FERMA
Federation of European
Risk Management Associations

FERMA's response to the consultation on the update of the non-binding guidelines on non-financial reporting

March 2019

EXECUTIVE SUMMARY

The Federation of European Risk Management Associations (FERMA) represents the interests of more than 4800 risk and insurance managers through its 21 national risk management association members in 20 European countries.

FERMA welcomes the opportunity to contribute to the European Commission's consultation on the update of the guidelines on non-financial reporting, specifically regarding the reporting of climate-related information. FERMA looks forward to the publication of this new supplement to the existing guidelines by June 2019.

The reporting of climate-related information is of particular interest for risk and insurance managers since climate change and responsible business are risk management issues. Sustainability needs to rest on the foundations of the assessment, mitigation and treatment of identified risks, which is the work of professional risk managers. By itself, disclosure is not enough. It is good risk management plus transparency that creates the conditions for sustainability.

Building on the unique expertise of our members in enterprise risk management, FERMA puts forward the following three recommendations related to the section **3.4 Principal Risks and their Management**:

1/ For the guidelines to be a real help for companies to comply with the requirements of the NFR directive, they should employ corporate language, notably the term enterprise risk management (ERM), which is a well-established practice used by businesses.
2/ Include a description of the resources allocated to the risk management of the organisation.
3/ Explain the purpose of ERM as a global decision-making tool for the board, including non-financial aspects like climate-related risks.

CONSULTATION DOCUMENT ON THE UPDATE OF THE NON-BINDING GUIDELINES ON NON-FINANCIAL REPORTING section 3.4 Principal Risks and their Management	**FERMA COMMENTS**	**FINAL VERSION OF THE EC**
Page 16: Type 1 - (…) ***Describe the company's processes for identifying and assessing climate-related risks*** *over the short, medium, and long term and disclose how the company defines short, medium, and long term.23 [Covers TCFD recommendation Risk management a)]* *Describe the climate-related risks the organization has identified over the short, medium, and long term throughout the value chain. [Covers TCFD recommendation Strategy a)] (…)*	Organisations need support in this new process of reporting risks linked to non-financial information. Risk reporting is a key element of the risk manager's role. Because of the cross functional nature of the risk manager's mission, he or she is the best placed person in the organisation to provide assurance that the various types of risks, including those related to the climate, have been identified and managed. FERMA, therefore, believes that the guidelines would benefit by extending the description of the processes to include the roles and responsibilities allocated to the management of principal risks in the organisation, in particular the presence of a formalised ERM function. Leveraging on these existing functions and processes is a resource-efficient way to support organisations to manage climate-related risks.	Describe the company's processes for identifying and assessing climate-related risks over the short, medium, and long term and disclose how the company defines short, medium, and long term.20 [Covers TCFD recommendation Risk management a)] Describe the principal climate-related risks the company has identified over the short, medium, and long term throughout the value chain**, and any assumptions that have been made when identifying these risks.** [Covers TCFD recommendation Strategy a)]. **This description should include the principal risks resulting from any dependencies on natural capitals threatened by climate change, such as water, land, ecosystems or biodiversity.**

Page 16: Type 1 - (…) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the ***organisation's overall risk management****. [Covers TCFD recommendation Risk management c)]. An important aspect of this description is how the company determines the relative significance of climate-related risks in relation to other risks. (…)*	We believe that identifying, assessing and managing climate-related risks is best done through the established processes of enterprise and corporate risk management, and that this is the language that the guidelines should adopt. Both are widely recognised and applied in the organisations that are the primary audience for these guidelines. ERM methodology is designed to identify the principal risks across the organisation and rank them in terms of their likely frequency and potential impact. It is therefore the most appropriate concept to connect climate-related risks with the other risks to be reported. Other risk management methods can be used to refine the analysis of the relative significance of specific risks.	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management. [Covers TCFD recommendation Risk management c)]. An important aspect of this description is how the company determines the relative significance of climate-related risks in relation to other risks.
Page 16: Type 2 - (…) Describe how the company sets and applies limits to climate related risks, including any triggers used to ***escalate issues to management attention****. (…)*	FERMA strongly supports the creation of a complete, company-wide risk management policy as a global decision-making tool for the board, including non-financial aspects like climate-related risks. Consideration of the full range of risks allows the board and top management to properly set their risk appetite according to the full scope of possible impacts and to prepare a suitable response, such as mitigation of impacts or exclusion of activities. This high-level purpose of the board and top management should be mentioned in this particular place.	Describe how the company sets and applies limits to climate related risks, including any triggers used to escalate issues to management attention.

	Under EU company law, the audit committee has a responsibility to monitor the effectiveness of risk management systems. FERMA argues that the risk management systems should include mechanisms for escalating concerns to management and to the audit committee and the board, for example by regular reporting from the risk manager to the audit and/or audit committee.	

Contact person: Julien Bedhouche, FERMA EU Affairs Adviser, julien.bedhouche@ferma.eu

FERMA - The Federation of European Risk Management Associations brings together 21 national risk management associations in 20 European countries. FERMA represents the interests of more than 4800 risk and insurance managers in Europe active in a wide range of business sectors from major industrial and commercial companies to financial institutions and local government bodies. More information can be found at www.ferma.eu