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Today marks the two-month countdown till the end of the 2017/18 tax year and perhaps the most common financial year end date in the UK. For many corporate responsibility (CR) reporting professionals that will bring some anxiety as this is the first financial reporting cycle in which certain companies will have to provide additional non-financial and diversity information. The new requirements are part of the UK regulations to implement the long-awaited EU Non-financial Reporting Directive 2014/95/EU.

More specifically, traded companies, banks and insurance companies with more than 500 employees must disclose in their Strategic Report information relating to material environmental, employee, social, human rights, anti-corruption and anti-bribery matters. The intent is that these companies provide information that enables shareholders and other stakeholders to understand the material impacts of the companies' activities, products and services. The new regulations will require appropriate description of the company's business model, relevant policies and outcomes of implementing these policies, principal risks and how the company manages those risks, as well as key performance indicators demonstrating effective management of these non-financial matters. Listed companies will also have to include in their Corporate Governance Statement information about the company's board-level diversity policy and implementation with regards to age, gender, and educational and professional backgrounds.

Many of these requirements have already been in place in existing legislation or voluntary codes, especially for listed companies. Therefore, one may argue that the new regulations are not especially challenging and more catching up with current practice. Indeed, the changes will not significantly affect the reporting practices of large businesses, as they already often include such non-financial information in their annual or corporate responsibility reports. For those that do not, the regulations follow the 'comply or explain' principle which gives reporters the option to justify gaps in the governance and management arrangements.

So, what are the new regulations likely to achieve?

The Directive and national implementation regulations play an important role in establishing a common mandatory reporting framework in the European Union, where companies should provide non-financial information alongside their financial results. This has several benefits:

1. **Increasing visibility of company sustainability impacts**. While leading reporters will likely easily comply with the new requirements, others will have to catch up quickly resulting in **greater transparency** overall on the impacts of companies' activities, products and services on the environment, economy and society.

2. **Strengthening board oversight of sustainability performance**. The inclusion of non-financial information in the Strategic Reports makes it mandatory for Board Directors to review and approve its content. This will **raise the profile** of high-risk social and environmental matters and provide a platform for management to seek adequate resources to manage such risks.

3. **Supporting investor decision-making**. The common framework is also likely to **improve investors' understanding** of key risks and opportunities and result in more informed decisions. This will put even greater pressure on companies to improve their performance on ESG issues such as board-level diversity, respecting human rights in the supply chain, and climate change resilience and adaptation. Rachel Guthrie expressed this notion very well at the Canadian FSI Best Sustainability Report Awards: "We used to think of ESG issues as non-financial, but what we've seen recently is that they are in fact very financial."

What does it mean for standalone CR reports and are they on the brink of extinction?

Corporate Responsibility reports are here to stay, at least in the short-term. The Directive gives sufficient flexibility to companies on how to disclose relevant information in the most useful manner. We will probably see a certain amount of duplication of information in the short term, as this seems to be an easy way to comply with the regulations while maintaining the more creative nature of CR reports. However, CR reporters already must satisfy the requirements of various standards and disclosures platforms such as GRI, and CDP, and another set of similar but slightly different requirements can contribute to reporting fatigue both internally and externally.

Historically, the Annual Report and Accounts has been primarily targeted at shareholders and governments, and CR reports have enjoyed a broader audience. Therefore, with the new regulations in force, communication and reporting professionals are facing a new creative challenge: to strike a balance between breadth and depth of disclosure, the needs and wants of the various stakeholders, and the benefits of static and dynamic content. This new challenge will also come with an accelerated timescale to meet ARA publication deadlines and greater scrutiny from top management.

Ultimately, far from rendering sustainability reporting obsolete, the Directive will likely serve to increase the relevance of ESG information, wherever it appears.

Sancroft is well placed to help you conquer this new reporting challenge. Contact Ivaylo Dimov or Judy Kuszewski for more information.