Title: EU Directive on Non Financial Reporting **IA No:** BISCFA001 **RPC Reference No:** **RPC-3469(1)-BIS** **Lead department or agency:** Department for Business Energy and Industrial Strategy **Other departments or agencies:** **None**	**Impact Assessment (IA)** **Date:** 08/08/2016 **Stage:** Final **Source of intervention:** EU **Type of measure:** Secondary legislation **Contact for enquiries:** John Conway john.conway@beis .gov.uk
Summary: Intervention and Options	**RPC Opinion:** Awaiting Scrutiny

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANDCB in 2014 prices)	**One-In, Three-Out**	**Business Impact Target Status**
£-108.27	£-108.27	£11.6m	Not in scope	Qualifying provision

What is the problem under consideration? Why is government intervention necessary?

Annual reports provide shareholders and investors with information on a company's financial and non-financial performance. Non-financial information comprises quantitative and qualitative data on the business's operations and principal risks. The quality and quantity of non-financial reporting currently fails to adequately address the asymmetry of information that exists between companies and investors. Additionally there is no standard reporting framework across Europe to allow consistent comparison of companies. To address these issues a regulatory intervention at European level is necessary to set harmonised minimum non-financial reporting requirements.

What are the policy objectives and the intended effects?

The policy objective is to enhance the effectiveness of non-financial reporting by 'public interest entities' (PIEs), which are companies whose activities are likely to have a significant impact on the economy and society (such as listed companies, banks and insurers). The changes to non-financial reporting requirements to increase transparency and accountability are intended to encourage companies to better assess non-financial risks, and opportunities and incorporate this into their business strategies and models. Dissemination of this in the Annual Report would increase transparency and help investors to make more informed investment decisions.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1) Do Nothing
2) Minimum implementation of the EU non-financial reporting directive (NFRD) for PIEs that are in scope of the Directive (i.e. those with more than 500 employees). This is the preferred option;
3) Implement Option 2 but extend the NFRD requirements to all companies quoted on an EU regulated market (regardless of their number of employees); and
4) Implement Option 2 and dis-apply the current UK reporting requirements for all quoted companies outside the scope of the EU NFRD (those with fewer than 500 employees).

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 09/2020

Does implementation go beyond minimum EU requirements?		No			
Are any of these organisations in scope?	**Micro** No	**Small** No	**Medium** No	**Large** Yes	
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:**		**Non-traded:**	

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: Margot James ***Date:*** 2 November 16

Summary: Analysis & Evidence

Policy Option 2

Description: Minimum implementation of the EU NFRD for PIEs with over 500 employees.

FULL ECONOMIC ASSESSMENT

Price Base Year 2016	PV Base Year 2017	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:-189.24	**High:** -50.25	**Best Estimate:** -108.27

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	3.7		5.4	**50.2**
High	13.2		20.4	**189.2**
Best Estimate	7.6		11.7	**108.3**

Description and scale of key monetised costs by 'main affected groups'

- Costs to large quoted PIEs (with more than 500 employees) and their subsidiaries of meeting the additional reporting requirements of the NFRD: £10.65m in the first year (which includes familiarisation costs) and £6.47m per year thereafter.
- Costs to large unquoted PIEs (with more than 500 employees) and their subsidiaries of meeting the additional requirements of the NFRD: £8.49m in the first year (which includes familiarisation costs) and 5.22m per year thereafter.
- Familiarisation costs of £0.20m to quoted and unquoted companies in scope but already reporting on additional matters required by the NFRD.

Other key non-monetised costs by 'main affected groups'

This option introduces different reporting requirements among companies depending on their number of employees. This would result in costs for investors and other stakeholders - as it reduces the level of comparability across years and across listed companies. It also means that companies that move between categories (e.g. by growing in size) would change the non-financial reporting frameworks they use. This could result in administrative costs as well as a reduction in comparability of reports for the same company over time.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0		0	**0**
High	0		0	**0**
Best Estimate	0		0	**0**

Description and scale of key monetised benefits by 'main affected groups'

There are no estimated monetised benefits.

Other key non-monetised benefits by 'main affected groups'

Better non-financial information would be made available to stakeholders of quoted, as well as unquoted, PIEs helping investors to make more informed investment decisions. The increased transparency and accountability would encourage companies to better assess non-financial risks and opportunities and incorporate this into their business strategies and models. Using an EU-wide framework would further enhance the impact and comparability of the information for producers and users of company reports.

Key assumptions/sensitivities/risks | **Discount rate (%)** | 3.5

- We use information available on the FAME database to estimate the numbers of reporting and subsidiary companies affected and quantified costs using the interim results of a bespoke survey and ASHE data to estimate the resource costs to PIEs and their subsidiaries.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 11.6	**Benefits:**	**Net:** -11.6	£0

Evidence Base (for summary sheets)

Background

Annual Reports are crucial information sources that shareholders and creditors need to understand how the companies in which they invest/may invest, and to whom they lend/may lend, are performing. One of the core strengths of the UK corporate governance system is the transparency that it affords to potential investors, and creditors and the power that shareholders and creditors have to challenge company directors. However, this challenge will only be effective if companies provide shareholders and creditors with high quality information on which to act.

The requirements to prepare individual financial statements, including non-financial information, have been in place since 1978. The requirement for consolidated financial statements for group accounts has been in force since 1983. The European Directive that provides a complete set of rules for the preparation and content of statutory financial statements and management reports is often referred to as the "Accounting Directive"[1]. Directive 2014/95/EU[2]. "the Non-Financial Reporting Directive" (or NFRD) builds on the provisions in the EU Accounting Directive for companies to disclose information, where necessary for an understanding of the business, on environmental, social and community matters, in a non-financial statement as part of their strategic report. These are expected to be translated into UK law through amendment to the Companies Act 2006 which establishes requirements for companies to prepare a business review as part of their Annual Report[3]. The requirements will apply to financial years beginning on or after 1 January 2017.

The term "non-financial" information refers to narrative information that adds, in part, depth and context to the financial information contained in the company accounts, published in the Annual Report. In addition it describes how the directors of the company have considered the non-financial factors that affect the performance of the company. While the information provided to shareholders to demonstrate this consideration is unique to the company, it can be divided into broad categories. Using the classifications in the NFRD (, Table 1 below provides an overview of the type of information that may be provided.

Table 1: overview of non-financial matters

Category	Overview
Environmental	This will be a description of the company's environmental policy and an assessment of the risks to this policy from the company's operations. This may also include some examples of how the company has implemented this policy.
Social & employees	A description of the company's policy concerning the people that may be affected by the company's operations. This information will also include the company's policy concerning its employees, possibly including retention, training and promotion. In addition it may contain information required by the diversity requirement
Respect for human rights	This information will provide shareholders with an insight into how the company tackles human rights issues both internal and external to the company. This may include an assessment of the company's supply chain and the risks that this presents.
Anti-bribery and corruption matters	This information will include a description as to how the company protects itself from bribery and corruption.
Diversity	The company will be required to report its diversity policy for the management, supervisory and administrative bodies. Included in this will be the objectives of the policy, for example to ensure a wide range of experience in the company. The company will need to report the implementation and the results.

[1]Directive 2013/34/EU http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034&from=EN
[2] Available at : http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.330.01.0001.01.ENG TBC
[3] For further information on implementation see section x on enforcement.

Problem under consideration

The UK recognises the importance of clear, concise narrative reporting. Three separate consultations were undertaken between 2010 and 2012 that sought views on the problems and possible solutions with the current narrative reporting framework in the UK. Subsequently, in 2013 regulations[4] were introduced to restructure and simplify the reporting framework by amending the Companies Act 2006.

At European level there have been growing concerns expressed about the quality and comparability of narrative information and its utility. These were clearly expressed by stakeholders in their response to an EU consultation in 2011[5] and are the driving force for the NFRD's proposed changes.

Quality of non-financial disclosure

The environmental and social impacts of businesses have been subject to public debates for at least three decades. There have been some serious incidents, allegedly caused by the relevant businesses' failure to manage properly the environmental and social risks, which have received significant public attention and media coverage[6]. Market and social pressure on businesses, for better non-financial reporting in the UK, have been growing over recent years and sustainability is moving up the corporate agenda. In parallel, the EU found that non-financial performance appears to be considered increasingly important to investment strategies, particularly the long-term ones, as demand for non-financial information by both socially responsible and mainstream investors' increases[7]. The proliferation of sustainability ratings and indexes could also be seen as additional evidence in this respect.[8]

Statistics have shown almost 80% of the world's 250 largest companies report on their sustainability; and the number of EU companies publishing sustainability reports using, for example the Global Reporting Initiative guidelines, has increased from 270 in 2006 to over 815 in 2011[9].

The analysis and the public consultations conducted by EU Commission noted that, despite such uptake of companies using reporting frameworks to prepare non-financial statements, the pace of progress towards more transparent disclosure practices remains slow. The majority of users (including particular investors and civil society organisations) consider that the current level of transparency in this field is unable to meet their information needs[10].

The lack of transparent non-financial information affects specific stakeholder groups: preparers (companies) and users (investors, non-governmental organisations (NGOs) and public authorities). These effects are as follows:

- Company performance can be suboptimal if companies do not fully integrate non-financial risks and opportunities into their business strategies;
- Investors and other users see companies as less accountable as they feel their information needs are not being addressed; and

4 The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, available at http://www.legislation.gov.uk/ukdsi/2013/9780111540169/pdfs/ukdsi_9780111540169_en.pdf
5 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013SC0127&from=EN
6 IMPACT ASSESSMENT Accompanying the document Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of non-financial and diversity information by certain large companies and groups: Available at http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52013SC0127.
7 Ibid
8 For example the Dow Jones sustainability, the FTSE4Good, or the Tomorrows' value Rating
9 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013SC0127&from=EN
10 Available at: http://ec.europa.eu/internal_market/consultations/2010/non-financial_reporting_en.htm

- Investors and creditors, due to the lack of high quality non-financial information, may fail to build this information into their decision-making processes and make sub-optimal decisions as a result.

Overall, according to the European Commission, the majority of users consider that information currently provided by companies is often not sufficiently material, balanced, accurate, timely and comparable. The following specific points in response to the EU Commission's consultation on Non-Financial Disclosure[11] were highlighted:

- Companies focus on positive aspects of their performance only;
- Reports are often considered inconsistent over time or information is not disclosed on a yearly basis;
- Performance-related information is not reported and material negative impacts are often not disclosed;
- Disclosures do not cover aspects of significant relevance to both internal and external stakeholders, particularly on risk management aspects, human rights and corruption matters; and
- The use of Key Performance indicators (KPIs) is considered poor by most users.[12]

Supporting these findings is a report published by the United Nations Conference on Trade and Development (UNCTAD) in 2010[13] that underlines significant inconsistency in reports. According to other research, of the 20,000 public listed companies recently interviewed by Bloomberg, only 25% publicly reported on a single piece of quantitative data concerning environmental, social or governance issues[14]. As regards human rights in particular, a study conducted by the University of Edinburgh showed information reported by companies, in most cases, is isolated and anecdotal[15].

Disclosure and comparability of information

More than 50% of the reports are published by companies established in only four large Member States (United Kingdom, Germany, Spain and France)[16].

Alongside the importance of reporting per se, the second issue addressed here is the comparability of information that companies disclose. While there is much debate on companies being able to demonstrate their individuality via their reporting there can be a need for investors and creditors to be able to compare company performance in various areas. For example an investor interested in the long term sustainability of a company may be interested in comparing the environmental performance of various companies in a similar field. Similarly an investor investing in high energy intensive industries may be interested in what non-financial actions it has put in place to mitigate environmental and reputational risk.

Over the years, national reporting frameworks have developed to address national needs. Some member states have implemented legislation which goes beyond the requirements of the NFRD. However, such requirements vary largely in terms of content or the type of companies producing a non-financial report. For example, in Denmark, companies are required to state whether they have a Corporate Social Responsibility (CSR) policy and, if they do, to describe its implementations and results,

11Public Consultation on Disclosure of Non-Financial Information by companies. The summary report and the 260 responses received are available at http://ec.europa.eu/internal_market/consultations/2010/non-financial_reporting_en.htm
12 IBID p10
13"Investment and Enterprise Responsibility Review: Analysis of investor and enterprise policies on corporate social responsibility", UNCTAD, 2010. Based on a sample of 100 amongst the largest MNCs worldwide, http://www.unctad.org/en/docs/diaeed20101_en.pdf
14 Bloomberg analysis, data provided by email to European Commission services on 9 September 2011
15 "Study of the Legal Framework on Human Rights and the Environment Applicable to European Enterprises Operating Outside the European Union", study prepared by the University of Edinburgh for the European Commission, 2010, http://ec.europa.eu/enterprise/policies/sustainable-business/files/business-human-rights/101025_ec_study_final_report_en.pdf
16 "Global Winners& Reporting Trends", CorporateRegister.com, 2012 available at http://www.corporateregister.com/crra/help/CRRA-2012-Exec-Summary.pdf

while in the UK quoted companies are required to disclose social and community matters where necessary for an understanding of the business including the gender of staff in senior positions in a quoted company. These divergences in legislative frameworks have led to difficulties for investors and analysts who are less able to benchmark or assess company performance across the EU.

In response to these problems the commission has agreed a set of standardised requirements within the non-financial statement as stipulated by the NFRD applicable in all member states across the European Union. Specifically they will require the companies in scope (discussed below) to:

1. To disclose, where necessary for an understanding of the business, information on environmental, social and employee matters, respect for human rights and anti-corruption and bribery matters.
2. This disclosure should include policies related to the matters in point 1 including any due diligence measures implemented and the outcomes of these policies.
3. Report on the risks faced by the company in relation to those matters, including where relevant and proportionate, its business relationships, products and services which are likely to cause adverse impacts in those areas and how the company manages those risks.
4. The company will also be required to disclose its diversity policy including such aspects as, for instance, age, gender, educational and professional background. In addition, the company will be required to give a description of how this policy has been implemented and the results of this policy.
5. Finally businesses are encouraged to use non-financial key performance indicators which will give a numerical measure of progress against certain targets. Those companies wishing to do so may choose from internationally recognised frameworks to assist them in compiling their report. Whilst this is not a mandatory option, companies who have chosen to use one of the international frameworks will be required to disclose which frameworks they have used to their shareholders.
6. If the company does not have a specific policy, an environmental policy for example, it will still be required to make a disclosure containing a clear and reasoned explanation as to why no policy is pursued.

The requirements largely mirror the UK's existing requirements for quoted companies. There are 3 main differences which are to be addressed by the implementation.

- Companies in the UK are not currently required to disclose information on anti-bribery and corruption policies and diversity policies;
- Where information is not provided on a specified non-financial matter, the current requirement in the UK is to state that it has not been provided. Under the NFRD, a reasoned explanation of why certain information is not provided would be required. This would allow investors to form a judgment on whether companies are adequately managing their risk across the full range of non-financial issues that may affect the company.
- Currently, in the UK, only quoted companies (those that have listed equity traded on an EU regulated exchange) are subject to greater non-financial reporting requirements. The NFRD requirements would also apply to other large companies (with more than 500 employees) that are deemed to be of public interest, as their activities could have significant impact on the economy and society. These include companies that have securities other than equity (such as debt) traded on an EU regulated exchange as well as unquoted credit institutions and insurers.

Rationale for intervention

The underlying problem is that of information asymmetry between users of non-financial information and the directors of the company – with directors having access to a much greater amount, and quality, of non-financial information than shareholders, creditors and other external stakeholders (e.g. NGOs) in the company. Good-quality reporting allows these stakeholders to hold companies to account for their behaviour both in the UK and overseas.

The NFRD, which largely mirrors the UK's existing requirements on quoted companies, includes additional disclosures on anti-bribery and corruption matters and diversity policies. It also extends the scope of the greater non-financial disclosure requirements on quoted companies in the UK to include large unquoted companies that are otherwise also deemed to be PIEs.

The benefits of these additional disclosures in the UK and the standardisation of requirements across the EU can best be realised by implementing a regulatory solution. This is due to the existence of both market and regulatory failures.

Market Failures

There is evidence (detailed earlier in the IA) that companies have not been able to provide an appropriate response to users' need for non-financial transparency. The reason for such failure is to be found in the insufficient and uneven incentives provided by the market: on the one hand, the cost of transparency is certain, measurable and short term. Conversely, the benefits of enhanced transparency are often perceived as uncertain, long-term, or external to the company.

For example companies may wish to reduce cost by not investing in processes that monitor and mitigate anti-bribery and unethical behaviour by their suppliers and customers. They might perceive the risks to be small or they may place greater weight on the short term gains from a lower cost supplier, even if the risks of their involvement in bribery and corruption are higher. Where a company does have information on a high risk of bribery and corruption among suppliers or customers, it would have the disincentive to disclose it for fear of investor reaction to this information and the possible impact on their cost of capital.

Such asymmetry determines that companies do not always have sufficient incentives to disclose non-financial information – and that the overall level of non-financial disclosure is socially sub-optimal. One could assume that if companies' non-financial impacts are not known to stakeholders, companies will have little incentive to adjust their behaviour and to take due account of non-financial externalities into their decision-making.

The asymmetric information between those that manage the company and those that own it or trade with it can lead to sub-optimal investment and trading decisions as well as a misalignment of managers' incentives away from delivering best performance for the company.

Regulatory Failure

The development of national reporting frameworks, to meet national needs, has led to the development of a fragmented framework at EU level. Some Member States have implemented legislation going far beyond the requirements of the current Accounting Directive in regards to non-financial reporting. Others have already implemented reporting frameworks at national level; these frameworks have been developed to address national needs.

The variation across countries can increase the costs to preparers. In addition, given the plethora of voluntary agreements across EU member states and the differing quality of reporting that result, the fragmented framework presents difficulties to analysts and investors who are less able to benchmark companies. The introduction of a set of standardised legal requirements across Member States will help provide certainty to preparers as to the category of information required for the non-financial statement. Investors and analysts will be able to compare company performance by using the information disclosed under these standard legal requirements.

Why is Government action necessary?

Effectiveness of government action in non-financial reporting is demonstrated by the BIS changes to the Companies Act 2006 regulations to restructure the Annual Reports. These regulations require companies to produce a Strategic Report - a concise description of the company's financial year including disclosure on environmental, social and community, employee matters and human rights. Companies are also required to prepare Directors' Report, which would contain supporting disclosure to for the Strategic Report.

Research by reporting consultancy Black Sun[17] has shown that these modest changes to the reporting framework have had a positive effect. Black Sun finds that the changes have acted as a catalyst for companies to revisit policies and processes with a view to preparing concise reports, one of the objectives of the regulations.

In addition, this research argues that there has been a marked improvement in reporting as key disclosures such as the strategy and business model will have been broken down, contextualising and explaining in accessible segments, to make narrative reports more meaningful.

It is arguable whether companies would have taken the opportunity to refocus and rethink their narrative reporting without the intervention of government. The example above shows that without government intervention there may be little incentive for companies to improve their narrative reporting.

Policy objectives

The policy is designed to harmonise non-financial reporting across the EU internal market and increase the performance of large PIEs in the UK by:

- Increasing the transparency of large PIEs, including increasing the relevance, quantity, consistency, and comparability of the non-financial information currently disclosed, by strengthening and clarifying the existing requirements.
- Encourage companies to better assess risks relating to bribery and corruption and incorporate this into their business strategies and models.
- Increasing diversity in the boards and staff of companies through enhanced transparency concerning their diversity policy in order to help facilitate more effective oversight of the management and governance of the company.

The increased transparency would also help investors to make more informed investment decisions.

[17] Making the Connections page 2 available at: http://www.blacksunplc.com/corporate/news/articles/619/the_complete_100_making_connections_.html

Description of options considered (including status-quo)

Option 1: Do nothing

This will represent no change or improvement to the current UK requirements for non-financial reporting, leaving in place the existing requirements with any improvements being driven by business best practice. However, the NFRD **must be implemented by 06/12/2016** this is not a feasible option and would not address the information failures identified by the EU. However, it should be the counterfactual with which other options are compared.

Option 2: Minimum implementation of the EU non-financial reporting directive (NFRD) for PIEs that are in scope (i.e. those with more than 500 employees) - preferred option

This option will implement the NFRD to the scope agreed in the negotiations by updating the current UK requirements. This will apply to eligible PIEs as defined in art 2(1) of Directive2013/34/EU (the Accounting Directive). NFRD requirements would therefore be placed on PIEs with more than 500 employees, leaving the UK requirements as they are for those with fewer employees. This would result in a dual system among quoted companies i.e. quoted companies with less than 500 employees would report as they do currently and those with more than 500 employees would have to additionally meet the incremental changes brought in by the NFRD.

As noted above the NFRD requirements mirror the UK's existing requirements on quoted companies. The main impact on large quoted companies would be from the addition of disclosures on anti-bribery and corruption matters and diversity policies. These two additional requirements would not, however, be placed upon on smaller quoted companies which are out of scope and not included in this option.

NFRD requirements also apply to large unquoted companies that are otherwise also deemed to be PIEs because they are credit, institutions or insurers or have listed debt. Currently, in the UK such companies not covered by the enhanced reporting framework of quoted companies. They are instead subject to less stringent non-financial reporting requirements. These companies would therefore experience a greater impact from the NFRD requirements.

As part of minimum implementation, we have taken up the exemption in the NFRD to exempt debt listed companies from the requirement to report on diversity policy. This exemption applies to "undertakings [that] have issued shares which are traded in a multilateral trading facility within the meaning of point (15) of Article 4(1) of Directive 2004/39/EC".[18]

Option 3: Implement the NFRD requirements on all PIEs with more than 500 employees and extend this to all quoted companies with fewer than 500 employees.

This option replaces the existing UK non-financial reporting requirements on <u>all</u> quoted companies with the requirements of the NFRD. As in Option 2, it also includes applying the new requirements to large unquoted PIEs (which are in scope of the NFRD).

Currently in the UK, <u>all</u> quoted companies are required to prepare an 'Enhanced Strategic Report' that covers the main proposals of the NFRD. The introduction of EU reporting requirements under Option 2

[18]15) 'Multilateral trading facility (MTF)' means a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules – in a way that results in a contract in accordance with the provisions of Title II;

would create a divide in the UK framework, with smaller quoted companies compiling their reports to UK legislations and larger ones preparing theirs to the EU requirements. Extending the EU requirements to all listed companies in the UK will remove this divide and provide companies with certainty as to their obligations in regards to the preparation of non-financial information. It would also maintain comparability between their reports.

This option therefore has additional benefits and costs over and above the minimum implementation requirements of the NFRD, as a result of the additional impact on smaller quoted companies.

Option 4: Implement the NFRD requirements on all PIEs with more than 500 employees and repeal the UK's reporting regulations on quoted companies with less than 500 employees to produce an Enhanced Strategic Report.

This option will apply the EU requirements to the population of companies stipulated in the NFRD and repeal the UK's current enhanced reporting requirements on smaller listed companies.

Under this option, non-financial disclosures requirements on smaller quoted companies outside the scope of the NFRD will be reduced to those currently on unquoted companies.

This option would have a deregulatory impact – but at the cost of non-financial information currently provided by smaller quoted companies. These costs would be in terms of the loss of benefits to investors and other stakeholders of having the additional non-financial information on these companies. It would also remove some of the incentive on these companies to consider non-financial matters and the risks they pose in the course of their business.

Monetised and non-monetised costs and benefits of each option (including administrative burden);

Estimating the number of companies affected by the NFRD

The NFRD requirements apply to PIEs that have more than 500 employees. PIEs are defined as entities that:

- **Have transferable securities admitted to trading on an EU regulated market**[19]. We have used the FAME database[20], London Stock Exchange statistics[21] and data from the UK Listing Authority Official List to identify those companies which are quoted on a UK regulated market or have listed debt securities on the Financial Conduct Authority (FCA) Official List[22]. Using these data sources we estimate around 800 UK incorporated companies with equity are listed on an EU regulated market. There are a further 600 companies that issue only debt or derivatives.
- **Are credit institutions and/or insurance undertakings**. The Prudential Regulatory Authority (PRA) has a list of about 340 insurers that would be affected and Bank of England data[23] shows there are over 150 Banks affected. Building Societies and Lloyds[24] Syndicates are out of scope of the NFRD requirements.

[19] Within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments
[20] FAME database Bureau Van Dijk Electronic Publishing, 2014 data extracted the 22/09/2014
[21] http://www.londonstockexchange.com/home/homepage.htm
[22] http://www.fsa.gov.uk/ukla/officialList.do
[23] http://www.bankofengland.co.uk/pra/Pages/authorisations/banksbuildingsocietieslist.aspx
[24] Syndicates of the Lloyd's of London insurance market.

We matched these companies to those on the FAME database to determine:

- Which had more than 500 employees – and therefore were in scope of the NFRD ;
- The extent to which the company would be affected. Quoted companies already meet most of the NFRD requirements, while current UK regulations do not require unquoted companies do to meet similar requirements and would therefore incur greater costs; and
- To estimate the number of subsidiary companies that would potentially be affected, because their parent company was in scope of the regulations.

However there were some instances of missing data in the FAME database, so in some cases data had to be imputed.

Quoted Companies in scope of EU NFRD

- Based on FAME data 389 quoted companies (49% of the total) have more than 500 employees, which are in scope of the NFRD. These companies already meet the requirements of the UK Enhanced Strategic Report and therefore meet most of the NFRD requirements. They would be affected only by the incremental changes brought about by the NFRD to the current UK requirements on quoted companies. This includes providing information on anti-bribery and corruption matters and diversity policy. These companies would also be affected by the requirement to provide a reasoned explanation for the omission of information on specified matters (such as diversity) – rather than just stating that it is not provided. Evidence from the consultation and post-consultation meetings with stakeholders suggested that these costs would be negligible but no estimates were assumed these would be negligible. Furthermore, we expect that at the present time companies concerned about the credibility of their reports would rarely state that they have omitted information without explaining why.
- 94% of the 389 companies with more than 500 employees provide group accounts and 6% had other account types[25]. Those doing full accounts are estimated to have 54,000 recorded subsidiaries between them. These would be affected but to a lesser extent than their parent companies - as they would have to provide information to their parent companies. Furthermore, not all of these subsidiaries would be actively trading companies in their own right. It is estimated that about 19% of registered companies are dormant.[26] We therefore estimate that 43,740 (or 81%) are actively trading companies that would also incur costs of the additional requirements of the NFRD.
- We are conducting a research project into the impact on company behaviour of current UK. [27] The findings indicate that many large quoted companies are already reporting on anti-bribery and corruption matters and diversity matters (despite it not being a current requirement). 32 of the 38 large quoted company respondents (84%) said they already reported on anti-bribery and corruption matters. 27 of the 38 large quoted company respondents (71%) said they already reported on diversity issues. The percentage of companies that would incur additional costs of reporting these matters is therefore 16% and 29% respectively. We apply these percentages to the population of 389 to get our best estimate of companies (and their associated subsidiaries) that would incur further costs from the NFRD changes. The 95% confidence interval for the best estimates of percentages already reporting on anti-bribery and diversity are +/- 11.1% and +/-13.7% respectively. We use these as the lower and upper estimates of the percentage of the population that would incur additional costs.

[25] FAME data

[26] Companies House data shows that 18.6% of companies on the register are dormant, see Companies Register of Activities in the UK 2014-15, Companies House.

[27] The Impact of Non-Financial Reporting, IFF-Belmana survey interim results, commissioned by the Department for Energy and Industrial Strategy in 2016. This research is to be based on 400 computer assisted telephone interviews (CATI) of companies including quoted and unquoted PIEs. It is currently in its fieldwork stage but we have been able to draw on the interim findings to inform this IA. The interim results of the survey were provided in June 2016 and cover 285 companies, 60 of which are quoted companies.

Unquoted Companies in scope of EU NFRD

- Of the unquoted PIEs, 148 (14%) have more than 500 employees. These are in scope of the NFRD. These companies do not currently meet the requirements of the UK Enhanced Strategic Report and therefore would experience a greater impact of the changes brought about by the EU NFRD. They would incur the costs of reporting on environmental matters, employee matters and human rights matters, as well as having to use Key Performance Indicators (KPIs), which only quoted companies in the UK have done so far. They would also have to report on anti-bribery and corruption matters. As the reporting on diversity policy only apples to quoted companies under the NFRD, unquoted PIEs would not be affected by this requirement.
- Of the 148 companies, 56% provide group accounts and 44% provide full or other types of accounts. The unquoted companies doing group accounts have about 3000 subsidiaries between them. These would be affected to a lesser extent - as they would have to provide information to their parent companies. However, not all of these subsidiaries are actively trading companies. We estimate that 2,430 (81%) are actively trading companies that would incur costs of the additional requirements of the NFRD.
- The survey evidence also indicated that many large unquoted PIEs were already reporting on anti-bribery and corruption matters (despite it not being a current requirement). 6 of the 16 large unquoted PIE respondents (37%) said they already reported on anti-bribery and corruption matters. The percentage of companies that would incur additional costs of reporting this matter is therefore 63%. We apply this percentage to the population of 148 PIEs in scope to get our best estimate of companies (and their subsidiaries) that would incur further costs from this requirement. The 95% confidence interval for these estimates is +/- 22.3%. We use this to get lower and upper estimates of the percentage of the population that would incur the additional costs.

Based on our survey evidence, therefore, we do not expect all companies in scope of the changes to be affected by the changes given the reporting they already do. Table 2, below, shows our low, high and best estimates of the percentage of companies that would be affected by (i.e. would incur additional reporting costs from) the changes under the minimum implementation of the EU NFRD.

Table 2
Percentage of companies affected by the EU NFRD Changes

	Low	Best	High
Percentage of large quoted companies needing to start reporting on Antibribery and corruption matters	5%	16%	27%
Percentage of large unquoted PIEs needing to start reporting on Antibribery and corruption matters	40%	63%	85%
Percentage of large quoted companies needing to start reporting on diversity matters	15%	29%	43%
Percentage of large unquoted PIEs needing to start meeting all other additional EU NFR requirements	100%	100%	100%

Survey evidence also shows that some unquoted companies already report voluntarily on other matters required by the NFRD. 56% employee matters, 40% report on environmental matters and 11% report on human rights matters.

However, we expect that the cost of voluntary reporting by unquoted companies is already reflected in the mean costs reported by these unquoted companies of their current NFR – which was part of the same survey.

The average incremental cost to unquoted companies is taken to be the difference between the mean reported cost of their current NFR and that of quoted companies who already meet these requirements. As a result, the voluntary reporting has already been taken into account in our average incremental cost to unquoted companies. We therefore make no further adjustments and apply this cost to the population of unquoted companies that are brought into scope.

Table 4 shows our best estimates of companies whose reporting practices would be affected by the changes.

Table 4

	Best estimate of number of reporting companies	**Best estimate of number of subsidiaries**	**Total number of companies affected**
Large quoted companies needing to start reporting on Anti-bribery and corruption matters	(389 X 16%) 61	(43,740 X 16%) 6,906	6,968
Large unquoted PIEs needing to start reporting on Anti-bribery and corruption matters	(148 X 63%) 92	(2430 X 63%) 1,519	1,762
Large quoted companies needing to start reporting on diversity matters	(389 X 29%) 113	(43,740 X 29%) 12,662	12,774
Large unquoted PIEs needing to start meeting all other additional EU NFR requirements	148	2,430	2,578

<u>Quoted companies not in scope of the NFRD but considered under Option 3</u>

- 411 (51%) quoted companies have less than 500 employees. These are not in scope of the minimum EU requirements but have been considered for inclusion in the changes in the UK implementation of the NFRD. These companies already meet the requirements of the UK Enhanced Strategic Report and therefore meet most of the EU NFRD requirements. If the EU requirements are extended, they would be affected only by the incremental changes brought about by the EU NFRD to the current UK requirements on quoted companies. This includes providing information on Anti-bribery and corruption matters and diversity policy.
- 37% of these have group accounts and 63% have other types of accounts. Those doing full accounts have about 600 recorded subsidiaries between them. These would be affected to a lesser extent - as they would have to provide information to their parent companies. Not all of these subsidiaries are actively trading companies. As above we estimate that 81% of these (486) are actively trading companies that would also incur costs of the additional requirements of the NFRD.
- To estimate the percentage of companies that would already be reporting on anti-bribery and diversity policies, we checked the annual reports of a random sample of 30 of the 411 companies. We found that 50% of these reported on anti-bribery and corruption matters and 77% reported on diversity matters. The 95% confidence intervals for these estimates are +/-17.2% and +/-14.5% respectively. We use this to get lower and upper estimates of the percentage of the population that would incur the additional costs. Table 4, below, shows our low, high and best estimates of the percentage of companies with fewer than 500 employees that are expected to incur additional reporting costs under the NFRD in Option 3.

Table 4
Percentage of smaller quoted companies affected by the NFRD in Option 3

	Low	Best	High
Percentage of small quoted companies needing to start reporting on Antibribery and corruption matters	33%	50%	67%
Percentage of small quoted companies needing to start reporting on diversity matters	9%	23%	38%

Benefits

Option 1

For those companies currently required to produce non-financial statements there may be little incentive to improve the quality of the disclosures made. While some companies in the vanguard of non-financial reporting will seek, year-on-year, to make improvements, there will be little incentive for those companies whose thinking concerning their annual reporting is less developed to make any improvement.

Option 2: Minimum Implementation of NFRD

This option is expected to increase the quantity of information available to stakeholders compared to the baseline scenario (do nothing) by:
- increasing the number of companies disclosing information – large unquoted PIEs would now have to report on specified non-financial matters like quoted companies currently do
- additional disclosures on those currently reporting – quoted companies with more than 500 employees would have to report on anti-bribery and corruption matters and their diversity policies or provide an explanation for any omissions

Furthermore, the requirements are designed to improve the content of non-financial disclosures (i.e. by requiring the reporting of company policies, performance and the risk management aspects of non-financial matters). This will lead to further improvement in the quality of the information disclosed compared to the baseline scenario.

It is not possible to monetise the benefits. A qualitative assessment is provided below.

Benefits to investors

Recent studies indicate that investors increasingly incorporate risks relating to environmental social and governance (ESG) matters into their decisions. A global institutional investor survey (done by EY in 2015) shows evidence of a growing reliance on non-financial information. Investors are using nonfinancial performance to draw conclusions on value to inform and underpin their decisions.[28] Investors would have such information from a wider range of companies under the NFRD.

The NFRD would benefit investors' decisions by adding the requirement to report on anti-bribery matters, which is an important governance issue. The Principles of Responsible Investment (PRI), which is a global body of investors undertook a three year project with companies, across a range of countries and sectors to, among other things, voluntarily encourage disclosure on anti-corruption matters in line with international reporting frameworks. The intention was to 'enable investors to better assess and manage their exposure to the financial, operational and reputational impacts of corruption risks in their portfolios'.[29] The PRI also provides guidance and practical advice for investors and companies on anti-

[28] http://www.ey.com/GL/en/Services/Specialty-Services/Climate-Change-and-Sustainability-Services/EY-tomorrows-investment-rules-2
[29] https://www.unpri.org/news

bribery and corruption matters – indicating the importance of this matter to investors. The NFRD would make reporting on this matter compulsory among large PIEs in the UK (those with more than 500 employees).

The requirement to disclose the company's diversity policy would provide information on corporate culture and governance practices. It would ensure investors and stakeholders in general that the board members have the right mix of skills and knowledge to govern the company better[30].

To inform the consultation stage IA we conducted an online survey of investors. We received 20 responses. 13 investors (65% of the 20 respondents) did not anticipate using the data that will be made available under the new requirements while 7 investors (35% of the 20 respondents) did.

Of the 13 that said they would not use the information, some respondents commented that they will not use these data as the existing report structure in the UK already provides adequate information. Others commented that this information will be very unlikely to affect the investment case for buying shares in the companies and other investment decisions. One investor commented that information required by the NFRD will only increase costs for companies for negligible benefits and two others suggested it would not result in meaningful information (as for instance, companies involved in paying certain commissions will hardly admit bribery and corruption).

However 7 respondents said that they would use the data said the new data will inform investment strategies. 5 added that it would inform voting at the Annual General Meeting (AGM) and 3 respondents said it will inform discussion at the AGM. Finally, 1 investor said these requirements will provide a better insight of the company and how it operates. As for benefits, 1 investor does not expect any, 1 investor is expecting better informed investment strategies, one improved monitoring of company activity, 1 more informed discussion at the AGM, 1 more informed voting at the AGM and no one suggested increased awareness of company activities. No respondent was able to quantify any benefits.

The subsequent consultation did not elicit further information from investors on the specific changes. However the overall view of investors was that the benefits of the additional changes were likely to outweigh the costs.

Benefits to other stakeholders

NGOs use non-financial data to monitor company activity/behaviour and to increase engagement with companies. The increased transparency of non-financial information will benefit specific stakeholder groups such as NGOs and other civil society organisations. NGOs with a range of different missions will be expected to benefit - those concerned with the environment (e.g. Greenpeace and Friends of the Earth); and NGOs active in the field of human rights (e.g. Amnesty International and SHIFT). In addition the information on employees and diversity will be of interest to Trade Unions.

Evidence gathered for the consultation stage IA included survey responses from two NGOs both of which said that they anticipate using the data that will be made available under the new requirements. Both organisations planned to use the data to monitor company activity. In addition to that, one will use it to inform campaigns and another to inform engagement with businesses to tackle problems identified. Both organisations think that the new requirements will increase engagement with companies and will lead to better informed campaigns. One of these organisations envisages improved monitoring of company behaviours. One estimated £500 per annum benefits as a result of increased engagement with companies, £1000 per annum benefits as a result of better informed campaigns and £1,000 per annum

[30] EU Impact Assessment, Proposal for a Directive of the European Parliament and of the council amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of nonfinancial and diversity information by certain large companies and groups.

benefits thanks to improved monitoring of company behaviours. This organisation explained that it calculated the benefits assuming that staff time will be saved because information that previously required time and effort to uncover will now be reported routinely. The benefits have been assessed as relatively small as they do not have corporate focussed campaigns planned at present, they perceive loopholes in the legislation, and important information still will not be published, whilst recognising that it is a worthwhile improvement on previous legislation. We treat this NGO's estimates as indicative rather than precise – and therefore we do not extrapolate them in order to quantify the potential benefits arising from the option to the wider population of NGOs.

Consultation responses also indicated that NGOs attached value to the changes. There were 26 NGO respondents, all of whom supported the NFRD. 9 of these made general comments that the changes would have valuable benefits. One NGO stated that 'There are clear advantages to investors, businesses, employees and broader society if senior managers within a company have a better understanding of its activities, impacts and risks in relation to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters, and the outcomes of its policies for these areas.' This view was reiterated at our stakeholder meetings.

The new requirement may also have an impact on the level of consumer and employee trust in companies, as consumers may question, for instance, whether suppliers of products and services respect applicable rules and regulations, and whether consumer protection considerations are effectively taken into account in a company's strategy[31].

Benefits to companies

By focusing on policies, including risks and opportunities, companies will be more likely to integrate non-financial risks into their strategies and business models. This information, when presented to the board and shareholders, will allow them a more integrated and thorough view of the company and make them better equipped to be active stewards of the companies. Furthermore, especially for companies new to non-financial reporting, it may optimise processes and systems related to the collection and analysis of non-financial information. EU evidence[32] suggests that improving the quantity and comparability of non-financial disclosures has a positive impact on company performance in the medium and long term. For instance, companies that report on corporate social responsibility (CSR) can have higher rates of employee retention, attraction and motivation; and greater consumer loyalty.

Finally, the requirement to disclose the company's diversity policy could encourage companies to take account of the need for a more diverse range of views in the boardroom to provide robust challenge to the company's management.[33] Evidence suggests that groups that are more diverse can also be more creative, have a greater range of perspectives and provide a better range of solutions to problems[34]. For example, directors from diverse ethnic or cultural backgrounds might ask questions that would not normally occur to directors with backgrounds that have been more typical in boardrooms historically[35].

Further evidence of the benefits to companies from the disclosure requirements on them is provided by the interim findings of our current research project.[36] The survey asked companies about the impacts of current non-financial reporting (NFR) requirements on them. Interim results show evidence of impact of

31 EU Impact assessment, Proposal for a Directive of the European Parliament and of the council amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of nonfinancial and diversity information by certain large companies and groups
32 IMPACT ASSESSMENT Accompanying the document Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of non-financial and diversity information by certain large companies and groups: Available at http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52013SC0127
33 NFR EU IA http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013SC0127&from=EN
34 "Corporate governance, board diversity, and firm value", Carter, Simkins and Simpson, 2003
35 "The Ultimate Glass Ceiling Revisited: the presence of women on corporate boards." Arfken, Bellar and Helms, 2004

NFR on company policies and approach. Out of responses from 60 quoted companies (which have been subject to the UK's enhanced NFR requirements since the 2013 reforms), survey results showed that:

- 15% of companies experienced a change to business policies/approach to employee matters over the last two years, and 44% of these attributed the changes to their NFR.
- 7% of companies experienced a change to business policies/approach to environmental matters over the last two years, and 50% of these attributed the changes to their NFR.
- 10% of companies experienced a change to business policies/approach to human rights matters over the last two years, and 83% of these attributed the changes to their NFR.
- 7% of companies experienced a change to business policies/approach to social and community matters over the last two years, and 67% of these attributed the changes to their NFR.
- 12% of companies experienced a change to business policies/approach to gender distribution of staff over the last two years, and 86% of these attributed the changes to their NFR.

76% of companies tended to agree or strongly agreed that NFR encourages companies to consider non-financial matters in the course of their business. 83% said NFR increases awareness among the board on specified non-financial matters to some extent.

Option 3: Extend EU Requirements to All Quoted Companies

This would have all the benefits of Option 2 (minimum implementation).

It would also have the added benefits of requiring information disclosures on anti-bribery and corruption matters and diversity policies by smaller quoted companies. These are companies with equity traded on an EU regulated exchange but who have fewer than 500 employees and as a result of this are excluded from the scope of the NFRD.

Furthermore, this option maintains comparability between the annual reports of different sizes of quoted companies in the UK which would be beneficial for users of the financial statements.

29 of the 76 respondents to the consultation expressed the view that the additional benefits of extending the requirements to smaller quoted companies would outweigh the costs.

Option 4: Reduce Reporting Requirements on Smaller Quoted Companies

This option would have part of the benefits of Option 2 (minimum implementation).

Under Option 4, smaller quoted companies[37] would no longer need to meet the requirements of the Enhanced Strategic Report that they currently do. Instead they would revert to the meeting the requirements currently met by unquoted companies in the UK. This means they would no longer have to report specifically on environmental matters, employee matters, social and community matters and human rights matters.

This would result in a reduction in the benefits compared to Option 2, as the information they currently provide would not be required – and it is likely that some or all of the companies would no longer report it voluntarily.

[36] The Impact of Non-Financial Reporting, IFF-Belmana survey interim results, commissioned by the Department for Energy and Industrial Strategy in 2016.

[37] These are companies with equity traded on an EU regulated exchange but who have fewer than 500 employees and as a result are excluded from the scope of the NFRD.

This option would result in cost savings to these companies and their subsidiaries. These savings are estimated at **£1.83m** per year. Calculations are provided and explained in Annex F. Table 5 shows our low, high and best estimates of the savings expected under Option 4.

Table 5

Estimates of Total ongoing savings under Option 4, £m		
Low	Best	High
1.55	1.83	2.12

Costs

We have quantified costs for all PIEs affected by the options using responses to a survey that is part of an ongoing research project into the effects non-financial reporting had on company behaviour[38]. The research is to be based on 400 computer assisted telephone interviews (CATI) of companies including quoted and unquoted PIEs. It is currently in its fieldwork stage but we have been able to draw on the interim findings to inform this IA. Our estimates are based on the interim results of the survey, which were provided in June 2016 and cover 285 companies, 54 of which are PIEs with more than 500 employees.

Companies were asked about the costs incurred by them in complying with the existing NFR requirements placed on them under UK law. PIEs were also asked for their views on the potential additional costs of the two main additional requirements of the NFRD: to report on the company's approach to anti-bribery and corruption matters; to report on company's Diversity policies.

We expect that companies affected will incur familiarisation and implementation costs in the first year. To quantify these costs, we requested companies to estimate first year costs and subsequent year costs separately. Companies were asked to report the level of staff that would be involved in complying with the additional requirements and the time (in hours) that would be required. Annex A provides the calculations of the costs per quoted company based on survey responses. Annex B shows the costs to unquoted companies. Throughout the Impact Assessment (IA), staff time costs are estimated based on hourly pay provided by the 2015 Annual Survey of Hours and Earnings. This is further explained in Annex G.

We have been unable to estimate the costs to subsidiary firms from this survey, as information from the few subsidiary respondents was not useable without further clarifications and had to be disregarded. As subsidiary companies would not have to produce reports, the changes would impose a relatively minor change in the flow of information from subsidiaries to their parent companies. Estimates produced in the Consultation Stage IA indicated that the costs would be low. However, these estimates were also based on just two responses and implied a cost of just £2.31 - £3.36 per subsidiary per annum, which we don't consider to be representative.

We therefore base cost estimates for subsidiaries on the current survey evidence – but on the assumption that these would be a percentage of the costs to their parent companies. We take 50% and 100% of costs to parents as the lower and upper bounds and use 75% as our best estimate. The resulting estimated costs to subsidiary companies are provided in Annex C.

Annex D shows the results of our calculations of low, high and best estimates of overall costs to companies in scope and affected by the changes under the different options. This involves multiplying

[38] The Impact of Non-Financial Reporting, IFF-Belmana survey interim results, commissioned by the Department for Energy and Industrial Strategy in 2016.

expected average first year and ongoing cost per company by the number of companies in scope, and then summing to arrive at total first year and ongoing costs.

In addition to this, we assume companies that are in scope but already reporting on the required matters would also still incur the familiarisation costs of getting up to speed with the new obligations and reporting formats. These are provided in Annex E. Table 6 below summarises and explains the impact of the various options and provides the components of our best estimates of the costs and savings under each.

Table 6: Costs of the different options

Option	Description of impact	Best Estimates of costs
Option 1: Do Nothing	None	• No costs
Option 2: Minimum Implementation	• Costs to large quoted companies (with more than 500 employees) and their subsidiaries of meeting the two additional reporting requirements of the NFRD that are over and above those of the UK Enhanced Strategic Report, which they already meet. • Costs to large unquoted PIEs (with more than 500 employees) and their subsidiaries in meeting the additional requirements of the NFRD that they do not meet currently as they do not meet the requirements of the Enhanced Strategic Report. • Costs to large unquoted PIEs (with more than 500 employees) and their subsidiaries in meeting the additional anti-bribery reporting requirements of the NFRD. • Familiarisation costs to quoted and unquoted PIEs that are in scope but are already reporting on additional matters in the new requirements	• Total familiarisation costs to companies in scope and affected by changes of **£7.64m.** • Total ongoing annual costs to companies in scope and affected by changes of **£11.69m**
Option 3: Extend EU requirements to small quoted companies	• All the costs arising under Option 2 will also be incurred under Option 3. • Additional costs to smaller quoted companies (those with less than 500 employees) and their subsidiaries of meeting the two main additional reporting requirements of the NFRD (the anti-bribery and diversity statements) that are over and above those of the UK Enhanced Strategic Report, which they already meet.	• Total familiarisation costs to companies in scope and affected by changes of **£7.64m.** • Total ongoing annual costs to companies in scope and affected by changes of **£11.69m** • Total familiarisation costs to additional companies in scope under this option of **£0.29m** • Total ongoing annual costs to additional companies in scope under this option of **£0.25m**
Option 4: Reduce reporting requirements on smaller quoted companies	• All the costs arising under Option 2 will also be incurred under Option 4. (There would however, be savings to smaller quoted companies of not having to meet the requirements of the Enhanced Strategic Report)	• Total familiarisation costs to companies in scope and affected by changes of **£7.64m.** • Total ongoing annual costs to companies in scope and affected by changes of **£11.69m**

Non-monetised costs

Option 2: Many consultation respondents believed that this option is too complex as it would introduce a separate set of requirements for certain companies, some of which might switch between being a "large PIE" and a normal "quoted company" between years. This would mean that companies that move between categories would have to comply with two different complex frameworks across two different years. It was suggested that this would be administratively burdensome and costly. However, it is deemed impossible to quantify these costs. This option also reduces the level of comparability across years and across listed companies. However, some UK companies may consider that it would be in their interests to report voluntarily under the harmonised EU framework which provides more detail in relation to each matter subject to disclosure. Voluntary reporting under the EU framework might also enable companies to avoid the costs and complexities of moving between reporting obligations during their lifecycle as their size (in financial terms and/or number of staff) increases or decreases year to year. BEIS intends to legislate to permit companies to do this.

Option 3: This option would retain a single reporting framework for all quoted companies as is currently in the UK. There would, however, be an element of complexity introduced into the reporting framework of unquoted companies that are PIEs – as those with more than 500 employees would now have to meet the reporting standards of the NFRD. The non-monetised costs are expected to smaller than Option 2.

Option 4: The complexities of Option 2 would be inherent in Option 4.

Risks and assumptions

- We use information available on the FAME database to estimate the numbers of reporting and subsidiary companies affected
- Costs were quantified for all PIEs affected by using the interim results of a bespoke survey and ASHE data to estimate the costs to PIEs and their subsidiaries.

Direct costs and benefits to business calculations (following BIT methodology);

Option 2 implements the EU NFRD's minimum requirements (i.e. it implements only the mandatory changes to the current system which are required by the NFRD and does not include any other changes or extensions). The direct (annual equivalent) impact on business of this option is £11.6m. Following the Better Regulation Framework Manual[39], this is out of scope of OI3O. This option therefore has no impact on the Government's Business Impact Target (BIT) for business deregulation.

Option 3 extends the scope of the NFRD to include smaller quoted companies. Following the Better Regulation Framework Manual guidance, we report two EANDCB figures for this option – referring to the element of the EANDCB that is out of scope of OI30 and the element that is in scope. The EANDCB of this option relating to the minimum requirements of the NFRD, which is out of scope, is £11.6m (as for Option 2). The EANDCB of this option in scope is £0.2m. Over the course of the Parliament the in scope element of the option contributes £1m in regulatory cost to the Government deregulatory BIT.

Option 4 implements the minimum EU requirements and repeals certain requirements for quoted companies that fall out of scope of the NFRD. Following the Better Regulation Framework Manual guidance, we report two EANDCB figures for this option – referring to the element of the EANDCB that is out of scope of OI30 and the element that is in scope. The EANDCB of this option relating to the EU derived measures, which is out of scope, is £11.6m. The equivalent annual savings to business that is in scope (relating to domestic changes to deregulate NFR) is £1.7m. The in scope element of Option 4 contributes £-8.5m in deregulatory savings to the BIT.

[39] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468831/bis-13-1038-Better-regulation-framework-manual.pdf

Wider impacts

The main aim of the policy is to require companies to prepare: information demonstrating their consideration of the impacts of their business operations, including their policies; an assessment of the risks and opportunities to the business; and an assessment of the outcomes of these policies. It is important to mention that the primary requirements of this policy focus on the provision of information to various groups with which the company may have contact. The benefits of this policy will only be realised should these groups choose to read and act upon the information provided by the company in this yearly non-financial statement.

Statutory Equality Duties

There are no obvious concerns in this area given that this measure regulates businesses rather than individuals. In terms of the impact of this policy on aspects of the Equalities Act 2010, the company will be required to disclose its diversity policy and the results of this. As with the other aspects discussed above this will only have an impact on promoting, for example, gender equality in the boardroom.

Economic Impacts

Competition Impact Test:

These proposals will affect companies differently, but as the additional cost is small it would not place companies in scope at a competitive disadvantage. There are benefits in preparing non-financial information and indeed many companies already report on the new requirements voluntarily. In addition enhanced disclosure could increase competition on other dimensions as companies would compete on performance with due regard to environment social and governance matters.

Finally, the provision of information to shareholders, investors (both institutional and retail) and wider society should enhance transparency and accountability of these PIEs within the UK and have a positive impact on how these companies are run.

Small and Micro Business Assessment (SaMBA)

In line with the Better Regulation Framework Manual, we are not required to conduct a SaMBA because the measure is European in origin. No small or micro parent companies were identified as being in scope of the policy under the preferred option. We have not been able to calculate the size of subsidiaries of the companies who will be affected by the options. It is possible that some subsidiaries may count as small businesses. These would incur smaller costs of transferring information to their parent companies. The costs incurred by individual subsidiaries are also likely to vary in proportion to their size, so smaller companies would incur smaller costs. Any potential costs to these businesses are considered acceptable, to gain the benefits of better non-financial disclosure by their parent companies.

Environmental Impacts

The changes are intended to encourage companies to take account of various non-financial matters including environmental matters in their business strategies and management of risks. Therefore the policies could have a positive impact of the environment. Again, the benefits of this policy relies upon non-financial disclosures being acted upon by internal stakeholders to change company policy or used by external stakeholders to hold the company to account and prompt a change in its actions.

Social Impacts

Health and Well-Being

We do not expect there to be any significant health and well-being impacts as a result of the proposed options. Although there could be an indirect impact as a workplace with an effective diversity policy is more likely to be beneficial to the well-being of its employees.

Human Rights

The proposals will have an indirect impact on human rights. As part of the reporting requirements companies will disclose their human rights policy, and the results of this policy, including an assessment of the risks and impacts of their business operations. Included in this assessment will be impacts emanating from the company's products or services and business relationships, i.e. the company's supply and subcontracting chains. Again the impact of this disclosure will only be truly realised should shareholders, investors and wider society to use this information and act upon it to hold the company to account for any impacts that it may have on human rights.

Justice System

We do not expect there to be any justice system impacts as a result of the proposed options.

Rural proofing

We do not expect there to be any negative impact on rural communities as a result of the proposed options.

Sustainable Development

PIEs will be required to disclose their environmental policy, including an assessment of its risks and impacts. Thus any impact on sustainability is expected to be positive as a result of the increased transparency.

Family Test

The DWP Family Test[40] sets out the following questions from officials to consider during policy-development.

- What kinds of impact might the policy have on family formation?
- What kind of impact will the policy have on families going through key transitions such as becoming parents, getting married, fostering or adopting, bereavement, redundancy, new caring responsibilities or the onset of a long-term health condition?
- What impacts will the policy have on all family members' ability to play a full role in family life, including with respect to parenting and other caring responsibilities?
- How does the policy impact families before, during and after couple separation?
- How does the policy impact those families most at risk of deterioration of relationship quality and breakdown?

The policies outlined in this IA do not give rise to any obvious concerns relating to any of the above questions, and we do not expect the new requirements to have any direct or indirect impact on families.

[40] DWP (2014), The Family Test: Guidance for Government Departments, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/368894/family-test-guidance.pdf

Summary and preferred option with description of implementation plan

The preferred option (Option 2) implements the EU NFRD's minimum requirements – and therefore has no impact on the UK Government's BIT. It has unquantified costs as it would reduce the comparability between reports of quoted companies within the UK. The costs are out of scope therefore there is no impact on the BIT target. It has not been possible to quantify the benefits of the new requirements.

Option 3, which goes beyond the EU minimum requirements (i.e. 'gold-plates' them), by extending the requirements of the Directive to smaller quoted companies has additional costs of £200,000 a year. It has additional non-monetised benefits to those of Option 2 (which arise from reporting by smaller quoted companies on anti-bribery and corruption and maintaining one framework of requirements across all quoted companies in the UK). Option 3 has an estimated EANDCB of £0.2m that is in scope of the BIT and contributes £1m of regulatory costs to the BIT over the Parliament.

Option 4 is deregulatory as it reduces current reporting requirements on smaller quoted companies in the UK. It would result in equivalent annual savings to small quoted companies of £1.7m. The BIT score is £-8.5m. However, it would reduce the scope of existing UK reporting requirements and lead to a reduction in company disclosure in the UK. The intention of the NFRD is to raise and harmonise reporting standards across the EU. UK disclosure of non-financial information is amongst the best in the world and an area where it is government policy to demonstrate leadership. Reducing existing non-financial reporting requirements for listed companies would be therefore not be desirable. Only a small minority of stakeholders supported this option in the Government consultation conducted in February 2016. Our view is that the any opportunity for deregulation of existing UK reporting requirements should be considered separately as the NFRD approaches its date for review and in the light of the UK's future relationship with the EU.

With uncertainty around the value of the additional benefits pertaining to Option 3, and the dis-benefits of Option 4, Option 2 is our preferred option.

Implementation and Timing

Following adoption in October 2014, the NFRD ("Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups") was published on 15 November 2014 in the Official Journal. The disclosure requirements in the EU NFRD build upon those introduced by the EU Accounting Directive (2013/34/EU) by amending that Directive. The Companies Partnerships and Groups (Accounts and Reports) Regulations 2015 implemented the EU Accounting Directive in the UK.

The UK intends to transpose the EU NFR Directive into national law by 6 December 2016, to apply to financial years starting on or after 1 January 2017. This schedule has been discussed and agreed with stakeholders.

This will mean that the Government will create legislation to require companies that fall within the scope of the Directive to report using the requirements laid out in the Directive but allow companies outside the scope of the EU Directive to continue to use the existing requirements in the Strategic Report adopt the EU requirement voluntarily. Industry will be informed of this work through the publication of a government response.

The consultation demonstrated some support for sending annual reports electronically. To further facilitate this Government will clarify legislation concerning sending annual reports electronically and continue to work with the FRC to encourage innovative digital reporting.

Annex A: Calculations of Costs or Savings to quoted companies

We have quantified costs for all PIEs affected by the options using responses to a survey that is part of an ongoing research project into the effects non-financial reporting had on company behaviour[41]. The research is to be based on 400 computer assisted telephone interviews (CATI) of companies including quoted and unquoted PIEs. It is currently in its fieldwork stage but we have been able to draw on the interim findings to inform this IA. Our estimates are based on the interim results of the survey, which were provided in June 2016 and cover 285 companies, 60 of which are quoted companies and 38 of these had more than 500 employees.

Costs in the first year: We asked quoted companies about the total costs in the first year (i.e. to include familiarisation costs). These were reported only by companies not already reporting on the additional matters. The calculations are provided in Tables A1 and A3.

Subsequent year costs were reported by quoted companies who already report on the matter (and therefore were an estimate of costs they already incur) as well as quoted companies who do not report on the matter (and therefore predicted costs they would incur if the requirement was placed on them). We took the mean of these two reported averages to arrive at our best estimate of costs to reporting companies in subsequent years. The calculations are provided in Tables A2 and A4.

Table A1

Costs in the first year of reporting on their approach to anti-bribery and corruption matters

Quoted companies level of Staff	Average annual time costs (hours)	Total cost per hour £	Total cost per firm £
Director	4.5	67.30	303
Professional	11	29.95	329
Administrative	0	15.71	-
Total cost			**632**

[41] The Impact of Non-Financial Reporting, IFF-Belmana survey interim results, commissioned by the Department for Energy and Industrial Strategy in 2016.

Table A2

Costs of reporting on their approach to anti-bribery and corruption matters in subsequent years

	Average annual time costs, those who know (hrs)	Average annual time costs, those who predict	Best estimate of time costs	Total cost per hour £	Total cost per firm £
Director	3	3	3	67.30	202
Professional	7	4.5	5.75	29.95	172
Administrative	0	7	3.5	15.71	55
Total cost					**429**

Table A3

Costs in the first year of reporting on their diversity policy

Quoted companies level of Staff	Average annual time costs (hours)	Total cost per hour £	Total cost per firm £
Director	6	67.30	404
Professional	12	29.95	359
Administrative	0	15.71	-
Total cost			**763**

Table A4

Costs of reporting on their diversity policy in subsequent years

	Average annual time costs, those who know (hrs)	Average annual time costs, those who predict	Best estimate of time costs	Total cost per hour £	Total cost per firm £
Director	2	3	2.5	67.30	168
Professional	6	9.5	7.75	29.95	232
Administrative	0	5	2.5	15.71	39
Total cost					**440**

Annex B: Costs to Large Unquoted PIEs

We have quantified costs for all PIEs affected by the options using responses to a survey that is part of the aforementioned ongoing research project into the effects non-financial reporting had on company behaviour[42]. The research is to be based on 400 computer assisted telephone interviews (CATI) of companies including quoted and unquoted PIEs. It is currently in its fieldwork stage but we have been able to draw on the interim findings to inform this IA. Our estimates are based on the interim results of the survey, which were provided in June 2016 and cover 285 companies. Respondents also included 16 unquoted PIEs with more than 500 employees.

Costs in the first year: We asked unquoted companies about the total costs in the first year of reporting on anti-bribery and corruption matters (this included familiarisation costs). These were reported only by companies not already reporting on the additional matters. The calculations are provided in Table B1.

Table B1

Costs in the first year of reporting on their approach to anti-bribery and corruption matters

	Average annual time costs (hours)	**Total cost per hour £**	**Total cost per firm £**
Director	5	67.30	336
Professional	20	29.95	599
Administrative	1	15.71	16
Total cost			**951**

Subsequent year costs were reported by unquoted companies who already report on the matter (and therefore were an estimate of costs they already incur) as well as unquoted companies who do not report on the matter (and therefore predicted costs they would incur if the requirement was placed on them). We took the mean of these two reported averages to arrive at our best estimate of costs to reporting companies in subsequent years. The calculations are provided in Table B2.

[42] The Impact of Non-Financial Reporting, IFF-Belmana survey interim results, commissioned by the Department for Energy and Industrial Strategy in 2016.

Table B2

Costs of reporting on their approach to anti-bribery and corruption matters in subsequent years

	Average annual time costs, those who know (hrs)	Average annual time costs, those who predict	Best estimate of time costs	Total cost per hour £	Total cost per firm £
Director	1	3	2	67.30	135
Professional	3	10	6.5	29.95	195
Administrative	2	14	8	15.71	126
Total cost					**455**

For unquoted companies, we also had to estimate the **costs of meeting other requirements** of the EU NFRD which mirror the requirements of the UK's Enhanced Strategic Report, but which are not currently met by unquoted companies. We estimate the ongoing costs of the change as the difference between the average costs of companies already meeting the requirements and the costs to unquoted companies meeting the current requirements on them. This is shown in Table B4.

Our survey requested companies to report the total ongoing costs of the current NFR reporting requirements on them, which we use above. However, unquoted companies are expected to have additional familiarisation time imposed on them from this change. We assume that the incremental familiarisation time costs to them of meeting additional requirements would be similar to that estimated for the new requirement to report on anti-bribery and corruption matters. Under the NFRD they would also have to report on 3 additional matters - environmental matters, employee matters and human rights matters. We estimate the familiarisation time as the difference between the first year and subsequent year costs reported by them from the requirement to make an anti-bribery and corruption statement, multiplied by 3. The calculations are shown in Table B3.

Table B3

First year costs of meeting other requirements of the EU NFRD which mirror the requirements of the UK's Enhanced Strategic Report

	Estimated time cost of anti-bribery statement in first year (hrs)	**Estimated time cost of anti-bribery statement in subsequent years (hrs)**	**Estimated familiarisation time costs to unquoted PIEs (hrs)**	**Total cost per hour £**	**Total cost per firm £**
Director	5	3	2	67.30	135
Professional	20	10	10	29.95	300
Administrative	1	14	1	15.71	16
Total familiarisation cost **of anti-bribery statement**					450
Total familiarisation costs of meeting other requirements (£450 X 3)					1,349
Total cost including first year reporting cost					**3,713**

Table B4

Annual costs of requirements of the EU NFRD which mirror the requirements of the UK's Enhanced Strategic Report

	Average annual time costs of current NFR to quoted companies (hrs)	**Average annual time costs of current NFR to unquoted companies (hrs)**	**Average annual incremental time costs to unquoted PIEs of the change (hrs)**	**Total cost per hour £**	**Total cost per firm £**
Director	13.2	3.29	9.91	67.30	667
Professional	52.75	7.95	44.8	29.95	1342
Administrative	26.38	3.81	22.57	15.71	355
Total cost					**2363**

Annex C: Costs and Savings per subsidiary

We have been unable to estimate the costs to subsidiary firms from this survey, as information from the few subsidiary respondents was not useable without further clarifications and had to be disregarded. As subsidiary companies would not have to produce reports, the changes would impose a relatively minor change in the flow of information from subsidiaries to their parent companies. Estimates produced in the Consultation Stage IA indicated that the costs would be low. However, these estimates were also based on just two responses and implied a cost of just £2.31 - £3.36 per subsidiary per annum, which we don't consider to be representative.

We therefore base cost estimates for subsidiaries on the current survey evidence – but on the assumption that these would be a percentage of the costs to their parent companies. We take 50% and 100% of costs to parents as the lower and upper bounds and use 50% as our best estimate.

The costs to subsidiaries of quoted and unquoted companies are calculated in Tables C1 and C2.

Table C1

Subsidiaries of quoted companies

	Estimated cost to reporting companies	Low estimate (50% of reporting company cost)	Best estimate (75% of reporting company cost)	High estimate (100% of reporting company cost)
First year costs (£)				
Anti bribery and corruption	632	316	**474**	632
Diversity	763	382	**572**	763
Subsequent year costs (£)				
Anti bribery and corruption	429	215	**322**	429
Diversity	440	220	**330**	440

Table C2

Subsidiaries of unquoted companies

	Estimated cost to reporting companies	Low estimate (50% of reporting company cost)	Best estimate (75% of reporting company cost)	High estimate (100% of reporting company cost)
First year costs (£)				
Anti bribery and corruption	951	476	**713**	951
Other requirements of the Strategic Report	3713	1856	**2785**	3713
Subsequent year costs (£)				
Anti bribery and corruption	455	227	**341**	455
Other requirements of the Strategic Report	2363	1182	**1772**	2363

Table C3: Savings to subsidiaries under Option 4

	Estimated cost to reporting companies	Low estimate (50% of reporting company cost)	Best estimate (75% of reporting company cost)	High estimate (100% of reporting company cost)
Savings to subsidiaries of smaller quoted companies under Option 4	2363	1182	**1772**	2363

Annex D: Calculations for the Best, Low and High Estimates of Total Costs across All Companies[43]

Table D1: Best estimates of total first year costs

	Total first year costs to quoted companies					Total first year costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies for Diversity	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of subsidiaries reporting on Diversity	Costs per subsidiary £	Total costs across all subsidiaries	Total over all quoted companies and their subsidiaries £
Option 1	-	-	-	-	-	-	-	-	-	-	-
Option 2	61	632	113	763	**124,792**	6906	474	12662	572	**10,522,617**	**10,647,409**
Option 3	61	632	113	763	**124,792**	6906	474	12662	572	**10,522,617**	**10,647,409**
	205	632	96	763	**203,105**	243	474	113	572	**180,147**	**383,252**
Option 4	61	632	113	763	**124,792**	6906	474	12662	572	**10,522,617**	**10,647,409**

	Total first year costs to unquoted companies					Total first year costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total costs across all subsidiaries	Total over all unquoted companies and their subsidiaries £
Options 2-4	92	951	148	3,713	**637,259**	1519	713	2430	2785	**7,850,012**	**8,487,271**

43 The tables show two rows for quoted companies under option 3. The first has estimates of the number of companies affected under the minimum requirements and the second row has estimates of the numbers of additional companies that would be affected under this option.

Table D2: Best estimates of total ongoing annual costs

	Total ongoing costs to quoted companies					Total ongoing costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies for Diversity	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of subsidiaries reporting on Diversity	Costs per subsidiary £	Total costs across all subsidiaries	Total over all quoted companies and their subsidiaries £
Option 1	-	-	-	-	-	-	-	-	-	-	-
Option 2	61	429	113	440	**75,870**	6906	322	12662	330	**6,397,483**	**6,473,354**
Option 3	61	429	113	440	**75,870**	6906	322	12662	330	**6,397,483**	**6,473,354**
	205	429	96	440	**130,325**	243	322	113	330	**115,593**	**245,918**
Option 4	61	429	113	440	**75,870**	6906	322	12662	330	**6,397,483**	**6,473,354**

	Total ongoing costs to unquoted companies					Total ongoing costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total costs across all subsidiaries	Total over all unquoted companies and their subsidiaries £
Options 2-4	92	455	148	2,363	**391,718**	1519	341	2430	1772	**4,825,336**	**5,217,054**

Table D3: Low estimates of first year costs

	Total first year costs to quoted companies					Total first year costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies for Diversity	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of subsidiaries reporting on Diversity	Costs per subsidiary £	Total costs across all subsidiaries	Total over all quoted companies and their subsidiaries £
Option 1	-	-	-	-	-	-	-	-	-	-	-
Option 2	18	632	59	763	**56,862**	2063	316	6667	382	**3,196,458**	**3,253,320**
Option 3	18	632	59	763	**56,862**	2063	316	6667	382	**3,196,458**	**3,253,320**
	135	632	36	763	**112,866**	159	316	43	382	**66,739**	**179,605**
Option 4	18	632	59	763	**56,862**	2063	316	6667	382	**3,196,458**	**3,253,320**

	Total first year costs to unquoted companies					Total first year costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total costs across all subsidiaries	Total over all unquoted companies and their subsidiaries £
Options 2-4	59	951	148	3,713	**605,817**	976	476	2430	1856	**4,975,125**	**5,580,942**

Table D4: Low estimates of ongoing costs

	Total ongoing costs to quoted companies					Total ongoing costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies for Diversity	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of subsidiaries reporting on Diversity	Costs per subsidiary £	Total costs across all subsidiaries	Total over all quoted companies and their subsidiaries £
Option 1	-	-	-	-	-	-	-	-	-	-	-
Option 2	18	429	59	440	**33,946**	2063	215	6667	220	**1,908,224**	**1,942,170**
Option 3	18	429	59	440	**33,946**	2063	215	6667	220	**1,908,224**	**1,942,170**
	135	429	36	440	**73,751**	159	215	43	220	**43,610**	**117,361**
Option 4	18	429	59	440	**33,946**	2063	215	6667	220	**1,908,224**	**1,942,170**

	Total ongoing costs to unquoted companies					Total ongoing costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total costs across all subsidiaries	Total over all unquoted companies and their subsidiaries £
Options 2-4	59	455	148	2,363	**376,680**	976	227	2430	1182	**3,093,391**	**3,470,070**

Table D5: High estimates of first year costs

	Total first year costs to quoted companies					Total first year costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies for Diversity	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of subsidiaries reporting on Diversity	Costs per subsidiary £	Total costs across all subsidiaries	Total over all quoted companies and their subsidiaries £
Option 1	-	-	-	-	-	-	-	-	-	-	-
Option 2	105	632	166	763	**192,722**	11749	632	18656	763	**21,667,396**	**21,860,118**
Option 3	105	632	166	763	**192,722**	11749	632	18656	763	**21,667,396**	**21,860,118**
	276	632	155	763	**293,343**	327	632	184	763	**346,914**	**640,257**
Option 4	105	632	166	763	**192,722**	11749	632	18656	763	**21,667,396**	**21,860,118**

	Total first year costs to unquoted companies					Total first year costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total costs across all subsidiaries	Total over all unquoted companies and their subsidiaries £
Options 2-4	126	951	148	3,713	**668,702**	2062	951	2430	3713	**10,983,115**	**11,651,817**

Table D6: High estimates of ongoing costs

	Total ongoing costs to quoted companies					Total ongoing costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies for Diversity	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of subsidiaries reporting on Diversity	Costs per subsidiary £	Total costs across all subsidiaries	Total over all quoted companies and their subsidiaries £
Option 1	-	-	-	-	-	-	-	-	-	-	-
Option 2	105	429	166	440	**117,795**	11749	429	18656	440	**13,243,507**	**13,361,302**
Option 3	105	429	166	440	**117,795**	11749	429	18656	440	**13,243,507**	**13,361,302**
	276	429	155	440	**186,898**	327	429	184	440	**221,029**	**407,927**
Option 4	105	429	166	440	**117,795**	11749	429	18656	440	**13,243,507**	**13,361,302**

	Total ongoing costs to unquoted companies					Total ongoing costs to subsidiaries					
	Number of reporting companies for Anti Bribery and Corruption	Cost per company £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total Costs to reporting companies £	Number of subsidiaries reporting on Antibribery and corruption	Costs per subsidiary £	Number of reporting companies now having to meet the requirements of the Enhanced Strategic Report	Cost per company £	Total costs across all subsidiaries	Total over all unquoted companies and their subsidiaries £
Options 2-4	126	455	148	2,363	**406,756**	2062	455	2430	2363	**6,680,780**	**7,087,536**

Annex E: Familiarisation costs to companies that are otherwise already reporting on the new requirements

Costs per Company

Table E1: Familiarisation with anti bribery and corruption reporting by quoted companies

	Estimated time cost in first year (hrs)	Estimated time cost in subsequent years (hrs)	Estimated familiarisation time costs to unquoted PIEs (hrs)	Total cost per hour £	Total cost per firm £
Director	4.5	3	1.5	67.30	101
Professional	11	4.5	6.5	29.95	195
Administrative	0	7	0	15.71	0
Total familiarisation cost					296

Table E2: Familiarisation with anti bribery and corruption reporting by unquoted companies

	Estimated time cost in first year (hrs)	Estimated time cost in subsequent years (hrs)	Estimated familiarisation time costs to unquoted PIEs (hrs)	Total cost per hour £	Total cost per firm £
Director	5	3	2	67.30	135
Professional	20	10	10	29.95	300
Administrative	1	14	1	15.71	16
Total familiarisation cost					450

Table E3: Familiarisation with diversity policy reporting by quoted companies

	Estimated time cost in first year (hrs)	Estimated time cost in subsequent years (hrs)	Estimated familiarisation time costs to unquoted PIEs (hrs)	Total cost per hour £	Total cost per firm £
Director	6	3	3	67.30	202
Professional	12	9.5	2.5	29.95	75
Administrative	0	5	0	15.71	0
Total familiarisation cost					277

Table E4: Familiarisation costs over all companies in scope of NFRD but estimated to already be reporting on the relevant matter

	Best	Low	High	Total cost per firm £	Total costs Best £	Total costs Low £	Total costs High £
Estimated number of large quoted companies already reporting on Antibribery and corruption	328	371	285	296	**96,855**	109,589	84,120
Estimated number of large unquoted PIEs already reporting on Antibribery and corruption	55	89	22	450	**24,956**	39,825	10,088
Estimated number of large quoted companies already reporting on diversity	276	330	223	277	**76,506**	91,263	61,750
Total					**198,317**	240,678	155,957

Table E5: Familiarisation costs over all companies to which NFRD requirements are extended under Option 3 but who are also estimated to already be reporting on the relevant matter

	Best	Low	High	Total cost per firm £	Total costs Best £	Total costs Low £	Total costs High £
Estimated number of small quoted companies already reporting on Antibribery and corruption	205	276	135	296	**60,745**	**81,674**	**39,816**
Estimated number of small quoted companies already reporting on diversity	315	375	255	277	**87,199**	**103,690**	**70,708**
Total					**147,944**	185,364	110,524

Annex F: Savings to smaller quoted companies under Option 4

Under Option 4, smaller quoted companies would no longer need to meet the requirements of the Enhanced Strategic Report that they currently do. Instead they would revert to the meeting the requirements that currently apply to unquoted companies in the UK. This means they would no longer have to report specifically on environmental matters, employee matters, social and community matters and human rights matters – which would result in cost savings.

The saving per company are estimated as the difference between the mean of the reported costs of current NFR by quoted companies and the reported costs of current NFR by unquoted companies.

The calculation is shown in Table F1.

Table F1

Savings per smaller quoted reporting company under Option 4

	Average annual time costs of current NFR to quoted companies (hrs)	Average annual time costs of current NFR to unquoted companies (hrs)	Average annual incremental time saving to smaller quoted PIEs of the change (hrs)	Total cost per hour £	Total saving per firm £
Director	13.2	3.29	9.91	67.30	667
Professional	52.75	7.95	44.8	29.95	1342
Administrative	26.38	3.81	22.57	15.71	355
Total saving					**2363**

Table F2

Total savings to all smaller quoted companies

Number of small quoted companies not having to meet the	Cost saving per company £	Total savings to small quoted companies £
411	2,363	**971,203**

This would also create savings for the subsidiaries of these companies. As with costs, we assume that savings to subsidiary firms would be a percentage of the savings to their parent reporting companies. We use the estimate of savings for reporting companies in Table F1 above to calculate best, low and high estimates of the savings to their subsidiaries. These are shown in Table F3 below.

Table F3

Estimates of savings to subsidiaries

Estimated saving to reporting Companies	Low estimate (50% of reporting company saving)	Best estimate (75% of reporting company saving)	High estimate (100% of reporting company saving)
2363	1182	**1772**	2363

We estimate that 411 quoted reporting companies have less than 500 employees and would fall in this category. We further estimate that these have 486 active trading subsidiaries between them. The total savings across all companies affected are shown in Table F4.

Table F4

	Number of companies	Total Estimated Saving Low £	Total Estimated Saving Best £	Total Estimated Saving High £
Reporting companies	411	971,203	971,203	971,203
Subsidiaries	486	574,282.25	861,423	1,148,565
Total	897	1,545,485	1,832,626	2,119,767

Annex G: Hourly wage cost data used in the Impact Assessment

Throughout the IA, staff time costs are estimated based on hourly pay, excluding overtime[44], provided by the Annual Survey of Hours and Earnings (ASHE) 2015 provisional results Table 14.5a.[45] The survey takes a sample of employee jobs drawn from HMRC records of gross pay before tax, National Insurance or other deductions. These data were then uplifted by 20.2% to reflect non-wage costs (i.e. National Insurance, pension contributions, other payroll taxes and other non-statutory employee services such as transport and canteen provision) using Eurostat data on non-wage costs for the UK in 2014.[46]

During consultations with stakeholders on the recently implemented Audit Directive it was pointed out to us that the median wage rate underestimated the cost of staff time in the case of large PIEs. To reflect this we have used hourly wage costs of the relevant Standard Occupational Classifications (SOCs) in the 75th percentile of the ASHE data. Table G1 below outlines the hourly wage rates deployed in the IA before and after being uplifted for non-wage labour costs.

Table G1

	Hourly Wage £	Uplift for non wage costs	Total cost per hour £
Director	55.99	1.202	67.30
Professional	24.92	1.202	29.95
Administrative	13.07	1.202	15.71

[44] Because it is assumed that complying with regulatory requirements will be done in work time – displacing business as usual tasks.

[45] http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/occupation2digitsocashetable2

[46] http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Labour_costs_per_hour_in_EUR,_2004-2015_whole_economy_excluding_agriculture_and_public_administration.png