E3G

COMMENTS ON THE TEG REPORT ON CLIMATE-RELATED DISCLOSURES

This is Third Generation Environmentalism's (E3G) commentary on the European Commission's Technical Expert Group Report on Climate-related Disclosures, open to comments until 1 February 2019.

Context

The Technical Expert Group's Report on Climate-related Disclosures is an important intervention.

> In 2015 195 signatories to the Paris Agreement[1] committed to "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development", under Article 2.1(c) of the Paris Agreement.

> In 2017 the Financial Stability Board's Taskforce for Climate-related Financial Disclosures made recommendations[2] for voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks.

> In 2018 the European Commission appointed a Technical Expert Group to advise (inter alia) on Climate-related Disclosures. The TEG was formed under the Sustainable Finance Action Plan[3] which seeks to:

  > reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth;
  > manage financial risks stemming from climate change, environmental degradation and social issues;
  > foster transparency and long-termism in financial and economic activity.

> In October 2018 the 2018 Intergovernmental Panel on Climate Change (IPCC) special report[4] stated that there are twelve years left to limit warming to 1.5°C above pre-industrial levels, thus avoiding many dangerous climate change impacts.

> At COP24 in Katowice, Poland in December 2018, 415 institutional investors managing over US $32 trillion called on[5] world governments to:

  > Achieve the Paris Agreement's goals;
  > Accelerate private sector investment into the low carbon transition;
  > Commit to improve climate-related financial reporting.

[1] https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
[2] https://www.fsb-tcfd.org/publications/final-recommendations-report/
[3] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en
[4] https://www.ipcc.ch/site/assets/uploads/sites/2/2018/07/SR15_SPM_High_Res.pdf
[5] https://theinvestoragenda.org/areas-of-impact/policy-advocacy/

The TEG's Report on Climate-related Disclosures of January 2019 is an important step in responding to all these developments, and in recommending a way forward for climate-related financial disclosure by firms operating in the European Union.

E3G comments on the Technical Expert Group (TEG) Report on Climate-related Disclosures

i. We commend the thorough and detailed recommendations made by the TEG with respect to Climate-related Disclosures and support the integration of these recommendations into European policy instruments.

ii. We note the strained logic that results from treating climate-related financial disclosures as non-financial information. The TEG report attempts to provide a sensible explanation of this paradox. However, the main conclusion which can sensibly be drawn from the Report's diagram on page 14 mapping TCFD Recommended Disclosures against NFRD Requirements is that the requirements under the Non-Financial Reporting Directive (NFRD) are poorly structured in terms of meeting investor needs.

iii. Within its report the TEG pays particular attention to the disclosures which should be made by financial firms, including providing detailed sector-specific guidance for banks and insurance undertakings. This is an important element of their report which if accepted by the Commission will add a new dimension to the Commissions' Guidelines on non-financial Reporting.

iv. The TEG's prioritisation of reporting by financial firms reflects the approach set out by the Taskforce for Climate-related Financial Disclosures (TCFD), as well as wider market developments such as the research published by the Bank of England's Prudential Regulation Authority (PRA) in 2015 and 2018 into the implications of climate risk for the insurance[6] and banking[7] sectors, and the draft supervisory statement for these sectors which was put out to consultation by the PRA in late 2018.

v. In this context we would like to draw the European Commission's attention to the approach to climate-related risk which was set out[8] by Sarah Breeden, the Executive Director for International Bank Supervision at the PRA. In this interview she supports making the TCFD's recommendations mandatory within five years, stating: "The key is for the disclosure to be meaningful and comparable. There is a time for it to be mandatory but I don't think it's now. If it's not mandatory in five years, that strikes me as a bad outcome."

vi. E3G agrees that the disclosures recommended by the TCFD should be mandatory. The G20 activated the TCFD in 2016 as a measure to address global financial stability. To avoid this instability, we must be able to measure risk throughout the economy. This means all firms sharing climate information with the market, providing meaningful, complete and trustworthy data whether or not the results of doing so are convenient for them.

[6] **https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/impact-of-climate-change-on-the-uk-insurance-sector.pdf**

[7] **https://www.bankofengland.co.uk/prudential-regulation/publication/2018/transition-in-thinking-the-impact-of-climate-change-on-the-uk-banking-sector**

[8] Interview in Environmental Finance, 21st January 2019

vii. We note that through the TEG report specific recommendations are made that firms "should" make certain disclosures. Within the report these are classed as Type 1 disclosures: "those that companies should disclose (high expectation that all reporting companies disclose them)". The TEG's approach here is limited by the context in which they are operating – recommendations for updates to non-binding guidelines – and we do not feel that this approach is satisfactory. If it is expected that all companies should disclose certain information, why should that information be conveyed to companies in non-binding guidelines?

viii. It may be helpful to refer at this point to the 2018 report[9] by CDP and the Climate Disclosure Standards Board on the first year of corporate climate and environmental disclosure under the Non-Financial Reporting Directive. The report analysed the reports of 80 large European companies and found "*no direct evidence from companies that the Guidelines were being used or having a positive effect on NFRD or TCFD-aligned disclosures*". The report included the following text in its recommendations: "*If the TCFD and NFRD are to be effective mechanisms for achieving their desired outcomes, this will require a step change not only in the uptake but in the effectiveness of reporting. One way to achieve this at the scale needed and with rapid uptake is through mandatory reporting of the TCFD recommended disclosures. The Commission should therefore look to assume a leadership role globally on TCFD and mandate disclosure of its 11 recommended disclosures … in an amendment to the Non-Financial Reporting Directive.*"

ix. Through its Sustainable Finance Action Plan the European Commission has shown global leadership We urge the Commission to act decisively to implement the TCFD recommendations and require full disclosure at scale by all companies and financial firms, in order to protect financial stability and drive the low-carbon economic transition that is required to avoid the worst effects of dangerous climate change. The TEG's report contains excellent recommendations which should be integrated as soon as possible within mandatory legislation, rather than within non-binding guidelines.

Concluding comments

E3G is highly supportive of the Technical Expert Group's work, and we thank the European Commission for the opportunity to comment on the Interim Report. We will be happy to make ourselves available to discuss any of the content in this submission.

Signed

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[9] **https://cdsb.net/sites/default/files/cdsb_nfrd_first_steps_2018.pdf**

About Third Generation Environmentalism (E3G)

Third Generation Environmentalism Ltd. (E3G) is a European not-for-profit think tank working to accelerate the global transition to a low carbon economy. In October 2016 E3G developed a Sustainable Finance Action Plan for the European Union, produced as a joint initiative with a number of other expert groups. In 2017 E3G Director Ingrid Holmes was appointed as member of the High-Level Expert Group on Sustainable Finance (HLEG) which provided advice to the European Commission on sustainable finance issues and made its final report in January 2018. E3G continues to work on these issues in Brussels and within EU Member States.