

Marketplace working group on the notion of value creation by companies and the associated forms of reporting

Presentation of the group and its objectives

Under the auspices of Paris EUROPLACE, collective discussions were initiated between the players concerned in the Paris marketplace (companies, investors, institutionals including professional associations) on the notion of long-term value creation of companies and how they report it.

Representatives of sustainable development/CSR departments and financial departments have been mobilised to participate in this group.

To complement and enrich the experience for its members, various hearings with experts were also held (International Integrated Reporting Council (IIRC), Directorate General of the Treasury, French financial markets authority (AMF), etc.)

The first objective of this group was to develop a common marketplace position through an assessment of the current situation and recommendations to be shared at the European and International level with the various stakeholders concerned (international investors, public authorities, international organizations and think tanks, etc.). This work was completed thanks to the exchanges of views and experiences between the group's members.

The second step will be to develop a best practices guide for companies on how they create value and report it.

POSITION PAPER

Introduction

We are seeing an evolution in both the demands of stakeholders, particularly investors, and the needs of companies regarding financial and extra-financial information.

On the one hand, investors wish to have concise, forward-looking information focused on the major issues and how companies create value.

On the other hand, companies are increasingly mindful of producing quality, readable, relevant reporting to increase their attractiveness on the markets but also to limit the costs of producing information and avoid undertaking overly burdensome actions.

Any progress on the topic must involve a more in-depth dialogue between these two categories of players.

Reporting, a management tool for providing information on the company's long term value creation

In its 2001 green paper "Promoting a European framework for Corporate Social Responsibility", the European Commission clearly expressed its desire to require companies to report on their value creation.

Compared with other European countries, France has regulatory precedence in extra-financial reporting with the NRE (New economic regulations) law of 2001, replaced by Article 225 of the Grenelle 2 law of 2010 and supplemented by Article 173 of the law for the energy transition for green growth of 2015. The transposition of the European directive into French law will constitute an additional step by introducing new concepts based in particular on materiality, i.e., emphasis on over-arching issues that can have a significant impact on an organisation's ability to create value.

Independently of these legal constraints, companies must address a large number of demands expressed by investors as well as extra-financial and financial rating agencies, international organisations, and specialised organisations. Even though they often involve similar themes, these themes result from different viewpoints and do not use standardised methodologies.

French companies are at the forefront of European and global best practices according to the various evaluations conducted at the international level¹.

The objective today of a growing number of companies is no longer merely collecting data but presenting, as concisely as possible, a comprehensive, understandable view of their business model and explaining how they create value, in the medium and long term, by selecting a limited amount of information directly related to their relevant and material issues.

These developments have consequences on how companies use their reporting to explain their governance and strategy, identify their key tangible and intangible assets, and present their critical risks and how they prevent or mitigate them. This means showing the company's links with its ecosystem and the interactions between financial, environmental, social, and societal factors.

An increasingly widely shared ambition and diversified implementation methods

Companies that develop the global value creation or integrated thinking approach express a need for flexibility in choosing reference standards. The practice shows that companies rely on a variety of tools, including the framework proposed by the IIRC.

¹ Cf. Vigeo study of January 2015 on the evolution of reporting practices in 1,309 companies around the world.

The reporting media are also variable. The approaches developed in this respect can be placed into two major categories:

- Companies that organise the structure of their management report around their strategic issues, while publishing a compliance classification attesting to the presence of themes required by law and possibly referring to their website to respond to needs for more detailed information needs, particularly from civil society.
- Companies that choose to publish a separate report (often entitled “integrated report”), even if it means referring to other publications such as the management report for further information.

Recommendations of the Paris financial marketplace

For several years, French companies have undertaken an approach to consider sustainable development issues, and some are among the pioneers at the global level. The vitality of the Paris financial marketplace is also a factor of attractiveness in an increasingly complex international environment. Today, it is desirable to take a new step and use reporting to improve the visibility of actions implemented by companies to contribute to a sustainable economy and create financial and extra-financial value for their shareholders and all the stakeholders of their ecosystem.

The reporting obligations for companies no longer meet the requirements of investors and other stakeholders. The reports published in compliance with these obligations are large, complex, and expensive to produce and do not provide an overall picture of the company incorporating financial and extra-financial information.

That is why, as players of the Paris financial marketplace, the members of the marketplace working group on the notion of value creation by companies and the associated forms of reporting, under the auspices of Paris EUROPLACE, make the following recommendations:

- **1- We call for a true paradigm shift and support the general objectives and principles promoted by the integrated thinking approach, which is based on an integrated view of the company’s financial and extra-financial performance.** This innovative approach provides a better understanding of the value creation strategy and the overall performance of the company, and we encourage companies to include such disclosures in their reporting.
- **2- Given that this an approach in the structuring phase, we encourage experimentation at the initiative of companies to identify and disseminate best practices. The IIRC’s reference framework must remain a voluntary approach and not become a new standard** that would be a source of additional constraints for companies. **We believe that companies must have the necessary flexibility and time** to choose and develop the approach that suits them best.
- **3- We urge companies to simplify** their institutional communication framework **and limit** the volume and proliferation of the documents produced by focusing on material issues and the integration of financial and extra-financial data.
- **4- We urge investors, rating agencies** and other providers of extra-financial information **to better target the information requested from companies** to reduce the burdens of companies in terms of volume of information requested.

- **5- We call on the public authorities to review and simplify the French legal framework** in order to avoid the accumulation of obligations (Art. 225 of the Grenelle II law, transposition of the directive on non-financial reporting, duty of vigilance, Sapin II law on anti-corruption, Art. 173 of the law for the energy transition and green growth, etc.) and **promote an approach of support and continuous progress.**
- **6- We also encourage the European authorities to begin discussions on the relevance of reporting obligations** and the resulting requirements in all areas (financial and extra-financial information, information in case of financial transactions, etc.) in order to avoid accumulations of similar reporting obligations and thus allow companies to produce information useful for all stakeholders at a lower cost while protecting their business secrets.
- **7- Lastly, we intend to be active, committed participants in international discussions and exchanges** to facilitate the choice and consistency of approaches. It would be particularly beneficial for the **same levels of requirements** to be adopted in all OECD countries and for **the US and European rules to converge.**