

# CREAZIONE DI VALORE E SOSTENIBILITÀ: VERSO NUOVI MODELLI DI REPORTING E GOVERNANCE

Organismo Italiano di Business Reporting

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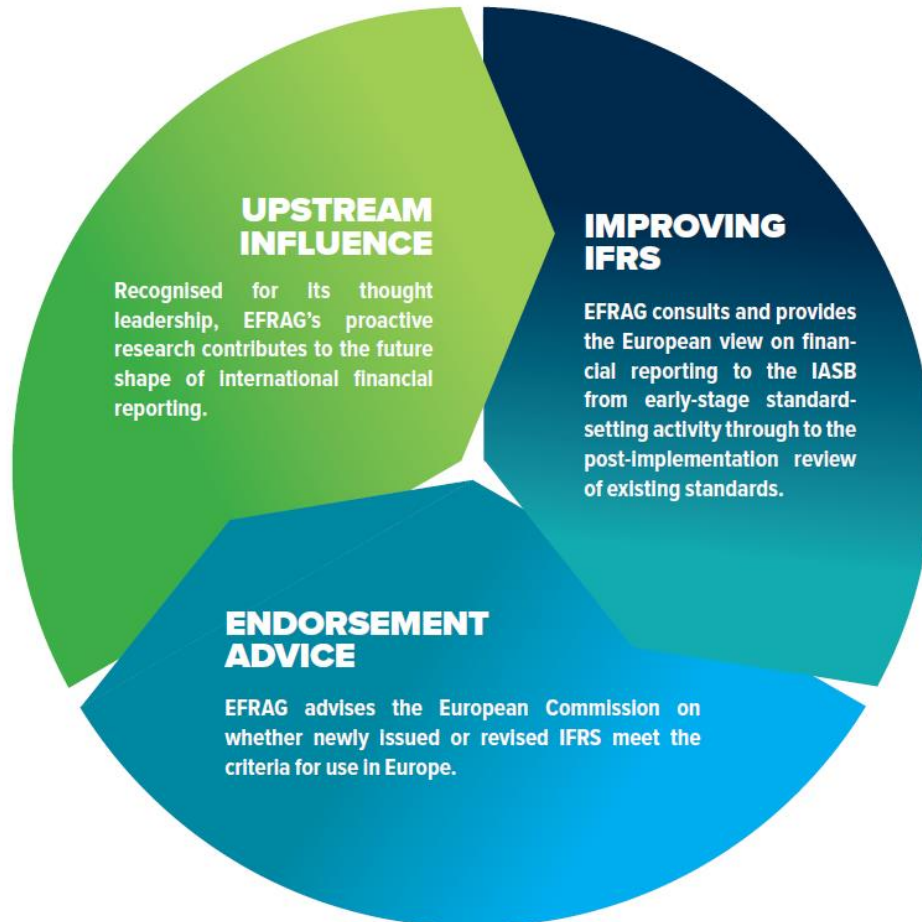
# Panel sul Cambiamento climatico:

un rischio finanziario emergente per  
banche e assicurazioni



# ABOUT EFRAG

## FINANCIAL REPORTING



## BROADER CORPORATE REPORTING



### *Activity started in 2019*

- Stimulate innovation in corporate reporting
- Assist the EU action plan with good practices on Non Financial Information

# WHY A EUROPEAN LAB?

## LINK TO SUSTAINABLE ACTION PLAN



- EC Action Plan *Financing Sustainable Growth* (EC Sustainable Action Plan) is focused on stimulating finance and **financial institutions have a key role in contributing to this objective of “shifting the trillions”**
- EC Sustainable Action Plan had the following Action Points
  - Fitness Check will inform future legislative proposals, including Non-financial Information Directive
  - Revision of 2017 Guidelines non-financial information (supplement on climate-related reporting published in June 2019)
  - **EFRAG to establish a European Corporate Reporting Lab (established in Q3 2018)**

# WHICH ROLE REPORTING PLAYS?



## Benefits for reporting companies

- 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 more diverse investor base and a potentially lower cost of capital, 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 stakeholders, in particular investors and shareholders;
- better corporate reputation and maintenance of social licence to operate.

*Source: Guidelines on reporting climate-related information, EC, June 2019*

# EUROPEAN LAB

LINK TO SUSTAINABLE ACTION PLAN



*“Legislative proposals related to the Sustainable Finance depended to some extent on good disclosure of non-financial information by companies. This was why an important part of the EC Action Plan is devoted to corporate disclosure and is the reason why the European Commission had asked EFRAG to launch the European Lab”*

EC Vice President Valdis Dombrovskis speaking at the March 2019 EFRAG Conference on Fostering Innovation in Corporate Reporting

***-> translating policy goals (e.g. aspirations of NFRD and TCFD recommendations) into action***

# EUROPEAN LAB

Stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good practices



- Supports EC Sustainable Finance Action plan objectives, providing good reporting examples that can support and **encourage good reporting of non-financial information**
- Facilitates dialogue between reporting companies, users and other relevant stakeholders
- 17-person Steering Group is responsible for European governance, agenda selection, project task forces (PTFs) appointments and oversight of Lab projects
- European Lab deliverables have no authoritative or normative status
- PTFs responsible for the project deliverables including the contents of the project reports
- First project on climate-related reporting begun at the end of February 2019



# EUROPEAN LAB

## Financial institutions perspective reflected in European Lab Activities

- Financial institutions represented in Steering Group and PTFs
- Monitoring of financial institutions focused initiatives such as UNEP-Financing Initiative (Some PTF members are participants)
- Financial institutions included in sample of entities considered when evaluating entities' climate-related reporting practices
- The perspective of financial institutions as both users and preparers of climate related information is considered during the PTF deliberations and during the outreach to stakeholders

# EUROPEAN LAB- CLIMATE RELATED REPORTING FOCUS AREAS

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## Importance of Climate Related Reporting Information

- Climate change related risk is increasingly being recognised as a financial risk
- Climate-related reporting has a role in facilitating the analysis of short, medium and long-term risk exposures and opportunities. Relevant for financial institutions because
  - **Financial institutions are preparer entities** with a need to report their climate change risk exposures to their investors and other stakeholders
  - **Financial institutions are users (lenders and/or investors)** with a need to assess the climate risk exposures of their borrowers and/or investee firms

## PTF workstreams

- Scenario analysis and forward planning;
- Gap analysis between current reporting and Task force for Climate Financial Disclosures (TCFD) recommendation, EU Non-Financial Reporting Directive (NFRD) and supplemental non-binding guidelines other suitable frameworks.

# EUROPEAN LAB- CLIMATE RELATED REPORTING FOCUS AREAS

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## Why PTF focus on scenario analysis?

- One of the innovative TCFD recommendations and relevant for assessing medium and long-term risk exposures
- Potentially useful for internal strategic planning and assessing resilience of companies' strategies
- Potentially useful for investors/lenders assessment of the medium and long-term risk exposures and opportunities of their investee /borrower entities
- Relevant for assessing and distinguishing effects of physical risk and transition risk
- Considered by PTF members as a “centre of gravity” of climate-related reporting information
- Is an innovative and challenging reporting area- hence examples of good reporting can be helpful for both financial institutions and non-financial corporates

## EUROPEAN LAB OUTREACH- TRANSLATING POLICY INTO PRACTICE

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- **Identifying good reporting practices:** To assess scenario analysis reporting, the PTF has reviewed the reporting for a sample of 60 companies across high exposure sectors including financials, oil & gas, mining, consumers, automotives and utilities. 28 of the 60 companies had scenario analysis information
- **Stakeholder outreach (October and November):** PTF is in process of dialogue with preparers, users and other stakeholders on both specific good and general bad practices on scenario analysis and other general climate disclosures. The scenario analysis related objectives of the outreach include:
  - **Getting feedback** on illustrative examples of good practices and noted general areas of improvement (bad practices) and any other good examples on scenario analysis
  - **Obtaining preparer perspective:** Enhancing the understanding of any preparer constraints towards providing scenario analysis information
  - **Obtaining user perspective:** Enhancing the understanding of attributes of usefulness of scenario analysis information.
- One of the potential points of dialogue will be how financial institutions- in their capacity as users- and in the absence of high quality reporting by corporates- undertake bottom up scenario analysis based on underlying individual entity risk exposures.

## EUROPEAN LAB- HIGH-LEVEL PRELIMINARY FINDINGS ON SCENARIO ANALYSIS

The following are some of the challenging or still in development areas of scenarios reporting are observed from the PTF review

- **Scenario analysis is still largely qualitative**, however some companies including some financial institutions have sophisticated quantitative approaches
- **Limited transparency on how scenario analysis is applied for internal decision making**
- **Underlying assumptions are often lacking**: Entity specific quantitative inputs, specification of short versus medium versus long- term time horizon are often lacking
- **Insufficient quantification and monetisation of outputs**: There is room for more quantification and monetisation of outputs within scenario analysis information
- **Main focus on transition risks**: The main focus of scenario analysis is on transition risk but some companies have started looking into physical risk too.
- **Physical risk scenarios are underdeveloped**: Physical risk scenarios are underdeveloped and tend to have partial information with limited information on impacts

Preliminary  
findings  
subject to  
Outreach  
discussion

# EUROPEAN LAB- HIGH-LEVEL PRELIMINARY FINDINGS ON SCENARIO ANALYSIS

## LIMITED LINKAGE TO STRATEGIC DECISIONS

- **Financial sector companies:** even if extensive analysis is performed – usually based on external consulting firms’ assessment – links with the strategy are not clearly stated.
  - A useful depiction observed in some financial institutions is the “**Thermometer**” diagram depiction of impact on assets portfolio (e.g. assessing potential physical and transition risk related impact a portfolio under different scenarios such as the 2°C temperature rise cap scenario path). *The impacts of these results on business decision are however usually missing at this stage*
- **Energy and material sectors companies:** scenarios disclose results of their scenarios, either in a qualitative or in a quantitative manner. Disclosures mostly aim to convey the resilience of the company to climate change following de-carbonisation path. *Clear business decisions taken as a results of scenario analyses tend to be missing*

Preliminary findings subject to Outreach discussion