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ecoDa's Reaction to the DG Fisma's Inception Impact Assessment on the Non-Financial Reporting Directive

DG FISMA has published an Inception Impact Assessment on the Non-Financial Reporting Directive and has left it for comments by February the 27th.

ecoDa is therefore taking this opportunity to express its preliminary thoughts prior to the public consultation on the review of the Non-Financial Reporting Directive:

- **Comparability and standardization:** ecoDa is of the opinion that far-reaching standardization in order to facilitate comparability across companies is often contradictory to true information about the circumstances of specific companies. It hence promotes primarily the interests of large institutional investors and their proxy advisors, who need to assess hundreds of investee companies, rather than those of active and engaged owners of specific companies or of the capital market at large. The risk with a full standardization and mass data processing is to promote box-ticking exercise and green washing. The primary objective should not be to get a good collective conscience but to identify and reward virtuous businesses with a real impact on these matters, in the sectors naturally linked to energy or climate related issues but also most importantly in the traditional sectors (for which the overall impact can be much larger).

It is therefore important that each company identifies its main issues and risks for negative impact. Standardization by sector should be preferred to allow some comparability. ecoDa would also largely support regularly updated guidelines.

- **Assurance/audit:** In any case, the audit standards and methodologies on ESG data audits should be reviewed, so that measurement takes into account the full impact, beyond green marketing by lobbying groups (case of onshore wind turbines for which the carbon impact is estimated without taking into account the full manufacturing part or the dismantling part, and correlative impacts on biodiversity and waste management). Any moves towards auditing of non-financial reporting should be made subject to strict cost/benefit analysis before being put to action.

Rating agencies will have to get professionalized on these subjects in order to develop proper impact analyses, not to rely only on provided data but to engage with companies through detailed interviews. Their role will be pivotal in creating a level playing-field at sector level and in creating the conditions for "enforcement" by other non financial (eg. NGO, through name-and-shame actions) and financial actors.

To get an enforcement and sanction system in place, banks and investors should be requested to really draw the consequences in terms of investment and financial lending strategy. Otherwise, there is a risk of competition distortion (investors who make such ESG investments will be penalized because of lower profits and ultimately lower dividends).

- **Where to report?:** ecoDa is of the opinion that it should be left to Member States to decide – this is a typical case where the subsidiarity principle should be respected.
- **Scope:** If the European Commission would consider to extend the scope of the Non-Financial Reporting Directive, it should at least define some quantitative thresholds in relation to the turnover of the business concerned.

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About the European Confederation of Directors Associations

The European Confederation of Directors Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium. Through its 22 national institutes of directors (the main national institutes existing in Europe), ecoDa represents approximately 55,000 board directors from across the EU. ecoDa's member organizations represent board directors from the largest public companies to the smallest private firms, both listed and unlisted.

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