Banks' climate-related disclosures

Andrea Schriber and Silvie Koppes | 7 June 2022

Global IFRS Institute | Overview of benchmarking analysis | Sustainability reporting

Andrea Schriber
KPMG International Standards Group

Silvie Koppes
KPMG in the UK

Banks' progress in disclosing climate-related matters has slowed down in 2021

Our latest analysis of banks' climate-related disclosures confirms that the overall progress banks are making in disclosing climate-related matters has slowed down in 2021.

In the first part of our **benchmarking analysis** we looked at banks' climate-related disclosures within their 2021 annual reports. In this second part we look at how the climate-related disclosures of banks align with the recommended disclosures of the Task Force on Climate-related Disclosures (TCFD) for 35 major global banks. We expanded this second part of our analysis to also look at the other standalone reports of banks, such as climate or sustainability reports, where most banks provide their TCFD-aligned disclosures.

Echoing our findings on annual reports, we note that although more granular information has been provided in areas such as risk management and governance, banks are still not providing enough quantitative disclosures in areas such as scenario analysis and financed emissions for the user to make an informed assessment of climate-related impacts. Especially when it comes to their strategies, financial planning and resilience, more quantitative information is needed for users to be able to understand the full picture.

In the end, numbers hold this picture together, whether it's connectivity within the annual report and other standalone reports, or between them.

So, what have we found in banks' TCFD-aligned disclosures? Our analysis notes three key takeaways.

- Banks have put in place governance structures and risk management frameworks – however, their impact is not yet clear.
- Many banks have committed to achieving net-zero by 2050 – however, metrics are not yet disclosed at a granular level which makes it challenging for users to understand and assess how banks have progressed towards their targets.
- There's limited quantitative disclosure of scenario analysis – making it challenging to use the information disclosed to assess the resilience of their strategies.

So, let's take a closer look at the banks' TCFD-aligned disclosures. The table below shows the overall maturity we have assigned to each TCFD recommended disclosure based on our findings from the benchmarking analysis.

Thematic area	TCFD recommended disclosures	Overall maturity[1]
Governance	Describe the board's oversight of climate-related risks and opportunities	
	Describe management's role in assessing and managing climate-related risks and opportunities	
Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	
Risk management	Describe the organisation's processes for identifying and assessing climate-related risks	
	Describe the organisation's processes for managing climate-related risks	
	Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	
Metrics and targets	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	
	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	

Maturity scale[1]:

- More work to be done on the disclosures
- Disclosures are moderately advanced
- Disclosures are relatively advanced

1. Please refer to our phase 2 report – which benchmarks how banks reported against the TCFD recommended disclosures in 2021 – for details on the maturity scale that we used to assess the banks' disclosures.

The structures and processes are in place – but do they work?

Building on our analysis of banks' 2020 reporting, governance and risk management are the two areas where we see significant progress to date. In governance, we see that banks have already enhanced their governance structures to embed climate-related risks and opportunities both at the board level and management level. Many of them have also started linking key management's pay to climate-related measures.

Similarly, in risk management, they are integrating climate-related risks into their wider risk management frameworks, although, when it comes to where banks are focusing their more granular risk assessments, it's still credit, reputational and operational risks that are at the forefront of their disclosures. Of the risks disclosed, credit risk gets the most attention, with banks disclosing that they are integrating climate-related risks into their credit risk processes, such as borrower credit assessments. A minority of banks disclose information about how they consider climate-related risks when assessing market and liquidity risks.

In 2021, banks have clearly enhanced their governance structures and risk management frameworks, but because their TCFD-aligned disclosures are generally light in terms of quantitative information, a broader question remains – how effective are these structures and frameworks?

Commitments and strategy – are we on target?

Many banks have committed to achieving net zero by 2050. However, their transition plans on how they intend to achieve their targets over the short, medium and long term are not yet clear in the disclosures.

Similar to our analysis of 2020 reporting, we note that banks' disclosures on 'opportunities' remain less developed than those on 'risks'.

Where opportunities have been identified, these focus on areas in which they have already taken action or are currently taking action – such as the large amounts of committed green or sustainable financing and the opportunities these create through new products and service offerings (e.g. green loans).

However, it is difficult at this stage to assess what the banks see as the more structural and forward-looking opportunities as well as areas of competitive advantage in the longer term. This includes opportunities they see themselves seizing in the future and how they are advancing these right now – for example, investments in long-term climate-related solutions.

Additionally, it remains difficult to assess what the financial impacts of these strategic decisions will be. Many banks currently don't discuss the climate-related impacts on their financial planning process or give an indication of how they see this impacting their growth. In addition, metrics are not yet disclosed at a granular level – e.g. metrics are not always disclosed for historical periods or broken down by sectors and geography.

Details on financed emissions remain elusive. Most banks are yet to calculate and disclose their financed emissions across their full lending and investment activities. Reported Scope 3[2] numbers also currently exclude financed emissions.

A single globally accepted methodology for calculating financed emissions would help banks provide more clarity in this area.

How resilient are banks' strategies to climate-related risks?

Scenario analysis is key to assessing the resilience of banks' strategies to climate-related matters. However, the disclosures on scenario analysis are currently not comprehensive – they are mostly qualitative – and if quantitative then they are often restricted to impacts on specific lending portfolios. Overall, it's challenging to navigate through the information currently disclosed by banks on scenario analysis to assess the resilience of their strategies to climate-related matters.

This is clearly an area of continued focus for banks, with many referring to ongoing or upcoming resilience and stress testing exercises from their regulatory bodies, as well as outlining the steps they are taking towards a more holistic scenario analysis.

Heightened regulation generally results in enhanced climate-related disclosures

Our benchmarking analysis of annual reports found that in countries or regions where there is regulation (or regulatory guidance) on banks' climate-related disclosures, enhanced disclosures follow.

This finding has been confirmed in an even more pronounced way in the second part of our analysis – similarly banks in countries where there is regulation (or regulatory guidance) provide climate-related information that aligns better with the TCFD recommended disclosures. To illustrate: in 2021 the TCFD recommended disclosures became mandatory for UK premium listed banks on a comply or explain basis (which includes a statement in the annual report on whether or how they have complied with the TCFD recommended disclosures). We found that the UK banks we analysed include more detailed and granular climate-related disclosures, allowing them to better address the TCFD recommended disclosures as well as the underlying guidance provided by the TCFD.

What does the future hold?

The newly formed International Sustainability Standards Board (ISSB™ Board) released two proposed IFRS® Sustainability Disclosure Standards in March 2022, covering general requirements as well as climate-related disclosures. The US Securities and Exchange Commission (SEC) and the European Financial Reporting Advisory Group (EFRAG) also have proposals out for comment.

If we compare the 2021 climate-related disclosures reported by banks against some of the key quantitative aspects of these proposals, there is quite some work to be done. In particular, we found in our benchmarking analysis that many banks currently do not report their climate-related information in the other standalone reports at the same time as the financial statements. The proposals not only require climate-related information but also other sustainability-related information to be reported at the same time, and for the same period, as the annual financial

2. The Greenhouse Gas (GHG) Protocol defines three scopes of emissions. Scope 1 refers to all direct GHG emissions from operations that are owned or controlled by the reporting company. Scope 2 refers to indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 3 refers to all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (such as financed emissions).

statements. This is likely to require substantial effort by banks and may affect multiple departments, including and beyond financial and sustainability reporting.

In addition, jurisdictions including the US and EU are responding to investor demands and proposing mandatory assurance. Banks would need sufficiently rigorous processes and controls to generate high-quality information in a timely manner.

Additionally, our benchmarking analysis identified that currently there is a lack of connectivity between the financial statements and climate-related information in the front part of the annual report and other standalone reports. Under the ISSB proposals, connectivity between sustainability reporting and financial reporting is important and more quantitative disclosures would be required.

And now over to you

Getting ready now is critical. How do your climate-related disclosures compare to the findings in our benchmarking analysis? And are you ready for the upcoming requirements?

Find out more

Read our benchmarking analysis on how banks reported on climate-related matters in the 2021 reporting season. The reports include the scope and approach of our analysis. See phase 1 on how we have assessed the disclosures as 'more detailed', 'less detailed' or 'no disclosures' provided and phase 2 for the maturity scale we used to assess banks' climate-related disclosures.

Publication name: *Banks' climate-related disclosures*

Publication date: June 2022

home.kpmg/ifrs