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

Presented by

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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

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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

* 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

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*

## Reorient capital flow towards more sustainable investments

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Establish a <em>Taxonomy</em> of environmentally sustainability activities</td>
</tr>
<tr>
<td>2</td>
<td>Create <em>standards and labels</em> for green financial products</td>
</tr>
<tr>
<td>3</td>
<td>Fostering <em>investment in sustainable projects</em></td>
</tr>
<tr>
<td>4</td>
<td>Incorporate <em>sustainability</em> in providing investment <em>advice</em></td>
</tr>
<tr>
<td>5</td>
<td>Develop sustainability <em>benchmarks</em></td>
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</table>

## Mainstreaming sustainability in risk management

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
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<tbody>
<tr>
<td>6</td>
<td>Better integrate sustainability in ratings and market research</td>
</tr>
<tr>
<td>7</td>
<td>Clarify institutional <em>investors</em>’ and asset managers’ <em>duties</em></td>
</tr>
<tr>
<td>8</td>
<td>Incorporate sustainability in <em>prudential requirements</em></td>
</tr>
</tbody>
</table>

## Foster transparency & long-termism

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
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<tbody>
<tr>
<td>9</td>
<td>Strengthen corporate <em>sustainability disclosure</em></td>
</tr>
<tr>
<td>10</td>
<td>≥sustainable <em>corporate governance</em> and ≤ short-termism</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>Business Model</th>
<th>Policies and Due Diligence Processes</th>
<th>Outcomes</th>
<th>Principal Risks and Their Management</th>
<th>Key Performance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Board’s oversight</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>b) Management’s role</td>
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<tr>
<td>Strategy</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>a) Climate-related risks and opportunities</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>b) Impact of climate-related risks and opportunities</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>c) Resilience of the organization’s strategy</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Risk Mgmt.</td>
<td></td>
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</tr>
<tr>
<td>a) Processes for identifying and assessing</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>b) Processes for managing</td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>c) Integration into overall risk management</td>
<td></td>
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<tr>
<td>Metrics &amp; Targets</td>
<td></td>
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</tr>
<tr>
<td>a) Metrics used to assess</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>b) GHG emissions</td>
<td></td>
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<td></td>
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</tr>
<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
Sustainable Development (& Finance) Strategies Beyond 2020

Building Blocks for Moving Sustainability from Niche (1%) to Mainstream (~100%)*

One Green Agenda

Education, Training, and Capacity Building

- Climate, Natural Capital (Air, Water, Land, Biodiversity)
- Low Carbon, Resource Efficient, Circular Economy
- Social

Risk Management Information & Governance

- Climate and Environmental Risks & Opportunities
- Social, Economic & Financial Risk & Opportunities
- Sustainable Finance Excellence Centers

Increasing Share of Sustainable Investments

- Taxonomy (Climate + No Harm + Nat Cap + CE)

Impact Monitoring & Evaluation

- Investment Needs Analysis & Forecasts
- Financial Product Standards (Green Bonds, Funds, …)
- Portfolio Development (InvestEU, NatCap & CE, …)

R&I, Digitisation Co-operation

- Market surveillance platform
- Environmental impact monitoring & evaluation
- Social impact surveillance

* Recommendations are without prejudice to the decisions of the incoming European Commission.
The Emerging Environmental Accounting Practice
Complementing The Financial and Non-Financial Information Framework

Approaches to reporting e.g.,
- How to report - CDQSB, IIRC
- What to report - GRI, SASB, CDP, GHG Protocol

Strategic initiatives e.g.,
- UN Sustainable Development Goals
- Climate targets, commitments or declarations
- The Circular Economy
- Net Positive Impact

The Protocol helps to integrate natural capital into existing decision making processes

Depending upon the decision that you want to inform there are various tools and methodologies to help you value natural capital

Measurement approaches e.g.,
- Environmental Management Systems (ISO 14001) GHG Protocol

CDP = Carbon Disclosure Project
CDQSB = Climate Disclosure Standards Board
IIRC = International Integrated Reporting Council
ISO = International Organization for Standardization
GHG = Greenhouse Gas
GRI = Global Reporting Initiative
SASB = Sustainability Accounting Standards Board

External disclosure

Decision making

Strategy

By understanding value you are able to align decision making with your strategy

The Protocol also helps you to reduce the value of your natural capital

Measure

Value

INTEGRATING NATURAL CAPITAL INTO BUSINESS DECISION MAKING
The Emerging Corporate Environmental Accounting Practice
Enabling Total Impact Measurement and Management

<table>
<thead>
<tr>
<th>TIER 6: STORES, WAREHOUSE, OFFICES</th>
<th>TIER 1: ASSEMBLY</th>
<th>TIER 2: MANUFACTURING</th>
<th>TIER 3: RAW MATERIAL PROCESSING</th>
<th>TIER 4: RAW MATERIAL PRODUCTION</th>
<th>TOTAL IN MILLIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIR POLLUTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8% 104.5</td>
</tr>
<tr>
<td>GREENHOUSE GAS EMISSIONS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>35% 277.2</td>
</tr>
<tr>
<td>LAND USE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>27% 205.9</td>
</tr>
<tr>
<td>WASTE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5% 17.9</td>
</tr>
<tr>
<td>WATER CONSUMPTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11% 83.2</td>
</tr>
<tr>
<td>WATER POLLUTION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14% 106.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7% 56.0</td>
<td>13% 100.0</td>
<td>6% 33.7</td>
<td>26% 197.6</td>
<td>100% 773.9</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+)
The Emerging Environmental Accounting Practice
Building Public-Private Partnerships and Platforms

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

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

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

Reducing the Natural Capital Impact or Footprint

Climate & Air
Global Warming
Pollution, Ozone, ...

Water
Pollution, Use,
Droughts, Floods, ...

Land**
Degradation,
Fragmentation, ...

Biodiversity
Loss of habitats &
species, ...

Pollution Control
Resource Efficiency
Decarbonisation
Circular Business

B.3 GHG
B.4 ODS
 +/-

B.1 Water
B.4 Chemicals?
 +/-

B.2 Waste Mgt
B.4 Chemicals?
 +/-

2020-2025
2025-2030
2030-2050

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><strong>How negative impacts on financial returns arising from sustainability risks are integrated in risk policies</strong></td>
<td>Websites, pre-contractual information, marketing communication</td>
<td>all financial entities</td>
</tr>
<tr>
<td>All investment products</td>
<td><strong>How the financial entity considers adverse impacts on sustainability factors (negative externalities)</strong></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><strong>How these sustainability characteristics or objectives are met</strong></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
*Generating data relevant for managing the green (economy) transition*

## Applications
Moving towards management accounting

<table>
<thead>
<tr>
<th>Corporate level</th>
<th>Project level</th>
<th>Product level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual contribution</td>
<td>Site development</td>
<td>Product portfolio</td>
</tr>
<tr>
<td>Progress monitoring</td>
<td>M&amp;A, divestments</td>
<td></td>
</tr>
<tr>
<td>Materiality</td>
<td>Technology shifts</td>
<td></td>
</tr>
</tbody>
</table>

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

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Corporate Environmental Accounting (E-GAAP)

Project Environmental Accounting (InvestEU, Art. 7.3)

LCA, PEF, OEF, EMAS, ISO 14040/44...
# The Emerging Corporate Environmental Accounting Practice

*Enabling Total Impact Measurement and Management*

<table>
<thead>
<tr>
<th>Category</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$</em>{2.5}$, NO$_x$, SO$_x$, VOC$_s$, 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, reduced recreational and cultural benefits</td>
</tr>
<tr>
<td><strong>Waste</strong></td>
<td>Hazardous and non-hazardous waste in kg</td>
<td>Climate change, disamenity 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>
The Emerging Environmental Accounting Practice
Organizing data and information (accounting) to answer key questions

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?