

TCFD

TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

TCFD WORKSHOP

Session 2 – Governance

February 2022

TCFD Series of Workshops

Session

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2	TCFD Recommendation: Governance	<i>This session</i>
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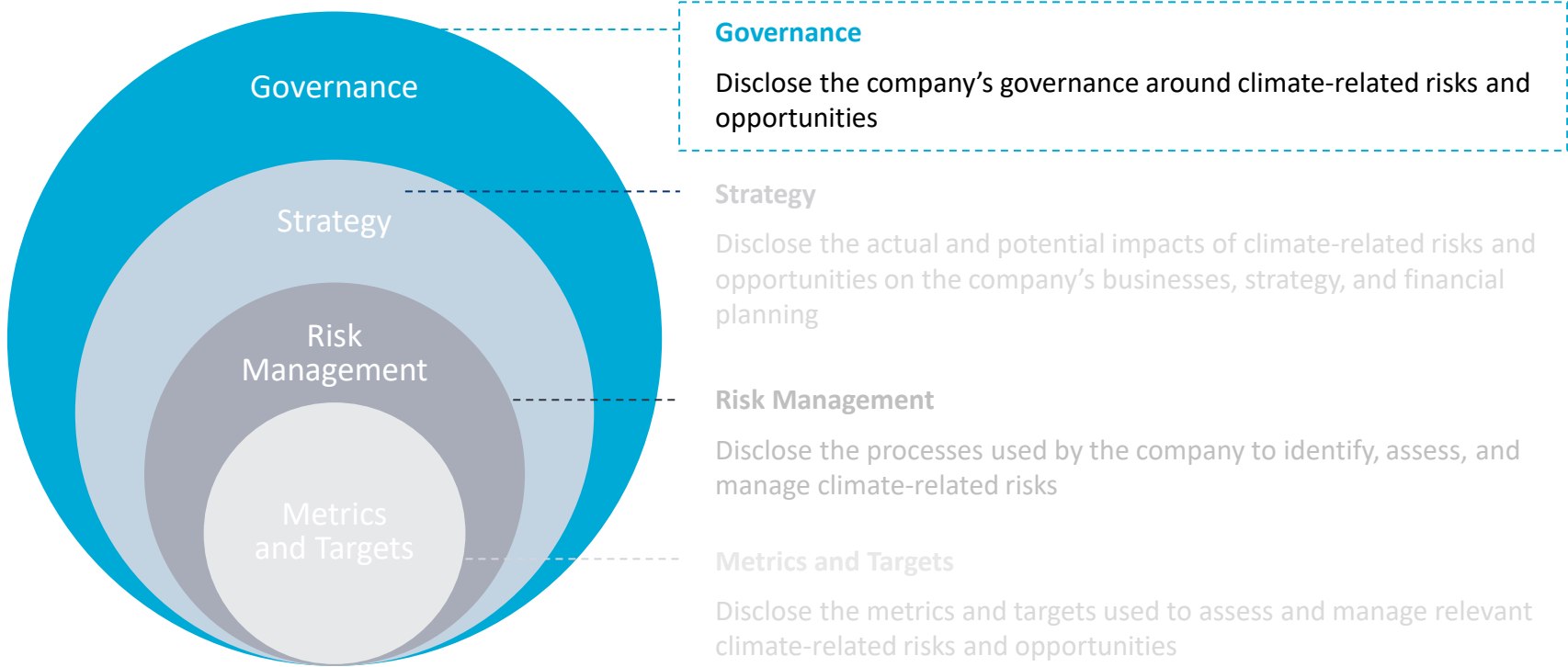
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Introduction

Introduction to the Governance Recommendation

In this session, we will discuss the Governance recommendation

Core Elements of the TCFD Recommendations



Note: The Task Force uses the term "companies" to refer to entities with public debt or equity as well as asset managers and asset owners, including public- and private-sector pension plans, endowments, and foundations.
Source: TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

Introduction to the Governance Recommendation *(continued)*

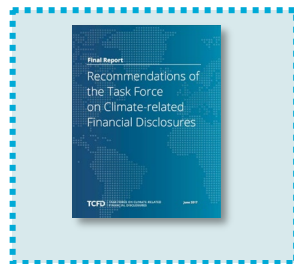
The Task Force’s Governance recommendation is supported by two recommended disclosures

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the company’s governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the company’s businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the company identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>	<p>Recommended Disclosures</p>
<p>a) Describe the board’s oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the company has identified over the short, medium, and long term.</p>	<p>a) Describe the company’s processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management’s role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the company’s businesses, strategy, and financial planning.</p>	<p>b) Describe the company’s processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the resilience of the company’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company’s overall risk management.</p>	<p>c) Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets.</p>

Introduction to the Governance Recommendation *(continued)*

Various TCFD publications offer guidance on the Governance recommendation

Final Recommendations and Recommended Disclosures



2017 Report

Provides details on the following:

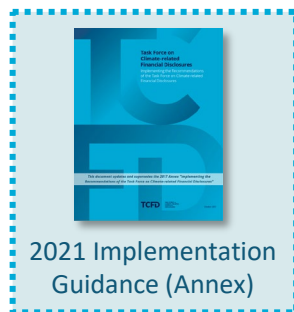
- Context and background on the need for climate-related financial disclosures
- The Task Force's remit from the Financial Stability Board
- TCFD general framework, including recommendations and recommended disclosures

Legend:



Publication includes guidance on Governance recommendation

Implementation Guidance



2021 Implementation Guidance (Annex)

Provides guidance on the application of the recommendations as well as implementation guidance for the following:

- All sectors
- Four financial industries
- Four groups of non-financial companies the Task Force considers more likely to be affected financially than others given their exposure to certain transition and physical risks

Additional Supporting Materials



2017 Scenario Analysis Technical Supplement



2020 Guidance on Risk Management Integration and Disclosure



2020 Guidance on Scenario Analysis for Non-Financial Companies



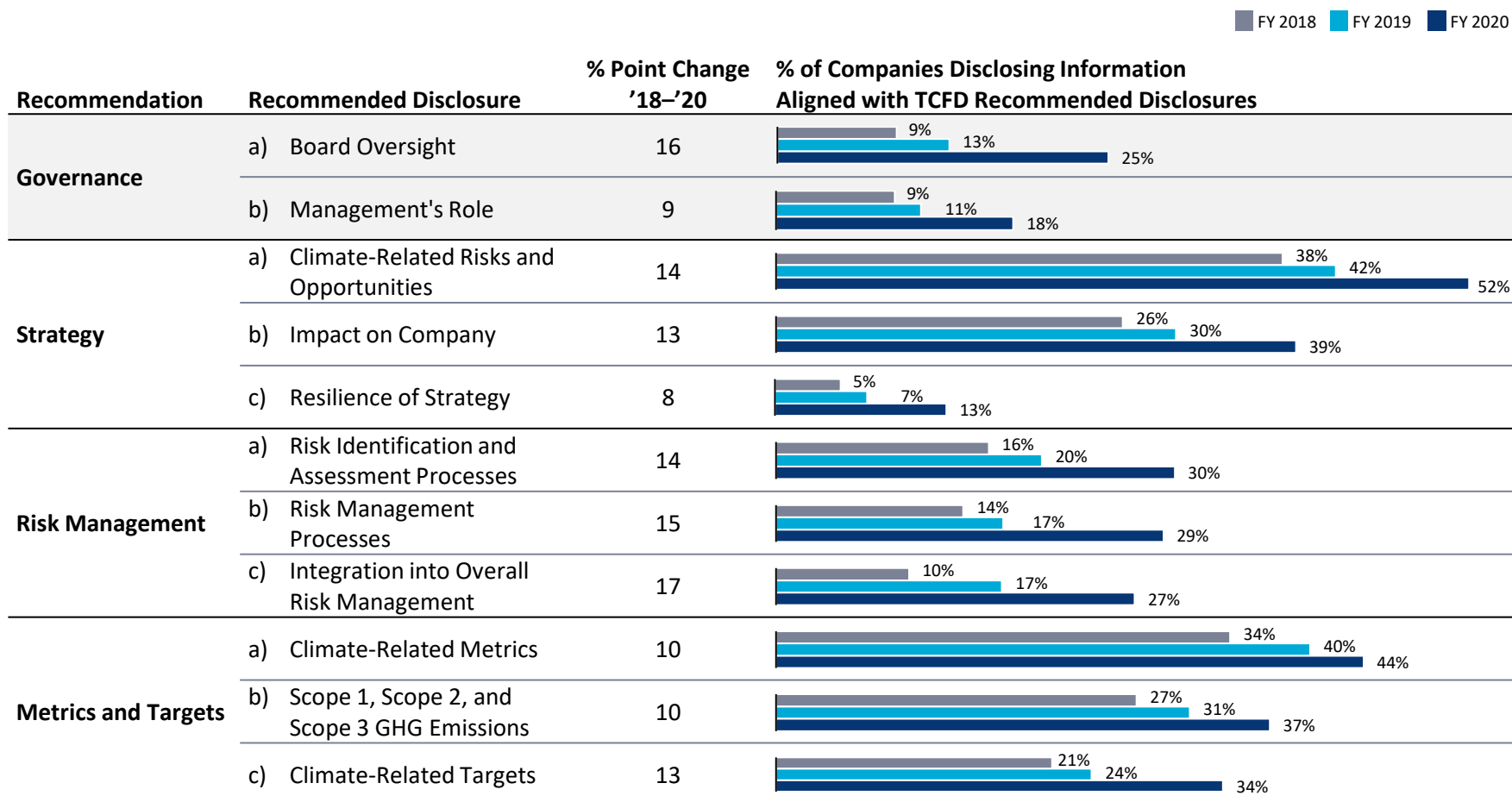
2021 Guidance on Metrics, Targets, and Transition Plans

Visit fsb-tcfd.org/publications to access all of the Task Force's reports, guidance, and other materials.

Disclosure Varies Across Recommendations

The Task Force recommends all companies disclose governance of climate-related issues. Despite this, the Governance recommended disclosures had nearly the lowest level of disclosure

TCFD-Aligned Disclosure by Year, for Each Recommended Disclosure



Note: Results are based on the Task Force's artificial intelligence analysis of 1,651 public companies.

Source: TCFD, [2021 Status Report](#), 2021

Importance of the Governance Recommendation

Disclosing governance practices provides important context for investors and other users of disclosure

Investors and other users of climate-related financial disclosures are interested in understanding the role a company's board plays in overseeing climate-related issues as well as management's role in assessing and managing those issues. Such information supports evaluations of whether climate-related issues receive appropriate board and management attention.

In addition, as part of the lessons learned from the financial crisis of 2007-2008, investors and others have placed heightened attention on governance and risk management practices given their importance in a company achieving its strategy and business objectives.

Providing Decision Useful Information to Investors and Other Users

Based on a survey to understand the most useful climate-related information for making financial decisions, users identified the following types of governance information as the most useful:

- How the board considers climate-related issues when overseeing major capital expenditures, acquisitions, and divestitures
- How the board considers climate-related issues when reviewing and guiding strategy
- Description of management's role in assessing and managing climate-related issues

Decision Useful Climate-Related Information

For its 2020 status report, the Task Force conducted a survey to identify specific climate-related information users find the most useful when making financial decisions. The Task Force asked users to rate the usefulness of specific and discrete types of information—drawn from the guidance for all sectors—for its 11 recommended disclosures.

Overview of the Governance recommendation

Structure of the Governance Recommendation Overview Section

The overview of each of the two recommended disclosures under the Governance recommendation will follow the structure provided below

i. Describing the guidance for all sectors associated with the recommended disclosure

Governance Disclose the organization's governance around climate-related risks and opportunities

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

In describing the board's oversight of climate-related issues, organizations should consider including a discussion of the following:

- processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues;
- 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 organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures; and
- how the board monitors and oversees progress against goals and targets for addressing climate-related issues.

ii. Drilling down into specific elements of the recommended disclosure

Clarification on Separate Climate-Related Disclosures



In its 2019 Status Report, the TCFD shared the results of a survey which was conducted among both preparers and users. While users shared that the most useful element of disclosures on governance in their opinion was the information on how companies integrate climate-related risks into the governance framework and the associated roles and responsibilities, preparers were concerned about the challenge of discussing climate-related issues separately in their governance disclosures, as climate is embedded in their processes.



To address preparers' concerns that implementing the TCFD recommendations requires separate governance processes for climate-related issues or the development of "standalone" disclosures, the Task Force did not intend for companies with comprehensive governance processes that address climate-related issues to create separate processes or duplicate existing disclosures. If a company's disclosures clearly describe its governance processes and it is clear those processes cover climate-related issues, then no further disclosure may be needed.

iii. Providing examples of reporting that align with the recommended disclosure

Governance of climate-related risks and opportunities

The Board's oversight
The Board of Directors is responsible for the oversight of climate-related risks and opportunities impacting the Group. They in turn delegate some elements of their responsibility to their various sub-committees, as set out in the diagram below:

Board of Directors: There has been an increased focus on climate-related matters at the Board level as the landscape continues to evolve with further regulatory developments and changes in stakeholder expectations. Board members presented alongside management at environment, social and governance (ESG) investor presentations during the year, including an ESG virtual seminar event in October 2020 and a follow-up session on the future of gas in January 2021. The expertise of the Board on ESG-related matters continues to be enhanced through regular interactions with management, regulators and government bodies on matters such as our net zero strategy. The Board will also be actively involved in COP26 taking place in Glasgow in November, for which National Grid is a principal partner. In addition, the Board was involved in the following discussions relevant to climate change:

- reviewed and approved the climate change principal risk as part of the annual risk review and challenge process. This risk is now owned by Justine Campbell, the Group General Counsel & Company Secretary and a member of the Group Executive Committee, having first been elevated to a principal risk in Autumn 2019;
- RfD-2 Final Determinations which reflect our investment proposition for supporting the UK energy transition;
- quarterly reviews of performance on our environmental sustainability metrics and targets; and
- approved the acquisition of WFD to achieve a scale position in electricity distribution in the UK, which is expected to see a high level of asset growth as a result of the energy transition.

Recommended Disclosure *Governance a)*

The first recommended disclosure under the Governance recommendation — *Governance a)* — asks companies to describe the board’s oversight of climate-related risks and opportunities

Governance	
Disclose the company’s governance around climate-related risks and opportunities	
All Sectors	
Recommended Disclosure a) Describe the board’s oversight of climate-related risks and opportunities.	<p>In describing the board’s oversight of climate-related issues, companies should consider including a discussion of the following:</p> <ul style="list-style-type: none">▪ processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues;▪ 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 company’s performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures; and▪ how the board monitors and oversees progress against goals and targets for addressing climate-related issues.

Source: TCFD, Annex : Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures , 2021

Example of Disclosure for Governance a)

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

Example Disclosure: National Grid (Energy)

TCFD alignment: this example describes an energy company's board oversight of climate-related issues. The company indicates its Board of Directors is responsible for overseeing climate-related risks and opportunities and describes the board's approval of climate change as a principal risk as part of the annual risk review. The example also describes the roles of board sub-committees, including the SEH Committee's consideration of climate-related risks and opportunities when reviewing business strategy. The report also shares the frequency with which some of these governing bodies meet (e.g., the Board of Directors meet quarterly to review the company's environmental sustainability metrics and targets performance).

Governance of climate-related risks and opportunities

The Board's oversight

The Board of Directors is responsible for the oversight of climate-related risks and opportunities impacting the Group. They in turn delegate some elements of their responsibility to their various sub-committees, as set out in the diagram below:

Board of Directors: There has been an increased focus on climate-related matters at the Board level as the landscape continues to evolve with further regulatory developments and changes in stakeholder expectations. Board members presented alongside management at environment, social and governance (ESG) investor presentations during the year, including an ESG virtual seminar event in October 2020 and a follow-up session on the future of gas in January 2021. The expertise of the Board on ESG-related matters continues to be enhanced through regular interactions with management, regulators and government bodies on matters such as our net zero strategy. The Board will also be actively involved in COP26 taking place in Glasgow in November, for which National Grid is a principal partner. In addition, the Board was involved in the following discussions relevant to climate change:

- reviewed and approved the climate change principal risk as part of the annual risk review and challenge process. This risk is now owned by Justine Campbell, the Group General Counsel & Company Secretary and a member of the Group Executive Committee, having first been elevated to a principal risk in Autumn 2019;
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- quarterly reviews of performance on our environmental sustainability metrics and targets; and
- approved the acquisition of WPD to achieve a scale position in electricity distribution in the UK, which is expected to see a high level of asset growth as a result of the energy transition.



The **Audit Committee** remains responsible for reviewing and approving the content of our TCFD disclosures. The Audit Committee considered papers in March and May 2021 on the financial reporting and disclosure considerations in respect of climate change. The Audit Committee also oversees the development of the assurance model for our RBR and recommends to the Board the approval of the disclosures in our first RBR.

The **Finance Committee** is responsible for overseeing our financing strategy, including the issuance of our first Green Bonds in National Grid Electricity Transmission and Niagara Mohawk Power Corporation (NMPC). The Finance Committee also considers the financial impact of environmental factors on our credit metrics and relevant considerations with regards to debt investors.

The **Safety, Environment and Health Committee** (SEH Committee) is responsible for assessing the Group environmental sustainability strategy and performance, as well as how the Company adapts its business strategy considering potential climate change risks and opportunities. The SEH Committee monitors our environmental sustainability performance quarterly and approves updates to our environmental sustainability strategy and targets annually.

The **Remuneration Committee** is responsible for determining our remuneration policy, including how ESG factors are considered in the policy, and how they are taken into consideration in determining the final incentive pay decisions. For further detail on how such factors feature in executive remuneration, please refer to the Directors' Remuneration Report on pages 92 – 113.

The **Nominations Committee** is responsible for Board appointments and succession planning. In 2019, the Nominations Committee approved the appointments of Jonathan Silver, whose previous experience included leading the US Federal government's clean energy investment fund and Earl Shipp, who brings significant experience in safety, environmental and sustainability from his executive career.

Source: National Grid, [Annual Report and Accounts 2020/21](#), 2021, p.61.

Note: Some content was reformatted in order to fit the page; and some content has been removed, denoted by [...].

The examples included are not intended to represent "best practice" nor demonstrate disclosures that fully meet the associated recommended disclosure.

They may not be applicable to all sectors and should be considered within the framework of the sector in which the company operates. The mention of specific companies does not imply that they are endorsed by the TCFD or its members in preference to others of a similar nature that are not mentioned.

Governance b)

Governance b) asks companies to describe management’s role in assessing and managing climate-related risks and opportunities

Governance

Disclose the company’s governance around climate-related risks and opportunities

All Sectors

Recommended Disclosure b)

Describe management’s role in assessing and managing climate-related risks and opportunities.

In describing management’s role related to the assessment and management of climate-related issues, companies should consider including the following information:

- whether the company **has assigned climate-related responsibilities to management-level positions or committees**; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues;
- a description of the associated **organizational structure(s)**;
- **processes by which management is informed** about climate-related issues; and
- how management (through specific positions and/or management committees) **monitors climate-related issues**.

Governance a) and b): Clarification on Disclosure



In its 2019 status report, the TCFD shared the results of a comprehensive survey on the adoption and use of the TCFD recommendations. Part of the survey asked companies that had implemented or were implementing the TCFD recommendations to **describe issues they encountered as part of their implementation.**



For the Governance recommendation, nearly 50% of the companies indicated disclosing governance practices around climate-related issues was **challenging** because their **governance practices apply to all issues, not just climate.**

Companies did not want to disclose their governance around climate-related issues separately from their disclosure of their general governance practices, which apply to all types of issues.



To address this concern, the Task Force clarified that it did not intend for companies with comprehensive governance processes that address climate-related issues to create separate processes or duplicate existing disclosures. If a company's disclosures **clearly describe its governance processes** and **it is clear those processes cover climate-related issues**, then no further disclosure may be needed.

Example of Disclosure for Governance b)

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

Example Disclosure: Allianz Group (Insurance Underwriting and Investing)

TCFD alignment: this example describes management's responsibilities for climate-related issues at Allianz Group.

- The company indicates that Global Sustainability is responsible for coordinating integration of climate into insurance and investment activities and that ESG Task Forces were created to support cross-functional collaboration in implementing efforts for integration. The ESG Task Forces are sponsored by senior executives, as shown in the table on the right.
- The company indicates its insurance and investment functions have well-established climate teams that report to Board of Management level. In addition, the Investment Management Board oversees climate strategy for the investment management function, including decisions on implementation, target-setting, and compliance related to portfolio decarbonization targets.

05.2.2 Business and management-level governance

Group functions

The Global Sustainability¹ function includes a team dedicated to Climate Integration and is responsible for coordinating the integration of ESG and climate aspects into core investment and insurance activities. It also acts as the secretariat of the ESG Board and meets regularly with its chair. Further functions, such as Group Risk, Regulatory and Public Affairs, report on non-financial matters and support operating entities in integrating the Group's strategic approach and policies.

Addressing sustainability matters requires cross-functional collaboration and support across our global operations. To develop projects and proposals for ESG and climate integration and drive implementation, cross-functional ESG Task Forces were set up in 2019 (see also section 02.7.1). They consist of ESG specialists and representatives of relevant local operating entities, global lines and Group functions. Each taskforce is sponsored by senior executives from different functions and quarterly meetings between sponsors ensure alignment between the different task forces.

Additional bodies and functions within the Group monitor and analyze market, technological and regulatory trends and developments and share insights with key stakeholders.

☞ Further information can be found in the Allianz Group Annual Report 2020.

[...]

- ☞ See section 02.7 about the changes to the organization of the sustainability organization within Allianz SE as of 01 January 2021).
- Based on economic view. Compared to accounting view it reflects a volume increase due to switch from book-to-market values and changed asset scope (e.g. including FVD, trading and real estate own-use).

Insurance and investment functions

Key insurance operating entities, our internal asset managers (Allianz Global Investors and PIMCO), and the investment management function, Allianz Investment Management (AIM), have well-established climate and ESG teams, which report to BoM level.

At AIM, the Investment Management Board (IMB) oversees implementation of climate and ESG strategy for our proprietary investment portfolio of € 835 billion². This includes regular updates, discussions and decisions on implementation, target-setting and compliance related to portfolio decarbonization targets and measures. Analyses of asset stranding in climate scenarios and engagement on climate aspects are also regularly addressed. Within AIM, climate and ESG is steered at IMB level with a Managing Director in charge of the implementation.

Several business units have dedicated competence centers that promote low-carbon technologies from an insurance and investment perspective. They include Allianz Capital Partners, Allianz Global Investors, Allianz Global Corporate & Specialty, Allianz Climate Solutions, among others.

☞ For more details, see section 02.7 Corporate Responsibility Governance.

☞ For more details, also see the Allianz ESG Integration Framework.

[...]

ESG Task Force	Sponsor
Corporate responsibility disclosures	Head of Group Accounting and Reporting, Allianz SE
Environmental management	Head of Group Operations and Performance, Allianz SE
ESG integration in communication and in branding/ marketing	Head of Group Communications and Corporate Responsibility, Allianz SE
ESG integration in investments	Managing Director, Allianz Investment Management SE
ESG integration in underwriting	ESG Working Group (including representatives Group ESG Office, Global P&C, Allianz Re, Allianz Global Corporate and Specialty, Euler Hermes, Allianz Germany and other P&C entities)
Operating entity collaboration	Head of Group Communications and Corporate Responsibility, Allianz SE
Sustainability ratings	Member of the Board of Management, Investment Management and ESG, Allianz SE
Societal impact	Member of the Board of Management, Human Resources, Legal, Compliance, Mergers & Acquisitions, Allianz SE
Sustainable finance regulation	Head of Group Regulatory and Public Affairs, Allianz SE Head of Asset Manager Management, Governance and Compliance, Allianz Investment Management SE

Quarterly meetings to ensure alignment between Task Forces.

Source: Allianz Group, Allianz Group Sustainability Report 2020, 2020, p. 82

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Discussion questions

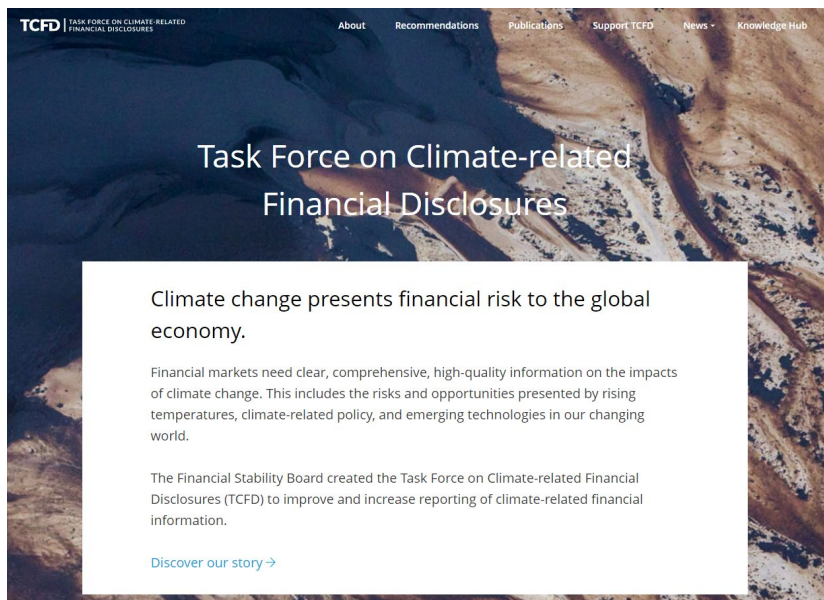
- **Does your company already have governance processes and bodies in place that explicitly address climate-related issues?**
- **Are the responsibilities of the board and management clearly defined?**

Additional Resources

Other resources on how to get started can be found on the TCFD website and the Knowledge Hub

TCFD Website

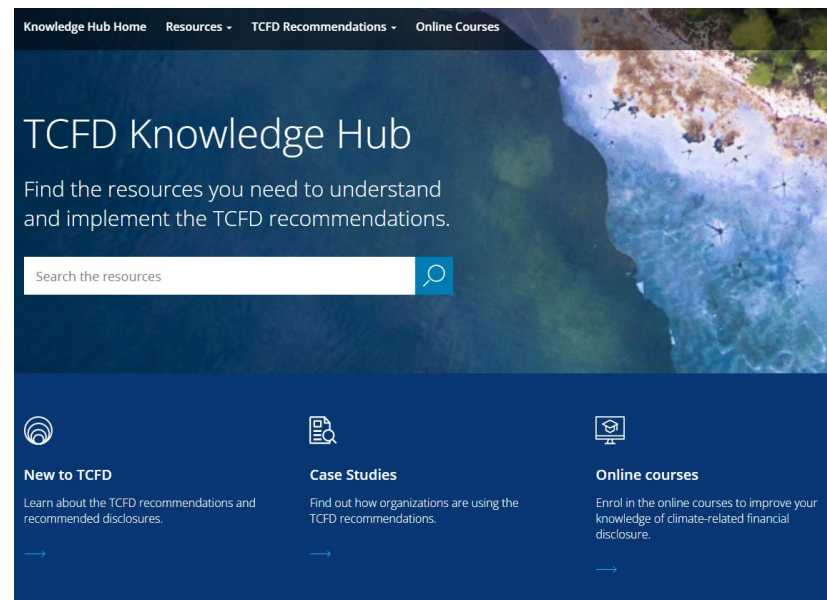
Find all the information you need about the TCFD on its official website, including the recommendations and all other publications.



<https://www.fsb-tcfd.org/>

Knowledge Hub

Find additional TCFD-related resources curated by the CDSB (information on the recommendations, alignment with other frameworks, online courses, etc).



<https://www.tcfdhub.org/>

TCFD Series of Workshops

The next session will focus on the Strategy recommendation

Session

1	Fundamentals and Overview of TCFD	
2	TCFD Recommendation: Governance	
3	TCFD Recommendation: Strategy	Next session
4	TCFD Recommendation: Risk Management	
5	TCFD Recommendation: Metrics & Targets	

Q&A