Brussels, 12th June 2020

Key messages regarding the NFRD review Consultation

The **European Association of Co-operative Banks** (EACB) represents, promotes and defends the common interests of its 27 member institutions and of cooperative banks, with regard to banking as well as to co-operative legislation. Founded in 1970, today the EACB is a leading professional lobbying association in the European banking industry. Co-operative banks play a major role in the financial and economic system. They contribute widely to stability thanks to their anti-cyclical behaviour, they are driver of local and social growth with 2.800 locally operating banks and 51,500 outlets, they serve 209 million customers, mainly consumers, SMEs and communities. Europe's co-operative banks represent 84 million members and 713,000 employees and have an average market share in Europe of about 20%.

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Chapter 1 QUALITY AND SCOPE OF NON-FINANCIAL INFORMATION TO BE DISCLOSED

- From the perspective of most of our members, there is significant room for improvement in the disclosure practices under the NFRD. The EACB mostly agrees that the **lack of comparability of non-financial information reported by companies and their limited reliability should be addressed** in the context of the actions taken to improve the transition through a sustainable economy.

- In order to be able to meet our own legal and supervisory requirements with regard to disclosures, we argue that companies should disclose their **environmental & social performance and strategies**, their **transition policy** and their **governance** as well as how they implement these strategies (action plans and KPIs). **Without such information from their clients', financial institutions will not be able to assess their portfolios with regards to ESG performance**. The NFRD can be instrumental in this regard and should better clarify the requirements with regard to risks and opportunities (definition of short/medium/long term risks and opportunities), as well as the processes for identifying and assessing those risks and opportunities.
  In this regard the NFRD should in our view integrate the **TCFD recommendations** regarding climate-related risks and opportunities, in line with the **EU Commission's GL on reporting climate-related information** (June 2019).

- The EACB believes that the current disclosure requirements of the NFRD do not fully ensure companies report the information that financial sector companies will need to meet (i.e. Taxonomy Regulation, Disclosures Regulation, Climate-related Benchmarks Regulation, CRR2/CRD5 package). The development of the disclosure requirements established by the technical screening criteria of the taxonomy regulation should also be taken into account. The **NFRD KPIs should be aligned with taxonomy**.

- It should be noted that financial institutions are intermediaries: their non-financial performance can only be assessed on the basis of their clients' non-financial performance. It is therefore necessary **to defer the publication of non-financial reporting by financial institutions by 1 annual exercise after the reporting of non-financial companies**. Moreover, 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**.

- The current **granularity** recommended by the ESAs' consultation on ESG disclosures to draft **RTS accompanying the Disclosures Regulation, if approved, may create a situation where there is too much information being mandatorily requested as opposed to what could be obtained from investee companies under the NFRD**, particularly with respect to environmental criteria. **In this context, we would advocate that the review of the NFRD bears in mind developments in this consultation**. We would support simplification of the indicators and metrics in the Disclosures Regulation RTS so that the NFRD would be able to provide for the information gap.

- As regards interaction across pieces of legislations, there are issues of different interpretations of similar concepts (adverse impact assessment, ESG risk, Do not significant harm) and issues of inconsistent application dates of the respective requirements. For instance, the SFDR will enter into application on 10 March 2021 while its detailed provisions (RTS) on the content and format of the required disclosure will, at best, only be available by February 2021. **EACB members consider that EU authorities should look at establishing more realistic timelines for the actual application of the different provisions of the SFDR.**

Chapter 2 STANDARDIZATION

- We believe that **none of the standard and framework proposed, applied on its own, resolve the problems identified while also enabling companies to comprehensively meet the current disclosure requirements of the Non- Financial Reporting Directive.** We argue that a combination should be made of existing standards and frameworks, resulting in a unified European standard for companies on reporting a harmonized set of non-financial information, aligned with the TSC of the EU taxonomy. These data need to be **reported at EU level** as raw data and should also be available **free of charge**. The EU standard should in our view be structured around the four core thematic areas of the TCFD recommendations: governance, strategy, risk management, metrics and targets.
  We need a single European standard for all companies for reporting a harmonized set of non-financial information aligned with the technical screening criteria of the EU taxonomy.

- We believe that **EFRAG could play a role in advising on such a standard**, involving stakeholders, like relevant standards setter and professional associations, in the process: inclusiveness and pluralism should be guaranteed together with transparency in selecting the experts that will take part to the project task force. T**he EACB gladly would like to contribute for its part to the development of such a standard**.

- The majority of members of the EACB believes that in principle all corporates should report NFI, as such data flow is needed if banks are to assess their portfolio and recalibrate their credit flow in the coming years. Accordingly, we believe that in line with the approach taken in Art. 3 and 36 of the Accounting directive 2013/34, **a very differentiated framework should be developed for micro-companies, small companies, and for medium and larger companies, all based on a common methodology. We thus support the creation of a standard for smaller companies and micro-companies**. At the same time, it is logical that there should also be less complex standards for smaller banks as PIEs. The full NFRD framework should only remain to be applied to the largest and publicly listed companies. For SME s 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 they should report and monitor.

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

Chapter 3 APPLICATION OF THE PRINCIPLE OF MATERIALITY

The concept of double materiality might be difficult to apprehend by some companies and we believe that **this concept of materiality in the NFRD should be specified to a greater extent**. 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). Also 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.

Chapter 4 ASSURANCE

- We suggest a gradual evolution of the current framework that the revision of the NFRD could develop starting from an **initial phase in which companies reporting under the NFRD are encouraged, but not forced, to disclose their materiality assessment process. Further, they can be asked to apply a limited assurance engagement on the non-financial information published.** This gives them enough time to reach the same level of awareness, allowing companies to become **familiar, gradually, with more stringent assurance requirements. The latter could end with the adoption of a reasonable assurance engagement on the non-financial information published**. At the end of this process, we believe that assurance provider should assess the reporting company's materiality assessment process.

Chapter 5 DIGITISATION

- Digitalisation of non-financial disclosure could result in large benefits as far as accessibility of information is concerned. This also holds for sustainability information. Therefore, we strongly advocate for **the creation of a centralized data register that would facilitate ESG disclosures and the access to relevant and reliable data at the EU level** (ideally in a standardized form but also providing access to disaggregated raw data). Standardisation of reporting is a prerequisite to digitalisation and should be prioritized.

- In this respect the EACB calls the EU to take the lead to start to establish a/or support, based on existing solutions, a centralised electronic European ESG data register (see Annex 1). We understand that a common European Green Deal dataspace to support the Green Deal priorities is already envisaged in the EU data strategy. We encourage the European Commission to investigate how our proposal can fit in this context. Non-financial corporates in the EU could insert – on a voluntary basis ESG raw data in electronic form. This EU register could be based under one of the main statistics centres in the EU. 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**. We would like to encourage the EU to further open up its databases that collect environmental reporting data and make those re-usable for finance providers and other users alike via the central register. **Data should be provided to users for free or at a reasonably affordable cost.**

Chapter 6 STRUCTURE AND LOCATION OF NON-FINANCIAL INFORMATION

- We concur with the opinion held by many that the current segregation of non-financial information in separate non-financial and corporate governance statements within the management report does not provide for effective communication with users of company reports. Whether these reports are separate reports or not, however it is not the biggest challenge.

Chapter 7 PERSONAL SCOPE (WHICH COMPANIES SHOULD DISCLOSE)

- Some members of the EACB believe that the scope of the NFRD should not be extended to non-listed companies or banks and insurance companies with less than 500 employees. However, the majority of Members of the EACB believe that in principle **all companies should provide NFI reporting** (including large companies established in the EU but listed outside the EU and large companies not established in the EU that are listed in EU regulated markets, according to answer to question 41).

- As already highlighted in chapter 1 and 2, banks need ESG data for their own reporting and especially for their risk management. With that in mind, we advocate for a differentiated approach regarding reporting obligations, as in Art. 3 and 36 of the Accounting directive 2013/34, i.e. **a simpler frameworks for micro-companies and small companies**, **with less complexity, and a more developed frameworks for medium and larger companies.**
- This differentiated approach should also be considered when it comes to public interest entities (see answer to question 40), as the ESG relevance of institutions of different sizes has to be properly reflected. **It would be inappropriate to demand the same report from a local institution with simple business model, regional activities and thirty employees and a banking group with multiple business lines operating on a global level and paying thousands of employees**. Having said that, we want to mention again that some members of the EACB think that the scope of the NFRD should not be extended to public interest entities with less than 500 employees.
- Furthermore we do not believe that the legal form, as limited liability companies, should play a role in this context (see answer to question 41). The only relevant question should be **whether such a company qualifies as micro, small, medium-sized, large or very large and listed company**.

- We advocate for a consolidated approach and for the maintenance of the exemption for subsidiaries.

- Finally, if it is decided not to subject all companies to NFR, then a new non-financial reporting directive would have to determine pragmatic solutions how companies subjected can substitute the missing company data for their reporting (e.g. scope 3).

Chapter 8 SIMPLIFICATION AND REDUCTION OF ADMINISTRATIVE BURDENS FOR COMPANIES

- We believe that companies reporting pursuant to the NFRD have difficulty in getting the information they need from business partners, including suppliers, in order to meet their disclosure requirements. Financial institutions cannot be entitled to disclose on the basis of data that the regulatory framework doesn't allow them to retrieve from their clients. It would be extremely difficult for banks to take the responsibility to guarantee a consistent and complete reporting (e.g. scope 3 GHG emissions information). **It must be ensured that banks will only be held responsible for disclosing data that are available and that sanctioning for noncompliance with the Disclosure Regulation and the Taxonomy Regulation is organised accordingly**. EACB members also consider that EU authorities should look at establishing more realistic timelines for the actual application of the different provisions of the SFDR.

Contact:

The EACB trusts that its comments will be taken into account.

For further information or questions on this paper, please contact:

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Annex 1: EACB Joint letter – Call for EU Action: centralized register for environmental, social and governance (ESG) data in the EU

Dear Mr. Berrigan,

Our associations are committed to supporting the transition to a more sustainable economy and to tackling climate change that we consider a priority. We strongly support the EU objective of transforming Europe into the first climate-neutral continent in the world by 2050 and are ready to contribute as representatives of the financial sector.

With this letter, we would like to address a project that we consider particularly important: the **creation of a centralized electronic register for Environmental, Social and Governance (ESG) data in the EU**.

The recent regulatory developments in the context of the EU Sustainable Finance agenda create an urgent **need for publicly available ESG data as well as how to enhance their sourcing.** Compliance with the **new disclosure obligations** introduced by the sustainability disclosures Regulation1 (SFDR) requires financial market participants to have access to comparable robust and reliable ESG data at the level of companies. From the perspective of the EU taxonomy Regulation2, companies subject to the NFRD3 (non-financial reporting directive) will have to disclose how and to what extent their activities qualify as environmentally sustainable as defined in the Regulation.

Robust, comparable and reliable ESG data is also key to identify and assess sustainability risks in lending activities. In addition, availability of ESG data is also necessary to enable financial institutions and investors to steer their portfolios towards the objectives of the Paris Agreement and of the European Green Deal much more efficiently and on a much broader scale.

Unfortunately, **the availability of quality, comparable, reliable and public ESG data is currently rather limited and insufficient to comply with the increasing expectations and new regulatory requirements due to apply shortly**. When available, data is often difficult to compare and raises reliability questions. Moreover, ESG data by third party providers is often expensive in particular for small-size financial market players, researchers or academia. With an increasing demand for ESG information, the fragmentation in ESG third party data providers risks to lead to insufficient availability of comparable and reliable ESG data as well as **to unnecessary costs and competition concerns.**
Therefore, ensuring availability of high quality and comparable ESG data should be regarded as an **EU strategic infrastructure project** to meet the EU sustainability objectives both under the Action Plan on Sustainable Finance and the EU Green Deal.

For this reason, we call the EU to build and / or support, based on existing solutions, **a centralised electronic European ESG data register.** We understand that a common European Green Deal dataspace to support the Green Deal priorities is already envisaged in the EU data strategy. We encourage the European Commission to investigate how our proposal can fit in this context.

As a first building block, the European data register should focus on ESG disclosure in line with **NFRD**, EU **taxonomy based information,** starting with climate change adaptation and mitigation objectives, as well as **ESG data necessary to financial market participants to comply with the SFDR.**

As another building block the register should include **relevant ESG information already collected by European and national institutions such as governments, central banks, statistical bodies, etc.** Member States are already reporting environmental expenditures under the System of Environmental Economic Accounting - SEEA 2012. The EU should open up its databases that collect environmental reporting data and make those re-usable. This data is critical for financing, and to track the economic performance of sustainable activities.

Such data should be gathered and made available digitally to users of non-financial information, not only investors, but also lenders, academia, researchers, authorities and others. To facilitate the collection, a certain level of standardization would be necessary. Finally, **data should be provided to users ideally free of charge**.

The **availability of raw harmonized ESG data would allow for better comparability, increase transparency, lower barriers and costs, generate efficiency, reduce complexity and attract new players**. The data register would provide a very valuable source of information to markets and policy makers alike. Such database should also help data preparers by eliminating current multiple different requests.

We thank you for your attention and remain available to discuss further. In the meantime, we would be pleased to receive your preliminary views, as our Associations continue working on this project.

Hervé Guider EACB General Manager	**Wim Mijs** EBF Chief Executive Officer	**Tanguy van de Werve** EFAMA Director General	**Chris De Noose** ESBG Managing Director	**Michaela Koller** Insurance Europe Director General	**Matti Leppälä** PensionsEurope Secretary

Annex 2: EACB proposal to enhance availability of ESG Data in EU: call for a EU public register

Background

The rapid developments in the context of the EU Sustainable Finance Framework trigger considerations on the availability of ESG data and how to enhance their sourcing and management. Indeed, on the investment side, the sustainability disclosure regulation requires asset managers, institutional investors and financial institutions to perform new reporting obligations that would need a larger number of comparable and robust ESG data of the investee companies. While making investment decisions and fulfilling this reporting requirement, it is important for investors to focus on ESG information that is material particularly from investor point of view. From the perspective of the taxonomy regulation, that currently focuses on the "E", non-financial companies which are subject to the obligation to publish a non-financial information pursuant to the Directive 2013/34/EU will have to disclose the percentage of Opex/Capex and turnover derived from environmentally sustainable activities (as defined in the regulation). Financial market participants will have to rely on this information to determine the degree of environmental sustainability of their products. Finally, on the prudential side, the identification and assessment of ESG risk will have to rely more and more on robust and enhanced ESG data of companies in the client's portfolio.

However, the availability of ESG data is currently rather limited and when available, data are difficult to compare and raise reliability questions. Moreover, there is an issue of cost (tens of thousands of Euros on a yearly basis). Those data are very expensive, often resulting unaffordable for smaller investors, smaller and non-complex financial market players, researchers or academia. With the increased demand of ESG induced by regulation, as explained above, this may lead to unlevelled playing field and competition concerns. In the context of the taxonomy regulation for example trying to obtain specific information from companies is not efficient – neither for the financial institution nor the company. Third-party providers are no real solution, as they also must gather any information from the same company and that the methodologies diverge from one provider to another. Companies get unnecessarily burdened by the need to report the same ESG data to various third-party data providers according to different methodologies and questionnaires. These information costs pose a threat to a level playing field for financial institutions as they have a fix-cost character.

Call for EU Action: a centralized database and standardization for Environmental, social and governance (ESG) data in the

EU

The availability of high quality and comparable ESG data should be regarded as an EU strategic infrastructure project and as a priority to enable the other measures of the sustainable finance action plan. The EACB calls the EU to take the lead to start to establish a database where non- financial corporates in the EU can insert – on a voluntary basis ESG raw data in electronic form. This EU database or register could be based under one of the main statistics centres in the EU. 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 (non-financial reporting directive) and which are willing to publish their ESG data in the new database. Since not all data that is reported under the NFRD is financially material from investors' point of view (NFRD is meant for a broader stakeholders' audience, not only investors), it would be useful to supplement the methodological core by a best-practice investor materiality framework (European version of SASB). 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. Among the existing EU Institutions, we suggest that Eurostat would be best placed to centralize the data collection.

Furthermore, we underline that a large number of sectors data are already available on various economic sectors i.e. buildings, mobility, agriculture, industry as they need to be collected in the context of existing EU sectorial policies (including for awarding EU funds). This information could be an important benchmark to fill the gaps in current data availability.

Moreover, relevant ESG information already collected by governments or central banks should be made publicly available to financial market players. This is for example in relation to heat maps, climate related extreme events, raising sea levels, etcetera or other relevant information already collected for example by the European Environmental Agency (i.e. State of the Environment)

In order to facilitate the collection of ESG data a certain level of standardization would be necessary to ensure comparability and high quality of data. The standardization exercise could take place in the context of the revision of the Non-Financial Reporting Directive announced by the EU Commission in Q4 2020. Several stakeholders like ESMA have already put forward recommendations for greater standardization in non-financial reporting. An EU ESG reporting framework could combine existing framework used by the markets, but shall integrate the EU taxonomy as the cornerstone. For example, it shall reflect the indicators deriving from the taxonomy regulation to define the degree of environmental sustainability. This could be completed on the "S" and "G" side by the data provision to be made available under the sustainability disclosure regulation. The standardization of this minimum level of information would allow creating the components of the database.

Furthermore, a quality assurance would be necessary in order to ensure that the use of the database and its content corresponds to due diligence standards of prudential regulation (e.g. CRR; CRD, MifiD).

Companies would register voluntarily to the database. While the reliability of the data would remain with them, the standardized approach would help. The incentive would be to gain visibility and increase the financing opportunities.

The availability of raw harmonized ESG data would allow for comparability, increase transparency, lower barriers and costs, generate efficiency and attract new players. Especially when linked to taxonomy the database could provide a very valuable source of information to markets and policy makers alike.

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