



NOTE

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The Danish Government's Position on Companies' Disclosure of non-financial Information

The Danish Government supports a new common EU-regulation on companies' disclosure of non-financial information. Employed in the smart way, regulation on disclosure of non-financial information will contribute to both European competitiveness and sustainable growth.

The Danish Government shares the Commission understanding of the crisis and the need to rebuild trust in business on the part of European citizens. We are also faced with major challenges in terms of violation of human rights, demolition of nature and environment, energy and climate and so forth.

The Danish Government is convinced that companies' disclosure of non-financial information is essential to both rebuild trust and to meet society's challenges, and therefore finds an EU-regulation important.

Moreover, the Danish Government supports a regulation which promotes CSR employed in a strategic way. Strategic CSR is where responsibility and profit is not understood as opposites, but rather are integrated in a business' core strategy and creates shared value by meeting both social and business needs. Employed in this way, CSR and regulation on reporting may both strengthen competitiveness and contribute to trust and sustainable growth.

It is the Danish experience that a flexible comply-or-explain law grants the companies the necessary freedom to work with social and environmental issues as they find fruitful to both business and society. Many Danish companies' state that they are positive to the Danish law on non-financial disclosure and that they have gained a better understanding of the values they create and their CSR business case.

It is thus the Danish Government's conviction, that a common EU-regulation in this area must fulfil the following requirements in order to be an effective tool to promote sustainable growth, increase competitiveness and avoid unnecessary burdens:

- 1) It is voluntary to engage in corporate social responsibility. The individual company decides for itself whether, how and to what extent it wishes to work with social responsibility. This entails a principle-based comply-or-explain model. Moreover, the individ-

ual company decides for itself, what material to disclose. The disclosed non-financial information should be audited by external auditors.

- 2) Potential EU-regulation must be coordinated with, and encourage the participation of European enterprises in the internationally recognised initiatives on social responsibility, here within in particular *UN Global Compact* and *Principles for Responsible Investments* (PRI), as well as the *Global Reporting Initiative* (GRI).
- 3) Disclosure on CSR is an administrative burden, and it is vital that any requirements on disclosure are composed in a way which keeps administrative burdens on a minimum level.
- 4) As point of departure, requirements to disclosure on non-financial information ought to be integrated with requirements to financial reporting. However, concerning potential publication of detailed information, some flexibility must be ensured in relation to how this information is made public.
- 5) A new EU-regulation on disclosure of non-financial information should encompass the large companies (both listed and non-listed), including investors. Large companies, whether listed or not, are of equal importance when it comes to rebuilding trust in business. Moreover, the large companies have in principle the same opportunity to create shared value to both business and society. Investors are important drivers to CSR in business, and the financial crisis has made it evident that there is a need to focus on responsible investments. Increasingly, private customers are also demanding responsibility from their investments managers.

Disclosure increases trust

Disclosure of non-financial information is by the Danish Government found important to rebuild trust in business on the part of European citizens and to improve the competitiveness of European Industry.

Corporate Social Responsibility increases trust in business among investors, customers and stakeholders, if companies disclose relevant non-financial information. CSR reinforces a company's reputation and gives the company a higher market value, and makes it easier to attract and retain competent employees and secure market shares.

Global challenges must be met by global standards on CSR

Human Rights and Labour Rights are violated, our natural resources are limited and our environment is under pressure. These issues will not disappear, unless we continue to encourage the companies to take action and discover business opportunities in responsible business conduct.

CSR employed in the strategic way, creates shared value – value to both business and society – and this is an opportunity we as societies cannot afford to miss out on. It is however, important to have the same expectations in the internal market, as on the global market, to avoid an inefficient functioning of the market. Therefore, it is imperative, that an EU-regulation on disclosure does not create any new European standards, but evokes internationally recognised standards as *UN Global Compact* and *Principles for Responsible Investments* (PRI), as well as the *Global Reporting Initiative* (GRI).

Moreover, the existing 4th Company Law Directive, which allows for different national regulations, ought to be harmonised in order to avoid a risk of development of different national regulations. Such a development would be detrimental to the internal market, as it would impose an unnecessary burden on the companies, without benefits to justify these.

A driver to sustainable growth and strengthened competitiveness

Business driven CSR is about managing social and environmental risks and opportunities in a way which creates value to both business and society. It entails integrating CSR in the business strategy and in concert with the business' core competences.

Flexibility necessary to promote making CSR a business case

It is of utmost importance that the companies have the necessary freedom to work strategically with CSR, i.e. that they may make their efforts in compliance with their strategic challenges and not be obstructed by rigorous and burdensome reporting requirements on issues which might not even be within their sphere of action and have any relevance at all to the company. Flexible reporting requirements are a necessity for CSR to be a driver to sustainable growth and strengthened competitiveness.

Flexibility ensured by a principle-based model

The necessary flexibility is ensured by a regulation where the reporting requirements are confined to whether or not the company has a CSR-policy or not, and if so, what their efforts are and what they have achieved. This is a principle-based model which does not create unnecessary administrative burdens or becomes an obstacle to business driven CSR.

It is the Danish understanding, that these principles entail reporting on important risks and opportunities of environmental and social character, and how these are integrated in the business strategy.

Investors' interests in a company's value

Non-financial assets and intangibles are significant drivers of corporate performance. Disclosure of non-financial information will deepen the understanding of a company's value, which is also demanded by more and more investors. Investors are increasingly finding that CSR is important to protect and increase their long-term investments.