TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

What's New in 2021

Overview of 2021 Progress, Status Report, and Updated Guidance

October 2021

1

INTRODUCTION TO TCFD AND 2021 PROGRESS

In 2017, the Task Force developed four widely-adoptable recommendations on climate-related financial disclosures

Core elements of the TCFD recommendations

Governance

The company's governance around climate-related risks and opportunities

Strategy

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

Risk Management

The processes used by the company 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

Overview of Key TCFD Reports and Guidance

Visit fsb-tcfd.org/publications to access all of the Task Force's reports, guidance, and other materials.

Final Recommendations and Recommended Disclosures

2017 Final Report

Three New Documents in 2021

Implementing Guidance

2017 Implementing Guidance (Annex)

Provides guidance for:
- All sectors
- Four financial industries
- Four non-financial groups

The 2021 Annex supersedes the 2017 Annex

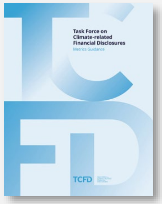
2021 Implementing Guidance (Annex)

Additional Supporting Materials

2017 Scenario Analysis Technical Supplement

2020 Guidance on Risk Management Integration and Disclosure

2020 Guidance on Scenario Analysis for Non-Financial Companies



2021 Guidance on Metrics, Targets, and Transition Plans

Status Reports

2018 Status Report

2019 Status Report

2020 Status Report

2021 Status Report

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SUMMARY OF 2021 STATUS REPORT FINDINGS

The 2021 status report describes initiatives supporting TCFD, current disclosure practices, and insights on disclosures of financial impact

Focus of the 2021 Status Report

A. Initiatives Supporting TCFD

- Highlights significant **momentum by governments and regulators to embed TCFD recommendations** into policy and guidance, moving toward requiring TCFD or TCFD-aligned disclosures through legislation and regulation
- Describes **additional developments from governments, regulators, international bodies, and industry-led groups** that support implementation of the TCFD recommendations

B. State of Climate-Related Financial Disclosures

- Provides an **overview of current disclosure practices** in terms of their alignment with the Task Force's recommendations
- Highlights **examples of disclosures** across the Task Force's recommendations

C. Disclosure of Financial Impact

- Identifies **key challenges faced by preparers** when assessing and disclosing financial impact information
- Examines the **importance to users** of preparers disclosing financial impact information to support financial decisions

Status Report Key Findings

A. Initiatives Supporting TCFD

TCFD supporters grew by over 70% since 2020 to over 2,600. Supporters span 89 countries and nearly all sectors of the economy, with a combined market capitalization of over $25 trillion

The Task Force has seen **significant efforts** from governments and regulators to embed the TCFD recommendations into policy and guidance, **moving toward requiring TCFD-aligned disclosures**

B. State of Climate-Related Financial Disclosures

Disclosure increased more between 2019 and 2020 than in any previous year assessed. For the first time, over 50% of the companies reviewed included information on one of the Task Force's recommended disclosures (description of their climate-related risks or opportunities)

Consistent with previous years, **the lowest level of disclosure across the 11 recommended disclosures related to the resilience of companies' strategies under different climate-related scenarios.** The percentage of companies disclosing this information doubled between 2019 and 2020, but disclosure remains low at 13%

Europe remains the leading region for disclosures. European companies reviewed increased their average disclosure by 15 percentage points since 2019 to 50%

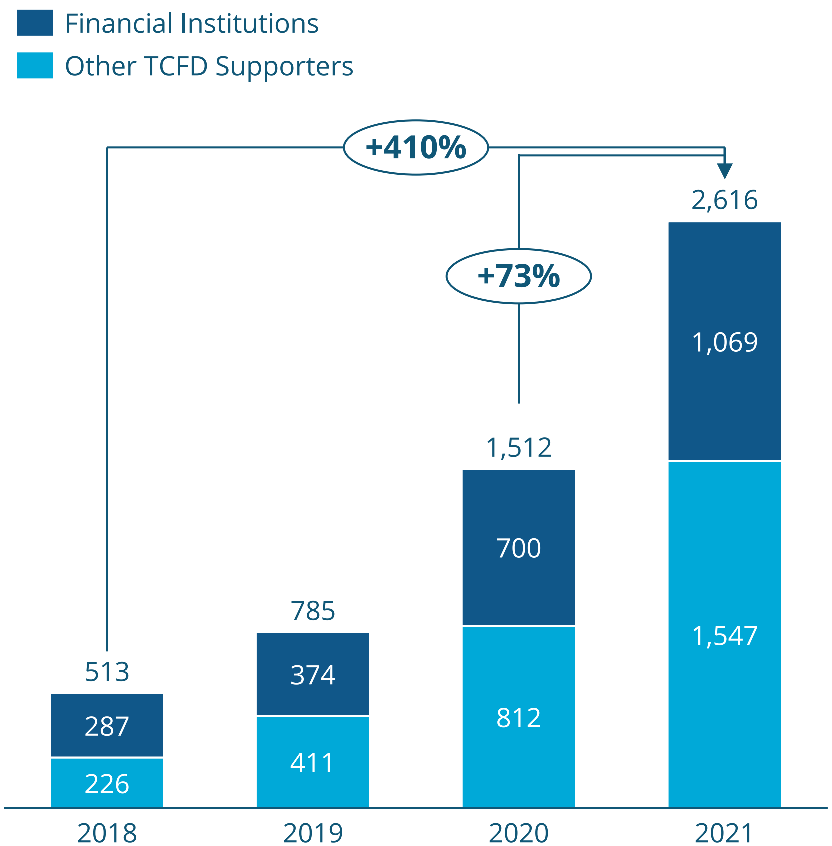
C. Disclosure of Financial Impact

Over 20% of companies responding to the Task Force's consultation said they disclose financial impact. Companies interviewed reported disclosing potential financial impacts more often than actual impacts.

Over 90% of consultation respondents identified as users indicated companies' disclosure of financial impacts is useful. Users identified the amount of expenditure or capital investment currently deployed towards climate-related risks and opportunities as particularly useful.

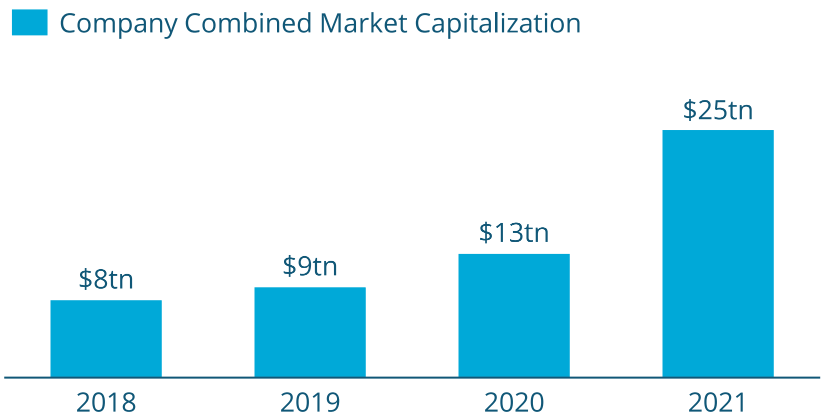
The momentum behind TCFD has continued to grow globally with over 2,600 supporters from around the world

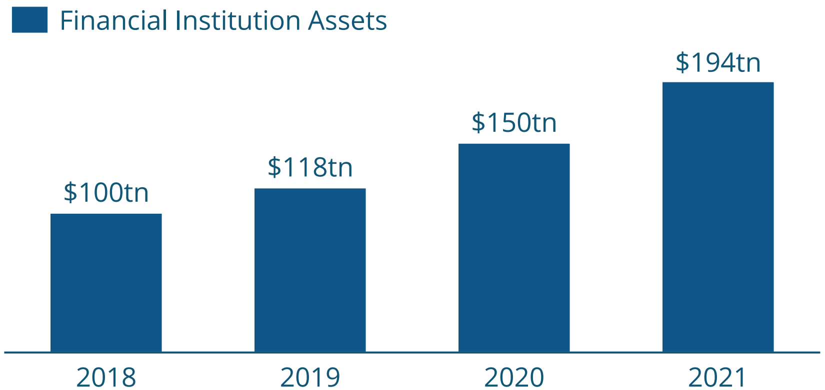
Number of TCFD Supporters



TCFD Supporter Market Coverage

USD, Trillions





Note: These figures represent the number of supporters as of October 14th, 2021 and are found in the TCFD Status Report (2021). The current number of supports is continuously growing and can be found at fsb-tcfd.org/support-tcfd

Various jurisdictions are taking steps to encourage or mandate TCFD-aligned disclosure requirements

June 2021: Switzerland's Financial Market Supervisory Authority amended disclosure rules for banks and insurers to include climate-related financial risks, based on TCFD

April 2021: The European Commission issued a proposal calling for the development of sustainability reporting standards that take into account existing frameworks including the TCFD

October 2021: The Canadian Securities Administrators proposed to make climate change disclosures mandatory for public companies, largely consistent with the TCFD recommendations

2020-2021: Several UK regulators issued rules and proposals for TCFD-aligned disclosure

June 2021: The Tokyo Stock Exchange issued a revised Corporate Governance Code, which now indicates certain companies should enhance disclosure based on TCFD recommendations

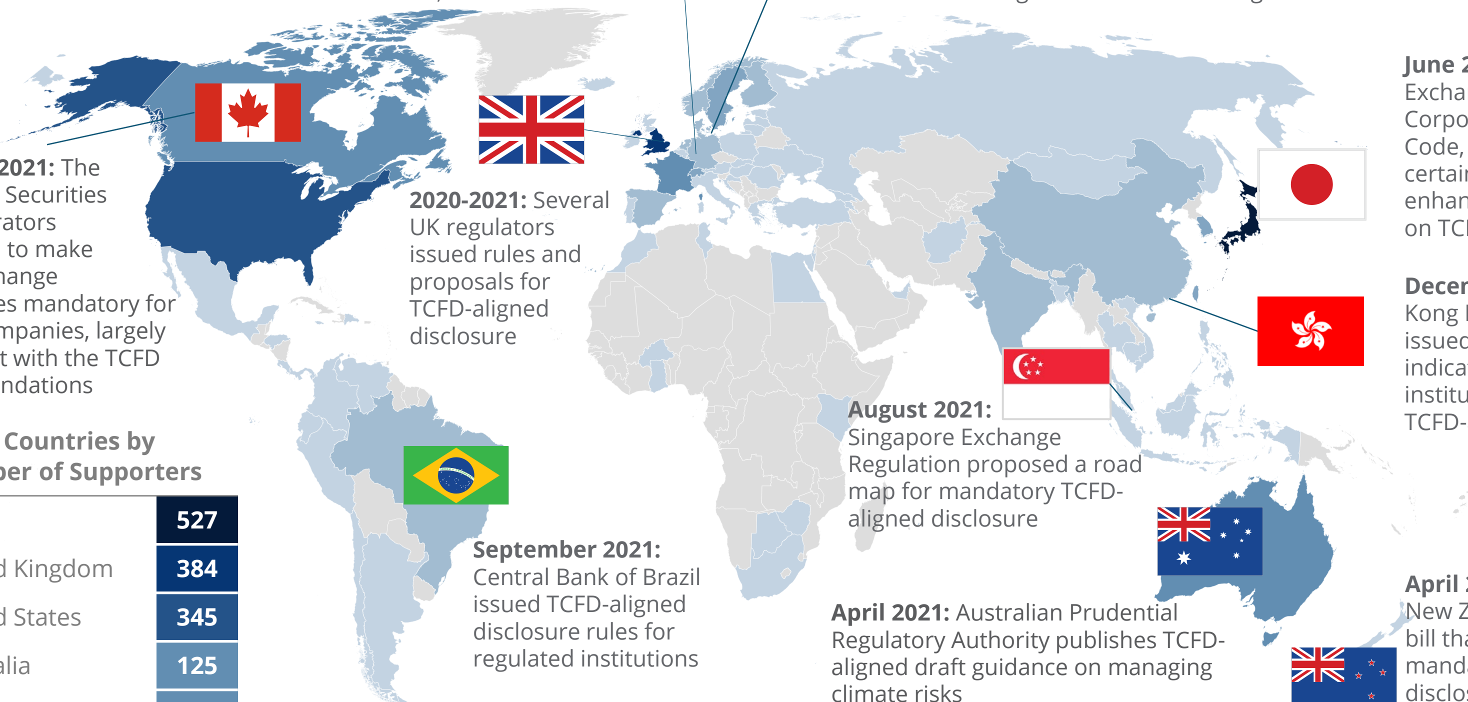
December 2020: The Hong Kong Monetary Authority issued draft guidance indicating authorized institutions should make TCFD-aligned disclosures

August 2021: Singapore Exchange Regulation proposed a road map for mandatory TCFD-aligned disclosure

September 2021: Central Bank of Brazil issued TCFD-aligned disclosure rules for regulated institutions

April 2021: Australian Prudential Regulatory Authority publishes TCFD-aligned draft guidance on managing climate risks

April 2021: New Zealand introduced a bill that would require mandatory TCFD-aligned disclosure for large listed issuers and financial institutions.



Top 5 Countries by Number of Supporters

Japan	527
United Kingdom	384
United States	345
Australia	125
France	117

Legend	450+	449–350	349–250	249–150	149–100	99–50	49–25	<25

Number of Supporters

Several international initiatives support incorporating the TCFD recommendations into climate-related reporting standards

G7 United Kingdom 2021

"We support moving towards mandatory climate-related financial disclosures that provide consistent and decision-useful information for market participants and that are **based on the Task Force on Climate-related Financial Disclosures (TCFD) framework**, in line with domestic regulatory frameworks."

G20 ITALIA 2·0·2·1

"We acknowledge that mobilizing sustainable finance is essential for global growth and stability and for promoting the transitions towards greener, more resilient and inclusive societies and economies. We ask the FSB to work on evaluating the availability of data and data gaps on climate-related financial stability risks, and on ways to improve climate-related financial disclosures, and to report on these subjects in July. **We agree on the importance of promoting globally consistent, comparable high-quality standards of disclosure for sustainability reporting, building on the recommendations of the FSB's Task Force on Climate-related Financial Disclosures."**

European Commission

"The Commission supports initiatives by the G20, the G7, the Financial Stability Board and others to generate international commitment to develop **a baseline of global sustainability reporting standards that would build on the work of the Task Force on Climate-related Financial Disclosures."**

FSB FINANCIAL STABILITY BOARD

"The FSB strongly encourages national or regional authorities that are developing requirements or guidance for climate-related disclosures to consider using the TCFD recommendations as the basis."

IFRS®

The Trustees' proposed sustainability standards board "would **build upon the well-established work of the Financial Stability Board's Task Force on Climate-related Financial Disclosures…"**

OICU-IOSCO

"IOSCO welcomes… a prototype for an **approach to climate-related disclosures that builds on the recommendations of the Task Force of Climate-related Financial Disclosures."**

Disclosure increased more between 2019 and 2020 than in any previous year assessed; however, more progress is needed

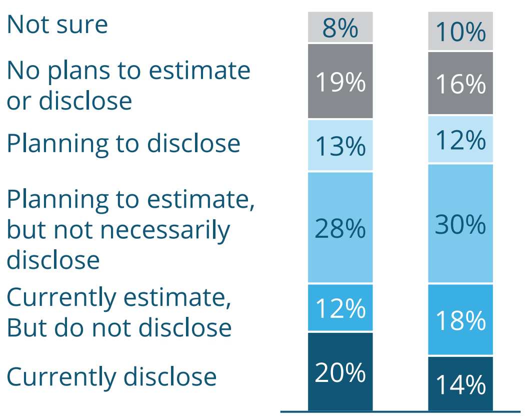
TCFD-Aligned Disclosure by Year, for Each Recommended Disclosure

Recommendation	Recommended Disclosure	% Point Change '18–'20	% of Companies Disclosing Information Aligned with TCFD Recommended Disclosures: 2018	2019	2020
Governance	a) Board Oversight	16	9%	13%	25%
	b) Management's Role	9	9%	11%	18%
Strategy	a) Climate-Related Risks and Opportunities	14	38%	42%	52%
	b) Impact on Organization	13	26%	30%	39%
	c) Resilience of Strategy	8	5%	7%	13%
Risk Management	a) Risk Identification and Assessment Processes	14	16%	20%	30%
	b) Risk Management Processes	15	14%	17%	29%
	c) Integration into Overall Risk Management	17	10%	17%	27%
Metrics and Targets	a) Climate-Related Metrics	10	34%	40%	44%
	b) Scope 1, Scope 2, and Scope 3 GHG Emissions	10	27%	31%	37%
	c) Climate-Related Targets	13	21%	24%	34%

Source: The Task Force's artificial intelligence analysis of 1,651 public companies.

Companies shared perspectives on the challenges of disclosing the financial impact of climate change

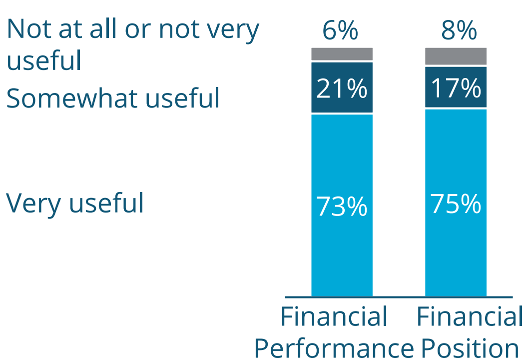
% of Companies Indicating Disclosure of Financial Impact[1]



Preparer Perspectives: Key Findings

- **At least one in five companies responding to the Task Force's consultation said they disclose financial impact,** with disclosure of impact on *financial performance* more common than impact on *financial position*
- Companies interviewed reported **disclosing potential financial impacts more often than actual impacts**
- The process of estimating financial impacts can lead to **improved internal and external communication,** according to findings from preparer interviews

% of Users Finding Disclosure on Financial Impact Useful[2]



User Perspectives: Key Findings

- Over 90% of respondents that identified as users indicated companies' **disclosure of the financial impacts of climate change is useful**
- Users highlighted several **areas that would improve the usefulness of information disclosed on financial impact to support decision making,** including disclosure on capital expenditure and
- Rating agencies stated that **climate-related financial information is an increasingly important input into their financial impact assessments**, informing the rating process

Charts based on responses to the Task Force's Consultation on Proposed Guidance on Climate-Related Metrics, Targets, and Transition Plans.
1. One hundred companies that identified as preparers of disclosure responded to this item (n=100).
2. One hundred and six companies that identified as users of disclosure responded to this item (n = 106) .

3

GUIDANCE ON METRICS, TARGETS, AND TRANSITION PLANS

In 2021, the Task Force developed guidance on metrics, targets, and transition plans to reflect evolution in disclosure since 2017

				Three New Documents in 2021
Final Recommendations and Recommended Disclosures	2017 Final Report			
Implementing Guidance	2017 Implementing Guidance (Annex)	The 2021 Annex supersedes the 2017 Annex		**2021 Implementing Guidance (Annex)**
Additional Supporting Materials	2017 Scenario Analysis Technical Supplement	2020 Guidance on Risk Management Integration and Disclosure	2020 Guidance on Scenario Analysis for Non-Financial Companies	**2021 Guidance on Metrics, Targets, and Transition Plans**
Status Reports	2018 Status Report	2019 Status Report	2020 Status Report	**2021 Status Report**

TCFD held a public consultation to gather the latest views from preparers and users regarding metrics, targets, and transition plans

Background

The Task Force on Climate-related Financial Disclosures (TCFD) **conducted a public consultation from June 7–July 18, 2021** to gather feedback on proposed guidance on climate-related metrics, targets, and transition plans.

- 203 respondents completed the consultation survey
- 42 organizations submitted comments outside of the survey

Scope of Consultation

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES **Proposed Guidance on Climate-Related Metrics, Targets, and Transition Plans**

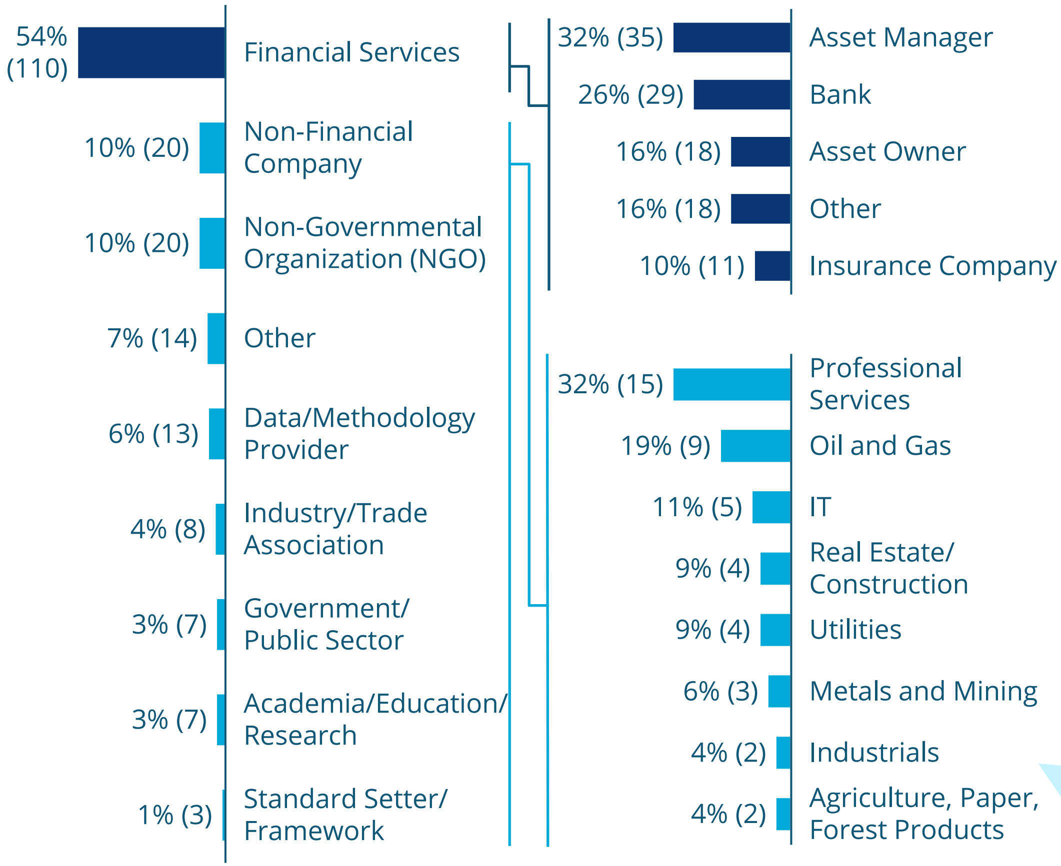
Since 2017, the Task Force has sought to clarify issues raised by organizations in their implementation of the TCFD recommendations and provide additional supporting guidance and other information where appropriate. To address recent developments and feedback from users, preparers, and others, the consultation draft proposed the following:

- A set of proposed cross-industry, climate-related metrics
- Additional information on the link between climate-related metrics and financial impact
- Updates to financial sector-specific metrics, including metrics with which to measure GHG emissions from investing, lending, and underwriting and portfolio alignment
- Guidance on disclosing targets and transition plans
- Proposed updates to the 2017 annex

The Task Force also hosted consultation questions on a draft technical report on portfolio alignment metrics developed by an independent group of expert analysts from financial organizations (the Portfolio Alignment Team) at the request of the TCFD.

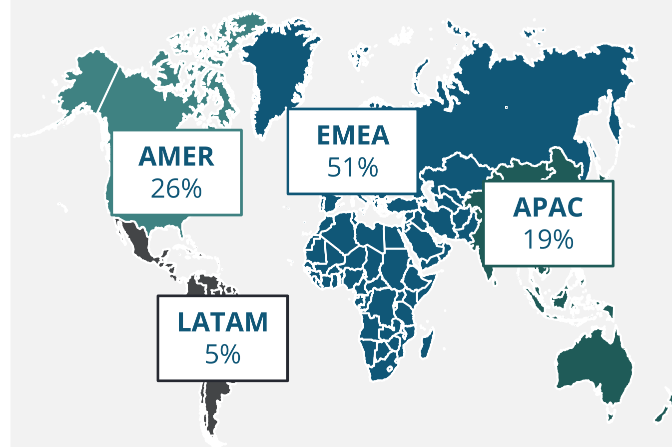
The consultation received 203 survey submissions, 34 letters, and seven other responses from respondents in various industries and jurisdictions

Organization Type



Location of Headquarters

(Total does not equal 100% due to rounding)



2% of respondents from: Chemicals; Food, Beverage, and Tobacco; Telecommunications; Transportation

Sources:
Q: Where is your organization headquartered? (n = 203) Base: All respondents
Q: Which one of the following best describes your organization? (n = 203) Base: All respondents
Q: Please select your primary firm type from the list below. (n = 110) Base: Financial sector respondents
Q: Please select your primary industry from the list below. (n = 48)
Base: Non-financial companies (responses that were not 'other')

Nearly all respondents were supportive of the Task Force's public consultation on its draft guidance

01 Respondents indicated that the updated guidance **presents an important step forward** in climate disclosure and a constructive expansion of TCFD recommendations

02 Specifically, respondents **supported the introduction of cross-industry**, climate-related metric categories, emphasis on forward-looking metrics, and **inclusion of transition plans**

03 However, a majority of respondents believed **more can be done to promote comparability,** such as sector-specific methodologies and standardized templates for targets

04 Some concerns were raised with respect to data and methodology challenges and **organizations needing time for implementation,** especially with increasing regulatory expectations

Note: Summary of Responses to the TCFD Public Consultation on Metrics, Targets, and Transition Plans (2021) can be found at https://www.fsb-tcfd.org/publications/

The guidance emphasizes seven categories of metrics intended to support comparability

Metrics in these categories are generally considered drivers of climate-related issues, useful for understanding management of those risks and opportunities, widely requested, and/or key inputs for estimating financial impacts.

Characteristics of Effective Climate-Related Metrics

Decision-Useful
Clear and Understandable
Reliable, Verifiable, and Objective
Consistent Over Time • Current • Historical • Forward-Looking

Cross-Industry, Climate-Related Metric Categories

GHG Emissions[1]	Absolute Scope 1, Scope 2, and Scope 3; emissions intensity
Transition Risks	Amount and extent of assets or business activities vulnerable to transition risks
Physical Risks	Amount and extent of assets or business activities vulnerable to physical risks
Climate-Related Opportunities	Proportion of revenue, assets, or other business activities aligned with climate-related opportunities
Capital Deployment	Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities
Internal Carbon Prices	Price on each ton of GHG emissions used internally by an organization
Remuneration	Proportion of executive management remuneration linked to climate considerations

1. The Task Force believes all organizations should disclose absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. The disclosure of Scope 3 GHG emissions is subject to a materiality assessment; however, the Task Force encourages organizations to disclose such emissions.

It reinforces key characteristics of effective disclosure of climate-related targets, including the importance of interim targets

Characteristics of Effective Climate-Related Targets

Aligned with Strategy and Risk Management Goals

Linked to Relevant Metrics

Quantified and Measurable

Clearly Specified over Time

- Baseline
- Time horizon
- Interim targets

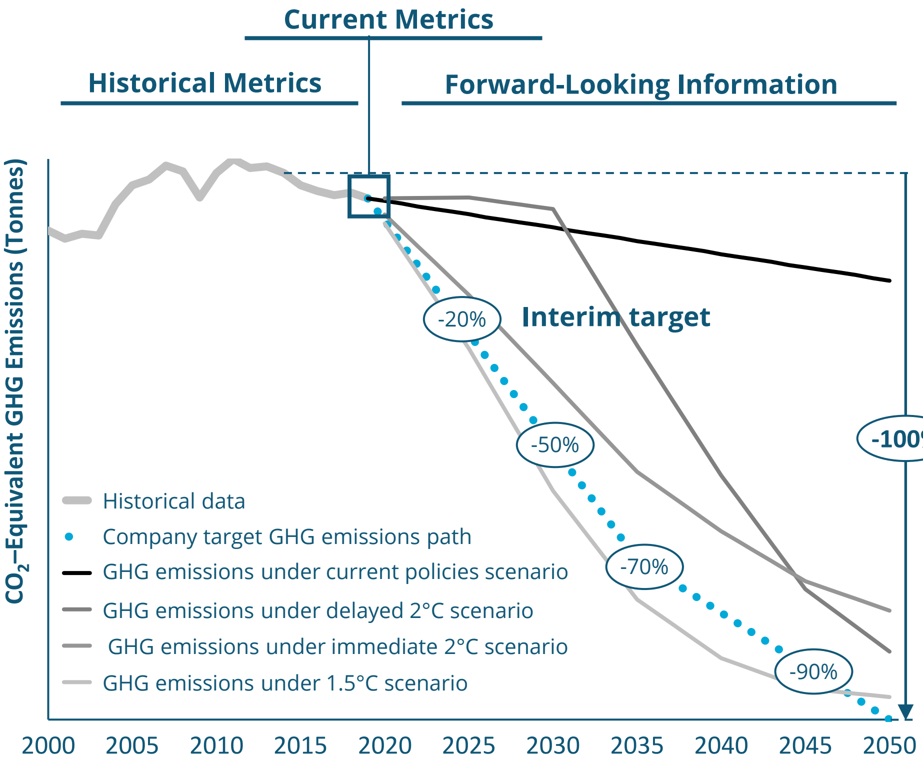
Understandable and Contextualized

Periodically Reviewed and Updated

Reported Annually

Example Relationship between Metrics and Targets (Hypothetical Firm)

Target: Our firm commits to reducing net Scope 1 and 2 GHG emissions—as defined by the GHG Protocol—to zero by 2050, with an interim target to cut Scope 1 and 2 GHG emissions by 50% relative to a 2015 baseline by 2030. We are working with suppliers to reduce Scope 3 GHG emissions.



Note: GHG emissions pathways were adapted from NGFS scenario data. Illustrative GHG emissions pathways for immediate and delayed 2°C scenarios and 1.5°C scenarios are aligned with economy-wide GHG emissions reductions for Kyoto gases under the REMIND limited Carbon Dioxide Removal (CDR) scenarios. The illustrative current policies scenario extends the short-term trend.

Additionally, it assists companies with disclosing information related to their plans to transition to a low-carbon economy

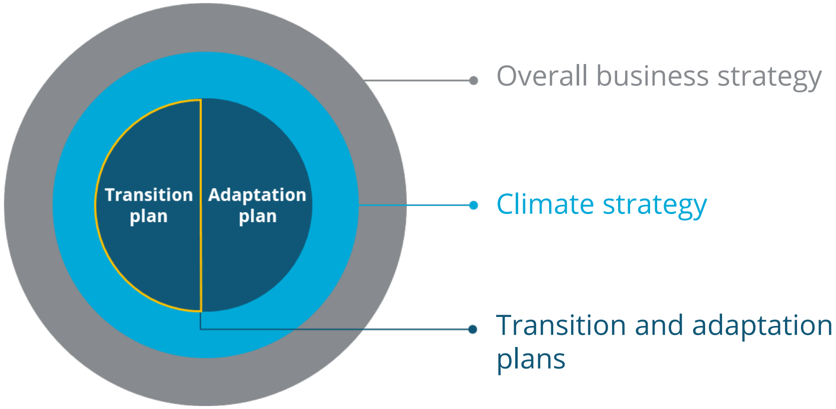
A company's transition plan refers to an aspect of its overall business strategy that lays out a set of targets and actions supporting its transition toward a low-carbon economy, including actions such as reducing its GHG emissions.

Characteristics of Effective Transition Plans

Aligned with strategy
Anchored in quantitative elements, including climate-related metrics and targets
Subject to effective governance processes
Actionable, specific initiatives
Credible
Periodically reviewed and updated
Reported annually to stakeholders

Key Information from Transition Plans to Disclose

Current GHG emissions performance
Impact on businesses, strategy, and financial planning from a low-carbon transition
Actions and activities to support transition (e.g., changes to businesses and strategy to reduce GHG emissions)



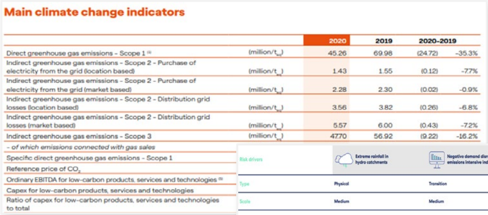
Finally, it describes types of information organizations could disclose on financial impacts of climate change as well as real-world examples

Category	Description	Example Excerpts

Impact of Climate-Related Risks or Opportunities on Financial Performance

Actual or potential changes to income and cash flow statements or other financial performance measures as a result of climate-related risks and opportunities may provide insight into management priorities and strategic efforts. Impact on financial performance can include the following:

- increases in revenue from new products or services from climate opportunities;
- increases in cost due to carbon prices, business interruption, contingency, or repairs;
- changes to operating cash flow from changes in upstream costs;
- impairment charges due to assets exposed to transition risks; and
- changes to total expected losses due to physical risks.



Main climate change indicators

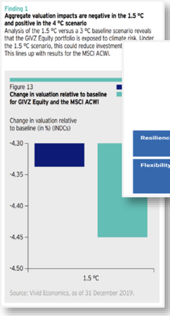
		2020	2019	2020-2019	
Direct greenhouse gas emissions - Scope 1	(million/t)	45.26	69.98	(24.72)	-35.3%
Indirect greenhouse gas emissions - Scope 2 - Purchase of electricity from the grid (location based)	(million/t)	1.43	1.55	(0.12)	-7.7%
Indirect greenhouse gas emissions - Scope 2 - Purchase of electricity from the grid (market based)	(million/t)	2.28	2.30	(0.02)	-0.9%
Indirect greenhouse gas emissions - Scope 2 - Distribution grid losses (location based)	(million/t)	3.56	3.82	(0.26)	-6.8%
Indirect greenhouse gas emissions - Scope 2 - Distribution grid losses (market based)	(million/t)	5.57	6.00	(0.43)	-7.2%
Indirect greenhouse gas emissions - Scope 3	(million/t)	47.70	56.92	(9.22)	-16.2%
- of which emissions connected with gas sales					
Specific direct greenhouse gas emissions - Scope 1					
Reference price of CO_2					
Ordinary EBITDA for low-carbon products, services and technologies					
Capex for low-carbon products, services and technologies					
Ratio of capex for low-carbon products, services and technologies to total					

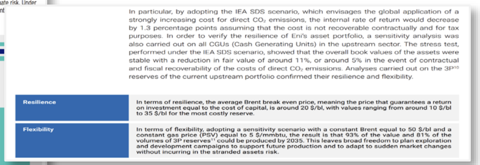
Risk drivers	Extreme rainfall in hydro catchments	Negative demand disruption - emissions intensive industries
Type	Physical	Transition
Scale	Medium	Medium
Likelihood	About as likely as not	About as likely as not
Timeframe	Long-term (30 years)	Long-term (30 years)
Impacts	Increasing intensity of extreme rainfall events in hydro catchments.	Sudden drop in electricity demand as emissions-intensive industries are disrupted by ambitious climate change legislation or shifting consumer preferences for sustainable goods and services.

Impact of Climate-Related Risks or Opportunities on Financial Position

Changes to the balance sheet statement as a result of climate-related risks and opportunities can include the following:

- changes to the carrying amount of assets due to exposure to physical and transition risks;
- changes to the expected portfolio value given climate-related risks and opportunities; and
- changes in liability and equity due to increases or decreases in assets (e.g., due to low-carbon capital investments or to sale or write-offs of stranded assets)





In particular, by adopting the IEA SDS scenario, which envisages the global application of a strongly increasing cost for direct CO_2 emissions, the internal rate of return would decrease by 1.3 percentage points assuming that the cost is not recoverable contractually and for tax purposes. In order to verify the resilience of Eni's asset portfolio, a sensitivity analysis was also carried out on all CGUs (Cash Generating Units) in the upstream sector. The stress test, performed under the IEA SDS scenario, showed that the overall book values of the assets were stable with a reduction in fair value of around 11%, or around 5% in the event of contractual and fiscal recoverability of the costs of direct CO_2 emissions. Analyses carried out on the 3P[10] reserves of the current upstream portfolio confirmed their resilience and flexibility.

Resilience	In terms of resilience, the average Brent break even price, meaning the price that guarantees a return on investment equal to the cost of capital, is around 20 $/bl, with values ranging from around 10 $/bl to 35 $/bl for the most costly reserve.
Flexibility	In terms of flexibility, adopting a sensitivity scenario with a constant Brent equal to 50 $/bl and a constant gas price (PSV) equal to 5 $/mmbtu, the result is that 93% of the value and 81% of the volumes of 3P reserves[11] could be produced by 2035. This leaves broad freedom to plan exploration and development campaigns to support future production and to adapt to sudden market changes without incurring in the stranded assets risk.

Sources: Enel, *Integrated Annual Report 2020*, p. 113; Meridian Energy, *Climate Change Disclosures Meridian Energy Limited FY20*, p. 11. ; Eni, *Eni for 2020: Carbon neutrality by 2050*, 2020, p. 20.; Eni, *Eni for 2020: Carbon neutrality by 2050*, 2020, p. 20.; Invesco, 2019 Invesco Climate Change Report, p. 31.

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2021 ANNEX

The Task Force updated its "Annex" to address key elements of the Guidance on Metrics, Targets, and Transition Plans

Final Recommendations and Recommended Disclosures

2017 Final Report

No changes were made to recommendations and recommended disclosures in order to provide consistency over time and support effective development of disclosure standards and requirements

Three New Documents in 2021

Implementing Guidance

2017 Implementing Guidance (Annex)

Discrete changes to guidance for all sectors and supplemental guidance for specific sectors based on Guidance on Metrics, Targets, and Transition Plans

The 2021 Annex supersedes the 2017 Annex

2021 Implementing Guidance (Annex)

Additional Supporting Materials

2017 Scenario Analysis Technical Supplement

2020 Guidance on Risk Management Integration and Disclosure

2020 Guidance on Scenario Analysis for Non-Financial Companies

2021 Guidance on Metrics, Targets, and Transition Plans

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2021 Status Report

Updates to *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD annex)* (1/2)

	Section of Annex	Key Changes
A	**Introduction**	• Updated *Section A.3. Application of Recommendations* to **encourage all organizations to disclose Scope 1 and Scope 2 GHG emissions independent of an assessment of materiality**. The disclosure of Scope 3 GHG emissions is subject to materiality; however, the Task Force encourages organizations to disclose such emissions.
B	**Recommendations**	• *No changes*
C	**Guidance for all Sectors**	• **Removed tables on alignment of the recommendations with other frameworks** as they were originally included primarily to demonstrate the Task Force's use of existing disclosure frameworks in developing its recommendations. Since 2017, many climate-related disclosure regimes have aligned with the TCFD recommendations and generally indicate within their frameworks where such alignment exists.
		Strategy
		• Revised to more explicitly address disclosure of **actual financial impacts** on organizations as well as key information from organizations' plans for transitioning to a low-carbon economy (**transition plans**).
		• Revised to more explicitly address disclosure of **potential financial impacts** on organizations.
		Metrics and Targets
		• Revised to more explicitly address disclosure of metrics consistent with **cross-industry, climate-related metric categories** for current, historical, and future periods, where appropriate.
		• Revised disclosure of **Scope 1 and Scope 2 GHG emissions to be independent of a materiality assessment.**
		• Revised to **encourage disclosure of Scope 3** GHG emissions.
		• Added disclosure of **targets consistent with cross-industry, climate-related metric categories**, where relevant.
		• Added disclosure of **interim targets**, where available, for organizations disclosing medium-term or long-term targets.

The 2021 annex is available at:
assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

Updates to *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD annex)* (2/2)

Section of Annex	Key Changes
D **Supplemental Guidance for the Financial Sector** **Banks**	**Strategy** • For purposes of reporting on exposure to **carbon-related assets**, expanded the suggested definition of assets to include all non-financial groups identified by the TCFD in its 2017 report.
	Metrics and Targets • Added disclosure of the **extent to which lending and other financial intermediary business activities are aligned with a well below 2°C scenario**. • Added disclosure of **GHG emissions for lending and other financial intermediary business activities**, where data and methodologies allow.
Supplemental Guidance for the Financial Sector **Insurance Companies**	**Metrics and Targets** • Added disclosure of the **extent to which insurance underwriting activities are aligned with a well below 2°C scenario.** • Added disclosure of **weighted average carbon intensity or GHG emissions associated with commercial property and specialty lines of business**, where data and methodologies allow.
Supplemental Guidance for the Financial Sector **Asset Owners**	**Metrics and Targets** • Added disclosure of the **extent to which assets they own and funds and investment strategies, where relevant, are aligned with a well below 2°C scenario**. • Added disclosure of **GHG emissions for assets they own,** where data and methodologies allow.
Supplemental Guidance for the Financial Sector **Asset Managers**	**Metrics and Targets** • Added disclosure of the **extent to which assets under management and products and investment strategies, where relevant, are aligned with a well below 2°C scenario.** • Added disclosure of **GHG emissions for assets under management,** where data and methodologies allow.

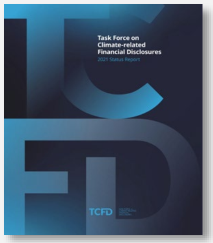
The 2021 annex is available at:
assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

APPENDIX

This year’s work focused on the status of climate-related financial disclosures and guidance on metrics, targets, and transition plans

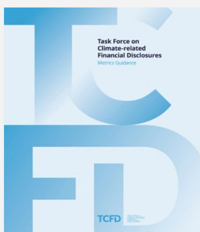
New Publications Released in October 2021

2021 Status Report



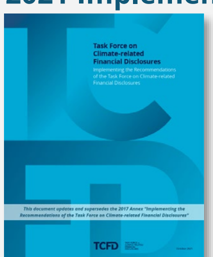
- Describes progress on and current state of disclosure practices in terms of alignment with the recommendations
- Summarizes public- and private-sector developments supporting the TCFD framework since October 2020
- Discusses users and preparers' views on disclosure of the financial impact of climate change on companies

Guidance on Metrics, Targets, and Transition Plans



- Describes developments on climate-related metrics, targets, and transition plans since 2017
- Highlights key metrics, targets, and transition plan information users identified as important for decision-making
- Provides guidance and disclosure examples to support companies’ implementation efforts

2021 Implementing the Recommendations of the TCFD (Annex)



- Incorporates guidance on climate-related metrics, targets, and transition plans
- Incorporates references to previously issued Task Force guidance to help companies with implementation
- Updates and replaces the annex published in 2017

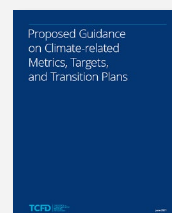
Public Consultations and Responses

The Task Force issued two public consultations between October 2020 and June 2021 to help inform the development of its guidance on metrics, targets, and transition plans.

1. Forward-Looking Financial Sector Metrics

Solicited input on usefulness and challenges of specific climate-related metrics for the financial sector.

2. Proposed Guidance on Climate-Related Metrics, Targets, and Transition Plans



Solicited input on usefulness and challenges of climate-related metrics and targets and transition plan information. Also sought feedback on proposed changes to implementation guidance issued in 2017.

Feedback from the consultations was critical in refining the Task Force’s final guidance.

Recommendations and Recommended Disclosures (June 2017)

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing 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) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

TCFD-aligned disclosure practices by industry

Disclosure by Industry: 2018-2020 Reporting

Industry	Average percentage by disclosure year			Pt. change ('18-'20)	Sample size
	2018	2019	2020		
Materials and Buildings	21%	26%	38%	17%	404
Energy	24%	31%	36%	12%	267
Insurance	22%	23%	34%	12%	132
Ag., Food, and Forest Products	20%	21%	30%	10%	142
Banking	15%	20%	28%	13%	282
Transportation	17%	20%	26%	9%	158
Consumer Goods	15%	18%	26%	11%	160
Technology and Media	11%	12%	16%	5%	106

Key Takeaways

- **Materials and Buildings companies now lead on TCFD-aligned disclosure vs Energy in 2019 and 2018.**
  - The average level of disclosure across the 11 recommended disclosures for fiscal year 2020 was 38%
  - Materials and Buildings also shows the fastest growth rate in disclosures, with a 17-percentage point increase since 2018
- **The Energy sector discloses the second most, with 36% disclosure** on average across the 11 recommended disclosures
- **Different industries prioritize different recommended disclosures.**
  - The Insurance industry leads all groups by at least 15 percent in disclosure of risk management processes
  - The Energy industry has the highest disclosure of climate-related risks and opportunities (*Risk Management b)*
- **Groups considered less carbon intensive disclose less.**
  - The Technology and Media sector has made the smallest improvements in disclosures, increasing by five percentage points since 2018
  - Technology and Media companies have 16% disclosure on average across the recommended disclosures

Source: The Task Force's artificial intelligence analysis of 1,651 public companies.

TCFD-aligned disclosure practices by region

Disclosure by Region: 2018-2020 Reporting

Region	Average percentage by disclosure year 2018	2019	2020	Pt. change ('18-'20)	Sample size
Europe	28%	35%	50%	22%	424
Asia Pacific	19%	25%	34%	15%	333
Latin America	11%	18%	26%	15%	52
Middle East and Africa	10%	16%	22%	12%	80
North America	15%	16%	20%	5%	762

Disclosure by Region: 2018-2020 Reporting for Top 50 Companies by 2020 Revenue

Region	Average percentage by disclosure year 2018	2019	2020	Pt. change ('18-'20)
Europe	45%	53%	68%	23%
North America	32%	28%	42%	10%
Asia Pacific	23%	25%	36%	13%
Latin America	11%	19%	27%	16%
Middle East and Africa	13%	21%	27%	14%

Key Takeaways

- **Europe remains the leading region for disclosures,** with average level of reporting across the 11 recommended disclosures from fiscal year 2020 now at 50%
- **European companies analyzed now disclose 16 percentage points more than the next closest region (Asia Pacific)**
- **Asia Pacific had 15 percentage point growth** in disclosure since 2018, disclosing the second most at 34%
- Reporting in Latin America and the Middle East and Africa has continued to progress over the past year, with **reporting at 26% and 22% respectively, up from 11% and 10% in 2018**
- **North America disclosure is at 20% across all companies assessed,** however; this is likely skewed by the large number of North American companies reviewed
- **For the top 50 companies by revenue in 2020, North America discloses second most** at 42% (versus Europe's 68%)

Source: The Task Force's artificial intelligence analysis of 1,651 public companies.

TCFD-aligned disclosure practices by market capitalization

Disclosure by Market Cap: 2018-2020 Reporting

Company size	Average percentage by disclosure year			Pt. change ('18-'20)	Sample size
	2018	2019	2020		
>$12.2B Market Capitalization (542)	29%	33%	44%	15%	542
$3.4–12.2B Market Capitalization (541)	18%	22%	31%	13%	541
<$3.4B Market Capitalization (540)	10%	14%	20%	10%	540

Key Takeaways

- While reporting by the largest companies remained stronger than reporting by smaller companies, **fewer than half of the largest companies reviewed are reporting climate-related information in line with the TCFD recommendations.**
  - Only **forty-four percent of companies assessed with a market capitalization in the top third (greater than $12.2B) disclosed** information aligned with the TCFD recommendations in 2020
  - Meanwhile, **20% of companies with a market capitalization in the bottom third** (less than $3.4B) disclosed the same information
- **Disclosure from the largest companies continue to grow the fastest**, with a 15-percentage point increase in disclosure since 2018.
- There has been **encouraging growth in reporting by companies in the bottom two thirds** (less than $3.4B and $3.4-12.2B market capitalizations), with six and nine percentage point growth, respectively.

Note: 28 companies were not included due to insufficient market cap data
Source: The Task Force's artificial intelligence analysis of 1,651 public companies.

Cross-Industry Climate-Related Metric Categories (1/2)

Metric Category	Example Unit of Measure[1]	Rationale for Inclusion
GHG Emissions Absolute Scope 1, Scope 2, and Scope 3; emissions intensity	MT of CO_2e	Disclosure of GHG emissions is crucial for users to understand an organization's exposure to climate-related risks and opportunities. Disclosure of both absolute emissions across an organization's value chain and relevant emissions intensity provides insight into how a given organization may be affected by policy, regulatory, market, and technology responses to limit climate change.
Transition Risks Amount and extent of assets or business activities vulnerable to transition risks*	Amount or percentage	Disclosure of the amount and extent of an organization's assets or business activities vulnerable to climate-related transition risks allows users to better understand potential financial exposure regarding such issues as possible impairment or stranding of assets, effects on the value of assets and liabilities, and changes in demand for products or services.
Physical Risks Amount and extent of assets or business activities vulnerable to physical risks*	Amount or percentage	Disclosure of the amount or extent of an organization's assets or business activities vulnerable to material climate-related physical risks allows users to better understand potential financial exposure regarding such issues as impairment or stranding of assets, effects on the value of assets and liabilities, and cost of business interruptions.
Climate-Related Opportunities Proportion of revenue, assets, or other business activities aligned with climate-related opportunities	Amount or percentage	Disclosure of the proportion of revenue, assets, or business activities aligned with climate-related opportunities provides insight into the position of organizations relative to their peers and allows users to understand likely transition pathways and potential changes in revenue and profitability over time.

Note: While some organizations already disclose metrics consistent with these categories, the Task Force recognizes others—especially those in the early stages of disclosing climate-related financial information—may need time to adjust internal processes before disclosing such information. In addition, some of the metric categories may be less applicable to certain organizations. For example, data and methodologies for certain metrics for asset owners (e.g., impact of climate change on investment income) are in early stages of development. In such cases, the Task Force recognizes organizations will need time before such metrics are disclosed to their stakeholders.

On the application of materiality, the Task Force believes all organizations should disclose absolute Scope 1 and Scope 2 GHG emissions independent of a materiality assessment. The disclosure of Scope 3 GHG emissions is subject to materiality; however, the Task Force encourages organizations to disclose such emissions. The other cross-industry, climate-related metric categories remain subject to materiality. Organizations should determine materiality for climate-related metrics consistent with how they determine the materiality of other information included in their financial filings.

***Transition and Physical Risks:** Due to challenges related to portfolio aggregation and sourcing data from companies or third-party fund managers, financial organizations may find it more difficult to quantify exposure to climate-related risks. The Task Force suggests that financial organizations provide qualitative and quantitative information, when available.

1. The Task Force has noted the most common unit of measure. There are multiple ways to measure and disclose metrics, and different jurisdictions or industries may follow different practices. Allowing for differences in units of measure can help provide organizations with flexibility without significantly impacting comparability as long as units are clearly stated.

Cross-Industry Climate-Related Metric Categories (2/2)

Metric Category	Example Unit of Measure[1]	Rationale for Inclusion
Capital Deployment Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities	Reporting currency	Capital investment disclosure by non-financial organizations and financing by financial organizations gives an indication of the extent to which long-term enterprise value might be affected.
Internal Carbon Prices Price on each ton of GHG emissions used internally by an organization	Price in reporting currency, per MT of CO_2e	Internal carbon prices provide users with an understanding of the reasonableness of an organization's risk and opportunity assessment and strategy resilience. The disclosure of internal carbon prices can help users identify which organizations have business models that are vulnerable to future policy responses to climate change and which are adapting their business models to ensure resilience to transition risks.
Remuneration Proportion of executive Management remuneration linked to climate considerations**	Percentage, weighting, description, or amount in reporting currency	Remuneration policies are important incentives for achieving an organization's goals and objectives and may provide insight on an organization's governance, oversight, and accountability for managing climate-related issues.

Note: While some organizations already disclose metrics consistent with these categories, the Task Force recognizes others—especially those in the early stages of disclosing climate-related financial information—may need time to adjust internal processes before disclosing such information. In addition, some of the metric categories may be less applicable to certain organizations. For example, data and methodologies for certain metrics for asset owners (e.g., impact of climate change on investment income) are in early stages of development. In such cases, the Task Force recognizes organizations will need time before such metrics are disclosed to their stakeholders.

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****Remuneration:** While the Task Force encourages quantitative disclosure, organizations may include descriptive language on remuneration policies and practices, such as how climate change issues are included in balanced scorecards for executive remuneration.

1. The Task Force has noted the most common unit of measure. There are multiple ways to measure and disclose metrics, and different jurisdictions or industries may follow different practices. Allowing for differences in units of measure can help provide organizations with flexibility without significantly impacting comparability as long as units are clearly stated.

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