Agenda item 4. Climate-related financial disclosures in mainstream entity reporting: good practices and key challenges

Presented by

Nancy Kamp
Professor, Non-Financial Information, Integrated Reporting and Assurance, University of Groningen
Climate related financial disclosures in mainstream entity reporting

Good practices and key challenges

Prof. dr. Nancy Kamp-Roelands RA
University of Groningen

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Key messages

• Companies report on climate related (financial) disclosures, but still struggle
• Mostly operational disclosures. Next step is to include strategic information, such as on how operations, the type of products and services will change/are changing
• Linking the business model to risks and opportunities
• Connectivity between disclosures
• Full corporate reporting supply chain needed to accelerate high quality climate related financial disclosures
• Urgent need to invest in building expertise
• UNCTAD-ISAR has a demonstrated long history of promoting high quality corporate disclosures and should continue to do so
Good practices

Describe and quantify the transition of business models and link, where possible, to the financial implications

Include own operations and the supply chain (upstream and downstream)

Define clear targets for short, medium and long term

Examples:

• X% green electricity by 20XX
• Y% reduction of carbon emissions by XX in scope 1, 2 and 3
• Investments: x% of R&D costs for clean technologies
• Electrification plan: X% of vehicles electrified by 20XX, y% by 20YY, # electric automobile models available by 2025
• X% increase in turnover of climate action revenues
• Y% materials are recoverable, of which 85% reuseable
Changing business models

GROUPE PSA 2020 CSR REPORT P. 25.

**ENVIRONMENT**

- Investments: **32%** of R&D costs\(^{(1)}\) for clean technologies (positive impact on host communities and civil society too)
- Electrification plan: **50%** of vehicles to be electrified by 2021 and **100%** by 2025
- **7** Electrified Vehicles models on sale
- Use of “green” materials in the Group’s vehicles: **30%**
- Vehicles are **95%** recoverable, of which **85%** reusable or recyclable
- Circular economy: **616,800** parts collected and processed of which **576,700** sold as remanufactured parts
### Our 2020 achievements

- 100% carbon neutral in our operations (target net 0 kt CO₂)
- 84.1% Sustainable revenues (target 80%)
  - 2.923 billion LED lamps & luminaires delivered (target >2 billion)
  - 100% renewable electricity
- Zero waste sent to landfill (target 100% manufacturing sites sending zero waste to landfill)
- 84.1% Sustainable revenues (target 80%)
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- TRC rate of 0.22 (target <0.35)
  - Supplier sustainability performance rate of 99%
  - 9,266 people trained (target 10,000)

### Our contribution

- We drive climate action through our commitment of carbon neutral operations and also reduce the carbon footprint of our products and suppliers.
- We deliver cleaner solutions through energy-efficient and solar lighting and are committed to 100% renewable electricity in our operations.
- We are transitioning to a circular economy through circular products, systems and services, zero waste to landfill at our manufacturing sites and more sustainable packaging.
- We increase food availability and quality through horticulture and animal lighting and increase health and wellbeing through human-centric and UV-C lighting.
- We enable smart cities, increase the safety & security of roads and urban areas, enable safe & sustainable workplaces in offices and industry, and light lives in off-grid areas.
- We foster decent work and economic growth by improving the safety & wellbeing of employees and suppliers and training lighting entrepreneurs.

### Our 2025 commitments

- Double the pace of the Paris Agreement over our value chain
  - Carbon neutral operations and 100% renewable electricity
- Double the pace of the Paris Agreement over our value chain
  - Increase Climate action revenues from 56% to 72%
- Double our Circular revenues
  - Zero waste to landfill
- Double our Brighter lives revenues
- Double our Brighter lives revenues
  - 10 million lives lit through the Signify Foundation
- Double the % women in leadership
  - Supplier sustainability performance rate of 95%
  - Safe & healthy workplace with a TRC <0.30
Energy transition transparency and potential impact financial statements and impact financial audit

Shell Annual Report and Accounts 2020, p. 94

The audit risk is that critical accounting estimates or judgements do not reflect material climate risks and could, as a result, mislead investors. For example, forecast assumptions that underpin management’s operating plan used in assessing the recoverable amount of assets, particularly oil and gas price assumptions relevant to upstream oil and gas PP&E assets, and refining margins relevant to manufacturing assets, may not appropriately reflect the macro-economic impacts of the pandemic, combined with changes in supply and demand due to climate risk and the energy transition.

Similarly, there is an audit risk that the narrative disclosures around material climate risk in the Annual Report and the financial statements are not aligned.

The critical accounting judgements and estimates that are impacted by climate risk and the energy transition include the following:

- the estimation of oil and gas reserves and resources;
- the useful economic lives of PP&E and the estimation of depletion, depreciation and amortisation (DD&A);
- impairment assessments for goodwill, PP&E and joint ventures and associates, including the recovery of exploration and evaluation assets that may no longer be considered to be economic due to the impact of climate risk and the energy transition on oil and gas prices;
- the recognition and measurement of decommissioning and restoration (D&R) provisions, including operations that historically have been assumed to have indefinite lives;
- the recognition and measurement of Deferred Tax Assets; and
- climate change-related litigation brought against Shell that may lead to an outflow of resources or otherwise impact Shell’s business.
Full corporate reporting supply chain needed to promote high quality reporting on climate

Management/preparers
Users
Those charged with governance
Regulators
Auditors

→ Interaction between these groups relevant to accelerate disclosures
What role could UNCTAD-ISAR have?

Continue its long lasting history and experience in promoting environmental and sustainability disclosures and its connectivity to financial disclosures

Initiating research on developments and good practices to share and enhance quality of corporate reporting

Look holistically to promote and accelerate climate related financial disclosures (see UNCTAD Accounting Development Tool):

- Legal and regulatory context
- Institutional context
- Human capacity context
- Capacity building process
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