

TCFD

TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

CLIMATE DISCLOSURE CONVERGENCE

TCFD, SEC, and ISSB

May 9, 2022

Agenda

Section	Presenter(s)
INTRODUCTION	Curtis Ravenel TCFD Secretariat
OVERVIEW OF TCFD FRAMEWORK	Curtis Ravenel TCFD Secretariat
IFRS/ISSB S2 DRAFT AND LINK TO TCFD	Spencer Powell Technical Staff, ISSB
SEC PROPOSED RULE AND LINK TO TCFD	Erik Gerding Deputy Director, Legal and Regulatory Policy, Division of Corporation Finance, SEC
Q&A	

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.

Governance

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

Risk Management

Disclose how the company identifies, assesses, and manages climate-related risks.

Strategy

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.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

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

See slide 7



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

See slide 8



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

Governance	<i>No changes from 2017 guidance</i>
Strategy	<ul style="list-style-type: none">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.
Risk Management	<i>No changes from 2017 guidance</i>
Metrics and Targets	<ul style="list-style-type: none">Revised to more explicitly address disclosure of metrics consistent with cross-industry, climate-related metric categories for current, historical, and future periods, and added disclosure of targets consistent with cross-industry, climate-related metric categories, where relevant.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 interim targets, where available, for organizations disclosing medium-term or long-term targets.

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

	Metrics	Targets	Transition Plans
Key characteristics	<ul style="list-style-type: none"> Decision-useful Clear and understandable Reliable, verifiable, and objective Consistent over time <ul style="list-style-type: none"> Current Historical Forward-looking 	<ul style="list-style-type: none"> Aligned with strategy and risk management goals Linked to relevant metrics Quantified and measurable Clearly specified over time <ul style="list-style-type: none"> Baseline Time horizon Interim targets Understandable and contextualized Periodically reviewed and updated Reported annually 	<ul style="list-style-type: none"> 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
Examples	<ul style="list-style-type: none"> <i>GHG Emissions:</i> Absolute Scope 1, Scope 2, and Scope 3 GHG emissions <i>Transition Risk:</i> Amount and extent of assets or business activities vulnerable to transition risks <i>Capital Deployment:</i> Amount of financing deployed toward climate-related risks and opportunities¹ 	<ul style="list-style-type: none"> <i>GHG emissions:</i> Reduce net Scope 1 and 2 GHG emissions to zero by 2050 <i>Capital Deployment:</i> Invest at least 25% of annual capital expenditure into electric vehicle manufacturing 	<p>Actions and activities to support transition to net-zero Scope 1 and 2 GHG emissions by 2050, including:</p> <ul style="list-style-type: none"> Specific actions for reducing GHG emissions Current GHG emissions performance and targets Impact of actions on businesses, strategy, and financial planning

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

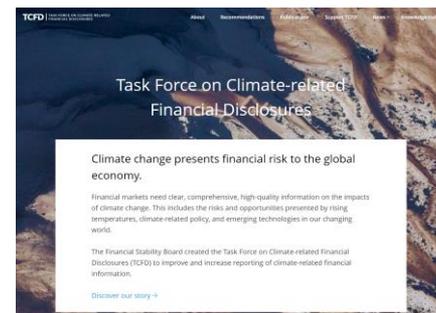
Other resources on how to get started can be found on the TCFD website and the Knowledge Hub

TCFD Website

<https://www.fsb-tcfd.org/>

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

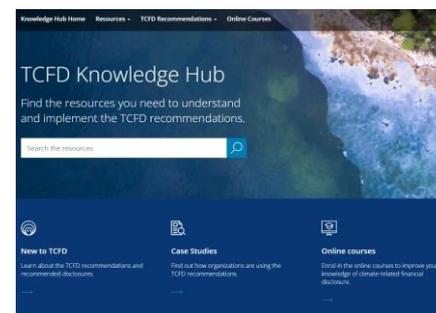
- The **Workshops in a Box** is a set of five presentations for use in introductory workshops on the TCFD recommendations. Various parties can use these to support adoption and implementation.
- The **Overview Booklet** provides a brief overview of the Task Force's remit and work.
- The **TCFD publications** 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

<https://www.tcfdhub.org/>

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



IFRS/ISSB S2 Draft and link to TCFD

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

Spencer Powell — Technical Staff, ISSB

IFRS® Foundation

ISSB's proposed IFRS® Sustainability Disclosure Standards

May 2022

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



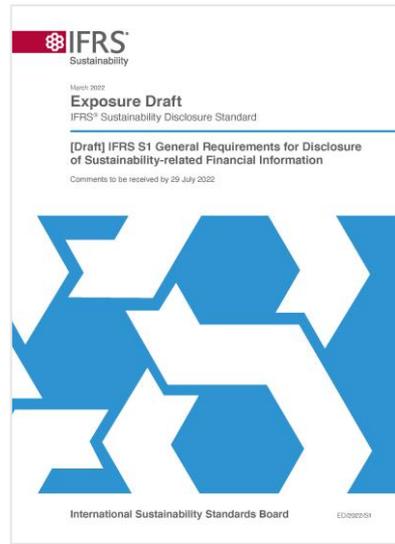
Building blocks approach: facilitate the addition of requirements that are jurisdiction-specific or aimed at a broader group of stakeholders

Significant progress since COP26

COP26 announcement	Developments since COP26	Current focus
1. Establish ISSB	<ul style="list-style-type: none"> • Leadership appointments <ul style="list-style-type: none"> • Emmanuel Faber (Chair) • Sue Lloyd (Vice-Chair) • Janine Guillot (Special Advisor) • Multi-location model <ul style="list-style-type: none"> • MoU with Frankfurt, interim office in place • MoU with Montreal 	<ul style="list-style-type: none"> • Appointments <ul style="list-style-type: none"> • Recruiting remaining ISSB members • Multi-location model <ul style="list-style-type: none"> • Finalise arrangements for Asia-Oceania presence • Appoint advisory groups
2. Consolidate or align with other initiatives	<ul style="list-style-type: none"> • CDSB consolidation completed (Jan 2022) • GRI cooperation agreement (MoU) • Jurisdictional working group set up 	<ul style="list-style-type: none"> • Preparing for VRF consolidation (June 2022)
3. Publication of prototypes	<ul style="list-style-type: none"> • Published proposals for inaugural IFRS Sustainability Disclosure Standards 	<ul style="list-style-type: none"> • Outreach and consultation

Two proposed IFRS Sustainability Disclosure Standards

1



General Requirements
Exposure Draft

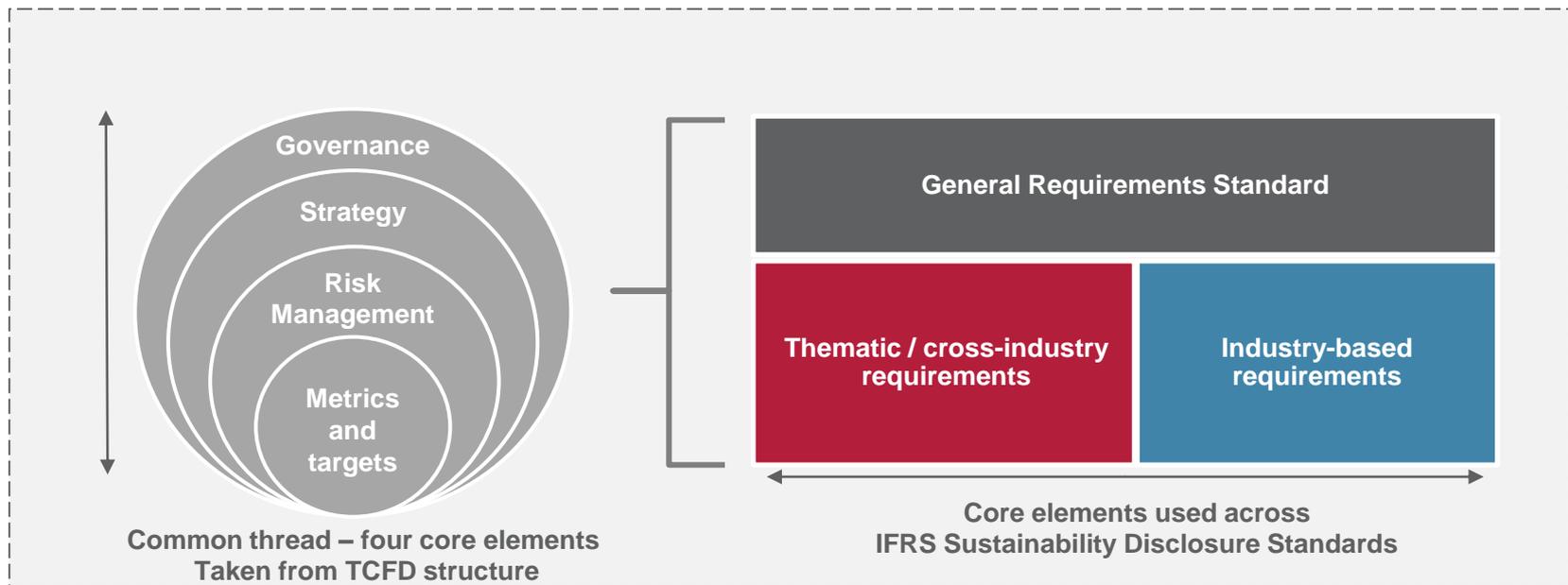
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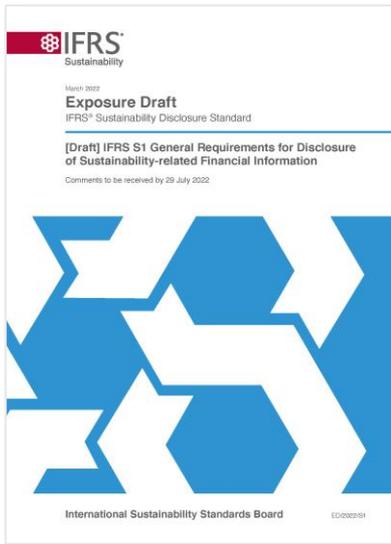
Climate
Exposure Draft

Standards architecture

Focus on investor audience and enterprise value



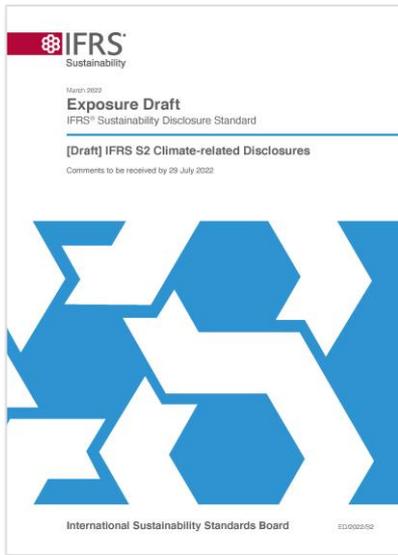
1 General Requirements Exposure Draft



Requires companies to provide material information on all significant sustainability-related risks and opportunities necessary to assess enterprise value

- Other IFRS Sustainability Disclosure Standards (eg 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

2 Climate Exposure Draft



Requirements for disclosure of material information about significant climate-related risks and opportunities

- Requires disclosure of information about;
 - physical risks (eg flood risk)
 - transition risks (eg regulatory change)
 - climate-related opportunities (eg 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

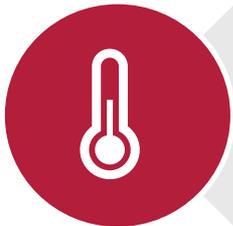
TCFD Recommendation, Recommended Disclosure and Guidance	Climate-related Disclosures Exposure Draft
<p>Strategy</p> <p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.</p>	<p>Strategy</p> <p>Understand an entity's strategy for addressing significant climate-related risks and opportunities.</p>
<p>Recommended Disclosure c)</p> <p>Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>The Exposure Draft requires additional information regarding resiliency on:</p> <ul style="list-style-type: none">• significant areas of uncertainty for strategy resilience;• an entity's capacity to adjust and adapt its strategy over time; and• details on how any resilience analysis or assessment has been conducted.

Key features



Transition planning

Emissions targets and use of carbon offsets



Climate resilience

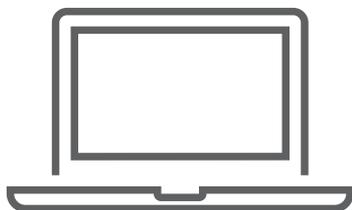
Resilience of business strategy in multiple scenarios



Scope 1-3 emissions

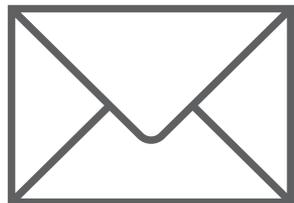
Requirement to disclose GHG emissions

How to comment on the proposals?



Survey

or



Comment letter

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

Comments are published on ifrs.org

Next steps for the Exposure Drafts



* 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