

2 March 2020

Enforcement of Non-Financial Information Main Findings for 2018 Annual Financial Statements

Background

[Directive 2014/95/EU](#) ("the Directive") lays down the rules on the disclosure of non-financial and diversity information, where large companies¹ are required to include the non-financial statement in their Annual Financial Report. Under the Directive, large companies are required to publish reports on the policies they implement in relation to (1) environmental protection; (2) social responsibility and treatment of employees; (3) respect for human rights; (4) anti-corruption and bribery; (5) diversity on company boards.

Key Findings

The Authority has reviewed the non-financial statements presented by large listed companies in Malta, for any possible compliance issues with the requirements of the Directive. The fundamental issues identified, in general, relate to lack of disclosure in terms of the Directive. Specifically, during 2019, the Authority has identified the following disclosure weaknesses:

(1) Description of the Business Model

Article 1(19a) of the Directive requires issuers to provide a brief description of the Company's business model to be disclosed in the non-financial statement.

The Authority noted that some issuers did not provide a description of the business model in the non-financial statement. Issuers should ensure that enough information on the business model is disclosed as required by the Directive.

(2) Policies relating to environmental, employee, social and human matters, anti-corruption and bribery

Article 1(19a) of the Directive requires issuers to provide a description of the policies pursued by the undertaking in relation to environmental, employee, social and human matters, anti-corruption and bribery. Issuers are also required to include the due diligence processes implemented in relation to these policies and the outcome of the policies. The Directive further requires that in case the undertaking does not pursue policies in relation to one or more of these matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so.

¹ Having an average number of more than 500 employees and exceeding either a total balance sheet of EUR 20 million or a net turnover of EUR 40 million within the meaning of Art3(7) of Directive 2013/34/EU.

During its examinations, the Authority noted that in the majority of the cases, although disclosures relating to environmental, employee, social and human matters, anti-corruption and bribery were reported, the due diligence processes implemented, and the outcome of such policies were not disclosed. Issuers should ensure that such processes and the outcome of the policies implemented are duly disclosed in the non-financial statement.

(3) Identification and Management of Principle Risks

Article 1(19a) of the Directive requires issuers to provide an explanation in the non-financial statement, of how the undertaking manages the principal risks related to those matters linked to the undertaking's operations including its business relationships, products or services, which are likely to cause adverse impacts in those areas.

During its examinations, the Authority noted that the majority of issuers did not disclose the Principle Risks in the non-financial statement. Issuers should ensure to disclose the Principle Risks in the non-financial statement in the next Annual Financial Report.

(4) Disclosure of Key Performance Indicators (KPI)

Article 1(19a) of the Directive requires large undertakings to disclose non-financial Key Performance Indicators (KPI) relevant to the business in the non-financial statement. Examples of KPIs could include quantitative measures relating to the environment such as the use of water and power, amongst others. Other measures might be challenging to quantify such as for example brand reputation, yet this intangible asset is a key driver of company performance and value. There are several ways how one could monitor the brand's reputation, including tracking online customer reviews and employee retentions.

During its examinations, the Authority noted that the majority of issuers did not disclose any Key Performance Indicators in the non-financial statement. Issuers should ensure to disclose in detail the Key Performance Indicators in the next Annual Financial Report.

(5) Climate Related Information

In June 2019, the Commission had issued a set of [guidelines on reporting climate-related information](#) which provides companies with practical recommendations on how to better report the impact of their activities on climate, as well as the impact of climate change on the business.

Going forward, the Authority expects that disclosures relating to climate-change are duly disclosed in the non-financial statements of all large companies.

Conclusion

We trust that the findings outlined above will assist issuers in preparing future non-financial statements, as necessary. The Authority remains committed to ensure that large listed companies comply with the requirements emanating from Directive 2014/95/EU.

Contacts

Should you have any queries on the above, do not hesitate to contact the Continuing Obligations Team within the Securities and Markets Supervision Function on transparency@mfsa.com.mt.