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

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Frankfurt, 19/06/2019

STANDARDS CREATED TO DISCLOSE NON-FINANCIAL INFORMATION

Global Reporting Initiative (GRI)	United Nations (UN)	Organisation for Economic Co-operation and Development (OECD)	ISO 26000
(1997) Most large companies disclose non-financial info by these standards, but there are differences regarding the country, sector or stock index.	(2000) UN Global Compact Principles ▪ 10 principles	(2011) OECD Guidelines for Multinational Enterprises	(2010) Operate in a responsible way

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TITLE OF REPORTS

1970-1980: social reporting

1990: environmental reporting

XXIst Century: Corporate Social Reporting, CSR, sustainability reporting

Recently:
Transition from voluntary information to obligations (compulsory information).

NON-FINANCIAL REPORTING REGULATION IN EU

2014

European Union Directive 2014/95 on non-financial and diversity information

- Comparability
- Corporate accountability

2015

Paris Agreement on Climate Change

↓ GHG emissions
→ low-carbon & carbon resilient economy

2016

The EC decided on 28 October 2016 to establish a **Technical Expert Group (TEG) on sustainable finance.**

- overarching and comprehensive EU strategy on sustainable finance as part of the Capital Markets Union.

NON-FINANCIAL REPORTING REGULATION IN EU

Technical Expert Group (TEG) on sustainable finance.
1. A unififed classification szstem for sustainable economic activities (taxonomy)
2. An EU green bond standard
3. Benchmarks for low-carbon investment strategies
4. New guidelines on the reporting of climate-related information

NON-FINANCIAL REPORTING REGULATION IN EU

2017	2017	2018
FSB Task Force on Climate-related Financial Disclosures (TCFD) • recommendations	Guidelines on non-financial reporting (methodology for reporting non-financial information)	Action Plan on Financing Sustainable Growth • reorienting capital towards sustainable investment, • managing financial risks that arise from climate change and other environmental and social problems, • fostering transparency and long-termism in financial and economic activity

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NON-FINANCIAL REPORTING REGULATION IN EU

March 2019	June 2019
CONSULTATION DOCUMENT **ON THE UPDATE OF** THE NON-BINDING GUIDELINES ON NON-FINANCIAL REPORTING	New supplement to the existing guidelines Published 18/06/2019: https://ec.europa.eu/info/sites/info/files/business_economy_euro/company_reporting_and_auditing/documents/190618-climate-related-information-reporting-guidelines-overview_en.pdf

THE NON BINDING GUIDELINES

- **Article 2** of the EU Directive 2014/95 on non-financial and diversity information
- should take into account current **best practices, international developments** and the results of related Union initiatives
- Irrespectively, companies may choose to use widely accepted, high quality reporting frameworks, and this partially or in full compliance. They **may rely on international, EU-based or national frameworks**, and, if so, specify the framework(s) that they use.
- The guidelines are not intended to stifle innovation in reporting practices.

THE NON BINDING GUIDELINES

- These guidelines are framed in the context of the **management report**
- However, an **alternative presentation of the non-financial statement** is possible under Article 1 of the Directive
- guidance on reporting non-financial information **help ensure comparability** across companies and sectors
- efforts have been made to **avoid a 'one-size-fits-all' approach** and an **overly prescriptive methodology**

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017XC0705(01)

COMPANIES THAT MUST COMPLY

EU rules on non-financial reporting only apply to large public-interest companies with more than 500 employees. This covers approximately 6,000 large companies and groups across the EU, including

- listed companies
- banks
- insurance companies
- other companies designated by national authorities as public-interest entities

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017XC0705(01)

KEY PRINCIPLES OF NON BINDING GUIDELINES

1. **Disclose material information (impacts)**
2. **Fair, balanced and understandable**
3. **Comprehensive but concise**
4. **Strategic and forward-looking**
5. **Stakeholder orientated**
6. **Consistent and coherent**

CONTENT

- ❑ identify the **specific thematic aspects and material information** to be included in their disclosures in a fair, balanced and comprehensive manner, including by engaging with relevant stakeholders

- ❑ Information in the non-financial statement is **interconnected**.

E.g: outcomes reflect not only what a company does (through its business model, policies and strategies), but also the company's specific circumstances and risks, and how effective it is at managing those risks. Explaining key linkages and interdependencies improves the quality of the report.

5 REPORTING AREAS				
Business Model	Policies and Due Diligence Processes	Outcomes	Principal Risks and Their Management	Key Performance Indicators

BUSINESS MODEL

A company may consider specific disclosures explaining:

- the main products it makes, and how they meet the needs of consumers/customers;
- how these products are made, and what makes its production approach competitive and sustainable;
- the characteristics of the market where it operates, and how it may evolve;

POLICIES AND DUE DILIGENCE

A company may consider disclosing information on who in its organisation and governance structure is responsible for setting, implementing and monitoring a specific policy, for instance, on climate-related matters. It may also describe the role and responsibility of the board/supervisory board regarding environmental, social and human rights policies.

A company may consider disclosing the following health and safety information:

- workplace's policies;
- contractual obligations negotiated with suppliers and sub-contractors;
- resources allocated to risk management, information, training, monitoring, auditing, cooperation with local authorities and social partners.

THE OUTCOME OF THOSE POLICIES

A company may consider including specific disclosures explaining:

- ❑actual carbon emissions, carbon intensity;
- ❑use of hazardous chemicals or biocides;
- ❑natural capital impacts and dependencies;
- ❑comparison v targets, developments over time;
- ❑mitigating effects of policies implemented;
- ❑plans to reduce carbon emissions.

THE PRINCIPAL RISKS INCLUDING, ITS BUSINESS RELATIONSHIPS, PRODUCTS OR SERVICES WHICH ARE LIKELY TO CAUSE ADVERSE IMPACTS IN THOSE AREAS, AND HOW THEY MANAGES THOSE RISKS

A company may consider disclosing material information on risks of harm related to human rights, labour and environmental protection in its supply and subcontracting chain, and on how the company manages and mitigates potential negative impacts.

KEY PERFORMANCE INDICATORS

1. Environmental aspects
2. Social and employee matters
3. Respect for human rights
4. Anti corruption and birbery matters
5. Others: Supply chains, conflict minerals

TOPICS

Under Directive 2014/95/EU, large companies have to publish reports on the policies they implement in relation to

1. **environmental protection**
2. **social responsibility and treatment of employees**
3. **respect for human rights**
4. **anti-corruption and bribery**
5. **diversity on company boards (in terms of age, gender, educational and professional background)**

WHAT DOES IT MEAN FROM THE UPDATE'S VIEWPOINT?

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TOPICS

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

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RISKS TO BE CREATED TO OPPORTUNITIES

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NON-BINDING GUIDELINES ON NON-FINANCIAL REPORTING

Proof of concept report
Based in the consultation document on the update of the non-binding guidelines on non-financial reporting

Table 1 – Disclosure on Business Model	AECA CORRESPONDING ARTICLE
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	4.2 "... As the results of the application of these policies ..." 4.3 "... detailed information on the current and foreseeable effects of the company's activities on the environment ..."
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.**	4.3 "... detailed information on the current and foreseeable effects of the company's activities on the environment ..."
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 2ºC scenario. 22 [Covers TCFD recommendation	
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	
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.	4.3 "... the resources dedicated to the prevention of environmental risks ... the application of the precautionary principle, the amount of provisions and guarantees for environmental risks ..."
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**	

Table 5 - Key Performance Indicators (Type 1)

Theme	KPI	Unit of Measure	Example	Rationale	Alignment with Other Reporting Frameworks	EU Policy Reference	AECA CORRESP ARTICLE
	Scope 1: Direct GHG emissions	Metric tons CO2	270.900 tCO2	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	KPI-E3
	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 CO2	632.400 tCO2	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	KPI-E4
	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.						

For more technical details related to the case study, please attend the presentation of Ignacio Boixo.

Q & A

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