

Climate Disclosure Standards Board's (CDSB) response to the consultation on the renewed sustainable finance strategy

The following document details the CDSB's response to the European Commission's consultation on the renewed sustainable finance strategy.

Section I. Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

Question 1. With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate-related and environmental challenges, do you think that:

major additional policy actions are needed to accelerate the systematic sustainability transition of the EU financial sector.

incremental additional actions may be needed in targeted areas, but existing actions implemented under the Action Plan on Financing Sustainable Growth are largely sufficient.

no further policy action is needed for the time being.

Don't know / no opinion / not relevant

Question 2. Do you know with sufficient confidence if some of your pension, life insurance premium or any other personal savings are invested in sustainable financial assets?

Yes

No

Don't know / no opinion / not relevant

Question 3. When looking for investment opportunities, would you like to be systematically offered sustainable investment products as a default option by your financial adviser, provided the product suits your other needs?

Yes

No

Don't know / no opinion / not relevant

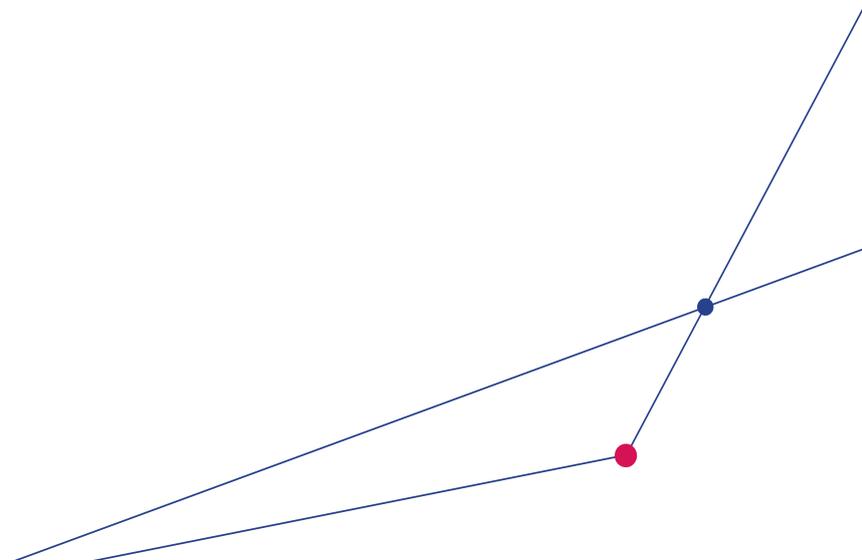
Question 4. Would you consider it useful if corporates and financial institutions were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?

Yes, corporates

Yes, financial institutions

.....
T: +44 (0) 203 818 3939
www.cdsb.net

.....
Climate Disclosure Standards Board
c/o CDP, WeWork Sony Center
Kemperplatz 1, 10785 Berlin
Germany



X Yes, both

No

Don't know / no opinion / not relevant

Question 5. One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects.

Do you believe the EU should also take further action to:

Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models

1 (strongly disagree)

2 (disagree)

3 (neutral)

4 (agree)

X 5 (strongly agree)

Don't know / No opinion

Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law

1 (strongly disagree)

2 (disagree)

3 (neutral)

4 (agree)

X 5 (strongly agree)

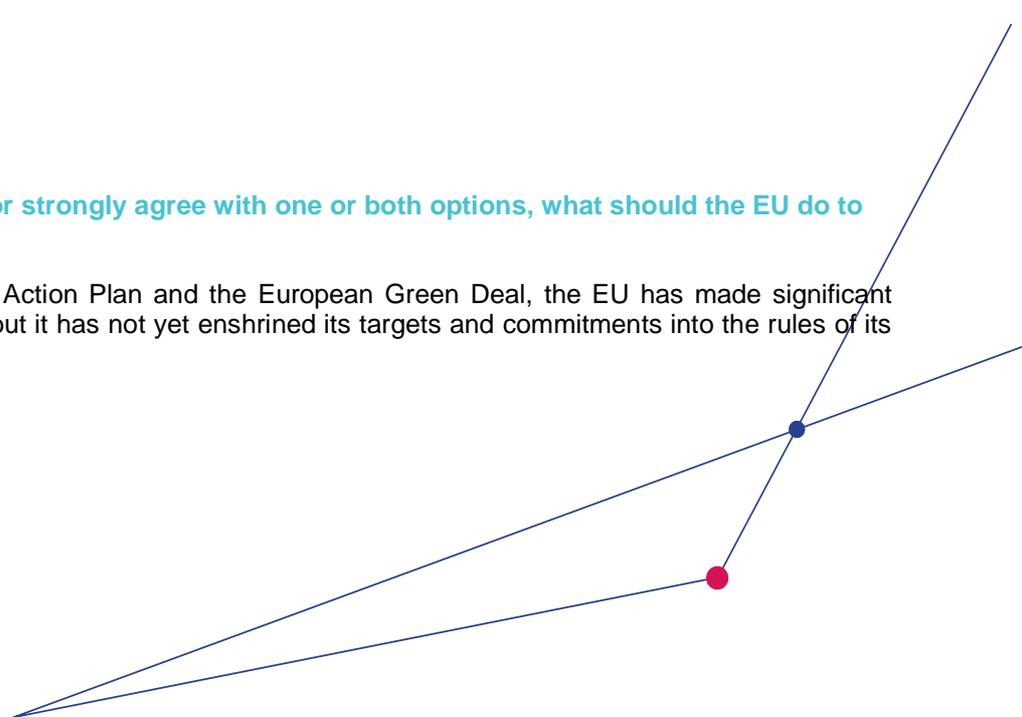
Don't know / No opinion

Question 5.1 In case you agree or strongly agree with one or both options, what should the EU do to reach this objective?

Through the Sustainable Finance Action Plan and the European Green Deal, the EU has made significant changes to market infrastructure, but it has not yet enshrined its targets and commitments into the rules of its

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financial markets. Without limits to environmentally harmful activities beyond the disincentives of market mechanics, the surrounding infrastructure has limited chance to create meaningful change in the market's current understanding and pricing of such risks. Financial market participants should have the relevant incentives to help the transition of their business models, strategies, and policies to be aligned with EU's climate and environmental objectives. Investors have a key role to play in this transition by engaging in a constructive dialogue with companies on the strategies and policies they intend or have put in place to reduce their risks and impacts related to climate and environmental issues.

The EU has started to design interesting tools including the taxonomy regulation that will help investors to access the information they need to make sound investment decisions.

Further work is still needed when it comes to:

- Ensure that EU's commitments and scientific evidence is implemented into relevant business conduct and financial markets conduct legislation;
- Implement the relevant pieces of legislation to ensure an assessment of all natural capital issues beyond but including climate change in all investment decisions;
- Promote further alignment of methods and metrics that companies and investors can use to assess impacts and dependencies on natural capital; and
- Ensure that companies' disclosures are meeting the investors' needs for consistent, comparable, and decision-useful information. The review of the Non-Financial Reporting Directive is a step in the right direction to ensure that companies are putting the necessary tools in place to identify, manage and report on climate and environmental-related risks and impacts.

Section II. Questions targeted at experts

The following section asks further technical and strategic questions on the future of sustainable finance, for which a certain degree of financial or sustainability-related expertise may be useful. This section is therefore primarily addressed at experts.

Question 6. What do you see as the three main challenges and three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years?

As shown by CDSB's analysis [<https://www.cdsb.net/falling-short>], the main challenge for allowing a real transition towards a more sustainable finance sector is the lack of quality, comparability, and consistency of non-financial information. Greater transparency will help all businesses better understand and be accountable for the relationship between their activities and nature, people and the economy.

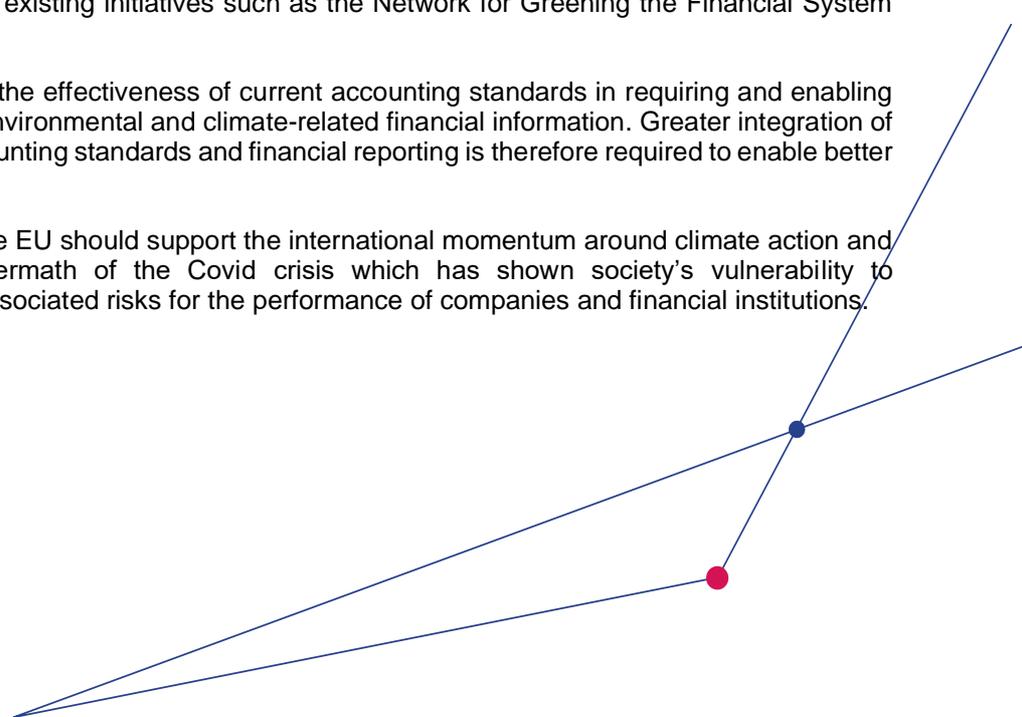
To ensure the right level of accountability of financial market participants, a second challenge is around proper and effective supervision of climate and environmental-related risks. In this respect, further work should be done at the international level based on existing initiatives such as the Network for Greening the Financial System (NGFS).

A final challenge exists relating to the effectiveness of current accounting standards in requiring and enabling the disclosure of decision-useful environmental and climate-related financial information. Greater integration of climate-related matters within accounting standards and financial reporting is therefore required to enable better disclosures.

When it comes to opportunities, the EU should support the international momentum around climate action and biodiversity protection in the aftermath of the Covid crisis which has shown society's vulnerability to unsustainable practices and the associated risks for the performance of companies and financial institutions.

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A second opportunity relies on the possibilities digital solutions offer to make information more consistent, comparable, and easily accessible. (see question 57)

A last opportunity relies on the growing library of best practices from companies as well as financial institutions to measure and value their impacts and dependencies on nature, people and society. The EU should support the existing initiatives to further align and standardize methods and metrics (Natural Capital Protocol, actions of the Value Balancing Alliance and Impact Management Project).

Question 7. Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making?

The adoption of various pieces of legislation in parallel with different scopes and definitions (e.g. two different definitions of a sustainable investment in the taxonomy regulation and the sustainable finance disclosure regulation) has created some confusions and duplicative requirements for companies because of overlaps and inconsistencies. The legislative requirements need to be carefully reviewed and streamlined to ensure they reach their intended goals and can be applied in the right way by companies.

On the integration and management of climate, environmental and social risks into financial decision-making, enforcement and supervision is key to ensure these risks are properly identified, assessed, and managed, within companies. CDSB's analysis found that companies' risk disclosures under the Non-Financial Reporting Directive (NFRD) proved to be the weakest disclosure area, with 28% of reviewed companies not disclosing how environmental and climate-related risks are integrated into overall risk management, as recommended in the Directive's climate-related guidelines and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). In addition, 1 out of 5 companies did not disclose any related operational, strategic or financial impacts of the risks they had identified for their business. Proper enforcement of the NFRD requirements will also come from more detailed, specific, and precise requirements as well as relevant mandates for the European Supervisory Authorities (ESAs).

In the development of sustainable finance, the EU should keep pushing for ambitious sustainable finance legislations with an eye on similar developments in other jurisdictions to ensure international convergence and harmonisation, given the highly globalised nature of both the financial system and the sustainability challenges that must be addressed.

Question 10. Should institutional investors and credit institutions be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 2°C, 3°C, 4°C), in comparison with the goals of the Paris Agreement, and on the basis of a common EU-wide methodology?

Yes, institutional investors

Yes, credit institutions

Yes, both

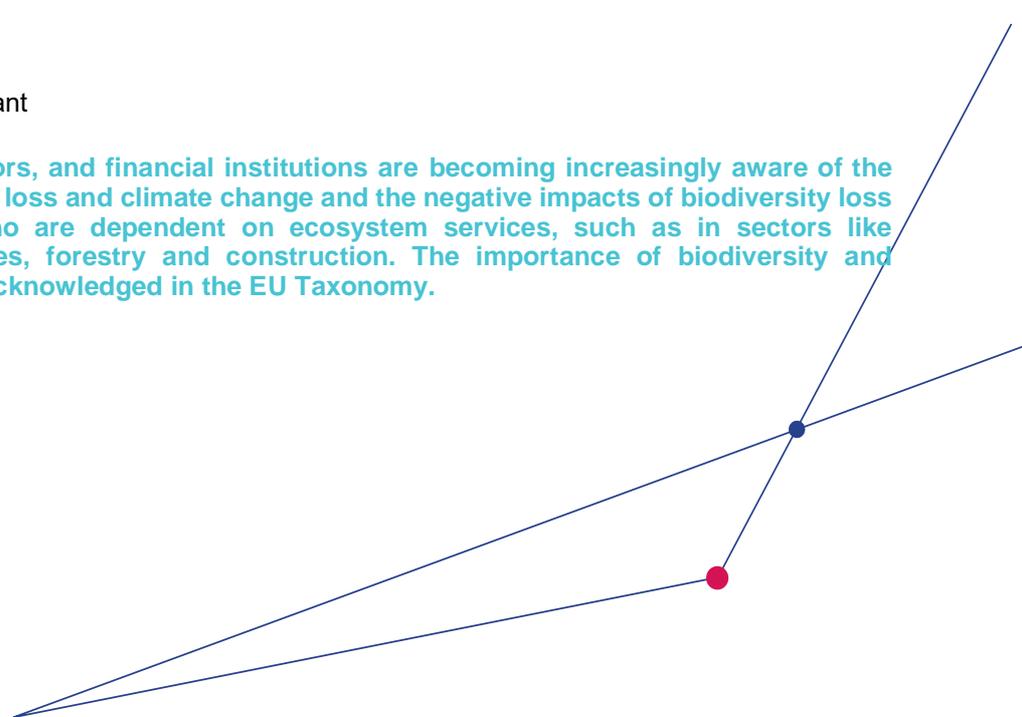
No

Don't know / no opinion / not relevant

Question 11 Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss in particular on corporates who are dependent on ecosystem services, such as in sectors like agriculture, extractives, fisheries, forestry and construction. The importance of biodiversity and ecosystem services is already acknowledged in the EU Taxonomy.

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However, in light of the growing negative impact of biodiversity loss on companies' profitability and long-term prospects (see for instance The Nature of Risk - A Framework for Understanding Nature-Related Risk to Business, WWF, 2019), as well as its strong connection with climate change, do you think the EU's sustainable finance agenda should better reflect growing importance of biodiversity loss?

X Yes

No

Don't know / no opinion / not relevant

Question 11.1 If yes, please specify potential actions the EU could take:

Companies need to develop a holistic approach to assess risks and impacts to their business of all natural capital issues (air, water, land use and biodiversity). There are clear connections between climate change and the biodiversity and ecosystem crises, as explained by the 2019 global assessment report on biodiversity and ecosystem services from the UN's Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES).

For companies, this means thinking about the effects their operations and strategies have on ecosystems and, also, the effects those ecosystems have on their business. They need to think, act and report in a manner that takes account of complex and dynamic environmental interconnections.

This transition could be achieved through EU action to :

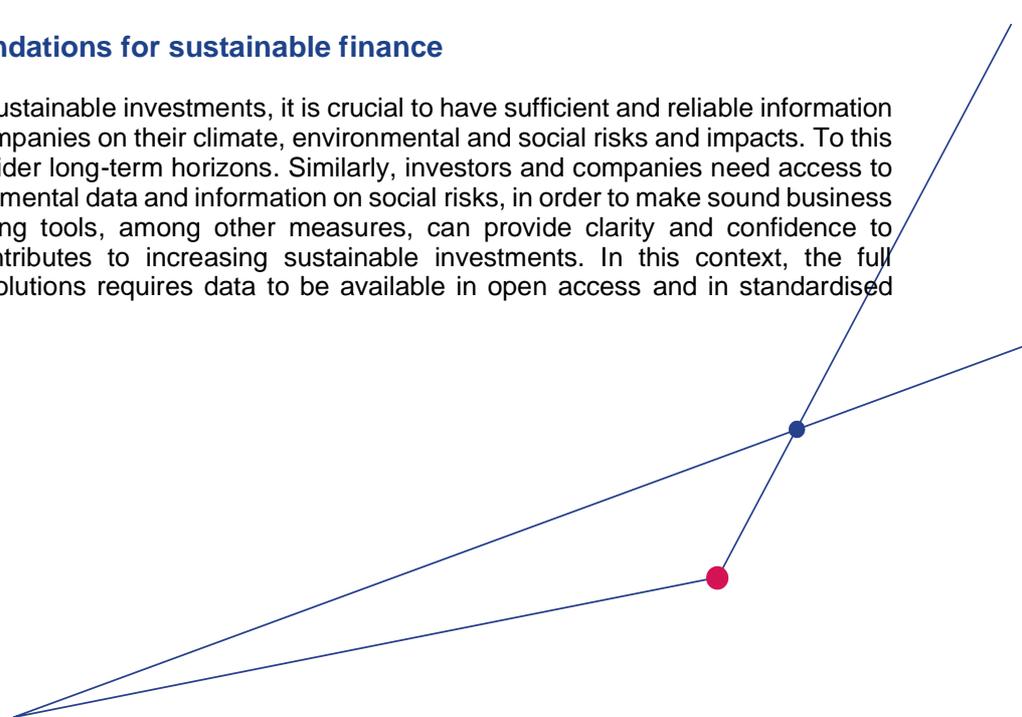
- strengthen corporate reporting framework on natural capital to ensure that companies are reporting on the financial impacts of biodiversity and natural capital on their business in the context of the NFRD review, the Biodiversity strategy and the upcoming initiative on corporate governance and due diligence. These reporting requirements should be comprehensive and allow companies to provide transparency on strategy, governance, and risk management of natural capital issues, using existing tools such as the CDSB framework.
- support the implementation of internationally agreed methods and metrics on biodiversity and natural capital (such as the Natural Capital Protocol) to foster further alignment of methods and metrics that companies and investors can use to assess impacts and dependencies on biodiversity and natural capital. Given the number of ongoing initiatives around biodiversity assessment, the EU should foster convergence between the already existing initiatives.
- support further work to amend and adapt accounting standards. This will ensure that flows and stocks of natural capital are measured so that the environment is considered in financial decision making.

1. Strengthening the foundations for sustainable finance

In order to enable the scale-up of sustainable investments, it is crucial to have sufficient and reliable information from financial and non-financial companies on their climate, environmental and social risks and impacts. To this end, companies also need to consider long-term horizons. Similarly, investors and companies need access to reliable climate-related and environmental data and information on social risks, in order to make sound business and investment decisions. Labelling tools, among other measures, can provide clarity and confidence to investors and issuers, which contributes to increasing sustainable investments. In this context, the full deployment of innovative digital solutions requires data to be available in open access and in standardised formats.

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1.1 Company reporting and transparency

In its Communication on the European Green Deal, the Commission recognised the need to improve the disclosure of non-financial information by corporates and financial institutions. To that end, the Commission committed to reviewing the non-financial reporting directive (NFRD) in 2020, as part of its strategy to strengthen the foundations for sustainable investment. A public consultation is ongoing for that purpose.

The political agreement on the Regulation on establishing a framework to facilitate sustainable investment ('Taxonomy Regulation') places complementary reporting requirements on the companies that fall under the scope of the NFRD.

In addition to the production of relevant and comparable data, it may be useful to ensure open and centralised access not only to company reporting under the NFRD, but also to relevant company information on other available ESG metrics and data points (please also see the dedicated section on sustainability research and ratings 1.3). To this end, a common database would ease transparency and comparability, while avoiding duplication of data collection efforts. The Commission is developing a common European data space in order to create a single market for data by connecting existing databases through digital means. Since 2017, Commission Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) has been assessing the prospects of using Distributed Ledger Technologies (including blockchain) to federate and provide a single point of access to information relevant to investors in European listed companies (European Financial Transparency Gateway - EFTG).

Question 14. In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?

X Yes

No

Don't know / no opinion / not relevant

Question 14.1 If yes, please explain how it should be structured and what type of ESG information should feature therein:

A central database for ESG information will ensure better compliance with reporting requirements and a race to the bottom between companies as a result of having to disclose publicly the information.

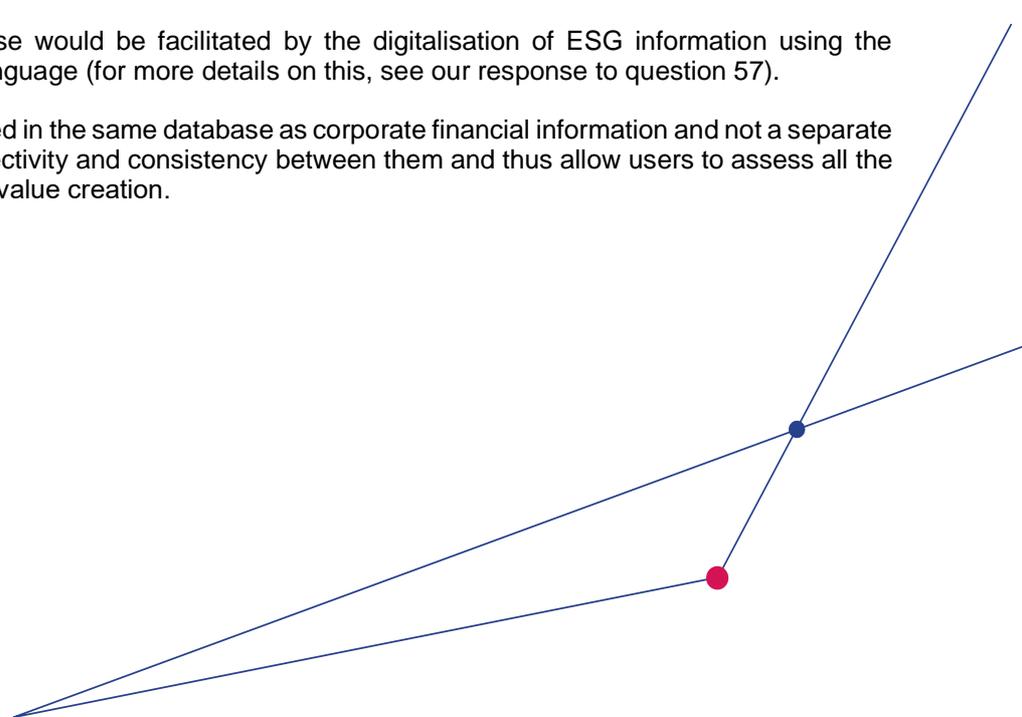
Ultimately, the structure and content of that information will depend on the purpose of the database. Such database should feature the information resulting from the NFRD requirements and all ESG policies. It should act as a repository for this data and not adding to what is required further.

The development of such database would be facilitated by the digitalisation of ESG information using the eXtensible Business Reporting Language (for more details on this, see our response to question 57).

Such information should be collected in the same database as corporate financial information and not a separate database, in order to ensure connectivity and consistency between them and thus allow users to assess all the risks and impacts on a company's value creation.

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Question 15. According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation?

Yes

No

Don't know / no opinion / not relevant

1.2 Accounting standards and rules

Financial accounting standards and rules can have a direct impact on the way in which investment decisions are made since they form the basis of assessments that are carried out to evaluate the financial position and performance of real economy and financial sector companies. In this context, there is an ongoing debate around whether existing financial accounting standards might prove challenging for sustainable and long-term investments. In particular, some experts question whether existing impairment and depreciation rules fully price in the potential future loss in value of companies that today extract, distribute, or rely heavily on fossil fuels, due to a potential future stranding of their assets.

Recognising the importance of ensuring that accounting standards do not discourage sustainable and long-term investments, as part of the 2018 Action Plan on Financing Sustainable Growth, the Commission already requested the European Financial Reporting Advisory Group (EFRAG) to explore potential alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments. EFRAG issued its advice to the Commission on 30 January 2020. Following this advice, the Commission has requested the IASB to consider the re-introduction of re-cycling through the profit or loss statement of profits or losses realised upon the disposal of equity instruments measured at fair value through other comprehensive income (FVOCI).

Question 16. Do you see any further areas in existing financial accounting rules (based on the IFRS framework) which may hamper the adequate and timely recognition and consistent measurement of climate and environmental risks?

Yes

No

Don't know / no opinion / not relevant

If yes, what is in your view the most important area (please provide details, if necessary):

Impairment and depreciation rules.

Provision rules.

Contingent liabilities.

Other

In recent years, narrative reporting of environmental-related matters, including climate, by companies has seen significant traction through the introduction of the NFRD and TCFD recommendations, resulting in improved provision of information for investors in their decision-making. Although narrative reporting remains a work in

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progress, investors are increasingly expecting better reflection of climate (and wider environmental) related matters within financial reporting. In particular, there is concern of a disconnect between the narrative reporting found in annual reports and the financial reporting.

The IASB's November 2019 publication identifies a number of accounting standards where climate-related matters might be integrated into financial reporting, including those listed in the consultation. Further work is required and the CDSB is working on the development of practical guidance for preparers to integrate climate-related matters into financial reporting in relation to IFRSs, currently focussing on IAS 36 – Impairment of Assets; IAS 37 – Provisions, Contingent Liabilities and Contingent Assets; and IAS 38 – Intangible Assets[<https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en>]

However, it should be noted that consideration of all accounting standards is required by investors for a complete understanding of how climate and environmental matters impact a company's financials as a whole. The rules on impairment and depreciation, provisions and contingent liabilities are all equally important for further consideration, but there are other areas that also need to be considered including the broader rules on the presentation of financial statements in the form of IAS 1, as well as disclosure of climate-related risks in relation to IFRS 7 and 9 regarding disclosures and financial instruments.

For more information on CDSB's work, please visit [<https://www.cdsb.net/what-we-do/financial-accounting-standards>]

1.6 Corporate governance, long-termism and investor engagement

To reflect long-term opportunities and risks, such as those connected to climate change and environmental degradation, companies and investors need to integrate long-term horizons and sustainability in their decision-making processes. However, this is often difficult in a context where market pressure and prevailing corporate culture prompt corporate managers and financial market participants to focus on near-term financial performance at the expense of mid- to long-term objectives. Focusing on short-term returns without accounting for long-term implications may lead to underperformance of the corporation and investors in the long-term, and, by extension, of the economy as a whole. In this context, investors should be driving long-termism, where this is relevant, and not pressure companies to deliver short-term returns by default.

The ongoing COVID-19 outbreak in particular underscores that companies should prioritise the long-term interests of their stakeholders. Many companies in the EU have decided to prioritise the interests of key stakeholders, in particular employees, customers and suppliers, over short-term shareholder interest (The European Central Bank also recommended on 27 March 2020 that significant credit institution refrain from distributing dividend so that “they can continue to fulfil their role to fund households, small and medium businesses and corporations” during the COVID-19 economic shock). These factors contribute to driving long-term returns as they are crucial in order to maintain companies' ability to operate. Therefore, institutional investors have an important role to play in this context. As part of action 10 of the Action Plan on Financing Sustainable Growth, in December 2019 the European Supervisory Authorities delivered reports, the European Supervisory Authorities delivered reports in December 2019 (ESMA report, EBA report and EIOPA report) that had the objective of assessing evidence of undue short-term pressure from the financial sector on corporations. They identified areas within their remit where they found some degree of short-termism and issued policy recommendations accordingly. For instance, they advise the adoption of longer-term perspectives among financial institutions through more explicit legal provisions on sustainability.

Question 38. In your view, which recommendation(s) made in the ESAs' reports have the highest potential to effectively tackle short-termism?

Please select among the following options:

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Adopt more explicit legal provisions on sustainability for credit institutions, in particular related to governance and risk management

Define clear objectives on portfolio turn-over ratios and holdings periods for institutional investors

Require Member States to have an independent monitoring framework to ensure the quality of information disclosed in remuneration reports published by listed companies and funds (UCITS management companies and AIFMs)

X Other

Question 38.1 Please specify what other recommendation(s) have the highest potential to effectively tackle short-termism:

ESMA report

CDSB supports the following recommendations on ESG disclosures :

- The removal of the optionality in the NFRD with regards to the location of the non-financial statement by requiring including it as part of the annual financial report;
- The establishment of a unified set of international ESG disclosure standards that is consistent with the global nature of financial markets and sustainability challenges;
- An enhanced coordination between the NFRD and the Transparency Directive; and
- Further work on the digitalisation of non-financial statements

Additionally, CDSB supports the recommendation on institutional investor engagement saying:

- The Commission should consider whether a vote on the non-financial statement could serve as an effective tool for investors to voice any concern they might have on the way investee companies approach sustainability risks.

EBA report

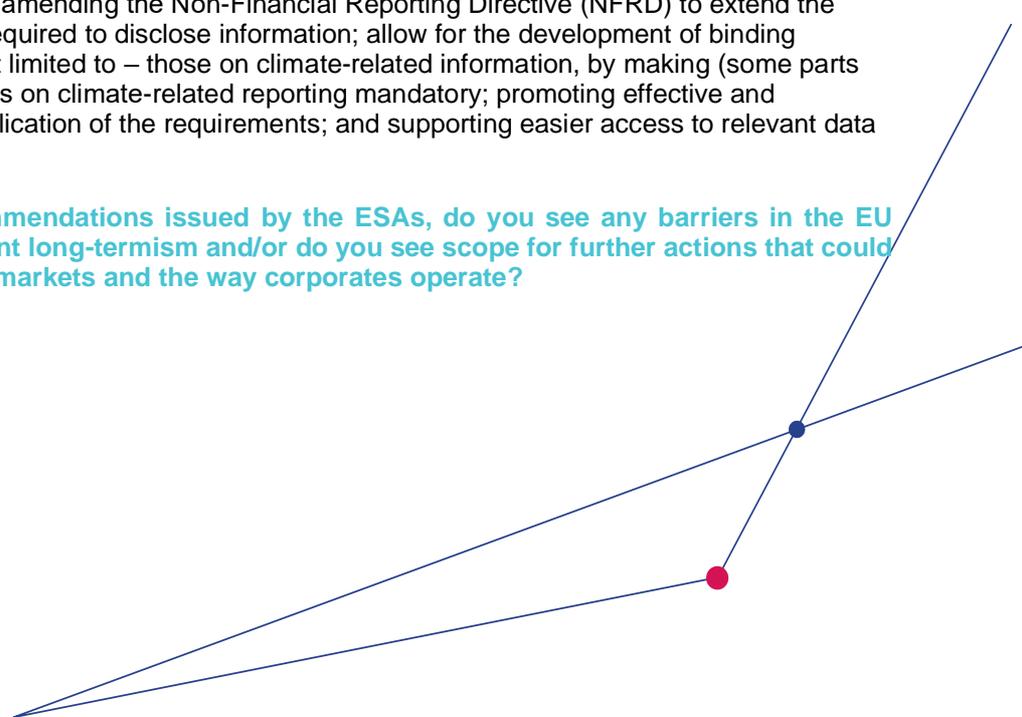
CDSB also supports additional recommendations the EBA has brought forward on ESG disclosures:

- “Specific actions could include amending the Non-Financial Reporting Directive (NFRD) to extend the scope of companies that are required to disclose information; allow for the development of binding measures including – while not limited to – those on climate-related information, by making (some parts of) the Commission’s guidelines on climate-related reporting mandatory; promoting effective and consistent oversight of the application of the requirements; and supporting easier access to relevant data at the EU level.”

Question 39. Beyond the recommendations issued by the ESAs, do you see any barriers in the EU regulatory framework that prevent long-termism and/or do you see scope for further actions that could foster long-termism in financial markets and the way corporates operate?

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X Yes

No

Don't know / no opinion / not relevant

Question 39.1 If yes, please explain which barriers you see and / or what action(s) could help foster long-termism in financial markets and the way corporate operate.

When it comes to the reporting requirements, in addition to what the ESAs have recommended, attention should be given to ensure the long term and forward-looking nature of companies' reporting. The topic of quarterly reporting was highlighted in the ESMA report on short termism, with some investors suggesting that "the reporting periods should be appropriate to the long-term nature of investments" or the need for "the publication of long-term reporting guidance for companies, the publication of a stewardship reporting framework and the publication of a position paper inviting companies to stop the publication of quarterly reporting and short-term earnings guidance."

Fostering long-termism will also require a change in companies' corporate governance. In that regard, the World Economic Forum has recently published a White Paper on integrated corporate governance in the context of the Covid-19 crisis. The paper calls for a transition from shareholder to stakeholder capitalism under a more integrated corporate governance with stronger links between shareholder model of corporate governance and stakeholder driven model of corporate responsibility. This means in practice reviewing the organisation, missions and purpose of the Board of Directors to reinforce stewardship on environmental, social and governance issues and allowing their systematic integration into firm's strategy, resource allocation, risk management and performance evaluation as well as reporting policies and processes.

The paper brought forward interesting recommendations, including:

- Adapting board's organisation, composition an engagement, including by creating a dedicated board committee to follow these issues ;
- Aligning strategy and capital allocation with drivers of long-term value creation; and
- Internalising ESG issues into risk management

[<https://www.weforum.org/agenda/2020/06/integrated-corporate-governance-6-leadership-priorities-for-corporate-boards-after-the-covid-19-crisis/>]

The Shareholder Rights Directive II states that directors' variable remuneration should be based on both financial and non-financial performance, where applicable. However, there is currently no requirement regarding what the fraction of variable remuneration should be linked to, when it comes to non-financial performance.

Question 40. In your view, should there be a mandatory share of variable remuneration linked to non-financial performance for corporates and financial institutions?

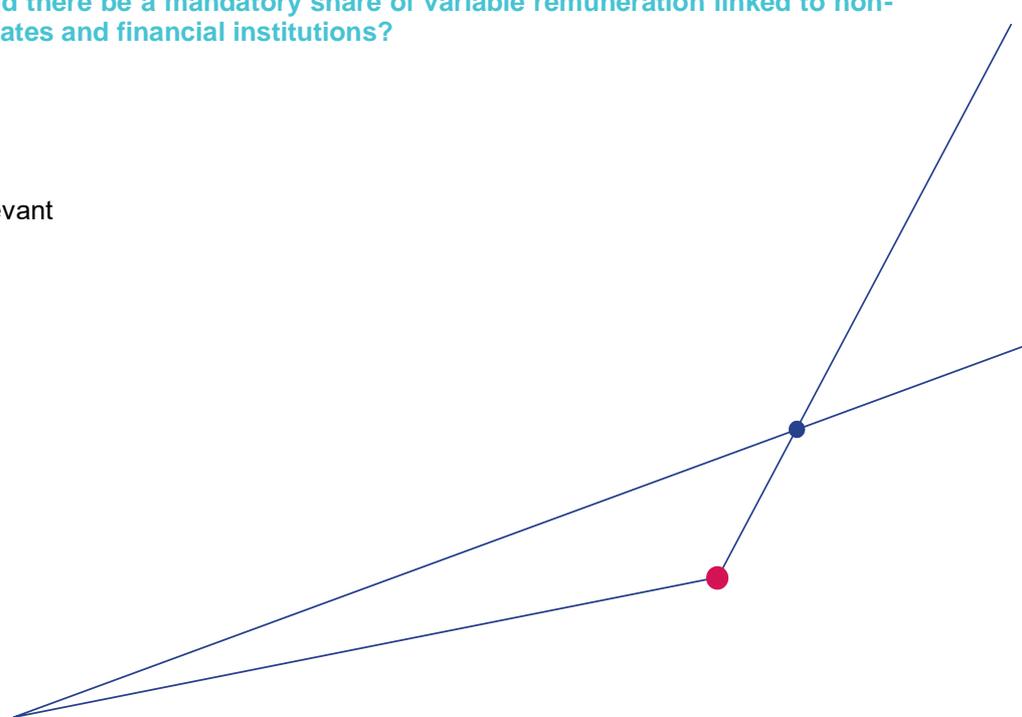
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Question 41. Do you think that a defined set of EU companies should be required to include carbon emission reductions, where applicable, in their lists of ESG factors affecting directors' variable remuneration?

Yes

No

Don't know / no opinion / not relevant

The Shareholder Rights Directive II introduces transparency requirements to better align long-term interests between institutional investors and their asset managers.

Question 42. Beyond the Shareholder Rights Directive II, do you think that EU action would be necessary to further enhance long-term engagement between investors and their investee companies?

Yes

No

Don't know / no opinion / not relevant

Question 42.1 If yes, what action should be taken? Please explain or provide appropriate examples:

Enhancing long term engagement between investors and their investee companies will ensure a smooth transition towards more sustainable capital markets and a low carbon economy. Investors have a key role to play to engage in discussions with their investee companies and incentivise them to move towards more sustainable practices.

Importantly, a result of short-termism in financial markets, financial materiality determinations do not identify ESG risks. Longer-term engagement horizons would result in a better understanding of ESG risks and more material information being reflected in company management reports.

The Principles for Responsible Investment have highlighted that engagement on ESG issues between investors and companies create value for both parties. This value creation comes from three ways, through communication and exchange of information, learning and knowledge sharing and political and building relationships. [<https://www.unpri.org/download?ac=4637>]

Legislations and guidance can help that transition, bearing in mind that it also up to investors to move their investments towards more sustainable projects based on the information they get from companies. They can be helpful to ensure long term and forward-looking disclosures as well as better implementation of existing requirements by both parties.

Question 43. Do you think voting frameworks across the EU should be further harmonised at EU level to facilitate shareholder engagement and votes on ESG issues?

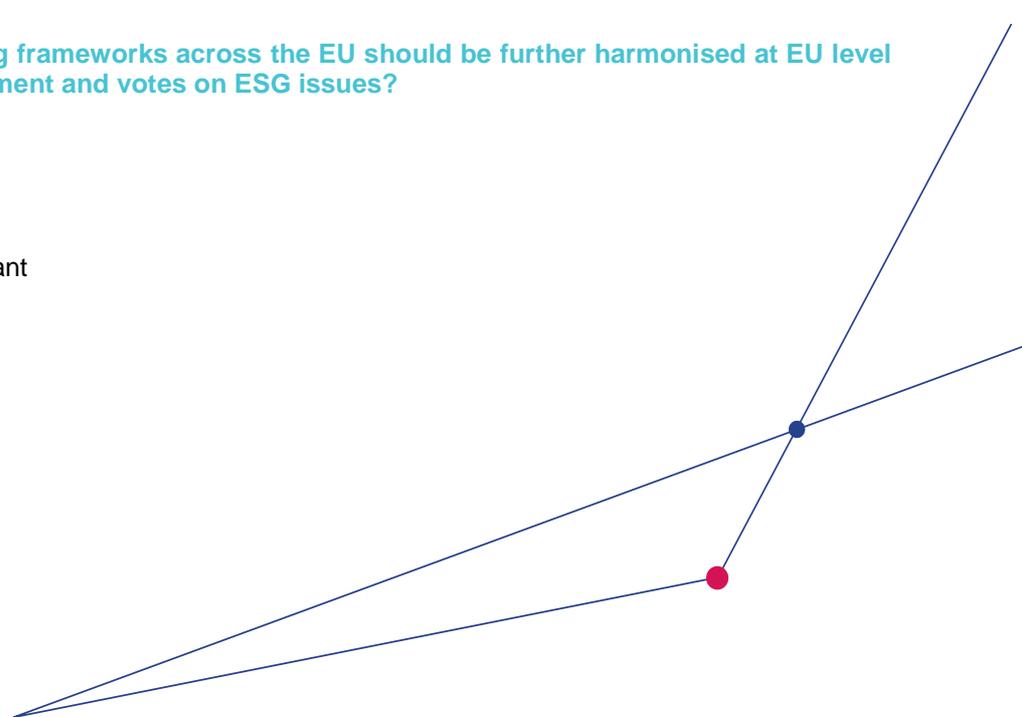
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Question 44: Do you think that EU action is necessary to allow investors to vote on a company's environmental and social strategies or performance?

Yes

No

Do not know.

It is important for action to be taken to allow investors to vote on a company's environmental and social strategies or performance. The overview provided by investors should help to ensure that such strategies are sufficiently ambitious and performance against these strategies is reported with a sufficient level of detail. This could be achieved by adding a new voting requirement for shareholders.

To foster more sustainable corporate governance, as part of action 10 of the 2018 action plan Plan on Financing Sustainable Growth the Commission launched a study on due diligence (i.e. identification and mitigation of adverse social and environmental impact in a company's own operations and supply chain), which was published in February 2020. This study indicated the need for policy intervention, a conclusion which was supported by both multinational companies and NGOs. Another study on directors' duties and possible sustainability targets will be finalised in Q2 2020.

Question 46. Due regard for a range of 'stakeholder interests', such as the interests of employees, customers, etc., has long been a social expectation vis-a-vis companies. In recent years, the number of such interests have expanded to include issues such as human rights violations, environmental pollution and climate change.

Do you think companies and their directors should take account of these interests in corporate decisions alongside financial interests of shareholders, beyond what is currently required by EU law?

Yes, a more holistic approach should favour the maximisation of social, environmental, as well as economic/financial performance.

Yes, as these issues are relevant to the financial performance of the company in the long term.

No, companies and their directors should not take account of these sorts of interests.

Don't know / no opinion / not relevant

Question 47. Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

Yes

No

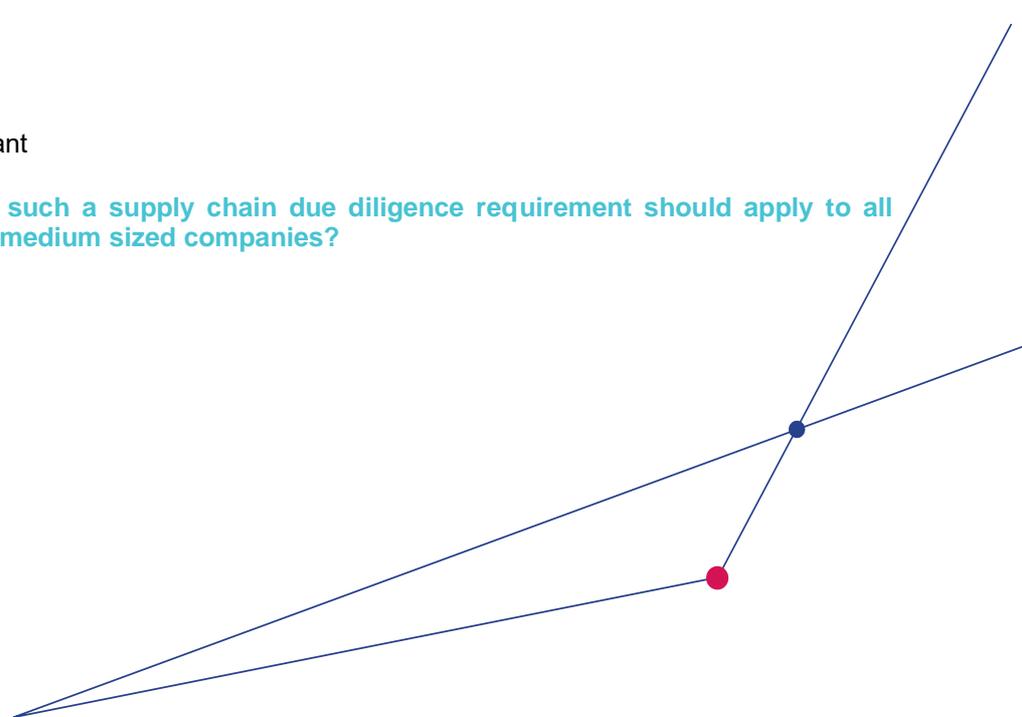
Don't know / no opinion / not relevant

Question 48. Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

Yes

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No

Don't know / no opinion / not relevant

Question 48.1 If yes, please select your preferred option:

All companies, including SMEs

All companies, but with lighter minimum requirements for SMEs

Only large companies in general, and SMEs in the most risky economic sectors sustainability-wise

Only large companies

Question 48.2 If necessary, please explain your answer to question 48.1:

The lack of regulation of supply chains has been acknowledged in the study requested by the European Commission and released in February 2020. As a result, only one out of three companies under the scope of the analysis are taking actions to mitigate risks arising from the operations of their supply chains. Beyond the adoption and implementation of due diligence policies within the company, there is a need for companies to be able to report on these risks and provide reliable, consistent, and comparable information to investors.

As shown by CDSB's analysis [<https://www.cdsb.net/falling-short>], due diligence disclosures have proven to be an area where companies' disclosures showed a great level of confusion over what due diligence and its reporting means. As an example, 10% of companies interpreted "due diligence" to relate to asset level procedures, such as management systems, operational monitoring and controls, omitting the board and management responsibilities of concern for an investor audience. Often, companies used the term "governance" as opposed to "due diligence", suggesting this may be more commonly associated with the requested subject matter. These confusions might also be explained by a lack of proper definition of the terms "due diligence" alongside "policies" in the NFRD. Due diligence proved to be an example of the need to streamline disclosure requirements between national and EU level legislations to avoid creating additional confusion for companies leading to lengthy disclosures.

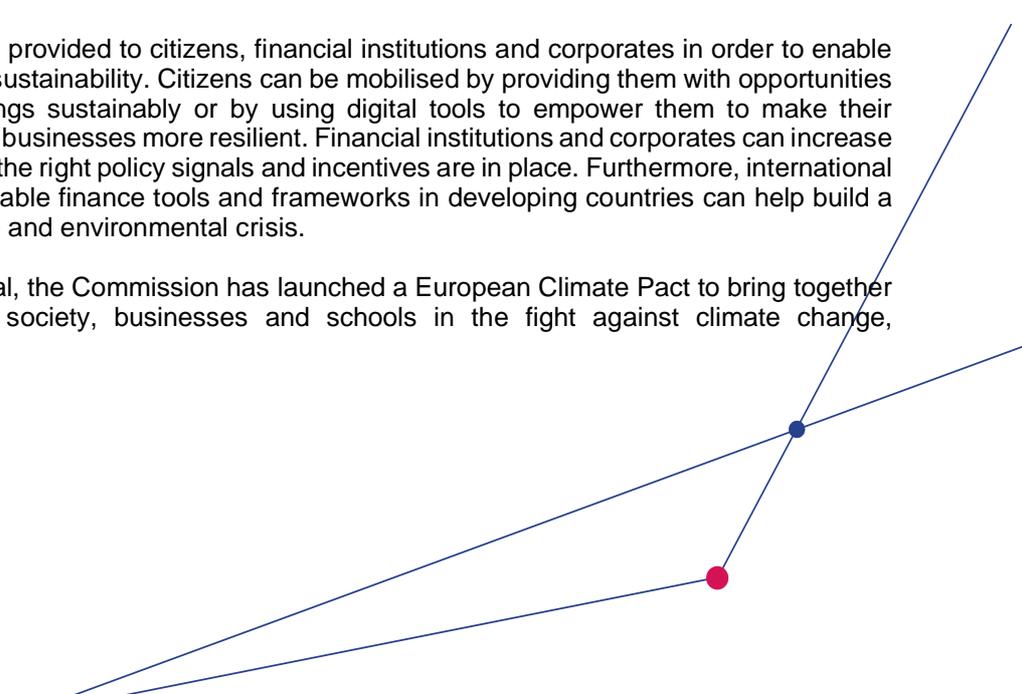
While recognising the overall regulatory burden a due diligence requirement and the related reporting requirement can be for SMEs, we believe the number of employees is not the most relevant indicator to assess the materiality of ESG risks and impacts for a particular company which is part of a global supply chain. In addition, investors need to be able to assess such impact or risks across their whole portfolios based on an understanding of the whole company's supply chain.

2. Increasing opportunities for citizens, financial institutions, and corporates to enhance sustainability

Increased opportunities need to be provided to citizens, financial institutions and corporates in order to enable them to have a positive impact on sustainability. Citizens can be mobilised by providing them with opportunities to invest their pensions and savings sustainably or by using digital tools to empower them to make their communities, their homes and their businesses more resilient. Financial institutions and corporates can increase their contribution to sustainability if the right policy signals and incentives are in place. Furthermore, international cooperation and the use of sustainable finance tools and frameworks in developing countries can help build a truly global response to the climate and environmental crisis.

As part of the European Green Deal, the Commission has launched a European Climate Pact to bring together regions, local communities, civil society, businesses and schools in the fight against climate change,

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incentivising behavioural change from the level of the individual to the largest multinational, and to launch a new wave of actions. A consultation on the European Climate Pact is open until 27 May 2020 in order to better identify the areas where the Commission could support and highlight pledges as well as set up fora to work together on climate action (including possibly on sustainable finance).

2.2 Better understanding the impact of sustainable finance on sustainability factors

While sustainable finance is growing, there are questions on how to measure and assess the positive impact of sustainable finance on the real economy. Recently, tools have been developed that can be used to approximate an understanding of the climate and environmental impact of economic activities that are being financed. Examples of such tools include the EU Taxonomy, which identifies under which conditions economic activities can be considered environmentally sustainable, use-of-proceeds reporting as part of green bond issuances, or the Disclosure Regulation, which requires the reporting of specific adverse impact indicators.

Yet, an improved understanding of how different sustainable financial products impact the economy may further increase their positive impact on sustainability factors and accelerate the transition.

Question 52. In your view, is it important to better measure the impact of financial products on sustainability factors?

1 - Not important at all

2 - Rather not important

3 - Neutral

4 - Rather important

X 5 - Very important

Don't know / no opinion / not relevant

2.4 Digital sustainable finance

The ongoing COVID-19 outbreak is highlighting the key role of digitalisation for the daily personal and professional lives of many Europeans. However, it has also revealed how digital exclusion can exacerbate financial exclusion – a risk that needs to be mitigated.

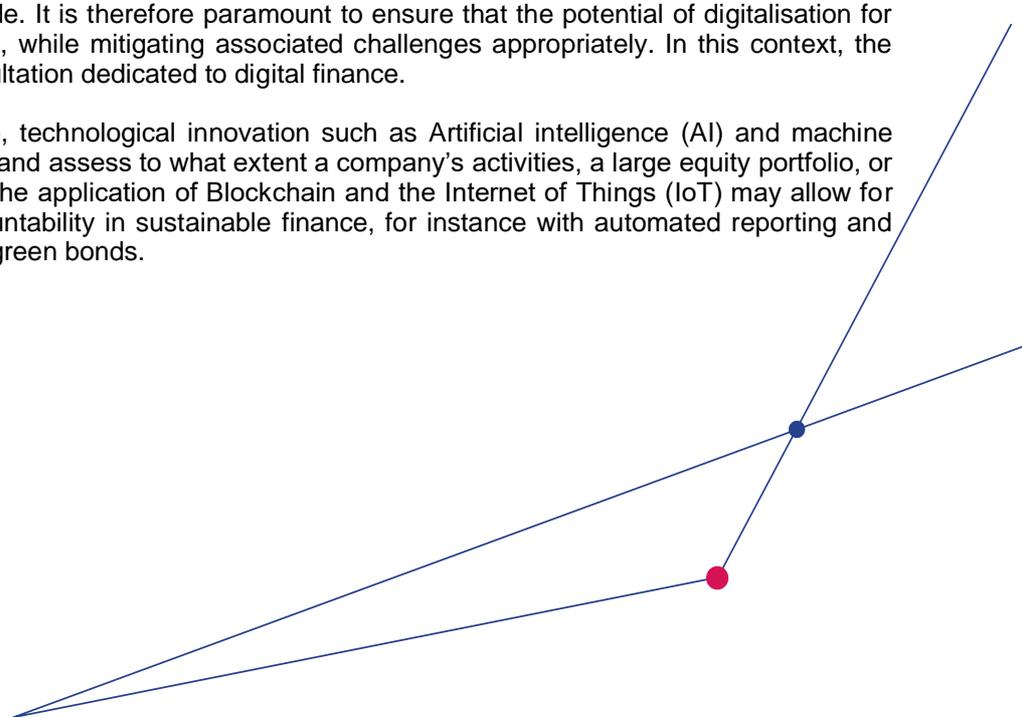
Digitalisation is transforming the provision of financial services to Europe's businesses and citizens. As shown in the Progress Report of the UN Secretary-General's Task Force on Digital Financing of the Sustainable Development Goals (SDGs), digital finance brings a wide array of opportunities for citizens worldwide by making it easier to make payments, save money, invest, or get insured. However, digital finance also brings new risks, such as deepening the digital divide. It is therefore paramount to ensure that the potential of digitalisation for sustainable finance is fully reaped, while mitigating associated challenges appropriately. In this context, the Commission has launched a consultation dedicated to digital finance.

In the area of sustainable finance, technological innovation such as Artificial intelligence (AI) and machine learning can help to better identify and assess to what extent a company's activities, a large equity portfolio, or a bank's assets are sustainable. The application of Blockchain and the Internet of Things (IoT) may allow for increased transparency and accountability in sustainable finance, for instance with automated reporting and traceability of use of proceeds for green bonds.

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Question 57. Do you think EU policy action is needed to help maximise the potential of digital tools for integrating sustainability into the financial sector?

X Yes

No

Don't know / no opinion / not relevant

If yes, what kind of action should the EU take and are there any existing initiatives that you would like the European Commission to consider? Please list a maximum of three actions and a maximum of three existing initiatives.

As already stated in CDSB's response to the consultation document on fitness checks on the EU framework for public reporting by companies in 2018, digitalisation of sustainability information would have the following benefits:

- Ensuring consistency and comparability of both financial and non-financial information which shall be treated the same;
- Increasing the granularity of information disclosed
- Reduction of mechanical data entry;
- Improving transparency for investors and the public; and
- encourages more data analysis & comparison against external data; and
- XBRL allows all stakeholders to effectively share and analyse information, improving the availability, quality and the usability of corporate reporting data.

Ultimately, the transposition of climate change-related information into a standard electronic format will facilitate the exchange of both financial and climate related information that are material for corporate reporting. The objective is that the data standard will establish the necessary links between financial business data and reporting and the new needs of information for a low carbon economy.

We believe that such a standard can promote the efficient use and exchange of information across the investment chain.

Digital reporting can also help in resolving the different information needs of various users. For example, information can be tagged with more detail on whether it is deemed financially or otherwise material, thereby allowing readers to view information that satisfies either element of double materiality or only financial materiality.

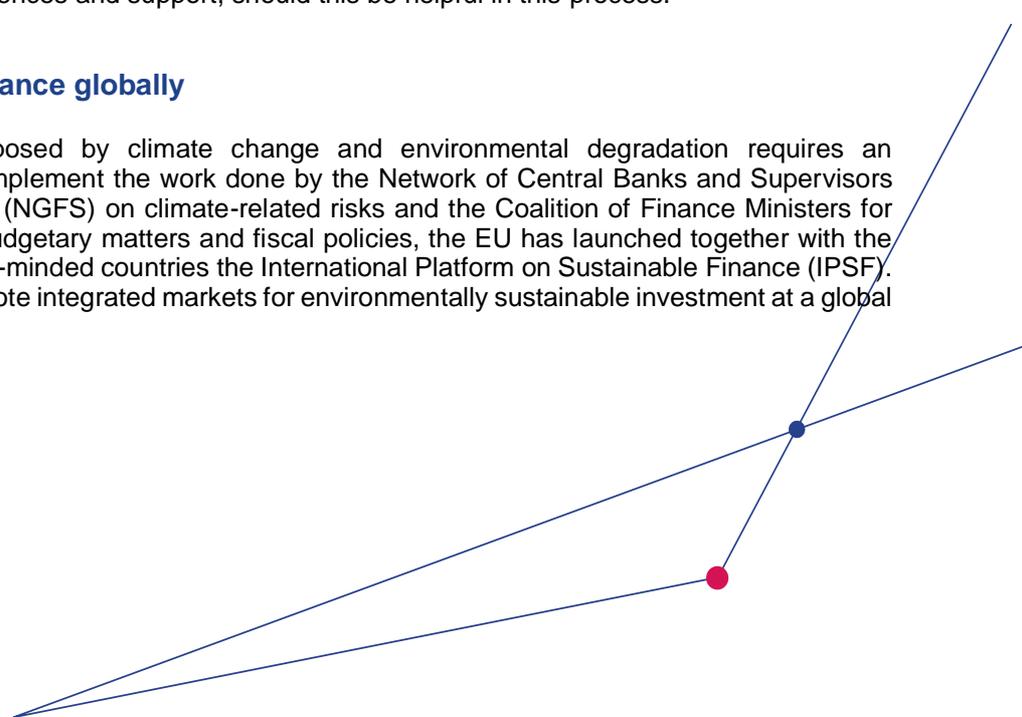
In 2012, CDSB and CDP have jointly developed an XBRL-based climate change reporting taxonomy, which comprises of both the CDP questionnaire and the CDSB Framework [<https://cdsb.net/xbrl>]. We would like to extend an offer to share our experiences and support, should this be helpful in this process.

2.9 Promoting sustainable finance globally

The global financial challenge posed by climate change and environmental degradation requires an internationally coordinated. To complement the work done by the Network of Central Banks and Supervisors for Greening the Financial system (NGFS) on climate-related risks and the Coalition of Finance Ministers for Climate Action mainly on public budgetary matters and fiscal policies, the EU has launched together with the relevant public authorities from like-minded countries the International Platform on Sustainable Finance (IPSF). The purpose of the IPSF is to promote integrated markets for environmentally sustainable investment at a global

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level. It will deepen international coordination on approaches and initiatives that are fundamental for private investors to identify and seize environmentally sustainable investment opportunities globally, in particular in the areas of taxonomy, disclosures, standards and labels.

Question 76. Do you think the current level of global coordination between public actors for sustainable finance is sufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs)?

1 - Highly insufficient

X 2 - Rather insufficient

3 - Neutral

4 - Rather sufficient

5 - Fully sufficient

Don't know / no opinion / not relevant

Question 76.1 What are the main missing factors at international level to further promote sustainable finance globally and to ensure coherent frameworks and actions?

Beyond the establishment of the International Platform for Sustainable Finance, this renewed strategy is a good opportunity to create convergences between the debates happening at the international level across various forums.

As we see an increased number of initiatives and actions happening in parallel, there is a need to i) reflect and introduce more consistency and convergence between these forums ii) move beyond non-legislative initiatives and foster legislative alignment.

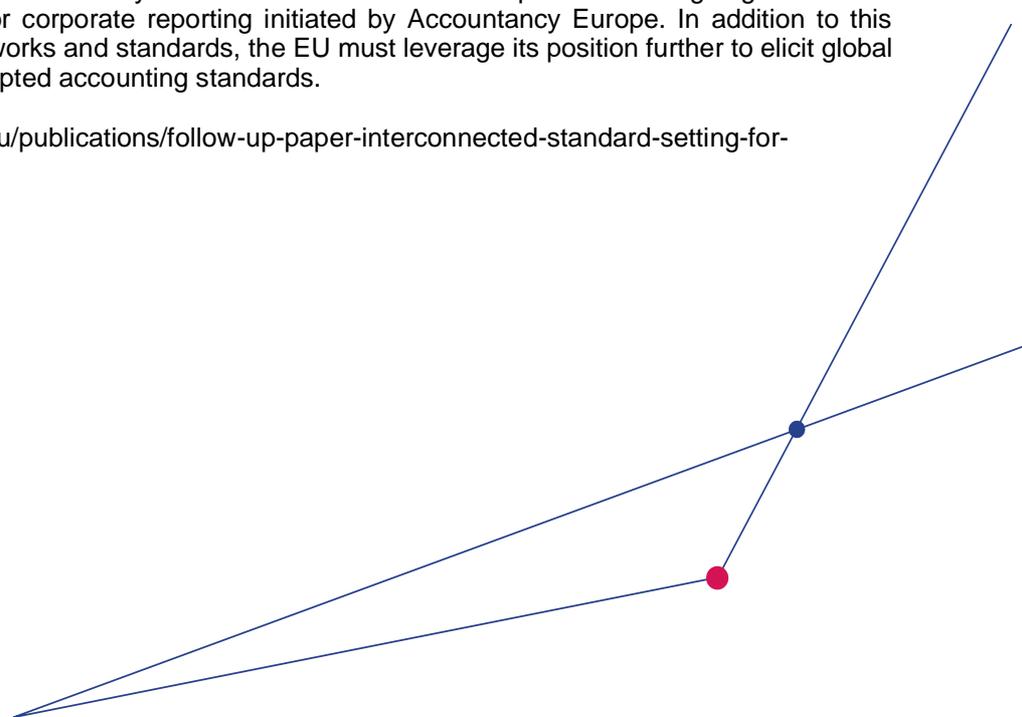
The EU has been keen to lead the debates on sustainable finance and should leverage on these existing initiatives, tools and frameworks to bring the debates at the international level a step further in the context of the upcoming COP26 or the UN Biodiversity conference (CBD COP 15). As the current pandemic and economic downturn represents a challenge but also a key opportunity to keep developing sustainable finance, international cooperation is more than ever required to foster a green economic recovery.

The mainstreaming of sustainable finance will be possible through actions to ensure harmonisation and standardisation of existing frameworks and standards. This is why CDSB is part of the Corporate Reporting Dialogue (CRD) and has recently published a statement together with other CRD members underlying the need to build a "system that delivers on the pillars set out by TCFD of governance – strategy, risk management, metrics and targets – across all sustainability issues." This statement was part of the ongoing debate on interconnected standard setting for corporate reporting initiated by Accountancy Europe. In addition to this standardisation of reporting frameworks and standards, the EU must leverage its position further to elicit global coordination of internationally accepted accounting standards.

[<https://www.accountancyeurope.eu/publications/follow-up-paper-interconnected-standard-setting-for-corporate-reporting/>]

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Question 77. What can the Commission do to facilitate global coordination of the private sector (financial and non-financial) in order to deliver on the goals of the Paris Agreement and/or SDGs?

Please list a maximum of 3 proposals:

- Ensure a better enforcement of existing pieces of legislations, including the NFRD, with a better accountability for national governments in their enforcement of the directive
- Trigger stronger commitments from national governments on their climate targets under the Paris agreement
- Support an international standardisation of non-financial reporting standards alongside the propositions in the Cogito Paper from Accountancy Europe [<https://www.accountancyeurope.eu/wp-content/uploads/191220-Future-of-Corporate-Reporting.pdf>]

3. Reducing and managing climate and environmental risks

Climate and environmental risks, including relevant transition risks, and their possible negative social impacts, can have a disruptive impact on our economies and financial system, if not managed appropriately. Against this background, the three European supervisory authorities (ESAs) have each developed work plans on sustainable finance³. Building, among others, on the ESAs' activities further actions are envisaged to improve the management of climate and environmental risks by all actors in the financial system. In particular, the political agreement on the Taxonomy Regulation tasks the Commission with publishing a report on the provisions required for extending its requirements to activities that do significantly harm environmental sustainability (the so-called "brown taxonomy").

3.1 Identifying exposures to harmful activities and assets and disincentivising environmentally harmful investments

Question 82. In particular, do you think that existing actions need to be complemented by the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts (the so-called "brown taxonomy") at EU level, in line with the review clause of the political agreement on the Taxonomy Regulation?

Yes

No

Don't know / no opinion / not relevant

Question 82.1 If yes, what would be the purpose of such a brown taxonomy?

Please (select all that apply):

Please select as many options as you like

Help supervisors to identify and manage climate and environmental risks

Create new prudential tools, such as for exposures to carbon-intensive industries

Make it easier for investors and financial institutions to voluntarily lower their exposure to these activities

Identify and stop environmentally harmful subsidies

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Other

Question 83: Beyond a sustainable and a brown taxonomy, do you see the need for a taxonomy which would cover all other economic activities that lie in between the two ends of the spectrum, and which may have a more limited negative or positive impact, in line with the review clause of the political agreement on the Taxonomy Regulation?

Yes

No

Don't know / no opinion / not relevant

Question 83.1 If yes, what should be the purpose of such a taxonomy?

To be able to fully grasp the whole spectrum of economic activities investors can choose to finance, the taxonomy should be expanded to cover all kinds of activities. This is already the intention behind the creation of the “enabling” and “transition activities” categories in the current regulation to allow the taxonomy to cover activities beyond the most sustainable ones. This might have been a first reasonable step but to be able to classify all economic activities under the same reference in the longer term, the scope of the taxonomy should be expanded, with changes to the regulation and further work at the technical level to ensure the robustness of the technical criteria supporting the use of the taxonomy.

Further transparency on the degree of sustainability of each economic activity will ensure that investors can choose to finance the most sustainable projects. This goes hand in hand with the NFRD review to make sure that investors have access to the information they need.

This additional work on the taxonomy regulation should be done as much as possible in close cooperation with other jurisdictions to foster harmonisation of definitions and taxonomies across jurisdictions over time.

3.4. Natural capital accounting or “environmental footprint”

Internal tools, such as the practice of natural capital accounting, can help inform companies’ decision-making based on the impact of their activities on sustainability factors. Natural capital accounting or “environmental footprinting” has the potential to feed into business performance management and decision-making by explicitly mapping out impacts (i.e. the company’s environmental footprint across its value chain) and dependencies on natural capital resources and by placing a monetary value on them. In order to ensure appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs, the Commission will support businesses and other stakeholders in developing standardised natural capital accounting practices within the EU and internationally.

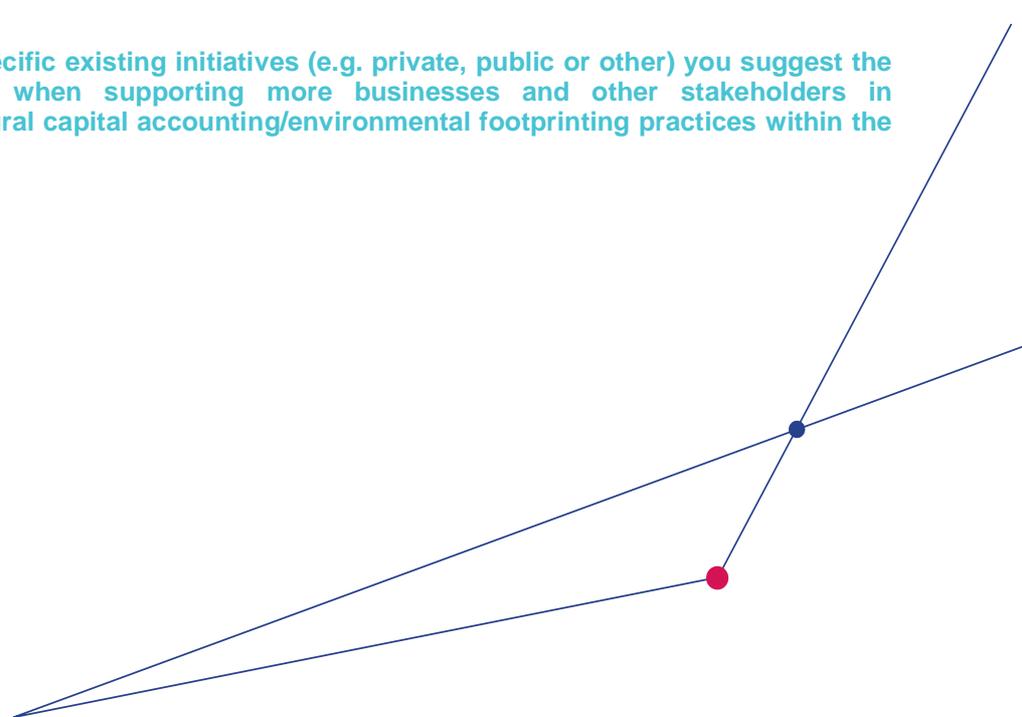
Question 100: Are there any specific existing initiatives (e.g. private, public or other) you suggest the Commission should consider when supporting more businesses and other stakeholders in implementing standardised natural capital accounting/environmental footprinting practices within the EU and internationally?

Yes

No

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Do not know.

If yes, please list a maximum of three relevant initiatives

- Capitals Coalition is a global multi stakeholder open source platform to support the development of methods for natural capital valuation in business. Its aim is to achieve a shift in corporate behaviour to preserve and enhance, rather than deplete the earth's natural capital. It is currently developing The Natural Capital Protocol, a tool that enables companies to integrate their relationship with nature into strategic and operational decision-making, developing internal processes and management actions. [<https://naturalcapitalcoalition.org/>]
- UN Environment Programme World Conservation Monitoring Centre works with scientists and policy makers worldwide to place biodiversity at the heart of environment and development decision-making to enable enlightened choices for people and the planet. [<https://www.unep-wcmc.org/>]
- CDSB framework The CDSB Framework for reporting climate change and environmental information is an externally focussed tool to help companies provide clear, concise and consistent information to investors, by considering the characteristics and requirements of the information they present, and connecting an organisation's environmental performance to its overall strategy, performance and prospects. [<https://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital>]

CDSB is committed to work together with partner organisations. Please refer to the position paper attached to this consultation response, which is a joint position from the members of the Capitals Coalition.

We are also undertaking a four-year project supported by the LIFE program in a bid to bring natural capital, including climate change, into the heart of financial decision-making. We welcome further engagement from the European Commission on our work, especially on nature-related financial disclosures. [<https://www.cdsb.net/what-we-do/enhancing-nature-related-financial-disclosures-mainstream-reports-across-europe-and>]

3.5. Improving resilience to adverse climate and environmental impacts

Climate-related loss and physical risk data

Investors and asset owners, be they businesses, citizens or public authorities, can better navigate and manage the increased adverse impacts of a changing climate when given access to decision-relevant data. Although many non-life insurance undertakings have built up significant knowledge, most other financial institutions and economic actors have a limited understanding of (increasing) climate-related physical risks. A wider-spread and more precise understanding of current losses arising from climate- and weather-related events is hence crucial to assess macro-economic impacts, which determine investment environments. It could also be helpful to better calibrate and customise climate-related physical risk models needed to inform investment decisions going forward, to unlock public and private adaptation and resilience investments and to enhance the resilience of the EU's economy and society to the unavoidable impacts of climate change.

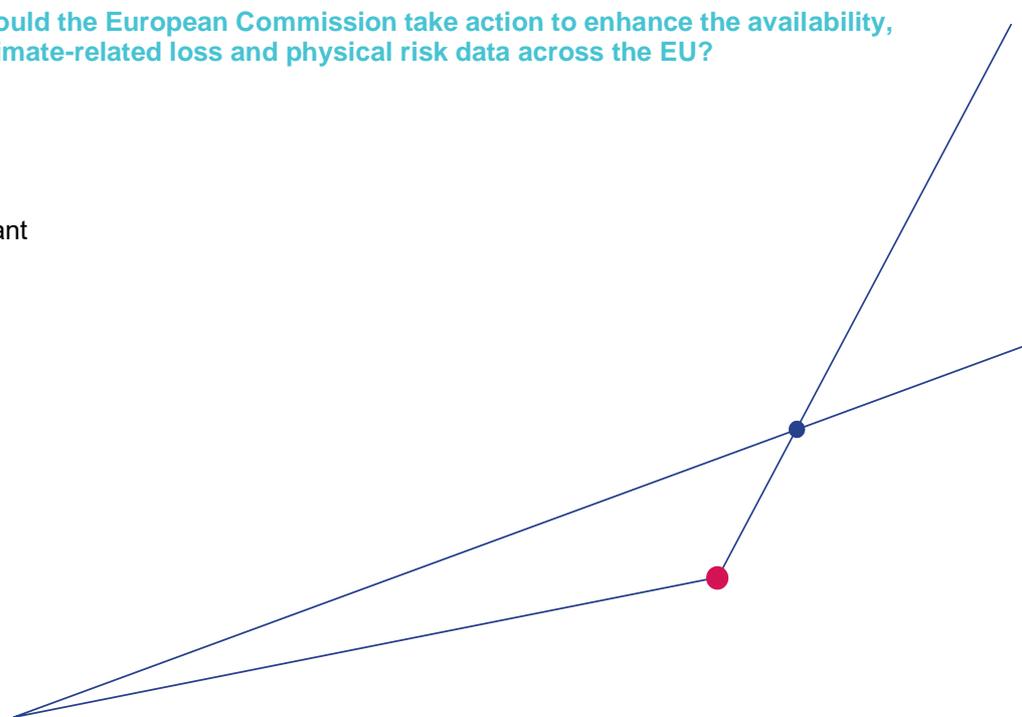
Question 99. In your opinion, should the European Commission take action to enhance the availability, usability and comparability of climate-related loss and physical risk data across the EU?

X Yes

No

Don't know / no opinion / not relevant

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Question 99.1 If yes, for which of the following type of data should the European Commission take action to enhance its availability, usability and comparability across the EU?

Please select as many options as you like.

X Loss data

X Physical risk data

Please specify why you think the European Commission should take action to enhance the availability, usability and comparability of climate-related loss data across the EU?

There is a need for more standardised scenarios to inform investment decisions and allow comparability of information on both loss data and physical risk data. The European Commission could play a role in supporting the development of standardised methodologies by sector and geographies for companies, both resulting in more robust and credible output of data by companies and allowing greater comparability between companies for investors. This would also allow the disclosures of forward-looking information as requested by the TCFD recommendations.

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