There are several assumptions required to aggregate over beneficiaries.
Sample	<ul style="list-style-type: none">• Sample sizes (n=1,700 for the users' survey, n=400 for the stated preference survey) are sufficient to reach robust quantitative results.	<ul style="list-style-type: none">• Sample representativeness is difficult to assess, which can affect the validity of assumptions needed for the aggregation of benefits.

3. Results and findings

Phase 1 and 2 findings

Phase 1 and 2 findings overview

Almost all **investors that are involved in evaluating investment options or decision making** (both professional or private) **use non-financial information to some extent.**

- The reasons for this include:
 - Positive and negative screening for a variety of criteria (quality of governance, moral concern).
 - Assessment of risk (such as risks of harm to company)
 - Alignment to investing goals.
- The perceived benefits of different aspects of disclosures vary – for example governance information is primarily framed in the assessment of risk and company functioning.
 - What information is considered material will depend both on the investor’s characteristics (preferences, role, etc.), along with the types of companies being assessed.
- The supply and demand of NFI is often “filtered” as information is passed from one group to another:
 - Demand flows from investors to companies via asset managers, consultants, and other professionals; the supply of information flows the other way.

Why non-financial information is used

- **All 25 investors interviewed listed at least one type of non-financial information used in their decision making.** Financial information alone is not adequate to assess the expected returns and risks (financial and otherwise) of prospective investments.
- Investors expect NFI to provide information on:
 - **Company management (51% of survey respondents);**
 - **Risks and risk management (46%);**
 - **Future opportunities (46%);**
 - **Long-term performance (43%); and**
 - **Wider (environmental and social) impacts (32% and 26%, respectively).**
- NFI is commonly used in **screening – negative (exclusionary) screening, and positive (inclusionary) screening.**
- Generally, **investors trust NFR** (around 2 out of 3 respondents in the users' survey indicate that they trust NFI disclosures).

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

Uses of non-financial information

- **Environmental and social disclosures** are viewed as having the most benefit in terms of aligning to some set of moral or ethical views (roughly 45% of private investors, 60% of professionals);
- **Governance disclosures** provide benefits in terms of understanding exposure to risk (40% of private investors, 45% of professionals).
- The benefits of **standardising formats** are mainly viewed as improving comparability.
- Most **private investors indicate that extending disclosure requirements beyond listed companies would not benefit them**. Professional investors, on the other hand, gave mixed responses on increasing disclosures for non-listed companies – as they do invest in these types of companies.

*“...because if you are investing in something **you want a level of transparency**. If that information is being hidden, what else is the company hiding and that would get you a bit worried?” – Private investor*

*“I am not driven by ESG but I think partly **on pragmatic grounds it is a consideration**. I think all investors need to be aware of it.” – Private investor*

How non-financial information is used

- Non-financial information must be made into actionable information to be used – either by comparing data points over time or against other investments – and is usually used alongside a wide range of other data.
- **NFR is complex** – as such, the majority of private investors (around 2 in 3) and around half of professional investors rarely interact with NFR. Instead, **investors use NFI from other sources.**
 - **These other sources are often based on NFR**, such as third-party reports or databases using data ‘scraped’ from NFR.
- On average, **professional investors spend around 5% of their time with NFI** (the amount varies widely depending on role).
- Third party data providers (such as MSCI, Morningstar, Bloomberg) and large investing firms use analysts and software packages to **distil company reports into data points** that can be compared across companies.
- The information that is material to decision making will vary from investor to investor based on their preferences (personal or firm).

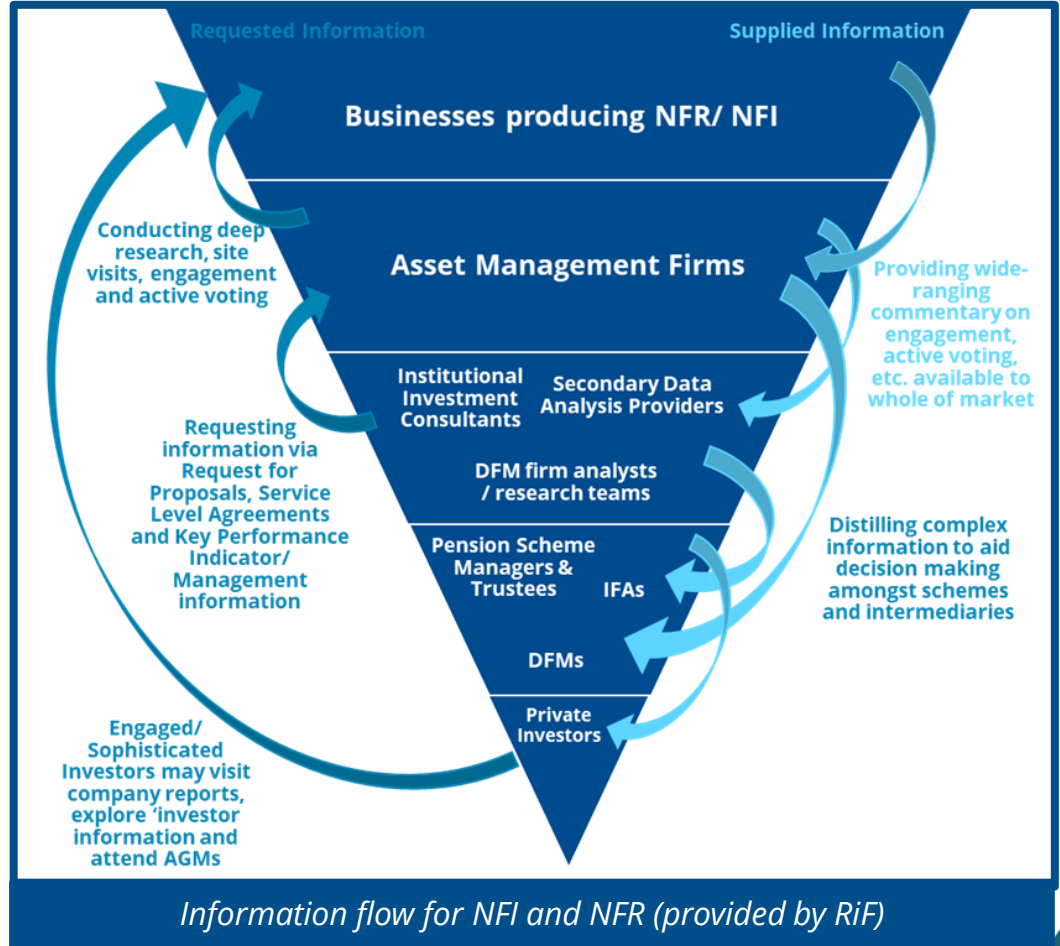
*“You don’t want to be going through masses of information. **You just want it straight to the point and [find] the information that is relevant.** If there is information that is missed off there, as an individual investor you should just say no [to that investment]. If that information is not available, I need to move on and find something else [another investment].” – **Private investor (emphasis and clarifications added)***

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

*- **Institutional Investor (emphasis and clarifications added)***

How information flows

- The supply and demand of NFI is often “filtered” as information passes from one group to another.
- The supply of information flows from the firms that produce NFI via their disclosures to consultants and asset managers, then to fund managers and trustees, and eventually on to household investors (specifically those that rely on agents for advice or management of their portfolios).
- Demand for information flows from investors via their intermediaries and then to firms that supply that information (if there is enough total demand).



Phase 3 findings

Phase 3 findings overview

Investors have significant opportunity costs of using NFR and NFI, but these costs are orders of magnitude less than the benefits. Further improvements to the quality of NFR could increase those benefits.

1. The average expenditure by asset managers for using NFI is estimated to be approx. £18 per £1 million of assets under management or 0.6% of total revenues.
2. Investors would need to receive higher dividend yields to compensate for the removal of the *current* disclosure requirements. They would also be willing to forgo some dividend yields to obtain better quality information in terms of assurance and comparability.
3. There is no outright preference for one category of information over another. Rather, preferences for information generally align to their current materiality in assessing future risks and opportunities – for example information on human rights due diligence and climate risks and opportunities rank highly in their respective ESG categories.

Asset manager costs for using NFI

To estimate the opportunity cost to asset managers for using NFI, the (i) external spend and (ii) full-time equivalent employee information from each consultation was tabulated. Assumption on the cost of employee time were then applied, and (i) and (ii) were summed and compared against firm revenues and firm AUM. The cost per £1 million of AUM and percentage of revenue was then averaged across the sample.

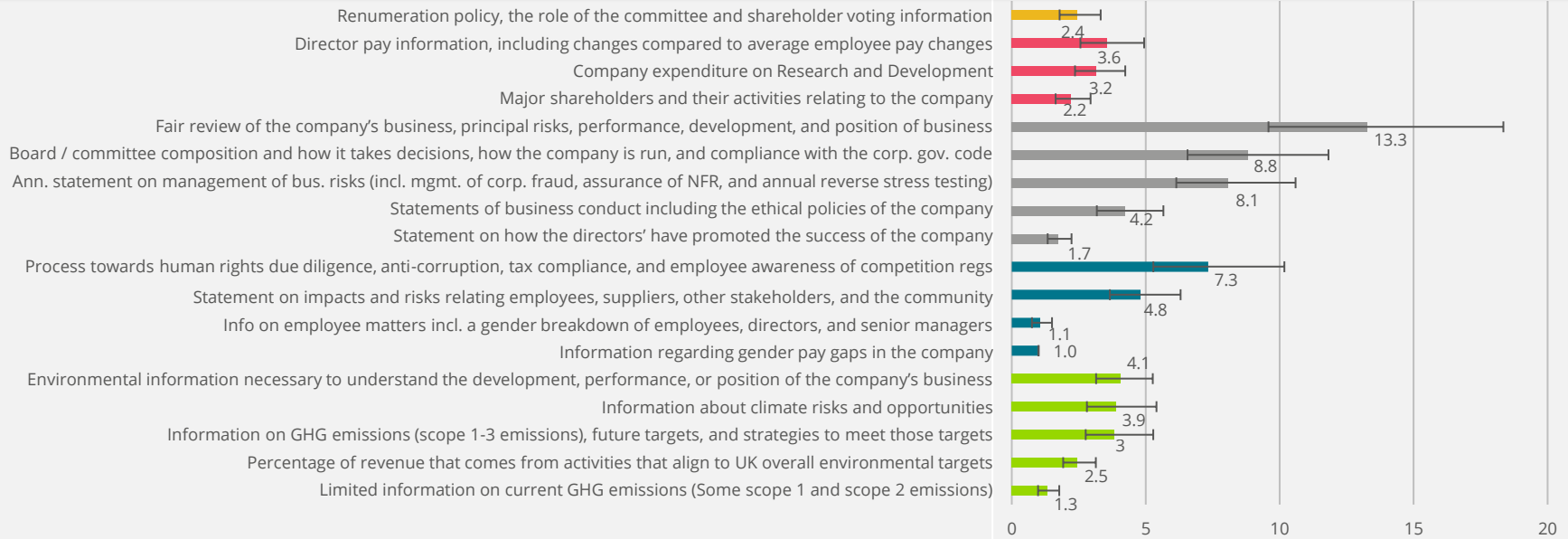
Firm level costs for using NFI, and average across firms in terms of cost per £1 million of AUM

Firm # (AUM in £ billions)	Reported external spend on NFI (£ millions)	Reported full-time employees working on NFI	Total cost of using NFI (£ millions per year)	Total cost of using NFI per year (per £1 million of AUM)
#1 (£200-500)	£1.6 to £2	90 to 110	£5.4 to £6.3	£21 to £25
#2 (£200-500)	£7.9 to £10.1	45 to 55	£10.8 to £11.3	£48 to £50
#3 (£10-100)	£0.3 to £0.4	9 to 10	£0.7 to £0.8	£50 to £56
#4 (£200-500)	£1.3 to £1.7	45 to 55	£3.3 to £3.8	£10 to £11
#5 (£200-500)	£0.4 to £0.6	250 to 300	£10.4 to £12.9	£29 to £35
#6 (£1,000+)	£4.4 to £5.6	220 to 270	£14 to £16.2	£11 to £12
Average	£2.7 to £3.4	110 to 135	£7.4 to £8.6	£28 to £31
AUM weighted average	N/A	N/A	£10.8 to £12.6	£17 to £20

Preferences for disclosure information

The choice task 1 data was analysed using econometric models. Preferences for different aspects of information are interpreted relative to each other using odds ratios – where the preference for one piece of information over another is the ratio of the numbers reported (i.e., the annual statement on the management of business risk is more than twice as preferred as director pay information by the ratio of 8.1 : 3.6).

Odds ratios – Investors preferences for current and potential company disclosure information (combined rank order logit model, n=400)
 (Groupings in order from top to bottom: General, Financial, Governance, Social, Environmental)



Key findings on the preferences for disclosure information

Key findings from choice task 1 included:

- 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 matters.

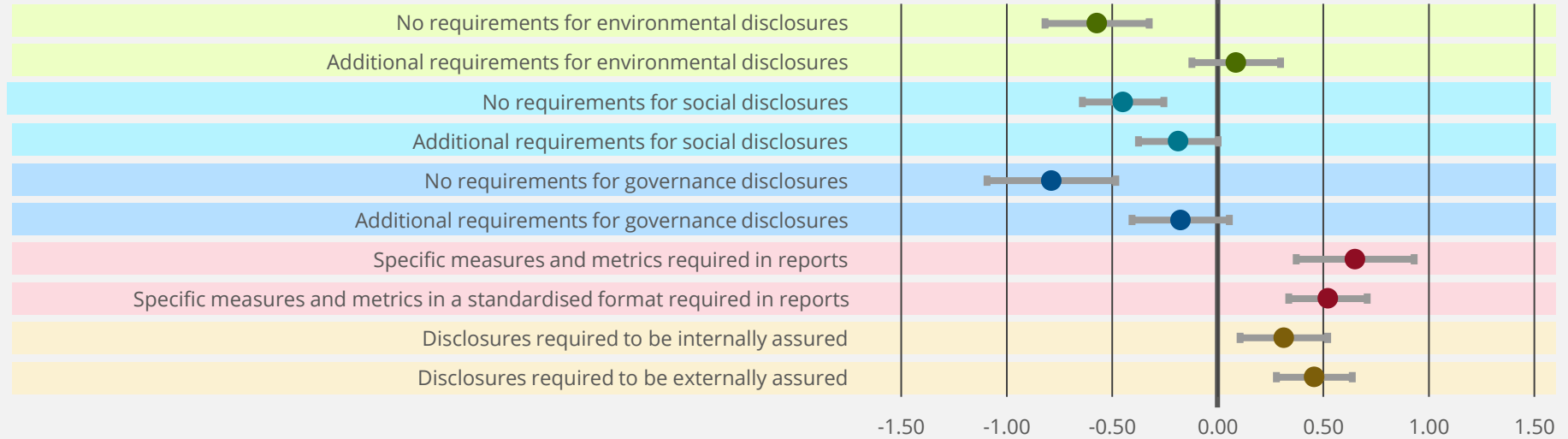
Investor preferences for NFR regulations

The choice task 2 data (choice over regulations) were analysed in econometric choice models (see Technical Report) to estimate preferences across investors. By comparing the preferences for E, S, G, assurance and format against the preferences for dividend yields, the willingness to pay or accept for each change (all else equal) was quantified in terms of % points of dividend yield.

WTP and WTA for NFR regulations – Investors preferences for aspects of NFR regulation (combined mixed logit model, n=400)

WTP / WTA values in terms of % point of dividend yield forgone.
(Negative values indicate the investor would need to be compensated to accept the change; the grey bar is the 95% confidence interval)

Change to NFI disclosure requirements



Key findings on investor preferences for NFR regulations

Key findings from choice task 2 included:

- **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.
- **Environmental, social, and governance information:** in all three disclosure areas, respondents had a strong preference against removing the requirements presented, but there was not a strong preference for extending requirements beyond the current. Preferences for extended requirements on ESG was heterogeneous, however, indicating demand from sub-groups of respondents.
- **Format of reporting:** respondents preferred an increase in the current requirements for reporting format but were not observed to have a strong preference in the nature of the enhancement
- **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. These findings are generally supported by the interviews and consultation workshops.

Validity testing – stated preference survey

Overall, each of the three phases of research support the findings of the others, and the results are supported by previous research and underlying theory. The research was also conducted following good practice guidance.

<p>Content validity – Assessment of the survey design, implementation, data analysis, and reporting</p>	<ul style="list-style-type: none">• The survey development was proceeded by several months of qualitative research which aided in the framing of the choice tasks and was thoroughly tested with investors.• Respondents generally felt the survey was consequential – 75% of respondents indicated they believe their responses would have an impact on future NFR regulations.
<p>Construct validity – Assessment of the study’s results against expectation from other studies, economic theory, and qualitative findings</p>	<ul style="list-style-type: none">• Findings from the survey align to insights from the qualitative research – such as the preferences for quality over quantity of information.• The econometric models for the choice tasks align to general economic expectations (such as the preference over dividend yields).
<p>Convergent validity – Assessment of the findings against other similar studies (where possible)</p>	<p>The existing literature generally finds that information provides substantial value to investors:</p> <ul style="list-style-type: none">• Kadan and Manela (2019) estimate the value of subscribing to monthly employment reports at 0.9% of wealth per year and Federal Reserve interest rate decisions at 1.9% of wealth per year, based on panel data in options markets.• Farboodi et al (2022) estimate the value of macroeconomic information (mainly GDP) to investors at around 0.25% to 1% of their wealth per year, depending on their portfolio size and investing style, based on excess returns to panel data on stock prices in the US.

4. Application and discussion

Key findings

- 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.
- 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.
- 3** Investors use a broad range of company information in their decision-making (and reporting in the case of some professional investors). However, non-financial information that can be used to assess risk exposure and company performance is used by a wider range of investors and is therefore generally more valuable than other kinds of NFI.
- 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.

The current value of NFR to UK investors

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.

To forgo *all* of the current NFR requirements in the UK, the average private investor would need the dividend yields of the FTSE100 to increase by 1.81 percentage points (± 0.75 percentage points) to compensate for this loss. As UK investors received around £40 billion in dividends from UK shares in 2023 (see aggregation appendix), the aggregate benefit (avoided loss) is approximately £19 billion (± 8 billion).

Investor WTA for the removal all UK ESG reporting requirements (using the dividends paid directly and indirectly to UK investors by UK companies)

Aspect of current NFR requirements	Estimated WTA (in terms of dividend yield increase)	Dividends paid directly and indirectly to UK investors	Total WTA (£, billions per year)
Environmental disclosures	0.57 percentage points (0.32 to 0.82)	£40 billion per year (2023 dividend data + ONS data on securities holdings)	£5.9 bn / yr (£3.3 to £8.4)
Social disclosures	0.45 percentage points (0.26 to 0.64)		£4.6 bn / yr (£2.6 to £6.6)
Governance disclosures	0.79 percentage points (0.48 to 1.09)		£8.1 bn / yr (£4.9 to £11.2)
All current requirements	1.81 percentage points (1.06 to 2.55)		£19 bn / yr (£11 to £26)

The current value of NFI – opportunity cost perspective

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.

Asset managers provided a range of reasons for their use of this information, from their own reporting requirements to evaluating investments for inclusion in funds and products and managing risk.

Aggregation option 1 - scale by AUM:

Assuming representative costs of using are approx. £18 per £1 million of AUM per year
x £13 trillion in total AUM (FCA, 2024)

= Total costs of using NFI by asset managers of £230 million per year

Aggregation option 2 - scale by firm revenues:

Assuming representative costs of using are 0.6% of revenues per year
x £23.3 billion in revenues (IA, 2023)

= Total costs of using NFI by asset managers of £140 million per year

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

Relative importance of the different aspects of NFR

3

Investors use a broad range of company information in their decision-making (and reporting in the case of some professional investors). However, non-financial information that can be used to assess risk exposure and company performance is used by a wider range of investors and is therefore generally more valuable than other kinds of NFI.

- In all of the interviews and survey responses, investors noted **taking account of at least some type of non-financial information in their decisions making process**. 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 - all of which contribute to:
 - (iv) The long-term performance of a company.
- Some investors questioned the usefulness of the term “NFI”, as **non-financial information can be indicators of risk, and therefore an indicator of expected long-term company performance**.

“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 (brackets added for clarity)

Investor demand for increased reporting requirements

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.

Investors would be willing to pay – in the form of reduced dividend yields - to increase the requirements on assurance of information and the format (comparability) of NFR.

Total investor WTP for additional NFR reporting requirements (using the dividends paid directly and indirectly to UK investors by UK companies)

Aspect of <u>current</u> NFR requirements	WTP in terms of dividend yield increase	Dividends paid directly and indirectly to UK investors	Total WTP (£, billions per year)
Additional format requirements	0.65 percentage points (0.37 to 0.93)	£40 billion per year (2023 dividend data + ONS data on securities holdings)	£6.7 bn / yr (£3.8 to £9.5)
Additional assurance requirements	0.46 percentage points (0.28 to 0.64)		£4.7 bn / yr (£2.8 to £6.5)

*“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*

5. Conclusions

Summary

This study finds that **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.**

Investors believe that the UK non-financial reporting regulations lead to **more and better quality non-financial information being available.** This information 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.**

Investors would also benefit from **improved assurance and comparability in NFR.** This study found there is greater demand for these kinds of improvements in reporting than for a greater *volume* of ESG information being made available.

Implementation

The study “Value of Non-financial Reporting” was conducted from January 2023 to June 2024, using a combination of quantitative and qualitative methods.

The main fieldwork took place using a variety of methods from in May 2023 – May 2024 with a total of 1,700 short survey respondents (“user survey”), 400 long survey respondents (stated preference survey), 40 one-to-one interviews, and six asset manager consultation workshops. Due to the breadth of the sample and the various methods used, investors views and preferences detailed in this report sample can be interpreted as indicative of the views of investors in the UK.

For more information on the research and implementation of the study, see both Value of Non-Financial Reporting technical reports, which are:

- “Defining the Users and the Benefits of NFR” (which covers Phase 1 and 2 of the project); and
- “Quantifying Value to Investors” (which covers Phase 3).

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