CLIMATE DISCLOSURE CONVERGENCE

TCFD, SEC, and ISSB

May 9, 2022
## Agenda

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<th>Section</th>
<th>Presenter(s)</th>
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<tbody>
<tr>
<td>INTRODUCTION</td>
<td>Curtis Ravenel</td>
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<td>OVERVIEW OF TCFD FRAMEWORK</td>
<td>Curtis Ravenel</td>
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<td>IFRS/ISSB S2 DRAFT AND LINK TO TCFD</td>
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<td>Erik Gerding</td>
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<td>Q&amp;A</td>
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Introduction

Curtis Ravenel — TCFD Secretariat
Overview of TCFD Framework

Curtis Ravenel — TCFD Secretariat
The TCFD Recommendations

The TCFD collaborated with industry stakeholders to develop a voluntary disclosure framework.

Development of the Recommendations

- Considered the challenges for preparers of disclosures as well as the benefits of such disclosures to investors, lenders, and insurance underwriters.

- Engaged in significant outreach and consultation with users and preparers of disclosures and other stakeholders.

- Drew from existing climate-related disclosure regimes and sought to develop a decision-useful framework to align and supplement existing disclosure frameworks.

- Emphasized disclosure of the financial impacts of climate-related risks and opportunities on a company.

The TCFD Recommendations

The recommendations are structured around four thematic areas that represent core elements of how companies operate.

<table>
<thead>
<tr>
<th>Governance</th>
<th>Risk Management</th>
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<tbody>
<tr>
<td>Disclose the company’s governance around climate-related risks and opportunities.</td>
<td>Disclose how the company identifies, assesses, and manages climate-related risks.</td>
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</table>

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Metrics and Targets</th>
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<tbody>
<tr>
<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 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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</table>

Note: The four recommendations are supported by 11 recommended disclosures.
Overview of TCFD publications

Since 2017, TCFD has released a number of additional reports and guidance to measure progress and aid implementation.

### 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**

### Status Reports

- **2018 Status Report**
- **2019 Status Report**
- **2020 Status Report**
- **2021 Status Report**

Note: Visit fsb-tcfd.org/publications to access all of the Task Force’s reports, guidance, and other materials.
2021 Implementing Guidance (Annex)

In 2021, the Task Force updated key elements of its implementation guidance for the TCFD recommendations.

### Updates to guidance for all sectors

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Governance</td>
<td>No changes from 2017 guidance</td>
</tr>
<tr>
<td>Strategy</td>
<td>• Revised to more explicitly address disclosure of <strong>actual financial impacts</strong> on organizations as well as key information from organizations’ plans for transitioning to a low-carbon economy (<strong>transition plans</strong>).&lt;br&gt;• Revised to more explicitly address disclosure of <strong>potential financial impacts</strong> on organizations.</td>
</tr>
<tr>
<td>Risk Management</td>
<td>No changes from 2017 guidance</td>
</tr>
<tr>
<td>Metrics and Targets</td>
<td>• Revised to more explicitly address disclosure of metrics consistent with <strong>cross-industry, climate-related metric categories</strong> for current, historical, and future periods, and added disclosure of targets consistent with cross-industry, climate-related metric categories, where relevant.&lt;br&gt;• Revised disclosure of <strong>Scope 1 and Scope 2 GHG emissions</strong> to be independent of a materiality assessment.&lt;br&gt;• Revised to encourage disclosure of <strong>Scope 3 GHG emissions</strong>.&lt;br&gt;• Added disclosure of <strong>interim targets</strong>, where available, for organizations disclosing medium-term or long-term targets.</td>
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</table>
## Guidance on Metrics, Targets, and Transition Plans

The Task Force developed guidance on metrics, targets, and transition plans to reflect evolution in disclosure since 2017.

<table>
<thead>
<tr>
<th>Metrics</th>
<th>Targets</th>
<th>Transition Plans</th>
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<tbody>
<tr>
<td>Key characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Decision-useful</td>
<td>• Aligned with strategy and risk management goals</td>
<td>• Aligned with strategy</td>
</tr>
<tr>
<td>• Clear and understandable</td>
<td>• Linked to relevant metrics</td>
<td>• Anchored in quantitative elements, including climate-related metrics and targets</td>
</tr>
<tr>
<td>• Reliable, verifiable, and objective</td>
<td>• Quantified and measurable</td>
<td>• Subject to effective governance processes</td>
</tr>
<tr>
<td>• Consistent over time</td>
<td>• Clearly specified over time</td>
<td>• Actionable, specific initiatives</td>
</tr>
<tr>
<td>– Current</td>
<td>– Baseline</td>
<td>• Credible</td>
</tr>
<tr>
<td>– Historical</td>
<td>– Time horizon</td>
<td>• Periodically reviewed and updated</td>
</tr>
<tr>
<td>– Forward-looking</td>
<td>– Interim targets</td>
<td>• Reported annually to stakeholders</td>
</tr>
<tr>
<td></td>
<td>• Understandable and contextualized</td>
<td></td>
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<tr>
<td></td>
<td>• Periodically reviewed and updated</td>
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<td></td>
<td>• Reported annually</td>
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<tr>
<td>Examples</td>
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<tr>
<td>• GHG Emissions: Absolute Scope 1, Scope 2, and Scope 3 GHG emissions</td>
<td>• GHG emissions: Reduce net Scope 1 and 2 GHG emissions to zero by 2050</td>
<td>Actions and activities to support transition to net-zero Scope 1 and 2 GHG emissions by 2050, including:</td>
</tr>
<tr>
<td>• Transition Risk: Amount and extent of assets or business activities</td>
<td>• Capital Deployment: Invest at least 25% of annual capital expenditure</td>
<td>• Specific actions for reducing GHG emissions</td>
</tr>
<tr>
<td>vulnerable to transition risks</td>
<td>into electric vehicle manufacturing</td>
<td>• Current GHG emissions performance and targets</td>
</tr>
<tr>
<td>• Capital Deployment: Amount of financing deployed toward climate-</td>
<td></td>
<td>• Impact of actions on businesses, strategy, and financial planning</td>
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<td>related risks and opportunities</td>
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1. For Metrics, these are examples of the seven metrics categories that companies should disclose as detailed in Guidance on Metrics, Targets, and Transition Plans (October 2021) (p.16-17).
Global Momentum of the TCFD Recommendations
Organizations around the world are increasingly expressing support for the TCFD recommendations

Jurisdictions Use of the TCFD Recommendations

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

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

June 2021: The Tokyo Stock Exchange issued a revised Corporate Governance Code that indicates certain companies should enhance disclosure based on the TCFD

October 2021: The Canadian Securities Administrators issued proposed disclosure requirements for issuers aligned with the four recommendations of the TCFD

October 2021: New Zealand passed a law to require certain organizations to make climate-related financial disclosures in line with the TCFD recommendations. The law is expected to go into effect in 2023, subject to the publication of reporting standards

November 2021: Australian Prudential Regulatory Authority published TCFD-aligned guidance on managing climate risks

December 2021: The Financial Conduct Authority issued a final rule requiring issuers to make TCFD-aligned disclosures on a comply or explain basis

December 2021: The Hong Kong Monetary Authority issued a manual on climate risk management and indicated the TCFD recommendations are “a desirable framework for [Authorized Institutions] to rely upon”

December 2021: The Brazilian Securities Exchange Commission amended its rules to require issuers to indicate whether they disclose information based on the TCFD recommendations or another recognized source

December 2021: The Singapore Exchange amended its rules to require climate reporting based on the TCFD by certain industries for FY2023 and additional industries for FY2024

March 2022: The U.S. Securities and Exchange Commission published a proposed rule on climate-related disclosures that incorporates key aspects of the TCFD framework

Other Supporting Initiatives

“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.”

“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.”

“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.”

“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.”

The International Sustainability Standards Board’s proposed sustainability standards that "build upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)".
Additional Resources

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

**TCFD Website**

Find additional information on the TCFD website, including the recommendations and all other publications. Additional resources include the following:

- The *Workshops in a Box* is a set of five presentations for use in introductory workshops on the TCFD recommendations. Various parties can use these to support adoption and implementation.
- The *Overview Booklet* provides a brief overview of the Task Force’s remit and work.
- The *TCFD publications* which include the following:
  - 2017 Final Report
  - 2021 Implementing Guidance (Annex)
  - 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
  - All status reports since 2018

**Knowledge Hub**

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

https://www.tcfdhub.org/
IFRS/ISSB S2 Draft and link to TCFD

IFRS S2 Exposure Draft on Climate-related Disclosures (link)

Spencer Powell — Technical Staff, ISSB
COP26 / ISSB announcement

1. **Establish** International Sustainability Standards Board (ISSB)

2. **Consolidate** Climate Disclosure Standards Board and Value Reporting Foundation (IIRC and SASB)

3. **Publish** general disclosure and climate prototypes **as a precursor** to ISSB proposals (exposure drafts)
ISSB focus

- Develop standards for global baseline of sustainability disclosures and a digital taxonomy to enable electronic tagging of disclosures
- Focus on meeting the information needs of investors
- Will enable companies to provide comprehensive sustainability information for the global capital markets
- Building blocks approach: facilitate the addition of requirements that are jurisdiction-specific or aimed at a broader group of stakeholders
## Significant progress since COP26

<table>
<thead>
<tr>
<th>COP26 announcement</th>
<th>Developments since COP26</th>
<th>Current focus</th>
</tr>
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</table>
| 1. Establish ISSB  | • Leadership appointments  
   - Emmanuel Faber (Chair)  
   - Sue Lloyd (Vice-Chair)  
   - Janine Guillot (Special Advisor)  
   • Multi-location model  
   - MoU with Frankfurt, interim office in place  
   - MoU with Montreal  | • Appointments  
   - Recruiting remaining ISSB members  
   • Multi-location model  
   - Finalise arrangements for Asia-Oceania presence  
   • Appoint advisory groups  |
|                    | 2. Consolidate or align with other initiatives  
   • CDSB consolidation completed (Jan 2022)  
   • GRI cooperation agreement (MoU)  
   • Jurisdictional working group set up  | • Preparing for VRF consolidation (June 2022)  |
|                    | 3. Publication of prototypes  
   • Published proposals for inaugural IFRS Sustainability Disclosure Standards  | • Outreach and consultation  |
Two proposed IFRS Sustainability Disclosure Standards

1. General Requirements Exposure Draft

2. Climate Exposure Draft
Standards architecture

Focus on investor audience and enterprise value

Common thread – four core elements
Taken from TCFD structure

Governance
Strategy
Risk Management
Metrics and targets

General Requirements Standard

Thematic / cross-industry requirements

Industry-based requirements

Core elements used across IFRS Sustainability Disclosure Standards
Requires companies to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value

- Other IFRS Sustainability Disclosure Standards (e.g., Climate Standard) set out specific disclosures
- Points to other standards and frameworks in absence of a specific IFRS Sustainability Disclosure Standard
- Equivalent to IFRS Accounting Standards IAS 1 and IAS 8
Requirements for disclosure of material information about significant climate-related risks and opportunities

- Requires disclosure of information about;
  - physical risks (e.g., flood risk)
  - transition risks (e.g., regulatory change)
  - climate-related opportunities (e.g., new technology)
Relation to TCFD recommendations and SASB Standards

Consistent with TCFD
- Governance
- Strategy
- Risk management
- Cross-industry metrics and targets
- Illustrative guidance

Builds on SASB Standards
- Industry-based disclosures in Appendix B derived from SASB Standards
- Proposed changes to:
  - Internationalise metrics
  - Add financed emissions disclosures
### Example: Link between TCFD and Climate-related Disclosures Exposure Draft

<table>
<thead>
<tr>
<th>TCFD Recommendation, Recommended Disclosure and Guidance</th>
<th>Climate-related Disclosures Exposure Draft</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Disclosure</strong></td>
<td><strong>Strategy</strong></td>
</tr>
<tr>
<td>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.</td>
<td>Understand an entity’s strategy for addressing significant climate-related risks and opportunities.</td>
</tr>
<tr>
<td><strong>Recommended Disclosure c)</strong></td>
<td></td>
</tr>
<tr>
<td>Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</td>
<td>The Exposure Draft requires additional information regarding resiliency on:</td>
</tr>
<tr>
<td></td>
<td>• significant areas of uncertainty for strategy resilience;</td>
</tr>
<tr>
<td></td>
<td>• an entity’s capacity to adjust and adapt its strategy over time; and</td>
</tr>
<tr>
<td></td>
<td>• details on how any resilience analysis or assessment has been conducted.</td>
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</table>
Key features

- **Transition planning**
  Emissions targets and use of carbon offsets

- **Climate resilience**
  Resilience of business strategy in multiple scenarios

- **Scope 1-3 emissions**
  Requirement to disclose GHG emissions
How to comment on the proposals?

- Comment Letter
- Survey

Visit: ifrs.org/projects/open-for-comment/

Comments are published on ifrs.org
Next steps for the Exposure Drafts

- **31 Mar**: Proposals published
- **Apr-Jul**: Consultation and outreach
- **29 Jul**: Consultation closes
- **Aug-Dec**: Consultation feedback analysis
- **ISSB deliberations**
- **Refine and finalise Standards**
- **End 2022**: Issue Standards *

* Dependent on feedback from the consultation
Adoption ecosystem

ISSB
- Comprehensive global baseline of standards & digital taxonomy

IOSCO
- Assess with a view to recommend adoption

IAASB
- Enhance & develop assurance standards

Jurisdictions
- Require by adopting the standards & taxonomy

Voluntary
- Market demand-driven
SEC proposed rule and link to TCFD

SEC proposed rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors (link)

Erik Gerding — Deputy Director, Legal and Regulatory Policy, Division of Corporation Finance, SEC
Q&A