Developments in Sustainability Reporting - A Focus on Climate Change

An exclusive webinar for the GRI Community

28 February 2019
How to use WebEx
Speakers

Eszter Vitorino
Head of Capital Markets Engagement
GRI
Speaker

Sarah-Jayne Dominic
Senior Manager, Standards Division
GRI
Speaker

Frank Bergkamp
Capital Markets Researcher
GRI
Speaker

Jim Coburn
Senior Manager, Disclosure
Ceres
Speaker

Rumyana Taneva
Corporate & Stakeholder Engagement
GRI
Host
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<td>Rumyana Taneva, GRI</td>
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Introduction
Frank Bergkamp, GRI
The Top Risks of 2019
According to the WEF’s Global Risks Report

1. Extreme weather events
2. Failure of climate-change mitigation and adaptation
3. Natural disasters
4. Data fraud or theft
5. Cyber-attacks
6. Man-made environmental disasters
7. Large-scale involuntary migration
8. Biodiversity loss and ecosystem collapse
9. Water crises
10. Asset bubbles in a major economy

Top 10 Risks in Terms of Likelihood
WEF Global Risks
2010 vs. 2019

Top 5 Risks in Terms of Likelihood

Asset price collapse
Slowing Chinese economy (<6%)
Chronic disease
Fiscal crises
Global governance gaps

Extreme weather events
Failure of climate-change mitigation and adaptation
Natural disasters
Data fraud or theft
Cyber-attacks

Climate Change is one of the most critical challenges of today

→ It is linked to a broad range of sustainability issues: natural resource constraints, human rights, biodiversity and many more

→ Non-state actors including business have a vital role to play in addressing climate change. A key part of this is around measuring, managing and communicating sustainability (including climate change) performance.

→ GRI enables organizations to look at climate change and other global sustainability challenges supporting them to make better decisions, and ultimately contribute to sustainable development.
Climate change & policies

Reporting policies

• More than 450 reporting instruments globally on corporate sustainability disclosure at large (70% government policies and 30% capital markets)

• 125 policies GRI referenced in in 60 countries and regions

• 59% are voluntary and 32% mandatory requirements.

• 306 of these policies approach the topic of climate change and 17 have specific reporting requirements such as the French Energy Transition Law (2015) and Mexico Climate Change Law (2012)
U.S. climate disclosure policy developments

Jim Coburn, Senior Manager, Disclosure, Ceres
Ceres is transforming the economy to build a sustainable future for people and the planet.

**Who we are**

**Company Network**
50+ companies in more than 20 sectors

**Investor Network**
160+ investors representing $25 trillion AUM

**Policy Network (BICEP)**
40+ leading companies

**Nonprofit Network**
100+ environmental, social and labor groups
Quality of climate risk disclosure in U.S. SEC filings

• 2010 SEC climate disclosure guidance has impacted disclosure, but few impacts or risks are quantified
  o Climate disclosure excerpts from 5,000+ U.S. and foreign companies available at https://bit.ly/2U6HJSs
• Few disclosures address all four TCFD topics: governance, strategy, risk management, and metrics and targets
• Coalition of NGOs began initiative for ESG disclosure rulemaking in 2016, covering climate risk and other topics
ESG disclosure petition to the SEC

• Argues SEC must create standard set of rules requiring public companies to disclose ESG risks

• 60 signatories: investors representing more than 5 trillion USD in AUM and securities law experts

• Focused on climate change, human capital management, tax avoidance, human rights, gender pay ratios, and political spending


• Investor letters and 3,100 individuals’ letters in support thus far
Climate Risk Disclosure Act of 2018

• **Introduced** by Sen. Warren and seven co-sponsors

• Directs SEC to issue disclosure rules concerning:
  o Direct and indirect GHG emissions
  o Fossil-fuel related assets (owned or managed)
  o Affect on valuation if climate change continues at its current pace or if policymakers successfully restrict GHG emissions to meet the Paris accord goal
  o Risk management strategies related to the physical risks and transition risks posed by climate change

• Directs SEC to tailor disclosure requirements to different industries

• Imposes additional disclosure requirements on companies engaged in the commercial development of fossil fuels
Investor/corporate engagement at risk

• Some business groups advocating for SEC to weaken its rules governing shareholder proposals

• Proposals are an invaluable tool for investors to engage with U.S. companies

• Resources:
  o Ceres engagements database: engagements.ceres.org

• Several possible action steps for companies to support investors
Thank you

For more information contact:

Jim Coburn
Senior Manager, Disclosure
Ceres
617-247-0700, ext. 119
coburn@ceres.org

Or visit us:

www.ceres.org
@CeresNews
EU Technical Expert Group for Sustainable Finance

Eszter Vitorino, Head of Capital Markets Engagement, GRI
## Action Plan on Financing Sustainable Growth

### One comprehensive strategy | Three main objectives | Ten Actions

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<td>1</td>
<td><strong>Reorienting capital flows towards sustainable investment</strong>&lt;br&gt;Establish EU Sustainable Taxonomy&lt;br&gt;COM is progressively developing the EU taxonomy. The technical details (screening criteria) are developed by the Technical Expert Group (TEG) that will deliver their report by Q2 2019.</td>
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<td>2</td>
<td><strong>Mainstreaming Sustainability into risk Management</strong>&lt;br&gt;Create Standards and Labels&lt;br&gt;COM explores the use of the EU Eco-Label framework for green financial products. By Q2 2019, the TEG will prepare a report on an EU Green Bond Standard building on current best practices. On the Eco-label, JRC has launched an open consultation (open until 25 January 2019).</td>
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<td>3</td>
<td><strong>Fostering transparency and Long-termism</strong>&lt;br&gt;Foster Investment in Sustainable Projects&lt;br&gt;COM explores measures that will improve the efficiency and impact of instruments aiming at investment support. A mapping on investment gaps and financing took place in Q3 2018, best practices for sustainable investments were exchanged on (inter-)national and EU level in Q4 2018.</td>
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<td>4</td>
<td><strong>Incorporate Sustainability in Investment Advice</strong>&lt;br&gt;Incorporate Sustainability in Investment Advice&lt;br&gt;COM will ensure that advisors will take into account the sustainable preference of clients. Draft delegated acts were published for Feedback in May 2018. COM reviewed stakeholder feedback and published the final version of the delegated act.</td>
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<td>5</td>
<td><strong>Develop Sustainability Benchmarks</strong>&lt;br&gt;Develop Sustainability Benchmarks&lt;br&gt;COM will increase the transparency of sustainability benchmarks. The TEG is currently assisting the Commission in developing minimum standards for low-carbon benchmarks and minimum disclosure requirements for ESG benchmarks. It will deliver a report by Q2 2019.</td>
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**Action Plan on Financing Sustainable Growth**

### One comprehensive strategy | Three main objectives | Ten Actions

1. **Reorienting capital flows towards sustainable investment**
2. **Mainstreaming Sustainability into risk Management**
3. **Fostering transparency and Long-termism**

**Actions**

6. **Integrate ESG in Ratings and Market Research**
   - COM will launch a public survey in Q1 2019 to explore how to better integrate sustainability factors in the credit rating assessment. ESMA will report to COM by Q2 2019 and launch a formal consultation on CRA in February 2019. A progress report by COM is due Q3 2019.

7. **Clarify institutional investors and asset managers duties**
   - COM is working on how to clarify the duties of asset managers, pension funds and insurance companies to ensure they consider ESG factors in their investment decision process and are more transparent towards end-clients.

8. **Incorporate sustainability in prudential requirements**
   - COM will explore the feasibility of a green supporting factor when it is justified from a risk perspective to safeguard financial stability. COM has asked EIOPA to analyze the impact of solvency II on sustainable investments.

9. **Strengthen Sustainability Disclosure & Accounting**
   - COM is evaluating the current reporting requirements for companies. The TEG assists COM in integrating TCFD recommendations in the Non-Binding Guidelines, which will be updated by Q2 2019. COM will further analyze the impact of accounting rules (IFRS standards) on sustainable and long-term investments.

10. **Foster Sustainable Corporate Governance**
    - COM is exploring how improved corporate governance can enhance sustainability and is collecting evidence from the ESAs on short term market pressure arising from capital markets.

Establish EU Sustainable Taxonomy

The Legislative Proposals

The most urgent actions from the AP were taken forward as legislative Proposals in May 2018.

1. Establish EU Sustainable Taxonomy
2. Develop Sustainability Benchmarks
3. Incorporate Sustainability into Financial advice
4. Clarify institutional investors and asset managers duties
5. Taxonomy Proposal: Proposal setting out criteria to determine the environmental sustainability of an economic activity (*taxonomy*).
6. Benchmark Proposal: Proposal to create two new categories of benchmarks: (i) a low-carbon benchmark, (ii) and a positive-carbon impact benchmark as well as minimum disclosure requirements for ESG benchmarks.
7. Disclosure Proposal: (i) introduce consistency on how institutional investors and asset managers should integrate sustainability in investment decision-making processes; (ii) increase transparency towards end-investors.

The Commission published the final version of the delegated act.
The Technical Expert Group on Sustainable Finance

The TEG assists the Commission in implementing four specific actions.

Technical Expert Group on Sustainable Finance

- Established in June 2018 - Mandate until June 2019 with possible extension
- 35 experts (17 women) selected from 240 qualified candidates

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<th>Working Groups</th>
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<td>carbon&quot; and &quot;positive carbon impact&quot; indices</td>
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<td>Action Plan    Metrics allowing improving disclosure on climate-related</td>
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Stakeholder inclusion & transparency

- All documents publicly available at the Register of Commission expert groups
- Open feedback on interim reports
- Public consultation on final report by the Commission
EU Action Plan: Financing Sustainable Growth
Work of the Technical Expert Group (TEG)

Report on Climate-related Disclosures

- Disclosures under the Non-Financial Reporting Directive (NFRD): Principles and Rationale
- Alignment of NFRD and TCFD Proposed Disclosure
- Sector Specific Guidance for Banks and Insurance Undertakings

European Commission working on updating the Non-Binding Guidelines supporting the NFRD

Download the report HERE
Consultation on the Update of the Non-binding Guidelines of the NFRD.

The double materiality perspective in the context of reporting climate-related information

A link to the consultation paper can be found [HERE](#) which can be responded to until Wednesday 20 March 2019

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Financial materiality

*To the extent necessary for an understanding of the company’s development, performance and position...*

- Company
- Climate

*Climate change impact on company*

*Primary audience: investors*

Environmental & social materiality

*... and impact of its activities*

- Company
- Climate

*Company impact on climate*

*Primary audience: consumers, civil society, employees – and a growing number of investors*

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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.
CRD Better Alignment Project
Sarah-Jayne Dominic, Senior Manager Standards Division, GRI
All participants of the Corporate Reporting Dialogue are committed to driving greater:

- Coherence
- Consistency
- Comparability

Better alignment of the frameworks for ESG reporting and a paradigm shift towards the integration of financial and non-financial information.
Project overview

Project aims:

• Combat reporting fatigue and reduce burden
• Enable effective reporting
• Drive long-term efficient allocation of capital
• Align markets with changing nature of risks and opportunities.

Year one:

• ESG frameworks mapped against the TCFD recommendations and to each other with respect to TCFD content
• Identify how non-financial metrics relate to financial outcomes.
Have your say

• Respond to an online survey from 20 March - 1 May 2019
• Attend a multi-stakeholder roundtable
• Listen in to a Corporate Reporting Dialogue webinar
A Closer Look at Water and GHG Emissions Disclosure

Frank Bergkamp, Capital Markets Researcher, GRI
Mapping Reporting Practice to an Investor Perspective

Jumpstarting the dialogue between report issuers and investor through clear examples

Three Key Elements of Disclosure:

1. Investor Expectations
   • Assessment of Reporting Initiatives
2. Investor Perception
   • Interviews with 15 asset managers
3. Current Practice
   • Analysis of 30 GRI reports

Download the discussion paper HERE
Outcomes of Interviews with Asset Managers

- Understanding what corporate reporters can focus on to better match the information needs of investors
- Development of information needs.
- Share your thoughts!
Results of the Report Analysis

- Strong alignment between investor perception and reporting practice.
- Reporting on objective and targets is done, but how to make it meaningful?
- The challenge of reporting on scope 3 emissions.
Questions & Answers
Closing remarks
Tax and Payments to Government Standard
Public comment on exposure draft

• All Stakeholders are invited to comment – your feedback is critical to make sure the final Standards really work for reporters and report users

• All feedback will be shared with the Technical Committee and the GSSB for consideration in finalizing the draft Standards

• As required by the GSSB’s Due Process Protocol, all comments received will be considered a matter of public record and made available on the GRI website.

You can provide your feedback until 15 March 2019.

Public comment form available at:
Announcements

Need a more efficient and data driven reporting process? Join our Corp. Leadership Group to share your ideas and learnings on how technology can support your sustainability reporting process.


Join our Corporate Action Group for Reporting on the SDGs! Conducted in partnership with the United Nations Global Compact, it's a chance to roll up your sleeves and help shape the future of SDG Reporting.

Learn more: http://bit.ly/SDGReporting
THANK YOU

info@globalreporting.org
www.globalreporting.org
Barbara Strozzilaan 336
1083 HN Amsterdam
The Netherlands