SUSTAINABILITY
2/15/2019-3/15/2019

HIGHLIGHTS

- Radical change to fight our environmental crisis
- European Commission consultation on the update of the non-binding guidelines for non-financial reporting
- The European Parliament reaches a position on the taxonomy regulation
- EU Council reaches agreement on the benchmarks regulation and disclosures regulation
- Alliance for corporate transparency: research on corporate sustainability reporting

ACCOUNTANCY EUROPE INITIATIVES

RADICAL CHANGE TO FIGHT OUR ENVIRONMENTAL CRISIS

The environment is in crisis, and we have ignored it for too long. We are now pressed to radically change the way we live and do business. Business has brought us here, as markets have ignored environmental or social costs to pursue profit. But business can also help get us out, by driving markets towards more sustainable practices. Accountants are part of the solution. They can help companies make the right changes to reduce their environmental footprint – and costs. Together, we can harness corporate power to make the necessary shift to a sustainable economy. Read more

EUROPEAN COMMISSION

CONSULTATION ON THE UPDATE OF THE NON-BINDING GUIDELINES FOR NON-FINANCIAL REPORTING

The European Commission launched a public consultation to finalise new (supplementary) guidelines for company reporting on climate-related information. This consultation proposes ways to assess how climate change can impact the financial performance of companies, as well as how companies can have positive and negative impacts on the climate. It builds on the report published in January by the Technical Expert Group on Sustainable Finance, and stakeholders’ responses to the call for feedback on that report. The Commission is expected to publish the new supplement on the reporting for climate-related information by end June 2019.

CONSULTATION ON AN EU GREEN BOND STANDARD

As part of the Action Plan on Financing Sustainable Growth, the Commission committed to develop an EU Green Bond Standard under Action 2. The Technical Expert Group on Sustainable Finance (TEG SF) published its interim report outlining 11 preliminary recommendations for the development of an EU Green Bond Standard.
The public consultation is focusing especially on key barriers to the development of the green bond market, eligible use of proceeds raised, reporting and verification requirements, as well as on possible incentives to help the European green bond market grow. All interested parties are invited to provide feedback by 3 April 2019.

**CAPITAL MARKETS UNION COMMUNICATION ON THE PROGRESS**

The European Commission published a new CMU communication that assesses the Commission’s achievements and the goals that are still to be reached. Though a lot is still to be done and it will take time for the full benefits of the CMU proposals to materialise, the Commission is confident that it has set out a good legal framework to create an efficient CMU. It is now in the hands of Member States and market operators to seize the opportunities of these reforms.

Specifically on sustainable finance, the co-legislators are still debating on taxonomy. The Commission suggests extending the taxonomy to cover other sustainability objectives by the end of 2021. Also, a number of non-legislative proposals are under way such as the work done by the Technical Expert Group on sustainable finance; update of the non-financial reporting guidance; preparation of a future EU Ecolabel for financial products and assessing with ESMA wither to integrate sustainability in ratings; EBA, EIOPA ESRB analysis of the feasibility of integrating sustainability in prudential requirements.

**EUROPEAN PARLIAMENT**

**THE PARLIAMENT REACHES A POSITION ON THE TAXONOMY REGULATION**

At the joint meeting of the ECON and ENVI Committees, the MEPs adopted the draft report by Sirpa Pietikäinen (EPP/FI) and Bas Eickhout (Greens/EFA, NL) on the establishment of a framework to facilitate sustainable investments with 52 votes in favour, 45 against and 19 abstentions. The negotiations took longer than expected because of the division between political groups which resulted in postponing the vote initially scheduled at the end of February. The main issue was the scope of the proposal. Some wanted to create a category of investments having a significantly harmful environmental impact, while others were against this. At the end, the proposal that Commission should consider extending the scope to this category by 2021 after the impact assessment on the consequences of such enlargement was supported. Additionally, the scope was extended to ALL financial products ('comply or explain' approach) contrary to the Commission’s initial proposal that only focused on the financial products that were marketed as environmentally sustainable. The six environmental objectives outlined in the Commission’s proposal defining whether an economic activity can be considered as environmentally friendly were maintained.

**DEBATE ON REFLECTION PAPER ON SUSTAINABLE EUROPE BY 2030**

In February, the European Parliament’s Plenary discussed a Commission reflection paper Towards a Sustainable Europe by 2030. The paper launched a debate on how to delivery on the UN 2030 Agenda in 2019, introducing three scenarios on how to follow up on the Sustainable Development Goals (SDGs) within the EU. Most MEPs agreed on the first scenario of the reflection paper being the only sustainable and meaningful one.

Frans Timmermans, Vice-President for Better Regulation, Interinstitutional Relations, the Rule of Law and the Charter of Fundamental Rights, underlined that the starting point needs to be the 7 independent SDGs agreed upon, that will guide the EU work, on:
• finding a way to develop the economy without depleting natural resources
• fundamental changes to our production and consumption patterns
• changes toward a circular economy should be made in a socially fair manner

Jyrki Katainen, Vice-President for Jobs, Growth, Investment and Competitiveness, argued in favour of more investments in education and training, research and development, and digitalization, which hold a huge potential when it comes to health or agriculture. The EU is urged to create a clear sustainable taxonomy by financial institutions.

MEP Francesc Gambus (EPP/ES) called for better implementation of existing directives on the objectives of the SDGs. According to Udo Bullmann (S&D/DE), digital giants and the wealthiest need to pay for the ecologic transition.

Gerben-Jan Gerbrandy (ALDE/ NL) wants to integrate green measures into the next Multiannual Financial Framework, while Sirpa Pietikäinen (EPP/FI) believes existing rules on sustainable finance should be reviewed.

**EU COUNCIL**

**SUSTAINABLE FINANCE: POLITICAL AGREEMENT REACHED ON BENCHMARKS REGULATION**

The Parliament and the Presidency reached a political agreement on low carbon benchmarks proposal. The intention is to create a tool helping investors to measure the carbon footprint of an investment portfolio in order to redirect the capital flows towards much needed sustainable investments.

The proposal introduces a new category of financial benchmarks, comprised of 2 types: 1. EU climate transition benchmark, aiming to lower the carbon footprint of a standard portfolio 2. EU Paris-aligned benchmarks - focusing only on elements that contribute to reaching the targets of the Paris climate agreement. Also, an important point to note that by end of 2021 all benchmarks will have to include an explanation on how the methodology is aligned with the targets to reduce carbon emissions. The text once finalised will still have to be officially adopted before it enters into force.

**SUSTAINABLE FINANCE: POLITICAL AGREEMENT REACHED ON DISCLOSURES REGULATION**

The Parliament and the Presidency reached a political agreement on a second sustainable finance package proposal – disclosures relating to sustainable investments and sustainability risks. The proposal sets out a harmonised EU approach to the integration of sustainability risks and opportunities into the procedures of institutional investors. The intention is to limit the ‘greenwashing’ in practice.

Investors are required to disclose: i) the procedures in place for the integration of environmental and social risks into their investment and advisory process b) to what level those risks might have an impact on the profitability of the investment; c) information on how the 'green' strategy is implemented and the sustainability or climate impact of their products and portfolios if the institutional investors claim to be pursuing a "green" investment strategy. The Parliament and the Council will still have to officially adopt the regulation before it enters into force.

**OTHER NEWS**

**ALLIANCE FOR CORPORATE TRANSPARENCY: RESEARCH ON CORPORATE SUSTAINABILITY REPORTING**

The Alliance for Corporate Transparency (ACT) presented the first results of the three-year research project on corporate sustainability reporting. The Alliance is formed by leading civil society organisations working in corporate
sustainability and transparency. The intention is to look into how companies report on non-financial matters under the requirements of the EU Non-Financial Directive.

The research found that companies are failing to report on meaningful information about their impacts on society and the environment which is a major concern, given the urgency to transition to a sustainable economy. This year the project assessed 105 companies from the sectors of Energy & Resource Extraction, Information and Communication Technologies, and Health Care. In the coming year, the project will scale up – aim is to cover 1000 companies during the third year of the research.

CORPORATE REPORTING DIALOGUE: A BETTER ALIGNMENT PROJECT

Last year, the Corporate Reporting Dialogue launched a two-year project for better alignment in the corporate reporting landscape. The participants of CRD work on better alignment of sustainability reporting frameworks, as well as frameworks that promote further integration between non-financial and financial reporting. Also, the project will identify how non-financial metrics relate to financial outcomes and how this can be integrated in mainstream reports.

The CRD will be launching a consultation on the progress made on the project on Wednesday – 20 March, with deadline for feedback on 1 May. They aim to gather input on how to drive effective corporate reporting, addressing any barriers caused by misalignment amongst reporting frameworks and standards. Further to that, the CRD is organising two webinars on 20 March (see events section) and stakeholders roundtables in April.

RECOMMENDATIONS ON ACCELERATING PROGRESS ON SUSTAINABLE FINANCE

Nine organisations (E3G, ECCJ, Frank Bold, global witness, Nordic Financial Unions, ShareAction, SustainableEnergy, UNI Europa Finance, WWF) look into the state-of-play of sustainable finance and also propose recommendations to the policy makers and regulators. The proposals aim to cover a wide range of financial market players, as well as corporates, and to account for how they are best-placed to contribute to the attainment of the goals of sustainable finance agenda based on their particular mandates, functions and interactions within and with the investment chain.

The proposals focus on five areas:

1. Setting the framework for a sustainable transition
2. Developing the right tools and incentives
3. Empowering key stakeholders to drive reform from below
4. Developing processes and guidance to shape key investment duties
5. Promoting accountability

GREEN BONDS IMPACT REPORTING GUIDE

A group of ten Nordic public sector issuers updated their green bonds impact reporting guide which was originally launched in October 2017. They aim to harmonise and advance impact reporting practices across the Nordic region. The guide was developed with a primary intention to assist the Nordic public sector borrowers, but it could be potentially of use to the issuers from the private sector and from other countries as well as investor community. The updated version includes a number of improvements and clarifications over the previous version, as well as recommendations regarding the reporting of climate-related physical risk and the Sustainable Development Goals.

NGO LETTER ON THE LONG-TERM CLIMATE STRATEGY

Ahead of the competitiveness Council, a group of NGOs issued a letter on the long-term strategy. They call upon EU Economy and Industry Ministers to:
• endorse the European Commission’s strategic long-term vision for a climate neutral economy and support an EU long-term climate target of net-zero carbon emissions by 2040;

• call upon the European Commission to present a new and integrated EU industrial climate strategy for energy-intensive industries in support of a competitive, circular and net-zero emission heavy industry transition;

• recognise the immediate need to provide a policy framework which supports and incentivises the full decarbonisation and transformation of resource and energy-intensive industry sectors before 2050.

EVENTS

• 20/03/19 Corporate Reporting Dialogue Webinar – Have your say toward better alignment, Corporate Reporting Dialogue, Source.

• 21/03/19 High-level conference: A global approach to sustainable finance, European Commission, Brussels. Source.

• 8/04/19 High-level conference Sustainable Europe 2030: From Goals to Delivery, EPSC, Brussels. Source.

• 6-7/05/19 3rd Brussels SDG Summit, CSR Europe, Brussels. Source.

• 17-18/06/19 6th International Reporting 3.0 Conference, Reporting 3.0, Rotterdam. Source.

• 4-6/03/20 Save the date – 6th GRI Global Conference, Global Reporting Initiative, Amsterdam, Source.