



SUMMARY REPORT

EFRAG CONFERENCE

WHERE IS CORPORATE
REPORTING HEADING?

BRUSSELS, 7 DECEMBER 2022



EFRAG

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Background

On 7 December 2022, EFRAG held its conference "Where is Corporate Reporting heading?" in Brussels to celebrate its 21st anniversary and discuss EFRAG's major accomplishments, the past and the future. It was an occasion to debate the new trends in corporate reporting following the Environmental, Social and Governance (ESG) revolution and the growing emphasis on connectivity between sustainability and financial reporting.

The Agenda for the online event is still available [here](#)

Hans Buysse, President of the EFRAG Administrative Board, was the event's master of ceremony. He welcomed the participants, introduced the different sessions and speakers, summarised the key messages and closed the conference.

Words from former EFRAG Board President



Jean-Paul Gauzès, former EFRAG Board President, welcomed Commissioner McGuinness, the other keynote speakers and the new Chairs of the EFRAG Boards. Jean-Paul Gauzès highlighted that under the Corporate Sustainability Reporting Directive (CSRD), EFRAG had a new mission at the service of the European Commission (EC) and was now its technical advisor for the preparation of draft European Sustainability Reporting Standards (ESRS). He also noted that the draft ESRS were the result of the work carried out by motivated teams, including volunteers providing collaboration in kind, who were able to deliver and finalise the draft standards within the very tight deadline imposed by the EC's schedule. The full speech can be accessed [here](#).

Keynote speech - Corporate Reporting



Mairead McGuinness, European Commissioner for Financial Stability, Financial Services and the Capital Markets Union (FISMA), thanked Jean-Paul Gauzès for his words of welcome and contribution to the founding of the EFRAG sustainability reporting pillar. Her speech focused mainly on the crucial role of sustainability reporting in today's world, the prospects for financial reporting and putting sustainability reporting on an equal footing with financial reporting. Commissioner McGuinness highlighted that EFRAG's work on financial reporting had been vital to the EC on the endorsement of International Financial Reporting Standards (IFRS) and she thanked EFRAG for its remarkable work on sustainability reporting. The full speech can be accessed [here](#).

Keynote speech - Sustainability Reporting



Pascal Durand, MEP FR and CSRD rapporteur, highlighted the critical role of the CSRD in improving the transparency, understandability and comparability of reporting on sustainable topics for investors, analysts and other stakeholders. Pascal Durand emphasised the critical role of EFRAG and the importance of providing the funding necessary for it to operate in a sustainable and independent manner. He also indicated the importance of non-financial information norms and standards being audited and certified with the same rigour, independence and transparency as the current financial reporting norms. Finally, Pascal Durand encouraged the EC to regulate the activities of ESG rating agencies to ensure greater transparency of their activities and methodologies. The full speech can be accessed [here](#).

Keynote speeches: Where is sustainability reporting heading in Europe and internationally?

The session, "*Where is sustainability reporting heading in Europe and internationally*", was an opportunity for leaders from the EC, EFRAG, International Sustainability Standards Board (ISSB), and Global Reporting Initiative (GRI) to set the scene for the sustainability reporting panel and provide an update on the EU and International sustainability reporting developments. Speeches were delivered by Sven Gentner, Head of Corporate reporting, audit and credit rating agencies unit, DG FISMA, EC; Patrick de Cambourg, EFRAG Sustainability Reporting Board Chair; Emmanuel Faber, ISSB Chair; and Eelco van der Enden, GRI CEO.



Sven Gentner commended EFRAG for a) the timely submission of draft ESRS given the backdrop that clarity on the coverage of the Standards only occurred in June 2022 (i.e., when political agreement on the CSRD was reached), and b) the inclusion of a wide range of stakeholders in developing the draft ESRS.

Sven Gentner acknowledged Jean-Paul Gauzes' contribution to EFRAG's governance reform. He noted the ESRS will be adopted by the EC as a delegated act. And that ESRS are developed based on the double-materiality principle, they are not policy-agnostic (for example, they incorporate the Sustainable Finance Disclosure Regulation (SFDR), EU Climate Law and EU Taxonomy legislation) and are expected to converge with and integrate the requirements of ISSB and GRI Standards to the extent that doing so will be consistent with the EU policy framework. He pointed to the ongoing efforts between EFRAG and ISSB to ensure the interoperability of their requirements.

Patrick de Cambourg underscored the goal of sustainability reporting becoming mainstream with EFRAG contributing to this goal through its successful delivery of a balanced set of sector-agnostic Standards. And this represents a key step towards developing the second pillar of robust corporate reporting. Patrick de Cambourg gave an overview of the history of EFRAG's involvement in the elaboration of EU sustainability reporting requirements while noting that these requirements mirror the legal structure of financial reporting requirements (i.e., they consist of both Level 1 and 2 requirements). He observed that reflecting the EU-specific context requires a multi-stakeholder composition to align with the broadest spectrum of expectations possible and a consensus is required by the EFRAG SR TEG and the EFRAG SRB. Illustratively, this consensus was achieved in the approval of the 12 draft ESRS submitted to the EC.

He noted a lot of work had been done on the relevance and adequacy of the draft ESRS requirements and, after the public consultation, there were four major improvements. These were: a 45% reduction of the proposed disclosure requirements; a better alignment with the final CSRD and other relevant pieces of regulation; the fine-tuning of terminology and concepts including the replacement of the rebuttable presumption with a materiality assessment approach; and careful monitoring of differences to foster interoperability with ISSB and GRI Standards. He thanked all the contributors to the development of the draft sector-agnostic ESRS and described the next steps that include the development of SMEs and sector-specific standards.

Emmanuel Faber referred to the 'Tragedy of Horizons' (i.e., the mismatch between the long-time horizons of climate risk and the shorter time horizons applied in the reporting framework) that was raised by Mark Carney. To address this problem, he noted the important roles of a) policy objectives where Europe has taken a leadership role with the green deal, and b) well-informed, transparent capital markets. Noting that Europe cannot solve the climate challenge alone and that capital markets are the connectors of global economies, Emmanuel Faber considered global and European capital markets to be allies of European policy. Hence the importance of the work of the ISSB, delivering a global baseline of sustainability disclosures for the capital markets. He underscored the importance for Europe (which accounts for nearly a sixth of global GDP) to contribute to the global baseline under the ISSB requirements.

Emmanuel Faber also noted there is ongoing work with EFRAG towards creating a clear interoperability table that applies to the general disclosures and climate-related disclosures Standards (i.e., IFRS S1 and IFRS S2) and a similar table is expected to be developed for future ISSB standards relative to finalised ESRS. On the ISSB's next steps, he indicated that the balloting on IFRS S1 and S2 will occur around March 2023 and these Standards should be ready for use during the 2024 reporting cycle. An add-on to these Standards will consider natural ecosystems, biodiversity, water and just transition issues. He also referred to the upcoming decision to be made by the ISSB Board, which would conceptually ground the ISSB's standard setting work by articulating the relationship between sustainability matters and financial value creation, drawing from the integrated reporting framework.

Eelco van der Enden congratulated EFRAG and described the submitted draft ESRS as a tremendous achievement. Eelco van der Enden considered the two important contributions of ESRS to be: a) introducing double materiality, as sustainability reporting does not exist without reporting on impacts; and b) requiring mandatory (albeit limited) assurance. He remarked that the worst enemy of sustainable reporting is greenwashing, which could be prevented by robust assurance. He considered greenwashing to be similar to financial fraud as it undermines the credibility of reported results and opined that in 10 years investors would ignore reports with no assurance.

Eelco van der Enden encouraged EFRAG's closer collaboration with ISSB and GRI noting that fragmentation will be bad for business, comparability and the planet and society. Finally, he emphasised the need for adequate funding from the European Authorities to support EFRAG in its important standard-setting work that is being done in the public interest.

Keynote speech - Financial Reporting



Andreas Barckow, IASB Chair, spoke about the IASB's relationship with EFRAG while working together towards the common goal of creating a global passport in financial reporting for multinational companies. Andreas Barckow congratulated EFRAG for its 21 years of successful collaboration, debate and discussion with the IASB. He noted that the collaboration between the two organisations had led to real progress in ensuring that financial reporting is coherent for investors and wider stakeholders. He

also highlighted the important role of EFRAG in serving the European public good and ensuring that the voices of those who do not necessarily have the resources to contribute to the IASB's work can still be heard.

Commenting on the IASB's work plan, Andreas Barckow referred to the results of its Third Agenda Consultation where constituents' feedback called for the completion of current projects before starting any new major project. He considered that it was key for both the IASB and EFRAG to balance the varied needs of a wide range of stakeholders and to be mindful of stakeholders' capacity to cope with significant changes.

In conclusion, Andreas Barckow stated that the IFRS Foundation looked forward to continuing working with EFRAG in maintaining and further enhancing a global financial reporting language and fostering one global capital market. The full speech can be accessed [here](#).

Panel Discussions

Two panels involving renowned subject matter leaders debated new trends in the sustainability reporting revolution and the growing emphasis on the connectivity between sustainability and financial reporting. A third panel involving EFRAG's past and current leadership shared reflections on EFRAG's past, present and future journey.

Panel 1. Sustainability reporting: a new area



The discussion was moderated by Patrick de Cambourg, Chair of EFRAG SRB and the panellists were:

- Emmanuel Faber, Chair ISSB
- Sébastien Godinot, Economist, WWF
- Kerstin Lopatta, EFRAG SRB member and former Acting EFRAG SRB Chair
- Eelco van der Enden, GRI CEO

Patrick de Cambourg highlighted the three main topics for discussion (i.e., the challenges of data quality (reliability) and quantity (availability), the factors of successful implementation, and the challenges of interoperability).

Topic 1: The journey towards creating a reliable data environment in relation to sustainability matters to meet stakeholder expectations and public policy objectives. The panellists covered the following themes.

Role of ESRS and robust institutional settings: Citing a publication where in a review of 1000 companies reporting in 2019, only 36% had climate targets, and another recent study that showed current sustainability reporting is not sufficient to inform on strategic risk; Sebastian Godinot emphasised the importance of mandatory requirements to enhance the availability and reliability of sustainability reporting information. He viewed the draft ESRS requirements submitted to the EC, which encompass a double materiality perspective, as being a significant step forward. He noted EFRAG's finalisation of the draft ESRS reflected on the suitable compromise attained after integrating the feedback from the public consultation.

Drawing on insights from her academic research experience, Kerstin Lopatta observed that data availability and reliability depend on proper standard setting, assurance, and enforcement. Noting the low correlation between data (i.e., company ratings) from rating agencies, she expected an enhancement in data quality to result from the mandatory ESRS and ISSB requirements. Relatedly, in his intervention on the third topic of the panel discussion- interoperability, Eelco van der Enden stated that mandatory corporate reporting would enable an assessment of and possibly enhancement of the quality of agency ratings.

Evolving practice and change management: Emmanuel Faber pointed to the change management needed within organisations, with responsibilities for data gathering and analytics shifting from the Chief Sustainability Officer to the Chief Financial Officer. He opined that data would improve when used and there is a need for companies to get on board and start providing the data now. Illustratively, he cited his past experience as a CFO where his then company, as far back as 2009, linked incentives to GHG scopes and began reporting carbon-adjusted earnings per share in 2019.

Similarly, Eelco van der Enden described the significant shift in mindset in organisations towards corporate reporting and integrated processes. He noted the shift from the past where sustainability reporting was a marketing gimmick and companies are now held accountable for published information. Therefore, having internal controls and a robust data framework is critical. He opined that technology would make data more accessible.

Lessening greenwashing: During the panellists' exchange, it was observed that the 'comply or explain' principle under the Non-Financial Reporting Directive had in some cases contributed to greenwashing practices. In reaction, Patrick de Cambourg noted that the ESRS has moved away from the "comply or explain" principle. Instead, eligible companies will have to comply with ESRS disclosure requirements if material and if not material, they should not disclose the information.

Topic 2: The factors for successful implementation of sustainability reporting, taking account of the ambitious aim of establishing sustainability reporting on an equal footing with financial reporting. The panellists covered the following themes.

Mandatory versus voluntary reporting and role of global baseline: Emmanuel Faber noted that the global baseline can only work if it is useful and cost-effective. He referred to the importance of both jurisdictional-level mandatory adoption, and corporate and investor-led voluntary adoption. To ensure preparedness to report along the ISSB's global baseline, he spoke of the Board's leadership in developing a Partnership framework for capacity building, launched at COP27. Eelco van der Enden stated that mandatory requirements and a global comprehensive baseline will create a more level playing field in reporting and serve the needs of a broad set of users by providing comparable, right, and proper data.

Data collection and estimation: Patrick de Cambourg asserted that the main changes in sustainability reporting relative to financial reporting are the introduction of the value chain and the application of forward-looking information (i.e., there is less systematic incorporation of forward-looking information under financial reporting than sustainability reporting) and there would be associated data collection and estimation challenges.

Kerstin Lopatta remarked that disclosed information is better than no information, and there will be a relevance versus reliability trade-off for sustainability reporting information that is no different than that which arises in the preparation of financial reporting information. We are used to assumptions in financial reporting, why shouldn't the same be the case with sustainability reporting? Along similar lines, Emmanuel Faber argued that highly complex, long-time-horizon-based estimates (e.g., during the measurement of goodwill, pension liabilities, and stock options) are also applied in financial reporting. While he acknowledged the more robust control environment and greater comparability of financial reporting, he questioned why the financial reporting rigour and processes cannot be embedded into sustainability reporting. In reaction, Patrick de Cambourg noted that an important difference in relation to forward-looking information was that financial reporting was focused on future consequences of past actions whereas sustainability reporting also encompasses future consequences of future actions.

Sébastien Godinot noted that granular ESRS requirements are beneficial as these can lead to strategic and meaningful information and reporting on transition is about forward-looking information.

Addressing impact materiality: Sébastien Godinot stated that impact materiality was critical and financial materiality did not take into account either the science-based targets, Paris-aligned goals or SDGs. Similarly, Eelco van der Enden underscored the importance of reporting on impacts, observing that what society considers important should be considered in the legal framework.

ESRS Educational support: Kerstin Lopatta underscored the need for the EFRAG to provide educational material that supports the ESRS implementation. It was necessary to avoid the experiences stakeholders faced with the implementation of the EU Taxonomy.

Topic 3: Improving the interoperability of key sustainability reporting initiatives including the mapping interoperability tables and multi-tagging when reporting under digital format.

Emmanuel Faber and Kerstin Lopatta conveyed the tremendous progress and ongoing discussions on interoperability particularly around the ESRS E1 and IFRS S2 requirements (i.e. climate-related requirements). Emmanuel Faber described the progress in mapping the interoperability table, and in developing the digital taxonomy and industry-based standards.

Eelco van der Enden remarked that there was no alternative to pursuing interoperability if one considers the costs of compliance with multiple requirements. He observed that the DNA of GRI is in ESRS, hence GRI Standards can aid the application of ESRS. Kerstin Lopatta acknowledged that GRI's detailed comment letter was a key input whilst updating the draft ESRS.

Sébastien Godinot emphasised that though interoperability was desirable, it should not be at the expense of the goal of disclosing information through a double materiality perspective, and the ESRS level of ambition should not be lowered during the ongoing discussions with the ISSB.

Panel 2. Looking back and forward at EFRAG



The discussion was moderated by Saskia Slomp, EFRAG CEO and the panellists were:

- Françoise Flores, former EFRAG TEG Chair and CEO 2010-2016
- Stig Enevoldsen, former EFRAG TEG Chair and CEO 2004-2010
- Chiara Del Prete, EFRAG FR TEG Chair since 2019 and Acting EFRAG SR TEG Chairwoman

Saskia Slomp gave an overview of EFRAG's governance and structural reforms over its 21 years of existence. The current structure includes an EFRAG Administrative Board responsible for all non-technical work, a Financial Reporting Board, a Sustainability Reporting Board and two Reporting TEGs (Financial Reporting TEG and Sustainability Reporting TEG).

The first question by Saskia Slomp was *“What do you see as the most remarkable and significant moment in the time that you were EFRAG Chair? What could have gone better?”*

Stig Enevoldsen stated that his term’s biggest achievements were EFRAG’s transition from ‘paper to digital’ and starting the issuance of draft comment letters for public consultation. For her term, Françoise Flores referred to her efforts in developing comprehensive outreach and field-testing activities, keeping ongoing influence while the IASB was redeliberating, being more inclusive of European stakeholders, assessing the applicability of the IASB’s tentative decisions and gathering data on costs and benefits of the IASB’s proposals. She also referred to the challenging implementation of the Maystadt reform before the end of her mandate. For Chiara Del Prete’s term, the issuance of the endorsement advice for IFRS 17 *Insurance Contracts* was a key achievement. Chiara Del Prete noted that EFRAG had an instrumental role in the reopening of the IASB’s deliberations to address most of the insurance industry concerns. She also referred to the completion of EFRAG’s 2018-2022 research program with the publication of Discussion Papers on Crypto-assets and Intangible Assets as important milestones that influence the work of the IASB and other National Standard Setters. Another achievement was the smooth switch to remote working during the Covid-19 crisis.

The second question was: *“Do you have an anecdote to tell us from the time that you were the Chair?”*

Recounting EFRAG’s role in shaping the formation of the IASB Accounting Standards Advisory Forum (ASAF), Françoise Flores described a scheduled meeting where the then IASB Chair and Vice-chair were due to visit EFRAG’s office for the first time. Françoise Flores was prepared to propose to them an idea she had floated around that when the convergence program would be finalised, a forum for an ongoing dialogue of national standard setters would still be needed. At the meeting, it transpired the IASB leadership had come to discuss the same idea (the formation of ASAF) and they raised it before she could.

Chiara Del Prete recalled the multitasking challenge and having to juggle the balls of finalising the IFRS 17 endorsement advice including remotely engaging with EU authorities while expectant of her baby.

Stig Enevoldsen’s special moment was the fast-track, 24-hour turnaround endorsement of the IAS 39 *Financial Instruments- Recognition and Measurement* carveout.

The final question was *“What is your message for our stakeholders? Where do you see EFRAG in the future”*.

Stig Enevoldsen stated that he hoped that the sustainability reporting pillar would continue to grow and catch up with the status of the financial reporting pillar. He highlighted that EFRAG needed sufficient funding to effectively carry out its activities in financial and sustainability reporting, ensure adequate staff resources and acquire the technology needed. Chiara Del Prete mentioned that she hoped that EFRAG would continue to be highly influential in its future work. Finally, Françoise Flores expressed her wish that EFRAG would lead Europe in sustainability reporting. To do so, she emphasised that EFRAG needed sufficient funding to effectively carry out the role of a standard setter. Based on her knowledge and experience of what it takes to influence, endorse and develop Standards, she expressed amazement at the tremendous output of EFRAG under its new mandate with so limited resources but cautioned that it reflects stretched staff resources and that is not sustainable.

Panel 3. Financial reporting and connectivity (introduced by Verena Ross, ESMA Chair)



The discussion was moderated by Wolf Klinz, EFRAG Financial Reporting Board Chair and the panellists were:

- Nicklas Grip, Handelsbanken, former EFRAG TEG Vice-Chair 2016 – 2022
- Ann Jorissen, University of Antwerp, Chair of the EAA Financial Reporting Standards Committee
- Serge Pattyn, EFRAG FRB member and former Acting EFRAG FRB Chair
- Nadja Picard, Partner, Global Reporting Leader, PwC
- Verena Ross, ESMA Chair

Introduction from Verena Ross



Verena Ross, ESMA Chair, congratulated EFRAG for its 21st anniversary and welcomed the new EFRAG FRB and EFRAG SRB Chairmen. Verena Ross highlighted EFRAG's crucial role in corporate reporting, particularly in its recent activities on sustainable reporting. She also mentioned ESMA's participation and contribution to the EFRAG's workstream on ESRS. She referred to the important issue of connectivity between financial and sustainability reporting, which relates to three main aspects:

- the consistency of different pieces of information conveyed through different parts of the annual financial reports;
- the use of cross-referencing and digitalisation; and
- the rules, controls and supervisory measures aimed at promoting connectivity.

Verena Ross emphasized two crucial groups of actors in the corporate reporting process needed to foster connectivity: the members of the administrative and supervisory board of the issuers (to promote the connectivity between financial and sustainability reporting) and the external auditors (which can play an educational role).

Wolf Klinz's first question to the panel was *"Where is financial reporting heading, particularly when considering the current economic environment in Europe?"*

Nadja Picard stated that whilst inflation and other economic issues will impact financial reporting, sustainability issues still are front of mind and will have a significant impact on corporate reporting. Ann Jorissen commented on the IFRS foundation's decision to implement two different boards (IASB and ISSB). Ann Jorissen questioned the need for having two different boards and was curious how it would evolve in the next years, particularly the influence of sustainability issues in financial reporting. Verena Ross stated that the macro environment, including the uncertainty on interest rates, inflation and energy prices, will challenge the corporate reporting world. Nicklas Grip considered that after a long period of dramatic changes to corporate reporting (IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases*, IFRS 17 *Insurance Contracts* and Sustainability) there is a need for a period of calm that is more focused on the maintenance of the IFRS Standards. Serge Pattyn considered that there was room to improve financial reporting and referred to the IASB's project on *Primary Financial Statements* and the Post-Implementation Review of IFRS 15.

Wolf Klinz referred to Emmanuel Faber's statement on developing a conceptual framework while posing the second question "*Will the different requirements be compatible and connected?*".

Ann Jorissen replied that financial and sustainability reporting should be coherent and consistent. Nonetheless, she noted that financial reporting standards have been developed based on a conceptual framework while sustainability standards do not have one at this stage. Also, the sustainability reporting stakeholders are wider than those of financial reporting (for sustainability the focus is not only to inform stakeholders' decision-making but it is also to influence the behaviour of companies). Thus, only a certain amount of information can be interconnected. Serge Pattyn expected sustainability matters will impact financial reporting and both will be deeply connected. He referred to the importance of the corporate reporting package (the management report, financial statements and sustainability disclosures/statements) and users' needs, including information about a company's main risks, strategy and business model.

Wolf Klinz followed up with the next question: "*Will EFRAG, the IASB and regulators have to work closely in the future?*"

Nicklas Grip highlighted the need for regulators and standard setters to coordinate their efforts so that companies can apply different and complex corporate requirements and avoid contradictory objectives/requirements. Verena Ross emphasised the efforts made by EFRAG, the IASB, the ISSB and ESMA to ensure that the information is well connected when considering the management report, financial statements and sustainability statements or disclosures (to the benefit of investors and other capital market participants).

Wolf Klinz asked the panellists' opinions on how the investors and other stakeholders could be protected from greenwashing. Nadja Picard listed several possible measures to prevent greenwashing including having high-quality and clear standards that can be properly implemented by issuers. However, she noted it will take time to fully build out methodologies, processes, IT systems and controls that will ensure the reliability of sustainability reporting information. Ann Jorissen also highlighted the important role of auditors, regulators and the legal environment in preventing greenwashing.

The next question posed was "*Did you receive any negative feedback from the private companies on sustainable reporting, in terms of additional burden or competitive disadvantages?*" Nadja Picard replied affirmatively but added that many companies in Europe were already preparing themselves for the implementation of sustainability reporting, which would represent a significant effort for them but also an opportunity to sharpen strategies for the future. By becoming leaders in sustainability reporting European companies will increase their attractiveness as investment targets.

Wolf Klinz asked, “*Will digital consumption of financial reports have a key role in the process?*” Ann Jorissen referred to the important role of digital consumption of corporate reports as it will help investors to overcome the issue of information overload. She also questioned to what extent digitalisation will influence how the standards are developed. Verena Ross highlighted that digital consumption of financial reports was increasing in Europe as it helped investors to deal with a significant amount of information. Verena Ross mentioned that for financial reporting there was the European Single Electronic Format and such a format will be extended to sustainability reporting information to ensure its comparability and understandability.

Wolf Klinz’s final question was, “*What are the users’ expectations from the implementation of sustainability disclosures together with financial reporting and regulation changes?*” Serge Pattyn elaborated on the importance of integrated corporate reporting (the management report, financial statements, and sustainability disclosures) and users’ needs, including information about a company’s risk, strategy and business model.

Closing remarks

Hans Buysse thanked all speakers, panellists and participants and provided a summary of the key messages made that were as follows:

- EFRAG delivered high-quality output to the EC on time;
- EFRAG should continue to focus not only on financial reporting but also on sustainability reporting;
- EFRAG should continue to work together with other organisations, both on financial and sustainability reporting;
- EFRAG needs more funding and resources to operate effectively;
- Double materiality, interoperability, risks and integrated reporting are concepts of the utmost importance;
- Financial and sustainability reporting will have to evolve continuously to keep up pace with a fast-changing world; and
- There is a need to build an effective mechanism against greenwashing.