ALIGNING THE CORPORATE DISCLOSURE OF CLIMATE RISK

The Corporate Reporting Dialogue’s recent global market consultation reaffirmed an urgent call from companies and investors for an effective, robust climate reporting system. The Dialogue’s Better Alignment Project brings together the world’s major reporting standards and frameworks with the aim of resolving the confusion over corporate reporting, starting with alignment on the metrics recommended by the Task Force on Climate-Related Disclosures.

By Jonathan Labrey

Climate reporting is an area of corporate disclosure in rapid evolution.

Participants of the Corporate Reporting Dialogue’s Better Alignment Project, an initiative convened by the International Integrated Reporting Council (IIRC), including CDP, the Climate Disclosure Standards Board, the Global Reporting Initiative and the Sustainability Accounting Standards Board, concluded a global market consultation on improving alignment between the reporting frameworks in June this year.

Through an online survey and a series of global roundtables held in eleven countries, around 250 stakeholders, including businesses, investors, were consulted on how to support effective disclosures, addressing the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and identifying how non-financial metrics relate to financial outcomes and how this can be integrated in mainstream reports.

The consultation findings reaffirmed an urgent call from the market to unravel and solve inconsistencies in metrics for climate change reporting. Further findings included confusion over the frameworks’ differing definitions of materiality and calls for the relationships, interconnections and alignment between the reporting frameworks to be better articulated to the market.

Whilst there was clear appreciation for the importance of the TCFD recommendations, delegates struggled to report against the recommendations, especially scenario analysis. There was general concern regarding the financial impact of environmental, social and governance (ESG) risks and opportunities, with calls for more comprehensive and financially aligned indicators, better sector-specific reporting and a greater focus on SMEs.

Whilst the findings of the consultation present a number of challenges for us to solve, they also represent the start of a productive conversation with markets globally on how to better align reporting frameworks on a practical level, to help report preparers and investors to navigate the reporting landscape.

Information gathered from the Dialogue’s consultation period has informed an initial report, published this week, which presents a map showing the linkages between the TCFD recommendations and the Dialogue’s frameworks involved in the Better Alignment Project, as well as the commonalities and differences between the frameworks, within the parameters of the TCFD.

The consultation findings will also inform future focus areas for the Better Alignment Project participants to consider going forwards, such as improving alignment on taxonomy.

Multi-stakeholder partnership

We encourage key stakeholders, including companies and investors, to offer further feedback to the Dialogue on our initial report and the level of clarity it offers to the market on reporting effectively on the risks and opportunities presented by climate change.

Climate reporting is an area of corporate disclosure in rapid evolution, which relies on innovation on all sides, including from providers of reporting guidance – in providing relevant and comprehensive disclosure guidelines – and from report preparers and users – including the companies and investors tasked with the practicalities of integrating climate strategy into their business models.

The IIRC is committed to not only playing our role in delivering a robust climate reporting system, via initiatives like the Better Alignment Project, but also providing insights, guidance and support for those wanting to drive connectivity in their reporting to reflect the entire value creation chain by adopting the International Integrated Reporting Framework.

It is crucial that our work continues to be market-led, involving businesses and other relevant stakeholders, as well as all of the Dialogue participants – including those on the financial side – the International Accounting Standards Board, the International Organization for Standardization and the Financial Accounting Standards Board.

The Dialogue’s initial report presents another step forward towards mapping a clear reporting pathway companies, organizations and investors can use to create long-term sustainable value for their stakeholders.

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