CDSB Webinar – 19th May 2020: Webinar notes

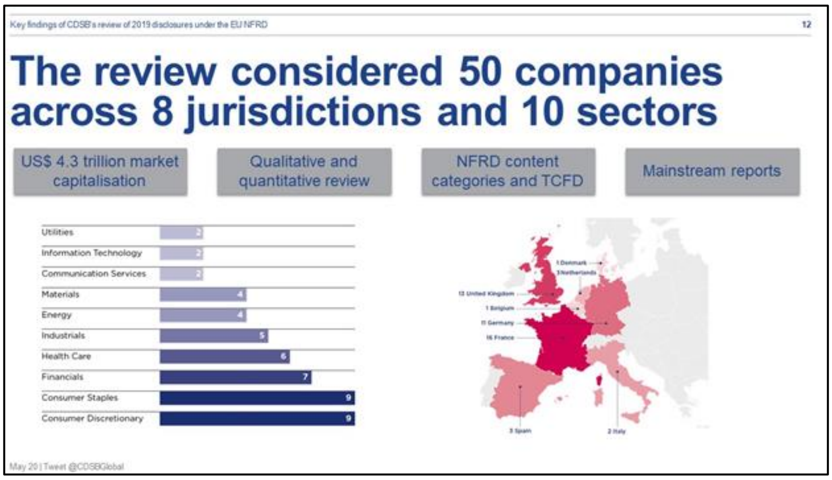
Webinar 1: Regulation as a driver for reliable corporate reporting.

Introduction: Mardi McBrien, MD, CDSB

CDSB Objective: to provide decision-useful environmental information to markets via the mainstream corporate report.

New launch of our new report: why environmental and climate-related disclosures under the EU NFRD must improve. 19th May 2020.

Opening Keynote: Morgan Desprès, Deputy Head of Financial Stability Department, Banque de France.



There is a relationship between COVID-19 and the climate crisis. Both have been foreseeable, but not predicable in that there has not been any mitigation process.

Disclosure is key. We need to move to a more mandatory approach to reporting to help fight against the climate crisis.

Key findings: Fiona Quinlan, Technical Manager, Climate Change, CDSB

Aims of the review: provide in-depth insight on the state of the environmental and climate disclosure.

1. Deliver evidence to policymakers to inform the revision of the Directive
2. Identify good practice case studies and tips for corporate report preparers

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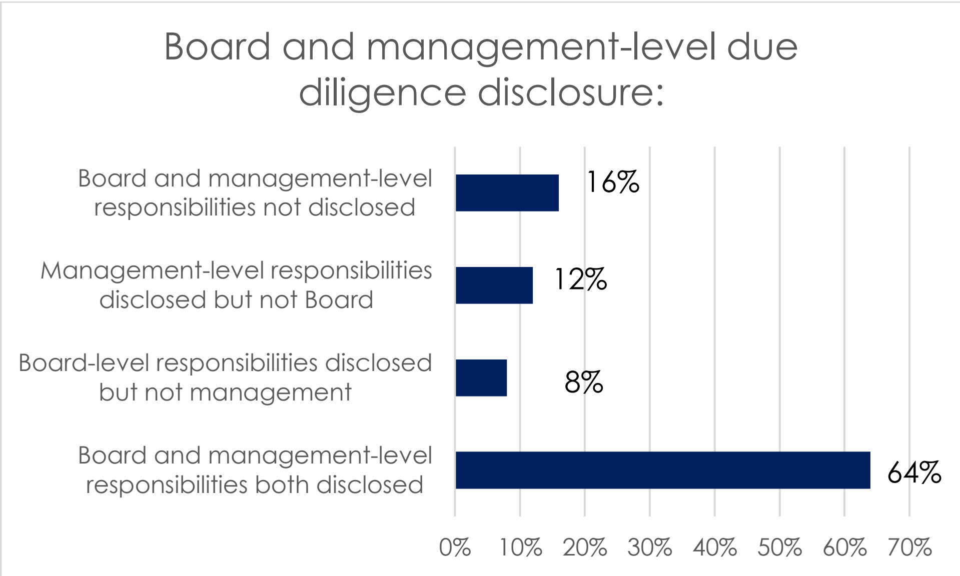
Policies, due diligence and outcomes:

Almost all are disclosing these aspects, but the terms are being interpreted differently, limiting comparability.

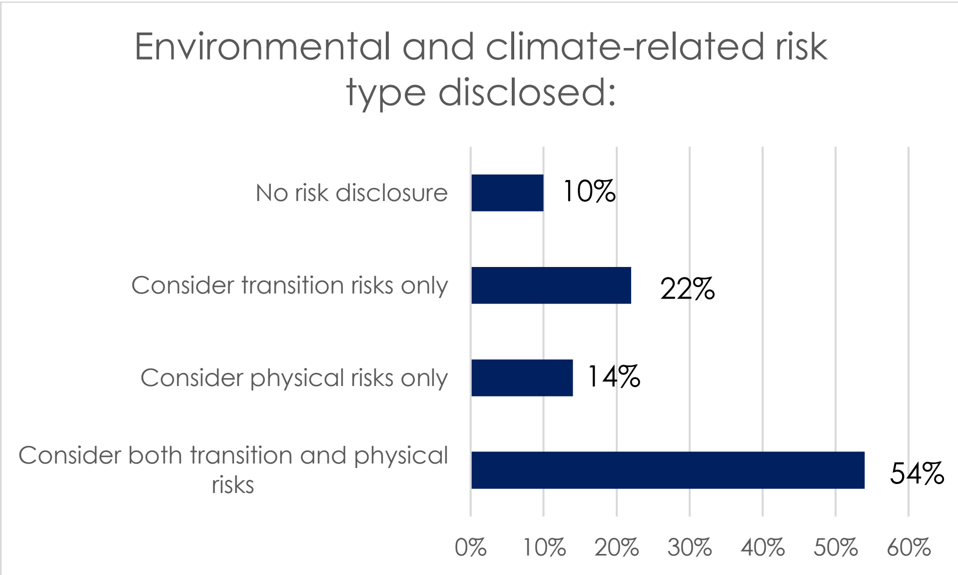
- 100% disclosure policies and outcomes & 94% due diligence
- Some disclosures very high-level in nature
- Degree of linkage and coherence across the content categories variable
- Outcomes commonly the longest aspect of reporting
- Substantive variations in format reduce comparability between companies

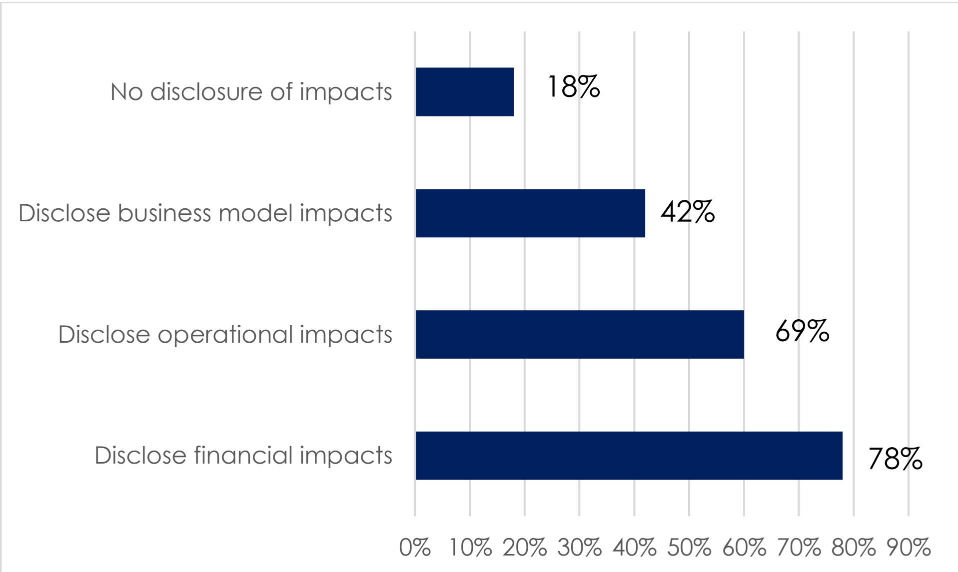


Principal risks:

A key area of weakness, with many not taking a sufficiently long-term for holistic view.

- 90% disclosure at least one principal environment of climate risk
- Lack of clarity between risks that impact the business and those that impact the environment
- Impact disclosure commonly qualitative
- Only 4% clarity impacts over short, medium and long-term
- An area of duplication and inconsistency in some reports





<u>TCFD Disclosure:</u>

Progress in some sectors, but others are yet to address climate risk.

- Energy and finance sector showed progress in adoption of TCFD, but companies in other sectors often not disclosing yet.
- Most still do not provide disclosures on resilience using scenario analysis
- Disclosure often outside mainstream report with TCD reported separately to NFRD
- Some NFRD disclosures do not reference climate change at all

Governance: 72% disclose board-level responsibility for environmental and climate change and 76% disclose management level.

Strategy: Just 14% of companies disclose their strategic resilience to different climate scenarios.

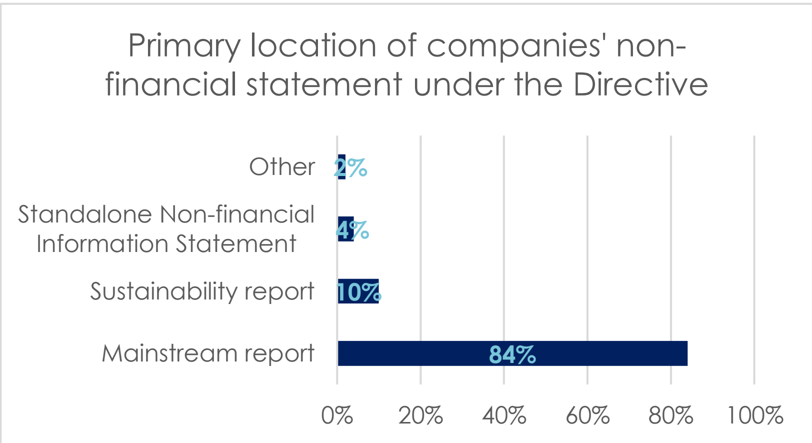
Risk Management: 72% clarity how environmental and climate-related matters and integrated into wider risk management processes.

Metrics & Targets: 30% include an environmental or climate-related target in leadership remuneration.

<u>Location and format of disclosures:</u>

Mainstream disclosure is the norm, but integration varies.

- Majority are already disclosing in the mainstream report
- Disclosures outside the mainstream report often challenging to find and limited coherence
- Integration of the content and a standalone environment/climate section both equally common
- Use of signposting and reference tables is helpful
- High variation in the length of mainstream disclosures



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Key findings:

1. Disclosures are improving but fall short of providing investors and wider stakeholder with the quality of information they required
2. Ensuring consistency, linkages and coherence across disclosures under the different content categories is key
3. Adoption of TCFD continues to be slow and integration with NFRD disclosure is limited
4. The interface with national-level disclosure requirements must be considered carefully to support coherent and concise disclosures
5. Risk is an important area for improvement to ensure that disclosure supports improved decision-making

Policy Recommendation: Michael Zimonyi, Policy & External Affairs Director, CDSB

Sustainable finance is going mainstream. This has also been happening across the world, outside Europe, with Japan & Australia for example.

The report shows that are we not there yet, but we are going in the right direction.

1. Red lines:
   a. Remove the exemption allowing the non-financial statement to be reported outside the mainstream report; as this will support accessibility, consistency and comparability of disclosures and our review demonstrated that, for most, this is already the norm.
2. Manage climate risk:
   a. Embed TCFD recommendation into the Directive to drive stronger linkage of non-financial and financial reporting and a more unified harmonised and convergent approach
   b. Incorporate "climate" into the wording of the Directive to ensure companies consider climate-related matters explicitly in their disclosures, including associated financial impacts
   c. Review the principal risk requirements of the Directive to ensure emphasis is placed on risks and impacted to the business. Member State policymakers should consider the interface between the NFRD and other risk disclosure requirements implemented nationally to support companies in making cohesive disclosures.
3. Policies, due diligence and supervision:
   a. Define key terms used in the Directive, such as "policies" and "due diligence" to ensure a common understanding and application of the Directive
   b. Ensure that supervision of Non-financial information is at the same level as financial information, in order to provide authoritative feedback to corporate report preparers

Closing Keynote: Alain Deckers, Head of Unit, DG FISMA

Next steps for the Commission:

- The public consultation is still open until the 11th June 2020. – 4-week extension
- Studies are being carried out to have more quantitative assessment in terms of costs incurred and number of companies
- Review of the Work Programme (might be delayed of the proposal of a few months due to COVID-19)

Comments on the findings:

It is good that there is some improvement but clear that there is still a long way to go. Many companies are still on a learning curve to we expect improvement. These findings conform our own analysis of fitness checks and general shortcomings due to the partly legislation. There are clearly still issues with enforcement, comparability, meaningful data, audit … suggests the need for standards in Europe. The Commission is analysing this possibility.

Comments on the recommendation:

Recommendation to policy makers are important to us.

The location of information is key and is something that the Commission has also been looking at, as well as risks and the word "climate".

Should we move towards standards in Europe? Valdis Dombrovskis addressed this earlier this year and the Commissions aims to use the standards already in use outside of Europe to build on and potentially form European standards.

Benchmarks regulation and the taxonomy need to work together with the TCFD and standards. The NFRD review will bring out KPIs to ensure consistency.

Webinar 2: Enhancing corporate environmental and climate disclosure

Key findings from the report: Fiona Quinlan, Technical Manager CDSB.

SAME AS THE FINDINGS FROM WEBINAR 1. [SEE ABOVE]

Good Practice Recommendations: Nontokozo Khumalo, Corporate Engagement Manager, CDSB

<u>How to improve reporting in line with the NFRD?</u>

<u>Good Practices: **Business Model:**</u>

Articulate climate and environmental impacts fully.

- Include a diagrammatic representation of the business model which demonstrates inputs, outputs and impacts of the organisation
- Explain how the business generates not just financial value for its shareholders, but also economic, social and environmental value for society
- Ensure the articulation is company-specific, for example by referencing specific products, services and the associated environmental and climate-related matter that are relevant
- Explain the wider ESG trends which inform the business model

<u>Good Practices: **Policies & Due Diligence:**</u>

Provide a clear framework with commitments linked to KPIs.

- Include company and context specific ambition statements within the policies accompanied by timebound qualitative and/or quantitative targets to enable progress to be tracked over time
- Use the policies as the basis to structure subsequent disclosures in due diligence, outcomes, risks and KPIs
- Clearly specify both Board and Management-level accountabilities regarding environmental and climate-related matters and ensuring the linkages between them are disclosed
- Ensure direct linkage between due diligence arrangements and the stated policies

<u>Good Practices: **Outcomes:**</u>

Ensure clear linkages between outcomes and policies.

- Ensure outcomes are clearly linked to the stated policy objectives, providing balanced updates which address both achievements and challenges to avoid simply listing positive highlights only.

- Focus progress updates on performance in the reporting year, or against clearly defined multi-year objectives
- Accompany narrative updated with simple summary tables or bullet points, to ensure readers can easily determine what the key outcomes are

Good Practices: **Principal risks:**

Avoid generic descriptions and consider business impacts:

- Provide business-specific examples of how identified risks may impact the organisation's operations, business model and financial performance
- Clearly state the time horizons over which risks have been considered and ensure risk descriptions state the likely impacts over the short, medium and long-term
- Link risks and their management to environmental climate-related policies, due diligence and outcomes

Good Practices: **KPIs:**

Link climate and environmental KPIs to internal decision-making.

- Provide a minimum of 2 years prior data to enable performance trends to be assessed
- Distinguish between KPIs and wider indicators to ensure the priority metrics used to measure progress against policy objectives are understood
- Summarise KPIs in a table or graphic form to enable them to be easily identified by the report users
- Clearly link policies, outcomes and KPIs so that the metrics used to inform understanding of the company's overall progress, performance and position

TCFD Disclosures:

Use existing resources to implement the recommendations.

- CDSB has produced a number of resources to support companies in implementing the TCFD recommendations, including the TCFD Implementation Guide and TCFD Good Practice Handbook and E-Learning courses on climate-related disclosure available at tcfdhub.org
- CDSB and CDP's recently published "The Building Blocks" paper which illustrates how CDP data and the CDSB framework can be used successfully to fulfil the TCFD recommendations.

<u>Recommendations:</u>

1. Ensure linkages are drawn across the Directive's content categories
2. Clarify the materiality of environmental and climate-related issues to your business
3. Disclosure environmental and climate-related information deemed to be financially material in your mainstream report
4. Align your environmental and climate-related disclosures with the TCFD core elements

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