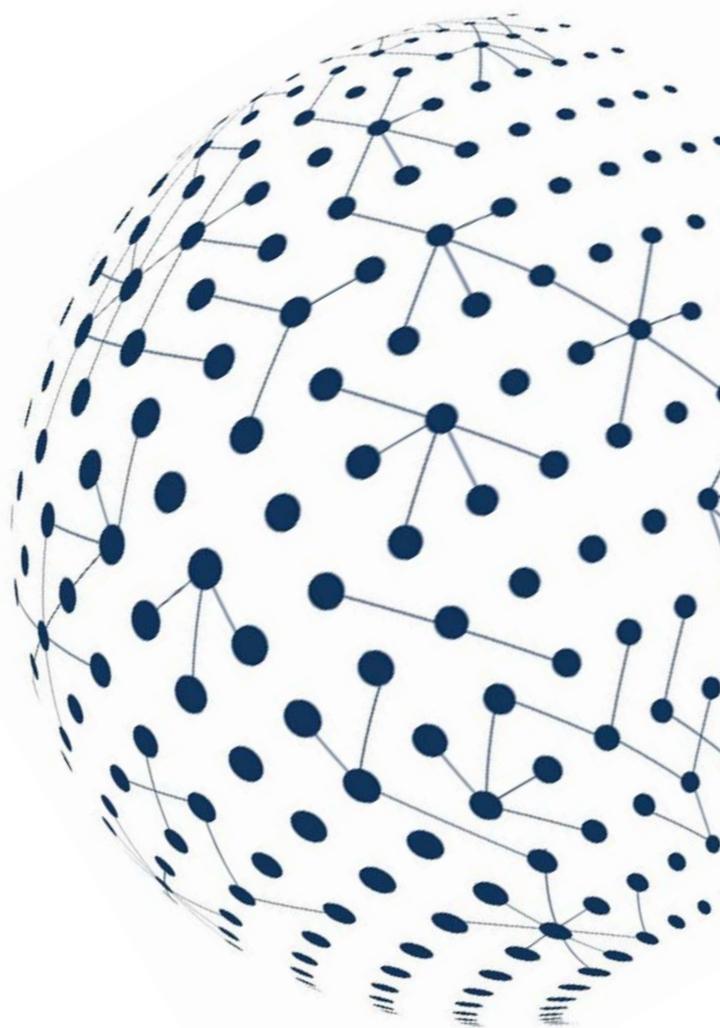


Report on Promoting Climate-Related Disclosures

7 July 2021



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Executive summary

Globally consistent and comparable disclosures by firms of their climate-related financial risks are increasingly important to market participants and financial authorities as a means to give investors and other market participants the information they need to manage risks, and seize opportunities, stemming from climate change.

In an environment with a proliferation of third-party frameworks for climate-related disclosures, the FSB calls for an acceleration of progress in the implementation of climate-related disclosures, using a framework based on the TCFD Recommendations¹, in line with jurisdictions' regulatory and legal requirements. This would be an important step forward on the path towards convergence with anticipated international reporting standards on climate, and help build industry-wide capabilities ahead of time. Global alignment of practices would help deliver consistent and comparable disclosures and foster convergence. The FSB welcomes the IFRS Foundation's programme of work to develop a baseline global sustainability reporting standard under robust governance and public oversight, built from the TCFD framework and the work of an alliance of sustainability standard-setters, involving them and a wider range of stakeholders closely, including national and regional authorities.

The FSB surveyed its members in the first half of 2021 to explore national/regional practices (current or planned) of financial authorities on promoting climate-related disclosures. The survey responses indicate that:

- There is a strong focus across the majority of jurisdictions in implementing climate-related disclosures, often with multiple authorities involved in each jurisdiction to cover the breadth of disclosures across financial institutions and non-financial corporates.
- A large majority of jurisdictions set or plan to set requirements, guidance or expectations for both financial institutions and non-financial corporates.
- TCFD Recommendations are the common basis for climate-related disclosures in most jurisdictions that set or plan to set requirements or guidance in this area. Other third-party frameworks and standards tend to be referenced in conjunction with TCFD Recommendations.
- The development of financial authorities' approaches to climate disclosures is still ongoing in many jurisdictions. Approaches to implementation vary, both between and within jurisdictions. One primary difference in approaches is whether the regimes are 'mandatory' or 'voluntary' in their implementation. The report includes case studies of jurisdictions' approaches on the UK, Japan, European Union, Hong Kong and Brazil.
- Jurisdictions range in practice on the materiality lens that they apply on climate-related disclosures. A few jurisdictions provide guidance based on materiality for climate-related disclosures, under existing securities disclosure requirements for listed entities.

¹ The term "TCFD Recommendations" in this report refers to the Recommendations and Supporting Recommended Disclosures set out in the June 2017 *Recommendations of the Task Force on Climate-related Financial Disclosures*.

- While the TCFD Recommendations were developed with a focus on climate-related financial disclosure, jurisdictions are increasingly looking beyond climate change to frameworks for disclosure on broader sustainability matters.
- While climate change is global in nature, the risks and opportunities and financial impact vary across jurisdictions. This poses unique considerations for EMDE jurisdictions, as well as for firms in those jurisdictions, which should be recognized in order to better support their efforts in implementing climate-related disclosures frameworks.
- Most jurisdictions expressed strong support for the development of a common global baseline of international reporting standards on climate, with many referencing the ongoing work of the IFRS Foundation.

Areas of gaps and challenges in the implementation of requirements or guidance based on TCFD Recommendations were identified, stemming from the findings above. These relate to i) the consistency of climate-related disclosures (including the use of TCFD Recommendations as the basis for frameworks and for coordination across jurisdictions and within each jurisdiction) and ii) the reliability of climate-related disclosures (including the use of regulatory or supervisory mechanisms to drive progress and third-party verification).

The report sets high-level guidance, in the form of recommendations, to support financial authorities in their development of frameworks, as they consider appropriate to their wider public policy objectives, regulatory and legal frameworks. While recognizing the need for jurisdictional flexibility, it aims to promote greater consistency in approaches and accelerate progress. In particular:

- Recommendation 1 - Financial authorities are encouraged to use a framework based on the TCFD Recommendations across all sectors (non-financial corporates and financial institutions) for climate-related financial disclosures, in line with jurisdictions' regulatory and legal requirements. This would foster a more consistent global approach and promote convergence in anticipation of international reporting standards on climate that will build on the TCFD Recommendations.
- Recommendation 2 - Financial authorities are encouraged to promote sharing of experiences, provide mutual support across jurisdictions on implementation of climate-related disclosure frameworks and accelerate international efforts to help build industry-wide awareness, technical knowledge and capabilities.
- Recommendation 3 - Financial authorities within each jurisdiction are encouraged to strongly coordinate in order to provide clear and consistent expectations, guidance or requirements to firms across all sectors on climate-related disclosures.
- Recommendation 4 - As disclosure practices continue to evolve and improve over time, in the longer term financial authorities can contribute to significantly improving the reliability of climate-related disclosures if they were to require, as appropriate, some form of third-party verification or assurance on climate-related disclosures made by firms. Where frameworks in jurisdictions require firms to provide climate-related disclosures within financial filings, financial authorities could set expectations on the level of assurance required on the disclosed information.

Continued coordination among financial authorities at the jurisdiction level and global coordination across jurisdictions and with relevant organisations is paramount to support the call for an acceleration in progress. The FSB can play an important role in global coordination, including promoting adoption of anticipated international reporting standards based on TCFD Recommendations, once developed and if endorsed, as a common global baseline. Such internationally agreed standards for disclosures as a global baseline would not preclude authorities from going further or at a faster pace in their jurisdictions. Jurisdictions will have their own regulatory and legal frameworks for adopting, applying or considering international reporting standards.

1. Introduction

This report examines the current and planned climate-related disclosure practices across FSB member jurisdictions and sets out high-level guidance to address implementation challenges. As part of its global coordinating role, the FSB undertook work in the first half of 2021 to explore national/regional practices of financial authorities on promoting climate-related disclosures. The objective of this report is to promote high quality, consistent implementation of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations as the basis for climate-related financial disclosures, in line with jurisdictions' regulatory and legal frameworks, and to contribute to a more common approach among national/regional financial authorities. Global alignment of practices on climate-related disclosures would help deliver consistent and comparable disclosures, foster convergence and guide practices to align with and prepare for anticipated international reporting standards on climate that will build on the TCFD Recommendations.

The report draws on a survey conducted in March 2021 of FSB member jurisdictions on current and planned approaches to promoting climate-related disclosures, including in requirements, guidance or expectations and implementation of TCFD Recommendations. All 25 FSB member jurisdictions provided consolidated responses covering their respective financial authorities.²

The TCFD Recommendations set out a comprehensive framework that has been developed by, and is directly responsive to the needs of, users and preparers of financial filings across a range of financial and non-financial sectors around the world. The recommendations focus on decision-useful information (such as to investors, lenders, insurance underwriters) and have attracted widespread support. In an environment with a proliferation of third-party frameworks for climate-related disclosures, the FSB has strongly encouraged national or regional authorities that are developing requirements or guidance for climate-related disclosures to consider using the TCFD Recommendations as the basis.³ Such consistency in approach would promote global convergence, both across jurisdictions, and between requirements and guidance being developed today and future international standards. Globally consistent and comparable disclosures by non-financial corporates and financial firms of their climate-related financial risks are increasingly important to investors, other market participants and financial authorities as a means to give financial market participants the information they need to manage risks, and seize opportunities, stemming from climate change.

This report aims to advance consistent implementation of TCFD Recommendations. The FSB calls for an acceleration of progress in the implementation of climate-related disclosures, using a framework based on the TCFD Recommendations, in line with jurisdictions' regulatory and legal requirements. This would be an important step forward on the path towards convergence in anticipation of international reporting standards on climate, and help build industry-wide capabilities ahead of time.

² All 25 FSB member jurisdictions provided consolidated responses: Argentina, Australia, Brazil, Canada, China, European Union (EU), France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Korea, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Turkey, UK and US.

³ FSB public statement *FSB encourages the IFRS Foundation and authorities to use TCFD's recommendation as a basis for climate-related financial risk disclosures*, 21 December 2020

The report is structured as follows. Section 2 describes the survey findings on the range of climate-disclosure practices across jurisdictions. Section 3 examines selected case studies that provide more detail on jurisdictions' approaches to implementation and how the TCFD framework has been implemented. Section 4 identifies specific areas of challenge on implementation of requirements or guidance based on TCFD Recommendations and sets out high-level guidance to address these implementation challenges. Section 5 concludes and identifies important future work for the FSB as part of its global coordinating role.

2. Climate-related disclosure practices across jurisdictions

This section sets out the survey findings of the range of climate-disclosure practices across jurisdictions. It presents a snapshot in time of the range of approaches taken across jurisdictions, including those of advanced economies (AEs) and emerging markets and developing economies (EMDEs), and the stages they are at with respect to setting requirements, guidance or expectations on climate-related disclosures. Where possible, it identifies similarities and differences in approaches across and within jurisdictions, including the supervisory and regulatory tools available, the approaches taken to using TCFD Recommendations as the basis, and implementation challenges based on current practices.

2.1. Setting requirements, guidance and expectations on climate-related disclosures for financial institutions and non-financial corporates

2.1.1. *Mandates of financial authorities*

The survey responses indicate that there is a strong focus across the majority of jurisdictions in implementing climate-related disclosures, often with multiple authorities involved in each jurisdiction to cover the breadth of disclosures across financial institutions and non-financial corporates. All 25 jurisdictions⁴ have one or more authorities that consider climate-related disclosures within their existing mandates, taking on various perspectives including, in most cases, on risks and opportunities associated with Environment, Social, Corporate Governance (ESG), followed by the interests of depositors (and, in some cases, policyholders), investor protection, transparency, wider societal impacts associated with ESG and, in fewer cases, financial stability, fair and efficient markets, as well as accelerating the development of sustainable finance.

2.1.2. *Differences in stages of implementation across jurisdictions*

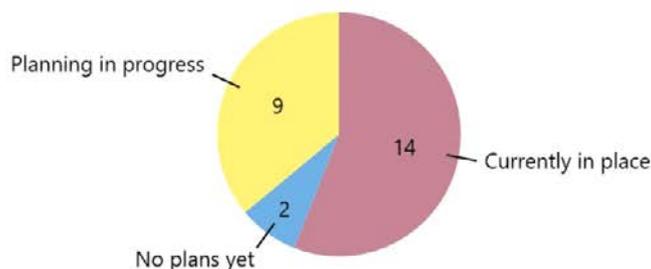
A large majority of jurisdictions set or plan to set requirements, guidance or expectations on climate-related disclosures for both financial institutions and non-financial corporates. More specifically, 14 out of 25 jurisdictions indicate that they currently have requirements, guidance or expectations in place in respect of climate-related disclosures.⁵ These approaches generally

⁴ 25 jurisdictions responded in the survey to have one or more authorities that consider climate-related disclosures within their existing mandates and another jurisdiction mentioned it considered climate risk more broadly in its authorities' mandates.

⁵ Australia, EU, France, Germany, Hong Kong, Indonesia, India, Italy, Japan, Netherlands, Singapore, Spain, Turkey and UK.

cover areas such as disclosure for listed entities, disclosures for financial institutions, and investors' protection. Nine jurisdictions are planning to introduce requirements, guidance or expectations, with planned approaches mostly focusing on assessing financial institutions' climate-related risks and improving transparency.⁶ Two jurisdictions indicated no plans yet.⁷ See graph 1 below.

<p>Please indicate whether your jurisdiction already has requirements, guidance or expectations in respect of climate-related disclosures currently in place, whether it is planning to introduce such requirements or whether it has no plans yet.</p>	<p>Graph 1</p>
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Source: FSB Questionnaire

Almost all jurisdictions set or plan to set requirements, guidance or expectations for both non-financial corporates and financial institutions. More specifically, 21 jurisdictions focus on both, while three jurisdictions focus only on financial institutions (see graph 2 below).⁸

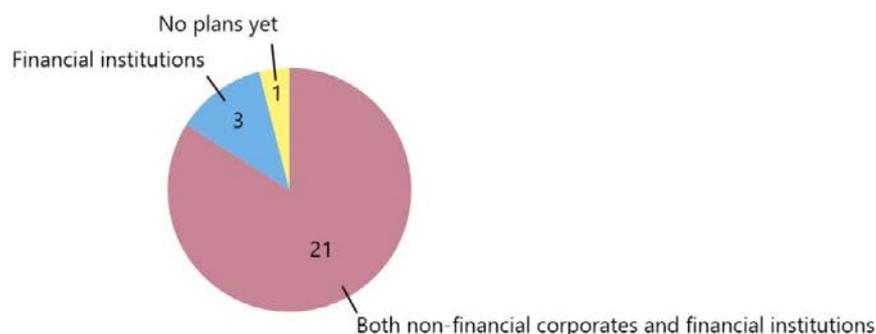
⁶ Argentina, Brazil, Canada, China, Korea, Mexico, Russia, Switzerland and US. For the insurance sector in the US, an annual NAIC Climate Risk Disclosure Survey has been administered since 2010 to insurers representing over 70% of US direct written premium, on information such as how they incorporate climate risks into their mitigation, risk management, investment and business plans. Beginning in 2020, insurers were allowed to submit a TCFD report in lieu of the NAIC Climate Risk Disclosure Survey.

⁷ Saudi Arabia and South Africa.

⁸ Out of the two jurisdictions (Saudi Arabia and South Africa) that stated they had no plans yet for setting requirements, guidance or expectations in respect of climate-related disclosures (Graph 1), South Africa is exploring the possibility of developing disclosure requirements for financial institutions. This accounts for the difference between Graphs 1 and 2 in the number of jurisdictions with no plans yet.

Do financial authorities or other official sector entities within your jurisdiction currently set, or plan to set, requirements, guidance or expectations on climate-related disclosures for non-financial corporates and financial institutions

Graph 2



Source: FSB Questionnaire

For corporate disclosures, 12 jurisdictions have or plan to have approaches for both publicly listed and non-listed corporates, nine focus only on publicly listed corporates and the remaining four have no plans yet.

For financial institutions' disclosures, current or planned approaches in 22 jurisdictions cover both publicly listed and non-listed financial institutions. Only two jurisdictions planned to focus only on publicly listed financial institutions and one jurisdiction had no plans yet. Financial institutions in scope of climate-related disclosures tend to be mostly banks, insurers and asset managers, and in a fewer cases pension funds and financial advisers.

Overall, based on survey responses, it appears that most AEs have reached the stage of having requirements, guidance or expectations in place, while most EMDEs are at the planning stage. Only two jurisdictions have no plans yet (reflected in graph 1).

Jurisdictions' main motivations for setting requirements, guidance or expectations on climate-related disclosures cover a wide span – the motivations relate to assessing climate-related risk for financial institutions, developing sustainable finance markets, assessing opportunities for financial institutions, and investor protection. In addition, improving resilience of market players and of the financial sector were also mentioned as motivations among some jurisdictions.

2.2. Implementation of TCFD Recommendations

2.2.1. TCFD Recommendations as the common basis for climate-related financial disclosure frameworks

Among the 23 jurisdictions who set or plan to set requirements, guidance or expectations on climate-related financial disclosures, TCFD Recommendations are the common basis in most cases. More specifically, 18 out of 23 jurisdictions have adopted or are planning to adopt

frameworks aligned with the TCFD Recommendations⁹, with 15 of these setting disclosure requirements or expectations against all of TCFD's four overarching recommendations and 11 recommended disclosures¹⁰.

Most jurisdictions that have used the TCFD recommendations as the basis for their climate-related disclosures have directly referenced the recommendations within the relevant legal or regulatory text. Those jurisdictions that are still developing their approach to climate-related disclosures (such as Mexico, Hong Kong or Switzerland) are similarly considering referencing the TCFD Recommendations.

A few jurisdictions have taken or intend to take slightly different approaches in their requirements by not referencing the TCFD Recommendations directly. In one case (Brazil), the TCFD Recommendations provide inspiration for the design of the regime but only prudential aspects of TCFD Recommendations applicable to financial institutions will be implemented. In other cases, TCFD Recommendations have been referenced in relevant accompanying guidance materials and frameworks align with TCFD Recommendations (EU and its member states – France, Germany, Italy, Netherlands and Spain). The survey identified a number of implementation challenges:

- Readiness and capabilities across all TCFD Recommendations. In general, responses to the survey revealed that companies were generally better prepared to meet the recommended disclosures under the 'governance' and 'risk management' core elements of the TCFD Recommendations, where the nature of the expectations was generally familiar and well understood by reporting companies. However, some aspects of the 'strategy' and 'metrics and targets' core elements were less familiar, most notably the recommended disclosure on using scenario analysis to assess the resilience of the organisation's climate strategy (Strategy (c)). Observations in the 2020 TCFD Status Report support this view.¹¹ The Report notes the coverage and quality of disclosure varies considerably across the 11 Recommended Disclosures, as well as across regions and sectors. Some jurisdictions have taken account of this issue by implementing the requirements on a 'comply or explain' basis.
- Compatibility with existing requirements. Some jurisdictions had implemented climate-related disclosure requirements ahead of the finalisation of the TCFD Recommendations and were not inclined to revise their regimes. They stated that, for instance, the principles-based nature of the TCFD Recommendations could lead to less specificity and granularity in requirements than existing regimes. In some instances, non-mandatory guidelines on reporting climate-related information have been published ex post to provide clarity to the market, including references to TCFD Recommendations.

⁹ 18 jurisdictions reported that their relevant financial authorities use TCFD Recommendations as the basis for their current or planned requirements, guidance or expectations (Australia, Brazil, Canada, China, EU, France, Germany, Hong Kong, Italy, Japan, Korea, Mexico, Netherlands, Russia, Singapore, Spain, Switzerland and UK); six reported they don't use TCFD as a basis (Argentina, Indonesia, India, South Africa, Turkey and US); and one did not provide an answer (Saudi Arabia).

¹⁰ See TCFD (2017), *Recommendations of the Task Force on Climate-related Financial Disclosures*, which sets out four core elements of recommended climate-related disclosures – governance, strategy, risk management, and metrics and targets. The TCFD's four overarching recommendations are supported by 11 recommended disclosures.

¹¹ TCFD (2020), *2020 Status Report*

- Granularity of references to the TCFD Recommendations. A final consideration in implementing the TCFD Recommendations is the level of detail in which they are implemented (see section 2.3 on different approaches for more detail). While references to the four overarching recommendations and 11 Recommended Disclosures are commonly used in jurisdictions' frameworks, the additional supporting documentation prepared by the TCFD seems to be referenced less frequently. Only nine of 25 respondents stated that their approach directly references both the TCFD Recommendations and accompanying all-sector or supplementary guidance, or that TCFD Recommendations have been transposed and/or adapted. This could have implications for the consistency and quality of disclosures by in-scope companies due to differences in interpretation of the recommendations.

Given the strong international support and growing adoption of the TCFD Recommendations – across both industry and the official sector – many climate-related and sustainability-related disclosure initiatives have adapted to their form and structure. This has been seen most recently with the IFRS Foundation initiative, which proposes to establish the International Sustainability Standards Board (ISSB). The IFRS Foundation Trustees have clarified that they intend to develop an initial 'climate first' reporting standard by building on existing frameworks. TCFD is represented in the IFRS Foundation's Technical Readiness Working Group (TWG), among other standard-setting organisations.

This report looks at how the TCFD Recommendations interact with other frameworks in section 2.3 as well as international coordination in section 2.6.

2.2.2. Interaction between TCFD framework and other frameworks

A vast majority of jurisdictions reference or intend to reference TCFD Recommendations in regulations, guidance or expectations. Other frameworks are or will be referenced as well. In addition to the high-level TCFD Recommendations, there are five main third-party standards and frameworks for climate-related disclosures, namely the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council (IIRC)¹², Climate Disclosure Standards Board (CDSB) and Carbon Disclosure Project (CDP).

The first three are comprehensive, covering the broader ESG spectrum, the first two including sector-specific standards, recommendations and metrics. At a high level,

- The GRI Standards help organizations understand and disclose their sustainability impacts on the economy, environment, and society in a consistent and credible way that meets the needs of multiple stakeholders.
- The SASB Standards offer a practical tool for companies looking to implement the TCFD Recommendations and help firms communicate to investors how sustainability issues drive long-term enterprise value.

¹² Value Reporting Foundation (2021), [IIRC and SASB form the Value Reporting Foundation, providing comprehensive suite of tools to assess, manage and communicate value](#) (9 June)

- The integrated reporting process, defined by the IIRC, brings together material information about an organisation’s ability to create value over time in a way that reflects the commercial, social and environmental context within which it operates.

The other two frameworks are more narrowly focused on the environment:

- The CDSB Framework sets out an approach to reporting environmental information in mainstream reports, with the objective of aligning with and complementing financial reporting and encouraging the standardisation of environmental information.
- CDP is a global disclosure reporting system on environmental impacts, which aims to incentivise and guide companies and cities on their efforts to reduce their greenhouse gas emissions, safeguard water resources and protect forests.

All five standards and frameworks have their own particular emphasis. Responses indicate that, where these third-party frameworks are used, it is typically done in conjunction with TCFD Recommendations rather than as an alternative. More specifically, out of 22 jurisdictions who stated their relevant financial authorities reference or will reference TCFD,¹³ 20 reference other third-party frameworks alongside TCFD, while for the other two jurisdictions, TCFD is the only preferred reporting framework.¹⁴ In some cases, jurisdictions are also referencing other frameworks or guidance than the ones listed above, such as domestic guidance.¹⁵

While the third-party frameworks share some common or complementary elements, they are nonetheless distinct, each with its own scope, target audience and metrics. The application by firms of the voluntary frameworks over time has contributed to divergences in disclosure practices, making it difficult for users to compare the information disclosed, thus reducing its usefulness and potentially hindering decision-making. Firms are also challenged by the reporting burden as they navigate the different voluntary frameworks and options to choose from for disclosure. Further, companies that operate across borders are likely to face disparities in disclosure requirements between jurisdictions, as well as differing demands for information from investors and data providers.

Recognising the complexity around the current sustainability disclosure landscape and the urgent need for a comprehensive sustainability corporate reporting framework, these five organisations (“the alliance”) published a statement in September 2020 setting out a shared vision with the intent to complement each other and build on TCFD Recommendations¹⁶. Subsequently, the alliance published a prototype climate-related financial disclosure standard that can provide a starting point for the development of an international reporting standard and serve as input for the IFRS Foundation¹⁷ (further discussed under Section 2.6.2).

¹³ The 22 jurisdictions include the 18 jurisdictions that reported to use TCFD as a basis for their current or future requirements, guidance or expectations, and four other jurisdictions who reported to not use TCFD as a basis.

¹⁴ 20 jurisdictions reported that their relevant financial authorities reference or will reference TCFD alongside other frameworks (Brazil, Canada, EU, France, Germany, Hong Kong, Indonesia, India, Italy, Japan, Korea, Mexico, Netherlands, Russia, Singapore, South Africa, Spain, Turkey, Switzerland and UK) and two have indicated TCFD as the only framework referenced (Australia and China).

¹⁵ For example, the proposals from the European Commission and EFRAG on revisions to its Non-Financial Reporting Directive (NFRD).

¹⁶ These five organisations (“the alliance”) published a [statement](#) in September 2020

¹⁷ [Reporting on enterprise value – Illustrated with a prototype climate-related financial disclosure standard](#), December 2020

2.3. Approaches to implementation and compliance regimes

Responses show that approaches to implementation vary, both between and within jurisdictions. One primary difference in approach relates to whether the regimes are ‘mandatory’ or ‘voluntary’ in their implementation. The development of financial authorities’ approaches to climate disclosures is still ongoing in many jurisdictions, although as mentioned many have started taking actions within their regulatory frameworks.

2.3.1. *Mandatory approaches and use of ‘comply or explain’*

The majority of approaches detailed in the survey responses are classified as ‘mandatory’. In these cases, respondents were asked to explain whether the requirement to make disclosures is applied in all circumstances ‘irrespective of materiality to enterprise value’, or with certain limitations in scope ‘based on enterprise value’. Respondents were also asked to explain whether their approach had been adopted on a ‘comply or explain’ basis.¹⁸ Most respondents noted several approaches exist within each jurisdiction, with approaches spread evenly across the three categories, ‘irrespective of materiality to enterprise value’, ‘based on enterprise value’ and ‘comply or explain’.

The majority of jurisdictions applying these approaches have to date focused their requirements, both existing and planned, on listed companies. In the majority of cases, requirements apply to both non-financial corporates and financial institutions in their capacity as listed companies. A number of jurisdictions have set thresholds for which companies are in scope. For example, current EU climate (and other sustainability) disclosure rules apply only to large public interest entities (including listed companies) over 500 employees, while in India requirements are placed only on the top 1,000 listed companies. In some cases, specific disclosure requirements have also been applied to financial institutions as regulated firms.

Corporate disclosures

Survey responses suggest that where an approach is more fully aligned with the TCFD Recommendations – often through direct reference in the requirements - this was more often categorised as being on a ‘comply or explain basis’, or a part of non-binding regulatory guidance.

The information required in a ‘comply or explain’ approach, differs between jurisdictions. For example:

- In the UK, under the Financial Conduct Agency (FCA)’s Listing Rules, where a premium listed company has not made fully consistent TCFD-aligned disclosures, the company should explain why it has not done so and set out any steps it is taking or plans to take so as to be able to make such disclosures in future, as well as the timeframe within which it expects to be able to make consistent disclosures.

¹⁸ Disclosures ‘on the basis of materiality to enterprise value’ refer to approaches where disclosures are mandatory to the extent that the information has a material impact on enterprise value, while ‘irrespective of materiality to enterprise value’ refer to cases where disclosures are mandatory regardless of materiality. Under approaches adopted on a ‘comply or explain basis’, if a company does not disclose the required information, it has to explain why. Some frameworks also require firms to set out plans to be able to make such disclosures in the future.

- In Japan, the Financial Services Agency (JFSA) is consulting on revising the Corporate Governance Code to include requirements for listed companies to disclose climate-related information based on the TCFD Recommendations on a 'comply or explain' basis.
- Singapore has introduced a mandatory sustainability disclosure regime, which covers climate risks insofar as they are considered material. Under the exchange's listing rules, companies must describe their sustainability practices with reference to five primary components on a 'comply or explain' basis: material ESG factors; policies, practices and performance; targets; sustainability reporting framework and Board statement. The Singapore Exchange will be issuing a consultation paper in the second half of 2021 to incorporate the TCFD Recommendations into its sustainability reporting requirements for listed companies.¹⁹
- The EU has mandatory disclosure requirements on large public interest entities, while leaving broad discretion to companies on what and how to report. Notably it stipulates that where the company does not pursue policies in relation to one or more of the subject matters of disclosure, it shall provide a clear and reasoned explanation for not doing so.
- In Turkey, the Capital Markets Board (CMB) amended its Corporate Governance Communique in 2020, requiring listed companies to disclose in their annual financial report against the 'Sustainability Principles Compliance Framework'. This considers various sustainability principles including general, environmental, social and corporate governance and require disclosure on a 'comply or explain' basis.

Several jurisdictions mention guidance as the first tool used to support capacity development, with an increasing number of mandatory approaches being implemented, such as inclusion within regulations and development of own mandatory standards building on existing frameworks (e.g. EU). A few jurisdictions also mentioned that proportionality was an important consideration in their approach (e.g. Russia flagged that guidance was a first 'proportionate' step that would ultimately facilitate the adoption of mandatory standards for all).

Many of the survey responses also noted 'mandatory' disclosure requirements where these refer to requirements in existing securities regulation. However, such disclosure requirements typically relate to 'material' financial impacts – in financial statements or other documents such as prospectuses – as they relate to climate matters. They do not typically require disclosure of specific climate-related metrics (e.g. emissions-related metrics) or wider narrative disclosures related to matters such as governance, strategy or risk management, as would be required by a framework referencing or building on the TCFD Recommendations. Indeed, they do not typically reference a structure or framework against which such material disclosures should be made.

¹⁹ MAS, 'Being the Change We Want to See: A Sustainable Future' - Speech by Mr Ravi Menon, Managing Director, Monetary Authority of Singapore, at Launch of Inaugural MAS Sustainability Report, 9 June 2021

Financial institutions' disclosures

Some jurisdictions have also started implementing specific climate-related disclosures linked to wider financial sector regulatory regimes, including capital adequacy disclosures or client facing disclosures.

In the EU, the Capital Requirements Regulation (CRR), which sets the prudential regulatory framework for credit institutions, includes mandatory requirements²⁰ based on the company's materiality assessment to disclose prudential information on ESG risks. The ECB established supervisory expectations for credit institutions under its supervision on disclosures of climate-related and environmental risks, incorporating Non-Financial Reporting Directive (NFRD) and TCFD Recommendations into supervisory framework on disclosures. The Sustainable Finance Disclosure Regulation (SFDR) introduces EU-wide sustainability-related transparency obligations for market participants based on common technical standards, and defines two main categories of financial products: products that promote environmental and/or social characteristics; and products that have sustainable investment as their objective.

In the UK, the Bank of England published a supervisory statement in 2019, setting out its expectations on banks and insurers' approaches to managing the financial risks from climate change. The expectations align with the structure of the TCFD Recommendations – setting requirements across governance, risk management, scenario analysis and disclosures – as well as encouraging firms to engage more broadly with the recommendations.

In Brazil, SUSEP is planning to introduce a disclosure requirement for insurers on how ESG factors are incorporated in the company's risk management. This will be on a 'comply or explain' basis. The Central Bank of Brazil (BCB) has launched a public consultation to set rules for social, environmental and climate-related risk management disclosure by institutions of the 'National Financial System', with the aim to incorporate the TCFD Recommendations to the prudential framework.

Other jurisdictions noted their application of the TCFD Recommendations in prudential requirements, via guidance or in the findings of related thematic work.

2.3.2. Voluntary approaches

Voluntary approaches were applied in several jurisdictions, with survey respondents specifying whether these were accompanied by encouragement by the relevant authorities.

Specifically, 11 jurisdictions²¹ reported that they adopted a voluntary approach with encouragement by authorities. In most cases, this referred to the application of additional guidance to a specific sector or type of firm, while in other instances it referred to the implementation tool used.

²⁰ The requirement is for large institutions (as defined in point (146) of Art 4(1) of Regulation 2013/575/EU) with securities traded on a regulated market of any EU Member State (as defined in point (21) of Article 4(1) of Directive 2014/65/EU).

²¹ Australia, Canada, China, Germany, Indonesia, India, Korea, Netherlands, Russia, Singapore and Turkey.

The EU combines regulatory and voluntary approaches. The voluntary aspects refer to the use of supplementary guidance to mandatory frameworks, partly based on the TCFD Recommendations, for both corporate and financial institutions. This framework is currently being revised with the overarching goal to develop mandatory and granular European sustainability reporting standards.

The Australian Prudential Regulation Authority (APRA)'s upcoming guidance on climate risk will not create enforceable obligations on APRA-regulated entities but will constitute regulatory guidance and outline supervisory expectations.

The Monetary Authority of Singapore (MAS) issued Guidelines on Environmental Risk Management in December 2020, which include expectations for its regulated banks, insurers and asset managers to disclose their approach to managing climate and environmental risks, taking reference from international reporting frameworks including the TCFD Recommendations. In particular, the TCFD Recommendations were mentioned as providing a useful framework for the disclosure of climate-related risks. MAS will consult the financial industry in 2021 on how these expectations can transition into legally binding requirements to disclose against a single, internationally aligned standard.²²

The Canadian Securities Administrators (CSA) has published guidance on how the current general disclosure requirements could apply to climate-related matters while in its 2019 budget the Canadian government indicated support for the TCFD Recommendations and encouraged their adoption by federal crown corporations where appropriate and relevant.

Six jurisdictions reported some use of voluntary approaches without encouragement by the relevant authority²³. For example, in South Africa the Prudential Authority published results from a survey of banks and insurers' adoption of the TCFD Recommendations and in the resulting report clarified that tools such as the TCFD may be useful frameworks for disclosure.

2.4. Scope of climate-related disclosures

2.4.1. Basis of materiality

Jurisdictions range in practice on the materiality lens that they apply on climate-related disclosures. A few jurisdictions provide guidance on the basis of materiality for climate-related disclosures, under the existing securities disclosure requirements for listed entities.

At a high level, examples of approaches to materiality include:

- The TCFD Recommendations focus on climate-related financial disclosures that provide market participants (such as investors, lenders and insurance underwriters) with decision-useful information needed to assess the financial impact of climate-related risks. The TCFD Recommendations provide a framework for climate-related

²² MAS, 'Being the Change We Want to See: A Sustainable Future' - Speech by Mr Ravi Menon, Managing Director, Monetary Authority of Singapore, at Launch of Inaugural MAS Sustainability Report, 9 June 2021

²³ Brazil, Canada, China, South Africa, Switzerland, US.

disclosures to be determined in a consistent way to that of other information included in the company's financial filings.

- The EU and its member states adopt an approach that encompasses both how climate and other sustainability issues affect the value and performance of the company, and the impacts of the company on society and the environment (so called 'double materiality'). In the EU, financial regulations require firms to disclose information on material risks and uncertainties²⁴.
- Climate-related disclosures within financial statements under IFRS reporting standards are subject to the International Accounting Standards Board (IASB)'s definition of materiality²⁵.

2.4.2. *Climate-related disclosures and ESG landscape*

The TCFD Recommendations were developed with a focus on climate-related financial disclosure. However, jurisdictions and regulators are increasingly looking beyond climate change to frameworks for disclosure on broader ESG, or sustainability, matters.

The majority of jurisdictions confirmed that they had either disclosure requirements, guidance or expectations that take note of the ESG landscape or that this was an active area of discussion²⁶. Generally, this was an area of ongoing work for jurisdictions, with few having fully implemented their ESG disclosure regimes. Most of the work initially is focused on corporate reporting disclosures rather than reporting by financial firms. See graph 3 below.

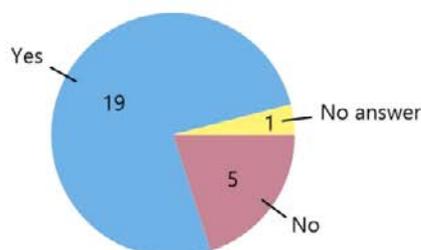
²⁴ For example, Pillar 3 disclosures as required under Capital Requirements Regulation (575/2013) and Solvency II.

²⁵ IASB for the purposes of firms' disclosure under IFRS reporting standards defines information as material '*if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity*' (IFRS - Amendment issued: IASB clarifies its definition of 'material'). The IFRS has produced a useful [note discussing materiality and accounting standards in this context](#).

²⁶ 19 jurisdictions reported to have or planning to have regulatory requirements, guidance or expectations to provide broader disclosures on sustainability such as on ESG (Argentina, Brazil, Canada, China, EU, France, Germany, Indonesia, India, Italy, Japan, Korea, Mexico, Netherlands, Russia, Singapore, Turkey, UK and US), five reported to focus mainly on climate change and in some cases keeping in view the possibility of extension to broader sustainability (Australia, Hong Kong, South Africa, Spain and Switzerland) and one did not provide an answer (Saudi Arabia). In follow-up information to the survey, Saudi Arabia indicated that its stock exchange Tadawul requires non-financial corporates to provide ESG reporting.

Has the financial authority established, or is the financial authority planning to establish, regulatory requirements, guidance or supervisory expectations for institutions to provide broader disclosures on sustainability, such as on ESG?

Graph 3



Source: FSB Questionnaire

The EU is further developed in this area and has introduced high-level sustainability reporting requirements under the NFRD in 2014. It is now considering a stronger reporting regime under the proposed Corporate Sustainability Reporting Directive (CSRD) covering all aspects of environmental, social and corporate governance risks, opportunities, and impacts.²⁷ Furthermore, the EU has already adopted sectoral legislation on ESG disclosures for financial markets participants (SFDR) and is finalising dedicated prudential disclosure requirements on ESG risks for credit institutions.

Other jurisdictions that have progressed their work on ESG reporting include Japan, Singapore, and Turkey. Japan and Turkey have a 'comply or explain' reporting requirement for listed companies that relates to ESG aspects. In Singapore MAS Guidelines on Environment Risk Management for banks, insurers and asset managers cover environmental risks disclosures, extending beyond climate change. The former China Banking Regulatory Commission (CBRC) issued guidance (the Green Credit Guidelines) recommending that banks require their customers submit environmental and social information.

Among those jurisdictions that are developing their approach to ESG, some have been trialling ideas through pilot projects and others are actively in consultation with industry. A few jurisdictions flagged that this is a matter for future work, having publicly committed to considering it further.

For those that are not currently considering wider ESG matters, the reasoning was often that the initial focus was on climate change, or that such a consideration would be made when developing their disclosure frameworks more generally. Some responses also mentioned the work of the IFRS Foundation to establish a new sustainability standards board.

²⁷ More information on the European Commission's sustainable finance package can be found [here](#).

2.5. Experiences and outcomes on climate-related disclosures and implementation

2.5.1. *Use of climate-related disclosures for supervision and financial stability monitoring*

In order to carry out their risk assessments for supervisory and financial stability monitoring purposes, financial authorities need to use climate-related disclosures that are comparable and consistent. The survey asked about jurisdictions' experiences and outcomes on climate-related disclosures and implementation. While a third of jurisdictions reported that they see progress in climate-related disclosures generally, responses also indicated that most jurisdictions do not have sufficiently detailed, high quality, comparable information from climate-related disclosures made by either non-financial corporates or financial institutions.

The responses also showed that views of prudential authorities and market authorities vary, with prudential authorities focusing more on the usefulness of the disclosure for risk assessment and supervisory purposes, and the market authorities on the relationship between investors and corporates. A number of prudential authorities emphasized the lack of comparable granular data for risk assessments (e.g. firm-level emissions data, metrics, and financial impact). About a third of jurisdictions pointed out that the quality of disclosures is insufficient for assessing or comparing climate-related risks across companies.

Although the supervision of climate-related financial risks is still at relatively early stages, 16 jurisdictions²⁸ utilise climate-related disclosures made by financial institutions and non-financial corporates for their financial risk monitoring. Climate-related disclosures, informed by the TCFD Recommendations, could contribute to both financial stability and supervisory monitoring activities on several aspects:

- TCFD-aligned disclosures from financial institutions can help supervisors assess the risk management practices of financial institutions. The TCFD's four overarching recommendations (on governance, strategy, risk management, and metrics and targets) can serve as guidance for engagement between supervisors and financial institutions.
- TCFD-aligned disclosures from non-financial corporates provide information to financial institutions and supervisory authorities that can help them assess financial institutions' exposures to climate-related risks.
- TCFD-aligned disclosures of both financial institutions and non-financial corporates include metrics for assessing climate-related risks, such as GHG emissions. Supervisors may use these metrics, along with quantitative information from other sources (such as stress testing exercises), for supervision and financial stability risk monitoring.

²⁸ Australia, Canada, EU, France, Germany, Hong Kong, India, Italy, Japan, Korea, Mexico, Russia, Singapore, Spain, Switzerland, UK and US

Promoting globally consistent, comparable, and reliable climate-related disclosures would help improve the quality of risk monitoring and effectiveness of supervision by financial authorities. In addition, non-financial corporate disclosures are a necessary input for financial institutions' own disclosures.

2.5.2. Firms' progress with TCFD implementation

On firms' progress with implementation of the TCFD Recommendations, it appears at the time of the survey only a few authorities actively monitor the progress of climate-related disclosures. Based on the limited responses received, implementation of the TCFD Recommendations that are qualitative in nature appear to be easier for firms than those of quantitative nature. Firms continue to develop and advance their disclosures to address the more challenging areas, including:

- Scenario analysis: the consideration of different climate-related scenario analysis to assess and describe the resilience of the firm's business strategy
- Metrics: the identification of relevant metrics used by firms to assess climate-related risks and opportunities, including Scope 1, Scope 2 and particularly Scope 3 greenhouse gas emissions, and more forward-looking metrics
- Targets: the description of the targets used by firms to manage climate-related risks and opportunities and performance against those targets.

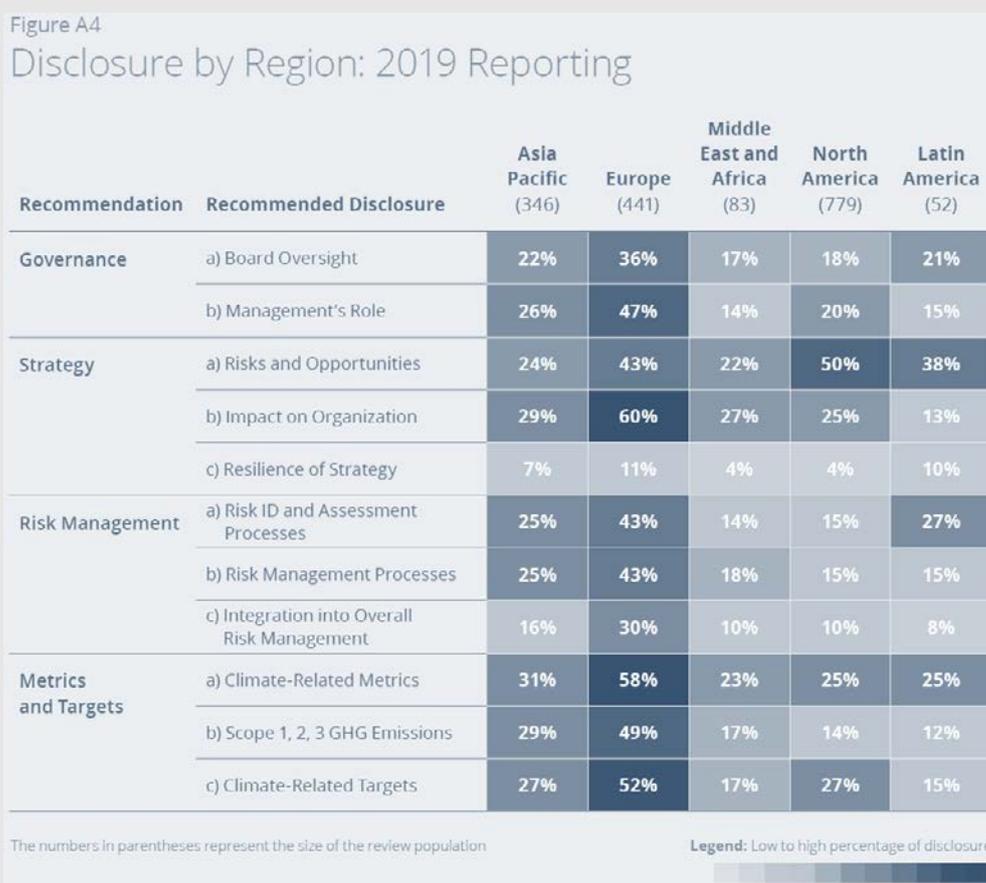
The responses also suggest that smaller firms generally face more challenges in providing climate-related disclosures due to resource and capability constraints. Some jurisdictions also indicated there are still gaps in the quality of disclosures made on governance, risk management and strategy in general.

TCFD 2020 Status Report

These responses also are broadly consistent with the findings from the 2020 TCFD Status Report,²⁹ which highlight that disclosure based on TCFD Recommendations increased, on average, across the 11 recommended disclosures by six percentage points between 2017 and 2019, while disclosure of the potential financial impact of climate change on their businesses, strategies, and financial planning remains low. The report recognizes that disclosures have increased since the issuance of the recommendations in 2017, but not fast enough and continuing progress is needed.

The 2020 TCFD Status Report finds that a limited number of companies disclose the resilience of their strategies based on scenario analysis and the progress since 2017 is limited, compared to the other ten disclosures in the TCFD Recommendations. Consistent with the survey responses, it also finds that larger companies are more likely to disclose information aligned with the recommendations. On average, 42% of companies with a market capitalization of greater than \$10 billion disclosed TCFD-based climate information, while the ratio was only 15% for companies with a market capitalization less than \$2.8 billion.

At a more detailed regional level, as highlighted in Figure A4 below, the 2020 TCFD Status Report finds that the European region has the highest percentage of TCFD-aligned disclosures for 10 out of 11 recommended disclosures with the Pacific region following in second highest.



Source: TCFD Status Report 2020

²⁹ TCFD (2020), *2020 Status Report*

At a more detailed industry level, as highlighted in Figure A6 below, the Energy industry had the highest percentage of TCFD-aligned disclosure for 9 of the 11 recommended disclosures, while Technology and Media companies had the lowest level of disclosures. Banks and insurers fall within the middle of the pack.

Figure A6
Average Percentage of Disclosure
by Industry

Industry	%
Energy	40%
Materials and Buildings	30%
Insurance Companies	27%
Ag., Food, and Forest Products	25%
Banks	23%
Transportation	23%
Consumer Goods	18%
Technology and Media	13%

Source: TCFD Status Report 2020

2.5.3. Need for future guidance

14 of 25 jurisdictions responded with suggestions for where additional guidance would be helpful to promote consistent, high quality implementation of TCFD Recommendations. Areas where authorities see a potential benefit from additional guidance on the implementation of TCFD Recommendations include the financial impact of climate change on a firm’s business strategy, the resilience of these strategies in different scenarios, and other quantitative disclosures such as metrics (historic and forward looking) and targets. These findings, as well as findings under Section 2.5.2, are generally consistent with those reported in the 2020 TCFD Status Report. In addition, the 2020 TCFD Status Report highlights that private sector expert users³⁰ find that disclosures regarding the impact of climate change on firms’ strategy and various climate-related or GHG metrics and targets comprised four of the top five most useful disclosure elements.

The 2020 TCFD Status Report also indicated that only “[o]ne in 15 companies reviewed disclosed information on the resilience of its strategy”³¹ based upon varying climate-related scenarios, which was the least reported of the TCFD’s recommended disclosures. To further strengthen disclosure practices and support implementation of its recommendations, the TCFD released its *Guidance on Scenario Analysis for Non-Financial Companies* in October 2020.

The survey respondents called for additional guidance on metrics and targets. This is reinforced by the work of the TCFD, which undertook a consultation on forward-looking financial sector metrics in October 2020. The consultation found that, while approximately three-quarters of respondents employed some category of forward-looking metrics for a variety of purposes, only

³⁰ The TCFD identified expert users as those that are ‘well versed in the TCFD Recommendations and regularly use climate-related information in making financial decisions.’ This includes the largest asset managers and lenders, plus major CRAs. (2020 Status Report, pg.28)

³¹ Pg. 4

10% disclosed the metrics or what they were used for.³² Furthermore, while the consultation asked for information on the usage of seven specific forward-looking metrics, respondents identified an additional fifteen metrics currently in use.³³ The TCFD is undertaking additional work to provide more guidance on metrics and targets, as well as transitioning planning, in its public consultation issued June 2021³⁴. This work can serve as informative input for the development of international reporting standards.

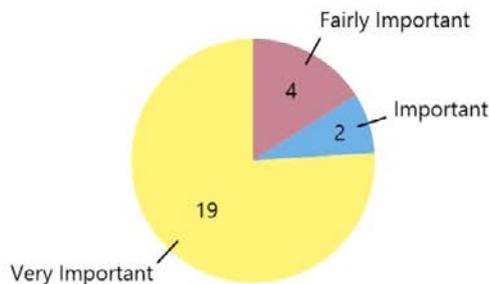
2.6. Need for international coordination, cooperation and convergence

2.6.1. International coordination and cooperation is critical

Member jurisdictions were surveyed on what types of actions in terms of international coordination and cooperation would help to enhance the consistency and comparability of climate-related disclosures based on TCFD Recommendations. 19 out of 25 jurisdictions signalled that international coordination on requirements to climate-related disclosures was very important (see graph 4 below). Several of these jurisdictions pointed to the need to prevent regulatory and supervisory fragmentation in approaches and to promote consistency across jurisdictions as driving factors.

Do the financial authorities within your jurisdiction view international coordination as important to better understand jurisdictions’ practices and to enable a more common approach among financial authorities that supports consistent, high quality implementation of TCFD Recommendations?

Graph 4



Slightly important, Not important at all: 0

Source: FSB Questionnaire

In addition, 18 out of 25 jurisdictions indicated support for ongoing initiatives, recognizing the need for the development of a common set of international reporting standards on climate and/or directly referencing the work of the IFRS Foundation on developing international reporting standards. In additional information provided to the survey, a few jurisdictions stressed that the IFRS Foundation’s work, which initially focuses on climate, should extend its scope of work to other sustainability areas, and cover broader impact reporting. In light of this, they also highlighted the need for flexibility for jurisdictions to go beyond an international baseline

³² TCFD (2021), *Forward-Looking Financial Metrics Consultation: Summary of Responses*, March, pg. 4.

³³ Pg. 5

³⁴ TCFD (2021) *Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans*

standard. One way to achieve this might be via a ‘building blocks’ approach, as suggested by International Organization of Securities Commissions (IOSCO)³⁵, that accommodates interoperability between a global baseline of international standards and jurisdiction-specific standards and requirements.

Several jurisdictions also view the FSB’s role as key to coordinate work among various international bodies, including the Basel Committee on Banking Supervision (BCBS), IFRS Foundation, IOSCO, International Association of Insurance Supervisors (IAIS), Network for Greening the Financial System (NGFS), and TCFD, among others.

Overall, AEs generally provided more responses that supported work to enhance international coordination, such as on the IFRS Foundation, as well as on the need to identify areas where further guidance would enhance implementation, and any steps necessary to adapt existing domestic frameworks to a future international standard. EMDEs generally called for country-specific circumstances to be considered in any international work.

2.6.2. Convergence towards international reporting standards

Consistent with the FSB’s published statement in December 2020³⁶, the FSB in its coordinated global roadmap for addressing climate-related financial risks welcomes the IFRS Foundation’s programme of work to develop a baseline global sustainability reporting standard under robust governance and public oversight, built from the TCFD framework and the work of the alliance of sustainability standard setters, involving them and a wider range of stakeholders closely, including national and regional authorities. The FSB roadmap will be presented to the G20 and published in July 2021.

Since the FSB’s published statement, both the IFRS Foundation and IOSCO have issued public statements on future steps for this initiative, including an announcement from the IFRS Foundation on the formation of the TWG. The TCFD, as a participating member on the TWG, will contribute to accelerated convergence and further develop the prototype on climate-related disclosures based on TCFD Recommendations as a starting point for the future ISSB. The FSB, as part of its global coordinating role, continues to be closely engaged with the IFRS Foundation as it proceeds with its next steps.

In its public statements, IOSCO has also set out its priorities and vision for a global corporate reporting architecture, incorporating an ISSB with a strong governance foundation under the IFRS governance structure, as a means to help deliver on the needed improvements in this area. IOSCO has encouraged progress towards globally consistent application of a common baseline of international standards for sustainability-related disclosure across jurisdictions, which may be supplemented as part of a ‘building blocks’ approach. IOSCO has established a Technical Expert Group (TEG) to assess whether the TWG refined prototype provides sound basis for the development by the ISSB of an international standard and plans to consider potential endorsement of future standards issued by the ISSB to use for cross-border – and potentially

³⁵ See IOSCO’s [press release](#) on 24 February 2021

³⁶ FSB public statement [FSB encourages the IFRS Foundation and authorities to use TCFD’s recommendation as a basis for climate-related financial risk disclosures](#), 21 December 2020

also domestic – purposes to guide issuers’ sustainability-related reporting requirements across jurisdictions.

3. Useful examples of jurisdictions’ approaches to implementation

This section highlights examples of jurisdictions’ approaches and experiences to implementation, including those further along the journey, for the benefit of others continuing to develop their approach.

The case studies describe the jurisdictions’ implementation approach and the steps taken in setting requirements, guidance or expectations, as well as lessons learned along the way, and how jurisdictions have overcome any coordination, capability and other challenges in driving adoption of climate-related disclosures and TCFD implementation.

3.1. Measures taken by jurisdictions, including tools used to require climate and TCFD disclosures and tools used to support voluntary disclosures

3.1.1. Case study 1: UK

Overall strategy

The UK has been closely involved with the TCFD since it was established in 2015 with the support of the FSB, chaired at the time by Mark Carney, then Governor of the Bank of England. The UK was one of the first FSB jurisdictions to publicly endorse the TCFD Recommendations, and the first G7 nation to pass legislation requiring reduction of net greenhouse gas emissions by 100% relative to 1990 levels by 2050.

Coordination between UK authorities

In 2019, the UK Government announced that the implementation of these recommendations would be a central feature of its Green Finance Strategy and confirmed the creation a new Taskforce to deliver this commitment. This Taskforce, established by HM Treasury, includes representatives from across UK government departments and financial regulators, reflecting the fact that no one body has remit over all organisations envisaged in the Green Finance Strategy.

The Taskforce has two primary forums: a senior, executive-level body to provide strategic input and approval of key milestones and publications; and a working level group to exchange views on policy development and ensure alignment of approaches. This detailed policy discussion has proven particularly useful where organisations had overlapping remits such as the Financial Conduct Authority (FCA) and the Department for Business Energy and Industrial Strategy (BEIS) both of whom need to consider how listed companies should disclose.

Actions towards mandatory TCFD-based disclosures

In November 2020, the Taskforce published an Interim Report³⁷ and Roadmap³⁸ charting a path towards mandatory TCFD-based disclosures across the UK economy.

The Interim Report describes the UK's phased approach to delivering mandatory TCFD-aligned disclosures by 2025, with most of the measures to be introduced by 2023. Combined with the Roadmap, the report sets a clear expectation that organisations across the economy should start preparing now for mandatory climate-related disclosures.

The Roadmap itself sets out indicative measures to be taken by government and regulators at the sectoral level and an indicative implementation path across seven organisation types: listed commercial companies; UK-registered companies (including large private companies); banks and building societies; insurance companies; asset managers; life insurers and FCA-regulated pension schemes; and occupational pension schemes. Action taken is set out below:

Listed issuers and UK-registered companies

- In January 2021, the FCA introduced a Listing Rule for the UK's most prominent listed commercial companies (those with a UK premium listing), referencing the TCFD Recommendations and associated guidance.³⁹ This has been introduced, initially, on a 'comply or explain' basis. The FCA launched a consultation⁴⁰ in June 2021 on extending the scope of this listing rule to a wider scope of listed companies, from 1 January 2022.
- BEIS has consulted on introducing legislative climate-related disclosure obligations aligned with the TCFD's four overarching recommendations in the UK Companies Act by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs) – all subject to a size threshold – with a view for these obligations to be in force for reporting periods from April 2022.⁴¹ The consultation is now closed, and BEIS is considering its next steps.
- There is a partial overlap in scope between the BEIS proposals and the FCA Listing Rule. However, since both regimes align with the TCFD Recommendations, the overlap should not create conflicts or difficulties for reporting companies.

Banks, building societies and (life and non-life) insurance companies

- In April 2019, the Bank of England's Prudential Regulatory Authority (PRA) published supervisory expectations for how banks and insurers should enhance their approaches to managing the financial risks from climate change.⁴² Among other elements, these

³⁷ HM Treasury (2020), *Interim report of the UK's joint Government-Regulator TCFD Taskforce*

³⁸ HM Treasury (2020), *A roadmap towards mandatory climate-related disclosures*

³⁹ FCA (2020), *Proposal to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations*

⁴⁰ FCA (2021), *CP21/18: Enhancing climate-related disclosures by standard listed companies*

⁴¹ UK Department for Business, Energy & Industrial Strategy (2021), *Consultation on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)*

⁴² PRA (2019), *Supervisory Statement SS3/19, Enhancing banks' and insurers' approaches to managing the financial risks from climate change*

expectations set out how firms should consider climate change in their disclosures, encouraging firms to engage with the TCFD Recommendations. This was followed in July 2020 by a letter from the PRA's CEO to firms, which included sector-wide feedback on progress against SS3/19 implementation and set a 31 December 2021 deadline for fully embedding the supervisory expectations.⁴³

- The PRA is working to optimise Pillar 3 disclosures by supporting firms in building their risk identification and assessment capabilities.⁴⁴

Asset managers, life insurers and FCA-regulated pension schemes

- The FCA launched a consultation⁴⁵ in June 2021 on proposed client focused rules, aligned with TCFD, for asset managers, life insurers and FCA-regulated pension schemes.
- The proposals will require in-scope firms to make entity-level disclosures, a full TCFD report on their website on annual basis. In addition, the consultation proposes a minimum baseline set of consistent, comparable product-/portfolio-level disclosures, including a core set of metrics calibrated to the needs of trustees.
- These disclosures would be made in regular client reporting or other accessible documentation on the firm's website (e.g. fund factsheets) on an annual basis. These are expected to be introduced on a phased basis, beginning with the largest most interconnected firms from 1 January 2022 and the remaining firms from 1 January 2023.

Occupational pension schemes

- In 2020 and 2021, the Department for Work and Pensions (DWP) consulted on policy proposals and draft legislation to introduce new governance and disclosure requirements on occupational pension schemes. The regulations would require trustees to embed climate change as a financial risk into their governance, strategy and risk management processes, and to disclose these in line with the TCFD's recommendations.
- The regulations would come into force on 1 October 2021 for the largest schemes (those with £5 billion or more in net assets) and 1 October 2022 for scheme with £1 billion or more in net assets.
- DWP intends to begin an interim review in the second half of 2023 to assess how effective the regulations have been, allow identification of best practice, and determine whether to extend the requirements to smaller schemes from late 2024 or early 2025.

⁴³ PRA (2020), *Letter from Sam Woods 'Managing climate-related financial risk – thematic feedback from the PRA's review of firms' SS3/19 plans and clarifications of expectations'*

⁴⁴ Information on the Bank of England's climate focused Biennial Exploratory Scenario (CBES) can be found [here](#)

⁴⁵ FCA (2021), *CP21/17: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers*

The UK government and financial regulators issued a statement of support in response to the IFRS Foundation, noting that the current work on TCFD implementation should represent a stepping-stone to a wider corporate reporting standard that is being developed by the IFRS Foundation. The UK considers that the work to implement the TCFD Recommendations is of significant importance, and that the establishment of an ISSB alongside the IASB will promote the integration of financial and non-financial reporting within a common architecture.

3.1.2. Case study 2: EU

Overall strategy

Over the past years, the EU has taken major steps to build a sustainable finance ecosystem, which contributes to the transition towards a climate-neutral Europe. In 2014, the EU established corporate disclosures on environmental, social and governance information, including climate-related disclosures. In April 2021, the European Commission proposed a revision to the existing reporting rules, with the objective to ensure a consistent flow of sustainability information through the financial value chain and to other stakeholders. The core element of the Commission's proposal is the development of European sustainability reporting standards in 2022, building on the TCFD and other existing initiatives. The aim of the EU strategy is not only to address climate-related risks, but also to allow all financial actors to reliably direct financial flows towards sustainable economic activities.⁴⁶ The corporate disclosure framework is complemented by sectoral prudential Pillar III disclosure requirements, which explicitly incorporate ESG risks, as well as entity and product-based disclosures for financial markets participants under the SFDR.

The different EU initiatives all aim to ensure in a coherent way that companies report the information that investors and other financial market participants need. EU rules aim at providing the complete financial value chain and further stakeholders with material, consistent and reliable sustainability information. It builds a coherent set of disclosures based on information by non-financial corporates, which encompasses also the sector-specific needs of financial institutions.

Adoption of NFRD and guidelines

One first major step toward an EU sustainable finance ecosystem was the adoption of the NFRD in 2014⁴⁷. The NFRD established corporate disclosures of sustainability information, including climate-related information. It requires about 11,000 large public interest entities with more than 500 employees to report sustainability information on an annual basis since 2018. Public interest entities comprise large listed companies, banks and insurers. According to the 'double materiality perspective', these companies have to report (i) how sustainability issues affect their business (the "outside-in" perspective) and (ii) how their business impacts on society and the environment (the "inside-out" perspective)⁴⁸. The double materiality perspective aims to provide

⁴⁶ European Commission, [Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal](#), COM(2021) 188 final, 21 April 2021

⁴⁷ [Directive 2014/95/EU of the European Parliament and of the Council \(Non-Financial Reporting Directive\)](#)

⁴⁸ Some jurisdictions note that a single materiality perspective ("outside-in" perspective) captures only those externalities that (might) have financial repercussions on the companies, and information related to company's dependencies. It does not

information to a wider set of stakeholders and investors⁴⁹. It also takes account of international climate and environmental commitments, for example the ones set in the Paris agreement.

Given that the NFRD leaves companies a high amount of flexibility in their sustainability reporting, the European Commission published Non-Binding Guidelines⁵⁰ in 2017 to help companies disclose relevant sustainability information more consistently and comparably. In particular, the NFRD does not require companies to use a certain reporting standard or framework, nor does it impose detailed disclosure requirements.

Also in 2017, the TCFD issued its recommendations and Additional Non-Binding Guidelines⁵¹ on climate-related disclosures, published in June 2019, integrated the TCFD Recommendations into the EU framework. These guidelines show EU companies how to meet the TCFD Recommendations while complying with the NFRD.⁵² Furthermore, in November 2020 ECB Banking Supervision formulated expectations to credit institutions on disclosures of climate-related and environmental risks, relying on the NFRD and the TCFD Recommendations to incorporate disclosure requirements into the supervisory framework.⁵³ It also published a report on institutions' climate-related and environmental disclosures concluding that, in general, institutions did not yet comprehensively disclose their risk profile. The ECB assessed that almost none of the institutions in scope met the minimum level of disclosures set out in the 'ECB Guide on climate-related and environmental risks', and in the related recommendations in the European Commission's 'Guidelines on non-financial reporting: Supplement on reporting climate-related information', or the TCFD Recommendations.

Further actions to strengthen sustainability disclosures: Proposed Corporate Sustainability Reporting Directive (CSRD)

The European Commission sees ample evidence that corporate sustainability disclosures remain insufficient.⁵⁴ In the Commission's assessment, company reports often omitted relevant information for investors and other stakeholders. Furthermore, they were difficult to compare

necessarily reflect the companies' full impact on the environment and people. In turn, a double materiality perspective captures all corporate externalities due to its additional "inside-out" perspective. Both perspectives coincide if externalities are internalized. For example, greenhouse gas emissions are material under both perspectives if they are associated with costs for the emitters. In the absence of such costs, they are only material under the double materiality perspective. Given the time needed to develop the type of public policy instruments that result in such costs being imposed, and the evolving nature of sustainability risks/factors, the (single) financial materiality perspective may lag behind the double materiality perspective, unless investors operate with a long time horizon. In addition, it is not certain such public policy instruments can or will be developed for all corporate sustainability impacts and certain sustainability impacts may never be fully captured under a single materiality perspective. That being said, especially in the case of climate change, investors are increasingly adopting a long investment horizon and taking companies' transition plans and other external impacts into account. At least in the case of climate change, this should increasingly lead to revaluation of assets and adjustments to companies' cost of capital to reflect their preparedness for potential future policy actions or consumer behaviours.

⁴⁹ The relevance of double materiality becomes more obvious beyond climate-related issues. There is a large overlap between the two materiality dimensions in climate reporting, partly because there are already functioning markets supplying a price for greenhouse gas emissions in some economic sectors. This is not the case for other environmental issues, still less for issues such as human rights, where the main feedback effect between the two dimensions is via reputational risk.

⁵⁰ European Commission (2017), *Guidelines on non-financial reporting*

⁵¹ European Commission (2017), *Guidelines on non-financial reporting: Supplement on reporting climate-related information*

⁵² European Commission (2019), *Consultation Document on the Update of the Non-Binding Guidelines on Non-Financial Reporting*

⁵³ ECB Banking Supervision (2020), *Guide on climate-related and environmental risks*

⁵⁴ European Commission's *Questions and Answers: Corporate Sustainability Reporting Directive proposal*

from company to company, and users of the information were often unsure whether they could rely on it.

The proposal for a CSRD, published in April 2021 aims to create a set of rules that will bring sustainability reporting on a par with financial reporting over time, thus responding to the need for a significant improvement in the quality, reliability and comparability of climate and sustainability information.⁵⁵ It stipulates the development of (i) standards for large companies and (ii) separate, proportionate standards for small and medium enterprises (SMEs), which listed SMEs would use to meet their legal reporting obligations and non-listed SMEs could use voluntarily.

The proposed CSRD would extend the EU's sustainability reporting requirements to all large companies and all listed companies, covering nearly 50,000 companies in the EU.⁵⁶ It would introduce a general EU-wide limited assurance (audit) requirement for reported sustainability information, and would require companies to 'tag' their report according to a digital categorisation system and make it machine-readable. The proposed CSRD would be aligned with other EU initiatives on sustainable finance, in particular the Taxonomy Regulation and the SFDR, not only to deal with climate risks, but also to allow financial actors to reliably direct financial flows towards sustainable economic activities.

The European Financial Reporting Advisory Group (EFRAG) would be responsible for developing the corresponding draft sustainability reporting standards. EFRAG published in February 2021 technical recommendations,⁵⁷ which set out a vision for standards that cover all ESG issues from a double materiality perspective. These recommendations include a roadmap for the development of draft standards by the middle of 2022.

Alignment with TCFD recommendations and international initiatives

The CSRD proposal integrates all the key concepts of the TCFD Recommendations and specifies that EU standards will take account of existing international initiatives. The EU sustainability reporting standards would build on and contribute to standardisation initiatives at global level. This requires constructive two-way cooperation and sharing of ideas between the EU (especially EFRAG) and relevant international institutions. The EU supports initiatives by the G20, the G7, the FSB and others to encourage the development of a baseline of global sustainability reporting standards building on the recommendations of the TCFD and other existing frameworks and standards.

⁵⁵ European Commission (2021), *Proposal for a Corporate Sustainability Reporting Directive*

⁵⁶ Large companies are defined as companies that meet any two of the following three criteria: a) balance sheet more than 20 million Euro; b) turnover more than 40 million Euro; c) more than 250 employees.

⁵⁷ See EFRAG (2021), *Proposal for a relevant and dynamic EU sustainability reporting standard-setting*.

3.1.3. Case study 3: Japan

Overall strategy

Japan announced a transition to a carbon-neutral economy by 2050 in October 2020, followed by a subsequent commitment in April 2021 to reach an interim target of 46% reduction of GHG emissions by 2030 compared to 2013.

The JFSA views its mission as to protect national welfare by enabling sustainable growth of the economy through safeguarding critical functions of the financial system. The JFSA has published its strategy for developing well-functioning financial markets to finance Sustainable Development Goals (SDGs)⁵⁸, on the basis that addressing environmental and societal negative externalities through promoting SDGs in finance will serve the JFSA's ultimate mandate. In addition, the JFSA set out its plan for implementing its strategy on Sustainable Finance in its annual policy strategy and priorities⁵⁹.

Actions to encourage constructive dialogue over ESG factors

The JFSA undertook a corporate governance reform to increase medium to long-term corporate value by enhancing disclosure of ESG-related information. The JFSA has been actively encouraging constructive dialogue over ESG factors between institutional investors and investee companies, drawing on the responsibilities and requirements set out in Japan's Corporate Governance Code and Stewardship Code.

The JFSA undertook a revision of the Corporate Governance Code in 2018, which required that "comply or explain" reporting for listed entities specifically spelt out ESG elements. It also revised the Stewardship Code in 2020 to redefine "stewardship responsibilities" and explicitly instruct institutional investors to consider, in the context of constructive engagement with investees, the medium to long-term sustainability aspects, including ESG factors, according to their investment management strategies.

In addition to the corporate governance reform, the JFSA took further steps in 2019 to promote dialogue on ESG factors and enhance the disclosure of narrative information, including ESG elements in securities reports. It amended the Cabinet Office Ordinance on the Disclosure of Corporate Affairs and published "Principles regarding the disclosure of narrative information".⁶⁰ The Principles set out common criteria, such as on disclosure of material information, and provide guidance on disclosure of business policies and strategies, management discussion and analysis of financial condition, operating results and cash flow status, and risk factors. They also include case examples of ESG disclosures.

⁵⁸ JFSA's strategy for SDG can be found [here](#)

⁵⁹ JFSA (2020), *JFSA priorities for July 2020-June 2021 summary*

⁶⁰ JFSA (2019), *Principles regarding disclosure of narrative information*

Coordination between Japanese authorities

Climate change and ESG are relevant to a wide range of stakeholders from both public and private sectors, and it has been necessary for the private sector and relevant ministries and agencies to work together. The JFSA supports industry-led initiatives and coordinates with the Ministry of Economy, Trade and Industry (METI) who responsible for industrial policy and the Ministry of the Environment (MOE) who responsible for environmental policy, when implementing policies and tools regarding climate change and ESG.

Alignment with TCFD Recommendations

Notably, the JFSA, together with METI and MOE, supported the foundation of the TCFD Consortium of Japan⁶¹ in May 2019, a platform to facilitate spontaneous efforts by the corporate and financial sectors to improve climate-related disclosures aligned with the recommendations of the TCFD. The Consortium also published supplemental guidance on TCFD Recommendations,⁶² which illustrates how to publish and how to read the climate-related disclosure based on TCFD framework for corporates and investors, respectively. In 2020, the revised TCFD Guidance (“TCFD Guidance 2.0”)⁶³ expands sector-specific guidance including banking, life insurance and non-life insurance sectors.

These developments promoted more clarity and transparency for the disclosure. As these initiatives have been well received, more than 300 Japanese enterprises, especially most of large enterprises, are now supporting the TCFD. The number is the largest in the world.

Further actions to strengthen disclosures: towards an expanded scope and mandatory TCFD-based disclosures

To achieve Japan’s GHG emissions targets, the JFSA is exploring ways to gradually expand the scope of TCFD-based disclosures to SMEs, including by encouraging financial institutions to engage with SMEs. The JFSA has held discussions with the Expert Panel on Sustainable Finance (EPSF)⁶⁴, composed of sustainability experts and practitioners from the financial and corporate sectors, on ways to enhance climate-related disclosures by both financial and non-financial corporates. The EPSF plans to publish a report detailing policy recommendations for the JFSA by early summer this year.

In parallel, the JFSA has taken further actions to introduce mandatory TCFD-based disclosures on a ‘comply or explain’ basis. In April 2021, the JFSA, along with Tokyo Stock Exchange (TSE), published the draft revision of Japan’s Corporate Governance Code⁶⁵ requiring companies listed on the ‘Prime Market’ to disclose TCFD-based information on comply or explain basis.⁶⁶ The

⁶¹ Information on the TCFD Consortium can be found [here](#)

⁶² TCFD Consortium (2019), [Green Investment Guidance](#)

⁶³ TCFD Consortium (2020) [Guidance on Climate-related Financial Disclosures 2.0](#)

⁶⁴ Information on the establishment of the EPSF can be found [here](#)

⁶⁵ JFSA (2021), [Revisions of Japan’s Corporate Governance Code and guidelines for investor and company engagement](#)

⁶⁶ The ‘Prime Market’ will be a newly introduced market for companies that have higher standards of governance and are committed to sustainable growth and medium- to long-term enhancement of corporate value, with a focus on constructive dialogue with investors.

revised code will be finalized in June after the public consultation. Since the companies listed in the Prime Market are estimated to be more than 90% of listed companies in Japan on market capitalization basis, the code will require mandatory TCFD disclosure to almost all of major enterprises in Japan.

3.1.4. Case study 4: Hong Kong

Overall strategy

Building on the efforts that certain agencies have devoted with respect to the disclosure requirements for banks, asset managers and listed companies, Hong Kong financial authorities announced their target to have mandatory climate-related disclosures aligned with TCFD Recommendations across relevant sectors by 2025. This common target on TCFD-aligned disclosures across sectors aims to enhance the availability of more consistent data under a coordinated timeframe.

Coordination between Hong Kong authorities

In Hong Kong, different parts of the financial sector are regulated by different agencies. Banks, asset managers, insurance companies, pension trustees and listed companies are respectively regulated by the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC), the Insurance Authority (IA), the Mandatory Provident Fund Schemes Authority and Hong Kong Exchanges and Clearing Limited (HKEX). In view of the priority to address the impact of climate and environmental risks and the need for cross-disciplinary coordinated efforts on this front, the HKMA and the SFC initiated the establishment of a Green and Sustainable Finance Cross-Agency Steering Group (CASG) in May 2020, with members comprising other local financial agencies and the relevant government bureaux.

CASG members share the common vision that strengthening Hong Kong's financial ecosystem to support a greener and more sustainable future can drive action in Hong Kong and beyond and contribute to the global agenda. Against this background, the CASG launched its strategic plan in December 2020, one key focus area of which is to promote the flow of consistent climate-related information at all levels to facilitate risk management, support informed capital allocation and promote market discipline.

Planned approach

In June 2020, the HKMA issued a white paper on 'Green and Sustainable Banking'⁶⁷, which sets out its initial thinking on the supervisory expectations on banks in managing climate-related risks, including making relevant disclosures. Banks are expected to develop an approach to disclosing climate-related information to enhance transparency, and when considering the information to be disclosed, they are expected to take the TCFD Recommendations as the main reference. The HKMA considers that certain aspects of climate-related information are more appropriate as a starting point of disclosure (i.e. the 'governance' and 'risk management' core elements) and

⁶⁷ HKMA (2020), *White paper on Green and Sustainable Banking*

recommend banks to prioritise their disclosure along these two aspects in the first instance. The HKMA plans to formally consult the banking industry on detailed requirements around mid-2021.

The HKEX's new ESG reporting requirements (effective from July 2020) have already incorporated certain important elements of the TCFD Recommendations. Further to the CASG's announcement on mandating TCFD-aligned climate-related disclosures by 2025, the HKEX has encouraged issuers to adopt the TCFD Recommendations when disclosing climate change-related information under the ESG Guide, and has planned to provide further guidance in this regard.

In October 2020, the SFC issued an industry consultation on proposed changes to the Fund Manager Code of Conduct. These changes will require fund managers to factor climate-related risks into their investment processes and mandate their disclosure to end-investors. The SFC has made reference to the TCFD Recommendations in developing these proposed requirements and standards.

The IA has issued the Guideline on Enterprise Risk Management, which has taken effect in January 2020. The guideline specifies that authorised insurers are required to put in place a robust system of risk governance that includes climate risk in their Enterprise Risk Management framework under Pillar II of the Risk-Based Capital regime, and submit Own Risk and Solvency reports on an annual basis.

3.1.5. Case study 5: Brazil

Overall strategy

As an EMDE, Brazil contributed significantly to social and environmental issues, notably in its first regulation published on, risk management and socio-environmental responsibility in 2014⁶⁸. The BCB recognizes the relevance of social, environmental, and climate-related issues for the Brazilian economy and to financial stability. It has agreed to a number of deliverables under the Sustainability Dimension⁶⁹ of its institutional agenda launched in September 2020. As part of these efforts, BCB launched two public consultations in April 2021, one on requirements for improving financial institutions' risk management framework for social, environmental, and climate-related risks⁷⁰, and the other on rules for social, environmental, and climate-related risk disclosures by financial institutions.⁷¹ These initiatives are examples of proactive measures taken by the BCB, notably mindful of the country's wealth of natural resources and the social issues shared with other emerging markets.

⁶⁸ Improvements on this regulation is under consultation, see [Public Consultation 85](#)

⁶⁹ More information on BCB's sustainable agenda can be found [here](#)

⁷⁰ BCB (2021), [Public Consultation 85](#)

⁷¹ BCB (2021), [Public Consultation 86](#)

Alignment with TCFD Recommendations

The referred disclosure proposal is inspired by the recommendations of the TCFD, but is not limited to them. The scope was enlarged to include social and environmental issues that were considered important for Brazil and its financial system.

Planned approach

The disclosure requirements will be implemented in two phases: the first phase in 2021, addresses qualitative aspects related to governance, strategy, and risk management, and the second phase in 2022, will address quantitative aspects like metrics and targets. This approach permits additional improvements in the near term taking into account the ongoing discussions worldwide. The sequential approach also contributes to continuous learning from regulator and regulated institutions along the journey.

Building on the experience of the Pillar 3 standards in the Basel framework, information is required to be disclosed in a standardized “GRSAC Report”, consisting of templates that focus on each of the core elements in TCFD Recommendations: governance, strategy, risk management, and metrics and targets. This approach is useful for achieving consistency and comparability among different institutions and for establishing different disclosure requirements in a proportional manner.

Mandatory disclosure requirements will vary depending on the size and the risk profile of financial institution. In addition to that, quantitative requirements are optional in the first phase of implementation. Furthermore, under Brazilian civil law system, approaches that only encourage, guide, or recommend financial institutions to disclose social, environmental, and climate-related issues would be utterly ineffective, and as such, the Brazilian approach will go beyond a ‘comply or explain basis’ for disclosing TCFD Recommendations.

3.2. EMDE considerations for implementation

While climate change is global in nature, the risks and opportunities and financial impact vary across jurisdictions. This poses unique considerations for EMDE jurisdictions, which should be recognized in order to better support their efforts, as well as those of firms within those jurisdictions, in implementing climate-related disclosures frameworks.⁷²

Most EMDEs are in the early stages of discussions, raising industry awareness or undertaking planning activities to consider climate-related disclosure frameworks for expectations or guidance for firms. Notably, responses from two jurisdictions (China and Brazil) showcase proactive steps those jurisdictions have taken to experiment or phase in requirements on climate-related disclosures building on their experience over time. China has implemented a pilot program on environmental information disclosure in the green finance reform pilot zones based on the TCFD Recommendations, with a view to accumulating best practice before scaling up nationwide. Brazil (as further explained under Case Study 5) has taken a mandatory approach

⁷² Views from EMDEs have been collected as part of the FSB survey and follow-up questions to selected FSB members (Brazil, China, Mexico and South Africa).

to establishing regulation through a two phased approach, with the first phase addressing qualitative disclosure requirements and the second phase addressing quantitative disclosures. Brazil's approach also applies a proportionality principle.

In terms of unique considerations specific to EMDE jurisdictions, the following were highlighted as common challenges. Social and environmental issues tend to be very important sustainability aspects for developing or adapting regulatory and supervisory approaches to address climate change and climate-related disclosures. In particular, a significant challenge for EMDEs on risks posed by climate change is that it can aggravate existing inequality in societies, when considering the interactions among climate, environmental and social risks. Social issues that are more prevalent in EMDEs (such as issues around poverty, unemployment rates, access to housing, electricity and clean water, inequality and education) make it critical for EMDEs to be well positioned to support a just and gradual transition to a low-carbon economy. Another consideration among EMDEs relates to progressing the sustainability agenda while managing economic recovery in light of the pandemic. Other challenges faced by EMDEs include the lack of financial skills and resources, available high quality usable data on climate and understanding and modelling capabilities of climate change implications.

To help address these challenges, opportunities for EMDEs could include:

- Increasing capacity building (resources, knowledge sharing, training and up-skilling)
- Raising awareness on the importance of climate-related disclosures, including the TCFD framework as a common framework, across the industry including official sector authorities, private sector firms and market participants.
- Planning an approach that balances the unique considerations and challenges faced by EMDEs, while taking steps to experiment, learn from experiences and build up capabilities on climate-related disclosures.
- Contributing to global initiatives and international fora, such as through the FSB, IOSCO, NGFS or the IFRS Foundation.

4. High-level guidance to address implementation challenges

Stemming from the findings in Section 2, this section identifies areas of gaps and challenges in the implementation of requirements or guidance based on TCFD Recommendations and sets out high-level guidance in the form of recommendations to support financial authorities in their development of climate disclosures, as appropriate to their wider public policy objectives, regulatory and legal requirements. While recognising the need for jurisdictional flexibility, the recommendations aim to promote greater consistency in approaches, accelerate progress among those jurisdictions that have not already implemented climate-related disclosures based on TCFD Recommendations, and support those who are further along in the journey. This guidance could also assist jurisdictions with preparing for anticipated international reporting standards on climate and help build industry-wide capabilities ahead of time.

4.1. Consistency of disclosures

4.1.1. Use of a framework based on the TCFD Recommendations

Recommendation 1:

Financial authorities are encouraged to use a framework based on the TCFD Recommendations across all sectors (non-financial corporates and financial institutions) for climate-related financial disclosures, in line with jurisdictions' legal and regulatory requirements. This would foster a more consistent global approach, and promote convergence in anticipation of international reporting standards on climate that will build on the TCFD Recommendations.

A consistent global approach to climate-related disclosures is essential, as firms, market participants and financial authorities seek to better understand and measure the risks (and opportunities) posed by climate change at the firm and financial system level. A lack of consistency and comparability of information provided by firms could potentially undermine:

- (i) the level of transparency to market participants on climate-related risks and opportunities
- (ii) the quality of decision useful information for market participants and efficient allocation of capital to support the transition to a low carbon economy

The development of climate-related disclosure frameworks among financial authorities is recognised to be still ongoing across jurisdictions, with many having started to take actions within their regulatory frameworks to set out requirements. Many jurisdictions use or are intending to use TCFD Recommendations as the basis for regulations, guidance or expectations on climate-related disclosures. However, this is not yet the case for all jurisdictions.

The FSB encourages financial authorities to use a framework based on the TCFD Recommendations for jurisdictions' climate-related financial disclosures, with the flexibility for jurisdictions to build on and set complementary requirements, appropriate to their respective public policy objectives, regulatory and legal requirements.

As jurisdictions continue to advance their approaches, whether they are in the earlier stages of considering climate disclosures or in more advanced stages towards developing requirements, financial authorities should consider taking the following steps towards establishing disclosure requirements:

- Endorse, encourage adoption of or use the TCFD Recommendations broadly across all sectors, in a manner consistent with jurisdictions' regulatory and legal requirements.
- Develop a plan to utilise the TCFD framework within jurisdictions' regulatory frameworks, where this has not already been done, in a manner appropriate to each jurisdiction's own public policy objectives, regulatory and legal requirements.
- Set out clear and comprehensive requirements or expectations for non-financial corporates and financial institutions, such as using the TCFD's four overarching recommendations and 11 recommended disclosures, in order to foster consistency in implementation.

The TCFD framework provide a starting point for jurisdictions to use as the basis and build further upon should they wish to drive further granularity in disclosures or increased scope. Implementation of climate-related disclosures that use a framework based on the TCFD Recommendations will foster a more consistent global approach and represent an important step forward on the path towards convergence with anticipated international reporting standards on climate that will build on the TCFD Recommendations. Consistency in approach across jurisdictions would help improve quality and consistency of TCFD-aligned disclosures made by non-financial corporates and financial institutions in different jurisdictions.

4.1.2. *Coordination across jurisdictions*

Recommendation 2:

Financial authorities are encouraged to promote sharing of experiences, provide mutual support across jurisdictions on implementation of climate-related disclosure frameworks and accelerate international efforts to help build industry-wide awareness, technical knowledge and capabilities.

Financial authorities across jurisdictions are encouraged to share experiences and provide mutual support on the implementation of requirements, guidance or expectations on climate-related disclosure frameworks based on the TCFD Recommendations. In particular, those with more fully developed frameworks could help those at an earlier stage in their journey to accelerate progress, avoid pitfalls and overcome challenges.

For instance, it may be helpful to share:

- best practices and ways to overcome challenges in implementing approaches to climate-related disclosures, including consistency with the TCFD Recommendations;
- approaches to enhancing coordination and collaboration between financial regulators and other financial authorities to ensure coherence in disclosure requirements along the investment chain (from issuers, to asset managers, to asset owners);
- approaches to building capabilities among reporting entities, including by using convening powers to bring leading non-financial corporates, financial firms and the broader ecosystem providers (e.g. professional services firms) together to develop guidance and tools;
- developments and best practices on metrics, tools and supervisory approaches to encourage and monitor reporting entities' progress on climate disclosure;
- information about relevant public and private initiatives that have been established to increase awareness of climate-related disclosures as well as to support industry in improving the quality, consistency and comparability of disclosures.

As firms, market participants and financial authorities gain more experience in addressing climate-related risks, it would be important to foster industry-wide awareness building, support the exchange of technical knowledge and expertise among professionals (e.g. policy experts, public accountants, risk managers) and reporting organisations across jurisdictions to promote best practices.

Financial authorities across jurisdictions can also encourage national and international professional associations of accountants, risk managers and chief financial officers to develop training programmes and other knowledge-sharing and capacity building initiatives. Such initiatives could take place at the national / regional jurisdiction level or at the global level across jurisdictions. This could expand to the idea of an internationally recognized certification or qualification on climate-related risks, risk assessment and measurement tools, and related disclosures.

The survey results reveal that the benefits of climate-related disclosures (and the financial impact of climate change) are not well understood by all non-financial corporates and financial firms. This can hinder the quality of disclosures (resulting, for instance, in boilerplate disclosures that simply aim to meet minimum standards). Further awareness building initiatives are encouraged among the private sector organisations (firms, investors and other market participants). Financial firms and investors engagement with non-financial corporates in a wide range of sectors will help promote awareness of the impact of climate change and related disclosures.

4.1.3. *Coordination between financial authorities within each jurisdiction*

Recommendation 3:

Financial authorities within each jurisdiction are encouraged to strongly coordinate in order to provide clear and consistent expectations, guidance or requirements to firms across all sectors on climate-related disclosures.

Responses show that in many instances several financial authorities are involved in setting and overseeing climate-related disclosures within each jurisdiction, as no single authority has a remit spanning disclosures made by all types of non-financial corporates and financial firms. In addition, financial authorities have different mandates and look at climate-related disclosures from various perspectives. This often results in different approaches to implementing disclosures. While this may be appropriate, coordination among authorities within each jurisdiction is necessary to provide clear and consistent expectations or requirements to firms across all sectors on climate-related disclosures.

Some jurisdictions have already introduced initiatives to improve the coordination between financial authorities and/or other organisations involved in setting and overseeing climate-related disclosures. For example, some notable coordination initiatives include:

- the publication of a joint roadmap by all authorities in the jurisdiction involved in climate change, as in the case of the UK
- the establishment of a working group on climate risk among authorities in the same jurisdiction involved in climate disclosure, as in the case of Australia
- the cooperation and coordination of national institutions and the development of common regional regulations and directives, as in the European Union.

Consultation with a diverse set of participants (e.g. from public and private financial sector, representatives from society, academia and the real economy) can contribute to a holistic approach to climate-related risks and opportunities.

Other initiatives could be the development of joint boards or committees between authorities that could bring together a common objective and coordinated efforts towards continuous improvement of climate-related disclosure within a jurisdiction and contribute further to international efforts.

The FSB can continue to act as an international forum for sharing experiences across jurisdictions and promoting a global common approach on climate-related disclosures.

4.1.4. *Other considerations on consistency of disclosures*

Use of more detailed guidance in addition to the disclosure framework set out by the TCFD Recommendations

Almost two thirds of the jurisdictions that use or are considering to use TCFD Recommendations as a basis for their requirements set out more specific metrics or detailed guidance. However, there is no common approach to additional guidance developed by national or regional authorities. Based on this finding from the survey responses, it would be helpful if financial authorities clarified, if not already done so, whether and how national or regional detailed guidance builds on the TCFD Recommendations (such as the TCFD's four overarching recommendations, 11 recommended disclosures or supporting implementation guidance).

Further progress is being made on metrics and targets to support a more common approach and improve comparability of disclosures, such as the TCFD's consultation on *Metrics, Targets and Transition Plans* published in June 2021.⁷³ Financial authorities could consider engaging with non-financial corporates and financial firms, expert users of disclosures and other market participants to advance practices in this area.

Location of TCFD disclosures

While the majority of jurisdictions set or expect to set expectations about the location of disclosures, this is often not a binding requirement and can vary across authorities within a jurisdiction - for instance depending on whether the disclosure requirements apply to non-financial corporates or financial firms. Some financial authorities have set expectations that disclosures should be located in financial reports or other financial filings. This has resulted in the location of TCFD disclosures being spread across several different forms of reports (e.g. financial filings, annual reports, integrated reports and sustainability reports), creating some challenges for users of disclosures to easily navigate through the relevant information. Some banks and insurance prudential authorities also require the capital impacts of climate risk to be reported in Pillar 3 reports or Solvency and Financial Condition Reports, respectively.

The TCFD recommends that firms provide the TCFD-aligned disclosures in the mainstream financial filing, in line with national disclosure requirements⁷⁴. Disclosure within mainstream

⁷³ TCFD (2021) *Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans*

⁷⁴ The TCFD Recommendations "were developed to apply broadly across sectors and jurisdictions and should not be seen as superseding national disclosure requirements. Importantly, organizations should make financial disclosures in accordance with their national disclosure requirements. If certain elements of the recommendations are incompatible with national disclosure

financial filings, where compatible with national disclosure requirements, has a number of advantages. Disclosures in one location eases navigation through disclosures for users. It can help enhance the quality, reliability and timeliness of these disclosures, as disclosures would be subject to the same level of scrutiny through internal governance reviews for the financial reporting cycle, and subject to assurance processes and financial reporting timelines. This can also be an efficient and effective way for firms to provide high quality, consistent disclosures.

The TCFD Status Report 2020 finds that disclosures are primarily made in sustainability reports. On average, TCFD-aligned disclosures were over four times more likely to be disclosed in sustainability reports than in financial filings or annual reports. Notably, disclosure of metrics used by a firm to assess climate-related risks and opportunities in line with its strategy and its risk management process were more frequently disclosed in sustainability reports than in annual reports and financial filings.

Consistent with the TCFD framework, financial authorities could encourage firms to provide information aligned with the TCFD Recommendations within financial reports (e.g. annual report, financial filings) where consistent with jurisdictions' regulatory and legal requirements. This could be supplemented in the future with capital disclosure requirements to report on capital/solvency impacts for banks and insurers in Pillar 3 reports or Solvency and Financial Condition Reports.

As a future consideration, to maximise the usefulness of climate-related disclosures, authorities could also consider the application, where feasible, of an internationally agreed structured data taxonomy to support machine-readability. This would support the consistency, collection, tagging, storage and access to data.

4.2. Reliability of disclosures

4.2.1. *Use of regulatory or supervisory mechanisms to drive further progress*

Based on survey responses, a limited number of jurisdictions are actively monitoring the progress made by firms on providing high quality decision-useful climate-related disclosures based on TCFD Recommendations. The range of enforcement or compliance mechanisms applied across jurisdictions, or even across financial authorities within a given jurisdiction, gives rise to further consideration on how best financial authorities can use existing regulatory or supervisory mechanisms to drive further progress on climate-related disclosures made by firms.

Financial authorities are encouraged to consider the use of regulatory and supervisory mechanisms such as the active monitoring of firms' progress and, eventually, stronger compliance or enforcement mechanisms within regulatory and supervisory toolkits. In many cases, there may be the existing mechanisms already deployed to enforce or assess against broader disclosure requirements.

This area will be of increasing importance as relevant financial authorities evaluate their approaches to prepare for anticipated international reporting standards. The FSB can provide

requirements for financial filings, the Task Force encourages organizations to disclose those elements in other official company reports that are issued at least annually, widely distributed and available to investors and others, and subject to internal governance processes that are the same or substantially similar to those used for financial reporting". (TCFD Recommendations, 2017)

the international forum for the continued sharing experiences across jurisdictions and support related activities in other international fora.

4.2.2. *Third-party verification*

Recommendation 4:

As disclosure practices continue to evolve and improve over time, in the longer term financial authorities can contribute to significantly improving the reliability of climate-related disclosures if they were to require, as appropriate, some form of third-party verification or assurance on climate-related disclosures made by firms. Where frameworks in jurisdictions require firms to provide climate-related disclosures within financial filings, financial authorities could set expectations on the level of assurance required on the disclosed information.

The majority of financial authorities do not currently require third-party verification or assurance for climate-related disclosures. Some authorities require auditors to confirm compliance with reporting requirements, including the existence of non-financial disclosures, but do not ask them to audit or provide a level of assurance on the content of the disclosures. Where survey responses mention a type of third-party firm, they tend to refer to audit and accounting firms.

As disclosure practices continue to evolve and improve over time, in the longer term financial authorities can contribute to significantly improving the reliability of climate-related disclosures if they were to require, as appropriate, some form of third-party verification or assurance of climate-related disclosures made by firms. Where frameworks in jurisdictions require firms to provide climate-related disclosures within financial filings, financial authorities could set expectations on the level of assurance required on the disclosed information. In the nearer term, progress and experiences gained on building climate-related disclosure frameworks remains the focus, particularly for jurisdictions early on in their journey. Financial authorities should also encourage coherence and consistency between climate-related disclosures and the financial implications captured in financial statements.

Service firms providing this type of assurance are continuing to develop their proposition in this area as they build their capabilities, enabling them to become increasingly more effective in their third-party verification/assurance work ahead of future international reporting standards that will provide a strong foundation for relevant international audit and assurance frameworks and the disclosure of more readily auditable information.

The continued development of third-party verification or assurance frameworks, capabilities and related implementation should not slow the pace of jurisdictions' implementation of climate-related disclosure frameworks.

5. Conclusions and future work

This report acknowledges the significant efforts made by financial authorities across many jurisdictions, with a strong focus on implementing climate-related disclosures across non-financial corporates and financial institutions. The findings, case studies and high-level guidance to support financial authorities aim to promote high quality, consistent implementation of TCFD Recommendations and contribute to a more common global approach. The FSB calls for an acceleration of progress on implementation of climate-related disclosure using a framework

based on the TCFD Recommendations, in line with jurisdictions' legal and regulatory requirements. This would be an important step forward on the path towards convergence with anticipated international reporting standards on climate, and help build industry-wide capabilities ahead of time.

The FSB can play an important role in global coordination, including promoting adoption of anticipated international reporting standards based on TCFD Recommendations, once developed and if endorsed, as a global baseline. Such internationally agreed standards for disclosures as a global baseline would not preclude authorities from going further or at a faster pace in their jurisdictions. Importantly, some jurisdictions are already taking steps towards the implementation of reporting standards in this area such as the European Union. Thus, interoperability between a common global baseline of standards and any jurisdiction-specific disclosure requirements that may extend beyond such a baseline (for instance, adopting a wider materiality lens for disclosure) will be important to address going forward.

More specifically on future work, the FSB will:

- Continue to act as an international forum for sharing experiences across jurisdictions, promoting best practices, and contribute to discussions in other international fora (such as through COP26, G7 / G20 meetings and Sustainable Finance Working Group (SFWG)).
- Promote coordinated actions to be discussed and agreed by financial authorities and fostering convergence of climate-related disclosure approaches, including considering whether any recommendations about specific actions to promote convergence would be appropriate in due course.
- Continue to support the IFRS Foundation's work to develop a proposal for a baseline global sustainability reporting standard under robust governance and public oversight, built from the TCFD framework and the work of the alliance of sustainability standard setters, involving them and a wider range of stakeholders closely, and encourage consultation on a final proposal. As part of its work, encourage the IFRS Foundation to address the connectivity between proposed sustainability reporting standards to be developed by the ISSB and existing financial accounting standards. Conditional on the endorsement of this standard, encourage FSB member jurisdictions to consider the ISSB's standard for use for cross-border purposes and when setting sustainability-related disclosure requirements, within the context of individual jurisdictions' regulatory and legal requirements and in a way that promotes consistent and comparable sustainability disclosures across jurisdictions.
- Continue to support the TCFD's work, including its participation on the TWG under the IFRS Foundation that is further developing the prototype on climate disclosures for the ISSB's consideration.
- Continue to monitor how disclosure frameworks are developing at the international and jurisdictional level to promote convergence and coordinate actions where needed.
- Provide a global coordination mechanism for addressing climate-related financial risks through the FSB global coordinated roadmap, particularly within the disclosures block

of the roadmap. The FSB roadmap will be presented to the G20 and published in July 2021.

Continued coordination among financial authorities at the jurisdiction level and global coordination across jurisdictions and with relevant organisations is paramount to support the call for an acceleration in progress.