LOOKING BEYOND FINANCIAL PERFORMANCE CONFERENCE

ecoDa, PwC & WBCSD

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1. Introduction: J. Wesseldijk, ecoDa Chair.

There are different types of Board members and each one looks at sustainability differently:

-The deniers: they look for formality, sustainability in one page, they approach sustainability via cost reduction, customer demand, risk exposure

-The hard thinkers: sustainability affects the business; they look for damage control and a minimum cost of sustainability

-The superficial: they have well meaning, good intentions but do not want to take the lead for sustainability, they need a special approach such as a special committee

-The True believers: they understand the opportunities for society, company, ethical supply chain, sustainable products, energy neutral facilities,…

2.Keynote: F. Hopmeier, member of cabinet VP Jyrki Katainen

The reflexion paper on future of Europe regarding sustainability is a good reference to build a sustainable Europe.

There is a necessity for stronger policies, creating opportunities for new job, exporting sustainable services, products.

Trust is important: ethical and sustainable companies are important for investors, potential employees.

It is crucial to understand that growth and low carbon initiatives are compatible.

Europe has also done huge efforts in circular economy eg plastic : by 2020, all plastics must be recyclable.

In the action plan on sustainable finance, it is clear that if we want to change the markets, we must change the financial system:

-reorient capital flows to more sustainable funds

-manage sustainable risks

-focus on long term strategy

-foster sustainable governance in the companies

In the revision of shareholders rights directive, there are duties for listed companies to include sustainability in the remuneration packages.

The EC is currently assessing the need for Boards to have sustainable strategy, including in the whole supply chain and to redefine the terms of the interests of the company. First conclusions will be shared at the end of the autumn and final ones by the end of the year. Than a decision will be taken for new legislation or not.

3. Roundtable 1: Notion of global performance moderated by M. Laurila, DG Justice

W. Oulton: Chair Eurosif

In asset management, there is a business preference regarding sustainable investments but more education is required about what it means.

Experts may be appointed to compensate the lack of knowledge in this area in the investment world.

There should be more sustainable financial products but a work is required on the taxonomy and the sustainable criteria for the clients.

The Benchmarks are an issue: few information available and not relevant.

J. C. Georghiou, Assurance Policy Leader, PwC Europe

There is a need for sustainable business changes: new purpose of the economy, new business, renewal of measuring and reporting factors.

The whole system must change: mistrust, dissatisfaction, business based on profit making. We need a new macro environment (new legal frame, culture, value).

There is a need for a global framework and approach.

There are many initiatives and frameworks that go beyond CSR but the data are inadequate and there are no Standards.

The CEOs want the risk exposure, business measure performance and integrated reporting is a good tool.

PwC has conducted a survey amongst CEOs and

- 72 % realise SCG is important
- 23 % disclose what is meaningful and know that more actions are needed
- 17% are striving

L. Van den Berghe, Leader Corporate Governance Dialogue at ecoDa

In the new governance, there have been 3 waves so far:

-1st wave: corporate interests are challenged because Managers were so powerful people invest money where the power is in hands of Management and where investors had nothing to say. As a reaction, mechanisms were implemented to foster the Board and take the interests of the shareholders into account. The Solution was to create a board with independent directors, independent of Management and nominated by shareholders.

-2d wave: the majority shareholders are powerful and it is a challenge for minority interests shareholders. As a reaction, we tried to take away the resources for the interests of the majority shareholders. The solution was the creation of independent board with independent directors not representing the majority of shareholders, neither the executive.

-3d Wave is now: there is an interest go beyond the corporate social responsibility, ESG factors: there are new duties to reply on and they go beyond the ones of the shareholders. The board is nominated by the shareholders and promote their interests. There is no solution yet but some ingredients: the whole system of economy, based on the use of economic goods and the charge of a price to make benefits, must change

Externalities must be included in the model, we must pay attention beyond financial performance.

Today Directors duties are there to promote the interests of shareholders but also the ones of stakeholders that are not liable as long as there is no law. The EU opens the pandora box!

The regulator must define what making business means. It is up to the shareholders to define the return they want on their investments.

The Shareholders directive oblige to disclose to the external word the purpose of the company and many will have a sustainable objective.

F. Jurdant, OECD

He shares the [TCFD guidance: principles of corporate governance]

Climate risks are part of the Board oversight today and monetary and non-monetary incentives are given to Executives that manage sustainable risks.

Climate competencies in the Executive are discussed and there is an engagement to develop the capabilities of the Board in this area as well.

Climate related financial risks need to be better understood by the Board

Environmental issues must be managed now …there is an opportunity to act now and grasp opportunities linked with sustainability.

There is no magic solution but corporate governance in private sector is key aspect.

There is a research ongoing at EC,DG Justice about the link of sustainability and remuneration package (Sophie)

It is interesting to notice that there is an inverted correlation between CEOs speech on climate change and the actual actions in the company!

4. Round Table 2: Tomorrow's successful business acts today, moderated by R. Ambrazevicius, Baltic Institute of Corporate Governance

M. Abela ,WBCSD

Everybody is afraid to make standards and define quality of sustainable reports, but the current publication is poor and not usable for investors. We need relevant and evolutive data to compare performance over year. In many companies, marketing department manages the information and not the accounting department.

The governance is key for the quality of the disclosures.

We want to see successful companies; we need resilient business models that take care of these issues for good business and for the economy.

K. Litvack, Non-Executive Director ENI

3% of the Board members are choose for their sustainability knowledge!

Discussions at Board meetings do not include these issues as there is no expertise.

It is difficult to bring this topic to the Board and discuss about it : no tool exists, there is nothing about the long term resilience of the company, we cannot assess the business we should be in 10 years' time… the KPIs and indicators on climate change are not usable by the Board.

We must reinforce the engagement with investors, policy makers.

A. Daroy Interim Director IOD

The key question is How to apply this in business in a practical way?

The UK framework of company law obliges Directors to consider climate/environment issues and the impact on business. Clear definitions have been set up. There is a new set of requirements in the reporting and remuneration must be linked with climate impact on planet.

A Council for sustainable business has been set and it aims to advise government identifying actions for improving environment substantially in businesses.

Pressure between immediate goal and long term goal exists but the long term sustainability must be the way in the future and we need to balance with short term practicalities such as running business for profitability.

L. d'Otreppe, Vigeo Eiris

There are data that are reliable and measurable, but they are provided by third parties

Viego Eiris assess performance through non-financial data and give information to investors: what are the material risks and how they manage them?

The United nation Sustainable Goals is a useful framework to use (17 goals) to evaluate ESG factors.

How companies encompass these new risks and opportunities, to what extend companies fulfil these goals?

Only 5% of companies have highly positive contribution to ESG factors.

In most sectors, it is possible to reinvent the business to be sustainable and tackle the new risk areas to become opportunities.

3 sources are used for the analysis: public information from companies, stakeholders information, general publications (press,..).

N. Theuma-IOD Malta-Executive Director Paragon

It is now important to offer something meaningful for the society that is sustainable.

M. de Fabinani, ecoDa Chairman Policy Committee Chair and Board members in various companies

Yesterday, we were looking for reputation, competitiveness, success, evidence of what companies are doing (reporting).

Tomorrow, the duration of companies depends on the business you are in (industry 10 to 20 years, oil industry 25 years…), Board of Directors must act permanently, information flow must be transparent to Executives and Governance must be adapted.

Board Committees are important, but the number is growing (nomination, audit, remuneration, risks…).

We look at stakeholders (employee representatives in France for exp), we need reporting on long term issues and options.

The Non-Financial information is on top of the financials and we go through a gradual transition to satisfy long term existence.

We need a perspective of Non-Executives in the following principles:

-acknowledge that climate knowledge must exist in the Board

-major investment and strategic decisions for the long term must include climate impact because the legislation will consider it

-there is a time horizon issue: longer term now

-externalities must be included in the discussions

-the influencers in the Board must be conscious on sustainability to get it in the strategy in a visible way

-Climate change must be included in the risk management and the model must be reviewed accordingly

We must not forget that the social dimension is also becoming important.

There is a need for a Code of conducts at European level.

We should not link ESG data and finance performance.

5. Improving governance and internal oversight, M. Abela (WBCSD)

The Top risks are environmental (WEF 2019): more info on the website of WBCSD and an interesting handbook to report ESG.

Lot of values come from intangible assets now and we must redefine the value structure, change the way businesses make decisions.

There is a need to combine risk management; integrated performance management, governance & internal oversight to facilitate business decisions, issue better external disclosure / reporting.

There is currently a global project in 3 phases:

-phase 1: research and report will be available end of May,

-phase 2: interviews,

-phase 3: material for board members to integrate sustainability.

It is also worth mentioning that only 55% of companies are fully compliant with the Standards on ESG.