

TEG Sub-Group #4

On metrics to improve climate-related disclosures

EU Technical Expert Group on Sustainable Finance



Stakeholder consultation | TEG#4 | Brussels | 18th October 2018



Members

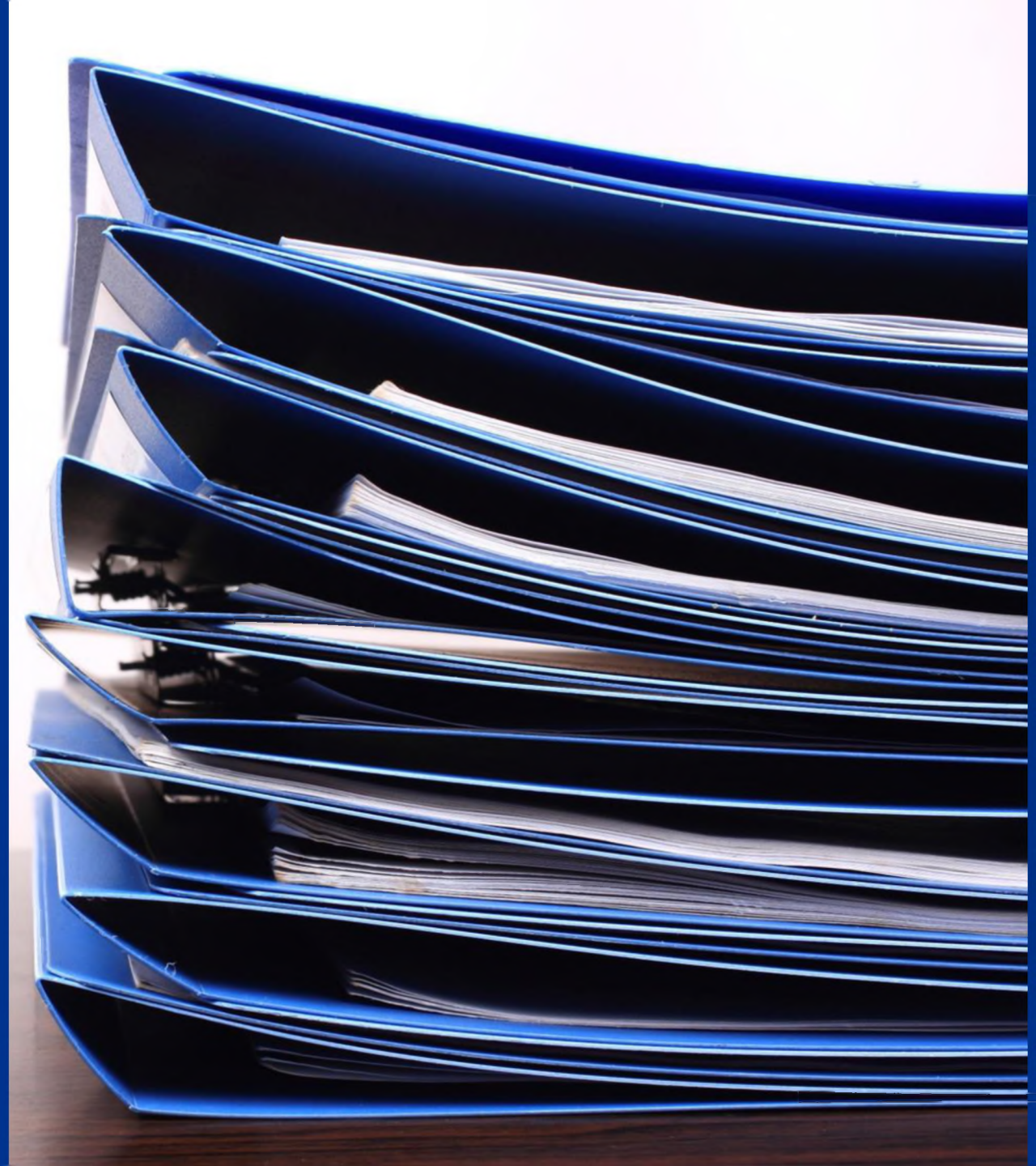
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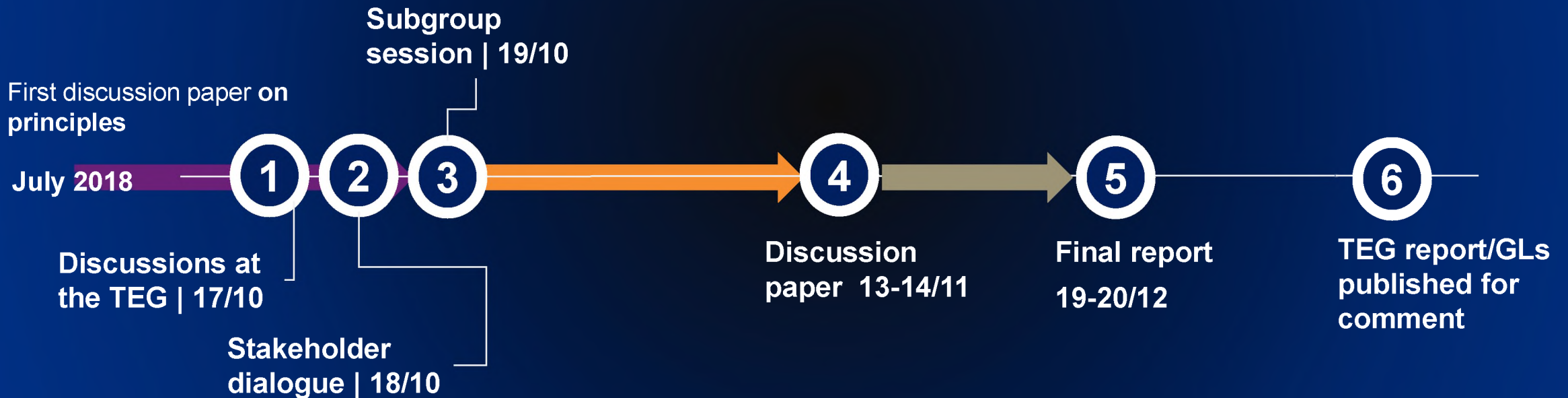
European Commission

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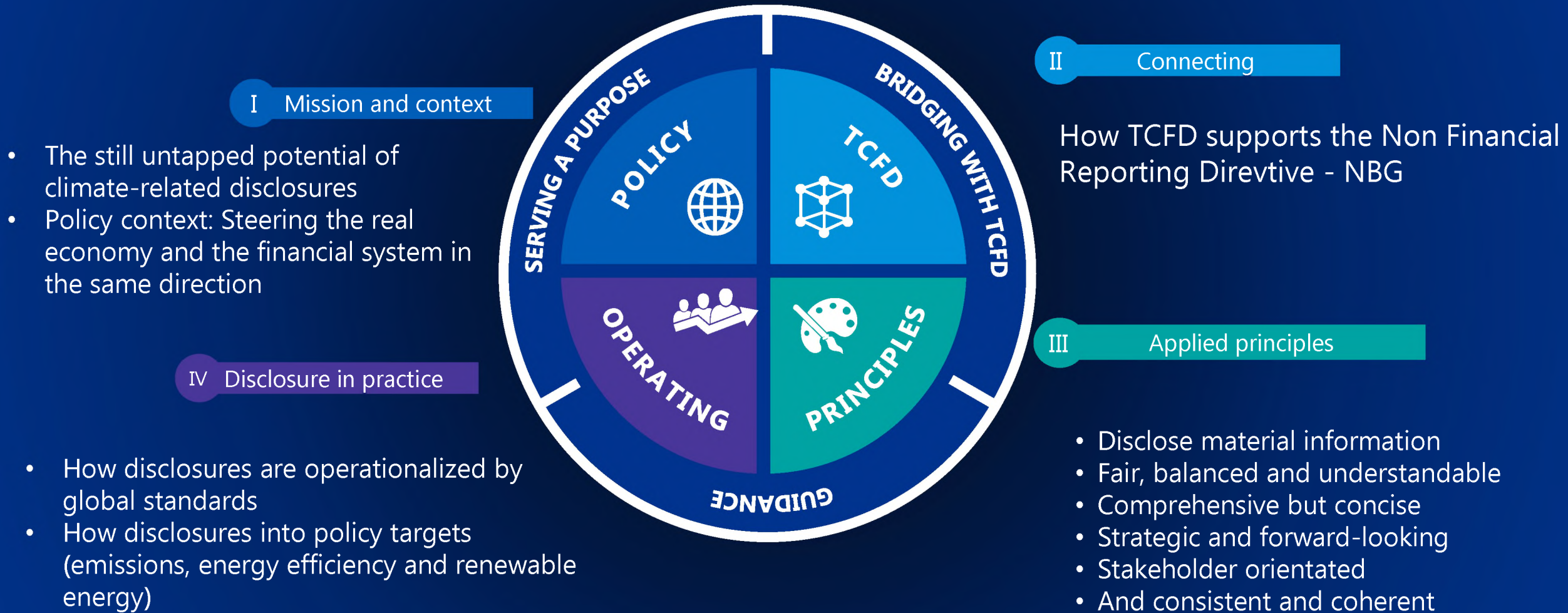


TEG#4 is focused in the process to update EU non-binding guidelines related to climate disclosures

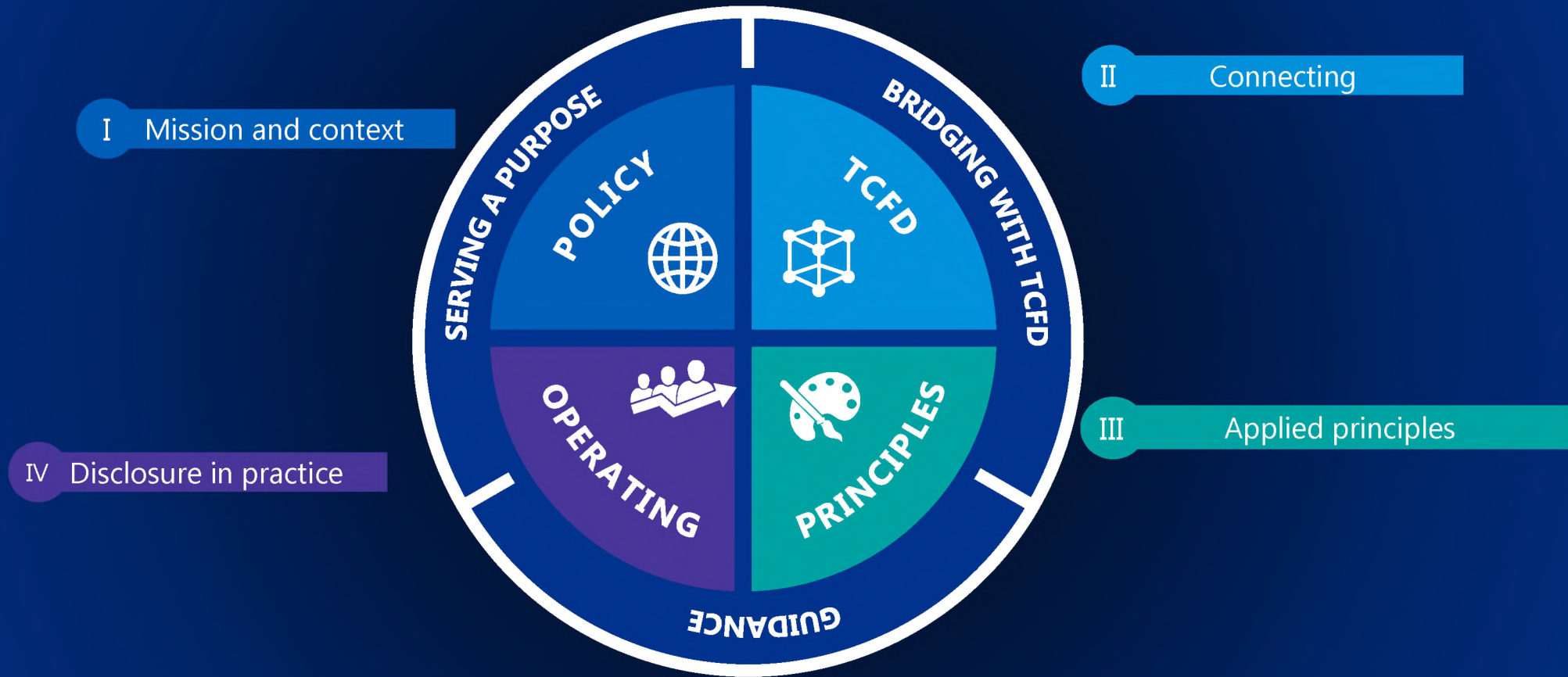
Where we are



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The contribution of disclosures to climate action

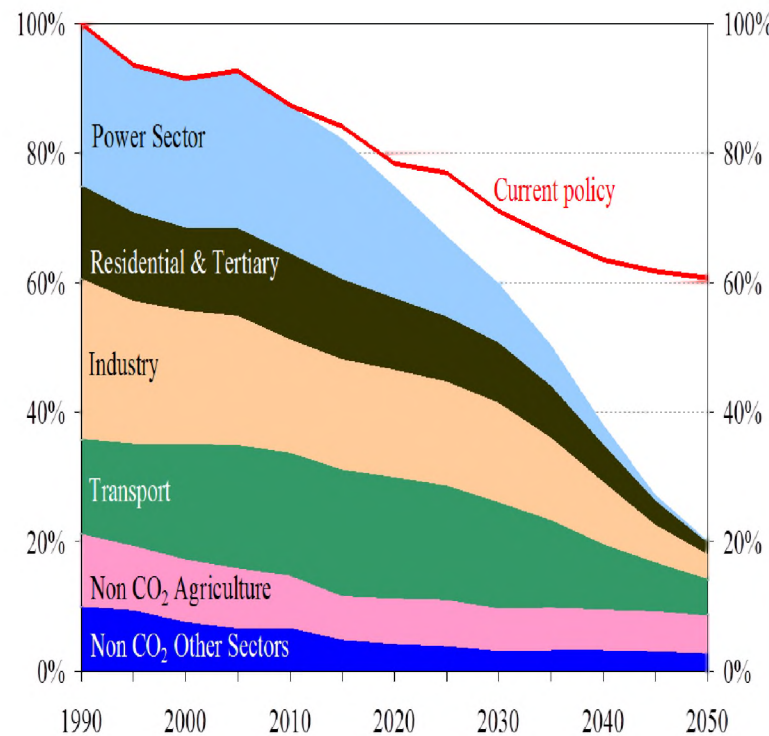
Overview: 2050 Low Carbon Economy Roadmap

80% domestic reduction in 2050 is feasible:

- ★ With currently available technologies
- ★ With behavioural change only induced through prices
- ★ If all economic sectors contribute to a varying degree & pace.

Efficient pathway and milestones:

- ★ -25% in 2020
- ★ -40% in 2030
- ★ -60% in 2040



Climate-related disclosures as a tool to catalyse sustainable investments

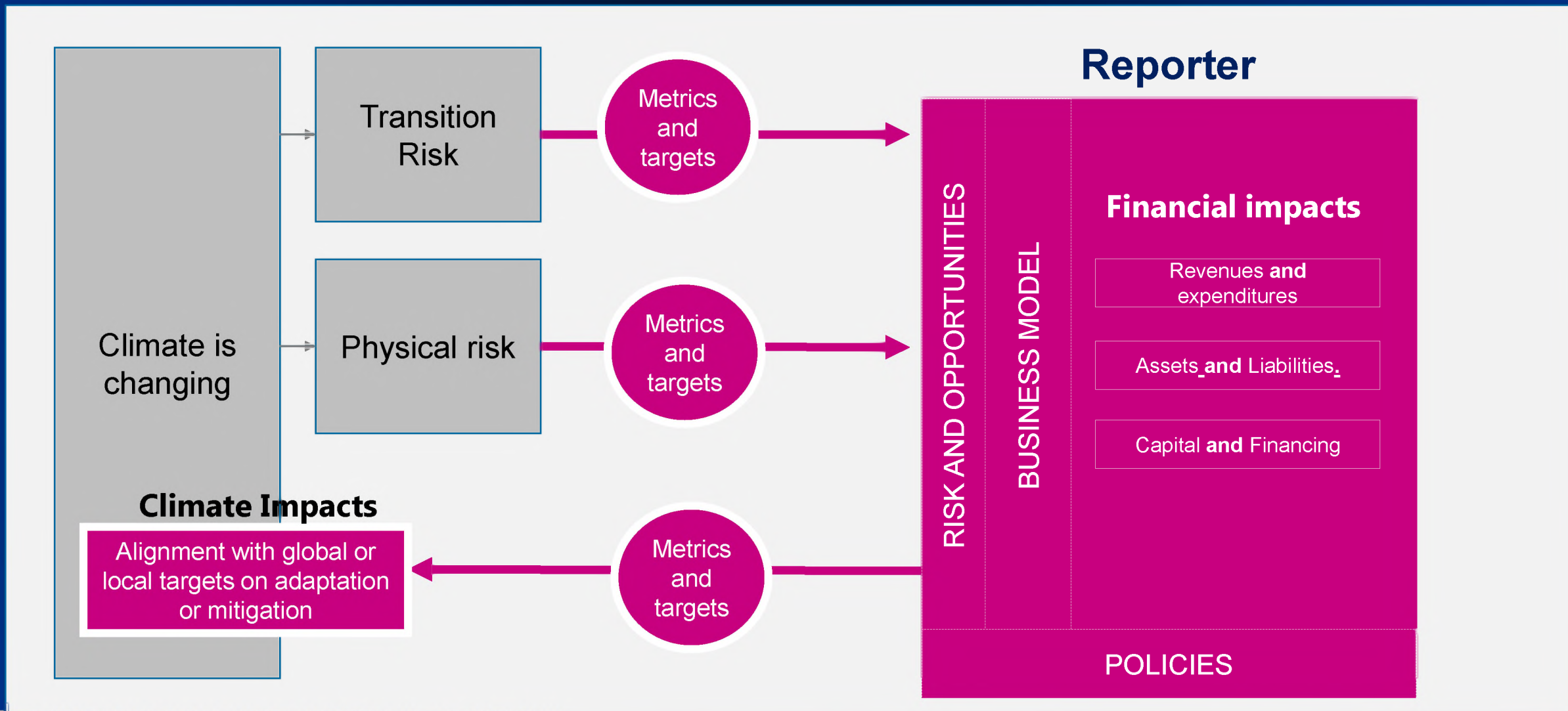
EU climate-related policies and targets.

↓
Impact reporting

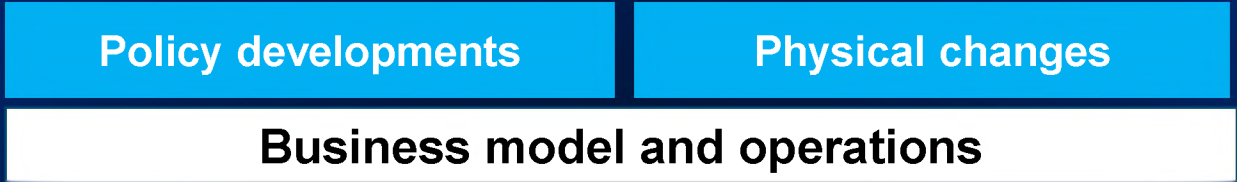
The contribution of disclosures to climate action

Impacts!

Of climate change in the Company
Of the Company in the climate change



Integrating TCFD into the Non-Financial Reporting Directive



Enrich NBG principles and the content



When climate change effects or influence the financial performance

When company contributes to climate resilience (industry/local adaptation or future mitigation of impacts on climate change)



Climate-impact metrics and targets

- **Disclose material information (NBG 3.1),**
- **Fair, balanced and understandable (NBG 3.2),**
- **Comprehensive but concise (NBG 3.3),**
- **Strategic and forward-looking (NBG 3.4),**
- **Stakeholder orientated (NBG 3.5), and**
- **Consistent and coherent (NBG 3.6).**

| | TCFD | NFRD/NBG |
|--|--|---|
| Primary users | Investors, lenders, and insurance underwriters. | As appropriate, this may include, among others: investors, workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups, social partners and civil society. |
| Function | to provide them with decision useful information on company's financial position | to provide useful information on development, performance, position and impact. |
| Focus of materiality definition | Organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings | Material information on key environmental, social and governance aspects and how risks stemming from them are managed |
| Dimensions of materiality | Financial | Environmental social, governance and financial |

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Challenges to be addressed in the emissions inventories

- Consistency (It should clearly specified if emissions are measured, calculated or estimated) .
- Accuracy (i.e emission factors used in calculations.)
- Completeness: Boundaries of the emissions inventories should be clearly disclosed.
- Traceability of the information from the source to the report with the appropriate evidence – granularity.
- Internal control under the information reported.

Not exhaustive

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In terms of the **qualitative / quantitative** focus of information, the NBG defines that a non-financial statement is not merely about providing lists of key performance indicators (KPIs).

Climate-related aspects to be consider in:

- a) Business model description**
- b) Policies and due diligence**
- c) Outcomes**
- d) Principal risks and their management**
- e) Key performance indicators**



TCFD

In order to properly understand a **company's development, performance, position and impact**, both qualitative and quantitative information should be disclosed.

III

Applied principles

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- **Stakeholder orientated (NBG 3.5), and**
- **Consistent and coherent (NBG 3.6).**

| | Financial impact | Climate impact |
|----------------------|---|--|
| Objectives | Determined by the company governance body . | Determined by the Paris Agreement, the EU Climate Action and the NDCs. |
| Risk | Transition and physical risk that could affect to the revenues and expenditures, assets and liabilities, and capital and Financing. | Failure in the global commitment on Climate Action. Potential range of climate variations and biophysical impacts at global and national level. |
| Opportunities | Opportunities due to transition processes and physical risk that could affect to the revenues and expenditures, assets and liabilities, and capital and financing. | Additionality of contributions in corporate commitments. Additionally of contributions of collective action. |
| Time horizons | Short, medium and long defined by the company . | 2020, 2030 and 2050. |
| Thresholds | Financial materiality. | Alignment of the company - or collective action - emissions evolutions and targets with goals defined in 2C scenarios |

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Primary audience: Providers of financial capital

And as appropriate, this may include, among others: workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups, social partners and civil society.

It is essential to keep in **mind to get the mainstream financial community on board**

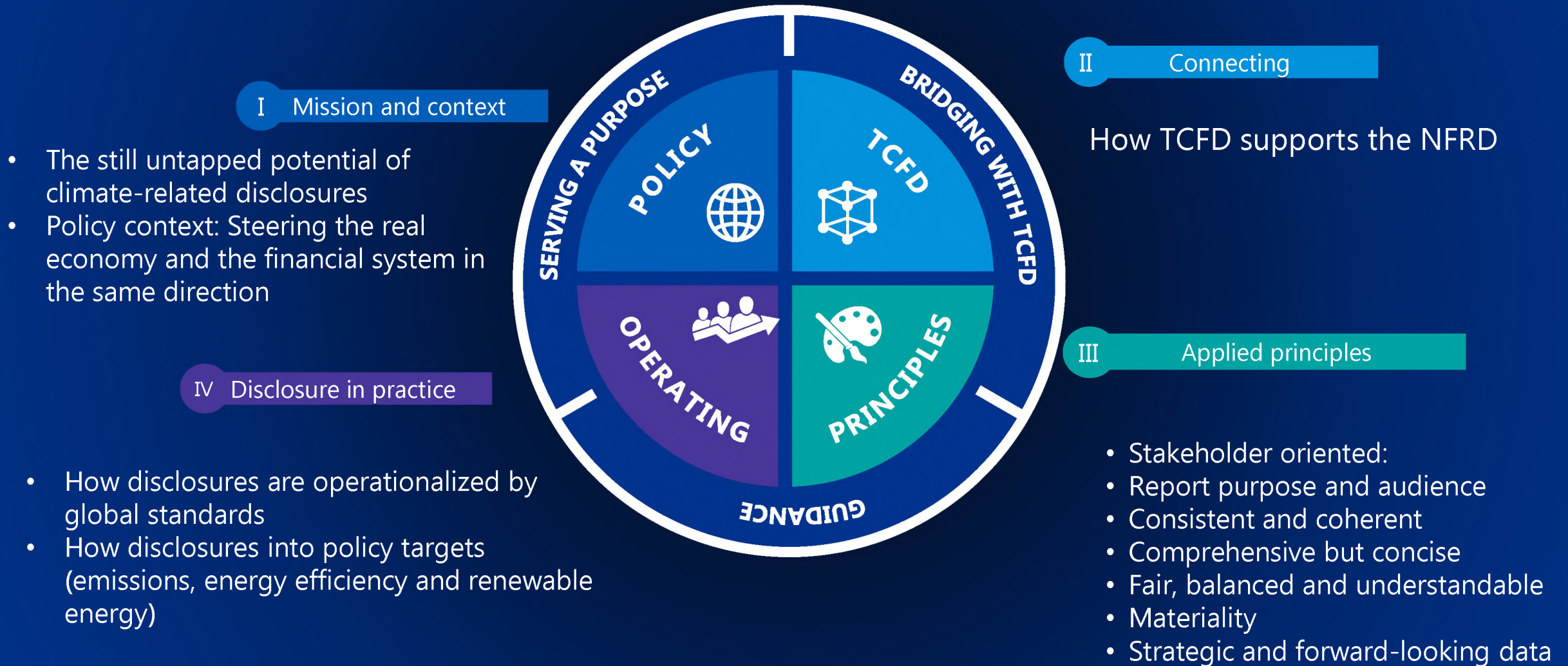
Unlocking the power of disclosures

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The **non-financial statement [NFRD]** should also take into account [about climate-related disclosures]:

- Challenges around the **scope and boundaries** year after year.
- Use of adequate **accounting methodologies** for emissions.
- Consistency between **company's risk maps** and risks related to climate change.
- Company **strategic objectives** and emissions targets,
- etc.

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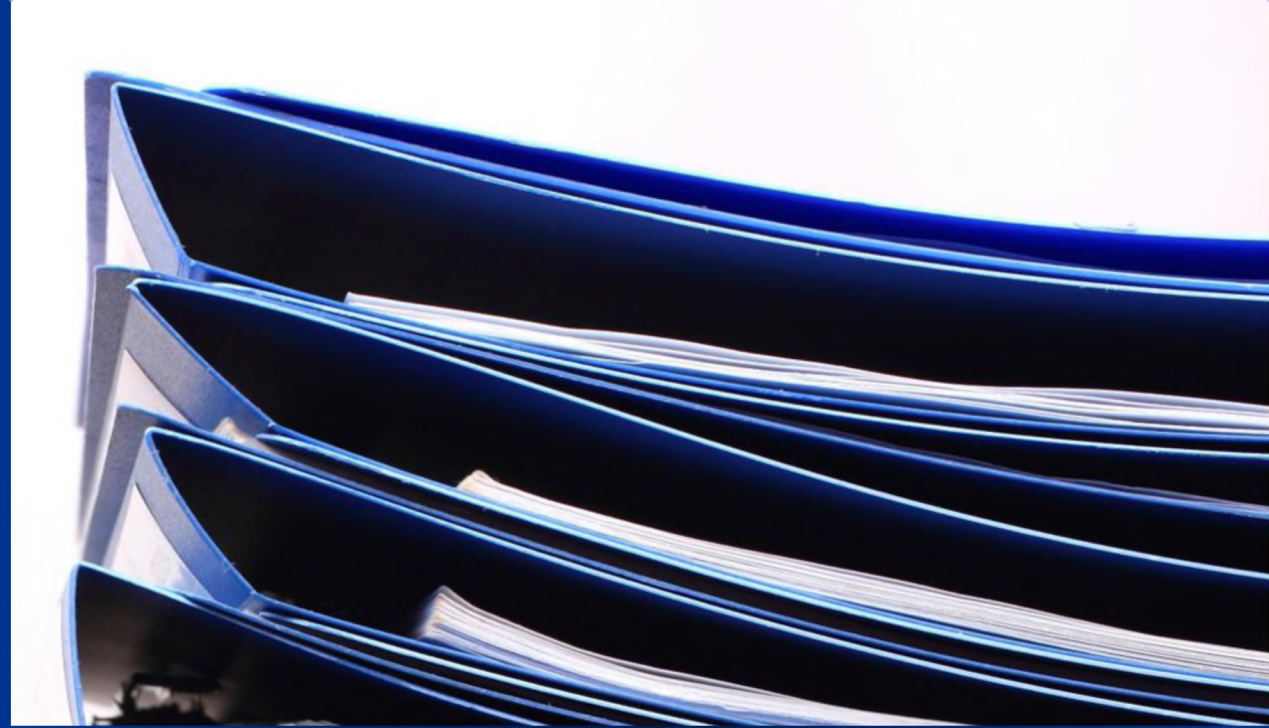
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Open to your comments and suggestions

