BANKING AND FINANCE

Targeted consultation on the update of the non-binding guidelines on non-financial reporting

Fields marked with * are mandatory.

Introduction

Disclaimer:

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the the non-binding guidelines on non-financial reporting.

The non-financial reporting Directive (2014/95/EU) requires large public interest entities with over 500 employees (listed companies, banks, and insurance companies) to disclose certain non-financial information. As required by the directive, the Commission has published non-binding guidelines to help companies disclose relevant non-financial information in a more consistent and more comparable manner.

In March 2018 the Commission published the action plan on financing for sustainable growth, with the aim of reorienting capital towards sustainable investment, managing financial risks that arise from climate change and other environmental and social problems, and fostering transparency and long-termism in financial and economic activity.

As part of that action plan the Commission committed to updating the non-binding guidelines on non-financial reporting, specifically with regard to the reporting of climate-related information. In practice, it is expected that the update will consist of a new supplement to the existing guidelines. The Commission expects to publish the new supplement on the reporting of climate-related information in June 2019.

In June 2018, the European Commission set up a technical expert group on sustainable finance (TEG) to assist in four key areas of the action plan through the development of

1. a unified classification system for sustainable economic activities (taxonomy),
2. an EU green bond standard,
3. benchmarks for low-carbon investment strategies,
4. new guidelines on the reporting of climate-related information.

In January 2019 the TEG published its report on climate-related disclosures. The TEG invited feedback on its report by 1 February 2019, and approximately 70 organisations and individuals submitted comments. The TEG has published a summary of these comments.

The Commission has taken into account the TEG report and the feedback received from stakeholders on that report and is now consulting stakeholders on the update of the non-binding guidelines before their planned adoption in June 2019. Stakeholders are invited to provide written comments by 20 March.

The consultation document takes account of the TEG report and of stakeholder feedback on that report. This document has been drafted by the services of the European Commission to facilitate a targeted consultation with interested stakeholders on the possible content of the new supplement to the non-binding guidelines. Comments on this document should be submitted by the end of Wednesday 20 March 2019, through this online facility created for this purpose. Comments submitted after that date, and comments not submitted through the online facility, will not necessarily be taken into consideration.

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the the non-binding guidelines on non-financial reporting.

More information:

- consultation document on the update of the non-binding guidelines on non-financial reporting
- on this consultation
- on the protection of personal data regime for this consultation

1. Information about you

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*Are you replying as:

- ○ a private individual
- ◉ an organisation or a company

- ( ) a public authority or an international organisation

* Name of your organisation:

BETTER FINANCE- The European Federation of Investors and Financial Services Users

Contact email address:

The information you provide here is for administrative purposes only and will not be published

carlucci@betterfinance.eu

* Is your organisation included in the Transparency Register?
(If your organisation is not registered, we invite you to register here, although it is not compulsory to be registered to reply to this consultation. Why a transparency register?)

- (x) Yes
- ( ) No

* If so, please indicate your Register ID number:

24633926420-79

* Type of organisation:

- ( ) Academic institution
- ( ) Company, SME, micro-enterprise, sole trader
- ( ) Consultancy, law firm
- ( ) Consumer organisation
- ( ) Industry association
- ( ) Media
- (x) Non-governmental organisation
- ( ) Think tank
- ( ) Trade union
- ( ) Other

* Where are you based and/or where do you carry out your activity?

Belgium

* Field of activity or sector (*if applicable*):

at least 1 choice(s)

- [ ] Accounting
- [ ] Auditing
- [x] Banking
- [ ] Credit rating agencies
- [x] Insurance
- [x] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [x] Other
- [ ] Not applicable

* Please specify your activity field(s) or sector(s):

Financial Sector- Policy and Research

Important notice on the publication of responses

* Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?
(see specific privacy statement)

- [x] Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- [ ] No, I do not want my response to be published

2. Your opinion

1. Do you have any comments on Chapter 2 "How to use these guidelines" of the report?

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BETTER FINANCE considers the introduction of the new guidelines regarding the Non-Financial reporting a crucial step toward achieving the Paris agreement and the Sustainable Development goals by reorienting capital flows to support a long-term sustainable and just economy. However, we have some doubts on the effectiveness of these requirements due to their not binding nature. Investors are increasingly demanding comparable and consistent sustainability data from companies to help inform investment decision and engagement. We consider that mandatory requirements at least on common metrics are needed in order to create a standardised reporting framework. This particularly the case for individual ("retail") non- professional investors who do not have time to try to compare the non-financial KPIs between issuers without common /harmonized metrics. The CMU has currently identified that "retail" investors (ex. Citizens who save) are a the hearth of the CMU project: these guidelines should be aligned with this reality.
Under climate-related opportunities, it is mentioned that the taxonomy of sustainable economic activities will help to identify and classify such opportunities. However, we believe that a stronger and clearer reference to the taxonomy is needed. The requirements disclosed by companies need to be in line with the criteria expressed in the common EU taxonomy regarding climate change mitigation and adaptation activities.
The double materiality as it is defined in the guidelines is not clear easily understandable. A clear distinction should be made between what it is considered as financial materiality for the company and the environmental and social materiality which explains the external impact of the company. We suggest to further explain these two concepts using common definition criteria on how to assess the climate-related risks for the company (financial materiality) and the external impact of the company which might affect the environment, communities, consumers, citizens etc. (environmental and social materiality).

2. Do you have any comments on Chapter 3.1 "Business Model" of the report?

3000 character(s) maximum

3. Do you have any comments on Chapter 3.2 "Policies and Due Diligence Processes" of the report?

3000 character(s) maximum

The disclosure of information regarding competencies of the board and management on climate change issues is an important information for stakeholders. However, the guidelines do not provide specific indications on how to assess company's awareness. The fact that companies provide their own judgement on management and board competences on climate-related issues gives too much leeway in choosing the approach and the rationale behind. We suggest that common indications and requirements should be provided in order to help companies to assess the awareness of climate related issues at management and board level. This will ensure as well comparability for stakeholders in regard to companies with different degree of awareness on climate-related issues.

4. Do you have any comments on Chapter 3.3 "Outcomes" of the report?

3000 character(s) maximum

5. Do you have any comments on Chapter 3.4 "Principal Risks and Their Management" of the report?

3000 character(s) maximum

6. Do you have any comments on Chapter 3.5 “KPIs” of the report?

3000 character(s) maximum

BETTER FINANCE believes that companies need to use scientific and standardized methodologies in order to estimate and calculate non-financial KPIs, in particular regarding metric and rationale criteria.
It is not enough for companies to provide a description of the methodology as it does not by itself facilitate investors to compare KPIs across companies in the same sector. The metric, including thresholds and rationales need to be linked to the criteria expressed in the Taxonomy in order to provide a clear coordination on disclosure requirements. Additional references should be made regarding the do-not harm assessment and other aspects related to adaptation activities.
As BETTER FINANCE has already mentioned in the previous consultation on Taxonomy, we stressed that emissions criteria need to take into consideration not only CO2 emissions but also other greenhouse gasses (GHGs)

CO2 is not the only GHG which contributes to climate change and global warming. In order to have clear picture of the climate-related risks of the company, the guidelines need to consider the disclosure of other GHGs emissions. The Kyoto protocol regulates several of these dangerous emissions which are methane (CH4), nitrous oxide (N2O), the hydrofluorocarbons (HFC), perfluorocarbons (PFC), and sulfur hexafluoride (SF6). For example, Methane is a significantly more potent greenhouse gas than carbon dioxide in the amount of heat it can trap, especially in the short term.

7. Do you have any comments on Annex I "Proposed disclosures for Banks and Insurance companies to the report?

3000 character(s) maximum

BETTER FINANCE welcomes the proposed disclosures for banks and insurance companies. Banks and insurance companies can contribute to increase climate-related risks if their investments support economic activities with a high impact of GHG emissions, water usage, waste, pollution, biodiversity, deforestation, etc. In addition, banks and insurance companies are users and providers of climate-related information which place them in a responsible position regarding the transition to a low-carbon economy. For this reason, specific disclosure requirements for banks and insurance companies should be further described on how to inform investors on the number of practices and activities as investment, lending and insurance underwriting which have an impact on climate change.

8. Do you have any comments on Annex II "Mapping of NFRD requirements and TCFD recommended disclosures" to the report?

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9. Do you have any additional comments on the report as a whole?

3000 character(s) maximum

Useful links

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

More on this consultation (https://ec.europa.eu/info/consultations/finance-2019-non-financial-reporting-guidelines_en)

Specific privacy statement (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-specific-privacy statement_en)

Consultation document (https://ec.europa.eu/info/files/2019-non-financial-reporting-guidelines-consultation-document_en)

Contact

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