

Data and disclosures

Background Note¹

Introduction – The need for climate action

High quality, granular, consistent, reliable and comparable climate-related data is needed to inform the decisions necessary to reach net-zero by 2050, as pledged by many countries. Reliable data, including disclosures **by nonfinancial and financial companies**, are essential preconditions for understanding of the financial risks – and opportunities -- presented by climate change and for enhancing climate resilience more broadly.

As regards financial risks, investors need access to such information for risk management and authorities need such information for monitoring of financial stability risks and for vulnerabilities assessment. This includes data on physical and transition risks, appropriately granular data on the translation of physical and transition risks into financial risk and the exposure of financial institutions, information on the transfer of climate-related risks within the financial system and tools that can be used to assess climate-related risks to the financial system as a whole, in particular scenario analysis.

As regards sustainable finance, investment decisions about need to be based on objective and verifiable information about risks, opportunities and impacts. The G20 Sustainable Finance Working Group (SFWG) has noted the consensus from both financial actors and market regulators on the need to improve consistency, comparability, and reliability of broader sustainability reporting.

Reliable data and disclosures that support climate risk management also help sustainable finance, and vice versa. Financial resilience is a general precondition for the stable provision of sustainable finance. By the same token, sustainable finance based on sound risk management contributes to financial resilience. Over time, progress in identifying and addressing climate-related financial risks will support a shift towards sustainable finance and create a positive feedback loop whereby the mobilisation of sustainable finance and a smooth transition to a low-carbon and climate-resilient economy benefit financial stability. More specifically, the information, analytical tools and policy approaches developed for use in managing financial risks may also be applicable to a wider range of users and use cases, including risk management and policy planning related to sustainable finance, and even extended to contribute to examination of how the financial system can advance people's well-being more broadly.

¹ Prepared by an informal working group including staff of the FSB, IIF, IMF, NGFS, OECD, UNDP and WBG. The content reflects the combined contributions of the authors, and they do not necessarily represent the views of their organisations.

A comprehensive strategy

Data needed to address risks to financial stability

There is a growing focus on potential risks to financial stability from climate change. A manifestation of physical risks as well as a disorderly transition to a low-carbon economy could have destabilising effects on the financial system, including through a rise in risk premia and falling asset prices in the relatively short term. Climate-related risks may be amplified by the financial system, across borders and across sectors.

Climate-related risks are far-reaching and differ from other risks to financial stability. They are global in nature, and will have effects across all entities, sectors and economies, but the effects will differ depending on their locations and activities. Climate-related risks may be highly non-linear, and their effects on the financial system subject to substantial uncertainty and tail-risk. The potential effects are spread over long time horizons, and actions today may determine the severity of risks in the years ahead. The breadth of climate-related risks – including their possible simultaneous crystallisation across multiple jurisdictions and sectors – also has implications for the resilience of the financial system. The actions needed are therefore both bottom-up and top-down, to address risks to individual entities and those to the system as a whole.

The following priority areas of work – some of which are already in progress – should address important data gaps to improve the monitoring and assessment of climate-related risks to financial stability.² Work in these areas should be undertaken in a manner consistent with authorities' mandates and domestic legal frameworks.

- Financial authorities, in cooperation as appropriate with other official-sector bodies, should work to improve the availability and consistency of data on the underlying drivers of climate-related risks. In doing so, financial authorities should consider the data needed to understand entities' exposures to physical risks, as well as comparable data on the scale and nature of jurisdictions' climate-change targets and progress in meeting them.
- Financial authorities should consider how to improve the quality and consistency of data on financial institutions' exposures to climate-related risks arising from their exposures to non-financial counterparties, including exposures that arise due to firms' supply chains.
- Financial authorities should consider developing – including via their engagement with private-sector providers of data – forward-looking metrics on climate-related risks, both at the level of individual firms and the financial system as a whole.
- Financial authorities should work together to widen and harmonise data on the degree to which individual financial institutions' exposures to climate-related risks are mitigated by insurance provision.

² FSB (2021), The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability, forthcoming.

- The FSB should bring financial authorities together to compare their experiences of implementing scenario analysis as a means of assessing the resilience of the financial system to climate-related risks, and to identify relevant data gaps. Such data gaps might include those concerning data and metrics necessary to assess the degree to which climate-related risks might be amplified and mitigated by the actions of different financial sectors, and by feedback loops with the real economy.
- The NGFS should continue its work to refine and develop scenarios³, which financial authorities should take as a basis for their scenario analysis, in order to align the data and methodologies used in such analysis.

Data to support sustainable finance

The OECD notes that there is growing recognition that in order to effectively allocate capital to support a low-carbon transition, better quality data and reporting will be needed to deliver globally consistent and verifiable information by which to assess the progress of companies in line with a low-carbon transition. While progress has been made to improve disclosure, OECD research suggests that high E pillar scores of major ratings providers do not systematically align with factors such as declining carbon emissions and carbon intensity over time or increased use of and investment in renewable energy.

Important work to establish consistent data standards, taxonomies and metrics for ESG purposes is underway. In May 2021, NGFS published an interim report⁴ on a wider set of climate-related data gaps focused on users' data needs (including those needed by investors and financial institutions for decision-making and managing risks, and by micro-prudential supervisors), signposting the way to their final report in late 2021. In addition, IOSCO will shortly publish a report on establishing consistent corporate ESG data standards⁵, and the OECD is studying the extent to which ESG metrics in disclosures and ratings align with climate transitions.⁶

Strengthening disclosures by financial and non-financial firms

An essential step in strengthening data availability is to establish international standards for consistent, comparable, and decision-useful public disclosures and supervisory and regulatory reporting of climate-related financial risks. Corporate disclosures on their climate-related financial risks form the basis for the pricing and management of such risks both internally at individual companies making the disclosures and at individual investors, lenders and others with financial exposures to those companies. Supervisory and regulatory reporting forms the basis for oversight of these risks by financial authorities.

Consistency in the specific risk metrics used as part of these disclosures would facilitate comparison and aggregation, which is important not only for individual investors but also for the monitoring and

³ See NGFS (2020), [Guide to climate scenario analysis for central banks and supervisors](#), June, and NGFS (2021), [NGFS Climate Scenarios for central banks and supervisors](#), June.

⁴ See NGFS (2021), [Progress report on bridging data gaps](#), May.

⁵ The IOSCO report is in progress and will be available at www.iosco.org once finalised.

⁶ OECD (2021), Financial Markets and Climate Transition, forthcoming.

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assessment of financial stability risks related to climate change. For high-quality disclosures, it is also important to develop risk metrics that are aligned with financial risk measurement methodologies and to address related data gaps.

The recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD) have become a widely supported basis for climate-related reporting, first through voluntary private-sector adoption and more recently through jurisdictional initiatives to make such disclosures mandatory or promote voluntary implementation.

Work on the development of an IFRS global sustainability disclosure standard, starting with climate, is advancing rapidly, with important engagement from IOSCO. The IFRS Foundation is currently consulting publicly on the establishment of the International Sustainability Standards Board (ISSB), which is planned for November 2021, and intends to take forward the development of a common international standard for climate-related financial disclosure by mid-2022. IOSCO is working with the IFRS to rapidly advance the development of Sustainability Reporting Standards and to develop an endorsement regime.

The FSB welcomes the IFRS's programme of work to develop a baseline international standard under robust governance and public oversight, built from the TCFD framework and the work of an alliance of private sector sustainability standard setters⁷ as the basis for climate-related financial disclosures, involving them and a wider range of stakeholders closely. The FSB roadmap to address climate-related financial risks (described further below) also supports the further development of reliable metrics that could provide the quantitative support for the baseline standard. Jurisdictions may choose to supplement this common baseline through additional ambition in the scope of required sustainability information and type of companies involved. The ISSB standards will follow a building block approach, designed to accommodate interoperability with jurisdiction-specific disclosure requirements, including those that may extend beyond the baseline.

Some jurisdictions are already taking, or may wish to take, domestic steps in a more accelerated timeframe than the IFRS's work. The TCFD framework can provide a basis for initiatives that jurisdictions may wish to take, based on domestic regulatory frameworks, while work towards a global baseline corporate reporting standard progresses. The FSB is delivering to the July FMCBG for endorsement a report, prepared in consultation with standard-setting bodies and other international bodies, setting out coordinated action to promote globally comparable, high-quality and auditable standards of disclosure based on the recommendations of the TCFD.⁸

Meanwhile, IMF analysis emphasises the importance of climate-related disclosures for proper pricing of climate-related risks and for financial stability assessments, and will further support the case for the development of IFRS Sustainability Reporting Standards.

⁷ The alliance of private sector standard setters consists of the Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB).

⁸ FSB (2021), Report on Promoting Climate-related Disclosures, July (forthcoming).

The World Bank notes a complementary element that is needed to TCFD Recommendations for corporates is a similar type of framework of sovereign disclosures of information that is decision-useful for investors, providing information on how climate and sustainability-related risks are addressed in sovereign policies, regulations, strategies, and budgets and thus how these plans may impact financial and investment considerations.

A roadmap of key actions

A large, and growing, number of international initiatives are underway on addressing financial risks from climate change. Ongoing work by official sector bodies, including the FSB, NGFS, BCBS, IAIS, IOSCO, OECD, IMF and World Bank, and a variety of private sector bodies on climate issues have been added to recently by the IFRS Foundation proposal to establish the ISSB. More generally, climate topics are being given an important place in both the G20 and G7 agendas for 2021, and preparations are underway for COP26. **This higher attention is very welcome, but it increases the need for international coordination, to strengthen the effectiveness of actions taken and to avoid unnecessary duplication.**

The private sector is seeking such coordination. The Institute for International Finance (IIF) has emphasised that near-term action by international bodies – including the G20, FSB and standard-setting bodies – is needed to ward off the risk of policy fragmentation.⁹ Given the global nature of the climate change agenda, global leadership is essential to encourage the development of well-aligned and considered regulatory and supervisory frameworks across jurisdictions.

The IIF has expressed concern that there are multiple overlapping efforts being taken on topics such as disclosures, data, taxonomy, scenario analysis, prudential regulation and supervision by standard-setting bodies and voluntary public-sector coalitions. It has therefore encouraged the G20 to support the work of the FSB and other standard-setting bodies to set and advance common standards, leveraging progress made by voluntary leadership coalitions.

The FSB is developing a roadmap as a comprehensive and coordinated plan for addressing climate-related financial risks¹⁰, including steps and indicative timeframes needed to do so, and paves the way for implementation. It will be delivered to the G20 Finance Ministers and Central Bank Governors meeting in July 2021.

Starting from the general premise that policymaking requires reliable information; appropriate diagnostics; and effective policy instruments, the roadmap covers four main, interrelated areas:

- **firm-level disclosures**, as the basis for the pricing and management of climate-related financial risks at the level of individual entities and market participants;
- **data**, using consistent metrics and disclosures, provide the raw material for the diagnosis of climate-related vulnerabilities;

⁹ IIF (2021), [Sustainable Finance Policy & Regulation: The Case for Greater International Alignment](#), March.

¹⁰ FSB (2021), FSB roadmap for addressing climate-related financial risks, July (forthcoming).

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- **vulnerabilities analysis**, which provides the basis for the design and application of regulatory and supervisory frameworks and tools;
- and **regulatory and supervisory practices and tools** that allow authorities to address identified climate-related risks to financial stability in an effective manner.

The FSB is coordinating closely with the G20 SFWG as the SFWG develops the broader G20 Roadmap on Sustainable Finance. The FSB's roadmap will be more narrowly focused, covering the area of climate-related financial risks, compared with the broader remit of the SFWG. In this way, the FSB's roadmap will be complementary, and mutually reinforcing, to the SFWG's broader remit.