TCFD WORKSHOP

Session 2 – Governance

February 2022
# TCFD Series of Workshops

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Introduction
Introduction to the Governance Recommendation

In this session, we will discuss the Governance recommendation

Core Elements of the TCFD Recommendations

Governance
Disclose the company’s governance around climate-related risks and opportunities

Strategy
Disclose the actual and potential impacts of climate-related risks and opportunities on the company’s businesses, strategy, and financial planning

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

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

Note: The Task Force uses the term “companies” to refer to entities with public debt or equity as well as asset managers and asset owners, including public- and private-sector pension plans, endowments, and foundations.
Source: TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017
Introduction to the Governance Recommendation *(continued)*

The Task Force’s Governance recommendation is supported by two recommended disclosures

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<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
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<tr>
<td>Disclose the company’s governance around climate-related risks and opportunities.</td>
<td>Disclose the actual and potential impacts of climate-related risks and opportunities on the company’s businesses, strategy, and financial planning where such information is material.</td>
<td>Disclose how the company identifies, assesses, and manages climate-related risks.</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</td>
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</tbody>
</table>

**Recommended Disclosures**

<table>
<thead>
<tr>
<th>a) Describe the board’s oversight of climate-related risks and opportunities.</th>
<th>a) Describe the climate-related risks and opportunities the company has identified over the short, medium, and long term.</th>
</tr>
</thead>
<tbody>
<tr>
<td>b) Describe management’s role in assessing and managing climate-related risks and opportunities.</td>
<td>b) Describe the impact of climate-related risks and opportunities on the company’s businesses, strategy, and financial planning.</td>
</tr>
<tr>
<td>c) Describe the resilience of the company’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</td>
<td>b) Describe the company’s processes for managing climate-related risks.</td>
</tr>
<tr>
<td></td>
<td>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company’s overall risk management.</td>
</tr>
<tr>
<td></td>
<td>a) Describe the company’s processes for identifying and assessing climate-related risks.</td>
</tr>
<tr>
<td></td>
<td>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</td>
</tr>
<tr>
<td></td>
<td>c) Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets.</td>
</tr>
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</table>

Source: TCFD, *Recommendations of the Task Force on Climate-related Financial Disclosures*, 2017
Various TCFD publications offer guidance on the Governance recommendation.

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**Final Recommendations and Recommended Disclosures**

- **2017 Report**
  - Provides details on the following:
  - Context and background on the need for climate-related financial disclosures
  - The Task Force’s remit from the Financial Stability Board
  - TCFD general framework, including recommendations and recommended disclosures

**Implementation Guidance**

- **2021 Implementation Guidance (Annex)**
  - Provides guidance on the application of the recommendations as well as implementation guidance for the following:
  - All sectors
  - Four financial industries
  - Four groups of non-financial companies the Task Force considers more likely to be affected financially than others given their exposure to certain transition and physical risks

**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**

Visit fsb-tcfd.org/publications to access all of the Task Force’s reports, guidance, and other materials.
Disclosure Varies Across Recommendations

The Task Force recommends all companies disclose governance of climate-related issues. Despite this, the Governance recommended disclosures had nearly the lowest level of disclosure.

**TCFD-Aligned Disclosure by Year, for Each Recommended Disclosure**

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Recommended Disclosure</th>
<th>% Point Change ’18–’20</th>
<th>% of Companies Disclosing Information Aligned with TCFD Recommended Disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>a) Board Oversight</td>
<td>16</td>
<td>9% 13% 25%</td>
</tr>
<tr>
<td></td>
<td>b) Management's Role</td>
<td>9</td>
<td>9% 11% 18%</td>
</tr>
<tr>
<td>Strategy</td>
<td>a) Climate-Related Risks and Opportunities</td>
<td>14</td>
<td>16% 20% 30%</td>
</tr>
<tr>
<td></td>
<td>b) Impact on Company</td>
<td>13</td>
<td>5% 7% 13%</td>
</tr>
<tr>
<td></td>
<td>c) Resilience of Strategy</td>
<td>8</td>
<td>5% 7% 13%</td>
</tr>
<tr>
<td>Risk Management</td>
<td>a) Risk Identification and Assessment Processes</td>
<td>14</td>
<td>14% 17% 29%</td>
</tr>
<tr>
<td></td>
<td>b) Risk Management Processes</td>
<td>15</td>
<td>10% 17% 27%</td>
</tr>
<tr>
<td></td>
<td>c) Integration into Overall Risk Management</td>
<td>17</td>
<td>10% 17% 27%</td>
</tr>
<tr>
<td>Metrics and Targets</td>
<td>a) Climate-Related Metrics</td>
<td>10</td>
<td>17% 27% 34%</td>
</tr>
<tr>
<td></td>
<td>b) Scope 1, Scope 2, and Scope 3 GHG Emissions</td>
<td>10</td>
<td>21% 24% 34%</td>
</tr>
<tr>
<td></td>
<td>c) Climate-Related Targets</td>
<td>13</td>
<td>21% 24% 34%</td>
</tr>
</tbody>
</table>

Note: Results are based on the Task Force’s artificial intelligence analysis of 1,651 public companies.
Source: TCFD, Status Report, 2021
Importance of the Governance Recommendation

Disclosing governance practices provides important context for investors and other users of disclosure

Investors and other users of climate-related financial disclosures are interested in understanding the role a company’s board plays in overseeing climate-related issues as well as management’s role in assessing and managing those issues. Such information supports evaluations of whether climate-related issues receive appropriate board and management attention.

In addition, as part of the lessons learned from the financial crisis of 2007-2008, investors and others have placed heightened attention on governance and risk management practices given their importance in a company achieving its strategy and business objectives.

Providing Decision Useful Information to Investors and Other Users

Based on a survey to understand the most useful climate-related information for making financial decisions, users identified the following types of governance information as the most useful:

- How the board considers climate-related issues when overseeing major capital expenditures, acquisitions, and divestitures
- How the board considers climate-related issues when reviewing and guiding strategy
- Description of management’s role in assessing and managing climate-related issues

Decision Useful Climate-Related Information

For its 2020 status report, the Task Force conducted a survey to identify specific climate-related information users find the most useful when making financial decisions. The Task Force asked users to rate the usefulness of specific and discrete types of information—drawn from the guidance for all sectors—for its 11 recommended disclosures.

Sources:
OECD, Risk Management and Corporate Governance, 2014
TCFD, 2020 Status Report, 2020
Overview of the Governance recommendation
Structure of the Governance recommendation overview section

The overview of each of the two Governance recommended disclosures will follow the structure provided below:

i. Describing the guidance for all sectors associated with the recommended disclosure

ii. Drilling down into specific elements of the recommended disclosure

iii. Providing examples of reporting that align with the recommended disclosure
## Recommended Disclosure Governance a)

The first recommended disclosure under the Governance recommendation — Governance a) — asks companies to describe the board’s oversight of climate-related risks and opportunities.

### Governance

Disclose the company’s governance around climate-related risks and opportunities

<table>
<thead>
<tr>
<th>All Sectors</th>
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<tr>
<td><strong>Recommended Disclosure a)</strong> Describe the board’s oversight of climate-related risks and opportunities.</td>
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In describing the board’s oversight of climate-related issues, companies should consider including a discussion of the following:

- **processes and frequency** by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues;

- whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the company’s performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures; and

- how the board monitors and oversees progress against goals and targets for addressing climate-related issues.

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Example of Disclosure for Governance a)

Describe the board’s oversight of climate-related risks and opportunities

Example Disclosure: National Grid (Energy)

**TCFD alignment:** this example describes an energy company's board oversight of climate-related issues. The company indicates its Board of Directors is responsible for overseeing climate-related risks and opportunities and describes the board's approval of climate change as a principal risk as part of the annual risk review. The example also describes the roles of board sub-committees, including the SEH Committee’s consideration of climate-related risks and opportunities when reviewing business strategy. The report also shares the frequency with which some of these governing bodies meet (e.g., the Board of Directors meet quarterly to review the company's environmental sustainability metrics and targets performance).

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Note: Some content was reformatted in order to fit the page; and some content has been removed, denoted by [...].

The examples included are not intended to represent "best practice" nor demonstrate disclosures that fully meet the associated recommended disclosure. They may not be applicable to all sectors and should be considered within the framework of the sector in which the company operates. The mention of specific companies does not imply that they are endorsed by the TCFD or its members in preference to others of a similar nature that are not mentioned.
**Governance b)**

*Governance b)* asks companies to describe management’s role in assessing and managing climate-related risks and opportunities.

<table>
<thead>
<tr>
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**Recommended Disclosure b)**

Describe management’s role in assessing and managing climate-related risks and opportunities.

In describing management’s role related to the assessment and management of climate-related issues, companies should consider including the following information:

- whether the company **has assigned climate-related responsibilities to management-level positions or committees**; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues;

- a description of the associated **organizational structure(s)**;

- **processes by which management is informed** about climate-related issues; and

- how management (through specific positions and/or management committees) **monitors climate-related issues**.

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Source: TCFD, Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, 2021
Governance a) and b): Clarification on Disclosure

In its 2019 Status Report, the TCFD shared the results of a comprehensive survey on the adoption and use of the TCFD recommendations. Part of the survey asked companies that had implemented or were implementing the TCFD recommendations to describe issues they encountered as part of their implementation.

For the Governance recommendation, nearly 50% of the companies indicated disclosing governance practices around climate-related issues was challenging because their governance practices apply to all issues, not just climate.

Companies did not want to disclose their governance around climate-related issues separately from their disclosure of their general governance practices, which apply to all types of issues.

To address this concern, the Task Force clarified that it did not intend for companies with comprehensive governance processes that address climate-related issues to create separate processes or duplicate existing disclosures. If a company’s disclosures clearly describe its governance processes and it is clear those processes cover climate-related issues, then no further disclosure may be needed.

Sources:
TCFD, 2019 Status Report, 2019
TCFD, 2020 Status Report, 2020
Example of Disclosure for Governance b)
Describe management’s role in assessing and managing climate-related risks and opportunities

Example Disclosure: Allianz Group (Insurance Underwriting and Investing)

TCFD alignment: this example describes management’s responsibilities for climate-related issues at Allianz Group.

• The company indicates that Global Sustainability is responsible for coordinating integration of climate into insurance and investment activities and that ESG Task Forces were created to support cross-functional collaboration in implementing efforts for integration. The ESG Task Forces are sponsored by senior executives, as shown in the table on the right.

• The company indicates its insurance and investment functions have well-established climate teams that report to Board of Management level. In addition, the Investment Management Board oversees climate strategy for the investment management function, including decisions on implementation, target-setting, and compliance related to portfolio decarbonization targets.

Source: Allianz Group, Allianz Group Sustainability Report 2020, 2020, p. 82
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Discussion questions

• Does your company already have governance processes and bodies in place that explicitly address climate-related issues?

• Are the responsibilities of the board and management clearly defined?
Additional Resources

Other resources on how to get started can be found on the TCFD website and the Knowledge Hub

**TCFD Website**

Find all the information you need about the TCFD on its official website, including the recommendations and all other publications.

[Image](https://www.fsb-tcfd.org/)

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**Knowledge Hub**

Find additional TCFD-related resources curated by the CDSB (information on the recommendations, alignment with other frameworks, online courses, etc).

[Image](https://www.tcfdhub.org/)
# TCFD Series of Workshops

The next session will focus on the Strategy recommendation

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Q&A