WEBINAR - INSIGHTS ON REPORTING THE BUSINESS MODEL, SUSTAINABILITY RISKS AND OPPORTUNITIES

SUMMARY REPORT

3 NOVEMBER 2021

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG European Lab Steering Group nor the PTF-RNFRO. It has been reviewed by the speakers at the event.

Background

The EFRAG Lab Project Task Force on Reporting of non-financial risks and opportunities and linkage to the business model (PTF-RNFRO) has recently published its Main Report *Towards Sustainable Businesses: Good Practices in Business Model, Risks and Opportunities Reporting in the EU* and the Supplementary Document *Good Reporting Practices*. On 3 November 2021, the PTF-RNFRO hosted a public online webinar to give insights into the report findings and share user and preparer perspectives on the usefulness of the report.

This report has been prepared for the convenience of the constituents to summarise the event. The programme can be found here and all of the speakers' biographies can be found here. The recording of the event can be consulted here.

Jean-Paul Gauzès, EFRAG Board President and European Lab Steering Group Chair, provided the introduction and **Saskia Slomp**, EFRAG CEO guided the webinar and provided the final remarks.

Key-note speakers of the webinar included **Pascal Durand**, EP rapporteur on the CSRD, and **Alain Deckers**, head of EC DG FISMA unit Corporate Reporting, Audit & Credit Rating Agencies and European Lab Vice-Chair, who set the scene for the webinar discussion.

Nancy Kamp-Roelands, European Lab Steering Group member and Professor of non-financial information, integrated reporting, and assurance at the University of Groningen, moderated the panel discussion with the following PTF-RNFRO members:

- **Emilie Beral**, PTF-RNFRO Member, Executive Director - Methods, Innovation, Quality at Vigeo Eiris (VE)
- **Gloria Mazzocco**, PTF-RNFRO Member, Group Accounting Advisory at Enel Group
- **Dawn Slevin**, Co-chair of the PTF-RNFRO, Managing Director of ELS Europe

Jean-Paul Gauzès welcomed participants and speakers. He highlighted the key objective of the PTF-RNFRO report of stimulating innovation by identifying and sharing good practices and outlined EFRAG's role as technical advisor to the European Commission (EC) in developing the draft EU sustainability reporting standards in the proposal for a Corporate Sustainability Reporting Directive (CSRD). Furthermore, he noted the linkage between the PTF-RNFRO report and the relevance for the development of standards and that looking at good practices can point the way forward in sustainability reporting.

Setting the scene

Pascal Durand highlighted the urgency for the EC to act on economic, social, and environmental issues in a fast-evolving world. He observed that the European Member states ought not to be naive in the face of finding the balance between the needs of the market economy, the necessary control of environmental externalities and the search for greater social justice. Europe must depend on its ability to impact trade rules and decide on imports to preserve its high-level values. He called for the creation of European sustainability standards that reflect those values and serve as a basis for global sustainability-related work. Greater label certainty and shared rules are essential for long-term vision and for accessing the information on business models and value chains.

On reporting requirements, he remarked that the proposal for a CSRD aims at providing harmonised reporting criteria and a common reporting framework for Environmental, Social and Governance (ESG) matters to help the market to become more transparent, fair, and efficient. He noted that new reporting frameworks have to be consistent with current and future 'Green Deal' obligations, European taxonomy and Due Diligence reforms. In respect of the PTF-RNFRO report, he highlighted that its interesting aspects were its capacity to show the inability of current reporting regimes to provide comprehensive and relevant information for financial actors and stakeholders as well as its emphasis on opportunities stemming from sustainability. He acknowledged the difficulty of distinguishing between reporting on opportunities and negative trends/risks. Finally, he emphasised the importance of developing common assurance standards in the EU to achieve a global level playing field.

Alain Deckers outlined the key message of the report of finding good reporting practices but also acknowledged the necessary continuous work to be done in the future to make sure that companies fully describe their business model and report on risks and opportunities. This key message is consistent with the findings of the European Lab's previous report on 'How to improve climate-related reporting' by the Project Task Force on Climate-related reporting (PTF-CRR). He suggested that work similar to that completed by the PTF-RNFRO report could be extended to the review of scenario analysis reporting. He remarked that a key area of the report deals with the difficulty of assessing the impact of risks and opportunities on the value creation of a company and consequently ensuring the usefulness of information for users of financial statements.

On reporting requirements, he underlined the importance for Europe to collaborate at an international level in pushing forward convergence in the fragmented landscape of sustainability reporting. At the same time, Europe must ensure that this work is also compatible with its objectives of providing consistency in broader legal frameworks on sustainable finance, taxonomy regulation and the Sustainable Finance Disclosure Regulation (SFDR). The consideration of these aspects is essential to ensure the successful implementation of the proposal for a CSRD proposal. Finally, he highlighted the EC's upcoming proposal of a European Single Access Point (ESAP) which will improve the accessibility of information in corporate reporting.

Panel discussion of key findings and examples of good practices

Nancy Kamp-Roelands introduced the panel discussion participants **Dawn Slevin** (co-chair, PTF-RNFRO), **Emilie Beral** (user) and **Gloria Mazzocco** (preparer)**.** She acknowledged the excellent work of the PTF-RNFRO that was co-chaired by **Dawn Slevin** and **Mario Abela** and then asked **Dawn Slevin** about the successive steps in the project to explore and identify good practices on how transparency on business models and sustainability risks, opportunities and linkage to performance and strategy could look like.

Dawn Slevin listed the three main areas of the report: Articulation of the companies' business model and value creation over time, qualification and quantification of risks and opportunities and their linkage to the business model, and the deployment of technology to facilitate and enhance sustainability reporting information. She outlined the PTF RNFRO's approach to planning that included preparing a strategy document that defined the project mandate and scope, underpinning principles (e.g., double materiality) and relevant stakeholders. Thereafter, the next step consisted of deploying the project team into different workstreams that evaluated existing standards and frameworks, developed a practices evaluation approach, conducted stakeholder outreach, assessed the application of data and technology in reporting, and reviewed companies' reporting practices. The PTF-RNFRO also held regular plenary sessions.

Nancy Kamp-Roelands asked **Gloria Mazzocco** in her capacity as a preparer to elaborate on the necessary steps in managing and reporting on risks and opportunities and to give insights into the lead examples of Enel's good reporting practices.

Gloria Mazzocco emphasised that the first step in reporting is always an in-depth analysis of the applicable frameworks, standards and guidelines (e.g.: concerning climate change: TCFD Recommendations, Guidelines of the EC, GRI Standards). On that basis, Enel builds its internal reporting framework (selection of methodologies, type, and placement of information) in order to achieve a high-level quality of information that allows for verifiability. For identifying key aspects of reporting and dealing with complex tasks, Enel involves different internal departments (e.g.: sustainability, risk control, scenario planning and analysis) as well as external experts including but not limited to scientific institutions, universities, peers, and other experts in various fields.

Furthermore, connectivity between the sustainability report, management report and financial statements is built through the 'core & more' approach. It links information of the disclosures and information in the notes to the financial statements in accordance with the IASB recommendations (e.g., displaying in the notes to the financial statement how disclosed information from management report and sustainability report are factored into management assumptions) on reporting non-financial risks. Digital reporting allows Enel to connect the information within a single report as well as with information from other reports.

Nancy Kamp-Roelands asked **Emilie Beral** to elaborate on how the good reporting examples of the PTF-RNFRO report can be helpful for ESG-rating agencies and eventually invest ment decisions.

Emilie Beral elaborated on her contribution to the report of highlighting users' expectations of relevant, tangible, and relatable information. She noted that this information will enable users to properly appreciate the linkage between risks, opportunities, and ESG-factors, effectively connecting them to the financials of a company. The good reporting practices outlined in the PTF-RNFRO report provide guidance to issuers on how they can report specifically on the aforementioned concepts. The proper definition and standardisation of reporting concepts is necessary for providing interesting insights to users.

Nancy Kamp-Roelands emphasised the role companies play in moving towards a more sustainable society as they spark innovation, develop new products and services, have more sustainable business processes, or even change their full business model (e.g., DSM changed its business model by moving from the chemicals to the nutritional sector). She noted that the good reporting practices of the PTF-RNFRO report show how to successfully report on the business model but also acknowledged the diversity in reporting throughout the sample. She then asked **Dawn Slevin** to identify what key elements the good reporting practices have in common.

Dawn Slevin acknowledged that there is no single prescription for navigating through the fast-evolving business environment driven by climate change, resource depletion, and supply chain constraints. The overall approach by companies should be to tackle their risks and challenges and in doing so they create and identify potential opportunities. In order to identify those opportunities early on and use them for estimating the impact of the sustainability strategy, companies have to be encouraged by stakeholders (e.g., regulators) to report more forward-looking facts and figures. A typical opportunity in this context is the job growth related to the green economy (e.g., renewable energy, infrastructure for a low carbon economy, circular economy activities).

She noted that science-based sustainability-related performance indicators and targets are the way forward for companies to report on their dependencies and impacts. Some key indicators can be linked to the improvement in greenhouse gas emissions, pollution reduction, increased recycling rates, employee matters and human rights and these are encompassed within various frameworks.

Nancy Kamp-Roelands acknowledged that strategic, operational and compliance risks are already reflected in reporting to some extent and asked **Emilie Beral** whether ESG-factors are also sufficiently integrated into current risk reporting.

Emilie Beral highlighted the insufficient balance between ESG-factors and corporate sustainability strategies arising from the lack of connectivity between internal and financial reporting. Integrated reporting has improved (e.g.: business ethics and governance) but still lacks effective integration in emerging topics (e.g.: climate change, human rights in the supply chain). Recommendations of the Task Force on Climate-Related Reporting (TCFD) have gained traction recently. Improvements hinge on the mandatory application of sustainability standards as material topics are currently not being adequately considered.

In response to an audience question on examples of data or disclosures with interesting insights for investors, she underlined the importance of being specific about what and how material information concerning ESG-factors is disclosed by issuers in reporting across all time horizons. Such information should communicate the policies, strategies, objectives, and specific measures an entity applies to mitigate ESG-risks caused by its operation. Finally, these disclosures should then be put into the context of risk quantification and their linkage to value creation.

In the context of scenario analysis and its link to risk management, **Nancy Kamp-Roelands** acknowledged that it takes quite some effort for companies to quantify the risks they have identified. Therefore, she asked **Emilie Beral** to elaborate on why risk quantification is that important.

Emilie Beral considered the difficulties of quantifying risks but also highlighted the necessity to raise awareness on this topic to ensure effective measurement of the impacts of ESG-factors on companies' operations as it will also enable a more effective allocation of capital by investors and creditors.

Nancy Kamp-Roelands asked **Gloria Mazzocco** to share her views on how risk quantification may also help in internal management decisions.

Gloria Mazzocco acknowledged the importance of quantifying sustainability risks and opportunities and showing their impact on cashflows for management decisions. This impact should be assessed in the light of entities' business models and their viability, resilience, and adaptability across all time horizons. She stated that scenario analysis is an essential tool supporting strategic and risk management decisions in conditions of uncertainty (e.g., climate change, COVID-19 pandemic). It helps to estimate business model performance in future hypothetical scenarios and to align corporate strategy accordingly.

Nancy Kamp-Roelands highlighted the current tendency to report on risks rather than opportunities (e.g.: linking challenges to sustainable development) and asked **Emilie Beral** on the possible reward for entities' ratings when they effectively report on opportunities and what type of information they should disclose. (e.g., in relation to Sustainable Development Goals [SDGs])

Emilie Beral acknowledged that every rating agency relies on different methodologies and highlighted Vigeo Eiris' reliance on double materiality (positive/negative impact on financials and stakeholders) as an assessment criterion. Typical information that is captured by rating agencies is the promotion of human rights, labour relations, and diversity as well as the accessibility of products and services. The ratings reflect the direct positive impact on society and the indirect long-term positive impact on the capacity of entities to create value (SDGs are one example of input that factors into an ESG-rating).

Nancy Kamp-Roelands outlined the tension in reporting stemming from the variety of disclosures as investors demand comparable information and companies want to tell their specific storylines (e.g., creating their own performance indicators). She asked **Dawn Slevin** for her view on this tension.

Dawn Slevin referred to the increased focus on using sector-specific performance indicators (e.g., scrap rate in iron and steel production) as a means to tackle the tension in reporting. These metrics allow companies to demonstrate how they are improving products and services and transitioning to sustainable activities, how they compare with their peers and how performance in their segment is linked to revenue. In turn, analysts should then be able to understand how achieving a certain sustainability standard translates to revenue as well as capital and operational expenditure. Consequently, companies can avail of opportunities like issuing green bonds or further capital expenditures.

Nancy Kamp-Roelands asked **Gloria Mazzocco** about the internal benefits when considering the necessary resources for preparing a report.

Gloria Mazzocco considered that providing detailed information in reporting relies on the teamwork of various departments depending on increased interrelations between staff, allowing for better internal communication and alignment of vision as well as stimulating innovation. She also experienced benefits regarding the relationship with business partners as they can access information about entities' values and commitments through quality reporting. Good reporting also improves trust, responsibilities and commitment by employees as well as strengthen reputation value.

Nancy Kamp-Roelands asked **Emilie Beral** for a final key message concerning ESG-rating considerations.

Emilie Beral highlighted the importance of relying on new techniques to streamline reporting, enabling the effective distribution of reliable and accurate information across the market. She observed that preparers can also access the PTF-RNFRO report for information on these techniques.

Saskia Slomp concluded the webinar by emphasising the key objective of the PTF-RNFRO report to identify good practices and subsequently stimulating enhanced reporting by companies. She noted the report findings could be one of the inputs for the Project Task Force on European Sustainability Reporting Standards (PTF-ESRS). In response to several audience questions on the interaction between EFRAG's work on the sustainability reporting and the mandate of the International Sustainability Standards Board (ISSB), she suggested that more information on this could be gotten from a 3 November webinar event at the COP26 hosted by the EC at which a progress report on the activities of the PTF-ESRS would be provided.

Audience Questions

Is there a list of all companies that were taken into account for the benchmarking report?

Response: The PTF-RNFRO initially reviewed 100 companies and thereafter narrowed its analysis to 44 companies that were deemed likely to have good reporting practices. From these 44 companies, 37 examples of good practices are identified from 27 companies (see Appendix 2 of the report). The report discloses the 27 companies. It should be borne in mind that the intention was not to identify an exhaustive list of good practices.

Did the group consider the research done by the IIRC on the completeness of describing the business model (integrated reporting value creation model) and how companies report on the business model?

Response: The PTF-RNFRO reviewed and took account of other research including the work of the IIRC, Alliance for Corporate Transparency and other related literature on the reporting of the business model (a list of references is included in Appendix 5 of the report). The IR framework with the distinction between inputs, business activities, outputs, outcomes, and impacts- was a key input in the criteria for the evaluation of the reporting of the business model.

Forward-looking information/targets: how do we make sure that disclosing forward-looking information on opportunities will not put European companies' business models in danger? How do we make sure European companies' leaders will not face judicial litigations and be held responsible if targets are not met?

Response: A similar concern was noted by stakeholders during the PTF-RNFRO outreach. The enactment of solutions such as the possible provision of safe harbours is the responsibility of legislative authorities.

Can you elaborate on what you mean by establishing a connection between ESG-factors and the business model strategy?

Response: The PTF-RNFRO assessed and highlights good practices in reporting the linkage between companies' sustainability strategy, targets, progress in achieving targets and the realised key performance indicators.

Did the PTF-RNFRO assess the alignment of companies' objectives/achievements with the governments' engagements (in terms of CO2 reduction for instance)?

Response: The focus of the PTF-RNFRO was on the reporting of companies' sustainability risks and opportunities linked to their business model rather than on whether companies have made optimal sustainability-related choices. That said, in the assessment of short-, medium- and long-term potential, there was an assessment on the reporting of the extent to which business plan/business model timeframes were aligned with policy timeframes. The PTF-RNFRO also assessed the reporting of the linkage between companies' sustainability strategy, targets, progress in achieving targets and the realised key performance indicators.

Finally, there were several questions on specific standards' requirements (e.g., for internal carbon pricing) and on the interaction between the CSRD, European Standard setting and the global standards that are to be developed by the newly-formed ISSB. **Saskia Slomp** noted that **Alain Deckers**' remarks had addressed this aspect, and in her closing remarks, she referred the audience to the COP26, EC-hosted event that was to share more detailed information on the EU standard-setting developments. Would note that an update on progress made so far in the EU sustainability standards development can be found through the following link.