



# Principles and Guidance for Minimum Disclosure of Climate Related Risks and Opportunities

Climate Risk Forum  
Disclosure Working Group  
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This document will guide and inform regulators and financial sector users of the minimum expectations of good financial disclosure of climate related risks and opportunities.

**Climate Risk Forum Disclosure Working Group**

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# Glossary of Terms

**FINANCIAL INSTITUTIONS** refers to Banking, Insurance, Pension Funds, Asset Management, Private Equity.

**CLIMATE-RELATED OPPORTUNITY** refers to the potential positive impacts related to climate change on an organization. Efforts to mitigate and adapt to climate change can produce opportunities for organizations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organization operates.

**CLIMATE-RELATED RISK** refers to the potential negative impacts of climate change on an organization. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.

## **GREENHOUSE GAS (GHG) EMISSIONS SCOPE LEVELS**


- **Scope 1** refers to all direct GHG emissions.
- **Scope 2** refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.
- **Scope 3** refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.

**PORTFOLIO RISK ASSESSMENT** involves processes to identify, assess, measure, and manage risk within the portfolio and is focused on events that could negatively impact the accomplishment of strategic objectives.

**RISK MANAGEMENT** refers to a set of processes that are carried out by an organization's board and management to support the achievement of the organization's objectives by addressing its risks and managing the combined potential impact of those risks.

**STRATEGY** refers to an organization's desired future state. An organization's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organization's activities and the nature of its businesses, considering the risks and opportunities it faces and the environment in which it operates.



A photograph of a man with a shaved head, wearing an orange button-down shirt, smiling and looking towards the left. He is standing next to a large, tall stack of orange bricks. The background is a clear blue sky. A dark blue rectangular box with white text is overlaid on the top left of the image.

— Sustainable finance  
contributes to the  
delivery of the sustainable  
development goals.

# 1. Introduction

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The National Treasury (NT) Technical Paper, “**Financing a Sustainable Economy**” which addresses Climate Change and Environment, Social and Governance (ESG) issues confronting the finance sector and the South African economy, was published in October 2021, following the release of a draft in May 2020.

The Technical paper has been widely acknowledged as being timely and its key recommendations as being important. Following the release of the draft paper in 2020, NT established a Climate Risk Forum and five working groups. These brought together the key financial industry associations and key regulatory and supervisory agencies to address those recommendations that affected all industries within the sector. Addressing the recommendations pertinent to each industry is the mandate of industry associations.

The overarching recommendations in the technical paper are included below:

1.1 Adopt the following definition of sustainable finance in South Africa:

*Sustainable finance contributes to the delivery of the sustainable development goals, a just transition to a low carbon and climate resilient economy and financial stability. Sustainable finance encompasses financial models, services, products, markets and ethical practices to deliver resilience and long-term value in each of the economic, environmental, social and governance aspects.*

This is achieved by the financial sector by:

- Evaluating portfolio as well as transaction-level environmental and social risk exposure and opportunities.
  - Using science-based methodologies and best practice norms.
  - Linking these to products, activities and capital allocations.
- 1.2 Regulators and industry to co-develop or adopt technical guidance, standards and norms for use across all financial sectors in identifying, monitoring and reporting and mitigating their environmental and social (E&S) risks, including climate-related risks, at portfolio and transaction level. These should include E&S risk management frameworks, the use of science-based methodologies, and the incorporation of the recommendations of the TCFD.
- 1.3 Develop a benchmark climate risk scenario for use in stress tests by the sector.
- 1.4 Develop or adopt a taxonomy for green, social, and sustainable finance initiatives, consistent with international developments, to build credibility, foster investment and enable effective monitoring and disclosure of performance.
- 1.5 Include disclosure of progress in environmental and social risk management, including climate risks, in supervision activities carried out by the Prudential Authority and Financial Services Conduct Authority. Incorporate voluntary codes of principles, or acknowledged benchmarks for good practice, into regulatory regimes.
- 1.6 Work with Institute of Directors, trustees, professional and industry associations and academic institutes to build governing body capacity and “fit-for-purpose” skills necessary for the identification and management of long-term risks and sustainability challenges.
- 1.7 Build capacity across the sector and in the implementing arms of government – particularly local government – to ensure E&S risks are addressed within local infrastructure and development planning, capital raising and insurance planning.
- 1.8 Finalize an action plan to give effect to the recommendations, using a technical working group to be comprised of regulators and industry representatives.

## 2. International Context

In 2015 the Financial Stability Board launched the Task Force on Climate-related Financial Disclosure (TCFD). The task force created a reporting framework, now widely adopted internationally, in order to address the urgent need for more comparable, consistent, decision-focused information on the impact of climate-related risks on companies, particularly those in the financial services sector. The TCFD recommended four pillars on which the reporting framework should be built: governance; strategy; risk management; targets and metrics, with further recommendations about what should be reported under each of those pillars.

**Figure 1: The TCFD Recommendations and Supporting Recommended Disclosures<sup>1</sup>**

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
<b>Recommended Disclosures</b> <ul style="list-style-type: none"> <li>a. Describe the board's oversight of climate-related risks and opportunities.</li> <li>b. Describe management's role in assessing and managing climate-related risks and opportunities.</li> </ul>	<b>Recommended Disclosures</b> <ul style="list-style-type: none"> <li>a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</li> <li>b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.</li> <li>c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario.</li> </ul>	<b>Recommended Disclosures</b> <ul style="list-style-type: none"> <li>a. Describe the organization's processes for identifying and assessing climate-related risks.</li> <li>b. Describe the organization's processes for managing climate-related risks.</li> <li>c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</li> </ul>	<b>Recommended Disclosures</b> <ul style="list-style-type: none"> <li>a. Disclose the metric used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</li> <li>b. Disclose Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions, and the related risks.</li> <li>c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</li> </ul>

There are increasing calls internationally to regulate reporting on the financial and economic impact of climate related risks, with the G20, the European Union, the International Financial Reporting Standards (IFRS) Foundation and others developing reporting standards, strongly modelled on the TCFD recommendations. These include the Carbon Disclosure prototype, released by the new International Sustainability Standards Board. In November 2021 the Basel Committee on Banking Supervision released a consultative document on the effective management and disclosure of climate related risks, which is coherent with the TCFD recommendations. Eight governments, including the United Kingdom (UK), the EU, New Zealand, Switzerland and Brazil have signalled their intent to mandate TCFD-aligned climate risk disclosures.

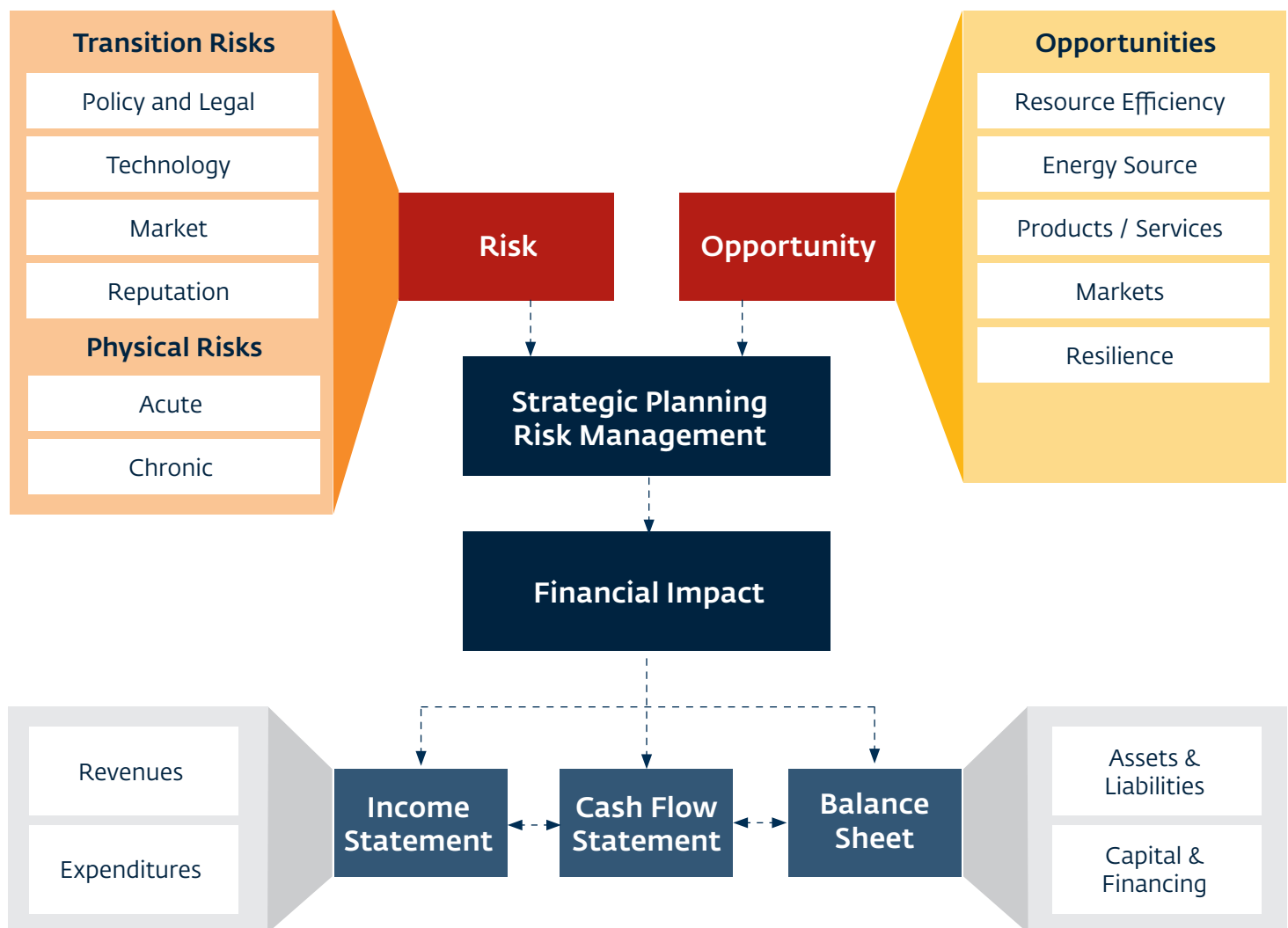
<sup>1</sup>Source: FSB-TCFD (2017), "Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures"



### 3. Assessing Financial Impacts of Climate-Related Risks and Opportunities

An organization's climate-related financial impacts are driven by the climate-related risks and opportunities that the organisation is exposed to, as well as their strategic and risk management decisions on seizing those opportunities and managing those risks. Only once an organisation evaluates these risks and opportunities and determines how to respond, can it assess the potential financial impacts on revenues, expenditures, assets and liabilities, capital acquisition and allocation and financing. Figure 3 below outlines the key climate-related risks and opportunities a financial institution should consider, to determine the potential financial implications. While the TCFD focuses on disclosure, the information is first and foremost essential for sound management.

**Figure 2: Climate-related risks, opportunities and financial impacts<sup>2</sup>**



<sup>2</sup>Source: TCFD final recommendations (June 2017)

## 4. Users of this document

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This document was developed by the Disclosure Working Group of the Climate Risk Forum. It is designed to contribute to a shared understanding between regulators and industry participants on disclosure of the climate related financial risks and opportunities. It will also inform a dialogue with National Treasury (NT), the South African Reserve Bank (SARB), the Financial Sector Conduct Authority (FSCA), the Prudential Authority and other regulators who may be considering the mandating of climate-related disclosures in line with international trends. Internal stakeholders and investors will also benefit significantly from seeing the information (data and analysis) presented in a format that enables benchmarking and decisions on protecting a financial institution's current and future business model, creating and preserving value.

Contributing to a shared understanding between regulators and industry participants on disclosure of the climate related financial risks and opportunities.

## 5. Working Groups

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Five working groups were established under the Climate Risk Forum:

- **The Taxonomy Working Group** is mandated to develop an initial national green finance taxonomy and governance framework for future versions (i.e., climate-aligned or green or sustainable finance taxonomy that will promote coherence and consistency in the sector when identifying assets or products that address key challenges).
- **The Climate Risk Working Group** is set up to establish a national baseline scenario to enhance comparability of risk mitigation actions and assessment of risk to the South African economy and financial institutions.
- **The Financial Instruments Working Group** focuses on furthering the development and use of green or sustainable finance products.
- **The Disclosure or TCFD Working Group** focuses on financial disclosure of climate related risks in line with the TCFD recommendations by establishing a baseline, developing minimum disclosure requirements, engaging regulators, determining guidance for the South African context and monitoring the adoption and application of disclosure.
- **The Capacity Working Group**'s mandate is to facilitate/collaborate on competency and capacity building on climate change and financing a sustainable economy within the finance industry.

In the period since the publication of the draft technical paper, significant progress has been made by the working groups. A draft taxonomy was released for comment in June 2021<sup>3</sup>. A draft handbook on Sustainable Finance was released in September 2021<sup>4</sup> and several webinars attracting more than 100 participants from the finance sector, regulators and key stakeholders have been held. Work on a baseline scenario continues.

The Disclosure Working Group has focused on building a shared understanding of relevant disclosure requirements, sharing experience gained by local leaders in the field and identifying areas requiring more detailed input from international experts. It also explored whether existing South African financial disclosure requirements posed any barrier to what is proposed by the TCFD. The conclusion of this is that developments currently underway within the IFRS Foundation and the progress towards developing an international sustainability reporting standard, would provide greater clarity in the future. Existing IFRS standards can already be applied to address key aspects, such as potential impairments. The Basel Committee on Banking Supervision, the G20 and the Network for Greening the Financial System and the Sustainable Stock Exchange Initiative are all working towards increasing climate-related disclosure, with the TCFD recommendations generally acknowledged as central to their thinking.

This document presents the current thinking of the Disclosure Working Group, which includes industry participants, the National Treasury and the regulators, on both the minimum disclosure of climate-related risks and guidance for industry participants and users. As this is a rapidly evolving field it describes essential elements rather than attempting to define best practice.

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<sup>3</sup>See [www.sustainablefinanceinitiative.org.za/working-groups/taxonomy/](http://www.sustainablefinanceinitiative.org.za/working-groups/taxonomy/) to download the Draft Green Finance Taxonomy

<sup>4</sup>See [www.sustainablefinanceinitiative.org.za/working-groups/sustainable-finance-working-group/](http://www.sustainablefinanceinitiative.org.za/working-groups/sustainable-finance-working-group/) to download the draft handbook

## 6. Purpose of Disclosure

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For many years South African listed companies have been required to disclose information related to their financial performance and position, and more recently on environmental and social performance and their actions to mitigate or adapt to changes in the social and natural environment. These data are meant to provide investors with critical information regarding the company's financial health and ESG performance and highlight specific areas of concern which may make investment risky. However, the rapid pace of climate change as well as the material risks it presents, creates an environment of great uncertainty.

Climate change poses a number of risks to financial institutions which can be categorized as physical, transition or liability risks. Physical risk results from climate-related weather events and their impact on infrastructure, assets, and the functioning of the economy. Transition risk results from the speed of technological, regulatory, economic and market transition to a low-carbon economy. Liability and reputational risks result from contributions to climate change and a perceived failure to act or disclose accurate information on both contribution to climate change and action to mitigate its impacts. Evidence suggests that poor disclosure of climate change related risks may result in mis-pricing in equity markets. In turn, more effective disclosure assists industries in managing risk and making better long term decisions. For these purposes, risks to the business model, risks of litigation, risks to reputation, risks of disruptive technology change or regulatory change should be assessed in financial terms alongside the costs of acute or chronic physical changes or events and resultant damage to infrastructure, adaption, or rebuilding. The outcome should be increased access to credible and comparable information for key stakeholders (regulators, shareholders and others). Disclosures related to climate change should reflect in both financial and non-financial reporting, with the former linking climate risks directly to an organization's balance sheet and the latter providing additional relevant information on climate-related risks and opportunities. The recommendations provide a common framework and guidance on identifying, addressing and climate change risks and disclosing material and decision-focused information. Additional benefits include:

- Comparable and credible data can enhance how climate-related risks are assessed, priced, and managed internationally.
- Companies can more effectively measure and evaluate their own risks and those of their suppliers and competitors.
- Investors will make better informed decisions on where and how they want to allocate their capital.
- Lenders, insurers, and underwriters will be better able to evaluate their risks and exposures over the short, medium, and long-term.
- Policy makers and regulators will be better able to create relevant and appropriate climate policies and develop a clearer picture of the aggregated risks within their financial sectors.

In South Africa, more than 10 years of CDP (Carbon Disclosure Project) data indicate that South African companies are consistently ahead of their global peers in reporting across many of the listed indicators. More than 75% of South Africa's listed companies as well as a significant number of unlisted companies take part in CDP reporting annually. In addition, South Africa is amongst the leading countries globally on ESG disclosure and reporting according to recent studies. As a result of the Johannesburg Stock Exchange's requirement for ESG disclosure and adherence to King IV guidelines, ESG reporting is well entrenched in South African listed companies. It must be stressed, however, that this is not a race to better reports. Rather it is a pressure to disclose decision-enabling information in order to promote better climate mitigation and adaptation action.



## 7. Principles of Disclosure

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The TCFD's systematic framework for addressing climate-related risks and opportunities in investment decisions is not prescriptive in terms of methodologies employed to address these; rather, investors may report on the progress they have made in implementing a climate related management approach aligned with the TCFD's recommended disclosures.

Disclosure should be:

- **Complete in its information.**  
As a financial institution may not have all the necessary data available immediately, the limitations of the data, assumptions and estimations used should be declared as well as any pre-selection of what will be covered from a portfolio perspective.
- **Clear, balanced, and understandable to a wide audience.**  
The language and any abbreviations used should not assume the user has technical knowledge of the financial institution or industry. The language should – to the extent possible – be understandable to those with a limited knowledge of the financial institution/financial sector.
- **Comparable between sectors, industries or portfolios and a financial institution's reporting periods.**  
Where possible work with industry / sector approaches. If, based on a significant reason or uniqueness of a financial institution, a choice is made to deviate from an industry practice, the rationale should be explained. While innovation is always good, transparency, consistency and comparability of methodologies and approaches enables better assessment by regulators and stakeholders.
- **Consistency in reporting to various stakeholders.**  
Information produced in any report should be consistent – i.e., information provided to shareholders and stakeholders should accord with information provided to regulators even though it may be differently focused or differently presented.
- **Providing consistency over time.**  
Reporting on climate related financial impacts is continually evolving as methodologies are being developed and improved. As better understanding of the metrics and methodologies develops, alongside improvements in the quality and availability of data, changes in approach should be described where necessary to enable a regulator or stakeholder to understand the reasons for differences.
- **Focused on relevant, material issues.**  
The intent of TCFD is to provide stakeholders (including internal stakeholders) with decision-enabling data and qualitative assessments and analysis of the most material risks and opportunities which a changing climate present. (See 7.2)
- **Inclusion of science-based scenarios.**  
Science-based scenarios allow for the modeling of climate change related risks and opportunities given uncertain future climatic conditions. Section 7.6 provides more detail.
- **Assurable, reliable and objective.**  
As the climate crisis grows, there will be growing pressure on ensuring that the information underpinning key decisions is an accurate reflection of assessed risks and potential impacts on strategy, and that it is objectively

presented and reliable. It should therefore be assembled and supported by methodologies and evidence that make it possible for third parties to audit it or provide assurance, as this is a likely future development. Records and underlying assumptions and data should be maintained for a period similar to that required for tax purposes.

- **Timely and produced within appropriate time periods.**

Disclosure should be timed to provide information relevant to current decisions and be future focused. As material information is legally required to be included in the primary annual report, climate-related disclosure should be produced simultaneously with the annual report, or more frequently if information of a material nature is available. Lengthy lags between assessing a financial institution's performance against its climate metrics and targets and subsequent disclosure do not adequately assist the communication of risk to business models or assist regulators in assessing aggregated risk that could impact on financial stability.

- **Connected.**

Disclosure should include a comprehensive view of the company's strategic, financial, and governance information.

- **Integrated.**

Sustainability should be presented as a part of the company's core governance and management responsibilities.

- **Open.**

Disclosure should reflect a culture of openness and transparency in and around the organisation, through a variety of feedback loops and dialogues.



The rapid pace of climate change as well as the material risks it presents, creates an environment of great uncertainty.



## 8. Implementation

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Regulators and reporters should be clear on the following implementation steps and work towards consistent reporting (across regulatory and mandated reports) to minimize confusion in data.

### 8.1 Commitment to timelines and boundaries

#### **a) Commit to a timeline for disclosure**

It is acknowledged that a limited number of financial institutions in South Africa will be able to disclose all of the information recommended by the TCFD (for example) in their first report. This should not prevent an early start to disclosure, such as identifying risks and assessing at a high level the potential implications for the financial institutions' strategy. The governance (policies, committee structures, etc.) can be disclosed as a start whilst additionally required data is being identified for reporting. It is recommended at a minimum to:

- Set a baseline year for the data to be disclosed.
- Document how data were assembled (and whether it is in line with regulatory reporting methodologies), identify any data gaps as well as all assumptions to ensure future disclosures can either build on the work done to date or correct any errors identified at a later stage.

#### **b) Declare the reporting boundary**

The boundary should be in line with the organizational structure of the financial institution. If, for any reason a different boundary is used, this should be clear to the user of the information.

- Specify whether the disclosure covers all of the financial institution's geographic boundaries, its subsidiaries and its product houses or asset classes.
- Specify what is not yet included (because of lack of data or other constraints or on the basis of a determination by the financial institution that it is not material)
- Specify when the identified gap will be addressed, such as over a 3-year timeline.

## 8.2 Report what is material - what should be included

The TCFD recommends that materiality is viewed from the perspective of multiple stakeholders, including, for example, shareholders, investors, and regulators. Materiality as an accounting principle is evolving. Increasingly in the ESG and climate change communities, there is focus on dynamic and double materiality.

**Dynamic materiality** is that what investors consider to be the material environmental, social, and governance (ESG) issues changes over time. This can happen slowly, as with climate change and gender diversity, or most quickly, as with plastics in the oceans or COVID-19.<sup>5</sup>

First introduced by the EU Commission as part of the Non-Binding Guidelines on Non-Financial Reporting Update (NFRD), **double materiality** speaks to the fact that risks and opportunities can be material from both a financial and non-financial perspective. In other words, **issues or information that are material to environmental and social objectives can have financial consequences over time**. Take public health and climate change as prime examples.

That doesn't mean that double materiality is twice as challenging to achieve. You only need to ensure that the materiality process itself is data-driven, dynamic, and context-driven, taking into consideration a wider scope of external data.<sup>6</sup>

Note that the TCFD recommendations on defining materiality differ from the <Integrated Reporting> framework, which defines materiality only from the perspective of the financial institution. This may change in the future as the TCFD appears to be the favored model for future sustainability reporting standards and the International Integrated Reporting Council<sup>7</sup> is working with the IFRS Foundation and others in building future sustainability reporting standards. For TCFD reports:

- Describe the process of/methodology for determining materiality that was used  
*Example: energy funding is X% of the book, and is therefore material to the financial institution, it is also material to stakeholders because it is linked to both physical and transition risks resulting from climate change.*
- Changes in the determination of materiality (or in the structure of the portfolio) should be disclosed and amendments to this process overtime should be indicated.

These material issues should be disclosed in the annual/integrated report, while additional information linked to methodologies and processes applied can be reported in detail in supplementary reports/documents.<sup>8</sup>

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<sup>5</sup><https://www.forbes.com/sites/bobeccles/2020/01/17/dynamic-materiality-and-core-materiality-a-primer-for-companies-and-investors/?sh=62f433dc2e6a>

<sup>6</sup>Source: Datamaran: <https://www.datamaran.com/webinars/double-materiality-explained/>

<sup>7</sup>The IRC recently merged with the US-based Sustainability Accounting Standards Board (SASB) to form the Value Reporting Foundation

<sup>8</sup>See IFC's Disclosure and Transparency Toolkit ([https://www.ifc.org/wps/wcm/connect/d4bd76ad-eao4-4583-a54f-371b1a7e5cd0/Beyond\\_The\\_Balance\\_Sheet\\_IFC\\_Toolkit\\_for\\_Disclosure\\_Transparency.pdf?MOD=AJPERES&CVID=morpovo](https://www.ifc.org/wps/wcm/connect/d4bd76ad-eao4-4583-a54f-371b1a7e5cd0/Beyond_The_Balance_Sheet_IFC_Toolkit_for_Disclosure_Transparency.pdf?MOD=AJPERES&CVID=morpovo)) and UN Sustainable Stock Exchanges Initiative Model Guidance for Climate Disclosure for Stock Exchanges (<https://sseinitiative.org/wp-content/uploads/2021/06/Model-Guidance-on-Climate-Disclosure.pdf>)

**Suggested disclosures include:**

- a. Exposure (to the issue), in this case physical and transition risk
- b. Management/mitigation measures
- c. Financial materiality (i.e., the financial significance of the exposure to the business, which takes account of management/mitigation actions and considers both downside risk and upside opportunity)
- d. Environmental significance (i.e., the scale of the environmental impacts of the company's activities on emissions or on adaptation, both positive and negative)
- e. Double materiality (which is a description of how c and d interact/relate to each other)

Disclosures should also take into account the green taxonomy<sup>9</sup> and be consistent with that. If a different taxonomy is used, this should be stated (i.e. if the financial institution has its own definitions, the differences in meaning should be clear to the user who may be comparing reports).

Clarity is essential. When disclosing funding on energy, for example, it must be clear whether this means all forms of energy and whether it includes the extraction, processing, distribution, infrastructure, and transport. Being specific is equally important. Is the disclosure about the energy sector in total or is it particular to electricity, for example? Is it only project financing or insurance or investment in power stations or does it include other exposures? Does it include other energy sources such as domestic solar, renewables, liquid fuels, and others?

As a minimum, the parts of the financial institution's portfolio that are included or excluded need to be defined:

- The percentage of the financials included in the portfolio risk assessment should be clarified.
- Aspects of the financials, such as project, retail, corporate and transactional finances which have been deemed most material as well as aspects which have been excluded need to be clear.
- Any loan facilities that have been agreed but not yet drawn down, as well as loans or financing extended as a basis for calculation (such as industry standards) should be disclosed. The impact of drawing down these loans on financial and future targets must be disclosed.
- Where a fossil-fuel exposed client has major trade/forex and/or other transactions as well as project or capital financing exposure, an explanation as to what is included is necessary.
- The geographic boundaries of the disclosure must be explained (e.g., multinational banks or insurance companies should include South African and foreign assets and exposures, or a clear explanation as to what is included and what excluded must be added).
- Where the initial report has limitations but there is an intent to report more extensively over time, a timeline, and commitments towards achieving same must be provided.

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<sup>9</sup>Published for comment in June 2021

### 8.3 Consider stand-alone vs incorporated disclosure

- In South Africa, following the principles of the King IV Code of Corporate Governance, material issues should be reported within a financial institution's <IR>. This will most likely not suffice for a full TCFD report. In a comprehensive climate-related financial disclosure, the aspects/impacts/outcomes should be incorporated in a financial institution's <IR> and financials (See KPMG report from Australia, UK's Financial Reporting Council, etc.). But, in addition, the methodologies underpinning decisions on materiality as well as methodologies used, data limitations and the impacts on the completeness of the report should be disclosed.
- Given increasing stakeholder demands for climate-related financial disclosure, the annual report should be expanded to include these disclosures, and the merits of producing a more detailed stand-alone report in addition to or supplementary to what is contained within the primary annual report to stakeholders should be considered.
- Information produced in any report should be consistent – i.e., information provided to shareholders and stakeholders should accord with information provided to regulators even though it may be differently focused or differently presented.
- Material aspects should be incorporated into a financial institution's existing stress-testing model (process already started by regulators).

### 8.4 Governance structure

- The person on the board who is the lead responsible person for climate-related financial risk should be named (e.g., Chief Risk Officer, Chief Climate Officer, Chief Executive Officer, Board chairman). This should preferably not be anonymous. The merit of naming the position and individual if that accountability increases.
- Is there a policy/public statement/position statement on climate change signed by the CEO or Chairperson?
- The structures (e.g., dedicated sub-committee) through which the board receives and evaluates climate-related matters and the frequency on the agenda must be described.
- Descriptions of the roles and responsibilities executives/senior managers responsible for climate risk must be provided, including those addressing financial solutions and products.
- Is performance against climate change risk metrics linked to compensation?
- Climate-related and ESG expertise at board, executive and management level must be disclosed. Does the financial institution have sufficient expertise and capacity? If not, how is it sourcing the expertise that is required?
- A description of how climate-related knowledge on a board, executive and management level is strengthened and how climate change is embedded in the corporate strategy and risk management approaches.
- Disclosure on whether climate change is on the strategic agenda must be included, how many times climate-related matters have been discussed at board level, and any strategic changes that have resulted?
- A description of the process for engaging with external stakeholders on climate change risk must be included.
- The potential for creating new opportunities for the financial institution as it responds to global climate change challenges should be assessed. How have these been quantified and actioned (e.g., were new teams, new think tanks mobilized or were new products and services developed)?
- The process for reporting material non-compliance to the Regulators.

## 8.5 Impact on strategy

This is the 'SO WHAT' that is critical to decision-makers.

- Analyze the anticipated impact on the financial institution's ability to continue to create, preserve or grow value. Importantly it should assess which risks threaten to destroy business opportunities or value.  
*Example: If the scenarios indicate significant risk/opportunity in the construction industry and the portfolio is heavily weighted towards real estate, mortgages, and construction - either through insuring, direct lending, or securitization of loans - the disclosure should indicate mitigation and / or adaptation plans.*
- Disclose the impact on income and balance sheet and regulatory capital over short, medium and long term. Use IFRS or similar standards for impairments and other impacts.  
*Example: Does the increasing pressure to decarbonize have a greater negative impact on a financial institution's financials than the opportunities to fund or insure new technologies and new opportunities.*
- Liability and litigation risks (legal and other related to funding, action, or lack of action, etc., including Directors and Officers liability insurance)
- Reputational dimensions: Consumer or Market Pressure on the financial institution or executives, as well as potential impact on Directors and Office Bearers liability insurance.

### 8.5.1 Scenarios

Science-based scenarios enable the financial institution to assess the impact of climate change on their business model and risk profiles, their capital allocations, investment, or insurance strategies. Using scenarios provide a better understanding of how a business might perform under different future states and enables them to model the impact of disruptive technology or regulatory responses that can affect the physical impacts. However, it is essential that the underlying assumptions are clear so that stakeholders can understand the basis for decisions the financial institution is making and whether its assessment of risk is appropriate. National baseline scenarios are currently being developed by the Climate Risk Working Group to enhance comparability of risk mitigation actions and assessment of risk.

The TFCF recommends that organizations use, at least, a 2°C scenario as well as other scenarios most relevant to their circumstances. These include scenarios linked to South Africa's Nationally Determined Contributions (NDCs) and its goal of Net Zero by 2050. Scenarios that are used by the financial institution should also consider:

- Weather and climatic patterns as the starting point.
- Degrees of change modeled – do the scenarios assume success in limiting climate change to a global average of 1.5 degrees Celsius, or do they assume a 2 degree change, or more, rise in temperature (in other words a failure to achieve global ambition).
- The impact of successful or unsuccessful global action to hold climate change to less than 2 degrees Celsius.
- Assumptions on regulatory interventions, such as taxes, or disruptive technology changes.

- Potential business disruption risks resulting from, for example failing infrastructure, change in agricultural yields, increasing or decreasing precipitation and impact on livelihoods, productivity, etc.
- The potential for disruptive technology.
- Consumer or market pressure.
- Sources of scenarios should be disclosed and could include, for example: Council for Scientific and Industrial Research (CSIR), Wits Global Change Institute, University of Cape Town (UCT), the Network for Greening the Financial System, Re-insurance companies, Intergovernmental Panel on Climate Change reports (next tranche due in mid-2021 but currently available documents are still valid).
- Time-frames being considered (define short, medium, and long-term for the scenarios targets and metrics being set).
- TCFD principles for design and application of scenarios (including use of a national baseline scenario when one is available).
- Key macro-socio-economic risks/impacts and business impacts with regards to climate mitigation and climate adaptation identified by the scenario analysis and risk assessment.
- Sources of scenarios should be adapted to reflect the IPCC Africa predictions<sup>10</sup> or similar scientifically based best practice assessments. They should consider the varied impacts across the sub-regions of South Africa (e.g., the likelihood of increased drought in the west of the country and higher rainfall and varied rainfall patterns elsewhere).

## 8.6 Risk Management

### 8.6.1 Risk types covered

All risk types, including physical risk, transition risk and liability or litigation risks should be covered. However, if a financial institution is starting with only one of these, it should state this clearly and state the timeline for 'full' disclosure.

- Physical risk: the nature of the financial institution's assets must be disclosed, i.e., whether only assets the financial institution owns/finances/insures/invests in are included or whether physical risks are also considered for social infrastructure such as roads, ecological infrastructure such as rivers, etc. which may cause business interruption or destruction of value either to the financial institution itself or through client exposure to those risks.
- Both acute risk events and chronic risk should be considered (linked to the changing climatic conditions over time).
- Transition risk: this may include local or international regulatory change; changes in global markets that may impact a financial institution or its clients.
- Reputation and liability risk.

<sup>10</sup>The IPCC's 2021 report can be found at <https://www.ipcc.ch/assessment-report/ar6/> and a regional factsheet for Africa can be downloaded from <https://www.ipcc.ch/report/ar6/wg1/#Regional>



## 8.6.2 Opportunities

Opportunities are the flip side of risk. It is important that opportunities for growth of the business or those of its clients are identified, quantified (where possible) and highlighted.

- Describe business opportunities, initiatives and commitments that support the transition to a zero-carbon economy.
- Indicate whether the financial institution is collaborating with clients to accelerate the take up of new technologies or building of new opportunities through new financing, differential pricing, new instruments, or engagement with clients in certain sectors.
- Discuss financing for climate adaptation and climate mitigation.
- Describe financing to projects/sectors that are aligned with the South Africa Green Finance Taxonomy, which is mentioned in other parts of the document. This can also serve to strengthen the principles on “comparable” and “consistent”.
- Disclose usage of sustainable finance instruments, such as green bonds and sustainability bonds, or other innovative types of sustainable finance products/services.
- Disclosure should include both actions (what are the financing into the climate-related projects/sectors) and positive outcomes/impacts (emission reduction, biodiversity preservation, etc.)

## 8.6.3 Risk and opportunity disclosure requirements

- The process for systematic monitoring of emerging risks through periodic reviews and how new and emerging climate related risks and trends will be evaluated.
- Which risks will be impacted by climate-related issues and the impact these will have (e.g. credit or market risk, reputational risk, insurance risk, increasing cost and or supply chain issues)?
- How these analyses are linked to stress tests or own risk assessments in the insurance sector and other regulatory mechanisms.
- Work done on preparing qualitative statements on climate risk in the risk appetite framework.
- Whether carbon risk assessments are part of the lending and credit risk assessment of the customers' lending portfolios.
- The methodology for identification, quantification and assessment of risk and how these are integrated into existing risk frameworks.
- Mitigatory actions or plans – i.e., what is the financial institution doing to protect its value and growth potential.
- Capacity building initiatives that are being rolled out through collaborations with peers, clients, and/or regulators.

## 8.7 Metrics and Targets

Targets are essential to establish the ambition for the financial institution and to link it to the work being undertaken locally<sup>11</sup> (such as the Nationally Determined Contribution to the Paris Agreement), or to the global ambition. Science-based targets, assist in ensuring that the financial institution's ambition is in line with what is needed and with its own contribution or influence within the economy. Targets must be associated with performance metrics that assist the financial institution and its stakeholders in ensuring that the measures being undertaken are being monitored to ensure they are appropriate and delivering the desired result.

This is an evolving section with many moving parts and little standardization as yet. The emphasis should be with on identifying and motivating why a particular set of disclosures has been made and referencing the approach or methodology used.

When considering which metrics to apply, the following tests can guide the decision:

- **Practicality:** How easy is it to get underlying data? How complete is the data? Are there regulatory constraints?
- **Meaningfulness:** Does the metric communicate the real-world effects of the financing decision? Can it be used for internal decision-making? Is it comparable across banks with different business models? Does it measure both "brown" and "green"?
- **Applicability:** Which metrics are applicable to which asset class, or transaction type, or both?

### 8.7.1 Tests of metric usefulness

Metrics should be:

- **Decision-useful.**  
Climate-related metrics help organizations understand potential impacts of climate risks and opportunities over a specified time period, including financial impacts and the operational consequences. To be decision-useful, these metrics must be relevant to the organization's risks and opportunities.
- **Understandable.**  
Climate-related metrics should be presented in a manner that aids understanding (e.g. both aggregated and disaggregated, where useful, clear labeling), and any limitations and cautions should be explicitly stated. Climate-related metrics should provide important context around such points as management's thinking in terms of goal setting, internal process management, and communication objectives, and should be supported by contextual and supporting narrative information on items such as organizational boundaries, governance, methodologies, and basis of preparation.
- **Verifiable.**  
Climate-related metrics are capable of supporting effective internal controls for the purposes of data verification and assurance.
- **Objective.**  
Metrics are free from bias and value judgment so that they yield an objective disclosure of performance that users can leverage regardless of their worldview or outlook.

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<sup>11</sup>South Africa's intended Nationally Determined Contribution – [https://www.environment.gov.za/sites/default/files/reports/draftnationallydeterminedcontributions\\_2021updated.pdf](https://www.environment.gov.za/sites/default/files/reports/draftnationallydeterminedcontributions_2021updated.pdf)

- **Trackable over time and consistent.**

Climate-related metrics should be calculated and disclosed consistently from year to year in order to facilitate comparative analysis and analysis of trends.

- **Aligned to the other TCFD pillars.**

Climate-related metrics should be linked to organizational processes such as governance, strategy, and risk management, and support effective disclosure aligned with the TCFD recommendations. In particular, such metrics should show how an organization's climate-related risks and opportunities are being assessed, managed, and linked to an organization's strategy and risk management processes.

## 8.7.2 Measuring performance against targets

Medium to long term targets are essential as is the use of performance metrics to ensure the financial institution is on track to deliver its ambition.

Disclosure should clearly state the ambition level; e.g. Is the financial institution on a path to Net Zero emissions? If so, when does it believe it will reach that level? How is it working with clients to try and achieve that? Does it separate those aspects under its direct control (facilities, etc.) from those parts of its portfolio that are associated with client activities?

### **Specific aspects of targets and metrics include:**

- Is it aiming to be in line with South Africa's Nationally Determined Contributions (NDC) and commitments to the Paris Agreements or to the global goals themselves, or has it taken a more ambitious approach?
- Disclose whether this is science-based targeting or what basis has been used for setting the long-term targets.
- Are the performance metrics in line with those recommended in TCFD guidance?
- Disclose how the financial institution assesses portfolio risk or measures climate-related performance of its clients.
- Financial institutions should consider including metrics on climate related risks associated with water, energy supply, land use and waste management where relevant and applicable.
- Calculating Scope 3 "Financed Emissions" using methodologies such as Partnership for Carbon Accounting Financials (PCAF), Paris Agreement Capital Transition Assessment (PACTA) or own method.
- Are the metrics consistent with common reporting standards such as Carbon Disclosure Project (CDP), Global Reporting Initiative Standards, Sustainability Accounting Standards Board (SASB) or the Climate Disclosures Standards Board (CDSB).

# Resources

Some South African TCFD reports

## **Absa**

<https://www.absa.africa/content/dam/africa/absaafrica/pdf/2020/task-force-on-climate-related-financial-disclosures-report.pdf>

## **First Rand**

<https://www.firststrand.co.za/media/investors/annual-reporting/firststrand-annual-integrated-report-2020.pdf>

<https://www.firststrand.co.za/media/investors/reports/FirstRand-report-to-society-2020.pdf>

## **Investec**

<https://www.investec.com/content/dam/international/corporate-responsibility/Investec-Climate-related-financial-disclosures-2021.pdf>

## **Nedbank**

[https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Integrated%20Report/2021/2020%20Nedbank%20Group%20TCFD%20Report%20\(spreads\).pdf](https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Integrated%20Report/2021/2020%20Nedbank%20Group%20TCFD%20Report%20(spreads).pdf)

## **Standard Bank**

[https://thevault.exchange/?get\\_group\\_doc=18/1623759414-SBGESGReport2020FN.pdf](https://thevault.exchange/?get_group_doc=18/1623759414-SBGESGReport2020FN.pdf)

## **Sasol**

[https://www.sasol.com/sites/default/files/financial\\_reports/Sasol%20Climate%20Change%20Report\\_2021\\_22Sep21.pdf](https://www.sasol.com/sites/default/files/financial_reports/Sasol%20Climate%20Change%20Report_2021_22Sep21.pdf)

## **Goldfields**

<https://www.goldfields.com/pdf/tcfd-report/tcfd-presentation.pdf>

# Appendix A

## Specific Climate Disclosures for Financial Institutions

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Source: TFCF 2017: Implementing the Recommendations of the Task Force on Climate related Financial Disclosures (Annex D)

### Strategy

#### **Supplemental Guidance for Banks**

Banks should describe significant concentrations of credit exposure to carbon-related assets.<sup>14</sup> Additionally, banks should consider disclosing their climate-related risks (transition and physical) in their lending and other financial intermediary business activities.

#### **Supplemental Guidance for Insurance Companies**

Insurance companies that perform climate-related scenario analysis on their underwriting activities should provide the following information:

- Description of the climate-related scenarios used, including the critical input parameters, assumptions and considerations, and analytical choices. In addition to a 2°C scenario, insurance companies with substantial exposure to weather-related perils should consider using a greater than 2°C scenario to account for physical effects of climate change and
- Time frames used for the climate-related scenarios, including short-, medium-, and long-term milestones.

#### **Supplemental Guidance for Asset Owners**

- Asset owners should describe how climate-related risks and opportunities are factored into relevant investment strategies. This could be described from the perspective of the total fund or investment strategy or individual investment strategies for various asset classes.
- Asset owners that perform scenario analysis should consider providing a discussion of how climate-related scenarios are used, such as to inform investments in specific assets.

#### **Supplemental Guidance for Asset Managers**

- Asset managers should describe how climate-related risks and opportunities are factored into relevant products or investment strategies.
- Asset managers should also describe how each product or investment strategy might be affected by the transition to a lower-carbon economy.

# Risk Management

## Supplemental Guidance for Banks

- Banks should consider characterizing their climate-related risks in the context of traditional banking industry risk categories such as credit risk, market risk, liquidity risk, and operational risk.
- Banks should also consider describing any risk classification frameworks used (e.g., the Enhanced Disclosure Task Force's framework for defining "Top and Emerging Risks").

## Supplemental Guidance for Insurance Companies

- Insurance companies should describe the processes for identifying and assessing climate-related risks on re-/ insurance portfolios by geography, business division, or product segments, including the following risks:
  - Physical risks from changing frequencies and intensities of weather-related perils,
  - Transition risks resulting from a reduction in insurable interest due to a decline in value, changing energy costs, or implementation of carbon regulation,
  - Liability risks that could intensify due to a possible increase in litigation.
- Insurance companies should describe key tools or instruments, such as risk models, used to manage climate-related risks in relation to product development and pricing.
- Insurance companies should also describe the range of climate-related events considered and how the risks generated by the rising propensity and severity of such events are managed.

## Supplemental Guidance for Asset Owners

- Asset owners should describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks to improve data availability and asset owners' ability to assess climate-related risks.
- Asset owners should describe how they consider the positioning of their total portfolio with respect to the transition to a lower-carbon energy supply, production, and use. This could include explaining how asset owners actively manage their portfolios' positioning in relation to this transition.

## Supplemental Guidance for Asset Managers

- Asset managers should describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate-related risks.
- Asset managers should also describe how they identify and assess material climate-related risks for each product or investment strategy. This might include a description of the resources and tools used in the process.
- Asset managers should describe how they manage material climate-related risks for each product or investment strategy.



# Metrics and Targets

## Supplemental Guidance for Banks

- Banks should provide the metrics used to assess the impact of (transition and physical) climate-related risks on their lending and other financial intermediary business activities in the short, medium, and long term. Metrics provided may relate to credit exposure, equity and debt holdings, or trading positions, broken down by:
  - Industry<sup>12</sup>
  - Geography
  - Credit quality (e.g., investment grade or non-investment grade, internal rating system)
  - Average tenor
- Banks should also provide the amount and percentage of carbon-related assets relative to total assets as well as the amount of lending and other financing connected with climate-related opportunities.<sup>13</sup>

## Supplemental Guidance for Insurance Companies

- Insurance companies should provide aggregated risk exposure to weather-related catastrophes of their property business (i.e., annual aggregated expected losses from weather-related catastrophes) by relevant jurisdiction.

## Supplemental Guidance for Asset Owners

- Asset owners should describe metrics used to assess climate-related risks and opportunities in each fund or investment strategy. Where relevant, asset owners should also describe how these metrics have changed over time. Where appropriate, asset owners should provide metrics considered in investment decisions and monitoring.
- Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy. In addition, asset owners should provide other metrics they believe are useful for decision making along with a description of the methodology used.

## Supplemental Guidance for Asset Managers

- Asset managers should describe metrics used to assess climate-related risks and opportunities in each product or investment strategy. Where relevant, asset managers should also describe how these metrics have changed over time. Where appropriate, asset managers should provide metrics considered in investment decisions and monitoring.
- Asset managers should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each product or investment strategy. In addition, asset managers should provide other metrics they believe are useful for decision making along with a description of the methodology used.

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<sup>12</sup>Industry should be based on the Global Industry Classification Standard or national classification systems aligned with financial filing requirements.

<sup>13</sup>Recognizing the term carbon-related assets is not well defined, the Task Force encourages banks to use a consistent definition to support comparability. For purposes of disclosing amounts and percentages of carbon-related assets relative to total assets under this framework, the Task Force suggests banks define carbon-related assets as those assets tied to the energy and utilities sectors under the Global Industry Classification Standard, excluding water utilities and independent power and renewable electricity producer industries.

