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

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Practical implementation of climate-related financial disclosures and their relationship to the SDGs

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Corporate Perspective – integration of climate-related financial disclosures

ISAR Workshop
29 October 2019
TCFD Preparer Forums

We help companies communicate their response to climate change and the energy transition.

- WBCSD is coordinating Preparer Forums for priority non-financial sectors at the request of the TCFD – Oil & Gas, Electric Utilities, Chemicals, Construction & Building Materials, Food & Forest products and Autos & Agriculture,

- Forums seek to assess the current state of disclosure, identify effective practices, common challenges, understand user needs, outline guidelines and disclosure developments over time.

Climate-related financial disclosures allow companies to disclose risks and opportunities associated with climate change supporting informed investment, lending, and underwriting decisions.
Previous TCFD Preparer Forum members

Oil and Gas
- Shell
- Total
- eni
- Equinor

Electric Utilities
- Iberdrola
- Enel
- EDP
- CLP
- EDF
- EnBW

Chemicals
- AkzoNobel
- DSM
- Solvay
- BASF
- Sumitomo Chemical
Current TCFD Preparer Forum members

Construction & building materials

ArcelorMittal  
CRH  
LafargeHolcim  
lendlease  
SAINT-GOBAIN  
SKANSKA

Food, Agriculture & Forest Products

mondi  
Nestlé  
Olam  
Unilever  
storaenso  
syngenta
Preparer Forum reports

In-depth description of the current state of climate-related financial disclosure and effective disclosure practices among leading companies.

Highlights include examples on:

- Integration of climate-related risks and opportunities into enterprise risk management and governance processes
- Measures of business resilience such as innovation, portfolio development and optimization as well as capital expenditure and flexibility
- Illustrative scenario analysis process (chemicals) and key quantitative parameters (oil & gas and electric utilities) associated with scenario analysis
- Illustrative climate-related metrics - progressing from operational to more financial measures and metrics
- User perspectives including credit and equity analysts
TCFD Preparer Forum support

“DSM has for many years been very proactive in addressing climate change, introducing an internal carbon price over 3 years ago and setting a Science Based GHG emission reduction target. But clear communication on this topic with the capital markets is also key and DSM was therefore among the first companies to commit to implementing the TCFD recommendations. We were pleased to be given the opportunity to join the WBCSD Preparer Forum as this cannot be done well in isolation and we support the report that has resulted from this collaboration. We hope the report and the Forum’s focus on scenario analysis will serve as inspiration to our industry to identify and manage climate risks and opportunities,”

Geraldine Matchett, CFO, Royal DSM.

“The financial sector is facing the critical responsibility to make the investment decisions that will help deliver and live in a +1.5C world. As a company whose identity and strategy is driven by this low carbon transition envisioned in the Paris Agreement, it is of vital importance to EDF that financial players access consistent, comparable and reliable information. This has been the ambition of the TCFD from its inception. This collective initiative coordinated by the WBCSD is a significant step on the path to implementing its recommendations in our sector. This is certainly key for the climate but also to drive a fair and mutually beneficial economic transition,”

Xavier Girre, Senior Executive Vice-President, Group Finance, EDF.
Oil & Gas output – describing resilience

Measures of resilience
- Committed & uncommitted capital expenditure
- Capital discipline
- Production forecasts & reserve life
- Payback periods
- Portfolio optimization/diversity – options
- Breakeven, IRR and cost of supply
- Sensitivity to carbon and oil prices

Assumptions, parameters related to scenario analysis and sensitivities
- CC(U)S, changing consumption/demand, policy environment, carbon pricing, electrification uptake, natural climate solutions etc.
- Impact on cash flow, net present value etc.
### Electric Utilities output – illustrative metrics

<table>
<thead>
<tr>
<th>KPIS</th>
<th>UNITS</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable capacity</td>
<td>GW - % &amp; total</td>
<td>Companies usually report on the breakdown of each energy source – wind, solar, hydro (as each has specific characteristics and combined with the geographic breakdown will also give a sense of diversification).</td>
</tr>
<tr>
<td>Renewable generation</td>
<td>GWh - % &amp; total</td>
<td>Companies will need to clarify the scope and definitions associated with this transition enablers category. It could include EV infrastructure, customer solutions (e.g., smart meters, energy services), smart networks (e.g., demand forecasting, automation and analytics), transmission and distribution infrastructure and storage. Companies may also consider disclosing these metrics in a way that aligns with their business reporting segments.</td>
</tr>
<tr>
<td>Renewable CAPEX</td>
<td>% &amp; total (local currency)</td>
<td>A number of variables can influence earnings, including economic cycle, weather, pricing, market dynamics and commodity prices. Details on how companies define EBITDA can differ (e.g., inclusion of non-recurring flows, gains on disposals).</td>
</tr>
<tr>
<td>Renewable EBITDA</td>
<td>% &amp; total (local currency)</td>
<td>Non-generaion transition enablers CAPEX &amp; EBITDA Number Companies will need to clarify the scope and definitions associated with this category. It could include number of EV charging points (public/private – owned, managed, financed), number of smart meters (% &amp; total), number of customer solutions sales, etc.</td>
</tr>
</tbody>
</table>

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Chemicals output — describing sustainable solutions

### DSM’s Brighter Living Solutions

**Evaluates products/innovations that are better for the planet (environmental benefits) and/or people (social benefits), compared to the market and across the entire life cycle.**

- Reduces or avoids GHG emissions
- Energy efficiency
- Application of renewable energy

**PRODUCT EXAMPLES**

DSM’s engineering plastics, such as Stanyl® Diablo, replace metals and other materials to achieve weight savings, reducing fuel consumption and the associated GHG emissions in the automobile industry. Using Stanyl® Diablo for one component, reduces CO₂ emissions by 1g per 10km. When used to reduce friction in the engine, Stanyl reduces CO₂ consumption by 1g per km.

### BASF’s Accelerator solutions

**Sustainable solution steering:**
- Assesses the sustainability contribution of products in its specific application and region along all three dimensions of sustainability in a cradle-to-grave value chain approach
- Portfolio grouped into four categories, ranging from solutions with a substantial sustainability contribution in the value chain (Accelerators), to solutions with market standard performance, up to solutions with a significant sustainability concern

- Reduces carbon footprint in production
- Enables GHG savings downstream
- Reduces energy consumption in production
- Enables energy savings downstream

Luprosil® and Lupro-Grain® are p-pionic acid-based preservatives that enable farmers to store feed grains for up to 12 months after harvest without drying them, which can reduce GHG emissions by an average of 85% per metric ton of feed.
TCFD Preparer Forums – common themes

1. **Measures of resilience** – evidence of strategic resilience, adaptive capacity, cash and capital flexibility, skills & competencies, organizational capital, business model and portfolio development etc.

2. **Assumptions** – parameters, conditions, inputs, timeframes associated with scenarios and sensitivities

3. **Financial disclosure** – acquisitions and divestments, capital allocation, R&D, actual or expected earnings, efficiencies etc.

4. **Medium to long-term disclosure** – business development and associated resource allocation (~5-10yrs)

5. **Standardization** – supporting comparability, common level of disclosure
Call to action

Mark Carney as one of the keynote speakers at the first global TCFD Summit in Tokyo, encourages for increased disclosure, refining metrics for decision-useful measure, building strategic resilience and to consider portfolios for transition to net zero #TCFD #Tokyo #ClimateChange

Firms ignoring climate crisis will go bankrupt, says Mark Carney

Bank of England governor warns of financial collapse linked to climate emergency

Bank of England boss says global finance is funding 4C temperature rise

Mark Carney says capital markets are financing projects likely to fuel a catastrophic rise in global heating

Corporations told to draw up climate rules or have them imposed

Bank of England governor gives firms two years to agree rules for reporting climate risks