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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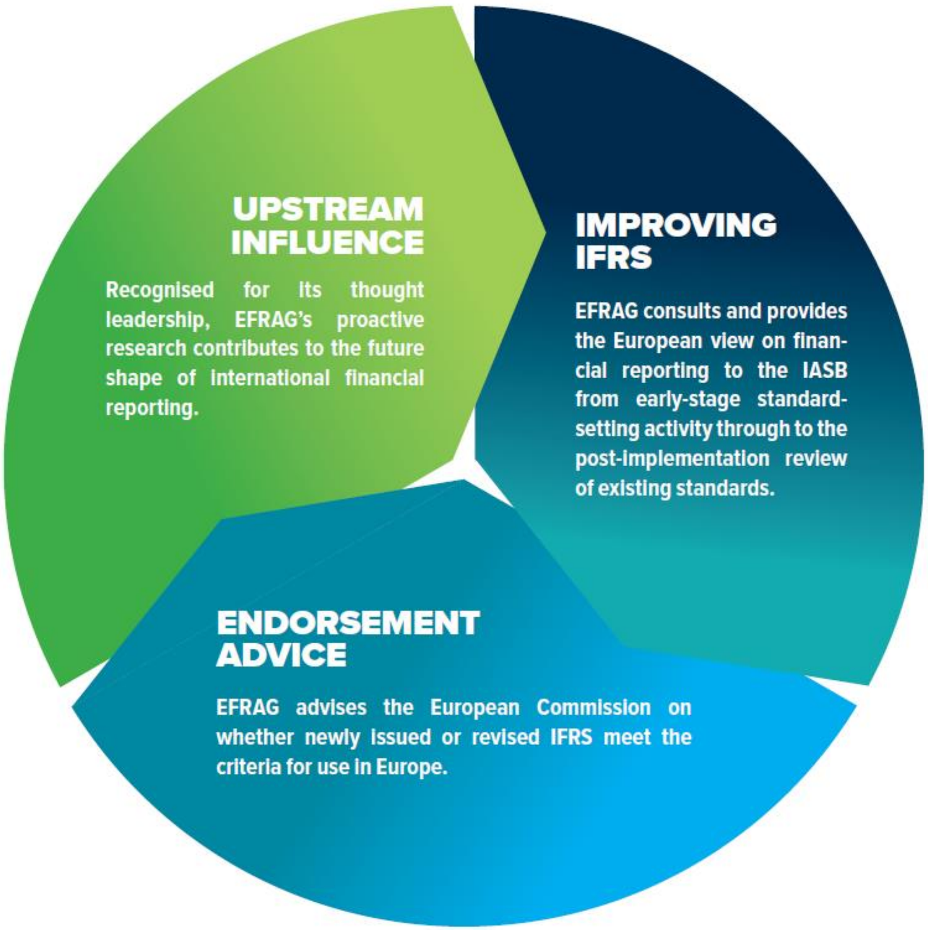
ABOUT EFRAG

FINANCIAL REPORTING



BROADER CORPORATE REPORTING

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Activity started in 2019

- Stimulate innovation in corporate reporting
- Assist the EU action plan with good practices on Non Financial Information

WHY A EUROPEAN LAB?

EC SUSTAINABLE ACTION PLAN

- EC Action Plan *Financing Sustainable Growth* (EC Sustainable Action Plan) is focused on stimulating finance for a more sustainable world
- EC Sustainable Action Plan had the following Action Points
  - Fitness Check will inform future legislative proposals, including Non-financial Information Directive
  - Revision of 2017 Guidelines non-financial information (supplement on climate-related reporting published in June 2019)
  - **EFRAG to establish a European Corporate Reporting Lab (established in Q3 2018)**
  - EC to ask EFRAG where appropriate to assess the impact of new or revised IFRS on sustainable investments
  - Fitness Check: EC to evaluate IAS Regulation: explore how the endorsement process can allow for specific adjustments to standards where they are not conducive to European public good

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EC SUSTAINABLE ACTION PLAN

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“*Legislative proposals related to the Sustainable Finance depended to some extent on good disclosure of non-financial information by companies. This was why an important part of the EC Action Plan is devoted to corporate disclosure and is the reason why the European Commission had asked EFRAG to launch the European Lab*”

EC Vice President Valdis Dombrovskis speaking at the March 2019 EFRAG Conference on Fostering Innovation in Corporate Reporting

-> translating policy goals (e.g. aspirations of NFRD and TCFD recommendations) into action

EUROPEAN LAB

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Stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good practices

- Facilitates dialogue between reporting companies, users and other relevant stakeholders
- 17-person Steering Group is responsible for European Lab governance, **agenda selection (projects)**, project task forces (PTFs) appointments and oversight of Lab projects
- European Lab deliverables have no authoritative or normative status
- Different from the Non-Financial Reporting Directive and related Guidelines
- PTFs responsible for the project deliverables including the contents of the project reports
- First project on **Climate-related Reporting** begun at the end of February 2019

EUROPEAN LAB

Future agenda of the European Lab

- European Lab agenda Steering Group 15 October decided:
  - Next project: Reporting on non-financial risks and opportunities, and linkage to the business model
    - ✓ Consider where feasible impact smaller companies
    - ✓ Need to define scope in a concise way
    - ✓ Time line:
      - Call for candidates for Project Task Force before Xmas
      - Appointment Project Task Force end Q1
      - Project operational Q2
  - Further projects will be decided upon taking into account results public consultation, context and developments in H2

EUROPEAN LAB- CLIMATE RELATED REPORTING PROJECT

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Importance of Climate Related Reporting Information

- Climate change related risk is increasingly being recognised as a financial risk

- Climate-related reporting has a role in facilitating the analysis of short, medium and long-term risk exposures and opportunities.

Project Task Force (PTF) workstreams

- Scenario analysis and forward planning;
- Gap analysis between current reporting and Task force for Climate Financial Disclosures (TCFD) recommendation, EU Non-Financial Reporting Directive (NFRD) and supplemental non-binding guidelines other suitable frameworks.

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Scenario analysis

Why?

- One of the innovative TCFD recommendations and relevant for assessing medium and long-term risk exposures
- Considered by PTF members as a "centre of gravity" of climate-related reporting information
- Is an innovative and challenging reporting

How?

- **Identifying good (and bad) reporting practices:** reviewed reporting of 60 companies across high exposure sectors including financials, oil & gas, mining, consumers, automotives and utilities. 28 of the 60 companies had scenario analysis information

- **Stakeholder outreach (October and November)**: Getting **feedback** on selected illustrative examples; Obtaining **preparer perspective;** Obtaining **user perspective**

EUROPEAN LAB- HIGH-LEVEL PRELIMINARY FINDINGS ON SCENARIO ANALYSIS

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The following are some of the challenging or still in development areas of scenarios reporting are observed from the PTF review

- Scenario analysis is still largely qualitative
- Limited transparency on how scenario analysis is applied for internal decision making
- Underlying assumptions are often lacking
- Insufficient quantification and monetisation of outputs
- Main focus on transition risks
- Physical risk scenarios are underdeveloped
- Limited linkage to strategic decisions

Preliminary findings subject to Outreach discussion

EUROPEAN LAB- CLIMATE RELATED REPORTING PROJECT

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Reporting TCFD and EC climate-related guidelines

Why?

- Evaluating use of climate related information and evaluating entities' climate-related reporting practices
- Sharing of good practices and "bad" practices will help companies to improve their public reporting
- Various surveys have shown evidence that there is room for improvement on climate related disclosures

How?

- **Identifying good (and bad) reporting practices:** reviewed reporting of over 100 companies across high exposure sectors including both large and small listed companies
- **Stakeholder outreach (October and November)**: Getting **feedback** on selected illustrative examples; Obtaining **preparer perspective;** Obtaining **user perspective**

EUROPEAN LAB- HIGH-LEVEL PRELIMINARY FINDINGS CLIMATE –RELATED DISCLOSURES

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The following are some of the challenging or still in-development areas of climate related disclosures as observed from the PTF review and the stakeholder dialogue

- Risk management and metrics & targets are the most mature but the time horizon is usually quite short
- Large differences per sector
- Linkage of strategy and targets to actual outcomes lacking
- Climate-related strategy, governance and risk management often addressed in isolation (rather than incorporated within business model)
- “Outside-in” impact of climate change not always addressed
- Financial impact often missing
- Boiler-plate language often used with no real added-value
- Investors increasingly considering ESG matters in their investments decisions

Preliminary findings subject to Outreach discussion

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THANK YOU

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