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**Re: EU Directive 2014/95/EU as regards disclosure of non-financial and diversity information**

Dear Mr O'Ciardha

Thank you for inviting ACCA to make comment on the proposed implementation of the EU Directive 2014/95/EU as regards disclosure of non-financial and diversity information. Our comments are included below.

I would draw your attention to the work done by ACCA in the area of both diversity and integrated reporting at <http://bit.ly/1c0kvqk> and <http://bit.ly/1F3A1yU>

If you have any queries please contact me at the number below or my colleague Aidan Clifford at 01 4988907

Yours sincerely

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Head – ACCA Ireland

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## **ACCA Response to Consultation**

*Article 19a (1) and Article 29a (1) of the Directive provide for the disclosure of non-financial information. They also state that Member States may allow information relating to impending developments or matters in the course of negotiation to be omitted from the non-financial statement, which is part of the management report (also known as the directors' report) in exceptional circumstances where the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking.*

**Question 1 – Do you consider that Irish company law should permit information to be withheld in certain circumstances? Please give reasons for your preference.**

ACCA would support allowing this exemption, but requiring disclosure of having taken the exemption. Larger companies should not be put at a commercial disadvantage to smaller ones by requiring disclosure. Stakeholders should be entitled to know that the exemption is being taken and take whatever steps they feel appropriate based on this non-disclosure. ACCA recommends a “Disclose or explain” approach similar to the existing codes on corporate Governance.

*Article 19a(4) and 29a(4) of the Directive say that Member States may exempt an undertaking from the obligation to prepare a non-financial statement where it prepares a separate report corresponding to the same financial year, subject to conditions. The intention here is to allow companies the flexibility to produce the information at a time that is different from the date they produce their management report.*

**Question 2 – Do you consider that Irish company law should permit companies to publish the non-financial information in a report separate from the management report? Please give reasons for your preference.**

There are advantages to including such reporting in the annual financial statements, one being that, depending on where within the financial statements the disclosures are made, the auditor will either read the report to ensure that it is at least consistent with their understanding (where the disclosures are in the financial statements booklet but not within direct scope of the audit) or opine on the truth and fairness of the financial statements as a whole to include the disclosures under this Directive (where the disclosures are within the direct scope of the audit). However, the financial statements of a company are a formal communication to shareholders and designed to communicate specific information as specified in law, accounting standards and corporate governance codes. Adding additional information will distract from the primary function of the financial statements and also may serve to

have that additional information “lost” within 100+ pages of accounting disclosures. ACCA would be of the opinion that companies be allowed to make the disclosures within their financial statements or in a separate report or in both as they deem most appropriate in their own circumstances.

*Article 19a (6) and 29a (6) of the Directive says that Member States may require that the information in the non-financial statement (or in the separate report) be verified by an independent assurance services provider. The Directive does not clarify what might constitute such an independent assurance services provider. Question 3 – Do you consider that Irish company law should require information to be verified by an independent assurance service provider and, if so, how would that service be provided? Please give reasons for your preference.*

**Question 3 – Do you consider that Irish company law should require information to be verified by an independent assurance service provider and, if so, how would that service be provided? Please give reasons for your preference.**

The information is not easily verified (emissions) and subjective and not easily audited. ACCA would support a system of voluntary audit only and this position to be revisited by the Minister every five years to allow for changes as best practice develops. However, where an audit requirement is deemed appropriate, it would be ACCA opinion that this should be performed by or under the control of the auditor and not controlled and directed by so called “Skilled persons” or other external advisors. Statutory Auditing has very tightly controlled entry requirements and has state oversight of the performance and reporting of the audit opinion; not all of the other external specialists will have this level of oversight or control. Auditing standard already allow for the use of external experts in the performance of statutory audits of financial statements. These would include experts in property valuation, mineral or precious stones valuation, actuaries or specialist inventory valuation. It would require very little application guidance to extend this to other assurance assertions such as diversity or other matters.

As a related issue, once there is a requirement to disclose and audit the disclosures, there arises a need to ensure that these disclosures are made to a common standard. Some reference may be needed to allow the designation of standards for reporting and standards of auditing and this needs to be implemented in a flexible way as standards in this area develop.

*Article 1(2) – Amendment to Article 20 of Directive 2013/34/EU on content of the corporate governance statement*

*The Directive adds a new requirement to the list of content in the corporate governance statement. That requirement is to give a description of the diversity policy that is applied to the companies’ Board of Directors with regard to such aspects as, for instance, age, gender, or educational and professional backgrounds. The disclosure should also include a description of the objectives of that policy, how it has been implemented and the results in the reporting period.*

*Where companies do not have shares admitted to trading on either a regulated market or a “multilateral trading facility”, but do have other forms of securities admitted to trading on a regulated market, Member States may exempt them from making these diversity disclosures in the corporate governance statement.*

**Question 4 – Do you consider that companies with securities other than shares admitted to trading on a regulated market, and which do not have shares admitted to trading on any market, should be exempted from making disclosures relating to their diversity policy?**

No, the stakeholder for this type of information may not be the shareholders; the information is relevant to society as a whole and should be provided by all entities within scope.

***Other relevant issues***

*Please include your views on any other issues that you might see as relevant to the transposition of this Directive.*

None.