BRIEFING PAPER

DRAFT CLIMATE DISCLOSURE RULES AND STANDARDS:

A COMPARATIVE ANALYSIS

October 2022

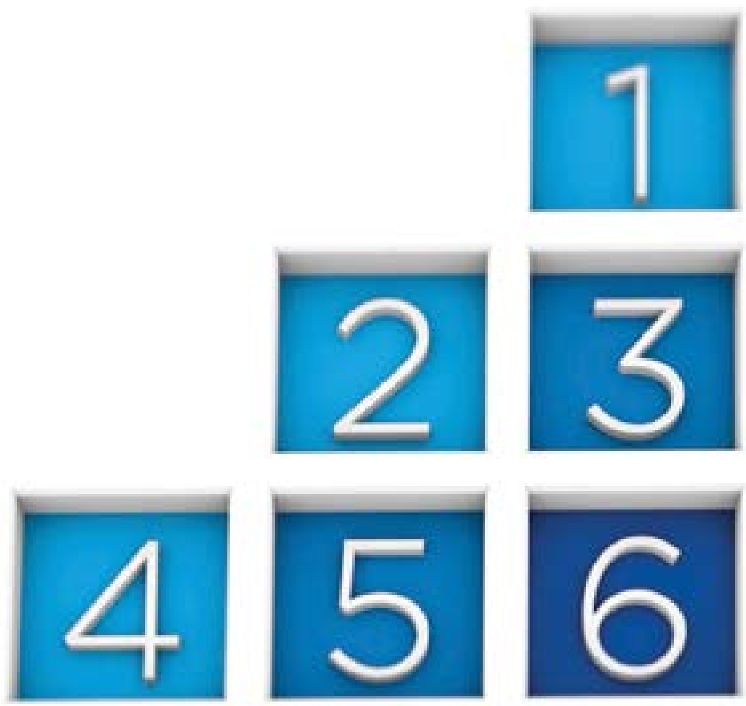
An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

INTRODUCTION

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. More than 5,000 pension funds, insurers, investment managers and service providers, with over US$121 trillion in AUM, have signed up to the PRI's six Principles.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that their investments have on the environment and society as a whole.

The PRI works towards a sustainable global financial system by: encouraging adoption of the Principles and collaboration on their implementation; fostering good governance, integrity and accountability; and addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

ABOUT THIS BRIEFING PAPER

This year has been marked by major developments in climate reporting. At the global level, the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB) consulted on its exposure draft standards (the ISSB EDs), which are intended to provide a global baseline of climate-related financial disclosures, subject to jurisdictional-level adoption. At a regional level, the US Securities and Exchange Commission (SEC) consulted on its Proposed Rule containing mandatory climate reporting requirements for listed companies, while the European Financial Reporting Advisory Group (EFRAG) consulted on its European Sustainability Reporting Standards Exposure Drafts (ESRS EDs), which will constitute reporting requirements under the Corporate Sustainability Reporting Directive (CSRD).

This briefing paper is intended to help investors understand the similarities and differences across climate-related disclosures to be issued by portfolio companies subject to these rules and standards. It uses the globally accepted Task Force on Climate-related Financial Disclosures (TCFD) recommendations and guidance as a comparative baseline; these do not capture all climate information needed by all investors but they provide a useful basis for comparison. The paper focuses on disclosure requirements related to risks and opportunities, captures disclosures that would be required where material, and summarises structural features. Bracketed text refers to pages or paragraphs in cited publications, draft rules or standards. Finally, we recognise that all draft rules and standards were subject to consultation and are yet to be finalised at the time of writing (in October 2022). We will update this analysis as and when final standards are published.

Summaries of each draft rule or standard can be found in our dedicated briefing notes (ISSB; SEC; EFRAG). PRI comments on these are included in our consultation responses (ISSB; SEC; EFRAG).

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COMPARISON OF STRUCTURAL FEATURES

To contextualise variations in disclosure requirements, this paper begins by outlining similarities and differences in key structural features of each draft rule or standard analysed:

- Climate-specific draft standards
  - SEC Proposed Rule – climate-related disclosure requirements proposed by the US SEC for issuers.
  - IFRS Exposure Draft S2 (ED IFRS S2) – ISSB Exposure Draft containing climate-related reporting requirements.
  - ESRS Exposure Draft E1 *Climate change* (ED ESRS E1) – EFRAG exposure draft specifying climate-related disclosure requirements under the EU CSRD.
- Cross-issue draft standards, as these apply to climate reporting
  - IFRS Exposure Draft S1 (ED IFRS S1) – ISSB exposure draft containing requirements applicable to reporting on all sustainability issues and general features requirements.
  - ESRS Exposure Draft 1 *General Principles* (ED ESRS 1) – EFRAG exposure draft specifying mandatory concepts and principles to apply to reporting under the CSRD.
  - ESRS Exposure Draft 2 *General, strategy, governance and materiality assessment disclosure requirements* (ED ESRS 2) – EFRAG exposure draft specifying requirements for reporting on all sustainability issues under the CSRD.

As shown above, the SEC Proposed Rule only contains climate-specific reporting requirements. The ISSB EDs, in turn, contain requirements applicable to climate change and additional cross-issue requirements applicable to reporting on all sustainability issues – including but not limited to climate change. Finally, the ESRS EDs contain cross-issue requirements, climate-specific requirements, and requirements applicable to reporting on 10 other sustainability issues. This paper does not cover the other 10 issue-specific ESRS EDs.[1]

PRESENTATION

Disclosure requirements within the TCFD recommendations, SEC Proposed Rule and the ISSB EDs are structured across four pillars: governance, strategy, risk management, and metrics and targets.

Disclosure requirements within the ESRS EDs are similar from a content perspective but are currently organised across the following themes: strategy and business model(s), governance, materiality assessment, policies, targets, action plans and resources, and metrics. However, this structure may change in future iterations of the ESRS.

REPORTING BOUNDARY

Under the TCFD recommendations, the 'value chain' is defined as the upstream and downstream life-cycle of a product, process or service, including material sourcing, production, consumption and

[1] EFRAG consulted on:

- five other environmental ESRS EDs (ESRS E1 *Climate change*, ESRS E2 *Pollution*, ESRS E3 Water and marine resources, ESRS E4 Biodiversity and ecosystems, ESRS E5 Resource use and circular economy);
- four social ESRS EDs (ESRS S1 Own workforce, ESRS S2 Workers in the value chain, ESRS S3 Affected communities, ESRS S4 Consumers and end-users); and
- two governance ESRS EDs (ESRS G1 Governance, risk management and internal control and ESRS G2 Business conduct).

disposal or recycling [page 84]. Companies are recommended to consider the exposure of their value chains when considering their general exposure to climate-related risks and opportunities [page 11].

Similarly, under all draft rules and standards, companies need to report on all material climate-related risks and opportunities to which they are exposed. There is variation in required value chain definitions: the SEC Proposed Rule implies a focus on tier 1 (i.e. direct supplier/customer) relationships, whereas under the ISSB EDs and the ESRS EDs, companies must consider relationships across multiple tiers. However, variation in wording used across each draft standard leaves this somewhat open to the interpretation of preparers.

MATERIALITY

The TCFD recommendations adopt a financial materiality perspective, in which companies determine materiality for climate-related issues consistent with the determination for other information included within their annual financial filings [page 8]. However, companies are recommended to disclose Scope 1 and 2 greenhouse gas (GHG) emissions independent of a materiality assessment [page 5].

The SEC Proposed Rule also adopts a financial materiality perspective, in that it focuses on the financial effects of sustainability matters on a company. A matter is material if there is a substantial likelihood that a reasonable investor would consider it important when determining whether to buy or sell securities or how to vote. The materiality of potential future events requires an assessment of the probability and potential magnitude of those events, or their significance to the company [pages 64-65].

Similarly, reporting under the ISSB EDs focuses on sustainability-related risks and opportunities that could affect enterprise value – including effects on reputation, performance and prospects as a consequence of a company's relationships with people, the planet and the economy, and its impacts and dependencies on these.

In contrast, the ESRS EDs are rooted in the CSRD's so-called 'double materiality' approach, whereby a sustainability matter can be material from the perspective of its impact materiality and/or its financial materiality [paragraph 28], as defined within ED ESRS 1 [paragraphs 49-56].

COMPARISON OF DISCLOSURE REQUIREMENTS

The remainder of this paper compares the disclosure requirements of each draft rule or standard, structured across the TCFD's four pillars. Rating icons (on the right) are used to indicate where disclosure requirements either:

- contain gaps relative to the TCFD recommendations and guidance;
- are in line with the TCFD recommendations and guidance; or
- contain elements additional to the TCFD recommendations and guidance.

Each summary table is organised by disclosure theme, with findings for each theme further elaborated in the narrative text below each table.

GOVERNANCE

Figure 1: Comparative overview of governance-related requirements

Disclosure theme (TCFD)	SEC Proposed Rule	ISSB EDs	ESRS EDs
Governance body responsibilities			
Management responsibilities			
Climate-related remuneration			

Governance body responsibilities

> Under the TCFD recommendations [page 17], companies should disclose:
>
> - the board's oversight of climate-related risks and opportunities, and whether the board and its committees consider climate-related issues when taking various strategic or business decisions;
> - how the board monitors and oversees progress against goals and targets for addressing climate-related issues; and
> - processes and frequency by which the board and board committees are informed about climate-related issues.

The SEC Proposed Rule captures the disclosures above, as well as reporting on the climate-related expertise of relevant board members [page 462].

The ISSB EDs also capture all disclosures under the TCFD recommendations and include reporting on the board's climate-related expertise, but not on that of individual board members. Additional disclosures to those within the TCFD recommendations include how climate-related responsibilities are reflected within relevant terms of reference, mandates and policies [ED IFRS S2, paragraph 5].

Similarly to the SEC Proposed Rule, the ESRS EDs capture all disclosures under the TCFD recommendations and include reporting on the board's climate-related expertise and that of relevant board members [ED ESRS 2, paragraph 52]. Additional disclosures to those within the TCFD recommendations include the specific sustainability-related elements for which governance bodies are responsible [ED ESRS 2, paragraph AG37], and the sustainability-related matters addressed by governance bodies over the reporting period [ED ESRS 2, paragraph 60(a)].

Management responsibilities

All draft rules and standards are aligned with the TCFD recommendations in that they require companies to describe the role of management in assessing and managing climate-related issues, allocation of responsibilities and reporting lines. In addition, reporting under ED ESRS 2 includes climate-related responsibilities of other staff at the operational level where relevant [paragraph 52(e)].

Climate-related remuneration

> Under the TCFD recommendations, companies should disclose whether and how climate-related performance metrics are included in remuneration policies [page 17], and the proportion of executive management remuneration linked to climate-related considerations [page 80].

The SEC Proposed Rule does not contain remuneration-related requirements. However, this reporting is captured within the ISSB and the ESRS EDs.

Under ED ESRS 2 [paragraphs AG50-52], additional disclosures to those within the TCFD recommendations include:

- incentive policies for governance bodies, senior executives and other relevant employees;
- whether performance is assessed against specific targets and/or impacts, and which ones;
- whether key performance indicators (KPIs) are used as performance benchmarks; and
- the proportion of variable compensation that is linked to such KPIs being met.

STRATEGY

Figure 2: Comparative overview of strategy-related requirements

Disclosure theme (TCFD)	SEC Proposed Rule	ISSB EDs	ESRS EDs
Climate risks and opportunities			
Transition plans			
Financial effects			
Resilience analysis			

Climate-related risks and opportunities

> Under the TCFD recommendations, companies should describe their climate-related risks with an actual or potential material effect on the company, the time horizon over which these effects could occur, and how the company defines short-, medium- and long-term time horizons [page 18].

The SEC Proposed Rule captures these disclosures and includes a description of the nature of climate-related risks, with varying requirements for physical and transition risks [page 463].

The ISSB EDs also capture all disclosures under the TCFD recommendations. Additional disclosures include equivalent reporting on climate-related opportunities, specifying where in the value chain significant risks and opportunities are concentrated, and describing their effects on the business model and value chain [ED IFRS 2, paragraph 35].

The ESRS EDs also capture all disclosures under the TCFD recommendations and include equivalent reporting on climate-related opportunities. Additional disclosures include how companies are exposed to risks or intend to pursue opportunities [ED ESRS 2, paragraph 77], where in the value chain these are concentrated, and current and anticipated effects on the value chain [ED ESRS E1, paragraph AG22].

Transition plans

> Under the TCFD recommendations, companies should describe current and anticipated changes to strategy, business model and financial planning to mitigate climate-related risks and/or exploit climate-related opportunities – including resources and expenditure deployed toward such risks and opportunities [page 19].

The SEC Proposed Rule captures these disclosures, although reporting on expenditure is subject to a financial threshold [page 453]. In addition, companies are required to disclose actions taken to support the transition plan during the reporting year [page 481].

Similarly, the ISSB EDs capture all disclosures under TCFD recommendations and guidance [ED IFRS 2, paragraph 13], and also include reporting on progress against transition plans.

Finally, ED ESRS E1 contains the same disclosures as the ISSB EDs, as well as many additional requirements [paragraph 15], including:

- disclosure of action plans to address material risks and opportunities, including the following information on individual actions: scope, time horizon, achieved or expected outcomes (including GHG emissions reductions where applicable), and potential trade-offs in terms of impacts on other sustainability matters or financial effects;
- whether action plans depend on preconditions (e.g. financial support);
- information on resource allocation, presented in the form of a table, and broken down between capital and operating expenditures across relevant time horizons;
- locked-in GHG emissions from key assets or products and how they will be addressed;
- plans for future EU Taxonomy alignment of economic activities and how this will support the company's transition to a climate-neutral economy and net-zero GHG emissions;
- how the business strategy and financial planning (including future cashflows) interact with the achievability of the company's transition plan and GHG emission reduction targets; and
- whether the transition plan is approved by the company's governance bodies.

Financial effects

> Under the TCFD guidance [pages 49-51], companies should disclose the current and potential effects of climate-related risks and opportunities, including the strategy to address these, on their financial position, financial performance and cash flows.

The SEC Proposed Rule also contains reporting on financial effects and the strategy to address these. However, this is captured through a unique set of metrics on the financial effects of physical and transition risks (and, optionally, of climate-related opportunities) on line items within the consolidated financial statements. These disclosures need to be made if the sum of absolute values of all impacts on a line item is 1% or more of the total line item for the relevant fiscal year. Companies also need to disclose whether and how estimates and assumptions used to produce the consolidated financial statements are impacted by physical or transition risks [pages 452-455].

The ISSB EDs capture all disclosures under the TCFD guidance. Additional disclosures include specifying climate-related risks and opportunities for which there is a significant risk of a material adjustment to carrying amounts of assets and liabilities reported in the financial statements within the next financial year [ED IFRS S2, paragraph 14].

Finally, the ESRS EDs also capture all disclosures under the TCFD guidance, but not the additional information under the ISSB EDs.

Resilience analysis methodology and results

> Under the TCFD recommendations [page 19], companies should describe how resilient their strategies are to climate-related risks and opportunities, with reporting on:
>
> - the climate-related scenarios and associated time horizons considered to determine resilience;
> - results of the analysis, including how strategy, financial performance and financial position may be affected by climate-related risks and opportunities; and
> - their ability to respond to the climate-related risks and opportunities assessed.

The SEC Proposed Rule captures these disclosures.

Similarly, the ISSB EDs also capture the same information as the TCFD recommendations. However, companies have the option to conduct the resilience assessment using alternative methodologies to scenario analysis, albeit with equivalent disclosures on methodology and results [ED IFRS S2, paragraph 15(b)]. This is a key difference to the TCFD recommendations.

In addition, the ISSB EDs are more prescriptive with respect to resilience analysis methodologies and assumptions and the ability of companies to respond to climate-related risks and opportunities. Disclosures include [ED IFRS S2, pagragraph15(a-b)]:

- the availability and flexibility of existing financial resources to address climate-related risks and opportunities;
- the company's ability to redeploy, repurpose, upgrade or decommission existing assets;
- the effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience; and
- whether the company used a scenario aligned with the latest international climate agreement (currently the Paris Agreement).

ED ESRS E1 captures all disclosures under the TCFD recommendations, and companies would not have the option to use an alternative resilience analysis methodology. Additional disclosures to those within the TCFD recommendations include [paragraph AG7]:

- the extent to which assets and business activities at risk are covered by the strategy and current and planned mitigation actions and investments, and the ability of the company to adapt its business model; and
- value chain elements (e.g. business units and activities) included in the analysis and explanation of any exclusions.

RISK MANAGEMENT

Figure 3: Comparative overview of risk management-related requirements

Disclosure theme (TCFD)	SEC Proposed Rule	ISSB EDs	ESRS EDs
Climate risk identification			
Climate risk assessment			
Climate risk management			

Risk identification

All draft rules and standards are aligned with the TCFD recommendations in that they require companies to report on processes used to identify climate-related risks. In addition, under the ISSB EDs, the ESRS EDs and (optionally) the SEC Proposed Rule, companies need to report on processes used to identify climate-related opportunities.

Risk assessment

Under the TCFD recommendations, companies should describe their processes to determine which climate-related risks and opportunities could have a material financial impact on the organisation and should be prioritised, including how potential size and scope is assessed [pages 18-20].

The SEC Proposed Rule captures these disclosures.

The ISSB EDs also capture the same information as the TCFD recommendations. Additional disclosures include specifying the input parameters underpinning this assessment – for example data sources, scope of operations covered and level of detail used in assumptions – and any changes to this process since the previous reporting period [ED IFRS S2, paragraph 17(b)].

Finally, the ESRS EDs capture the above-mentioned information on risk assessment through disclosures on the materiality assessment, with additional reporting on:

- how companies assessed the implications of risks and opportunities on their ability to: (i) use resources needed in their business processes; and (ii) rely on its business relationships across its operations and its value chain on their existing terms [ED ESRS 2, paragraph AG67];
- responsibilities for, and resources dedicated to, the materiality assessment [ED ESRS 2, paragraph 74(a)]; and
- processes to identify and assess (i) physical risks and (ii) transition risks, including information on scenario analysis used to assess both risk types [ED ESRS E1, paragraphs AG17-19].

Risk management framework

Under the TCFD recommendations, companies should describe their processes for managing climate-related risks, and whether and how climate risk management processes are integrated within the overall risk management framework [page 20].

The SEC Proposed Rule captures these disclosures.

The ISSB EDs also capture the same information as the TCFD recommendations. Additional disclosures include equivalent information on the management of climate-related opportunities [paragraph 17].

All the above disclosures are also captured within the ESRS EDs. However, the relevant requirements are structured slightly differently, through reporting on: (i) policies to manage material climate-related risks and opportunities; (ii) targets to be achieved in doing so; and (iii) actions, action plans and resources dedicated to achieving these targets.

METRICS AND TARGETS

Figure 4: Comparative overview of metrics and targets-related requirements

Disclosure theme (TCFD)	SEC Proposed Rule	ISSB EDs	ESRS EDs
Scope 1 and 2 GHG emissions			
Scope 3 GHG emissions			
Total GHG emissions			
GHG emissions intensity			
Exposure to physical risks			
Exposure to transition risks			
Exposure to opportunities			
Internal carbon pricing			
Industry-specific metrics			
Climate-related targets			

Greenhouse gas emissions

Under the TCFD recommendations, companies should disclose Scope 1, 2 and 3 GHG emissions, and total GHG emissions [page 21].

Under the SEC Proposed Rule, companies are required to disclose the same information as under the TCFD recommendations. However, this is subject to qualifiers, with Scope 1 and 2 emissions disclosed “to the extent reasonably available” and Scope 3 disclosures optional unless material or part of emissions reduction targets [pages 469-471].

The ISSB EDs also capture the same information as the TCFD recommendations, and contain the following additional requirements [ED IFRS S2, paragraph 21(a)]:

- Scope 1 and 2 emissions for (i) the consolidated accounting group; and (ii) other associates, unconsolidated subsidiaries, joint ventures and affiliates;
- emissions categories included in the measure of Scope 3 emissions; and
- the basis for measurement of Scope 3 emissions from the value chain, or the reason the company has excluded GHG emissions from entities in its value chain.

Similarly, ED ESRS E1 captures the same information as the TCFD recommendations but contains a set of additional requirements different to those under the ISSB EDs. These include:

- the share of Scope 1 emissions under regulated emissions trading schemes [paragraph 40(b)];
- location and market-based Scope 2 emissions [paragraphs 43];

- Scope 3 emissions broken down across relevant categories (upstream purchasing, downstream sold products, goods transportation, travel and financial investments) [paragraph 46];
- categories excluded from the measure of Scope 3 emissions [paragraph AG48];
- the percentage of Scope 3 emissions calculated using primary data obtained from suppliers or other value chain partners [paragraph AG48]; and
- total GHG emissions broken down by operating segments and by major countries [paragraphs AG52-53].

Finally, ED ESRS E1 includes disclosures on energy consumption, GHG removals, GHG mitigation projects financed through carbon credits, and (optionally) avoided GHG emissions. These disclosures are not included within the TCFD recommendations and guidance, the SEC Proposed Rule or the ISSB EDs.

GHG emissions intensity

All draft rules and standards are aligned with the TCFD recommendations, in that they require disclosure of GHG emissions intensity. However, there are nuances across each draft rule or standard:

- **SEC Proposed Rule –** covers GHG emissions intensity, including only Scope 1 and 2 emissions, expressed as a proportion of both revenue and units of production [page 471].
- **ISSB EDs –** require GHG emissions intensity figures for Scope 1, 2 and 3 emissions separately, per unit of physical or economic output [ED IFRS S2, paragraph 21(a)].
- **ED ESRS E1 –** requires GHG emissions intensity reported per net turnover [paragraph 50].

Financial exposure to climate-related risks and opportunities

Under the TCFD recommendations, companies should disclose their exposure to physical risks, transition risks and climate-related opportunities in terms of assets and turnover exposed [page 21].

Under the SEC Proposed Rule, exposure is captured via financial impact metrics (see the Strategy section). A notable addition, however, is reporting on the nature of physical risks – including whether these are acute or chronic, and providing asset location information, for example on the percentage of buildings, plants or properties located in flood hazard areas and their location [page 463].

The ISSB EDs, on the other hand, capture the same information as the TCFD recommendations.

Finally, under ED ESRS E1 there are equivalent disclosures for exposure to transition and physical risks, but with the following additional reporting:

- how exposure to physical and transition risks was assessed – including scope of application, time horizon, calculation methodology, critical assumptions and parameters, and limitations of the assessment [paragraphs AG71 and AG80];
- percentage of assets at material physical (or transition) risk addressed by the company's climate adaptation (or mitigation) action plan [paragraphs 67 and 71]; and
- liabilities that may need to be recognised in financial statements [paragraph 71], and an estimation of assets that are potentially stranded due to transition risk [paragraph AG81].

Reporting under ED ESRS E1 differs with respect to climate-related opportunities, with exposure expressed in terms of expected cost savings from mitigation or adaptation actions and potential market size for low-carbon products and services or adaptation solutions [paragraph 75].

Internal carbon pricing

> Under the TCFD guidance, companies should disclose internal carbon prices applied, how these are used, the methodologies and assumptions used to determine internal carbon prices, and the scope of application with respect to GHG emissions and operations covered [page 60].

The SEC Proposed Rule captures the same information as the TCFD recommendations [page 465]. However, reporting on internal carbon pricing is optional.

The ISSB EDs, in turn, capture reporting on internal carbon prices applied and how they are used in internal decision-making [ED IFRS 2, paragraph 21(f)]. However, unlike the SEC Proposed Rule, the ISSB EDs do not contain disclosures on underlying methodologies, assumptions or scope of application for internal carbon pricing.

The ESRS EDs capture the same information as the TCFD recommendations [ED ESRS 1, paragraphs AG10-12]. In addition, ED ESRS E1 contains more granular requirements on the type of internal carbon pricing scheme applied and how carbon prices used in carbon pricing schemes are aligned with those used in financial statements and financial planning [paragraphs AG11-12].

Industry-specific metrics

As under the TCFD recommendations, the ISSB EDs contain industry-specific metrics. The ISSB has adapted these from those developed by the Sustainability Accounting Standards Board (SASB). It is worth noting that while GHG emissions often show up in the ISSB industry-based metrics, these only capture Scope 1 emissions, in contrast to cross-industry metrics which include Scope 1, 2 and 3 emissions.

EFRAG, in turn, will develop sector-specific ESRSs containing industry-based reporting requirements across all disclosure pillars, including but not limited to metrics.

The SEC Proposed Rule does not contain industry-specific metrics.

Targets

> Under the TCFD recommendations, companies should disclose the following information on climate-related targets [page 22]:
>
> - the objective and whether the target is absolute or intensity-based;
> - the KPIs used to assess performance, the unit of measurement and current performance;
> - the base year, timeframe and milestones or interim targets; and
> - the type of offsets used and the degree to which targets rely on these.
>
> Furthermore, the TCFD guidance indicates that short-, medium- and long-term time horizons should, if feasible, be consistent with key dates tracked by key international organisations, such as the Intergovernmental Panel on Climate Change, or regulators [page 34].

The SEC Proposed Rule captures these disclosures. Additional disclosures to those under the TCFD guidance include:

- the scope of activities and emissions (where applicable) included in targets [page 480];
- the methodologies and assumptions used to define targets [page 480]; and
- the location of underlying projects, any registries or other authentication of offsets or renewable energy credits (RECs) and the costs of those offsets or RECs [page 481].

However, in contrast to the TCFD guidance, companies need to specify whether the target time horizon (but not the outcome) is consistent with one or more goals established by a climate-related treaty, law, regulation, policy or organisation [page 480].

The ISSB EDs also capture all disclosures under the TCFD recommendations and guidance. Additional disclosures include:

- whether targets have been validated by a third party, and the share of emission reduction targets to be achieved through emission reductions in the value chain [ED IFRS S2, paragraph 23];
- how targets compare with those created in the latest international agreement on climate change – currently the Paris Agreement – and whether they were derived using a sectoral decarbonisation approach [ED IFRS S2, paragraphs 23(e) and 23(f)]; and
- information on the use of third-party offset verification or certification schemes, and any other significant factors necessary to understand the credibility and integrity of offsets used [ED IFRS S2, paragraph 13(b)].

Under ED ESRS E1, companies need to disclose the same information as under the TCFD recommendations and guidance, and report a different set of additional information to ED IFRS S2 [paragraphs 24-25 and AG31]. This includes:

- the scope of activities and emissions (where applicable) included in targets, as well as methodologies and assumptions used to define targets – as under the SEC Proposed Rule;
- key actions and, in the case of emission reduction targets, "decarbonisation levers" (i.e. strategies to achieve these targets) and their expected quantitative contributions;
- whether progress against the target is in line with what had been initially planned, and an analysis of trends or significant changes in performance;
- specifically in the case of net-zero targets: the scope, methodologies and frameworks applied and how residual GHG emissions are intended to be neutralised;
- alignment of GHG emissions reduction targets with limiting global warming to 1.5°C and how this was determined; and
- planned GHG emission reductions in five-year rolling periods – at least including target values for the years 2030 and 2050 where applicable – over the target period with reference to a cross-sector or sector-specific emission pathway in line with limiting global warming to 1.5°C.

Finally, under the ESRS EDs, companies are not able to include any netting or offsetting of impacts in their calculation of targets [ED ESRS 1, paragraph AG14]. This is a key difference relative to the TCFD recommendations.

CONCLUSION

The assessment indicates that each draft standard has considerably leveraged the TCFD recommendations and guidance across each pillar, with varying degrees of alignment.

- The SEC Proposed Rule has gaps against the TCFD recommendations and guidance across most pillars. However, in many areas there is a good degree of alignment and/or valuable additions, such as reporting on GHG emissions intensity and climate risk exposure.
- The ISSB EDs are the standards most aligned with the TCFD recommendations and guidance, with the main differentiation in requirements around resilience assessment.
- The ESRS EDs include disclosures additional to the TCFD recommendations and guidance under each pillar; these often help to corroborate disclosures aligned with those in the TCFD recommendations.

There is also a level of variation between the ISSB EDs, the SEC Proposed Rule and the ESRS EDs, particularly under strategy and metrics-related disclosures. This differentiation is mainly content-driven, but is at times rooted in wording or structural differences. Examples of the latter include reporting on resilience analysis and risk management.

The PRI has called for closer alignment on key concepts, terminology and metrics between standard-setting efforts, and strongly welcomes the increased collaboration between standard setters and regulators as sustainability reporting standards are finalised.

The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UN environment programme | finance initiative

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

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