EuropeanIssuers
aisbl - ivzw
Rue Belliard 4-6
B-1040 BRUSSELS
Tel : +32 (0)2 289 25 70
Fax : +32 (0)2 502 15 60
info@europeanissuers.eu
www.europeanissuers.eu

POSTION ON EC ACTION PLAN ON SUSTAINABLE FINANCE

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INTRODUCTION

EuropeanIssuers, representing the interests of publicly quoted companies across Europe, welcomes the Commission's Action Plan on Sustainable Finance and supports the Commission's commitment to work towards more competitive and innovative capital markets, while aiming at creating a sustainable economy. Climate change is a major risk that everyone is faced with and everyone needs to manage.

Companies agree that a long-term vision is necessary to ensure the sustainability of their activities. Many companies already incorporate environmental, social and governance factors in their strategies and reporting and some already have specific climate-related policies in place. However, some companies are also reporting non-financial information for the first time, in line with the new requirements introduced by the Non-Financial Reporting Directive. Therefore, we believe that flexibility is key to avoid 'one-size-fits-all' rules and ensure that companies at different stages of growth have the possibility to adapt. Moreover, in line with the Better Regulation principles, it is important that a proper assessment of all reporting requirements on listed companies is conducted before any new corporate reporting requirements are proposed. We therefore support the Commission's approach of conducting a fitness check for the public reporting of companies.

Sustainable Finance is an important matter and corporates play a key role in sustainability issues, such as energy transition and reporting processes. Direct involvement of representatives of listed companies in developing Sustainable Finance proposals is therefore crucial to deliver well-balanced and workable solutions. EuropeanIssuers is ready to support the Commission's Sustainable Finance initiatives and offers to contribute to the development of solutions that would work best for investors, companies and the society.

While we are still analysing the first set of proposals aimed at financing sustainable growth launched by the Commission on 24 May, in this paper we comment on the Commission's Action Plan on Sustainable Finance overall. We may react to the individual proposals, especially those most relevant to listed companies as users of capital markets, at a later stage.

SUMMARY OF KEY RECOMMENDATIONS

To ensure that EU policy developments contribute towards a sustainable and healthy capital markets, which serve well the needs of their end-users, meaning companies and investors, we suggest to:

- Adopt a flexible approach based on voluntary initiatives and experimentation, especially regarding climate-change related issues.
- Fully engage listed companies in the debate and development of the proposals.

- Finalise the Fitness check on public reporting by companies before proposing any new corporate reporting measures.
- Ensure that companies have a sufficient time to implement the NFRD before the Directive is revised.
- Ensure a level playing field between EU and third-country companies.
- Promote good corporate governance culture through soft law.

POSITION

1. A PROPORTIONATE AND EFFICIENT REPORTING FRAMEWORK

In 2018, corporates will publish for the first time the non-financial statement required by the Non-Financial Reporting Directive (NFRD)[1]. Many listed companies will report non-financial information for the first time. They need time to adjust to the new requirements and establish the necessary internal processes to collect data and disclose meaningful and high-quality information. To ensure an efficient implementation of the NFRD, **companies need regulatory consistency and stability**. If rules are changed too frequently, companies, instead of focusing on running their businesses in a sustainable manner, will spend too many resources (legal advice, personnel training, internal processes' and IT adjustments, etc.) on adapting to the changing reporting requirements.

Therefore, EuropeanIssuers considers that the **guidelines on Non-Financial Information should be reviewed only after several reporting seasons and after a thorough discussion with the reporting entities**.

Given that many companies are faced with ESG and sustainable reporting for the first time, we would suggest a flexible approach based on voluntary initiatives and experimentations. In this respect, EuropeanIssuers very much welcomes the Commission's proposal to establish an advisory / experimentation group (**European Corporate Reporting Lab**) but we would like to see its **mandate going beyond the promotion of innovation and sharing of best practices**. We believe the main purpose of this group should be to foster discussions between EU policy-makers, companies and investors, to experiment on any new considered legislative requirements, and to provide input on possible evolutions and improvements regarding reporting.

In the same vein, the **implementation of the TCFD recommendations should remain voluntary**. Many companies question whether the recommendations on climate scenarios are operational given the current lack of robust methodologies. They are wary of the risks of disclosing information based on uncertain hypothesis, as well as of the risks of misinterpretation by potential users.

There are many questions around how to define sustainability, sustainable finance and what is a sustainable company. Therefore, a **classification of sustainable assets** should be established to provide a certain level of legal certainty. We support the objective of the European Commission's Action Plan to establish a taxonomy that hopefully will provide more clarity in this respect. Nevertheless, we do consider that **the timeframe**, presented by the European Commission, **to implement the classification is very ambitious and we would suggest reconsidering it**.

[1] Applicable for financial year starting on 1 January 2017.

Last but not least, we believe that **before introducing any new requirements in the area of corporate reporting, the Commission should first finalise the Fitness Check on corporate reporting**, which we very much welcome. In line with the Better Regulation principles, a profound and broad analysis of all existing EU financial and non-financial reporting requirements, any inconsistencies and overlaps and consideration of whether the requirements are still fit-for-purpose, should take place before proposing any new rules.

2. INVOLVEMENT OF LISTED COMPANIES IS ESSENTIAL

Corporates play a key role in the energy transition and reporting processes. They should therefore be directly involved in the discussions and have a possibility to contribute to designing proposals regarding ESG, sustainable finance and climate reporting.

Involvement of listed companies is instrumental in ensuring that any potential policy measures are fit for purpose, proportionate, practical and providing meaningful information to stakeholders. In line with the Better Regulation principles, we need a balanced approach in non-financial reporting. This means ensuring that any new measures add value for investors and companies, are not unduly burdensome for the reporting entities, and are well streamlined taking in consideration other corporate reporting obligations. We should also be wary of any measures that could require disclosure of strategic and confidential information that could undermine competitiveness of European businesses.

Looking at the Action Plan, we believe that corporates should be involved in the work of the Commission especially in the following areas:

- The establishment of an EU classification for sustainable activities;
- Fostering investment in sustainable projects;
- The development of sustainability benchmarks within the framework of the Benchmark Regulation and the integration of sustainability in the ratings of credit rating agencies;
- The establishment of a European Corporate reporting Lab and any future reflections/work this Lab will carry out on corporate reporting;
- Corporate Governance.

We believe that in the above-mentioned areas, the Commissions would benefit from listed companies' expertise in financial reporting/accounting, risk management, legal/compliance, investor relations, investment decision-making/analysis, in addition to their competence in sustainability/ESG disclosure.

We are disappointed that the composition of the Technical Expert Group is not more balanced in that respect.

3. ENSURING AN INTERNATIONAL LEVEL PLAYING-FIELD

While developing EU policy, close attention should be paid to competition issues to ensure a level playing field between EU companies and third-country companies. Any sustainable finance initiatives should be discussed and agreed at G20 level and implemented on a consistent basis in all G20 countries. Firstly, because sustainable development is a global issue, and secondly to avoid putting European companies at a competitive disadvantage. In particular, the implementation of new obligations will generate additional costs that could have negative impacts on the competitiveness of EU companies and economies. Regarding any new reporting requirements, EU companies should not be forced to disclose strategic and forward-looking information that would benefit their competitors. In a similar way, we suggest avoiding imposing any constraints on EU investors, that would not apply to the investors from third countries, as this could be detrimental for the financing of the real economy.

4. FLEXIBLE APPROACH TOWARDS CORPORATE GOVERNANCE

Good corporate governance means that companies put in place checks and balances appropriate for their ownership structure and stage of development, with the aim to deliver their strategy and long-term value creation. Companies should be allowed to follow good corporate governance guidelines or codes that are suitable for their needs.

We agree that directors should better consider ESG factors in their decision making. However, shareholders and stakeholders should not be placed at the same level. Stakeholder is a broad concept including a wide range of partners with various interests that can often be conflicting and not necessarily aligned with the company's long-term interest.

5. RESPECT THE PRINCIPLE OF FREE INVESTMENT

Any new obligations regarding investors' duties should be carefully drafted to respect the principle of free investment, while encouraging sustainable finance. Companies need to be able to align sustainability goals with their corporate purposes to be able to serve their customers in a sustainable manner. Regulatory attempts that could result in establishing firm and inflexible investment processes for institutional investors should be abstained from. A one-size-fits-all approach would not help promote sustainable finance since investment entities, strategies and investment targets are very diverse. Moreover, attempts to rule on a ranking-order of ESG-factors to be respected by institutional investors may lead to a de-facto ban of certain investments, which would result in less diversified portfolios and would run contrary to the principle of free investment.

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***EuropeanIssuers** is a pan-European organisation representing the interests of publicly quoted companies across Europe to the EU Institutions. Our members include both national associations and companies from all sectors in 15 European countries, covering markets worth € 7.6 trillion market capitalisation with approximately 8000 companies.*

We aim to ensure that EU policy creates an environment in which companies can raise capital through the public markets and can deliver growth over the longer-term. We seek capital markets that serve the interests of their end users, including issuers.

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