

EU-Initiative “Renewed Finance Strategy”

Entwurf Stellungnahme an die KOM

Fragen 4, 14, 15 und 16

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
- Yes, both
- No
- Don't know / no opinion / not relevant

Climate change and measures to mitigate it have a significant impact on companies' business models. Information on these is no doubt relevant for all stakeholders, and especially for providers of capital, as they manage their investment behaviour on that basis. However, this is not to be confused with hitting or missing the COP 21 goals, which have been agreed by and are binding signatory states, not companies or individuals. Hence, mandating transparency about how a company's business strategy and targets have contributed to a particular jurisdiction meeting its COP 21 goals confuses micro-level and public policy objectives. Against this background, a disclosure requirement as described in Q4 is inappropriate as a primary legal measure.

The role of corporate reporting is to provide transparent information about companies' activities and the impact of these activities. If the (public policy) objective was to stimulate a certain desired behaviour, this can be achieved better and more directly through pricing externalities and defining the rules of the game, but not by imposing unsolicited communication requirements. The latter only make sense if there were corresponding legal requirements aimed at sanctioning undesirable behaviour, so that companies could provide information on how their activities conform to the desired behaviour. Otherwise, we see the danger of companies providing boiler-plate information only.

Lastly, climate protection is currently regarded by many stakeholders as the sustainability issue with the highest priority. However, we would like to point out that there are other issues to be considered. Not only does Article 19a of the Accounting Directive list further aspects; in addition to COP 21, the United Nations' SDGs describe climate protection as only one of the most important sustainability issues. Therefore, we do not consider the exclusivity of climate protection to be appropriate at this point.

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?

- Yes
- No
- Don't know / no opinion / not relevant

We see benefits in a common, publicly accessible, free environmental data room for ESG company information. Users of the information would have low search costs because information can be found more quickly. Preparers could transfer the experience currently gained with ESEF to non-financial reporting.

However, in order for these benefits to be tangible, the information must be both standardised and structured. Currently, there is no binding reporting standard for non-financial corporate reporting. Although the Commission (COM) intends to introduce a reporting standard for the EU, we believe that the COM is on the wrong track. We have already addressed this in our response to the consultation on the revision of the NFRD and refrain from repeating our arguments at this point.

Moreover, it seems questionable whether all the content of the information required by the Directive can actually be structured in a meaningful way, on the one hand, in order to generate the expected benefits and, on the other hand, to be able to adequately reflect on the diversity of company-specific circumstances. This is also due to the fact that much of the non-financial information is narrative in nature. However, it would be conceivable to define certain KPIs, to standardize their measurement or determination and to provide guidance as to their presentation.

However, as there are currently neither standards nor generally accepted principles for non-financial reporting regarding content, identification, and structure of the information, it is clearly premature to decide on a common, publicly available, free access to environmental data.

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 Regulation¹?

¹ The six environmental objectives are climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

- Yes
- No
- Don't know / no opinion / not relevant

To our knowledge, companies have just started and are currently in the early stages of dealing with the Taxonomy Regulation.

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

Question 16.1 What is in your view the most important area(s)?

 Please select as many options as you like.

- Impairment and depreciation rules
- Provision rules
- Contingent liabilities
- Other

We note that the COM is asking this question again even though it has already received sufficiently clear answers through several consultations. Moreover, the question asserts that accounting treatments have already been identified that hinder the appropriate detection and measurement of climate and environmental risks. This is a completely unsubstantiated assertion. It seems that the COM is looking for arguments for amending the IAS Regulation and is trying to justify this with the

EU's political sustainability objectives. Both are unacceptable in our view, especially as there is sufficient evidence to the contrary:

- Feedback obtained from the 2018 *Fitness Check on the corporate reporting framework* has shown a clear majority against carve-ins. Further, it should have become clear from this feedback that corporate reporting can only make a small contribution to political goals. And, finally, “many respondents had asserted that there was no evidence that the current IFRS framework would hamper sustainability and long-term investments.” [Feedback Statement]
- The work carried out by EFRAG on behalf of the COM on IFRS 9 and the EU's political sustainability objectives from 2017 to 2020 did not reveal any evidence that the accounting requirements examined have an impact on investor behaviour. They neither promote nor prevent long-term or sustainable investment behaviour.
- ESMA likewise concluded in its report of Dec 2019: "ESMA therefore considered that on the basis of the evidence collected, no need for amending the existing requirements for fair value measurements has been identified to address concerns with undue short-termism".

In summary, we stress once again that corporate reporting is unsuitable as a tool to achieve public policy objectives, but serves to provide information to the users of financial statements. Risks must always be considered, regardless of whether climate risks or other risks are involved.