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**Compliance by Belgian listed companies with the requirement to publish a non-financial statement**

## SUMMARY

### *Subject and purpose of the study*

The FSMA has conducted a study of the statements of non-financial information that were included in the 2017 annual financial reports of Belgian listed companies.

Since the 2017 financial year, certain listed companies have been required to disclose non-financial information relating to, as a minimum, social, employee-related and environmental matters, respect for human rights and anti-corruption and bribery matters. This study is intended to present the state of the question on the topic, point to examples of good practices, and make a number of recommendations aimed at improving the presentation and quality of the non-financial statements.

For the purposes of the study, the FSMA examined the 2017 non-financial statements of 56 Belgian listed companies.

### *The principal findings*

The FSMA wishes to emphasize that all the companies included in this study published non-financial information for the 2017 financial year, whereas the Belgian law transposing the European Directive 2014/95/EU was published only on 11 September 2017<sup>1</sup>.

The FSMA analysed to what extent companies describe the aspects relating to the following topics:

- **Description of activities:** Few companies include such a description in the non-financial statement itself. Among those that do not describe their activities in their non-financial statement, only a limited number include a reference to the part of the annual financial report where that description is provided. It was also noted that the links between the company's activities and the non-financial information are very often missing or not clearly indicated.
- **Policies:** The vast majority of companies describe the policies pursued, even though specific information may be lacking about social questions, respect for human rights, anti-corruption and bribery matters. The description of policies, where included, is in many cases not very specific to the issuer's activities or to the impact on non-financial matters.
- **Due diligence procedures implemented:** These procedures are much less often described than the policies pursued.
- **Results of policies, principal risks, the ways in which companies manage those risks and key performance indicators:** many gaps were observed in the non-financial statements as regards the above-mentioned elements. The differences in terms of quantity and quality of information provided about environmental and employee-related questions on the one hand, and on social matters, respect for human rights, anti-corruption and bribery matters on the other, appear even more clearly with respect to these aspects than they do in the descriptions of the policies pursued.

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<sup>1</sup> The Law of 3 September 2017 on the disclosure of non-financial and diversity information by certain large companies and certain groups.

These observations are along the same lines as those found in a study conducted by the AFM and published in December 2018<sup>2</sup>. It has been noted, however, that the statement for the 2017 financial year was the first such publication of non-financial information in almost half of the cases studied. Several companies admitted that there were gaps in the information contained in their non-financial statement and expressed their intention to fill in the missing information as far as possible in their future non-financial statements.

The FSMA also examined whether the issuers relied, when drawing up their non-financial statement, on one or more European or international frameworks and, if so, which ones in particular:

- Several issuers did not indicate that they relied on a recognized framework when drafting their non-financial statement.
- Companies' non-financial statements that mention at least one framework mostly rely on the Global Reporting Initiative (GRI) framework. The second and third most often cited frameworks are the Sustainable Development Goals (SDGs) and the Global Compact of the United Nations.
- Among the issuers that rely on the framework of the Global Reporting Initiative, more than half simply make reference to it, while fewer than half indicate that they are relying on the "Core" option.
- The issuers do not always indicate explicitly in their non-financial statement whether they are in line with the GRI framework or whether they simply draw inspiration from it.
- About 60% of issuers who use the Global Reporting Initiative include an index of GRI contents in their non-financial statement.
- The non-financial statements analysed that mention the SDGs include a description of the companies' impact on a limited number of those goals and not on all 17 of the SDGs.

In order for the information provided to be useful and comparable among companies, for example those within the same sector, the information must meet a certain number of criteria. The FSMA studied the degree to which non-financial statements meet the following criteria:

- **Materiality:** Many companies of the BEL 20, but fewer than half of the other companies, include a materiality assessment and describe its results.
- **Balance:**
  - The information provided in the non-financial statements is very often lacking in balance when it comes to the contents.
  - The majority include only the elements that are favourable to companies, notably when describing the measures taken to manage risks, as well as when the companies report positive results obtained from an implementation of their policies.
  - Balance between textual description and quantitative information is often also lacking.
- **Strategic and prospective:** Fewer than half of the non-financial statements studied describe their short-, medium- and long-term strategies and associates them with quantitative goals relating to non-financial questions.

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<sup>2</sup> Autoriteit Financiële Markten, In Balans 2018 – deel A, Thematic review of non-financial information in management reports 2017, 13 December 2018.

- **Focused on stakeholders:** Only about a third of issuers include a description of their interactions with each type of stakeholder, for example by including a list or table of such interactions.
- **Consistent and coherent:**
  - Some companies create links between the information provided in their non-financial statement and that included in other parts of the annual financial statement, thereby making the latter more consistent and logical.
  - Too few such links have, however, been established to date between financial and non-financial information.

The FSMA also examined information relating to non-financial statements in the audit reports issued in the course of the statutory audit of the accounts of listed companies, as well as in any certification reports:

- A limited number of companies have voluntarily called on the services of an independent expert to carry out the task of certifying non-financial information (limited assurance report).

## RECOMMENDATIONS FOR FUTURE NON-FINANCIAL STATEMENTS

The study makes a number of recommendations aimed at offering support to listed companies when drawing up their future non-financial statements, with a view to improving their contents and presentation. The main recommendations are as follows:

### Provide complete information

- Describe the company's activities in the non-financial statement or provide a link to the part of the annual financial report where such a description is given. Provide details of the links between the **description of the activities** and their specific impact on non-financial topics.
- Describe the **policies** on each non-financial question in a way that is specific to the company's activities rather than in general terms.
- Include the **reasonable diligence procedures** implemented, and include a description of the organisation in terms of management of non-financial questions and of reporting to the governing bodies.
- Follow the structure of the elements included in Articles 96, § 4 and 119, § 2 of the Companies Code, in order to ensure that each of the topics and their elements are well developed in the non-financial statements.
- Pay particular attention to **social questions, respect for human rights, anti-corruption and bribery matters**, topics which have to date been less amply developed in the statements.
- Make improvements to the description of non-financial **risks**, the application of policies in terms of risk management, the **performance indicators** and the **results**.
- In cases where certain aspects are not applicable or relevant to a given question, mention it clearly in the non-financial statement and explain the reasons.

### Rely on a framework

- Indicate clearly which framework(s) is/are used in order to draw up the non-financial statement and explain this/these choice(s).
- Mention the degree to which the company is **in line with the** framework(s).

- Be consistent in the use of frameworks from one year to the next. In the event of an additional framework or a change of framework, explain the reasons for the new choice or the change.
- In the event that the framework of the **Global Reporting Initiative** is used:
  - Confirm that you are using the current version of the GRI Sustainability Reporting Standards.
  - Specify the **option** you have chosen, namely, “Core” or “Comprehensive”.
  - Include a complete **index of GRI contents** for the option chosen.
  - If the index is included in a document other than the non-financial statement or on the issuer’s website, create an explicit link to that document in the non-financial statement.
  - Indicate whether **external verification** was used.
- If the framework of the **Sustainable Development Goals** of the United Nations is used:
  - Describe how performance is measured, how the goals are defined in qualitative as well as, as far as possible, quantitative terms, and what progress has been made from one year to the next.
  - Include an explanatory table or a list containing a brief description of each sustainable development goal chosen, and an explanation of the actions planned or completed in relation to that goal.
- If several frameworks are mentioned, explain if each framework is used to draw up the non-financial statement and to what extent.

#### Provide useful and comparable information

- Prepare a **concise** statement, avoiding **information that is not significant**:
  - Describe the processes that made it possible to identify and prioritize the significant topics and place them in their context, rather than including a superficial description.
  - Illustrate the analysis of the materiality of the non-financial statement with a graph, for example, one that has one axis for the level of impact of a given factor on activities/the performance of the issuer, and the other axis for the level of impact on the stakeholders.
  - Re-examine the evaluations of the significance at regular intervals in order to guarantee that the elements published remain relevant.
- Prepare the non-financial statements as far as possible in a **balanced** manner:
  - Develop both the positive and the negative aspects of the company’s impact.
  - Take note as objectively as possible not only of the progress achieved in the past year, but also the difficulties encountered.
  - Support the textual description of the non-financial information with quantitative and visual information.
- Describe the **strategy** for the various non-financial questions over the **short, medium and long terms**:
  - Set out quantitative objectives and specify the framework used as a point of reference.
  - Link the description of the objectives to that of the measures to be taken and steps to be accomplished.
  - In order to measure the progress achieved, compare the objectives over the short, medium and long terms with the performance in previous years and in the reporting year.
- Pay particular attention to the information needs of the **parties involved**, for example for purposes of an analysis of materiality.

- Consider the information provided in the management report and in the other parts of the annual financial report as a **consistent and coherent** set of information:
  - Include cross-references between the different parts, for example on the subject of the company's business model, its risk description and its corporate governance.
  - Establish links between the financial and non-financial information.
  - Explain every change made to the policy or method of preparing the reports, the reasons for those changes and their consequences.