ESG and Sustainable Finance Workshop

CBI – Julia Jasinska, BVRLA – Eleanor Bruce

Competition Law: Do's and Don'ts

All BVRLA meetings and calls are subject to the application of competition law and therefore must be conducted in compliance with competition law. Attendees are reminded that failure to comply with competition law may bring with it serious consequences for them as individuals and their companies. Such consequences include heavy fines and, in certain cases, the imposition of criminal penalties and sentences.

Members must refrain from exchanging any commercially sensitive or strategic information between competitors, either directly or indirectly via a third party, can result in an anti-competitive agreement. BVRLA has developed the following guidelines to help you adhere with the competition rules. If you have any doubt, then you should seek advice – BVRLA senior staff are at hand should you have any questions.

DO NOT

- Discuss individual company prices, price changes, terms of sale and profit margins.
- Discuss information as to future plans of individual companies, production, distribution or marketing plans, including proposed new territories or customers.
- Discuss matters relating to individual suppliers or customers or any commercially sensitive information.

BE WARY

YOU MUST SEEK ADVICE IF:

You receive information from another competitor, or are asked to provide information, that you believe is confidential or commercially sensitive.

ALWAYS:

- Ensure a detailed agenda has been circulated in advance and is followed closely and minutes of the meeting are recorded and kept.
- Begin the meeting with the reminder that the attendees should not discuss commercially sensitive information under any circumstances.
- Be prepared to halt a meeting if conversations cross into potentially unlawful territory.

NO PROBLEM

- Discussion on any matter relating to the aims and objectives of the committee – for example issues of law and policy affecting the industry.
- Discussing BVRLA policies, lobbying tactics & strategies, and other BVRLA activities.
- Discussing information about industry activities obtained from third parties or other media sources provided the availability of the information has not been arranged with a competitor.
- Discussion with other trade bodies or organisations which will be of general benefit to the industry.

Motivation

- ESG vast topic area
- Gaining momentum, especially due to COP26

Guest

- CBI member of the Green Technical Advisory Group (GTAG)
- Macroeconomic outlook

Aims

- To make members aware of trends and their implications
- To scope out what support you need from us

Request

- Please be engaged!

ESG and Sustainable Finance

Confederation of British Industry, 1st September 2021

Julia Jasinska – Senior Policy Adviser, Sustainable Finance
Julia.Jasinska@cbi.org.uk

AGENDA

09:05	**What is ESG and sustainable finance?**
09:10	**Relevant policy-making agenda**
09:20	**Climate-related financial disclosures (TCFD)**
09:35	**Taxonomy**
09:45	**Why does this all matter for you and what steps can you take**
10:00	**Q&A**

WHAT IS ESG AND SUSTAINABLE FINANCE?

Environmental

Might include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy.

Social

Could refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues.

Governance

The governance of public and private institutions – including management structures, employee relations and executive remuneration – plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.

Sustainable finance: the process of **taking ESG considerations into account** when making **investment decisions**, leading to more long-term investments in sustainable economic activities and projects.

Source: European Commission

Without making sure that public and private investments are sustainable, it will be impossible to reach national net zero targets. This is why sustainable finance, and particularly "green" finance, is at the top of the national and international policy agenda.

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RELEVANT POLICY-MAKING AGENDA

Mandatory Climate-related Financial Disclosures

What is it: reporting on financial risks posed by climate change under the four pillars: corporate governance, strategy, risk management, metrics and targets. It is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Timeline: Legislation for TCFD-aligned disclosures will be phased in across different sectors of the economy. Mandatory for premium listed companies and banks and insurance companies by the end of 2021, wider companies such as PIEs by April 2022, companies which provide FCA-regulated pensions by 2023 and all large companies by **2025.**

UK Green Taxonomy

What is it: classification framework for sustainable economic activities. Can be used as a "dictionary" for investments that can be considered as "green". The UK framework will be based on the EU Taxonomy.

Timeline: Full timeline of implementation is unknown, but in **October** the government will publish a roadmap for implementation. The first set of technical criteria for economic activities contributing to climate change mitigation and adaptation is expected to be proposed by the end of 2022 at the latest.

Sustainability Disclosures Requirements

What is it: an extended framework for sustainability disclosures announced by the Chancellor in July. It will likely integrate TCFD reporting and will require businesses to disclose their risks and opportunities from, and impact on, the climate and the environment. SDR will help with the implementation of other frameworks, e.g. a sustainable investment label for retail investments.

Timeline: Unknown but more information is expected in **October.**

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TCFD: CLIMATE-RELATED FINANCIAL DISCLOSURES

What is TCFD?

The Task Force on Climate-Related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board. The Task Force developed recommendations ('TCFD framework') for more effective climate-related disclosures that could promote informed investment, credit, and insurance underwriting decisions. More than 2000 organisations are public supporters of TCFD, with several jurisdictions – **including the UK** - now adopting the TCFD's recommendations in their legal and regulatory frameworks.

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: *Final Report – Recommendations of the Task Force on Climate-Related Financial Disclosures (June 2017)*

But it isn't….

A **corporate reporting standard.**

TCFD is **just a framework** which allows for relatively a lot of flexibility when it comes to metrics and sustainability standards.

Many businesses and the UK government are advocating for a **common international reporting standard** that builds on TCFD. The work will be undertaken by the IFRS Foundation and will be kicked off by announcements at COP26.

The establishment of an **International Sustainability Standards Board** is expected. The ISSB's proposal is supposed to be complementary with national frameworks. For now, it is not clear how it will work in practice but the goal is to reduce market fragmentation and regulatory burdens for international entities.

TCFD: FINANCIAL MATERIALITY OF CLIMATE CHANGE

RISKS

All industries face common climate-related challenges, which can impact the bottom line. This includes:

1. **Physical risks:** risks related to the physical impacts of climate change, including physical risks in **operations and logistics**
2. **Transition risks:** risks related to disorderly transition to a low carbon economy, including **policy risks, market risks, reputation risks and technology risks.**

OPPORTUNITIES

Companies embracing change will thrive. From a financial perspective, they can benefit from:

1. New **products and services**
2. New **markets**
3. Resource and energy **efficiency**
4. Business **resilience**

Climate is not the only environmental risk. In 2021, a **Task Force on Nature-related Financial Disclosures** (TNFD) kicked off its work. With time, we can expect disclosures on biodiversity-related risks.

TAXONOMY: GREEN CLASSIFICATION FRAMEWORK

How does it work?

- The EU Taxonomy established **six environmental objectives** that can be considered as a 'foundation' for economic activities that classify as sustainable. These are:
  1. Climate change mitigation *(delegated act already published)*
  2. Climate change adaptation *(delegated act already published)*
  3. Sustainable use and protection of water and marine resources *(TBD by the end of 2021)*
  4. Transition to a circular economy *(TBD by the end of 2021)*
  5. Pollution prevention and control *(TBD by the end of 2021)*
  6. Protection of healthy ecosystem *(TBD by the end of 2021)*
- Economic activities considered as 'green' need **to fulfil at least one of those six objectives** and **do no significant harm to the rest** (this is known as the **'Do No Significant Harm' principle**).
- Besides those requirements, Taxonomy-aligned activities will also need to comply with **'minimum safeguards'**, focused primarily on social standards. This includes OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, as well as core international human rights treaties and International Labour Organisation instruments referred to in the OECD Guidelines and the UN Guiding Principles.

EU framework enshrined in UK law

What are Technical Screening Criteria (TSC)?

- TSCs are **specific performance thresholds** outlining under what conditions different economic activities can be considered as 'sustainable' according to the EU taxonomy. They describe in detail how a specific economic activity fulfils at least one of the six objectives, how the DNSH principle is maintained, and how minimum safeguards are maintained.
- The TSCs are defined **for each environmental objective** of the taxonomy and are outlined in so-called 'Delegated Acts' (EU secondary legislation). They will be **regularly revised and changed**, to reflect changes in different industries.

TSC not enshrined in UK law

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TAXONOMY: HOW CAN IT BE USED?

Confirmed/Expected:

- **Disclosures** – e.g. in corporate disclosures, taxonomy can reflect the nature of CapEx, OpEx and turnover spending. Taxonomy is likely to be introduced in the integrated Sustainability Disclosures Requirements.
- **Green bonds -** UK's Green Financing Framework for sovereign bonds, voluntary EU Green Bond Standard for the industry and governments
- **Retail investment labels -** UK's sustainable investment label, EU Ecolabel for financial products

Possible:

- **Enabling government spending -** can non-taxonomy aligned activities be covered by state aid or UKIB's investments?
- **Screening of UK policy -** should the UK endorse sectoral strategies, which rely on non-taxonomy aligned activities?

HOW DOES IT ALL MATTER TO YOU?

Financing challenge: The access and cost of finance will increasingly be impacted by your ESG performance. How to get the money to transition your business to a more sustainable model?

Regulatory challenge: The risk of extensive, complex regulations. Global divergence in sustainability standards, as well as, operational and disclosure requirements put pressure on your business.

Organisational challenge: As ESG considerations are becoming an issue for corporate boards - not only PR experts – there is a question how to integrate them into your company strategy and operations.

Reputational challenge: How do you make sure that you don't harm your company's image with poor ESG policies?

The "bottom line" challenge: How do you make sure that your business continues to be profitable, attracts investments and business partners at the time when ESG considerations can impact company's value?

Business opportunities: Attracting investors to fund your transition, regulations making it cheaper to operate if you are a sustainable business, the possibility of developing new sustainability-related products.

What if you're an SME? Even if you are an SME not covered by formal reporting requirements, you are likely to be impacted by these changes by being part of supply chains. Find out more here.

WHAT CAN YOU DO ABOUT IT?

1. Investigate whether you have any **existing corporate ESG frameworks and assess their quality and usability.**

2. Start **asking general questions** to better understand your climate risk exposure:
   - What type of physical and transition risks is my business exposed too?
   - What is the biggest source of my emissions?
   - What are my stakeholders' expectations in terms of climate performance?
   - How can my company operations be impacted by upcoming regulations?
   - How can my services/products be impacted by carbon policies and targets?
   - What opportunities are there for me and what competitive advantages do I have?

3. Familiarise yourself with **TCFD reporting guidelines** and try implementing them in your annual reports in advance.

4. Start **obtaining key data points, particularly on climate change and the environment**: energy consumption, CO2 production, water consumption and waste production.

5. Familiarise yourself with the **EU Taxonomy**. Have a look at technical screening criteria for economic activities contributing to climate change mitigation and climate change adaptation. Identify which economic activities are part of your business and what is your performance in these areas.

6. Whether you are a large business or an SME, consider signing up to a Race to Zero campaign and **commit to achieve climate neutrality by 2050.** More info here.

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Q&A