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European Commission work on non-financial reporting

The European Green Deal has put Europe on the path to become the first climate-neutral continent in the world by 2050. The Commission recently took a big step in that direction by unveiling its proposal for the first ever European Climate Law.

By the end of 2020, the European Commission will also put forward a new Sustainable Finance Strategy, as well as proposals to revise the Non-Financial Reporting Directive. Currently there is a sustainability reporting gap. The needs of investors for corporate sustainability information are increasing faster than any improvements in company reporting. There is plenty of evidence that the non-financial information reported by companies is not sufficiently comparable, reliable or complete.

Non-financial reporting from investee companies will need to improve to enable the financial sector to meet its own legal obligations to report certain sustainability-related information under new European laws – in particular the taxonomy Regulation and the regulation on sustainability disclosures by investors.

At the same time, the current situation is also unsatisfactory for reporting companies. They face uncertainty and complexity when faced with an array of overlapping and inconsistent private non-financial reporting standards and frameworks. And they are under pressure to respond to additional demands for non-financial information from sustainability rating agencies, data providers and civil society, irrespective of the information that they publish as a result of existing European reporting rules.

In parallel to the development of a legislative proposal to revise the Non-Financial Reporting Directive itself, Vice-President Dombrovskis, has announced the launch of a process to develop European non-financial reporting standards. Not every detail can – or should – be fixed in law. There is also a need for clear reporting standards for companies to apply.

The EU cannot develop such standards on its own. While we are well placed to take the lead, the EU will need work closely with existing private standard-setters such as the Global Reporting Initiative and the Sustainability Accounting Standards Board. We will incorporate the best and most widely accepted elements of existing standards, even though none of them on their fully meet European needs. This cannot be a question of reinventing the wheel.

Our work on non-financial reporting will have to strike a balance between the information needs of users, primarily the investment com-

munity, and the ability of investee companies to collect and report such information. We will need to play close attention to the potential costs of stronger non-financial reporting requirements, and compare them to the costs of not taking action.

We have contracted consultants to gather better data on the costs of non-financial reporting. We will also gather feedback from a major online consultation that is open until Mid-May, and from a separate survey targeted to SMEs.

Our aim is to enable the financial sector and companies to realise their full potential as catalysts for the transition to a sustainable economic system in Europe. ●