Brussels, 26th January 2021

EACB views on the EFRAG PTF on NF reporting outreach event: focus on Financial Institutions

26th January 2021

Polling questions and EACB views:

Q1. BUILDING BLOCKS - Would you agree that these Two Overarching Principles (principles based and inclusiveness) and Five Building-Blocks (building on EU momentum; specific challenges Financial Institutions; including SMEs in a proportionate manner; sector specific; importance of intangibles) could constitute solid foundations for the possible EU standard-setting?

EACB views: We believe that in their role of intermediaries, Financial Institutions are well placed in providing the advices and expertise needed when it comes to set a non-financial reporting standard. For this reason, we believe that a specific building block on Financial Institutions in particular can play an important role in the development of such a standard.

Q2. INTANGIBLES - Should intangibles be recognised as part of non-financial reporting? (Y/N/I have no view)

EACB views: Intangibles are already covered in financial reporting. Our Members do not believe that companies should be required to disclose additional non-financial information regarding intangible assets.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

Q3. VALUE CHAIN - What elements should be considered by the ESS when considering value chain: control/influence/responsibility of the reporting entity / the severity of impacts / the data availability and collection?

EACB views: The EACB would like to draw attention to the provision of scope 3 information regarding "all indirect emissions along a value chain". This issue will become extremely challenging for banks: if on one hand the declaration on bank's climate impacts can be relatively easy to apply and formulate, on the other hand reconstructing the climate impacts of the entire value chain on the environment will be a challenge, as it would have to rely on climate information provided by companies. If this "chain of information" would not be available for credit institutions, Banks could not have a whole vision of scope 3 disclosures and, consequently, take the responsibility to guarantee a consistent and complete report.

Q4. DOUBLE MATERIALITY - **Do you agree that the double materiality approach needs to be further operationalised and a standard should be adopted to disclose how reporting entities report on their own materiality assessment process?**

EACB views: The concept of double materiality might be difficult to apprehend by some companies and we believe that this concept of materiality should be specified to a greater extent, particularly in the context of the forthcoming revision of the NFRD. The double materiality concept is introduced in the NFRD but only explicitly described in the Commission's GL on reporting climate-related information of June 2019 (paragraph 2.2, p. 4). It may be summarized as follows: "the principle of the "double perspective" to assess materiality, whereby an entity should assess both the financial impacts on the company itself of environmental and social matters, and the impact of the company's activities on the environment." It would be useful to start considering the guidance on double-materiality provided in the European Commission 2019 climate-related guidelines.

Furthermore, the concept of "material information" could be clarified more and connected to the corporate strategy, encompassing the longer-term impact of non-financial elements. One way of making that connection is by using the environmental/social issues defined in ISO 26000.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

Q5. TIME LAG - what time lag would be best for the Financial Institutions to produce sustainability reports based on corporate data?

EACB views: Financial institutions can only disclose the information that their clients are required themselves to disclose. We strongly support the creation of a first limited set of KPIs defined in a pragmatic way to be implemented consequently. We believe that non-financial companies should disclose information that mirror the technical screening criteria of the taxonomy, in other words the KPIs that could be considered in the new standard should be aligned with taxonomy. Just as an example, companies could report:

- ➔ Information on the economic activities' compliance with the metrics for the screening of substantial contribution to environmental objectives.
- ➔ The associated revenues and expenses of eligible products / activities.
- ➔ The environmental characteristics of the respective products (including certification and life cycle analysis).
- ➔ Information on the compliance with the no significant harm criteria.
- ➔ Information on the procedures to comply with the minimum safeguard.

Moreover, financial institutions are intermediaries: their non-financial performance can only be assessed on the basis of their clients' non-financial performance. Without data from their clients', financial institutions will not be able to assess their portfolios with regards to ESG performance. As current regulation in this sector (NFRD) is based on the frequency of annual reporting, financial institutions will therefore necessary use information published by their clients at year 1, in order to complete their reporting for year 2. If financial institutions were first required to report on the same year as corporates (meaning both on year 1), they would not be able to assess their non-financial performance for this year. It is therefore necessary to defer the publication of non-financial reporting by financial institutions following the possible future standard by 1 annual exercise after the reporting of non-financial companies. Where information remains nevertheless unavailable, financial institutions should report on a best-effort basis and the burden of the proof of the lack of information should not rely on them.

Q6. INTEGRATED REPORTING - Would you support including sustainability statements in a dedicated section of the management report?

EACB views: In the context of our answer to the consultation on the NFRD review in 2020, our members said that the current segregation of non-financial information in separate non-financial and corporate governance statements within the management report provides for effective communication with users of company reports to a reasonable extent. Whether these reports are separate reports or not, however it is not the biggest challenge. Moreover, they believe that, at this stage, companies should be required to disclose the most relevant non-financial information in the management report.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

Q7. EU ESG DATA REGISTER - Should the EU have a public database to ensure data quality and accessibility?

EACB views: The Sustainable Finance Action Plan, the green deal and the forthcoming new Strategy on Sustainable Finance are game changers in the way financial players will contribute to the sustainable transition of our economies and in the data they will need from corporate clients to meet their disclosure obligations and play their role. Such game changer calls for a fresh start in NFR.

Availability of robust and reliable data on a large scale is necessary for financial institutions and investors **to steer** their portfolios towards the objectives of Paris Agreement and the European Green Deal.

The EACB called last June the European Commission to take the lead to start to establish a centralised electronic European ESG data register, based on existing solutions. This EU register could be based under one of the main statistics centers in the EU.

- ➔ We **welcome the recent proposal** made by the Commission to create an **European Single Access Point (ESAP)** for financial and non-financial information publicly disclosed by companies. If the Commission will develop a legislative **proposal in this regards in the second half of 2021**, the EFRAG could play an important role in advising the drafting process.

In our view, The European register should first and foremost **focus on registering the taxonomy-based information** as first building block (according to the Taxonomy Regulation).

As a further step it should aim at the **collection of the broader category of ESG raw data** from non-financial companies whose reporting is **based on the NFRD** and which are willing to publish their ESG data in the new database.

The database should also include relevant **ESG information already collected by governments or central banks, statistical office at EU and Member States** level.

Since not all data that is reported under the NFRD is financially material from investors' point of view, it would be useful to **supplement the methodological core by a best-practice investor materiality framework**

Data should be provided to users for **free** or at a reasonably affordable cost.

Users would include financial institutions, universities, researchers, supervisory authorities, rating agencies, observers and all other relevant stakeholders.

The EU ESG data register would a**llow for comparability, increase transparency, lower barriers and costs, generate efficiency and attract new players.**

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

Relevant position on building block 3 on SMEs:

EACB views: SME sector represents large share of EU economy. The economy is in transition and SME's are part of it.
Climate and ESG legislation are becoming more strict and new low carbon and circular business models are competing with their business models.

- ➔ It is important that SMEs businesses **are aware** of climate and ESG risks and opportunities for their companies, and of their own impact on climate and environment.
- ➔ The risks and footprints **have to be documented** in non financial reporting.

However, small businesses are **not as well equipped** to deal with reporting burdens:

- ➔ They do not have large staff departments, budgets for reporting, etc.
- ➔ For SMEs busy with day-to-day running of their business and dealing with immediate existential threats such as COVID's economic impacts, it may feel overwhelming to start planning for sustainable transition.

Thus, we believe that a **tailor-made framework** should be developed SME's, based on common methodology.
In the same vein, it can be envisaged that there are **less complex standards for smaller banks** as Public Interest Entities (PIEs). The full NFR framework should remain to be applied to the largest and publicly listed companies.

- ➔ Any SME framework, such as any of the more complex framework, should reflect the methodology of the **EU taxonomy** and work on its building blocks.
- ➔ E.g. the **CO2 footprint should in any case be in it**

For SMEs, standardization of **industry specific financial materiality** could make things easier and help to minimize and focus ESG reporting on industry-specific financial materiality.

- ➔ Materiality standards such as a European version of the **SASB's materiality map** could be used. In that way, it could be clearer for companies which ESG questions and indicators should report and monitor.

For smaller companies, especially micro companies, NF reporting via a simplified standard could **in a first phase remain a voluntary exercise**, and a phased approach should be envisaged to ensure that gradually they are able to produce the relevant data on a permanent basis.

Furthermore, **we want to underline that it must be ensured that NFR data** could be used **for prudential ESG purposes in the early future**.

We **welcome the fact that in the current EFRAG's Project Task Force** on the development of recommendations and preparatory work for EU non-financial reporting standards, **a specific workstream for SMEs has been created**.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop