CONSULTATION DOCUMENT ON THE UPDATE OF THE NON-BINDING GUIDELINES ON NON-FINANCIAL REPORTING

Background

The Non-Financial Reporting Directive (2014/95/EU) requires large public interest entities with over 500 employees (listed companies, banks, and insurance companies) to disclose certain non-financial information.[1] As required by the Directive, the Commission has published Non-Binding Guidelines to help companies disclose relevant non-financial information in a more consistent and more comparable manner.[2]

In March 2018 the Commission published the Action Plan on Financing for Sustainable Growth, with the aim of reorienting capital towards sustainable investment, managing financial risks that arise from climate change and other environmental and social problems, and fostering transparency and long-termism in financial and economic activity.[3]

As part of that Action Plan the Commission committed to updating the Non-Binding Guidelines on Non-Financial Reporting, specifically with regard to the reporting of climate-related information. In practice, it is expected that the update will consist of a new supplement to the existing guidelines. The Commission intends to publish the new supplement on the reporting of climate-related information in June 2019.

This document has been drafted by the services of the European Commission to facilitate a targeted consultation with interested stakeholders on the possible content of the new supplement to the Non-Binding Guidelines. Comments on this document should be submitted by the **end of Wednesday 20 March 2019, through the online facility created for this purpose**. Comments submitted after that date, and comments not submitted through the online facility, will not necessarily be taken into consideration.

In June 2018, the European Commission set up a Technical Expert Group on Sustainable Finance (TEG)[4] to assist in four key areas of the Action Plan through the development of: 1) a unified classification system for sustainable economic activities (taxonomy), 2) an EU green bond standard, 3) benchmarks for low-carbon investment strategies, and 4) new guidelines on the reporting of climate-related information.

In January 2019 the TEG published its report on climate-related reporting. The TEG invited feedback on its report by 1 February 2019, and approximately 70 organisations and individuals submitted comments. The TEG has published a summary of these comments.[5] This consultation document takes account of the TEG report and of stakeholder feedback on that report.

Nothing in this document commits the European Commission or prejudices any decision by the Commission regarding the update of the Non-Binding Guidelines on Non-Financial Reporting.

[1] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095
[2] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017XC0705(01)
[3] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097
[4] https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en
[5] The TEG report on climate-related disclosures and the summary of feedback from stakeholders are available here https://ec.europa.eu/info/publications/190110-sustainable-finance-teg-report-climate-related-disclosures_en

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1. INTRODUCTION

1.1 Why provide new guidelines on climate-related disclosures?

The 2015 Paris Agreement on Climate Change, the United Nations' Sustainable Development Goals and the Special Report of the Intergovernmental Panel on Climate Change (October 2018) all urge accelerated and decisive climate action to reduce greenhouse gas (GHG) emissions and to create a low-carbon and climate-resilient economy. The EU has agreed ambitious targets for 2030 regarding GHG emission reductions, renewable energy and energy efficiency.[6] In 2018 the Commission published its strategic long-term vision for a prosperous, modern, competitive and climate-neutral economy by 2050.[7]

Companies and financial institutions have a critical role to play in the transition to a low-carbon and climate-resilient economy. Firstly, an additional annual investment of €180 billion is already needed to meet the EU's energy and climate 2030 targets, and further funds will be needed to achieve climate neutrality by 2050. Many of these investments represent significant business opportunities, and much of the funding will need to come from private capital. Secondly, companies and financial institutions need to better understand and address the risks of a negative impact on the climate resulting from their business activities, as well as the risks that climate change poses to their business. Weather-related disasters caused a record €283 billion in economic damages in 2017 and could affect about two-thirds of the European population by 2100 compared with 5% today.

In March 2018 the Commission published the Action Plan on Financing for Sustainable Growth, with the aim of reorienting capital towards sustainable investment, managing financial risks that arise from climate change and other environmental and social problems, and fostering transparency and long-termism in financial and economic activity.[8] The publication of new guidelines on the disclosure of climate-related information by companies is part of the Action Plan.

A number of other actions in the Action Plan depend to some extent on companies disclosing adequate sustainability-related information. This includes, for example, the proposed regulations on the establishment of a framework (taxonomy) to facilitate sustainable investment[9], on sustainability disclosures by institutional investors and asset managers[10], and on carbon-related benchmarks.[11]

Without sufficient, reliable and comparable sustainability-related information from investee companies, the financial sector cannot efficiently direct capital to investments that drive

[6] https://ec.europa.eu/clima/policies/strategies/2030_en
[7] https://ec.europa.eu/clima/policies/strategies/2050_en
[8] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097
[9] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0353
[10] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0354
[11] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0354

solutions to the sustainability crises we face, and cannot effectively identify and manage the risks to investments that will arise from those crises.

Corporate disclosure of climate related information has improved in recent years.[12] However, there are still significant gaps, and further improvements in the quantity, quality and comparability of disclosures are urgently required to meet the needs of investors and other stakeholders.[13]

In June 2017, the Task Force on Climate-related Financial Disclosures (TCFD), established by the G20's Financial Stability Board, published recommendations to encourage financial institutions and non-financial companies to disclose information on climate-related risks and opportunities.[14] The TCFD recommendations are widely recognised as authoritative guidance on the reporting of financially material climate-related information, and the Commission encourages companies to implement them.

This supplement integrates the TCFD recommendations, and provides guidance to companies that is consistent with the Non-Financial Reporting Directive and the recommendations of the TCFD.

1.2 Benefits for reporting companies

Better disclosure of climate-related information can have benefits for the reporting company itself, such as:

- increased awareness and understanding of climate-related risks and opportunities within the company, better risk management, and more informed decision-making and strategic planning;
- a lower cost of capital and a more diverse investor base, resulting for example from inclusion in actively managed investment portfolios and in sustainability-focused indices, and from improved credit ratings for bond issuance and better credit worthiness assessments for bank loans;
- more constructive dialogue with investors and shareholders;
- better corporate reputation and maintenance of social licence to operate.

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[12] For example, according to CDP, in 2017 89% of the world's biggest, highest emitting companies reported having emissions reductions targets, compared to 73% in 2011. See https://www.cdp.net/en/research/global-reports/tracking-climate-progress-2017. The number of European companies responding to the CDP climate change questionnaire increased by about 17% between 2013 and 2017.

[13] See for example: *2018 Research Report: The state of corporate sustainability disclosure under the EU Non-Financial Reporting Directive*, Alliance for Corporate Transparency, 2019; *1st Steps: Corporate climate and environmental disclosure under the EU Non-Financial Reporting Directive*, CDSB/CDP, 2018; *Thematic review of non-financial information in management reports 2017*, Dutch Authority for the Financial Markets, 2018.

[14] https://www.fsb-tcfd.org/

2. HOW TO USE THIS SUPPLEMENT

Companies should read this supplement together with the relevant national legislation transposing Directive 2014/95/EU, and if necessary the text of the Directive itself.

This supplement assumes that companies have read the Non-Binding Guidelines on Non-Financial Reporting published by the Commission in June 2017, which contain 6 key principles for good non-financial reporting, namely that disclosed information should be: (1) material; (2) fair, balanced and understandable; (3) comprehensive but concise; (4) strategic and forward-looking[15]; (5) stakeholder oriented; and (6) consistent and coherent. Those principles and the other sections of the Non-Binding Guidelines all apply as appropriate to this supplement.

Companies are also encouraged to read the recommendations of the Task Force on Climate-related Financial Disclosures, and if relevant the supplementary guidance for the financial sector and for companies operating in the sectors of energy, transport, material and buildings, and agriculture, food and forest products.

Like the general guidelines published in 2017, this supplement on climate-related reporting is non-binding. Companies may chose alternative approaches to the reporting of climate-related information, provided they meet legal requirements.

These guidelines recognise that the content of climate-related disclosures may vary between companies according to a number of factors, including the sector of activity, geographical location, the nature and scale of climate-related risks and opportunities, and the size of the company.

Methodologies and best practice in the field of climate-related reporting are evolving fast. These guidelines recognise that a flexible approach is necessary. Companies and other organisations are strongly encouraged to continue to innovate and further improve climate-related reporting beyond the content of these guidelines. Companies should also ensure that their approach to climate related reporting is regularly updated in line with the latest scientific evidence.

It is not the intention of these guidelines to encourage stand-alone climate reporting. Companies are encouraged to integrate climate-related information with other financial and non-financial information as appropriate in their reports.[16]

These guidelines are intended for use by companies that fall under the scope of the Non-Financial Reporting Directive. However, they may also be useful for other companies that wish to disclose climate-related information.

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[15] This does not prevent appropriate consideration of commercially-sensitive information. Relevant information may be provided in broader terms that still convey useful information to investors and other stakeholders and meets the overall transparency objective.

[16] If companies make cross-references to other reports or documents, this should be done in a smart and user-friendly way, for instance, by applying a practical rule of “maximum one ‘click’ out of the report”.

2.1 Materiality

According to the Non-Financial Reporting Directive, a company is required to disclose information on environmental, social and employee matters, respect for human rights, and bribery and corruption, to the extent that such information is necessary for an understanding of the company's development, performance, position and impact of its activities. Climate-related information can be considered to fall into the category of environmental matters.

In effect, the Non-Financial Reporting Directive has a double materiality perspective:

- The reference to the company's "development, performance [and] position" indicates financial materiality. Climate-related information should be reported if it is necessary for an understanding of the development, performance and position of the company. This perspective is typically of most interest to investors.

- The reference to "impact of [the company's] activities" indicates environmental and social materiality. Climate-related information should be reported if it is necessary for an understanding of the external impacts of the company. This perspective is typically of most interest to citizens, consumers, employees, communities and civil society organisations. However, an increasing number of investors also need to know about the climate impacts of investee companies in order to better understand and measure the climate impacts of their investment portfolios.

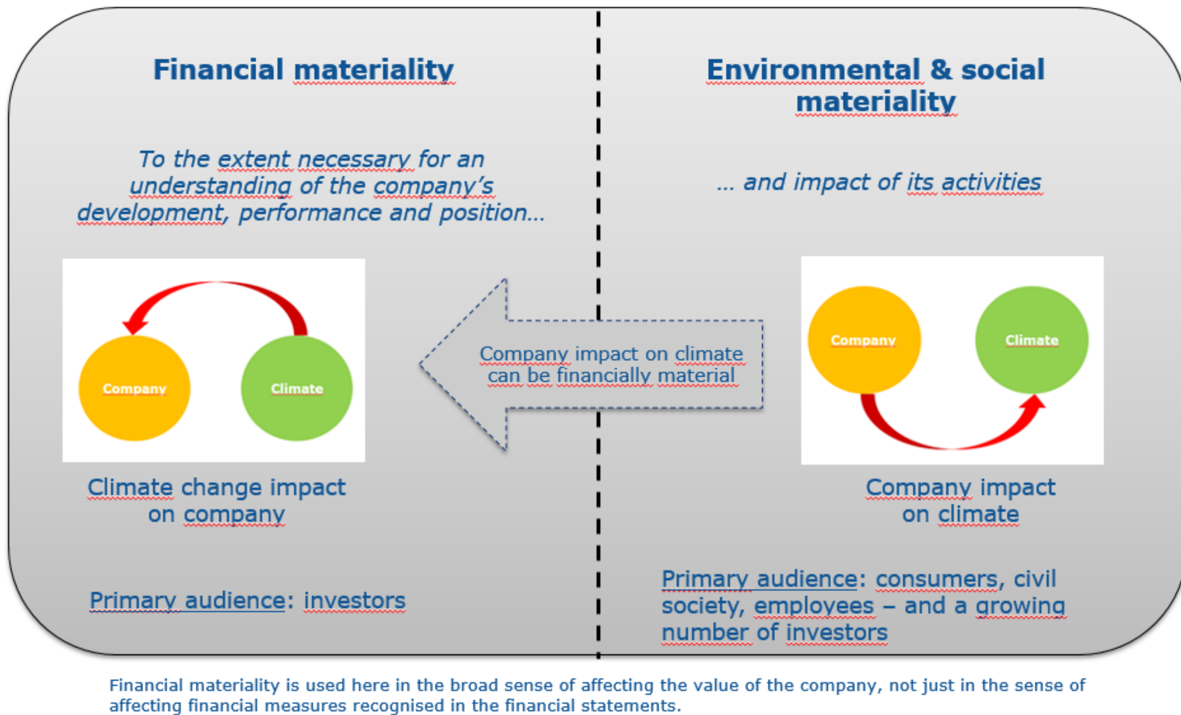
Companies should consider using the proposed disclosures in these guidelines if they decide that climate is a material issue from either of these two perspectives.

These two risk perspectives are increasingly likely to overlap. As markets and public policies evolve in response to climate change, the positive and/or negative impacts of a company on the climate will increasingly translate into business opportunities and/or risks that are financially material.

Companies are advised not to prematurely conclude that climate is not a material issue just because some climate-related risks are perceived to be long-term in nature.[17]

[17] When determining whether climate is a material issue, companies may wish to refer to one or more publicly available materiality matrices developed to guide companies in this regard.

Figure 1
The double materiality perspective of the Non-Financial Reporting Directive in the context of reporting climate-related information



Financial materiality is used here in the broad sense of affecting the value of the company, not just in the sense of affecting financial measures recognised in the financial statements.

Given the pervasive impacts of climate change, most companies under the scope of the Directive are likely to conclude that climate is a material issue. Companies that conclude that climate is not a material issue are advised to consider making a statement to that effect, explaining how that conclusion has been reached.

2.2 Structure of the proposed disclosures

These guidelines propose climate-related disclosures for each of the five reporting areas listed in the Non-Financial Reporting Directive: (a) business model (b) policies and due diligence (c) outcome of policies (d) risks and risk management and (e) key performance indicators.

The proposed disclosures are divided into two types:

- Type 1: disclosures that a company should consider if climate-related information is necessary for an understanding of its development, performance, position and impact of its activities.
- Type 2: additional disclosures that companies may consider in order to provide more enhanced information. The decision on whether or not to use the type 2 disclosures is likely to depend on, amongst other factors, the size of climate-related risks and opportunities that the company identifies.

The proposed disclosures in *Section 3 Disclosures* are for all companies that fall under the scope of the Non-Financial Reporting Directive, regardless of their sector of activity, including banks and insurance companies.

In addition, a number of sector-specific disclosures for banks and insurance companies are proposed in Annex I.

2.3 Climate-related risks, dependencies, and opportunities

Climate-related risks

Under the Non-Financial Reporting Directive, climate-related information should, to the extent necessary, include both the risks to the financial performance of the company resulting from climate change and the risks of a negative impact on the climate resulting from the company's activities. The proposed disclosures in these guidelines reflect both these risk perspectives. Unless otherwise stated in the text, references to risks should be understood to refer both to risks of negative impacts on the company (transition risks and physical risks – see below) and to risks of negative impacts on the climate.

Negative impacts on the climate may result from the company's own operations, and they may occur throughout the value chain, both upstream in the supply-chain and downstream. For example:

- A company's industrial production facility might directly emit greenhouse gases (GHGs) into the atmosphere.
- The energy that a company buys to run its operations might have been produced from fossil fuels.
- The product that a company makes might require the consumption of fossil fuels, for example in the case of cars that run on petrol or diesel.
- The production of raw materials used by the company might result in GHG emissions. For example, a company producing or processing forest or agricultural commodities, including in sectors such as food, apparel, or wood processing industries, could potentially be causing, directly or indirectly, deforestation and forest degradation and related GHG emissions upstream in their value chain.

The risks of climate change for the financial performance of the company can be classified as physical risks or transition risks.[18]

Transition risks are risks to the company that arise from the transition to a low-carbon and climate-resilient economy. They include:

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[18] This description of transition and physical risks is to a large extent based on the report of the Task Force on Climate-related Financial Disclosures.

- Policy risks, for example as a result of energy efficiency requirements, carbon-pricing mechanisms which increase the price of fossil fuels, or policies to encourage sustainable land-use.
- Legal risks, for example the risk of litigation for failing to avoid or minimise adverse impacts on the climate, or failing to adapt to climate change.
- Technology risks, for example if a technology with a less damaging impact on the climate replaces a technology that is more damaging to the climate.
- Market risks, for example if the choices of consumers and business customers shift towards products and services that are less damaging to the climate.
- Reputational risks, for example the difficulty of attracting and retaining customers, employees and investors if a company has reputation for damaging the climate.

Generally speaking, a company with a higher negative impact on the climate will be more exposed to transition risks.

Physical risks are risks to the company that arise from the physical effects of climate change.[19] They include:

- Acute physical risks, which arise from particular events, especially weather-related events such as storms, floods, fires or heatwaves that may damage production facilities and disrupt value chains.
- Chronic physical risks, which arise from longer-term changes in the climate, such as temperature changes, rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.

The exposure of a company to physical risks does not directly depend on whether or not that company has a negative impact on the climate.

Dependencies on natural, human and social capitals

Many companies are dependent on natural capital.[20] If the natural capital itself is threatened by climate change then the company will be exposed to climate-related risks, especially physical risks. Companies should therefore carefully consider their natural capital dependencies when identifying and reporting on their climate-related risks. For example, an agricultural production company may be dependent on various natural capitals such as water, biodiversity, and land and soil productivity. Such a company would be expected to explain these dependencies when reporting on its climate-related risks.

Many companies are also dependent on human and social capital, such as the skills and motivation of employees, and the level of trust the company enjoys amongst external

[19] Further guidance on reporting physical risks can be found in *Advancing TCFD Guidance on Physical Climate Risks and Opportunities*, EBRD and Global Centre of Excellence on Climate Adaptation https://www.physicalclimaterisk.com/media/EBRD-GCECA_draft_final_report_full.pdf

[20] Further explanation and guidance regarding natural capital is available from the Natural Capital Coalition https://naturalcapitalcoalition.org/

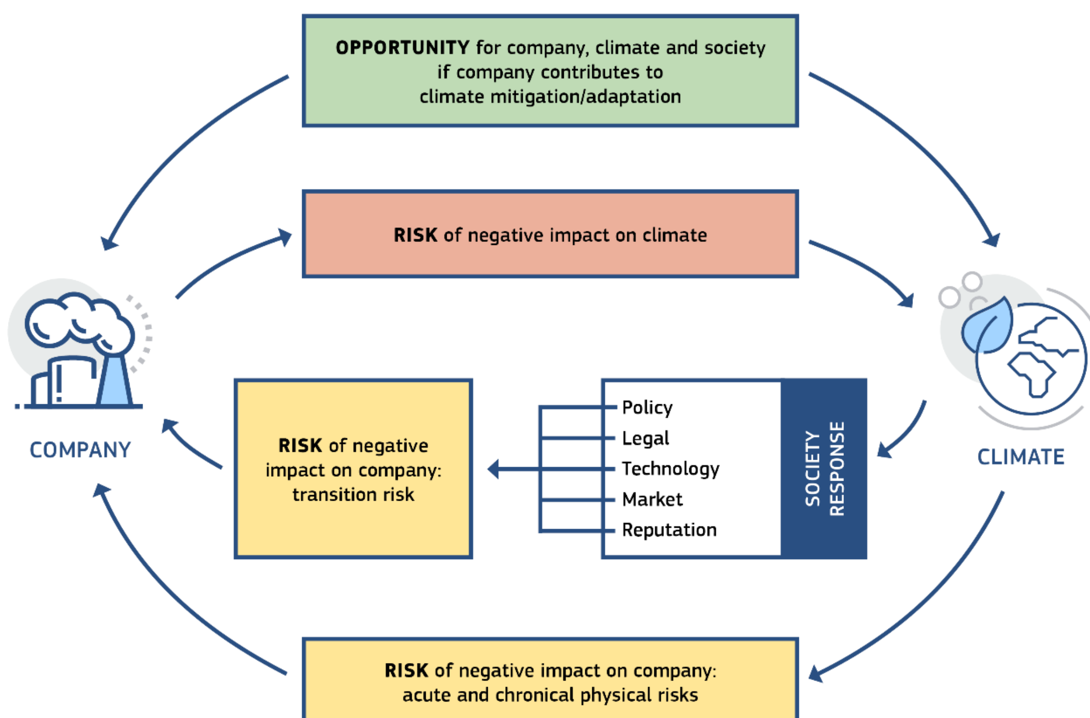
stakeholders. Companies should integrate information on human and social capital as appropriate in their reporting on climate-related issues. For example, employees may be critical to the development of innovative low-carbon products and services, or the company may have difficulty in attracting new employees or customers if its business model is associated with high GHG emissions.

Climate-related opportunities

Climate-related risks can often be converted into opportunities by companies offering products and services that contribute to climate change mitigation or adaption. Climate change adaptation means anticipating the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause. It includes business opportunities such as new technologies to use scarce water resources more efficiently, or the building of new flood defences. Climate change mitigation refers to efforts to reduce or prevent GHG emissions. Examples of business opportunities associated with mitigation include renewable energy or the development of more energy efficient buildings and transport systems. The taxonomy of sustainable economic activities, proposed by the Commission as part of the Action Plan on Financing Sustainable Growth, will help to identify and classify such opportunities.

Figure 2 shows the relationship between climate-related risks and opportunities.

Figure 2
Climate-related risks and opportunities



When reporting on their climate-related risks, dependencies and opportunities, companies should, to the extent appropriate, consider their whole value chain, both upstream and downstream. This means following a product life cycle approach that takes account of climate issues in the supply chain and the sourcing of raw material, as well as during the use of the product and when the product reaches end-of-life.

2.4 Links with recognised reporting frameworks and standards

Companies are encouraged to disclose information in accordance with widely accepted reporting standards and frameworks to maximize comparability for their stakeholders. To contribute to convergence at EU and global level, these guidelines refer to a number of recognised reporting frameworks and standards.

In particular, they incorporate the recommended disclosures of the Task-Force on Climate-related Financial Disclosures (TCFD), which are themselves aligned with other principal frameworks. The disclosures recommended by the TCFD are separately identified in these guidelines. Annex II shows the disclosure requirements of the Non-Financial Reporting Directive mapped against the recommended disclosures of the TCFD.

In addition to the TCFD, these guidelines also take particular account of the standards and frameworks developed by the Global Reporting Initiative (GRI), the CDP, the Carbon Disclosures Standards Board (CDSB), the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC). [21]

3. PROPOSED DISCLOSURES

3.1 Business Model

Stakeholders may be interested in understanding the company's view of how climate change might affect its business model and strategy, and how its activities affect the climate, over the short, medium and long term. To adequately report on climate related matters, companies may need to take a longer term perspective than they normally do for financial reporting.

The risks and opportunities are likely to depend on the type of activity of the company, its geographic locations and on the positioning of the company in the transition to a low-carbon and climate-resilient economy.

To appropriately incorporate the potential effects of climate change into their planning processes, companies should consider how climate-related risks and opportunities may evolve and their potential business implications under different conditions. One way to assess such implications is through the use of scenario analysis.

[21] The Corporate Reporting Dialogue is undertaking work to better align the climate-related disclosures of SASB, GRI, CDP and CDSB. Companies are advised to take account of this work when it is complete.

Companies that do not appropriately consider their business model and strategy in light of climate change may both cause negative effects on the climate and experience negative impacts on their business such as on the profit and loss statement, financing, future regulatory burden, and "license to operate" in terms of reputational costs. On the other hand, identifying new climate-related opportunities may strengthen the business model and earnings outlook of a company. Providers of capital are increasingly aware of climate-related issues and may give preference to companies with climate resilient strategies or to those that invest in low-carbon products and services.

Table 1 - Disclosure on Business Model
Type 1
Describe the impact of climate-related risks and opportunities on the company's business model, strategy and financial planning, and how strategies might change to address potential transition and physical risks as well as opportunities. [Covers TCFD recommendation Strategy b)]
Describe how the company's business model and strategy might have an adverse impact on the climate, and how they might contribute to climate change mitigation and/or adaption.
Describe the resilience of the company's business model and strategy, taking into consideration different climate related scenarios over different time horizons, including at least a 2°C or lower scenario and a greater than 2°C scenario. [22] [Covers TCFD recommendation Strategy c)]
Type 2
Describe the company's dependencies on natural capitals, such as water, land, ecosystems or biodiversity that might be at risk because of climate change.
Describe how any changes in the company's business model and strategy to address climate change mitigation and/or adaption might imply changes in the company's human capital needs.
Describe opportunities related to resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the value chain.
Disclose how the company has selected scenarios.
Describe how the company's activities might contribute to climate change via GHG emissions, including from deforestation, forest degradation or land use change
Disclose the connectivity of financial and non-financial information that affect the company's strategy with regard to its portfolio of products and services, project financing activity, or asset portfolio.

[22] For further information on how to conduct a scenario analysis to assess the strategic resilience of a company, see TCFD's Technical Supplement "The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities" https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Technical-Supplement-062917.pdf.

3.2 Policies and Due Diligence Processes

Governance and control systems are key to stakeholders' understanding of the robustness of a company's approach to climate-related issues. Information on the involvement of the board and management, in particular their respective responsibilities in relation to climate change, informs stakeholders on the level of the company's awareness of climate-related issues. When describing the role of the board, the company may wish to make a reference to any corporate governance statement that it is required to publish.

Stakeholders may also be interested in the company's policies describing its commitment towards climate change mitigation and adaptation and in its due diligence processes. This will help stakeholders to understand the company's ability to manage its business to minimize climate-related risk, limit negative impact on the climate and, where relevant, produce positive externalities for the environment.

Processes addressing climate-related topics may be separate from other operational processes or they may be fully integrated into the company's risk management framework. The company may want to explain its approach to managing climate-related issues and the rationale for choosing that approach.

Table 2 - Disclosure on Policies and Due Diligence Processes
Type 1
Describe the company's climate policy and associated targets, including any climate change mitigation or adaptation policy, and any other commitments or principles that the company has set.
Explain the reasoning behind the selection of the targets the company has set, including how they relate to national and international targets.
Describe the board's oversight of climate-related risks and opportunities. [Covers TCFD recommendation Governance a)]
Describe management's role in assessing and managing climate-related risks and opportunities and explain the rationale for the approach. [Covers TCFD recommendation Governance b)]
Describe the degree of climate competency that exists at board and management level and any expertise to which the company has access.
Describe any public policy engagement on climate related issues undertaken by the company, including membership of any relevant organisations or interest groups.
Type 2
Describe the company's engagement with its value chain on climate-related issues, explaining how it engages with upstream and downstream partners to reduce negative impacts on the climate and prevent double counting of GHG emissions.
Explain how climate-related issues are integrated into the company's operational decision-making processes.

Table 2 - Disclosure on Policies and Due Diligence Processes
Type 2
Describe any employee policies that are related to the climate, including any investments in skills that will be required for the transition to low-carbon technologies.
Describe whether and how the company's remuneration policy takes account of climate related performance.

3.3 Outcomes

Disclosure of climate related policy outcomes helps stakeholders monitor and assess a company's development, position, performance and impact as a result of its policies. In assessing its performance through target setting and performance reporting against the targets, the company demonstrates the consistency of the company's strategy, actions, and decisions related to climate change.

Quantitative aspects, such as KPIs supporting the analyses, are covered in *Section 3.5 Key Performance Indicators* of these guidelines.

Table 3 - Disclosure on Outcomes
Type 1
Describe the outcomes of the company's policy on climate change, in particular the performance of the company against the indicators used and targets set to manage climate related risks and opportunities. [Covers TCFD Metrics and targets c)].
Describe the development of GHG emissions against the targets set and the related risks over time. [Covers TCFD Metrics and targets b)].
Type 2
Describe how the performance of the company with regard to climate influences its financial performance, where possible with reference to financial KPIs.

3.4 Principal Risks and their Management

Stakeholders may be interested to know how the company identifies climate/related risks, what risks it has identified and how it manages those risks.

Disclosures on risks should include risks of the company having a negative impact on the climate and the risks of climate change on the financial performance of the company (transition and physical risks), and whether and how the two are linked.

Table 4 - Disclosure on Principal Risks and Their Management
Type 1
Describe the company's processes for identifying and assessing climate-related risks over the short, medium, and long term and disclose how the company defines short, medium, and long term.[23] [Covers TCFD recommendation Risk management a)]
Describe the climate-related risks the organization has identified over the short, medium, and long term throughout the value chain. [Covers TCFD recommendation Strategy a)]
Describe the potential risks for the company resulting from any dependencies on natural capitals threatened by climate change, such as water, land, ecosystems or biodiversity, including those associated with their value chains, operations, and products.
Describe processes for managing climate-related risks (if applicable how they make decisions to mitigate, transfer, accept, or control those risks), and how the company is managing the particular climate-related risks that it has identified. [Covers TCFD recommendation Risk management b)]
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management. [Covers TCFD recommendation Risk management c)]. An important aspect of this description is how the company determines the relative significance of climate-related risks in relation to other risks.
Type 2
Describe any climate adaptation measures undertaken by the company as part of its risk management process.
Give a detailed breakdown of climate-related risks by business activity and/or geographical location.
Describe how the company sets and applies limits to climate related risks, including any triggers used to escalate issues to management attention.
Describe the processes for prioritizing climate-related risks, including any thresholds applied and indicate which risks across the value chain are considered most significant.
Categorise the risks of climate change on the financial performance of the company according to whether they are transition risk (policy, legal, technological, market and reputational risks) or physical risks (acute and chronic risks).
Disclose any risk mapping that includes climate related issues.
Provide definitions of risk terminology used or references to existing risk classification frameworks used.
Describe the frequency of reviews and analyses with regard to risk identification and assessment.

[23] The definition of short, medium and long term is likely to depend on the company's business model and the life cycle of its assets and liabilities.

Table 4 - Disclosure on Principal Risks and Their Management
Type 2
Describe the linkages between major climate-related risks and financial KPIs.
Disclose any significant assumptions that have been used to assess climate-related risks. When relevant, disclose how scenarios and/or internal carbon pricing are used for risk management actions such as mitigation, transfer or adaptation.
Identify the locations that are critical to value chains, including operations, suppliers and markets.
Disclose financial impacts of extreme weather events, including possible indicators on days of business interruptions and associated costs, cost of repairs, fixed-asset impairment, value chain disruptions and lost revenues.
Describe how the company's performance is affected by weather variability, in particular for companies sensitive to variability in temperature and precipitation.

3.5 Key Performance Indicators

Companies should use KPIs to support their other climate-related disclosures, such as those related to outcomes or principal risks and their management, and to allow for aggregation and comparability across companies and jurisdictions. KPIs should be integrated with other disclosures to support and explain the narrative. However it is also considered good practice to publish an additional table that presents all KPIs in one place.

In addition to the proposed KPIs in this section, all companies should consider disclosing:

- Any additional indicators and targets used by the company to assess climate related risks and opportunities in line with their strategy and risk management processes [Covers TCFD recommendation Metrics and targets a)].
- Sector-specific indicators relevant for the particular industry. Companies from sectors including but not limited to energy, transportation, materials, real estate, and agriculture should refer to the TCFD's supplemental guidance for non-financial groups and other climate-related reporting frameworks to ensure comparability of reported KPIs across sectors and companies. [24]
- Indicators on related environmental issues. Companies whose business models are dependent on natural capitals threatened by climate change may need to disclose indicators related to those natural capitals (e.g. water, soil productivity or biodiversity). Companies with potentially adverse impacts on the climate as a result of land use

[24] TCFD (2017): Implementing the Recommendations of the Task-Force on Climate-related Financial Disclosures, https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf. Other reporting standards and frameworks providing industry-specific KPIs on climate-related issues include the CDP Climate Change, Water Security and Forests Questionnaires, the GRI 305: Emissions 2016 and GRI 302: Energy 2016 standards or the SASB industry standards.

change including deforestation should consider disclosing indicators on these matters.[25]

- Indicators on related human capital and social issues, such as training and recruitment of employees.
- Indicators related to opportunities. Companies engaging with a transition to a low-carbon and climate-resilient economy, aligned with key EU policies[26], carrying out climate change mitigation / adaptation activities that could translate into opportunities for the company should consider disclosing KPIs that reflect such efforts. Examples of these could be revenues from low-carbon products, revenues from product or services applying to the circular economy model, and R&D expenditures in circular economy production.

Together, these indicators will help stakeholders better understand a company's specific development, position, performance and impact within its industry and will support comparability.

Where not apparent, companies should provide a description of the methodologies used to calculate or estimate the KPIs.

[25] Additional guidance can be found in The Natural Capital Protocol Toolkit https://naturalcapitalcoalition.org/protocol-toolkit/ and in the Commission Recommendation 179/2013 179/2013 for common methods on measuring GHG performance following a lifecycle approach (Organisation Environmental Footprint and Product Environmental Footprint).

[26] Such as the Circular Economy Package, the Renewable Energy Directive, the Energy Efficiency Directive, the EU Emission Trading Scheme or the Clean Transport Package. For more details, see https://ec.europa.eu/clima/policies/strategies/2050_en.

Table 5 - Key Performance Indicators (Type 1)						
Theme	**KPI**	**Unit of Measure**	**Example**	**Rationale**	**Alignment with Other Reporting Frameworks**	**EU Policy Reference**
GHG Emissions	Scope 1: Direct GHG emissions	Metric tons CO_2e[27]	270.900 tCO_2e	This KPI ensures companies are accurately measuring their carbon footprints from direct emissions.	TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 305; CDSB Framework, SASB	EU emissions trading system (ETS) 2030 climate & energy framework
	Further guidance: - Companies should disclose 100% of their Scope 1 GHG emissions. This will help to improve the quality of other companies' GHG emissions reporting. If a company cannot collect reliable data for a proportion of its Scope 1 GHG emissions, it should make a reasonable estimate for that proportion in order to arrive at a figure for 100%. In that case, the company should also disclose (1) the % of emissions for which reliable data have been collected and the % of emissions that have been estimated, (2) the reasons why reliable data could not be collected for a proportion of the emissions and (3) the methodology used to estimate the proportion of emissions for which reliable data could not be collected.					
	Scope 2: GHG emissions from the generation of acquired and consumed electricity, steam, heat, or cooling (collectively referred to as "electricity")	Metric tons CO_2e	632.400 tCO_2e	This KPI ensure companies are measuring emissions from purchased or acquired electricity, steam, heat, and cooling.	TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 305; CDSB Framework	2030 climate & energy framework
	Further guidance: If necessary, companies should explain whether there are any sources (e.g. facilities, specific GHGs, activities, geographies, etc.) of Scope 2 GHG emissions within their selected reporting boundary for which GHG emissions could not be calculated or estimated.					
	Scope 3: all indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.	Metric tons CO_2e	4.383.000 tCO_2e	For most companies, the majority of emissions occur indirectly from value chain activities. This KPI helps to gauge the thoroughness of companies' accounting processes and to understand how companies are analysing their emissions footprints.	TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 305; CDSB Framework	2030 climate & energy framework

[27] A carbon dioxide equivalent or CO2 equivalent (CO2e) is a metric measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential, by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential.

<table>
<tr><th colspan="7">Table 5 - Key Performance Indicators (Type 1)</th></tr>
<tr><th>Theme</th><th>KPI</th><th>Unit of Measure</th><th>Example</th><th>Rationale</th><th>Alignment with Other Reporting Frameworks</th><th>EU Policy Reference</th></tr>
<tr><td></td><td colspan="6">Further guidance:
- Scope 3 should account for emissions from activities that occur “downstream” and “upstream” from the proposed action.
- [If possible, placeholder for reference to guidance on which Scope 3 emissions are most relevant by sector- waiting for DG CLIMA’s input.]
- Companies should not exclude any activity that would compromise the relevance of the reported Scope 3 GHG emissions inventory. The GHG Protocol GHG Corporate Value Chain (Scope 3) Accounting and Reporting Standard provides a list of criteria for determining relevance. Companies should explain any excluded categories in their Scope 3 GHG emissions disclosure.</td></tr>
<tr><td rowspan="2">GHG Emissions</td><td>GHG emissions target</td><td>Absolute target: Metric tons CO_2e achieved or % reduction, from base year And / Or,
Intensity target: Metric tons CO_2e per business metric or % reduction of intensity metric, from base year</td><td>1.500.000 tCO2e by 2025 from 2018 base year

350 tCO_2e per EUR 1 million turnover by 2025 from 2018 base year</td><td>Target setting provides direction and structure to environmental strategy. This KPI helps to understand companies' commitments to reducing emissions and whether the company has a goal towards which it is harmonizing and focusing emissions-related efforts.</td><td>TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 103-2 and 305; CDSB Framework, SASB</td><td>2030 climate & energy framework</td></tr>
<tr><td colspan="6">Further guidance:
- Companies should describe whether their target(s) relate(s) to their Scope 1, Scope 2 and/or Scope 3 GHG emissions either in full or in part.
- In the case of an intensity target, companies should disclose the estimated change in absolute emissions for each scope (%) as a result of the intensity target.
- Companies should consider setting targets for 2025 or 2030 and review them every five years. They may also consider setting a target for 2050 to align with the Paris agreement.</td></tr>
<tr><td colspan="7">Further guidance on GHG Emissions reporting:
- Companies should indicate the third-party verification/assurance status that applies to their reported scope 1, scope 2 and scope 3 GHG emissions.
- Companies should calculate their GHG emissions in line with the GHG Protocol methodology or the ISO 14064-1:2018 standard and, where appropriate, with the Commission Recommendation 179/2013 179/2013 for common methods on measuring GHG performance following a lifecycle approach (Organisation Environmental Footprint and Product Environmental Footprint). This will allow for aggregation and comparability across companies and jurisdictions.</td></tr>
<tr><td>Products and Services</td><td>Percent turnover in the reporting year from products or services associated with activities that substantially contribute to mitigation of or adaptation to climate change

and / or

Percent investment</td><td>Percentage</td><td>12.5% (turnover) from products or services associated with activities that substantially contribute to mitigation of or adaptation to climate change

8% (CapEx) in products associated with activities that substantially</td><td>These KPIs provide useful information to investors who are interested in companies whose products and services substantially contribute to mitigation of or adaptation to climate change whilst not significantly harming any other of the EU’s environmental objectives.</td><td></td><td>Proposed Regulation on the establishment of a framework to facilitate sustainable investment

Commission action plan on financing sustainable growth</td></tr>
</table>

Table 5 - Key Performance Indicators (Type 1)						
Theme	**KPI**	**Unit of Measure**	**Example**	**Rationale**	**Alignment with Other Reporting Frameworks**	**EU Policy Reference**
	(CapEx) and/or expenditures (OpEx) in the reporting year for assets or processes associated with activities that substantially contribute to mitigation of or adaptation to climate change activities.	Percentage	contribute to mitigation of or adaptation to climate change			
Further guidance - Once the EU Taxonomy on environmentally sustainable economic activities is fully established, it will define when an activity qualifies as "substantially contributing to mitigation of or adaptation to climate change" while "not significantly harming any other of the EU's environmental objectives". - In addition to climate change mitigation and adaptation the other four EU's environmental objectives are: use and protection of water and marine resources; transition to a circular economy, waste prevention and recycling; pollution prevention and control; protection of healthy ecosystems. In the future, the taxonomy will be extended to cover economic activities that substantially contribute to these other environmental objectives.						

<table>
<tr><th colspan="7">Table 6 - Key Performance Indicators (Type 2)</th></tr>
<tr><th>Theme</th><th>KPI</th><th>Unit of Measure</th><th>Example</th><th>Rationale</th><th>Alignment with Other Reporting Frameworks</th><th>EU Policy Reference</th></tr>
<tr><td>GHG emissions</td><td>Breakdown of Scope 1 and Scope 2 GHG emissions by country or region, including the EU</td><td>Metric tons CO_2e</td><td>Scope 1 GHG emissions:
Country/region X 42.260 tCO_2e
Country/ region Y 54,180 tCO_2e
Scope 2 GHG emissions:
Country/ region X 98.654 tCO_2e
Country/region Y EU: 126,480 tCO_2e</td><td>The information also helps data users better understand potential risks the company may be facing.
Such information may also be useful for policy makers.</td><td>CDP Climate Change Questionnaire, GRI 305</td><td>2030 climate & energy framework; EU emissions trading system (ETS)</td></tr>
<tr><td rowspan="2">Energy</td><td>Total energy consumption and/or production (excluding feedstock) from renewable and non-renewable sources</td><td>MWh</td><td>292.221 MWh consumed from renewable sources; 1.623.453 MWh consumed from non-renewable sources</td><td>Energy consumption and production accounts for an important proportion of GHG emissions which contributes to climate change.</td><td>TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 302; CDSB Framework, SASB</td><td>2030 climate & energy framework; Energy Efficiency Directive</td></tr>
<tr><td colspan="6">Further guidance
- Fuels consumed as feedstock are fuels that are not combusted for energy purposes.
- Include a breakdown of the different sources of renewable energy. Renewable sources of energy are those that can be naturally replenished on a human timescale, such as wind, solar, hydro, geothermal, biomass, etc. This definition excludes all fossil fuels (coal, oil, natural gas) and nuclear fuels. Waste energy should not be included if it is derived from fossil fuels.[28]
- When disclosing non-renewable sources of energy, make a distinction between low carbon sources and other sources of non-renewable energy.</td></tr>
</table>

[28] Definition of "renewable energy" from the CDP Climate Change Reporting Guidance 2018.

Table 6 - Key Performance Indicators (Type 2)						
Theme	**KPI**	**Unit of Measure**	**Example**	**Rationale**	**Alignment with Other Reporting Frameworks**	**EU Policy Reference**
	Energy efficiency target	Percentage	6,5 % improvement by 2025 from 2018 base year for product, output or activity.	This KPI helps data users understand the companies' ambition to use energy more efficiently, which can reduce its energy costs and lower GHG emissions. It provides further background as to how the company aims to achieve its emissions reduction targets.	TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 103, 302-3 and 302-4, SASB	2030 climate & energy framework; Energy Efficiency Directive
	Renewable energy consumption and/or production target	% increase of the proportion of renewable energy consumed / produced from base year	13% increase of the proportion of renewable energy consumed by 2025 from 2018 base year	This KPI helps data users understand the companies' ambition to produce or consume energy with lower GHG emissions.	TCFD Metrics and Targets, CDP Climate Change Questionnaire, GRI 103 and 302-1	2030 climate & energy framework; Renewable Energy Directive
Physical risks	Assets committed in regions likely to become more exposed to acute or chronic physical climate risks[29]	Percentage	15% of book value of exposed real assets	Extreme weather events can result in interruptions to or limitations on production capacity or early curtailment of operating facilities. The value of assets in areas exposed to increased weather informs the potential implications for asset valuation. It is important to observe this KPI in conjunction with disclosures regarding the company's adaptation strategies and policies.	TCFD Metrics and Targets, all 450a.1 SASB codes within select industries[30]	EU Adaptation Strategy
Sustainable Financing	**Green Bond Ratio:** Total amount of green bonds outstanding (at year-end) divided by (a 5-year rolling average of) total amount of bonds outstanding and / or,	Percentage	20% of bonds	This KPIs helps companies communicate how their low-carbon transition plan is supported by debt financing activities and how capital is raised for existing and new projects with climate benefits.	ISO/CD 14030-1 Green bonds -- Environmental performance of nominated projects and assets (DRAFT)	Commission action plan on financing sustainable growth

[29] Companies are advised to refer to publicly available analyses or maps of regions more exposed to physical climate-related risks.
[30] https://www.sasb.org/standards-overview/download-current-standards/

Table 6 - Key Performance Indicators (Type 2)						
Theme	**KPI**	**Unit of Measure**	**Example**	**Rationale**	**Alignment with Other Reporting Frameworks**	**EU Policy Reference**
	Green Debt Ratio: Total amount of all green debt instruments outstanding (at year-end) divided by (a 5-year rolling average of) total amount of all debt outstanding.				ISO/CD 14030-1 Green bonds -- Environmental performance of nominated projects and assets (DRAFT)	Commission action plan on financing sustainable growth
	Further guidance: -The total amount of green bonds or green debt should only include bonds and debt instruments issued according to the upcoming EU Green Bond Standard, or any other broadly recognized green bond framework, such as the Green Bond Principles and the Green Loan Principles. Companies should specify the green bond framework applied. - For bond issuers that have issued bonds that are not listed instruments (e.g., as private placements), the breakdown of listed and unlisted should be disclosed. - Companies should also consider providing future targets.					

Annex I: Sector-specific disclosures for banks and insurance companies

The proposed disclosures in *Section 3* are for all companies that fall under the scope of the Non-Financial Reporting Directive, regardless of their sector of activity, including banks and insurance companies.

This annex highlights important considerations for banks and insurance companies and provides a fuller picture of potential climate related risks and opportunities in the context of their business activities, including lending, investing, insurance underwriting, and asset management activities.[31]

Banks and insurance companies are the only kinds of company identified by sector in the Non-Financial Reporting Directive. The Action Plan on Financing Sustainable Growth places a particular emphasis on the systemic importance of the financial sector in enabling the transition to a low-carbon and climate-resilient economy. Unlike most other companies, banks and insurance companies are both providers and users of climate-related information.

Banks and insurance companies may exacerbate climate-related risks if their investments and insurance underwriting policies support economic activities with a high impact on GHG emissions, energy or water usage, and deforestation. Conversely, they can promote the transition to a green economy and increase awareness of the transition by integrating an evaluation of the potential impact on climate change of their prospective investments, loans, and insurance contracts into their policies and procedures.

1. Business Model

Disclosure on Business Model
Disclose how climate-related risks and opportunities of the investment, lending and insurance underwriting portfolios might affect the financial institution's business model.
Disclose whether and how the institution takes into consideration the fact that its counterparties take climate related risks into account.
Describe how the assessment of climate-related risks and opportunities are factored into relevant investment, lending and insurance underwriting strategies and how each strategy might be affected by the transition to a lower-carbon economy.
Insurance underwriting activities: Describe how the potential impacts from climate change could influence policyholder, ceding company, reinsurer.
Insurance underwriting activities: Disclose how the impact of potential risks influence policyholder, cedent, or broker selection.

1 Financial institutions should read and use these proposed disclosures with due regard for any legal requirements regarding confidentiality.

2. Policies and Due Diligence Processes

Disclosure on Policies and DD
Describe how better disclosure and practices related to climate-related risks to improve data availability are encouraged by the financial institution and any effort to increase the awareness of counterparties, and more generally of customers, of the relevance of climate-related issues as part of their lending, investment, and insurance underwriting processes, including for example by means of specialty climate-related risk advisory services.
Disclose stewardship activities related to the financial institution's climate strategy such as engagements with companies, outcomes, and proxy voting (e.g. resolutions filed or supported).
Disclose any investment, lending and insurance underwriting portfolio contributing to climate change mitigation and to the transition to a low-carbon and climate-resilient economy and any relevant target in this respect, e.g. in terms of net written premiums related to energy efficiency and low carbon technology.
Investment activities: Disclose how climate-related issues are considered as drivers of value in the financial institution's investment decision process.
Lending activities: Disclose the impact of the selected scenarios on the value of collaterals.
Insurance underwriting activities: Disclose whether specific climate-related products are under development, such as the underwriting of risks of green infrastructure.
Insurance underwriting activities: Describe whether any of the company's life products incorporate climate considerations in the modelling of biometric risks (Life).
Asset management activities: Describe how climate-related considerations are embedded in suitability assessments in order to understand customers' preferences and awareness regarding climate-related risks and opportunities.
Asset management activities: Disclose how the financial institution ensures that its climate-related performance is aligned with the climate strategy of its clients.
Asset management activities: Disclose the targets associated with climate-related exposure of assets under management across asset classes (e.g. equity / bonds / infrastructure / real estate / structured products / MBS /derivatives)

3. Outcomes

Disclosure on Outcomes
Describe the development trend of the amount of carbon-related assets in the different portfolios against any relevant target set and the related risks over time.
Describe the development trend of the weighted average carbon intensity for the different portfolios against any relevant target set and the related risks over time.

4. Risks and Risk management

Disclosure on Risks and their management
Disclose whether risk management processes, including internal stress testing, consider climate-related risks.
Disclose any exposures in the different lending, investment and underwriting activities to sectors perceived as contributing to climate change, which might create reputational risks for the financial institution.
Describe the climate related risks identified in the different lending, investment or underwriting activities and how the financial institution assesses and manage those risks.
Describe the exposure of financial assets, non-financial assets and assets under management to climate-related risks and provide with a breakdown of those risks in physical and transition risks.
Disclose how the financial institution has assessed the exposure of financial assets and non-financial assets to climate related risks under different climate-related scenarios.
Financial institutions should characterise their climate-related risks in the context of traditional industry risk categories such as credit risk, market risk and operational risk. [32]
Lending activities: Disclose the volume of the collateral highly exposed to climate-related risks compared to the total amount of collateral and the impact of the scenarios on its value.
Lending activities: Disclose the volume of real estate collaterals highly exposed to transition risk in comparison to total collaterals and the volume of real estate collaterals highly exposed to physical risk in comparison to total collaterals.
Insurance underwriting activities: Describe the processes for identifying and assessing climate-related risks on re-/insurance by geography, business division, or product segments.
Insurance underwriting activities: Disclose mitigating actions, such as reinsurance treaties or hedging strategies put in place by the institution to reduce climate-related risks and the effect of any change in such techniques.
Insurance underwriting activities: Describe how climate-related risks could affect their present and future regulatory capital requirements and, for instance, how they are integrated in their Own Risk and Solvency Assessments (ORSAs), under Pillar 2 of Directive 2009/138/EC ("Solvency II").
Insurance underwriting activities: Disclose the amount of carbon-related underwriting exposures in terms of written premiums.

[32] Examples of Climate Risks across Insurance Operations and Activities: International Association of Insurance Supervisors 2018 https://www.iaisweb.org/page/supervisory-material/issues-papers/file/76026/sif-iais-issues-paper-on-climate-changes-risk

5. KPIs

In disclosing KPIs related to GHG emissions, banks and insurance companies should focus on Scope 3 GHG emissions, despite the well-known challenges associated with it. Scope 1 and Scope 2 GHG emissions (direct emissions and indirect emissions from the generation of purchased energy) are likely to be small when compared to other indirect emissions (Scope 3).

Key Performance Indicators (Banks and Insurance companies)						
	KPI	**Unit of Measure**	**Example**	**Rationale**	**Alignment with Other Reporting Frameworks**	**EU Policy Reference**
KPIs	Amount or percentage of carbon-related assets in each portfolio in M€ or as a percentage of the current portfolio value.	M in reporting currency / percentage	20 M€ or 20% carbon-related assets of bank's equity portfolio	Show awareness of the exposure of portfolio to sectors affected to varying degrees by climate-related risks and opportunities.	TCFD Common Carbon Footprinting and Exposure Metrics	2030 climate & energy framework
	Weighted average carbon intensity of each portfolio, where data are available or can be reasonably estimated.	tCO_2e/ M revenues in reporting currency	A bank reports the carbon intensity of its equity portfolio in terms of tCO_2e per EUR MM using third-party carbon data.	Show awareness of the exposure of portfolio to sectors affected to varying degrees by climate-related risks and opportunities.	TCFD Common Carbon Footprinting and Exposure Metrics	2030 climate & energy framework
	In addition to the weighted average carbon intensity and the amount or percentage of carbon-related assets, reporting companies may provide other indicator they believe are useful for decision making along with a description of the methodology used. This can include carbon footprinting normalized by invested value (see TCFD annex p. 43).					
	Volume of exposures by sector of counterparty.	Reporting currency % of the total risk exposure	1.250 MEUR in energy sector accounting for 17% of total investments	Show the concentration of exposures towards high-carbon and low-carbon sectors.		EU Low Carbon Economy Roadmap

Key Performance Indicators (Banks and Insurance companies)						
	KPI	**Unit of Measure**	**Example**	**Rationale**	**Alignment with Other Reporting Frameworks**	**EU Policy Reference**
KPIs - Lending and Investment Activities	Credit risk exposures and volumes of collateral by geography/country of location of the activity or collateral, with an indication of those countries/ geographies highly exposed to physical risk.[33]	Reporting currency	750 MEUR	Show the concentration of exposures and collateral in countries and geographies highly exposed to physical risks.		EU Low Carbon Economy Roadmap
	Disclose the volumes of collaterals related to assets or activities in climate change mitigating sectors, compared to total volumes of collaterals	% of the total volume of collaterals	12% of collaterals	Show the volume of green collaterals, e.g. with lower carbon exposure.		2030 climate & energy framework
	Volume of financial assets funding sustainable economic activities contributing substantially to climate mitigation and/or adaptation (absolute figures and compared to total exposures) according to the EU taxonomy.	Reporting currency % of the total risk exposure	650 MEUR accounting for 12% of lending portfolio	Show the concentrations of green investments and their resilience to climate change .		EU Low Carbon Economy Roadmap
	Total amount of the fixed income portfolios invested in green bond certified according to EU GBS or any other broadly recognized green bond framework (at year-end) divided by (a 5-year rolling average of) total amount of holdings in fixed income portfolios.	Percentage and total amount in - Reporting currency	Green bonds compared to vanilla bonds underwritten or emitted	This indicator demonstrates commitment to green finance and the investor's strategy and transition path towards alignment with a well below 2°C scenario. It helps demonstrate track-record and forward-looking data can underpin the investor's transition strategy with a robust key-performance indicator.	The proposed draft version of ISO 14030 (October 2018) on green bonds already requires reporting on this indicator.	Upcoming EU eco-label on green financial products.[34]

[33] Companies are advised to refer to publicly available analyses or maps of regions more exposed to physical climate-related risks.
[34] European eco-label currently being developed by the European Commission with support from the EC's Joint Research Centre (JRC)

Key Performance Indicators (Banks and Insurance companies)						
	KPI	**Unit of Measure**	**Example**	**Rationale**	**Alignment with Other Reporting Frameworks**	**EU Policy Reference**
KPIs - Insurance underwriting activities	Breakdown of underwriting exposure by lines of business to economic sectors (life / non-life / reinsurance)	Reporting currency	Amount and % of net premiums written and of technical provisions as in Directive 2009/138/EC deriving from infrastructure insurance from policyholders in the energy sector	Demonstrate awareness of current economic exposure and concentration (if any) in industries that are impacted by climate change in varying degrees	EU Taxonomy SASB Directive 2009/138/EC (Solvency II)	2030 climate & energy framework
	Percentage of products incorporating climate-related risks into the underwriting process for individual contracts (life / non-life / reinsurance).	0-100%	Products could be related to a specific type of risk or to a segment of the clientele with particular exposure to climate risks	Demonstrate product portfolio resilience to climate change	SASB	2030 climate & energy framework
	Number and value of climate-related underwriting products offered (Non-life / reinsurance). The company has developed a specific offering for geographic areas particularly exposed to extreme weather events, and discloses quantitative information around the uptake of the product.	Reporting currency Number	The company has developed a specific offering for geographic areas particularly exposed to extreme weather events, and discloses quantitative information around the uptake of the product	Demonstrate ability to capture opportunities deriving from climate change mitigation and adaptation	N/A	2030 climate & energy framework EU Adaptation Strategy
	Maximum Expected Loss from natural catastrophes caused by climate change (life / non-life / reinsurance).	Reporting currency	A company discloses its Net Maximum Expected Loss1 by peril and region Based on Occurrence Exceedance Probability (OEP) in billion EUR. Perils include hurricanes, floods, wildfires and	Demonstrate risk management maturity and business resilience to adverse conditions.	SASB, AODP ASTM	2030 climate & energy framework EU Adaptation Strategy

Key Performance Indicators (Banks and Insurance companies)						
	KPI	**Unit of Measure**	**Example**	**Rationale**	**Alignment with Other Reporting Frameworks**	**EU Policy Reference**
			droughts.			
	Total losses attributable to insurance payouts from (1) expected natural catastrophes and (2) non-expected natural catastrophes, by type of event and geographic segment (net and gross of reinsurance).	Reporting currency	A company discloses the key results of its natural catastrophe risk management.	Demonstrate risk management maturity and business resilience to adverse conditions.	SASB, GRI 201-2	2030 climate & energy framework
KPIs - Asset Management activities	Breakdown of assets under management by business sector across asset classes (equity / bonds / infrastructure / real estate / structured products / MBS /derivatives)	Reporting currency	Report the net asset value in equity broken down by industry	Demonstrate awareness of current economic exposure and concentration (if any) in industries that are impacted by climate change in varying degrees	EU Taxonomy EIOPA SASB FN-IN-410a. GRI 201 -2	2030 climate & energy framework
Further guidance: The amounts per industry, and/or sector of counterparty, as defined in financial filings. Specify definitions used. Report high-level sector exposure based on the Statistical classification of economic activities in the European Community (NACE) – one-digit codes. In particular, report exposure to high-carbon intensive sectors - A, B, C, D, E, F, H. The entity should disclose its exposure to at least the 10 largest industries by monetary amount of exposure, or to industries representing at least 2 percent of the overall monetary exposure.						

Annex II: Mapping of NFRD Requirements and TCFD Recommended Disclosures

The disclosures proposed in this supplement correspond to the requirements of the NFRD and are also designed to integrate the recommended disclosures of the TCFD.

The graphic below illustrates how this supplement allocates each of the TCFD recommended disclosures to a disclosure requirement of the NFRD. This represents one option for cross-referencing the TCFD recommended disclosures with the disclosures required by the NFRD. Since the NFRD and TCFD use different terms and concepts, this cross-referencing can be done in other ways. Companies may wish to consider other options and are encouraged to experiment further in this regard.

Figure 3
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		■			
Governance	b) Management's role		■			
Strategy	a) Climate-related risks and opportunities				■	
Strategy	b) Impact of climate-related risks and opportunities	■				
Strategy	c) Resilience of the organization's strategy	■				
Risk Mgmt.	a) Processes for identifying and assessing				■	
Risk Mgmt.	b) Processes for managing				■	
Risk Mgmt.	c) Integration into overall risk management				■	
Metrics & Targets	a) Metrics used to assess					■
Metrics & Targets	b) GHG emissions			■		
Metrics & Targets	c) Targets			■		

Companies that are subject to the requirements of the NFRD and that seek to implement the TCFD recommendations may wish to consider the following:

- The TCFD proposes that its recommended disclosures are published in the company's "annual financial filings". The NFRD allows Member States to permit companies to publish their non-financial statement in a separate report under certain conditions, and a

majority of Member States have taken up this option. If a company subject to the NFRD wants to the meet the recommendations of the TCFD regarding the location of its climate-related disclosures, it should publish these disclosures its management report.

- The materiality perspective of the NFRD covers both financial materiality and environmental and social materiality, whereas the TCFD has a financial materiality perspective only. In principle therefore, information considered material from the perspective of the TCFD should also be material from the perspective of the NFRD.

- The TCFD states that its recommended disclosures related to Strategy and to Metrics and Targets should be subject to a financial materiality assessment. The TCFD does not, however, state that a materiality assessment should apply to its recommended disclosures on Governance and Risk Management, implicitly proposing that its disclosures on Governance and Risk Management should be made irrespective of materiality. Therefore, a company wanting to implement the TCFD recommendations may need to disclose certain information even if that information is not required according to the NFRD.