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The European Voice of Directors

EU Alert

Week 1/2019

1. European Lab Task Force on climate related reporting: Call for candidates

After the establishment of the European Lab Steering Group, EFRAG has just issued a call for candidates for the first European Lab Task Force on climate related reporting.

The European Lab Project Task Force on Climate-related Reporting will be asked to assess the current state of play of climate-related reporting by European companies and assess the current and potential use of climate-related information by investors and other users. The primary focus will be on the TCFD recommendations with consideration of other reporting frameworks as appropriate and taking account of the EC's non-binding guidelines on non-financial reporting, which will be updated in 2019 with regard to climate-related disclosures.

The deadline for applications is **26 January 2019.**

Call for candidates / European Lab Project Task Forces Operating Guidelines.

2. Council: Green Finance

In December, the Council has taken steps to encourage financial companies to be more aware of the impact of their investments on the environment. The Council's position on two proposals aiming at making finance greener and more in line with the objectives of the Paris agreement on climate change has been endorsed:

- a proposal introducing **disclosure obligations** on how financial companies integrate environmental, social and governance factors in their investment decisions;
- a proposal creating a **new category of financial benchmarks** aimed at giving greater information on an investment portfolio's carbon footprint.

The draft text proposes a harmonised EU approach to the integration of sustainability risks and opportunities into the procedures of institutional investors. It requires them to disclose:

- the procedures they have in place to integrate environmental and social risks into their investment and advisory process (Financial market participants and financial advisors shall include in the remuneration policies information on how the remuneration policies are consistent with the integration of sustainability risks and publish that information on their websites);

- the extent to which those risks might have an impact on the profitability of the investment;
- where institutional investors claim to be pursuing a "green" investment strategy, information on how this strategy is implemented and the sustainability or climate impact of their products and portfolios.

The proposed regulation should in practice limit possible "greenwashing" – i.e. the risk that products and services which are marketed as sustainable or climate friendly in reality do not meet the sustainability/climate objectives claimed to be pursued.

Negotiations between the Council and the Parliament will now start.

3. ESMA: Consultations on integrating sustainability risks and factors

In December, ESMA issued two public consultations:

- A Consultation on integrating sustainability risks and factors in MIFID II,
- A Consultation Paper which aims at fulfilling the Commission's request for technical advice on potential amendments to delegated acts under Directive 2009/65/EC (UCITS Directive) and Directive 2011/61/EU (AIFMD) with regard to the integration of sustainability risks and factors in the internal processes and procedures of UCITS management companies and alternative investment fund managers (AIFMs).

4. Implementation: Directive mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements

Member States shall adopt and publish national laws required to comply with the Directive on new mandatory transparency rules for intermediaries and taxpayers by 31 December 2019. The scope of the cross-border arrangements to be reported is relatively broad and may lead to extensive reporting obligations for both intermediaries and – mainly corporate, but also individual – taxpayers. Reporting obligations for cross-border arrangements are triggered by certain hallmarks (or characteristics). These hallmarks target a relatively wide range of cross-border arrangements.

DAC 6 first and foremost implies intermediaries but also companies themselves. Sanctions which still have to be defined, will be dissuasive sanctions in terms of their amount. Hence, the question of potential responsibility of the boards emerges.

5. UK: Improving standards of audit market

A new independent review into standards in the UK audit market was launched on 18 December 2018. This review will build on the findings on the work of the Financial Reporting Council and the Competition and Market Authority reviews and have a forward-looking approach to what standards and requirements should be for audits in the future while considering audits as a product. Several topics will be considered to ensure the UK's audit sector to remain the world leading with ongoing improvement of standards. These topics include:

- how far audit can and should evolve to meet the needs of investors and other stakeholders, putting the UK at the forefront;
- how auditors verify information they are signing off;
- how to manage any residual gap between what audit can and should deliver; and
- what are the public's expectations from audit.

6. Article: Directors' duties regarding employees' pensions

BoardAgenda has just published an article which refers to a white paper on Protecting Defined Benefit Pension Schemes published by the Department for Work and Pensions earlier in 2018. This white paper propose new powers for Pension regulators to punish directors who deliberately put their employees' pension at risk, the introduction of a new criminal offence to punish those guilty of wilful or grossly reckless behaviour in relation to a pension scheme as well as new obligations to notify the Pensions Regulator and pension scheme trustees about planned corporate activity. These proposals will cause for change in the environment of company directors. A major change that would come along with this is a greater scope of who can be held responsible. Apart from dividend payments which are boardroom decisions that can cause implications for pensions, this would also mean that refinancing, securisation and returning capital to shareholders need to be treated far more cautious. Under the new regime, companies will be expected to notify the regulator and trustees before carrying out significant corporate activity.

You can read the full article here.

7. Article: Radical Change on the audit horizon

The Harvard Law School Forum on Corporate Governance and Financial Regulation pointed out emerging trends in global external audit. Policy makers and market actors worry about the consequences of having only four big accounting firms handling audits for multinationals. Audit chairs and committee members are likely to be under pressure over time to sustain trust in the importance and legitimacy of the audit. This task will be difficult to manage so long as regulators insist on conventional practices by outside auditors. But boards may seek to close the information relevance gap by considering experiments with alternative measurement standards. The objective would be to supplement the traditional audit with an assurance process that provides more insight on company risk both for internal executives and outside stakeholders. As enhanced audit and integrated reporting spread, board audit committees may find value in monitoring how pacesetting companies handle the new disclosure techniques. They may even urge their companies and auditors to run tests to see how they might be adapted. Advantages could come in the form of higher confidence among investors, with the prospect of a lower cost of capital, and better internal management of multiplying risks that fall outside the bounds of conventional accounting standards.

You can find the full article here.

8. ecoDa's News

- EY has just joined ecoDa as its new Corporate Associate.
- Already 126 registrations for the upcoming **ecoDa/Euronext webinar on Moving to digital board meetings** scheduled on January 17 at 14.00 CET. *Spread the word!*

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