TCFD state of play report

Analysing quality of TCFD disclosure of Financial Services firms across 2021/22 reporting

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Executive summary

Since its release in 2017, the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) have been recognised as the foundational framework against which organisations report the opportunities and risks related to climate change. While the framework is voluntary, we have experienced a high level of voluntary uptake globally across regions and sectors. More recently, numerous regulators across the globe, such as the United Kingdom, Europe, and the United States, have begun introducing mandatory disclosures in line with the recommendations for certain types of companies, either in full or in part. This is further driving widespread adoption by organisations in both financial and non-financial sectors.

However, as TCFD reporting practices mature, a large divergence emerges among disclosures. The TCFD provides very useful guidance, even on a sector level, but how these recommendations manifest themselves into actual disclosures varies. Across the 88 organisations included in this study, reports came in all different shapes and length – some standalone dedicated climate reports, others integrated into annual reports, and everything in between. These reports ranged in size from one page to up to 150 pages.

To provide insight into this variation, this report seeks to provide an overview of the current state of play of climate-related disclosures of a selection of leading financial services companies.[1] We assess the content of disclosures over each of the four TCFD pillars (Governance, Strategy, Risk Management and Metrics and Targets), identify key trends and discuss areas of emerging practice.

[1] See page 44 for further detail on our sample selection and methodology.

Our sample included companies from three key financial sectors for which specific TCFD guidance has been developed: Banking and Capital Markets (BCM), Insurance and Wealth and Asset Management (WAM) in all regions.

From our analysis, we found that the BCM sector has provided the most comprehensive disclosures on average. We speculate this may be the result of a relatively high proportion of BCM companies being publicly listed or being subject otherwise to heightened regulatory requirements or stakeholder pressure.

On a geographical basis, our analysis suggests that UK- and other European-based companies have been earlier adopters and are more advanced in the reporting process, overall scoring highest against our EY developed criteria. We believe this is largely due to stakeholder and regulatory drivers in these markets given the relative maturity of climate-related standards and initiatives, such as TCFD, Sustainable Disclosure Requirements (SDR), Streamlined Energy and Carbon Reporting (SECR) guidelines in the UK, and the Non-Financial Reporting Directive (NFRD), Sustainable Finance Disclosure Regulation (SFDR) and International Sustainability Standards Board (ISSB) across Europe, compared to the Americas and Asia-Pacific (APAC) where Environmental, Social and Governance (ESG) reporting standards are arguably less pronounced.

In line with our expectation, we also found that larger companies (in terms of regulatory status, i.e., Public Interest Entity (PIE), listed) provided significantly more comprehensive TCFD reports. Arguably, larger companies are subject to higher public scrutiny, be it by customers, shareholders or regulators. Many of these companies also reported their first climate-related disclosures when TCFD was first introduced in 2017, allowing them time to mature and develop their data collection and reporting processes.

We hope you find this report insightful, and that it may help you on your own TCFD journey.

2 Introduction

Purpose and scope

In this report, we provide a snapshot of the state of play of the climate-related disclosures of 88 selected financial services companies against the 11 recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for the 2021-2022 reporting period. We assess the overall quality of disclosures over each of the four TCFD pillars (Governance, Strategy, Risk Management and Metrics and Targets), identify key trends and discuss areas for improvement from the analysis conducted.

The methodology developed required the assessment of a representative sample of 88 financial institutions across Banking and Capital Markets, Insurance and Wealth and Asset Management activities including Private Equity, from across Europe, Middle East, India and Africa (EMEIA), the Americas, and Asia-Pacific (APAC) regions. Each industry accounted for roughly a third of the study.

We evaluated publicly available climate-related disclosures for reporting periods 2021/22 i.e., reports covering the period ending from April 2021 up to and including March 2022. This includes both dedicated sustainability and ESG reports or TCFD and other standalone climate reports as well as annual reports and accounts.

Please note that where data has been presented, percentages may not always add up to 100% due to rounding.

Background to TCFD

This analysis draws on public disclosures of companies across the financial services industry on the uptake and quality of application of the TCFD recommendations.

TCFD has set out 11 core recommendations which provide a framework for companies' climate-related risk disclosures. The recommendations are grouped under four pillars – governance, strategy, risk management, and metrics and targets – designed to help public companies and other organisations more effectively disclose climate-related risks and opportunities through their existing reporting processes:

- Disclose the organisation's governance around climate-related risks and opportunities.
- Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.
- Disclose how the organisation 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.[2]

[2]Task Force on Climate-Related Financial Disclosures

Figure 1: Core Elements of Recommended Climate-Related Financial Disclosures

Source: Recommendations of the Task Force on Climate-related Financial Disclosures Final Report 2017

Since creation in 2017, adoption of TCFD recommendations has risen steeply: its widespread acceptance and promotion by regulators, investors, and other influential stakeholders, mean that it has fast become a global standard and an expectation by stakeholders for climate-related disclosure.

In 2019, the UK became the first jurisdiction to mandate TCFD reporting for certain companies operating in the private sector from 2022 onwards – with other countries planning to follow suit in the coming years. As of December 2021, listed companies are obligated to make a statement in their annual financial report, on a comply or explain basis, whether their disclosures are consistent with the TCFD's recommendations. If companies fall short of these requirements, an explanation has to be included as to why this has occurred.[3]

In addition to the core 11 recommendations, the original 2017 publication ("Recommendations of the Task Force on Climate-related Financial Disclosures"[4]) included supplemental guidance specific to certain high-risk sectors, including banks, insurers, and asset owners and managers. Additional guidance was then published in October 2021 ("Guidance on Metrics, Targets, and Transition Plans"[5]), to reflect recent developments around climate-related metrics and increasing demand for information describing organisations' plans for transitioning to a low-carbon economy.

Alongside this report, EY also publishes the Global Climate Risk Disclosure Barometer on an annual basis[6], which focuses on the quality and coverage of the TCFD reporting of over 1,000 companies globally. This report complements the Barometer, by providing examples of good practice and highlighting specific areas of for development in the financial services sector.

[3]The guidance for UK companies is non-binding. Details of the reporting requirements can be found: on the government website. See 'Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs'
[4]Recommendations on the Taskforce on Climate Related Financial Disclosure, Final Report 2017
[5]Guidance on Metrics, Targets, and Transition Plans, FSB-TCFD, October 2021
[6] https://www.ey.com/en_gl/climate-change-sustainability-services/risk-barometer-survey-2021

Banking and Capital Markets (BCM)

The banking sector leads the finance industry in terms of the comprehensiveness of their climate-related reporting. This holds true across each of the four pillars of the TCFD framework.

UK and European banks generally provide more comprehensive climate reports than other global counterparts. We attribute this to more advanced regulatory standards of climate and sustainability reporting, which have both been driven by and continue to drive rising investor pressure, heightened scrutiny from consumers and other stakeholders and an overall trend of sharpening market focus on such matters. This is evident in the fact that over half of the 114 members of the Net-Zero Banking Alliance (NZBA) members (as of August 2022) are European-based, including the UK.

As part of these growing regulatory reporting requirements, it is worth specifically mentioning forthcoming moves to introduce an obligation for companies to obtain assurance over disclosures from as early as 2024 (e.g., CSRD[7], SEC[8]). Accordingly, the number of companies in the sector that have obtained some form of assurance over metrics disclosed in their TCFD reporting – usually limited assurance of operational emissions data – is 56% and increasing. This is a key emerging development in the banking sector's collective journey towards net-zero reflected in our findings. Assurance compels reporting companies to take a greater level of accountability for the growing volume of climate and ESG information they disclose and can promote confidence in TCFD disclosures all with a view to improving overall reliability and consistency of reporting.

Governance

- Clear strength for BCM companies, reflective of well-established governance structures and lines of reporting typically in place.
- Increasing number of executives have undertaken training on climate-related matters (48% of our sample disclosed some level of relevant board training).
- Climate change is generally a key and frequently discussed agenda topic board-level – sometimes as regularly as monthly.

Risk management

- Relatively strong disclosure on risk management; traditional risk-based focus in annual reporting provides a useful, readymade framework to incorporate information on climate-related risk.
- Many entities have leveraged existing risk management frameworks to both explicitly recognise climate-related risk as a strategic risk in its own right (70%), as well as demonstrate how it can be seen as a driver of other risk categories (66%).
- Companies were generally less transparent in disclosing how identified climate-related risks were prioritised and impacted overall risk appetite.

[7]Corporate Sustainability Reporting Directive (CSRD) amends NFRD EU directive

[8]Securities and Exchange Commission

Strategy

- Generally good disclosure of specific physical and transition risks pertinent relevant over short-, medium-, and long-term.
- Over 90% provided a general description of the risk identification process and 85% gave details of climate change mitigation efforts.
- Only six companies disclosed how physical and transition risks were expected to impact financial performance, position, and planning.
- Limited mention of the extent to which a company's strategy is resilient to identified risks.
- Many companies have conducted initial scenario analysis, but discussion of results is generally qualitative and lacking detail.
- Very few companies appropriately disclosed a Credible Transition Plan (CTP), a core focus of 2021 TCFD guidance update; expected to be a key development area in coming years.

Metrics and targets

- 70% of BCM companies disclosed scope 1 and scope 2 emissions and 81% have disclosed an operational net-zero target.
- Over half of BCM entities published a figure for scope 3 financed emissions, compared to around one fifth of companies assessed in WAM and Insurance.
- Significant variation in quality and scope of reported figures due to fledgling standards and methodologies for calculation but we expect improvement as guidance becomes more widely adopted.
- Two thirds of BCM companies have either set financed emissions net-zero targets or have committed to do so via becoming a signatory to the NZBA.

Insurance

Overall, the insurance sector provides reasonably comprehensive climate reporting, previously lagging behind BCM but now displaying improved transparency and detail in its disclosure. From the analysis carried out of TCFD reporting in some of the larger Insurance companies we note it is reaching a similar level of quality, if not already on par with that of BCM entities of a similar size.

Governance

- Almost half of the insurance companies have integrated climate performance metrics into executive incentive structure.
- Over 50% have obtained some level of assurance over climate disclosures, including operational and financed emissions alongside other KPIs.
- As non-financial performance and reporting rise up the agenda of various stakeholders, the insurance sector is also facing possible increases in requirements to seek assurance.

Strategy

- A high proportion (77%) disclosed information about scenario analysis performed, of which 63% presented qualitative results. 58% disclosed quantitative results as well.
- In most cases these calculations remain largely indicative, but we consider it to be encouraging progress, nonetheless.
- One quarter of insurance companies analysed offered green or sustainable products, with the majority offering green insurance policies to support projects in renewable energy, energy efficiency improvement and green buildings.
- Only two companies in the sector have disclosed a CTP or detailed transition plan in line with the updated guidance released in October 2021.

Risk management

- An area for improvement for several insurance companies analysed.
- Three-quarters of companies in the sector have mapped climate-related risk to existing risk types, including market risk (41%), operational (39%), reputational (39%) and insurance risk (30%).
- Limited further detail shared about identified risks e.g., likelihood and significance of specific climate-related risks materialising, and how they are assessed and monitored.
- Very few companies have disclosed the financial impact of climate-related risk on the organisation.

Metrics and targets

- More than 60% of insurers have set net-zero targets for their operational footprint, of which 50% are aligned with the Science Based Targets Initiative (SBTi).
- The prevalence of net-zero targets for financed emissions is only slightly lower: almost half have set targets, of which 40% have been verified through SBTi.
- Despite the high rate of target setting, only 20% of insurers have disclosed any financed emissions calculations, making it difficult to track progress against these targets or understand the scale of ambition implied.
- Almost half of insurers disclosed their weighted average carbon intensity (WACI) for a portion of their portfolio, which is a greater proportion than for BCM or WAM.

Wealth and Asset Management (WAM)

From our analysis, we observe WAM to be in its infancy in terms of quality of TCFD disclosure, relative to the other sectors included. Although WAM companies are rapidly maturing their approach to TCFD reporting (and ESG more widely), we believe peers across Insurance and BCM arguably face higher public pressure given their well-recognised brands on the high street, compared to asset managers.

30 companies were analysed across the WAM sector with the aim of providing a representative view of the relative maturity of TCFD reporting across Wealth Management, Asset Management and Alternatives and Private Equity businesses. Based on the assessment, we observe that WAM is not as mature in terms of the production, standardisation, and delivery of timely annual TCFD reports to the market. Larger wealth and asset managers, that tend to lean on their parent entities in BCM, scored highly across most pillars but those with fewer assets under management (AUMs) were still very much behind the rest of the pack. WAM companies note a key pain point as being a lack of standardised and comparable ESG data to perform required calculations, build metrics and set targets.

Governance

- Relatively mature climate governance structures: two-thirds of companies provide information around board oversight of climate-related activities but with limited detail beyond core responsibility.
- 14 companies, or just under half publish organograms.
- Lack of integration of climate performance metrics into executive incentive structures: only 36% of companies disclose details of an incentive structure linked to climate metrics.
- Only 26% of WAM obtained any level of assurance over climate data, chiefly over their operational emissions, but as with the other sectors, we are seeing a trend towards third-party review.

Strategy

- Almost all of the WAM sector recognises the importance of climate change to the economy (86%) and organisation (80%).
- 93% say that climate is a key part of their strategic focus, but only a handful of organisations disclose any details about their own transition plans in line with the 2021 updated TCFD guidance.
- The only company which did disclose a transition plan is part of larger banking group, and therefore leveraged the work of the parent group.
- Low rate of organisations performing full scenario analysis in the sector, attributed to lack of clear methodology and undefined time horizons for calculations.

Risk management

- Risk disclosures across the sector are relatively scarce compared to the other sectors.
- Only eight, primarily larger, wealth and asset managers provide general descriptions of the risk framework.
- None give detail of the relevant processes by which the entity prioritises climate-related risk.

Metrics and targets

- 43% of WAM have set net-zero targets for their operational emissions, of which 46% are aligned with SBTi.
- Almost half have invested in bettering their approach, methodology and capability when defining metrics and calculating financed emissions, often engaging with third-party consultants.
- Only 37% calculated WACI across their portfolios, which may be attributed to the challenges of having a more complex product and service range, often from varying distributors or managers, which makes it more difficult to secure the required data.

3 Governance

Governance disclosures across all sectors were of relatively high quality compared to the other pillars. Ensuring that governance around climate-related issues is in place is an important step for organisations to drive the development of the climate agenda in their businesses. We note that companies tend to demonstrate higher levels of disclosure on matters relating to management rather than board issues. This was the case for two-thirds of the sample, which scored an average of 30% higher on the questions relating to the former. This may signal that climate is, for some companies, yet to reach the highest governance bodies on a consistent basis.

Key TCFD recommendations of focus :

- Climate change ownership/responsibility (including board and management)
- Remuneration (integration of climate-related KPIs into compensation)
- Assurance over disclosures

The most common individual to have responsibility for climate issues is the CEO, but there is a big range

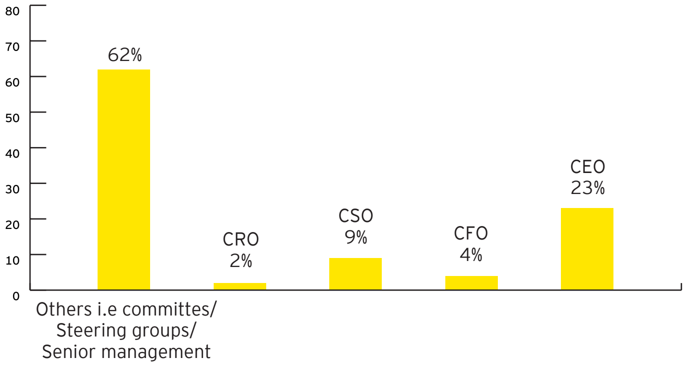
We observed that companies do recognise that climate-related matters are within the remit of company management, and in most cases have assigned responsibility to a specific governance body rather than an individual.

Although we do note some overlap in the types of titles and functions specified, there is still a significant degree of variability regarding who is charged with ultimate oversight and ownership of climate-related matters. Likewise, there is great variation in terms of the level of detail provided on this matter.

Over 60% of companies named either a committee or steering group as the body responsible for climate-related or sustainability matters, as opposed to an individual. Interestingly, this is particularly prevalent within BCM, where 67% of companies within the BCM sample designated responsibility of climate issues to this sort of body, in comparison to only 37% of WAM and 45% of insurance. This sectoral disparity may be attributable to SS3/19, which requires banks and insurers to allocate responsibility for climate- related financial risks to Senior Management Function (SMF) holders.

Where companies did assign overall responsibility for climate to an individual, the position most commonly identified was the CEO. As illustrated in Figure 3, 23% of companies explicitly said their CEO is responsible for climate-related matters. Alternatively, this responsibility fell to the CSOs, CFOs and CROs. In that respect, our findings align with other *EY research* which explored the rising popularity of appointing an executive CSO with not just responsibility for implementing sustainability-related strategies, but accountability for the organisation's overall sustainability performance. Overall, the fact that responsibility is lying at C-suite level may be a demonstration of the growing seriousness with which ESG matters are being considered within these organisations.

Figure 2: The officer or committee responsible for sustainability and climate-related matters



Irrespective of where specifically within an organisation the ownership of climate issues lies, it is positive to see that financial institutions are assigning responsibility for it – and in most cases, at a senior level. While seemingly basic, it is an important first step to TCFD alignment, and is the starting point to establishing a robust governance framework which can then underpin all related efforts. Ideally, this should happen at both board and management level, which encouragingly we observe to be the case in over 80% of the companies assessed.

We note as best practice those which not only identified the body or individual responsibility, but clearly communicated roles and responsibilities, and actions that had been taken by the respective people or groups throughout the reporting period. This is particularly important when ownership is shared within a general body/committee rather than assigned to a specific individual.

Around half of the companies disclosed details of an incentive structure linked to climate initiatives

TCFD guidance suggests disclosing how climate-related performance metrics are incorporated into remuneration policies. This information provides insights on how climate-related issues are governed in organisations and how compensation structures may serve as an incentive to meet climate targets set.

Our assessment shows that just under half of organisations in our sample have aligned their executive remuneration with their climate targets, meaning a slight majority of the companies have yet to do so. Disclosures on executive remuneration tend to be more comprehensive when climate reporting is included in the annual reports and accounts. This is in line with our expectations given pre-existing requirements for companies to disclose information on overall directors' remuneration in their annual reports.

Figure 3: Companies which have linked their incentive structure to climate initiatives

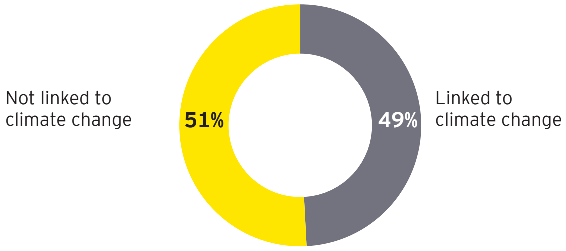
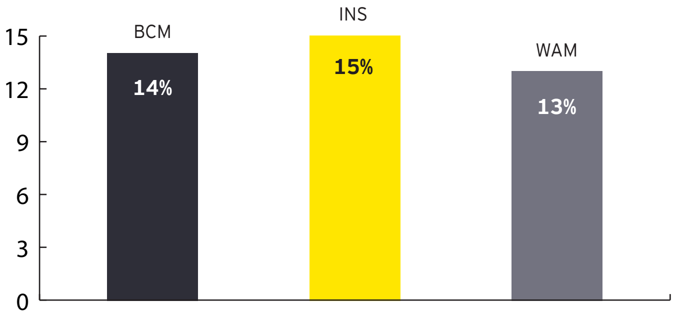


Figure 4: Average weighting of ESG/climate metrics in executive remuneration



At a sector level, the majority of BCM companies analysed (63%) disclosed that they were integrating climate-performance metrics into their incentive structure, whereas for Insurance and WAM it was a slightly lower rate of 48% and 37% of companies, respectively.

Of the methods observed from our analysis, some companies specifically tie the proportion of long-term variable remuneration to climate targets, such as emissions reduction, net-zero commitments or sustainable finance targets. This allows for greater transparency and clarity.

The average weighting of climate metrics in remuneration is similar across all the companies that have introduced this component into their structure. It varies from 13% to 15%, with insurers tending towards the higher end of the range.

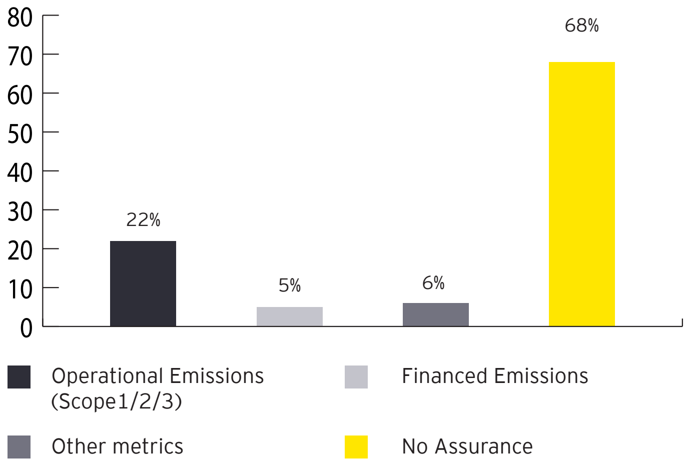
Executive remuneration is a key area for companies to address, in order to meet their strategy and net-zero goals, and so we expect to see increasing transparency around these metrics in future reports.

Companies are starting to seek assurance over their disclosures

Just under half of companies surveyed (48%) indicate that they have procured some level of independent assurance over their climate disclosures, although only 32% identify specific metrics that have been assured. We observe significant differences across the three sectors: over 50% of insurers reviewed had some level of assurance, 33% of BCM and only 10% of WAM. Though the details provided about the scope and level of assurance is varied, it is in the majority of cases, restricted to limited assurance. This does not take into account review and recommendations or other third-party input.

Operational emissions data is the most common metric to be subject to assurance, specifically scope 1 and 2 emissions, and some categories of scope 3 emissions (22%). Only 4 companies specify that they have received assurance over financed emissions disclosures. In all but one case, this is limited assurance.

Figure 5: Metrics subject to independent third-party assurance



Spotlights on type of reports used for the climate disclosures

We observed a wide variety across the companies included in this analysis of how and where companies chose to report TCFD disclosures. Some produced a standalone climate and/or TCFD report (45%), some included them in annual reports (26%), and others used a broader ESG and sustainability report covering a wider range of topics than just climate matters (28%).

Standalone reports tend to be easier to navigate, especially when clearly structured to mirror TCFD guidance. Annual reports have the benefit of offering a broader context within which to include climate-related information. Some companies may choose not to add TCFD disclosures to their annual report in order to avoid adding pages to an already cumbersome report. Regulatory requirements in this area may be set to tighten, removing the option in certain geographies.

At the same time, TCFD and other bodies recommend including disclosures in the main financial report. Given the significance of the annual reports and accounts (ARA), readers of these reports may find greater comfort in the level of controls and governance surrounding these disclosures, compared to other types of documents which currently enjoy less regulatory oversight.

Key areas of improvement and recommendations

As mentioned in the introduction of this section, disclosure relating to the organisation and responsibilities of management are in general of better quality that those relating to matters at board-level. Therefore, to improve the quality of the disclosure for the governance section companies should consider the following:

- Include detailed disclosure on the key climate and sustainability initiatives and issues that are discussed in board meetings and the frequency with which climate change is on the agenda for the board discussion;
- Provide details on board/ board committee trainings with respect to climate-related matters;
- Include director biographies and experiences and specify climate experience;
- Obtain independent third-party assurance to enhance the credibility of metrics disclosures.

4 Strategy

Strategy is the pillar for which we noted numerous improvement areas. Following the publication of updated guidance in October 2021, this section of TCFD guidance is now the most detailed. However, the low scores across the board suggest that organisations have struggled to align with recommendations.

This can partly be explained by the short timeframe which companies had to address the new recommendations published in the October 2021 paper. Many of the reports analysed for the purposes of this study will have already been in development by then.

With that in mind, we expect this to be an area of significant development and progress in 2022/2023 disclosures and reporting.

The new recommendations are listed below:

General

- Disclosure of actual and potential financial impacts on the organisations
- Disclosure on the transitioning to a low-carbon economy
- Disclosure of scope 1 and scope 2 GHG emissions to be independent of a materiality assessment
- Encouraging the disclosure of Scope 3 GHG emissions
- Disclosure of targets consistent with cross-industry, climate-related metric categories
- Disclosure of interim targets, where available

Banks

- Disclosure of the extent to which lending and other financial intermediary business activities are aligned with a well below 2°C scenario
- Disclosure of GHG emissions for lending and other financial intermediary business activities

Insurance Companies

- Disclosure of the extent to which Insurance underwriting activities are aligned with a well below 2°C scenario
- Disclosure of WACI or GHG emissions associated with commercial property and specialty lines of business

Asset Owners

- Disclosure of the extent to which assets they own and funds and investment strategies, where relevant, are aligned with a well below 2°C scenario
- Disclosure of GHG emissions for assets they own

Asset Managers

- Disclosure of the extent to which assets under management and products and investment strategies, where relevant, are aligned with a well below 2°C scenario
- Disclosure of GHG emissions for assets under management, where data and methodologies

Key TCFD recommendations of focus

- Vision and ambition – general acknowledgment of both sides of double materiality
- Risk identification and scenario analysis
- Transition plans

The majority of organisations recognise the importance of climate change to both the economy and their business

Overall, we have seen consistent responses across companies with regards to their acknowledgement of the symbiotic nature between financial institutions, the environment, and the wider financial system. Specifically, we note that almost all the companies assessed explicitly recognise not only that climate change is of importance to the economy, which in turn will have an impact on the financial institution itself, but also that climate change is therefore of strategic importance to the financial institution and should be central to its core strategy. This dual recognition of importance to strategy and economy was most prevalent amongst insurers, of which 84% emphasised both, followed by 73% of WAM compared with just 59% of BCM recognising the duality.

Interesting to note that where companies only recognised one of these elements, companies in BCM more consistently acknowledged the importance of climate change to their strategy (81%) than to the wider economy (59%), whilst the reverse was true in the other sectors.

This is consistent with the view that BCM tends to be more advanced, meaning these companies have a sharper focus on integrating climate-related risks and opportunities within their strategic planning, rather than making more general statements relating to climate and the economy.

Irrespective of these slight differences, it is reassuring to the achievement of the goals of the Paris Agreement to see that financial institutions for the most part recognise the significance of climate-related issues to the overall economy and the corresponding impact at a company- and industry- level.

High take-up of scenario analysis, but very few fully aligned to TCFD.

Climate scenario analysis is a key exercise for companies to:

- Measure their climate-related risks.
- Understand potential challenges they will face in the future.
- Enhance their management of climate-related risks.

Of the companies included within this study, 47% indicate they are undertaking scenario analysis by publishing their methodologies and key assumptions used in the exercise.

The examples of scenario analysis recorded across our sample are most commonly based on well-established climate scenarios from the Intergovernmental Panel on Climate Change (IPCC) or Network for Greening the Financial System (NGFS). Together these account for over two-thirds of the scenarios stated. We typically see companies using two or three different scenarios, which is actually in line with our expectations.

However, we see a significant range in the quality and transparency of the corresponding disclosure of the specifics of how the analysis was conducted. Although 75% of BCM companies studied gave some level of detail about the methodology, Insurance and WAM companies were significantly less likely to do so, with only 48% and 20% respectively giving any such information.

We note there has been a noticeable increase in the levels of disclosure of both qualitative and quantitative results from scenario analysis, which comes to life in figures 6-9. For instance, in the Insurance sector alone, 32% of companies have disclosed quantitative results to some degree, a figure we would expect to continue to rise in the coming months and years. However, we nonetheless remain cautious in this positive assessment, given the limited depth disclosed in most cases.

Importantly, although transparency around scenario analysis disclosures is improving, organisations have been less successful in aligning this to TCFD recommendations and discussing the resilience of the company to different climate scenarios. In particular, there is limited disclosure on the potential impact climate-related issues could have on the financial performance and position of the company. Without this, it is hard to gain an insight into the resilience of the balance sheet and ultimately how the company will be impacted by a transition to a low-carbon economy consistent with a 2°C or lower scenario, or other climate scenarios that would see increased physical risks.

Figure 6: Companies with methodologies disclosed for scenario analysis

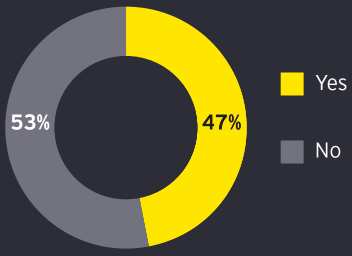


Figure 7: Companies disclosing qualitative results of scenario analysis

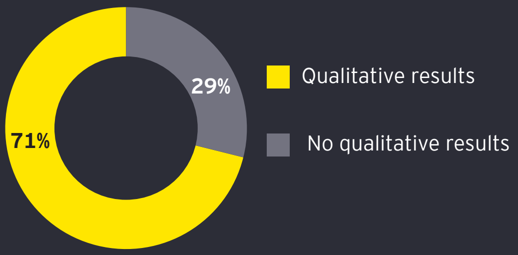


Figure 8: Companies disclosing quantitative results of scenario analysis

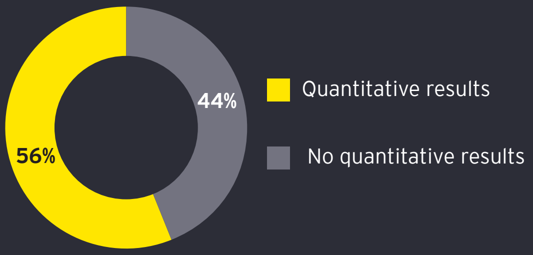
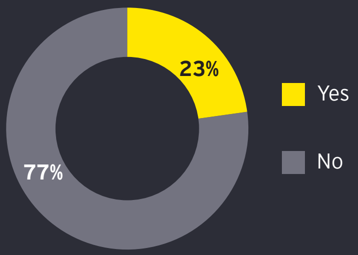


Figure 9: Companies referencing resilience as part of scenario analysis



It is perhaps worth noting that any UK bank or bank with significant UK operations which was part of the Climate Biennial Exploratory Scenario (CBES) was requested by the Bank of England not to publish any scenario analysis results for FY 2021 until the central bank could analyse and publish them itself. This limitation is expected to change in the next round of reporting, so the expectation would be to see a significant increase in the quantity and granularity of quantitative scenario analysis disclosures.

WAM is leading the way in terms of green products

When considering a company's environmental strategy, it is important to consider climate-related opportunities as well as risks. To do this, we looked at the product offerings of the companies included in the analysis, and specifically whether there were any "green"[9] products available for customers with a higher appetite for climate, sustainable or ESG-linked offerings.

We found that the WAM sector had the highest proportion of companies offering specifically green products at 67%. This was followed by the BCM sector at 33% and then the Insurance sector where 26% of companies had a green product offering.

Development of green or sustainable financial products and services has accelerated in recent years, with new and innovative solutions coming to market across all three sectors.

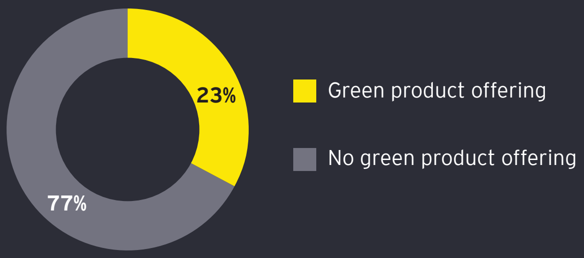
A good example of these are green bonds, which are fixed-income instruments designed to support specific renewable and low-carbon projects. We have seen remarkable take-up of green bond issuance across all sectors of the economy with over $500bn of green bonds being issued in 2021, representing an increase of over 70% on 2020 and 85% on 2019.[10] This may explain the growth in green product offerings from banks, who act as book runners and underwriters to support these placements. Similarly, banks are increasingly issuing green and sustainability-linked loans, which seek to incentivise improved sustainability performance by tying a preferential interest rate to the achievement of predefined targets and objectives.

[9]Where possible, we took figures for green financing and related targets in isolation of other types of sustainable finance. Where not reported separately, broader sustainable financing values were considered, which may cover social financing activities as well.

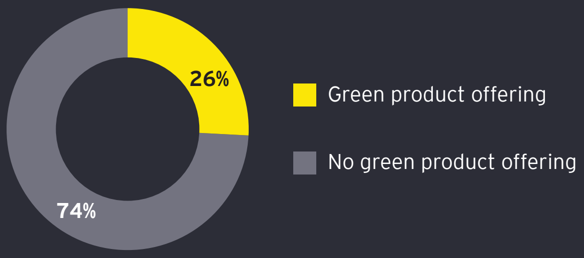
[10]Climate Bond Initiative, January 2022

Figure 10: Availability of green products by sector

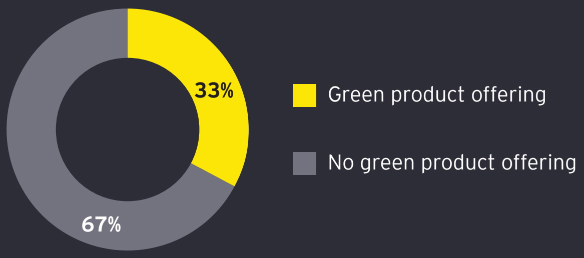
BCM



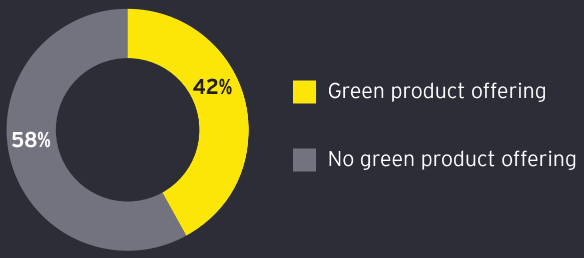
INS



WAM



All sectors (combined)



On the investment side, there is a large range of environmental investment solutions across the ESG spectrum. These range from screened products which enable investors to avoid the highest emitting companies, activities and sectors, to ESG-integrated, thematic or impact funds, all of which seek to channel capital into tackling climate change, through supporting low carbon and transitioning companies as well as those providing solutions to enable a just transition.

Among insurers, we saw a number of companies rolling out green insurance policies which offer more favourable policy terms to support projects in areas such as renewable energy, energy efficiency improvement and green buildings than those available elsewhere. Other insurers offer a broader range of products to support companies or communities at risk of adverse climate events, for example environmental liability insurance or parametric contracts.

As the increase in appetite for green products grows, so does the risk of greenwashing. This has led to increased scrutiny and regulation of products with sustainable credentials, helping to improve the robustness of the claims and the trust in the products thereby protecting consumers from misleading environmental claims.

One area of green finance which was not directly addressed within this study, but which is certainly worth highlighting, is that of stewardship and engagement. We observed that activities in this area were particularly well-disclosed within the WAM space – as we would expect given the nature of the business. The majority of WAM companies (63%) mentioned responsible investment and engagement strategies with shareholders, suppliers or the Board members of the companies held in their funds.

Spotlights on transition plans: low take up of new guidance on Credible Transition Plans (CTPs)

When looking at the breakdown of scores across the strategy pillar, transition plans are the stand-out area for improvement in disclosure across all sectors. Referencing the definition used by the Climate Policy Initiative, a transition plan is a time-bound action plan that outline how an organisation plans to pivot its existing assets, operations, and business model towards a trajectory that aligns with the most recent and ambitious climate science recommendations[11]. This can be vital information for stakeholders looking for insight into how well-positioned a company is in relation to climate change and the transition to net-zero.

Only 12 companies provide disclosure specifically in relation to their transition plans, and therefore our analysis of this area largely focuses on whether the disclosure exists rather than the quality of that disclosure.

Transition plans were recommended as part of the new guidance issued by the TCFD in October 2021, making this is a very new area, and so it is perhaps not surprising that take up is low. The new guidance sets out additional considerations around the disclosure of transition plans, including example disclosures. This is designed to help companies develop their own transition plan in future years. The guidance is broken down into four key areas of consideration that mirror the overall TCFD structure: Governance, Strategy, Risk Management, and Metrics and Targets.

Additionally, TCFD guidance proposes that the transition plan should be anchored in quantitative elements. This expectation for data driven disclosure poses a new challenge for companies when developing their plans. Many companies are still in the early stages of developing their ESG data warehouses, and thus have insufficient data to develop relevant, high-quality and industry-specific transition plans.

It is important to note that some companies planned to publish or have published transition plans separately at a later date and therefore may not be captured by this analysis. Additionally, some companies are focusing efforts on working with their investees and clients to develop transition plans, as a starting point and key building block for their own. We expect that in order for financial institutions to credibly report on their transition activities, they will need the relevant data and insights from their clients.

At this early stage of adoption of the new guidance we do not observe enough breadth or depth in the level of disclosure to draw detailed insights on the quality of the disclosure. However, we expect this to be an area of significant development in the coming years, particularly with greater guidance through initiatives such as the GFANZ and also leading government initiatives such as the UK Transition Plan Taskforce on this topic.

[11] Credible Transition Plans, Climate Policy Initiative

Key areas of improvement and recommendation

Overall, there is significant room for improvement in this pillar.

At a basic level, companies mostly recognised the importance of climate change to the entity and to the wider economy, but this has not yet translated into robust transition planning.

To improve disclosures, companies should consider the following:

- Detail time-bound actions for business transition, including types of lending that will no longer be provided and/or amount of transition finance expected to be issued to specific types of sectors;
- Indicate how management will measure and report against those actions, including the internal capability build and data requirements necessary to support the transition strategy;
- Consider aligning strategic business objectives with scenario analysis in line with the TCFD recommendations, this could include disclosing how the various scenarios interact with business strategy;
- Consider disclosing qualitative and quantitative data in relation to scenario analysis. An easy first step would be to disclose the source of the scenario (IPCC etc.);
- Consider the creation and disclosure of a credible transition plan and disclosing associated quantitative data (if available).

5

Risk management

TCFD guidance on risk management concerns how an organisation identifies climate-related risks in the first place, how these risks are integrated into any existing risk management framework and how risk levels are assessed across the business. This is in contrast to the strategy pillar which focuses on actual and potential impacts of climate-related risks and opportunities once the risks have been identified and prioritised accordingly.

Consistent with our findings across the other pillars, our analysis showed that BCM companies were generally more advanced in risk management disclosures than the other two sectors. From our view of the market additionally, we note regulators in the UK, and more recently in the US, have encouraged banks to undertake climate scenario analysis as part of the initial phases to understand the impact of climate risk, which has further advanced banks' capabilities with regards to climate risk management. We see the difference in the operational structure of companies in the different sectors as particularly pertinent here, as certainly for companies in BCM, their generally larger size and therefore additional human resource capability provides them with an advantage when drafting disclosures. Moreover, investor expectations and pressures have historically tended to be higher for BCM.

Key TCFD recommendations of focus

- Definitions and classification of risks – breakdown and analysis by sector
- Financial impact of climate-related risk – lack of disclosure

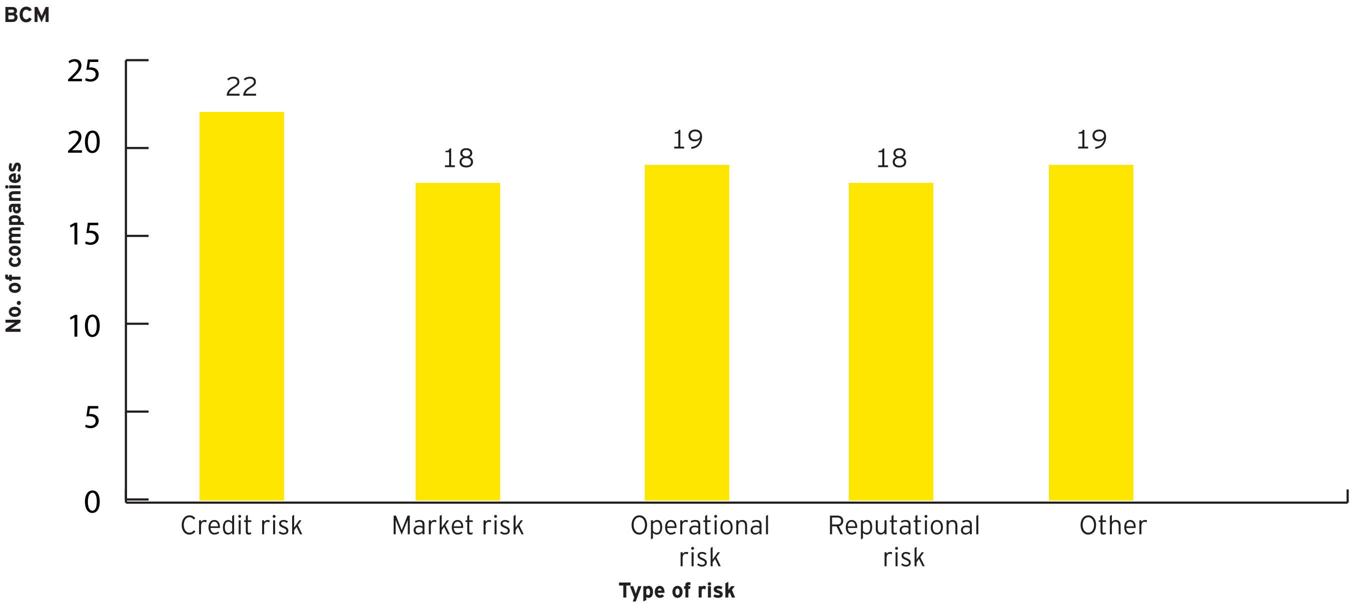
Reputational risk is the most widely acknowledged risk type affected by climate change.

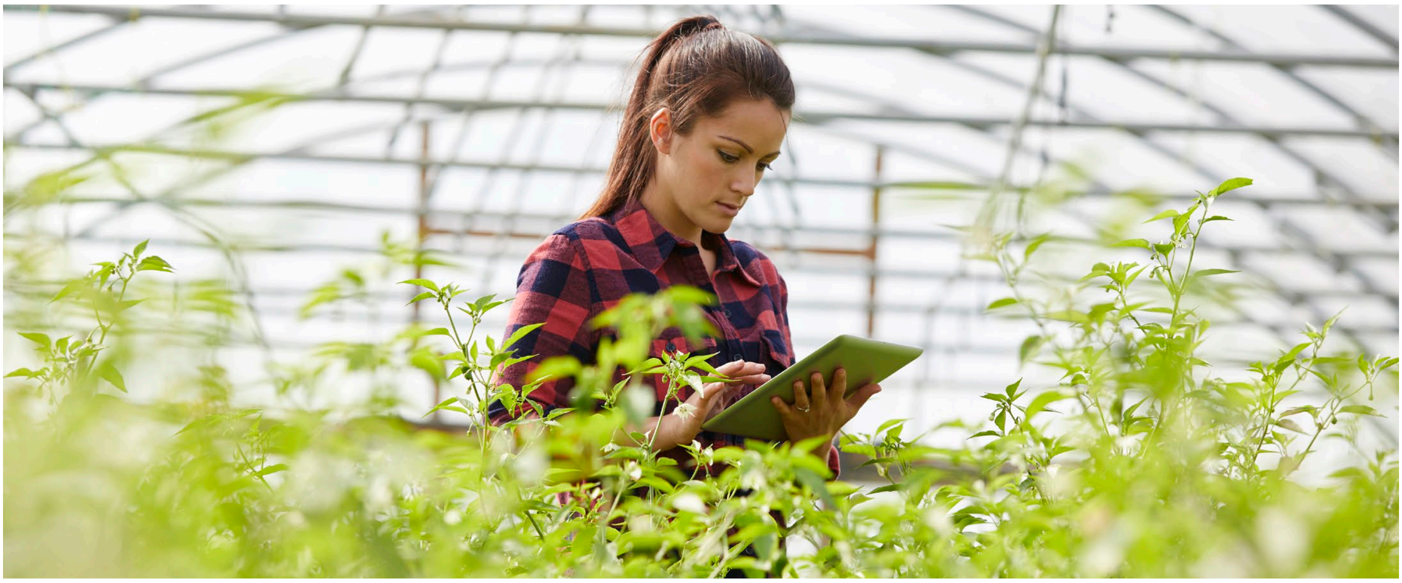
As climate-related risk has so many areas of impact for financial institutions and is so interwoven with other risk areas, companies' existing enterprise risk management frameworks (ERMFs) are used to map climate risk drivers and factors to existing risk categories, such as operational or market risk. That said, some do also identify climate as a standalone principal risk.

67% of BCM companies performed a qualitative mapping of climate-related risks and implications for existing risk types. In this respect, BCM proved to be the definitive leader across the sample, with an average of 71% recognising impact on principal risks compared to only 18% and 41% for WAM and Insurance, respectively.

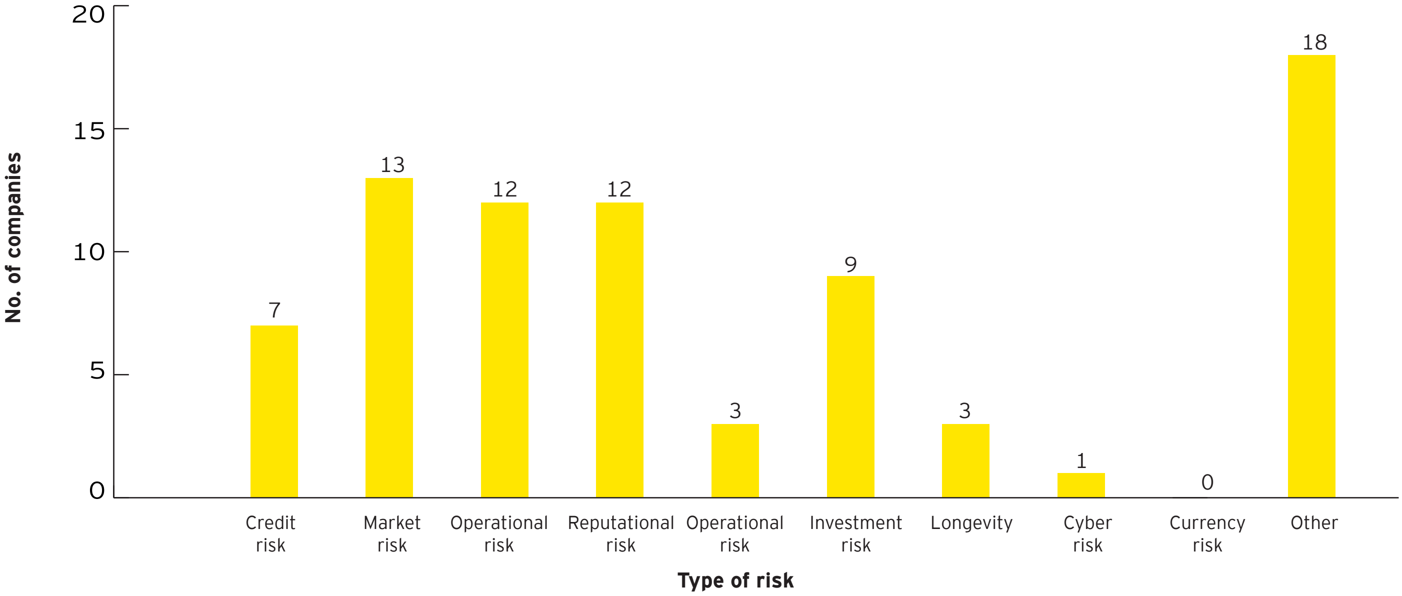
Our analysis showed a particular emphasis on the potential impact of climate-related risk on company reputation as well as an increasing awareness of the potential impact that actions or inactions in this space can have on other types of risk. Reputational risk was said to be impacted by climate-related risk by 55% of the companies analysed, making it the most frequently identified risk category. This is closely followed by market risk, to which climate-related risk was mapped by 52% of companies. Unsurprisingly, climate-related risk was widely recognised as a driver of credit risk among BCM companies (81%).

Figure 11: Principle risks identified as affected by climate risk

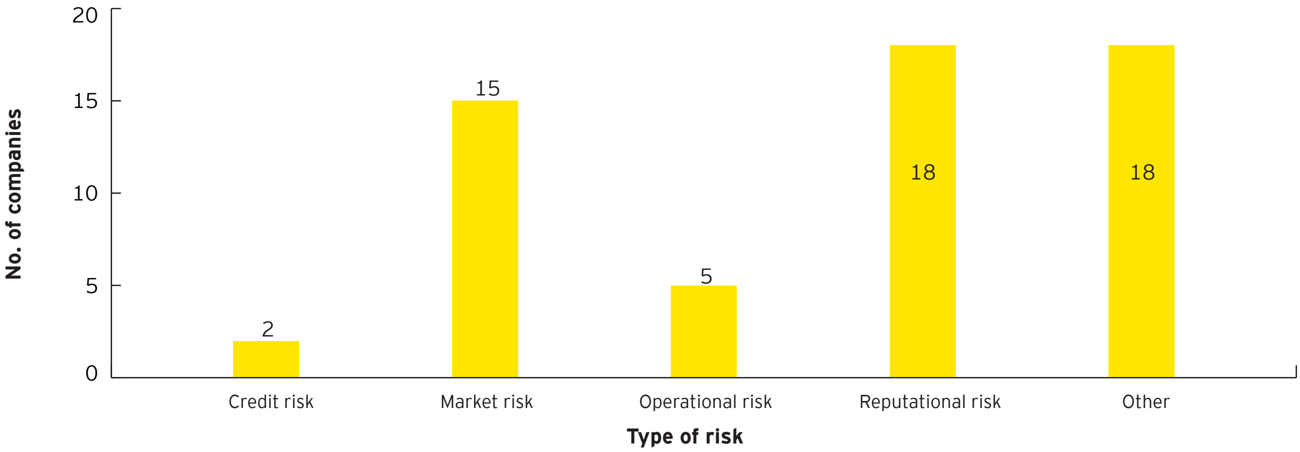




Insurance



WAM



*The most common risk categories identified in the 'Other' categories were policy, legal and regulatory risk and technology risk. Some organisations also mentioned litigation and liability risk.

Financial impact of climate-related risks: quantitative impact on financial statements is largely not reported

There is an understanding that there may be financial impacts on companies as a result of climate-related risks. Having a clear understanding of these financial consequences allows companies to enhance their decision-making and strategic planning processes to tackle these risks. It is important to highlight that climate change potentially poses a significant risk to companies within the financial sector as regulators are becoming increasingly vigilant in monitoring companies' efforts in transitioning toward a lower carbon economy.

Analysis conducted supports the initial assumption that only a minority of companies disclose information to this effect. Just 8% of the companies disclose anything about the financial impact of climate-related risks (19% BCM, 6% insurance and none in WAM). In all cases, this is only qualitative information, typically broad statements about the impact on financial performance and positioning. Though a handful of companies (nine overall) refer to an internal carbon price, we have not yet seen any company translate this into quantitative adjustments or impacts on the balance sheet, profit and loss statement or cash flow.

Measuring the financial impact is complex, however it will give companies an idea of how resilient they are to climate change and how much money they can potentially lose and/or gain in the long run based on the decisions made now. This is an area for development as data gets more accurate and accessible.

Key areas of improvement and recommendations

One of the key areas of improvement we identified in relation to risk management is further analysis around climate-related risks. Companies tend to be good at identifying the key climate-related risks and acknowledging the implication of the risk management overall, however the majority do not provide further information on the implication of climate-related risks on the entity's overall risk management processes. This can be of significant importance for the strategic planning and decision-making. To improve disclosures, companies should consider the following:

- Explain how the entity determines the likelihood and impact of climate-related risks and how the entity prioritises climate-related risks relative to other types of risks;
- Disclose which significant input parameters the entity uses to assess the significance of climate-related risks;
- Describe the impact of climate-related risks on the organisation's risk appetite;
- Assess the impact of climate-related risks and opportunities on the financial performance.

6 Metrics and targets

When assessing this pillar we split it into three main sections – operational emissions, financed emissions and other metrics. Companies tended to score the highest in the operational emissions section, which is to be expected, as noted in section 3 companies most commonly obtain assurance over their operational emissions. This is followed by financed emissions, and wider climate metrics including;

- Weighted average carbon intensity (WACI);
- Climate and Sustainable Financingfinancing;
- EU Taxonomy-aligned assets;
- Metrics relating to Pportfolio alignment/PACTA;
- Climate-related considerations on financial position and financial performance.

Key TCFD recommendations of focus

- Emissions disclosure across the full value chain (operational and financed)
- Issues and limitations facing the quality of finance emission reporting
- Sustainable financing targets – analysis by sector
- Net-zero targets

Reporting of operational emissions is generally better than financed, but still room for improvement

The Greenhouse Gas (GHG) Protocol, of whose emissions calculation methodology is endorsed by TCFD guidance, published the first edition of its corporate standard in 2001 and has provided ongoing and up to date guidance for companies preparing a GHG emissions inventory ever since. It is internationally recognised and the most widely used corporate greenhouse gas accounting standard.

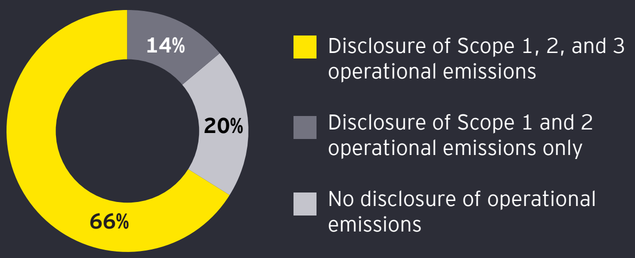
With that in mind, the fact that our results showed only 80% of companies report on scope 1 and scope 2 greenhouse gas emissions was surprising. Although a substantial majority, given the size and prominence of the financial institutions assessed, we would have expected this figure to be higher. We would consider those not disclosing, or only partially disclosing, scope 1 & 2 GHG emissions to be lagging behind the market standard for reporting on climate-related metrics and targets. The most logical explanation for these remaining gaps and discrepancies in the quality of disclosure would be the differing maturities of carbon accounting standards and public and stakeholder expectations across various regions. Although the GHG Protocol is globally recognised, the level of adoption can vary significantly.

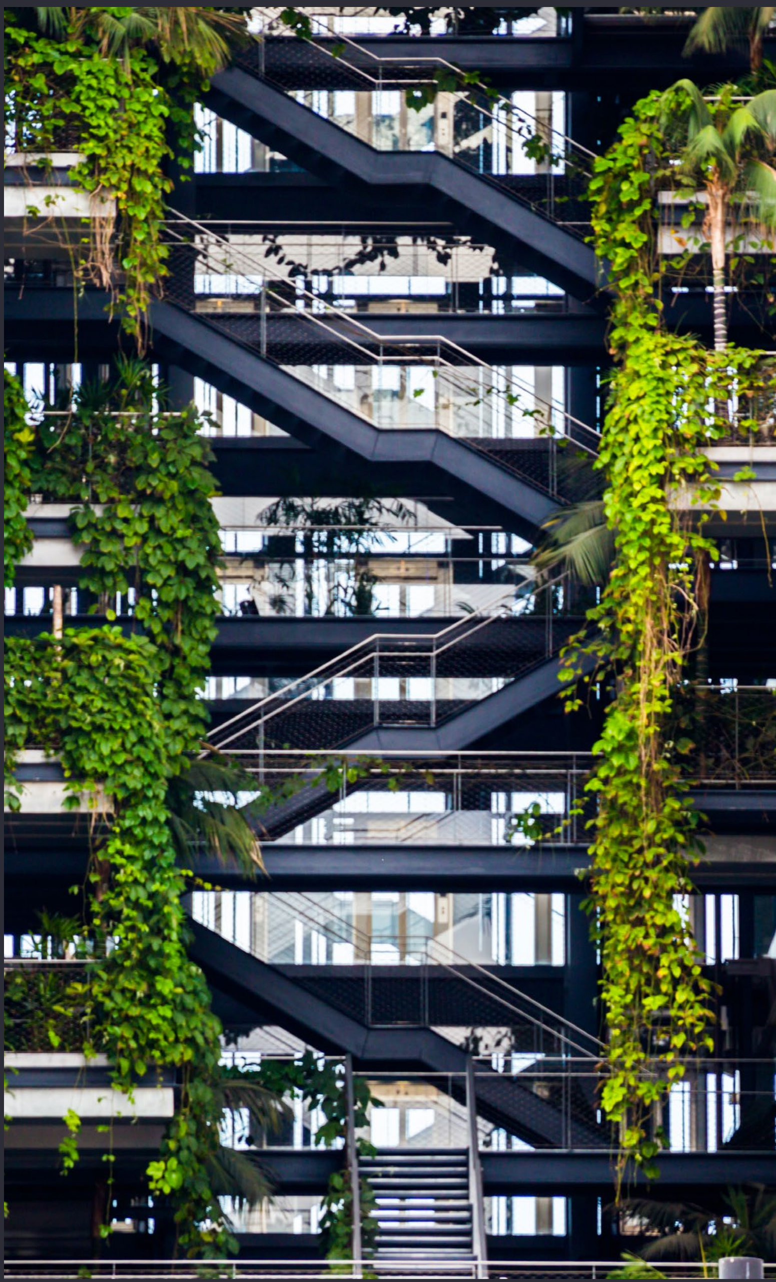
As an example of what we mean by incomplete or poor-quality disclosure, we may consider the small proportion of companies (10%) that disclose scope 1 and 2 emissions on an aggregated basis rather than reporting on each scope separately and therefore do not give appropriate transparency of direct and indirect emissions.

Likewise, even though the majority of companies do report on scope 1 and 2 emissions, only 52% of those that do specify whether they are calculated using the location-based or market-based method, as is recommended by the GHG Protocol. Location-based scope 2 emissions takes the average emissions intensity of the local grid where energy consumption occurs, whereas market-based scope 2 emissions reflect an organisation's choice of provider, including any contracts in place to purchase renewable electricity. This means that market-based emissions calculations will typically be lower than those measured using the location-based method in a case where low-emission electricity sources have been purchased. Where the calculation basis is unspecified, we have presumed this to be measured using the location-based approach.

Our analysis shows that an even smaller proportion of companies disclose indirect scope 3 operational emissions – which includes emissions generated from purchased goods and services, waste generated from operations, business travel and employee commuting among other sources – with only 66% of our studied population reporting on this metric. Though TCFD guidance recommends that all organisations should consider disclosing scope 3 GHG emissions, this result is in line with our expectations. In many cases the underlying data is not readily collected by the entity, and companies have insufficient resources deployed to be able to collect and report on this data at this stage of reporting maturity.

Figure 12: Disclosure of operational emissions

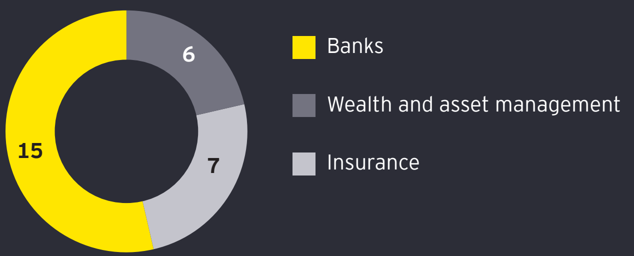




Finally, we also found that the language used to describe emissions disclosure is not consistent across all companies and at times is not specific to the scopes or sources of emissions included in the reported values. Increased consistency of language in emissions reporting across companies and sectors will increase the comparability of information and therefore the value to investors and other stakeholders alike. This also extends to target setting, where companies did not always clearly disclose the scope of their interim emissions reductions targets and net-zero commitments – whether operational net-zero, or true (financed) net-zero as well as the boundaries of their calculations i.e., what is included/excluded.

Despite increased industry focus on reporting financed emissions, clarity of disclosures requires enhancement and improved consistency

Figure 13: Number of companies reporting financed emissions



It is through the businesses, activities, properties, and projects that financial institutions choose to finance that they arguably become most exposed to climate-related risks and opportunities.

Measuring financed emissions – which is the associated emissions of a financial organisation through their lending and investment activities – can therefore be seen as an important step to managing this exposure.

Quantitative financed emissions disclosure can offer insights about a company's current position in relation to climate-related risks. It can be used to establish a baseline for both short- and long-term alignment and emissions reduction targets, enable progress to be monitored over time as well as serve as a basis for identifying the most material areas of its business and thus support effective strategic prioritisation.

28 companies of the 88 (32%), disclose some level of financed emissions, of which over half are from the BCM sector. This in line with our general observation that banks and capital market companies tend to be more advanced in their disclosure and further along their TCFD alignment journeys.

For the seven insurers that disclose financed emissions, it is worth highlighting that this disclosure covers the emissions associated with their investment portfolios, rather than any underwriting activity, for which no established methodology exists at the time of writing.

Of those disclosing this metric, over two-thirds reference the methodology developed by the Partnership for Carbon Accounting Financials (PCAF) which, since its development in 2019/20, has rapidly established itself as the industry standard for calculating and disclosing financed emissions in line with TCFD recommendations. An additional eight companies not yet disclosing this also reference PCAF, recognising prevailing guidance, and signalling future plans to do so. The aim of PCAF is to standardise financed emissions calculations and corresponding disclosure, but it is not clear from our assessments, whether that is necessarily being achieved. PCAF is currently working on the development of the Global GHG Accounting and Reporting Standard for additional sectors and asset classes.

Where companies do report their financed emissions, there is large variation in the quality and quantity of supporting information.

While almost all state the base year of their calculation (75%), and most document the sectors covered (54%), far fewer give details of the data sources used (25%), the types of financing covered (36%) or the geographies in scope of the calculations (7%).

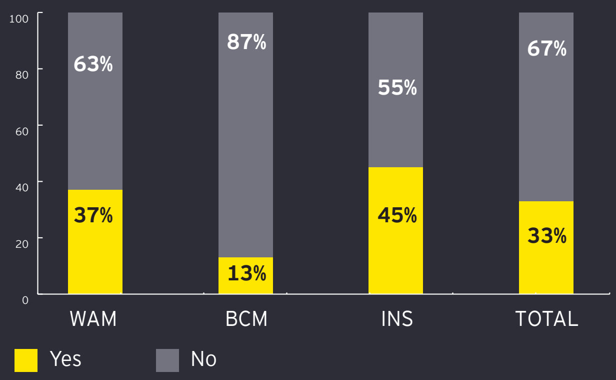
Only ten companies (36%) state the PCAF data quality score, even though it is a requirement specified in the Standard, and though 68% do give some indication of the methodological choices and assumptions made whilst building out their financed emissions inventory, only nine companies (32%) in our assessment do so well enough to achieve full marks on this question.

Organisations report a wide range of additional metrics but there is no common approach in any sector

The most common metric disclosed by companies other than emissions was weighted average carbon intensity (WACI), with 33% of companies disclosing this. WACI measures the carbon intensity of businesses rather than total carbon emissions, which allows for a better like-for-like comparison of companies and funds.

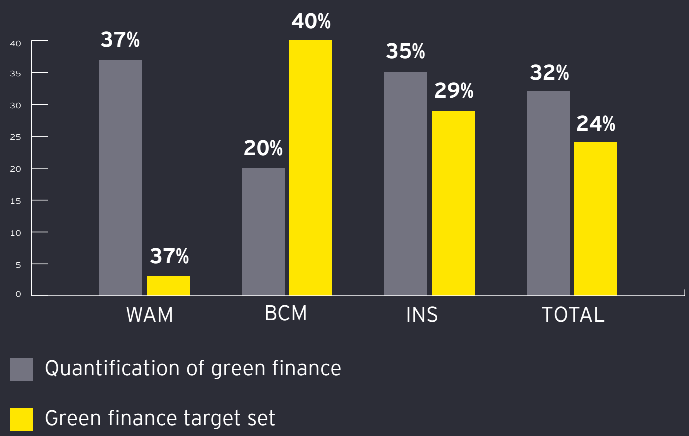
It is worth noting that there are methodology limitations when calculating WACI. Firstly, as in line with the TCFD recommended approach, only scope 1 and 2 emissions of companies are included, with scope 3 emissions not usually being captured. Moreover, the metric can only be used with listed equity and corporate bonds which may not cover 100% of a company's portfolio.

Figure 14: Disclosure of weighted average carbon intensity (WACI) by sector



When looking at the disclosures around exposure to high climate risk sectors versus alignment of business activities with climate-related opportunities, we found that companies were more likely to disclose climate risk sectors (18% of all companies analysed) than alignment with climate-related opportunities (1% of all companies). This has been highlighted as an area for development with the focus on risks being far greater than opportunities throughout most disclosures analysed.

Figure 15: Disclosure relating to green financing



We have also compared the proportion of companies who have quantified how much green financing they currently provide with the number of companies who have set green financing targets for the future[12]. In general, companies are more likely to disclose their current amount of green financing rather than a target, specifically in the WAM sector where only one company we analysed had set a sustainable financing target but, was the highest performing sector in quantifying their current green financing at 37%. In the Insurance sector, we found 35% of companies disclosed how much green financing they have invested compared with 29% of companies setting a target for the future. The BCM sector did not follow the same trend as the other two sectors, with 40% of companies disclosing targets for green financing compared with 20% of companies who have disclosed their current green financing undertakings. It is worth nothing that though we see disclosure on green financing as market best practise, it is not directly mentioned in TCFD.

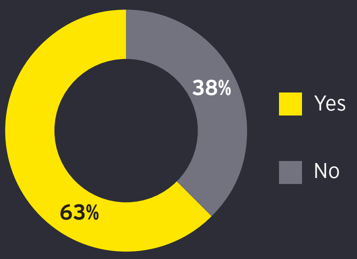
Of those assessed, 23 companies quantified their green finance target which amounted to over $25t, and, if achieved, would have a significant impact on the greening of the financial services industry and society as a whole in the transition to a low carbon economy.

Spotlight on net-zero targets: net-zero targets are widespread – but lack of transparency on progress

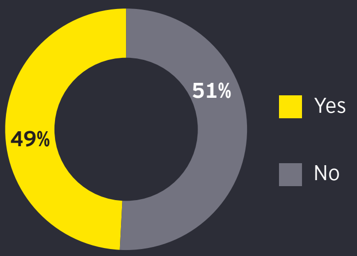
Almost half (49%) of companies assessed have set some form of net-zero target, covering their financed emissions. Terminology and language used around net-zero is important. As stated above, net-zero target disclosures are often unclear, requiring the user of the report to look up net-zero in different places of the report to understand the scope of emissions covered by the target.

[12] Where possible, we took figures for green financing and related targets in isolation of other types of sustainable finance. Where not reported separately, broader sustainable financing values were considered, which may cover social financing activities as well.

Figure 16: Companies with operational emissions net-zero targets



Companies with financed emissions net-zero targets



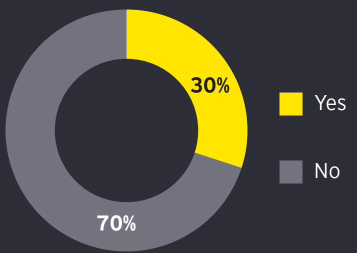
Significant number of companies referring to net-zero for scope 1 and 2 are not disclosing the percentage of carbon offsets being used to achieve the net-zero, leading to lack of transparency. A limited dependence on carbon removals (5-10%) is allowed under SBTi to neutralise emissions that cannot yet be eliminated.

Over half (55%) of companies assessed are members of one of the GFANZ (Glasgow Financial Alliance of Net-zero) alliances, with 67% of our BCM sample subscribed to NZBA compared to 40% of the WAM sample being signatories to NZAM at the time of writing. As a requirement of GFANZ alliances, becoming a member commits companies to setting interim (2030) targets within 18 months of joining and to align their lending and investment portfolios to net-zero by 2050. Two companies assessed have committed to a net-zero financed emissions date (2040) sooner than the GFANZ 2050 target date.

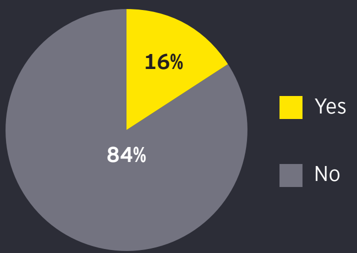
We found that net-zero targets for operational emissions are widespread for companies across all sectors, however this is arguably of limited value to the industry's transition to net-zero as a whole, as the vast majority of financial institutions' emissions are derived from their lending and investment portfolios (scope 3). Hence, we have focused our analysis on companies setting net-zero targets for their financed emissions portfolios.

Nearly all GFANZ signatory companies assessed (45/48) have set net-zero targets covering financed emissions. To date, only 38% companies have set interim target related to their financed emissions, and just 16% have obtained SBTi approval on their financed emissions targets. This figure increases to 30% of companies analysed in the context of operational emissions targets approved by SBTi. These statistics demonstrate the appetite for financial institutions to mitigate climate-related risk and transition to a low carbon model, and also highlights the gap between companies' ambitions and tangible/deployable action plans to achieve such commitments. This may be driven by the fear of reputational damage and adverse stakeholder perception to organisations who do not align/commit to industry standard targets. We acknowledge that some companies have signed up to a GFANZ alliance only recently and are within their 18-month window to set such interim targets.

Figure 17: Operational emissions targets verified by the SBTi



Financed emissions targets verified by the SBTi



Key areas of improvement and recommendations

Overall, most companies disclosed some emissions data however, the majority of companies would benefit from disclosing a greater breadth, depth, and precision of climate-related metrics. Companies tend to primarily focus on exposure to climate-related risks and not alignment to climate-related opportunities, which is also important and is a significant area for improvement. To improve disclosures, companies should consider the following:

- Specify which method is used for scope 2 accounting - this is a relatively quick fix for companies and would result in an improvement of the operational emissions disclosure quality;
- Ensure language consistency in emissions reporting and target setting across companies and sectors as this will allow better comparability of information and therefore will increase the value to investors and other stakeholders;
- Quantify alignment to climate-related opportunities, in addition to improvement climate-related risks.

7 Conclusion

The EY TCFD State of Play report provides a snapshot of the progress financial institutions are making in their climate-related disclosures. As pressure from investors, regulators and other stakeholders continues to rise, we observe a sharper focus on climate-related risks and opportunities across the banking and capital markets, wealth and asset management, and insurance industries, seemingly driven from the top down.

As matters relating to climate gather momentum in the board room and on the executive agenda, the quality and quantity of disclosure continues to improve year-on-year, particularly in relation to the overarching governance structures in place.

The work of a number of collaborative industry initiatives has brought about an increase of new commitments, targets, and standardisations over the last 12 months alone, all of which has contributed to the overarching upward trend in the quality of disclosure we observe.

Nevertheless, there is still significant room for improvement, most notably in areas such as transition planning, risk modelling, scenario analysis and financed emissions calculations.

The industry as a whole has a vital role to play in securing and financing the transition. The importance for financial institutions to measure and manage their climate-related risk and ensure the resilience of their strategy and business model over the short-, medium- and long- term, goes beyond the individual organisation and extends to the financial system as a whole.

As we look ahead to future reporting cycles, it will be interesting to see how companies respond to the latest TCFD guidance, mandatory TCFD reporting requirements, and moves to introduce obligations to obtain assurance over disclosures.

8 About this research

Criteria

The assessment criteria were developed to correspond to the 11 TCFD recommendations along with early guidance from the newly formed International Sustainability Standards Board (ISSB). This includes the TCFD Guidance on Metrics, Targets, and Transition Plans (October 2021).[13]

Each company was assessed against 94 core questions, with some sector-specific modifications and additions.

The number of questions split across the four TCFD pillars; Governance, Strategy, Risk management and Metrics and Targets.

Limitations

Some companies in the sample have not aligned their climate-related reporting periods with their financial year, and some have not yet established a defined frequency with which they report climate-related information.

This can lead to misalignments between the reference period in question for this study, and the reported data. In some cases, the most recent climate information available from companies may still refer back to financial years ending December 2020, even though more recent financial information and reporting is available.

We also recognise that some of the companies in the sample have published additional information or updated their disclosure over the period since we carried out the review, which will not be reflected in our results. The information reviewed for the purpose of this report is limited to disclosure published before 30 April 2022.

Data sources

We assessed publicly available climate-related disclosures for reporting periods 2021/22 i.e., reports covering the period ends from March 2021 up to and including March 2022. This includes both dedicated Sustainability/ESG or TCFD/other standalone climate reports as well as annual reports and accounts, where they are used as a primary mode of climate -related risk reporting.

Information sourced from other company reports and external sources such as CDP reporting was only reviewed where clearly cross-referenced in primary reporting. This decision was grounded in the conviction that transparency and clarity of information are integral characteristics of best-practice reporting, and therefore the organisation and accessibility of disclosure should be reflected in company ratings.

Scope

We set out to review a representative sample of global financial services companies from across the three key financial services sectors: Banking and Capital markets Markets (BCM), Insurance and Wealth and Asset Management (WAM) including asset owners, managers, and Private Equity companies.

Our final sample size for the study was 88 organisations, of which 27 were BCM, 31 Insurance and 30 WAM.

9

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