FAQ ON MANDATORY CLIMATE REPORTING FOR PRI SIGNATORIES

Since 2020, PRI signatories have been required to report to the PRI on several indicators regarding their management of risks and opportunities related to climate change. These indicators are modelled on the recommendations of the Financial Stability Board's Task Force on Climate-related Disclosures (TCFD), and are intended to complement institutions' TCFD reporting. Beginning in 2021, public disclosure of signatories' reporting on these indicators is mandatory, and signatories' responses will be scored. The Investment and Stewardship Policy 2021 Reporting Framework is now live and will stay open until 31st of March.

This document explains the purpose of the disclosures, provides examples of good practice, and answers commonly asked questions about them. Should you have additional questions, please contact reporting@unpri.org.

THE TCFD AND PRI'S CLIMATE DISCLOSURES

Q1. What are the TCFD recommendations?

The recommendations from the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD) provide a common international framework for companies and investors to assess the likely business impacts of climate change. They recommend disclosure regarding eleven questions clustered under four categories: governance, strategy, risk management and metrics and targets.

The recommendations seek to mainstream the management of climate-related risks and opportunities and provide a framework through which organisations can test the resilience of their strategy to climate-related impacts. They are designed for companies of all kinds, including banks, asset managers, and insurers, as well as for investors, whom the TCFD considers to be both users and the issuers of climate-related disclosures. Disclosures are intended to take place in companies' and investors' regular financial filings (e.g. annual report or periodic client reporting).

The TCFD recommendations are illustrated in the graphic below.

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

Q2. How do the TCFD recommendations and the PRI climate indicators differ?

Whilst drawn from the TCFD recommendations, PRI's climate indicators are more descriptive in nature, whereas the TCFD recommendations seek a balance of qualitative and quantitative reporting. Moreover, a TCFD report should be published in the mainstream financial filings (which for listed companies could be subject to audit), whereas signatory reporting to PRI is self-reported data. Finally, in addition to elements based on the TCFD, the PRI indicators include questions about the organization's public support of the Paris climate accord and the TCFD itself.

The indicators are designed to **complement, not replace, TCFD reporting**.

Q3. What PRI indicators are mandatory to report on?

The mandatory indicators are ISP 26 through ISP 31 as well as ISP 33. They are available in the 2021 Reporting Framework here. The Framework includes guidance notes on each indicator question, which may be consulted in conjunction with this FAQ document.

Including subindicators, there are eight mandatory items related to the reporting organisation's public stance on climate and climate reporting; its board and management oversight of climate-related risks and opportunities; and its use of scenario planning in the assessment of climate impacts.

Q4. My organisation is an asset owner or asset manager that already publishes a TCFD report. Do we still need to answer these indicators?

Yes. You should be able to use your TCFD disclosures in your PRI reporting.

Q5. Do investment consultant signatories need to respond to the climate indicators?

No. However, given the prominent role that investment consultants play in some markets, the relevance of TCFD-type questions is currently being reviewed.

Q6. How will the climate indicators be scored?

An overview of the 2021 changes to the PRI's scoring methodology can be found here. In general, assessment is being made more challenging and more consistent. However, scores will remain confidential and will continue to be generated only at the level of a module or asset class, with no organization-wide score.

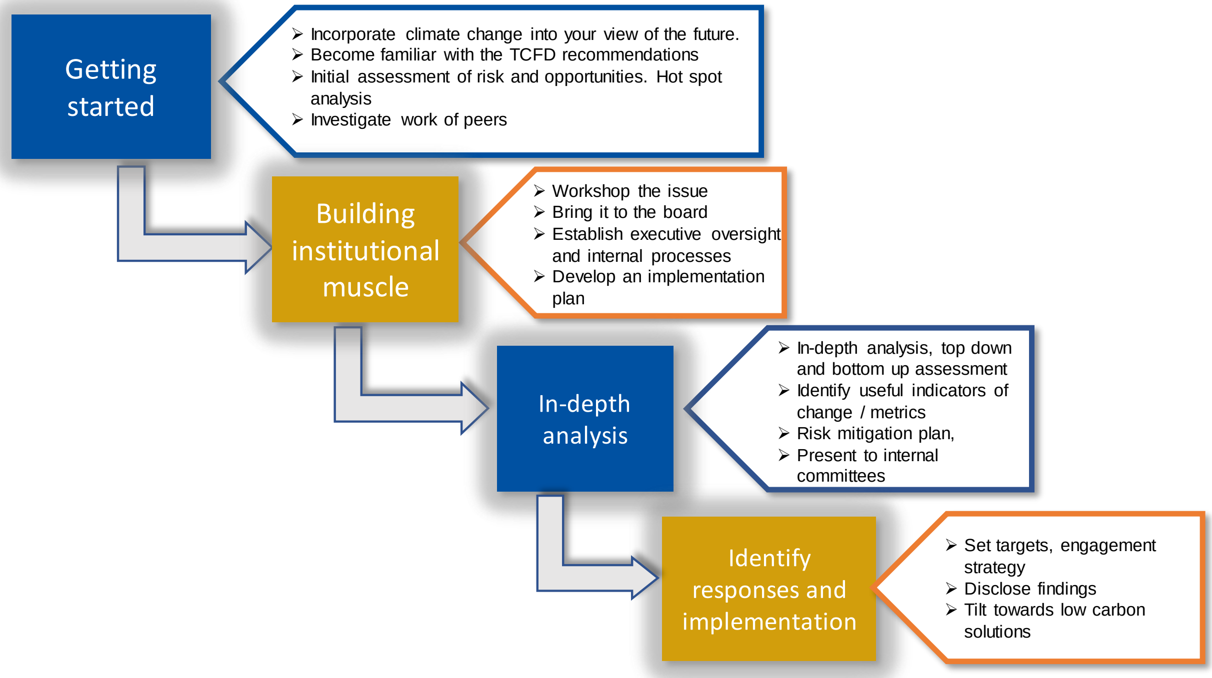
The assessment of performance on each indicator is specified in the 2021 Scoring Framework. ISP 26 and ISP 27 are scored on a binary basis, with full credit for a company's public support of the Paris Accord and the TCFD, respectively, and no credit for a lack of such public support. As explained in more detail below, the answer choices for the remaining indicators represent a comprehensive suite of best-practice measures on that issue. Thus, credit will be assigned cumulatively for each of the answer choices checked.

The value assigned to each indicator depends on its assignment to a low, medium, or high weight category, and can also be found in the 2021 Scoring Framework. The most highly weighted mandatory climate indicators are ISP 28 and ISP 29, on how climate issues are being overseen by a signatory's board and management, respectively; ISP 30, 30.1 and 31, on the assessment of climate-related risks and opportunities over various time frames; and ISP 33, on the use of scenario analysis in the assessment of climate-related risks and opportunities.

Q5. My organisation is new to climate-related reporting. How should we begin?

There is unlikely to be any one single way to answer this question, as it relates to how firms are organised and how they undertake investment practice. But the image below provides an indicative four step approach that investors could take in investigating and implementing TCFD, which could also be of relevance for the PRI climate indicators.

Four step approach to implementing TCFD



In addition, organisations may wish to start with reviewing their existing approach to climate change, including the extent of their investments in energy-intensive sectors. Developing familiarity with the Taskforce's recommendations and investigating the work of peers is also suggested at this stage. There are also many tools available for assessing climate transition risk, provided by academic institutions, other nonprofit organizations, and for-profit research providers and consultancies. A table listing a number of tools of this kind can be found on the PRI website here.

In distinguishing among these tools, investors may consider the functionality of their outputs, such as:

- **Alignment tests** on the degree to which the portfolio meets or overshoots climate goals;
- **Company information** which could be used in corporate engagement; and
- **Financial analysis** of the value in portfolios that could be at risk.

Other factors include the coverage of asset classes and whether the tool is primarily for portfolio screening or sector-level analysis.

As well as which tools to use, investors also need to consider **what scenarios are relevant** to their analysis. The TCFD recommends the use of a range of scenarios, including a 2ºC or lower scenario. Yet, as well as a temperature outcome, it is also important to consider whether the path to will be smooth or abrupt. As the realities of climate change become increasingly apparent, it is inevitable, in PRI's view, that governments will be forced to act more decisively than they have so far.

Q6. Doesn't a lack of data make it difficult for organizations to assess the future impacts to their business of climate change?

It is true that there are many data challenges limiting the quantitative certainty and precision of climate-related analysis. For example, measurement and disclosure of corporations' carbon emissions is not standardized and required by regulators worldwide in the way that financial reporting largely is; the societal costs of companies' climate change impact are not reflected on their balance sheets; and uncertainties about future warming trends and policy developments attend all climate-related modelling. However, as noted above, many tools and techniques are being developed to extrapolate from the disclosures and information that do exist, in order to create decision-useful estimates. At this stage, the PRI's reporting framework does not prescribe any particular tools or estimation methodologies. Instead, the mandatory disclosures focus on the establishment of board and management structures for the governance of climate issues, and encourage companies to consider potential risks and opportunities affecting a range of asset classes, over a variety of time frames, and under multiple potential scenarios.

Q7. What are the use cases of TCFD reporting and what are some examples of investors who have done this?

As a disclosure framework, reporting is clearly an important part of TCFD. Yet, the disclosures are not the end goal, but rather the mechanism through which the Taskforce's recommendations are implemented.

Key applications of TCFD reporting are:

1. **Assessing the resilience of your investment strategy**: By testing portfolios under different climate constrained scenarios, investors are able to consider a broader range of assumptions, uncertainties, and potential future states when assessing financial implications of climate change.

   Investor examples of this kind of assessment include those made by Axa, Aviva, GPIF, and CalSTRS.

2. **Structuring corporate engagement**: The TCFD recommendations act as a useful framework for structuring engagement with portfolio companies. Investors can utilise TCFD disclosures to better understand how investee companies are exposed to climate-related risks.

   Investor examples include the joint TCFD case study from Storebrand and Equinor, and a report from Pingan Group.

3. **Embedding board oversight of climate-related risks and opportunities**: Effective TCFD reporting requires cross-organisational collaboration and alignment, which means drawing many different teams to assess climate-related issues. TCFD reports can therefore help build capacity across the organisation of the understanding of climate-related risk and ultimately lead to more robust governance, strategy and risk management practices.

   Investor examples include reports from: Cbus, CalSTRS,and the New York State Common Retirement Fund

Additional reporting and aggregated analysis from the 2020 PRI climate indicators, including responses from 2,097 investors representing $97 trillion in assets, is available here.

Q11. Where can I find more resources on TCFD and PRI climate indicators?

PRI and external reports

- The PRI Asset Owner guide to TCFD: actions for asset owners, questions for consultants, investor examples and a chapter on climate scenarios.
- The TCFD Knowledge Hub: an online portal for published resources on TCFD.
- Net Zero Investment Framework from the Institutional Investors' Group on Climate Change
- Beyond the Horizon: New Tools and Frameworks for Transition Risk Assessments from the United Nations Environment Programme Finance Initiative

Climate scenario analysis

- Directory of climate scenario tools: Free-to-use and commercially available climate scenario tools can help make it easier for investors to implement a key recommendation of the TCFD – scenario planning.
- Table of reference climate scenarios: PRI Reporting Framework Indicator SG 13.8CC invites signatories to select which climate reference scenarios they use from a list.

PRI signatory reporting on the 2020 climate indicators

- Climate snapshot report: analysis of investors' response to the PRI 2020 climate risk indicators

Webinars

- The TCFD recommendations and the 2021 PRI reporting cycle: overview of TCFD and 2021 PRI climate reporting framework (February 8, 2021)
- The TCFD recommendations and the 2020 PRI reporting cycle: overview of TCFD and 2020 PRI climate reporting framework
- Climate scenario analysis and PACTA: overview of climate scenarios, PACTA and California Insurance Commissioner.
- TCFD: leaders and challenges: joint webinar with the IFoA, Aviva and Carbon Delta