
**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**

Presented by

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UNCTAD - ISAR Workshop

Practical Implementation of Climate-Related Financial Disclosures and their Relationship to the SDGs

*29 October, 2019
Geneva*

Session – 2 The Role of Regulation in Driving TCFD Implementaion

The Sustainable Finance Action Plan and New European Green Deal

Thomas Verheye
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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

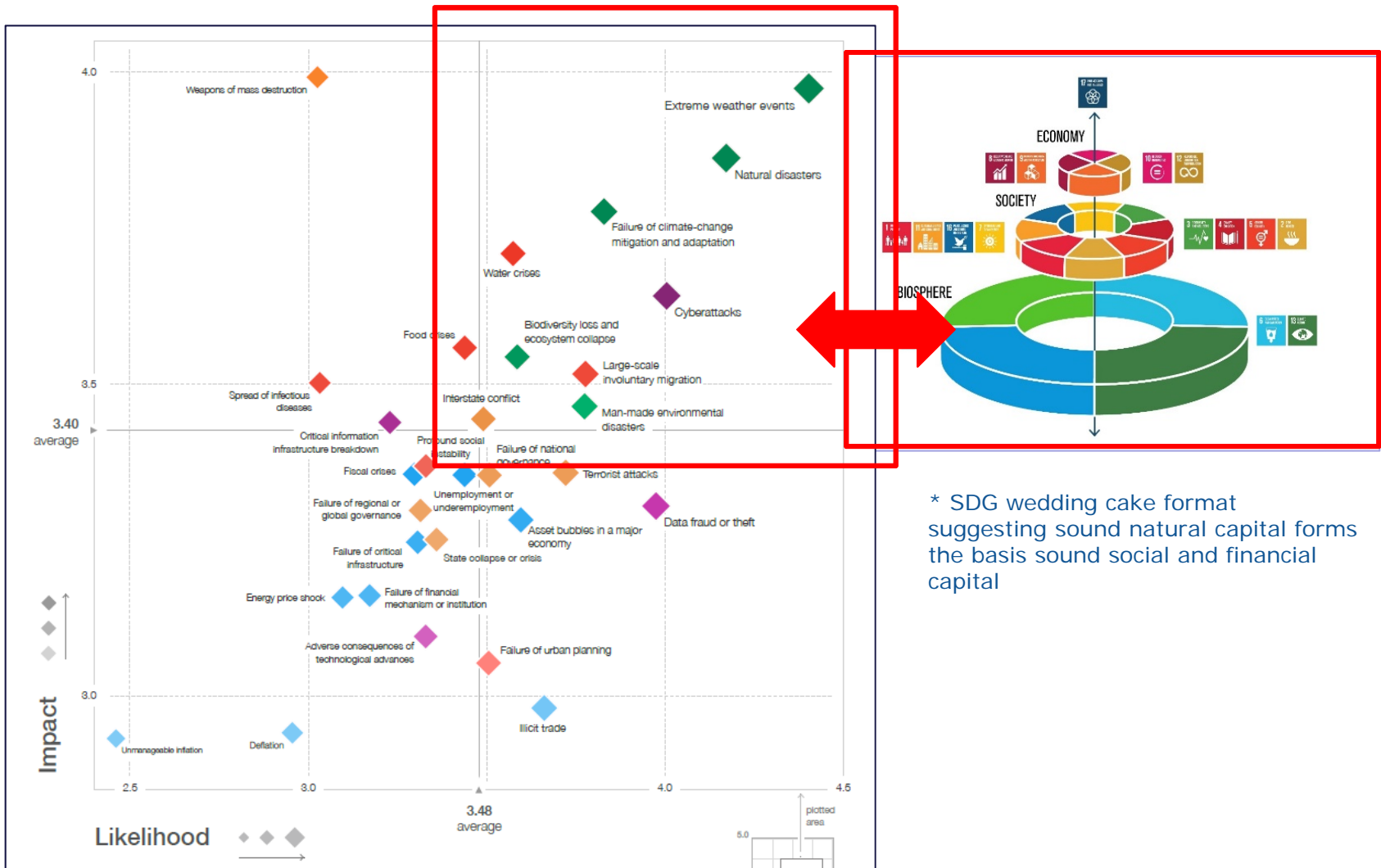
- I. Objectives and Priority Actions
- II. The EU Non-Financial Reporting Directive, Guidelines, and TCFD
- III. Other

III. Future Action

- I. The new European Green Deal
- II. The emerging environmental accounting practice
- III. Other

All Natural Capital Degrading Rapidly

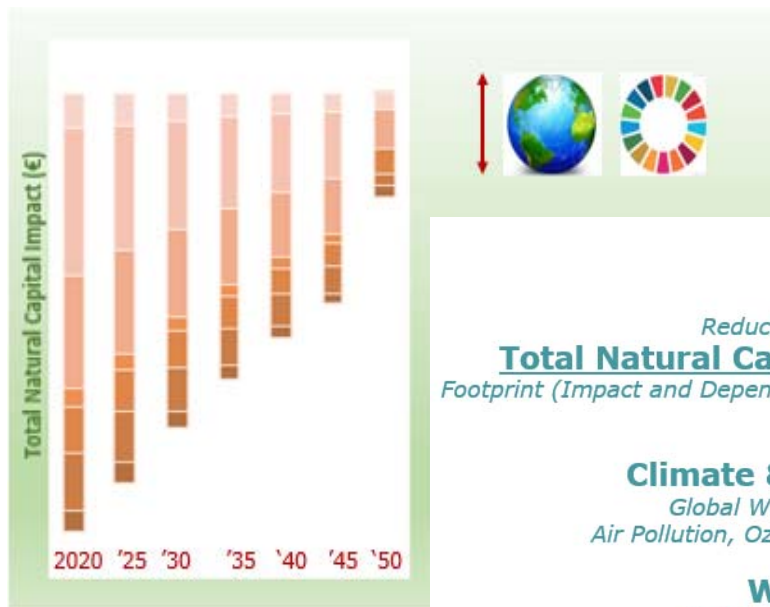
Risks interlinked and jeopardizing Social and Economic Sustainability



* 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)**

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

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

Land**
Degradation,
Fragmentation, ...

Biodiversity
Loss of habitats & species, ...



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

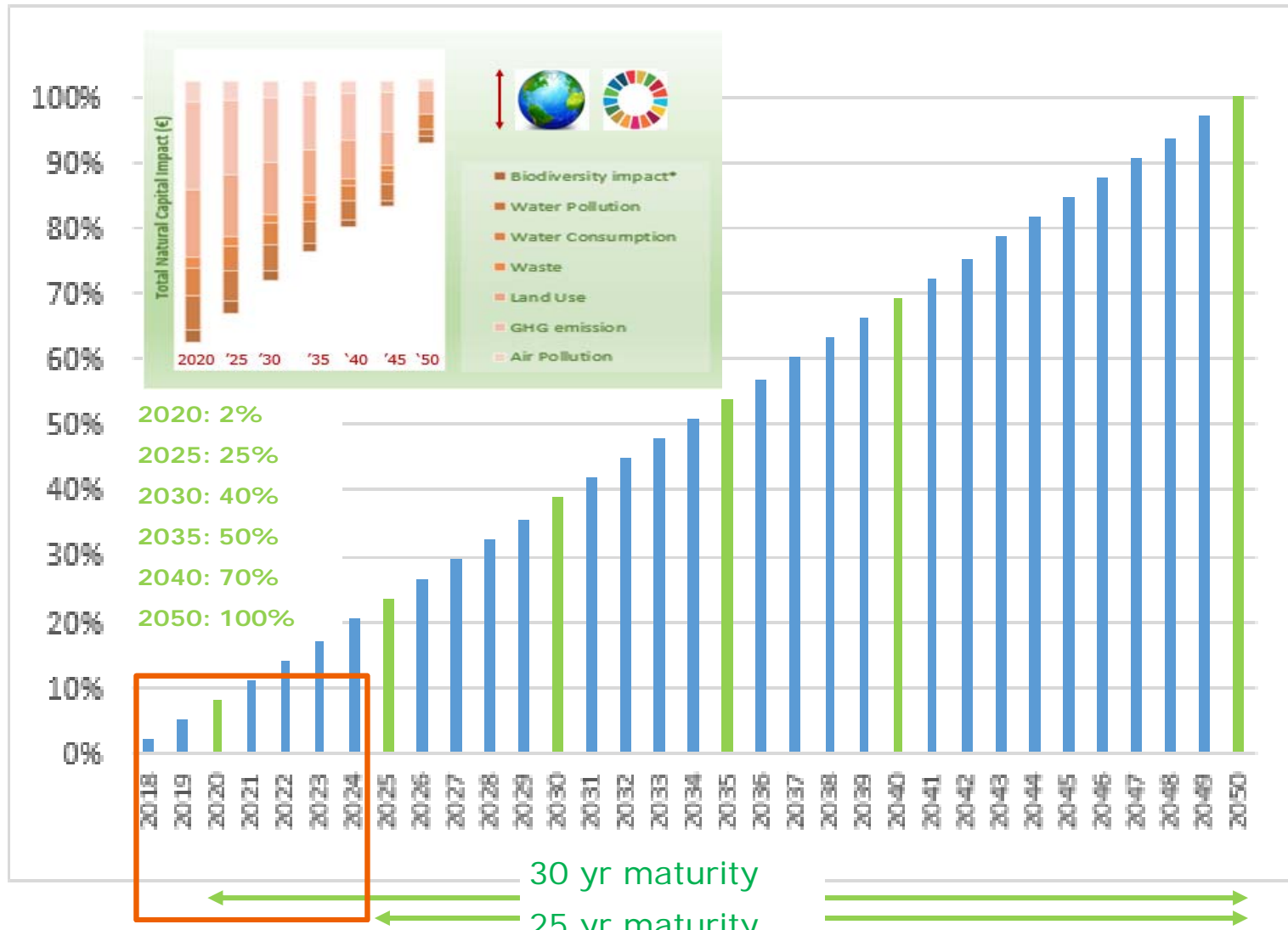
By greening the economy through (better) implementing agreed environmental policies, and transitioning towards a resource efficient, zero pollution, carbon neutral, and ultimately **Circular Economy.**

* 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

Reorient capital flow towards more sustainable investments

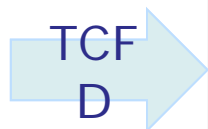
- 1 Establish a **Taxonomy** of environmentally sustainability activities
- 2 Create **standards and labels** for green financial products
- 3 Fostering **investment in sustainable projects**
- 4 Incorporate **sustainability** in providing investment **advice**
- 5 Develop sustainability **benchmarks**

Mainstreaming sustainability in risk management

- 6 Better integrate sustainability in ratings and market research
- 7 Clarify institutional **investors'** and asset managers' **duties**
- 8 Incorporate sustainability in **prudential requirements**

Foster transparency & long-termism

- 9 Strengthen corporate **sustainability disclosure**
- 10 ↑sustainable **corporate governance** and ↓ short-termism



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 C^{ies}, Banks and Insurance C^{ies}, 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)

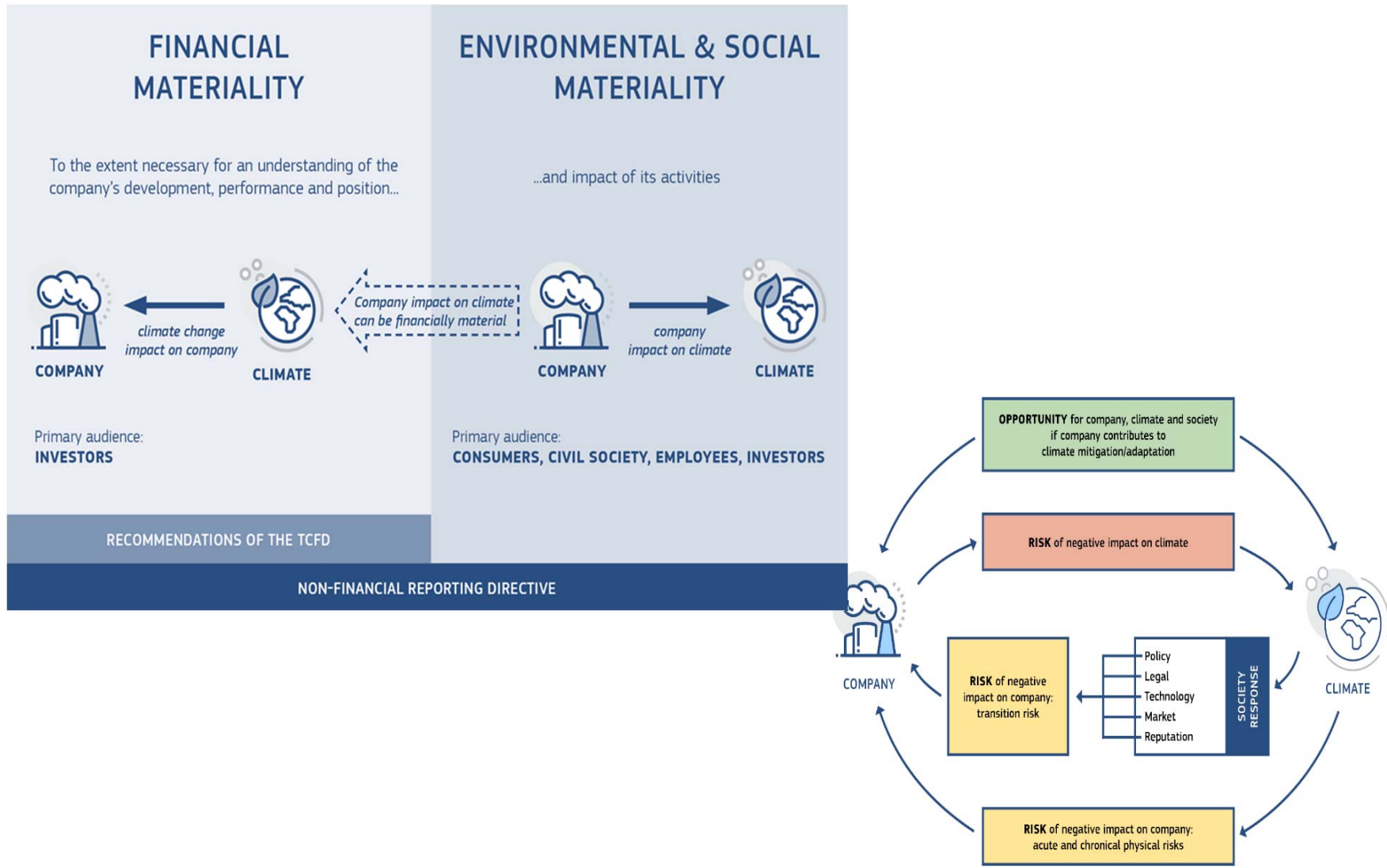
- Good Reporting Principles
 1. Disclose material information
 2. Fair, balanced & understandable
 3. Comprehensive but concise
 4. Strategic & forward-looking
 5. Stakeholder oriented
 6. Consistent & coherent
- 5 Areas
- Thematic areas
- Reporting Frameworks
- Board Diversity Disclosure
- Not Legally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



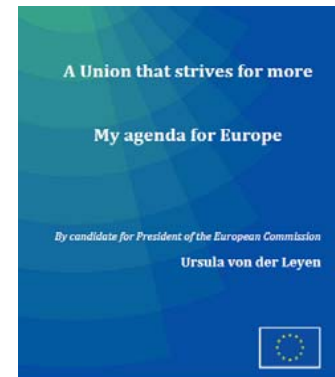
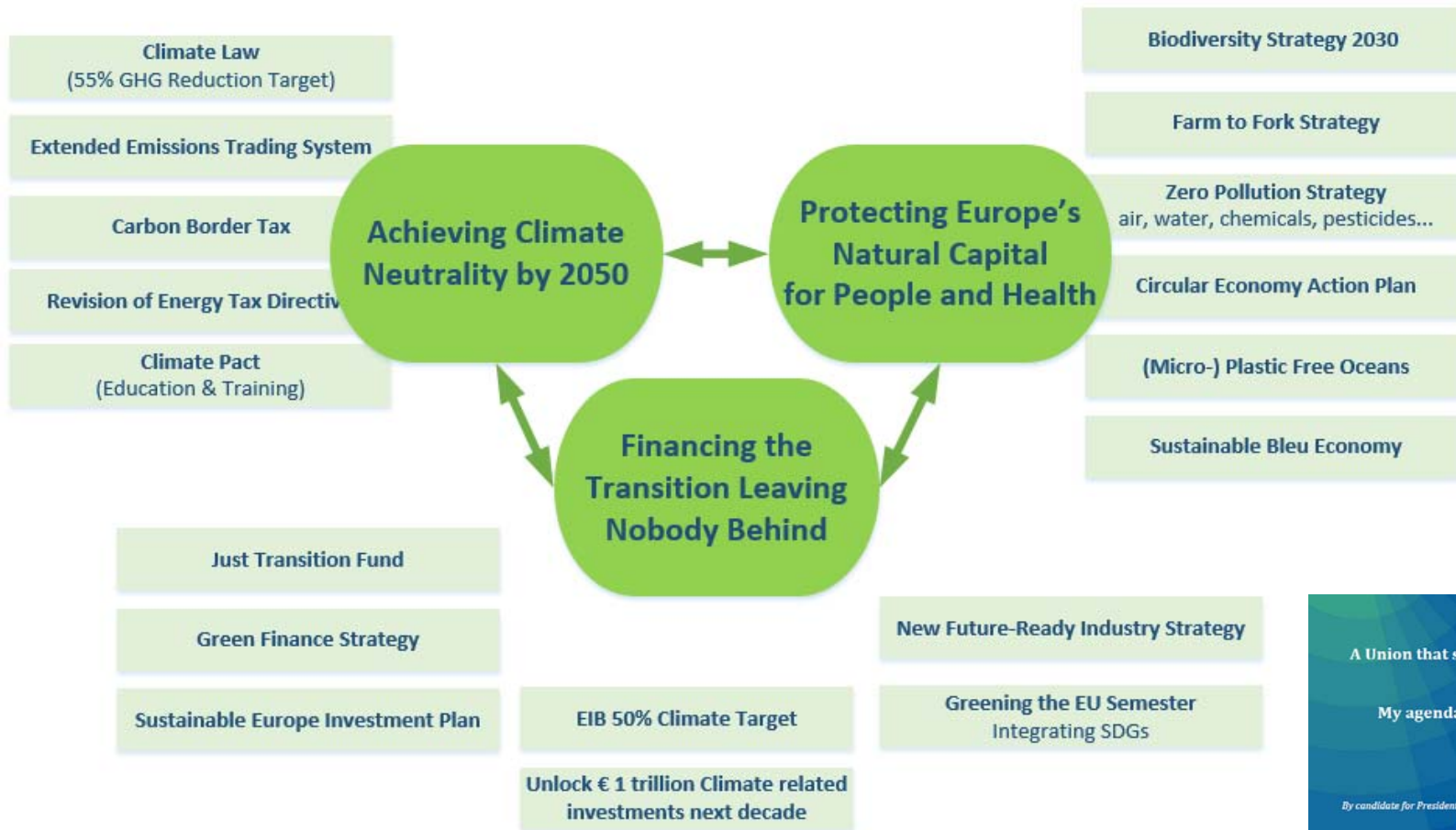
The EU NFRD Guidelines – July 2019 Amemdment

Mapping of NFRD Requirements and TCFD Recommended Disclosures

| TCFD Recommended Disclosures | | NFRD Elements | | | | |
|------------------------------|--|----------------|--------------------------------------|----------|--------------------------------------|----------------------------|
| | | Business Model | Policies and Due Diligence Processes | Outcomes | Principal Risks and Their Management | Key Performance Indicators |
| Governance | a) Board's oversight | | ■ | | | |
| | b) Management's role | | ■ | | | |
| Strategy | a) Climate-related risks and opportunities | | | | ■ | |
| | b) Impact of climate-related risks and opportunities | ■ | | | | |
| | c) Resilience of the organization's strategy | ■ | | | | |
| Risk Mgmt. | a) Processes for identifying and assessing | | | | ■ | |
| | b) Processes for managing | | | | ■ | |
| | c) Integration into overall risk management | | | | ■ | |
| Metrics & Targets | a) Metrics used to assess | | | | | ■ |
| | b) GHG emissions | | | ■ | | |
| | c) Targets | | | ■ | | |

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

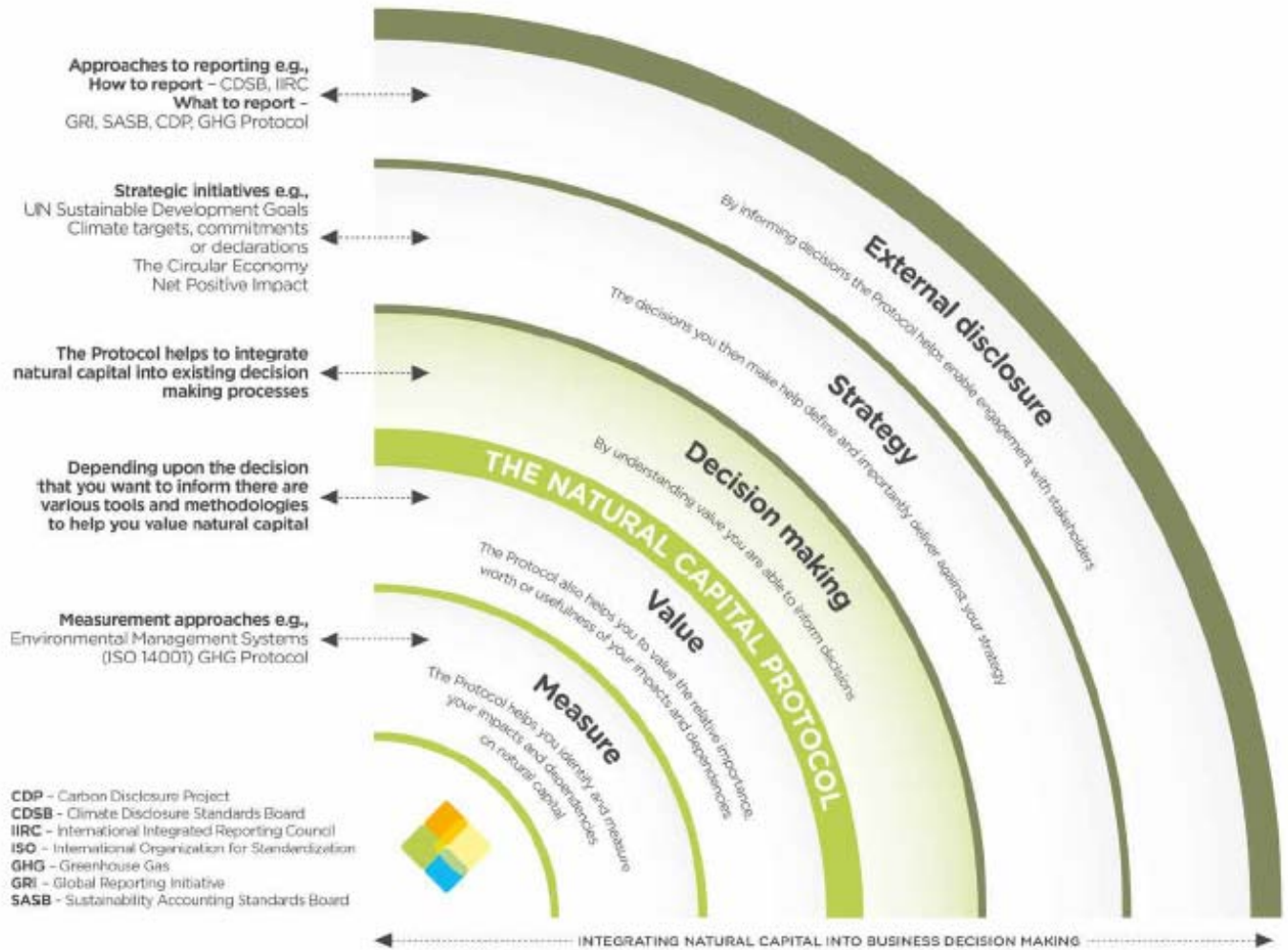
Sustainable Development (& Finance) Strategies Beyond 2020

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





































* Recommendations are without prejudice to the decisions of the incoming European Commission.

The Emerging Complementing The

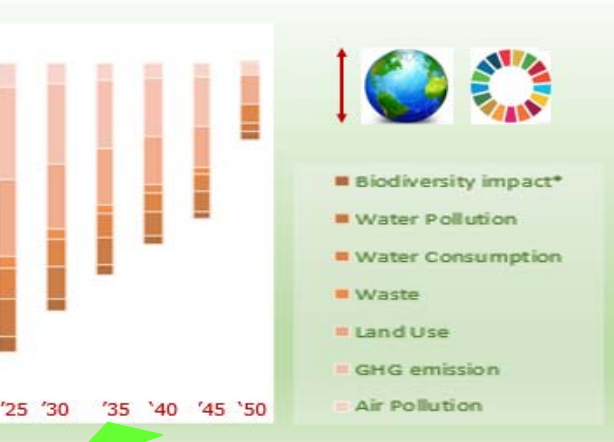
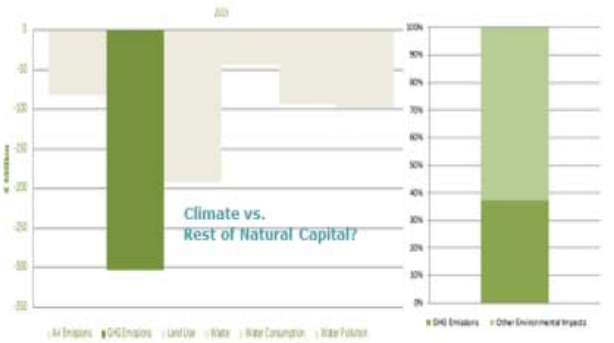


The Emerging Corporate Environmental Accounting Practice

Enabling Total Impact Measurement and Management

| | TIER 0: STORES WAREHOUSE OFFICES | TIER 1: ASSEMBLY | TIER 2: MANUFACTURING | TIER 3: RAW MATERIAL PROCESSING | TIER 4: RAW MATERIAL PRODUCTION | TOTAL IN MILLIONS |
|---|---|---|---|---|---|-----------------------|
| AIR POLLUTION  |  |  |  |  |  | 8% €64,5 |
| GREENHOUSE GAS EMISSIONS  |  |  |  |  |  | 35% €272,2 |
| LAND USE  |  |  |  |  |  | 27% €209,9 |
| WASTE  |  |  |  |  |  | 5% €37,0 |
| WATER CONSUMPTION  |  |  |  |  |  | 11% €83,2 |
| WATER POLLUTION  |  |  |  |  |  | 14% €106,2 |
| TOTAL: | 7% €56,0 | 13% €100,0 | 4% €33,70 | 26% €197,6 | 50% €385,7 | 100% €773,0 |

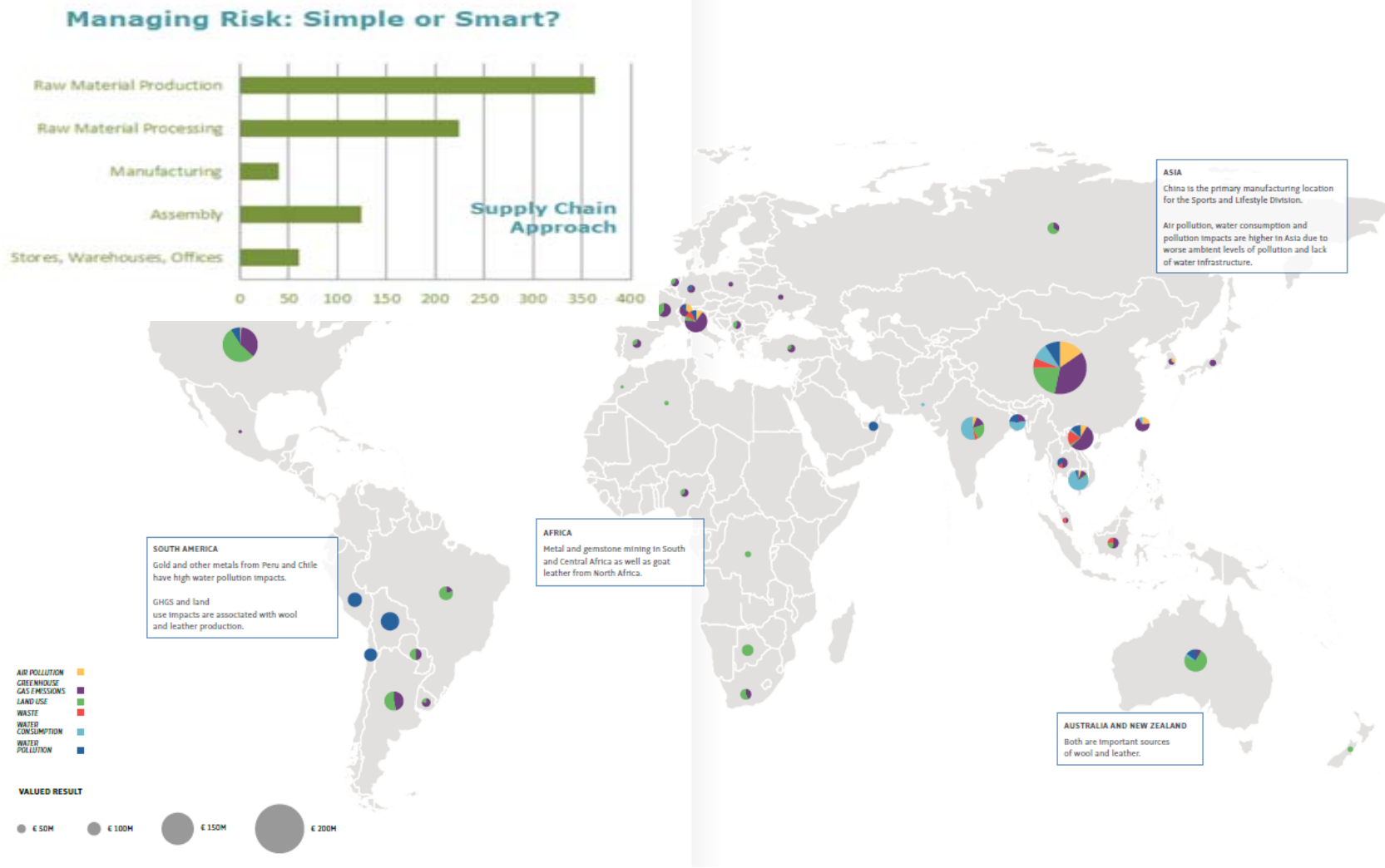
Managing Risk: Simple or Smart?



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

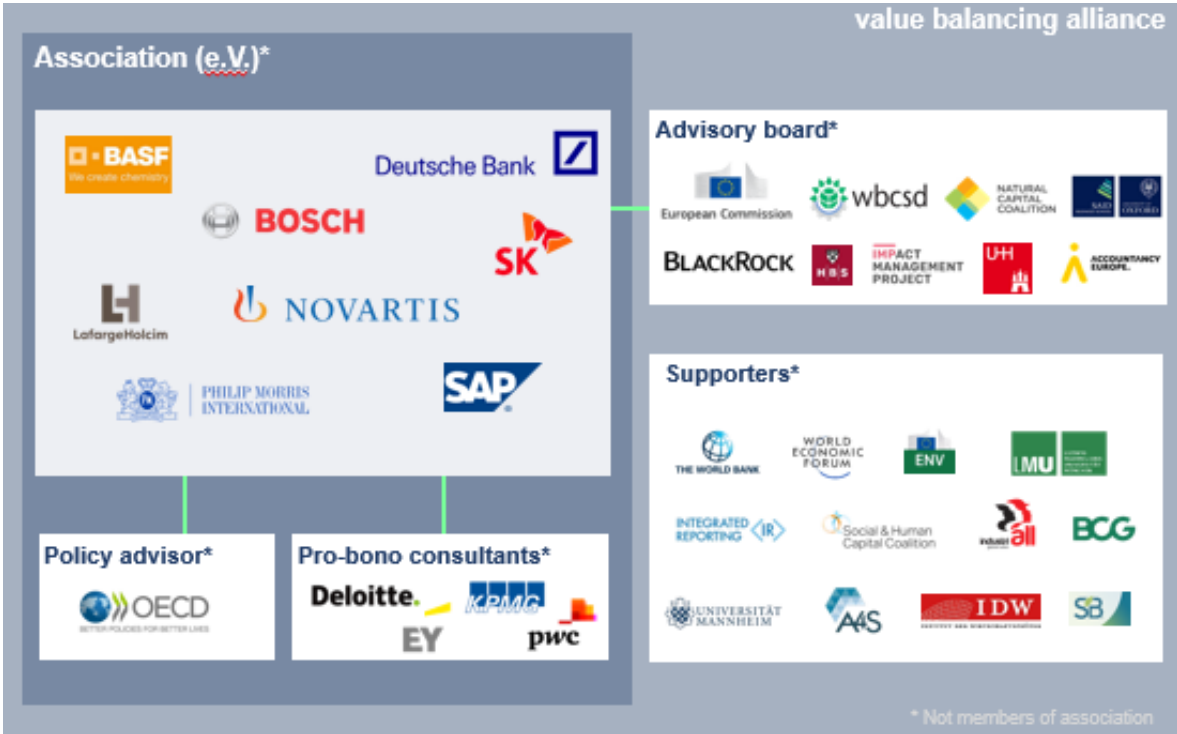
Generating relevant information for managing the green (business) transition



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 P&L

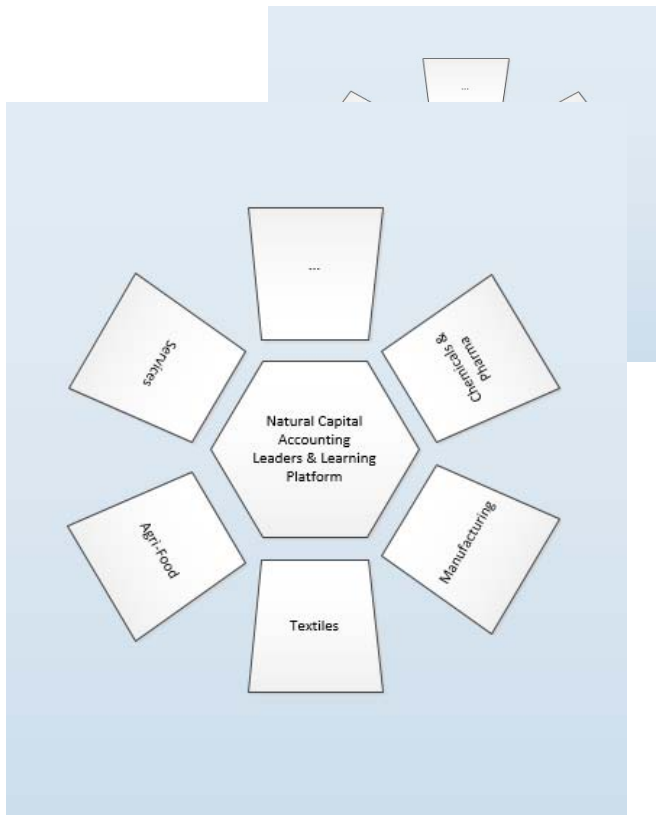
The Total Contribution

True Earnings

Integrated Profit & Loss

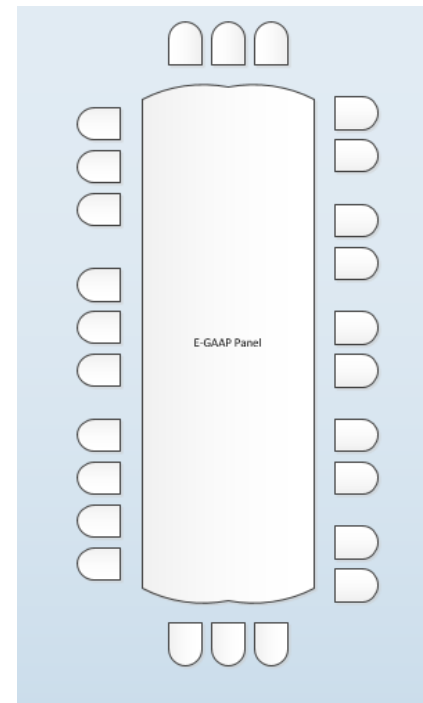
The Emerging Environmental Accounting Practice

Building Public-Private Partnerships and Platforms



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

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

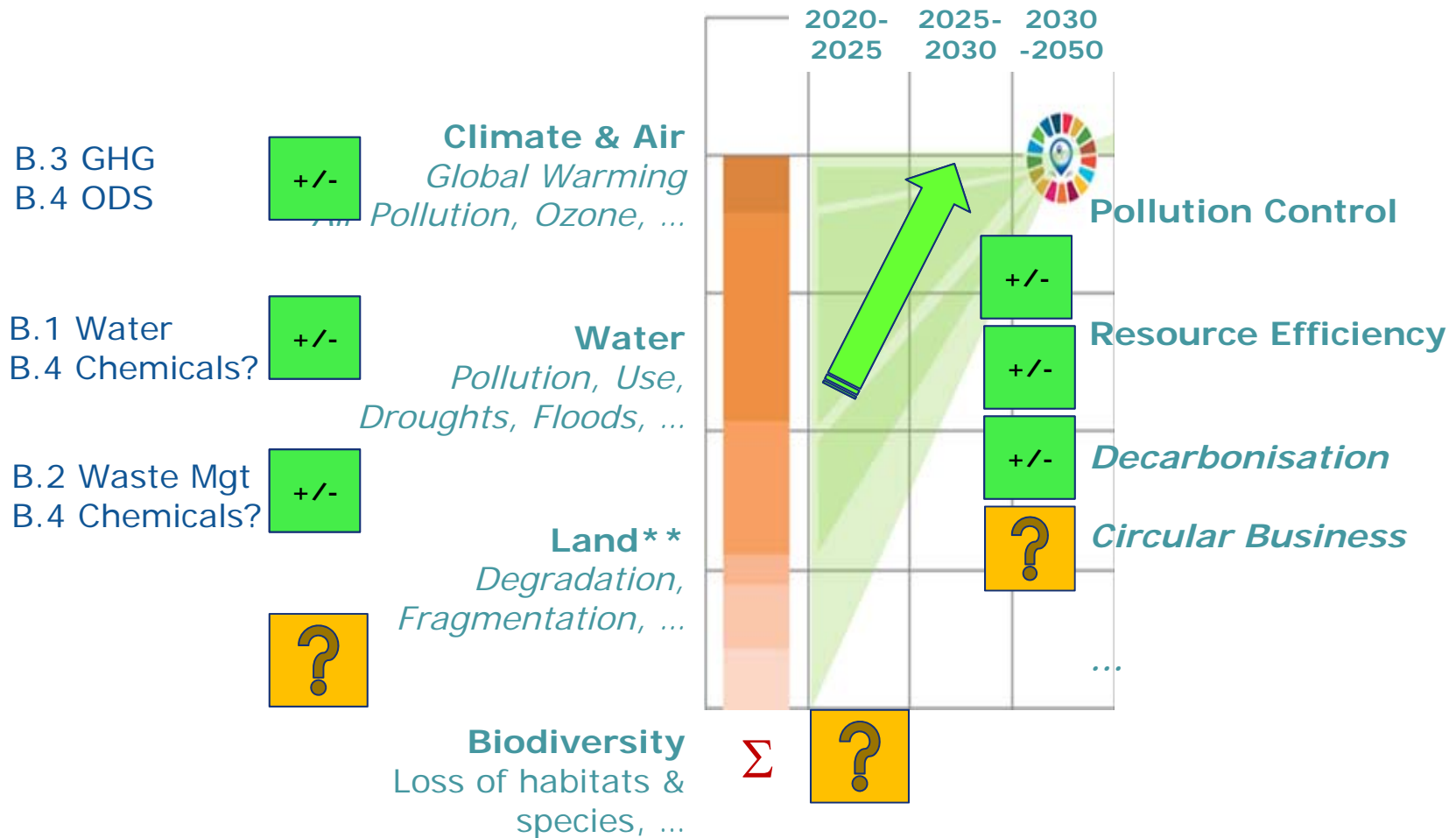


[International Environmental Accounting Panel(s)]
(Corporate E-GAAP)

Environmental Accounting & SDGs



*Reducing the
Natural Capital
Impact or Footprint*





Thank you

Extra -/- -

The 2018 Action Plan for Financing Sustainable Growth

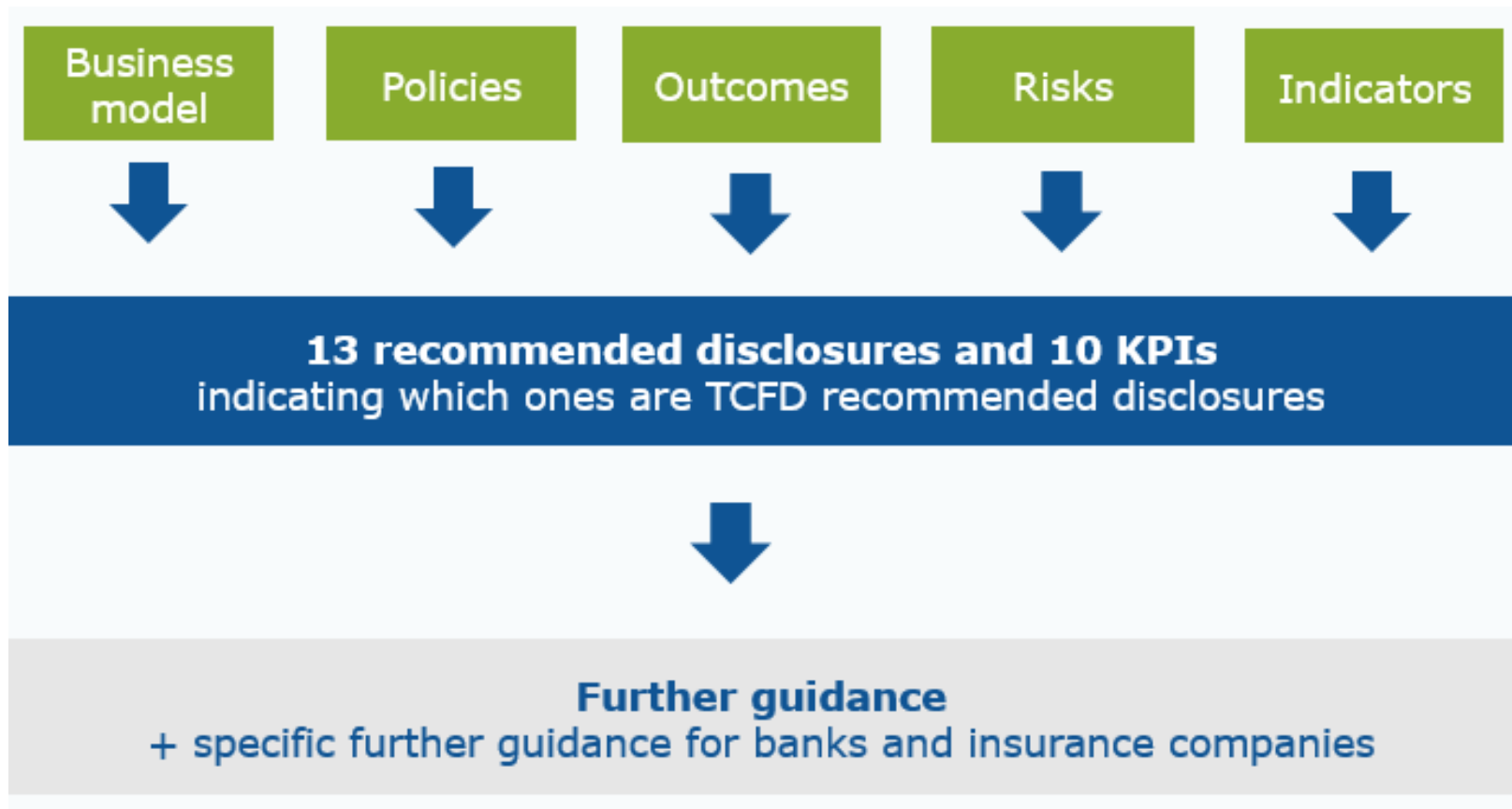
#7: Sustainability Disclosure by financial market participants and financial advisers

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

Source: [European Commission: Proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive \(EU\) 2016/2341 \(2018\)](#).

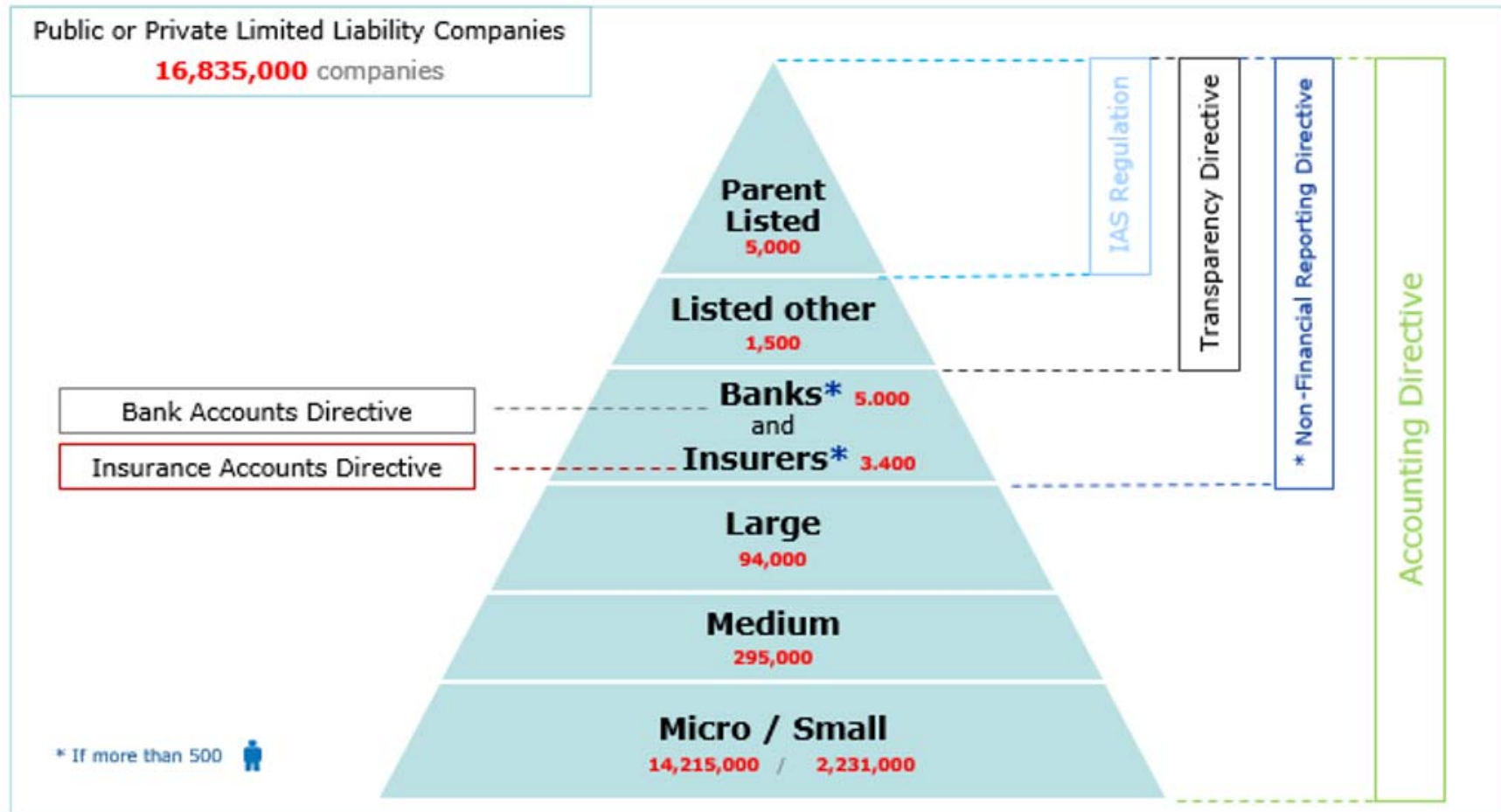
The 2018 Action Plan for Financing Sustainable Growth

#9: Non-Financial Reporting Directive & Guidelines (Updated for TCFD)



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



| Corporate level | Project level | Product level | |
|--|--|----------------------------|-----------------------|
| <p>Annual contribution Progress monitoring</p> | <p>Site development M&A, divestments</p> | <p>Product portfolio</p> | |
| <p>Materiality</p> | <p>Technology shifts</p> | <p>Product performance</p> | |
| Reporting, advocacy | Materiality, monitoring | Decision making | Steering, KPI setting |

5 16.05.19

BASF
We create chemistry



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

| | EMISSIONS AND RESOURCE USE | ENVIRONMENTAL CHANGE | CHANGE IN WELLBEING | |
|--|---|--|---|---|
| AIR POLLUTION  | Emissions of pollutants (PM _{2.5} , PM ₁₀ , NOX, SOX, VOCs, NH ₃) in kg | Increase in concentration of pollution | Respiratory disease, agricultural losses, reduced visibility |  |
| GREENHOUSE GAS EMISSIONS  | Emissions of greenhouse gases (CO ₂ , N ₂ O, CH ₄ , CFC's etc) in kg | Climate change | Health impacts, economic losses, change in natural environment | |
| LAND USE  | Area of tropical forest, temperate forest, inland wetland etc in hectares | Reduced ecosystem services | Health impacts, economic losses, reduced recreational and cultural benefits |  |
| WASTE  | Hazardous and non-hazardous waste in kg | Climate change, disamenity and contamination | Reduced enjoyment of local environment, decontamination costs | |
| WATER CONSUMPTION  | Water consumption in m ³ | Increasing water scarcity | Malnutrition and disease | |
| WATER POLLUTION  | Release of specific heavy metals, nutrients, toxic compounds in kg | Reduced water quality | Health impacts, eutrophication, economic losses | |

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?