

SUSTAINABLE FINANCE POSITION PAPER - October 2018

The publication of the action plan for sustainable finance is a landmark in EU policy regarding ESG issues and climate change mitigation and adaptation.

Large French companies have been engaged for many years in putting CSR at the heart of their strategies. They present the highest level of non-financial information compared to companies worldwide and have made strong commitments, notably to reduce their GHG emissions, to respect human rights, to preserve biodiversity and engage in circular economy. They welcome the Commission's action plan but regret they were not sufficiently involved in the work and discussions leading to the action plan. In order to deliver efficient and proportionate measures fostering sustainable finance, it is crucial to involve companies, which play a key role in energy transition and reporting processes.

The challenge is not to make finance greener but to bring about a greener economy. Banks and investors should provide financing resources to support companies in their transition process rather than implement exclusion strategies.

Therefore, companies call on the European Union to establish a framework which will enable progress on reporting regarding environmental topics and, more generally, non-financial issues whilst creating the conditions for a constructive and balanced dialogue between investors and corporates.

Key messages

- **Corporates should be involved in all discussions:** companies play a key role and should therefore be directly involved in all discussions on non-financial and climate-related reporting as well as sustainable finance to ensure the definition of an efficient and proportionate reporting framework capable of delivering useful information.
- **The establishment of a taxonomy should be a dynamic and inclusive exercise:** the level of detail of the taxonomy should not be excessive, should take into account the specificities of business sectors and have the capacity to evolve over time. It should analyse assets not only in a static way but also consider the current and planned transition efforts made by companies. The screening criteria of the Commission's legislative proposal on the establishment of the taxonomy should not be determined through delegated acts but through « level 1 » legislation to ensure a public and democratic debate.
- **The implementation of the TCFD's recommendations should remain voluntary,** considering that the recommendations on climate scenarios are still debated, given the high uncertainty of hypotheses and risks of misinterpretation by potential users in case of heterogeneous approaches between competitors of the same sectors. A progressive approach is needed, based on a yearly analysis of voluntary climate-related reporting by companies implementing the recommendations. The TCFD recommendations should not be included at this stage as a reference in the guidelines on non-financial information, as foreseen in the action plan. This would indeed be premature as explained here below.

- **Stability is necessary to ensure an efficient implementation of non-financial reporting:** the priority should be to ensure the stability of the regulatory framework to allow a smooth and efficient implementation of new reporting requirements. A review of the guidelines on non-financial information by the second quarter of 2019 as regards climate-related information is premature given the fact there is only one-year experience for some Member States. Before taking any initiative in the field of corporate disclosure of climate-related information, the Commission should discuss it with corporates and perform an impact assessment.
- **Sustainability rating should be embedded in a European legal framework imposing minimum transparency requirements:** sustainability rating agencies should comply with a code of conduct whilst carrying out their activities in order to ensure, in particular, that they prevent and manage conflicts of interest, disclose methodologies, engage in a constructive dialogue with corporates, take into account national regulatory and market situations and properly handle controversies.
- **Improve corporate governance through soft law:** whilst supporting the idea that corporate governance can become more conducive to sustainable finance, companies consider that any evolution in terms of corporate governance would be better dealt with by soft law.
- **Ensuring an international level playing-field:** European institutions and authorities should pay close attention to competition issues and to the need of ensuring a level playing field between EU companies and third-country companies. Any new measures should be adopted with due care for external competition and be promoted at G20 level. Europe should incentivise all other G20 partners to adopt sustainable finance policies and practices.

About AFEP

Since 1982, Afep brings together large companies operating in France. The Association, based in Paris and Brussels, aims to foster a business-friendly environment and to present the company members' vision to French public authorities, European institutions and international organisations. Restoring business competitiveness to achieve growth and sustainable employment in Europe and tackle the challenges of globalisation is Afep's core priority. Afep has around 120 members. More than 8 million people are employed by Afep companies and their annual combined turnover amounts to €2,600 billion.

Afep is involved in drafting cross-sectoral legislation, at French and European level, in the following areas: economy, taxation, company law and corporate governance, corporate finance and financial markets, competition, intellectual property and consumer affairs, labour law and social protection, environment and energy, corporate social responsibility and trade.

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