WHAT TO EXPECT FROM SUSTAINABLE FINANCE 2019-2024

At a debate co-hosted by Accountancy Europe and the European Policy Centre on 5 June - World Environment Day - participants called on the incoming Commission and new MEPs to consolidate existing international guidelines on climate disclosures into a simple, EU-wide system. This would support the market for green and other "sustainable" bonds by giving investors more information on companies' environmental performance.

"The new Parliament and Commission have a decisive role to play to shift our economy to a sustainable model. They can count on the accountancy profession who uses its expertise to independently measure, disclose and certify the financial, environmental and social impact of the private and public sectors," said Olivier Boutellis-Taft, CEO of Accountancy Europe.

"Mainstream capital markets can only work if you keep things simple, stupid," said Aldo M. Romani, Head of Sustainability Funding at the European Investment Bank (EIB). "In order to do that, you need to agree on core aspects," he added. "You don't want to be misperceived or perceived as worse than others simply because you calculate GHG emissions in a more conservative way."

The Financial Stability Board (FSB) says the disclosure of climate-related financial information is still "insufficient" for investors, according to a report from its Task Force on Climate-related Financial Disclosures, published on 5 June.

FIXING THE SYSTEM

A European Commission expert group is working on an EU classification system (or "taxonomy") for environmentally sustainable investments. The problem is how to quantify the environmental, social and governance (ESG) standards that companies set themselves - in a way that makes the data comparable.

"Asset managers and ESG data providers are often confronted with deficient ESG reporting by investee companies. As a result, corporates receive numerous requests to fill in different questionnaires aimed at getting a better understanding of their ESG performance," said Tanguy van de Werve, Director General, of the European Fund and Asset Management Association (EFAMA). He continued: "mandating well thought-through, standardised ESG disclosures, could reduce the reporting burden of investee companies. Such disclosures should be aligned with sustainable finance rules and ideally developed in cooperation with the industry." Boutellis-Taft also highlighted the importance for better and standardised corporate disclosures.

Florence Bindelle, Secretary General of European Issuers noted: "The question is whether this could enhance or harm the competitiveness of European companies on the international market. Companies are looking at de-listing, and the reason why is the effect of having more and more compliance with regulation."

THE EU'S TO-DO LIST

Aleksandra Maczynska, Executive Director at BETTER FINANCE wants to see "decent returns" on sustainability bonds, and a proper eco-label that gives investors the information they need. "We don't want a taxonomy that gives too much leeway to then have it used as this marketing tool," she said.

The phase-in of the new rules will be key, said Rick Watson, Head of Capital Markets at Association for Financial Markets in Europe (AFME), so that "there's not a sudden dumping of everything that's brown in favour of everything that's green. There needs to be a sensible transition to ensure there are no severe adverse economic consequences."

But speed is of the essence for Julia Linares, Sustainable Investment Officer with the World Wide Fund for Nature (WWF), especially given recent warnings from the UN on rising temperatures and species loss. "We ask for a fully fledged taxonomy with related disclosure that can foster a comprehensive transition towards sustainability," she said, "rather than focusing only on the green, which is necessary but incomplete."

She is also calling on the incoming Commission (which is due to take office in November, but may be delayed) to do a system-wide review of existing and pending legislation - on disclosures, benchmarks, credit rating agencies, alternative investment funds, insurance, shareholders' rights and retail investments, to name just a few - and a mid-term review of its sustainable finance action plan (in 2020 or 2021).

Auditors have been working on these issues for 20 years, concluded Boutellis-Taft and will be on hand to make sure the new disclosures are genuine. "Transparency is great as far as you can trust what is being disclosed," he said. "We have seen enough green-washing."