Rising to the Challenge of Climate Disclosure

Climate change ambition without clear disclosure is no longer an option for companies. Investors, stakeholders, and regulators are all looking to understand how organisations are addressing risks associated with changes in our global climate. Disclosures of climate-related risks currently lack standardisation and assurance, making comparisons across organisations difficult, as well as opening the door to 'greenwashing'.

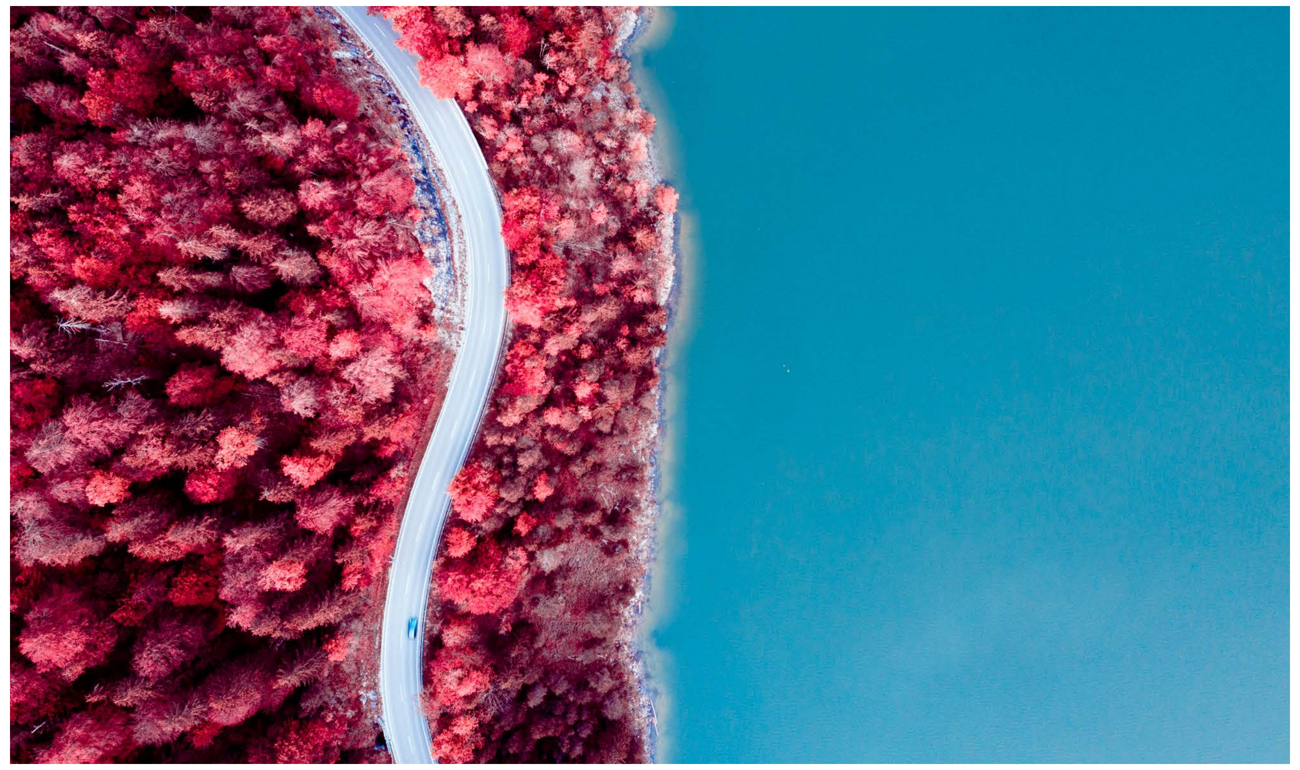
As a result, many governments are now mandating climate-related financial disclosure in line with Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. Almost every jurisdiction that has climate-related regulation or legislation in place is broadly aligned with the TCFD principles.

Now is the time for companies to get ahead in their response to climate disclosure regulations. This means understanding the changing reporting environment and the impacts on governance, strategy, risk management, metrics, and targets to consider when developing effective disclosure frameworks. In this whitepaper we explore climate disclosure requirements across the Asia Pacific region and share insights and guidance on developing TCFD-compliant disclosures.

Bringing greater scrutiny to climate reporting

Under direction from the International Financial Reporting Standards (IFRS), the International Sustainability Standards Board (ISSB) have established a global baseline standard for climate and sustainability reporting. They've recently released two exposure drafts of their recommendations for bringing sustainability[1] and climate[2] disclosures into annual financial reporting.

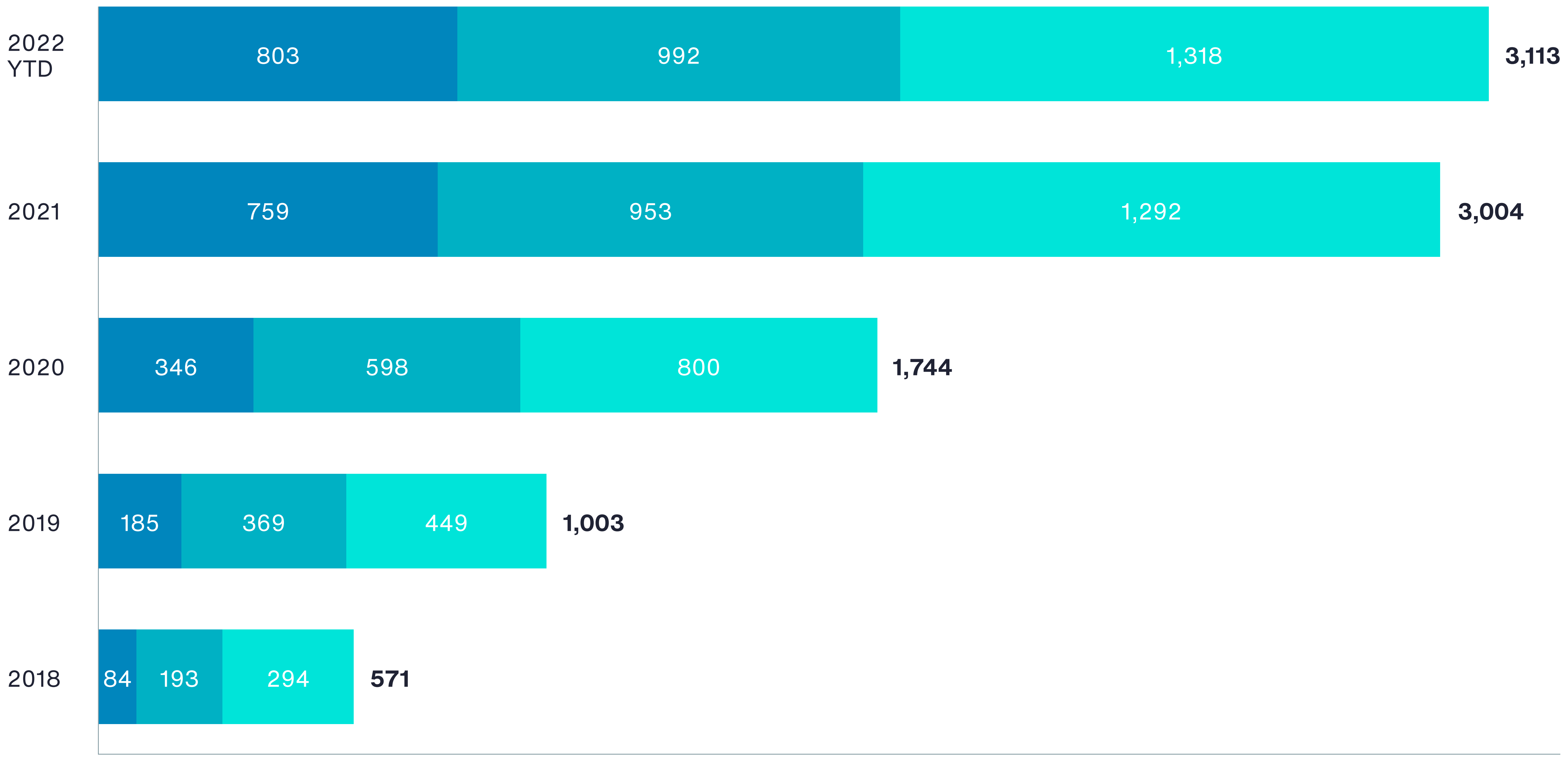
The ISSB drafts signal an important change in climate reporting. One of the recommendations is that climate disclosures are included in company financial reporting. This means they will be audited which will require companies to be more transparent and standardised in their climate reporting. This could be a game changer for markets, even negating the need for legislation on climate-related financial disclosures in some cases.



[1] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, March 2022
[2] IFRS S2 Climate-related Disclosures, March 2022

TCFD is Gaining Significant Uptake

The TCFD was created in 2015 by the Financial Stability Board (FSB) to develop a standard for climate-related financial risk disclosures for companies, banks, and investors to provide clear and consistent information to stakeholders. Since disclosure recommendations were released in 2017, the momentum behind TCFD has continued to grow, with over 3,000 supporters around the world now adopting the standards.



Source: https://assets.bbhub.io/company/sites/60/2022/02/TCFD-Fundamentals-Workshop.pdf

A Snapshot of TCFD-Aligned Reporting Across Asia Pacific

Climate-related legislation varies widely across the Asia Pacific region, but we are seeing more and more countries progressively moving towards mandatory TCFD-aligned climate-related financial disclosure.

Key examples include:

- The Australian Prudential Regulation Authority (APRA) has recently released guidelines on managing financial risks of climate change and target-setting[3];
- The Singapore Stock Exchange announced it will mandate TCFD-aligned disclosure for a subset of high-impact sectors[4];
- The Indonesia Stock Exchange became an official supporter of the TCFD in June 2021[5];
- Authorities in India have mandated disclosure for listed companies[6];
- New Zealand was the first country to introduce legislation making climate-related disclosures mandatory for some organisations[7]. From the end of 2023, reporting will be required against standards issued by their External Reporting Board (XRB) in line with TCFD recommendations;
- In January 2021, the Korea Exchange announced mandatory ESG disclosures for listed companies over KRW 2 trillion of market capitalisation by 2025 [8]. This will apply to all the listed companies by 2030;
- From April 2022, the Japan Exchange Group requires listed companies to address sustainability issues, including climate change, by disclosing TCFD-based information[9];
- In June 2021, the Governor of the People's Bank of China (PBOC) expressed plans to implement mandatory disclosures of climate-related information. In August 2021, The People's Bank of China (PBOC) released the Guideline on Environmental Information Disclosure for Financial Institutions[10].

[3] APRA finalises prudential guidance on managing the financial risks of climate change, November 2021
[4] Singapore Exchange proposes mandatory climate reporting in key sectors from 2023, S&P Global Commodity Insights, August 2021
[5] Task Force on Climate-related Financial Disclosures Supporters
[6] Business responsibility and sustainability reporting by listed entities, Securities and Exchange Board of India, May 2021
[7] The Impact of Mandatory Climate-Related Disclosures on major New Zealand businesses, Carbon Neutral NZ Trust, November 2021
[8] Korea Financial Regulator Calls for Mandatory ESG Reporting for KOSPI-listed Firms, ESG Today, January 2021
[9] Support for Listed Companies, Japan Exchange Group, August 2021
[10] Transcript of Governor Yi Gang's Interview by CGTN, The People's Bank of China, June 2022

A Closer Look at the Changing Regulatory Environment

While governments and regulators are at different stages with their climate change legislation and strategies for emissions reduction, we are seeing a growing commitment to more robust reporting from companies on climate-related activities and impacts.

Australia

The Australian federal government has committed to reducing carbon emissions by 43% before 2030[11]. Their climate agenda includes support for mandatory climate-related financial disclosures.

APRA and the Australian Securities and Investments Commission (ASIC) guidance on climate change financial risk reporting recommends TCFD. As a result, many listed companies have already taken steps towards TCFD compliance, with 85% of Australian Stock Exchange (ASX) entities reporting against the TCFD, and 49 of the ASX200 having made net zero commitments[12].

China

The Green Finance Regulation of Shenzhen Special Economic Zone established a mandatory green financial management system effective from March 2021. Climate disclosure and scenario analysis are encouraged under this regulation and several Shenzhen-based banks made their first carbon footprint disclosure in 2021[13].

In May of the same year, Ministry of Ecology and Environment issued new disclosure rules on enterprise environmental information management systems. These include detailed requirements for disclosure subjects, contents, and schedules[14]. June 2021 also saw the China Securities Regulatory Commission publish amendments to disclosure rules for listed companies[15]. At the same time, the China Banking and Insurance Regulatory Commission (CBIRC) issued the Code of Corporate Governance of Banking and Insurance Institutions, including new governance requirements around environmental protection[16].

In June 2022, CBIRC released the Green Finance Guidelines for Banking and Insurance Sectors, outlining requirements on internal management, investment processes, disclosures, and regulatory involvement relating to green finance, with a one-year implementation timeline[17].

[11] Climate Change Bill 2022, Parliament of Australia
[12] Claire LaBouchardiere, Keynote, IGCC Summit, 16 June 2022
[13] Green Finance Development Regulations, Shenzhen Government Online, 2020
[14] Notice by the Ministry of Ecology and Environment of Issuing the Plan for the Reform of the Legal Disclosure System of Environmental Information, May 2021
[15] China Publishes Environmental and Social Disclosure Rules for Listed Companies, Mayer Brown, July 2021
[16] Corporate Governance Guidelines for Bancassurance Institutions, China Banking and Insurance Regulatory Commission, June 2021
[17] CBIRC Releases the Green Finance Guidelines for Banking and Insurance Sectors, China Banking and Insurance Regulatory Commission, June 2022

Hong Kong

Hong Kong Exchanges and Clearing Limited issued an ESG Reporting Guide introducing new mandatory disclosure requirements with disclosure obligations for social KPIs and a "comply or explain" provision effective from July 2020 for all listed companies[18].

Taiwan

New reporting standards implemented in 2022 require all insurers in Taiwan to disclose climate-risk related financials[19]. This regulatory reform includes a three-year roadmap for sustainability reporting for listed companies. Launched by the Financial Supervisory Commission (FSC), the roadmap requires TWSE/TPEx-listed companies with a paid-in capital above NT$2 billion to file sustainability reports starting from 2023, with reference to international standards including TCFD.

Following release of their Financial Disclosures of Insurance Companies guidelines released in November 2021, the FSC now requires insurers to disclose climate-risk related financials annually from 2023. The guidelines also state that insurance companies must incorporate climate risk into the company's risk appetite and stress test the impact of climate risk[20].

In March 2022, the FSC published their roadmap on regulating emissions disclosure by listed companies as well as steel and cement industries. Under the new requirements, companies must disclose information about their greenhouse gas (GHG) inventory and conduct verification for submission to the board of directors each quarter[21].

India

When the new financial year in India began in 2022, the top 1,000 listed companies by market capitalisation were required to meet new standards in ESG reporting[22]. The Securities and Exchange Board of India (SEBI) introduced the Business Responsibility and Sustainability Report (BRSR) as the new format for these companies to submit their Business Responsibility Report framework. This format includes quantitative and standardised disclosures on ESG metrics making it to easier to compare reporting across companies, sectors and reporting periods. SEBI has also released a paper on ESG rating providers, to guide regulatory oversight for their assessments

The Reserve Bank of India is also drawing attention to the importance of financial institutions introducing processes to understand and assess the impact of climate-related financial risks.

[18] Appendix 27 Environmental, Social and Governance Reporting Guide, HKEX
[19] FSC launches Corporate Governance 3.0 - Sustainable Development Roadmap, Securities and Futures Bureau, August 2020
[20] FSC Publishes "Guidelines on Climate-related Financial Disclosures of Insurance Companies" for Insurers to Begin Disclosure of Financial Information on Climate-Related Risks Starting from 2023, Financial Supervisory Commission Republic of China (Taiwan), November 2021
[21] Taiwan FSC Officially Launched the Roadmap for the Sustainable Development of Listed Companies, Financial Supervisory Commission, 2022
[22] Business responsibility and sustainability reporting by listed entities, Securities and Exchange Board of India Circular, May 2021

Japan

The founding of the Japan TCFD Consortium in 2019 was an important step forward in promoting sustainability. This has led to Japan being home to the largest number of TCFD supporting companies[23].

Changes to the country's Corporate Governance Code in June 2021 introduced a requirement for listed companies to address sustainability issues, including climate change, by disclosing TCFD-based climate-related information from April 2022. In the same month, the Bank of Japan (BOJ) released its strategy on climate change as part of its mandate to achieve price stability. As quantitative assessment of the climate-related financial risks is important to understanding economic impacts for the country as a whole, BOJ are collaborating with the Japan Financial Services Agency (FSA) to develop scenario analysis targeting large financial institutions.

More recently, the FSA issued regulatory and supervisory considerations on how financial institutions are responding to climate change. With an integrated supervisory approach and consistent policies, the BOJ and FSA are steering financial institutions towards enhancing their disclosures, based on the TCFD framework.

[23] 2021 Status Report: Task Force on Climate-related Financial Disclosures, Financial Stability Board, October 2021

South Korea

In their Carbon Neutrality Act the Korean government legislated for a national vision of carbon neutrality by 2050. Their journey starts with a goal of reducing GHG emissions from 2018 levels by 40% or more by 2030[24]. The Act states the minimum level of Korea's Nationally Determined Contribution (NDC) target for 2030 should be 35% or more[25]. The government plans to expand support for carbon neutrality and gradually introduce mandated disclosure of sustainable management reports. To ensure stability in the financial system and tackle climate risks, Korean authorities are planning to introduce climate stress tests and will help establish a climate risk management system in the financial sector[26].

Regulators and key financial institutions in Korea are also doing their part to support the 2030 and 2050 commitments with a number of measures:

- In June 2020, Bank of Korea (BOK) announced "BOK 2030" to confirm mandates for stability and development of the national economy and declare commitments to address climate change. Setting up a "Climate Change Response Task Force" in April 2021 is central to BOK's activities for increasing understanding climate change impacts for the economy[27].
- In 2021, the Financial Supervisory Commission (FSC) announced a series of measures to improve corporate disclosures. These include mandatory ESG disclosures for listed companies and potential changes to the Korean Stewardship Code to strengthen fiduciary duties relating to ESG[28].
- In January 2021, the Korea Exchange introduced mandatory ESG disclosures for listed companies over KRW 2 trillion of market capitalisation by 2025. This will be expanded to all listed companies by 2030.

[24] Carbon Neutral Green Growth Framework Act to tackle the Climate Crisis, London School of Economics and Political Science, Grantham Research Institute on Climate Change and the Environment, 2021
[25] South Korea to move towards the goal of carbon neutrality by 2050, Ministry of Environment, March 2022
[26] 11th Korea-Denmark Green Growth Alliance Meeting Discusses Role of Finance for Carbon Neutrality, Financial Services Commission, February 2022
[27] Bank of Korea's Response to Climate Change, November 2021
[28] Financial Authorities and Relevant Institutions Declare Support for TCFD and Its Recommendations, Financial Services Commission, May 2021

New Zealand

The New Zealand government introduced the Climate-related Disclosures and Other Matters Amendment Act in 2021. Under this new legislation, the External Reporting Board (XRB) will issue climate standards as part of a climate-related disclosure framework and guidance on ESG matters for the financial sector. This will require climate disclosures for large, listed companies with a market capitalisation of more than $60 million as well as large, licensed insurers, registered banks, credit unions, building societies and managers of investment schemes with more than $1 billion in assets, as well as some Crown financial institutions.

The XRB plans to issue its first climate standard in December 2022. A key component for climate-related disclosures is determining how to identify and assess climate-related risks under different GHG emission scenarios and how those risks can be managed. Under the current schedule entities would be required to make disclosures alongside their year- end reporting, potentially as soon as late 2023. However, the XRB have said that disclosure requirements should not be treated as a compliance exercise and all organisations should start engaging their boards on their risk assessment process if they haven't already.

Assessing Sustainability Risks and Meeting Disclosure Requirements

Assessing sustainability risks and meeting disclosure requirements can be a significant undertaking

The TCFD framework was developed to help organisations disclose climate-related risks and opportunities.

The four core pillars of the TCFD are: Governance, Strategy, Risk Management and Metrics and Targets.

Core Elements of the TCFD Recommendations

1 **Governance** Disclose the company's governance around climate-related risks and opportunities	3 **Risk Management** Disclose the processes used by the company to identify, assess, and manage climate-related risks
2 **Strategy** Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning	4 **Metrics and Targets** Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities

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TCFD Framework and Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the company's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.	Disclose how the company identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the company has identified over the short, medium, and long term.	a) Describe the company's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the company's businesses, strategy, and financial planning.	b) Describe the company's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management.	c) Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets.

Source: https://assets.bbhub.io/company/sites/60/2022/02/TCFD-Fundamentals-Workshop.pdf

Disclosure increased more between 2019 and 2020 than in any previous year assessed, consistent with global momentum around climate-related reporting[29]. However, progress is still needed, with only 50% of companies reviewed disclosing in alignment with at least three recommended disclosures.

By aligning their reporting against the TCFD framework now, companies will be in the best position to report against these frameworks if – but, more likely, when – reporting becomes mandatory.

[29] 2021 Status Report: Task Force on Climate-related Financial Disclosures, Financial Stability Board

Understanding Your Companies' Climate Risk Maturity

Every company is at their own stage of the environmental, social and governance (ESG) journey, with some further along with their policies and disclosures. While there is more to ESG than climate, climate risk (in its three component parts – physical, transitional, and legal) has become the leading "E" component is most companies' ESG assessment.

The TCFD framework can help to understand the materiality of climate risk to your business. A good first step in approaching compliance with TCFD is to take stock of current progress and map your journey forward. A comprehensive awareness and understanding of the climate-related risks and opportunities for your organisation forms a basis for quality decision-making. The true value of reporting can be realised when it is used to help drive strategic thinking and action.

Case Study:

Ayala Corporation, The Philippines

Ayala Corporation is the oldest and one of the largest conglomerates in the Philippines, operating across a broad spectrum of industries. The company recognises that climate change poses risks across business units and has long been an advocate of environmental stewardship and takes steps to ensure its companies and subsidiaries operate responsibly.

The Philippines is highly vulnerable to the impacts of climate change due to its geographical location, exposing the country to frequent tropical cyclones. Extreme weather events are expected to increase and the country is at risk from rising sea levels and temperatures.

Ayala's objective was to identify, rate and interpret these natural hazards and climate risks associated with its assets, and develop suitable disclosures using a number of platforms and techniques.

Aon helped Ayala complete a scenario analysis to review both the physical and transitional climate-related risks related to each of their businesses. Steps in this process included:

- Identifying potential climate-related risks and opportunities for Ayala's businesses and assets
- Assessing and quantifying physical risk exposures
- Assess and quantifying, where possible, transition risk exposures
- Valuing the potential impact of climate-related scenarios

This is a good example of how to begin taking stock of your company's state of play with climate risk and starting to develop metrics to measure progress year-on-year. A risk screening assessment is often the first step before undertaking a more detailed assessment into the risks and opportunities that are identified as material to your business. This foundation work will support Ayala's intent to adopt the TCFD recommendations and further integrate sustainability into their risk management.

Setting Yourself Up for Success

To create a comprehensive disclosure aligned with TCFD, companies should consider conducting climate risk assessments, scenarios, and financial impacts to then integrate identified climate risks into existing risk management processes. The disclosure process takes time, and several reporting cycles may need to be completed for information to have value for evaluating and managing risks.

To achieve high-quality disclosures, the TCFD recommends that companies consider the following seven principles[30]:

1. Represent relevant information
2. Be specific and complete
3. Be clear, balanced, and understandable
4. Be consistent over time
5. Be comparable among companies within a sector industry or portfolio
6. Be reliable, verifiable, and objective
7. Be provided on a timely basis

Case Study:

Fletcher Building, New Zealand

Aon's New Zealand team has been undertaking physical risk assessments for a number of clients including disclosures under TCFD. This involves applying different climate scenarios to an organisation's infrastructure and physical assets to identify potential direct and indirect impacts, including supply chain impacts.

Fletcher Building, a leading construction, manufacturing and distribution company, engaged Aon to undertake physical risk assessments in 2019. In 2022, Fletcher Building requested the team to carry out assessments of climate-related physical and transitional risks and opportunities. A key goal for this work was to prepare for meeting new legislated requirements of disclosure under the TCFD framework.

Working in close collaboration with Fletcher Building's risk and sustainability leads and other key staff, Aon developed risks and opportunities registers, including assessment of short-, medium- and long-term impacts on the business and potential mitigations. The Aon team also engaged with key business leads to prioritise these risks and opportunities with regard to business strategy and goals.

The outcomes produced have been valuable for disclosure reporting and helping the company manage and prioritise future climate-related risks and opportunities through their risk management framework. The exercise has also enhanced broader understanding of climate-related risks and opportunities across other parts of the business and generated high engagement around innovations and mitigations actions[31].

[30] Appendix 3: Fundamental Principles for Effective Disclosure, Recommendations of the Task Force on Climate-related Financial Disclosures Final Report, June 2017

[31] Fletcher Building Climate-related Disclosure, 2022

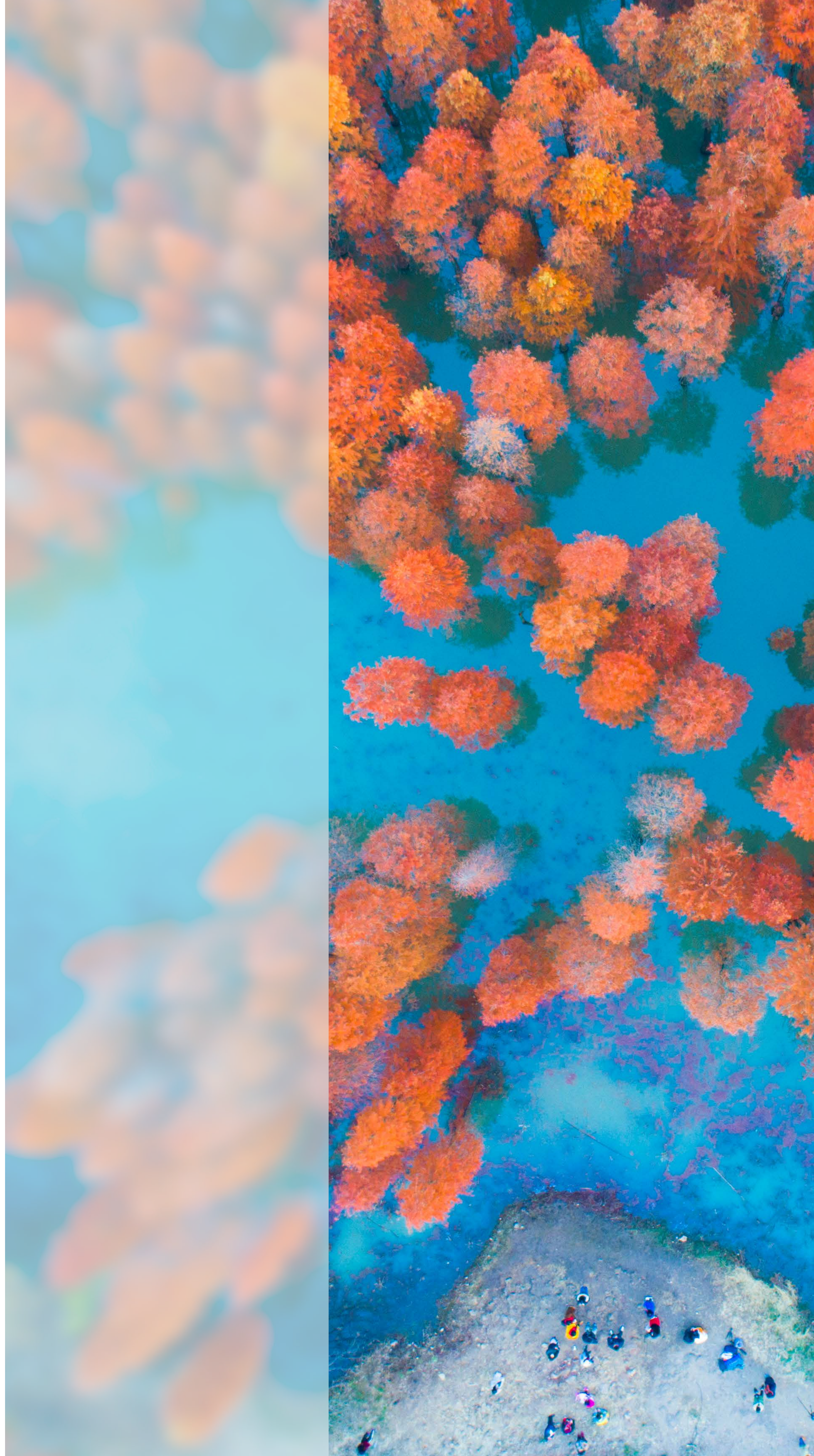
Climate Leadership is Critical

A successful disclosure strategy includes ensuring climate risks and opportunities are well-understood by leaders in a fast-moving regulatory environment. This helps them consider these insights within the broader corporate strategy.

To ensure long term compliance, it's important to have proper leadership oversight for climate initiatives and a way to assess your company's activities and progress on a climate maturity curve. This means having an integral process in place to inform leaders about climate risks and opportunities and taking steps to integrate a climate strategy with existing enterprise risk management processes.

Since Mark Carney (former Governor of the Bank of England) first acknowledged climate as a risk to the stability of the financial system in 2015[32], over 3,000 companies have signed up to the TCFD framework representing a combined market cap of over $27 trillion[33]. Momentum is increasing, driven by increasing regulation and the potential it holds to drive long-term value creation and risk management.

Climate change is inherently tied to measurable risks such as business interruption, material scarcity, damage to reputation, regulatory changes, and supply chain issues. There are also considerable opportunities, such as resource and energy efficiency, resilience and emerging markets, products, and services. Organisations need to identify and plan for these changes to remain competitive in an increasingly volatile and decarbonised world.



[32] Breaking the tragedy of the horizon – climate change and financial stability, Mark Carney, September 2015
[33] About the Task Force on Climate-Related Financial Disclosures

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About

Aon plc (NYSE: AON) exists to shape decisions for the better—to protect and enrich the lives of people around the world. Our colleagues provide our clients in over 120 countries with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.