

3 OCTOBER 2023

FACT SHEET 2:

How are the ISSB standards an uplift from the TCFD?

The ISSB reporting requirements, set out IFRS S2, build on the TCFD recommendations by elaborating on definitions and concepts, and by adding more granularity to disclosure requirements.

Although IFRS S2 is built upon the TCFD, and therefore companies already doing some level of TCFD reporting will have a head start, there is expected to be a significant uplift in disclosure for most entities transitioning from TCFD to ISSB reporting.

For a start, while the TCFD is built on 11 core recommendations, IFRS S2 has 37 paragraphs of disclosure requirements with over 100 specific disclosures.



The gap between reporting under the core TCFD recommendations and under IFRS S2 will likely be amplified because the TCFD has been historically voluntary for Australian companies. In practice, this has resulted in many Australian companies only choosing to disclose in certain TCFD areas.



Demonstrating the level of uplift required, a December 2022 **joint research report** by the AASB/AUASB revealed that only 36 per cent of listed entities (696 out of 1,930 ASX-listed entities) disclosed climate-related information in their Annual Reports or Corporate Governance statements in FY2021. Of these companies, only 25.9 per cent (181 companies) referenced the TCFD recommendations in annual reports, and only nine per cent (63 companies) reporting under all four TCFD pillars.


Further, on 8 September 2023, **CDP** (formerly the Carbon Disclosure Project), the **Investor Group on Climate Change (IGCC)** and UN-supported **Principles for Responsible Investment (PRI)** issued a **joint statement** stating that 'most companies' transition plans were incomplete or inadequate for investor needs (based on analysis of 183 Australian companies).

The **table on page 2 of this Fact Sheet** summarises some of the key areas in which IFRS S2 represents a step up in disclosures relative to that of the core TCFD recommendations.


Please note that the **table below** is not intended to be a summary of all the requirements of IFRS S2, nor a comparison against TCFD Guidance (which is more comprehensive than the core TCFD recommendations). Rather, the table focuses on the areas in which IFRS S2 extends and builds on the TCFD recommendations. We do so in recognition of the fact that many Australian corporates currently disclose on a 'TCFD-lite' basis. We note that the TCFD's 2017 and 2021 implementation guidance recommends the making of more detailed and granular disclosures, some of which are now mandated by IFRS S2.

Topic	TCFD core recommendations	IFRS S2
 Governance	<p>General recommendations to:</p> <ul style="list-style-type: none"> • Disclose board oversight of climate-related risk and opportunities. • Disclose management's role in assessing climate-related risks and opportunities. 	<p>Specifically requires more detailed information of board governance and oversight including:</p> <ul style="list-style-type: none"> • The identity of the body or individual responsible. • How that body's responsibilities are reflected in their role description, mandates or terms of reference. • Whether that body has considered trade-offs associated with climate risks and opportunities.
 Strategy	<p>General recommendations to:</p> <ul style="list-style-type: none"> • Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term. 	<p>Specifically requires:</p> <ul style="list-style-type: none"> • Entities to refer to, and consider the applicability of the industry-based metrics associated with the disclosure topics set out in the Industry-based Guidance issued alongside IFRS S2. • Disclosure of where, in the company's business model and value chain, climate-related risks and opportunities are concentrated, such as geography, facilities, types of assets, inputs, outputs or distribution chains.
	<p>General recommendations to:</p> <ul style="list-style-type: none"> • Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning. 	<p>Specifically requires disclosures of:</p> <ul style="list-style-type: none"> • Any transition plans and processes in place to review transition plans, including information about key assumptions, specific actions taken towards decarbonisation, and quantitative information about progress. • Quantitative current and anticipated financial effects of climate-related risks and opportunities, including expected changes to financial position, performance (including the relevant time horizon) and future cash flows over time, including access to finance, cost of capital, financing or investment deployed towards climate-related risks and opportunities. • The climate-related risks and opportunities for which there is a significant risk of material adjustments to the carrying amount of assets and liabilities in the next annual reporting period. • Qualitative (rather than quantitative) information is permitted only in certain circumstances.

Topic	TCFD core recommendations	IFRS S2
 <p>Strategy (cont)</p>	<p>General recommendations to:</p> <ul style="list-style-type: none"> Describe the resilience of the organisation’s strategy, taking into consideration different climate scenarios, include a two degree or lower scenario. 	<p>Specifically requires disclosures of:</p> <ul style="list-style-type: none"> As part of resilience assessment, the details of how and when climate scenario analysis was carried out, and an explanation as to whether any scenarios are aligned with the latest international agreement on climate change. Significant areas of uncertainty relating to strategy, resilience and the entity's capacity to adjust and adapt its strategy and business model over time. Specific additional quantitative disclosure and key assumptions relating to the entity’s scenario analysis including: <ul style="list-style-type: none"> Did the analysis include a diverse range of scenarios? Are the scenarios associated with physical or transition risk? Why are the selected scenarios relevant to the entity? What are the scope of operations used in the analysis? What assumptions are made about the climate policies of the particular jurisdiction? What are the key macroeconomic trends, and what impact do they have on the scenario analysis? What are the relevant variables, such as weather patterns, demographics, land use, infrastructure and availability of resources? What are the key assumptions as to energy use and mix?
 <p>Risk management</p>	<p>General recommendations to:</p> <ul style="list-style-type: none"> Describe the process for identifying, assessing and managing climate-related risks. Describe how climate-related risk processes are integrated into the organisation's overall risk management framework. 	<p>Specifically requires disclosure of:</p> <ul style="list-style-type: none"> Processes used to identify, assess, prioritise and monitor climate-related risks and opportunities. Inputs and parameters used to identify climate-related risks (e.g. data sources, the scope of operations covered and detail used in assumptions). Use of scenario analysis to inform its identification of climate-related opportunities. Any changes in an organisation’s risk management processes compared to the prior reporting period. Extent to which, and how, climate risk management is integrated into the company’s overall risk management process.

Topic	TCFD core recommendations	IFRS S2
 <p data-bbox="86 450 204 517">Metrics & targets</p>	<p data-bbox="284 353 667 383">General recommendations to:</p> <ul data-bbox="284 394 667 577" style="list-style-type: none"> • Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes. 	<p data-bbox="683 353 1503 383">Specifically requires disclosure of:</p> <ul data-bbox="683 394 1503 1115" style="list-style-type: none"> • How the entity has referred to, and considered, the applicability of the industry-based metrics associated with the disclosure topics set out in the Industry-based Guidance issued alongside IFRS S2. • All the metrics from the TCFD 2021 guidance, which include: <ul data-bbox="699 533 1503 801" style="list-style-type: none"> – The percentage of executive management remuneration linked to climate-related considerations. – Internal carbon prices (see Fact Sheet 4). – The amount and percentage of assets or business activities currently vulnerable to physical and transition risk, and aligned with climate-related opportunities. – The amount of capital, financing or investment deployed towards climate-related risks and opportunities. • Any transition plans and climate-related targets (including details on the use of offsets), processes in place to review transition plans, and quantitative information about progress of transition plans. • How the the latest international agreement on climate change, including jurisdictional commitments that arise from that agreement, has informed the target. • Whether the climate target has been validated by a third party, and whether it has been derived using a sectoral decarbonisation approach.
	<p data-bbox="284 1137 667 1167">General recommendations to:</p> <ul data-bbox="284 1178 667 1272" style="list-style-type: none"> • Disclose scope 1, scope 2, and if appropriate, scope 3 emissions. 	<p data-bbox="683 1137 1503 1167">Specifically requires disclosure of:</p> <ul data-bbox="683 1178 1503 1563" style="list-style-type: none"> • Scope 1 and 2 emissions disclosed separately for: <ul data-bbox="699 1211 1503 1317" style="list-style-type: none"> – the consolidated accounting group; and – associates, joint ventures and unconsolidated subsidiaries not included in the accounting group. • Scope 2 emissions using a location-based approach. • Scope 3 emissions, including the upstream and downstream categories in accordance with the GHG protocol as well as the measurement approach, inputs and assumptions used in measuring scope 3 emissions. • Financed emissions¹ for those with asset management, commercial banking or insurance activities.

¹ Financed emissions are the indirect GHG emissions attributable to financial institutions due to their involvement in providing capital or financing to the original emitter.

Topic	TCFD core recommendations	IFRS S2
 <p>Metrics & targets (cont)</p>	<p>General recommendations to:</p> <ul style="list-style-type: none"> • Disclose the targets used by organisations to manage climate-related risks and opportunities. 	<p>Specifically requires disclosure of:</p> <ul style="list-style-type: none"> • Granular information on climate-related targets set and how the company plans to achieve the targets that have been set. • Whether any climate-related target is informed by the latest international agreements, including the Paris Agreement. • Whether any target has been validated by a third party. • Approach to setting, calculating and reviewing targets (if set), how it monitors progress against targets and whether the target is derived using a sectoral decarbonisation approach.² • Explicit requirements for disclosure of any target (such as which GHG gasses are covered, if the targets include scope 1, 2 or 3 whether it is a gross or net target), as well as details relating to the expected use of carbon offsets to achieve these targets.

² Sectoral Decarbonisation Approach (SDA) is a scientifically informed method for companies to set GHG reduction targets necessary to stay within a 2°C temperature rise above pre-industrial levels.



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