

March 2022

Comparison

[Draft] IFRS S2 Climate-related Disclosures with the TCFD Recommendations

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The requirements proposed by the International Sustainability Standards Board (ISSB) in the Exposure Draft *Climate-related Disclosures* (the Exposure Draft) are consistent with the four recommendations and 11 recommended disclosures published by the Task Force on Climate-related Financial Disclosures (TCFD).¹ Areas where the Exposure Draft differs from the TCFD recommendations reflect differences between the Exposure Draft and the TCFD's guidance, not the TCFD's core recommendations or recommended disclosures.

The following tables summarise the key differences between the requirements proposed in the Exposure Draft and the TCFD's recommendations, recommended disclosures and guidance.

These differences take three forms. Specifically, the Exposure Draft:

- uses **different wording to capture the same information** as the TCFD recommendations (some instances);
- requires **additional, more granular information** that is in line with the TCFD recommendations (few instances); and
- **differs substantively** from the TCFD guidance—but not the TCFD overall recommendations—mainly by proposing some additional specific disclosures (very few instances).

¹ The TCFD framework consists of four major recommendations (governance, strategy, risk management, metrics/targets), 11 supporting recommended disclosures, and all-sector and sector-specific guidance. The guidance informs implementation of the recommendations but is not part of the formal recommendations.

TCFD Recommendation, Recommended Disclosure and Guidance	Climate-related Disclosures Exposure Draft
<p>Governance</p> <p>Disclose the organization’s governance around climate-related risks and opportunities.</p>	<p>Governance</p> <p>Understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.</p>
<p>Recommended Disclosure a)</p> <p>Describe the board’s oversight of climate-related risks and opportunities.</p>	<ul style="list-style-type: none"> • The Exposure Draft is consistent with the TCFD governance recommendation. • The Exposure Draft, however, requires the disclosure of additional information around governance including: <ul style="list-style-type: none"> • the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities; • how that body’s responsibilities for climate-related risks and opportunities are reflected in the entity’s terms of reference, board mandates and other related policies; • how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities; and • information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions.
<p>Recommended Disclosure b)</p> <p>Describe management’s role in assessing and managing climate-related risks and opportunities.</p>	

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TCFD Recommendation, Recommended Disclosure and Guidance	Climate-related Disclosures Exposure Draft
<p>Strategy</p> <p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.</p>	<p>Strategy</p> <p>Understand an entity’s strategy for addressing significant climate-related risks and opportunities.</p>
<p>Recommended Disclosure a)</p> <p>Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</p>	<p>The Exposure Draft is consistent with TCFD Recommended disclosures a) and b), however, in describing the impact of risks and opportunities, the Exposure Draft requires additional, more granular information around:</p> <ul style="list-style-type: none"> • how the entity is directly responding to risks and opportunities, including changes to its business model, strategy, resource allocation, production processes, products, workforce; • how it is indirectly responding to risks and opportunities, including working with customers and suppliers; • how its strategy and plans will be resourced; • expected changes in financial position over time, including investment plans and sources of funding; and • expected changes in financial performance over time (revenue and costs). <p>The Exposure Draft (paragraph 13.b) has a slightly different approach to transition plans. Transition plans are referenced as a part of an entity’s strategy, and hence subject to the strategy disclosure requirements, with explicit requirements around disclosure of emission reduction targets and use of carbon offsets.</p>
<p>Recommended Disclosure b)</p> <p>Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.</p>	

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<p>Recommended Disclosure c)</p> <p>Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>The Exposure Draft requires additional information regarding resiliency on:</p> <ul style="list-style-type: none"> • significant areas of uncertainty for strategy resilience; • an entity’s capacity to adjust and adapt its strategy over time; and • details on how any resilience analysis or assessment has been conducted.
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<p>Risk Management</p> <p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Risk Management</p> <p>Understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.</p>
<p>Recommended Disclosure a)</p> <p>Describe the organization's processes for identifying and assessing climate-related risks.</p>	<p>The Exposure Draft (Exposure Draft paragraphs 17a-c) is consistent with the TCFD recommended disclosure a) with the following additions:</p> <ul style="list-style-type: none"> • inclusion of processes used to identify and prioritise opportunities; • the input parameters it uses to identify risks (for example, data sources, the scope of operations covered and the detail used in assumptions); and • whether it has changed the processes used compared to the prior reporting period.
<p>Recommended Disclosure b)</p> <p>Describe the organization's processes for managing climate-related risks.</p>	<p>The Exposure Draft (paragraph 17d) is consistent with the TCFD recommended disclosure b).</p>
<p>Recommended Disclosure c)</p> <p>Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</p>	<p>The Exposure Draft (paragraph 17e) is consistent with the TCFD recommended disclosure c).</p>

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<p>Metrics and Targets</p> <p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>	<p>Metrics and Targets</p> <p>Understand how an entity measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.</p>
<p>Recommended Disclosure a)</p> <p>Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>	<p>The Exposure Draft requires the same categories of cross-industry metrics as in the TCFD guidance.</p> <p>The Exposure Draft differs, however, in requiring disclosure of industry-based metrics relevant to an entity's industry and activities.</p>
<p>Recommended Disclosure b)</p> <p>Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>	<p>Consistent with the TCFD guidance, the Exposure Draft requires use of the GHG Protocol, and disclosure of absolute and intensity-based emission metrics.</p> <p>The Exposure Draft requires a different disclosure treatment of greenhouse gases, as follows:</p> <ul style="list-style-type: none"> • for Scope 1 and Scope 2, a separate disclosure of emissions for (1) the consolidated accounting group, and for (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and • Scope 3 emission disclosure is required.

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	<p>The TCFD guidance recommends that asset managers disclose GHG emissions for assets they own and the weighted average carbon intensity (WACI) for each fund or investment strategy, where data and methodologies allow. These emissions should be calculated in line with the <i>Global GHG Accounting and Reporting Standard</i> for the Financial Industry developed by the Partnership for Carbon Accounting Financials (PCAF Standard) or a comparable methodology.</p> <p>The Exposure Draft does not explicitly mention WACI or the use of the PCAF methodology for calculating banks' and asset managers' financed emissions. However, the proposed industry-based disclosure requirements for financed and facilitated emissions are built on PCAF methodology.</p>
<p>Recommended Disclosure c)</p> <p>Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</p>	<p>The Exposure Draft differs from the TCFD guidance in the following disclosure requirements:</p> <ul style="list-style-type: none"> • how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party; and • whether the target was derived using a sectoral decarbonisation approach.

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