Fostering Innovation in Corporate Reporting

SUMMARY REPORT

BRUSSELS, 5 MARCH 2019

This report has been prepared for the convenience of stakeholders by the EFRAG Secretariat. It has been reviewed by the speakers at the event.

Contents

Introduction

To mark the launch of the European Reporting Lab@EFRAG ("European Lab") in the second half of 2018 and it becoming fully operational in the first quarter of 2019, a high-level conference titled *Fostering Innovation in Corporate Reporting* took place in the afternoon of 5 March 2019 in Brussels.

This report summarises the event for the convenience of stakeholders. The event programme and speakers' biographies can be found in the conference page on the EFRAG website.

Mark Vaessen, EFRAG Board member, provided opening remarks and served as the master of ceremony for the conference.

European Commission Vice-President Valdis Dombrovskis delivered the keynote speech.

Jean-Paul Gauzès, EFRAG Board President and European Lab Steering Group Chairman, presented the European Lab and provided highlights on its activities.

Richard Howitt, International Integrated Reporting Council CEO and former MEP set the scene for two lively panel discussions.

The first panel discussion looked at how to overcome challenges in corporate reporting and was moderated by Nancy Kamp-Roelands, European Lab Steering Group ("European Lab SG") member.

Panellists were:

- Bastian Buck, GRI;
- Claudia Kruse, APG Asset Management;
- Mardi McBrien, CDSB; and
- Massimo Romano, Generali Group.

The second panel addressed innovation in corporate reporting and was moderated by Alain Deckers, European Commission DG FISMA and European Lab SG Vice-Chair.

Panellists were:

- Olivier Boutellis-Taft, Accountancy Europe;
- Bertrand Janus, Total;
- Giovanna Michelon, University of Exeter Business School; and
- Sirpa Pietikainen, MEP.

Andrew Watchman, EFRAG TEG Chairman and CEO, summarised the takeaways from the two panel discussions.

Closing remarks were provided by Jean-Paul Gauzès.

Welcome

Mark Vaessen welcomed everyone to the conference and noted the quality of the audience, speakers and panellists.

He stressed the importance of innovation in corporate reporting in a rapidly changing world where geopolitical instability, climate change and digitalisation were all posing new challenges and opportunities for both the public and private sectors.

He considered that innovation was a journey rather than a destination that began with the adoption of IFRS Standards as a first step. Although financial reporting remained the cornerstone of the overall reporting framework, general agreement had developed in the years following the financial crisis that a longer-term perspective was needed. This longer-term perspective included a broader view of performance, including environmental, social and governance (“ESG”) and other emerging concerns of the wider public.

Mark Vaessen stated that the European Union had already recognised the importance of reporting to the wider public. The Non-Financial Reporting Directive (“NFRD”) was an important first step, but more was needed, and this had been recognised in the European Commission’s Sustainable Finance Action Plan (the “EC Action Plan”) and the Fitness check on the EU framework for public reporting by companies (“EC Fitness Check”).

Accountancy Europe had initiated a debate on the future of corporate reporting a few years back and called for facilitating experimentation. It was pleasing to see EFRAG had taken this initiative on by setting up the European Lab.

He observed that a growing number of companies are already embarking on innovation and experimentation by using integrated reporting on a voluntary basis and, by doing so, are experimenting and establishing good practices. Some were even going further and combining integrated reporting with other ideas such as Accountancy Europe’s concept of “Core & More” as a way to structure and connect their reports so that they meet the needs of different audiences.

Mark Vaessen noted that the conference’s panel discussions will cover both the opportunities for innovation and the potential challenges that lay ahead on the journey of improving corporate reporting.

He then introduced and welcomed to the stage the keynote speaker, European Commission Vice-President Valdis Dombrovskis.

“A growing number of companies are using Integrated Reporting, and by doing so, experimenting and establishing good practice. Some are even going further by combining Integrated Reporting with other ideas such as Accountancy Europe’s concept of Core & More.” – Mark Vaessen

Keynote speech – Valdis Dombrovskis

Valdis Dombrovskis noted that the coming decade would be decisive as regards climate change and other sustainability crises that the world was facing.

The EU was committed to implementing the Paris Agreement and leading the global fight against climate change. But the public sector could not act alone and needed private investment to scale up renewable energy, develop options for storing surplus energy, and de-carbonise the economy. He stated that, to accurately measure climate and other sustainability risks, companies and investors needed consistent and comparable data. The NFRD had given the EU a head-start by requiring large companies, including banks and insurance companies, to disclose material environmental risks, and how they are managed.

But there was a need to go further and to rethink the ways the financial system approaches sustainability, transparency, and long -term risks. This was why the EU had put forward a 10-point EC Action Plan to scale up Sustainable Finance, followed by three legislative proposals to (a) create an EU classification system for sustainable economic activities; (b) set EU standards for low-carbon benchmarks to give climate-conscious investors better tools to measure companies' performance; and (c) require investment managers to disclose how they take sustainability issues into account.

Valdis Dombrovskis noted that all of these legislative proposals depended to some extent on good disclosure of non-financial information by companies. This was why an important part of the EC Action Plan is devoted to corporate disclosure and is the reason why the European Commission had asked EFRAG to launch the European Lab.

The European Lab would help identify and spread best reporting practices, which was an important step in creating a more sustainable financial sector.

In parallel, the European Commission will continue working to improve corporate disclosure of climate change risks and will update its non-binding guidelines, to integrate the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD"). This should help companies disclose climate-related information in a more consistent and comparable manner. The EC Fitness Check will be the first opportunity to take stock of the impact of the NFRD.

The full text of the speech of Vice-President Dombrovskis can be found here.

"To accurately measure climate and other sustainability risks, companies and investors need consistent and comparable data. The NFI Directive gave a head-start but we need to go further." – Valdis Dombrovskis

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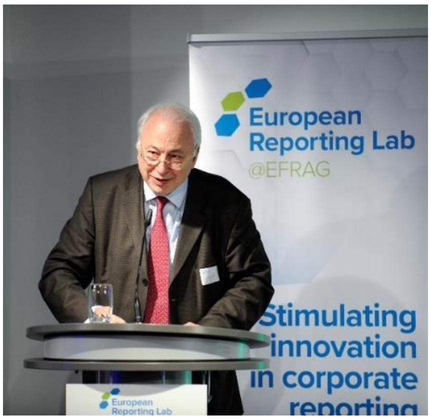
European Lab highlights – Jean-Paul Gauzès



Jean-Paul Gauzès thanked Vice-President Dombrovskis, for his encouraging address and messages. He reviewed the activity of the European Lab which was established at the request of the European Commission in the EC Action Plan. This was a recognition that EFRAG had a broader role to play beyond its traditional focus on financial reporting. This also responded to calls from stakeholders in the 2017 EFRAG Perception Audit to expand the scope of its work to include issues relating to wider corporate reporting, technology developments more broadly and within financial reporting, non-financial reporting, and sustainable finance.

Jean-Paul Gauzès stated that the main objective of the European Lab was to stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good practices. It will not prepare guidance or issue any form of official positions and should not be seen as being a first step to the development of legislation.

Identifying examples of good reporting practices has the potential to encourage more widespread, high quality reporting on a voluntary basis and without the need for changing the mandatory reporting requirements.

The first project of the European Lab would focus on climate-related reporting with the objective to assess the current state of play for European companies, and the current and potential use of climate-related information by investors and other users. The primary focus would be on the TCFD recommendations with consideration of other reporting frameworks, while also taking account of updates to the NFRD with non-binding guidelines.

The members of the European Lab Project Task Force on Climate-related Reporting (the “PTF-CRR”) had been appointed in mid-February 2019 and the project was already operational. The PTF-CRR will reach out to a wide range of stakeholders as part of its work.

The European Lab SG would agree on a short list of possible future projects which will be subject to public consultation over the second half of 2019. This will help to ensure that resources are dedicated to the projects European stakeholders believe should have the highest priority.

Jean-Paul Gauzès closed his speech by acknowledging that there were many ways to address innovation in corporate reporting and that there are many other initiatives going on. The European Lab would leverage on the practical insights and expertise of its Steering Group and PTF-CRR members, as the basis of a unique contribution.

“***The European Lab will be an important building block for innovation in European corporate reporting.” – Jean-Paul Gauzès***

Reflections on corporate reporting – Richard Howitt

Richard Howitt considered that the implementation of the NFRD was an important milestone providing an impetus for changes in corporate reporting for thousands of businesses. The next phase will be for entities to use the NFRD as an opportunity to think about their strategy and business model as a whole, taking into consideration the broad resources and relationships they rely on.

Why corporate reporting has to change?

Richard Howitt assessed that corporate reporting had to change or otherwise it will fail to meet its objectives. He identified a number of reasons for that. He noted that the financial crisis provided evidence that companies are not insulated from the environment they operate in and he outlined the limits and dangers of excessive short-termism.

The rise in value of intangible assets is another major reason for the need for change in corporate reporting as it underlined that financial reporting had its limitations. A gap has opened up between the book value and market value of most companies listed on the major global stock exchanges. Investors are relying less on a flow of periodic reporting that is analogous to a "dripping tap" and instead are relying more on a "lake" of the wider variety of readily accessible alternative sources of data.

Various non-financial reporting initiatives, both regulatory and non-regulatory, have created greater awareness and some confusion on how changes in corporate reporting should be implemented.

A principle-based approach, such as the one developed by the IIRC, is in his view the right approach and is playing a transformative role in helping businesses manage the change. Integrated reporting and integrated thinking enable companies to understand how wider factors impact value creation for their business. This is challenging as it implies a complete change of mindset.

Why is a Corporate Reporting Lab relevant?

Richard Howitt assessed that a Corporate Reporting Lab fosters learning and experimentation which will lead to innovation. Companies are sometimes reluctant to change and a Laboratory creates a "safe space" to explore alternatives. He encouraged the European Lab to look at other initiatives such as the UK FRC's Financial Reporting Lab.

The Agenda of the European Union will make a difference

Richard Howitt noted the European Commission has taken many climate-related initiatives which are rooted in its 2030 Framework for Sustainable Development. Regulation will play a key role in fostering change, although non-regulatory frameworks are also important.

Richard Howitt acknowledged that the work being undertaken by the European Lab was both stimulating and challenging. He supported the choice of the project focusing on climate-related reporting and TCFD recommendations. He considered that the ultimate goal should be to support transformative changes in corporate reporting rather than seeking incremental iterative changes.

The slides used for Richard Howitt's presentation are available on the [EFRAG's website].

> ***"Reporting does have to change. Financial Reporting does have to change. It's not broken, it's not failed but unless it changes it will." – Richard Howitt***

First panel discussion: Overcoming challenges in corporate reporting

Nancy Kamp-Roelands, welcomed and introduced the panel members. The purpose of the discussion evolved around overcoming challenges in corporate reporting. She noted that non-financial reporting had become mainstream and she considered that combining accountability and ethics with the decision usefulness of information for users was key.

Nancy Kamp-Roelands: What are the challenges faced in implementing non-financial reporting requirements? How can challenges identified be overcome?

Massimo Romano stated that, as a project leader for the implementation of the NFRD in his company, there were three main challenges to consider: who, what and how?

The "who" related to the need to involve all relevant stakeholders (including the Board of Directors), breaking down silos and having real "integrated thinking". The "what" raised the crucial question of the application of materiality to identify the information to report (including key performance indicators rather than the overload that results from reporting all performance indicators). The "how" considered the proliferation of different reports and the need to integrate that information. The solution found by Generali was to combine integrated reporting with a "Core & More" approach. They were able to use the management commentary as their "Core" report and connect it to more detailed information in "More" reports and their website.

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Bastian Buck noted that the number of frameworks and KPIs could be challenging. However, there were initiatives working to “consolidate” the thinking, in particular through the Corporate Reporting Dialogue, to which the Global Reporting Initiative (GRI) was participating. Further to the guidance from varied frameworks, the TCFD added the scenario analysis recommendation.

Progress had been made with the NFRD but there was still a need for companies to be more transparent on their processes and the judgements involved in preparing their reports. The double materiality idea has been accepted. There is reference to areas that were previously neglected such as human rights. Lastly, he agreed that the application of materiality could be clarified through further guidance although there is always judgment involved in materiality assessment.

Mardi McBrien also concurred with the previous speakers on the challenges in applying materiality. Big progress had been achieved but more needed to be done. In particular, she noted that a lot of reports did provide information on risks but less on opportunities. There is inadequate linkage in risk reporting, which gives an opportunity to provide such linkage.

Nancy Kamp-Roelands: What are stakeholders’ experiences and expectations around non-financial reporting?

Claudia Kruse indicated that APG managed about €400 billion on behalf of Dutch pension funds and had a strong commitment to integrating ESG into its investment processes. APG had a seventeen people strong team to implement its responsible investment policy on behalf of clients and used different sources of information, besides financial statements, that were equally important.

APG’s information needs related to both quoted and unquoted companies and they employed both quantitative strategies and fundamental analysis-based approaches. One of the challenges was the need to access a wide range of reliable data that serves multiple purposes. The universe of APG’s capital market investments is assessed based on a proprietary methodology with companies categorised into leaders and laggards. APG engages with the laggard companies that it has made investments in so as to improve their sustainability performance. For that purpose, APG needed data that is comparable for a given sector to prepare a range of indicators. She called for more and better data that is more investor-relevant. As a TCFD adopter, she also encouraged companies to disclose relevant climate-related disclosure.

The European Union initiatives were encouraging and she also emphasised the role of the Corporate Reporting Dialogue for better convergence of the different frameworks and metrics.

Massimo Romano commented that Generali was also a significant investor and considered that there was a lack of consistency of data being linked with the strategy of a company. He identified the need to increase investors' awareness on how the different forms of capitals might impact the value of assets.

Bastian Buck raised the question of the capacity to manage and link the mass of different data that is available. Engaging and maintaining a dialog with a wide range of stakeholders was crucial not only for investors but also with other civil society stakeholders such as Unions or NGOs.

Nancy Kamp-Roelands: What should be the interaction between financial and non-financial reporting?

Bastian Buck considered that non-financial information, such as ESG, deserved attention in its own right notwithstanding that such information may ultimately have financial impacts. There was a need for good assessment of the impact, including indirect financial effects and in terms of risks and opportunities.

Initiatives such as the TCFD reflected that evolution by developing voluntary climate-related financial risk disclosures for use by companies and encouraging alignment of disclosures with the information needs of investors. There was a growing appreciation of the importance of ESG factors as contextualising information. It was challenging to monetise human capital.

He also considered that not enough attention was paid to more transparent tax reporting which is a cross-cutting financial and sustainability related issue. Making tax data more widely accessible will help build stakeholder trust and dialog and contribute to better-informed policy and investment decisions.

Mardi McBrien considered that companies "told the stories that they wanted to tell" and used the existing frameworks to do so. Non-financial information did inform financial performance and it was important to have the same rigorous data collection processes, controls and assurance for non-financial information as is the case for financial information.

There was need to apply the lens of risk and opportunity towards non-financial information. It was also important to use language than could be understood by all stakeholders, not over-complicate the communication, apply the language of risk and resilience and consider proportionality. Lastly, a report on sustainability and climate change should not be considered as just one more report to publish. There was a need to "think integrated" and consider the interactions of the different reports issued by a company.

Claudia Kruse agreed that the integrity of the data collection process was important to investors. A number of academic research studies had looked into the link between ESG information and financial performance. There was a need for sufficiently granular data and not just indicators in order to be able to assess how ESG information could translate into performance. More standardisation could be helpful.

Massimo Romano concurred that both quality of information and its verifiability were very important. Assurance needed to evolve further into the “non-financial reporting world”.

He regarded non-financial information as really being “pre-financial” information as, sooner or later, the information would “evolve” into monetary items affecting the company and measuring the connection with financial statements was crucial.

Nancy Kamp-Roelands: What could be the role of the European Lab in improving non-financial reporting practices?

Mardi McBrien considered that the European Lab could play an important role to foster innovative ideas. It should not aim at defining more reports or core KPIs but rather think out of the box to identify solutions (it is about the “how to”) and share best practices and solutions and foster training. She pointed out that there were several other Labs already operating around the world, and it was important to look at their activities and engage with them if needed. The European effort should aim at building leadership for a global audience. It would also be useful to look at development in the Corporate Reporting Dialogue which is responding to market calls for greater coherence between corporate reporting frameworks, standards and related requirements in Europe).

Claudia Kruse stated that, just like the EU Actions Plan on Sustainable Finance influenced developments globally, the European Lab had an opportunity to influence corporate reporting globally.

Bastian Buck considered that an area of focus for the European Lab should be the definition and application of the materiality concept to non-financial information such as ESG. This was an area with a lot of pushback.

Massimo Romano agreed that identifying and sharing best practices would be an important contribution for the European Lab. He also agreed that materiality was an important area to look at.

Nancy Kamp-Roelands: What are the main issues with current disclosure requirements?

Claudia Kruse assessed that the quality and relevance of the information provided was variable and did not always meet the expectations of users. There were examples of excellent disclosures worth looking at. Additionally, there was a need for more comparability of the information across each sector. She also noted that the Dutch Central Bank had introduced a Climate Stress Test for financial institutions, which provided useful information.

Bastian Buck considered that the quantity of information and frameworks could be overwhelming and there was a need for “consolidation”. There were a lot of defined KPIs and a need for scalability in selecting a reasonable set of relevant KPIs to reflect the complexity of non-financial information. Long catalogues of KPIs were not helpful.

Achieving more comparability of the disclosure by entities in the same a sector was also important and achieving more comparability across sectors should also be an objective.

Massimo Romano assessed that, within a short period of time, there will no longer be a strict distinction between “pre-financial” and “financial” information: “strategic” information will be disclosed. It should also be recognised that any additional disclosure results in costs for companies. In this context, the “Core and More” approach put in place by Generali was worth considering. Developments in technology can certainly help in managing large pools of information as there is only a limited number of parameters that a human being can process. Therefore, the focus on “strategic information” seemed appropriate.

There was an apparent tension between the need to have entity specific information and the need for comparability. But comparability of disclosure over time was important now, even if on a longer-term comparability across entities of the same sector would be desirable.

Nancy Kamp-Roelands summarised the key messages she heard from the panel:

- The journey to changes in corporate reporting has already started and there is need to embrace it, and
- Engagement with stakeholders was crucial.

She then invited panellists to provide their closing remarks.

Closing remarks

Claudia Kruse considered that the field of corporate reporting was continuously evolving and the EFRAG Lab should be supporting that as it starts its activities.

Bastian Buck stated that adequate resources should be allocated by companies to non-financial information. Inadequate staffing was often an issue.

Mardi McBrien’s advice to the European Lab was not to wait for the further guidance from the TCFD to emerge. Instead, the European Lab should take a leadership role in developing its own story. It should also extend the progress made in climate reporting to other domains of non-financial information (such as social factors).

Massimo Romano concluded that corporate reporting was already changing although there is a long journey before the “right” reporting is achieved.

Nancy Kamp-Roelands closed the session and thanked the panellists for their input.

Second panel discussion: Achieving innovation in corporate reporting

Alain Deckers welcomed and introduced the panel members.

Alain Deckers: Is innovation in corporate reporting necessary, where is it needed, how does it square up with comparability, what is the role of technology and standards?

Bertrand Janus observed that there could be a contradiction between innovation and aspects of reporting. This seeming contradiction could arise because companies are often seeking a "holy grail" of a standardised reporting framework and users want high quality, comparable information. Furthermore, the sixth principle of the forthcoming non-binding guidance for the NFRD calls for the consistency and coherence of information. The desire for consistency period to period and comparable information may seem to contradict the need for innovation. However, both preparers and users see the need for innovation and significant improvement to non-financial information.

He also pointed to the innovation that had occurred across different initiatives including the integrated reporting recommendation of concise reporting that informs on strategy and value creation of reporting entities, the TCFD push for the integration of climate-related reporting as a financial matter, and the NFRD double lens on materiality.

Finally, he cited several examples of innovative climate-related reporting practices by Total, which had issued a dedicated report in 2016 (which was before the TCFD recommendations were issued). Total was a leader and since then 10 Oil & Gas companies globally have followed suit including, most recently, ConocoPhillips. He cited the human rights report as another example of innovative practices (Total was the first Oil & Gas company to publish a dedicated Human Rights report – in 2016, updated in 2018) and pointed to the candid reporting of challenging issues and identification of suitable indicators within the human rights domain as other examples of innovation.

Olivier Boutellis-Taft highlighted the effectiveness of Accountancy Europe's past calls for change whereby there was some resistance when such calls for innovation in corporate reporting were made about five years ago. Today the ideas that Accountancy Europe had put forward have been embraced by stakeholders. These include the need to: broaden the focus of corporate reporting beyond financial reporting; recognise a broader audience for corporate reporting beyond investors; establish a European Lab; call for the Core & More approach as has been adopted by some issuers such as Generali; and the need to consolidate and align the multiple non-financial reporting frameworks.

There was an urgency arising from climate risk and, unlike the recent past, the pace of change going forward has to be a lot quicker. He considered there is a ten-year window, based on the IPCC report, to create systemic change. He also noted that innovation was not just about climate change and that there were problems with natural resource management.

Finally, he expressed the view that innovation was not about producing papers, reports and guidelines but more about experimenting in practice. Regulators had a role to play in providing a "safe harbour" that fosters innovation.

Alain Deckers: What is the role of corporate reporting in the Sustainable Finance initiative? Is reporting an effective way to change behaviour? What about the content elements such as forward-looking information?

Giovanna Michelon acknowledged that corporate reporting is one of the pillars of the EC Action Plan, but its role should go beyond meeting investors' information needs. It is necessary for the EC Action Plan to be anchored to the public policy objectives such as the Paris Climate Change agreement and UN Sustainable Development goals. The needs of other stakeholders including policy makers and regulators should not be overlooked.

On capital markets efficiency, the effectiveness of non-financial information depends on quality of standards, avoiding the prevalence of boiler plate information even for mandatory disclosures and the effectiveness of other institutional arrangements such as enforcement.

She highlighted some of the unresolved issues within empirical academic evidence relating to the effects of mandating non-financial information including the need for more investigation on the effects of information attributes such as comparability, as well as how firms adjust their behaviour following a disclosure mandate.

Finally, she observed that non-financial information has existed long before the current focus on the enhancement of this information to aid capital allocation. Investors are focused on risks and opportunities whereas other stakeholders are focused on externalities and impacts. Investors do not consider externalities if these do not translate to risks. She emphasized the public interest function that corporate reporting plays in the EC Action Plan and called for a balance of the needs of all stakeholders to avoid a shift, as an unintended consequence, to how sustainability affects financial performance instead of how corporate activities affect sustainability.

Bertrand Janus reiterated a point that had been made in the first panel- namely that the adoption and implementation of the TCFD recommendations and the improvement of corporate reporting is a journey. He pointed out that the EC Action Plan is about shifting trillions of euros and it entails more than just reporting. In his view, too much of a burden had been shifted to reporting and disclosures. Reporting should not be a substitute for other levers of public policy such as the need for carbon pricing. Carbon pricing will be a lot more effective in shifting the trillions.

Alain Deckers: Is regulation needed to foster innovation? What is the role of voluntary initiatives?

Bertrand Janus highlighted that there has been an openness to regulation in France, citing the evolution in requirements from 2001 to the recent transposition of the NFRD. The upside of regulation is that it raises the ante and sets minimum requirements. But there can be downsides too and he gave the example of the French Corporate duty of vigilance regulation that some stakeholders felt went too far and resulted in companies taking a minimalist approach to compliance and avoiding voluntary reporting. He described the constraints that arise from the involvement of legal teams. He highlighted the interdependencies between providing information in both the climate report and annual report, describing how the inclusion of information in the climate report creates the need for its inclusion in the annual report. Finally, he called for an increased, widespread uptake of voluntary frameworks such as the TCFD recommendations to ensure a level playing field amongst reporting entities, especially between G20 countries).

Alain Deckers: what is the role of regulation? Can you comment on legislative steps?

Sirpa Pietikainen addressed a number of issues related to sustainable finance legislation that is under development and corporate reporting requirements.

She pointed out that voluntary environmental reporting had minimal impact as there was a loss of comparability due to multiple frameworks. She called for alignment between non-financial information with financial reporting. Such an alignment could occur through the amendment of the Accounting Directive and an alignment with the requirements of IFRS Standards.

She highlighted some components of useful non-financial information including the quantities and classes of resources, energy and emissions related to a company's operations. There should also be information about CO^2 emissions, water, biodiversity and indirect land use. Companies' boards of governors should have responsibility for this information, it needs to be subject to audit to ensure reliability and it should be mandatory to ensure a level playing field across preparers and improve comparability for users. She called for transparency on the proportion/materiality and trends of companies' environmental harmful investments.

She touched on the progress in developing legislation across several other elements of the EC Action Plan and expressed the view that the investors' disclosure regulation should not be confined to (and only impose costs on) those with environmentally friendly investments. There should be clear designation and transparency on green and brown investments. While supporting human rights safeguards in the development of the environmental taxonomy, via the "do no harm" principle, she felt that developing a social taxonomy might be too complicated and risk asking more than companies and stakeholders can handle at this point in time. A social taxonomy is desirable, but it is a question of the timing of its development. She also expressed reservations about certain aspects of the environmental taxonomy development (e.g. some emerging support for designating coal investments as green) as this posed the risk of creating legislation that is worse than current market practice.

Alain Deckers's takeaway from Sirpa Pietikainen's intervention was that there is a role for regulation, it needs to be simple, enhance comparability and should be rolled out progressively.

Olivier Boutellis-Taft noted that this raised the question of when to regulate so as to positively influence behaviours such as a desirable shift from brown to green investments. On the question of how to regulate, while pointing to the vast number of indicators for biodiversity and using the example of the adverse impacts of not printing more than eight pages, he emphasised the need for science based answers and methodologies that inform an impact assessment and influences whether to assess, measure, disclose and certify information.

Giovanna Michelon acknowledged that regulation yields some benefits for both users and companies. However, the magnitude of the capital-market effects from a sustainability reporting mandate depends on the extent to which firms currently withhold material sustainability-related information and, hence, on firms' compliance with existing disclosure requirements and securities laws that stipulate the disclosure of material information. Assuming that firms are already disclosing all material information (even if non-financial), then the primary benefits of sustainability standards have to come from a harmonization of reporting practices, including cost savings to investors (e.g., when processing sustainability information), better comparability, and/or increases in non-financial disclosures due to better across- firm comparisons and peer pressures. Based on empirical evidence related to IFRS Standards adoption, it can also be inferred that mandatory requirements for non-financial information would need supporting institutional arrangements such as enforcement regimes to be effective.

Alain Deckers concurred that regulation by itself is not enough.

Alain Deckers: What could be the role of the European Lab in encouraging innovation?

Alain Decker prefaced the panellist responses by highlighting that the European Lab could provide a "safe space", identify what reporting practices work, identify needs of users and have a role in disseminating best practices.

Olivier Boutellis-Taft noted that what the European Lab could do has been discussed and was well understood. He observed that the IIRC pilot project was an example of successful experimentation and the type of "learning by doing" that the European Lab could emulate in the long term. In addition, the European Lab could inform policy makers on the effectiveness of corporate reporting relative to other public policy measures.

Sirpa Pietikainen concurred that corporate reporting could not replace other public policy legislation. For the European Lab, she suggested that there should be a gathering of experts in corporate reporting such as those who have been looking at integrated reporting and the development of quantitative metrics. These experts could come up with useful summary indicators and ideas of how to present these simply and accessibly.

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Takeaways from panels – Andrew Watchman

Andrew Watchman noted that the first panel had highlighted several challenges and opportunities. The need for more parts of companies to be involved in corporate reporting presented a challenge but this was also an opportunity for integrated thinking within companies. The need for assurance of non-financial information was also both a challenge and opportunity for assurance providers. Reviews of climate-related reporting had shown that there was a greater focus on risks and less on opportunities. Hence, there was a chance to focus more on the opportunity aspect of climate-related reporting.

The needs of corporate reporting users are only partially met at the moment. There was room for improvement particularly in the application of the linkage principle. There were challenges with the application of materiality including with the idea of double materiality of non-financial information. In respect of materiality, there was a need to distinguish and only communicate key performance indicators as opposed to all possible performance indicators. There was also a need to meet broader needs without creating information overload.

The European Lab, the Core & More framework developed by Accountancy Europe, integrated reporting and application of scenario analysis in strategic planning were more on the opportunities side.

The takeaways from the second panel were that innovation was needed and already occurring. There was a healthy tension between the need for standardisation, comparable information and the push for innovation. Reporting was one of the pillars of sustainable finance but would not do the job in isolation nor should it supplant other policy measures. Regulation had a key role that ought to be supplemented by other non-regulation focused approaches such as the European Lab. Regulation was not always easy and could leave one reflecting on whether “coal is green”.

Expressing his personal view, Andrew Watchman observed that corporate reporting was clearly on a journey, it had a link with sustainable development goals and its audience was broadening. Even with its limitations, corporate reporting had an important role as a catalyst for change and as a means of monitoring the progress of reporting entities. With the complexity that arose from the myriad thought leaders and framework promulgators, the European Lab has an important role in helping to navigate through the complexity by bringing together practitioners with a focus on good reporting practices.

Finally, Andrew Watchman noted that his term as EFRAG CEO and TEG Chair was coming to an end. He was proud to have had a role in the launch of the European Lab and wished success for the remaining EFRAG team, the European Lab Project Task Force and Steering Group and expressed confidence in their ability to execute their mission.

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Closing remarks – Jean-Paul Gauzès

Jean-Paul Gauzès thanked the speakers and panellists. He expressed special thanks to the outgoing EFRAG TEG Chairman and CEO Andrew Watchman for his leadership and contribution to EFRAG over the last three years.

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