Banks' climate-related disclosures (Phase 2)

Benchmarking climate-related disclosures in the 2022 reporting cycle

June 2023

Purpose of this report

This report focuses on the key observations from **Phase 2 of our benchmarking analysis** on banks' climate-related disclosures.

Sustainability reporting, including climate-related disclosures, is rapidly evolving and becoming more formalised. The first two IFRS® Sustainability Disclosure Standards will be issued in June 2023, with major developments also happening across the world, including in the EU and US. First implementation under these new standards could start in the FY24 reporting cycle.

Our combined Phase 1 and 2 analysis focuses on climate-related disclosures made by 35 major banks around the world. In the first phase, we assessed the climate-related disclosures made as part of their 2022 annual reports.

In this second phase, we expand our analysis, focusing on how banks' climate-related disclosures align with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This included disclosures in other standalone reports such as climate and sustainability reports, in which many banks provide their TCFD-aligned disclosures.

Executive summary

Overall messages from our combined analysis in Phase 1 and Phase 2

- Banks have significant ground to cover to meet new sustainability reporting requirements.
  - They will need to improve the location, timing and connectivity of climate-related disclosures to allow users to understand the big picture.
  - They will also need to continue progressing from assessing their risks to assessing how these translate into impacts on their financial performance and position, both currently and in the short, medium and long term.
- Banks reporting climate-related disclosures under heightened regulation are powering ahead, compared to those in jurisdictions with less of a climate-related regulatory focus.
- Banks are obtaining limited assurance on selected climate-related metrics in their annual reports and/or other standalone reports.

Key messages across TCFD pillars from Phase 2

Governance and risk management

- TCFD-recommended climate-related disclosures on governance and risk management are relatively advanced – but these will need to develop further to meet the requirements in the new ISSB™ Standards[1].

Strategy

- Banks have laid the foundation for their climate strategy – now they should be building their detailed transition plans with clear actions and interim targets.
- Most banks currently use scenario analysis to assess risks – but it's not yet clear how they are using it to evaluate the resilience of their strategy and inform their strategic planning.

Metrics and targets

- Some banks disclose certain financed emissions numbers – but more transparency is needed to help users understand these disclosures, such as clarity on methodologies, assumptions, data and limitations involved in the calculation.

[1] 'New ISSB Standards' throughout this report refers to the first two IFRS Sustainability Disclosure Standards expected to be finalised in June 2023.

Scope and approach – Overview

Climate-first and TCFD-focused

Currently, climate is the most mature area in sustainability reporting. As in Phase 1, our benchmarking analysis in Phase 2 focuses on climate-related disclosures. In Phase 2, the focus is on benchmarking against the TCFD recommendations, which provide a common input into many of the forthcoming sustainability standards (including the ISSB Standards and SEC-proposed rule). Our approach aligns with the ISSB's 'climate-first' approach.

Phases 1 and 2 – a combined analysis

- Phase 1 looked at the climate-related disclosures made as part of banks' 2022 annual reports.
- Phase 2 expands our analysis to review climate-related disclosures in other standalone reports (e.g. climate and sustainability reports), which is where most banks provide their TCFD-aligned disclosures.

Our combined Phase 1 and 2 analysis provides insight into how banks are making their climate-related disclosures across their reporting suite in their most recent annual reporting cycle.

Scope and approach for Phase 2

Which banks are included?

Similar to Phase 1, we have included 35 major banks in Phase 2. This includes five banks in the UK, seven in Europe, five in Australia, five in Canada, seven in Asia (across China, Japan and India) and six in the US.

The selection of banks in Phase 2 is consistent with Phase 1 except for one US bank. This bank included in our Phase 1 sample was replaced with another US bank in Phase 2, as its 2022 standalone report was not publicly available or released at the time of conducting our Phase 2 analysis.

Which reports/information have we reviewed?

For the 35 banks selected in Phase 2, we reviewed their 2022 climate-related disclosures provided in annual reports and other standalone reports. We reviewed the other standalone reports in Phase 2 irrespective of whether these were released at the same time as the annual report. This included some reports covering a different period to the annual report.

Scope and approach – Maturity scale

How did we perform the benchmarking analysis?

We used a 'maturity scale' to benchmark the climate-related disclosures – as set out on the right.

When applying the maturity scale, we considered the nature and extent of banks' climate-related disclosures with respect to each TCFD-recommended disclosure and the TCFD guidance for all industries and supplemental industry guidance for banks – see page 6.

We went on to compare these disclosures between banks and, where appropriate, compared our 2022 observations with those in our analysis of the 2021 reporting cycle.

We have exercised a certain level of judgement when making these comparisons and assessing the banks' disclosures.

Maturity scale

The maturity scale we used in Phase 2 to benchmark banks' 2022 climate-related disclosures consists of three levels – as shown below.

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

In this report, we have assigned an overall maturity level to each TCFD-recommended disclosure and the TCFD guidance, and show the percentage of banks with disclosures in each level of the maturity scale.

Please refer to Appendix 1 of the report for further details on the maturity scale.

Scope and approach – TCFD framework

In Phase 2, we benchmarked the banks' climate-related disclosures against the TCFD's 11 recommended disclosures and the TCFD guidance

What are the TCFD recommendations?

There are 11 TCFD-recommended disclosures. These cover four pillars: governance, strategy, risk management, and metrics and targets – as outlined on the right.

For each of the 11 disclosures, the TCFD provides the following guidance.

(i) Guidance for all sectors that provides context and suggestions for implementing the recommended disclosures

(ii) Supplemental industry guidance, which includes specific guidance for banks

The above guidance is referred to as the 'TCFD guidance' throughout this report. Where the TCFD provided updated guidance in 2021, we have applied this to our analysis.

There are 11 TCFD-recommended disclosures across four pillars:

Governance

a) Describe the board's oversight of climate-related risks and opportunities

b) Describe management's role in assessing and managing climate-related risks and opportunities

Strategy

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Risk management

a) Describe the organisation's processes for identifying and assessing climate-related risks

b) Describe the organisation's processes for managing climate-related risks

c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

Metrics and targets

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

TCFD guidance accompanying the 11 TCFD recommendations:

(i) Guidance for all sectors

(ii) Supplemental industry guidance – Banks

Overall observations

Overall observations from Phase 1 and Phase 2

Banks have significant ground to cover to meet the forthcoming sustainability reporting requirements

- Banks have to improve the **location, timing and connectivity** of their climate-related disclosures.
  - These are often published in multiple documents and on different dates, with limited clarity on their connectivity to the financial statements.
  - This makes it challenging for users to understand the big picture. See our Phase 1 analysis for details.
- The TCFD framework provides common input into many of the forthcoming sustainability reporting requirements, including the ISSB Standards.
  - Banks' disclosures across the governance and risk management pillars of the TCFD framework are more advanced compared to strategy, and metrics and targets.
  - For strategy, and metrics and targets, banks particularly need to improve disclosures over scenario analysis, transition plans and financed emissions.
  - The new ISSB Standards will introduce additional disclosures which may require more effort and time to produce – see page 10.

The banks reporting their climate-related disclosures under heightened regulation are powering ahead

- In Phase 1, we noted UK banks are leading the way. This is even more apparent in Phase 2 when we look at the nature and extent of their TCFD-aligned disclosures. See our Phase 1 report.
  - UK banks have started to connect climate-related information to the financial statements; they outline and explain disclosed versus non-disclosed TCFD recommendations; and provide more details over the challenging areas – e.g. how financed emissions are calculated.
- Although disclosures are not at the same level as the UK banks, the banks in Europe and Australia have generally continued to make progress.
- Even banks in jurisdictions with heightened regulation that may be ahead now (e.g. the UK) still have significant work to do to meet the new reporting requirements – e.g. over strategy, and metrics and targets, as well as additional requirements such as current and anticipated financial impacts (see page 10).
- Banks in jurisdictions with less of a climate-related regulatory focus are lagging behind and will have more ground to cover to meet the new reporting requirements.
- Banks operating in multiple jurisdictions may be subject to multiple disclosure frameworks and have various requirements to comply with.

Overall observations from Phase 1 and Phase 2 (continued)

Banks are obtaining limited assurance on selected climate-related metrics

- In Phase 1, we reported that 40 percent of banks' annual reports disclosed that they obtained assurance over selected climate-related information. This percentage increases when we include standalone reports.

89% of the banks disclose that they obtained an assurance report on selected climate-related metrics (either disclosed in the annual reports or other standalone reports).

- Most banks obtain limited assurance over:
  - Scope 1 and Scope 2 GHG emissions related to their own operations; and
  - amounts of green or sustainable financing granted or facilitated to date.
- A few banks obtain limited assurance on other metrics – e.g. estimated financed emissions for certain portfolios.
- A few banks have obtained reasonable assurance over their operational emissions in Scope 1 and Scope 2.
- The assurance work is often completed by the statutory auditors.

OTHER: Biodiversity is an emerging area of focus

89 percent of banks mention biodiversity[2] in their annual reports and/or other standalone reports.

Some of the banks disclose:

- that climate change may accelerate the loss of biodiversity, and biodiversity may impact climate change. Biodiversity may affect the financial stability of banks' customers, and therefore their financial performance;
- they are committed to embedding biodiversity-related matters into their sustainability policies, including their strategy and risk management framework;
- commitments to finance activities that protect and restore biodiversity as part of their total amount committed to sustainable financing – e.g. regenerative farming practices;
- training provided on biodiversity to their board(s), and they are incorporating biodiversity skills and experience in their board composition;
- they are supporting the agricultural sector – e.g. through investments in research – and supporting farmers with tailored products to reduce carbon emissions; and
- support for the Taskforce on Nature-related Financial Disclosures (TNFD) framework, and they are considering how to respond to the framework upon its expected release in September 2023.

Biodiversity is intrinsically connected to other topics, including climate, and will potentially be a new focus area for the ISSB which may lead to future sustainability reporting requirements.

[2] Biodiversity refers to the variety of life on earth, including animals, plants and other living organisms, living together in a particular environment – i.e. an ecosystem.

Comparing banks' current reporting to ISSB Standards

June 2023

- The first two IFRS Sustainability Disclosure Standards expected

January 2024

- The IFRS Sustainability Disclosure Standards effective beginning on/after 1 January 2024
- Adoption dependent on individual jurisdictions, where the effective date may vary

Other:

- The European Sustainability Reporting Standards (ESRS) would first apply for some companies for years beginning on or after 1 January 2024 with a phased introduction.
- The effective date of the Securities and Exchange Commission (SEC) proposed rule will remain open until adoption of the final rules.

Where are the biggest gaps when comparing to the new ISSB Standards?

Banks have significant ground to cover. New sustainability reporting requirements will put more rigour into the location and timing of climate-related disclosures. Also, connectivity between climate-related disclosures in and outside the financial statements will become more prominent – e.g., the International Accounting Standards Board recently started its project on climate-related risks in the financial statements and the European Financial Reporting Advisory Group will embark on a research project on the connectivity between financial and sustainability reporting. See Phase 1 of our analysis.

Banks would need sufficiently rigorous **processes and controls** to generate **timely, high-quality disclosures** and achieve **connectivity**.

Key aspect	Areas where significant improvements are needed
The ISSB Standards are closely aligned to the TCFD	Significant efforts on disclosures relating to the strategy, and metrics and targets pillars of the TCFD framework will be necessary to comply with ISSB Standards. This particularly includes disclosures over scenario analysis, transition plans and financed and facilitated emissions (see pages 18 and 27).
The ISSB Standards introduce some additional requirements	The ISSB Standards introduce additional requirements that either are not covered by the TCFD recommendations or build on them. These may require significant effort and time to develop, and include: • how the bank ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities; • information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities; • expected changes in financial position over time; • expected changes in financial performance over time; • significant areas of uncertainty for strategy resilience; • details on how any resilience analysis or assessment has been conducted; and • inclusion of processes used to identify and prioritise opportunities. See Appendix 2 for details.

Maturity of TCFD-aligned disclosures

Maturity of the banks' TCFD-aligned disclosures

In this report, we have assigned an overall maturity level to the 11 TCFD-recommended disclosures. The overall maturity indicates where we have assessed the majority of banks in our analysis to fall on the maturity scale (see Appendix 1 for details). 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
Governance	a) Describe the board's oversight of climate-related risks and opportunities	
	b) Describe management's role in assessing and managing climate-related risks and opportunities	
Strategy	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	
Risk management	a) Describe the organisation's processes for identifying and assessing climate-related risks	
	b) Describe the organisation's processes for managing climate-related risks	
	c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	
Metrics and targets	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	

Maturity scale: More work to be done on the disclosures | Disclosures are moderately advanced | Disclosures are relatively advanced

Governance

Governance – Key observations

TCFD-recommended disclosures	Overall maturity	% of banks within the maturity scale
a) Describe the board's oversight of climate-related risks and opportunities		80% 17% 3%
b) Describe management's role in assessing and managing climate-related risks and opportunities		77% 17% 6%

What is the maturity of the TCFD-aligned disclosures on governance?

- Overall, like for 2021, the governance disclosures remain relatively advanced for both TCFD recommendations.
- Many banks have set up their governance structures to oversee climate-related matters, with the board having ultimate responsibility.
- Banks detail the roles of board committees. Usually the audit committee oversees a bank's sustainability reporting (including TCFD-aligned disclosures) and the board risk committee oversees climate-related risks.
- Banks describe roles and responsibilities allocated to specific members of the executive team (e.g. CEO) and/or management committees. Some have also started linking executive remuneration to climate-related targets, although these currently often relate to operational emissions and sustainable financing targets (rather than financed emissions targets).

The disclosures are advanced – is there more to do?

- It's clear from the disclosures that governance structures are in place. However, as banks build detailed transition plans (see page 18) and execute strategies to achieve their overall 2050 targets, users will need detailed information that describes how banks monitor progress against these targets.
- The new ISSB Standards require disclosure of board members' skills and competencies to oversee climate-related information. Banks will need to assess whether board members have appropriate skills and competencies, which could impact the development of the board and future nominations (see page 10 and Appendix 2).

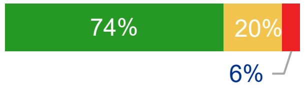
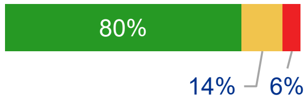
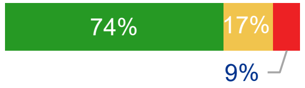
Governance – Getting into the detail

The table below provides an overview of how most banks have aligned their disclosures on governance to the TCFD guidance. It highlights areas where most banks have provided disclosures and where there are opportunities for further enhancements.

TCFD-recommended disclosures	TCFD guidance[3]	% of banks within the maturity scale when considering the guidance	Disclosures provided by most banks	Disclosures where most banks have opportunities for further enhancements
a) Describe the board's oversight of climate-related risks and opportunities	Consider the processes and frequency by which the board and/or board committees are informed about climate-related issues.	74% / 23% / 3%	• Details of the processes and frequency by which the board and board committees are informed about climate-related issues – e.g. through regular reporting from management. • Details of whether the board/ committees consider climate-related issues when reviewing and guiding their strategy and risk management policies – e.g. outlining key strategic and risk management activities performed by the board during the year. • A statement that the board monitors and oversees progress against goals and targets.	• Whether climate-related issues are considered by the board/committees in areas such as annual budgets and business plans, and overseeing major capital expenditures, acquisitions and divestitures. • Details of how the board monitors and oversees progress against climate-related goals and targets: - Details on how goals/targets are monitored and tracked are not always disclosed; and - Details of follow-up actions being taken when banks are behind set targets are not clear.
	Consider whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets and business plans as well as setting the organisation's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions and divestitures.	94% / 6%		
	Consider how the board monitors and oversees progress against goals and targets for addressing climate-related issues.	29% / 51% / 20%		

[3] The key parts of the TCFD guidance which are applicable for all sectors and for banks have been included in the table (and similar tables in the following pages across the various sections). Please refer to Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures for the full TCFD guidance.

Governance – Getting into the detail (continued)

TCFD-recommended disclosures	TCFD guidance	% of banks within the maturity scale when considering the guidance	Disclosures provided by most banks	Disclosures where most banks have opportunities for further enhancements
b) Describe management's role in assessing and managing climate-related risks and opportunities	Consider whether the organisation has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether they report to the board or a committee of the board and whether responsibilities include assessing and/or managing climate-related issues.		• Details of responsibilities assigned to key senior management (e.g. CEO and CRO) and management committees (e.g. climate executive committees). • Details of the organisational structure over climate-related matters; banks with more advanced disclosures include an organisation chart showing clear lines of reporting to the board. • How management monitors climate-related issues through specific positions and/or various committees/ forums.	• Details of the process by which management is informed about climate-related issues – e.g. through regular contact with business units. • More details of how the different management-level positions and committees interact, and how they connect to the board. Banks that include an organisation chart make this easier to understand, though without the accompanying narrative this is not always clear. • Further details of how the monitoring is performed to provide more clarity in disclosures (e.g. on monitoring against targets).
	Consider a description of the associated organisational structure(s).			
	Consider processes by which management is informed about climate-related issues.			
	Consider how management (through specific positions and/or management committees) monitors climate-related issues.			

Strategy

Strategy – Key observations

TCFD-recommended disclosures	Overall maturity	% of banks within the maturity scale
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term		14% 26% 60%
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning		20% 80%
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario		14% 86%

What is the maturity of the TCFD-aligned disclosures on strategy?

- Overall, more work needs to be done on the strategy disclosures, for example in the following areas.

Banks are yet to build their detailed transition plans

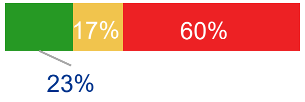
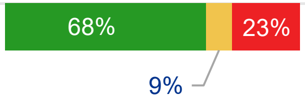
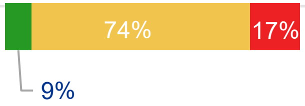
- Many banks have laid the foundation of their climate-related strategy and are committed to achieving net zero by 2050. They disclose their strategic focus areas – e.g. providing sustainable or green financing, supporting customers in their transition, reducing their own operational emissions, and reducing financed and facilitated emissions.
- However, many banks are yet to take the next step to build their detailed transition plans, which is a key aspect of the new ISSB Standards, and an area of increasing focus for regulators/governments in jurisdictions such as the UK.
- A few banks have developed and disclosed details of their initial climate transition plans in 2022. However, many are yet to disclose their plans with clear short-, medium- and long-term actions on how they intend to achieve net zero by 2050. Many banks also do not yet clearly set out their interim targets.
- This makes it challenging to assess feasibility, progress and effort associated with reaching net zero, as well as whether they identified appropriate strategic focus areas to support achieving their goals.

Scenario analysis is not yet comprehensive

- Banks acknowledge data challenges are impacting the scope and extent of scenario analysis – e.g. current disclosures on scenario analysis often relate to a portion of lending exposures.
- Banks currently use scenario analysis to assess risk, but it's not yet clear how they are using it to evaluate the resilience of their climate-related strategy and inform their strategic planning.

Strategy – Getting into the detail

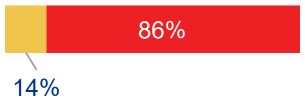
The table below provides an overview of how most banks have aligned their disclosures on strategy to the TCFD guidance. The table highlights areas where most banks have provided disclosures and where there are opportunities for further enhancements.

<table>
<tr><th>TCFD-recommended disclosures</th><th>TCFD guidance</th><th>% of banks within the maturity scale when considering the guidance</th><th>Disclosures provided by most banks</th><th>Disclosures where most banks have opportunities for further enhancements</th></tr>
<tr><td rowspan="4">a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term</td><td>Provide a description of what they consider to be the relevant short-, medium- and long- term time horizon.</td><td>
</td><td rowspan="4">• Definition of relevant short-, medium- and long-term time horizons.
• Details of climate-related risks, including whether these relate to short-, medium- and long-term time horizons – e.g. credit risk impacts are usually linked to the medium and/or long term.
• Details of risks in lending activities, including significant concentrations of credit exposure to carbon-related assets; banks often make disclosures on sectors including:
- power utilities;
- construction;
- agriculture;
- commercial real estate;
- oil and gas; and
- residential mortgages.</td><td rowspan="4">• Details of how or why they have determined short-, medium- and long-term time horizons.
• Identify bank-specific opportunities more clearly and how these relate to short-, medium- and long-term time horizons.
• Description of the specific climate-related issues potentially arising in each time horizon (short, medium and long term) that could have a material financial impact on the organisation. Although the issues may be outlined, the material financial impact is often not clear.
• Details of climate-related risks in banks' other financial intermediary business activities such as asset management and capital markets.</td></tr>
<tr><td>Provide a description of the specific climate-related issues potentially arising in each time horizon (short, medium and long term) that could have a material financial impact on the organisation.</td><td>
</td></tr>
<tr><td>Banks should describe significant concentrations of credit exposure to carbon-related assets.</td><td>
</td></tr>
<tr><td>Banks should consider disclosing their climate-related risks (transition and physical) in their lending and other financial intermediary business activities.</td><td>
</td></tr>
</table>

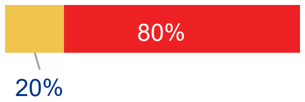
Strategy – Getting into the detail (continued)

TCFD-recommended disclosures	TCFD guidance	% of banks within the maturity scale when considering the guidance	Disclosures provided by most banks	Disclosures where most banks have opportunities for further enhancements
b) Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning	Consider including the impact on their businesses, strategy and financial planning in areas such as products and services, supply chain and operations.	40% 60%	• Qualitative information describing the climate-related impacts on their businesses and strategy – e.g. credit risk impacts and how these are considered in the climate-related strategy.	• Details of climate-related impacts on financial planning – e.g. how climate-related issues input into the financial planning process and the linkage to products, services, supply chains and operations. • Quantitative information to understand the impacts on the businesses and strategy, as well as the financial impacts (quantitative) resulting from scenario analysis. • Details of transition plans – including actionable steps to meet net-zero commitments and how they plan to monitor progress.
	Describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritised.	80% 20%		
	Describe the impact of climate-related issues on their financial performance and financial position.	26% 74%		
	Description of plans for transitioning to a low-carbon economy, which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition.	74% 12% 14%		

Strategy – Getting into the detail (continued)

<table>
<tr><th>TCFD-recommended disclosures</th><th>TCFD guidance</th><th>% of banks within the maturity scale when considering the guidance</th><th>Disclosures provided by most banks</th><th>Disclosures where most banks have opportunities for further enhancements</th></tr>
<tr>
<td rowspan="2">c) Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario</td>
<td>Describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a low-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks.</td>
<td>
</td>
<td rowspan="2">
Latest status or progress on climate-related scenario analysis. Banks often disclose that they have performed some scenario analysis and are making further developments; however, it is not always clear when and how this will be progressed.
Banks are typically using (or intend to use) the Network for Greening the Financial System (NGFS) scenarios.
Details of data challenges (including availability, reliability and time lags) which are impacting scenario analysis.
Qualitative information on how the strategy considers climate-related impacts – e.g. through credit risk impacts and sustainable financing product offerings, such as green bonds.
</td>
<td rowspan="2">
Details of the methodology used to develop scenario analysis.
Comprehensive details on scenario analysis, including impacts on all lending and investment activities.
Details on the resilience of the strategy which considers results from scenario analysis.
How the strategy might change to address potential climate-related risks and opportunities.
The potential impact of climate-related issues on financial performance and financial position:

it is not yet clear how identified risk drivers translate into future financial impacts; and
improving the connectivity between climate-related disclosures and financial statements is key (as noted in Phase 1 of our analysis).

</td>
</tr>
<tr>
<td>Consider discussing:
where they believe their strategies may be affected by climate-related risks and opportunities;
how their strategies might change to address such potential risks and opportunities;
the potential impact of climate-related issues on financial performance and financial position; and
the climate-related scenarios and associated time horizon(s) considered.
</td>
<td>
</td>
</tr>
</table>

Risk management

Risk management – Key observations

TCFD-recommended disclosures	Overall maturity	% of banks within the maturity scale
a) Describe the organisation's processes for identifying and assessing climate-related risks		80% 6% 14%
b) Describe the organisation's processes for managing climate-related risks		74% 15% 11%
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management		80% 11% 9%

What is the maturity of the TCFD-aligned disclosures on risk management?

Overall, as in 2021, risk management disclosures are relatively advanced. In fact, this is one of the TCFD pillars where banks generally provide more detailed information in both the annual report and standalone reports.

- Climate-related risks are being considered as part of a bank's wider risk management framework, often on a par with or as a contributing factor to its material or principal risks.
- When considering the climate-related impacts on other risks, credit risk receives the most attention in disclosures. Banks detail how they have integrated climate-related factors into their credit risk policies – e.g. considering climate-related factors in borrower credit assessments.

The disclosures are advanced – is there more to do?

- Similar to governance, although the disclosures are advanced, it's too early to assess the full impacts of the changes banks have made (or are making) to their risk management practices to address climate-related risks.
- A number of banks disclose that they are using scenario analysis to identify and assess risks. However, as scenario analysis is not yet comprehensive and often covers only a portion of lending exposures, it is currently challenging to understand:
  - whether the most material risks have in fact been identified and targeted; and
  - how effective their risk management practices will be.
- As more reliable and granular data becomes available and banks further develop and enhance their scenario analysis, they will need to adapt their risk management frameworks to appropriately identify, assess, manage and monitor climate-related risks.

Risk management – Getting into the detail

The table below provides an overview of how most banks have aligned their disclosures on risk management to the TCFD guidance. The table highlights areas where most banks have provided disclosures and where there are opportunities for further enhancements.

TCFD-recommended disclosures	TCFD guidance	% of banks within the maturity scale when considering the guidance	Disclosures provided by most banks	Disclosures where most banks have opportunities for further enhancements
a) Describe the organisation's processes for identifying and assessing climate-related risks	Describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organisations determine the relative significance of climate-related risks in relation to other risks.	69% 17% 14%	• Details of the processes used to identify and assess climate-related risks – e.g. considering impacts from both physical and transition risks, as well as the impact on its material or principal risks. • Whether they consider existing and emerging climate-related regulatory requirements – banks have usually embedded climate-related considerations into their assessment of entity-wide regulatory risk. • Descriptions of the impact on credit risk, including preliminary insights on scenario analysis to date over certain lending portfolios.	• Details of how banks have determined the potential impact of climate-related risks. As more granular and comprehensive scenario analysis is yet to be developed, it's challenging to understand the quantitative impacts. • Although detailed disclosures are included on credit risk, further details of market and liquidity risk impacts – e.g. analysis of market risk impacts for those with a trading business, and long-term liquidity position impacts – would be helpful for users, particularly as banks further develop their scenario analysis.
	Describe whether they consider existing and emerging regulatory requirements related to climate change as well as other relevant factors considered.	63% 26% 11%		
	Consider disclosing the processes for assessing the potential size and scope of identified climate-related risks and definitions of risk terminology used, or references to existing risk classification frameworks used.	37% 51% 12%		
	Banks should consider characterising their climate-related risks in the context of traditional banking industry risk categories such as credit risk, market risk, liquidity risk and operational risk.	57% 29% 14%		

Risk management – Getting into the detail (continued)

TCFD-recommended disclosures	TCFD guidance	% of banks within the maturity scale when considering the guidance	Disclosures provided by most banks	Disclosures where most banks have opportunities for further enhancements
b) Describe the organisation's processes for managing climate-related risks	Describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept or control those risks.	74% 14% 12%	• Details of the processes for managing climate-related risks – e.g. changes to credit risk policies/ processes.	• More details of how climate-related risks are being prioritised – e.g. how results from scenario analysis are considered.
	Describe their processes for prioritising climate-related risks, including how materiality determinations are made within their organisations.	54% 20% 26%	• A summary of how they are considering materiality – e.g. some banks disclose that they use the double materiality concept where they consider whether a matter is material from both an impact and a financial perspective.	• Banks are identifying climate-related risks; however, it is not yet clear how the risk drivers are expected to translate into future financial impacts.
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Describe how their processes for identifying, assessing and managing climate-related risks are integrated into their overall risk management.	80% 11% 9%	• Whether and how the processes for identifying, assessing and managing climate-related risks are integrated into their overall risk management – although credit risk receives the most attention in disclosures.	• Details of how processes for identifying, assessing and managing risks can be adapted to new information – e.g. new insights from scenario analysis as this is further developed and enhanced.

Metrics and targets

Metrics and targets – Key observations

TCFD recommendations	Overall maturity	% of banks within the maturity scale
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process		40% 60%
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks		40% 60%
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets		29% 48% 23%

What is the maturity of the TCFD-aligned disclosures on metrics and targets?

- All banks still have more work to do on metrics and targets disclosures relating to financed and facilitated emissions.

Financed and facilitated emissions – there are challenges

- Financed and facilitated emissions are key metrics for assessing progress on climate-related targets set by banks.
- Banks are yet to calculate and disclose total financed and facilitated emissions across their full lending and investment activities. Quantitative emissions disclosed are for a portion of their total lending exposures based on data that often relates to earlier periods and methodologies that are still evolving.
- Many banks acknowledge there are **significant data challenges**. To calculate financed and facilitated emissions, banks need data from their customers, which is often limited in availability, variable in quality and collected with a time lag. Until customers have calculated their own GHG emissions, and such data is readily available to banks and of sufficient quality, it remains challenging for banks to accurately estimate their total financed and facilitated emissions.
- There is currently **no universally established methodology** to help banks in quantifying these emissions. Even if they are measured and reported by banks, the absence of such a methodology makes it challenging for users to compare numbers between banks.
- More transparency is needed to help users understand financed emissions – this includes clarity on methodologies, assumptions, data and limitations involved in the calculation.
- Users would benefit from a breakdown of year-on-year changes to emissions numbers – e.g. changes due to business volume, methodology, data, restatements and other one-off effects, as well as changes resulting from emissions reduction efforts.

Metrics and targets – Getting into the detail

The table below provides an overview of how most banks have aligned their climate-related disclosures on metrics and targets to the TCFD-recommended disclosures. It highlights areas where most banks in our analysis have provided disclosures and where there are opportunities for further enhancements in disclosures.

TCFD recommendation	TCFD guidance	% of banks within the maturity scale when considering the guidance	Disclosures provided by most banks	Disclosures where most banks have opportunities for further enhancements
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Provide the key metrics used to measure and manage climate-related risks and opportunities.	40% 60%	• Metrics quantified and reported for sustainable financing and operational emissions. • Qualitative information on financed emissions – e.g. the current status, work in progress to calculate these in the future and data challenges. • Whether related performance metrics are incorporated into remuneration policies. However, these are often limited in weight, combined with other sustainability-related elements and mainly linked to sustainable financing and operational emissions targets.	• Disclosures on financed and facilitated emissions: - quantitative details of total financed and facilitated emissions across all lending and investment activities; and - details of the methodology used for calculating these emissions – including assumptions, limitations and changes. Although some banks provide quantitative details for certain lending portfolios, their total financed emissions for lending and investment activities are not yet disclosed (with the latest source data often dating back to 2020 or 2021). • Details on internal carbon prices. • More granular quantitative information on opportunity metrics – e.g. revenue from climate-related products and services. • Details on changes to calculations that clarify the actual progress being made – e.g. some banks are restating emissions metrics as their methodologies change and data quality improves.
	Consider including metrics on climate-related risks associated with water, energy, land use and waste management where relevant and applicable.	69% 23% 8%		
	Where climate-related issues are material, consider describing whether and how related performance metrics are incorporated into remuneration policies.	60% 20% 20%		
	Where relevant, provide their internal carbon prices as well as climate-related opportunity metrics such as revenue from products and services designed for a lower-carbon economy.	14% 86%		
	Metrics should be provided for historical periods to allow for trend analysis. Where appropriate, consider providing forward-looking metrics for the cross-industry, climate-related metric categories, consistent with their business or strategic planning time horizons.	46% 54%		

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Metrics and targets – Getting into the detail (continued)

TCFD recommendation	TCFD guidance	% of banks within the maturity scale when considering the guidance	Disclosures provided by most banks	Disclosures where most banks have opportunities for further enhancements
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process *(continued)*	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, geography, credit quality and average tenor.	100%	• Identification of heightened climate-related risk sectors (or loan portfolios), including amount and/or percentage of loans in these sectors. • The amount of lending and other financing connected with climate-related opportunities – e.g. the amount of sustainable financing provided and green bonds issued during the year.	• Details of metrics used to assess the impact of (transition and physical) climate-related risks on lending and other financial intermediary business activities in the short, medium and long term. - Metrics related to other financial intermediary business activities – e.g. equity and debt holdings, trading positions and capital markets activity. - Although some details of lending activities are provided, these are not often linked to short, medium and long term. • Details on the extent to which lending and other financial intermediary business activities are aligned with a well-below 2°C scenario.
	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.	23% 43% 34%		
	Banks should describe the extent to which their lending and other financial intermediary business activities, where relevant, are aligned with a well-below 2°C scenario, using whichever approach or metrics best suit their organisational context or capabilities.	46% 54%		

Metrics and targets – Getting into the detail (continued)

TCFD recommendation	TCFD guidance	% of banks within the maturity scale when considering the guidance	Disclosures provided by most banks	Disclosures where most banks have opportunities for further enhancements
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	Provide their Scope 1 and Scope 2 GHG emissions independent of a materiality assessment, and, if appropriate, Scope 3 GHG emissions and the related risks.	40% 60%	• Scope 1 and Scope 2 emissions. • Some Scope 3 emissions – however, these often exclude financed and facilitated emissions.	• Quantitative details of total financed emissions across lending and investment activities which are reported as part of the total Scope 3 emissions (see page 28).
	Banks should disclose GHG emissions for their lending and other financial intermediary business activities where data and methodologies allow.	40% 60%		
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Describe their key climate-related targets such as those related to GHG emissions, water usage and energy usage, etc (where relevant). In describing their targets, consider including the following: - whether the target is absolute or intensity based; - time frames over which the target applies; - the base year from which progress is measured; and - key performance indicators used to assess progress against targets.	31% 49% 20%	• Targets related to operational emissions, sustainable financing and financed emissions – most banks disclose an overarching target to reach net zero in financed emissions accompanied by sector-specific targets for some. • Descriptions of performance against targets for operational emissions and sustainable financing. • Sector-specific targets – e.g. the phase-out of financing thermal coal by 2030.	• Details of performance against targets for financed and facilitated emissions. Banks with more advanced disclosures provide explanations of movements, as well as graphs showing the current progress along the path to their interim and overall targets. • Details of interim targets on the road to achieving net zero by 2050. • More granular information on targets – e.g. whether the targets are absolute or intensity based.

Appendices

Appendix 1: Maturity scale

We have used a maturity scale to benchmark the banks' 2022 climate-related disclosures with respect to the TCFD-recommended disclosures. The maturity scale consists of three levels – as shown on the right.

When assessing the climate-related disclosures of banks within the maturity scale, we assessed the relative maturity of disclosures made by a bank with respect to each TCFD-recommended disclosure. In making this assessment, we considered the following.

1. **Comparison between banks:** How the disclosures made by a bank with respect to each of the TCFD-recommended disclosures compare to those of other banks in our analysis.
2. **Comparison with the TCFD guidance:** How the disclosures made by a bank with respect to each of the TCFD-recommended disclosures consider the TCFD guidance.
3. **Comparison between the TCFD-recommended disclosures across the four pillars:** How the disclosures made by a bank with respect to a TCFD-recommended disclosure compare to its disclosures for other TCFD-recommended disclosures across the four pillars in terms of the nature and extent of information disclosed – e.g. TCFD-aligned disclosures in governance compared to those in strategy.

In this report, we have assigned an **overall maturity** to each TCFD-recommended disclosure and shown **the percentage of banks** with disclosures in each level of the maturity scale. The overall maturity is based on the percentages of banks with disclosures in each maturity level within the scale and is an indication of how we have assessed the majority of the banks in our analysis.

It is important to note that we have exercised a certain level of **judgement** when assessing the disclosures of the banks in our analysis and applying the maturity scale.

The table on the right outlines the key criteria we used when assessing the disclosures within the three levels of the maturity scale.

Maturity scale	Key criteria used when assessing the banks' 2022 climate-related disclosures with respect to each TCFD-recommended disclosure
More work to be done on the disclosures	• Disclosures made by a bank cover limited aspects of the TCFD-recommended disclosures when compared to other banks. • Disclosures made by a bank consider limited aspects of the TCFD guidance. • Disclosures made by a bank may benefit from further enhancements compared to other TCFD-recommended disclosures across the four pillars.
Disclosures are moderately advanced	• Disclosures made by a bank cover some (but not all) aspects of the TCFD-recommended disclosures when compared to other banks. • Disclosures made by a bank consider some (but not all) key aspects of the TCFD guidance. • Disclosures are moderately advanced compared to other TCFD-recommended disclosures across the four pillars.
Disclosures are relatively advanced	• Disclosures made by a bank consider all aspects of the TCFD-recommended disclosures as well as key aspects of the TCFD guidance when compared to other banks. • Disclosures made by a bank are relatively advanced compared to other TCFD-recommended disclosures across the four pillars.

Appendix 2: ISSB Standards

The table below summarises some of the differences between the requirements in the proposed IFRS S2 *Climate-related Disclosures* and the TCFD recommendations. This information has been extracted from the comparison document published by the ISSB in March 2022.

TCFD recommendation	IFRS S2 *Climate-related Disclosures*[4]
Governance Disclose the organisation's governance around climate-related risks and opportunities.	The proposed requirements involve disclosure of additional information around governance including: • the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities; • how that body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies; • how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities; and • information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	The proposed requirements involve disclosure of additional, more granular information around: • how the company is directly responding to risks and opportunities, including changes to its business model, strategy, resource allocation, production processes, products, workforce; • how it is indirectly responding to climate-related risks and opportunities, including working with customers and suppliers; • how its strategy and plans will be resourced; • expected changes in financial position over time, including investment plans and sources of funding; and • expected changes in financial performance over time (revenue and costs). **Transition plans** The proposed requirements also have a different approach to transition plans, referencing them as part of a company's strategy with explicit requirements around disclosure of emission reduction targets and use of carbon offsets. **Resilience** The proposed requirements involve disclosure of additional information regarding resiliency on: • significant areas of uncertainty for strategy resilience; • an entity's capacity to adjust and adapt its strategy over time; and • details on how any resilience analysis or assessment has been conducted.

[4] Exposure Draft IFRS S2 *Climate-related Disclosures* published in March 2022.

Appendix 2: ISSB Standards (continued)

TCFD recommendation	IFRS S2 *Climate-related Disclosures*
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks.	The proposed requirements involve the disclosure of additional information around: • inclusion of processes used to identify and prioritise opportunities; • the input parameters it uses to identify risks (for example, data sources, the scope of operations covered and the detail used in assumptions); and • whether it has changed the processes used compared to the prior reporting period.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	The proposed requirements involve some different disclosures relating to: • industry-based metrics relevant to an entity's industry and activities; • the following treatment of greenhouse gases: - For Scope 1 and Scope 2, a separate disclosure of emissions for (1) the consolidated accounting group and (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in the consolidated accounting group; and - Scope 3 emission disclosure is required. • how targets compare with those created in the latest international agreement on climate change and whether it has been validated by a third party; and • whether targets were derived using a sectoral decarbonisation approach. Unlike the TCFD guidance, the proposed requirements do not explicitly mention the weighted average carbon intensity or use of the Partnership for Carbon Accounting Financials (PCAF) methodology for calculating banks' financed emissions. However, the proposed industry-based disclosure requirements are built on the PCAF methodology.

Keeping in touch

Contacts

Silvie Koppes
Partner, KPMG in the Netherlands
koppes.silvie@kpmg.nl

Dimi Kumarasinghe
Director, KPMG International Standards Group
dimi.kumarasinghe@kpmgifrg.com

Patrick Schmucki
Director, Financial Services, KPMG Switzerland
pschmucki@kpmg.com

Owen Matthews
Director, Financial Services, KPMG Switzerland
omatthews@kpmg.com

Corina Wipfler
Director, Financial Services, KPMG Switzerland
cwipfler@kpmg.com

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