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REPORT ON SOCIAL, SOCIETAL AND ENVIRONMENTAL RESPONSABILITY

WILL FINANCIAL AND NON-FINANCIAL INFORMATION CONVERGE?

EXECUTIVE SUMMARY

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AUTORITÉ DES MARCHÉS FINANCIERS
AMF

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INTRODUCTION

In its 2013-2016 Strategic Plan, the Autorité des Marchés Financiers (AMF) stated that it aimed to develop an approach to social, societal and environmental responsibility (CSR) and socially responsible investment (SRI) information, with its main focus on conducting targeted studies on these topics.

As such, the AMF published a report on CSR in November 2013. In keeping with the first CSR report the AMF published in 2010, the 2013 report highlighted certain best practices for non-financial information and put forward a number of recommendations and avenues of discussion covering the transparency and consistency of such information. In November 2015, as a follow up to that report, the AMF also published a number of findings and proposals regarding growth in the market for socially responsible investment (SRI), as implemented by management companies via their funds.

Three years after the publication of its last CSR report and several years after the Grenelle 2 act[1] entered into force on 12 July 2010, the AMF has carried out further analysis of the non-financial information published by listed companies. The change in the regulatory environment (transposition of the European directive on non-financial information, energy transition law, etc.) and in the economic climate shows, if proof were needed, that non-financial information is increasingly important to issuers and investors, as well as to a large number of other stakeholders.

Based on this analysis, the AMF has published a new report on the social and environmental information disclosed by a sample of listed companies in their 2015 registration documents. This latest report assesses both new developments and efforts made by issuers in this area over the last three years, or indeed, regarding certain data, over the past six years.

This report is based on 60 companies with securities admitted to trading on Euronext Paris (regulated market). Note that the sample represents approximately 34% of the combined market capitalisation of French companies listed on Euronext Paris up to 30 September 2016.

To provide a more representative view of the market, the sample includes large companies as well as certain small and midsized enterprises (SMEs) for all the criteria analysed, as was the case in 2013.

This analysis shows that, beyond the regulatory framework, issuers are more committed to long-term targets, are using clearer and more relevant indicators and, in some cases, are choosing to provide information that integrates financial and non-financial data. Issuers could nevertheless do more to enhance the comparability of their indicators and offer investors every means to firmly grasp their approach to CSR, how it fits in with their overall strategy and, lastly, its long-term impact.

While the AMF has made several new recommendations along these lines, it chose to keep them to a minimum at this pivotal time from a regulatory perspective. Starting in 2017, issuers will have to apply the provisions of the energy transition law in their reports for 2016. They will, in particular, be required to include information on their commitments to the "circular economy", as well as on the impacts their businesses and the use of their goods and services will have on climate change. The directive on non-financial information, currently in the transposition phase, should also lead to amendments to some of the texts resulting from the Grenelle 2 era, as the new provisions will apply to reports for financial years beginning on or after 1 January 2017.

[1] Act no. 2010-788 of 12 July 2010 establishing a national commitment as regards the environment.

ANALYTICAL APPROACH

Companies have continued to further organise their disclosures so as to better reflect issues relating to social, societal and environmental responsibility. This trend has been driven both by the need to comply with the Grenelle 2 framework, and by the need to meet the expectations of various stakeholders, and notably those of investors.

Accordingly, the AMF has analysed the presentation of CSR information published by listed companies, for the following reasons in particular:

- the management reports, in which the information provided for in the Grenelle 2 framework has to be disclosed, form part of the annual financial reports and/or registration documents registered or filed with the AMF. This information figures increasingly prominently, both in terms of volume and content, in corporate documentation;
- some of this information must also be included in the Risk Factors section required by European Regulation 809/2004 of 29 April 2004 (the Prospectus Regulation) whenever its financial impact is potentially material. Many companies now disclose risks that are not classified as purely financial. In addition, for financial years beginning on or after 1 January 2016[2], the report of the chairman of the board of directors or of the supervisory board will also have to include "*the financial risks related to the effects of climate change and the measures adopted by the company to reduce them, by implementing a low-carbon strategy in every component of its activities*";
- acknowledgement of the issue at European level with directive 2014/95/EU[3], the first European directive to lead the way in CSR specifically as it relates to non-financial reporting (the "CSR Directive")[4] and whose transposition into French law should be finalised in the coming weeks. Changes to French legislation are mostly likely to concern the scope of companies affected and the extent of the reporting;
- investors increasingly factor non-financial, or sustainability, criteria into their investment decisions (this is particularly true of SRI funds, as well as for certain institutional investors). The perception of the financial markets has improved recently and investors are increasingly demanding that issuers broaden their disclosures beyond their financial results alone. Investors thus increasingly appreciate that issuers are identifying their priority issues based on their economic, environmental and social impacts as well as their governance challenges, and their evaluation by their key stakeholders;
- lastly, it is instructive to consider whether progress has been made on transparency (methodology, scope of data, convergence of indicators, information on the achievement of objectives, etc.) in this field, to look at new trends (disclosure of materiality matrices, more explicit links between financial and non-financial information, etc.) and, ultimately, to update the data published by the AMF in its 2013 report.

As in 2010 and 2013, the AMF's 2016 report mainly focuses on the transparency of information published by companies, and more specifically its definition, consistency and comparability. As such, its purpose is not to assess the relevance or exhaustiveness of this information, although one may well ask why issuers' reports have have become lengthier. Similarly, the report does not look at the intrinsic quality of the data collected or at the way they are aggregated to form the summary information that companies ultimately publish.

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[2] Pursuant to law 2015-992 of 17 August 2015 on the energy transition for green growth.

[3] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

[4] Although the topic is by no means new. In particular, Article 1-14 subparagraph b of Directive 2003/51/EC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings states that "*to the extent necessary for an understanding of the company's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters*".

KEY FINDINGS

This study shows that French companies have made significant efforts on CSR, notably in terms of time spent on this issue, allocation of resources, development of new tools and consequently costs incurred. This is much the case for large companies as it is for small and mid caps.

Companies appear to have continued to deploy the resources needed to familiarise themselves with the information required by the Grenelle 2 decree and to interpret it in the light of their own specific challenges and, where relevant, the risks they identify, particularly through risk mapping. Companies nevertheless still need to adopt a more pragmatic approach, so they can better identify and even prioritise the information to be included in their CSR strategies and, ultimately, their reporting. However, the AMF notes that some companies have made progress in prioritising their sustainable development challenges in view of their strategic priorities and stakeholder expectations.

The findings are based on a sample composed of an equal number of large companies[5] or "LCs" (half of which are in the CAC 40 index), and SMEs[6]. Differentiated statistics have been calculated where possible, first for LCs and second for SMEs. Comparisons have also been made with the results from the first two reports[7].

1. Presentation of non-financial information

- **Every** company in the sample presents CSR information in its registration document or annual financial report.
- **60%** of companies provide a cross-reference table to help readers more easily identify the topics covered by the decree and/or the standards followed (in particular the Global Reporting Initiative (GRI)).
- **58%** (compared with half in 2010 and 2013) disclose CSR information through media other than their websites (such as subject-specific reports and reports for analysts or fund managers). This tends to make the data more difficult to understand, although **17%** of companies cross-reference these supplementary media in their registration document.
- Unlike in 2013, no companies expressly state they have encountered difficulties in aligning their non-financial reporting timetables with their financial reporting schedules.
- The number of pages contained in CSR reports forming part of registration documents varies widely from one company to another. The average length is **33 pages**[8] (compared with 24 pages in 2013, i.e. a nearly **40%** increase), with a minimum of **3** and a maximum of **117** pages (compared with a minimum of 2 and a maximum of 87 pages in 2013).
- On average, the CSR section accounts for **12%** of the total volume of information set out in registration documents published by sample companies (**10%** for SMEs and **14%** for LCs, compared with an average of 9% in 2013).

2. Scope of information

- **93%** of companies in the sample provided at least some details on the scope of their non-financial information (compared with around three-quarters in 2013), although this scope is not always clearly defined or can differ significantly depending on the non-financial data in question (lack of data on certain indicators).
- In **all** cases, the companies provided a wider scope of non-financial information compared with 2013.

[5] Companies belonging to Segment A of Euronext Paris, i.e. with a market capitalisation of more than €1 billion.

[6] Companies belonging to Segment B (market capitalisation of between €150 million and €1 billion) and Segment C (market capitalisation of less than €150 million) of Euronext Paris.

[7] For the sample of the 30 LCs in 2010 and for the entire sample in 2013 and 2016.

[8] With a median of 28 pages and a standard deviation of 25 pages.

3. Information gathering

- **About three-quarters** of the companies in the sample specified how they collect non-financial information (compared with about half in 2013).
- **65%** of companies clearly identified the people in charge of preparing and directing non-financial reporting.

4. Description of the CSR policy

- **95%** of the companies analysed, and all LCs, provided information on their own and any subsidiaries' policies (i.e. initiatives and guidance) in the area of sustainable development and CSR (compared with 83% of companies in the sample in 2013).
- **63%** of companies in the sample reported that they have incorporated CSR into their group strategy (including **40%** of the SMEs in the sample), while only a minority did so in 2013.

5. Use of one or more standards

- **About half** of sample companies (compared with 37% in 2013) expressly stated that they used a standard, such as the Global Reporting Initiative or a sector standard.
- **8** companies expressly stated they had created their own standard (compared with three in 2013) for some or all of their reporting.

6. Presentation of non-financial indicators

- As in 2013, **all** the companies analysed presented non-financial indicators, including social, societal and environmental indicators. As a reminder, in the AMF's 2010 report, 90% of LCs did this.
- Only **2** companies expressly stated they had introduced new indicators since the last financial year (compared with 14% in 2013), indicating more consistency in indicator nomenclature within companies.

Focus on quantitative indicators

As regards the indicators themselves, an additional analysis was conducted covering the nine non-financial themes required under the Grenelle 2 decree:

- training,
- absenteeism,
- gender equality,
- occupational accidents,
- waste production and management,
- water consumption,
- CO_2 emissions,
- climate change adaptation, and
- measures taken to enhance or protect biodiversity.

This analysis reveals:

- Renewed efforts to communicate across a broader reporting scope;
- Relatively stable and comparable indicators over time at individual companies, although a few companies provided certain data for a single financial year only;
- There has been some standardisation in the choice of indicators used by different companies for the same theme since 2013; this makes the information more helpful when comparing one company with another;
- The methods used to measure the same indicator may still vary from one company to the next, hindering comparability across companies, although more and more companies are supplying specific information about the methodologies they use.

7. Publication of targets and areas for improvement

- **More and more companies** are providing forward-looking analyses, with quantitative or non-quantitative targets, assessments conducted internally or with third party assistance, areas for improvement, constant improvement policy, and so on.
- As in 2013, **about half** the companies in the sample published quantitative CSR targets (including 83% of LCs). Of those that provided such targets, **about half** published targets for 2020. The others set out targets for 2017 and 2025.

8. Implementation of the “comply or explain” principle provided for in the decree

- As in 2013, the companies in the sample took various approaches to the “comply or explain” principle provided for in the Grenelle 2 decree.
- **18%** of the companies analysed stated they did not produce certain data requested by the decree and **63%** stated they did not feel the data were relevant (compared with approximately 30% in 2013). In this regard, SMEs proved less reluctant to exclude indicators they did not feel were relevant.
- A quarter of the companies in question did not provide explanations for missing information and those that did occasionally provided an explanation in overly general terms. Either way, they did not respect the spirit and intent of the “comply or explain” principle.
- **Some** companies provided additional details (not required under the decree) linked more closely to their business and/or industry.

9. Social, societal and environmental risks

- **Two-thirds** of companies in the sample referenced social and environmental risks in the risk factors section (a quarter mentioned social risks and only two companies discussed societal risks).
- **20%** of companies that mapped their risks stated that risks related to CSR issues were included, and all of them were LCs.

10. Information reviewed by an independent third-party body

- **97%** of companies in the sample (compared with 62% in 2013, a critical year in this respect, including 93% of LCs and 27% of SMEs) asked one or more independent third-party bodies to verify some or all of their non-financial indicators.

11. The role of non-financial rating agencies

- **One-third** of companies in the sample (including half of LCs) compared with a quarter in 2013, specified the rating that they had been awarded by one or more non-financial rating agencies.
- **40%** of the companies in the sample (including two-thirds of LCs), compared with 32% in 2013, said they are part of one or more indices, most of which have been created by non-financial rating agencies.

12. Integration of CSR into governance

- **40%** of companies in the sample (three-quarters of which are CAC 40 members) have set up a special committee of Board members to deal expressly with non-financial matters.
- **22%** of companies in the sample, all of which were LCs, expressly stated that for the 2015 financial year, they had linked part of the variable compensation of their executive officers to non-financial performance criteria (compared with 14% in 2013).

13. Inclusion of non-financial data in the disclosures

- **4** companies in the sample published quantitative non-financial indicators and/or information in their press releases on the closing of their annual financial statements; no companies did so in 2013.

14. Provision of a materiality analysis of the company's issues

- **27%** of companies in the sample, i.e. more than half of LCs and no SMEs, stated they had conducted materiality studies and provided their key characteristics, generally in chart form. These studies help companies highlight the issues they feel are the most important for their business by cross-referencing them against the specific issues of their stakeholders.

15. Provision of a materiality analysis of the company's issues

- **13** companies in the SBF 120 (compared with none in 2013) expressly stated that they provide information in their registration document or a separate medium that integrates financial and non-financial data and that describes the company's strategy, governance and current and future performance.

16. Provision of a materiality analysis of the company's issues

- For the publication of its new report, the AMF conducted a comparative study of the form and substance of the non-financial information provided by French issuers and their main foreign competitors in two sectors (see Appendix 3 of the French Report).

Focus on sector comparison

- This analysis, based on a comparison of 11 listed companies (3 French and 8 foreign) in two separate industries, agrifood and automotive, led to the following conclusions:
- the reports published by the foreign issuers in the sample often took the form of a **strategic report or a sustainability report combining financial and non-financial performances**. However, none of the issuers explicitly referred to the International Integrated Reporting Council (IIRC) standards;
- foreign issuers appeared to conduct more **comprehensive and systematic monitoring** of their performance relative to their previously established **targets**;
- **the reporting scope is fairly similar for French and foreign issuers**; it generally covers the parent company and its consolidated subsidiaries, including foreign ones;
- **methodological transparency is one of the strengths of French issuers**, whose detailed methodology notes sometimes go so far as to describe how certain specific indicators are developed, in contrast to the broad outlines provided by foreign issuers;
- **the analysis and inclusion of non-financial risks vary from issuer to issuer.** However, French issuers are characterised by a closer and more exhaustive individualisation of these risks and by their inclusion in their risk factors. The only issuers to explicitly incorporate these risks into the risk mappings disclosed in their reports are also all French.

The 10 most striking changes in the findings since 2013

1	From a purely formal point of view, the very sharp rise in the average number of pages dedicated to CSR (average: 33 pages; minimum: 3 pages; maximum: 117 pages), for an average increase of nearly 40%.
2	Methodological transparency on indicators – which is one of the strengths of French issuers – although the comparability of indicators across issuers could be improved.
3	Varying degrees of transparency among issuers regarding the development, content and scope of risk mapping.
4	Efforts made by LCs to set quantitative targets that provide a framework for their approach to CSR, but further progress still needed in monitoring them over time.
5	Improved incorporation of non-financial performance into directors' and corporate officers' variable compensation.
6	Some issuers now disclose non-financial information in their financial disclosures (versus none in 2013).
7	LCs' marked enthusiasm for materiality studies and for presenting their results in materiality matrices.
8	CSR is increasingly placed at the heart of an issuers' strategy and is considered a real lever for long-term performance.
9	Stronger commitment by LCs to incorporating non-financial issues into their 2015 reports. The work performed by audit firms in this area is starting to gather pace, along with that of financial disclosure specialists.
10	Disclosures under development for issues related to energy transition and the circular economy, as well as for any related future obligations; for the first time, these provisions will apply to reports for financial year 2016.

RECOMMENDATIONS

The AMF has chosen to reiterate nine recommendations made or repeated in November 2013 that it feels still apply, despite a changing regulatory and legislative environment.

For simplicity's sake, the recommendations that remain applicable are repeated and consolidated in this document removing the need for an issuer to refer to the 2013 report in order when reviewing them. A number of these recommendations have been updated, that is, slightly reworded or supplemented, partly to better reflect new findings and changes to the standards since the publication of the AMF's 2013 report.

As in 2010 and 2013, the recommendations for listed companies, whose scope and effective application should reflect the size and business of the company, essentially address the presentation of information provided by companies in the sample, especially social and environmental data, insofar as this information is needed to understand developments in the business, results and situation of the companies in question. The recommendations also apply to the presentation of risk factors, notably as regards the section included in the Prospectus Directive.

The AMF also makes **four new recommendations.**

New recommendations

1. Increase the relevance of non-financial information

The increasing volume of non-financial information should lead companies to focus on approaches that aim to simplify and enhance the relevance of this information. They may have to work on the brevity of their messages and on their selection of indicators.

A number of companies have made progress in prioritising their sustainable development challenges in the light of their strategic priorities and stakeholder expectations, mainly through materiality studies. The AMF encourages this practice to the extent that it helps make the information more relevant and, as such, helps companies apply the "comply or explain" principle with more detailed explanations. Regarding the implementation of materiality studies, the AMF also recommends that issuers are broadly transparent on the methodology used and on the results of the analysis of the social and environmental impacts of the company's activities, so as not to highlight merely the financially material issues for its own business.

2. Fuller account of the role of CSR in the company's strategy

The AMF recommends that companies which state they have put CSR issues at the forefront of their strategy should describe clearly and concretely/with illustration how the implemention of their CSR approach will contribute to the strategy's success. The connection between the chosen strategic paths — monitored using specific indicators — and CSR issues is not always clear and should be more detailed to improve consistency.

3. Reflect on ways to present financial and non-financial information coherently

It is an innovation to present an integrated vision of a company's performance — notably in a report that integrates financial and non-financial data — and its value-creation strategy. Such an approach would appear to warrant encouragement and support, but efforts to over-formalise it should be restrained as any such action would today be perceived as premature.

Theoretically, the AMF favours an approach that promotes greater integration of financial and non-financial data, provided it is undertaken rigorously and seriously and gives investors a better understanding of the company's value-creation strategy and overall performance.

Issuers are currently in the take-up and testing phase: some are organising internally, holding discussions with their stakeholders, and exploring several directions that may or may not ultimately result in the publication of an “integrated report”. Due to the wide variety of approaches adopted by companies (mainly whether or not the report should be included in the registration document) in what is seen as an evolving field, the AMF does not expressly recommend a specific format or standard. The AMF supports the inclusion of such a publication in the registration document, although the initial versions of this report now under development have most frequently been designed, for practical reasons (learning curve, gradual selection of indicators, data reporting times, etc.), as separate documents.

To provide integrated presentations in the registration documents is helpful to investors, provided the integrated reporting maintains the overall goal/objective of presenting the information concisely. Investors could thus have a summary of the company’s strategy and performance indicators, which would serve as an excellent introduction to the registration document.

4. Improve disclosure with respect to green bonds issuance

The AMF notes that the criteria used to determine whether or not a project is “environmental”, in particular for the issuance of securities where the amount raised is allocated to fund environmental projects (climate change adaptation, renewable energies, energy efficiency, etc.), are left to the issuer’s discretion. It is also noted that the procedures for the ex-post control and monitoring of the proper allocation of the funds are currently governed only by recommendations — the Green Bond Principles published in March 2015 (and updated in June 2016) by the International Capital Market Association (ICMA) — and compliance is not mandatory.

In the light of heightened interest from investors and the gradual structuring of this market segment, the AMF recommends that issuers monitor the transparency of the information provided to investors both when the bond is issued (detailed presentation of how funds will be used in the issue or listing prospectus, process for project selection and evaluation, use of a third party expert, etc.) and throughout the life of the bond (compliance with the allocation of the funds and with the commitments made).

This recommendation also applies to social bonds intended to finance identified projects that have a social benefit (health care, public housing, education, etc.), or even to any other type of bond issue intended to fund a specific project.

Recommendations reiterated or updated

1. Information formats (updated)

When information is set out in several parts of the registration document or is published on other media, such as the company’s website, the AMF recommends that companies should make this clear (in their registration document, for instance) through cross-references to the chapters or the formats in question, in order to provide readers with the most comprehensive view possible of the CSR policy conducted. There must therefore be a cross-reference to the methodology note ,be it in the appendix to the registration document or on the company’s website.

Companies must also consider how best to improve the consistency of the information provided, particularly in the age of digital information.

2. Methods used to present information (reiterated)

For better understanding and internal structuring, the AMF repeats its recommendation that companies present the way in which they identify, collect and consolidate non-financial information, and the limits associated with such data collection (in the form of a methodology note, for example). The choice of the medium through which this information is presented is left to the company's discretion. However, if this information is not presented in the registration document, links should be included to the relevant materials.

3. Scope of information (reiterated)

The AMF recommends that the scope of the information be defined and stated as coherently and consistently as possible from one year to the next. This in no way rules out a particular focus on social and/or environmental matters in one or several subsidiaries, if the company considers that this information is particularly important and ought to be brought to the knowledge of the public.

4. Presentation of indicators (updated)

The AMF recommends that companies that use quantitative indicators define them clearly, describe how they are calculated, and use them consistently from one period to another (insofar as the indicators still meet a need), by highlighting, where applicable, the most important indicators for their business. Lastly, it believes that it would also be useful if these indicators could be compared across companies, in particular within the same sector, and be reconciled with audited information whenever it is possible for part or all of the elements of their calculation steps.

5. CSR objectives highlighted by companies (updated)

The AMF recommends that companies that communicate on quantitative objectives which measure the company's commitment to certain social and/or environmental aspects:

- present clear, precise objectives that are well-argued and measurable;
- specify the time frame covered; and
- monitor these objectives in the reports for subsequent periods: progress made, extent to which they have been achieved, abandoned, (re)-adjusted, etc.

6. Social and environmental risks (updated)

The AMF states that its recommendation[9] that companies should demonstrate the link between these risks, and notably those described in the "Risk Factors" section of the registration document, and the internal control procedures that are implemented, also applies to non-financial risks, in particular social and environmental risks. This link should make it easier to grasp the way in which the company understands, formalises and, ultimately, strives to control these risks. Since companies are encouraged to set up system for identifying, analysing and addressing risks, it would make sense for this to also include non-financial risks.

The AMF encourages issuers to demonstrate the link, where applicable, between the non-financial risks to which they are exposed and the items recorded in the financial statements. If such link is not explicitly mentioned, it would be appropriate to include a reference/foot note to the accounts.

7. Non-financial rating (reiterated)

The AMF recommends that companies communicating on a non-financial rating result should also present the basis for the given rating, or should provide a link to their own website or to the non-financial rating agency's website.

8. Presenting information to committees or to the board (updated)

The AMF recommends that companies that have, within their board of directors or supervisory board, a specialised committee to deal with social and environmental issues should provide specific information about its membership, remit and findings, as well as its links with other board committees.

The AMF also invites issuers to specify the frequency with which problems related to sustainable development and social and environmental responsibility are included in the agenda of one or more specialised board committees.

[9] AMF Position/Recommendation no. 2009-16 — Guide to preparing registration documents (document created on 10 December 2009, amended on 17 December 2013 and 5 December 2014).

9. CSR and senior executives' remuneration (reiterated)

Article L. 225-37 of the Commercial Code states that the corporate governance report prepared by the chairman of the board of directors or the supervisory board should refer to the principles and rules adopted to set the remuneration of senior executives, as well as the benefits of any kind they may receive. In this respect, the AMF recommends that companies should stipulate precisely and explicitly any CSR-related quantitative and qualitative criteria used to determine the variable component of remuneration.