
**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**

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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 Verhey

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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

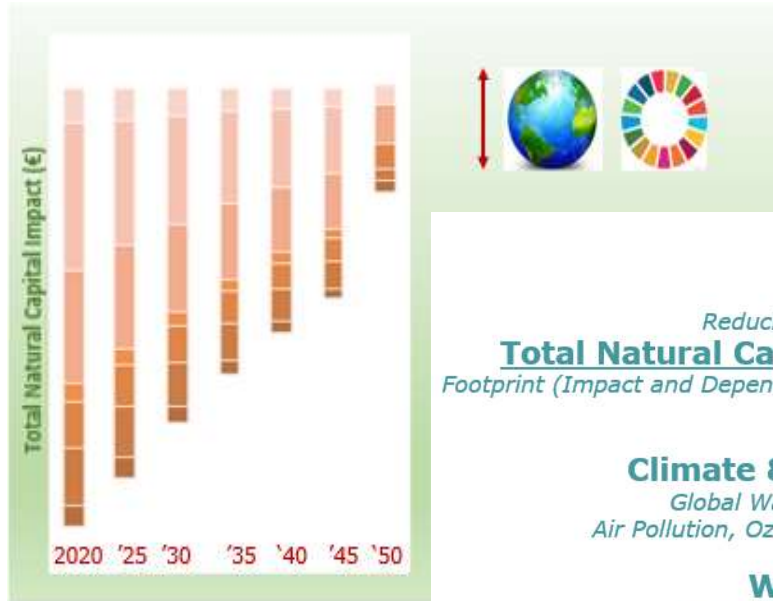
- I. Objectives and Priority Actions
- II. The EU Non-Financial Reporting Directive, Guidelines, and TCFD
- III. Other

III. Future Action

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

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**.

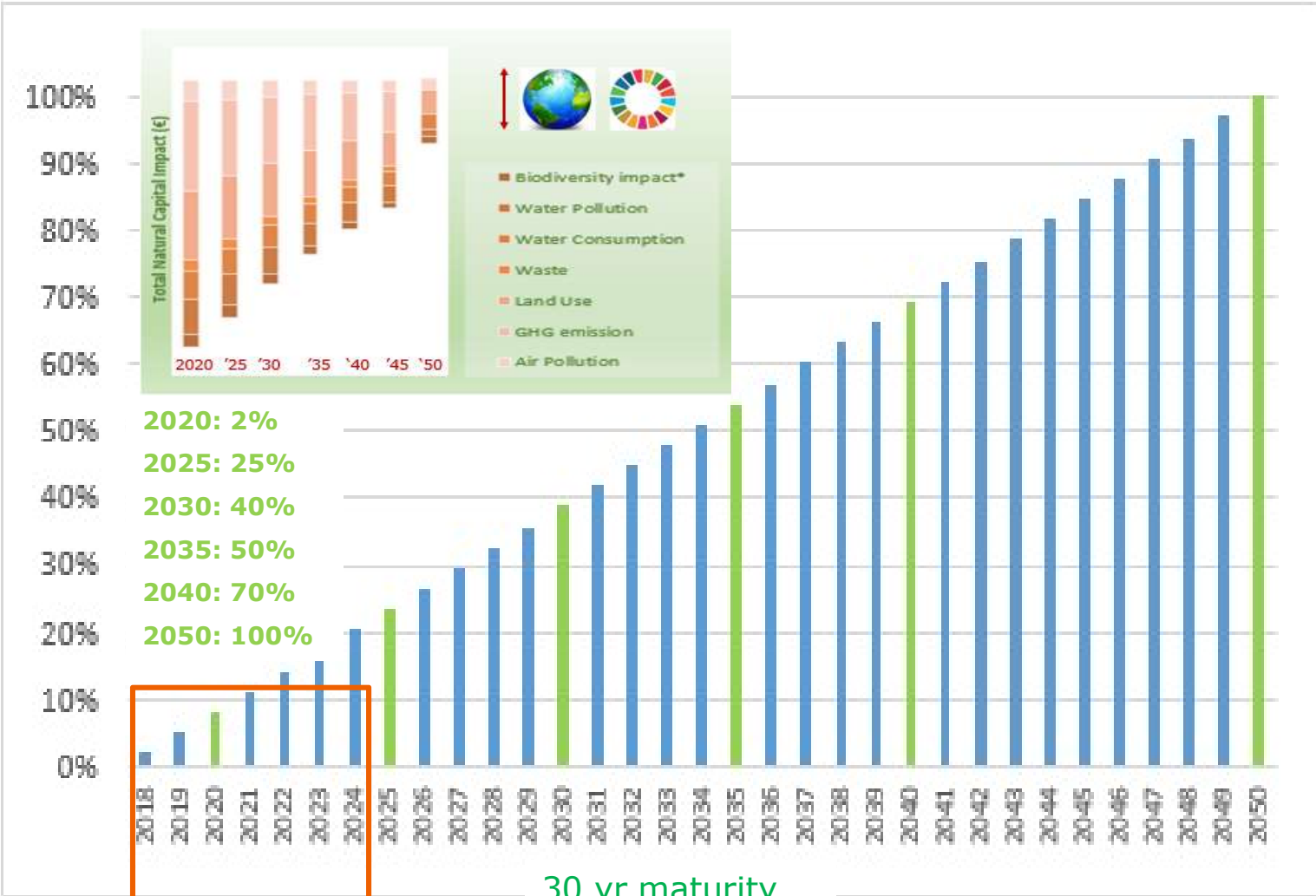
* Applicable universally at international, national, regional, sectoral, corporate and project level

** 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



30 yr maturity
 25 yr maturity

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

TCFD



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 Companies, Banks and Insurance Companies, 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)

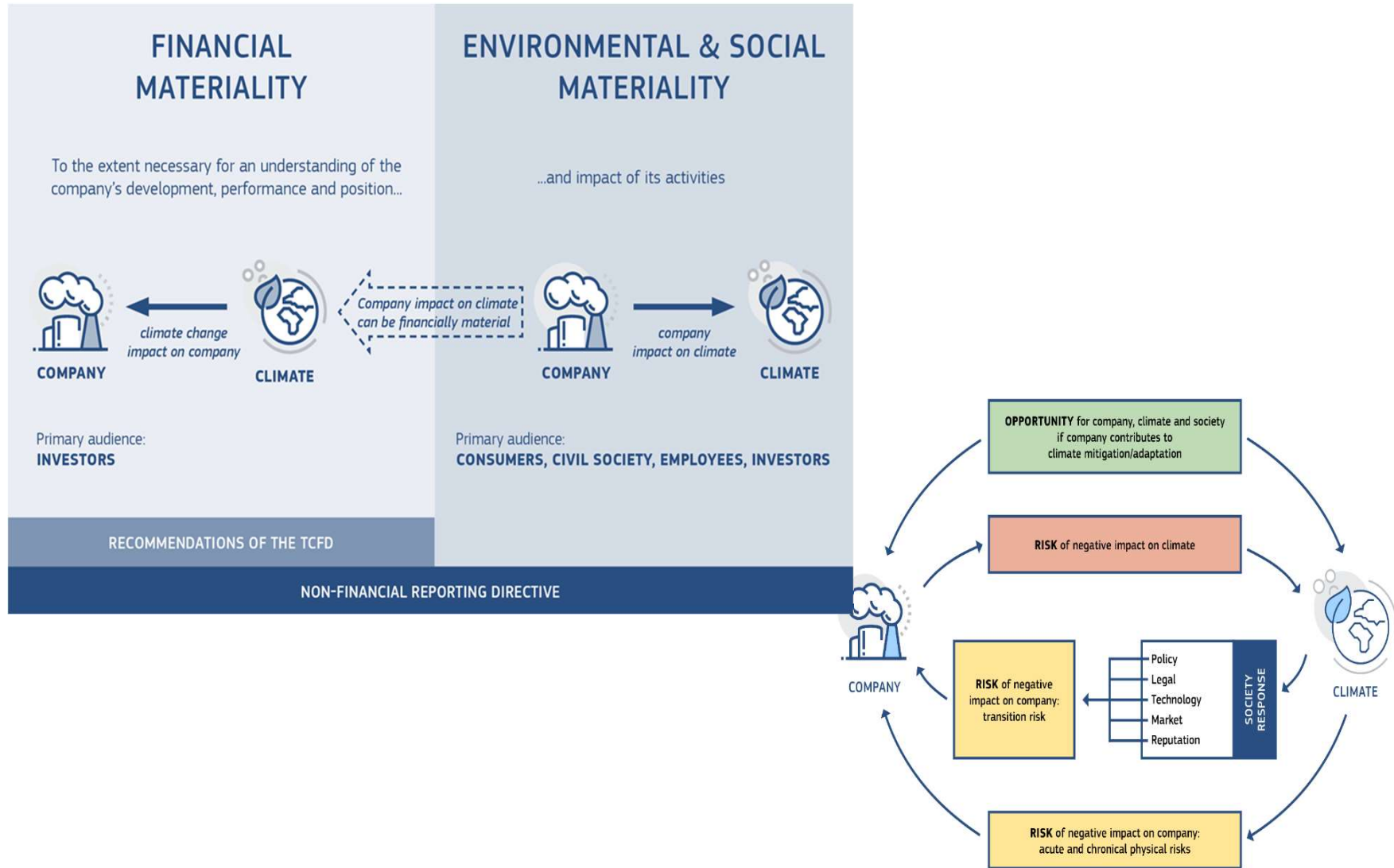
- Good Reporting Principles
 1. Disclose material information
 2. Fair, balanced & understandable
 3. Comprehensive but concise
 4. Strategic & forward-looking
 5. Stakeholder oriented
 6. Consistent & coherent
- 5 Areas
- Thematic areas
- Reporting Frameworks
- Board Diversity Disclosure
- Not Legally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



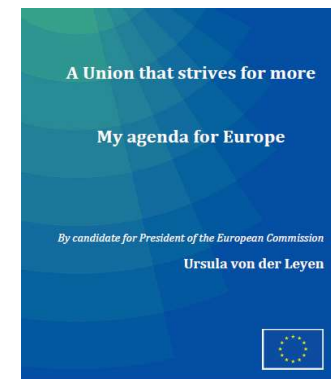
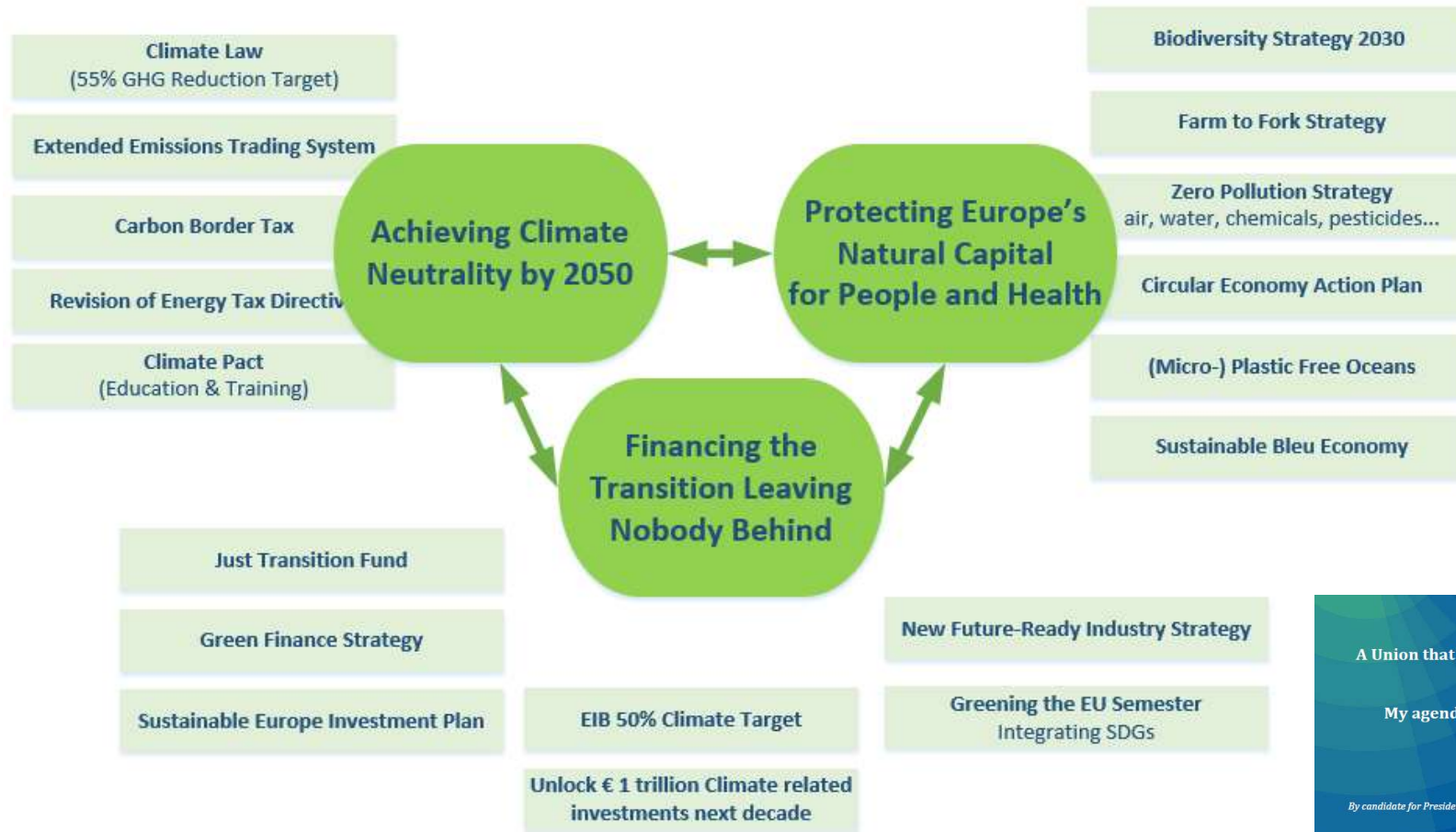
The EU NFRD Guidelines – July 2019 Amemdment

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%)**



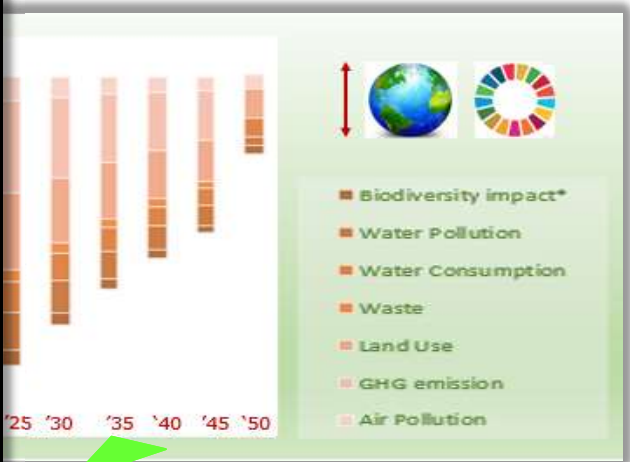
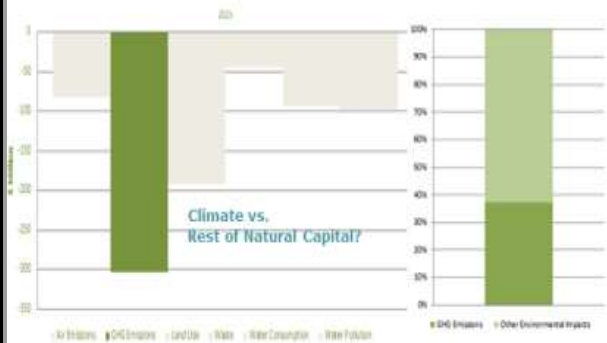
* Recommendations are without prejudice to the decisions of the incoming European Commission.

The Emerging 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

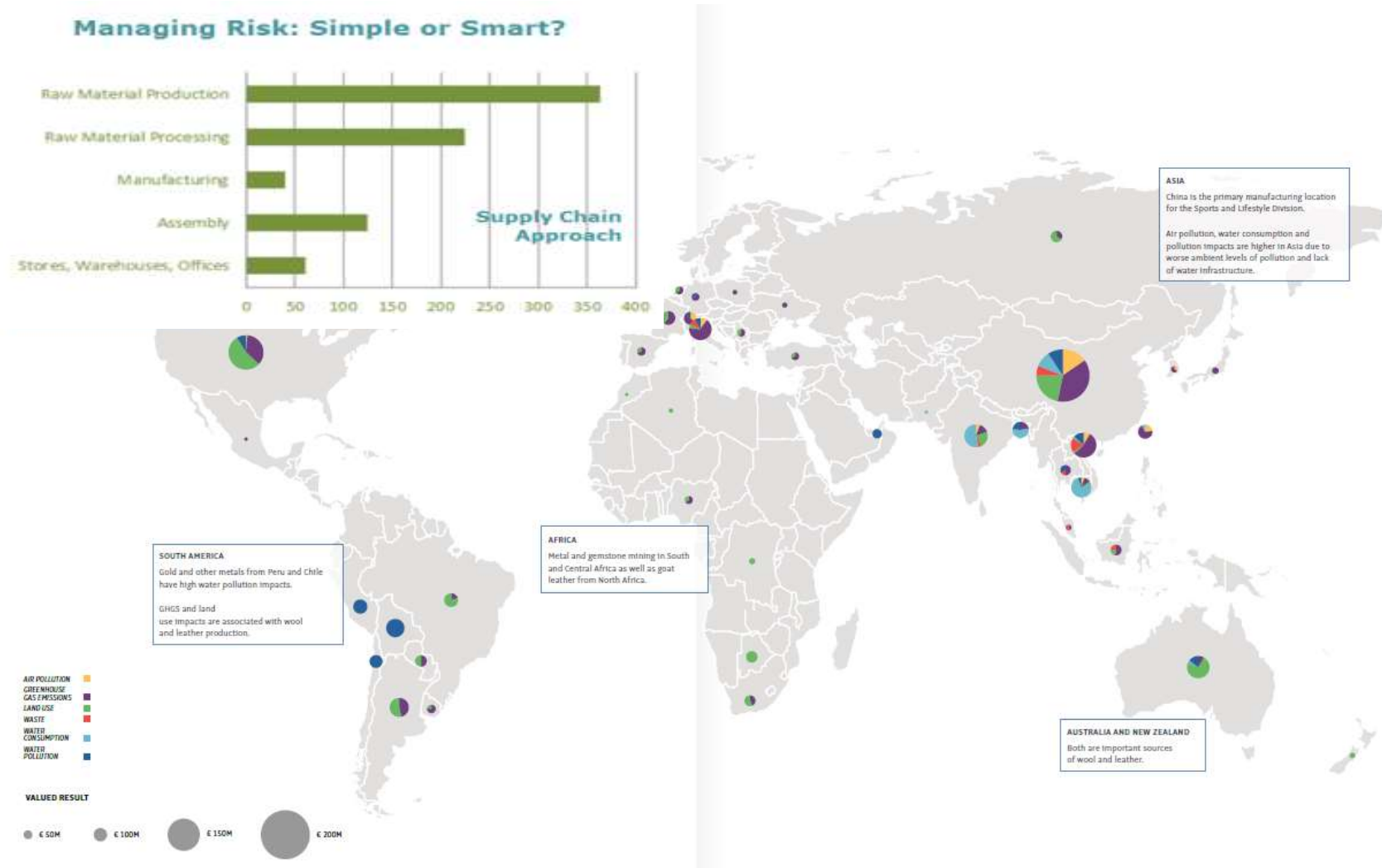
Managing Risk: Simple or Smart?



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

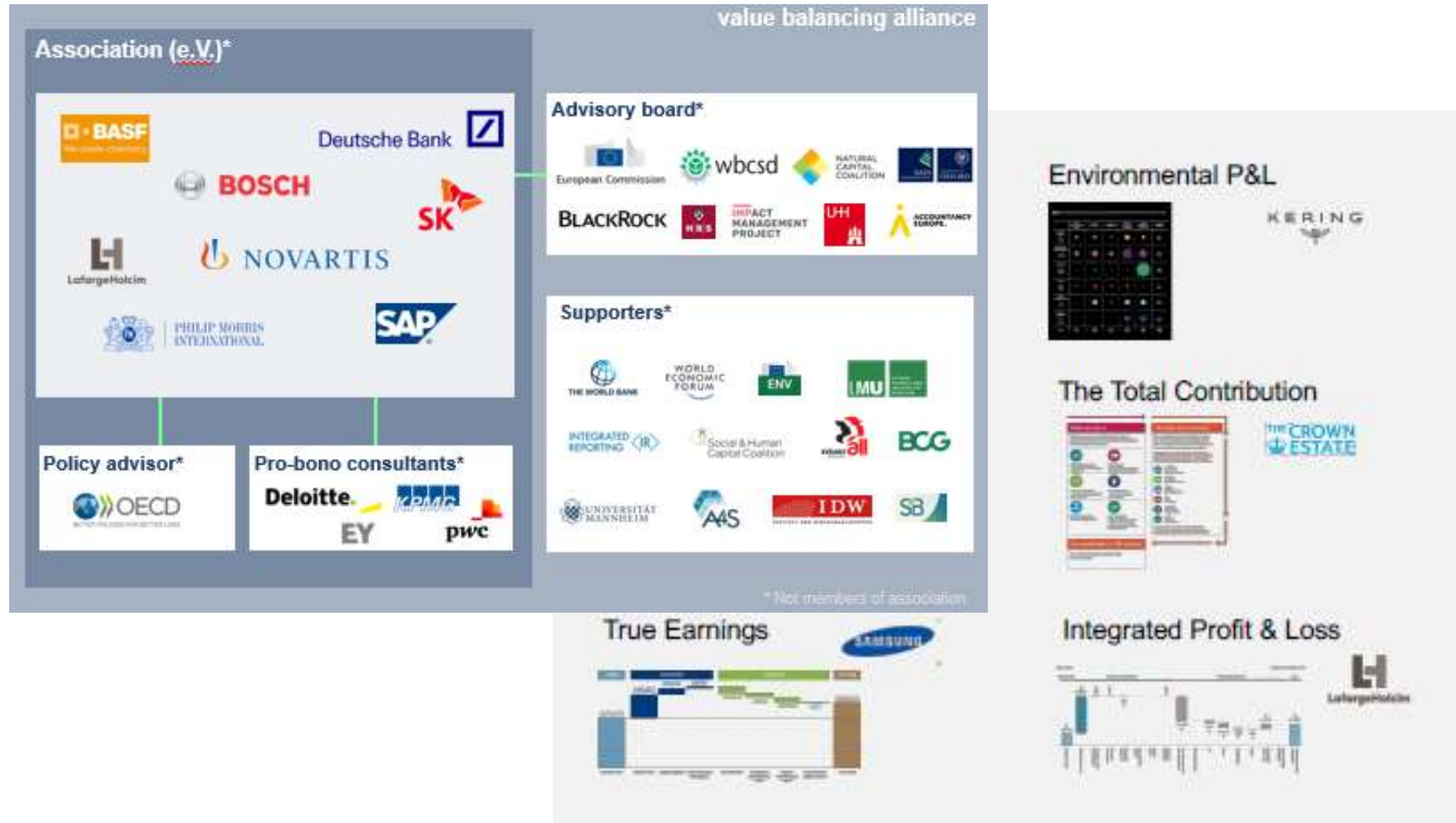
Generating relevant information for managing the green (business) transition



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+)





Thank you

Extra -/- -

The 2018 Action Plan for Financing Sustainable Growth

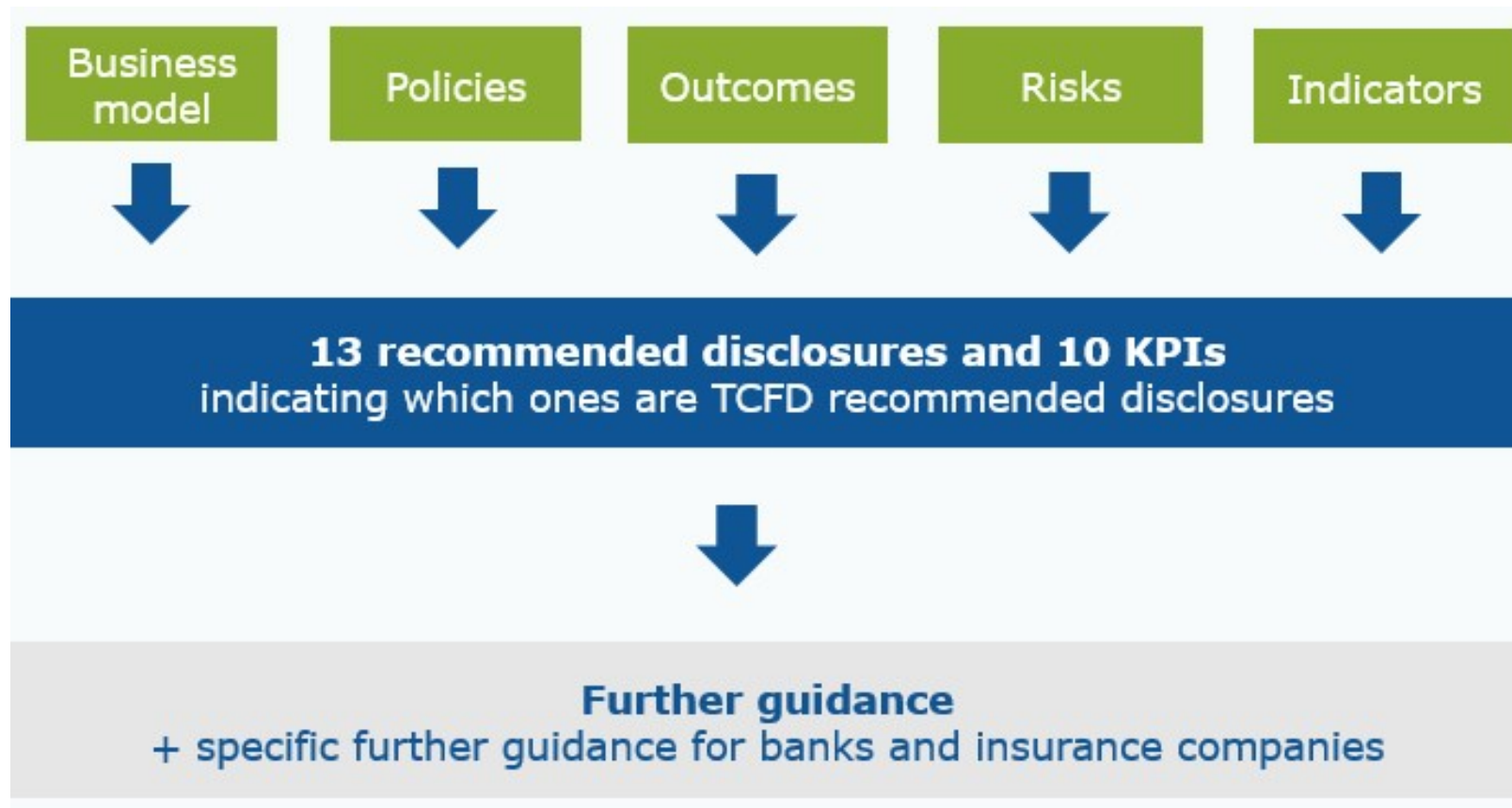
#7: Sustainability Disclosure by financial market participants and financial advisers

Scope	What to disclose	Where to disclose	Who should disclose
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 \(2018\)](#).

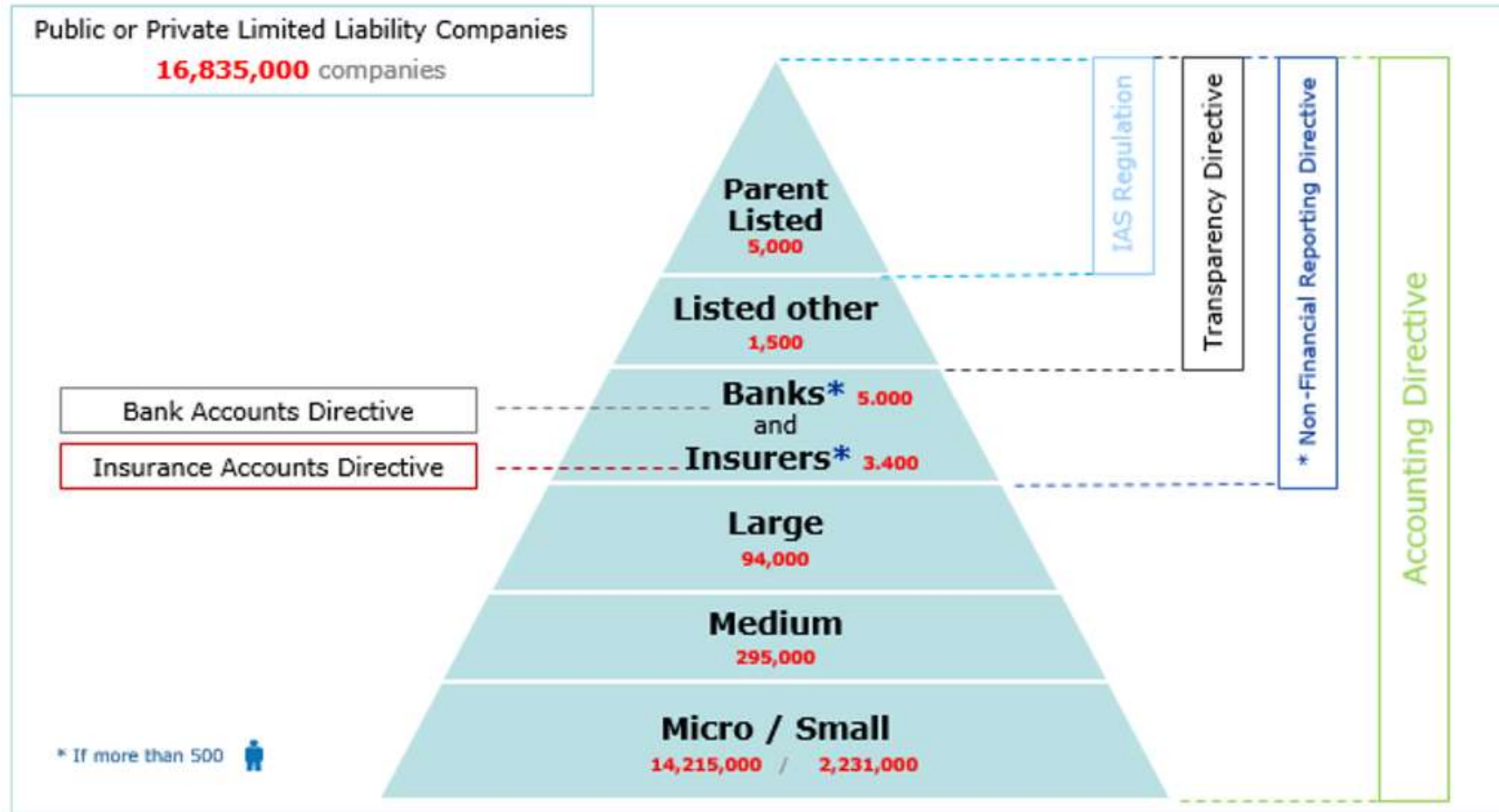
The 2018 Action Plan for Financing Sustainable Growth

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



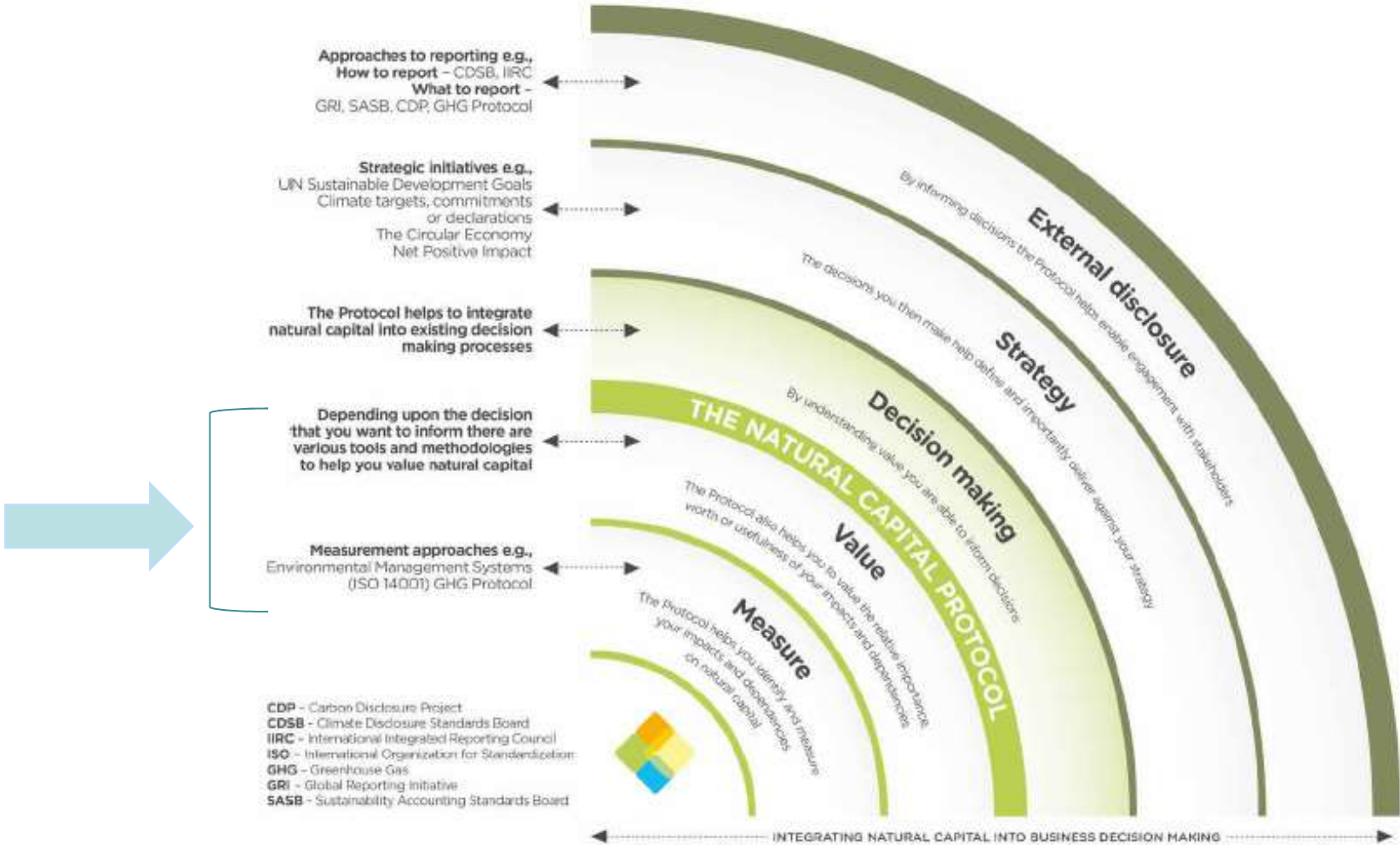
EU Public or Private LLC Population

The scope of application for the NFRD (and other accounting regulations)



The Emerging Environmental Accounting Practice

Complementing The Financial and Non-Financial Information Framework

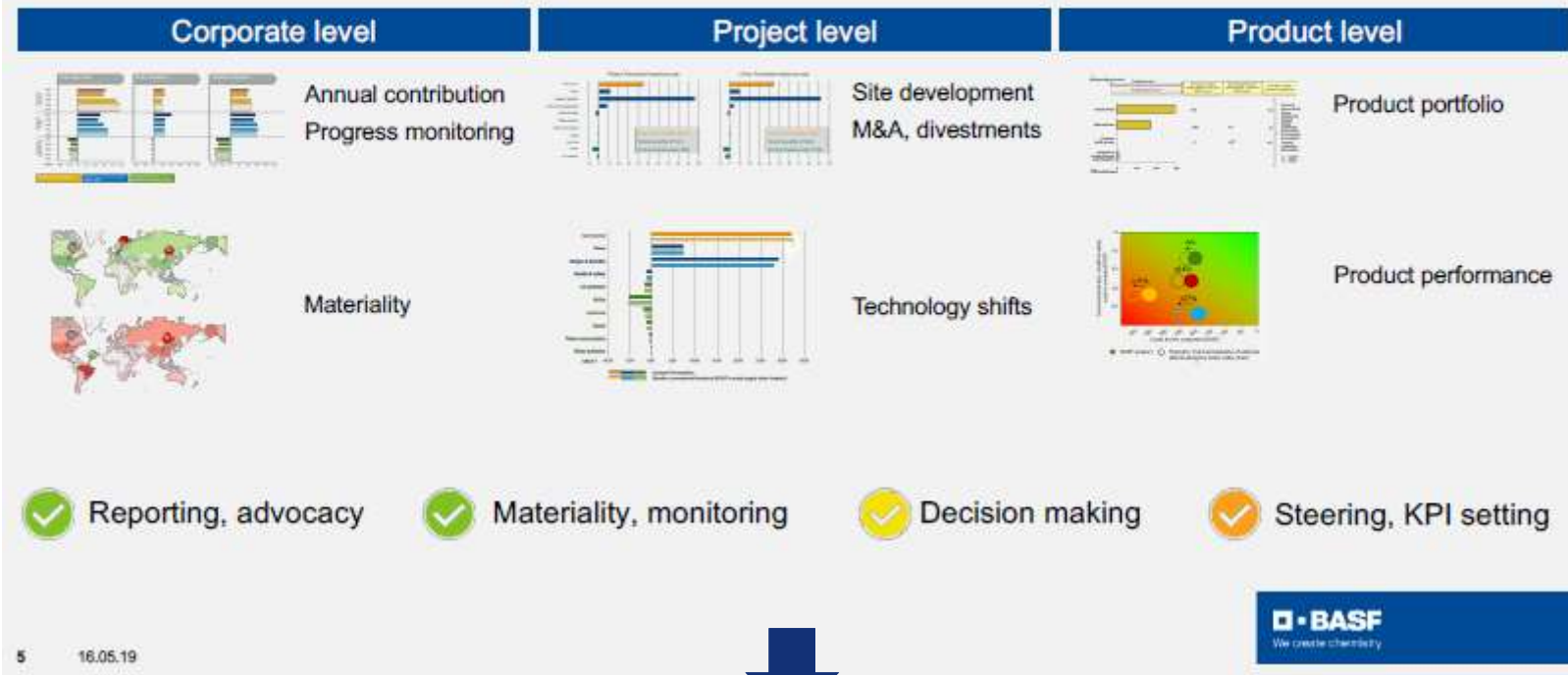


The Emerging Environmental Accounting Practice

Generating data relevant for managing the green (economy) transition

Applications

Moving towards management accounting



Corporate Environmental Accounting (E-GAAP)

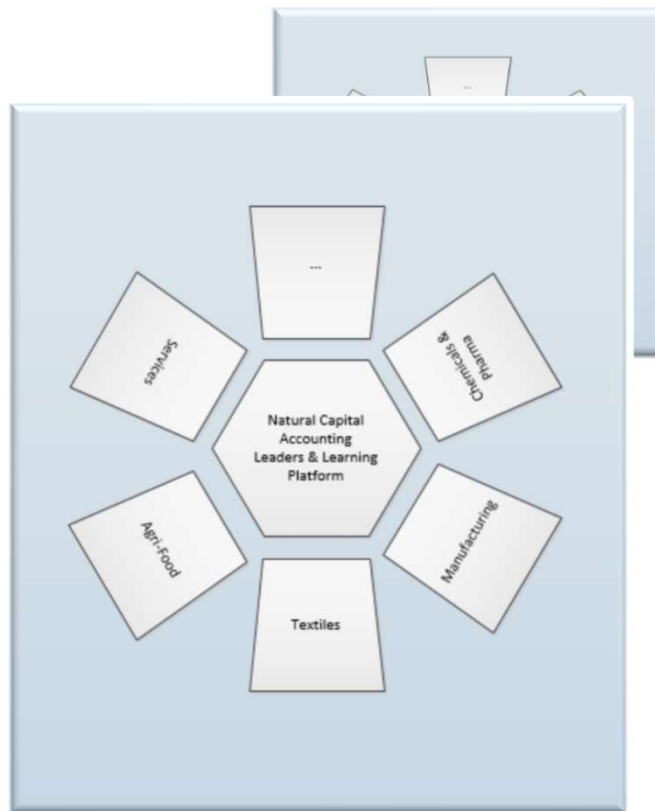
Project Environmental Accounting (InvestEU, Art. 7.3)

LCA, PEF, OEF, EMAS, ISO 14040/44 ...



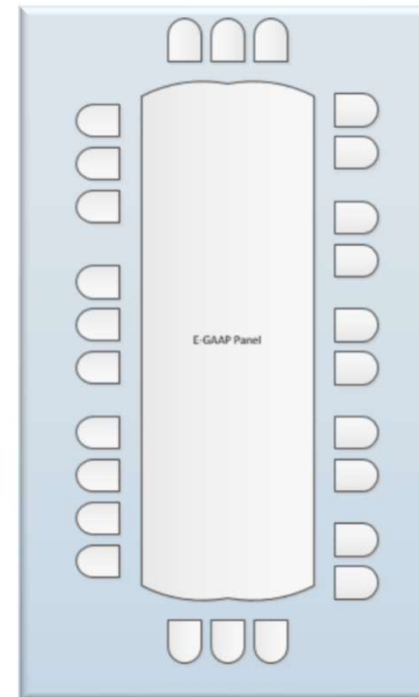
The Emerging Environmental Accounting Practice

Building Public-Private Partnerships and Platforms



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








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



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

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?