

# 5 Guideline 400 and the Guide to Sustainability Reporting of the Dutch Accounting Standards Board

## 5.1 Description and commentary

*What is the Dutch Accounting Standards Board (DASB) [Raad van de Jaarverslaggeving]?*

Founded in 1981, the Foundation for Annual Reporting [*Stichting voor de Jaarverslaggeving*] aims to foster quality in external reporting, particularly in the annual accounts, of legal entities and other organisations in the Netherlands. It seeks to achieve this objective by publishing authoritative statements and recommendations on external reporting and by issuing opinions on external reporting requirements to the government and to other regulatory bodies, either of its own accord or in response to requests.

The Foundation's board is made up of representatives of the following organisations: Confederation of Netherlands Industry and Employers (VNO-NCW); Dutch Trade Union Federation (FNV); National Federation of Christian Trade Unions of the Netherlands (CNV); Order of the Netherlands Institute of Registered Accountants (NIVRA); Association of Investment Analysts (VBA); Dutch Order of Accountant-Administrator Consultants (NOvAA); Royal Dutch Association of Small and Medium-sized Enterprises (MKB-Nederland) and Eumedion. The Dutch Accounting Standards Board (DASB) is the executive body of the Foundation and made up of the representatives of the preparers, the users and the auditors of annual accounts. It is charged with the task of drafting and publishing the authoritative statements and recommendations and of advising the government and other regulatory bodies.

*Why is Guideline 400 important?*

The Social and Economic Council of the Netherlands emphasised the importance of transparency within the context of CSR in its advisory report *On Sustainable Globalisation: A World to be won*.<sup>1</sup> Enterprises are advised to clarify their own objectives and values and how they go about achieving them. Transparency enables enterprises to win the trust of their stakeholders, build their reputations and command their employees' and customers' loyalty.

It is against this background that the Council referred in its 2000 advisory report *De Winst van Waarden* to the possibility of the DASB publishing further guidelines. The DASB thereupon issued two publications in 2003:

- a new version of its Annual Report Guideline 400 [*Richtlijn 400 Jaarverslag*], adapted to include information on CSR in the report of the board of directors/board of management as regards existing financial reporting;

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<sup>1</sup> See the SER Advisory Report *On Sustainable Globalisation*, p. 110. See also the SER advisory report *Corporate Social Responsibility: A Dutch Approach*.

- a guide to separate sustainability reporting.

Guideline 400 was amended in 2005. Pursuant to Section 2:391(1) of the Dutch Civil Code, enterprises are now asked to present information in their annual reports on non-financial performance indicators, including environmental and employee matters, insofar as necessary to acquire a good understanding of their results or their position. In this way, the Netherlands complies with the EU's Accounts Modernisation Directive. Similar arrangements therefore apply in every EU Member State.

*Who does Guideline 400 address?*

Guideline 400 basically applies for all large and medium-sized legal entities. In its Accounts Modernisation Directive,<sup>2</sup> the European Commission indicates that every Member State may allow for exemptions based on enterprise size. The Dutch Civil Code allows a partial exemption for medium-sized enterprises (see Section 2:397(7) of the Code). These enterprises are not required to discuss non-financial performance indicators in their annual reports as referred to in Section 391(1). Small enterprises are not obliged to draw up an annual report at all (Section 2:396(6) BW). The box below discusses how the Civil Code defines medium-sized and small enterprises.

### Definition of small and medium-sized legal entities in the Dutch Civil Code

“Small legal entities” (Section 2:396 of the Civil Code) are legal entities that satisfy two or three of the following requirements (see paragraph 1, Section 2:396 of the Code): 1) their total assets do not exceed EUR 4.4 million, 2) their net commercial turnover does not exceed EUR 8.8 million and 3) they employ fewer than 50 workers throughout the financial year. “Medium-sized legal entities” (Section 2:397 of the Code) are legal entities that satisfy two or three of the following requirements (see paragraph 1, Section 2:397 of the Code): 1) their total assets do not exceed EUR 17.5 million, 2) their net commercial turnover does not exceed EUR 35 million and 3) they employ fewer than 250 workers throughout the financial year. Medium-sized legal entities are large, but they are not among the largest enterprises or corporate groups.

The amounts cited may be altered by a general administrative order [*algemene maatregel van bestuur*].

*What are the most important CSR elements in Guideline 400?*

The Guideline's recommendations concern the following aspects:

<sup>2</sup> Directive no. 2003/51/EC of the European Parliament and of the Council of 18 June 2003, OJEC L 178.

**General aspects:** the enterprise's most important challenges, the extent to which these determine its business strategy, the role of the stakeholders in this context, the relationship between environmental, social and economic aspects and the impact on the public of such product and service factors as safety and quality.

**Environmental aspects (Planet):** the attitude of the enterprise toward the environment, the impact of environmental risks and obligations on the enterprise's financial position.

**Social aspects (People):** employment, policy on employment terms, co-determination, health and safety, etc. This also includes human rights (including worker rights and the policy on child labour, forced labour, non-discrimination and anti-corruption).

**Economic aspects (Profit):** taxation, distribution of added value among stakeholders, knowledge generation and dissemination to society by means of research and development, training and so forth.

In all these aspects, the Guideline advises enterprises to focus on dialogue with stakeholders, the relevant policy and how it is organised, policy implementation and outcomes, and expectations for the future.

#### *Guide to Sustainability Reporting*

In addition to amending Guideline 400 in 2005, the DASB has also developed a conceptual framework for separate sustainability reporting (the Guide to Sustainability Reporting [*Handreiking voor maatschappelijke verslaggeving*]). The Guide focuses on the group of medium-sized and large enterprises that come within the scope of the Annual Report Guideline 400. As the DASB states in its foreword, however, the Guide may also be applied by other organisations. The Guide provides points of reference and considerations. Section 5.3 presents the Guide's management summary.

The provisions of Guideline 400 and the Guide to Sustainability Reporting are based in part on the guidelines developed by the Global Reporting Initiative (see Appendix 1 to the Statement).

#### *Revision of Guideline 400 and recommendations on supply chain reporting*

The Dutch Government would like the DASB to evaluate the revised recommendations on sustainability reporting and to amend or tighten them up where necessary. As the field of sustainability reporting is evolving, the Government does not wish to lay down legal requirements.<sup>3</sup>

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3 See the policy document *Inspireren, innoveren, integreren: kabinetsvisie maatschappelijk verantwoord ondernemen 2008-2011*, 13 December 2007, p. 12.

The Social and Economic Council of the Netherlands has asked the DASB to supplement Guideline 400 and the Guide to Sustainability Reporting by developing recommendations for enterprises concerning their reporting on international supply chain responsibility, based on the ICC's Guidance on Supply Chain Responsibility and good practices in this context. The DASB has responded positively to this request (letter to Social and Economic Council chairman, 16 September 2008).



## 5.2 Text Guideline 400 (relevant selection)

### INFORMATION ON ASPECTS OF CORPORATE SOCIAL RESPONSIBILITY

117. Three aspects of sustainability are generally associated with business activities: environmental, social and economic. By consciously considering these aspects and the impact of business activities on them, legal entities can make a contribution to sustainable development. This is often referred to as corporate social responsibility. The public increasingly expects legal entities to report on the impact of the sustainability aspects of their business activities. Such reporting should cover the enterprise's policy, its implementation and outcomes, and future sustainability/CSR expectations. The standards for such disclosure are still under development.

Compared with annual financial reporting, sustainability reporting by legal entities is still in its infancy. Our notions of what constitutes good sustainability reporting can only evolve if we provide guidance for such reporting.

Such guidance should be based not only on national models and ideas, but also on international concepts and proposals. One important example is the Global Reporting Initiative (GRI), which has the active support of the United Nations (UNEP).

118. In the present state of debate about sustainability reporting, the preparers and users of such reports must themselves indicate what information they believe should be provided and what information they prefer to receive.

The purpose of sustainability reporting is not solely to meet the information needs of users, but also to give the relevant legal entity the opportunity to reveal its commitment to the community through its business objectives and actions.

119. In order to promote transparency in the actions of legal entities, paragraphs 120 to 123 offer a framework for supporting and guiding sustainability reporting and how such reporting is evolving. We recommend that this framework be applied when reporting on the sustainability aspects of business. The concepts used within this context are explained below.

120. We recommend reporting on the sustainability aspects of business in the legal entity's annual report or in a separate document (for example a separate annual sustainability report, annual social report and/or annual environmental report; we refer to the Guide to Sustainability Reporting, version 2003) or in both the annual report and a separate report.

If the legal entity reports on sustainability aspects in both the annual report and a separate report, the separate report should provide more detailed information than the annual report. It would then be advisable for the annual report annex annual accounts to refer to the separate report. This also applies only if a separate reporting document is issued. The annual report may also refer to the intention to publish a separate report of this kind.

121. Where required in order to understand the development, results or position of the legal entity and group enterprises, the analysis given in the annual report should encompass both financial and non-financial performance indicators, including on environmental and personnel

matters. When reporting on corporate social responsibility, it is advisable to consider each of the following aspects:

a. general aspects

The most important problems/challenges faced by the legal entity, to what extent they affect corporate strategy, the role played by the legal entity's stakeholders, the relationship between environmental, social and economic aspects (see b., c. and d. below), and the sustainability aspects of the products sold and/or services rendered (e.g. safety, quality).

b. environmental aspects

Information on the attitude of the legal entity toward the environment, the implications of environmental risks and obligations for the legal entity's financial position, and the environmental performance of the legal entity insofar as this has implications for its financial position.

The Explanatory Note recommends that the following information be provided with respect to environmental matters:

1. the legal entity's environmental protection policy and programmes, specifically those intended to prevent pollution/contamination;
2. improvements in important areas of environmental protection since the policy was introduced;
3. the extent to which environmental protection measures have been or are being implemented, based on the relevant legislation;
4. information on environmental performance, for example energy, material and water consumption, emissions and waste disposal, provided this information is appropriate and significant given the nature and size of the legal entity;
5. if the legal entity issues a separate environmental report, a reference to that report.

The information referred to in point 4. may then consist of a brief summary of the environmental information and a reference to the environmental report.

c. social aspects

These include employment-related matters, for example employment (staff numbers and average staff turnover), employment terms, employee labour market and social insurance provisions (including measures to prevent occupational disability, outplacement facilities and labour pools), consultations between employees and management, employee co-determination, health and safety, education and training, diversity and career opportunities. They also include human rights (including worker rights and the policy on child labour, forced labour and non-discrimination), integrity (anti-corruption policy), commitment to the community, etc.

d. economic aspects

These include the financial contribution to the community in which the legal entity operates in the broadest sense (for example in the form of taxes), the entity's financial contribution to its stakeholders (customers, suppliers, employees, financing bodies and government) and the generation and general dissemination of knowledge (R&D) (see also paragraphs 111 to 116), training and so forth.

- 122 In reporting on the aspects listed in paragraph 121, it is advisable to consider the following elements of each relevant aspect:
- *dialogue with stakeholders*  
The amount of detail in the report depends in part on whether or not the stakeholders play an active role;
  - *policy pursued on the particular aspect*  
This should cover what policy is pursued with respect to each aspect and what the primary concerns are. The legal entity can align its policy with existing national and international declarations, conventions and guidelines. This element also concerns the financial and economic aspects;
  - *the organisation of that policy*  
This concerns the distribution of duties and responsibilities within the legal entity and how these are managed (the governance structure and related management information systems);
  - *the implementation of that policy and its outcomes*  
This concerns information on policy implementation, based on the results recorded in the year under review, for example a list of measures and achievements. The information provided here should also include a review of the audits performed on policy implementation measures and policy outcomes and the realisation of any previously announced expectations; and
  - *expectations for the future*  
See paragraphs 110 and 126 to 132 for recommendations concerning the information to be provided on this element.
- 123 It may be important to distinguish between different segments when providing the information described above. We recommend adhering to the relevant provisions in Chapter 350, Segmented Information.

#### INFORMATION ON THE USE OF A CODE OF CONDUCT

- 124 Dutch legal entities listed on the stock exchange and subject to the 23 December 2004 Decree establishing further instructions concerning the content of the annual report [*Besluit van 23 december 2004 tot vaststelling van nadere voorschriften omtrent de inhoud van het jaarverslag*] must provide information in their annual report on their compliance with the Dutch corporate governance code pursuant to this Decree. The legal entity must indicate whether or not it complies with a code of conduct and which code of conduct that is. Furthermore, it must indicate whether its compliance with this code of conduct is mandatory or voluntary. The legal entity must also refer in its annual report (or table of contents) to a source of information about compliance with the code of conduct (for example the website).



### 5.3 Text Guide to Sustainability Reporting (management summary)

The objective of this guide is to provide a conceptual framework which organisations can use for the preparation of their sustainability report. It gives points of reference and considerations. The user group of sustainability reports is diverse. Moreover, the sustainability aspects are specific to each organisation. In addition to using guides, it is therefore important to conduct a dialogue with stakeholders.

While sustainability reports are prepared above all by organisations in the production and services sectors, they are relevant to other organisations, too, such as government institutions and civil-society organisations.

Sustainability reports provide information on the economic, environmental and social aspects of an organisation and the effects of its operations on society. One of the objectives of sustainability reporting is to inform an organisation's stakeholders. In this way, an organisation at the same time accounts to its stakeholders for the manner in which it has assumed its responsibilities in different fields. Sustainability reports set the stage for the dialogue between organisations and their stakeholders.

Sustainability reporting not only satisfies the needs of stakeholders for information, however. It has benefits for the reporting organisation as well, in that it considers new market opportunities, provides more insight into risks, and offers an opportunity to improve its reputation, enhance employee motivation, reduce conflict, and contribute to the culture of the business and/or its internal cohesion. It can also lead to lower financing costs.

The information in sustainability reports is understandable, relevant, reliable and comparable. The image that is projected in sustainability reports is representative of the actual situation. The information in sustainability reports is logically structured in its presentation of policies, objectives, management, performance and future developments. For a proper interpretation of an organisation's performance, information is required on the organisation concerned, the scope of the report and reporting policy.

Changes in reporting policy or manner of presentation are adequately explained. Sustainability reports give information on the perception an organisation has of economic, environmental and social sustainability and its policies in these fields. In addition, information is provided on how an organisation has embedded economic, environmental and social sustainability in its management structure and systems. Information is also given on the dialogue with stakeholders and the outcome of such dialogue. It is important in this respect to put the economic, environmental and social performance in the right context and explain it adequately. The manner of presentation is so structured that comparison over time is possible.



Sustainability reports can be published in a variety of ways: separately or in combination with financial reports. Organisations should preferably publish their sustainability report annually, if possible at the same time as their financial annual report. Organisations that publish information via the Internet can opt to update this information more frequently. Organisations make their sustainability report available on request. In order to promote accessibility, the website of the organisation concerned indicates whether it publishes a sustainability report or not.

For the purpose of comparison over time, organisations are expected to retain their sustainability report covering at least three consecutive years.