Exploring the Frontier of Best Practice in Environmental Disclosure Policies

December 12
Opening Remarks

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Corporate Governance
IFC Disclosure and Transparency Program
IFC
Opening Remarks

Pietro Bertazzi
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**TODAY’S AGENDA**

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Learning objectives

1. Showcase the report’s analyses and findings, which spanned 38 jurisdictions
2. Share practical examples for developing high-quality regulations, based on five criteria developed by CDP for successful mandatory disclosure
3. Explore the future of environmental disclosure policy
4. Provide lessons for jurisdictions looking to build their own environmental disclosure policy frameworks
Context, methodology, and approach

Daniel Petrovics
Research Consultant
Context

1. Environmental information at the forefront of information demands
2. Proliferation of sustainability reporting across developed economies
3. Shift from voluntary disclosure to mandatory requirements
4. Majority of (environmental) risks and opportunities to be found in developing economies
5. Opportunity for financial regulators to introduce more granular and efficient policy
6. Opportunity to leapfrog policy and reporting practice alike in developing economies
Methodology and Approach

1. Review of over 100 policies – regulation, laws and codes
2. 38 jurisdictions in focus – primarily in IFC countries
3. Aim: to understand how policy may influence mature reporting practice and to understand what best-practices exist in policy
Methodology and Approach

Analysis through the lens of 5 criteria developed by CDP on high-quality mandatory disclosure:

1. **Environmental integrity**, addressing sustainability-related financial disclosures as well as impact on people and planet, with a holistic environmental approach
2. Ensure **compatibility of disclosure standards** required or recommended
3. Provide an **enforcement system**
4. Adhere to **technical quality and content** of the reporting process
5. Allow **space for innovation** and more mature disclosure
Summary of Key Findings

1. Shift from voluntary to mandatory is well under way
2. Varying degrees of granularity in policies
3. No policy to-date meets all 5 criteria set out by CDP
4. Notable examples of best-practices for each criteria across the board
5. Notable examples of best-practices also found in developing economies
Analysis of best practices in developed economies

Evan Guy
CDP
Developed Economies – Environmental Integrity

Box 3.1 Summary: Best Practices Linked to Environmental Integrity

- Grounding preambles in broad policy frameworks
- Incorporating long-term planning
- Establishing board responsibility in managing environmental impact and reporting
- Connecting investment focus with objective and including tools for investment screening
- Admitting and mitigating existing shortcomings of nonfinancial reporting
- Not limiting focus to sustainability-related financial disclosures but including impacts on people and the planet to ensure that the goals of the Paris Agreement and the 2030 Agenda are met

Environmental integrity, addressing sustainability-related financial disclosures as well as impact on people and planet, with a holistic environmental approach
Developed Economies – Compatibility of Disclosure Standards

Box 3.2 Summary: Best Practices Linked to the Compatibility of Disclosure Standards

- Reference to and requirement to use various reporting frameworks
- Constructive engagement with various frameworks
- The illustration of what the strength of various frameworks are and where they may be applicable
- The illustration of where overlaps and alignments between existing frameworks are found

Ensure compatibility of disclosure standards required or recommended
Developed Economies - Enforceability

Box 3.3 Summary: Best Practices Linked to Enforceability

- The establishment of monitoring responsibility and a relevant authority with sufficient enforcement powers and funding to carry out its mandate
- The introduction of penalty measures for noncompliance with reporting obligations

Provide an enforcement system
Developed Economies – Technical Quality & Content

Box 3.4 Summary: Best Practices Linked to Technical Quality and Content

- The digital tagging of information
- Balancing the reporting burden for SMEs
- Spelling out metrics based on existing reporting frameworks
- Connecting to technical initiatives such as Science-Based Targets
- Ensuring the continuous update of data
- Setting a clear timeframe for reporting obligation
- Requiring the use disclosure systems, which aggregate information

Adhere to technical quality and content of the reporting process
Developed Economies - Innovation

Box 3.5 Summary: Best Practices Linked to Innovation

- Invitation or incentives to implement latest developments in metrics, targets, and reporting frameworks
- A focus on models of best-practice reporting
- A focus on the audience and purpose of policy

Allow space for innovation and more mature disclosure

[IFC logo]

Creating Markets, Creating Opportunities
Analysis of best practices in developing economies

Ralitza Germanova
IFC
Regulation on ESG Disclosure

- Legislation
- ESG Codes of Good Practice
- Self-Assessment ESG Scorecard
- ESG Reporting Guidelines
- Taxonomies
- Sustainable financial products (listing segments, indices)

MARKET REGULATORS AND STOCK EXCHANGES
A Gateway to Sustainable Finance for Emerging Markets
The climate regulatory movement

October 2021: The Canadian Securities Administrators proposed to make climate change disclosures mandatory for public companies, largely consistent with the TCFD recommendations.

July 2021: The U.S. Securities and Exchange Commission (SEC) Chair Gensler announced the SEC’s intention to develop a climate risk disclosure rule proposal, drawing from the TCFD framework as well as other standard-setters.

June 2021: Switzerland’s Financial Market Supervisory Authority amended disclosure rules for banks and insurers to include climate-related financial risks, based on TCFD.

2020-2021: Several UK regulators issued rules and proposals for TCFD-aligned disclosure.

April 2021: The European Commission issued a proposal calling for the development of sustainability reporting standards that take into account existing frameworks including the TCFD.

August 2021: Singapore Exchange Regulation proposed a road map for mandatory TCFD-aligned disclosure.

September 2021: Central Bank of Brazil issued TCFD-aligned disclosure rules for regulated institutions.

April 2021: Australian Prudential Regulatory Authority publishes TCFD-aligned draft guidance on managing climate risks.

June 2021: The Tokyo Stock Exchange issued a revised Corporate Governance Code, which now indicates certain companies should enhance disclosure based on TCFD recommendations.

December 2020: The Hong Kong Monetary Authority issued draft guidance indicating authorized institutions should make TCFD-aligned disclosures.

October 2021: New Zealand passed a bill to require mandatory TCFD-aligned disclosure for large listed financiers.

Source: TCFD Fundamentals Workshop
Recommendation:
1.) Consult broad, global frameworks to better understand the overall trends in the environmental agenda.

Assess how the Paris Agreement, SDGs and the upcoming Global Biodiversity Framework are applicable to your local jurisdictions and how as (financial market) regulators you can frame policy within these overall frameworks.

Next to this, scope out potential linkages in already existing regulatory frameworks to see if any type of specific disclosure requirement or data collection process exists. If so, link it to your disclosure requirements to ensure quick wins.
Best practices in developing economies/2

Compatibility of disclosure standards

Recommendation:

2) Familiarize with the various reporting frameworks, their purpose and use.

Pay specific attention to the various conceptions of materiality - bearing in mind the concept of double materiality - and what this may mean for the purpose of your policy.

Include explicit references to various frameworks and if multiple are mentioned, make the rationale explicit for why these reporting frameworks are chosen and who is best suited to use them.
Recommendation:

3.) Incorporate enforcement mechanisms in policy.

To this end, ensure that non-compliance with policies carries repercussions and that there are appropriate actors equipped with capacity to monitor non-compliance and implement enforcement measures.
Best practices in developing economies/4

Recommendation:

4.) Ensure the quality and content of the information disclosed is appropriate for its intended use.

- The digital tagging of information,
- Proportionalizing the reporting burden for different types of reporting entities (e.g. SMEs) and graduate reporting practice over the years,
- Set up KPIs;
- Connecting to technical initiatives such as Science Based Targets,
- Ensuring the continuous update of data,
- Ensure timely disclosure
Recommendation:

5.) Ensure the timely incorporation of developments in reporting frameworks, potentially at the level of metrics and targets.

Ensure reporters have a good understanding of what is best-practice reporting (including long-term targets), not only minimum disclosure.

This can be done through providing trainings on good reporting practices for example.
IFC’s Beyond the Balance Sheet Toolkit and Program aim to enhance confidence and investment opportunities in emerging markets by improving the quality of corporate reporting by focusing on the most important components of an annual report – strategy, governance, risk management, and performance.

**D&T FRAMEWORK**
- Helps disclose material aspects of:
  - Strategy & sustainability
  - Corporate governance
  - Financial & non-financial performance
  - Streamlined all reporting frameworks

**ONLINE PLATFORM**
- Facilitates continuous process:
  - Exploring global, local, industry resources
  - Self-paced learning modules, blended with webinars
  - Assessing via annual report self-assessment tool

**CAPITAL MARKETS**
- Policy support to stock exchanges and regulators, developing 145 codes & laws, 30 scorecards and 15 ESG reporting guidelines
- Strategic partnership with UN SSE
Developing Economies Analysis
Policy Recommendations

STEP 1: Formulate relevant regulations and connect them to reporting.

STEP 2: Formulate key indicators and align them with globally recognized standards and frameworks.

STEP 3: Consult with relevant stakeholders about the indicators.

STEP 4: Ensure a monitoring and implementation system is in place for receiving reports and analysing data.

STEP 5: Generate reports and publish information.

STEP 6: Revisit indicators for updates annually.

Analysis of Best Practices in Environmental Disclosure Policies
A review of 101 policies worldwide based on Five criteria for high-quality disclosure

IFC
Creating Markets, Creating Opportunities
Panel Discussion

Anthony Miller
Coordinator
UN Sustainable Stock Exchanges Initiative

Daniela Baccas
Lead, Financial Innovation Laboratory
Securities and Exchange Commission, Brazil
Monitoring the Market

Number of Exchanges

- Exchanges with written guidance on ESG disclosure
- Exchanges subject to mandatory ESG disclosure

Launch of SSE Model Guidance and global campaign to promote ESG disclosure guidance
Exploring the Frontier of Best Practice in Environmental Disclosure Policies

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