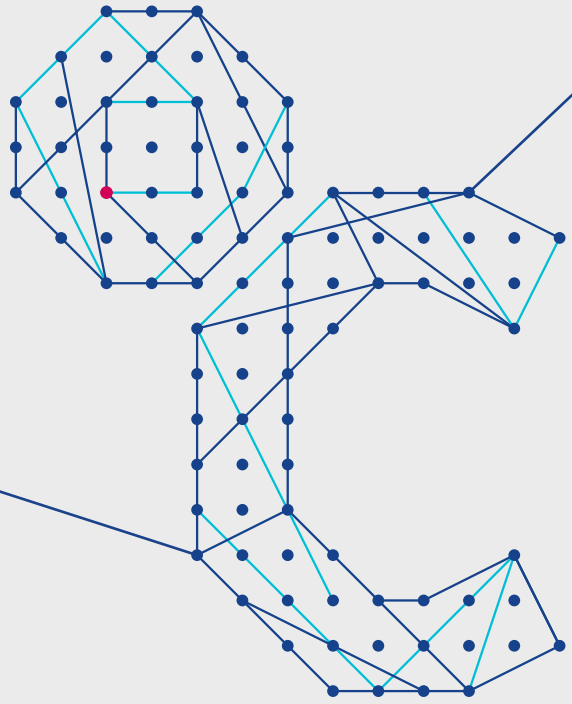
Climate Disclosure Standards Board

CDSB Framework

Application guidance for climate-related disclosures



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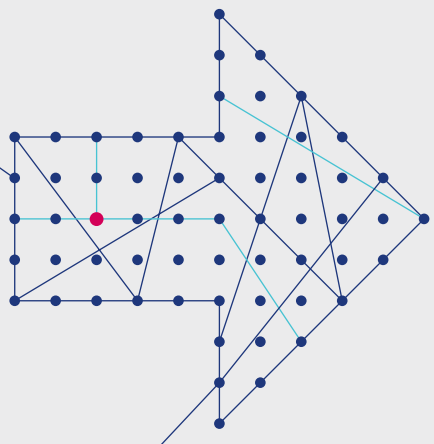
About the Climate Disclosure Standards Board



CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.

We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn, this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

For more information, visit cdsb.net or follow Climate Disclosure Standards Board on LinkedIn and Twitter @CDSBGlobal.

We welcome your input and discussions. If you would like to comment on this document, please contact us at info@cdsb.net.

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Chapter 1

About this guidance

The CDSB Framework application guidance for climate-related disclosure (Climate Guidance) has been produced by the Climate Disclosure Standards Board (CDSB) to assist companies in the disclosure of material climate-related information in the mainstream report.[1] It is designed to complement the CDSB Framework for reporting environmental and climate change information (CDSB Framework)[2] and other frameworks, codes and recommendations that are aligned with some or all of the requirements of the CDSB Framework. The Climate Guidance offers companies a means of developing their reporting practices and ensuring that investors are receiving the material climate-related information needed for efficient and effective capital allocation to drive the transition to a just, low-carbon economy.

1. Mainstreaming climate reporting

CDSB has been working to create and maintain the enabling conditions for the disclosure of material climate-related information in the mainstream report since 2007. In that time, the understanding of the importance and potential impact of climate change has grown significantly. The Paris Agreement of 2015 demonstrated global commitments to ratchet up efforts and limit global warming to well below 2°C and meet the target of 1.5°C. For businesses, initiatives have been set up to drive change in the private sector, but few have received the support and attention that the Task Force on Climate-related Financial Disclosures (TCFD) has.

Much like CDSB, the TCFD's objective is to elicit better quality information from companies on the macroeconomic risks and opportunities posed by climate change. The TCFD's Final Report and 11 disclosure recommendations for mainstream reports, which are well aligned with the CDSB Framework, have changed the conversation, shifting climate change for many from a corporate social responsibility or sustainability issue to one that also engages finance, risk management, and the board and C-suite.[3] An increasing number of regulators around the world are also acting to prioritise the mainstream disclosure of climate-related risks, opportunities and impacts, understanding that climate change poses significant risks to the stability of the financial system and in order to drive action to mitigate these and wider societal and environmental risks.

Despite much progress, many contend that more work is needed to ensure that reporting on material climate-related issues is of sufficient quality and detail to support decision-making by investors and others. The current standard of mainstream reporting on climate risks and opportunities means that there is an information deficit for investors and other decision-makers. This shortfall in high quality, decision-useful material climate information means that investors are unable to make the capital allocations that can drive change across economies and societies.

1 Mainstream reports are the annual reporting packages in which companies are required to deliver their audited financial results under the corporate, compliance or securities laws of the country in which they operate, e.g. the annual report in the UK and the 10-K in the USA.

2 Climate Disclosure Standards Board (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf

3 Task Force on Climate-related Financial Disclosures (2017) Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures. [PDF]. Available from: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

2. CDSB Framework application guidance

The Climate Guidance has been designed to help companies put into place the thinking and processes necessary for high-quality material climate disclosures and allow them and their investors to best navigate the risks and opportunities of climate change. The Climate Guidance is to be used in conjunction with the CDSB Framework, providing additional process, resources and nuance to the Framework to ensure that companies are best able to recognise material climate risks and opportunities and deliver decision-useful climate information in the mainstream report. The Climate Guidance will be updated on a regular basis to keep apace of scientific, regulatory and reporting developments, ensuring that it continues to highlight and offer advice on the best reporting practices for material climate-related issues.

Like climate change, there are other issues of particular importance to the understanding of corporate risk, opportunity, performance and long-term value creation. As such, the Climate Guidance will be the first of the suite of CDSB Framework application guidance that will each be designed to enhance the quality of disclosures for these most material matters. Following the Climate Guidance, CDSB will first produce application guidance for material water-related issues. Working in conjunction with the reporting principles and requirements of the CDSB Framework, each application guidance will provide companies with up-to-date means of developing more coherent and complete disclosures and enhancing the decision-usefulness of their mainstream reporting for the most critical issues (Figure 1).

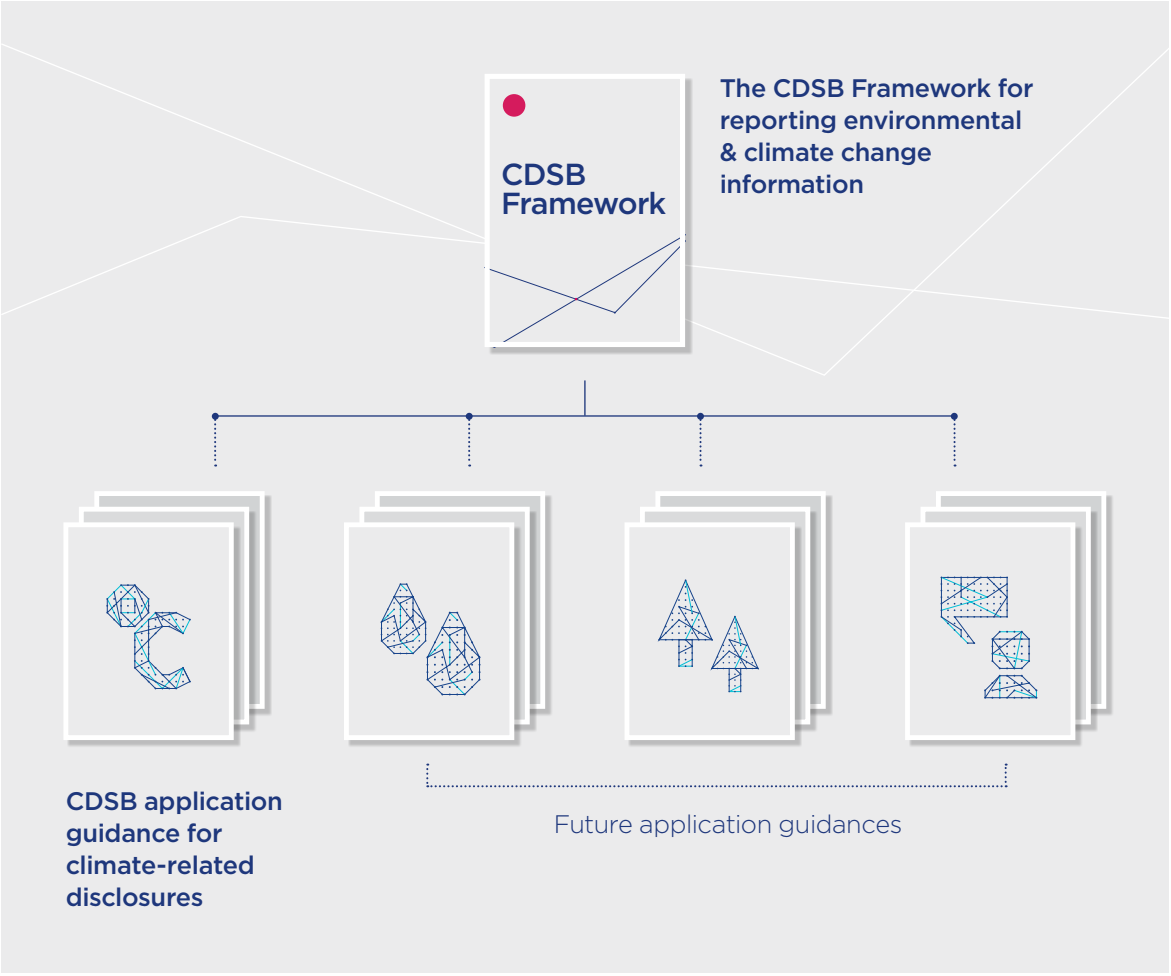


Figure 1. The relationship of the CDSB Framework for reporting environmental and climate change information, the CDSB Framework application guidance for climate-related disclosures and future application guidance.

3. Structure of the Climate Guidance

The Climate Guidance is designed around the first six reporting requirements of the CDSB Framework:

- **REQ-01** Governance
- **REQ-02** Management's environmental policies, strategies and targets
- **REQ-03** Risks and opportunities
- **REQ-04** Sources of environmental impact
- **REQ-05** Performance and comparative analysis
- **REQ-06** Outlook

These six reporting requirements of the CDSB Framework set out the key content elements for reporting material environmental information in the mainstream report. For each of the six reporting requirements, the Climate Guidance provides:

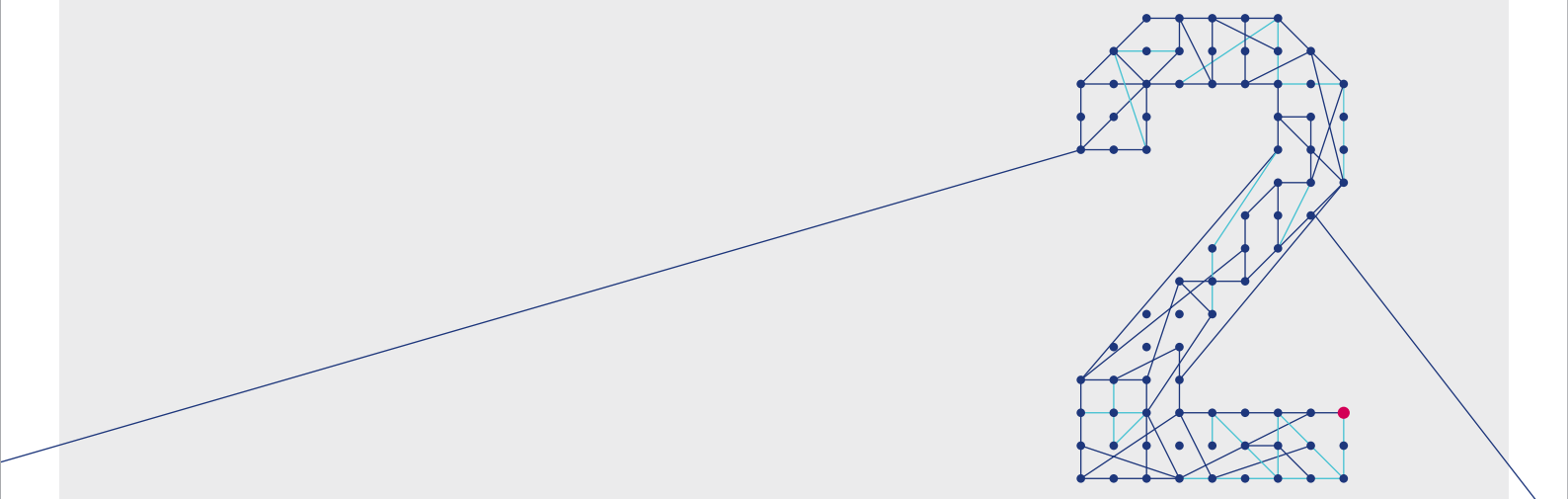
- A checklist for making effective climate disclosures;
- Detailed reporting suggestions and guidance to complement the CDSB reporting requirement in relation to climate issues;
- A selection of further useful resources to assist companies in developing their mainstream climate reporting; and
- Explained examples of good practice in mainstream climate reporting.

The Climate Guidance also offers some further important considerations for companies in making mainstream climate disclosures, covering aspects of the reporting principles and remaining requirements of the CDSB Framework.

In addition, the Climate Guidance provides an overview of the significance of climate change to business, explaining the importance of physical and transition risks, and highlighting the key and unique characteristics of the climate system and their importance to corporate reporting. Finally, the Appendices to the Climate Guidance provides a mapping of the CDSB Framework to the TCFD Recommendations and a list of additional CDSB resources for preparing effective climate disclosures.

Chapter 2

Climate change and business



The World Economic Forum's 2020 Global Risk Report illustrates succinctly the scale of the potential impact of climate change on the world's social and economic systems.[4] Climate action failure is listed as the risk with the greatest potential for global impact as well as being placed at second in terms of likelihood. Climate change, then, is a risk that no country, business or person can ignore or avoid, whether that is from action or inaction.

On the basis of current policy commitments to combat climate change, it is estimated that the world will experience 3°C of warming by 2100,[5] double the global temperature increase the Paris Agreement encourages countries to strive for. Significantly, carbon emissions continue to rise.[6] To limit warming to 1.5°C, the UN Environment Programme has estimated an annual 7.6% reduction in emissions is required from 2020, necessitating "fundamental structural changes" to the global economy.[7]

1. Physical and transition risks

For companies, climate-related risks can be understood in two general fields – physical risks and transition risks. The former gathers together the risks posed to businesses from the potential impacts of a warming climate system as well as the subsequent impacts of those changes on other environmental systems and resources. Physical risks therefore encapsulate increased likelihood and severity of extreme weather events, sea-level rise, expansion and exacerbation of water stress, ecosystem change and biodiversity loss, for instance.

Transition risks, on the other hand, denote those corporate risks that are associated with the regulatory, economic and societal changes undertaken to try and limit global warming, primarily through efforts to decarbonise economic and social activity. Corporate transition risks include the impact of regulation to stem emissions, shifts in market preferences and the impact of new technologies, to offer three examples. These transition risks, though, are mirrored by a range of corporate opportunities that come with decarbonisation, such as resource efficiency and new products and services.

While it is helpful to consider the corporate impact of climate change through these two risk lenses, in actuality, whichever trajectory the world or nations follow, companies will have to navigate, manage and seize an assemblage of physical and transition risks and opportunities. For example, if we meet the ambitions of limiting warming to 1.5°C through economic and societal transformation, global warming will still affect the climate system, exacerbating risks and stresses felt by peoples and companies around the world. Indeed, it must be remembered that limiting global warming to 1.5°C will still result in regional and local warming patterns far greater than 1.5°C and impacts at an elevated state.

4 World Economic Forum (2020) Global Risk Report 2020. [PDF]. Available from: http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf

5 Carbon Action Tracker (2019) Warming Projections Global Update: December 2019. [PDF]. Available from: https://climateactiontracker.org/documents/698/CAT_2019-12-10_BriefingCOP25_WarmingProjectionsGlobalUpdate_Dec2019.pdf

6 Pierre Friedlingstein et al (2019) Global Carbon Budget 2019. [Online]. Available from: https://essd.copernicus.org/articles/11/1783/2019/

7 UN Environment Programme (2019) Emissions Gap Report 2019. [PDF]. Available from: https://wedocs.unep.org/bitstream/handle/20.500.11822/30797/EGR2019.pdf?sequence=1&isAllowed=y

2. Key characteristics

These considerations highlight key characteristics of climate change that are important for companies to properly comprehend and consider as they seek to understand climate-related risks and opportunities, develop strategies, and act to implement them. Firstly, the climate change effects felt by companies are the result of a complexly interconnecting system of environmental, social and economic factors. Developing effective and resilient climate strategies, then, requires companies to take account of many different, changing and interconnecting systems.

Secondly, the complex nature of the climate system and its interplays with other environmental systems means that climate change impacts are not always linear in nature. Feedback loops within the climate system, factors of inertia, and the potential for tipping points and irreversibility, mean that the full nature and scale of climate change is uncertain and dynamic. These characteristics of climate change necessitate that companies think in an integrated manner, taking account of a wide range of possible global, regional and local impacts that can be generated by climate change, and act with proper appreciation.

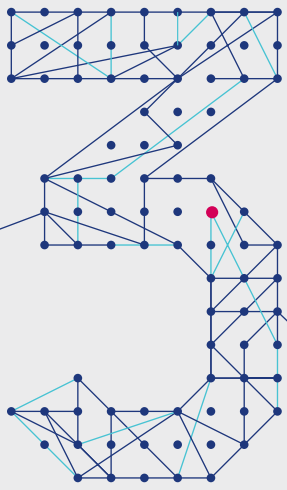
Thirdly, and finally, while some impacts of climate change are certain, others are more uncertain, with varying ranges of potential outcomes over differing timescales and with differing likelihoods. The physical and transition risks and opportunities relevant to a business are unique to each company and highly dynamic. This means that considerations of climate change and its potential impacts must be a permanent fixture of corporate thinking for the decades to come, requiring continued iteration in strategies and targets to reflect scientific, economic, technological or regulatory developments.

In coming years, it appears near inevitable that there will be a policy response to climate change that mainstreams and makes mandatory the disclosure of climate-related governance, management and strategy, risks and opportunities, and outlooks.[8] This Climate Guidance used alongside the CDSB Framework encourages companies to report effectively and efficiently on material climate-related information in order to provide investors with useful and reliable climate-related information to drive their capital allocations.

8 UN PRI (2019) The Inevitable Policy Response: Preparing financial markets for climate-related policy/regulatory risks. [PDF]. Available from: https://www.unpri.org/download?ac=9833

Chapter 3

Application guidance for climate-related disclosures



1. Checklist for climate-related disclosures

REQ-01 Governance

Does the disclosure:

- ✓ Identify the person(s) or committee responsible for climate policies, strategy and information?
- ✓ Explain how climate policies, strategy and information are delegated to management?
- ✓ Describe any systems for accountability and incentivisation?
- ✓ Explain whether the governance mechanisms for climate policies, strategies and disclosure differ from other material concerns and, if so, why?

REQ-02 Management's environmental policies, strategy and targets

Does the disclosure:

- ✓ Explain the climate-related natural capital dependencies of the company?
- ✓ Describe the climate policies and strategies as well as how they support or link to the company's overall strategies?
- ✓ Detail the resourcing of the delivery and management of climate policies and strategies?
- ✓ Set out the targets, timelines and indicators for delivery of climate policy and strategy been with methods and baselines, as well as explain progress or developments?

REQ-03 Risks and opportunities

Does the disclosure:

- ✓ Identify material climate-related risks and opportunities together with the time horizons over which they are expected to materialise?
- ✓ Explain the strategic, geographic, operational, financial and supply chain implications of the climate-related risks and opportunities identified?
- ✓ Describe the systems and processes used for assessing, identifying and monitoring risks and opportunities, including whether they are integrated with existing risk management systems and processes?

REQ-04 Sources of environmental impact

Does the disclosure:

- ✓ Provide metrics and indicators for sources of material climate impact, including Scope 1 and 2 GHG emissions, using absolute and normalised metrics?
- ✓ Provide explanations of climate impact metrics including the methodologies used, levels of uncertainty and appropriate narrative to assist understanding of results?
- ✓ Categorise and disaggregate metrics to support understanding and comparability?

REQ-05 Performance and comparative analysis

Does the disclosure:

- ✓ Provide appropriate historical data to the results reported from REQ-04 for material sources of climate impact to allow for useful comparison?
- ✓ Contextualise the performance with baselines, targets and other criteria used to assess progress?
- ✓ Explain the major trends with reference to, for example, climate strategies, business developments, or political and economic changes?

REQ-06 Outlook

Does the disclosure:

- ✓ Explain the likely effect of future climate-related impacts, risks and opportunities on company performance, taking account of regulatory and market trends?
- ✓ Identify and explain the time horizons used for reporting on corporate outlook?
- ✓ Explain any techniques, such as scenario analysis, used to inform the outlook including the methods, scenarios and assumptions used, and any shortcomings and uncertainties?

2. Application guidance

REQ-01 Governance

Disclosures shall describe the governance of environmental policies, strategy and information

Disclosure checklist

Does the disclosure:

- ✓ Identify the person(s) or committee responsible for climate policies, strategy and information?
- ✓ Explain how climate policies, strategy and information are delegated to management?
- ✓ Describe any systems for accountability and incentivisation?
- ✓ Explain whether the governance mechanisms for climate policies, strategies and disclosure differ from other material concerns and, if so, why?

1. Governance arrangements and rationale

Governance disclosures should demonstrate transparency and accountability for the company's oversight of climate-related matters. Essential is the identification of those with ultimate responsibility for the disclosure of climate-related information, whether that is the CEO or a specific committee or similar.

The most innovative, far-reaching and successful climate strategies will often require the leadership or integral support of the highest governing bodies of a company. Illustrating for investors, whether diagrammatically or through clear narrative, where responsibility lies at board-level and who is driving forward such strategies at the management level is essential to evidence clear accountability and provide transparency. It could assist report users to understand the decision-making processes for major strategic decisions. For instance, what processes would allow or require governance bodies to decide to allocate capital, change strategic direction or transform the business model in response to identified climate-related risks and opportunities?

In setting out the governance and management arrangements for climate-related policies, strategies and targets, companies should explain the rationale for such arrangements. For example, at a board-level, what qualifications, skills or experience makes the person or members of a committee best suited to overseeing the company's climate strategy? Indeed, some boards and management teams will draw on external expert advice on general or specific climate-related issues for capacity building and steering. For example, capacity building sessions could be especially appropriate for companies using climate scenario analysis to drive strategy development. Offering details of such external, expert advice in the mainstream report could demonstrate proactive and responsive oversight of climate.

2. Information flows and oversight

Effective reporting on governance will articulate to investors the connections, information flows and oversight mechanisms that exist between the board, management and climate-related issues. For example, report users may wish to know by what means and how often the appropriate board members are informed by management on targets, progress or relevant changes to the external environment and through the supply chain. Which corporate governance codes determine or influence the way in which the company is governed? Where appropriate, are there means for responsive strategic interventions or systems in place to ensure resilience? How often does the whole board discuss the climate strategy and consider developments in climate-related risks and opportunities? These are just four questions that reporting on the governance of material climate-related issues could answer to demonstrate that the appropriate organisational and information systems are in place to oversee climate-related risks and opportunities.

3. Incentivisation

Incentivising appropriate members of the board and management for meeting and fulfilling climate-related targets and policies is a means of fostering ownership of performance, and reporting on such arrangements in the mainstream report is a means of communicating that commitment. Equally important, though, is the reporting of the metrics or criteria used in incentive schemes. They should speak to the most pertinent risks, opportunities and impacts that have been identified by the company for climate-related issues. For example, it may be more appropriate for a bank to tie its climate incentives to performance on green financing than Scope 1 GHG emissions. Providing ongoing disclosure about performance and progress towards long-term targets tied to remuneration is useful.

4. Specificity of climate governance

Companies' climate efforts sometimes form part of broader, cross-cutting environmental strategies with governance and oversight organised around these broader, interconnected environmental ambitions. However, different investors can focus their attention on different material environmental issues when assessing companies and reading reports, with climate change often of particular importance. As such, companies should strive to be as explicit as possible in detailing their governance of climate-related issues if part of a more connected, environmental strategy.

Useful resources

Commonwealth Climate and Law Initiative, The climate risk reporting journey: A corporate governance primer – This primer, which has been designed for corporate boards or responsible committees, offers a set of important questions to guide the oversight and governance processes for material climate-related information. This will be particularly valuable to companies starting on their disclosure journey.

World Economic Forum, How to Set Up Effective Climate Governance on Corporate Boards: Guiding principles and questions – This guide from the World Economic Forum offers boards eight principles for effective governance, with each accompanied by guiding questions. As well as assisting the development of good governance, the principles and questions offer key areas to consider in developing their governance disclosures for climate-related issues.

WBCSD, Modernizing Governance: ESG challenges and recommendations for corporate directors – These recommendations from WBCSD for developing governance practices to meet the challenges of sustainability offers a useful basis for developing oversight practices around material climate issues. The points raised in Sections 4, 5 and 6 provide helpful considerations for developing governance disclosures.

Examples of good practice

Aviva, Annual Report and Accounts 2019 – In its annual report, Aviva offers a specific section for climate-related financial disclosures (pgs. 51-3). In a short governance disclosure, the company identifies those responsible for climate-related risks and opportunities at board- and management-level. The company highlights that climate is integrated into existing systems and processes around risks and opportunities and notes that its board engage with climate issues in training programmes.

Deutsche Telekom, The 2019 Financial Year – As part of its non-financial statement, the company details its strategic and organisational approach to climate and wider sustainability issues in a clear and succinct manner (pgs. 80-1). The disclosure identifies the board-level oversight and explains how policies and strategies are managed at a group-level with the involvement of different business units and mechanisms in place for guarantees. The disclosure further sets out the control mechanisms for climate-related and wider sustainability data for targets and indicators.

REQ-02 Management's environmental policies, strategy and targets

Disclosures shall report management's environmental policies, strategy and targets, including the indicators, plans and timelines used to assess performance

Disclosure checklist

Does the disclosure:

- ✓ Explain the climate-related natural capital dependencies of the company?
- ✓ Describe the climate policies and strategies as well as how they support or link to the company's overall strategies?
- ✓ Detail the resourcing of the delivery and management of climate policies and strategies?
- ✓ Set out the targets, timelines and indicators for delivery of climate policy and strategy been with methods and baselines, as well as explain progress or developments?

1. Natural capital dependencies

The report user should be able to understand how the renewable and non-renewable resources and earth systems, such as the climate, which underpin and support the company's ability to succeed, are reflected in its ambitions in meeting climate-related issues. Therefore, it is helpful where companies detail their natural capital dependencies. The thinking and guidance in the Natural Capital Protocol[9] and International <IR> Framework,[10] for example, may benefit report preparers in understanding and reporting these dependencies. While this Guidance is focused on climate, it acknowledges that climate risks and opportunities are inherently interconnected with other environmental issues, such as water stress and deforestation. This natural capital contextualisation offers a company the opportunity to:

- Explore risks and opportunities emerging from interconnections and relationships between different environmental issues;
- Explain to investors its place in the complex web of natural systems; and
- Consider how to integrate learnings from interconnections into risk management, strategy and performance.

2. Policies and strategies

Report users should be able to understand how the risk and opportunities identified by companies are reflected in strategic development and how they affect ongoing natural capital dependency and climate ambitions. It may be beneficial to offer further justification in the report, setting out the reasoning behind the adoption of such policies and strategies, explaining how they respond effectively to issues raised in risk and opportunity analysis, dependencies and ambitions. Where policies, strategies and targets have been adopted to deliver climate-related risk reduction, these should be explained and appropriately connected with other climate disclosures, such as the risk management processes. If these strategies and targets have been developed in connection to important agreements or policies (such as the Paris Agreement or a national decarbonisation pathways) or sectoral and climate programmes (such as Science Based Targets) then the importance and relevance to the company should be explained.

When adopting and reporting on the details of the policies, strategies and targets for material climate issues, considerations of geography and time should be central. Climate-related risks and opportunities vary greatly according to location and time horizon. For example, some climate-related regulations are more likely in one country than another at any point in time, and the nature and severity of climate impacts, such as extreme weather and temperature increases, will vary significantly between regions. For effective climate action and reporting, corporate policies, strategies and targets should

9 Capitals Coalition (2016) Natural Capital Protocol. [Online]. Available from: https://naturalcapitalcoalition.org/natural-capital-protocol/

10 International Integrated Reporting Council (2013) International <IR> Framework. [PDF]. Available from: https://integratedreporting.org/wp-content/uploads/2015/03/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

directly and comprehensively respond to all material climate issues faced over the short-, medium- and long-term, and across geographies. Where these climate strategies and targets interact with other environmental or social policies, report preparers should draw users' attention to potential or existing synergies, explaining the benefits and/or feedbacks.

3. Targets and timelines

Detailed and consistent disclosure is especially important for the reporting of corporate targets, timelines and indicators for measuring performance against climate policies and strategies. The type of target and indicator, the base and timeline, and the scope should be clearly described to investors and connected with the overall strategy. For example, if a company has adopted a net zero carbon pledge for 2050, useful supporting information would include absolute GHG emissions metrics, indicators, milestones and targets up to 2050, and details of how business operations will contribute to the company-wide target. Likewise, it may be beneficial to set timelines according to how the company has defined the short-, medium- and long-term in its risk and outlook analyses. Progress towards targets may be expressed in terms of reducing negative impacts, but also through more proactive targets, such as value of green investments, percentage of research and development that is low-carbon focused, or numbers of renewable purchase power agreements. Targets such as these provide greater connectivity to financial and core business performance.

As a company progresses with its climate strategies and policies, it is beneficial to explain how it is advancing and what factors have been intrinsic to achieving or surpassing the targets. More importantly, where it is the case that indicators or targets have been or are likely to be missed, this should be rationalised, detailing factors that were significant and explaining what could have been and could not be controlled or better managed. Explaining how strategies will be adapted to improve performance as a result would be of particular importance to report users.

4. Resourcing

Finally, when reporting on climate-related policies, strategies and targets, companies should set out the resourcing, both financial and personnel, for meeting the delivery of the climate policies and strategy. Again, such detail in an annual report can offer investors reassurance of the company's commitment and effort to meeting its climate ambitions. Reporting on resourcing is especially important if the company's strategy requires significant capital investment or operation reorganisation to meet its ambitions.

Useful resources

Capitals Coalition, Natural Capital Protocol – Steps 2, 3 and 4 of the Protocol will assist companies in understanding their natural capital dependencies (and impacts), providing a basis for developing effective climate-related policies, strategies and targets. Those new to the concept should also consider Step 1.

ISO, ISO Standard 14090:2019 – ISO's climate change adaptation standard provides useful guidance on assessing impacts, risks and opportunities, planning and implementation of strategies, and monitoring, evaluating and communicating the success. The standard is logical, iterative and future-focused.

Science Based Targets Initiative, Science Based Targets – Offers companies a means of setting defined pathways and targets of emissions reductions that are in line with science and policy. The Initiative has developed a set of sector-specific guides to help companies in better understanding and setting targets.

WBCSD, ESG Disclosure Handbook – While not specific to climate, this handbook from WBCSD offers key questions to consider when preparing disclosures that are relevant to all reporting requirements of the CDSB Framework. Questions 4 and 5 and the three processes identified in the handbook will be particularly beneficial for REQ-02, which can be the most complex disclosure to fulfil.

Examples of good practice

Crédit Agricole, Registration Document 2019 – In its Registration Document (pgs. 85-90), Credit Agricole presents its strategy for climate-related issues and highlights green finance as one of its keys to growth. The company presents its policies, action plans and results in a thorough and understandable way, linking these to national and international ambitions and goals appropriately. Further, the company clearly details how the policies and strategies approach the different facets of the company, such as insurance, investment and consumers.

Ørsted, Annual Report 2019 – Following setting out its strategies and key targets for different business areas and the enabling factors that will help achieve them, Ørsted summarises its performance towards its strategic targets on pgs. 27-8 of its Annual Report. Several of these targets are climate-related and the annual results are presented with historical data as well as the overall target and timelines. The company explains the targets and offers explanation where appropriate.

REQ-03
Risks and opportunities

Disclosures shall explain the material current and anticipated environmental risks and opportunities affecting the organisation

Disclosure checklist

Does the disclosure:

- ✓ Identify material climate-related risks and opportunities together with the time horizons over which they are expected to materialise?
- ✓ Explain the strategic, geographic, operational, financial and supply chain implications of the climate-related risks and opportunities identified?
- ✓ Describe the systems and processes used for assessing, identifying and monitoring risks and opportunities, including whether they are integrated with existing risk management systems and processes?

Climate-related risks and opportunities principally relate to the physical effects of climate change or to the effects of transitioning to a low-carbon economy, which encapsulates, for instance, regulatory, technological, legal and reputational factors. Climate risks and opportunities can be complex and have distinctive features, including that they vary with time, are shaped by uncertain actions of many different actors, and follow pathways that can be non-linear. These risks and opportunities are also highly specific to the company, its sector, operations and supply chain. Table 1 provides examples of potential climate-related risks and opportunities and associated financial impacts.

	Risks	Potential financial impacts
Policy and legal	-Increased pricing of GHG emissions -Enhanced emissions-reporting obligations -Mandates on and regulation of existing products and services -Exposure to litigation	-Increased operating costs -Write-offs, asset impairment, and early retirement of existing assets due to policy changes -Increased costs and/or reduced demand for products and services resulting from fines and judgments
Technology	-Substitution of existing products and services with lower emissions options -Unsuccessful investment in new low-carbon technologies -Costs to transition to lower emissions technology	-Write-offs and early retirement of existing assets -Reduced demand for products and services -R&D expenditures in new and alternative technologies -Capital investments in technology development -Costs to adopt/deploy new practices and processes
Physical	Acute -Increased severity of extreme weather events Chronic -Changes in precipitation patterns and extreme variability in weather patterns -Rising mean temperatures -Rising sea levels	-Reduced revenue from decreased production capacity -Write-offs and early retirement of existing assets -Increased operating and capital costs -Reduced revenues from lower sales/output -Increased insurance premiums and potential for reduced availability of insurance on assets

	Opportunities	Potential financial impacts
Resource efficiency	-Use of more efficient modes of transport -Use of more efficient production and distribution processes -Use of recycling -Move to more efficient buildings -Reduced water usage and consumption	-Reduced operating costs -Increased production capacity, resulting in increased revenues -Increased value of fixed assets -Benefits to workforce management and planning
Products and services	-Development and/or expansion of low emission goods and services -Development of climate adaptation and insurance risk solutions -Development of new products or services through R&D and innovation -Ability to diversify business activities -Shift in consumer preferences	-Increased revenue through demand for lower emissions products and services -Increased revenue through new solutions to adaptation needs -Better competitive position to reflect shifting consumer preferences, resulting in increased revenues
Resilience	-Participation in renewable energy programs and adoption of energy-efficiency measures -Resource substitutes or diversification	-Increased market valuation through resilience planning -Increased reliability of supply chain and ability to operate under various conditions -Increased revenue through new products and services related to ensuring resiliency

Table 1 Examples of possible climate-related risks and opportunities, with the potential financial impacts, that may be identified by companies. Table adapted from the TCFD's Final Report (2017)

Like the other risks and opportunities that companies face in the modern, interconnected era, those related to climate change require careful consideration, across different time horizons and potential future pathways. For this reason, risk management approaches, horizon scanning, forecasting, sensitivity testing and scenario analysis, which is discussed further below in relation to REQ-06, are amongst the practical tools that can guide companies in their assessment of risk and opportunities.

1. Detailing risks and opportunities

When reporting material climate-related risks and opportunities in the mainstream report, thoroughly describing and detailing them, specifying the key characteristics of the risk or opportunity and explaining its relevance to the company and its operations, offers useful information. In terms of characteristics for high quality reporting, it is essential to properly account for where the risk or opportunity may materialise, specifying whether it concerns a specific business area, a particular region of operations or along the supply chain, for instance. Given the variability and complexity of climate issues over different time horizons, it is important for companies to explain the timeframes of risks and opportunities, highlighting when they could be expected to materialise and how they may develop through time. Where climate-related risks intersect with other business and environmental risks in amplifying manners, it is prudent for companies to identify and explain such connections and feedbacks.

2. Quantification and financial impact

As well as describing the key details and relevance of the material climate-related risks and opportunities, decision-useful disclosures will further set out the business implications and, where possible, quantify the risks and opportunities over appropriate timeframes. When valuing the risks or opportunities, the reader should be offered the assumptions and essential figures (e.g. present value of asset or revenue stream affected) as well as the uncertainties for the financial figure, especially if the size of the risk or opportunity varies largely over time. In addition, the mainstream report should be designed in a manner that allows the reader to navigate from these risks and opportunities to the policies and strategies developed to manage them, as is expected from REQ-02.

3. Connecting information

In addition, while the CDSB Framework does not set out specific reporting requirements, Principle 3 encourages companies to explain whether and to what extent climate-related issues are connected with other information and results in the mainstream report, with REQ-03 explaining that links should be made to reporting of processes and systems for risks and opportunities. For example, report users should be able to understand how climate-related issues have been incorporated into existing systems of risk identification and prioritisation and whether the systems have been adapted to accommodate the characteristics of climate-related issues. Important when reporting material climate risks and opportunities is to explain how the company considers short-, medium- and long-term issues in risk management systems. Further, it will be the case that the systems used to identify climate-related risks and opportunities will develop in coming years with greater understanding of climatic, regulatory and technological pathways. Setting out for report users how the company is developing and adapting these systems will demonstrate responsive and effective management.

Useful resources

Bank of England, Climate change: What are the risks to financial stability? – This short introduction to physical and transition climate risks and their importance to the global economy is a good starting point for those new to these ideas.

McKinsey, Climate Risk and Response provides a more in-depth analysis of these risks with helpful case studies, which may also assist in developing disclosures for REQ-06.

COSO and WBCSD, Applying enterprise risk management to environmental, social and governance-related risks – Developed by COSO and WBCSD, this guidance offers a thorough and logical process for developing effective risk management processes for climate-related and wider sustainability risks, including identification, prioritisation, and implementing response. Chapter 5 further offers guidance on how to best report on risks and their identification and management.

TCFD, Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures – The TCFD recommendations offer an in-depth set of disclosures for material climate-related risks and opportunities and their governance and management. Section C offers recommended disclosures and guidance which may assist companies in developing decision-useful reporting for REQ-03 as well as the other reporting requirements of the CDSB Framework.

Examples of good practice

AXA, Universal Registration Document 2019 – As well as setting out its climate-related risks with its other material risks, AXA offers further detail of its physical and transition climate-related risks in the corporate responsibility portion of its annual report (pgs. 411-20). The company explains its processes and modelling to determine climate-related risk and impact, linking this with its broader climate and investment strategy towards a 1.5°C portfolio target. The disclosure is effective in its connection of different disclosure requirements and connecting climate and financial risks. The company further directs users to a more in-depth report that details its methods and analysis of physical and transition risks.

Kering, Universal Registration Document 2019 – In the Risk Management section of its registration document, Kering details its risks using icons to depict the probability of occurrence, area of impact, and severity of impact. The corporate risks relating to climate change are detailed on pg. 430, offering the report user the nature and scale of possible impact, case studies to illustrate potential effects, and actions taken to mitigate these risks. The company effectively links to other parts of the mainstream report concerning climate-related issues and risk management processes.

REQ-04 Sources of environmental impact

Quantitative and qualitative results, together with the methodologies used to prepare them, shall be reported to reflect material sources of environmental impact

Disclosure checklist

Does the disclosure:

- ✓ Provide metrics and indicators for sources of material climate impact, including Scope 1 and 2 GHG emissions, using absolute and normalised metrics?
- ✓ Provide explanations of climate impact metrics including the methodologies used, levels of uncertainty and appropriate narrative to assist understanding of results?
- ✓ Categorise and disaggregate metrics to support understanding and comparability?

1. Material sources of climate impact

As well as expecting companies to report their targets and indicators for material climate-related issues, the CDSB Framework sets out that companies should disclose their results for material sources of climate-related impacts in their mainstream reports. Principle 1 of the CDSB Framework offers companies a means to assist them in identifying relevant and then material environmental information, including sources of impact. In addition, the CDSB Framework takes the position that Scope 1 and 2 GHG emissions of the company should be regarded as material and included in the mainstream report.

It will often be the case that the material sources of climate impact will reflect the natural capital dependencies, risks and opportunities, and ambitions that drive the formation of policies, strategies and targets for climate issues. However, where it is necessary for clarity, the results should be accompanied by an explanation of the materiality of the source of climate impact to the company. It might be that companies are disclosing on material sources of environmental impact in their sustainability reports, CDP responses or index questionnaires. Such disclosures can be repurposed to be included in the mainstream report and satisfy REQ-04 of the CDSB Framework. Table 2 offers an example set of common potential sources of climate impact.

2. Decision-useful information

When reporting results on material sources of climate impact, it should be considered what constitutes decision-useful information – consistency, comparability, clarity and verifiability – as set out in Principles 4, 5 and 6 of the CDSB Framework.

In satisfying these key characteristics, the applicability of the metrics and indicators chosen to report on material sources of climate impact, such as sector or industry and/or national standards for reporting, should be considered. In addition, results should be reported in absolute and intensity terms, with company revenue and/or appropriate non-financial output measures (e.g. emissions per a standard unit of product) being used to normalise the results. Further, companies should ensure that they do not conflate their results for material sources of climate impact with possible mitigation activities, such as carbon offsetting schemes. The latter should be reported where relevant and material, but in a manner that is distinct from the material sources of impact, otherwise it may mislead the report user.

3. Disaggregation and categorisation

To benefit comparability and understandability, it can be helpful to disaggregate and categorise results in terms of geography and business activity to better appreciate impact and report these alongside total results. For instance, if the majority of deforestation and land use change in production, and therefore GHG emissions, occurs within a country with threatened biodiversity, then it is important for investors to understand this differentiation of impact.

Sources of climate impact	Description
Scope 1 and 2 GHG emissions	Defined as material for all companies by the CDSB Framework, Scope 1 and 2 GHG emissions are all the direct emissions from the company or under its control (Scope 1) and the indirect emissions from energy purchased and used by the company or those under its control (Scope 2).
Scope 3 GHG emissions	Scope 3 GHG emissions collects all other indirect emissions from the activities of the company from sources that they do not own or control, both upstream and downstream (e.g. purchased goods and use of sold products, respectively).
Non-/Renewable energy generation, use and consumption	Electricity and heat production are among the largest contributor to GHG emissions. Electricity generation will need to expand and switch to renewable sources for decarbonisation.
Transportation	Transportation contributes a significant proportion to annual GHG emissions and is a key area for global efforts to disassociate economic growth from GHG emissions, with different transition pathways expected for each form.
Land use, land use change and forestry (LULUCF)	Land use, change and forestry are key sources of emissions and LULUCF is part of international GHG inventories, capturing both the addition and withdrawal of GHGs that land can facilitate.
Water use and reuse	Global warming will exacerbate and expand areas of water stress, putting supplies at risk for people and business.

Table 2 Common examples of sources of climate impact, with a description of each and how they contribute or are connected to climate issues.

In the reporting of their material sources of climate impact results, it is beneficial to report users to offer brief explanations to the appropriateness of reporting choices for metrics, intensity factors and means of disaggregation. Given that it is common for selective reporting on corporate impact, such explanations offer further confidence in the data disclosed. In addition, setting out clearly the methodologies used for preparation of disclosures will add to the validity and usefulness of the results. Where there are uncertainties and gaps in the climate data or where methods and assumptions have been amended, highlighting and offering an explanation to report users for these differences can alleviate confusions or misconceptions.

Useful resources

CDP, Corporate Climate Change, Forests and Water Security Questionnaires – Many of the world's largest companies already disclose information and data to CDP annually on material sources of climate impact. CDP submissions can provide a useful, well-structured basis for developing mainstream disclosures in response to REQ-04 as well as other reporting requirements of the CDSB Framework, such as on governance, strategies and targets, and outlook.

The GHG Protocol Initiative, The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard – The GHG Protocol's corporate standard offers a set of requirements and accompanying guidance for developing and reporting GHG inventories for Scope 1 and 2 emissions, which are material for all companies implementing the CDSB Framework. The GHG Protocol have also developed calculator tools for companies as well as a corporate value chain standard for Scope 3 GHG emissions.

SASB, SASB Industry Standards – SASB creates industry-specific standards that identify a base set of material sustainability issues for each industry, providing metrics for reporting on them in a consistent and comparable manner. SASB has found climate to be material in 72 of 79 industries. These metrics could also be beneficial for target setting in REQ-02 as well as for REQ-04.

Examples of good practice

SSE, Annual Report 2019 – In its strategic report, SSE details its climate and environmental impact, targets and broader strategy (pgs. 28-31). The company summarises its performance on climate impact with five metrics, three of which are externally assured, as well as providing its Scope 1, 2 and 3 GHG emissions in totals and appropriately categorised. These results are presented with narrative that explains performance and provides targets. In addition, the company directs users to supplementary data and information sources outside the mainstream report.

BASF, BASF Report 2019 – As part of its management report, BASF offers a clear set of results for its climate impact. The company presents its Scope 1, 2 and 3 GHG emissions with clear reference to methods used as well as presenting offsetting and biomass measures separately. The company further presents data on energy and electricity supply, aggregating these according to source, and water use and stress. These results are all reported with explanations that consistently connect to the strategy and targets of the company.

REQ-05 Performance and comparative analysis

Disclosures shall include an analysis of the information disclosed in REQ-04 compared with any performance targets set and with results reported in a previous period

Disclosure checklist

Does the disclosure:

- ✓ Provide appropriate historical data to the results reported from REQ-04 for material climate impact to allow for useful comparison?
- ✓ Contextualise the performance with baselines, targets and other criteria used to assess progress?
- ✓ Explain the major trends with reference to, for example, climate strategies, business developments, or political and economic changes?

To offer report users proper comparability between past and present performance on material sources of climate impact, companies need to ensure that they are offering an appropriate number of historical datapoints. Principle 2 of the CDSB Framework sets out that disclosures should include "all information that is necessary for an understanding of the matter that it purports to represent and does not leave out details that could cause information to be false or misleading to users." Narrow dataset windows or intermittent, longer-term datasets are unsuitable for comparison and decision-making, for instance, potentially obscuring the actual trends of impact. As an example, short-term perspectives on Scope 1, 2 and 3 emissions might conceal a trend of emissions shifting from Scope 1 and 2 to 3. For some, such longer-term measures of impact and performance will not be possible for not having collected the data for long enough, which should be explained where it hinders report users.

In addition, consistency needs to be applied to techniques used for data gathering and processing to allow for proper comparability and understanding of performance. In many circumstances, such changes are made to improve accuracy or meet new standards. Where changes are made to methods, restatements should be produced, as in REQ-10 of the CDSB Framework, to draw attention to these changes and an explanation offered.

Where targets have been set for material sources of climate impact, it is useful to restate the overall ambition and the baseline, clarifying for the reader as to whether the targets are part of a corporate initiative or scheme, or tied to wider national or international ambitions. Such targets offer an effective means of providing a narrative analysis of performance to reduce climate impact. In explaining trends, companies should draw the reader's attention to the impacts of environmental initiatives, wider corporate developments, regulatory changes and factors outside the control of the company. For example, a spike in energy usage might be the result of a significant acquisition, or a significant drop in Scope 2 GHG emissions could come as a result of the onboarding of renewable energy in the grid. Such narratives, then, should try to illustrate a more total climate impact, making connections across different aspects of the corporate report in so doing.

Useful resources

WBCSD and PwC, Enhancing the credibility of non-financial information: the investor perspective – This report brings together learnings from investor roundtables and interviews to assist companies in developing decision-useful disclosures. The advice is particularly helpful for metrics and targets, but is very much applicable to all climate-related disclosures.

ESG and climate Indexes (e.g. FTSE Russell, MSCI, Sustainalytics, Vigeo Eiris) – Many companies already disclose climate-related information to indexes that are designed to solicit investor-useful information and data. Considering the different requirements and characteristics of quantitative and qualitative information for such submissions may be useful in developing mainstream climate-related disclosures.

Examples of good practice

Stora Enso, Annual Report 2019 – In the sustainability section of its mainstream report (pgs. 44-6), Stora Enso presents its GHG emissions results, absolute and normalised, and offers a long-term perspective on its performance with over 10 years of historical data. In addition, the company contextualises its results by presenting them alongside decarbonisation pathways of its sector for two climate scenarios - 2°C and well below 2°C. In doing so, the disclosure offers investors both internal and external comparability. The company further explains the factors that have contributed to its performance and the efforts being taken forward to continue GHG reductions in the coming years to meet targets.

Eni, Annual Report 2019 – In its annual report, Eni includes a section detailing its long-term ambitions for carbon neutrality (pgs. 111-5), which presents the company's climate-related results. The thorough suite of results is presented together for easy understanding and comparison, with total and normalised data reported with two years of historical results. The results are presented with a clear commentary that articulately connects the performance and development with the company's ambitions and targets, providing report users with detailed commentary on specific geographies and business areas affecting results.

REQ-06 Outlook

Management shall summarise their conclusions about the effect of environmental impacts, risks and opportunities on the organisation's future performance and position

Disclosure checklist

Does the disclosure:

- ✓ Explain the likely effect of future climate-related impacts, risks and opportunities on company performance, taking account of regulatory and market trends?
- ✓ Identify and explain the time horizons used for reporting on corporate outlook?
- ✓ Explain any techniques, such as scenario analysis, used to inform the outlook including the methods, scenarios and assumptions used, and any shortcomings and uncertainties?

REQ-06 of the CDSB Framework encourages companies to provide a future-oriented summary that enables report users to understand how a company's climate-related risks, opportunities and impacts are affecting, or will affect, its ability to execute its strategy, innovate and create value across time horizons. The information provided in response to REQ-06 should synthesise and build on what has been disclosed in line with the first five reporting requirements of the CDSB Framework, providing a picture for investors of how climate-related issues will likely affect the company's performance and position.

Taking into account the timescales over which climate change will manifest itself, the non-linear and potentially abrupt nature of possible impact, and the multiple, interconnecting systems that drive climate-related risks and opportunities for companies, scenario analysis is a particularly useful method for companies to better understand potential futures, respond to and disclose such information to investors. Scenario analysis is a key tool to assess and build resilience within environmental, economic and social systems that are in flux.

1. Scenario analysis

Scenario analysis can be conducted through different routes including consultation with company and external experts or scientific analysis. There is no special or correct formula by which it is to be completed. Instead, it is a process to analyse a suite of potential futures,

understanding the company, its dependencies and strategic resilience, within the different forces that drive each of the futures. Some will do this through quantitative modelling, others will not. For climate-related issues, assessing a range of future climate states, taking into account a range of different warming levels (e.g. 1.5, 2, 3 and greater than 4°C) and transition pathways (e.g. drastic to 1.5°C, relatively more gradual 2°C, technologically-enabled 1.5°C) will elicit important information for companies and report users. The scenarios developed by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) are used by governments and regulators around the world, and therefore offer a reliable basis for companies to consider their potential futures.

The use of scenario analysis will be based on iterative learning and development. This will allow companies to build on findings or methods employed previously as well as incorporate more up-to-date understanding of climate change, other environmental systems and their interactions as well as greater comprehension of climate resilient pathways. If using scenario analysis, then report preparers should be open with these aspects of learning and development.

2. Methods, assumptions and uncertainties

In reporting on corporate outlook, report users should be able to understand the different methods that have been used to prepare the outlook, including horizon scanning and scenario analysis, any assumptions made and the timeframes over which the analysis has been completed. These different characteristics of the scenarios should reflect the nature of the company, its assets and operations, and the scale of risks and opportunities already identified. In addition, where external advice or assistance on conducting scenario analysis is used, it is beneficial for this to be highlighted within the methods and inputs.

In reporting the effectiveness and resilience of the company's strategies to the potential business impacts of the different scenarios, report preparers should be clear about uncertainties but as precise as possible with how the impacts of risks differ by geography, operations and time horizon. Clear articulation of the specific sensitivities to the different scenarios will allow report users to better understand the potential responses identified by the company as a result of the exercise, whether that is no response, changes to financial planning and investment, or reimagining the business model.

3. Iteration and learning

Climate-related risks and opportunities are highly dynamic and dependent upon changes in complex climate systems and political, economic and societal arenas as well as the exposure of the company or asset and its associated vulnerabilities.[11] The qualities and dimensions of climate-related risks and opportunities for companies are likely to change over time, whether gradually or abruptly. Given this, using the findings of such exercises to assess corporate outlook are an important means of updating risk and opportunity identification systems and refine or reformulate climate-related policies, strategies and targets. This will better prepare the company in limiting and seizing climate-related risks and opportunities. Including such learnings and how they have been incorporated into systems and ambitions in the mainstream report is a valuable means of demonstrating effective and efficient management of material climate-related matters to investors.

11 David Viner et al (2020) Understanding the dynamic nature of risk in climate change assessments — A new starting point for discussion. [Online]. Available from: https://rmets.onlinelibrary.wiley.com/doi/full/10.1002/asl.958

Useful resources

Climate Interactive, En-ROADS – This helpful tool allows users to explore different climate trajectories and futures according to interacting social, economic and political dynamics. It would be ideal for developing discussions or engaging different business areas around climate, corporate risk and resilience.

WBCSD, Business Climate Resilience – This report produced by WBCSD demonstrates the need and importance for developing corporate resilience in response to the short-, medium- and long-term impacts of climate change. The report emphasises the importance of resilience, provides business case studies and offers practical steps for companies to take forward. These learnings can help companies better appreciate, respond to and report on the strategic impacts of climate change.

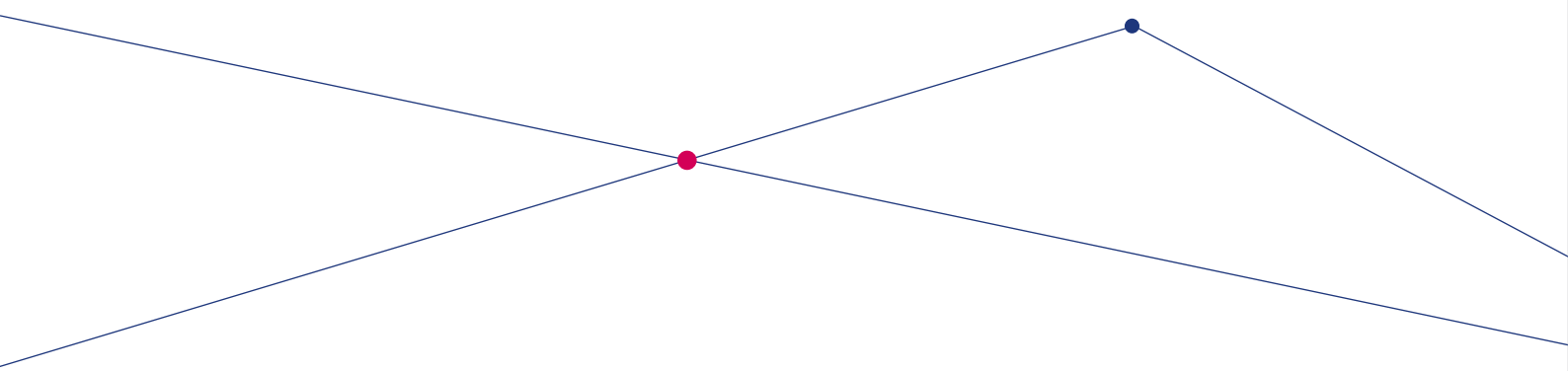
PRI, List of available tools and reference scenarios – PRI has compiled a useful list of available tools, both publicly available and service provider, as well as the key transition and physical climate scenarios, including those of the IPCC and IEA.

TCFD, Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Financial Disclosures – This technical supplement from the TCFD explains the importance of scenario analysis and offers considerable advice on developing and applying scenario analysis for climate issues. The supplement also offers a suite of key scenarios for companies to consider and points to further resources to assist companies.

Examples of good practice

Commonwealth Bank of Australia (CBA), Annual Report 2019 – In a section dedicated to setting out its climate change actions (pgs. 55-63), CBA presents the results of the scenario analysis it has conducted into specific areas of its operations. The company sets out the financial impact of the different climate scenarios for the areas and how it is responding accordingly. The company presents a clear methodology section and further details how it plans to expand its scenario analysis in coming years into other business areas to better assess the potential impact of climate change on the company.

Unilever, Annual Report and Accounts 2019 – Material climate-related disclosures are integrated throughout Unilever's annual report, but a special section (pgs. 40-3) is offered concerning scenario analysis, risks and opportunities and outlook. The disclosure sets out the methods and assumptions employed, the findings, impacts and outlook for the company and key commodities, and explains how the findings have fed into risk management and other processes. The company refers to other areas of the annual report and external sources of further information to offer investors greater detail on climate impact and future performance.



3. Important considerations

While the Climate Guidance has focused on the first six reporting requirements of the CDSB Framework, companies should not mistake the importance of the remaining six reporting requirements, which are essential to completeness. In addition, when developing material climate disclosures, companies should ensure that the seven guiding principles of the CDSB Framework are followed to ensure high-quality, decision-useful reporting. Below, we draw attention to three, more particular considerations to assist report preparers in developing mainstream climate disclosures in line with the CDSB Framework.

1. Relevance and materiality

When seeking to use the climate-related guidance offered for REQ-01 to REQ-06 of the CDSB Framework, companies must ensure that the principles of relevance and materiality have been applied. The Climate Guidance is designed for companies who have identified climate-related risks and opportunities as material, but not all of the suggested reporting practices offered will necessarily be applicable for inclusion in the mainstream report of all companies that have deemed climate material. The reporting practices of the Climate Guidance should be applied and disclosed against, like all information for the mainstream report, when the information is deemed material by the company. Principle 1 of the CDSB Framework offers that information is material if:

- The impacts or results it describes are, due to their size and nature, expected to have a significant positive or negative impact on the company's financial condition and operational results and its ability to execute its strategy; or
- Omitting, misstating or obscuring it could reasonably be expected to influence the decisions that users of mainstream reports make on the basis of that mainstream report, which provides information about a specific reporting company.

REQ-11 of the CDSB Framework encourages companies include a statement of conformance, setting out the extent that the principles and reporting requirements of the CDSB Framework have been applied. In doing so, companies are expected to state the outcome of applying the relevance and materiality principle.

2. Reporting boundaries and periods

REQ-07 of the CDSB Framework concerns the reporting boundaries employed by the company for the mainstream report. The CDSB Framework holds that the material climate-related information disclosed should be prepared according to the reporting boundaries used for the rest of the mainstream report. It may, however, be that climate-related information that falls outside this reporting boundary will be appropriate for inclusion in the mainstream report, such as relating to outsourced activities or where contracts expose a company to climate-related risks or opportunities. A common example of this is Scope 3 GHG emissions. REQ-07 of the CDSB Framework offers that information and data from outside the reporting boundary should be distinguished and the company's approach to boundary setting be reported. More information on boundary setting and reporting can be found in CDSB's Proposals for boundary setting in the mainstream report (see Appendix 3).

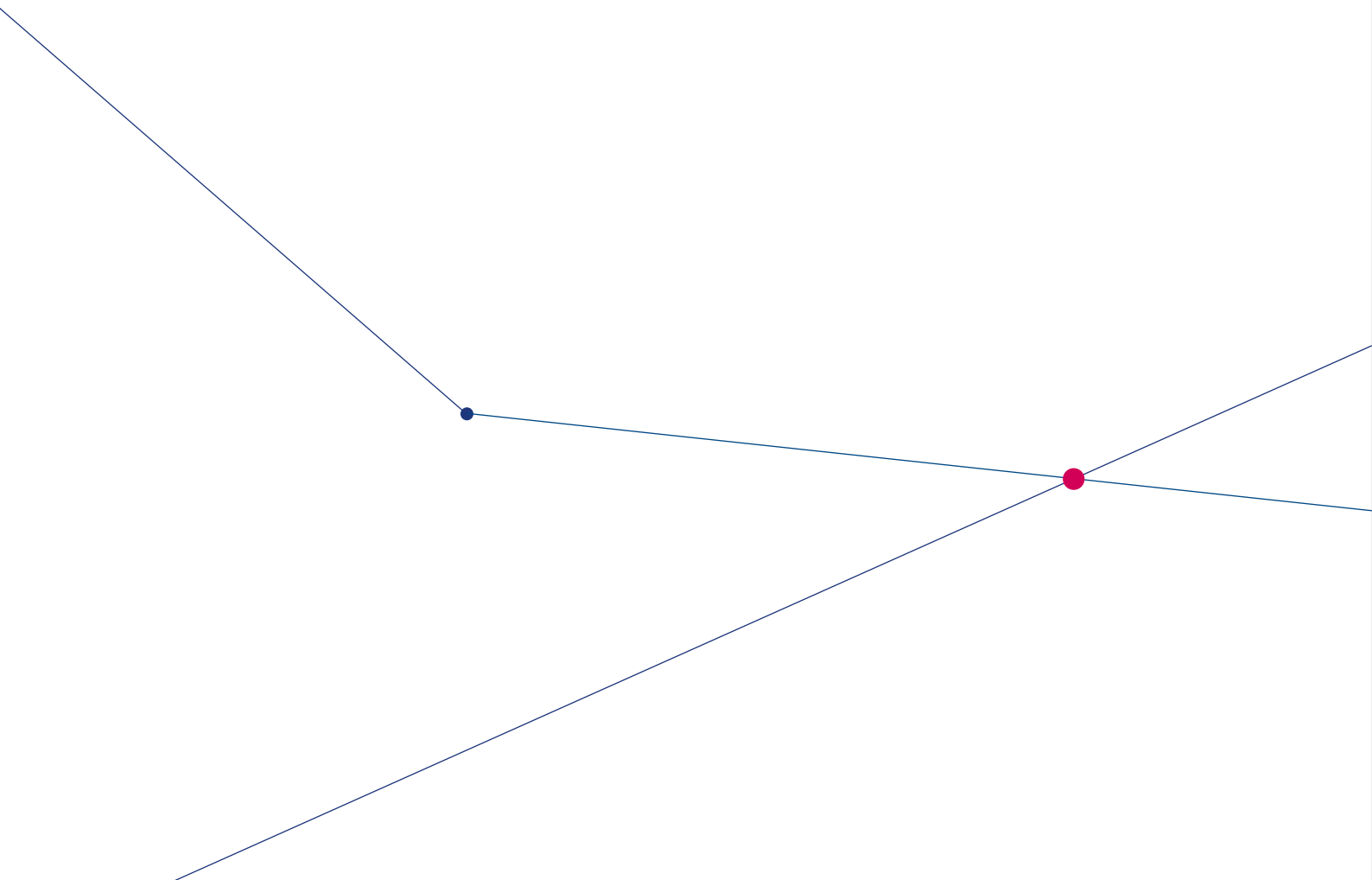
In addition to the reporting boundary, REQ-09 of the CDSB Framework suggests that the material climate-related information and data included in the mainstream report should follow the reporting period of the rest of the report. Aligning the reporting period of the climate-related information included in the mainstream report better ensures that it can be connected with the other information disclosed, such as financial performance and other environmental data, and so enhance comparability, as advocated by Principles 3 and 4, respectively, of the CDSB Framework.

3. Using existing disclosures and resources

The CDSB Framework and its reporting requirements intend to align with and

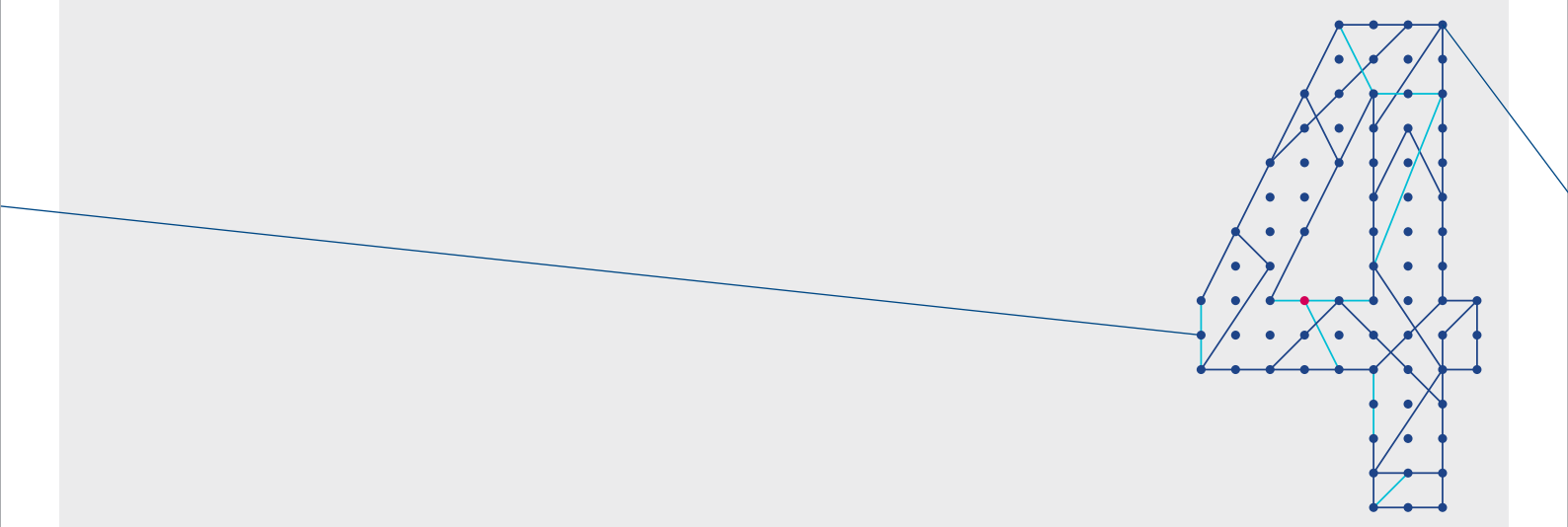
complement existing mainstream financial disclosures. It will be the case, then, that companies may already satisfy certain aspects of the reporting requirements of the CDSB Framework and the suggestions of Climate Guidance. Principle 3 of the CDSB Framework emphasises the importance of ensuring that material environmental disclosures, including those regarding climate issues, are connected with other mainstream disclosures. The principle informs report preparers that disclosures should be formulated and positioned in a way to allow investors to see and understand the linkages. In developing their mainstream reporting practices, companies should try and ensure that the language and labelling used best allows for clear understanding of these interconnections and avoids unnecessary duplication or confusion of information.

In addition, companies may already be disclosing material climate information that would be appropriate for mainstream disclosure in line with the CDSB Framework through different reporting channels, such as in sustainability reports, CDP submissions and index or investor questionnaires. Repurposing these existing disclosures to meet the specific requirements of the mainstream report could benefit and streamline reporting practices. Similarly, report preparers may also be able to use the financial accounting standards used for its mainstream reporting to report on certain aspects of climate-related financial information, which is further explored in CDSB's Uncharted waters (see Appendix 3).



Chapter 4

Appendices



Appendix 1: CDSB Framework – Guiding principles and reporting requirements

Principles

P1 Environmental information shall be prepared applying the principles of relevance and materiality

P2 Disclosures shall be faithfully represented

P3 Disclosures shall be connected with other information in the mainstream report

P4 Disclosures shall be consistent and comparable

P5 Disclosures shall be clear and understandable

P6 Disclosures shall be verifiable

P7 Disclosures shall be forward looking

Reporting requirements

REQ-01 Disclosures shall describe the governance of environmental policies, strategy and information

REQ-02 Disclosures shall report management's environmental policies, strategy and targets, including the indicators, plans and timelines used to assess performance

REQ-03 Disclosures shall explain the material current and anticipated environmental risks and opportunities affecting the organisation

REQ-04 Quantitative and qualitative results, together with the methodologies used to prepare them, shall be reported to reflect material sources of environmental impact

REQ-05 Disclosures shall include an analysis of the information disclosed in REQ-04 compared with any performance targets set and with results reported in a previous period

REQ-06 Management shall summarise their conclusions about the effect of environmental impacts, risks and opportunities on the organisation's future performance and position

REQ-07 Environmental information shall be prepared for the entities within the boundary of the organisation or group for which the mainstream report is prepared and, where appropriate, shall distinguish information reported for entities and activities outside that boundary

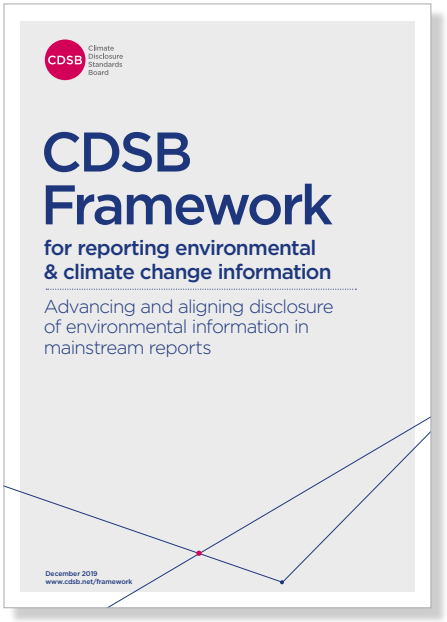
REQ-08 Disclosures shall cite the reporting provisions used for preparing environmental information and shall (except in the first year of reporting) confirm that they have been used consistently from one reporting period to the next

REQ-09 Disclosures shall be provided on an annual basis

REQ-10 Disclosures shall report and explain any prior year restatements

REQ-11 Disclosures shall include a statement of conformance with the CDSB Framework

REQ-12 If assurance has been provided over whether reported environmental information is in conformance with the CDSB Framework, this shall be included in or cross-referenced to the statement of conformance of REQ-11



Appendix 2: Mapping of the CDSB Framework to the TCFD Recommendations

The TCFD published its Final Report in 2017, offering 11 recommendations for the disclosures of material information on climate risks and opportunities. The recommendations are organised around four key business areas – governance, strategy, risks and opportunities, and metrics and targets. Below is a summary mapping of the CDSB Framework to the TCFD Recommendations.

TCFD Recommendation	Key components of CDSB Framework
Governance (a) Describe the board's oversight of climate-related risks and opportunities.	REQ-01
Governance (b) Describe management's role in assessing and managing climate-related risks and opportunities.	REQ-01, REQ-02 and REQ-03
Strategy (a) Describe the climate-related risks and opportunities the organisation has identified over the short-, medium-, and long-term.	REQ-03 and REQ-06
Strategy (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	REQ-02, REQ-03 and REQ-06
Strategy (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	REQ-03 and REQ-06
Risk Management (a) Describe the organisation's processes for identifying and assessing climate-related risks.	REQ-01, REQ-02 and REQ-03
Risk Management (b) Describe the organisation's processes for managing climate-related risks.	REQ-01, REQ-02 and REQ-03
Risk Management (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	REQ-01, REQ-02, REQ-03 and REQ-06
Metrics and Targets (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	REQ-02, REQ-04, REQ-05 and REQ-06
Metrics and Targets (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	REQ-04 and REQ-05
Metrics and Targets (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	REQ-02

Appendix 3: Key CDSB resources

1. CDSB (2019) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf

2. CDSB and CDP (2020) The building blocks: Connecting CDP data with the CDSB Framework to successfully fulfil the TCFD Recommendations. [PDF]. Available from: https://www.cdsb.net/sites/default/files/the_building_blocks_guidance_web_version.pdf

3. CDSB and SASB (2019) TCFD Implementation Guide. [PDF]. Available from: https://www.cdsb.net/sites/default/files/sasb_cdsb-tcfd-implementation-guide-a4-size-cdsb.pdf

4. CDSB and Centre for ESG Research (2019) How can companies considering TCFD recommended scenario analysis provide disclosures that help investors: a short guide. [PDF]. Available from: https://www.cdsb.net/sites/default/files/how_to_make_tcfd_scenarios_useful_for_investors_a_short_guide.pdf

5. CDSB and SASB (2018) Climate risk: from principles to practice. [PDF]. Available from: https://www.cdsb.net/sites/default/files/final.climate-risk-principlestopractice-092518.pdf

6. CDSB (2018) Uncharted waters: How can companies use financial accounting standards to deliver on the Task Force on Climate-related Financial Disclosures' recommendations? [PDF]. Available from: https://www.cdsb.net/sites/default/files/uncharted_waters_final.pdf

7. CDSB (2018) Position paper: Materiality and climate-related financial disclosures. [PDF]. Available from: https://www.cdsb.net/sites/default/files/materiality_and_tcfd_paper.pdf

8. CDSB and SASB (2017) Converging on Climate Risk: CDSB, the SASB and the TCFD. [PDF]. Available from: https://www.cdsb.net/sites/default/files/sasb_cdsb-tcfd-convergingonclimaterisk-091317-web.pdf

9. CDSB and Carbon Tracker (2016) Considerations for reporting and disclosure in a carbon constrained world. [PDF]. Available from: https://www.cdsb.net/sites/default/files/climate-risk-disclosure_cti-cdsb_v2_single-pages_web.pdf

10. CDSB (2015) The case for consistency in corporate climate change-related reporting. [PDF]. Available from: https://www.cdsb.net/sites/cdsbnet/files/the-case-for-consistency-in-climate-change-related-reporting.pdf

11. CDSB (2014) Proposals for reporting on Carbon Asset Stranding Risk. [PDF]. Available from: https://www.cdsb.net/sites/cdsbnet/files/cdsb_proposals_for_reporting_on_carbon_asset_stranding_risks.pdf

12. CDSB (2012) Proposals for boundary setting in mainstream reports. [PDF]. Available from: https://www.cdsb.net/sites/cdsbnet/files/proposals_for_mainstream_report_boundary_setting.pdf

TCFD Knowledge Hub

CDSB, in collaboration with the TCFD, have developed the TCFD Knowledge Hub – an online platform that provides the latest tools, resources, case studies and insights to help organisations implement the TCFD Recommendations. The TCFD Knowledge Hub also hosts CDSB's CPD accredited online courses, which are designed for those interested in expanding and deepening their understanding of climate-related financial disclosure. Visit tcfdhub.org to find out more.

The Reporting Exchange

The Reporting Exchange, developed by WBCSD in partnership with CDSB and Ecodesk, is the global resource for sustainability reporting. It's a free, online platform that brings together corporate sustainability reporting requirements and resources from 70 countries for easy access. Built around a collaborative model, it provides space for people to contribute, share insights, good practice and learn from others. The platform is supported by a global community of experts. To find out more, visit reportingexchange.com.

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