**Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting**
**(ISAR)**

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# 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

university of groningen

Business School

# 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 climated 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 wil 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 verhicles 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

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

# Climate in products and services Signify Annual Report 2020, p.14

| Our 2020 achievements | Our contribution | Our 2025 commitments |
|---|---|---|
| 100% carbon neutral in our operations (target net 0 kt $CO_2$) | We drive **climate action** through our commitment of carbon neutral operations and also reduce the carbon footprint of our products and suppliers | **Double** the pace of the Paris Agreement over our value chain<br>Carbon neutral operations and 100% renewable electricity |
| 84.1% Sustainable revenues (target 80%)<br>2.923 billion LED lamps & luminaires delivered (target >2 billion)<br>100% renewable electricity | We deliver cleaner solutions through **energy-efficient** and solar lighting and are committed to 100% renewable electricity in our operations | **Double** the pace of the Paris Agreement over our value chain<br>Increase Climate action revenues from 58% to 72% |
| Zero waste sent to landfill (target 100% manufacturing sites sending zero waste to landfill) | 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 | **Double** our Circular revenues<br>Zero waste to landfill |
| 84.1% Sustainable revenues (target 80%) | We increase **food availability** and quality through horticulture and animal lighting and increase **health and wellbeing** through human-centric and UV-C lighting | **Double** our Brighter lives revenues |
| 84.1% Sustainable revenues (target 80%)<br>6 million lives lit (target 5 million) | 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 | **Double** our Brighter lives revenues<br>10 million lives lit through the Signify Foundation |
| TRC rate of 0.22 (target <0.35)<br>Supplier sustainability performance rate of 99% (target 90%)<br>9,266 people trained (target 10,000) | We foster decent work and economic growth by improving the **safety & wellbeing** of employees and suppliers and training lighting entrepreneurs | **Double** the % women in leadership<br>Supplier sustainability performance rate of 95%<br>Safe & healthy workplace with a TRC <0.30 |

# Energytransition transparency and potential impact financial statements and impact financial audit

Shell Annual Report and Accounts 2020, p. 94

## Business milestones

We are taking steps to cut emissions from our existing oil and gas operations, and to avoid generating more in the future.

- We believe our annual oil production peaked in 2019, and we expect our total oil production to decline by 1-2% a year until 2030.
- We do not anticipate any new frontier exploration entries after 2025.
- Natural gas is the least polluting hydrocarbon. We expect the percentage of total gas production in our portfolio to gradually rise to 55% or more by 2030.
- By 2030, we will end routine flaring of gas, which generates carbon emissions, from the assets we operate.
- By 2025, we expect to have kept the methane emissions intensity of Shell-operated assets to below 0.2%.

Key Audit Matter Auditor's report Shell Annual Report2020

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 depreciation, depletion 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 holisticly 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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