

Executive summary

Climate risk: from principles to practice

September 2018



Climate
Disclosure
Standards
Board



Growth of sustainable finance

With the declaration of the Sustainable Development Goals (SDGs) and the signing of the Paris Agreement, governments around the world agreed to choose a more sustainable path for our planet and our global economy. To realize this global transition to a more resilient, low-carbon economy, the expertise, innovation, and action of business will be indispensable and the financing of capital markets, vital.

To prompt markets to match society's ambitions to keep global temperatures "well below 2°C," companies and investors will need to signal to the market their commitment and contribution to managing climate risk. To that end, corporate reporting of non-financial information and data has become an established mechanism to reorient the market toward a sustainable path.

Fragmented landscape

Research and market evidence continues to show the connection between sustainable business practices and market performance. In response, a number of initiatives have emerged to spur businesses to improve their climate-related performance, their climate-related disclosure, or both.

Market regulators and stock exchanges are reacting and setting requirements for companies to disclose their performance, risks,

and opportunities related to non-financial issues including climate change. Companies and investors are proactively joining initiatives and approaches designed to contribute to sustainable finance. While the success of these requirements, standards, and initiatives has contributed to making climate change and resource scarcity mainstream issues for companies and investors, the multiplicity of provisions has also led to a fragmented reporting landscape, which is often difficult to navigate.

Momentum of the TCFD

The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) have gained broad support among businesses, investors, and regulators, while pushing forward the integration of climate-related issues within mainstream financial reporting. The recommendations focus on climate-related impacts that are financially material to the organization, highlighting the risks and opportunities that are mutually relevant to companies, investors, and wider society. This materiality-focused approach to climate-related risks and opportunities, which aligns with mainstream financial reporting practices, has led to a global backing of the TCFD. As of early September 2018, more than 445 public- and private-sector organizations, along with nearly 400 investors who manage

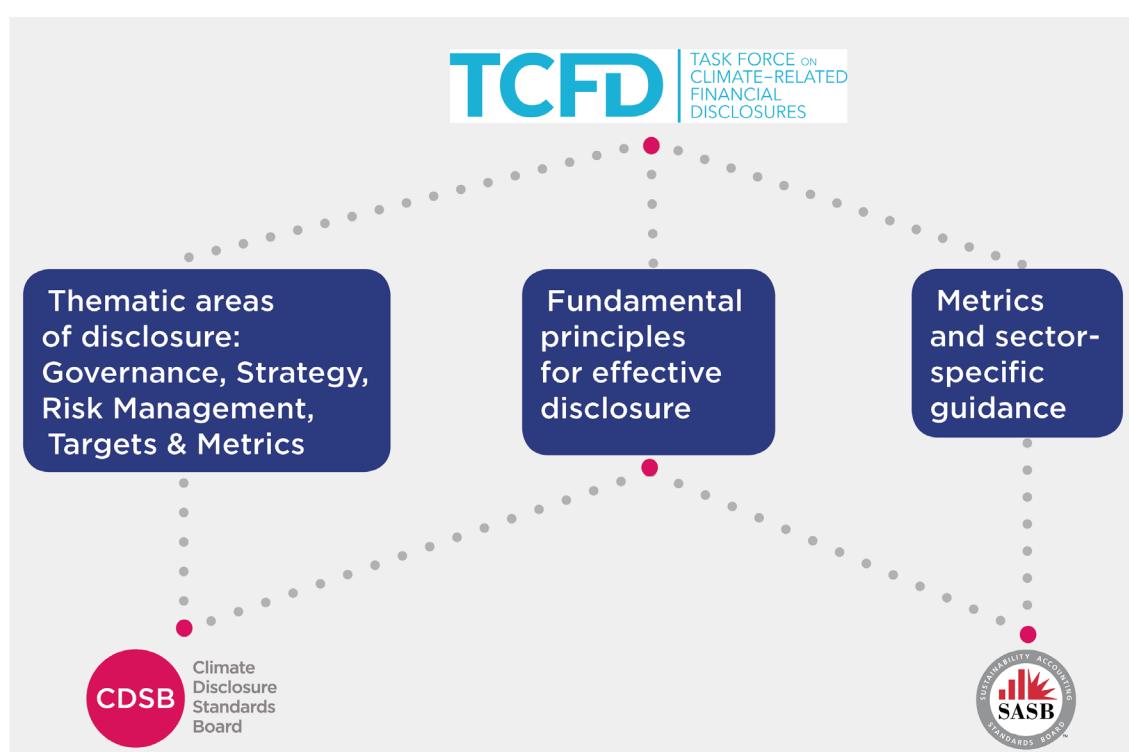


Figure 1: Alignment among CDSB and SASB with the TCFD recommendations

assets of over \$22 trillion have expressed their support for the recommendations.

The TCFD recommendations and guidance provide companies, investors, and other stakeholders in capital markets with a common set of principles to shift capital and appropriately assess and price climate-related risk and opportunities, ensuring that frameworks, standards, regulation, and other initiatives come together to support the highest quality of climate-related disclosure and action.

CDSB, SASB and the TCFD: a global market solution

While the TCFD recommendations and guidance are largely principles-based, the Climate Disclosure Standards Board (CDSB) and the Sustainability Accounting Standards Board (SASB) have both developed practical tools that can help organizations implement the recommendations, providing crucial information to decision makers at all levels.

Like the TCFD recommendations, CDSB's and SASB's offerings are focused on:

- a financially-based concept of materiality;
- global applicability; and
- suitability for use in multiple reporting locations.

Together, they establish a coherent foundation for a global standard to address climate risk in financial markets. By using the complementary, market-tested resources of the [CDSB Framework](#) and [SASB's sustainability accounting standards](#), companies can more easily identify, assess, and report their performance on climate-related issues, while fulfilling the TCFD recommendations.

Alignment on content

The TCFD recommendations were established on the bedrock of the seven Fundamental Principles for Effective Disclosure, which the TCFD adopted to not only underpin its own work but to also "help guide current and future developments in climate-related financial reporting." These principles are deeply aligned with the foundational concepts employed by both CDSB and SASB, as highlighted in our previous joint publication *Converging on Climate Risk*. Figure 1 shows how CDSB and SASB are aligned with the TCFD, across their four recommendations and associated recommended disclosures, as well as their principles, metrics, and sector-specific guidance.

Alignment on materiality

The TCFD recommendations approach climate-related disclosure through the lens of financial materiality. This is a viewpoint which CDSB and SASB also share, as shown in the table below. This means that CDSB, SASB and the TCFD primarily consider those climate-related impacts to the financial or operational performance of a company, which therefore also influence its market valuation.

Using this approach to materiality is beneficial to the overall mission of these organizations and allows companies to report information in an efficient and effective way.

By focusing on financially material information, companies can prioritize their efforts on managing issues and disclosing data that are relevant and critical to their business.

For example, software companies addressing climate change may focus on the energy-intensity of their data centers, while automakers would place more emphasis on the use-phase emissions of their products. This industry- and business-specific focus is not only more relevant to investors, it also represents the areas where companies are best positioned to make significant contributions to local, national, and global sustainability goals.

TCFD	CDSB	SASB
To ensure as much comparability as with national disclosure requirements for financial filings, the Task Force believes companies should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings.	CDSB's definition of materiality is aligned with the IASB, which states that "Information is material if omitting it or mistaking it could influence decisions that users make on the basis of financial information about a specific reporting entity."	SASB standards identify financially material issues, which are the issues that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to investors.

Capital markets

CDSB, SASB, and the TCFD understand how severe the potential impacts of climate change could be to communities around the world, as well as to the global economy. All three organizations believe that the mainstream financial report is the best conduit for disclosure of decision-useful, forward-looking climate-related information, to ensure sustainable capital allocation. Disclosure through the mainstream report fosters shareholder engagement and broader use and assessment of this information, as well as ensuring that climate information is subject to the same governance mechanisms and assurance as financial information.

In addition, all three organizations understand their role within capital markets as supplements to the national, regional, and international regulation currently in place. As the TCFD notes, its “recommendations are designed to leverage, rather than replace, existing disclosure regimes.” As such, the principles, frameworks, and standards issued by the TCFD, CDSB, and SASB are broadly applicable across global jurisdictions within existing disclosure requirements and, therefore, their implementation places no additional regulatory burden on corporate issuers.

Wider alignment and support

As noted above, CDSB and SASB aim to carry the TCFD’s work forward by refining their reporting frameworks to increase harmonization, creating a coherent foundation for a global standard to address climate risk in financial markets. In addition, CDSB and SASB will be working closely to provide assistance and technical input into policy development around climate-related disclosures, leveraging their global expertise and networks to further the ambitions of the TCFD and ensure effective implementation for markets and companies around the world.

CDSB and SASB are also working together through other venues. SASB is currently represented on CDSB’s Board and Technical Working Group, while CDSB participates in all the major consultations of SASB. Both organizations are also part of the Corporate Reporting Dialogue, an initiative aimed at driving greater coherence, consistency, and comparability in corporate sustainability reporting.

Download the full paper at www.cdsb.net/TCFDalignment.

For further information about CDSB, please visit our website: www.cdsb.net.

For further information about SASB, please visit our website: www.sasb.org.

About CDSB

The Climate Disclosure Standards Board (CDSB) is an international consortium of nine business and environmental NGOs committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. It does so by offering companies a framework for reporting environmental information with the same rigor 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. Collectively, we aim to contribute to more sustainable economic, social, and environmental systems. For further information about CDSB, please visit our website: www.cdsb.net

About SASB

The Sustainability Accounting Standards Board Foundation (SASB) is an independent, not-for-profit standard-setting organization that develops and maintains robust reporting standards that enable businesses around the world to identify, manage and communicate financially-material sustainability information to their investors. SASB Standards are evidence based, developed with broad market participation, and are designed to be cost-effective for companies and decision-useful for investors. To download any of the 77 industry-specific standards, or learn more about SASB, please visit www.sasb.org.