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Climate-related financial disclosures in mainstream entity reporting: Good practices and key challenges

Note by the UNCTAD secretariat

Summary

The growing trend of climate events and disasters requires adequate response taking account of different perspectives, including how enterprises provide data to stakeholders on activities towards mitigation of climate change effects and related risks. While there is a growing recognition of the importance of enhancement of climate-related financial disclosures, there is also a significant implementation gap in this area as well as a need for practical guidance. In this context, delegates at the thirty-sixth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting decided that, at the thirty-seventh session, issues of climate-related financial disclosures in company reporting would be addressed, with a view to identifying challenges and contributing to the implementation of good practices.

The present note has been prepared to facilitate discussions on this topic at the thirty-seventh session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. It provides a general overview of recent trends and developments on climate-related financial disclosures, with a focus on implementation of the recommendations of the Task Force on Climate-related Financial Disclosures, established by the Financial Stability Board.

The note elaborates on key challenges in in this area, including lack of regulation, harmonization and reliability, data inconsistency and incompleteness of the current disclosures, lack of technical expertise and capacity, the need for promoting good practices, development of methodologies, guidance and practical tools. One of the main issues highlighted in the 2019 survey Task Force on Climate-related Financial Disclosures is the lack of standardized metrics and targets. The lack of consistency in the indicators and the difference in the methodologies used to calculate and present the figures reduces the usefulness of the information provided by companies. In this regard the note explains how the UNCTAD *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* can contribute to facilitating the implementation of the Task Force's recommendations as a useful tool to facilitate harmonization, consistency and comparability of companies' data on climate change.

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I. Introduction

1. In 2015, Member States of the United Nations adopted the 2030 Agenda for Sustainable Development containing 17 Sustainable Development Goals and 169 targets. The 2030 Agenda commits to “protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generation”.[1] Urgent action against climate change and its impacts is a vital component of sustainable development and a necessary condition if the Sustainable Development Goals are to be met. Sustainable Development Goal 13 is dedicated to taking urgent action to combat climate change and its impacts.[2]

2. The Paris Agreement on climate change and the Sendai Framework for Disaster Risk Reduction provide further foundation for sustainable, low-carbon and resilient development under a changing climate. The Paris Agreement builds on the United Nations Framework Convention on Climate Change, bringing all nations into a common cause to reduce greenhouse gas emissions rapidly and to strengthen the ability of countries to build resilience and adapt to the impacts of climate change.[3] Through the Paris Agreement, 184 countries agreed to “holding the increase in global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C pre-industrial levels.”[4] The Sendai Framework points out that addressing climate change, as one of the drivers of disaster risk, represents an opportunity to reduce disaster risk in a meaningful and coherent manner throughout interrelated intergovernmental processes.[5]

3. According to the Economist Intelligence Unit, the estimated value at risk as a result of climate change to the total global stock of manageable assets ranges from US$4.2 trillion to 43 trillion between the present and the end of the century.[6] A study by the International Energy Agency states that the full implementation of pledges to transition to a low-carbon economy made by countries at the twenty-first session of the Conference of the Parties will require the energy sector to invest US$13.5 trillion in energy efficiency and low-carbon technologies from 2015 to 2030.[7]

4. To efficiently address these challenges the active engagement of the private sector is critical. In this regard, in target 12.6 of Sustainable Development Goal 12, on sustainable consumption and production, companies, especially large and transnational companies, are explicitly encouraged to adopt sustainable practices and to integrate sustainability information into their reporting cycles, in which climate-related issues play a central role.

5. Companies are facing an increasing pressure from investors for improved data on their climate-related activities and impacts. For example, in 2017, over 450 investors, with more than US$39 trillion in assets under management, signed the Climate Action 100+ initiative[8] which aims at ensuring that the world’s largest corporate greenhouse gas emitters take action on climate change. Through the initiative, companies have been engaging to reduce emissions, improve corporate governance and foster climate-related financial disclosures. Most recently, 477 investors, with US$34 trillion in assets behind the urgent call-to-action to

[1] See A/RES/70/1, preamble.

[2] A/RES/70/1, p. 14.

[3] See https://unfccc.int/topics/action-on-climate-and-sdgs/action-on-climate-and-sdgs. The United Nations Framework Convention on Climate Change is the primary international, intergovernmental forum for negotiating the global response to climate change and calls from the widest possible international cooperation aimed at accelerating the reduction of global greenhouse gas emissions and addressing adaptation to the adverse impacts of climate change.

[4] See FCCC/CP/2015/10/Add.1, annex, article 2.

[5] A/RES/69/283, annex II, para. 13.

[6] The Economist Intelligence Unit, 2015, *The Cost of Inaction: Recognizing the Value at Risk from Climate Change*, London.

[7] International Energy Agency, 2015, Climate pledges for [the twenty-first session of the Conference of the Parties] COP21 slow energy sector emissions growth dramatically, available at https://www.iea.org/news/climate-pledges-for-cop21-slow-energy-sector-emissions-growth-dramatically.

[8] See http://www.climateaction100.org/.

limit average global temperature rise to no more than 1.5°C, asked world government leaders in 2019 to commit to the improvement of climate-related financial reporting.[9]

6. In response to these challenges, in 2015, finance ministers and central bank governors of the Group of 20 requested the Financial Stability Board to "convene public- and private-sector participants to review how the financial sector [could] take account of climate-related issues".[10] Accordingly, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures, which, in 2017, released a final report with recommendations on climate-related financial disclosure. The recommendations aim at ensuring a more stable and resilient market, recognizing the economic risks and opportunities related to climate change, and at fostering a smoother transition to a lower-carbon and climate-resilient economy to support informed decision-making by investors, lenders and insurers in allocating capital and underwriting risk.[11] These recommendations became a milestone pronouncement on climate change reporting and consequently they have served as a global foundation of climate-related financial disclosure and further developments in this area.

7. Almost 800 companies and organizations have publicly expressed support for these recommendations. However, many market participants have cited a need for practical guidance for companies to use when attempting to fulfil the principles-based recommendations. To facilitate and enhance the implementation of Task Force on Climate-related Financial Disclosures recommendations into comprehensive disclosures, the Climate Disclosure Standards Board and the Sustainability Accounting Standards Board supported the development of an implementation guide,[12] issued in 2019.

8. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has been addressing issues of environmental reporting since the United Nations Conference on Environment and Development (the Earth Summit) was held in 1992. During the first decade after the Summit, the Intergovernmental Working Group of Experts issued several guiding documents on the subject, thus pioneering issues on environmental accounting and reporting. In particular, it published *Integrating Environmental and Financial Performance at the Enterprise Level: A Methodology for Standardizing Eco-Efficiency Indicators* (2000); *Guidance Manual on Accounting and Financial Reporting for Environmental Costs and Liabilities* (2002); and *Manual for the Preparers and Users of Eco-efficiency Indicators* (2004).[13] The objective of this work was to assist countries in facilitating enterprise reporting on environmental issues in a harmonized manner and contribute to capacity-building efforts in this area.

9. With the adoption of the 2030 Agenda for Sustainable Development, the Intergovernmental Working Group of Experts has been focusing on issues on harmonization of companies reporting, in alignment with the Sustainable Development Goal monitoring framework in which climate change issues play a central role. This work resulted in the development of *Guidance on Core Indicators for Entity Reporting on Contribution towards*

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[9] United Nations Framework Convention on Climate Change, 2019, Investors with US$34 trillion urge policies for Paris 1.5° Celsius goal, 26 June, available at https://unfccc.int/news/investors-with-34-trillion-urge-policies-for-paris-15degc-goal; Investor Agenda, 2019, 477 investors with US$$34 trillion in assets urge G[roup of] 20 leaders to keep global temperature rise to 1.5° Celsius, 26 June, available at http://theinvestoragenda.org/wp-content/uploads/2019/06/FINAL-at-June-24-Press-Release_-G20-Global-Investor-Statement-on-Climate-Change.pdf.

[10] Group of 20, 2015, Communiqué of the Group of 20 Finance Ministers and Central Bank Governors Meeting of 16–17 April 2015, Washington, D.C., available at http://www.g20.utoronto.ca/2015/150417-finance.html (accessed 12 August 2020).

[11] Task Force on Climate-related Financial Disclosures, 2017a, *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures*, available at https://www.fsb-tcfd.org/ (accessed 12 August 2020).

[12] Climate Disclosure Standards Board and Sustainability Accounting Standards Board, 2019a, *TCFD [Task Force on Climate-related Financial Disclosures] Implementation Guide*, London.

[13] Respectively, UNCTAD, 2000 (United Nations publication, Sales No. 00.II.D.28, New York and Geneva); UNCTAD, 2002, UNCTAD/ITE/EDS/4, Geneva; UNCTAD, 2004 (United Nations publication, Sales No. E.04.II.D.13, New York and Geneva).

Implementation of the Sustainable Development Goals,[14] which, in addition to economic, social and governance indicators, contains 11 core universal indicators on climate-related issues, comprising use of water, energy consumption, waste management, greenhouse gas emissions and ozone-depleting substances and chemicals. The Intergovernmental Working Group of Experts also piloted several case studies on the application of these indicators in various countries and industries to validate the methodology.

10. To raise awareness of good practices on climate-related reporting and disclosure, in 2019, UNCTAD organized a workshop on practical implementation of climate-related financial disclosures and their relationship to the Sustainable Development Goals. The workshop was organized jointly with the Climate Disclosure Standards Board and the Sustainability Accounting Standards Board to facilitate dissemination of their implementation guide.[15] The workshop highlighted current good practice in disclosures aligned with the Task Force on Climate-related Financial Disclosures, offering real-world examples from annual reports across multiple sectors and industries. Moreover, the workshop provided training on the implementation guide. Complementarities between this work and the core Sustainable Development Goal indicators for entity reporting on climate change issues, developed by UNCTAD, were also discussed.

11. In this context, delegates at the thirty-sixth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting decided to address issues of climate-related financial disclosure in company reporting at its next session, with a view to identifying challenges and contributing to the implementation of good practices. This note was prepared to facilitate discussions on the topic at the thirty-seventh session. A general overview of recent trends and developments on climate-related financial disclosure is provided, with a focus on implementation of the recommendations on the Task Force on Climate–related Financial Disclosures. Key challenges in this area are outlined, including lack of regulation and reliability, data inconsistency and incompleteness of current disclosures, lack of technical expertise and capacity, the need for promoting good practices, development of methodologies and practical tools. Also explained is how the UNCTAD *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* can help to facilitate implementation of the Task Force's recommendations and the main issues for discussion are suggested.

II. Major recent developments in climate-related financial disclosures

12. Climate change is a rapidly evolving area of enterprise sustainability and Sustainable Development Goal reporting. For example, the number of new supporters[16] of the recommendations of the Task Force on Climate-related Financial Disclosures increased by 6 per cent in 2018 and 25 per cent in 2019. In December 2019, there were 930 supporter organizations, with a market capitalization of over US$11 trillion. Also, some investors, such as Aviva and Blackrock, have said that they would vote against the report and accounts of companies and company directors that did not adopt the Task Force's recommendations.[17]

13. There is growing understanding that, by adopting climate-related financial disclosures as a normal practice, companies and particularly their governance bodies will be in a better position to understand the possible exposure of their activities to the midterm and long-term effects of climate change and able to properly manage those impacts and risks. Therefore,

[14] UNCTAD, 2019, *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* (United Nations publication, Sales No. E.19.II.D.11, Geneva).

[15] See footnote 12. The implementation guide uses the Sustainability Accounting Standards Board Standards and the Climate Disclosure Standards Board Framework to enhance climate-related financial disclosures in mainstream reporting.

[16] Supporters may include companies, organizations, countries, pension funds, etc.

[17] Pricewaterhouse Coopers, 2017, The [Financial Stability Board] FSB Task Force on Climate-related Financial Disclosures. What do its recommendations mean for financial institutions? Available at https://www.pwc.co.uk.

disclosures will have a positive impact on internal decision-making processes and thus promote behaviour change and an improvement in practices and internal processes.[18] Such disclosures will also address information requests from investors, allowing enhancement of asset pricing and promotion of an efficient allocation of capital supporting a transition to a more sustainable, low-carbon economy.

14. The publication of the 2017 *TCFD [Task Force on Climate-related Financial Disclosures] Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures* has played a major role in advancing the agenda on climate-related financial disclosures by companies. The objective of the report's recommendations is to develop voluntary, consistent climate-related financial risk disclosures to be used by companies in providing information to investors, lenders, insurers and other stakeholders. Inadequate information about risks can lead to mispricing of assets and misallocation of capital, which can potentially give rise to concerns about financial stability as markets can be vulnerable to abrupt corrections.[19] In order to make more informed financial decisions, investors, lenders, and insurance underwriters need to understand how climate-related risks and opportunities are likely to impact an organization's future financial position as reflected in its income statement, cash flow statement and balance sheet.

15. The Task Force's 2017 report provides context, background and the general framework for climate-related financial disclosures. The report's annex, on implementing the Task Force's recommendations, provides the next level of detail to help companies implement the recommendations and is seen by the Task Force as a "living" document that will likely be refined as companies gain more experience in preparing climate-related financial disclosures.[20] The annex includes information on applying the recommendations, guidance for all sectors and supplemental guidance for selected financial sectors and non-financial groups. It also has a technical supplement on the use of scenario analysis in disclosure of climate-related risks and opportunities.[21]

16. In the recommendations, consideration of climate-related financial disclosures is broad in scope. In addition to carbon emissions, the recommendations cover areas such as rational use of natural resources, i.e. land, water and energy, and issues of waste generation and management. High-level disclosures in the areas of governance, strategy, risk management and metrics and targets are discussed.[22] These four areas have 11 associated recommendations that call for qualitative and quantitative information. These quantitative recommendations involve scenario analysis, metrics and targets, which include the use of indicators that can help to measure a trend, to evaluate progress. The results can indicate changes in the value of assets, increase in expenses and effects on the cash flows of a company. They can also affect the possibilities that a company has to obtain loans and raise capital.[23]

17. In the Task Force's 2017 report, inter alia, a number of important considerations are highlighted that are critical for attaining climate-related financial disclosures of the required quality, consistency, comparability and usefulness. These issues have been central to the agenda of the Intergovernmental Working Group of Experts on International Standards of

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[18] Climate Disclosure Standards Board and Sustainability Accounting Standards Board, 2019b.

[19] Carney M, 2015, Breaking the tragedy of the horizon – climate change and financial stability. Presented at Lloyd's of London, London, 29 September; available at https://www.bankofengland.co.uk/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability.

[20] Task Force on Climate-related Financial Disclosures, 2017b, *Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures,* available at https://www.fsb-tcfd.org/publications/final-implementing-tcfd-recommendations/.

[21] Task Force on Climate-related Financial Disclosures, 2017c, *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities*, available at https://www.fsb-tcfd.org/publications/final-technical-supplement/.

[22] Sustainability Accounting Standards Board, 2017, Frequently asked questions, available at https://www.fsb-tcfd.org/wp-content/uploads/2017/12/SASB-SASB-Standards-TCFD-Recommendations-FAQ-14-Dec-2017.pdf.

[23] Ernst and Young, 2017, Reporting climate change risk, available at https://www.ey.com.

Accounting and Reporting on Sustainable Development Goal reporting by companies in recent years.

18. The Task Force's 2017 report refers to disclosures that are common across industries, thus highlighting a way for harmonization of climate-related financial disclosures. The climate-related financial disclosure recommendations were initially developed for the financial sector. However, the Task Force explicitly states that they are applicable to all types of entities across industries and jurisdictions. It is expected that the transition to a more sustainable, low-carbon economy will have impacts on all sectors in some way. Thus, the Task Force recommends all financial and non-financial entities issuing public debt or equity to implement the recommendations and also encourages others to do so.[24]

19. A broader consideration of materiality is introduced in the Task Force's report. Specifically, the report states that most information included in financial filings is subject to a materiality assessment.[25] However, as climate-related risk is a non-diversifiable risk that affects nearly all industries, many investors believe it requires special attention. For example, in assessing organizations' financial and operating results, many investors want insight into the governance and risk management context in which such results are achieved. The Task Force believes disclosures related to its Governance and Risk Management recommendations directly address this need for context and should be included in annual financial filings. For disclosures related to the recommendation on strategy, metrics and targets, the Task Force believes organizations should provide such information in annual financial filings when the information is deemed material. Certain organizations – those in the four non-financial groups that have more than the United States dollar equivalent of 1 billion in annual revenue – should consider disclosing such information in other reports when the information is not deemed material and not included in financial filings.[26] As these organizations are more likely than others to be financially impacted over time, investors are interested in monitoring how these organizations' strategies evolve.

20. Broader consideration of materiality is one of the most important trends in Sustainable Development Goal reporting, including climate related financial disclosures. It is important to note that the European Commission, in its consultation document on the update of the non-binding guidelines on non-financial reporting,[27] refers to a double materiality perspective: (a) financial materiality, which considers ta company's development, performance and position and has the investors as the primary audience; and (b) environmental and social materiality, which considers the impact of a company's activities and has consumers, civil society, employees and a growing number of investors as the primary audience. Moreover, the European Union guidelines on reporting climate-related information[28] emphasize the concept of double materiality and state that companies should consider a longer time horizon than what is normally used for financial information. In alignment with Task Force's recommendations, companies are advised to avoid quickly concluding that climate is not a material issue simply as some climate-related risks are perceived to be long-term in nature. It is also stressed that, given the systemic and pervasive impacts of climate change, most companies under the scope of the European Union's non-financial reporting directive

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[24] Ibid.

[25] According to the Conceptual Framework for Financial Reporting of the International Financial Reporting Standards, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports…".

[26] The Task Force chose a United States dollar equivalent of 1 billion in annual revenue as a threshold as this captures organizations responsible for over 90 per cent of scope 1 and scope 2 greenhouse gas emissions in the industries represented by the four non-financial groups (i.e. about 2,250 organizations out of roughly 15,000).

[27] European Commission, 2019a, Consultation document on the update of the non-binding guidelines on non-financial reporting. Available at https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2019-non-financial-reporting-guidelines-consultation-document_en.pdf.

[28] European Commission, 2019b, Guidelines on non-financial reporting: Supplement on reporting climate-related information, C 209/1, *Official Journal of the European Union*.

(Directive 2014/95/EU) are likely to conclude that climate is a material issue, and those who consider it immaterial will have to explain their conclusion.[29]

21. In the Task Force's 2017 report, it is recommended that preparers of climate-related financial disclosures provide such disclosures in their mainstream (i.e. public) annual financial filings to facilitate consistency with other financial disclosure. Disclosure in mainstream financial filings should foster shareholder engagement and broader use of climate-related financial disclosures, thus promoting a more informed understanding of climate-related risks and opportunities by investors and others. The Task Force also believes that publication of climate-related financial information in mainstream annual financial filings will help ensure that appropriate controls govern the production and disclosure of the required information. It also recommends that climate-related reporting should undergo governance processes of the same nature as those used for other financial disclosures, including review by the chief financial officer and the audit committee.[30]

22. A strong interconnection between climate-related financial disclosure and financial reporting is highlighted in the 2017 report. The Task Force believes that by encouraging disclosure of climate-related financial information in public financial filings, coordination between organizations' climate-related risk experts and the finance function will improve. In most Group of 20 countries, financial executives (e.g. chief financial officers, chief accounting officers and controllers) will likely recognize that the Task Force's disclosure recommendations should result in more quantitative financial disclosures, particularly disclosure of metrics, about the financial impact that climate-related risks have or could have on an organization. Specifically, asset impairments may result from assets adversely impacted by the effects of climate change and/or additional liabilities may need to be recorded to account for regulatory fines and penalties resulting from enhanced regulatory standards. Additionally, cash flows from operations, net income and access to capital could all be impacted by the effects of climate-related risks (and opportunities). Therefore, financial executives should be involved in an organization's evaluation of climate-related risks and opportunities and the efforts undertaken to manage the risks and maximize the opportunities.

23. The importance of consistency, comparability and reliability of climate-related financial disclosure is stressed in the Task Force's 2017 report. Currently, users of existing climate-related disclosures commonly cite the lack of information on the financial implications around the climate-related aspects of an organization's business as a key gap. As climate-related risks and opportunities are relevant for organizations across all sectors, disclosures should allow for meaningful comparisons of strategy, business activities, risks and performance across organizations and within sectors and jurisdictions. The level of detail provided in disclosures should enable comparison and benchmarking of risks across sectors and at the portfolio level, where appropriate.

24. The importance of coordination and alignment of different reporting frameworks is also underscored. The 2017 report states that the Task Force's recommendations provide a common set of principles that should help existing disclosure regimes to come into closer alignment over time. Preparers, users and other stakeholders share a common interest in encouraging such alignment, as it relieves the burden for reporting entities, reduces fragmented disclosure and provides greater comparability for users. The Task Force also encourages standard-setting bodies to support adoption of the recommendations and alignment with the recommended disclosures.

25. Importantly, organizations should make financial disclosures in accordance with their national disclosure requirements. If certain elements of the recommendations are incompatible with national disclosure requirements for financial filings, the Task Force encourages organizations to disclose those elements in other official company reports that are issued at least annually, distribute them widely and make them available to investors and others and subject to internal governance processes that are the same as, or substantially similar to, those used for financial reporting.

[29] European Commission, n/d, Non-financial reporting, available at https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en.

[30] Task Force on Climate-related Financial Disclosures, 2017a.

26. The recommendations of the Task Force on Climate-related Financial Disclosures are voluntary; however, they have the support of the Group of 20, Financial Stability Board and recognized experts in the financial community. Therefore, they represent an international reference and will likely result on the issuance of national requirements by regulators and stock exchanges. For example, the Network for Greening the Financial System, comprising 69 central banks and financial supervisory authorities and 13 observers,[31] has issued six non-binding recommendations, one of which focuses on attaining a robust and internationally consistent climate- and environment-related disclosure. The Network highlights a strong risk if climate-related financial risks are not fully reflected in asset valuations and calls for global coordinated action.[32]

27. As a consequence of the growing awareness and relevance of climate-related financial disclosure, relevant institutions started to issue publications in relation to the implementation of the Task Force's recommendations. The following is a non-exhaustive list of key publications and developments by relevant institutions working on climate-related financial disclosure.

28. The *TCFD Good Practice Handbook* identifies good practices in implementation.[33] Examples are drawn from across the Group of 20 to cover multiple jurisdictions and a diversity of practices in making the Task Force's 11 recommended disclosures across the four elements of governance, strategy, risk management and metrics and targets.

29. Further technical publications from the Task Force, the Sustainability Accounting Standards Board and the Climate Disclosure Standards Board include *Converging on Climate Risk: CDSB, the SASB and the TCFD*, which demonstrates the alignment of the approaches to climate-related disclosure of both Boards with the recommendations of the Task Force.[34] The Sustainability Accounting Standards Board's *Technical Bulletin on Climate Risk* found that climate change affects nearly every industry. Investors cannot simply diversify away from climate risk; instead they should focus on managing it.[35]

30. In addition, a report of the Organization for Economic Cooperation and Development and Climate Disclosure Standards Board, titled *Climate Change Disclosure in [Group of 20] G20 Countries: Stocktaking of Corporate Reporting Schemes*, found that the majority of Group of 20 countries have some kind of mandatory corporate-reporting scheme in place that requires disclosure of climate change related information and there are some commonalities between schemes. However, there are also significant differences on the quality and content of the reported information. The multiplicity of requirements poses challenges to preparers and users of the information.[36] Moreover, the Organization and Board launched a report at the twenty-first session of the Conference of the Parties that highlighted existing gaps in the climate-reporting landscape and analysed mandatory corporate climate change reporting schemes in Group of 20 countries.[37]

31. The Principles for Responsible Investment issued a guide that sets out a practical framework focusing on actions that asset owners can take to implement the Task Force's

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[31] See https://www.ngfs.net/en/about-us/membership.

[32] Network for Greening the Financial System, 2019, A call for action. Climate change as a source of financial risk, available at https://www.mainstreamingclimate.org/publication/ngfs-a-call-for-action-climate-change-as-a-source-of-financial-risk/.

[33] Climate Disclosure Standards Board and Sustainability Accounting Standards Board, 2019b.

[34] Sustainability Accounting Standards Board, 2017, *Converging on Climate Risk: CDSB, the SASB, and the TCFD*, available at https://www.sasb.org/knowledge-hub/converging-on-climate-risk/.

[35] Sustainability Accounting Standards Board, 2016, *Climate Risk: Technical Bulletin*, available at https://www.sasb.org/knowledge-hub/climate-risk-technical-bulletin/.

[36] Organization for Economic Cooperation and Development, 2015, *Climate Change Disclosure in [Group of 20] G20 Countries: Stocktaking of Corporate Reporting Schemes*, available at http://www.oecd.org/investment/corporate-climate-change-disclosure-report.htm.

[37] Ibid., 2017, Corporate climate disclosure schemes in [Group of 20] G20 countries after [the twenty-first session of the Conference of the Parties] COP21, available at https://www.oecd.org/environment/cc/g20-climate/collapsecontents/Climate-Disclosure-Standards-Board-climate-disclosure.pdf.

recommendations.[38] The Principles for Responsible Investment has incorporated the recommendations into its frameworks and also announced that, in the 2020 reporting cycle, its signatories will have to respond regarding, but not disclose, Task Force-based governance and strategy indicators.[39]

32. In 2019, the Sustainable Stock Exchanges Initiative revised its reporting guidance on environmental, social and corporate governance[40] issues to include reference to the Task Force's recommendations. Moreover, the Finance Initiative of the United Nations Environment Programme, along with 16 of the world's leading banks, published two works in 2018 *Extending Our Horizons: Assessing Credit Risk and Opportunity in a Changing Climate* (April) and *Navigating a New Climate: Assessing Credit Risk and Opportunity in a Changing Climate* (July). The first details a methodology for scenario-based assessment of transition-related risk and opportunities, while the second addresses physical risk-assessment methodologies.[41]

33. The Corporate Reporting Dialogue, which brings together major standard setters and framework providers, released a report[42] for which the CDP, Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council and Sustainability Accounting Standards Board collaborated to assess alignment of their standards and frameworks to the Task Force's disclosure principles, recommended disclosures and illustrative example metrics. A technical mapping was prepared that provides a practical guide to assist organizations in understanding and implementing the Task Force's recommendations when using the participants' frameworks and standards.[43]

34. After 2018, the first year of reporting under the European Union's non-financial reporting directive (Directive 2014/95/EU), the Climate Disclosure Standards Board and CDP conducted a review of corporate disclosure of climate change and environmental information across Europe. The Climate Disclosure Standards Board's research provides evidence of the reporting practices of 80 companies. The findings show that market-leading companies are capable of reporting on climate-related issues and environmental matters. However, consistency is a challenge.[44]

35. In February 2020, the European Union launched a public consultation to review Directive 2014/95/EU.[45] The Climate Disclosure Standards Board suggested changes including: increasing the scope of the Directive, by requesting companies with more than 250 employees to report; reinforcing links between financial and non-financial information; strengthening governance disclosures; and applying the Task Force's recommendations to disclosure of environmental, social and corporate governance information in management reports.[46]

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38 Principles for Responsible Investment, 2018, *Implementing the Task Force on Climate-related Financial Disclosures Recommendations*, available at https://www.unpri.org/download?ac=4652.

39 Baker E, 2019, Key takeaways of the TCFD's second status report, available at https://www.unpri.org/pri-blog/key-takeaways-of-the-tcfds-second-status-report/4464.article.

40 Sustainable Stock Exchanges Initiative, 2019, How exchanges can embed sustainability within their operations: A blueprint to advance action, available at https://sseinitiative.org/wp-content/uploads/2019/12/SSE-WFE-Embedding-Sustainability-Report.pdf.

41 United Nations Environment Programme, Finance Initiative, 2018a and 2018b, respectively, available at https://www.unepfi.org/banking/tcfd/.

42 Integrated Reporting Foundation, 2019, *Driving Alignment in Climate-related Reporting: Year One of the Better Alignment Project*, available at https://integratedreporting.org/wp-content/uploads/2019/09/CRD_BAP_Report_2019.pdf.

43 Ibid.

44 Climate Disclosure Standards Board and CDP Europe, 2018a, *First Steps: Corporate Climate and Environmental Disclosure under the E[uropean] U[nion] Non-Financial Reporting Directive*, available at https://www.cdsb.net/first-steps-corporate-climate-environmental-disclosure-under-eu-non-financial-reporting-directive.

45 European Commission, 2020, Non-financial reporting, available at https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en.

46 Climate Disclosure Standards Board, 2020, The review of the non-financial reporting directive – why it's significant and what to watch for?, available at https://www.cdsb.net/eu-non-financial-reporting-directive/1014/review-non-financial-reporting-directive-%E2%80%93-why-it%E2%80%99s.

36. In March 2018, the European Commission issued an action plan on financing sustainable growth. In July 2018, it set up a technical expert group on sustainable finance to assist in the implementation of the action plan, particularly in the following four key areas: (a) a unified classification system for sustainable economic activities, namely a European Union taxonomy, (b) a European Union green bond standard, (c) benchmarks for low-carbon investment strategies and (d) guidance to improve corporate disclosure of climate-related information.[47]

37. In June 2019, the Technical Expert Group published the *Taxonomy Technical Report*,[48] which explains the approach and methodology used and provides practical guidance and case studies for users, along with a list of economic activities that can contribute to climate change mitigation and a set of criteria to do no significant harm to other environmental objectives. The taxonomy promotes the alignment of capital market decisions and investment allocation that are consistent with the Sustainable Development Goals and environmental policy objectives. In addition, the Technical Expert Group published guidelines on climate reporting,[49] to comply with the Task Force recommendations and as a non-binding supplement to the European Union guidelines on non-financial reporting that provide guidance on implementation of the European Union's non-financial reporting directive.

38. Moreover, the European Commission issued *Climate Benchmarks and Benchmarks' ESG Disclosures* in June 2019. The report recommends a list of minimum standards for the methodologies of the European Union climate transition and Paris-aligned benchmarks, addressing the risk of greenwashing and disclosure requirements, to improve transparency and comparability of information across benchmarks.[50]

39. Furthermore, in 2019, at the request of the European Commission, the European Financial Reporting Advisory Group created a Project Task Force on Climate-related Reporting under the European Corporate Reporting Lab. In 2020, the Project Task Force issued a report on climate-related disclosures[51] focused on European companies that identifies good reporting practices and evaluates the current level and quality of implementation of the recommendations of the Task Force on Climate-related Financial Disclosures, in coordination with the climate-related elements of the European Union's non-financial reporting directive (Directive 2014/95/EU) and the non-binding guidelines. Scenario analysis is also looked at in depth.

40. In February 2020, Climate Disclosure Standards Board and CDP published the *[European Union] EU Environmental Reporting Handbook*.[52] The handbook is aimed at facilitating implementation of the Directive 2014/95/EU, with a focus on environmental matters, and includes annotated examples of disclosures from European companies.

41. Since the release of Task Force on Climate-related Financial Disclosures report in June 2017, several Governments and private companies have endorsed it. Even though no country has made Task Force recommendations mandatory yet, some Governments, such as those of Belgium, Canada, France, Japan, Sweden and the United Kingdom of Great Britain

[47] Financial Stability, Financial Services and Capital Markets Union, 2018, Technical expert group on sustainable finance, available at https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en.

[48] European Union Technical Expert Group, 2019, *Taxonomy Technical Report*, available at https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf.

[49] European Commission, 2019b, Guidelines on non-financial reporting: Supplement on reporting climate-related information, C 209/1, *Official Journal of the European Union*.

[50] European Commission, 2019c, *TEG Final Report on Climate Benchmarks and Benchmarks' ESG Disclosures*, available at https://ec.europa.eu/info/publications/sustainable-finance-teg-climate-benchmarks-and-disclosures_en.

[51] See http://www.efrag.org/Lab1.

[52] Climate Disclosure Standards Board and CDP, 2020, *EU Environmental Reporting Handbook*, available at https://www.cdsb.net/corporate-reporting/1006/cdsb-and-cdp-release-handbook-meet-challenges-environmental-and-climate.

and Northern Ireland,[53] have taken the first step by encouraging companies to implement the recommendations. For instance, the United Kingdom endorsed the Task Force's recommendations in 2017 and incorporated them into its *Green Finance Strategy – Transforming Finance for a Greener Future* [54] and it will review progress on the implementation at the end of 2020. Furthermore, the Government strongly encouraged listed companies and asset owners to make disclosures, in line with the Task Force's recommendations, by 2022.

III. Key challenges of practical implementation of climate-related disclosures

42. Climate-related financial disclosure poses several critical challenges to companies. Some are similar to other aspects of sustainability reporting, while others are specific to environmental reporting, regarded by companies as the most challenging area of environmental, social and governance reporting.

43. As part of efforts to promote and monitor adoption of its recommendations, the Task Force prepared status reports in 2018 and 2019. These reports provide comprehensive coverage of the main issues of practical implementation of climate-related disclosures. The Task Force reviewed reports of over 1,000 companies from 142 countries in 10 industries, including financial and non-financial companies, over three years (2016–2018). The level of alignment with the 11 recommended disclosures was reviewed, without evaluating their quality. The Task Force also conducted a survey on companies' efforts to implement its recommendations, as well as users' views on the usefulness of climate-related financial disclosures for decision-making.[55]

44. Both status reports highlighted the necessity to build capacity and develop best practices. Though the recommendations received strong support, only some companies are implementing them, and of those implementing, on average, the disclosure level is for 3.6 of 11 recommendations. Thus, currently companies are only partially complying with the recommended disclosures.[56] A survey conducted in 2018, with 3,000 companies and organizations, including users and preparers of information, was only responded to by 485 (16 per cent) of them, and only 198 (41 per cent) of these were identified as preparers. In addition, 73 per cent of responses were provided by companies from 10 countries, of which all were developed countries, suggesting an implementation gap between developed and developing countries. The survey also found that disclosure was better in larger companies than in small companies. Respondents recognized that climate-related financial disclosures are material, or will be in the near future, for their business, and 67 per cent of them plan to fully implement the recommendations within three years. The two key incentives for implementation of the Task Force's recommendations by companies are reputational benefits and investor pressure.[57]

45. The Task Force's surveys also highlighted that implementation requires further efforts in relation to the completeness of disclosures, as only about 25 per cent of companies disclosed information aligned with more than 5 of the 11 recommended disclosures.

[53] Task Force on Climate-related Financial Disclosures, 2019, *Status Report –Task Force on Climate-related Financial Disclosures*, available at https://www.fsb-tcfd.org/wp-content/uploads/2019/06/2019-TCFD-Status-Report-FINAL-053119.pdf; see also https://www.government.se/press-releases/2017/12/france-and-sweden-step-up-their-collaboration-on-green-finance-to-boost-the-transition-towards-low-carbon-and-climate-resilient-economies/.

[54] United Kingdom of Great Britain and Northern Ireland, 2019, *Green Finance Strategy. Transforming Finance for a Greener Future*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf.

[55] Task Force on Climate-related Financial Disclosures, 2019.

[56] Climate Disclosure Standards Board and Sustainability Accounting Standards Board, 2019b.

[57] Task Force on Climate-related Financial Disclosures, 2019.

In particular, the Task Force's review of reports found that information related to the resilience of a company's strategy and the use of climate scenarios were the least disclosed.[58]

46. The European Corporate Reporting Lab stated in a report[59] that companies should avoid providing generic information and reporting without conducting a materiality assessment and without a common narrative. Their review of European companies showed an improvement in quality of disclosures compared to the previous reporting cycle. However, the need to strengthen articulation of the four Task Force recommendation areas was also stressed.

47. One key issue is the lack of experience and expertise on application of the materiality principle in a broader and long-term context. The Task Force's 2019 status report states that many companies still wrongly consider the implications of climate change to be relevant only in the long term and, therefore, not necessarily relevant to decisions made today.

48. Furthermore, fully implementing the Task Force's disclosures entails a comprehensive top–down process that board members and management fully engage in and are committed to. Indeed, 2 of the 11 recommendations refer to a company's governance and request disclosing the board's and manager's perspectives and incentives regarding climate-related risks and opportunities.[60] CDP and the Climate Disclosure Standards Board conducted a survey of 1,681 companies. The survey showed that climate-related decisions are made at a board level in 82 per cent of cases, but only 12 per cent of boards receive monetary and non-monetary incentives directly linked to climate-related issues.[61] Thus, it is fundamental that each company recognize climate-related risks and opportunities as material or having the potential to become material in the near future at the board level.

49. A key implementation issue is the lack of technical expertise and capacity. The Task Force's survey stressed that users find that recommendations do promote useful disclosures, but that preparers found it challenging to comply with them. Therefore, it is recognized that the identification and assessment of climate-related issues of organizations are not straightforward processes, due to limited knowledge of climate-related issues within organizations, their tendency to focus on short-term risks without accounting for long-term impacts and the difficulty of quantification of the financial effects of climate-related risks and opportunities.[62]

50. High-quality disclosures will require the expertise and coordination of several areas, such as sustainability, risk management, strategy, operations and finance.[63] For example, for the banks that collaborated on the pilot project with the Finance Initiative of the United Nations Environment Programme, the importance of bringing together a team to develop internal capabilities became evident.[64] In addition, climate-related financial disclosure is a relatively new topic for most people. The lack of education in the topic will require technical training. Consequently, changes to corporate governance and risk management procedures will have to be made, including collection of new types of data, internally and along the value chain. These changes might require some years to take place, especially for companies at an earlier stage of readiness to prepare climate-related financial disclosures.[65]

51. When preparing climate scenario analyses, difficulties encountered by preparers include the lack of availability of data, particularly detailed, disaggregated data and tools. Currently, global climate scenarios are publicly available, but they are difficult to tailor to company-specific needs. While climate-related scenario analysis further develops and

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[58] Ibid.

[59] See http://www.efrag.org/Lab1.

[60] Task Force on Climate-related Financial Disclosures, 2019.

[61] Climate Disclosure Standards Board and CDP, 2018b, *Ready or Not: Are Companies Prepared for the [Task Force on Climate-related Financial Disclosures] TCFD Recommendations?*, available at https://www.cdsb.net/sites/default/files/tcfd_preparedness_report_final.pdf.

[62] World Business Council for Sustainable Development, 2017, *Sustainability and Enterprise Risk Management: The First Step towards Integration*, available at https://www.wbcsd.org/contentwbc/download/2548/31131.

[63] United Nations Environment Programme, Finance Initiative, 2018b.

[64] Ibid.

[65] Ernst and Young, 2017.

matures, entities can accelerate this process by sharing experiences and lessons learned. Raising awareness of key challenges among not only large transnational companies from developed countries but also smaller-sized entities from developing countries will contribute to broader disclosure and reach more regions. In fact, there is evidence that countries with lower gross domestic product are more exposed to the physical risks of climate change.[66]

52. Another key finding of the Task Force's 2019 status report was the need to enhance clarity on the financial impacts of climate-related issues on companies. Moreover, the *[Task Force on Climate-related Financial Disclosures] TCFD Good Practice Handbook* highlighted the need to ensure a link between the information provided in each of the 11 disclosures and the rest of the financial and non-financial information included in a company's mainstream report.[67] It is understood that a learning process and development and identification of best practices are required to fully comply with the recommendations; nevertheless, companies must be encouraged to comply with as many recommendations as possible, until a gradual exercise is completed and they are in a position to report thoroughly.

53. With a view to supporting efforts to implement the recommendations, the Climate Disclosure Standards Board created a knowledge hub in 2018[68] that contains publicly available resources, including guidance, case studies, tools and research. In addition, industry associations and non-governmental organizations have promoted efforts to come up with industry specific approaches for climate-related issues.

54. As mentioned above, the Task Force requested that recommendations be integrated in mainstream reports;[69] however, companies currently disclose this type of information in other reports, such as sustainability reports, or only in these. This illustrates the need for further efforts towards integration of information and involvement of other key departments and governance parties, in addition to the sustainability function.

55. Furthermore, respondents raised concerns about the confidentiality of information required to be included in disclosures, such as information on assumptions and parameters used to prepare climate scenario analyses and on strategy and strategy resilience. There are also concerns linked to the reactions that this type of information could trigger in investors.[70] The Task Force recognized that more work with users and industry groups is required to find a balance between what is reasonably expected to be disclosed and information needs.

56. Another key challenge is the lack of comparability of the data provided. The *[Task Force on Climate-related Financial Disclosures] TCFD Good Practice Handbook* highlighted that comparing information was difficult, particularly when referring to metrics going beyond greenhouse gas emissions. Even disclosure of greenhouse gas emissions, in line with scope 1 (direct emissions) and scope 2 (indirect emissions) – the most used metrics related to climate change, was found to be at only 33 per cent in 2018.[71]

57. The voluntary nature of requirements also poses implementation challenges. Evidence shows that regulation is one of the drivers to promote consistent implementation.[72] To date, climate-related financial disclosures are voluntary, and the level of implementation and quality of the information is unequal across regions. Most companies will require investing time and resources to fully adopt them. However, many of the requirements included in the Task Force's recommendations call for the use of the same level of rigour that it is generally required of financial information. Furthermore, the *[Task Force on Climate-related Financial Disclosures] TCFD Implementation Guide* recommends preparing the information to be disclosed as if it were going to be assured, and planning to use the same quality assurance and compliance approaches as for finance, management and governance

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66 McKinsey Global Institute, 2020, *Climate Risk and Response: Physical Hazards and Socioeconomic Impacts*, available at https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts.

67 Climate Disclosure Standards Board and Sustainability Accounting Standards Board, 2019b.

68 See https://www.tcfdhub.org/.

69 Task Force on Climate-related Financial Disclosures, 2017c.

70 United Nations Environment Programme, Finance Initiative, 2018a and 2018b.

71 Task Force on Climate-related Financial Disclosures, 2019.

72 Climate Disclosure Standards Board and CDP, 2018b.

disclosures.[73] It is also expected that Governments will start requiring companies to follow Task Force's recommendations and, as practice develops, best practices will be identified, allowing for a more compelling case for assurance services in order to promote reliability and trust.

IV. Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting core indicators on climate change

58. One of the main challenges highlighted in the Task Force's 2019 survey is the lack of standardized metrics and targets. The lack of consistency in the indicators used and the difference in methodologies to calculate and present the figures reduces the usefulness of the information provided.

59. In this respect, the UNCTAD *Guidance on Core Indicators for Entity Reporting on Contribution towards Implementation of the Sustainable Development Goals* is a useful tool that can facilitate harmonization in disclosure and the measurement of baseline climate-related data by companies and assist a transition to data consistency and comparability. A step-by-step approach could be a feasible way to move forward, especially for smaller companies.

60. The *Guidance on Core Indicators* is a technical tool aimed in assisting companies in the provision of data on a limited number of universal and core Sustainable Development Goal indicators in economic, environmental, social and institutional areas. It also aims at assisting governments in the design of policies and building of institutional mechanisms to collect such data from companies' reports, with a view to enabling them to reflect the private sector's contribution to Sustainable Development Goal implementation in a consistent and comparable manner.

61. In the *Guidance on Core Indicators*, the core indicators were identified based on key reporting principles, main reporting frameworks and company reporting practices. The core indicators were selected in alignment with relevant macro indicators of the Sustainable Development Goal monitoring framework of the Inter-agency and Expert Group on Sustainable Development Goal Indicators,[74] which are applicable at the company level.

62. The core indicators are intended as a starting point in the journey towards sustainability and Sustainable Development Goal reporting by enterprises and, therefore, could represent the minimum disclosures that companies would need to provide in order for Governments to be able to evaluate the contribution of the private sector to the Sustainable Development Goals. However, they do not attempt to preclude companies from providing further qualitative or quantitative information.

63. The *Guidance on Core Indicators* covers economic, environmental, social and governance/institutional indicators. It has 33 baseline indicators, of which 11 indicators specifically address climate change, including the following:

(a) Sustainable use of water

- Water recycling and reuse
- Water use efficiency
- Water stress

(b) Waste management

- Reduction of waste generation
- Reused, remanufactured and recycled waste
- Hazardous waste

[73] Climate Disclosure Standards Board and Sustainability Accounting Standards Board, 2019a.
[74] Available at https://unstats.un.org/sdgs/indicators/indicators-list/.

(c) Greenhouse gas emissions

- Greenhouse gas emissions (scope 1)
- Greenhouse gas emissions (scope 2)

(d) Ozone-depleting substances and chemicals

- Ozone-depleting substances and chemicals

(e) Energy consumption

- Renewable energy
- Energy efficiency.

64. How the *Guidance on Core Indicators* could be used as a tool, containing metrics, for the implementation of the Task Force's recommendations in the economic, environmental and social areas can be illustrated (see figure), serving as a starting point to facilitate harmonization and disclosure by companies, and to be complemented by companies through broader and more comprehensive metrics and disclosures.

Sample mapping of risks and opportunities against core indicators

				Core indicators[b]												
				Economic				*Environmental*					*Social*			
		Selected examples of risks and opportunities[a]	**Concept**	A1	A2	A3	A4	B1	B2	B3	B4	B5	C1	C2	C3	C4
Risks	*Transition risks*	Increased pricing of greenhouse gas emissions	Greenhouse gas emissions (scope 1 and 2)													
		Enhanced emissions reporting obligations	Greenhouse gas emissions (scope 1 and 2)													
	Physical risks	Increased severity of extreme weather events such as cyclones and floods	Employee health and safety													
		Changes in precipitation patterns and extreme variability in weather patterns	Employee health and safety													
Opportunities	*Resource efficiency*	Use of more efficient modes of transport	Research and development; energy efficiency													
		Use of more efficient production and distribution processes	Research and development; energy efficiency													
		Use of recycling	Recycling of waste and water													
		Move to more efficient buildings	Green investment													
		Reduction of water usage and consumption	Water efficiency													
	Energy sources	Use of lower-emission energy sources	Renewable energy													
		Use of new technologies	Green investment; research and development													
		Participation in carbon market	Greenhouse gas emissions (scope 1 and 2)[c]													
	Products and services	Development and/or expansion of low-emission goods and services	Research and development; greenhouse gas emissions (scope 1 and 2)[c]													
		Development of new products or sevices through research, development and innovation	Research and development													
	Resilience	Participation in renewable energy programmes and adoption of energy efficiency measures	Renewable energy; energy efficiency													
		Resource substitution and/or diversification (e.g. use of new technologies)	Human capital (employee training)													

[a] As specified in Task Force on Climate-related Financial Disclosures, 2017a.
[b] UNCTAD, 2019; A1, B1 and C1 etc. refer to categories of indicators of the *Guidance on Core Indicators*.
[c] Scope 1, direct emissions; scope 2, indirect emissions.

65. In 2019, UNCTAD conducted studies on the applicability of the *Guidance on Core Indicators* in 10 companies from different geographical regions and of different sizes. The countries included Colombia, Denmark, Guatemala, Kenya, the Russian Federation and Ukraine, and companies represented industries such as telecommunications, oil and gas, mining, health care, manufacturing, retail, tourism/hospitality and energy. An overview of *Guidance on Core Indicators* implementation in several companies was conducted in Egypt and the United States of America. The objective of case studies was to validate the applicability of the core indicators, the suggested measurement methodology and availability of the underlying accounting data.[75]

66. While there was no single indicator that all companies stated as non-reportable, and while most companies could provide data on more than 25 indicators, only one company stated it could provide data on all suggested indicators. Lack of technical capacity and expertise was cited as a major issue in data collection. Other challenges included lack of institutional support and lack of regulation and coordination among standard setters at all levels; non-existence of related activity (such as reuse of water), confidentiality concerns and legal restrictions were also mentioned in some cases.

67. With regard to climate change/environmental indicators, the case studies reflected that water recycling was the most difficult indicator to report on by many companies. The following indicators were mentioned as not possible or hard to report in selected cases, however they were provided in most other cases:

- Water stress
- Greenhouse gas emissions (scope 2)
- Renewable energy.

68. Taking account of consistent feedback on the lack of technical expertise and need for technical guidance in the area of sustainability/Sustainable Development Goal reporting, UNCTAD developed a training manual on the application of the core indicators.[76] For each area, including for environmental indicators, the manual provides definitions, measurement methodology (with illustrative, numerical examples), potential sources of information and examples of how these indicators have been already incorporated in the reporting practices of companies around the world. Making the training manual available for companies in the process of conducting *Guidance on Core Indicators* case studies significantly facilitated progress.

V. Conclusion and issues for further deliberation

69. The increasing frequency of climate events and disasters and the urgency of actions to tackle climate change and its effects has translated into strong support for the Task Force's recommendations and some companies have started their implementation. However, there is a clear implementation gap and a need for further capacity-building, sharing of experiences and collaboration.

70. Moreover, a key challenge is the lack of standardized metrics and targets and the difference in methodologies used to measure and present figures, which hampers their usefulness. In this respect, the *Guidance on Core Indicators* can contribute to harmonization in the measurement and promote consistency and comparability of companies' baseline data on climate change.

[75] For more details, see TD/B/C.II/ISAR/89.

[76] UNCTAD, 2020, *Core SDG [Sustainable Development Goal] Indicators for Entity Reporting: Training Manual* (United Nations publication, Sales No. E.20.II.D.17, Geneva); see https://isar.unctad.org/training-materials/.

71. In addition to the issues discussed in this note, delegates at the thirty-seventh session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting may wish to consider the following questions:

- What are the key achievements and good practices on improving climate-related financial disclosures?
- What are the key challenges in practical implementation of key pronouncements in this area, such as the Task Force's 2017 report? What other kinds of tools and guidance are needed to facilitate the process?
- How can quality, comparability and reliability of such reporting and its consistency with accounting requirements be facilitated?
- What is the role of Governments and policymakers in promoting the adoption of major pronouncements on climate change reporting and the Task Force's recommendations?
- Should climate-related financial disclosure be voluntary or mandatory?
- What is the most efficient way to build the technical capacities necessary to prepare meaningful climate-related financial disclosures?
- Could the *Guidance on Core Indicators* represent a useful tool to facilitate the comparability of baseline data related to climate change?
- How can the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting better support countries in their efforts to improve climate change related reporting and implement the Task Force's recommendations?