Reform of the EU Non-Financial Reporting Directive: clarity, consistency and comparability across value chains

Webinar co-organised by Frank Bold (Alliance for Corporate Transparency) and the World Benchmarking Alliance

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The EU Commission has initiated the process to reform the Non-Financial Reporting Directive and announced plans to create EU standards for corporate sustainability reporting. For this purpose, a public consultation has been opened by regulators to gather input from all stakeholders until 11 June. The European Securities and Markets Authority (ESMA) also recently published a report on their activities and actions carried out in 2019 showing the shortcomings of the implementation of the Directive.

This webinar took stock of the current NFRD review and reflected upon how its reform could enhance transparency and access to consistent non-financial information from companies. This would permit sustainability-related risks, environmental, social and governance (ESG) factors to be clearly factored into investment decisions. This underpins the EU's ambition to create a sustainable and resilient economic recovery post COVID, which will address climate risks, environmental degradation, and human rights violations across global value chains. Speakers included:

- Steve Waygood, Chief Responsible Investment Officer (Aviva Investors)
- Joanne Houston, EU Policy Officer, (Frank Bold)
- Gerbrand Haverkamp, Executive Director (World Benchmarking Alliance)
- Helena Viñes Fiestas, Global Head of Stewardship and Policy (BNP Paribas Asset Management)
- Michele Lacroix, Head of Group Investment Risk & Sustainability (SCOR)
- Rachel Davis, Vice-President (Shift)
- Moderator: Filip Gregor, Head of Responsible Companies (Frank Bold)
- Elena Arveras (DG FISMA, EU Commission)
- Marie Lyager (ESMA)

Below, you will find a short summary from the various presentations, as well as the experts' panel discussion and Q&A with the audience. You can view the webinar again here.

- **Companies' reporting at large is insufficient.** Information is not presented in an accessible way and there is lack of information on risks, impacts and their management. Similarly, targets are not provided for outcomes, but rather for activities. Please refer to the Alliance for Corporate Transparency research and the work of the World Benchmarking Alliance on the matter.
- **SDGs and the broader sustainability context.** Business has to play a key role in leading the transformative change required to achieve the UN Sustainable Development Goals (SDGs). Benchmarks equip investors, governments, civil society, individuals and companies with the information they need to engage and step up. A clarification of definitions of non-financial performance is needed by making more explicit linkages of disclosure data to corporate sustainability goals. This includes ensuring disclosure principles that are chosen – and relevant – to ensure the incorporation of the SDGs into business strategy and transparency in relation to risks, opportunities and impacts.

- **There is market failure in corporate disclosure on sustainability risks and impacts, especially in accounting for externalities of corporate activities.** The NFRD reform can help to address this issue, but it must be closely coordinated with other reforms to build a sustainable market. The current EU strategy is focused too narrowly on finance.
- There is **broad support around the need to move ahead with the reform and development of reporting standards**. The EU process can also provide an impetus for the creation of global standards.
- **Double materiality** needs to be explicitly recognized in the next generation NFRD, with clear requirements for both of its dimensions. Similarly, materiality should be the cornerstone of corporate disclosures. Information on risks, impacts and strategies, as well as the choice of KPIs need to be firmly based on initial materiality analysis. This interconnectivity is missing from practice as well as in legislation.
- **Materiality analysis disclosures** should not be limited to the identification of what the issues are. Companies should describe what they do to address and manage those same issues.
- Companies' reporting on outcomes should be centered around targets, rather than activities and processes.
- There needs to be a **dynamic relationship between materiality and mandatory reporting standards.** Standards can't replace a company's materiality analysis but, at the same time, they are indispensable for ensuring disclosure of relevant and comparable information.
- **Mandatory standards/requirements** are necessary especially for issues that are crucial from a public perspective - such as carbon budgets and other planetary boundaries -, but typically outside of scope of a company's own considerations of materiality.
- Companies' disclosure on certain matters should be triggered by elements of their **business models** that are inherently connected with particular risks and impacts. Such red flags are equally applicable to large and small companies alike.
- **Disclosure on governance** is essential and should have a central space in the reform of the law, because it reflects whether a company's commitments are followed through. There needs to be transparency in particular about the Board's expertise, setting targets and addressing business model related aspects of sustainability strategies, as well as integration of ESG KPIs in incentives. These KPIs must be relevant and long-term focused in order to balance more inherently short-term financial metrics.

The webinar was co-organised by:

- Frank Bold, a public interest law organisation that is coordinating the Alliance for Corporate Transparency. The project carried out the largest research to date on corporate sustainability reporting assessing the information that 1000 European companies disclosed on their environmental and societal risks and impacts. The objective of this initiative is to provide evidence-based recommendations to substantiate the development of the EU legal framework.
- World Benchmarking Alliance seeks to generate a movement around increasing the private sector's impact towards a sustainable future for all. On 20 January the WBA revealed the SDG2000, comprised of companies which collectively make up half of the entire global economy and are responsible for $43trillion in revenue. As companies face increased expectation to deliver on commitments to meet the United Nations' Sustainable Development Goals, the SDG2000 identifies the 2,000 companies with the most impact across seven key transformation areas: Food Systems; Decarbonisation and Energy; Circular; Digital; Financial; Urban; Social.

Frank Bold   Alliance for Corporate Transparency   World Benchmarking Alliance