

THE EUROPEAN VOICE OF DIRECTORS

#EUALERT

Week 21



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EUROPEAN INSTITUTIONS

EC: Results from the public consultation on the sustainable CG initiative

In total, 473.461 public responses were obtained (mostly from NGOs) during the consultation period, in addition to 149 position papers received outside of the EU survey. Regarding the [results](#):

- 81.8% supported the need for an EU legal framework for due diligence;
- 68.2% expressed support about corporate directors balancing the interests of all stakeholders being clarified in legislation as part of directors' duty of care;
- On the topic of enforcement of directors' duty of care (by stakeholders), the majority of overall respondents answering expressed support (59,6%);
- As regards remuneration of directors, generally respondents who answered scored highest the option of making compulsory the inclusion of sustainability metrics;
- 59.0% are supportive of the EU taking further action to regulate share buybacks.

EC: Commissioner McGuinness's speech on corporate reporting after Wirecard

At the European Policy Centre Conference, on the 27th of May, [Commissioner McGuinness](#) recalled the failure of the three pillars of corporate reporting (corporate governance, audit and supervision) illustrated by the Wirecard case. She has asked DG FISMA to undertake a thorough assessment of the ecosystem around corporate reporting. A public consultation will be launched after the summer, with the aim of presenting a legislative proposal towards the end of next year on the Audit Directive and Audit Regulation.

Commissioner also pointed towards the responsibilities of board members in corporate failure which should lead to a reflection on whether board members' responsibilities should be clearer, how to improve the role of audit committees and whether they should be mandatory.

EC: TESG Final Report on SMEs - Empowering EU Capital Markets

This Technical Expert Stakeholder Group (TESG) report provides an overview of the key issues faced by SMEs in accessing public equity markets. In doing so, it focused on four main objectives:

- To create a more vibrant SME ecosystem by incentivising the participation of financial intermediaries and various service providers;
- To simplify the regulatory requirements imposed for SMEs;
- To increase the visibility and profile of SMEs;
- To incentivise participation by both retail and institutional investors in SME securities.

The TESG also recommends the definition of clear and addressable voluntary ESG standards for SMEs, as well as a set of minimum harmonised governance criteria at EU level for listed SMEs.

EC: Taxonomy's Article 8 draft delegated unveiled

The EC published the Taxonomy's Article 8 draft delegated act which aims to increase transparency in the market and help prevent greenwashing by providing information to investors about the environmental performance of assets and economic activities of financial and non-financial undertakings. Stakeholders can provide feedback on the draft delegated act until 2 June 2021.

Following this publication 5 NGOs (WWF, BEUC, ECOS, BirdLife and Transport&Environment) have decided to leave the EU Platform on Sustainable Finance due to their concerns over the labelling and classification of certain activities (biomass energy seen as green investment). In their view, the political interference has undermined the Taxonomy principles and led to an approach which is not based on scientific evidence.

EUROPEAN DEVELOPMENTS

Letter: NGOs support for the EC plans on Sustainable CG and response to criticism

A consortium of NGOs (WWF, ECCJ, Oxfam, Frank Bold..) have sent a letter to the EC to reaffirm the need to clarify, in the upcoming law, the role and obligations of board members to ensure that corporate governance practice is more sustainable, responsible and focused on the long term. It also states that the response from those criticising the initiative utilises unjustified claims of diminished competitiveness. It lists recent studies demonstrating both the need for and feasibility of such a legislative proposal (less than 15% of companies are integrating sustainability considerations into core business strategy, and board discussions, only a third of companies disclose climate targets, just 3.6% of companies are able to demonstrate effective management of their human rights issues...).

EuropeanIssuers: Feedback on the TESG Report on SMEs

EuropeanIssuers welcomed the general approach and focus of the TESG on SME's final report which acknowledges the particularly burdensome regulatory framework and the costs associated with listing for SMEs. As such, EuropeanIssuers supports the recommendations which are based on the key principles of simplification, proportionality and flexibility for SMEs. It also encourages the EC to revisit the SME definition and to build up on the concept of Small and Medium Capitalisation Companies (SMCs) ("all publicly listed companies on any type of market whose market capitalisation is lower than 1 billion euros should be defined as SMCs.").

Podcast: The shift to sustainability: A CFO's journey (Accountancy Europe)

In its series of Corporate Governance podcasts, Accountancy Europe turned to the private sector to see what companies are doing. In this [episode](#), they spoke with Karim Hajjar, Chief Financial Officer of Solvay. He shared not only Solvay's experience of integrating sustainability into its business practices, but also his own personal story of why he believes that value must include more than just the financial bottom line.

Report: European Family Business Covid-19 Edition

European Family Businesses released a report investigating how family businesses around the world were responding to the impact of COVID-19. Based on a survey completed by 2,493 family businesses and 510 non-family businesses (for comparison purposes), European family businesses have responded to the crisis via three main ways:

- Stabilizing the business: The leaders of many family businesses took cost-reduction measures to address the immediate drop in income and the impact it had on cash flow.
- Accessing government support: Over 70 percent of European family businesses reported that they received some form of government support.
- Taking the long view: By adopting a combination of three main strategies: social responsibility, business transformation and leveraging their patient capital.

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Article: Achieving gender balance on executive teams - What works ? (Board Agenda)

The target of 33% female directors in the FTSE 350 has been missed in executive leadership. McKinsey's Women in the Workplace report identifies that US companies alone have spent \$8bn on unconscious bias training. Yet the outcomes of this type of training are proven to be negligible, if not actively counter-productive in opening executive leadership positions to women.

Board Agenda's [article](#) insists on the need to equip all senior leaders with the proven techniques to operate inclusively and focus on performance, requiring adaptive of leadership and the ability to balance and facilitate divergent opinions. It also recommends setting clear objectives in terms of diversity, ideally supported by measurable KPIs.

NATIONAL DEVELOPMENTS

UK: The IoD calling on business to adopt climate-related financial disclosures

Responding to the Government's consultation on proposals to require mandatory TCFD aligned climate-related financial disclosures, the UK Institute of Directors urges businesses to move now to implement the common reporting framework. The IoD is also calling on the government to extend the requirement to a wider range of companies by 2025 - while recognising the care that must be taken to minimise the burden of immediate reporting requirements on smaller entities. The IoD also stresses the importance of sufficient guidance, education, and support for companies and directors to ensure they are able to make meaningful disclosure under a new reporting regime.

UK: The FRC issued revised auditing standards

The FRC has issued a revision of its UK auditing standard on the responsibilities of auditors relating to fraud. The revisions to the standard are designed to provide increased clarity as to the auditor's obligations. It also includes enhancements to the requirements for the identification and assessment of risk of material misstatement due to fraud and the procedures to respond to those risks.

The revised UK standard is effective for audits of periods beginning on or after 15 December 2021 with early adoption permitted.

Germany: NEDs can make climate neutrality a reality (Forbes)

The Corporate Governance Initiative Germany examined the role of NEDs on supervisory boards in steering the ESG solutions of German companies, and 4 key strategies emerged:

- Involve employees in sustainability decision-making: according to a study, companies with a high level of codetermination are more likely to integrate sustainability in their daily decision-making.
- Diversify the board of directors: Supervisory boards with a higher proportion of women and young directors as well as shorter tenures are linked to better sustainability performance.
- Build sustainability expertise
- Incentivize: for example, by including ESG targets in the remuneration of the management board.

EVENTS

Guberna: Summer School and International Governance Forum

Guberna, the Belgian Institute of Directors, a member of ecoDa, will be organising its Summer School and International Governance Forum on the 28th of June.

The Guberna Summer School will tackle three main topics: an update of what academic research is saying about the potential (dys)functions of boards of directors, the latest trends in board dynamics and the potential impact of digitalisation on boards dynamics.

The Summer School will be followed by the Guberna International Governance Forum which will focus on the interactions between CEOs/leadership teams and the board of directors for strategic decisions.

ecoDa's NEWS

- ecoDa has published its 2020 Annual Report.
- **28th May:** ecoDa has been represented by Alessandra Stabilini, at the European Family BusinessWeek to discuss Sustainable Corporate Governance;
- **4th of June:** ecoDa's Policy Committee meeting;
- **9th of June:**
 - ecoDa's Education Committee meeting;
 - ecoDa/PwC Joint Webinar on "*How to approach tax governance as a strategic issue? A discussion for board members*" (**4.00-5.00pm CET**). More information to be found here.
- **SAVE THE DATE: 9th of November:** The 2021 EU Corporate Governance Conference under the Slovenian Presidency of the Council, will be organised online by the Slovenian Directors' Association (a members of ecoDa) and ecoDa, with the support of EY. More information to come.