Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

36th SESSION
30 October – 1 November 2019
Room XIX, Palais des Nations, Geneva

Wednesday, 30 October 2019
Morning Session

High-Level panel
Impact of sustainability and the 2030 Agenda on Sustainable Development on financial and non-financial enterprise reporting

Presented by

Thomas Verheye
Principal Adviser, Green Finance and Investment
European Commission

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Session – 2 The Role of Regulation in Driving TCFD Implementation

The Sustainable Finance Action Plan and New European Green Deal

Thomas Verheye
Principal Advisor Green Finance & Investment
European Commission
DG - Environment
Role of Regulation in Driving TCFD Implementation

Content

I. Context for Discussing Climate-Related Disclosures and SDGs
   I. Rapidly rising natural capital risks jeopardize economies and societies
   II. The Importance of Total (Environmental) Impact Management
   III. The need to step up actions for mobilize private investments support sustainability

II. The Action Plan for Financing Sustainable Growth
   I. Objectives and Priority Actions
   II. The EU Non-Financial Reporting Directive, Guidelines, and TCFD
   III. Other

III. Future Action
   I. The new European Green Deal
   II. The emerging environmental accounting practice
   III. Other
All Natural Capital Degrading Rapidly
*Risks interlinked and jeopardizing Social and Economic Sustainability*

*SDG wedding cake format suggesting sound natural capital forms the basis sound social and financial capital*

* WEF Global Risk Reports
The Importance of Total (Environmental) Impact Management
For Reducing Risks (Impacts & Dependencies) Rather than Shift Risks Across Areas

Reducing the Total Natural Capital Footprint (Impact and Dependency)

Towards “break-even” levels for health, ecosystems, ...
compatible with One Planet objectives (Paris, SDGs, EU
Environmental Action Plans,...

- Climate & Air
  - Global Warming
  - Air Pollution, Ozone, ...
- Water
  - Pollution, Use,
    Droughts, Floods, ...
- Land**
  - Degradation,
    Fragmentation, ...
- Biodiversity
  - Loss of habitats & species, ...

By greening the economy through (better)
Implementing & transitioning towards a Resourceful
carbon-neutral, and ultimately
Circular Economy.

* Applicable universally at international, national, regional, sectoral, corporate and project level
** Also covering the (solid) waste, raw material and energy sources agenda
Credible Green Deal Requires Strong Green Finance Strategy

But Distance to Target Pathway Not Yet (Credibly) Defined

Current and Assumed Market Shares

Next 5 years crucial: All LT (infrastructure) investments are to be 100% sustainable
The 2018 Action Plan for Financing Sustainable Growth
Delivering 10 Priority Actions by 2020 Building on HLEG Report

<table>
<thead>
<tr>
<th>Reorient capital flow towards more sustainable investments</th>
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</thead>
<tbody>
<tr>
<td>1. Establish a <strong>Taxonomy</strong> of environmentally sustainability activities</td>
</tr>
<tr>
<td>2. Create <strong>standards and labels</strong> for green financial products</td>
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<tr>
<td>3. Fostering <strong>investment in sustainable projects</strong></td>
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<tr>
<td>4. Incorporate <strong>sustainability</strong> in providing investment <strong>advice</strong></td>
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<td>5. Develop sustainability <strong>benchmarks</strong></td>
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<table>
<thead>
<tr>
<th>Mainstreaming sustainability in risk management</th>
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<tr>
<td>6. Better integrate sustainability in ratings and market research</td>
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<tr>
<td>7. Clarify institutional <strong>investors'</strong> and asset managers' <strong>duties</strong></td>
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<tr>
<td>8. Incorporate sustainability in <strong>prudential requirements</strong></td>
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<thead>
<tr>
<th>Foster transparency &amp; long-termism</th>
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<tbody>
<tr>
<td>9. Strengthen corporate <strong>sustainability disclosure</strong></td>
</tr>
<tr>
<td>10. <strong>↑sustainable corporate governance</strong> and <strong>↓ short-termism</strong></td>
</tr>
</tbody>
</table>
The EU Non-Financial Reporting Directive and Guidelines
Action #9 of the Action Plan for Financing Sustainable Growth

**Directive 2014/95/EU**
*(24.10.2014)*

- Large listed Cies, Banks and Insurance Cies, Other (Public Interest), 500 employees (ca. 6000)
- 4 Issues
  1. Environment
  2. Social & employee
  3. Human rights
  4. Bribery & corruption
- 5 Areas
  1. Business model
  2. Policies and due diligence
  3. Outcomes
  4. Risks and risk management
  5. KPIs
- Double Materiality
- First Reporting in 2018 (FY 2017)

**Guidance C 2017 4234**
*(26.6.2017)*

- Good Reporting Principles
  1. Disclose material information
  2. Fair, balanced & understandable
  3. Comprehensive but concise
  4. Strategic & forward-looking
  5. Stakeholder oriented
  6. Consistent & coherent
- 5 Areas
- Thematic areas
- Reporting Frameworks
- Board Diversity Disclosure
- Not Legally Binding

**Guidance Update C 2019/C 209/01**
*(20.6.2019)*

- Integrating TCFD
- 13 recommended disclosures
- 10 KPIs
The Double Materiality Concept
Embedded on the Non-Financial Reporting Directive

FINANCIAL MATERIALITY

To the extent necessary for an understanding of the company’s development, performance and position...

ENVIRONMENTAL & SOCIAL MATERIALITY

...and impact of its activities

Primary audience: INVESTORS

Primary audience: CONSUMERS, CIVIL SOCIETY, EMPLOYEES, INVESTORS

RECOMMENDATIONS OF THE TCFD

NON-FINANCIAL REPORTING DIRECTIVE
## The EU NFRD Guidelines – July 2019 Amendment

Mapping of NFRD Requirements and TCFD Recommended Disclosures

<table>
<thead>
<tr>
<th>TCFD Recommended Disclosures</th>
<th>NFRD Elements</th>
<th>Policies and Due Diligence Processes</th>
<th>Outcomes</th>
<th>Principal Risks and Their Management</th>
<th>Key Performance Indicators</th>
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<tbody>
<tr>
<td>Governance</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>a) Board’s oversight</td>
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<tr>
<td>b) Management’s role</td>
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<tr>
<td>Strategy</td>
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<tr>
<td>a) Climate-related risks and opportunities</td>
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<tr>
<td>b) Impact of climate-related risks and opportunities</td>
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<tr>
<td>c) Resilience of the organization’s strategy</td>
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<tr>
<td>Risk Mgmt</td>
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</tr>
<tr>
<td>a) Processes for identifying and assessing</td>
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<td>b) Processes for managing</td>
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<tr>
<td>c) Integration into overall risk management</td>
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<tr>
<td>Metrics &amp; Targets</td>
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</tr>
<tr>
<td>a) Metrics used to assess</td>
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<tr>
<td>b) GHG emissions</td>
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<td></td>
<td></td>
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<tr>
<td>c) Targets</td>
<td></td>
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</tbody>
</table>
The European Green Deal: Boosting Sustainability
Extending Priorities Beyond Climate & Moving Sustainable Finance Center-Stage

A Comprehensive Framework for Efficiently Managing Environmental and Social Risks & Opportunities whilst Future Proofing Businesses & Economies

Achieving Climate Neutrality by 2050

- Climate Law (55% GHG Reduction Target)
- Extended Emissions Trading System
- Carbon Border Tax
- Revision of Energy Tax Directive
- Climate Pact (Education & Training)

Protecting Europe’s Natural Capital for People and Health

- Biodiversity Strategy 2030
- Farm to Fork Strategy
- Zero Pollution Strategy
- Circular Economy Action Plan
- (Micro-) Plastic Free Oceans
- Sustainable Bleu Economy

Financing the Transition Leaving Nobody Behind

- Just Transition Fund
- Green Finance Strategy
- Sustainable Europe Investment Plan

- EIB 50% Climate Target
- Unlock €1 trillion Climate-related investments next decade

New Future-Ready Industry Strategy

- Greening the EU Semester Integrating SDGs

A Union that strives for more
My agenda for Europe
By candidate for President of the European Commission
Ursula von der Leyen
| **One Green Agenda** | **Climate, Natural Capital** (Air, Water, Land, Biodiversity)  
Low Carbon, Resource Efficient, Circular Economy  
Social |
| Education, Training, and Capacity Building | **Climate and Environmental Risks & Opportunities**  
Social, Economic & Financial Risk & Opportunities  
Sustainable Finance Excellence Centers |
| Risk Management Information & Governance | **Taxonomy (Climate + No Harm + Nat Cap + CE)**  
Non-Financial Reporting, Investors’ Disclosure, ... |
| Increasing Share of Sustainable Investments | **Investment Needs Analysis & Forecasts**  
Financial Product Standards (Green Bonds, Funds, ...)  
Portfolio Development (InvestEU, NatCap & CE, ...) |
| Impact Monitoring & Evaluation | **Market surveillance platform**  
Environmental impact monitoring & evaluation  
Social impact surveillance |
| R&I, Digitisation Co-operation | **Research, Innovation, Digitisation**  
Partnerships and Platforms  
Co-ordination |

*S* Recommendations are without prejudice to the decisions of the incoming European Commission.
The Emerging Corporate Environmental Accounting Practice
Enabling Total Impact Measurement and Management

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
<th>Tier 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stores/Warehouse/Offices</td>
<td>Assembly</td>
<td>Manufacturing</td>
<td>Raw Material Processing</td>
<td>Raw Material Production</td>
<td>Total in Millions</td>
</tr>
<tr>
<td>Air Pollution</td>
<td>8% €64.5</td>
<td>35% €272.2</td>
<td>27% €205.9</td>
<td>5% €170</td>
<td>11% €83.2</td>
</tr>
<tr>
<td>Greenhouse Gas Emissions</td>
<td>13% €100.0</td>
<td>12% €192.6</td>
<td>50% €385.7</td>
<td>50% €773.0</td>
<td></td>
</tr>
<tr>
<td>Land Use</td>
<td>4% €33.7</td>
<td>70% €350.6</td>
<td>50% €385.7</td>
<td>50% €773.0</td>
<td></td>
</tr>
</tbody>
</table>

Managing Risk: Simple or Smart?

Kering Environmental P&L Methodology and Group Results 2013
See also: https://www.kering.com/en/sustainability/environmental-profit-loss/
The Emerging Corporate Environmental Accounting Practice
Generating relevant information for managing the green (business) transition

Kering Environmental P&L Methodology and Group Results 2013
See also: https://www.kering.com/en/sustainability/environmental-profit-loss/
The Emerging Environmental Accounting Practice
Joining the Corporate Momentum (300+)
Environmental Accounting & SDGs

Reducing the **Total Natural Capital** Impact or Footprint

- **Climate & Air**: Global Warming, Air Pollution, Ozone, ...
- **Water**: Pollution, Use, Droughts, Floods, ...
- **Land**: Degradation, Fragmentation, ...
- **Biodiversity**: Loss of habitats & species, ...

2020 - 2025
2025 - 2030
2030 - 2050

- **B.3 GHG**
- **B.4 ODS**
- **B.1 Water**
- **B.4 Chemicals?**
- **B.2 Waste Mgt**
- **B.4 Chemicals?**

- **Pollution Control**
- **Resource Efficiency**
- **Decarbonisation**
- **Circular Business**

Σ
Thank you
# The 2018 Action Plan for Financing Sustainable Growth

## #7: Sustainability Disclosure by financial market participants and financial advisers

<table>
<thead>
<tr>
<th>Scope</th>
<th>What to disclose</th>
<th>Where to disclose</th>
<th>Who should disclose</th>
</tr>
</thead>
<tbody>
<tr>
<td>All investment products</td>
<td>How negative impacts on financial returns arising from sustainability risks are integrated in risk policies</td>
<td>Websites, pre-contractual information, marketing communication</td>
<td>all financial entities</td>
</tr>
<tr>
<td></td>
<td>How the financial entity considers adverse impacts on sustainability factors (negative externalities)</td>
<td>Websites, pre-contractual information</td>
<td>compulsory for financial entities &gt;500 and holding companies, other entities to disclose on a comply or explain basis</td>
</tr>
<tr>
<td>Investment products with sustainability characteristics or objectives</td>
<td>How these sustainability characteristics or objectives are met</td>
<td>Pre-contractual information, websites, periodical reports, marketing communication</td>
<td>all financial entities</td>
</tr>
</tbody>
</table>

The 2018 Action Plan for Financing Sustainable Growth
#9: Non-Financial Reporting Directive & Guidelines (Updated for TCFD)

- Business model
- Policies
- Outcomes
- Risks
- Indicators

13 recommended disclosures and 10 KPIs indicating which ones are TCFD recommended disclosures

Further guidance + specific further guidance for banks and insurance companies
EU Public or Private LLC Population
The scope of application for the NFRD (and other accounting regulations)
The Emerging Environmental Accounting Practice
Complementing The Financial and Non-Financial Information Framework
The Emerging Environmental Accounting Practice
Generating data relevant for managing the green (economy) transition

Applications
Moving towards management accounting

Corporate level
- Annual contribution
- Progress monitoring

Project level
- Site development
- M&A, divestments
- Technology shifts

Product level
- Product portfolio
- Product performance

- Reporting, advocacy
- Materiality, monitoring
- Decision making
- Steering, KPI setting

Corporate Environmental Accounting (E-GAAP)
Project Environmental Accounting (InvestEU, Art. 7.3)
LCA, PEF, OEF, EMAS, ISO 14040/44...
The Emerging Environmental Accounting Practice
Building Public-Private Partnerships and Platforms

Environmental Accounting Practitioners Platform(s)
(Best Practice Sharing and Promotion)

[International Environmental Accounting Panel(s)]
(Corporate E-GAAP)

LIFE E-GAAP Prep project
(InvestEU, EIB, ...)

Natural Capital Accounting Leaders & Learning Platform

Chemicals

Textiles

Food

Energy
The Emerging Corporate Environmental Accounting Practice
Enabling Total Impact Measurement and Management

<table>
<thead>
<tr>
<th></th>
<th>Emissions and Resource Use</th>
<th>Environmental Change</th>
<th>Change in Wellbeing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Air Pollution</strong></td>
<td>Emissions of pollutants (PM$<em>{10}$, PM$</em>{2.5}$, NOx, SOx, VOCs, NH$_3$ in kg)</td>
<td>Increase in concentration of pollution</td>
<td>Respiratory disease, agricultural losses, reduced visibility</td>
</tr>
<tr>
<td><strong>Greenhouse Gas Emissions</strong></td>
<td>Emissions of greenhouse gases (CO$_2$, N$_2$O, CH$_4$, CFC's etc in kg)</td>
<td>Climate change</td>
<td>Health impacts, economic losses, change in natural environment</td>
</tr>
<tr>
<td><strong>Land Use</strong></td>
<td>Area of tropical forest, temperate forest, inland wetland etc in hectares</td>
<td>Reduced ecosystem services</td>
<td>Health impacts, economic losses, recreational and cultural benefits</td>
</tr>
<tr>
<td><strong>Waste</strong></td>
<td>Hazardous and non-hazardous waste in kg</td>
<td>Climate change, disarrayment and contamination</td>
<td>Reduced enjoyment of local environment, decontamination costs</td>
</tr>
<tr>
<td><strong>Water Consumption</strong></td>
<td>Water consumption in m$^3$</td>
<td>Increasing water scarcity</td>
<td>Malnutrition and disease</td>
</tr>
<tr>
<td><strong>Water Pollution</strong></td>
<td>Release of specific heavy metals, nutrients, toxic compounds in kg</td>
<td>Reduced water quality</td>
<td>Health impacts, eutrophication, economic losses</td>
</tr>
</tbody>
</table>
1. What is the total environmental footprint of my activity for a given (fiscal) year?
2. How important is each natural capital category (air, water, land, biodiversity) vs. the total?
3. How is the footprint distributed geographically and along stage of the supply or value chain?
4. How do I expect the footprint to evolve in time and across locations?
5. Are these footprints causing business continuity or other risks now or in the future.
6. Should I take risk mitigation measures and if so, where to concentrate efforts?
7. How is the footprint comparing to those of other companies, sectors, countries,...?
8. How is my footprint evolving over time? Is it evolving according to the plan?