

# Webinar Report

## EuropeanIssuers Capital Markets Webinar Series: The Role of Corporates in Sustainable Finance



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## EuropeanIssuers Capital Markets Webinar Series

## The Role of Corporates in Sustainable Finance

09 December 2020

11.00 – 12.00 (CET)

Webinar Report

Moderator: *Lé Quang Tran Van, Co-Chair of Corporate Reporting Working Group, EuropeanIssuers*

## Speakers:

- *Charlotte Gardes, Deputy Head of Unit Sustainable Finance & Climate Risk French Treasury*
- *Joël Dibeton, ESG Lead, Head of Analysts - Listing, Euronext*
- *Fulvio Rossi, Head of Sustainability, Terna*
- *Daniele Vitale, Head of Governance UK & Europe, Georgeson*

EU corporates are considered international leaders on Environmental Social Governance (ESG) reporting and sustainability transparency and disclose significant amount of environmental and social information. However, some stakeholders complain about the lack of non-financial data, their quality and how difficult it is to access these data. There are also many questions about how investors incorporate non-financial data within their valuation models and investment decisions. The European Union has taken sustainability concerns into account in its financial policies since 2013 and launched in 2018 its Sustainable Finance Action Plan. Moderated by **Mr Lé Quang Tran Van**, the webinar discussed what can be done to appease increasing pressure on EU corporates for more reporting requirements on their non-financial performance while avoiding undermining the level playing field vis-à-vis global competitors.

The first panellist, **Ms Charlotte Gardes**, started her intervention by acknowledging the importance of non-financial information in the development of sustainable finance. Sustainable finance cannot exist without the presence of two essential legs fulfilled: extra-financial data coming from the real economy, and a common language for sustainability and transition. Furthermore Ms Gardes pointed out that, combined with a revision of the NFRD and standardisation, an EU open-access database should be put in place, thus allowing the gathering of all ESG data and controlling the dissemination of this data within the EU. The extension to non-EU companies should also be contemplated. In the same direction goes the EU Taxonomy, according to Ms Gardes, which is paramount in the EU as common language; it should, in fact, integrate criteria related to the transition, in order to be a market tool that

will eventually help to achieve an ambitious energy transition, via appropriate financial tools such as sustainability-linked loans and bonds, labelling strategies and commitment policies. One of the competitive challenges of the EU Taxonomy concern the implementation of appropriate rules for use and transparency of market participants in relation to the classification itself, and this is why the work that has begun on the delegated act relating to article 8 of the regulation will be particularly key in the coming months. Challenges on the use of the EU Taxonomy by corporates need to be resolved with this delegated act.

**Mr Daniele Vitale** fed in the discussion by focusing on the role of investors and how sustainability affects companies' AGMs in this regard. In the past years, there was an increase of investors' focus on ESG matters, in particular in terms of corporate disclosure and operations, thus showing the impact on how companies relate to their investors. Mr Vitale warned that from 2021, increasing pressure on sustainability matters will also come from proxy advisors who will assist investors in formulating their AGM decisions. Furthermore, Mr Vitale stressed the increase of the volume of ENs from stakeholders, which raises the issue for companies on where to concentrate their resources. According to him, six points should be essential for companies to consider, namely: focusing on identifying the investors that are important to the company; timing; personalities who will be leading and participating in the ESG engagement; proactivity; asking questions sensitively and transparency. In conclusion, while emerging regulatory aspects are of primary importance, it is also crucial to consider investors' expectations and interactions.

Drawing from his experience on the ground, **Mr Fulvio Rossi** outlined the current situation in Italy as regards to companies complying to the disclosure of non-financial information. According to the NFRD, the number of Italian companies required to publish non-financial information is higher than 200; nevertheless, when the Directive first came into force, the number of companies already publishing non-financial information was as limited as 80 units, thus resulting in more than 60% of first-time users. This example shows the industrial structure in Italy, which lacks large companies and favours small and mid-caps, and brings to light the reality of non-financial reporting and its limits. With regards to reporting standards, Mr Rossi reported that only few companies have experience in reporting with several standards, while the majority struggles with compliance and is not acquainted with standards different from the most used, the Global Reporting Initiative (GRI). While the situation pictured might not be ideal, some progress can be seen: compared to the beginning of the reporting era, the rate of omissions is lower and the percentage of companies reporting an integration of ESG risks has risen to 68%, as well as the percentage of companies declaring a sustainability plan. Finally, relating to the location of the non-financial information, Mr Rossi reported that the majority of companies prefer to produce a separate report for non-financial information, which reflects the lack of managerial culture with regards to sustainability and its integration into current business and strategic operations.

In his intervention, **Mr Joël Dibeton** highlighted two principles of utmost importance for companies in relation to ESG matters: transparency and transformation. As for the first, he observed that the companies who maximise their level of disclosure, benefit from it more than others, as they attract more investors and are included in wider number of indexes. Concerning transformation, companies need to be fully englobed in a sustainability mindset, which is not limited to the mere reporting, but projecting themselves into what sustainability means in their business line. This is why the Taxonomy Regulation could only be beneficial in this direction, as it categorises activities and focuses on business more closely. Finally, Mr Dibeton presented two dimensions of Euronext strategy with respect to sustainable finance, on transparency and transformation, that could help companies reach their sustainability goals: on the one hand, facilitate issuers' understanding of regulations for instance via the creation of a digital school on ESG; and on the other, providing capital to finance the transition of issuers.

Following a question on standards and questionnaires by rating agencies, Mr Rossi reported that in Italy, there is a minority of companies that deal with rating agencies' questionnaires very frequently, as they help them to have full audit of ESG policies to identify gaps and improvements, as well as to reach and attract more investors. Nevertheless, given the small size, the majority of Italian companies is not used to these questionnaires.

On comparability of data, Ms Gardes expressed the hope that the work led by the EFRAG Taskforce will ensure an EU standard setting soon. This observation was echoed also by Mr Dibeton, who stressed the importance of having a common denominator for the comparability of data, but also emphasised the need to have access and to understand the data, thus putting the accent on the rationale for an open and functional database.

Finally, the panellists reflected on the international dimension, and how investments in companies outside the EU will be treated. In this regard, the work of the International Platform on Sustainable Finance will be the key to ensure a common understanding of transition at the international level, and a level-playing field in this respect, notably with the definition of "internationally relevant" Taxonomy criteria. Such work will be deemed essential when the European Commission proposes a Regulation on an EU Green Bond Standard in the first semester of 2021.

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EuropeanIssuers' recent positions related to the topic:

- EuropeanIssuers' response to EC consultation on the Revision of the NFRD, dated 11 June 2020: <http://www.europeanissuers.eu/positions/files/view/5ee259970ae12-en>
- EuropeanIssuers response to EC consultation on the Renewed Sustainable Finance Strategy, dated 15 July 2020: <http://www.europeanissuers.eu/positions/files/view/5f115bd6b8626-en>

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We aim to ensure that EU policy creates an environment in which companies can raise capital through the public markets and can deliver growth over the longer term. We seek capital markets that serve the interests of their end users, including issuers.

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