



ICGN

International Corporate Governance Network

20 March 2019

European Commission

By online submission

Re: Consultation Document on the Update of the Non-Binding Guidelines on Non-Financial Reporting

Led by investors responsible for assets under management in excess of US\$34 trillion, the International Corporate Governance Network (ICGN) is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 45 countries and includes companies, advisors and other stakeholders. ICGN's mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide.

ICGN offers an important investor perspective on corporate governance to help inform public policy development and the encouragement of good practices by capital market participants. Our policy positions are guided by the ICGN Global Governance Principles and Global Stewardship Principles, both of which have been developed in consultation with ICGN Members and as part of a wider peer review.¹ ICGN has a Disclosure and Transparency Committee focused on enhancing company communications through robust integrated reporting, quality audit and metrics. The purpose of this Committee is to represent investors who are committed to improving corporate transparency and the quality of disclosures.

We are writing in response to the EU's *Consultation Document on the Update of the Non-Binding Guidelines on Non-Financial Reporting* and present an abbreviated version of this response in the online reporting mechanism that the EU put in place for this consultation. We make our comments in the context of ICGN's existing policy work on non-financial reporting², climate change³ and systemic risk⁴.

Drawing from this work, ICGN is supportive of the Task Force on Climate-related Financial Disclosures (TCFD) framework as a globally recognized standard. It is positive to see the

¹ For access to ICGN's Global Governance Principles and Global Stewardship Principles, along with other policy statements, including ICGN's 2018 Policy Priorities, please visit: www.icgn.org.

² See Investor Agenda for Corporate ESG Reporting, ICGN and PRI, October 2018: https://www.icgn.org/sites/default/files/ESG%20Reporting%20Discussion%20Paper%20FINAL_1.pdf

³ See ICGN Viewpoint on climate change, November 2015: <https://www.icgn.org/policy/viewpoints/climate-change>

⁴ See ICGN Guidance on Investor Fiduciary Duty, including a chapter on fiduciary duty and systemic risk – which makes explicit emphasis on climate change in a fiduciary duty context: http://icgn.flpbks.com/icgn-fiduciary_duties/#p=13

TCFD framework formally employed by the European Commission (EC). As companies, investors and other stakeholders increasingly address climate and other systemic issues it will be important to harmonise standards and build a common framework to better understand and address “non-financial” (or pre-financial) risks.

So, we are sympathetic with the direction the EC is taking in updating its guidelines by making use of the TCFD framework. This reflects not only the critical importance of addressing climate change as a specific issue of relevance for investors, but also demonstrates how non-financial reporting frameworks can be harmonised across jurisdictions. We hope that the TCFD example relating to climate might also lead to a global consolidation of reporting standards in other important areas of systemic risk, including human rights and anticorruption.

At the same time, we are sensitive to concerns within the European investment community that the proposed new framework could result in potentially repetitive and costly reporting along a number of existing non-financial standards-- not just TCFD. This could lead to potential complications and administrative inefficiencies, that could increase reporting costs and lessen the comparability that might arise from focusing on a single framework for climate risk reporting. Before agreeing the final terms of the guidelines, we hope the EC is able to demonstrate that any new reporting changes do not impose unwarranted costs or create less comparable/useable reporting.

In the spirit of building agreed upon taxonomies for social and environmental reporting, we support the use of the term “natural capital”, as it is important for investors and companies to understand climate risk in companies in this context. It also sets the stage for considering even broader views of capital that may be relevant for sustainable corporate value creation, including human capital or other forms of capital that are identified in integrated reporting systems.

We will not in this response comment in detail on the specific disclosures that are discussed in section 3 of the consultation document. We believe the new disclosure framework is generally sensible. But we also observe that it can be very detailed and granular. A high level of granularity may be perfectly sensible for some companies operating in particularly climate-sensitive sectors. But in other sectors or for companies in earlier stages of development the need for detailed reporting may be less granular.

To ensure an appropriate level of proportionality in reporting requirements, it is important to focus on materiality. The double materiality standard put forward in the consultation document is a useful way to frame this, and the “impact” dimension reflects the importance of stakeholder relations in sustainable value creation. For companies and investors, social or environmental “impact” may be a less familiar concept than financial materiality. Therefore, this may call for the EC to provide further guidance as to what constitutes environmental and social materiality/salience to guide reporting.

With our mission to enhance investor protections and improve financial markets globally, we hope that our feedback is helpful in your decision-making, and we look forward to engaging with you in this or other matters where we could provide meaningful input.

Should you wish to discuss our comments further, please contact me or George Dallas, ICGN's Policy Director, by email at george.dallas@icgn.org.

Yours faithfully,



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