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CORPORATE SUSTAINABILITY REPORTING: RECENT DEVELOPMENTS

Jean-Paul SERVAIS

Chair Belgian Financial Services and Markets Authority (FSMA)

Vice chair IOSCO & Chair IFRS Monitoring Board

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1. Sustainability is a game changer, as demonstrated by a recent FSMA study. This study has revealed that Belgian investment funds evolve toward sustainability. Indeed, already a little more than half of all Belgian public funds consist of sustainable assets or invest sustainably (see: https://www.fsma.be/en/news/belgian-investment-funds-evolve-toward-sustainability).

The SFDR distinguishes among three main categories of funds. Article 9 covers funds that have sustainable investment as their objective. The category of funds with sustainable characteristics is covered in Article 8. Funds without sustainable characteristics or sustainable objectives have to comply only with Article 6 of the SFDR.

The FSMA examined how managers apply the new Regulation. As at 21 May 2021, the FSMA held data from 706 funds and their compartments. They represent more than 95 per cent of all Belgian public UCIs.

Their breakdown into SFDR categories based on the number of funds is as follows:

- Article 6: 68 per cent;
- Article 8: 25 per cent;
- Article 9: 3 per cent.

Their breakdown into SFDR categories based on the assets invested is as follows:

- Article 6: 46 per cent;
- Article 8: 50 per cent;
- Article 9: 4 per cent.

The total assets invested by the funds and compartments in the study amount to 187 billion euro. A little over half of that, or 100 billion euro, belongs to the Article 8 and Article 9 categories and have ESG characteristics or are sustainably invested.

Between the end of February 2020 and the end of May 2021, the funds and compartments covered by Articles 8 and 9 saw considerable growth. Net subscriptions in the category of Article 8 rose by 15 billion euro (+22 per cent). Net subscriptions in the category of Article 9 rose by 3 billion euro (+85.5 per cent). The funds and compartments covered by Article 6 saw net redemptions totaling 6 billion euro (-7 per cent).

2. Across the EU and globally, users' need for reliable sustainable reporting by issuers (investee companies) are however not being met. Hence the need for EU and international public sector initiatives.

A recent FSMA study on compliance with the current Non-Financial Reporting Directive (see: https://www.fsma.be/en/news/non-financial-reporting-progress-room-improvement) revealed the following:

- Disclosures on environmental and personnel policies by issuers have improved, but on other topics there is still room for improvement. For example, reporting does not cover all (aspects of) non-financial topics equally thoroughly. Moreover, NFI statements often lack sufficient balance: there is a tendency to foreground the favourable elements, while devoting little attention to the less positive elements.
- Reliability and quality assurance/audit of non-financial statements is crucial and remains an important area for improvement.

3. There is a clear demand-driven need to improve the consistency, comparability & reliability of sustainability reporting (end of the so-called "alphabet soup" of standards for corporate ESG reporting).

Without good corporate-level information, investors and asset management firms are operating with one hand tied behind their backs in attempting to allocate capital across industries while taking sustainability issues into account. Respondents to the open public consultation carried out in preparation for the CSRD proposal strongly endorsed the need for better alignment between different pieces of legislation on disclosures and reporting standards. 79% of financial sector respondents believed that such alignment was necessary, while only 3% of respondents believed that the alignment between the different pieces under the current NFRD currently works well.

4. As presented by the Commission, the next step in the implementation of the European plan for greener finance will be the revision of the non-financial reporting directive, aiming at strengthening disclosures by non-financial companies.

5. The new obligations included in the CSRD proposal will be combined with other provisions, more precisely with Article 8 of the Taxonomy.

6. In this respect, the scope of the future CSRD will be a crucial step in the broadening of non-financial reporting. As indicated by the European Commission, roughly 11,000 companies currently publish a non-financial statement annually. If there is an agreement to extend the scope to all listed companies, including SMEs and financial companies, the number of companies subject to sustainability reporting will be multiplied significantly. The new statement contents envisaged in the Commission proposal will greatly improve the amount and the quality of information available.

7. Nevertheless, it will be important to balance the need for more granular information on sustainability matters with the human and financial means of the reporting companies within the scope of the future CSDR. Meeting ambitious reporting obligations will request greater effort on the part of small companies. A robust cost impact assessment will therefore be very useful.

8. Furthermore, the European initiative for improved sustainability reporting should aim to be interoperable with international reporting standards on sustainability. Since sustainability challenges, such as tackling climate change, are global, the need for international ESG reporting standards is evident.

As vice chair of IOSCO and as chair of the IFRS Monitoring Board, which oversees accounting standard-setting, I can report that the demand for consistent and comparable sustainability reporting standards is high on our agenda. Investor demand for sustainable investment opportunities, and thus for comparable and comprehensive corporate information, is a global trend observed since a couple of years, and there is today a clear investor demand for global coordination on ESG disclosures. Greater international alignment on ESG-related disclosures will increase global transparency. It will also reduce the due-diligence costs for global investors and the administrative costs to companies operating globally.

The IFRS initiative for a new international sustainability standards board, potentially supported by IOSCO, is thus the way forward for better investor protection and for reducing greenwashing.

To be successfully implemented, appropriate interoperability as regards sustainability standards will be needed between the EU (and other domestic) frameworks and potential global standards.

9. In this respect, IOSCO encourages a “building blocks” approach to establishing a global sustainability reporting system and limiting undue fragmentation as much as possible. In IOSCO’s view, the new proposed IFRS sustainability board’s standards should provide a globally consistent and comparable sustainability-reporting baseline. A building blocks approach will allow jurisdictions to go further and faster if they wish, while retaining cross-border comparability. In this respect, I believe there is consistency between the IFRS/IOSCO approach and the EU’s thinking on international cooperation. The EU cannot achieve the green transition alone. It needs other countries to share its ambition and work in the same direction.

EFRAG proposed earlier this year that the EU should promote and participate in global convergence efforts on a “co-construction” basis.

In my expectation, this is in line with IFRS/IOSCO’s building blocks approach, since the latter recognizes that EU standards may go further where necessary to meet the EU's own ambitions and to be consistent with the EU's legal framework.