Joint ACCA- IIRC- CFA Institute conference

Sustainable Finance & the role of corporate governance & reporting - how integration and impact are the way forward

3 December 2019

On 3 December 2019, ACCA, the IIRC and CFA Institute organised a conference on **Sustainable Finance & the role of corporate governance & reporting - how integration and impact are the way forward**. This event was also an opportunity to launch in Brussels the joint ACCA-CFA Institute report called Social and environmental value creation, which examines the role that business and finance is fulfilling in meeting these new challenges.



After a welcome speech by **Jonathan Labrey**, Chief Strategy Officer of the IIRC, and a Keynote speech from **Heidi Hautala**, MEP and Vice President of the European Parliament, the first Panel on ***multi-capital value creation risks and opportunities***, moderated by **Jimmy Greer**, Head of sustainability at ACCA who presented the joint ACCA-CFA Institute report *Social and environmental value creation,* welcomed **Lois Guthrie**, Director, Redefining Value WBCSD & Special Advisor, Climate Disclosure Standards Board; **Kazim Razvi,** Director, Financial Reporting Policy, CFA Institute ; **Olivier Boutellis-Taft**, CEO of AccountancyEurope and **Jérémie Pélérin**, Director, European Affairs, AFEP.

After a keynote speech by **Eva Lindström**, Member of the European Court of Auditors , the second Panel on ***the way forward,*** moderated by **Gianpiero Nacci**, Deputy Head of Energy Efficiency and Climate Change Department at the EBRD, was comprised of **Geraldine Ang**, Senior Policy Analyst, Green Finance and Investment, OECD; **Thomas Dodd**, Policy officer, Corporate reporting, audit and credit rating agencies Unit, DG FISMA ; **Thomas Verheye**, Principal adviser Green Finance and Investments, DG ENVI; and **Saskia Slomp**, CEO of EFRAG. **Alan Johnson**, Deputy President of IFAC, closed the event.


Main highlights

Jonathan Labrey, Chief Strategy Officer, the IIRC

- "Sustainable finance" is a phrase that crystallises one of the central needs of our economies and capital markets. Finance that serves a broader purpose. Sustainability that can be translated into business outcomes for use by decision makers, CFOs, assurance providers, analysts, asset owners and asset managers.
- European leadership has been and continues to be crucial from a policy, regulatory and market adoption perspective. And one of the roles an organisation like the IIRC can play is to share experience from other markets and profile all the expertise and exemplars of best practice to other international conversations including at the G20 and World Economic Forum.
- We are seeing a more widely shared objective of achieving a genuine shift in the system of decisions, incentives and outcomes. And shifts from short to long term, financial to inclusive prosperity, silo to integrated reporting (small 'i' small 'r').
- Because the evidence increasingly shows that "integration", a fusing of departmental thinking and decisions, more rapid communication between finance, sustainability, internal audit, HR, finance and the boards of companies..; and that leads to a better management of risk, higher quality governance and much better engagement between company boards and investors.
- The link between a sustainable business model (creating value for the long term) and a sustainable business (stewarding, balancing and being accountable for multiple natural, social, human and financial resources - or capitals) is a strong one. And all of these developments are necessary if we are to make rapid progress towards the transformation our world needs.
- Some of the trends we are seeing:
- – The business case for action is well established from an academic and empirical perspective. The calls from market players is for a shift from advocacy to action. In the area of reporting frameworks and standards that means deeper cooperation, possibly consolidation, and certainly a simplification of the corporate reporting landscape.
- – Much greater impatience from business and investors for a comprehensive corporate reporting system that includes all the dimensions of value creation to strengthen accountability. This includes understanding the linkages between the dimensions of value and the trade-offs made within companies to create long term value.
- – There is a growing sense that faster action is needed around assurance to provide a layer of trust and confidence around financial and non-financial reporting. There are also calls for stronger and more comprehensive oversight of the corporate reporting system.
- Perhaps the most striking trend of all is the change within mainstream capital market thinking - investors, business and regulators. There is a much greater focus on putting societal interests at the heart of the purpose of companies - in corporate governance codes and in market practice. And a genuine and much needed realignment of corporate purpose towards the needs of broader society will influence reporting and governance and achieve higher performance and increased trust which will benefit all parts of the value chain.
- And this is important because, as the IIRC's chairman Dominic Barton says, we are not seeking to impose a reporting model on a broken system, but to change the system to open the way for new and emerging practices to become the norm. Let's have practice that follows the evidence rather than compliance. And we do need a degree of selflessness to achieve that.

- There's a phrase that to really understand what's going on in the world it's necessary to acquire the ability to understand the difference between "headlines" (that dominate our thinking in a particular moment) and trendlines (that reflect permanent shifts and which demand our attention because a change in our own behaviour is needed).
- There has been no greater advocate of this approach than Indra Nooyi, who served as PepsiCo CEO for over 10 years. To develop her strategy, she looked at the mega trends, from climate change to child nutrition, to food labelling - societal, regulatory, investor demands on the business. Understanding these trends and their impact on the company helped her and her board to set the strategy - one that aligned increased profitability with a social and environmental purpose.
- And as we approach January 2020, there are three reports that are so influential in understand trends - WEF global risks report, Edelman Trust Barometer, and PwC's CEO report.

Heidi Hautala, MEP, Vice-President of the European Parliament

- In 2018, I had an opportunity to speak in another event on a sustainable finance - also then the ACCA was among the organisers- which happened three months after the Commission had published its **Action Plan on Financing Sustainable Growth** . Back then the discussion was on how to empower businesses to engage with sustainable finance and the sustainable development goals (SDGs).
- The Action Plan on Financing Sustainable Growth has been a game changer in many ways. The European Commission made a drastic transformational move which is about changing the system. It was important in the past to underline the importance of SGDs to companies and investors, but that is no longer necessary – everyone understand how crucial they are for the success of business models.
- The new Commission recently took office and it has set the delivery of the SDGs as a priority. Each Commissioner must ensure the delivery of the SDGs in his/her respective policy area and the College as a whole is responsible for the implementation of the SGDs. Commissioner Gentiloni has been given the chief responsibility for the coordination – the idea behind this might be that the SDGs implementation is connected to the European Semester, which is transversal.
- Everyone can agree that sustainability is an absolute necessity and hopefully the Climate Summit in Madrid will take things forward. The European Parliament has declared the climate emergency and has reminded that the EC must ensure that all proposals it is going to make are aligned with the target of keeping the global warming to 1,5 degrees. This means that, the EU should cut emissions at least by 50% by 2030 and that it should become climate neutral by 2050.
- This emergency means that it is necessary to roll up our sleeves and get to work – we need to transform our economies from resource-consuming into resource-efficient. This means that we must re-think the value creation – how it can be done in a socially and environmentally-sustainable way. It is not enough what legislators or companies have done so far – we must be more ambitious.
- Corporate governance and reporting play a fundamental role in this transformation. Your work as corporate governance and finance professionals is crucial. The tools that are used to modernise financial reporting are the ESG factors :environmental, social and governance. They must be integral parts in measuring sustainability of an economy. The first step in changing the economy is to recognize, what the impact of our economic activities currently is.
- When talking about sustainability, we must keep in mind that it is much broader than environment – social dimension must not be forgotten.
- The ACCA-CFA Institute report on social and environmental value creation, which I read with great interest, shows where businesses are with their ESG reporting. The reporting is improving in many areas, such as reporting on recycling, waste

management and waste reduction, as well as with Greehhouse gases, climate change and air emissions. All the time and effort put on circular economy as well the global awareness of the climate crisis is bearing fruit. We have not reached our targets and we need to be even more ambitious, but I am happy to see that we are going to the right direction.

- However, many ESG issues remain poorly covered, especially when it comes to social aspects. When we look at the environmental, social and governance (ESG) factors, the UN SDGs are not the only framework we need to take into consideration.
- It is important that we also bring circular economy into these processes. There are some very ambitious business communities working on circular economy but they are not always a part of all sustainability discussions as they should be.
- The Action Plan on Sustainable Finance is something that requires due diligence of companies in their supply chains.
- We have to look at what was agreed by the UN in 2011. The UN Guiding Principles on Business and Human Rights – the so-called 'Protect, Respect and Remedy' Framework- has established that the states have the responsibility to protect human rights, companies have the responsibility to respect them there must be access to justice for victims. This is a very topical discussion in all EU institutions. The Finish Council presidency has organised its final conference on business and human rights. The presidency wants to make sure that the work on the Guiding Principles continues in upcoming presidencies.
- The Finnish Presidency organised its last and finest conference on Business and Human Rights, calling for a Common Agenda for Action. The guest of honor of said conference was Professor John Ruggie, the former UN Special Representative for Business and Human Rights and a founding father of the UNGPs . He emphasised the importance of the ESG factors; he underlined that the social factor is all about human rights.
- The problem of ESG and especially the social factor reporting is the poor quality of information that puts us in a difficult situation: Even when we - as legislators, as consumers, as finance professionals and or as investors - want to do better, we may not always know how, because of the lack of reliable information.
- Today, we have to understand human rights in a very broad way – the right to environment is nowadays enshrined in many constitutions.
- There seems to be a market failure when it comes to companies' social performance. At the moment companies with insufficient or event illegal performance can get away without any consequences. There is no market solution for this market failure – it must come from regulation and there is a strong call for the EU to put in place mandatory due diligence legislation.
- There can be no level playing field between companies unless we can demonstrate and distinguish, which companies are performing better than others. Not better in monetary terms, because we can see that already, but in social and environmental terms .
- There is hardly any awareness among the SDG community about the importance of the implementation of the UN Guiding Principles on Business and Human Rights. It is time to connect the dots.
- We have a lot of expectations from the new Commission. In the institutions' corridors people whisper about the Commission proposal on sustainable corporate governance; a legislative proposal that would aim to engage companies in ensuring a sustainable economy and improve EU's competitiveness by fostering long-term and responsible corporate behaviour.
- The connection must be made between the Action Plan and the human rights due diligence. We have come a long way with voluntary measures, but it has not brought end to many undesirable effects of our production and consumption in the value

chains. We need to set a level playing field and benefit the front runners. The EU is an important international player and more action needs to be taken at the EU level.

- Therefore, my message to the Commission is that please proceed with your initial plans and provide a proposal on sustainable corporate governance. I am sure that the European Parliament as well as the European citizens and business are awaiting.
- My final message goes to the organizers of this event, to ACCA, the IIRC and to the CFA-Institute: Your work is definitely adding value and hands-on guidance on the role and importance of ESG factors in corporate governance and reporting. Perhaps you may continue your work and dig deeper into the S, the social factor, and look next into corporate social and human rights benchmarks.

Jimmy Greer, Head of sustainability, ACCA

- The ACCA-CFA Institute report demonstrates that there are many concrete ways for finance teams to engage with a more multi-dimensional approach to value creation . Qualitative information was analysed to score the emphasis that companies were putting on different sections of their reporting. Roundtables across the world were also held in parallel to the research. Participants were asked to think of three scenarios: 1. Utopian perfect world. 2. Incremental world. 3. Collapsing world. The participants were asked what their role would be in each world and where they see themselves right now against these three scenarios. Most people said they were already operating in the situation of collapse or near collapse. This shows the real sense of urgency.
- The SDGs are a great example of sophistication and maturation in this world and we are starting to see that people are thinking of them in more systemic way. This progress is really encouraging.

Lois Guthrie, Director, Redefining Value WBCSD & Special Advisor, Climate Disclosure Standards Board

- The investment industry is increasingly focussing on the ESG information. A big problem is the lack of comparability. The WBCSD and the CDSB have developed an open source platform called the Reporting Exchange. The platform is free to anybody to use; it tracks and monitors the provision, both voluntary and mandatory, that directly or indirectly affect the way in which companies report on ESG matters. Over 2000 provisions were tracked in over 60 countries. The data shows that although people say there is no comparability and consistency, at least as regards to operational information there is in fact coalescence around certain operational measures and indicators that should be reported. This is a very optimistic message; we need to find a way of consolidating evidence.
- What we really need to focus all our energy on is not diagnosing the problem anymore – this has already been done. We need to focus on what is the next generation of reporting that we need in other to achieve the outcomes that have been clearly stated in the SDGs and the Paris agreement. We need to calibrate the information that is requested to the outcomes we wish to achieve.
- We also need to focus on forward-looking information. Every investor needs forward-looking information. We know what we want to transition from, let's focus what we need to transition to: how we get high-quality forward-looking information that gives the reader a sense of whether companies are aligning with the SDGs and the Paris agreement.
- We need more context-based information so that company's results are set within the context of the planetary boundaries. We also need to focus on opportunity reporting without making it green washing.

- We need to look at common space reporting – to what extent are companies profiting from the use of common pool resources. The WBCSD has a big programme on circular economy.
- In regard to what we should transition to, new ideas aren't the problem – the problem is escaping from the old ones. We are in the mainstream reporting and decision-making model. Whatever we develop for the transition to this new reporting, needs to acknowledge and fit with that mainstream model. The WBCSD is working on the enterprise risk management framework that incorporates the ESG information and acknowledges mainstream thinking.
- There are some indirect influences on the reporting model: purpose of the company – it should not be to cause problems for the society; we should look more at technology and what role it should play; the UK has the Social Value Act which requires large procurers to take account of the environmental and social consequences of their procurement activities. What is required is an evolution of consciousness.
- A useful read on the topic: The problem of fit between ecosystems and institutions by C. Folke.
- Steps towards the transition: 1. Deciding what are the signals we want corporate information to send to investors. 2. Looking at models where crisis had to be addressed and learning from that. 3. Creating institutional approach in creating policy coherence.
- The EU Taxonomy is a useful way in trying to identify a signal that would reach the actors whose behaviour and investment practices we wish to change. We need to distinguish what companies can do at individual and at global level.
- The transition needs to be tested through development of new business models. There is focus on metrics and indicators but when developing business models, we have to decide on characteristics of a business model that is fit for the future.

Kazim Razvi, Director, Financial Reporting Policy, CFA Institute

- Many case studies show that when climate change impacts environment, it then also impacts social and economics.
- There is an education side to things as there is a lot of confusion in the markets – same terms mean are understood differently and applied inconsistently in different regions.
- The CFA Institute has identified different investment themes. Responsible investing is applying a negative filter – if there is some harm happening, how this can be filtered in the investment but still integrating in cost of capital and cash flows. Impact investment – whether it is for return or not. There are other small strategies relating to ethical and socially responsible investing. Thematic investment is applying a positive filter.
- The CFA institute looked at asset management industries and discovered that from 2016 to 2018, there was an uptake in responsible investing was around 30% in the asset management industry. These numbers are significant.
- The CFA Institute will be publishing pieces on the ESG and how investors are using it. The most important area is the educational side – how this data is used and incorporated in analysis.
- We have been consistently asking for forward-looking business models. Investors want to know how these will be changing and if they are not changing, companies should explain why.
- The definition of obligation needs to be broadened – we cannot consider obligation just from contractual terms, other regulatory and environmental aspects need to be considered.
- We have now an expert group at CFA Institute which will be aiming to explain critical definitions and terms; they will also be liaising with the EU institutions on the taxonomy issues.

- Regarding audit report and how it is communicated to investor needs to change. Giving true and fair view is not sufficient – graduated opinion should be required. This would facilitate the discussion with all stakeholders.
- Just because companies don't disclose information, they cannot assume it will not come out. Information will come out from other sources and then companies will have to do catch-ups to fix it. It is in the benefit of companies to go beyond what is asked of them in regulations in order to provide relevant information on the direction they are heading.
- Generational divide is an important factor – younger generations are more sensitive to ESG factors and companies should keep that in mind – both as customers and capital providers.
- Forward-looking business model is again a great starting point that will provide investors a strategic perspective on direction of travel.

Olivier Boutellis-Taft, CEO of Accountancy Europe

- There is a growing number of leading companies that are really transforming their management and reporting practices. We also start seeing policy makers finally considering action which is a positive sign. Nevertheless, global climate emissions are going up despite all international agreements and private sector and individual efforts.
- Natural capital resources are decreasing. Waste generation is increasing while our capacity to store waste is decreasing. Ecosystems continue deteriorating. And social tensions are on the rise. However we are still thinking in business as usual mode. We are still considering cosmetic change while what we need is a real systemic change.
- We must be honest with ourselves – reporting alone is not going to provide systemic change. We need robust measurement and reporting. Environmental accounting is a critical area in which we need to make progress.
- Better transparency and trust are also needed. There are more calls to have assurance on non-financial reporting. Action is required from policy makers to create a level playing field. we need to change the way we think and the way we do business.
- Moreover we need to see a change in management practices. Focussing on SDGs is important but some research indicate that if we would be able to meet all the SDGs at the same time, it might simply explode the planet – the impact on the planet resources would be too big. There is growing evidence that we need systemic change. A key engine of change is the decisions that are made in the boardroom.
- We are not going to get anywhere without having assurance on what is being reported. Auditors need multidisciplinary expertise in order to provide what the market is growingly asking for.
- The costs of additional reporting, measurement, revamping the dynamics of the boardroom, changing business model are smaller than the costs of a destroyed planet.
- The diversity of requests that companies are facing is not sustainable and Accountancy Europe is exploring the potential for consolidation and integration of existing frameworks. Having mandatory minimum criteria for reporting in the NFRD is important in order to achieve progress. Regarding the directive scope, it is not just about how big a company is – that is old way of thinking. What matters is the impact company makes. From this perspective, the NFRD scope needs to be enlarged.
- A level playing field is necessary, but it shouldn't be set on yesterday's minimum but on tomorrow's needs.
- There is a difference in what companies do at individual and at global level, however global trend is made of micro trends and things won't change if we don't change the way we behave individually and do business.

- Businesses are often being accused of greenwashing, however most of the drive for real change has been coming from business. The European Green Deal is coming soon and we must all ensure that it is not greenwashed.

Jérémie Pélérin, Director, European Affairs, AFEP

- Companies have already done a lot, and this should be acknowledged. Companies are constantly being asked for more information and they allocate a lot of human and financial resources to deal with ESG issues. Companies integrate ESG in their operations and governance.
- They have to comply with ESG reporting obligations at national and EU level. But there is a lack of coherence of all reporting obligations companies are subject to. They must also respond to various ESG questionnaires from sustainability rating agencies, NGOs, etc.
- With regard to sustainability in corporate governance, in France and in other countries, companies are very advanced. For instance, in France, Boards are entrusted with the responsibility to review ESG opportunities and risks; variable executive remuneration already takes into account ESG performance criteria; the notion of company's interest already takes into consideration the social and environmental challenges of its activity.
- However, issuers cannot address the demands of all stakeholders and it is not clear whether all disclosures are always useful.
- The EU's Sustainable finance initiatives, notably the taxonomy and disclosure regulations, will lead to additional reporting injunctions to corporates, raising several issues. Only the greenest activities will be covered and the taxonomy may not reflect corporates' transition efforts. This can lead to reputational issues and exclusion strategies by investors.
- More complexity and no simplification will come with the revision of the NFRD. More stringent reporting requirements might be added, with less flexibility for companies.
- Recommendations for the future: less is more. Companies agree that there is climate emergency, but we must not rush with imposing very complicated reporting rules. Prioritisation and impact assessment are necessary, as well as continuous dialogue between users and issuers.
- It is not the quantity but the quality of data that can make an information useful. Should there be KPIs, there should only be few of them. Flexibility should be given to each sector to develop specific KPIs.
- Materiality must absolutely remain a key driver in non-financial disclosure. Integration of non-financial and financial information is important, but companies do not want to be bound by the IIRC framework.
- When it comes to more innovative ideas, it could make sense to develop a European framework/standard for non-financial information, but companies must be driving the process in cooperation with potential end-users. The EU must also remain in control of the reporting framework and avoid repeating what was done with IFRS.
- Increased transparency can be positive, but there should be limits to it: it has to stop when it touches commercially and strategically sensitive information. There is a need for a level playing field. This is why we are asking for the scope of NFRD to be extended to third country companies operating in Europe when they exceed a certain turnover threshold, not to extend the scope to more European companies.
- Whilst companies provide more data, auditors, investors and various stakeholders have to build the necessary competence to use data. And all SRAs offering ESG Ratings should be subject to minimum transparency requirements.
- With regards to corporate governance, codes are the cornerstone.
- Afep has recently released a publication on climate and energy scenario analysis. The cornerstone of this report's recommendations is that companies establish their

own energy-climate foresight analysis to better address climate change risks in their business operations, adapt and evolve, and to rebalance the dialogue between economic actors and stakeholders, including extra-financial and credit rating agencies.

- Businesses want to be transparent, but they want to disclose information that makes sense and is useful for end-users.

Eva Lindström, Member of the European Court of Auditors

- Clearly, there is a real urgency and sustainable finance is addressing one of the most important issues in our society today: climate change. There are four big challenges:
- Firstly, the **investment gap**. To achieve the EU's 2030 targets and cutting greenhouse gases by 40%, we have to fill an investment gap, which the Commission estimated at 180 billion EUR per year **additional** investment. We will need to invest even more in order to achieve carbon-neutrality.
- If we are honest, we already know that we are not going to achieve the 1.5 degrees scenario and that current pledges are not enough for reaching the 2 degrees scenario. Changing our economy to a low carbon one requires massive amount of investments and innovation. We also know that this is a problem, which governments cannot solve alone, and we need the private and institutional sector. Solutions and roles will also be different in different areas, for example, adaptation projects are more likely to be non-bankable and hard for the private sector to invest in.
- And what about the unsustainable investments we are still making? Perhaps we have not just too little sustainable investment but too much unstainable investment.
- Secondly, **externalities are not priced in at the moment.** There is a risk that regardless all the actions we do to promote sustainable finance, it will not make enough difference because we do not have a serious carbon price in the economy.
- Thirdly: **Transparency:** Providing transparent sustainability information is important to direct finance. However, we have to make sure that information is reliable and can be trusted – by investors, consumers and citizens.
- Fourthly and finally, **active ownership:** We are seeing increasing awareness in the corporate sector that sustainability risks are also financial risks. But is the long-term perspective adequately included yet? Active ownership is important.
- **Swedish State-owned companies:** Sweden has a clear model of corporate governance of state-owned companies - a portfolio which amounts to 60 billion EUR. There is a clear chain of command with the governing board controlling the CEO. The Swedish state takes an active ownership role. It is also represented in the nomination board. The State invests for the long-term and is working very closely with the governing board. For the last 10 years, the State has promoted sustainability by requiring boards set up strategic goals for sustainability and strategies to achieve them. The state-owned companies have to report in detail on their progress of implementing Agenda 2030, which means that sustainability has to be taken into account in their core activities.
- In June this year the ECA published a review on "Reporting on Sustainability: A stocktake on EU institutions and agencies". The ECA highlighted several pre-requisites as essential to have serious and meaningful sustainability reporting. First of all sustainability needs to be implemented into the business strategy – it needs to be part of the core business. To be able to do this, the organisation needs to know what the most important issues are when it comes to sustainability. It needs to do a materiality assessment.
- There is a great misunderstanding when it comes to the framework of the 2030 Agenda – people often say that "the SDGs are about everything so they are not helpful". But this is not how we should look at this framework. To understand and use this framework in the right way it is important to do an analysis – to prioritize. The

Agenda 2030 is a framework to give guidance. Which means that, as each organisation is different, each organisation has to make their own homework. Now after your hard work of analysing and prioritizing and making a proper materiality assessment, you need to engage with your stakeholders. You need to know their needs and expectations to check if they see the same issues as you do. You need their views to cover your blind spots.

- When it comes to the Agenda 2030, the EU and its Member States are clearly committed to the SDGs. EU law requires certain large companies to report on sustainability, 2018 was the first year they had to publish. 7 400 listed companies, banks, insurance companies, and other entities identified by Member States have to report. EU institutions and agencies do not fall under the EU Directive. However, the ECA wanted to see whether the EU institutions are leading by example when it comes to sustainability reporting. The ECA looked at 12 institutions and 41 agencies.
- The European Commission has published a reflection paper outlining scenarios for a sustainable Europe, but it does not currently have an EU strategy that covers the SDGs up to 2030.
- Since 2017, Eurostat has produced annual reports providing a description of “progress towards the SDGs in an EU context”. The report aims to provide a quantitative assessment of the EU’s progress towards reaching the SDGs. However, the Commission does not attempt to measure the contribution of the EU’s policies and budget to the 2030 Agenda.
- The EC has not integrated SDGs in its performance reporting.
- The ECA also looked at what individual EU Institutions and agencies are doing on sustainability reporting. Only two European bodies – the European Investment Bank and the EU Intellectual Property Office – have so far published sustainability reports. Others Institutions and agencies, publish incomplete and piecemeal information. Reporting is mainly on how the running of an organisation impacts on sustainability but not how sustainability has been integrated into strategy or policy. This risks that important issues are not covered.
- Reporting is just the end of a process. The ECA has found that the prerequisites are not in place yet. For meaningful reporting to take place there needs to be a strategy, an integration of SDGs into the budget, reporting - and that stakeholders need to be able to trust this information.
- The ECA has iidentified 4 major challenges: Developing an EU strategy post 2020 that covers the SDGs and sustainability; Integrating sustainability and SDGs into the EU budget and the performance framework; Developing sustainability reporting in EU institutions and agencies; Increasing the credibility of sustainability reporting through audit.
- To achieve the EU’s 2030 targets we need massive investment and new solutions from private and institutional capital – governments cannot solve this alone. And what will be achieved without pricing in externalities and a serious carbon price in the economy? Here the public sector can give the right incentives for the transition from brown to green. Active ownership is another, rather specific, tool the public sector can use.
- Finally, transparency is key and we as auditors and accountants have to take our role in demanding it and auditing the information.

Gianpiero Nacci, Deputy Head of Energy Efficiency and Climate Change Department, EBRD

- Reporting and disclosure are important for the EBRD in two dimensions: it is necessary to obtain information on financed companies, assess the risk and price it; the EBRD also needs to fund itself, it needs to report and give confidence to stakeholders. The EBRD has made huge improvements in last years in creating a more structured governance strategy to assess and manage climate related risks. This enables the EBRD to contribute to market transformation.

- There are still a lot of issues that need to be dealt with. The issue of skills and capacity within financial institutions need to be addressed.
- The EBRD has its impact analytics but ultimately, it is extremely complicated and expensive for financial institutions to monitor the impact of investment. There are also issues related to quality, consistency and comparability of data. This will be a key area of focus going forward and new technology should make impact assessment more precise and cheaper.
- Regarding the way forward, it is important to ensure the alignment with the Paris agreement.
- Many companies are facing an issue of managing uncertainty which is a critical element in any sustainability agenda; other important issues include: asset class differentiation, managing risks in a dynamic portfolio, boundaries and attribution.

Geraldine Ang, Policy analyst on green investment, OECD

- The OECD has a role in ensuring policy coherence; climate and other environmental factors are being mainstreamed to all the areas on the daily basis. The OECD held the 6th OECD Forum on Green Finance and Investment end of October in Paris. Amongst several other topics, the Forum discussed the significant increase in climate reporting and disclosure across corporate and financial institutions since 2015. Progress however remains limited. It is the question of impact versus the risk-based approach. The TCFD had limitations in achieving impacts and we are not there when it comes to the goals of the Paris agreement.
- We really need to move beyond incremental change that we are all contributing to. More systemic change needs to happen. Disclosure is critical in addressing information failure. There is also a failure in pricing externalities. We not only need to enhance disclosure, but the private sector needs to understand that it is in its selfish interest to achieve the systemic change. Private sector should care about the long-term value creation and the sustainability of their business models that factor in biodiversity because they depend on it in every single sector.
- We must think more strategically about disclosure and accounting. It needs to be forward-looking. Improving climate reporting will involve responding to challenges related to availability and comparability of data and metrics. The OECD is working on the complexity of the ESG data. It is fantastic that the market is booming, but there is a need for harmonisation and alignment so that the credibility of ESG metrics is enhanced.
- Improving climate reporting also requires clarifying sustainable finance definitions. It is important to make the distinction between disclosure and taxonomy. Disclosure is about a risk-based approach and taxonomy is about economic activities.
- For climate disclosure to be effective, we need a forward-looking approach. Central banks and financial supervisors are finally taking interest in climate risks and hopefully soon in other environmental risks. The OECD serves as an observer on the Network for Greening the Financial System which has issued its recommendations in April. There will be no meaningful risk-based approach until there is an understanding what is in the portfolio. The OECD is planning a workshop on 14 February to discuss issues associated with assessing climate risks for financial sector, including around scenarios and modelling.
- We all have been focussed on climate over the past years, however we must understand that climate change has a strong linkage to other environmental issues. Biodiversity loss threatened sustainability of most business models. Biodiversity is something that the private sector needs to catch up with.

- The OECD, at the request of the French G7 presidency, published a report in May 2019 on Biodiversity: **Finance and the Economic and Business Case for Action**.
- Businesses and investors need to mobilise in supporting biodiversity and natural capital. Businesses must understand their dependencies on biodiversity factors. It is not just about serving the interest of society.
- There needs to be more political pressure regarding biodiversity. Businesses need to be worried about the liability risk. Liability risk is not that high for climate; however it is massive for biodiversity because it is local in its impacts.
- The OECD has called on the launch on the high-level advisory group on biodiversity.
- Biodiversity is a bit more challenging because there is no unique metrics such as carbon footprint. There are ongoing efforts to measure biodiversity in business activities across different sectors and segments of the value chain. We cannot wait ten years for everyone to agree on perfect metrics, at the same time we don't need to wait for a perfect approach, we can learn by doing. The OECD suggests launching an Advisory group to agree on measurement.
- The green budgeting issue is absolutely critical.

Tom Dodd, Policy officer, Corporate reporting, audit and credit rating agencies Unit, DG FISMA

- It is likely that the new Commission will prepare a legislative proposal to revise the NFRD. If so, there are a number of issues to address.
- First of all, comparability and standardisation – any new approach is likely to lead to disclosure requirements that are more detailed and/or more prescriptive and/or more standardised. How this will be done is a more complex question.
- Scope – which companies are required to disclose this information - are the right companies under the scope of the Directive? For example, should large non-listed companies be subject to certain disclosure requirements?
- Assurance – should there be stronger audit requirements on information disclosed under the NFRD? What about the costs around it? Should those audit requirements apply to all companies? Is the audit assurance market ready do deliver?
- Location: where should sustainability information be reported? The default location foreseen by the NFRD is the management report, but it also leaves allows member states to allow their companies to report non-financial information in separate reports, and most member states have taken up this option. Should this be changed? Should all information be produced in the management report?
- Coherence – there are possible risks that certain entities may find themselves subject to similar but slightly different disclosure requirements from different pieces of EU legislation. These risks should be addressed as far as possible and unless differences are necessary and justified.
- Digitalisation – how can we make sure that non-financial information disclosed under European law is manageable in a digital format? We have the European single electronic format (ESEF) being developed for financial reporting. There could be discussions whether that kind of methodology could be applied to non-financial information.
- It is important to understand how legislation that the EU puts forward might relate to some of the existing global standards and frameworks for non-financial information; also, are other jurisdictions imposing disclosure requirements? EU businesses might raise concerns that there is a risk that the EU will impose requirements that other international players are not subject to.
- An international platform on sustainable finance has been established which has been joined by many important countries from around the world. This platform should at least act as a forum for better sharing of information, including on non-financial reporting.

Saskia Slomp, CEO of EFRAG

- EFRAG is known for its contribution to financial reporting which is an important pillar of corporate reporting and it needs to fit in the larger context of corporate reporting. The International Financial Reporting Standards have to evolve to remain relevant as changes take place in this wider environment.
- The IASB is working on the management commentary practice statement which is part of their answer to the wider corporate reporting debate.
- EFRAG had a research project on intangibles, notably on intangibles that are at present not on the balance sheet. The project is in its early stages, but it is going to look at aspects that are closely related to the issues raised sustainability reporting debate.
- Regarding the Action Plan of the European Commission, in the financial reporting domain EFRAG has been asked to look into alternative measurements to fair value for equity instruments and equity type instruments and to examine whether there is an impact on long-term investment and sustainable finance.. EFRAG expects to provide advice on this in the beginning of next year. This is not an easy project, especially because not all data is available and the IFRS 9 is only implemented for the 2018 financial statements.
- Another request was to evaluate to what extend should the sustainability be taken into account in the European public good criteria in the endorsement advice. In general it is believed that sustainability could fit into that and there is no need to have special guidance.
- Probably the most important request from the European Commission was to set up the European Corporate Reporting Lab at EFRAG. The European Lab was set up last year; it has a specific governance structure put in place. The mission of the European Lab is to stimulate innovation in the field of corporate reporting by identifying and sharing good practices. The European Lab is aimed to be complementary to the NFRD and other legislative initiatives, its publications have no authoritative status. The idea is that companies will pick up the good practices and the less advanced or resourceful ones can use elements of that in order to improve their reporting. The agenda of the European Lab is set by the European Lab Steering Group.
- The first project of the European Lab is on climate-related reporting. This project has two streams: disclosures and scenario analysis. In order to find good examples, the European Lab Project Task Force on Climate-related Reporting looked at around 100 companies on the disclosure side and at around 60 companies on the scenario side. The good examples identified were discussed with different stakeholders. The Project Task Force is preparing the report where it will share the good practices; the work on disclosures shows that the financial impact is often missing and the disclosures on risk management, metrics and targets are often more mature; the linkage to strategy is often missing; the governance disclosures are also often missing.
- The project did not only look at large but also smaller companies and provided also some examples of smaller companies but could not on all topics find good examples because they often have different resources.
- Different areas were looked into regarding scenario analysis and good examples were indicated, however no real good overall examples were found – there was always something missing. The scenario analysis is largely qualitative, and the underlying assumptions are often missing, there is a lack of clarity on the underlying data; the main focus is on the transition risk and the reporting on the physical risk is rather undeveloped.
- EFRAG did the agenda consultation on the next projects for the European Lab. It was decided that the next project will be on reporting on non-financial risks and opportunities reporting and linkage to the business model. The European Lab

Steering Group discussed the scope of the project. The European Lab expects to start the second project in the first quarter of the next year.

Thomas Verheye, Principal adviser Green Finance and Investments, DG ENVI

- All natural capital is at risk and we should do much more on tackling this problem. The environmental risk is undermining our economy and society is depending on it. This requires total impact management. We cannot continue tackling environmental risks sector by sector and pollutant by pollutant because we shift risks around and we don’t reduce it.
- We need businesses to become a part of the solution, not the problem. If we look at where we are in greening our economy or the financial system, there is still a big investment gap and roughly 2% of the market are ESG-compliant. We have implicitly promised a sustainable financial system by 2050 and there is clearly a lot of wok to do, some fundamental changes need to be made.
- The European Green Deal is a game changer and everything we need is in there. It maintains and strengthens the climate ambition. It moves sustainable finance from something important to the main stage. This will help to future-proof our economy and business.
- Risk and consumer preference are the fundamental drivers. Identifying, managing and valuing risks are the most important steps. Companies should also be faster than the government because it takes a while to develop and agree on regulatory responses.
- We need environmental accounting if we want to move forward. It is the way to organise the data so that it is produced for reporting and disclosure. This is important for external reporting and disclosure but also for internal decision making. We need this information throughout the supply chain because environmental impact is not limited to the headquarters.
- We need more action to promote standardised environmental management accounting practices. The transaction cost of establishing the insights are high and we need to work on reducing it.
- There is a need for E-GAAP but we are not in the business of replacing the current GAAP. GAAPs are the common denominator of every management information system driving the economy today. This is an industry-led standardisation process. The data produced needs to be relevant for environmental policy making, it needs to be credible and comparable.
- The EC wants to gather businesses doing that and first version of common environmental accounting standards should come out within a year.
- We have been using metrics and methods for all environmental aspects besides climate for decades, but we haven’t put things together.
- The EC wants to continue working on the Business and Biodiversity Platforms to exchange and promote good environmental accounting practices within and across economic sectors and within and across natural capital and circular economy modules.
- The next step should be creating an International environmental management accounting programme that promotes synergies across applications for product, project, corporate, and national accounts.
- The idea that accounting is a crucial instrument forward has become mainstream. It is a matter of making it work in a way that we produce relevant and comparable data in an efficient way and that we can enable taxonomy in non-financial reporting.
- We should stop looking at the companies that are green and start paying attention to the ones that aren’t and understand the consequences that come with it.

Alan Johnson, Deputy President of IFAC

- Europe may be an old, and even an ageing continent - but it is a continent that is driving innovation, leading on social and economic integration, and most importantly on sustainability.
- The Sustainable Development Goals provide us with a very good framework which we can all identify with. Every member of society can contribute to it and make a difference.
- By 2050 there will be 9 billion people living on this planet, a planet that will probably be too small to support such numbers. It is definitely time to move from advocacy to action – the threat to our planet is here. Addressing it will require huge investments, courage and tough decisions. Business as usual is no longer an option.
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- Europe may be able to go forward fast, but the reality is that we must work together across the world. Regulatory fragmentation is a very big issue, with high costs to both business and society. Everyone must agree on the common direction. Businesses cannot cope with the multiplicity of laws and regulations; too many businesses are interconnected, and most businesses no longer rely on national supply chains.
- Professional accounting organisations should be making the case for collaboration in their jurisdictions. It is our job to advocate and convince all countries that we can win this battle, but only by working together collaboratively, in order to ensure we make this planet a more hospitable and safer place for future generations.
- The Accounting profession has a role to play in this agenda as accountants understand risks and opportunities. As a profession must work together. We must make sure that everyone understands the impact climate change is having on society now, and the impact it will have if we do not address it urgently.
- Reporting on climate impact should have independent assurance to build and sustain the trust in society.

- It is not just about the external reporting but also about how the reporting influences business decisions. It is very important to change the behaviour of the leaders, in government, in business and in society generally.