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The Members  
Technical Expert Group on Sustainable Finance  
DG FISMA  
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Dear Members

*Sustainable Finance TEG: Draft Report on Climate-related Disclosures*

On behalf of XBRL International, I am writing to provide our comments about the report on climate-related disclosures published by the Commission on 10 January. We support these efforts, aimed at streamlining climate-related disclosures. Comparable and usable disclosures are a vital ingredient for responsible investments in light of climate related risks. The report could be strengthened and policy objectives better achieved by considering the need to ensure that climate-related disclosures are digital, comparable, discoverable and accessible.

We provide a number of comments for the TEG to consider as it develops its plans in this area. We suggest that the TEG recommend:

- that the EC extend the ESEF framework to cover certain disclosures.
- that the EC encourage or support the creation of an XBRL-based taxonomy that reflects the recommended disclosures set out in the TEG's final report, in order to facilitate digital reporting.
- That the EC work with ESMA, NCAs and OAMs to ensure that there is a highly effective mechanism in place to facilitate digital discovery and access to the resulting digital reports for all stakeholders.
- That the TEG might work with the EFRAG Lab on developing exemplar reports in structured form in such a way as to encourage consistent and high-quality reporting, linked to company actions and decisions on climate change through time.

## **XBRL International**

XBRL International is the global standards development organisation that has developed, maintains and improves the XBRL specifications. Our purpose is to enhance transparency and accountability in business performance by providing global data exchange standards for business reporting. We are a not-for-profit that works in the public interest, supported by more than 600 organisational members worldwide from both the public and private sectors. Our specifications are freely available and are an important part of the fabric of reporting in more than 70 countries around the world, in use by well over 130 regulators, and used by in excess of 10 million private and public companies globally.

Owing to the relatively tight timelines associated with this consultation, this document has been prepared by XBRL International staff, with support from several members of our Best Practices Board. Please note, therefore, that the views expressed in this document may not accurately reflect the views of all of our members, the XBRL International Board of Directors, nor our independent standards making and guidance bodies.

## **Comparable, Digital, Discoverable and Accessible**

### *Make the data comparable*

In our work with regulators, regulated firms, reporting and accounting software vendors, the accounting profession and a variety of user organisations, we observe, in relation to Non-Financial Reporting, that the large number of reporting frameworks applied in this field make comparability a key challenge.

As a result, today, a significant proportion of investors with a sustainability or impact mandate are unable to draw meaningful and comparable data from corporate disclosures. They therefore seek to overcome this lack of comparability by purchasing third-party data provider assessments of the ESG credentials, risks and opportunities presented by different issuers and sectors.

This information, in turn, is sought from companies by individual data providers. Each data provider seeks an ESG survey or similar, *rather than relying on company disclosures*. As there are a significant number of surveys that each company completes, and since the collated results of each survey are typically held confidentially:

- a) it is perfectly sensible to question the veracity, consistency and utility of the survey responses; and
- b) the respondent burden that this imposes on issuers is significant.

The work of the TEG in this field, to propose a consistent and comparable set of climate related disclosures, based on the TCFD's recommendations, is an important step towards resolving both issues and will help enhance the utility of company disclosures in this field, reducing the need for (or perhaps eventually replacing) existing surveys.

However, we suggest that the TEG needs to consider how best to ensure that this data is not just comparable, but digital, discoverable and accessible.

#### *Make the data digital – Part 1: ESEF*

The financial reporting landscape in the EU is moving to digital reporting with the European Commission [endorsing the technical standards](#) requiring all IFRS issuers in regulated markets to prepare their annual financial reports in the European Single Electronic Format (ESEF) from 1 January 2020. In our view, the TEG should recommend that in due course, the Commission expand ESEF to cover structured digital reporting for climate-related disclosures. This will enable investors and a range of other stakeholders to access comparable digital financial and non-financial information across Europe and to improve the cohesiveness of disclosure, increase transparency in the capital markets and reduce costs.

In practice, this would mean that reports would be both human and machine-readable and could be consumed by existing data provider processes, existing and future (AI ready) data provider and investor processes, and by a wide range of other stakeholders.

In order to minimise burden in this area, the TEG could:

- (a) recommend that for ESEF adoption purposes only those metrics contained in its report that fall into the “should” category of disclosure, or potentially those metrics in the “should” and “should consider” categories must be tagged in Inline XBRL format; and
- (b) recommend that climate disclosure using ESEF only come into effect once the initial ESEF disclosures are in a steady state.

What that would mean in practice is that those disclosed metrics that fall into the selected categories would be human and machine readable, while the remainder would be just human readable. The machine-readable metrics would be comparable and immediately usable, significantly enhancing the utility of these disclosures. Over time, investors and other stakeholders would place significantly more reliance on issuers public filings, rather than on

information drawn from private surveys, reducing burden and enhancing reliability.

Spain is one of the member states that mentions XBRL in its local transposition<sup>1</sup> of the Non-Financial Directive as one of the ways to disclose the non-financial information required by the Directive. Creating European-wide consistency and comparability through an expansion of ESEF would result in better outcomes, in our view.

### *Make the data digital – Part 2: XBRL Taxonomy*

In order to ensure that climate disclosures can be prepared in ESEF format it is necessary for an XBRL taxonomy that covers the metrics that will be disclosed to be prepared. The TEG should recommend that this work be undertaken, preferably at an international level with oversight from the TCFD, but certainly at a European level.

### *Make the data discoverable and accessible*

Incorporating climate related disclosures into reports that are easily available to all stakeholders is the minimum that the TEG should expect for these NFRD disclosures. It is important that the TEG consider how these materials will be accessed and how they will be disclosed. Early indications are that a range of TCFD disclosures are being made outside of the annual report, in a separate disclosure on company websites. It appears to be the Commission's intention that NFRDs should oblige their inclusion in annual reports, but no doubt there will be implementation variations across member State NCAs. Mechanisms to securely register, index, make searchable and access these disclosures is vital.

We recommend the TEG consider initiatives like the [European Financial Transparency Gateway](#) (EFTG) to be used for achieving a single European Electronic Access Point (EEAP).

### **What would carbon disclosures in ESEF/Inline XBRL format look like?**

Inline XBRL documents can “look and feel” very much like PDFs and there is work going on across Europe and around the world within software vendors to develop suitable tools and workflows to simplify and manage the sometimes complex collaborations required in this regard.

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<sup>1</sup> [http://www.senado.es/legis12/publicaciones/pdf/senado/bocg/BOCG\\_D\\_12\\_307\\_2373.PDF](http://www.senado.es/legis12/publicaciones/pdf/senado/bocg/BOCG_D_12_307_2373.PDF)

Working with the Global LEI Foundation, XBRL International has recently developed some examples, including [this one](#), contained within a “viewer” that provides context and digital content directly. To get an idea about how this works, scroll down to the financial statement contained in the extract and click on some of the highlighted fields.

This might give members of the TEG some sense of why it would be helpful to incorporate “digital bar codes” in Inline XBRL/ESEF format associated with climate related disclosures. Whether it is machines, or humans assisted by tools like this viewer, the ability to extract comparable data that has been provided by the issuer directly enhances transparency, correctly sets accountability and data governance incentives, and creates a more immediate connection between the issuer and investors, analysts and other stakeholders.

It might be worth liaising with the EFRAG Lab initiative in this regard in order to experiment in this area. Developing examples and experimenting with structured disclosure arrangements that would, for example, encourage companies to “demonstrate the consistency of strategy, actions and decisions related to climate change” may well be of assistance. XBRL International would be happy to provide further information and/or assist as required.

## Reference Initiatives

This would not be the first use of structured XBRL data for climate and ESG based reporting within a leading economy.

The Ministry of Environment in Japan has launched [a pilot platform on ESG dialogue](#) for parties including companies and investors based on XBRL reporting. The reporting framework is proposed to be fully operational across all listed companies from 2021. Thus far there are 400+ companies and 250+ investors participating in the pilot reporting project.

We would encourage you to refer to the concept note prepared by the [Carbon Disclosure Project](#) on how [XBRL can help overcome climate-related reporting challenges](#). The key findings of the report are

- Connecting environmental and financial information models make it easier for investors and companies to see the interlinkages between them, facilitating evidence-based decision making;
- The use of structured data can reduce the costs of reporting, makes data more consistent, and more usable across different disclosure regimes;
- Structured data improves data quality, expanding confidence in the reporting process;

## Summary

Ensuring that carbon disclosures are made with the benefit of structured data in ESEF form will greatly enhance transparency, accountability and effective data governance in the life cycle of this vital business information. It should accelerate the realisation of a range of benefits sought by policy makers, helping to measure value drivers more efficiently.

Yours



John Turner

CEO

XBRL International, Inc