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Dear Mr Howitt,

Re: FEE initial contribution regarding European Commission Communication renewed EU strategy 2011-14 for Corporate Social Responsibility

- (1) FEE (the Federation of European Accountants) is pleased to respond to your invitation to comment on the European Commission Communication on CSR.
- (2) FEE has welcomed the European Commission Communication on Corporate Social Responsibility (CSR) as part of a package of measures on responsible business, having contributed to key elements of the package, namely the EC Consultation on Country-by Country Reporting (CBCR) as well as the revision of the Transparency Directive and the Accounting Directives.
- (3) The Commission should be encouraged to foster a holistic approach and continued advancements in this area. FEE sees this Communication as a positive initiative in further progressing with CSR in Europe. As the voice of the accountancy profession in Europe, FEE is committed to contributing to a more efficient, transparent and sustainable European economy.
- (4) The agenda for action 2011 – 2014 put forward in the Communication provides important milestones on the way to better integration of CSR into core business strategy and to contribute to the long-term success of enterprises. We outline below the points on which we have particular comments.

Improving and tracking levels of trust in business and enhancing company disclosure of social and environmental information

- (5) Improving and tracking levels of trust in business has been identified as an area of priority for European action on CSR. The provision of appropriate and relevant information on social, environmental and governance issues plays an important role to help enhancing (or regaining) trust in business.
- (6) “Green-washing” is detrimental to public confidence and future progress. We consider that a clear reporting framework and the provision of external independent assurance provided by a qualified professional on the information reported is the best deterrent to “green-washing”.

- (7) Transparency through appropriate disclosures influences behaviour. The value that such disclosures have for stakeholders largely depends on their credibility, accuracy and reliability. In this respect, external independent assurance provided by a qualified professional is essential to enhance trust. Where and on what assurance will add value needs to be carefully considered. The quality, relevance, conciseness and reliability of the information provided is also a key factor in building this trust.
- (8) The perceived lack of trust in business is also (partly) related to social and environmental issues. Therefore, there is a close connection between “Improving and tracking levels of trust in business” and section 4.5 “Improving company disclosure of social and environmental information”. This link should be highlighted.
- (9) We would like to emphasise that improving company disclosure of social and environmental information is an important objective.
- (10) We also welcome the Commission’s commitment to follow with interest the work of the International Integrated Reporting Council (IIRC). However, following may not be enough if Europe is to retain a leadership position in this space. In the Communication, it is also noted that there are a number of international frameworks for the disclosure of social and environmental information, including the Global Reporting Initiative (GRI). Europe should contribute to these developments rather than investing resources into the development of European solutions.

To enhance Environmental, Social and Governance (ESG) disclosures FEE recommends the following:

- supporting a debate over the advantages and disadvantages of moving towards a mandatory regulatory approach to ESG reporting at the European level for large and listed companies;
 - urging the Commission to contribute to the global debate and initiatives in this area and ensure that any European requirements or guidance are compatible with these international developments;
 - acknowledging the fact that the time has come to unite the efforts of the scattered European initiatives on ESG disclosure and reporting, taking into account a global context;
 - encouraging the development of an ESG reporting framework fully meeting the needs of capital markets players (namely companies and investors) which does not exist today.
- (11) The Commission Communication highlights that integrating financial and non-financial reporting represents an important goal for the medium and long-term and that the Commission will present a legislative proposal on the transparency of the social and environmental information provided by companies in all sectors. We support these objectives; however the Commission and the Member States should be encouraged to stay abreast of developments and deliver on their commitments.
 - (12) Further thought will need to be given as to whether any type of mandatory reporting should be introduced. The following elements should be considered:
 - who is the disclosure useful for;
 - what is the rationale for introducing mandatory reporting;

- what decisions is it going to facilitate (e.g. disclosure is one of the ways to enhance CSR);
 - will it facilitate behavioural change?.
- (13) To this end, research about the value and cost/benefits of mandatory reporting should be conducted. Cooperation with national governments to gain an understanding of what is being done at national level will be important, in addition to giving proper consideration to the question of the provision of assurance.

Enhancing the visibility of CSR and disseminating good practices

- (14) Regarding the intention to create multistakeholder CSR platforms clarification is needed on how this initiative will differ from the multistakeholder forums already created in 2005 and how these new platforms will be better than the previously organised forums at encouraging enterprises to make public commitments on CSR matters.
- (15) Given the number of well established existing award schemes for CSR and sustainability, the added value of a Commission “award scheme” and the resources that it would use merit careful consideration.

Enhancing market reward for CSR

Public procurement

- (16) FEE fully supports the intention to facilitate the better integration of social and environmental considerations into public procurement. It is very important that the information requested on public procurement is measurable and verifiable.
- (17) It is not clear why the Commission has set the indicative target at 50% of all public procurement in the EU to comply with agreed environmental criteria by 2010. It may be worth considering raising the level of ambition in gradual steps.
- (18) In the area of SMEs, more should be done to avoid that “sustainability” and CSR reporting are perceived as burdens but instead as value drivers and part of innovation.

Investment

- (19) In the context of supporting capacity-building for investors on how to integrate non-financial information into investment decisions, the Commission encourages enterprises to disclose information related to the implementation of good tax governance standards. There are currently several debates across Europe on this topic and it is important to clarify the concept before imposing requirements relating thereto.
- (20) We fully endorse the EC intention to consider “a requirement on all investment funds and financial institutions to inform all their citizens about any ethical or responsible investment criteria they apply or any standards”. However, it is crucial that information is also provided on how the criteria and standards are applied, which methodologies are employed, which measures, technologies are used, what decisions are made when the criteria are not complied with, etc. In this context, consideration needs to be given to the use of external independent assurance provided by a qualified professional.

Further integrating CSR into education, training and research

- (21) The provision of further financial support for education and training projects on CSR is an important means to achieve better integration of CSR. In the accounting profession too, we support raising the awareness of professional accountants in practice and in business on the relevance of CSR in business overall performance. This action could also mean ensuring that there is a minimum understanding of CSR matters as part of the education syllabus.
- (22) Furthermore, in relation to education, the question of what should be considered when addressing in particular CSR is critical. It would be important to consider in the curricula further awareness of “full” costs (e.g. cost to society/planet) as an angle to potentially take this debate around education further.

Improving self- and co-regulation processes

- (23) The Commission has announced a process in 2012 with enterprises and other stakeholders aimed at developing a code of good practice for self- and co-regulation exercises with the intention to ameliorate effectiveness of the CSR process. It would be helpful that the Commission reports on this initiative.

Emphasising the importance of national and sub-national CSR policies

- (24) We welcome the Commission's intention to create a peer review mechanism for national CSR policies. However, due consideration should be given to involving external stakeholders in this process to ensure a proper degree of oversight and stimulus. It is very important to be transparent and to engage with public at local level but also beyond enabling international comparisons. An objective analysis of whether clear targets are set and achieved (KPIs) would also greatly contribute to such policies review.

Small and Medium-sized Entities (SMEs)

- (25) We commend the Commission's intention to take account at all times of the particular characteristics of SMEs, especially their limited resources, and avoid creating unnecessary administrative burdens.
- (26) The Commission acknowledges that many SMEs conduct and report on CSR initiatives on a voluntary basis. The nature of many SMEs is that they are an embedded part of their local communities with whom they develop and sustain key relationships. As business owners do not always have the time and/or resources to research, for example, the tax consequences of incurring costs in supporting local community activities, they may be deterred from undertaking or reporting on such activities. Professional accountants as the trusted business advisor of SMEs are well placed to contribute to this end.
- (27) FEE welcomes the Commission's encouragement to make smart use of EU structural funds to support the development of CSR, especially amongst SMEs. Maintaining and increasing SMEs contribution in this field will require appropriate local government policies and incentives.

(28) The Parliament has an important leadership role to play in this field to ensure that the ambitions are set at the right level and that proper scrutiny is exercised so that commitments are being followed by actions and that objectives are met.

For further information on this letter, please contact Olivier Boutellis-Taft, FEE Chief Executive, on +32 2 285 40 85 or via email at obt@fee.be.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Johnson', with a long horizontal stroke extending to the right.

Philip Johnson
President