



June 11, 2020

*Via electronic mail*

Mr. John Berrigan  
Director-General, DG Financial Stability, Financial Services and Capital Markets Union  
(FISMA)  
European Commission

Mr. Martin Spolc  
Head of the Sustainable Finance and Fintech Unit, Directorate-General for Financial Services  
European Commission

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## **Re: Review of the EU Non-Financial Reporting Directive**

Dear Mr. Berrigan, Mr. Spolc:

The Institute of International Finance (IIF) and its members, which broadly represent the global financial services industry (“industry”), appreciate the opportunity to provide high-level comments on the European Commission’s public consultation on the revision of the European Union (EU) Non-Financial Reporting Directive (NFRD). The IIF is a global association, with close to 450 members from 70 countries, including commercial and investment banks, asset managers, and insurance companies. The comments in this letter have been informed by discussions of the IIF Sustainable Finance Working Group (SFWG), under the leadership of Chair Daniel Klier (Group Head of Strategy and Global Head of Sustainable Finance, HSBC) and Vice-Chair Judson Berkey (Managing Director and Group Head of Sustainability Regulatory Strategy, UBS).

**Incorporating sustainability considerations and objectives into business strategy and risk assessment will create some of the greatest challenges — and opportunities — the financial sector has ever encountered.** Through research and analysis, policy engagement, industry dialogue, and the development of tools and resources, the IIF SFWG actively seeks to support the mainstreaming of sustainability priorities into financial market practice. Public policy has an essential role in creating an appropriate framework to mobilize both public and private capital for investments in sustainable economic activities and infrastructure, and we very much welcome the efforts of different EU institutions in advancing innovative approaches and proposals in this area. We also welcome the EU’s desire to enhance international coordination on many of these issues through the International Platform on Sustainable Finance.

**From a market perspective, we strongly believe that sustainable finance needs a harmonized and sound policy and regulatory framework that enhances**

**transparency**<sup>1</sup>. A consistent framework can enable improved financial decision-making, support market development, protect consumers, and ultimately enable tangible sustainability outcomes in the real economy. Clear, consistent, and robust reporting and disclosure of information pertaining to Environmental, Social and Governance (ESG) factors is an essential prerequisite for effective assessment of and action on sustainability risks and opportunities by corporates and financial institutions.

**However, progress towards more effective ESG disclosures has been constrained by inconsistencies in underlying disclosure frameworks and methodologies.** The uncoordinated evolution of different voluntary frameworks has resulted in a wide dispersion of standards, frameworks, and indicators for similar types of ESG information. While a proliferation of reporting frameworks in past decades has stimulated innovation in disclosure practices, the rapid mainstreaming of ESG issues in financial markets creates a pressing imperative for consolidation. The lack of a recognized and uniform standard makes it difficult to achieve comparability, and can lead to confusion and risk of greenwashing. This diversity of frameworks and approaches is reflected in policy and regulatory measures for ESG reporting and disclosure, which are reflected in roughly 50% of official-sector measures pertaining to sustainable finance.<sup>2</sup>

Working with our members, the IIF has reflected on options to minimize duplication in disclosure frameworks, and reduce the risk of fragmentation between evolving regulatory approaches in major jurisdictions. We have recently published a paper analyzing this challenge and proposing a way forward towards a common, harmonized non-financial reporting framework – *Building a Global ESG Disclosure Framework: a Path Forward*.<sup>3</sup> **One of our key recommendations is that steps should be taken to develop a harmonized cross-sectoral framework for ESG disclosure across jurisdictions.** In the longer term, a durable solution could be the emergence of a generally accepted international non-financial reporting standard for corporates and financial institutions. The starting point for this effort should be the current market-driven voluntary frameworks and disclosure practices. Steps are being taken to integrate voluntary frameworks, and intentions relating to harmonization have been communicated by accounting standards setters and regulators. Effective coordination will require a global solution. We therefore encourage the G20, FSB (building on the efforts of the TCFD), accounting standard setting bodies (International Accounting Standards Board, IASB, and Financial Accounting Standards Board, FASB) and relevant existing voluntary initiatives to work within their mandates to align and consolidate ESG disclosure frameworks for financial institutions and other corporates. We would also recommend that the relevant prudential standard setting bodies are also engaged in the process to help shape the framework for financial institutions.

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<sup>1</sup> Further discussed in IIF 2020 (March). “[Sustainable Finance Policy & Regulation: The Case for Greater International Alignment](#)”.

<sup>2</sup> According to IIF analysis of ECOFACT and UNEP data. Data captures relates to measures specifically targeting financial institutions, and relevant measures targeting corporates.

<sup>3</sup> IIF 2020 (June). <https://www.iif.com/Publications/ID/3945/Building-a-Global-ESG-Disclosure-Framework-a-Path-Forward>.

**We consider efforts at the global level to strengthen alignment in disclosure requirements for sustainability-related information across jurisdictions to be of paramount importance.** Ensuring that regulatory approaches are consistent on disclosure and other issues will be key to unleashing the potential of the private financial sector to support the low-carbon transition. As set out in the IIF paper, on top of a strong foundation in terms of international standards, there is scope to accommodate regional or jurisdictional perspectives as additional building blocks through the regulatory or legislative process for implementation.

**In recent years, Europe has been the epicenter of development around disclosure expectations for corporates and financial institutions, particularly due to the adoption of the EU NFRD.** Since 2018, with the launch of the EU Commission Action Plan on Sustainable Finance, the disclosure agenda has expanded significantly, resulting in an increasingly complex landscape of instruments and initiatives. We welcome the broad scope of application that the EU authorities take on the topic of non-financial disclosures. We believe that any broadening and deepening of disclosures by financial institutions will necessitate similarly detailed disclosures from corporate counterparties, considering the currently uneven comprehensiveness and quality of corporate disclosures.

**Regulatory processes currently underway at the EU-level are likely to result in both a broadening and deepening of disclosure obligations in terms of sustainability issues considered, materiality perspectives and granularity.** The implementation of multiple instruments with overlapping objectives may create confusion. We would agree with the perspectives of the ECB as set out in its Eurosystem reply to the European Commission’s consultation on the NFRD, which notes that the existing framework “*presents a challenging landscape to navigate and comply with*” and that “*(d)uplication of obligations, inconsistency in the definitions, scope and objectives of the requirements represents a factor of unnecessary complication and ambiguity*” for regulated entities.<sup>4</sup> Furthermore, the timing and sequencing of implementation of new disclosure measures, including those requiring financial institutions to gather new types of data from corporates that is not currently disclosed in a consistent manner, may require reflection and further coordination.

**This consultation represents an important opportunity to streamline and harmonize the evolving EU regime for disclosures of ESG information by financial institutions and corporates in Europe and beyond.** As well as creating an important precedent, the developments in the EU’s disclosure requirements and expectations will have direct impacts on financial institutions domiciled outside of the EU as well as those based in Europe. Therefore, regardless of where located, financial institutions around the world are likely to be impacted by the evolving sustainability disclosure agenda in Europe. Many jurisdictions are exploring, designing, and implementing sustainable finance strategies which reflect elements of the EU approach – for instance, the introduction of sustainability taxonomies and related disclosure obligations to substantiate relevant information to evaluate taxonomy compliance. In this context, we perceive a risk that regulatory fragmentation may inhibit the

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<sup>4</sup> [https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations\\_20200608-cf01a984aa.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations_20200608-cf01a984aa.en.pdf).

path to consistent and robust disclosure of ESG information and data.<sup>5</sup> More generally, such fragmentation can limit the capacity to mobilize the full scale of global capital markets to finance the transition, and ultimately create an unlevel playing field for financial institutions that operate across jurisdictions.

**The IIF believes that the EU authorities can play an important role in escalating the discussion of non-financial reporting disclosures to the international level among the relevant standard setting authorities, thereby advancing consistency at the global level.** This could be achieved, for example, through the EU’s participation in the global standard setting authorities, and also through discussion with other jurisdictions and authorities in the International Platform on Sustainable Finance. We believe that close international dialogue between policymakers –and with the global financial industry– will be required to develop a harmonized approach to non-financial reporting and ensure that it is reflected in regional regulatory and policy instruments. In this regard, we support the ECB’s remarks in *that “a key strategic objective going forward is promoting internationally consistent frameworks and preventing regulatory fragmentation”*.<sup>6</sup>

**The IIF believes that the proposed development of a European non-financial reporting standard should, wherever possible, consider the steps towards harmonization of ESG disclosure frameworks underway at the global level.** Several different efforts are currently underway to accelerate the process towards harmonization.<sup>7</sup> A durable global solution, engaging the international accounting standards setters (IASB and FASB) and global prudential standard setting bodies (including the FSB, BCBS, IAIS and IOSCO), will be critical to ensure widespread adoption. Independent development of an EU-specific standard could contradict with objectives of promoting a globally consistent approach.

**Going forward, where authorities (such as the EU) are strengthening ESG reporting requirements or expectations, it will be important that these can adapt over time to reflect global alignment efforts.** A harmonized global standard will enable more consistent, comparable, and complete disclosures, especially for cross-border groups that would otherwise face a patchwork of requirements across markets. A global framework would also help public sector authorities, including prudential supervisors, to assess a financial group’s compliance with expectations. This could ultimately help reduce barriers to cross-border investment, and increase investor protection. In the absence of a single, harmonized global framework, a mechanism for assessing equivalence and mutual recognition of different types of ESG disclosures could be needed to reduce the impact of fragmentation in disclosure expectations for cross-border financial institutions.

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<sup>5</sup> Further discussed in IIF 2020 (March). “[Sustainable Finance Policy & Regulation: The Case for Greater International Alignment](#)”.

<sup>6</sup> [https://www.ecb.europa.eu/pub/pdf/other/ecb\\_eurosystemreplyeuropeancommissionpublicconsultations\\_20200608~cf01a984aa.en.pdf](https://www.ecb.europa.eu/pub/pdf/other/ecb_eurosystemreplyeuropeancommissionpublicconsultations_20200608~cf01a984aa.en.pdf)

<sup>7</sup> Entities including SASB, GRI, CDP, CDSB, and IIRC are collaborating bilaterally and multilaterally through projects like the Corporate Reporting Dialogue to identify equivalence between their frameworks. Initiatives like the WEF/IBC Common Metrics are seeking to formulate a common standard for all corporate ESG reporting, synthesizing existing frameworks.

On behalf of the IIF Sustainable Finance Working Group, we hope that these private sector perspectives will contribute to your work on developing non-financial disclosure requirements in the EU and, more generally, to the EU's efforts to enhance international coordination on sustainable finance issues. We would appreciate the opportunity to discuss any of these matters further and invite you to contact Sonja Gibbs ([sgibbs@iif.com](mailto:sgibbs@iif.com)) and Andrés Portilla ([aportilla@iif.com](mailto:aportilla@iif.com)) should you have questions or comments.

Sincerely,

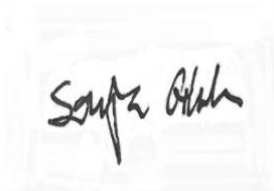
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