Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Sustainability Reporting**	**Meeting**	AASB February 2022 (M185)
Topic:	**Australian and selected jurisdictional perspectives**	**Agenda Item:**	3.3
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Objective

1 The objective of this paper is to inform the Board of the jurisdictional and other perspectives relevant to Australia for the reporting of sustainability-related information, including staff analysis of how the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD Recommendations) and the proposed work of the International Sustainability Standards Board (ISSB) factors into those initiatives.

2 This paper is for information purposes only and does not ask the Board to make any decisions.

Structure

3 This paper is structured as follows:

(a) Background (paragraphs 4-7)

(b) Key messages (paragraphs 8-10)

(c) Joint alliance of leading sustainability reporting standard-setters and framework providers (paragraphs 11-17)

(d) International Sustainability Standards Board (paragraphs 18-32)

(e) Australian perspectives (paragraphs 33-58)

(i) *National Greenhouse and Energy Reporting Act (2007)* (paragraphs 37-42)

(ii) *Water Act (2007)* (paragraphs 43-45)

(iii) *Modern Slavery Act (2018)* (paragraphs 46-47)

(iv) *Workplace Gender Equality Act (2012)* (paragraphs 48-49)

(v) ASIC Regulatory Guides and Report (paragraphs 50-52)

(vi) ASX *Corporate Governance Principles and Recommendations* (paragraphs 53-54)

(vii) APRA Prudential Practice Guide CPG 229 *Climate Change Financial Risks* (paragraphs 55-56)

(viii) AASB-AUASB Joint Bulletin on *Climate-related ad other emerging risks disclosures* (paragraph 57)

(ix) Other perspectives in Australia (paragraph 58)

(f) Selected jurisdictional perspectives (paragraphs 59-83)

(i) New Zealand (paragraphs 59-62)

(ii) European Union (paragraphs 63-71)

(iii) United Kingdom (paragraphs 72-77)

(iv) Canada (paragraphs 78-83)

(g) Question to Board members

(h) Appendix A: Summary of selected international perspectives

(i) Appendix B: Comparison of the TRWG *Climate-related Disclosures* prototype standard and the TCFD Recommendations

(j) Appendix C: Summary of selected jurisdictional approaches compared against the TCFD Recommendations.

Background

4 Published in 2017, the TCFD Recommendations[1] introduce 11 voluntary disclosures that are widely adoptable and applicable to organisations across all sectors and jurisdictions. Focused on investors as users, the TCFD Recommendations are designed to support the disclosure of decision-useful information on the financial implications around the climate-related aspects of an organisation's business.

5 The TCFD Recommendations are structured around four thematic areas that represent core elements of how organisations operate—governance, strategy, risk management, and metrics and targets. Key climate-related financial disclosures support each thematic area that will help investors and others understand how reporting organisations think about and assess climate-related risks and opportunities.

6 The TCFD Recommendations are widely recognised as the leading guidance on climate-related financial disclosure. Refer to Appendix A for a summary of selected international perspectives compared to the TCFD Recommendations.

[1] For more information about the TCFD Recommendations refer to Agenda Paper 3.2 *Background*.

Table 1: Summary of the TCFD Recommendations

TCFD Recommendations	
Based on	Not applicable (N/A)
Thematic areas	Governance Strategy Risk Management Metrics and Targets
Mandatory	N/A
Principles-based	Yes
Definition of material	TCFD Recommendations refer to 'financial materiality' as defined jurisdictionally
Preparers	N/A
Primary users	Investors, lenders and insurance underwriters
Qualitative characteristics of information[2]	Relevant Specific and complete Clear, balanced and understandable Consistent over time Comparable Reliable, verifiable and objective Timely
Audit/assurance	N/A

7 To help inform the Board about international alignment of sustainability reporting, in particular for climate-related financial disclosure, this Agenda Paper summarises the perspectives of:

(a) two international perspectives for which the mission is harmonisation of multiple sustainability-related reporting standards and frameworks—being the joint alliance of leading sustainability reporting standard-setters and framework providers[3] and the ISSB; and

(b) four of the leading jurisdictions for sustainability-related reporting—being New Zealand, the European Union, United Kingdom and Canada;

and their comparison to the TCFD Recommendations.

Key messages

8 The IFRS Foundation's Technical Readiness Working Group (TRWG) has developed two prototype standards and a supplementary document applying two key concepts/definitions:

(a) Financial reporting definition of material as defined in paragraph 2.11 of the IFRS *Conceptual Framework for Financial Reporting*:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial

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[2] Note that the qualitative characteristics of information as described in the TCFD Recommendations predominantly align with the qualitative characteristics of information as described in the IFRS *Conceptual Framework for Financial Reporting*.

[3] The joint alliance of leading sustainability reporting standard-setters and framework providers is made up of the Value Reporting Foundation (being the International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB)), Climate Disclosure Standards Board (CDSB), CDP and Global Reporting Initiative (GRI).

reports make on the basis of those reports, which provide financial information about a specific reporting entity.

(b) Enterprise value as defined in Appendix A of the *General Requirements for Disclosure of Sustainability-related Financial Information* prototype standard:

The market capitalisation of an entity plus the market value of an entity's net debt.

9 In doing so, the ISSB is focusing on bridging the perceived gap between broader sustainability and financial reporting.

10 Most of the selected jurisdictional and other perspectives have announced their intent to address sustainability reporting in the future, with climate-related reporting being the first matter which they plan to address. The selected jurisdictional and other perspectives in relation to climate-related reporting considered in this Agenda Paper are still in the public consultation phase and, as a result, may be subject to change. However, at this stage, all jurisdictional and other perspectives considered appear to either partially or completely align to the TCFD Recommendations.

Joint alliance of leading sustainability reporting standard-setters and framework providers

11 Identifying an urgent need for globally consistent and comparable sustainability reporting, in September 2020 the leading sustainability standard-setters and framework providers issued a joint Statement of Intent:

(a) Sustainability Accounting Standards Board (SASB)[4, 5];

(b) International Integrated Reporting Council (IIRC)[4, 5];

(c) Climate Disclosure Standards Board (CDSB)[5];

(d) CDP (formerly the Carbon Disclosure Project); and

(e) Global Reporting Initiative (GRI).

12 The statement of intent outlined a vision for a comprehensive corporate reporting system, and a commitment to work together and contribute to the achievement of a globally accepted comprehensive corporate reporting system.

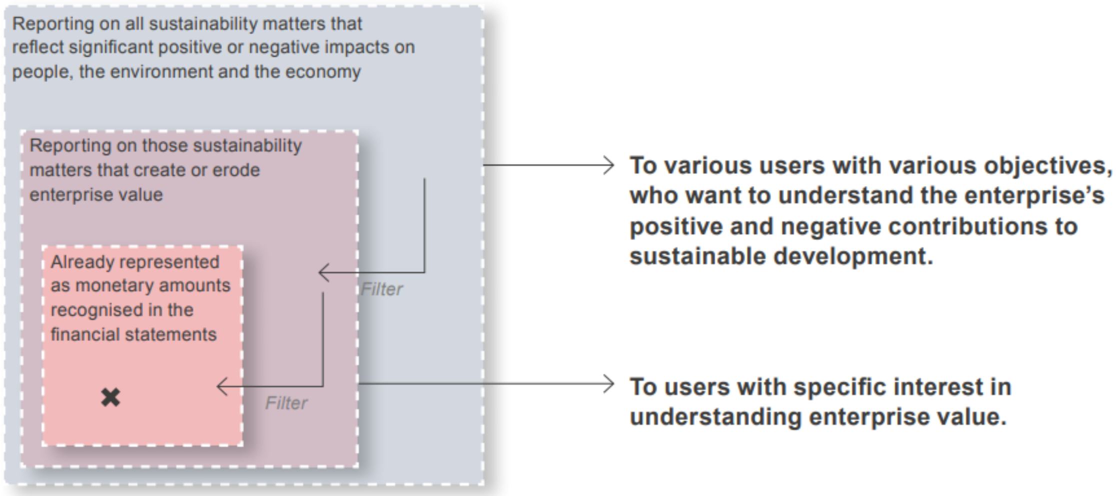
13 In December 2021, the joint alliance published *Reporting on enterprise value*, a prototype climate-related financial disclosure standard (the joint alliance prototype standard) that illustrates how their standards and frameworks, along with the recommendations set out by the TCFD, can be used together to provide a starting point for the development of global standards for sustainability-related financial disclosure. The prototype was developed with the intention of giving the IFRS Foundation a platform from which to launch the development of globally consistent sustainability reporting standards.

[4] Note in June 2021 IIRC and SASB merged to establish the Value Reporting Foundation (VRF).

[5] Note, in November 2021, the VRF and CDSB announced their intention to consolidate with the IFRS Foundation (and consequently the ISSB).

Nested and dynamic materiality

14 Unlike the IFRS TRWG prototype standards (see paragraphs 18-32), the joint alliance prototype standard emphasises that materiality is a dynamic concept—that is, the materiality of sustainability information can shift over time and is broader than just financial materiality depending on stakeholders' perspectives. In other words, the assessment of what sustainability information is material is dependent on whom the entity identifies as being primary users of that information. Applying this logic, the joint alliance prototype identified three levels of reporting:



15 Each of the levels of reporting would have distinct implications for an entity's communication of sustainability information. These implications could be understood as being differences in materiality, in the omission or misstatement of information relating to any one of the levels could influence decisions that users take in that context:

(a) The highest (or broadest) level of reporting scopes in all sustainability matters that reflect an entity's positive or negative contribution to sustainable development. Sustainability matters would therefore be defined as material if they represent material impacts. Such reporting is designed to inform assessments and decisions by a wide range of users who want to understand an entity's positive and negative contribution to sustainable development (referred to by the joint alliance prototype standard as 'sustainability reporting').

(b) The mid-level of reporting scopes in those sustainability matters that influence an entity's enterprise value[6]. Such reporting is considered as financial in the sense that it relates directly to financial returns to providers of financial capital, but is not necessarily measured in monetary amounts (that is, material information can be qualitative, quantitative, or a combination of both). Consistent with the TCFD's methodology, this level of reporting is referred to as sustainability-related financial reporting in the joint alliance prototype standard.

(c) The lowest (or narrowest) level of reporting scopes in those sustainability matters that influence enterprise value, in so far as they affect monetary amounts accounted

[6] The footnote 15 of the joint alliance prototype standard defines enterprise value as 'market capitalization (shareholder value) plus the market value of net debt. It is determined by capital market participants, based on their estimation, spanning the short-, medium, and long-term, of the present value of expected cash flows. Essential inputs in determining enterprise value include corporate reporting in financial statements and in sustainability-related financial disclosures.'

for and disclosed in the financial statements (referred to as financial accounting and reporting in the joint alliance prototype standard).

16 In other words, an entity would assess what sustainability matters are material and should be disclosed on the basis of who the entity identifies as being primary users of that information.

17 Refer to Appendix A for a summary of the joint alliance prototype standard's perspective compared to the TCFD Recommendations.

International Sustainability Standards Board

18 In November 2021, in response to the urgent need of investors and other stakeholders to understand how climate and sustainability matters affect entities' enterprise value and financial performance, the IFRS Foundation announced the establishment of the ISSB. As part of this announcement, two of the leading sustainability reporting standard-setters and framework providers (being the CDSB and the VRF) announced their intent to consolidate with the IFRS Foundation by June 2022.

19 This announcement was the culmination of over a year of work by the IFRS Foundation and its TRWG which worked towards:

(a) amending the IFRS Foundation *Constitution* to make room for the setting of standards addressing the reporting of climate and sustainability matters; and

(b) developing prototype standards for the general requirements for disclosure of sustainability-related financial information and climate-related disclosures.

20 In conjunction with the announcement of the formation of the ISSB, the TRWG published two prototype standards and a supplementary document for consideration by the ISSB. Staff note that these prototypes have not undergone any due process at this stage—the prototype standards and supplementary document were developed with the intention of providing the ISSB with a running start:

(a) *General Requirements for Disclosure of Sustainability-related Financial Information* Prototype (see paragraphs 24-26);

(b) *Climate-related Disclosures* Prototype (see paragraphs 27-28); and

(c) *Climate-related Disclosures* Prototype Supplement: *Technical Protocols for Disclosure Requirements* (see paragraphs 27-28).

21 Note that the prototype standards have been developed applying the concept of enterprise value. Consistent with the joint alliance prototype standard (see paragraphs 11-17), the TRWG defines enterprise value as:

market capitalisation + market value of an entity's net debt

22 The definition in Appendix A of the prototype standard *General Requirements for Disclosure of Sustainability-related Financial Information* also explains that:

It [enterprise value] *is determined by capital market participants, based on their estimation of the amount, timing and certainty of future cash flows spanning the short, medium and long term. Enterprise value reflects users' assessments of future cash flows, including the value attributed to those cash flows by users.*

Essential inputs in determining enterprise value include corporate reporting in financial statements, as well as reporting on sustainability matters that it is reasonably likely will affect the entity's business model over time (that is to say, affect revenue, costs, assets, liabilities, cost of capital and/or risk profile). The term captures the notion of expected value creation, preservation or erosion over time for an entity's equity and debt investors. This expected value creation, preservation or erosion is distinct from but fundamentally interdependent with an entity's creation, preservation or erosion of value for its stakeholders.

23 It is important to note that sustainability-related matters that do not affect the reporting entity's enterprise value have been specifically scoped out of the prototype standards. That is, with reference to the three levels of reporting identified by the joint alliance prototype standard (see paragraphs 11-17), the ISSB is focusing only on the mid-level of reporting with the intent to bridge the perceived gap between financial reporting (the lowest, or narrowest level of reporting) and sustainability reporting (the highest, or broadest level of reporting). In doing so, the ISSB has also elected to apply the financial reporting definition of material rather than the approach described in the joint alliance prototype standard (see paragraphs 11-17).

Prototype standard: *General Requirements for Disclosure of Sustainability-related Financial Information*

24 Similar to IAS 1 *Presentation of Financial Statements*, this prototype standard sets out overarching requirements for disclosing sustainability-related financial information relevant to sustainability-related risks and opportunities of an entity. In particular, in the absence of an appropriate conceptual framework, the prototype standard also seeks to explain the objective of sustainability-related reporting which, per paragraph IN5 of the prototype standard, is to:

…require entities to provide material information about the entity's exposure to sustainability-related risks and opportunities that is useful to users of general purpose financial reporting in making decisions about whether to provide economic resources to the entity. The [Draft] Standard also seeks to enhance connectivity within the entity's general purpose financial reporting, including between the entity's financial statements and sustainability-related financial information.

25 This prototype standard also seeks to provide guidance on:

(a) applying conceptual elements such as the definition of material, the boundary of financial reporting and connectivity between the sustainability-related financial reporting and traditional financial reporting;

(b) the four thematic areas of disclosure being governance, strategy, risk management and metrics and target (consistent with the TCFD Recommendations); and

(c) the qualitative characteristics of useful sustainability-related financial information (consistent with the IFRS *Conceptual Framework for Financial Reporting*).

26 Most importantly, Appendix A of the prototype standard defines sustainability-related financial information as:

Information that provides insight into drivers of enterprise value, providing a sufficient basis for users to assess the resources and relationships on which the entity's business model and management's strategy for sustaining and developing that model depend, by understanding:

(a) how effective the entity's business model is at creating value and generating cash flows, including their timing and certainty, over the short, medium and long term;

(b) how scalable and adaptable the model is; and

(c) how resilient and durable the model is.

This information includes, but is not limited to, information about matters such as climate change; water use and discharge; biodiversity; and employee and human rights.

Prototype standard: *Climate-related Disclosures*

27 Paragraph 1 of the prototype standard explains the objective of climate-related disclosure requirements which is:

…to require an entity to disclose information about its exposure to climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting:

(a) to determine the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows, and to assist users in their assessment of the entity's future cash flows and their value, timing and certainty, over the short, medium and long term and, therefore, assist users in their assessment of the entity's enterprise value;

(b) to understand how management's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its climate-related risks and opportunities; and

(c) to evaluate the ability of the entity to adapt its planning, business model and operations in response to climate-related risks and opportunities.

28 While the prototype standard itself details generic disclosure requirements, Appendix B to the prototype standard includes industry specific disclosure requirements for the following industries:

(a) consumer goods—apparel, accessories and footwear, appliance manufacturing, household and personal products, building products and furnishings, e-commerce, multiline and speciality retailers and distributors,

(b) extractives and minerals processing—coal operations, construction materials, iron and steel producers, metals and mining;

(c) extractives and minerals processing (oil and gas)—exploration and production, midstream, refining and marketing, services;

(d) food and beverage—agricultural products, alcoholic beverages, meat, poultry and dairy, non-alcoholic beverages, processed foods, food retailers and distributors, restaurants;

(e) financials—asset management and custody activities, commercial banks, insurance, investment banking and brokerage, mortgage finance;

(f) health care—health care delivery, health care distributors, managed care, medical equipment and supplies, and drug retailers;

(g) infrastructure—electric utilities and power generators, engineering and construction services, gas utilities and distributors, home builders, real estate, real estate services, water utilities and services, waste management;

(h) renewable resources and alternative energy—biofuels, forestry management, fuel cells and industrial batteries, pulp and paper products, solar technology and project developers, wind technology and project developers;

(i) resource transformation—aerospace and defence, chemicals, containers and packaging, electrical and electronic equipment, industrial machinery and goods;

(j) services—casinos and gaming, hotels and lodging, leisure facilities;

(k) technology and communications—electronic manufacturing services and original design manufacturing, internet media and services, semiconductors, software and IT services, telecommunication services, and hardware; and

(l) transportation—airlines, air freight and logistics, automobiles, auto parts, car rental and leasing, cruise lines, marine transportation, rail transportation, road transportation.

Comparison of TCFD Recommendations and the TRWG prototype standards

29 Refer to Appendix A for a summary of the TRWG's perspective compared to the TCFD Recommendations.

30 In developing the prototype standards, the TRWG's starting point was (i) the TCFD Recommendations; and (ii) the joint alliance prototype standard (see paragraphs 11-17). The intention was to leverage off the existing work done by leading sustainability reporting standard-setters and framework providers and promote international alignment of climate-related financial disclosures.

31 Appendix B to this paper details the alignment of the TRWG's *Climate-related Disclosures* prototype standard with the TCFD Recommendations. Staff note that the TRWG's *Climate-related Disclosures* prototype standard predominantly aligns to the 11 recommended disclosures as part of the TCFD Recommendations. However, staff also note that there are two conceptual differences being:

(a) Primary users—the TCFD Recommendations define 'primary users' of climate-related disclosures as being existing and potential investors, lenders and insurance underwriters. The TRWG prototype standards use the same definition of 'primary users' as the IFRS *Conceptual Framework of Financial Reporting* being existing and potential investors, lenders and other creditors.

(b) Significance versus materiality—the TCFD Recommendations solely apply and refer to 'financial materiality' as defined jurisdictionally (that is, the term 'material' is used consistently throughout the TCFD Recommendations). Both TRWG prototype standards rarely use the term 'material' and instead most often refer to 'significant' which is an undefined term and has deliberately remained undefined by the International Accounting Standards Board (IASB)[7].

32 Staff have not, at this stage, analysed the potential implications (if any) of the conceptual misalignments identified in paragraph 31. However, staff think these conceptual

[7] In the Basis for Conclusions on the *Disclosure of Accounting Policies* (which amended IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*), the Board explained that while they considered defining what is meant by 'significant' in the context of accounting policy disclosures, such an approach could have unintended consequences for other uses of the term 'significant' in IFRS Standards.

misalignments could result in significantly less useful sustainability and climate-related information being disclosed than is intended by the TRWG prototype standards.

Australian perspectives

33 There is currently no national approach to sustainability reporting in Australia. This has led to a diverse range of legislation and guidance being developed by individual Australian government and industry bodies with reference to a wide range of international sustainability reporting standards and frameworks.

34 Note that the Australian legislation and guidance identified in this paper are not for broad application. That is, the key Australian legislation and guidance included in this paper generally applies to specific market participants and are not broadly applied outside of their intended scope.

35 Staff identified the following Australian legislation and guidance via:

- (a) Outreach—as part of outreach meetings for ITC 46 *AASB Agenda Consultation 2022-2026* and ITC 48 *Extended External Reporting*, staff asked preparers which sustainability standards and frameworks they applied (including any sustainability-related Australian legislation or guidance); and
- (b) Research—staff reviewed sustainability reports as issued by the largest 20 companies listed on the Australian Stock Exchange (ASX) to identify which sustainability standards and frameworks (including any sustainability-related Australian legislation or guidance) they applied when preparing their reports.

36 Outreach and research identified the following key pieces of sustainability-related Australian legislation and guidance[8]:

- (a) *National Greenhouse and Energy Reporting Act (2007)* (paragraphs 37-42);
- (b) *Water Act (2007)* (paragraphs 43-45)
- (c) *Modern Slavery Act (2018)* (paragraphs 46-47);
- (d) *Workplace Gender Equality Act (2012)* (paragraphs 48-49);
- (e) Australian Securities and Investments Commission (ASIC) Regulatory Guides and Report (paragraphs 50-52);
- (f) ASX *Corporate Governance Principles and Recommendations* (paragraphs 53-54);
- (g) Australian Prudential Regulatory Authority (APRA) Prudential Practice Guide CPG 229 *Climate Change Financial Risks* (paragraphs 55-56); and
- (h) AASB-AUASB Joint Bulletin on *Climate-related and other emerging risks disclosures* (paragraph 57).

National Greenhouse and Energy Reporting Act (2007)

37 The *National Greenhouse and Energy Reporting* (NGER) scheme, established by the *NGER Act (2007)*, is a single national framework for reporting and disseminating company information about greenhouse gas emissions, energy production, energy consumption and other information specific under NGER legislation.

[8] Note that the Australian Institute of Company Directors (AICD), Chartered Accountants Australian and New Zealand (CAANZ) and Certified Public Accountants (CPA Australia) have information hubs addressing sustainability reporting and/or specific sustainability reporting matters such as climate-related reporting.

38 The objectives of the NGER scheme are to:

(a) inform government policy;

(b) inform the Australian public;

(c) help meet Australia's international reporting obligations;

(d) assist Commonwealth, state and territory government programmes and activities; and

(e) avoid duplication of similar reporting requirements in the states and territories.

39 The NGER scheme framework consists of six major elements:

(a) registration and deregistration—all controlling corporations that meet a threshold under the NGER scheme, must apply to be registered (see paragraph 40);

(b) reporter obligations—registered corporations are required to report all greenhouse gas emissions, energy production and energy consumption from facilities under the operational control of: (i) the registered controlling corporation; or (ii) members of its group;

(c) reporting, record keeping, monitoring and compliance—all registered controlling corporations are required to submit an NGER report each year until the corporation is deregistered. A registered corporation and any other person required to provide information to the Clean Energy Regulator must keep adequate records of the activities of members of the group (in the case of registered corporations) or the person's activities (in the case of persons required to provide information). The Clean Energy Regulator monitors compliance with the NGER legislation;

(d) data publication—based on the reports of registered corporations, the Clean Energy Regulator is required to publish their own reports and data; and

(e) the audit framework—the reporting audit framework was developed in consultation with industry, the financial and greenhouse gas accounting professions, and the environmental audit sector, as well as through analysis of existing international and national standards used for verification and assurance.

40 Corporations that meet a NGER threshold must register with the Clean Energy Regulator and once registered, report each year. There are two types of thresholds that determine which corporations have an obligation under the NGER Act being facility and corporate group thresholds:

41 The *NGER (Measurement) Determination (2008)* provides methods, criteria and measurement standards for calculating greenhouse gas emissions and energy data under the *NGER Act (2007)*. While it is updated annually to reflect improvements in emission estimation

methods, it only considers Scope 1 and Scope 2 emissions and energy production and consumption.[9]

42 The Clean Energy Regulator administers the *NGER Act (2007)*, its legislative instruments, and related policies and processes.

Water Act (2007)

43 In 2007, Australia's water information base was in need of standardisation as a result of lack of investment and inefficiencies in the way it was managed across more than 200 different data collecting agencies nationwide. Under the Australian Government's *Improving Water Information* Program, the Australian Bureau of Meteorology was tasked with developing a national water information service that would accurately monitor, assess and forecast the availability, condition and use of Australian water resources.

44 These functions, set out in the *Water Act (2007)*, are in addition to the Bureau's weather and climate functions. They include:

(a) collecting, holding, managing, interpreting and disseminating Australia's water information;

(b) providing regular reports on the status of Australia's water resources and patterns of usage of those resources;

(c) providing regular forecasts on the future availability of Australia's water resources; and

(d) compiling and maintaining water accounts for Australia, including a National Water Account.

45 To enable the Bureau to perform these functions, the *Water Act (2007)* requires certain organisations[10] to give water information to the Bureau. These organisations must report to the Bureau of Meteorology applying the Australian Water Accounting Standards:

(a) Water Accounting *Conceptual Framework for Preparation and Presentation of General Purpose Water Accounting Reports*—the primary purpose of which is to guide the development of Australian Water Accounting Standards, to ensure they remain cohesive and integrated;

(b) Australian Water Accounting Standard 1 *Preparation and Presentation of General Purpose Water Accounting Reports*—explains how to prepare and present a general purpose water accounting report. It sets out requirements for the recognition, quantification, presentation and disclosure of items in such a report; and

(c) Australian Water Accounting Standard 2 / ASAE 3610 *Assurance Engagements on General Purpose Water Accounting Reports*—establishes the requirements for assurance engagements. It provides application and other explanatory material regarding the assurance practitioner's responsibilities when accepting, conducting and reporting on a general purpose water accounting report.

[9] Note that the TRWG's *Climate-related disclosures* prototype standard includes requirements which refer to the disclosure of Scope 3 greenhouse gas emissions (see also Agenda Paper 3.2).

[10] Includes lead water agencies, other agencies of the Commonwealth or a state, hydroelectricity generators, owners or operators of major storages, rural water utilities, urban water utilities, Catchment Management Authorities and others, providers of water information for flood forecasting and warning, and providers of NGIS and Aquifer Framework Information.

Modern Slavery Act (2018)

46 The *Modern Slavery Act (2018)* establishes national modern slavery reporting requirements. The reporting requirements apply to large companies and other entities in the Australian market with annual consolidated revenue of at least AUD$100 million and supports the Australian business community to identify and address their modern slavery risks, and maintain responsible and transparent supply chains.

47 Corporations and other entities required to comply with the reporting requirements, including the Commonwealth Government, must prepare annual Modern Slavery Statements. These statements must set out the reporting entity's actions to assess and address modern slavery risks in their global operations and supply chains and are published annually through an online register.

Workplace Gender Equality Act (2012)

48 The *Workplace Gender Equality Act (2012)* requires relevant employers to lodge reports each year to the Workplace Gender Equality Agency. Reports contain responses to a survey related to a relevant employer's policies and strategies, employee movements, governing bodies, employer actions and consultations, as well as support for flexible working, carers and parents, and policies for sex-based harassment and family or domestic violence.

49 Relevant employers are defined as being non-public sector employers with 100 or more employees.

ASIC Regulatory Guides and Report

50 In September 2018, ASIC set out their recommendations relating to the consideration and disclosure of climate risk in Report 593 *Climate risk disclosure by Australia's listed companies* (Report 593). As part of Report 593, ASIC encourages directors and senior management of listed companies and their advisors to:

(a) consider climate risk—directors and senior management of listed companies should understand and continually reassess existing and emerging risks, including climate risk;

(b) develop and maintain strong and effective corporate governance—strong corporate governance facilities identifying and managing material risks;

(c) comply with the law—directors should consider disclosure of material business risks affecting future prospects in an operating and financial review (OFR); and

(d) disclose useful information to investors—directors of listed companies with material exposure to climate risk should consider reporting voluntarily under the TCFD Recommendations.

51 In August 2019 ASIC updated its existing regulatory guidance to address the disclosure of climate-related risks and opportunities. The updates were made to:

(a) Regulatory Guide 228 *Prospectuses: Effective disclosure for retail investors* (RG 228); and

(b) Regulatory Guide 247 *Effective disclosure in an operating and financial review* (RG 247).

52 The updates clarify that climate-related risks, like other significant risks, should be considered by boards. In particular, the updates:

(a) incorporate types of climate-related risk into the list of examples of common risks that may need to be disclosed in a prospectus—suggested examples provided in

RG 228 now include references to both transactional risks associated with the transition to a lower-carbon economy, and physical risks driven by acute or long term shifts in climate patterns;

(b) highlight climate change as a systematic risk that could have a material impact on the future financial position, performance or prospects of entities, and that may therefore need to be disclosed in an OFR. RG 247 also asks directors to consider whether additional information, relevant under integrated reporting, sustainability reporting or the TCFD Recommendations, should be disclosed where that information is not already required for the OFR; and

(c) reinforce that disclosures made outside the OFR (such as disclosures made in line with the TCFD Recommendations) should not be inconsistent with the disclosures made in the OFR (RG 247).

ASX *Corporate Governance Principles and Recommendations*

53 Issued in February 2019 for application for financial years beginning on or after 1 January 2020, the ASX Corporate Governance Council's fourth edition of the ASX *Corporate Governance Principles and Recommendations* (ASX *Principles and Recommendations*) now make reference to climate-related risk. While the third edition of the ASX *Principles and Recommendations* required ASX-listed entities to disclose material exposure to economic, environmental and social sustainability risks, the fourth edition explicitly refers to climate-related risks.

54 In particular, Recommendation 7.4 of the ASX *Principles and Recommendations* encourages entities to both consider whether they have material exposure to climate-related risks by reference to the TCFD Recommendations and, if they do, make the disclosures recommended by the TCFD.

APRA Prudential Practice Guidance CPG 229 *Climate Change Financial Risks*

55 In November 2021, APRA issued Prudential Practice Guide CPG 229 *Climate Change Financial Risks* (CPG 229). While not mandatory, CPG 229 aims to assist APRA-regulated institutions in complying with Prudential Standards CPS 220 *Risk Management*, SPS 220 *Risk Management*, CPS 510 *Governance*, SPS 510 *Governance* and, more generally, to outline prudent practices in relation to climate change financial risk management.

56 As part of CPG 229, APRA considers it better practice for any disclosures about climate change financial risks to be in line with the TCFD Recommendations.

AASB-AUASB Joint Bulletin on *Climate related and other emerging risks disclosures*

57 Published in December 2018 (and later revised in April 2019), the AASB-AUSASB Joint Bulletin on *Climate-related and other emerging risks disclosures* provides guidance on assessing the financial statement effect of climate-related and other emerging risks. In particular, the Bulletin explains that the effect of the definition of material and IFRS Practice Statement 2 *Making Materiality Judgements* (APS/PS 2) is that entities can no longer treat climate-related risks as merely a matter of corporate social responsibility and may need to consider them also in the context of their financial statements. For example:

(a) entities preparing financial statements in accordance with AASB Standards should consider:

(i) whether investors could reasonably expect that emerging risks, including climate-related risks, could affect the amounts and disclosures reported in the financial statements and have indicated the importance of such information to their decision making; and

(ii) what disclosures about the effect of climate-related and other emerging risks on the assumptions made in preparing the financial statements are material to the financial statements in light of the guidance on APS/PS 2;

(b) auditors of the financial statements may consider:

(i) climate-related and other emerging risks as part of their risk assessment applying ASA 315 *Identifying and Assessing Risks of Material Misstatement*. If there is an assessed risk of material misstatement in the financial statements, the auditor responds appropriately to the risks of material misstatement applying ASA 330 *The Auditor's Responses to Assessed Risks*; and

(ii) whether climate-related and other emerging risks are relevant for accounting estimates, including assumptions used to arrive at a fair value estimate and potential impairment, applying ASA 540 *Auditing Accounting Estimates and Related Disclosures*.

Other perspectives in Australia

58 Throughout outreach and research, staff observed there are a number of sustainability reporting standards and/or frameworks that are either mandated or voluntary to which Australian entities may be subject to. For example:

(a) International Council of Mining & Metals (ICMM) member entities are required to report annually on their sustainable development performance applying the GRI framework and standards;

(b) the World Gold Council has developed the Responsible Gold Mining Principles which is a voluntary framework that sets out clear expectations for consumers, investors and the downstream gold supply chain as to what constitutes responsible gold mining;

(c) Minerals Council of Australia (MCA) member entities:

(i) are required to annually report on water use applying the MCA Water Accounting Framework which aligns with the GRI framework and standards and the Australian Water Accounting Standards (see also paragraphs 43-45);

(ii) are required to be a signatory to Enduring Value—the Australian Minerals Industry Framework for Sustainable Development. The framework establishes the industry's leadership on responsible resource development; and

(iii) will be required (from 2025) to assess and publicly report on their performance against indicators set by the Towards Sustainable Mining (TSM) Framework as established by the Mining Association of Canada. TSM provides sustainability tools and indicators to help entities responsibly manage environmental, social and governance (ESG) performance and record and drive performance;

(d) Australian Dairy Sustainability Framework which is a joint initiative of Australia's dairy industry organisations and aligns with the UN Sustainable Development Goals (UN SDGs) and used concepts from the GRI framework to inform its development;

(e) Australian Grains Industry Sustainability Framework which is a joint initiative of Australia's grains industry organisations and considers the UN SDGs;

(f) Australian Beef Sustainability Framework which is a joint initiative of Australia's beef industry organisations and aligns with the UN SDGs;

(g) Australian Sheep Sustainability Framework which is a joint initiative of Australia's sheep meat and wool industries and aligns with the UN SDGs;

(h) Australian Agricultural Sustainability Framework which is a joint initiative of Australia's agricultural industry bodies and organisations and is considering both the UN SDGs and GRI framework as part of its second iteration; and

(i) Sustainability reporting guidance for the oil and gas industry as developed by the International Petroleum Industry Environmental Conservation Association, the American Petroleum Institute, the Australian Petroleum Production & Exploration Association and the International Association of Oil & Gas Producers.

Selected jurisdictional perspectives

New Zealand

59 In September 2020 the New Zealand Government announced its intention to implement mandatory reporting on climate risks and opportunities to build on the progress already made to tackle the climate crisis. To support the establishment of a climate-related disclosure framework, the *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill* (2021) (the Bill)[11] allows for the External Reporting Board (XRB) to issue guidance on ESG matters.

60 The scope of the Bill goes beyond climate-related disclosures because, in addition to climate change, wider environmental, social and cultural issues are increasingly becoming a part of the rapidly evolving reporting landscape and there exists a need to close the expectation gap between current climate-related disclosures and what investors and other stakeholders expect to be disclosed. As part of this process the XRB was tasked with establishing a climate-related disclosure framework that:

(a) is based on the TCFD Recommendations;

(b) is expected to be accompanied by guidelines; and

(c) will include a series of transitional provisions to enable climate reporting entities[12] to begin their disclosure journey.

61 In October 2021 the XRB published the public consultation document *Climate-related Disclosures: Governance and Risk Management*. This is the first of two consultation documents, the second which is expected to be published in March 2022 and relates to strategy and metrics and targets. A formal exposure draft of the proposed climate-related standard (or standards) is also expected to be published in July 2022, with a final standard (or standards) expected by December 2022.

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[11] The Bill was passed into law in October 2021.

[12] Climate reporting entities are Financial Markets Conduct (FMC) reporting entities that are considered to have a higher level of public accountability than other FMC reporting entities. The Bill specifies these as large:

- listed entities (entities with a market capitalisation exceeding NZD60 million);
- banks, licensed insurers, credit unions and building societies (with total assets exceeding NZD1 billion); and
- managers of investment schemes (with total assets exceeding NZD1 billion).

62 Refer to Appendix C for a summary of New Zealand's perspective compared to the TCFD Recommendations.

European Union

63 European Union (EU) law currently requires large public-interest companies with over 500 employees to disclose information on the way they operate and manage social and environmental challenges. The objective of disclosing this type of non-financial information is to:

(a) help investors, civil society organisations, consumers, policy makers and other stakeholders to evaluate the non-financial performance of large companies; and

(b) encourage large companies to develop a responsible approach to business.

64 Directive 2014/95/EU—the Non-Financial Reporting Directive (NFRD)—contains the rules on disclosure of non-financial and diversity information by certain large companies. Under the NFRD, large companies are currently required to publish information related to:

(a) environmental matters;

(b) social matters and treatment of employees;

(c) respect for human rights;

(d) anti-corruption and bribery; and

(e) diversity on company boards (in terms of age, gender, educational and professional background).

65 The NFRD is also accompanied by several non-mandatory guidelines as published by the European Commission:

(a) Guidelines on non-financial reporting (methodology for reporting non-financial information)—intends to help companies disclose environmental and social information (June 2017); and

(b) Guidelines on non-financial reporting: Supplement on reporting climate-related information (June 2019).

66 In April 2021, the European Commission adopted a proposal for Corporate Sustainability Reporting Directive (CSRD), which seeks to amend the existing reporting requirements of the NFRD. The proposal:

(a) extends the scope of the NFRD to all large companies and all companies listed on regulated markets (except listed micro-enterprises);

(b) requires the audit (assurance) of reporting information;

(c) introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards; and

(d) requires companies to digitally 'tag' the reported information, so it is machine readable and feeds into the European single access point envisaged in the capital markets union action plan.

67 The European Commission's proposal for the CSRD envisages the adoption of EU sustainability reporting standards. The draft standards would be developed by the European

Financial Reporting Advisory Group (EFRAG) and be tailored to EU policies while building on and contributing to international standardisation initiatives.

68 In September 2021 EFRAG made publicly available their *Climate standard prototype* working paper. The first set of standards are expected to be issued by September 2022 for adoption from October 2022. Based on our understanding, the 11 specific disclosures as recommended by the TCFD are included in the working paper but are not organised using the same thematic areas as those in the TCFD Recommendations. This is because the EU perspective:

(a) is a joint effort between EFRAG, the GRI, Shift[13] and WICI[14];

(b) is being developed in conjunction with broader requirements on the reporting of sustainability-related information, not only climate-related financial information; and

(c) takes a multi-stakeholder perspective (that is, does not only have an investor focus as many other jurisdictional perspectives do).

69 In November 2021, EFRAG announced it was on track to meet the ambitious timeline of issuing a final climate standard by September 2022.[15]

70 In January 2022, EFRAG made publicly available their first batch of working papers for the development of the European Sustainability Reporting Standards (ESRS) including European Sustainability Reporting Guidelines (ESRG). These working papers included:

(a) PTS-ESRS *Batch 1 working papers—Cover note and disclaimers*;

(b) PTF-ESRS *Batch 1 working papers—[Draft] ESRS 2 Strategy and business model*;

(c) PTF-ESRS *Batch 1 working papers—[Draft] ESRS 3 Sustainability governance and organisation*;

(d) PTF-ESRS *Batch 1 working papers—[Draft] ESRS 4 Sustainability material impacts, risks and compromises*;

(e) PTF-ESRS *Batch 1 working papers—[Draft] ESRS 5 Definitions for policies, targets, action plans and resources*;

(f) PTF-ESRS *Batch 1 working papers—[Draft] ESRS E1 Climate change*;

(g) PTF-ESRS *Batch 1 working papers—[Draft] ESRG 1 Double materiality conceptual guidelines for standard-setting*; and

(h) PTF-ESRS *Batch 1 working papers—[Draft] ESRG 2 Quality of information conceptual guidelines for standard-setting*.

71 Refer to Appendix C for a summary of the European Union's perspective compared to the TCFD Recommendations.

[13] SHIFT in Orality is an **Erasmus+ 3**-year project funded by the European Commission in 2015, within *Key Action 2: Strategic Partnership in Higher Education* (see https://www.shiftinorality.eu/en/project)

[14] WICI is a private/public sector partnership for improving the reporting of intellectual assets, and capital and key performance indicators that are of interest to shareholders and other stakeholders (see https://www.wici-global.com/aboutwici_global).

[15] See https://www.efrag.org/News/Project-548/PTF-ESRS-On-track-to-meet-ambitious-timeline-five-months-into-the-drafting-of-European-sustainability-reporting-standards-ESRS

United Kingdom

72 In November 2020, the United Kingdom (UK) committed to making climate-related disclosures fully mandatory across the economy. As part of that commitment, in December 2020, the UK Financial Conduct Authority (FCA) published its disclosure rules for UK premium-listed companies which align with the TCFD Recommendations.

73 In October 2021, the UK Government published *Greening Finance: A Roadmap to Sustainable Investing* (Roadmap) which summarises the UK's approach to its commitment to develop Sustainable Disclosure Requirements (SDR). The SDR will bring together new and existing sustainability reporting requirements for business, the financial sector and investment products, and aims to provide a flow of information necessary for businesses, consumers and investors to make financial decisions that align with sustainability values.

Since **2019**, the UK Government has required all large UK companies to disclose their greenhouse gas emissions

December 2020, the FCA issued its TCFD Recommendations-aligned disclosure rules for UK premium-listed companies

March 2021, the Department for Business, Energy and Industrial Strategy (BEIS) consulted on mandatory climate-related financial disclosure requirements for certain publicly quoted companies, large private companies and limited liability partnerships (LLPs)

June 2021, the FCA consulted on proposals to extend its TCFD Recommendations-aligned disclosures rules to standard-listed issuers and to require UK-authorised asset managers, life insurers and pension providers to publish client-focused TCFD Recommendations-aligned disclosures

July 2021, the Department for Work and Pensions (DWP) laid legislation before Parliament requiring a variety of pension schemes to make certain TCFD Recommendations-aligned disclosures and effectively manage climate-related risks and opportunities

Sustainability Disclosure Requirements (SDR)

July 2021 the UK Government announced the development of new SDR which will create an integrated framework for decision-useful disclosures on sustainability across the economy and build on the UK's existing TCFD Recommendations implementation.

74 The Roadmap notes the UK Government's strong support of the establishment of the ISSB by the IFRS Foundation and proposes new requirements for sustainability disclosures for corporates, asset managers and investment products. Subject to further consultation, corporate disclosures will comprise reporting under proposed international standards and reporting of a company's sustainability against the UK Green Taxonomy. The proposed international standards to which the Roadmap refers are the future ISSB standards which will form a core component of the SDR framework and become the backbone of the corporate reporting element. The Roadmap also notes that the UK Government will create a mechanism to adopt and endorse ISSB standards for use in the UK.

75 Public consultation on mandatory SDR and a framework to adopt standards issued by the ISSB is expected early in 2022. The intention is that annual reports of the most economically significant companies will contain sustainability-related disclosures (which would include the disclosures required by the UK Green Taxonomy and future ISSB standards) within one to two years of SDR and the related framework being legislated.

76 The FCA's public consultation on further climate-related disclosure rules and other ESG matters relevant to capital markets closed in September 2021. In December 2021 the FCA published a final Policy Statement on *Enhancing climate-related disclosures by standard listed companies*. The Policy Statement extends the application of the FCA's climate-related financial disclosure requirements to issuers of standard listed shares and Global Depositary Receipts representing equity shares.

77 Refer to Appendix C for a summary of the UK's perspective compared to the TCFD Recommendations.

Canada

78 In response to the increased focus on climate-change related issues both domestically and internationally, in August 2019, the Canadian Securities Administrators (CSA) published CSA Staff Notice 51-358 *Reporting of Climate Change-related Risks*[16]. CSA staff have since conducted research on both the domestic and international developments in this area, as well as an issue-oriented review of recent climate-related disclosures by Canadian reporting issuers.

79 In particular, this research highlighted domestic stakeholder concerns about current climate-related disclosures, including:

(a) issuers' climate-related disclosures may not be complete, consistent and comparable;

(b) quantitative information is often very limited and not necessarily consistent;

(c) issuers may "cherry pick" by reporting selectively against a particular voluntary framework and/or standards; and

(d) sustainability reporting can be siloed and is not necessarily integrated into companies' periodic reporting structures.

80 The research resulted in the October 2021 publication of proposed National Instrument 51-107 *Disclosure of Climate-related Matters* and its companion policy (for which the comment period closed 17 January 2022) which would introduce mandatory disclosure requirements

[16] Note that the CSA have published other Staff Notices which partially address climate-related disclosures including CSA Staff Notice 51-333 *Environmental Reporting Guidance* (October 2010) and CSA Staff Notice 51-354 *Report on Climate-Change-related Disclosures Project* (April 2018).

regarding climate-related matters for reporting issuers (other than investment funds) and is intended to:

(a) improve issuer access to global capital markets by aligning Canadian disclosure standards with the expectations of international investors;

(b) assist investors in making more informed investment decisions by enhancing climate-related disclosures;

(c) facilitate an "equal playing field" for all issuers through comparable and consistent disclosure; and

(d) remove the costs associated with navigating and reporting to multiple disclosure frameworks as well as reducing market fragmentation.

81 To support international alignment, including alignment with any future climate-related standard issued by the ISSB, the CSA's approach has been based on the TCFD Recommendations. However, to help reduce regulatory burden and additional costs of mandatory climate-related disclosure, the CSA have proposed that:

(a) issuers not be required to disclose scenario analysis, including a 2°C or lower scenario;

(b) issuers disclose their GHG emissions or explain why they have not done so (i.e. an 'if not, why not' approach); and

(c) the disclosure requirements be phased in over a one-year period for non-venture issuers and over a three-year period for venture issuers.

82 In December 2021, the Independent Review Committee on Standard Setting in Canada (the Committee) published a Consultation Paper for the purpose of conducting a review of the governance and structure for establishing Canadian accounting and assurance standards, and to identify what might be needed for the future—including sustainability standards. The Consultation Paper is open for comment until 28 February 2022 with final recommendations expected mid-2022. The public consultation document:

(a) explains why the Committee thinks an independent sustainability standard-setting body, set up to operate alongside the existing accounting and auditing and assurance standard-setting bodies, is important for Canada; and

(b) seeks comments on the design of such a standard-setting body and other key matters it sees as being relevant to existing standard-setting processes.

83 Refer to Appendix C for a summary of Canada's perspective compared to the TCFD Recommendations.

Question to Board members

Question to Board members
Q1: Do Board members have any questions about the information provided in this paper?

Appendix A: Summary of selected jurisdictional perspectives

	TCFD Recommendations	Joint alliance prototype standard	TRWG/ISSB
Based on	-	TCFD Recommendations Integrated Reporting <IR> Framework SASB Standards CDSB Standards CDP Framework GRI Standards	TCFD Recommendations Joint alliance prototype standard IFRS *Conceptual Framework for Financial Reporting*
Thematic areas	Governance Strategy Risk Management Metrics and Targets	Governance Strategy Risk Management Metrics and Targets	Governance Strategy Risk Management Metrics and Targets
Mandatory	N/A	N/A	N/A
Principles-based	Yes	Yes	Yes
Definition of material	Refer to 'financial materiality' as defined jurisdictionally	An entity makes an assessment on what sustainability information is material which is dependent on who the entity identifies as being the primary users of that information.	Sustainability-related financial information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports[17].
Preparers	N/A	N/A	Preparers of general purpose financial reports.
Primary users	Investors, lenders and insurance providers	As above, an entity would make an assessment of who the primary users of its sustainability information are.	Existing and potential investors, lenders and other creditors.
Qualitative characteristics of information	Relevant Specific and complete Clear, balanced and understandable	Relevance Faithful representation Comparability	Relevance Faithful representation Comparability

[17] Aligns with the IFRS *Conceptual Framework for Financial Reporting* definition of material: 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity.'

	TCFD Recommendations	Joint alliance prototype standard	TRWG/ISSB
	Consistent over time Comparable Reliable, verifiable and objective Timely	Verifiability Timeliness Understandability	Verifiability Timeliness Understandability
Audit/assurance	N/A	N/A	N/A

Appendix B: Comparison of the TRWG *Climate-related Disclosures* prototype standard and the TCFD Recommendations

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Governance		
Disclose an organisation's governance around climate-related risks and opportunities.	An entity shall disclose information that enables users[18] of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities…	Para. 4
a) Describe the board's oversight of climate-related risks and opportunities.	… To achieve this objective, the entity shall disclose a description of the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and of management's role with respect to climate-related risks and opportunities, including: (a) the identity of the body or individual within a body responsible for climate-related risks and opportunities; (b) how the body's responsibilities for climate-related risks and opportunities are reflected in terms of reference, board mandates and other relevant entity policies; (c) how the body ensures that the correct skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities; (d) the processes and frequency by which the body and its committees (audit, risk or other committees) are informed about climate-related matters and the associated climate-related risks and opportunities; (e) how the body and its committees consider climate-related risks and opportunities when overseeing the entity's strategy, decisions on major transactions, and risk	Para. 4 (a)-(f)

[18] 'Users' refers to primary users of general purpose financial reports as defined in the IFRS *Conceptual Framework for Financial Reporting* being existing and potential investors, lenders and other creditors. It should be noted that 'primary users' as defined by the TCFD Recommendations differs in that they are identified as existing and potential investors, lenders and insurance underwriters.

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Governance		
	management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required; (f) how the body oversees the setting of climate-related targets and monitors progress towards them, including whether and how related performance metrics are incorporated into remuneration policies; and …	
b) Describe management's role in assessing and managing climate-related risks and opportunities.	… (g) a description of management's role in assessing and managing climate-related risks and opportunities (for example, whether climate-related responsibilities have been assigned to specific management-level positions or committees, and that appropriate controls have been put in place by management to monitor climate-related matters, including ways in which climate-related risks and opportunities are considered and coordinated across different internal functions) and how the body oversees management in that role.	Para. 4(g)

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
	Strategy	
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information in material.	An entity shall disclose information that enables users of general purpose financial reporting to understand its strategy for addressing climate-related risks and opportunities, including the entity's assessment of: (a) the significant[19] climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows over the short, medium or long term; (b) the impact of significant climate-related risks and opportunities on its business model; (c) the impact of significant climate-related risks and opportunities on management's strategy and decision making; (d) the impact of significant climate-related risks and opportunities on its financial position, financial performance and cash flows at the reporting period end, and the anticipated effects over the short, medium and long term; and (e) the resilience of the entity's strategy to significant climate-related risks associated with the physical impacts of climate change and the transition to a lower-carbon economy.	Para. 5
a) Describe the climate-related risks and opportunities the organisation has identified	An entity shall disclose information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities that are reasonably	Para. 6

[19] It is important to note that the TCFD Recommendations refer solely to 'financial materiality' (as defined jurisdictionally—this is likely as a result of a misalignment between the US GAAP and IFRS definitions of material). The ISSB introduces the concept of 'significance' (which is undefined by the IASB and will remain so) in addition to using the IFRS *Conceptual Framework for Financial Reporting*'s definition of material (although the additional guidance on materiality provided in the prototype standards appears to be inconsistent with the definition of material and guidance in IFRS Practice Statement 2)—the prototype standard suggests that 'significant' has a higher threshold than 'material', which is inconsistent with the IASB's lack of a view on this specific issue, and suggests a higher reporting threshold than that intended to be applied in the context of the TCFD Recommendations.

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Strategy		
over the short, medium and long term.	expected to affect the entity's business model, strategy and cash flows over the short, medium or long term. Specifically, the entity shall disclose: (a) a description of the processes in place to identify climate-related risks and opportunities that it reasonably expects could positively or negatively affect its business model, strategy, and cash flows. (b) how it defines short, medium and long term and how the definitions are linked to the entity's strategic planning horizons and capital allocation plans. (c) a description of significant climate-related risks or opportunities and the time horizon over which each could reasonably be expected to have a financial effect on the entity. (d) whether the risks identified are physical risks or transition risks. For example, acute physical risks such as increased severity of extreme weather events such as cyclones and floods, and chronic physical risks could include rising sea levels or rising mean temperatures. Transition risks could include regulatory, technological, market, legal or reputational risks.	
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the impact of significant climate-related risks and opportunities on its business model. Specifically, the entity shall disclose: (a) a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain for producing goods or services (for example, supply chains, operations, workforce, marketing and distribution channels); and	Paras. 7-9

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Strategy		
	(b) where in its value chain significant climate-related risks or opportunities are concentrated, (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels). An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the impact of significant climate-related risks and opportunities on management's strategy and decision making, including its transition plans. Specifically, the entity shall disclose: (a) how it is responding to significant climate-related risks and opportunities including but not restricted to: i) how it plans to achieve any climate-related targets it has set, including how these plans will be resourced, the processes in place for review of those targets, and assumptions about the use of carbon offsets in achieving the target, including minimum quality or certification thresholds for the offsets. ii) how it is advancing research and development related to climate-change mitigation, adaptation, or opportunities. iii) whether it is adopting new technologies. iv) what direct adaptation and mitigation efforts it is undertaking (for example, through workforce, changes in materials used or product specifications, or introduction of efficiency measures). v) what indirect adaptation and mitigation efforts it is undertaking (for example, through working with customers and supply chains or use of certification schemes (for example, an internationally recognised scheme providing certification for the sustainability of a commodity such as lumber or palm oil)). vi) the extent to which mitigation efforts rely on offsetting strategies and the factors affecting the choice of any offsetting strategy; for example, following an	

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Strategy		
	assessment of multiple schemes, a technology company has decided to offset residual emissions within its value chain via an afforestation programme to meet its strategic commitment to mitigate climate risk. The company selected offset programmes because they led to permanent and additional outcomes, and met an accredited verification standard. The entity described each project, the geography in which the projects operate, the number of metric tonnes of offsets, the cost per metric tonne, the year in which the emission reduction occurred and the verification standard applying to the scheme. (b) plans and critical assumptions for legacy assets, including strategies to manage carbon- energy- and water-intensive operations, and to decommission carbon- energy- and water-intensive assets. (c) quantitative and qualitative information about the progress of plans previously disclosed in accordance with paragraphs 8(a) and 8(b). (d) how significant climate-related risks and opportunities are included in the entity's financial planning decision making (for example, in relation to investment decisions and funding). An entity shall disclose information that enables users of general purpose financial reporting to understand the impact of significant climate-related risks and opportunities on its financial position, financial performance and cash flows at the reporting period end, and the anticipated effects over the short, medium and long term. Specifically, the entity shall disclose qualitatively, and quantitatively when feasible: (a) how significant climate-related risks and opportunities have affected its most recently reported financial performance, financial position and cash flows;	

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Strategy		
	(b) how management expects the entity's financial position to change over time in line with its strategy to address significant climate-related risks and opportunities, reflecting: i) the entity's current and committed capital allocation plans and their anticipated impact on the financial position (for example, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements); and ii) the entity's planned sources of funding to implement the strategies; and (c) how management expects the entity's financial performance to change over time given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the Paris Agreement; physical damage to assets from climate events; and the total costs of climate adaptation or mitigation); and (d) how the entity's assessment of significant climate-related risks and opportunities has affected judgements made or present sources of estimation uncertainty in the financial statements.	
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	An entity shall disclose an analysis of the resilience of the entity's strategy to significant climate-related risks (physical and transition), including: (a) how the analysis has been conducted, including: i) whether it has been conducted by comparing a diverse range of climate-related scenarios and whether it has used a Paris-aligned scenario and scenarios consistent with increased physical climate-related risks;	Para. 10

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Strategy		
	ii) which scenarios were used for the assessment and the sources of the scenarios used (for example, Network for Greening the Financial System Net Zero 2050 scenarios, the International Energy Agency Net Zero 2050 scenario and the Intergovernmental Panel on Climate Change Representative Concentration Pathway 1.9 and 2.6); iii) an explanation of why the entity believes the chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities; iv) the time horizons over which the analysis has been conducted; v) the inputs into the scenario analysis, including but not limited to— the scope of risks (for example, the scope of physical risks included in the scenario analysis), the scope of operations covered (for example, the operating locations used), and the level of detail in the assumptions (for example, geospatial coordinates specific to company locations or national- or regional-level broad assumptions); and vi) management's assumptions about the way the transition to a lower-carbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates, macroeconomic trends, energy usage and mix, and technology assumptions; and (b) the results of the analysis together with an assessment demonstrating how the entity's financial position and financial performance supports the resilience of the entity's strategy and business model over the short, medium and long term, including: i) how assets and investments are aligned with or are sufficiently flexible to be reallocated, decommissioned, repaired and upgraded, in the event of physical	

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Strategy		
	disruption or chronic changes in weather patterns resulting from climate change; and ii) the current or planned investment in lower-carbon alternatives (and what proportion that represents of overall investment), reskilling the workforce and the degree of capital flexibility available to withstand the physical effects of climate change.	

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
	Risk Management	
Disclose how the organisation identified, assesses, and manages climate-related risks.	An entity shall disclose information that enables users of general purpose financial reporting to understand how climate-related risks are identified, assessed, managed and mitigated. To achieve this objective the entity shall describe: …	Para. 11
a) Describe the organisation's processes for identifying and assessing climate-related risks.	… (a) the process by which climate-related risks are identified; (b) the process, or processes, by which the entity assesses the significance of climate-related risks, including, where relevant: i) how it determines the likelihood and impact of such risks (such as the qualitative factors or quantitative thresholds used); ii) how it prioritises climate-related risks relative to other types of risks, including the use of risk assessment tools (for example, science-based risk assessment tools or other sources); iii) which significant input parameters it uses (for example, data sources, the scope of operations covered and the level of detail used in assumptions); and iv) whether it has changed the processes used compared to the prior reporting period; …	Para. 11(a)-(b)
b) Describe the organisation's processes for managing climate-related risks.	… (c) for each significant climate-related risk, information that enables an understanding of how the risk is being monitored, managed, and mitigated, including related policies; and …	Para. 11(c)
c) Describe how processes for identifying, assessing, and	…	Para. 11(d)

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
	Risk Management	
managing climate-related risks are integrated into the organisation's overall risk management.	(d) the extent to which, and how, these climate-related risk identification, assessment and management processes are integrated into the entity's overall risk management process.	

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Metrics and Targets		
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	An entity shall disclose information that enables users of general purpose financial reporting to understand the entity's performance in managing significant climate-related risks and opportunities. To achieve this objective, an entity shall disclose: (a) cross-industry metrics; (b) industry-based metrics (see Appendix B[20]); (c) targets set by management to mitigate or adapt to climate-related risks or maximise climate-related opportunities; and (d) other key performance indicators used by the board or management to measure progress towards the targets identified in paragraph 12(c).	Para. 12

[20] *Appendix B—Industry disclosure requirements* to the *Climate-related Disclosures* prototype standard is a summary of industry disclosure requirements organised by sector and industry.

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
	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.	An entity shall disclose the following cross-industry metrics: (a) greenhouse gas emissions—in terms of absolute gross Scope 1, Scope 2 and Scope 3, expressed as metric tonnes of CO2 equivalent, in accordance with the Greenhouse Gas and emissions intensity; (b) transition risks—the amount and percentage of assets or business activities vulnerable to transition risks; (c) physical risks—the amount and percentage of assets or business activities vulnerable to physical risks; (d) climate-related opportunities—the proportion of revenue, assets or other business activities aligned with climate-related opportunities, expressed as an amount or as a percentage; (e) capital deployment—the amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities, expressed in the reporting currency; (f) internal carbon prices—the price for each metric tonne of greenhouse gas emissions used internally by an entity, including how the entity is applying the carbon price in decision-making (for example, investment decisions, transfer pricing, and scenario analysis), expressed in the reporting currency per metric tonne of CO2 equivalent; and	Para. 12 (a)-(b) Para. 13 Appendix B[21]
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks[22].		Para. 13(a)- Para. 14

[21] *Appendix B—Industry disclosure requirements* to the *Climate-related Disclosures* prototype standard is a summary of industry disclosure requirements organised by sector and industry.

[22] The TCFD Recommendations recommend disclosing Scope 3 GHG emissions only if appropriate—the prototype standard takes this further and requires the disclosure of Scope 3 emissions regardless of appropriateness.

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Metrics and Targets		
	(g) remuneration—the proportion of executive management remuneration affected by climate-related considerations in the current period (also see paragraph 4(f)), expressed in a percentage, weighting, description or amount in reporting currency. For Scope 3 greenhouse gas emissions, the entity shall provide an explanation of the activities included within the disclosed metric. For example, an online retailer may be exposed to risks or opportunities related to the greenhouse gas emissions arising out of third party transportation and distribution services purchased by the reporting entity for outbound logistics of products sold to customers. The retailer may determine that information about such emissions is material to the users of its general purpose financial reports in their assessment of its enterprise value. Therefore, the retailer will explain how the emissions information provided by entities in its supply chain has been included in the determination of Scope 3 greenhouse gas emissions.	
c) Describe the targets used by the organisation to manage climate-related risks and opportunities against targets.	The entity shall disclose its climate-related targets, and: (a) the objective of the targets (for example, mitigation, adaptation and conformance with sector and science-based initiatives); (b) whether the target is absolute or intensity-based; (c) whether the target is science-based, and if so, whether it has been validated by a third party; (d) whether the target was derived using a sectoral decarbonisation approach; (e) the timeframe over which the target applies; (f) the base year from which progress is measured; (g) any milestones or interim targets; and	Para. 15

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Metrics and Targets		
	(h) metrics used to assess progress towards reaching targets and achieving strategic goals.	
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	An entity shall disclose information that enables users of general purpose financial reporting to understand the entity's performance in managing significant climate-related risks and opportunities. To achieve this objective, an entity shall disclose: (a) cross-industry metrics; (b) industry-based metrics (see Appendix B); (c) targets set by management to mitigate or adapt to climate-related risks or maximise climate-related opportunities; and (d) other key performance indicators used by the board or management to measure progress towards the targets identified in paragraph 12(c).	Para. 12

<table>
<tr><th>TCFD Recommendations</th><th>TRWG Climate-related Disclosures prototype standard</th><th>Prototype standard paragraph references</th></tr>
<tr><td colspan="3">Metrics and Targets</td></tr>
<tr><td>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</td><td rowspan="2">An entity shall disclose the following cross-industry metrics:
(a) greenhouse gas emissions—in terms of absolute gross Scope 1, Scope 2 and Scope 3, expressed as metric tonnes of CO_2 equivalent, in accordance with the Greenhouse Gas and emissions intensity;
(b) transition risks—the amount and percentage of assets or business activities vulnerable to transition risks;
(c) physical risks—the amount and percentage of assets or business activities vulnerable to physical risks;
(d) climate-related opportunities—the proportion of revenue, assets or other business activities aligned with climate-related opportunities, expressed as an amount or as a percentage;
(e) capital deployment—the amount of capital expenditure, financing or investment deployed toward climate-related risks and opportunities, expressed in the reporting currency;
(f) internal carbon prices—the price for each metric tonne of greenhouse gas emissions used internally by an entity, including how the entity is applying the carbon price in decision-making (for example, investment decisions, transfer pricing, and scenario analysis), expressed in the reporting currency per metric tonne of CO_2 equivalent; and
(g) remuneration—the proportion of executive management remuneration affected by climate-related considerations in the current period (also see paragraph 4(f)), expressed in a percentage, weighting, description or amount in reporting currency.</td><td>Para. 12 (a)-(b)
Para. 13
Appendix B</td></tr>
<tr><td>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks[23].</td><td>Para. 13(a)-
Para. 14</td></tr>
</table>

[23] The TCFD Recommendations recommend disclosing Scope 3 GHG emissions only if appropriate—the prototype standard takes this further and requires the disclosure of Scope 3 emissions regardless of appropriateness.

TCFD Recommendations	TRWG *Climate-related Disclosures* prototype standard	Prototype standard paragraph references
Metrics and Targets		
	For Scope 3 greenhouse gas emissions, the entity shall provide an explanation of the activities included within the disclosed metric. For example, an online retailer may be exposed to risks or opportunities related to the greenhouse gas emissions arising out of third party transportation and distribution services purchased by the reporting entity for outbound logistics of products sold to customers. The retailer may determine that information about such emissions is material to the users of its general purpose financial reports in their assessment of its enterprise value. Therefore, the retailer will explain how the emissions information provided by entities in its supply chain has been included in the determination of Scope 3 greenhouse gas emissions.	
c) Describe the targets used by the organisation to manage climate-related risks and opportunities against targets.	The entity shall disclose its climate-related targets, and: (a) the objective of the targets (for example, mitigation, adaptation and conformance with sector and science-based initiatives); (b) whether the target is absolute or intensity-based; (c) whether the target is science-based, and if so, whether it has been validated by a third party; (d) whether the target was derived using a sectoral decarbonisation approach; (e) the timeframe over which the target applies; (f) the base year from which progress is measured; (g) any milestones or interim targets; and (h) metrics used to assess progress towards reaching targets and achieving strategic goals.	Para. 15

Appendix C: Summary of selected jurisdictional approaches compared against the TCFD Recommendations

	TCFD Recommendations	New Zealand	European Union	United Kingdom	Canada
Based on	N/A	TCFD Recommendations	TCFD Recommendations GRI Standards CDP EU Hydrogen Strategy NRFD Guidelines Proposed CSRD Joint alliance prototype standard	TCFD Recommendations	TCFD Recommendations
Thematic areas	Governance Strategy Risk Management Metrics and Targets	Governance Strategy Risk Management Metrics and Targets	Strategy Implementation Performance measurement	Governance Strategy Risk Management Metrics and Targets	Governance Strategy Risk Management Metrics and Targets
Mandatory	N/A	Yes	Yes	Yes	Yes
Principles-based	Yes	Yes	Yes	Yes	Yes
Definition of material	Refer to 'financial materiality' as defined jurisdictionally	In development[24]	In development[25]	Under consideration[26]	Information is likely to be material if a reasonable investor's decision whether to buy, sell or hold securities in an issuer would likely be influenced or changed if the information in

[24] Expected to be published as part of the formal exposure draft of NZ Climate Standard 1: Climate-related disclosures in July 2022.

[25] The EU perspective is as a result of a joint project between EFRAG and the GRI. Consequently, staff expect that any definition of material developed by EFRAG will align with the concept of dynamic (or double) materiality per the GRI Standards.

[26] The UK perspective implies that it intends to use ISSB standards as a baseline upon which to develop UK-centric sustainability reporting standards. Consequently, staff expect that the definition of material adopted by the ISSB will also be adopted by the UK.

	TCFD Recommendations	New Zealand	European Union	United Kingdom	Canada
					question was omitted or misstated[27].
Preparers	N/A	Climate reporting entities	All large companies and all companies listed on regulated markets (except listed micro-enterprises)	Economically significant companies	All reporting issuers, other than investment funds, issuers of asset-backed securities, designated foreign issuers, SEC foreign issuers, certain exchangeable issuers and certain credit support issuers
Primary users	Investors, lenders and insurance providers	Existing and potential investors, lenders and insurance underwriters	Investors, civil society organisations, policy makers and other stakeholders	Businesses, consumers and investors	Investors
Qualitative characteristics of information	Relevant Specific and complete Clear, balanced and understandable Consistent over time Comparable Reliable, verifiable and objective Timely	Relevance Faithful representation Comparability Verifiability Timeliness Understandability	Transparency Comparability	Decision-useful	Decision-useful
Audit/assurance	N/A	Climate reporting entities required to ensure that aspects of	All reporting information subject to audit (assurance)	Under consideration	Under consideration

[27] Note that this definition aligns to the US GAAP definition of material: 'The omission or misstatement of an item in a financial report is material if, in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgement of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item' (paragraph QC11 of Concepts Statement No. 8)

	TCFD Recommendations	New Zealand	European Union	United Kingdom	Canada
		climate statements that disclose greenhouse gas (GHG) emissions are the subject of an assurance engagements			