BANKING AND FINANCE

Call for feedback: report on climate-related disclosures by the Technical Expert Group on Sustainable Finance

Fields marked with * are mandatory.

Introduction

Disclaimer:

This feedback process is not an official Commission document nor an officia
Commission position. Nothing in this feedback process commits the Commissior
nor does it preclude any policy outcomes.

Stakeholders are invited to comment on the TEG report on climate-related disclosures by 1 February.

The Technical Expert Group on Sustainable Finance will not produce a revised version of this report, but will process comments received and give the Commission services a summary to be considered in the subsequent update of the non-binding guidelines.

In their responses, stakeholders are encouraged to make concrete proposals for improving the guidelines and recommended disclosures contained in the report.

More information:

- [on the background to this report and on this feedback process]
- [on the protection of personal data regime for this feedback]

1. Information about you

* Are you replying as:

- ○ a private individual
- ○ an organisation or a company
- ◉ a public authority or an international organisation

* Name of the public authority:

Climate Disclosure Standards Board

Contact email address:

The information you provide here is for administrative purposes only and will not be published

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* Type of public authority

- ◉ International or European organisation
- ○ Regional or local authority
- ○ Government or Ministry
- ○ Regulatory authority, Supervisory authority or Central bank
- ○ Other public authority

* Where are you based and/or where do you carry out your activity?

Germany

* Field of activity or sector (*if applicable*):

at least 1 choice(s)

- [x] Accounting
- [x] Auditing
- [ ] Banking
- [ ] Credit rating agencies
- [ ] Insurance
- [ ] Pension provision
- [x] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [x] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [ ] Other
- [ ] Not applicable

Important notice on the publication of responses

*Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?
(see specific privacy statement)

- [x] Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- [ ] No, I do not want my response to be published

2. Your opinion

1. Do you have any comments on Chapter 2 "Disclosures under the Directive: Principles and Rationale for Non-Financial Reporting" of the report?

3000 character(s) maximum

The updated NBG could explain how the principles of the TCFD relate to or differ from the NFRD, including mapping how the principles of the NFRD relate to the TCFD principles. As stated in the TEG Report, there are alignments, but there are also differences that would benefit from clarifying.

For example, the report does not address TCFD principle 7, in particular that "Information should be delivered…within the mainstream financial report". The NFRD contains an exception to this, allowing information to be reported in a separate report [19(a)(4) & 29(a)(4)]. If this difference is not clarified, one could believe that reporting outside the mainstream report would satisfy the TCFD. There is an opportunity for the NBG to reinforce the location of disclosures, if done in line with the TCFD. This relates to the overarching misalignment of the intended audience of the NFRD and TCFD, which the report acknowledges. Greater harmonisation could be achieved if both use the mainstream report to ensure decision-useful information for investors that may also satisfy some of the needs of other stakeholders.

If there is confusion in the intended audience of both the NFRD and TCFD, it could affect the lens of analysis to focus heavily on the impact of climate change on business vs the impact of business on climate change. The NBG which says: "Companies are expected to consider the information needs of all relevant stakeholders...." Para 4.3 p21 of TEG report points out that that "providers of capital are primary users of non-financial statements", which is more aligned with the TCFD.

The TEG Report could refer to the CDSB Framework in footnote 25, as the Framework focuses specifically on integration of environmental matters (inc. reporting in line with GRI, CDP, SASB, GHG Protocol and others), which can support report preparers. The CDSB Framework is referenced in the NBG and in connection with all recommendations in the TCFD Final Report. It is also referenced elsewhere in this Report, so it would follow that it is referenced here.

We support the TEG recommendation that for the purposes of proving forward-looking information, companies should take account of and align their KPIs with national and international policy goals. We suggest providing further practical guidance on what to disclose about the outcomes of scenario analysis, referring to the TCFD supplemental guidance, materiality and disclosure content.

The Report states on p8 that companies should disclose in such a way that ensures connectivity of different elements. A natural capital approach, as per the Natural Capital Protocol, provides a systemic approach to achieving this. While section 2.6 considers resilience in relation to climate-based scenarios, there should be a broader link with other environmental dependencies referenced in this section. It would be useful to consider the implications of dependencies on other elements of natural capital when planning for resilience.

2. Do you have any comments on Chapter 3 "Alignment of NFRD and TCFD" of the report?

3000 character(s) maximum

NFRD-TCFD alignment is detailed in our First Steps report: cdsb.net/NFRreview. We encourage the TEG to consider its findings.

The distinction proposed in the revised NBG between Type 1 and Type 2 disclosures inadvertently creates a hierarchy of TCFD disclosures which could inhibit full adoption of the 11 TCFD disclosures. This could hinder achievement of the outcomes for which the information generated in these disclosures was set to influence, i.e. investor decision-making and capital allocation to support more sustainable economic systems. If this approach is adopted, this could be interpreted by some to mean that not all TCFD disclosures are essential. This should be balanced by the recognition that companies are at different stages of being ready to or making TCFD disclosures. This could be addressed by replacing “should consider disclosing” with “which are material” for Type 2 disclosures, to align fully with the TCFD.

The EC publicly endorsed the TCFD. To support its implementation, the revised NBG should embrace the financial materiality concept fundamental to the TCFD. The Report occasionally refers to financial materiality, but clearly states in footnote 28 that it refrains from referring to materiality. We also question that materiality definitions vary by jurisdiction, especially within the EU, given that it is defined by the Accounting Directive and International Financial Reporting Standards. Having said this, the HLEG recognised the mismatch in timeframes between conventional and sustainable finance. While the EC’s legislative package contributes to addressing this issue, the TEG could recommend encouraging a long-term perspective in materiality determinations.

We suggest that the TEG works with the TCFD and others, e.g. standard setters, to show alignments and highlight differences between the concept of materiality and the NFRD’s “to the extent necessary…” threshold. Such guidance would clarify how the TCFD’s minimum requirements and the TEG’s Type 1 disclosures work together to help companies produce decision-useful information. This could inform a revised Table 3.

The Report cites the importance of connectivity amongst the 5 different elements of the NFRD (note that this was an area of weakness identified in our First Steps report), but does not take account all TCFD recommended disclosures. This could inhibit connectivity and a hinder more holistic linkages between climate and financial information. Alignment should take place through the shared lens of financial materiality.

Due to the parameters of the TEG’s work (i.e. to work within the limitations of the NFRD), the Report primarily considers alignment from the NFRD's perspective. It states how the TCFD disclosures are “well-suited to support the NFRD’s reporting requirements”. This is weighted heavily towards achieving NFRD outcomes and does not achieve many TCFD outcomes or adhere fully to its principles. Enhancing the NFRD text could address this.

3. Do you have any comments on Chapter 4.1 “Business Model” of the report?

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In our First Steps report, we noted that it is unclear from a reader's perspective what companies mean by the terms short-, medium- and long-term. As such, the revised guidance should recommend that companies specify timeframes for each.

Key findings from the First Steps report:

- No standardised approach to business model descriptions, despite 4 in 5 companies describing their business model in their management report;
- Only 44% disclosed how their business models were affected by environmental or climate matters; and
- Only 25% disclosed all 5 elements of the business model currently outlined in the NBG.

We therefore recommended that policymakers elaborate on the specific content requirements of a business model, adopting or referencing standard definitions by the International <IR> Framework or OECD and explain how these could apply to climate-related matters.

The Report takes on board our suggestion to provide guidance on the linkages between business model and principal risk disclosures.

"Companies in scope may need to consider whether, as a consequence of climate change, other risks such as those arising from technological obsolescence or from the potentially abrupt need to shift from a carbon-intensive to a low-carbon technology, may have a particular impact on their business model." – This should also refer to natural capital dependencies. While the guidance is specifically for climate change, the lack of reference to broader environmental objectives is not consistent and sometimes missing. It is possible that a climate silo approach could lead to detrimental environmental/natural capital outcomes as a result of this omission.

We welcome the TEG's emphasis on forward-looking reporting.

4. Do you have any comments on Chapter 4.2 "Policies and Due Diligence Processes" of the report?

3000 character(s) maximum

We note again the importance of defining what the company means by short-, medium-, and long-term. This could be included as a disclosure under Policies and Due Diligence Processes.
Chapter 4.2 introduces the term “top management” which is inconsistent with TCFD terminology of management (in contrast to "board"). It is unclear whether the NBGs mean “Board” or “Management” by this term. The Report provides the example that “a company may wish to describe the role(s) with responsibility for managing climate change aspects, for instance a risk management team or a specific department…” While “top management” is also key to managing climate-related matters, this could give the suggestion that responsibility lies with only a single team or department which is counter to mainstreaming climate and ensuring adequate linkages to financial information central to the TFCD.
The Chapter also states that “Companies…may consider disclosing their climate competency and creating a structure for board oversight of sustainability matters”. Should this be referring to ESG matters instead and specifically climate?
See p.13 of our First Steps report for key findings of corporate disclosures on this NFRD element, e.g.
- Disclosure of environmental policies is common practice;
- 20% of companies prepared a specific climate policy/strategy section in their management report, in contrast to 70% who disclosed an environmental or sustainability policy/strategy;
- Less than half of companies disclosed their due diligence processes; and
- More companies (35%) disclosed how they identify and manage climate risks compared to environmental risks (15%).

We suggested that improvements in reporting practice might be encouraged by adding a point akin to that in Article 1(2)(a) of the NFRD, which lists a variety of aspects to be included in the description of the diversity policy. In the NBG, further information could be listed of aspects to be included in the description of climate-related policies. We advised that it would be helpful to elaborate in the NBG on how to make disclosures about climate change in situations where they may be integrated into other company policies. The Report only states that “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” but does not provide sufficient examples of how to make disclosures when climate is mainstreamed.
Due diligence process does not include a link to natural capital dependency consideration, this should be added to be consistent with the requirements for the ‘outcomes’ of a report (see Type 1 outcomes guidance).

5. Do you have any comments on Chapter 4.3 “Outcomes” of the report?

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As stated in our comments above, the Type 1, 2 and 3 categorisations could be improved to achieve stronger NFRD-TCFD alignment by using the same language and categorisation as the TCFD to define these categories.
For example, the Type 2 categorisation of “The interrelatedness and dependencies between climate-related risks and opportunities and other factors that affect the company’s financial position” is not stated as a supplementary disclosure in the TCFD recommendations, but it could be interpreted as optional by the guidelines.
From the perspective of report preparers, the connectivity between non-financial risks and financial performance can be challenging. Even mature reporters struggle to show the inter-connectedness between non-financial risks and financial performance. This is a crucial part of the TCFD, where the NBGs could provide more guidance to make these more integrated disclosures possible for the majority of companies.

6. Do you have any comments on Chapter 4.4 “Principal Risks and Their Management” of the report?

3000 character(s) maximum

We reiterate the importance of defining what the company means by short-, medium-, and long-term. This could be included as a disclosure under Policies and Due Diligence Processes.
The disclosures in Box 4 should refer to both physical and transition risks.
“Risks and opportunities posed by climate change that have the potential to generate substantive changes in … revenue, or expenditure” are financially material matters. In Chapter 5, Article 19(1) of the Accounting Directive (2013/34/EU) states:
“The management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces. The review shall be a balanced and comprehensive analysis of the development and performance of the undertaking's business and of its position, consistent with the size and complexity of the business.
To the extent necessary for an understanding of the undertaking's development, performance or position, the analysis shall include both financial and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relating to environmental and employee matters. In providing the analysis, the management report shall, where appropriate, include references to, and additional explanations of, amounts reported in the annual financial statements.”
As such, classifying this as a “Type 2” disclosure may be not be in keeping with this section of the Accounting Directive. This could result in Type 2 disclosures potentially being omitted at the discretion of the company.
Our analysis of corporate NFRD disclosures in the First Steps report found that 31% of companies identified climate change as a risk, but only 2% identified it as a principal risk. Further guidance is therefore needed on what is meant by principal risk.
In addition, the Report notes the connectivity between different NFRD disclosures. We also support better emphasis on linkages among policies, KPIs, principal risks and associated time horizons.

7. Do you have any comments on Chapter 4.5.1 “General and Supplementary KPIs” of the report?

3000 character(s) maximum

The provision of sample metrics in tables 9 and 10 are useful to help report preparers.
We note that the “Scope 1, 2 and 3” approach is based on the “operational” boundary setting, which differs from the “financial” boundary setting. The financial boundary setting is used in annual reports to report other financial information. Some Scope 1 and all Scope 2 and 3 emissions fall beyond the financial boundary of the undertaking.
If climate KPIs are only reported according to the operational boundary control approach, this can affect the comparability of the information with the rest of the annual report. Information beyond the financial boundary should be reported if material, but it should be disaggregated to differentiate between matters pertaining to the legal entity of a company and what is beyond. This approach to disaggregation is described in the Climate Change Reporting Framework, paragraphs 4.23 – 4.27, available at cdsb.net/climate.
Given the NFRD’s wider focus on environmental matters, there is an opportunity to expand KPIs to encompass natural capital, for example providing indicators on companies’ use of, and impacts on water scarcity, biodiversity loss, etc. While these could be interpreted as separate, natural capital matters are strongly linked with climate-related matters.

8. Do you have any comments on Chapter 4.5.2 “Sectoral and Company-specific KPIs: Non-financial Companies” of the report?

3000 character(s) maximum

CDSB has no comments on this question.

9. Do you have any comments on [Chapter 5 "Sector specific Guidance: Banks and Insurance Undertakings"] of the report?

3000 character(s) maximum

CDSB has no comments on this question.

10. Do you have any additional comments on the report as a whole?

3000 character(s) maximum

There is an assumption in the Report that changes to the NBG will result in TCFD-NFRD aligned disclosures. We note the TEG was constrained by the reporting NFRD requirements, it is inferred that companies following these would also implement the TCFD, which may not be the case.
Type 2 supplementary disclosures imply that “should consider disclosing” is the same as disclosing “where such information is material”, i.e. the wording used by the TCFD for recommended disclosures under Strategy and Metrics and Targets. While they may seem similar, materiality is an established concept that is used in mainstream reporting.
In addition, the categorisation of Risk management a) as a supplementary disclosure could result in the omission of a recommended disclosure that is not subject to materiality in the TCFD recommendations.
We therefore encourage the TEG to state clearly in its report to the EC that these recommendations do not implement the TCFD and that amendments to the NFRD are needed to do so effectively.
If changes are to be made to reporting practices at the pace required to meet the climate challenge as described in section 1.2 then an unenforceable NBG is unlikely to be the best mechanism to effect such change within Member States. The change should therefore take place through the legal instrument through which the Guidelines relate.
It is also important to note that companies must follow the guidance of their Member State competent authorities regarding their reporting obligations and not the NBG. The EC might wish to consider how best to influence these national authorities to take onboard and promote the updated NBG or incorporate them into their own national guidance.
The focus of the Report should also include references to the rest of the Accounting Directive that relate to the TCFD recommendations, such as corporate governance requirements, risk reporting requirements and others.
Overall, the Report could highlight more strongly the need to make a connection between the reported information under the NFRD and the rest of the management report to ensure connectivity of financial and non-financial information.
Finally, we welcome the inclusion of natural capital elements in the Report, as they relate to climate change. Given their materiality “for an understanding of the undertaking’s development, performance and impact of its activity”, as well as the wording used in the NFRD is “environmental matters”, this should be elaborated on in each category of recommended disclosures in the NBG. Climate is a subset of “environmental matters” and this should be clearly stated, as well as the link between climate, environmental and financial information.
Further consideration could be given to natural capital dependencies and social capital to help companies understand how nature provides services to them and how climate change can affect these dependencies impacting their bottom line. This could be done more systematically in the report.

Useful links

[More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)](http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

[More on this feedback process (https://ec.europa.eu/info/publications/190110-sustainable-finance-teg-report-climate-related-disclosures_en)](https://ec.europa.eu/info/publications/190110-sustainable-finance-teg-report-climate-related-disclosures_en)

[Specific privacy statement (https://ec.europa.eu/info/files/190110-sustainable-finance-teg-report-climate-related-disclosures-privacy-statement_en)](https://ec.europa.eu/info/files/190110-sustainable-finance-teg-report-climate-related-disclosures-privacy-statement_en)

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