Japan Business Council in Europe

19 July 2018

JBCE comments on non-financial reporting and the EU taxonomy on sustainability

The Japan Business Council in Europe (JBCE) supports the EU Action Plan on financing sustainable growth to improve dialogue between companies and their investors and to channel their funds into sustainable activities. The EU's leadership in this area, particularly in the Non-financial reporting Directive (NFI), is paramount in promoting debates around sustainability practices and reporting.

JBCE's general position is that it is too early to review meaningfully questions such as effectiveness, relevance, and the scope of non-financial reporting, as 2018 is the first reporting year of the NFI. That being said, **JBCE would like to provide the following five points** in view of the public consultation on the fitness check on corporate reporting and a revision of the non-binding guidelines, as well as the forthcoming stakeholder consultation on the EU technical screening criteria defining 'sustainable economic activities' (EU Taxonomy).

1. JBCE has consistently argued that the EU should not create its own reporting framework, as it increases reporting burden on companies. As argued in our Statement on 24 February 2017 as a response to the non-binding guidelines, the target audience, relevant stakeholders, as well as the choice of a reporting framework should be left to companies to decide. Practical experience shows that materiality is company-specific beyond sector-specific, and how to address these material issues depends on the choice of a particular audience. Hence, JBCE calls again for a principles-based approach, which would allow flexibility to explain their unique business in a dynamic and changing environment.

2. JBCE does not think it is a good idea that the Commission moves towards endorsing particular reporting schemes and imposes on companies a generic set of quantitative indicators. Early adopters of sector-specific quantitative indicators may show how they lead the sustainability space over their competitors. But the very indicators may not be material to competitor companies and may not be considered relevant by their investors for present and future value creation. JBCE remains concerned that the EU may revise its non-binding guidelines in favour of something more prescriptive, e.g., encouraging reporting according to particular frameworks such as TCFD. Such a move would inevitably increase costs and the administrative burden of companies through changing internal procedures, expanding the information collection channel, measurement, and controls.

3. JBCE would like to point out that the current non-binding guidelines contain competing objectives: (1) to provide more comparable non-financial information on one hand, and (2) to disclose high-quality, relevant, useful, consistent information on the other. Some aspects of the NFI non-binding guidance (e.g., Stakeholder orientation) sit in discordance with the integrated reporting principles. Such conceptual discrepancy needs to be addressed if and when the EU decides to mention integrated reporting in the forthcoming non-binding guidance. Integrated reporting is a useful tool for companies to improve decision-making and risk management, but it should remain a voluntary framework. Reporting is a journey and an ongoing process, therefore examples of best practice will help companies to create meaningful non-financial information disclosure rather than burdensome obligations.

4. JBCE believes that the EU should wait for a 2020 review of the OECD BEPS regime instead of proceeding to mandate public disclosure of the report. JBCE supports the creation of an internationally fair taxation framework and recognises the value of CBCR—if done correctly—in achieving this aim. However, the OECD/G20 BEPS Project requires jurisdictions to have a framework in place to enforce legal protection of the confidentiality of reported information. The mandatory public disclosure foreseen by the European Commission represents a worrying departure from this principle. JBCE member companies, together with Keidanren and the members of EU-Japan Business Round Table, have been consistent in their view that the EU should <u>not</u> create additional administrative burden beyond the OECD BEPS Action 13 requirements.

5. Finally, JBCE thinks that transparency is more effectively enhanced by dialogue and engagement rather than reporting. Written reports are often outdated and lack context and narratives, which do not necessarily enhance investor understanding of material non-financial risks and opportunities. In this context, it is important to point out digitalisation of information also has a downside. Despite the facilitated user access, it increases risks of misinterpretation when singularly used without supplementary narratives. From JBCE's perspective, more quantification of NFI through quantitative indicators is likely to make other means of communication, such as dialogue and engagement, more valuable for investors to understand the company's business model, risks and opportunities, and strategies employed.

<u>About JBCE</u>

The Japan Business Council in Europe was established in 1999 and is a leading European organisation representing the interests of more than 80 multinational companies of Japanese parentage operating in the European Union.

Our members operate across a wide range of sectors, including electronics, wholesale trade, precision instruments, pharmaceutical, railway, textiles, glass, automotive, financial service and chemical manufacturing.

Building a new era of cooperation between the EU and Japan is the core of our activities. The key goal of JBCE is to contribute to EU public policy in a positive and constructive way by drawing on the expertise and experience of our member companies.