

Trends in Mandatory Climate-related Disclosure

- A growing number of countries are making climate-related disclosure mandatory or considering revising disclosure rules in terms of climate change.

Country	Trends
EU	<ul style="list-style-type: none">■ Disclosure of non-financial information is required by NFRD.<ul style="list-style-type: none">● Guidelines on reporting climate-related information were published in 2019.■ Proposal for CSRD amending NFRD was adopted in Apr. 2021.<ul style="list-style-type: none">● Mandatory EU sustainability reporting standards will be adopted by Oct. 2022
US	<ul style="list-style-type: none">■ SEC is evaluating its disclosure rules including climate-related disclosure.
UK	<ul style="list-style-type: none">■ Intention to make TCFD-aligned disclosures mandatory across the economy by 2025 was announced, with a significant portion of requirements in place by 2023.
NZ	<ul style="list-style-type: none">■ Reporting on climate risks based on TCFD framework will be required from 2023.
Japan	<ul style="list-style-type: none">■ Revised draft Japan's Corporate Governance Code was published by the Financial Services Agency in Apr. 2021.<ul style="list-style-type: none">● Companies listed on the Prime Market should enhance the quality and quantity of disclosure based on the TCFD recommendations or an equivalent framework.■ Tokyo Stock Exchange incorporated the revised Code into its listing rules in Jun. 2021.

Convergence and Standardization of Climate Disclosure

- To improve consistency and comparability of climate disclosure frameworks, standard setters are working towards convergence and standardization.

Year	Events
Sep. 2020	“Statement of Intent to Work Together” by CDP, CDSB, GRI, IIRC and SASB
	IFRS Foundation’s public consultation on the establishment of new “ISSB” (International Sustainability Standards Board)
Dec. 2020	“Prototype climate-related financial disclosure standard” published by CDP, CDSB, GRI, IIRC and SASB
Apr. 2021	IFRS Foundation’s working group to prepare for ISSB launched and joined by TCFD, IIRC, SASB, CDSB, WEF, GRI, CDP
Jun. 2021	“Value Reporting Foundation” launched by IIRC and SASB
	G7 Finance Ministers and Central Bank Governors welcomed the establishment of ISSB
By Nov. 2021	ISSB to be officially launched in advance of COP26

Overview of TCFD's Proposed Guidance

- In June, the TCFD proposed guidance on metrics, targets, and transition plans and associated changes to the 2017 implementing guidance (annex).
- The final language will be published October 14.

■ Background

The Task Force on Climate-related Financial Disclosures (TCFD) **conducted a public consultation from June 7 to July 18, 2021**

to gather feedback on proposed guidance on metrics, targets, and transition plans

- 203 respondents completed the consultation survey
- 42 respondents provided comment letters

■ Scope of Consultation



Proposed Guidance on Climate-Related Metrics, Targets, and Transition Plans

Since 2017, the Task Force has sought to clarify issues raised by organizations in their implementation of the TCFD recommendations and provide additional supporting guidance and other information where appropriate. To address recent developments and feedback from users, preparers, and others, the consultation draft proposed the following:

- A set of proposed **cross-industry, climate-related metrics**
- Updates to **financial sector-specific metrics**, including metrics with which to measure GHG emissions from investing, lending, and underwriting and portfolio alignment
- Guidance on disclosing **targets and transition plans**
- Proposed **updates to the 2017 annex¹**
- Additional information on the link between climate-related metrics and **financial impact**

The proposed guidance included language on measuring the alignment of financial organizations' activities with a 2°C or lower pathway

- The proposed guidance was accompanied by a draft technical report on portfolio alignment metrics developed by an independent group of expert analysts from financial organizations (the Portfolio Alignment Team) at the request of the TCFD. The Portfolio Alignment Team will also release their final report in mid-October.

■ Example Types of Portfolio Alignment Tools

Binary Target Measurement

- Percent of investments or counterparties with declared net-zero targets
- Primary issue: incentivizes target setting, but does not provide temperature alignment assessment

Benchmark Divergence Models

- Measures forward-looking performance against normative benchmarks
- Primary issue: poorly constructed methods can lead to additional unintended consequences

Implied Temperature Rise Models

- Translates degree of alignment into impact in the form of a temperature score
- Primary issue: rely on a complex set of assumptions

- **Disclosure based on the TCFD recommendations is progressing.** In order to facilitate green investment, **significant progress since the publication of the first edition** is reflected for investors and other stakeholders when understanding the information disclosed. **The new “addendums” discuss topics that are considered to be important.**
- Expected to help companies better understand the perspectives of investors and other stakeholders, leading to further disclosure.

Basic Approach

Promote constructive dialogue (engagement) with companies, leading to enhanced corporate value.

Identify and assess the risks and opportunities posed by climate change.

Promote innovation for decarbonization, and to create mechanisms for appropriate flow of funds.

Aims to realize a **“virtuous cycle of environment and growth”**

Structure

Main
Text

Provides commentary on evaluating and utilizing the information disclosed from four viewpoints. **Reflects significant progress since the publication of the first edition.**

Adden
dum
New

Discusses topics and initiatives considered to be important for investors and other stakeholders to understand the disclosure information. To be revised taking into account the latest situation.

Main Text (Excerpt)

4. Performance and Key Performance Indicators (KPIs)

- Evaluate companies by considering not only their GHG emissions through the entire value chain but also their contributions to emission reduction at the usage of their products and services.
- ✓ Evaluate in a comprehensive manner by considering emissions throughout the entire value chain (Scope 3 emissions), as well as contributions to reduction of products and services in the use phase.
- ✓ In order to use information on Scope 3 emissions on understanding risks and opportunities, background and assumptions of calculation is important.
- ✓ Pay attention to intermediate products that would bring reduction contributions at a point of usage.