18 March 2019

ecoDa's RESPONSE

The Consultation Document on the Update of the Guidelines on Non-financial Reporting

1. Do you have any comments on Chapter 2 "How to use these guidelines" of the report?

ecoDa welcomes the fact that the Commission has opted for a less prescriptive wording for defining potentially relevant disclosures than what was proposed by the TEG (Technical Expert Group on Sustainable Finance) report, thus ending up with two categories of such disclosures.

We are also pleased to see that, contrary to the proposal of the TEG report, the Commission has maintained the *materiality* criterion of the NFRD for determining the relevance for recipients of the disclosure of various aspects of a company's interaction with its physical environment.

2. Do you have any comments on Chapter 3.1 "Business Model" of the report?

Some of the proposed disclosures are quite far-reaching and demanding. This is the case for example for the third Type 1 disclosure on Business Model:

Describe the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios over different time horizons, including at least a 2 degrees C or lower scenario and a greater than 2 degrees C scenario.

3. Do you have any comments on Chapter 3.2 "Policies and Due Diligence Processes" of the report?

4. Do you have any comments on Chapter 3.3 "Outcomes" of the report?

5. Do you have any comments on Chapter 3.4 "Principal Risks and Their Management" of the report?

6. Do you have any comments on Chapter 3.5 "KPIs" of the report?

When it comes to the concrete disclosures to be considered, the guidelines appear vastly oversized, both in terms of the sheer amount of disclosures to be considered and the level of detailed information expected in many cases. The guidelines specify no less than 40 items of disclosure that should or may be considered, most of them to be supplied in the form of free-text and open-ended narratives. In addition to this, there are six tables of in-detail defined KPIs to be considered, three of them of the "should consider" and the others of the "may consider" category.

To be sure, for many companies, not all of the 40 verbal disclosures plus a number of KPIs will be relevant. Nonetheless, the proposed disclosures are often worded in a way that is likely to make them relevant for many companies, in particular those pursuing some type of industrial activity.

Apart from the sheer amount of work required to meet such expectations, it will probably be necessary for many companies to hire climate-change experts to be able to say something of value to the intended audience on this and several other proposed disclosures. This, in turn, will add up to a significant administrative burden and cost that will be quite heavy, in particular for small and mid-size listed companies.

7. Do you have any comments on Annex I "Proposed disclosures for Banks and Insurance companies to the report?

8. Do you have any comments on Annex II "Mapping of NFRD requirements and TCFD recommended disclosures" to the report?

9. Do you have any additional comments on the report as a whole?

ecoDa welcomes the integration of the guidelines of the Taskforce For Climate Financial Disclosure (TCFD) in the Non-Financial Reporting Directive requirements, which is going to make it easier for companies to report to their different stakeholders, especially to investors which take into account Environmental, Social and Governance ESG) criteria.

We welcome the idea of linking climate-related disclosure to EU climate commitments. Better understanding of climate related risks would lead to better exposure of such risks. This will provide stakeholders with more detailed insights on companies' exposure to normative risks in relation to the evolving EU Climate Policy Targets. However, the Commission should find the appropriate balance between usefulness for the outside world and time/cost for companies to gather the info. Too much standardization leads to high-level declarations which provide little value for the outside world against a high cost for the company. The European Commission should leave to individual companies to work out the details of their reporting in the way they consider most relevant in their particular case rather than to trying to micro- manage the reporting in the way reflected in this proposal.

For consistency and convergence across existing frameworks, ecoDa would recommend that reference be made to the Principles released by the World Economic Forum (WEF) under the auspices of the Climate Governance Initiative (CGI), which are designed to guide boards, and non-executive directors in particular, in steering their companies through an effective climate transition strategy.