

# Roundtable on the future agenda of the European Lab

10 September 2019

## SUMMARY REPORT





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## Welcome and programme of the event



**Jean-Paul Gauzès** welcomed all participants to the roundtable (about 50 participants, either in person or by webcast) and thanked the members of the European Lab Steering Group and the Project Task Force on Climate-related Disclosures present in the room.

He reminded that, the first project on climate related reporting has gone live in February 2019 with good progress made already and it was expected that a consultation paper will be out before the end of the year.

This meant that time had come to think about the next projects that the European Lab could undertake. The European Lab wanted to select projects that were relevant for Europe and for the European corporate reporting stakeholders. The future projects should contribute to the objective of the European Lab that is to stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good practices.

Jean-Paul Gauzès reminded that the European Lab had launched a public consultation on its future agenda in July 2019 with a deadline of 30 September. The European Lab Steering Group has discussed and selected a number of projects that they believed were the most important to undertake. However, the European Lab Steering Group would also welcome suggestions for alternative projects.

The event today was offering an opportunity for participants to exchange views with them to ensure that the European Lab focuses on the right issues supported by a wide range of stakeholders.

Jean-Paul Gauzès concluded his speech by outlining the programme of the day:

- Alain Deckers (European Commission and Vice Chairman of the European Lab Steering Group) would provide the European Commission's perspective and give some context.
- Three European Lab Steering Group members (Arlene McCarthy, Elisabeth Gambert, Flavia Micilotta) would present each of the projects proposed in the European Lab's public consultation document.
- Then participants would be invited to ask any questions to the presenters about the projects and a debate with the audience would take place ending with an audience poll.
- Lastly, Alain Deckers would then make some closing remarks and close the roundtable.

## Introduction – Alain Deckers



**Alain Deckers** welcomed the audience and was pleased to see so many people gathered to discuss the European Lab’s future agenda.

It was timely to have the discussion on the day when the new European Commission was being introduced. President-elect Ursula Von der Leyen had already announced that she wanted the European Green Deal to become Europe's hallmark; at the heart of its commitment to becoming the world's first climate-neutral continent.

In this context, corporate reporting will undoubtedly remain an important part of the agenda of the European Commission to tackle climate change issues.

Alain Deckers noted that the proposed projects in the agenda consultation were varied and also covered the social aspects of climate change which was considered more and more to be an important dimension.

The outcome of the fitness check of the EU framework on public reporting by companies would be published in the coming months and could result in targeted changes to the Non-Financial Reporting Directive. One of the purposes of the European Lab was to work with practitioners to facilitate the implementation of existing guidance and any forthcoming changes as smoothly as possible.

Alain Deckers concluded his introductory speech by stating that he was pleased to see that after addressing climate-related disclosures as its first project, the European Lab proposed projects were now within the context of the broader sustainability agenda.

## Reporting on social matters and human rights (Project 1) - Arlene McCarthy



**Arlene McCarthy** introduced the project on reporting on social matters and human rights. She explained why the project was considered and reminded that the Non-financial information Reporting Directive (NFRD) did require large European companies to report, amongst other things, on social matters and human rights. However, the reporting of relevant and comparable information was generally limited or even missing, and needs for improvements had been identified in particular in the European Securities Market Authority (ESMA) 2018 report on enforcement priorities. Arlene McCarthy introduced the three possible areas of focus that the

European Lab was considering in its consultation and the possible outline of relevant European Lab projects:

- Reporting on social matters and human rights in the supply chain (Project 1.1)
- Reporting on human capital management (Project 1.2)

- Reporting on human capital and social capital impacts of climate adaptation and mitigation policies (Project 1.3)

Arlene McCarthy concluded her presentation by stating that a common open question in relation to these three areas of focus, was about the availability and quality of information (in particular quantitative data). Investors needed reliable and comparable information particularly for sectors with significant exposure risks associated with social matters and human rights.

### **Reporting of non-financial risks and opportunities, and linkage to the business model (Project 1.2) - Elisabeth Gambert**



**Elisabeth Gambert** introduced the project “reporting of non-financial risks and opportunities with a linkage to the business model”. She considered that this was a crucial area because stakeholders needed to better understand the business model of companies in order to discern the possible negative impacts on the environment, human rights or social matters, and also the opportunities ESG factors mean for the company’s strategy and activities. But reporting on these issues is a huge challenge for companies

at this stage as they have to comply with several EU pieces of legislation addressing the reporting on Business models and risks, each time with different approaches (Directive on non-financial reporting, Accounting Directive, Prospectus Regulation). ESMA Guidelines on risk factors, issued in March 2019, do not specifically address ESG risks in detail but clearly mention ESG risks as a possible category and there is a huge expectation from stakeholders to address these ESG risk because they are increasingly understood as being just as material as other risks, although sometimes with a different time horizon. An additional difficulty is that there are currently different interpretations of what a non-financial risk actually is and how it can be defined.

Regarding business models, Elisabeth Gambert observed that some companies have already changed their business models from the traditional linear approach of producing a product to a circular approach of selling a service or the use of a product (e.g. Michelin, Philips, etc).

She proposed that the European Reporting Lab sets up a task force to identify good practices around the articulation of these different reporting themes and have a look at companies that have actually managed to connect the material information of the business model to non-financial risks and related opportunities. The project could look at other initiatives in that area such as the 2016 UK FRC Financial Reporting Lab report on Business Model Reporting which did not address, however, non-financial issues and the question of linkage to non-financial risks.

## Reporting on the materiality assessment process and outcomes for ESG matters



**Flavia Micilotta** introduced the project on reporting on the materiality assessment process and outcomes for ESG matters. She stated that materiality was a fundamental but complex and challenging principle when applied to ESG information due to the multiplicity of frameworks and definitions, the high level of subjectivity, the longer time-horizon, and the consideration of the information needs of a broad range of stakeholders.

The proposed project would aim at providing insights for both users and preparers by identifying good practices in relation to reporting on companies' materiality assessment processes and outcomes in relation to ESG information. It could in particular look at the following:

- How to define a robust process for materiality assessment including the links with the organisation's strategy, governance, policies and risk management;
- Reporting about the level of engagement with providers of financial capital and other stakeholders; and
- Reporting about the outcomes of the materiality assessment process.

In carrying out the project, the European Lab would consider existing frameworks and definitions of materiality, but would keep a 'neutral' approach by not giving precedence or prominence to any specific framework.

For more details about the 3 projects please refer to the detailed explanations in the [Agenda Consultation Document](#).

## Debate with the audience



**Saskia Slomp** thanked the European Lab Steering Group members for their presentations and opened the floor to the debate with the audience.

One participant (user) noted that the European Lab activity was very important. In the insurance business, surveys and reports had shown that the level of integrating ESG factors in the assessment of technical risks and of technical reserves had been disappointing. ESG information was currently fragmented and not focusing on important matters. Information on social matters was not concrete enough or consistent. There was a need for more comparability across industries. For insurance companies, this participant considered that Project 3 on materiality looked the most promising.

One Participant, representing EFAA, emphasised that the European Lab should also consider the perspective of SMEs and not just focus on the largest companies. Although SMEs are not



in the scope of the NFRD, ESG reporting will indirectly affect their business models mainly due to the importance of those entities in the supply chains of large listed entities, and ESG information being largely sourced from within the SMEs. Overall he considered that Project 2 and Project 3 should be given priority. He also noted that Project 1.2 *Reporting on human capital management* was crucial for SMEs as it was at the heart of their value creation process.

Saskia Slomp, Hilde Blomme (European Lab Steering Group member) and Arlene McCarthy clarified that although SMEs were not the main area of focus or priority, they are not excluded by principle and if examples of voluntary good practices exist they would be looked at .

Chiara del Prete (EFRAG TEG Chairwoman) noted that there were several definitions of SMEs, depending on the framework considered. One distinguishing element for the European Lab work, compared to other organisations, could be to not only focus on the largest companies but also consider the perspective of middle and smaller-sized entities as it was currently doing for the European Lab's Climate-related Reporting project.

One participant (academic) highlighted the importance of SMEs in the European economy (99% of entities and 2 thirds of jobs) and stressed the need to have ESG information not just for the largest companies but also for the smaller ones. She also emphasised the importance of the circular economy in the EU initiatives and suggested that the European Lab could consider a project on that matter.

Elisabeth Gambert agreed with the importance of circular economy for the EU. The matter could fit into the scope of Project 2 (effect of circular economy on changes to business model, opportunities and risks etc). Hilde Blomme concurred that this was an important matter but was not persuaded that a project focusing on reporting practices was the best way to address the matter and foster changes in behaviour.

One participant (banking association) indicated that its organisation is currently consulting its members on the proposed project. From a personal standpoint, projects 2 and 3 were preferred by cooperative banks. Project 1 addressed a difficult area as a taxonomy of social matters as still to be developed.

Steven Tebbe (European Lab Steering Group member) considered all the projects in the European Lab consultation as extremely important. Focusing on the largest companies, at least in a first phase, was justified as they were responsible for the vast majority of global emissions. However, concerns of SMEs should be heard. ESG matters were very difficult to address as a whole and therefore addressing a few basic matters first and getting them right was essential. The environment component of ESG needed to be addressed urgently and Project 2 was probably the most urgent project to undertake before moving to more specific matters.

One participant (ESG stakeholder organisation) concurred that project 2 was the 'logical' next step and circular economy could be considered as part of this project. This participant's next choice would be project 1.3 as the human element to climate adaptation was essential.

## Questions from the audience

Lina Lemessiou (EFRAG Secretariat) shared the following questions raised by the audience through Sli.do.

### **Is the Reporting Lab planning to start developing any good practice on how to link EU Taxonomy with company's financial reporting (financial and non-financial)?**



Flavia Micilotta responded that she was personally in favour of that. There had been significant work by the European Commission Technical Expert Group on sustainable finance (TEG) to develop the taxonomy. Project 3 could be a good place to address that. Connecting the taxonomy to the reporting requirements in the NFRD was essential otherwise stakeholders would struggle to apply the taxonomy. She noted that some service providers had

already engaged in helping preparers in that area.

Alain Deckers acknowledged that connecting the taxonomy and NFRD was an issue that could be addressed in revising the NFRD.

### **What is the anticipated timing of a future project? When will a new project start and what would be the timing for its deliverable?**

Hilde Blomme responded that the plan was to identify a second project by the end of the year. The expected duration was about a year or so.

### **What form of deliverables should be expected form a future project?**

Hilde Blomme responded that the form of future deliverables was very open and flexible, and that lessons learnt from the first project undertaken by the European Lab will be considered.

Saskia Slomp clarified that the form of the deliverable will be defined by the Project Task Force itself. A variety of forms could be considered including interim deliverables, video presentations etc. Aurélie Faure-Schuyer (member of Project Task Force on climate-related reporting) concurred with the above. The Project Task Force would look at the practices for deliverable format and content.

## Audience poll

Which of the following topics do you consider to be the highest priority for the future agenda of the European Lab ? (you may select a maximum of two topics) (43 votes)

<b>Project 2 – Reporting of non-financial risks and opportunities, and linkage to the business model</b>	<b>77%</b>
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<b>Project 3</b> – Reporting on the materiality assessment process and outcomes for Environment, Social and Governance (ESG) matters.	<b>58%</b>
<b>Project 1.3</b> – Reporting on human capital and social capital impacts of climate adaptation and mitigation policies.	<b>19%</b>
<b>Project 1.1</b> – Reporting on human rights and other social matters in the supply chain.	<b>12%</b>
<b>Project 1.2</b> – Reporting on human capital management.	<b>7%</b>

### Closing remarks – Alain Deckers



**Alain Deckers** thanked all the participants present in the room or online. He reminded the objective of the European Lab was not to develop new guidance or standards but to provide a ‘safe space’ in which practitioners can exchange views on what works or not in practice. The format and content of deliverables were in the hand of the European Lab’s Project Task Forces and were not intended to have any kind of normative value. Although the scope of the NFRD could be reconsidered in the future, it was unlikely that it would be generalised for all SMEs. Even if the

legislation is not changed, SMEs will be affected as due diligence is conducted by larger groups on their supply chains.

Although there was efficiency for the European Lab to focus its projects on largest listed companies, there was also a need to consider how to bring SMEs into ‘virtuous circles’ as well.

Regarding the future projects, it was difficult to discard any of them although Project 2 and 3 seemed to gather more support. These were cross-cutting projects that could also encompass the social and human rights dimensions. However, the public agenda consultation was still going on until the end of September and it was too early to draw conclusions.

Alain Deckers concluded his closing remarks by stating that he felt encouraged by the presence of so many people interested in the future agenda of the European Lab



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