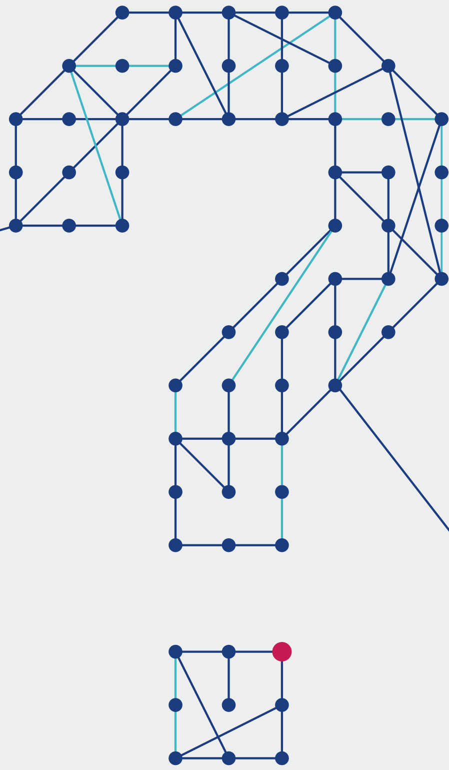
Climate Disclosure Standards Board

Decision-useful climate-related information for investors

What, Why & How?



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cdsb.net/decision-useful

Contents

About the Climate Disclosure Standards Board

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

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

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

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

What is decision-useful information?

Over the past decade CDSB has been working to support the provision of decision-useful climate-related information to investors through the vehicle of the mainstream report (i.e. annual report and financial filings). Decision-useful climate information is information on climate-related matters that is useful to key stakeholders, including investors, in making their decisions in relation to the company in question. Decisions that include buying, selling or holding equity and debt; providing loans or other credit; and exercising voting rights or engaging management.

Why is decision-useful information important for investors when it comes to climate-related matters? As key users of reporting, investors can make better informed investment decisions and thus allocate capital more efficiently into more sustainable and climate resilient businesses, which at a large scale supports the transition to a low-carbon economy.

> "Climate related matters are considered as part of our risk management processes... We look at whether a company's exposure to environmental risks constitute a source of risk... This also means we would screen out the industries or companies that we think are exposed to high environmental risks and do not take the appropriate steps to mitigate them."
>
> Swiss asset manager

Decision-useful information and financial reporting

Decision-useful information is a long-standing concept within corporate reporting. Per the IASB Conceptual Framework, the objective of financial reporting "is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity."[1] The concept of decision-usefulness has also been adopted and embedded within the CDSB Framework for reporting environment and social-related information[2] and the TCFD recommendations.[3]

1 IASB (2018), Conceptual Framework for Financial Reporting.

2 CDSB (2019), CDSB Framework for reporting climate and environmental Information. Note the CDSB Framework is in the process of being updated to address reporting of social-related information.

3 TCFD (2017), Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.

The catalytic and galvanising role of the TCFD recommendations

Heightened attention has been paid to the decision-usefulness of climate-related financial information in large part due to the Task Force on Climate-related Financial Disclosures (TCFD). In 2017, the TCFD published recommended disclosures across the core elements of governance, strategy, risk management, and metrics and targets designed to solicit decision-useful for users to understand the impacts of climate change on organisations.[4]

The introduction of the TCFD recommendations has undoubtedly increased uptake of climate-related reporting by companies in the past few years. However, a key question remains as to whether such reporting is actually decision-useful for investors. A 2019 survey by the Global Sustainable Investment Alliance[5] found that 59% of investors surveyed were generally unsatisfied with publicly traded companies' climate related disclosures. As such, the vast majority of those surveyed did not believe markets are consistently and correctly pricing climate risks into company and sector valuations. There is a gap between what is required by investors and what is being reported and better reporting of decision-useful climate-related matters by companies is needed.

Outline of the paper

This paper seeks to highlight the specific climate-related information, in line with the TCFD recommendations, that investors consider to be useful when it comes to their own decision-making process. This in turn should guide preparers in the areas that should be focussed on and the existing resources available to support them. The principles that ensure climate-related reporting is decision-useful are outlined, followed by the specific matters that investors expect under each of the four core elements of the TCFD recommendations, before concluding with some key takeaways for preparers.

It should be noted that investors are not homogenous and will have different needs depending on their investment mandate, investment time frames, and extent of resource and sophistication in integrating climate-related information into investment decision-making. This paper draws out key and common expectations of investors. Although some aspects may not be expected by all investors currently, standards and expectations of climate-related reporting are rising with effective reporting of decision-useful information becoming more important than ever.

> 67% of investor said they make "significant use" of ESG disclosures that are shaped by the TCFD and more than 3/4 of those investors said it has a significant impact on investment decision-making.
>
> EY 2020 Global Institutional Survey[6]

4 TCFD (2017), Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.

5 Global Sustainable Investment Alliance (2019), Sustainable Investor Poll on TCFD Implementation.

6 EY (2020), How will ESG performance shape your future? Fifth global institutional investor survey.

5 What, Why & How?

How should climate-related matters be reported in a decision-useful manner?

Before considering the specific content that investors seek, there are a number of underlying principles of the TCFD recommended climate-related financial disclosures (as articulated in the TCFD's 7 Principles for Effective Disclosures).[7] These principles when used by companies in preparing their disclosures can help ensure high-quality and decision-useful disclosures. The Better Alignment Project of the Corporate Reporting Dialogue has found that these principles are aligned with the disclosure principles of the major standard setters and framework providers (CDP, CDSB, GRI, IIRC and SASB).[8]

Further Resources

CDSB, The case for consistency: a working paper on the evidence and issues pertinent to considering the relative merits of greater consistency of approach to climate change-related reporting.

CDSB, Position paper on relevance & materiality, organisational boundaries and assurance: additional guidance on how to identify relevant and material environmental information, including climate matters.

WBCSD, Guidance on improving the quality of ESG information for decision-making: guidance that helps companies to understand the changes in data and processes that are required to collect and report better and more useful information.

WBCSD, Enhancing the credibility of non-financial information: a paper that explores the investor perspective on how quality and relevance of non-financial information reporting can be improved and the role assurance can play.

Disclosures should represent relevant and material information

To be helpful for investors, disclosures produced should only include relevant climate-related information to the company's businesses, markets, strategy and current and future financial position and performance. Disclosure of irrelevant information is a distraction and detracts from information that is decision-useful. Companies should provide a clear explanation as to which climate-related matters it considers material to ensure disclosures are relevant, as well as disclosing and describing the process used to determine materiality of climate-related information in the mainstream report.

Disclosures should be specific and complete

Most companies are still producing incomplete TCFD disclosures.[9] Partial disclosure impairs the decision-usefulness for investors and may even be viewed negatively if companies are seen to be 'cherry picking' and only focussing on positive matters. To be decision-useful, companies should always produce disclosures on Governance and Risk Management and, where assessed as material, on Strategy and Metrics and Targets. This provides investors with a thorough understanding of how climate might impact the business, its response to potential climate-related impacts, and its performance so far and future ambitions. Similarly, climate-related disclosures should be specific to the company in question rather than generic and 'boilerplate'.

Disclosures should be clear, balanced, and understandable

For reporting to be decision-useful, it needs to be concise and easily understandable by investors. Overly complicated and technical reporting that is not additive will only detract from the decision-useful information at hand. Similarly, by linking to other matters in the annual report, particularly financial information, will help investors contextualise climate-related information. This too is currently a key limitation of reporting per the TCFD's 2020 Status Report with investors expecting better linkage between non-financial and financial reporting.[10] Better connectivity provides clarity on the financial impacts of climate-related issues on companies and aids investors in making more informed decisions, particularly on capital allocation and valuation of companies.

Disclosures should be consistent over time

Consistent reporting over time allows investors to better understand how a company has progressed in relation to climate-related matters and provides a track record. This can be achieved by using standardised performance measures and indicators and consistently applying standards, policies, and procedures. Inconsistent reporting will result in the disclosures being considered less reliable and therefore less decision-useful for investors.

Disclosures should be comparable among companies within a sector, industry, or portfolio

Comparability over time (across reporting periods), between similar companies, across geographies and sectors and by asset classes within investor portfolios is critical for investment decision making processes. Reporting in line with the TCFD recommendations provides a consistent means for reporting climate-related matters and thus allows for comparison in relation to the impacts of such on a company's resilience, its strategic response and its performance. Similarly, reporting of metrics using standardised methodologies allows for comparability, including across sectors and geographies.

Disclosures should be reliable, verifiable, and objective

Climate-related information can only be decision-useful for investors when it is considered reliable, neutral, and free from error. This requires that information disclosed is verifiable with supporting evidence. Companies should be have the appropriate governance and controls in place with regards to climate-related information. Decision-usefulness can also be bolstered with the provision of independent assurance. Being verified and assured will provide comfort to investors as to the reliability and objectivity of the information disclosed.

Disclosures should be provided on a timely basis

Climate-related information can only be decision-useful when it is provided in a timely manner to investors. This is a principle that applies to all financial and non-financial information that investors rely upon to make decisions and inclusion of climate-related information in the mainstream report which is published on an annual basis will ensure this.

7 TCFD (2017), Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.

8 Corporate Reporting Dialogue (2019), Driving Alignment in Climate-related Reporting: Year One of the Better Alignment Project.

9 TCFD (2020), 2020 Status Report.

10 TCFD, 2019 Status Report (2019).

What decision-useful climate-related information should be reported?

There are number of different specific matters that investors desire under each of the four core elements of the TCFD recommendations. Although the matters discussed in this section are not the only climate-related content that investors consider decision-useful, this provides a starting point for preparers of reports in understanding what investors are actually focussing on and thus how to report more effectively and provide decision-useful climate-related information.

Governance
Disclose the organisation's governance around climate-related risks and opportunities.

Strategy
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Risk Management
Disclose how the organisation identifies, assesses, and manages climate-related risks.

Metrics and targets
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

Decision-useful disclosure on climate-related governance matters considers the roles the board and management play in assessing climate-related issues to allow investors to be comfortable with the approach taken to risk management and strategy. Lack of disclosure on governance in relation to climate-related matters illustrates that this is not a matter companies are focusing on, that governance on such matters is limited, and thus the companies are not be prepared for mitigating future climate-related risks and maximising any related opportunities.

Who is responsible for climate-relate matters within a company?

Investors are keen to understand and assess the governance and decision-making authority of the company, where accountability lies within the company and how focussed and engaged the leadership within the organisation is on addressing climate-related risks and opportunities. Effective disclosure should therefore outline who has responsibility for climate-related matters, how frequently this is reported to and discussed by management and the board, over what time horizons are climate-matters considered, and where the decision-making authority lies within the business. Significantly investors will benefit from understanding how climate-related issues are considered by the board and/or management when undertaking significant capital expenditure, acquisitions and divestures.

A key expectation from investors is clarity on the role of the board of the company in comparison to the management team. Disclosure should outline if the board solely provides oversight or whether it has the ultimate decision-making power in relation to climate-related matters or if that remains with management.

Beyond the governance structure and process, investors require insight of the quality of discussion had, the information and assumptions used to make decisions, and how this is monitored and managed. There is a difference between frequent inclusion of climate on the board agenda but with limited discussion, compared to in depth discussion based on sound data and evidence. Investors also assess the climate competence and expertise within the organisation to consider and address the challenges of climate-related issues.

Execution of decisions

Investors also want to understand how decisions are translated and integrated into the strategy of the business – whether execution is the responsibility of management, a separate committee, or the different business units of the organisation, and how progress is monitored and reported back. Conversely, it is helpful to disclose what mechanisms are in place for employees to report climate-related matters and propose bottom-up initiatives to leadership and how such information is acted upon. Decision-useful governance information consists of both the leadership and direction shown by management and the board, and effective execution throughout the business. This can be illustrated by actual examples to show how climate-related issues have been integrated throughout the company and influence all levels of decision-making.

Remuneration

Whether remuneration is tied to climate-related or broader ESG objectives provides an indication of how seriously the company takes climate-related action. This could include the remuneration of management, the board and certain employees delivering the organisation's climate-related strategy or relevant climate-related aspects of the broader organisational strategy. Where remuneration is tied to climate-related objectives, investors desire transparency on how this is assessed, for example a reduction in emissions by a certain percentage by a target date. This is more useful than a vague and limited reference to climate being considered as part of remuneration using a subjective assessment and illustrates true climate leadership to investors.

Further Resources

CERES, Running the Risk: How Corporate Boards Can Oversee Environmental, Social and Governance Issues: guidance to corporate boards on how they can effectively oversee risks posed by ESG issues, including questions for directors to ask management throughout the risk identification, prioritisation and mitigation processes.

Commonwealth Climate and Law Initiative, The climate risk reporting journey: a primer on climate-related financial risk reporting for boards and their committees.

TCFD Hub, Governance of climate-related risks and opportunities: an online course on the role of governance and boards in managing climate-related risks and opportunities.

World Economic Forum, How to Set Up Effective Climate Governance on Corporate Boards: this paper offers eight principles for effective governance of climate-related matters.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Following an understanding of an organisation's governance in relation to climate-related matters, investors expect clarity on the strategy set by the organisation's leadership.

Specific climate-related risks and opportunities to the company

Investors want to understand how climate-related matters have affected a company's strategy and business. Disclosure needs to be specific to the business, rather than generic which provides minimal decision-useful information. This means explicit disclosure on the actual and potential impacts of climate change specifically on the business, and thus how the company is seeking to address its particular climate-related risks and capitalising on relevant opportunities. Where relevant, disclosure on material climate-related issues in the different geographies and sectors the business operates in is particularly helpful.

Completeness of disclosure on both risks and opportunities is important and allows investors to make better informed assessments on how the company has integrated both when setting its strategy and how this compares to sector peers. Even if a company has assessed that the impacts of climate-related matters are immaterial or that transition and/or physical risks have not been identified, as a minimum investor expect an explanation as to how this has been determined, rather than omitting this.

Financial impact of climate-related risks and opportunities

Greater linkage between the climate-related risks and opportunities identified and the financial impacts is expected by investors. To be decision-useful companies should seek to link the impact of climate-related actions to financial performance, for example the costs savings and improvement in operating profit from reducing emissions. This not only illustrates to investors that the company has considered the impact of emissions on its business, but also provides an indication of the future performance and position of the company if its carries out its climate-related strategy and meets its climate-related targets.

Similarly, companies should not simply report on past and present performance. Instead, the forward-looking nature of the strategy is critical. For example, a proposed strategy in reducing emissions or developing more 'green' products or services will reduce costs, improve employee engagement and satisfaction, and will give the company a market advantage in providing low-carbon products or services to customers.

Evidence of scenario analysis

An uncertain future with many different future climate pathways makes reporting on climate-related matters challenging. To effectively assess the resilience of a company's strategy in light of such uncertainty requires analysis of resilience considering multiple climate scenarios. Climate scenario analysis indicates to investors that the organisation is taking a robust approach to identifying and assessing climate-related risks and opportunities and making its strategy resilient. In turn it further aids both the company and its investors in better understanding the company and its investors' exposure to climate-related risks and opportunities.

Investors, however, acknowledge that conducting scenario analysis is not straightforward and face similar challenges in their own modelling. Scenario analysis practice is still developing. It is expected that companies will evolve their approach over time and integrate scenarios into their business strategy. Nonetheless, disclosing the progress on scenario analysis indicates that the appropriate steps are being taken. Additionally, by disclosing where further work is required reassures investors that the company intends to continue assessing the effectiveness of its analysis. This in turn provides confidence over the judgement as to whether the business will be resilient.

> "Climate scenario analysis is great in theory, however a lot of work is needed so that the information presented is useful for investors, as there is currently no comparability between the scenarios used by companies and their industry peers due to the lack of a standardised methodology. Companies should consequently explain the assumptions underlying any scenario analysis."
>
> Swiss investment bank

However, four years on from the publication of the TCFD recommendations, investors have a baseline expectation when it comes to scenario analysis. As a starting point, investors want to know which scenarios have been assessed and what assumptions have been used. More sophisticated investors are interested in the underlying assumptions to make their own assessments. Increasingly simply modelling against one scenario is not sufficient to generate decision-useful climate-related information. Investors want to see evidence that modelling has occurred against a range of appropriate scenarios.

Although disclosing the scenario analysis that has been conducted is important, ultimately investors seek to understand how companies will be affected under different scenarios, and thus whether the strategy is resilient and can address the identified material climate-related challenges. This includes consideration of the potential financial impact of various scenarios, and what it could mean for the business and its financial position and performance. Considering the wide range of results from scenario analysis and its inherent uncertainty, how the analysis is used in the planning and decision-making by organisation is particularly useful for investors.

> "One in 15 companies reviewed disclosed information on the resilience of its strategy."
>
> 2020 Status Report, TCFD

Risks and opportunities over different time horizons

Investors acknowledge that for some companies the short-term impact of climate-related matters are difficult to envisage. However, there is broad agreement beyond the short term that most companies will be impacted and that many investors do consider this to be a material issue.

> "We are particularly interested in the company's long-term plan rather than its current situation. How is the company planning on addressing its long-term climate risks, both transition and physical?"
>
> Swiss asset manager

Therefore, it is important for investors to understand how businesses are approaching climate-related matters over the short, medium and long term. To do this effectively companies should clarify over what time frames their reporting applies and clearly define these. Such specificity aids investors in understanding how the company will ensure it remains resilient to preserve its competitiveness, returns and value creation over time. Conversely, being selective in reporting against time horizons is not helpful for investors. For example, if only short- and medium-term risks and opportunities are considered, it is not evident whether such a company will be resilient to climate-related matters in the long term.

Further Resources

CDSB and Center for ESG Research, How can companies considering TCFD recommended scenario analysis provide disclosures that help investors: a two stage process for preparers to create key outputs from scenario analysis to be disclosed within mainstream reports.

CDSB, Maximising opportunity in a transition to a low carbon economy: webinar looking at how companies can use the TCFD recommendations to maximise the opportunities associated with the low-carbon transition.

Institute for Climate Economics, Understanding transition scenarios: publication that explains the key concepts underpinning climate-related scenarios and how they can be interpreted.

MIT, Climate-Related Financial Disclosures – The Use of Scenarios: a series of recommendations on how companies can use scenarios to effectively disclose risks and opportunities they face as a result of climate change.

PRI, Climate scenario analysis: free to use and commercially available climate scenario tools to aid in undertaking scenario analysis.

TCFD, Guidance on Scenario Analysis for Non-Financial Companies: guidance to assist companies seeking to implement climate-related scenarios as part of their risk management and strategy formulation processes.

TCFD, The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities: a technical supplement introducing why scenario analysis is useful and how organisations can develop and implement them.

Risk Management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

In order to understand the actual and potential impacts of climate-related risks on an organisation's strategy, investors need to understand how such risks have been identified and want comfort over how these risks are being managed.

Transparency of the risk management process

Like for any other risks, investors expect clearly articulated disclosure on the process taken to identify climate-related risks, which risks have been identified, how significant the risks are considered to be, and how the company has responded to the risks. This is key in understanding whether the company can effectively identify and assess key climate-related risks to its business, if it is well-positioned to respond, and thus provide evidence for the resilience of its business. Ideally investors want confirmation that climate-related risks are assessed alongside other risks and are included as part of the company's enterprise risk management processes (the systems and processes in place to identify, assess and manage risk). This affirms that climate risk is considered equal to other material risks identified by the company.

Specificity when reporting on risk management is important for investors. Simply acknowledging that climate-related matters pose a risk to the company is not sufficient, as it is not necessarily a standalone risk. Investors want evidence that proper consideration has been given as to how climate-related risks might impact and exacerbate existing risks. Similar granularly assessing how different business lines might be at risk and the likeliness and impact of the risks over time provides greater confidence to investors that companies are carefully considering their climate-related risks.

Further Resources

CDSB, How to improve your TCFD risk management disclosures: webinar on the key characteristics of effective risk management practices and what good practice disclosure looks like in line with the TCFD recommendations.

COSO and WBCSD, Enterprise Risk Management: guidance on applying COSO's enterprise risk management framework to environmental, social and governance risks.

TCFD, Guidance on Risk Management Integration and Disclosure: guidance to support companies seeking to integrate climate-related risks into their existing risk management processes and disclosing this information in alignment with the TCFD recommendations.

TCFD Hub, An introduction to managing the financial risks from climate change: an online course introducing how climate risks can be incorporated into existing risk management processes and considering future so businesses are resilient to such risks.

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

In addition to robust governance procedures, a resilient business, and effective risk management processes, investors want evidence that the company is executing its strategy and transition to a low-carbon future, through disclosure of metrics and targets.

Metrics and targets should be linked to strategy

Having set out how the company is seeking to respond to its climate-related risks and opportunities, the metrics and targets disclosed offer an opportunity to illustrate its progress in meeting its strategy over time. Generic data has limited use if it does not actually tie through to the company's actual strategy.

"We want to understand companies' strategy and transition readiness in the long term, but equally want to see evidence of execution of the strategy through allocation of resources and investment in line with the transition strategy; greenhouse gas reduction targets aligned with the Paris Agreement; low carbon or green business revenue to capture opportunities; and scenario analysis, both below and above 2 degree."

North American pension fund

Metrics can provide insight into how the company is preparing for a low-carbon future by addressing its risks and maximising opportunities. If done well, this can allow investors to assess the company's long-term ambitions, particularly if the company discloses where its targets have been raised over the years. Similarly, stepwise short-, medium- and long-term targets provide investors greater visibility on the company's transition. Expansive targets (both in magnitude and breadth) across the business also illustrate the company's commitment to change.

"As an investor, I am particularly interested in the reporting of carbon exposure with regards to scope 1, 2 and 3 emissions, quantitative targets and timeframe to decarbonise in alignment with the company's strategy, and the degree of alignment to 2 and 1.5°C scenarios."

French asset manager

The numbers need to be explained

Apart from clearly disclosing the relevant climate-related targets and metrics, the numbers should be contextualised and their implications should be explained through narrative disclosure. Changes in the data over time should be reconciled to help investors understand the underlying reason for any fluctuation. For example, an increase in emissions in a particular year might be due to greater activity rather than an increase in intensity.

Seek comparability

Metrics and targets disclosures are especially decision-useful for investors when they are comparable.

Inclusion of historical data is critical in allowing investors to compare the progression of a business. Past metrics allow investors to put the current performance and future targets into context, including illustrating the pace of change, for example in reducing greenhouse gas emissions, and the extent to which the company is accelerating or slowing in relation to its target.

Usage of standardised methodologies allows for comparability against peer companies within the same industry and sector, which is important for investor assessment. Granular disclosure, where relevant and material, can also be helpful for comparison purposes and provides a fuller picture of the company's performance, for example, disclosing gross values in addition to netted emissions. Similarly, disclosure of emissions by type and how these are distributed throughout the company and its supply chain allows investors to assess the company's climate resilience. This is particularly relevant for conglomerates that might operate in several sectors or sub-sectors where aggregated company metrics without further granularity would not be particularly helpful.

Disclose the methodology

Building on the previous point, even where methodologies might differ, clearly disclosing the methodology can allow for comparison with other companies. Therefore, companies should clearly explain their methodologies and calculations for all metrics, including the scope and boundaries of the data reported, where estimates have been made, and how data remains consistent over time. Transparency over how data is corrected or restated and disclosure where this occurs also provides confidence to investors on the reliability of the data.

Further Resources

CDSB, How to improve your disclosure of metrics and targets: webinar on how to measure and manage performance on climate-related issues using metrics and targets and related good practice disclosure.

Center for ESG Research, Integrated Ratio Guideline: a collection of ESG and integrated financial and non-financial ratios for companies, investors, and analysts.

EcoAct, Connecting SBTi with the TCFD: blog article on how Science-Based Targets are aligned with the requirements of the TCFD disclosure recommendations.

SASB, SASB Standards: globally applicable industry-specific Standards which identify the minimal set of financially material sustainability topics and their associated metrics for the typical company in an industry.

World Economic Forum, Measuring Stakeholder Capitalism, Towards Common Metrics and Consistent Reporting of Sustainable Value Creation: universal, material ESG metrics and recommended disclosures identified for companies to disclose in their mainstream annual reports.

Key takeaways

We have developed a number of key takeaways to help preparers in producing decision-useful climate-related information for investors:

1. Reporting is iterative and so investors do not expect perfection on day one. The starting point for investors is evidence that their current or prospective investee companies are considering climate-matters in the first place. The end goal, however, should be complete disclosure across the 11 TCFD recommendations to be truly decision-useful, but some reporting illustrates to investors that the right steps are being taken. Investors also want to see ambition through the disclosure of the shortcomings and a clear plan as to how things will be improved, and ultimately what the company aims to achieve.
2. Both qualitative and quantitative reporting is needed for climate-related reporting to be decision-useful. The narrative needs to be supported by numbers to illustrate progress and conversely the numbers need to be explained by narrative to provide appropriate context. This also holds true for better linkage between non-financial and financial information in the mainstream report.
3. Climate-related disclosures need to be specific to the company and tailored to the company's business units and the sectors and geographies it operates in if it is to be helpful to investors.
4. Lack of comparability can limit decision usefulness for users. Therefore, where possible seek to use standardised approaches and methodologies across sectors and geographies, particularly when it comes to the disclosure of metrics and targets, and scenario analysis.
5. Integration of climate-related matters within the mainstream report reflects that climate-related matters have been equally integrated within the company's business processes, in addition to being connected to other information in the report. However, investors might also benefit from clear signposting to where the various TCFD recommended disclosures are found in a company's mainstream report. This is especially true if climate-related matters are not assessed as material and thus disclosure on strategy and/or metrics and targets are located in other reports.

> "The numbers are important, but we are equally interested in the narrative, which is what we embed into our investment analysis. Numbers on their own are not particularly useful and we want to know what the numbers mean for the business and how they will change over time, which helps us understand the company better."
>
> German investment bank

Further Resources

CDSB, Application guidance for climate-related disclosures: assists companies in the disclosure of material climate-related information in the mainstream report and complements the CDSB Framework.

CDSB, Accounting for Climate guidance: supports preparers in reflecting material climate-related matters within company financial statements and bridge the gap between narrative and financial reporting.

CDSB and CDP, The building blocks: a useful tool for companies to apply their CDP responses with the CDSB Framework to fulfil the TCFD recommendations.

CDSB and SASB TCFD, Implementation Guide: aids organisations in enhancing their climate-related financial disclosures in their mainstream report using the CDSB Framework and SASB Standards.

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