THE EUROPEAN VOICE OF DIRECTORS

#EUALERT

Week 38

What's in this issue:

EUROPEAN INSTITUTIONS

EP: Renew Europe's Webinar on Companies' Corporate Sustainability reporting

On the 23rd of September, Renew Europe organised a webinar to exchange views on the newly proposed CSRD. The key messages were:

- Some Member States have concerns regarding the scope and the risk of extra-burdens for companies. As a result, a compromised text will be proposed;
- France's position is that voluntary standards should be developed for SMEs, requirements should be compulsory for companies over 250 workers;
- The European Confederation of Trade Unions (ETUC) is pushing hard to include further the human dimension (employees representation at board level and sustainability reports available to all stakeholders);
- Pascal Demuger (CEO - La Maïf) was pleading for auditing the non-financial information and suggesting to create scores for each criteria to assess corporate performance (consumers will then be in position to make their own judgement based on the impact that a company has on the environment and the society).

EESC: Opinion on the EU Taxonomy

This week, the members of the EESC discussed the EU Taxonomy delegated regulations. Concerns have been raised regarding:

- The definition of «environmentally sustainable». An activity not qualifying as green under the Taxonomy risks being perceived as unsustainable with possible consequences in terms of access to finance;
- Stakeholders were concerned that the ambition of the criteria was too high, and suggested improvements in the usability of criteria;
- The scope of the EU Taxonomy: Some stakeholders were concerned about the scope of activities covered by the criteria being too narrow and the binary nature of the EU Taxonomy, which means it will not provide guidance to markets on how to deal with activities that do not meet, or are not covered by the EU Taxonomy.

On Monday, the ECON and ENVI Committees of the EP will vote on a possible objection to the Taxonomy.

EC: Review of Solvency II

On 22 September 2021, the Commission adopted a comprehensive 'review package' of Solvency II rules. The overall aim is to ensure that insurers and reinsurers in the EU keep investing, and support the political priorities of the EU (financing the post-Covid, completing the capital markets union and channelling funds to implement the European Green deal). The review will also make the insurance and reinsurance sector more resilient.

EC: 2021 Strategic Foresight Report

In the 2021 Strategic Foresight Report, building resilient and future-proof economy and financial systems is depicted as a main topic for the EU to act on in the coming decades. This would include:

- Removing the remaining obstacles to market integration and to fully implement Capital Markets Union and Banking Union is therefore essential to diversify and deepen sources of funding for EU companies;
- Financing the transition to a climate-neutral economy and resilience against environmental degradation (the EU will need EUR 470 billion in additional investment per year to reach its 2030 climate and environmental targets);
- Increasing transparency of the ecological footprint of financial products and ratings, as well as access to reliable sustainability-relevant data to prevent 'green-washing;
- Defining a strong, competitive, properly regulated and supervised EU digital finance sector;
- Better fighting money laundering and terrorist financing and ensuring appropriate safeguards against these illicit purposes.

ECB: Economy-wide climate stress test

The European Central Bank published the results of its economy-wide climate stress test. The exercise tested the impact of climate change on more than four million firms worldwide and 1,600 euro area banks under three different climate policy scenarios. The results show that:

- Firms and banks clearly benefit from adopting green policies early on to foster the transition to a zero-carbon economy;
- The impact of climate risk is concentrated in certain regions and sectors of the euro area which would in turn affect their creditworthiness;
- The advantages of taking action early on outweigh the initial costs over the medium to longer term.

INTERNATIONAL DEVELOPMENTS

Australia: Regulators target net zero greenwashing

The Australian Securities & Investments Commission (ASIC) has warned it will take action against companies it believes are making misleading claims regarding their net zero efforts. ASIC says forward-looking net zero statements may be misleading unless underpinned by reasonable grounds (as should all forward-looking statements) and determines the following:

- Removal of net-zero statements that infer near-term implications;
- Disclosure of a company's vision to operate in a net-zero manner, the work proposed to meet the visions, the uncertainties and risks of the endeavour; and
- Inclusion of specific timelines within any net-zero statement.

These rulings will apply to sustainability reports, fundraising documents, periodic financial covenants reporting, customer supply chain standards and continuous disclosure requirements.

Input paper for the G20 Sustainable Finance working group (UN and The International Platform on Sustainable Finance)

This paper starts with an overview and analysis of the existing public and market-based frameworks and approaches to identify, verify, and align investments with sustainability goals (Chapter 1). It then describes the main challenges to implement consistent, comparable and interoperable global frameworks (Chapter 2). Finally, it provides high-level principles for countries/markets that intend to develop their own approaches/taxonomies and a set of recommendations to improve coordination on enhancing the comparability, interoperability and consistency of different alignment approaches, and to facilitate their convergence (Chapter 3)

EUROPEAN DEVELOPMENTS

Data on companies' climate and human rights disclosures: lessons for the EU reform (Alliance for Corporate Transparency)

New research published by Frank Bold on the information disclosed in 2021 by 250 companies on key climate and human rights matters shines light on data gaps and positive trends. The results show:

- Some progress in reporting science-based climate targets and describing companies' human rights due diligence process; however, still only a minority of companies provide such disclosures;
- Only half of the companies reported climate-related risks and the vast majority are still lagging behind when it comes to providing more specific information as needed by investors;
- 85% of companies assessed did not describe specific risks of human rights impacts linked to their value chain and almost none described the management of such risks or the engagement of affected stakeholders.

NATIONAL DEVELOPMENTS

UK: Policy and Practice for Purposeful Business (The British Academy)

The British Academy has published the final report on purposeful business explaining both how business can play a positive role in creating a fairer and more resilient future by changing its practices and how public policy can enable and promote these changes.

The publication clearly specifies that a company board, a) ensures that the company’s values, culture and strategy are aligned with the implementation of its purpose; b) is accountable to the company’s shareholders, employees and other stakeholders involved in the implementation of its purpose; c) reports to the company’s shareholders and stakeholders on the resourcing, measurement and performance of its activities against its purpose; d) ensures that the company’s incentives and remuneration are based on fulfilment of its purpose; and e)encourages embedded ownership of purpose throughout their organisations.

ARTICLE

The General Counsel View of ESG Risk (Standford Closer Look Series)

In this Closer Look, the authors examine the General Counsel perspective of ESG matters. They find that General Counsel, on average, support ESG-related activities but harbor significant concern for the legal and regulatory risk of these activities. General Counsel also express notable concern about the potential liability from disclosure of ESG-related activities, and the reputational and productivity costs caused by CEO and employee-driven activism.

Joint audit and audit quality (Dr.Marnet)

This review explores behavioural perspectives to provide insights on a contribution of joint audit to audit quality. The author suggests joint audit can provide beneficial synergy including higher scepticism, higher accountability, bias mitigation, peer consultation and review, and, overall, higher joint expertise. We suggest that joint audits can also contribute to enhancing audit quality by reducing auditor dependence.

Buying into a more sustainable value (McKinsey)

In this article, the authors stress the decisive role the procurement function has to play in shaping an organization's ESG footprint (both in its operations and in this supply chain). They recommend CPOs to take a holistic approach to the development of new ESG-focused data, processes, and capabilities based on three steps:

1. Determine the baseline and how far to go. Understand and quantify the organization's current ESG footprint. Identify the most significant risk areas and improvement opportunities. Determine what matters most in the context of the company's overall ESG agenda and set goals and targets.
2. Establish the core and drive value-creation initiatives. Define ESG metrics and policies that will be integrated into the organization's standard supplier selection, procurement, and supply-management processes.
3. Shift the organization. Scale up and roll out successful initiatives. Continuously train the procurement community on sustainable procurement principles and their application. Track performance against targets.

EVENT

Global trends in corporate tax disclosures - an investor perspective (Responsible Investor)

On October 12th (4.00pm CET), Responsible Investor in partnership with FTSE Russell, will organise a webinar to discuss the recent research on trends in corporate tax disclosure globally, the growing regulatory focus on corporate tax practices and the way in which investors are approaching tax transparency in their portfolio companies.

ecoDa's NEWS

- **LAST CHANCE TO REGISTER :**
  - **28th of September:** As part of the European SME Week, ecoDa will organise an event, under the patronnage and with the participation of DG GROW, on "Underpinning entrepreneurship and resilience: Key governance challenges for unlisted companies".
  - **6th, 7th, 8th October**: ecoDa's Fall Education Programme which will be online from the 6th to the 8th of October, will focus on the diversity of Corporate Governance models in Europe;
- **30th of September:** ecoDa's board members will meet Commissioner Reynders to discuss the EC Sustainable Corporate Governance initiative (postponed).