



FERMA

Federation of European
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Position Paper

FERMA comments on the proposed Directive on disclosure of Non-Financial and Diversity Information by certain Large Companies and Groups

Background

On 16 April 2013, the European Commission released the proposal for a Directive that would amend the Accounting Directives (Fourth and Seventh Directives on Annual and consolidated Accounts, 78/660/EEC and 83/349/EEC) in order to update the nature of the non-financial information disclosed by companies and promote a more transparent annual reporting.

As a follow-up of the Action Plan on Company Law and Corporate Governance published last December 2012, FERMA is willing to be a proactive contributor in order to provide the European Commission with useful insights from the Risk Management Industry.

FERMA brings together 22 national risk management associations in 20 European countries. FERMA has over 4,000 individual members, Risk and insurance managers of organizations representing a wide range of business sectors from major industrial and commercial companies to financial institutions and local government entities. The members play a crucial role within their companies with respect to the management and treatment of complex risks and insurance issues.

FERMA therefore represents the large risks of the European industry and would be delighted to share some opening remarks about the Management of Non-Financial Risks and the Board Diversity Policy raised the newly proposed Directive.





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Risk Management and the Board Diversity policy

Article 1.2 of proposed Directive is introducing new provisions asking companies to provide a description of their diversity policy regarding age, gender, geographical diversity or educational and professional background for the administrative, management and supervisory bodies.

Acting and promoting in risk management at a high level of Enterprise Social Responsibility, FERMA understands the initiative of increasing companies' transparency with respect to their board diversity policy.

Such an initiative should lead to a better representation of all the components of a company at the board and will certainly reduce risks related to a poor understanding of cultural and social differences in the areas where the company operates or is willing to develop itself.

However, FERMA believes that the board diversity issue belongs preferably to the Corporate and Social Responsibility area and therefore should be treated separately from Risk Management. FERMA would respectfully recommend for these two topics to be dealt with into different proposals.

Risk Management and the disclosure of non-financial information

The proposed Directive will require companies to provide a description of the principal risks and uncertainties that it faces (article 1.1 & 2.1). In addition to that, for large companies over 500 employees, it is also prescribed that this review will include a non-financial statement on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

Flexibility in Transparency

FERMA greatly appreciates that the proposed Directive is flexible in the new reporting obligations ("comply or explain" principle, size of the entities). For numerous large companies, transparency has become a fundamental part of their business strategy. The voluntary disclosure of environmental and social information can therefore be viewed in a positive way.

The benefits of a more integrated reporting lead to a greater public recognition through sustainability ratings for example. Sustainability has become a key component of a company's business and more and more analysts, academics and investors base their analysis only on publicly available information.





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However, the proposed Directive is creating new mandatory reporting obligations on non-financial information that will turn into another heavy burden in term of costs and administration without taking into account the risk exposure of sensitive European industries doing business in emerging markets.

Each company has to determine what is important and relevant to its specific situation, in terms of issues, risks etc.

The difference between assessing and disclosing risks

FERMA has always been promoting the consideration of the full range of risks, allowing the board and top management to properly set their risk appetite on the full scope of impacts and to prepare an adequate response such as mitigation plans.

Boards are fully involved in the Risk Management policy and need the most accurate information about risks across their activities to anticipate where the company is heading. Therefore risk knowledge has become a key issue for the board and top management to make the decision.

Risk Management process is much more focused on identifying and assessing risks and opportunities, rather than disclosing information on this. Through this internal exercise, a company can devise strategies for dealing with the risks and grasping the opportunities

The creation of a thorough company-wide risk policy, including non-financial aspects, leading to complete risk knowledge should be seen as a global decision-making tool for the board.

FERMA strongly support the idea that companies should adopt a sustainable and long-term strategic approach of their business.

However, public disclosure of the principal risks and opportunities should not be alone set as an objective for more transparency. This could actually damage the competitiveness of European companies on foreign markets and so the sustainable performance that the proposed Directive is aiming to promote.

FERMA would be pleased to discuss further the views expressed in this paper with the relevant European institutions and would be glad to collaborate to any future initiative at EU level.

