# CLIMATE-RELATED FINANCIAL REPORTING

## OPERATIONAL FRAMEWORK FOR A CONSTRUCTIVE DIALOGUE BETWEEN INVESTORS AND COMPANIES

***Introduction***

In order to analyse and manage their portfolios, investors and asset management companies need information on the climate strategy of the companies in which they invest. A joint initiative has been set up under the umbrella of the French Business Confederation (MEDEF), the French Insurance Federation (FFA), and the French Asset Management Association (AFG) in order to define a common reporting framework on corporate climate strategy and related indicators.

This framework, applicable on a voluntary basis, is based on the recommendations of the TCFD (Task force on Climate-related Financial Disclosures, initiated by the Financial Stability Board which is made up of central banking authorities of the G20 countries). These recommendations, as they are designed for both investors and companies, are a key tool. However, they are recent and ambitious, which implies a transition phase in order to allow the definition of robust methodologies and their implementation. Therefore, in the short term, the objective is not to apply the recommendations in whole, but to take the essential information in order to set up an operational climate-related reporting framework. The experience gained will make it possible for a second step, on a voluntary basis, to facilitate a more complete implementation of these recommendations.

**The following proposal lays out the climate-related information considered as strategic for the climate-related reporting in the energy and transport sectors.** The prioritization was carried out as part of a series of exchanges between companies and investors based on the recommendations of the TCFD which were prioritized, adapted and grouped together to come up with the present proposal. In the event that some of this information is not publicly available for reasons of confidentiality related to the company's strategy, the organization is invited to explain why it does not disclose it.

*Reporting framework*

## 1. Governance

### a. *Assessment and management of climate-related risks and opportunities*

- Explain the role and responsibilities in the board to evaluate and manage climate-related issues
- For example: which position(s) is(are) responsible for climate-related issues within the company? To whom does(do) he(they) report to at the executive committee or the management committee level?

### b. *Control*

- Indicate whether the board and/or a committee of the board is informed about climate-related issues
- If so, indicate how the board or a committee of the board is informed and at which frequency

### c. *Good practice*

  - *Describe the typology of indicators or the key indicators used to report on climate-related issues to the board or a committee of the board*

## 2. Strategy

### a. *Description of climate-related risks and opportunities*

- Indicate the time horizons that the company considers to be relevant to analyse short, medium and long-term climate-related risks and opportunities

  If they wish to, companies can use the following guidance to determine the relevant time horizons:

  - short-term could correspond to the company's strategic plan or an announced regulatory change, approximately 3 to 5 years;
  - medium-term could correspond to objectives defined by the company beyond the strategic plan or to regulatory or technological changes, announced and planned by third parties;
  - long-term could correspond to a time horizon considered relevant regarding climate, for instance in relation with the 2050 term fixed by the Paris Agreement.

- Present the short, medium and long terms climate-related risks and opportunities that have a significant financial impact[1], as identified by the company. When relevant, these risks and opportunities can be presented by sector and by geographical area.
- *Good practice: if physical risks are significant:*
  - *Indicate if a map of the company's vulnerable sites has been made;*

[1] According to the TCFD final report (page 33), materiality for climate-related issues should be determined consistently with how companies determine the materiality of other information included in their financial filings.

- *Present the macro conclusions of this analysis, for instance the potential impact on economic activity and management measures implemented.*

*NB: Companies are free to choose the order in which they wish to present their climate-related financial reporting: they can first define the relevant time horizons, then present the risks associated to each horizon; on the contrary, they can identify their climate-related risks and deduce from them the relevant time horizons to take into account.*

***b. Impact of climate-related risks and opportunities on the company's activities and strategy***

- Explain the impacts of identified climate-related risks and opportunities on the company's activities and its supply chain.

  *Good practice: to the extent possible, give quantitative orders of magnitude of the financial impacts.*

- Present strategy's evolutions to tackle these risks and opportunities. For instance (non exhaustive) :
  - Adaptation and mitigation activities;
  - Evolution of the products' portfolio;
  - Evolution of the business model;
  - Investment in research and development.

***c. Resilience of the company's strategy with respect to a 2°C scenario***

- Explain how the company's strategy is compatible or not with a 2°C scenario.
- Indicate the reference scenario selected for this analysis.
- *Good practice: specify the principal hypothesis used in the context of the analysis.*

## 3. Risk Management

***a. Identifying and assessing climate-related risks***

- Describe departments and internal actors in charge of climate-related risks identification, tools and frequency of update of this risk analysis.
- Explain how known regulatory requirements related to climate change are taken into account.

***b. Processes for managing climate-related risks***

- Describe processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks (relocation plan, risks covered through insurance, etc.).

***c. Integration into the organization's overall risk management***

*Best practice: explain how the processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.*

## 4. Metrics and targets

- Disclose Key Performance Indicators (KPIs) on a historical period of two to three years. When appropriate, disclose relevant efficiency ratios (e.g.: carbon intensity, $CO_2$e /vehicle/km).

N.B: in case of a new indicator, the historical data will be reported starting with the second year of reporting.

| *Suggested KPI for the energy sector* |
|---|
| - CO2e emissions, scope 1 and 2<br>- Estimated scope 3 emissions for primary fossil fuel producers [2]<br>- Amount and share of turnover and/or EBITDA linked to renewable energy production and low-carbon products and services. In the absence of a European taxonomy, low-carbon products or services must be defined by the company.<br>- Expenditures for low carbon alternatives (e.g., CapEx and R&D investments)<br>- Breakdown of reserves by type and an indication of associated emissions factors to provide insight into potential future emissions Use or not of an internal carbon value and order of magnitude |

| *Suggested KPI for transportation sector* |
|---|
| - $CO_2$e emissions scope 1 et 2<br>- Significant scope 3 emissions<br>- . Average GHG emissions of vehicles produced by the company or used for freight and passengers transport (plane, truck, rail, auto) based on the most relevant ratio for the activity: L/Km, g$CO_2$e /Km, g/$CO_2$e /transported Kg ou g$CO_2$e / passenger.km<br>- Amount and share of turnover linked to low-carbon products and services. In the absence of a European taxonomy, low-carbon products or services must be defined by the company<br>- Expenditures for low carbon alternatives (e.g., CapEx and R&D investments)<br>- For the automotive sector in particular: breakdown of vehicles sold by category (gasoline vehicles, diesel vehicles, battery- and hydrogen-powered electric vehicles, hybrid vehicles, other fuel)<br>- *Best practice: avoided emissions (explaining the methodology)* |

- Disclose specify in a methodological note the method of calculation and the scope of KPIs. In particular, for CO2e emissions, specify the criteria used (eg. GHG Protocol). In the event of a change in the method of calculation, specify it in the methodological notes.
- Explain the link between the KPIs and the strategy and describe the company's targets for climate-related KPIs:
    - explain whether the target is absolute or intensity based,
    - disclose the deadlines to reach the goal,
    - disclose the base year from which progress is measured.

[2] In line with the regulatory requirements in force in France, which apply to all sectors

## *Correlation table between the TCFD recommendations and the climate-related financial reporting framework for investors and companies*

| ***TCFD recommendations*** | ***MEDEF-FFA-AFG operational framework for a constructive dialogue between investors and companies*** |
|---|---|
| **Governance** | |
| a) Describe the board's oversight of climate -related risks and opportunities. | b. Control |
| b) Describe management's role in assessing and managing climate-related risks and opportunities. | a. Assessment and management of climate-related risks and opportunities |
| **Strategy** | |
| a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. | a. Description of climate-related risks and opportunities |
| b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. | b. Impact of climate-related risks and opportunities on the company's activities and strategy |
| c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario | c. Resilience of the company's strategy with respect to a 2°C scenario |
| **Risk Management** | |
| a) Describe the organization's processes for identifying and assessing climate-related risks. | a. Identifying and assessing climate-related risks |
| b) Describe the organization's processes for managing climate-related risks. | b. Processes for managing climate-related risks |
| c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management. | Good practice: Integration into the organization's overall risk management |
| **Metrics and targets** | |
| a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. | Disclose Key Performance Indicators |
| b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. | |
| c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. | Explain the link between the KPIs and the strategy and describe the company's targets for climate-related key performance indicators |