



Net Climate Liability non-financial Reporting Standard

January 2022

LES ATELIERS DU FUTUR

Agenda

- 1 Who we are
- 2 NCL reporting objectives
- 3 NCL reporting components
- 4 NCL reporting governance and control
- 5 Conclusion and next steps



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LES ATELIERS DU FUTUR: An NGO that **acts** to **prevent Climate change**

- Our **Mission**: To contribute to the **prevention of Climate change**
- Our **holistic approach** is based on a high level research around **three key pillars**:
 - **Climate change modelling**,
 - **New technologies** that will decarbonize our economy,
 - **Economic and financial trajectories** in compliance with COP21 objectives.
- **Who we are**: A dynamic group of volunteer senior executives, with expertise ranging from new technologies to climate and economic modelling, led by Thierry Langrenay, a former CEO of French leading insurance companies.
- Our **Strategy**:
 - **Raising awareness** - policy makers and governing bodies (public or private)
 - **Training** future generations through Universities/Schools (Environmental Science)
 - **Challenging** corporate strategies and public policies with a constructive, optimistic yet ambitious mindset.

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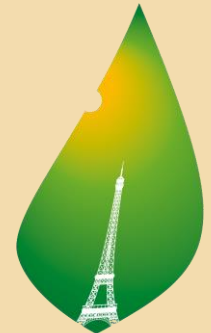
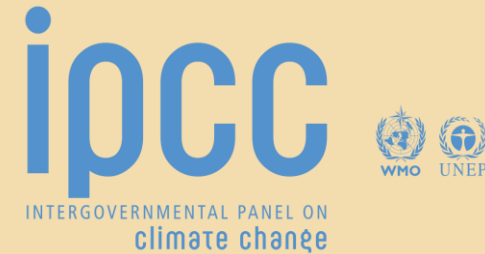
Climate emergency requires mobilization of companies and public authorities

In order to preserve the future climate, 183 Nations ratified the Paris Agreement to limit global warming to less than 2°C by 2050.

Both the mobilization of Nations and Corporations, as well as the development of new technologies are critical to fulfill this collective commitment.

Some corporations are ahead of these objectives. However, the general dynamic is hampered by at least 2 challenges within a context of interconnection of our economy:

1. **Opacity of the present and the future** : Often, corporations lack data from their suppliers and customers about their current and future GHG emissions situation. Insufficient adequate data impacts their own forward-looking work.
2. **Data reliability**: when emissions objectives or trajectories are disclosed, they are not always supported by action plans and costs to be accurately assessed.



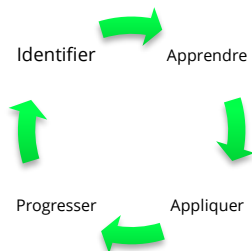
Meeting our collective emission trajectory requires non-financial forward-looking disclosure and thus creating a simplified, climate focused reporting that can be universally adopted

LES ATELIERS DU FUTUR believes an **open dialog amongst stakeholders is essential to create transparency, reliability** and secure our collective emission trajectory.

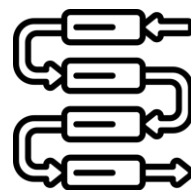
The Net Climate Liability standard will create a non-financial reporting framework to secure a collective trajectory towards carbon neutrality. This will be achieved by standardizing key indicators. These recommendations are meant to contribute to the CSRD directive at EU level.

A two-fold objective:

➤ **Provide inputs to corporations whose trajectory relies on their supply chain and sometimes clients.**



➤ **Promote a performance dialog through constructive challenge of roadmaps with stakeholders: Clients, shareholders, employees, regulators, NGO...etc.**



Key success factors:

- **Wide adoption**
- **Adequate data**
- **Minimum implementation costs**

The 4 key features of this non-financial reporting standard proposal:

Forward-looking roadmap until 2050, with annual projections until 2030, then five-year milestones.



Focus on **climate impact and consistency of action plans**, in a post Paris COP21 agreement environment, namely a single scenario towards of +1,5°C temperature rise in 2100

Reporting of 5 **qualitative and quantitative components**, key to this forward-looking vision



Mandatory disclosure with annual accounts.

A complementary approach to existing or emerging standards and recommendations.



This initiative led by 4 global NGOs provides a best-in-class scientific framework to assess and validate decarbonisation roadmaps submitted par groups on a voluntary basis. Two key components of the NCL reporting framework originate from these forward-looking deliverables.



This task force recommendations mainly focus on company risks: physical and transition risks deriving from climate change to which corporations – and therefore their shareholders and creditors - are exposed. These recommendations mostly target climate change impact on corporations, while the NCL reporting mainly focuses on the corporations' impact on climate.

- **CSRD preparatory work:** On 21/04/2021, the EU Commission proposed a new Corporate Social Responsibility Directive aiming at enhancing non-financial reporting. EFRAG has undertaken preparatory work since 06/2020 and issued in 04/2021 a roadmap for possible future EU sustainability reporting standards. As such, EFRAG will need to segregate its work on financial and non-financial reporting.
- Les Ateliers du Futur believes that the **climate emergency requires companies to be aligned with simplified non-financial reporting and focus on carbon trajectories**. While other sustainability topics (social and HR, human rights, anticorruption, diversity within governance bodies) highlighted by the CSRD project task force are of importance, **climate emergency requires companies to allocate scarce resources primarily to this challenge in the very short term**.

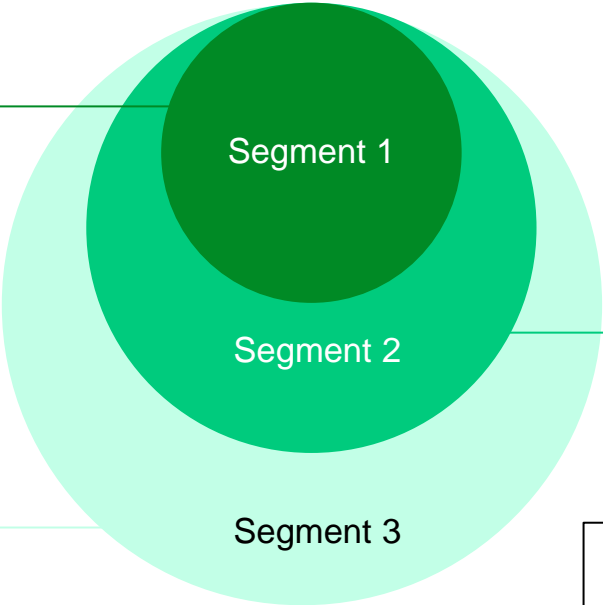
Recommended scope of emissions and timeframe

Whether or not it commits to a carbon neutrality program, each company must clarify its prospective trajectory of greenhouse gas emissions over a horizon consistent with the Paris agreement, namely 2050, by integrating the forward-looking inputs from of its supply chain.

GHG emissions segmentation:

Main area targeted by NCL standard

Direct operations including subsidiaries, with emissions resulting from supply chain and subcontractors: Scope 1, 2 and 3 upstream. Scope 3 upstream not mandatory when representing less than 20% of (scopes 1+2+3 upstream).



Financial assets and minority ownership *
(further proposals to follow)

Clients (Scope 3 downstream)*

*while comprehensive information is not required, action plans aiming at reducing emissions from this scope should nevertheless be part of the reporting

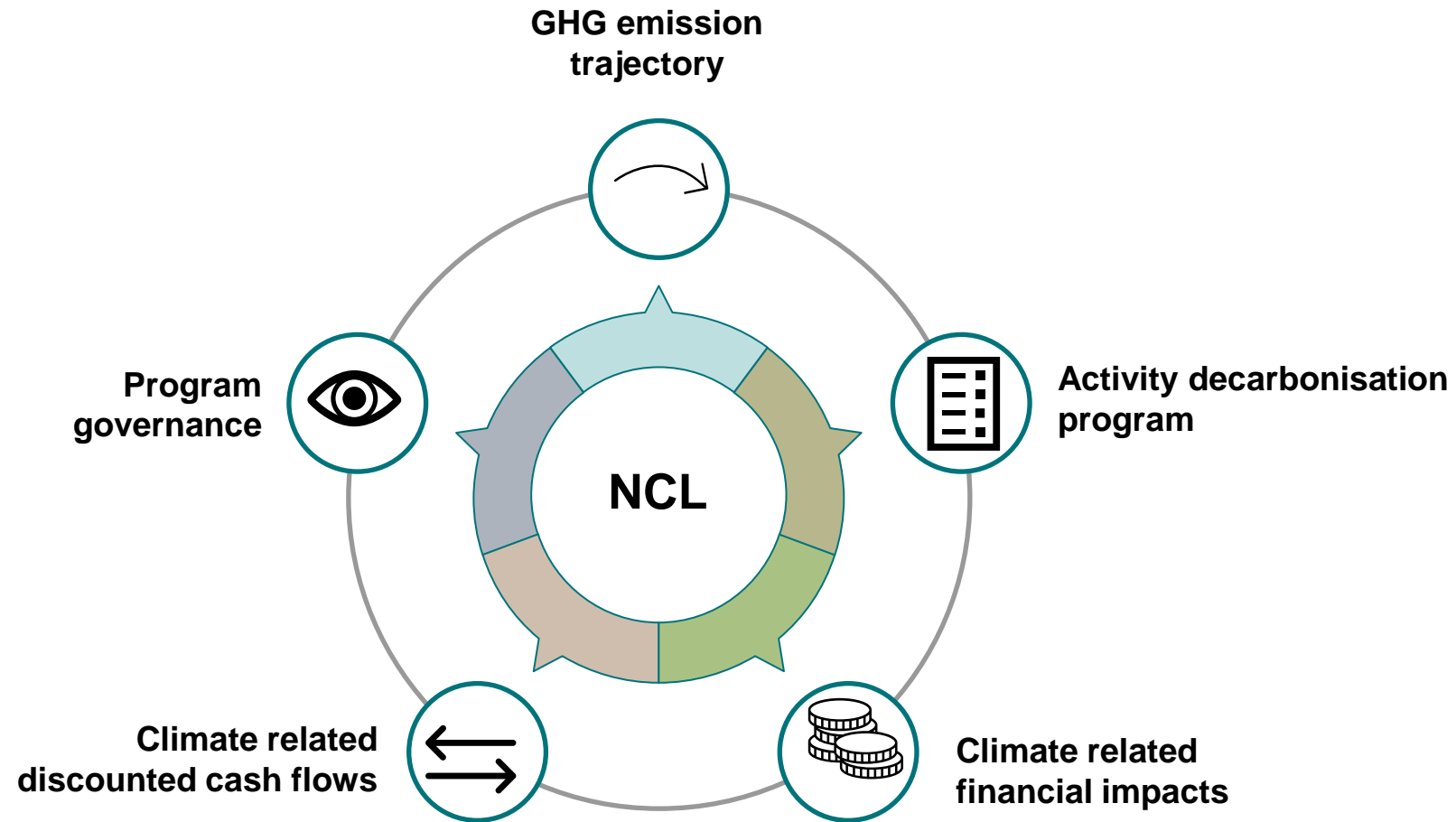
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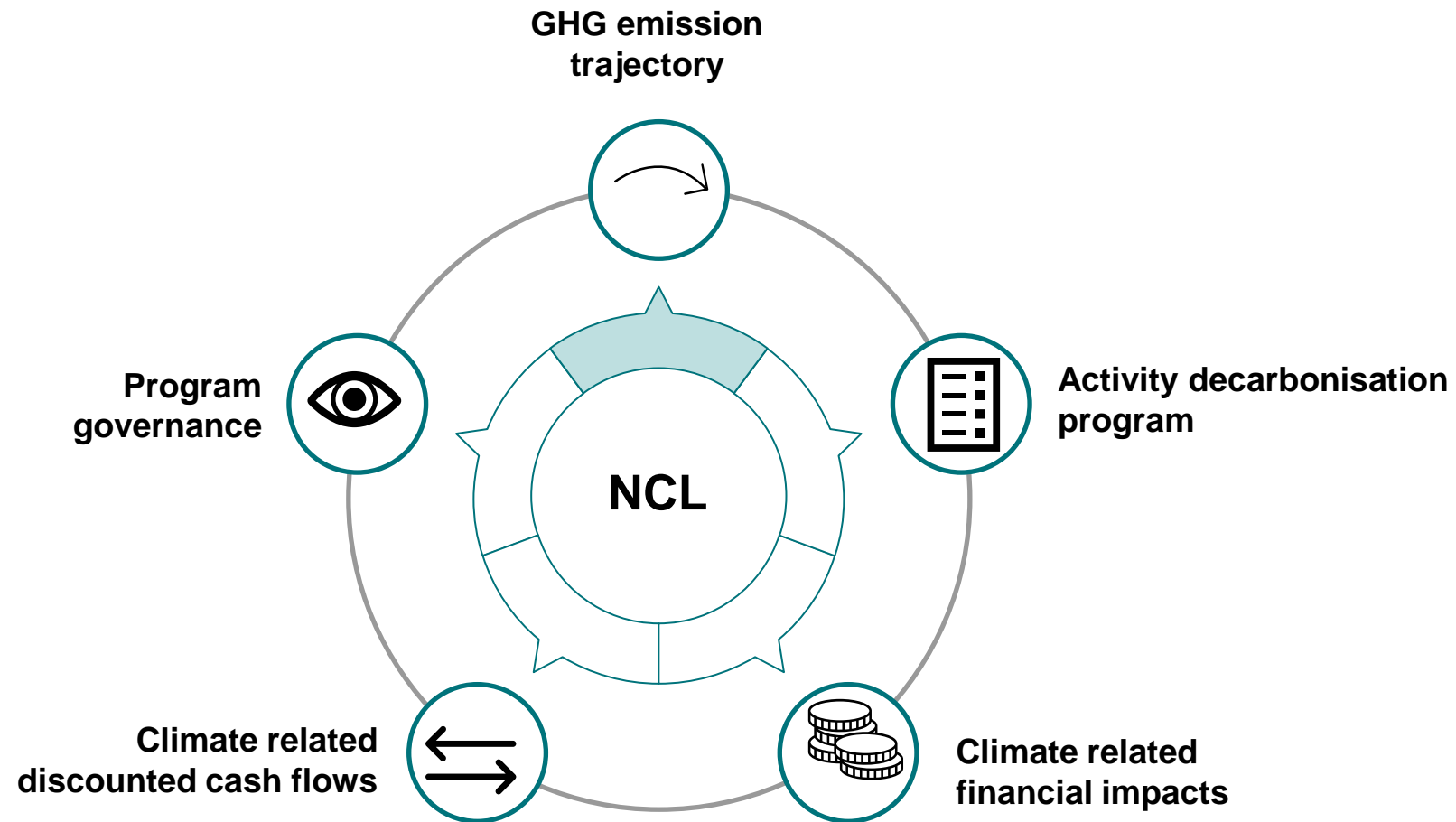


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The NCL reporting is based on five deliverables to make the company's trajectory transparent and to qualify its degree of reliability



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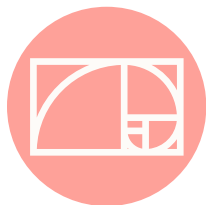
GHG emission trajectory

Whether a corporation commits or not to a Net Zero target for 2050, the first component of NCL reporting is a **best estimated GHG emission trajectory**, in **CO2eq**, validated by the highest governance bodies.

This disclosure should include:

- **Defined emissions scope (1,2 et scope 3 upstream if relevant)**
- **The starting point, levels of emissions in absolute terms targeted each year until 2030 then five-year milestones until 2050,**
- **The planned removal and/or offsetting initiatives if any.**

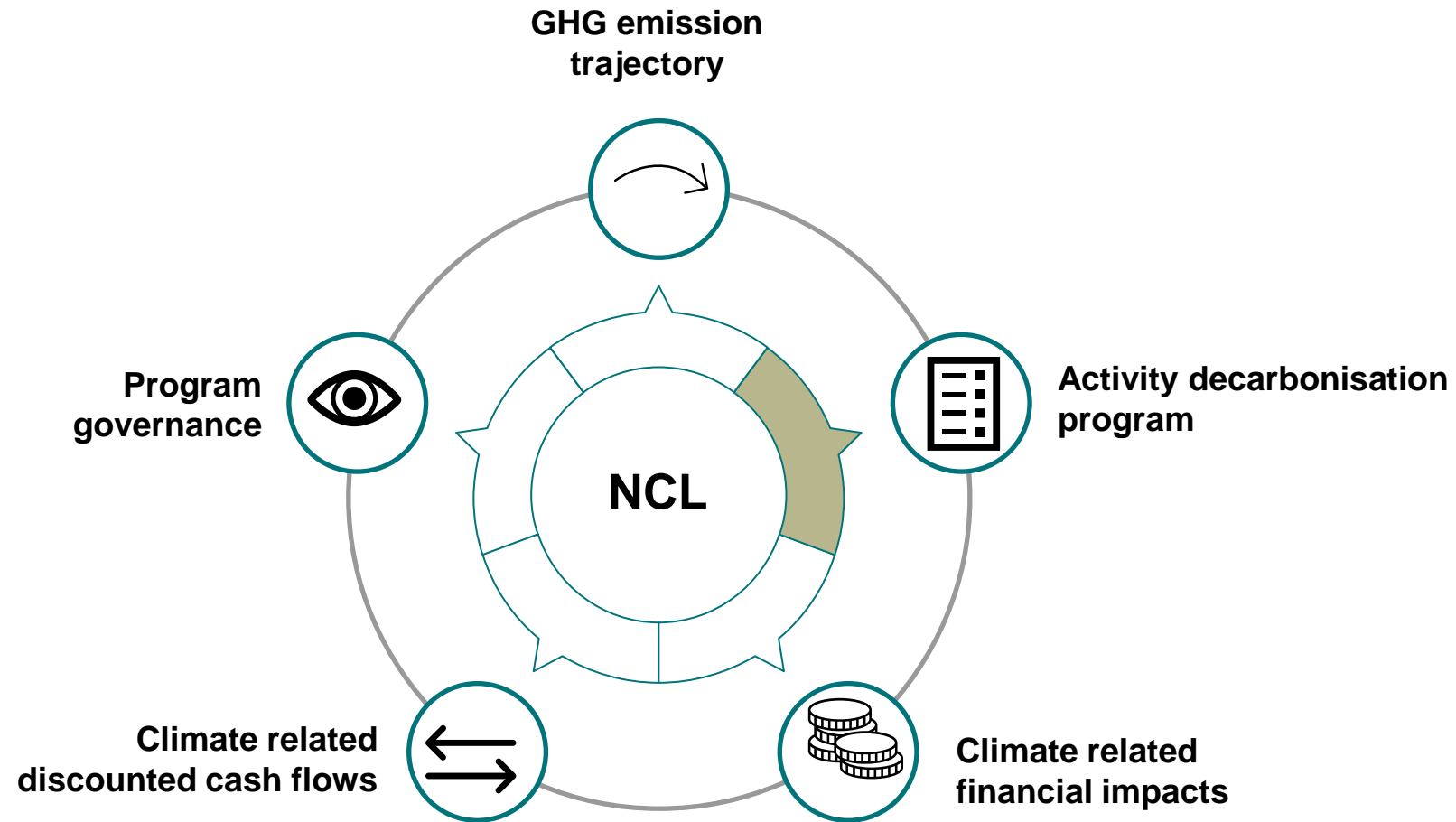
In the best-case scenario, this trajectory will comply with the SBTi standard.



As a side product of this disclosure, each company will communicate the carbon intensity of its products or services through the ratio of emissions/turnover. This KPI should be available to all clients in order to feed their own planned emission trajectory regarding scope 3 upstream.



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Activity decarbonisation program

The second component of NCL reporting will be the **disclosure of the decarbonisation program the company selected**, with the highest transparency while protecting its competitive positioning – in compliance with auditors' guidelines.

This program will typically include action plans supporting the emission trajectory:

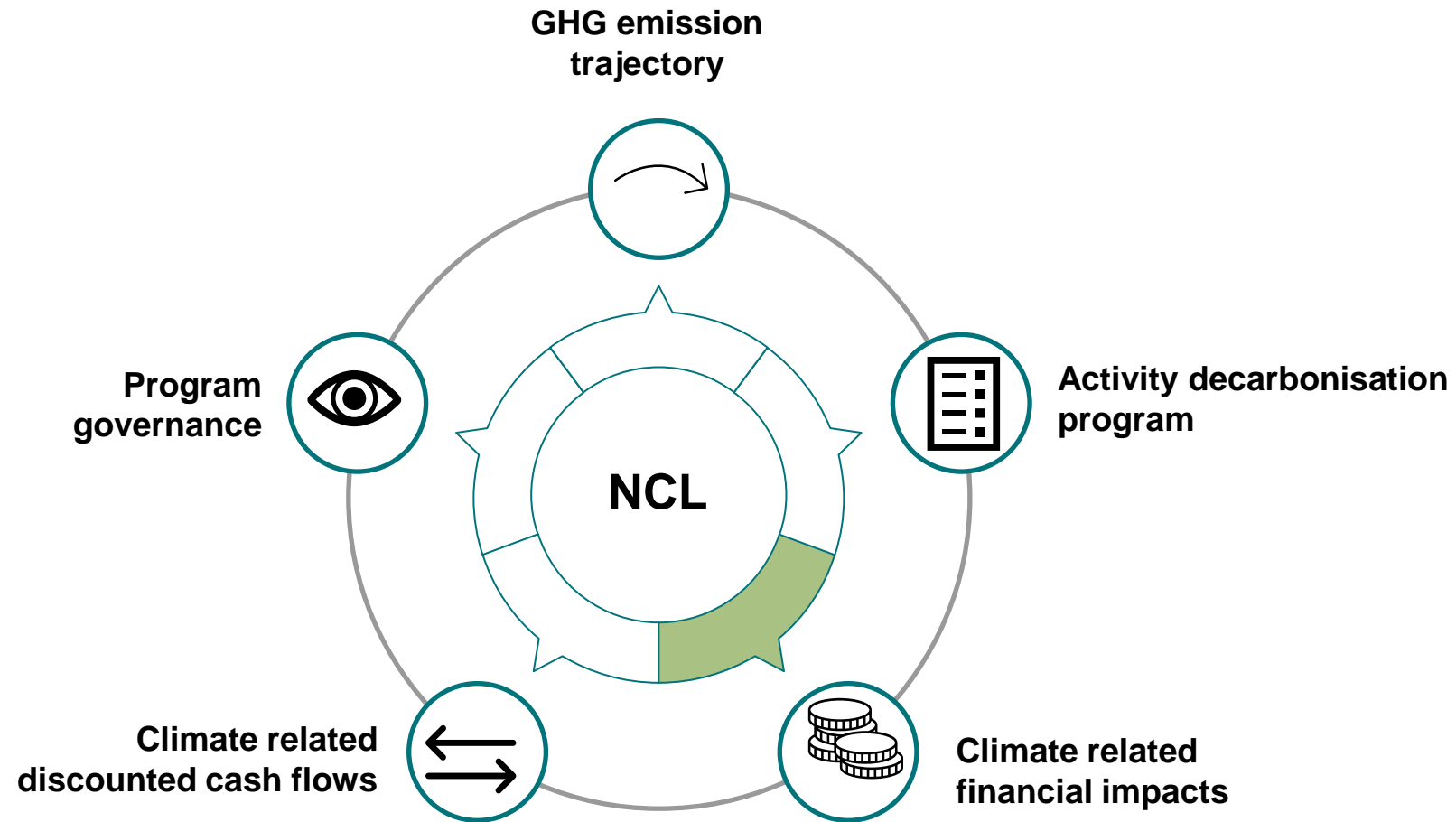
Spanning across all activities (non exhaustive):

- Energy transition plan including consumption reduction and renewable sources,
- Energy efficiency of operating buildings.

Specifically for each line of business (non exhaustive) :

- Portfolio management: Corporate portfolio management,
- Product mix: Development, obsolescence, offering and pricing evolution,
- Design and manufacturing: investments, production relocation, process optimization, internalization, outsourcing,
- Outsourcing management policies,
- Distribution : geographies, channels

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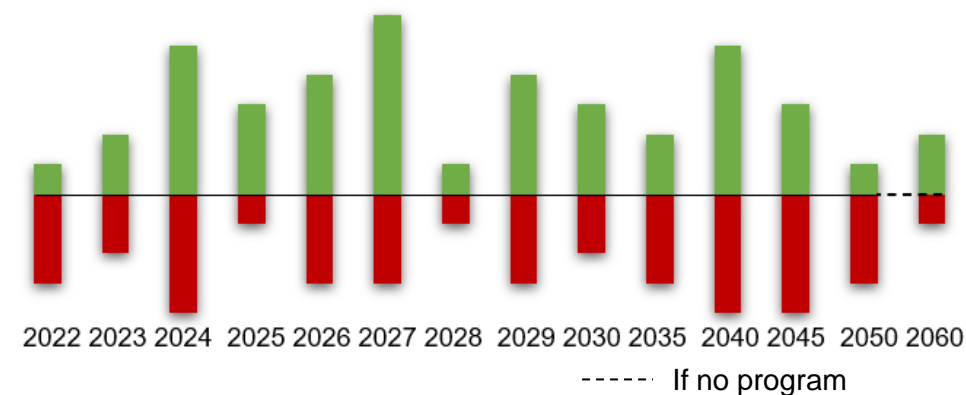
Climate related financial impacts

The third component of this NCR reporting is a **forecast of the financial impacts of this emission trajectory including decarbonisation program** if any.

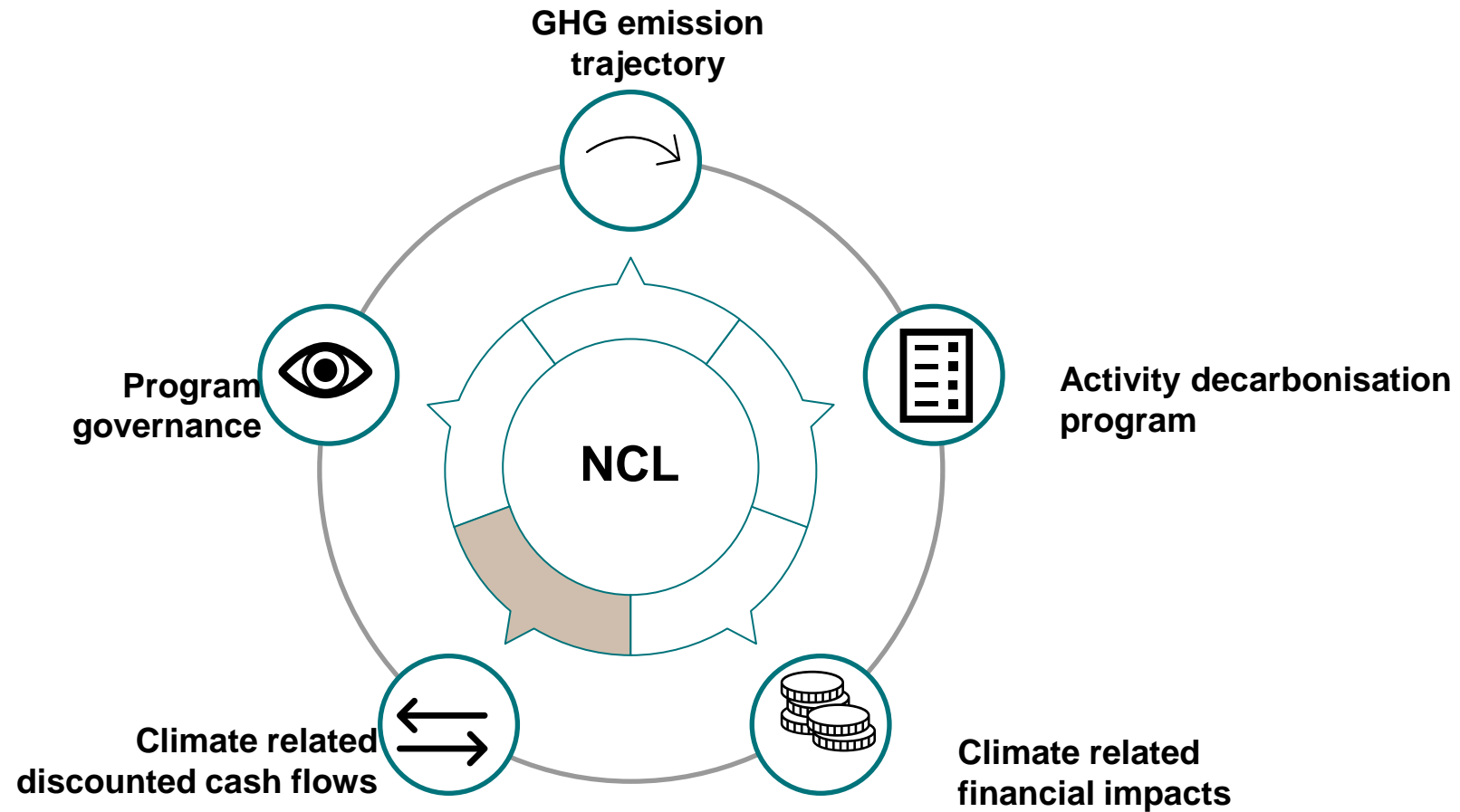
Should the company's net zero trajectory be supported by a decarbonisation program, the reporting timeframe will be 2050, otherwise it will be 2060.

This financial forecast will notably include :

- The decarbonisation program's **impact on CAPEX and OPEX**,
- **Any additional expenses or revenues from taxes and carbon credits.** The estimate of future carbon credits is to be based on spot and future values of representative instruments when available.
- **Other impacts on revenues:** Corporate or product portfolio management. Pricing increases needed to partly offset decarbonisation CAPEX and OPEX should be assessed with impacts on volumes, based on demand elasticity, with a special review by auditors.
- **Impact on margins:** Pursuant to management planned pricing actions.
- **Costs of Carbon removal/offsetting initiatives over the forecast period**



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Discounted cash flows

Based on this multiyear climate forecast, the company will discount all net cash flows for the period between its last closed exercise and the time horizon as defined above.

These discounted cash flows called Net Climate Liability will represent the fourth component of NCL reporting standard.

The value of this KPI is two-fold :

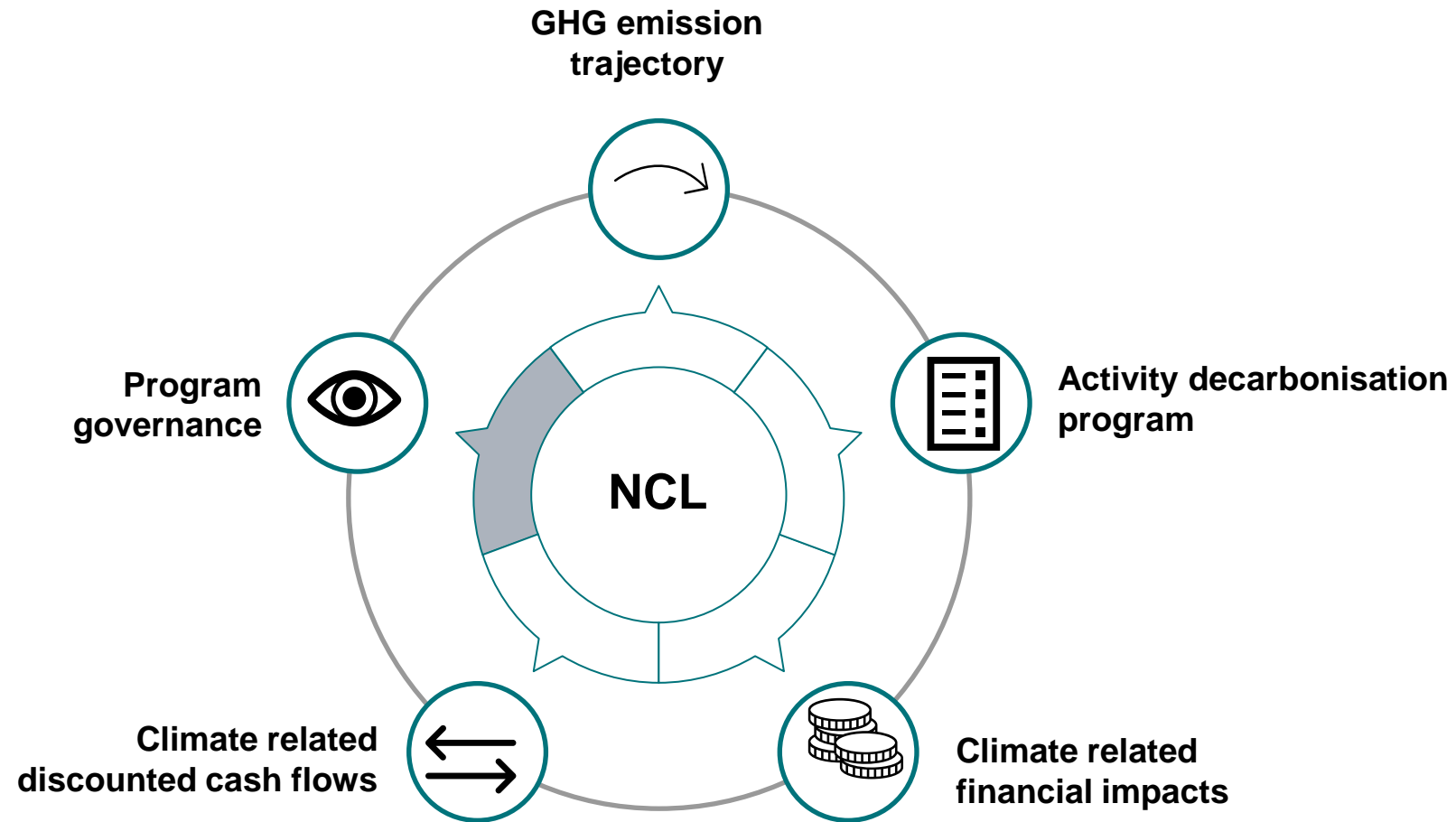
- **Internally**, to provide the company and its top management a financial estimate of its decarbonisation program, macro elements and associated financial risks,
- **Externally**, to facilitate a dialogue on performance with stakeholders including risk factors, the credibility of the overall emission trajectory and company's resource allocation:
 - **In case of low or negative NCL**, the financial feasibility of the decarbonation program will support its credibility
 - **A significant NCL** means that cash flows generated by other businesses within the group will be required to fund this program. This could require in depth analysis.
 - **In the absence of decarbonisation program**, NCL will provide a first estimate of such strategy impact on the corporate valuation.



Interest rates used for this discounting will follow the **swap rate curve** as determined at **European level**.



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Program governance

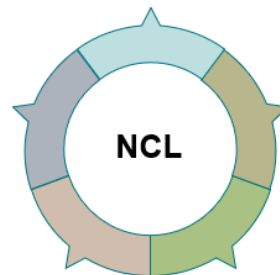
A specific program governance framework should be implemented to secure the success of such strategic initiative:

- **Design and validation by governance bodies,**
- **Action plan management,**
- **Regular follow up of actions, impacts and momentum,**
- **Action to mitigate gaps.**

Mobilizing employees is a key success factor of such strategic initiative. This can be part of this governance mission.

Another key success factor is creating visibility and support at the highest level of the organization. Therefore, such program governance should report to the top executive management if possible.

A description of the specific governance framework will be the fifth component of the NCL reporting.



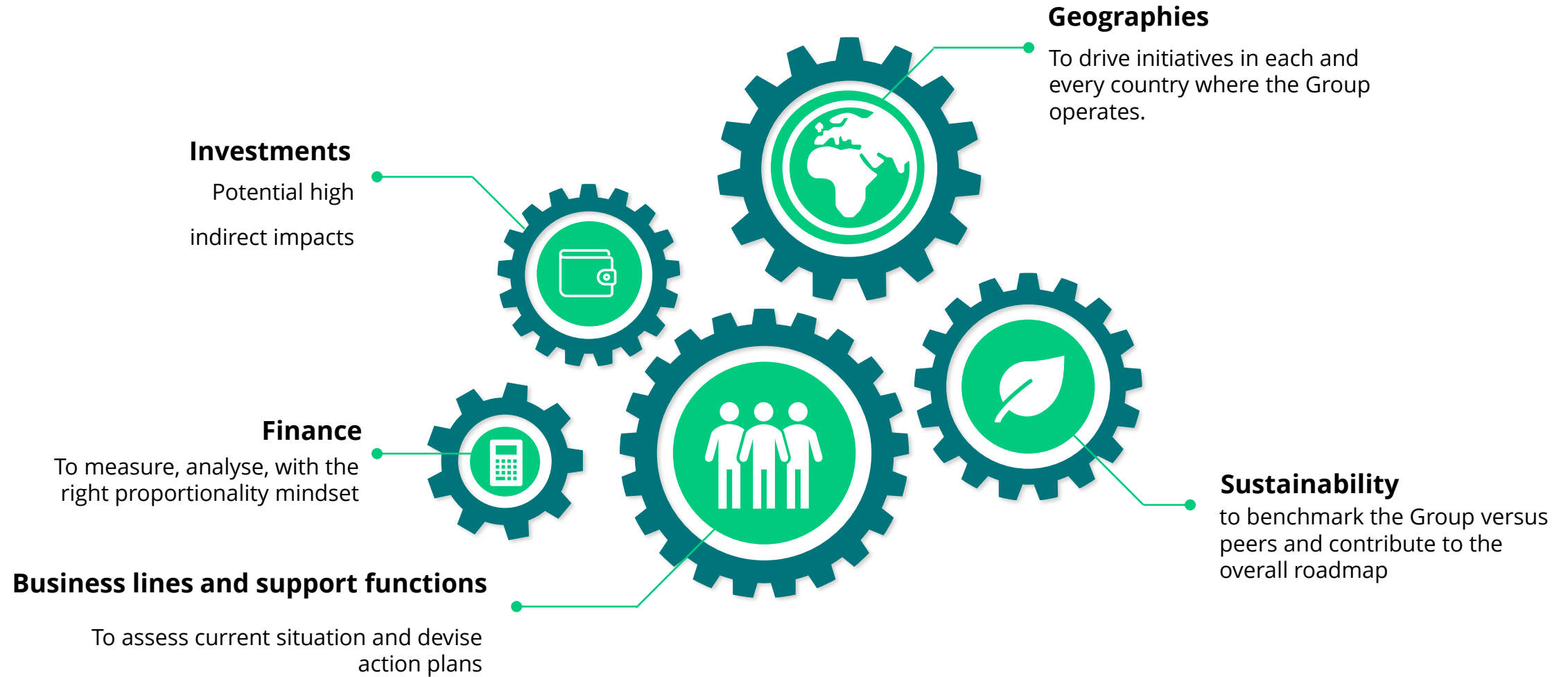
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Given the wide span across the organisation, this non-financial reporting will involve many departments



The appropriate and sincere nature that conditions the effectiveness of the decarbonisation plan must be pragmatically attested and communicated

General techniques

Notably linked to decarbonisation of mobility, transport of goods, buildings, IT: an overview of the technical frameworks the company based its plans on will be required.

Techniques specific to the company's industry

For manufacturing or when specific industry techniques will be used by the corporation, with material impact, an external review will be required. Such specific review should be performed by experts.

NCL reporting control and approval

- As for any major disclosure, this NCL reporting **should be approved by the Company's Board of Directors.**
- Consolidated financial plans and discounted cash flows should be partly reviewed by auditors.
- All external opinions should be part of NCL reporting disclosure, **with the Company's annual accounts.**
- Companies carbon emissions should be aggregated by a dedicated institution and accessible through a Single Access Point to be defined at European level.

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LES ATELIERS DU FUTUR welcomes constructive comments to improve this non-financial reporting standard proposal.

We welcome feedback from

- Industry Associations representatives,
- Auditors, quality insurance experts,
- Public authorities' representatives

As well as from the EU Commission and EFRAG.

It is important to notice that this proposed non-financial reporting standard is highly consistent with 2 key initiatives:



SBTI approach which allows to scientifically build the two first components of NCL, namely emission trajectory and decarbonisation program,



TCFD recommendations that groups can follow to increase transparency with shareholders on their climate risks in various scenarios as the NCL indicator can feed this risk based dialogue.

The necessary generalisation of this climate focused reporting requirement at the European and global scale

An effective deployment would require a pragmatic scaling up approach. Assuming that for most industry sectors, the volume of emissions is proportional to the size of companies, LES ATELIERS DU FUTUR recommends the following:



This requires political agreements at adequate levels.

The Climate emergency in which we find ourselves and the risk to deviate from the targeted global GHG trajectory require this effort from all corporations and public authorities, responsible towards future generations.





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INDEPENDANT NGO
THAT ACTS FOR THE PREVENTION
OF CLIMATE CHANGE

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