Financial Reporting Webinar Series:

ESG Reporting Developments

Friday, 19 November 2021

Focus on climate action and demand for disclosures continue to intensify

Shell: Netherlands court orders oil giant to cut emissions

BBC – 26 May 2021

BHP's London investors endorse climate change plan

Reuters – 14 October 2021

IFRS Foundation's Liikanen announce formation of ISSB [at COP 26]

Reuters – 3 November 2021

Hong Kong Backs Sustainable Development with ESG Focus

Investors with $4 trln assets aim to tackle Asian firms on climate change goals

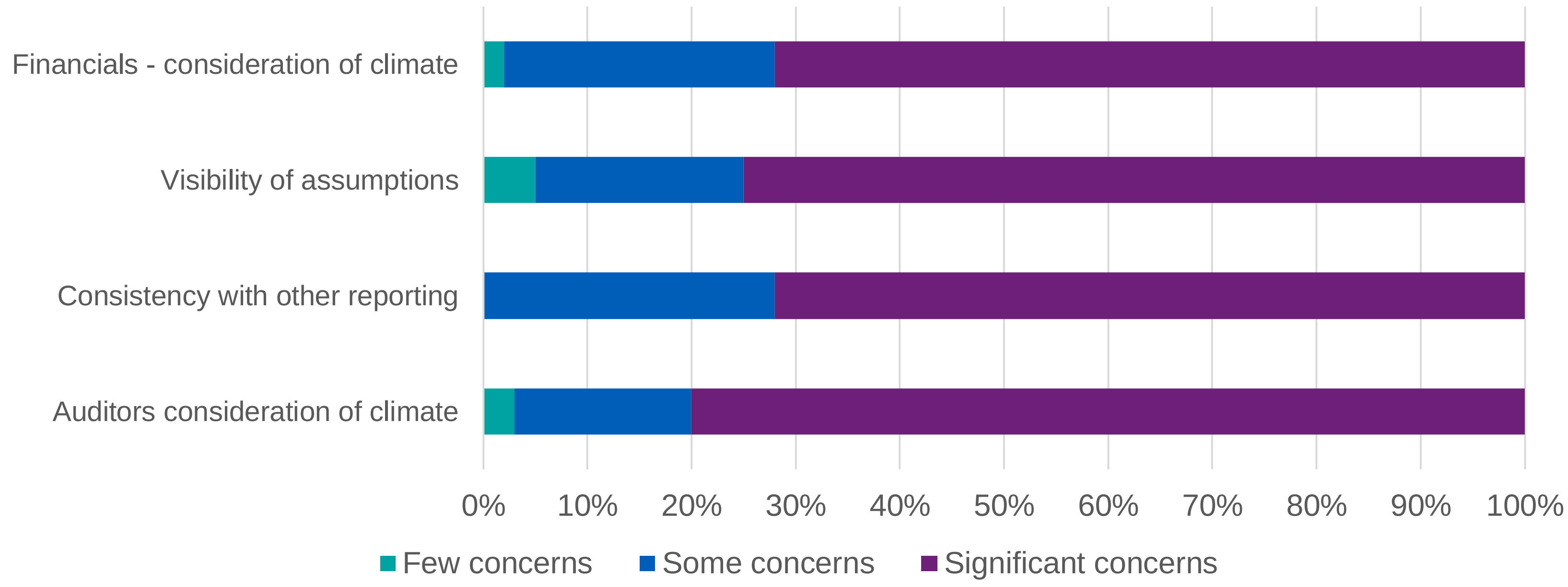
Reuters – 29 September 2021

Shareholders are pressing for climate risk disclosures. That's good for everyone.

Harvard Business Review - April 2021

Climate accounting analysis

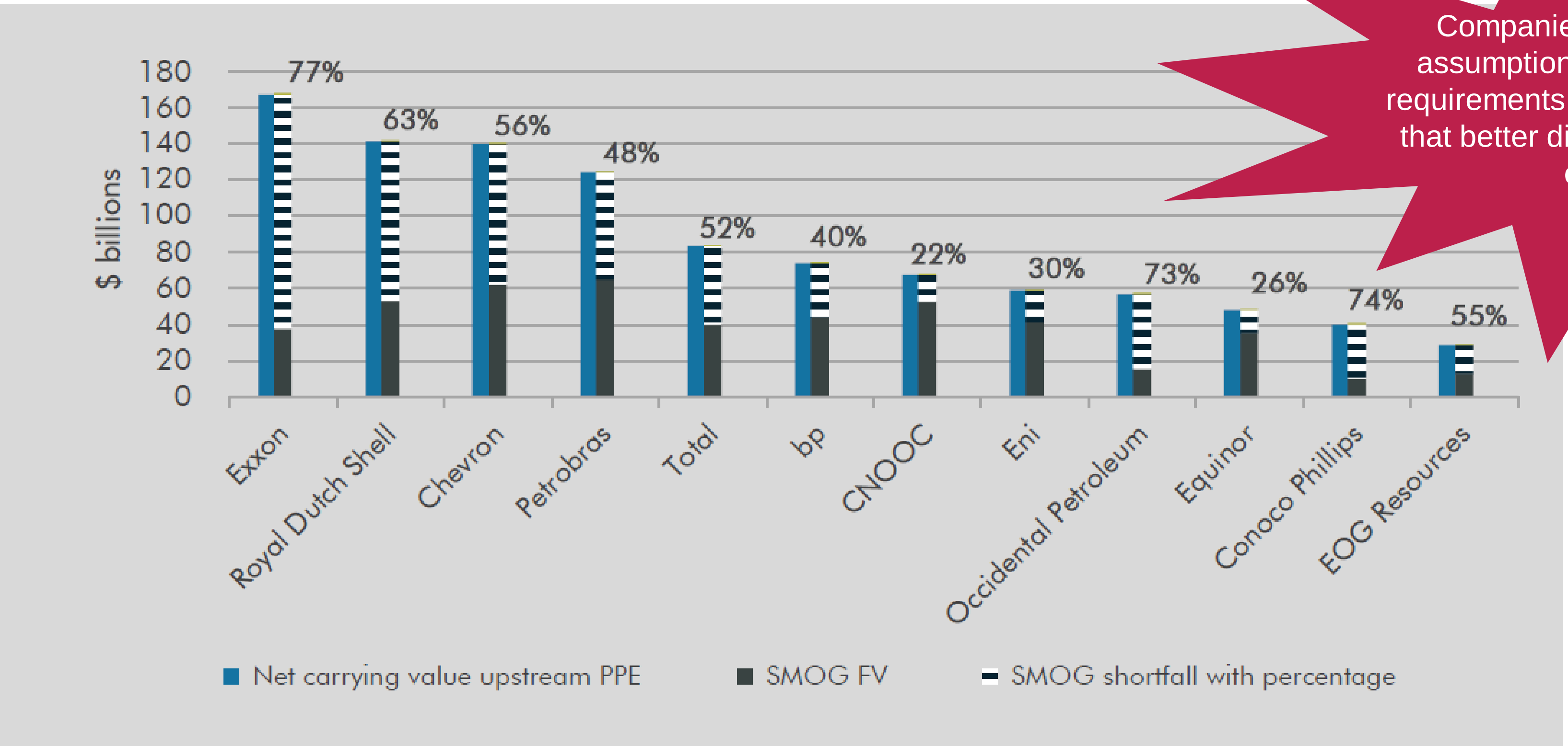
Considerations of climate impacts in financial statements



Source: Climate Accounting Project by Carbon Tracker Initiative and the Climate Accounting Project (CAP), covering 107 publicly listed carbon-intensive companies (FY20) around the world

Example of a proxy on asset values – "SMOG" results

2020 Standardized Measure of Oil and Gas (SMOG)



Companies may be using other assumptions based on accounting requirements, BUT the disparity shows that better disclosures are needed to explain why!

Source: Carbon Tracker analysis based on the information in the 2020 10-Ks and 20-Fs for a sample of Carbon Tracker and CAP oil and gas companies. Based off "Can you see stranded assets through the SMOG?. Currencies were converted using 31 December 2020 rates from Historical Rates Tables - USD | Xe.

Extract from Carbon Tracker Initiative's Report - *Flying blind: The glaring absence of climate-related risks in financial reporting*

Example: BP's response to increased demand on climate change disclosures

Responding to increased shareholder interest on Paris consistency

In 2019 the board recommended that shareholders support a special resolution requisitioned by Climate Action 100+ (CA100+) on climate change disclosures. The CA100+ resolution passed with more than 99% of the vote. This is the second year we have included responses throughout the annual report. We have adopted a similar approach to the *bp Annual Report and Form 20-F 2019*.

The CA100+ resolution, which includes safeguards such as protections for commercially confidential and competitively sensitive information, is on page 341. Key terms related to this resolution response are indicated with ★ and defined in the glossary on page 341. These should be reviewed with the following information.

Element of the CA100+ resolution	Related content	Where
Strategy that the board considers in good faith to be consistent with the Paris goals.	Our strategy Pursuing a strategy that is consistent with the Paris goals	15 26
How bp evaluates each new material capex investment★ for consistency with the Paris goals and other outcomes relevant to bp strategy.	Our investment process	29
Disclosure of bp's principal metrics and relevant targets or goals over the short, medium and long term, consistent with the Paris goals.	Key performance indicators Sustainability: net zero targets and aims See 'TCFD metrics and targets' for an overview	39 49 55
Anticipated levels of investment in: (i) Oil and gas resources and reserves. (ii) Other energy sources and technologies.	Our financial frame	22
bp's targets to promote operational GHG reductions.	Sustainability: net zero targets and aims	49
Estimated carbon intensity of bp's energy products and progress over time.	Sustainability: aim 3	50
Any linkage between above targets and executive pay remuneration.	Directors' remuneration report 2020 annual bonus outcome 2021 remuneration policy on page	103 110 124

Example disclosure in accounting estimates and judgements

Oil and natural gas prices

The price assumptions used for value in use impairment testing are based on those used for investment appraisal. The investment appraisal price assumptions are recommended by the senior vice president economic & energy insights after considering a range of external prices, and supply and demand forecasts under various energy transition scenarios. They are reviewed and approved by management. As a result of the current uncertainty over the pace of transition to lower-carbon supply and demand and the social, political and environmental actions that will be taken to meet the goals of the Paris climate change agreement, the forecasts and scenarios considered include those where those goals are met as well as those where they are not met.

bp sees the prospect of an enduring impact on the global economy as a result of the COVID-19 pandemic, with the potential for weaker demand for energy for a sustained period. bp's management also expects that the aftermath of the pandemic will accelerate the pace of transition to a lower carbon economy and energy system as countries seek to 'build back better' so that their economies will be more resilient in the future. As a result of all the above, bp revised its price assumptions for value-in-use impairment testing, lowering them compared to those used in 2019 and extending the period covered to 2050. These price assumptions are derived from the central case investment appraisal assumptions (see page 28). A summary of the group's revised price assumptions, in real 2020 terms, is provided below. The assumptions represent management's best estimate of future prices, which sit within the range of external forecasts considered as appropriate for the purpose. They are considered by bp to be broadly in line with a range of transition paths consistent with the Paris climate goals. However, they do not correspond to any specific Paris-consistent scenario. An inflation rate of 2% (2019 2%) is applied to determine the price assumptions in nominal terms.

	2021	2025	2030	2040	2050
Brent oil ($/bbl)	50	50	60	60	50
Henry Hub gas ($/mmBtu)	3.00	3.00	3.00	3.00	2.75

bp considered climate change and transition to a lower carbon economy in relation to long-term prices used in impairment testing, also clarified the prices to be broadly in line with transition paths consistent with Paris climate goals but don't correspond to any specific Paris-consistent scenario.

Source: bp Annual Report and Form 20-F 2020

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TCFD Status report - TCFD-aligned disclosures by year

Recommendation	Recommended Disclosure	Pt. Change 2018–2020	Percent of Companies That Disclose Information Aligned with TCFD Recommended Disclosures: 2018	2019	2020
Governance	a) Board Oversight	16	9%	13%	25%
	b) Management's Role	9	9%	11%	18%
Strategy	a) Risks and Opportunities	14	38%	42%	52%
	b) Impact on Organization	13	26%	30%	39%
	c) Resilience of Strategy	8	5%	7%	13%
Risk Management	a) Risk ID and Assessment Processes	14	16%	20%	30%
	b) Risk Management Processes	15	14%	17%	29%
	c) Integration into Overall Risk Management	17	10%	17%	27%
Metrics and Targets	a) Climate-Related Metrics	10	34%	40%	44%
	b) Scope 1, 2, 3 GHG Emissions	10	27%	31%	37%
	c) Climate-Related Targets	13	21%	24%	34%

Legend: 2018 2019 2020

Source: Task Force on Climate-related Financial Disclosures 2021 Status Report

Population of companies in the review: 1,651 across Europe, Asia Pacific, Latin America, Middle East and Africa and North America

TCFD disclosures – overview of disclosure by industry sector

Disclosure by Sector: 2020 Reporting

Recommendation	Recommendation Disclosure	Banking (282)	Insurance (132)	Energy (267)	Materials & Buildings (404)	Trans-portation (158)	Ag., Food & Forest (142)	Technology & Media (106)	Consumer Goods (160)
Governance	a) Board Oversight	22%	35%	34%	27%	23%	17%	6%	20%
	b) Management's Role	17%	23%	20%	23%	15%	13%	8%	16%
Strategy	a) Risk and Opportunities	45%	52%	67%	61%	49%	50%	25%	41%
	b) Impact on Organization	35%	36%	47%	49%	36%	31%	28%	26%
	c) Resilience of Strategy	15%	18%	18%	14%	6%	11%	7%	8%
Risk Management	a) Risk ID and Assessment Processes	33%	37%	30%	33%	25%	28%	12%	23%
	b) Risk Management Processes	32%	47%	32%	31%	22%	25%	8%	21%
	c) Integration into Overall Risk Management	29%	39%	31%	29%	18%	23%	11%	18%
Metrics and Targets	a) Climate-Related Metrics	35%	32%	44%	58%	41%	48%	26%	42%
	b) Scope 1, 2, 3 GHG Emissions	27%	30%	36%	52%	28%	39%	24%	37%
	c) Climate-Related Targets	22%	27%	41%	43%	28%	41%	25%	35%

Disclosure of resilience of companies' strategies remain the least reported recommended disclosure

Legend: Low to high percentage of disclosure

The numbers in parentheses represent the size of the review population

Source: Task Force on Climate-related Financial Disclosures 2021 Status Report

SSE plc: Governance disclosure example

*Diagram represents the relevant committees and sub-committees in relation to sustainability. For SSE's full Governance Framework, see page 102 of its Annual Report 2021.

SSE included a diagram to outline sustainability governance structure at both board and management level. Further details are also provided describing each governing body's responsibilities. SSE has also disclosed how executives' remuneration is aligned to the UN SDG goals.

Source: SSE plc Sustainability Report 2021

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SSE plc: Governance disclosure example

SUSTAINABILITY- LINKED EXECUTIVE REMUNERATION

The Annual Incentive Plan (AIP) for SSE's Executive Directors is evaluated against several sustainability measures, including progress made each year against the company's 2030 Goals. The below table summarises the performance outcome for 2020/21 for the 'Stakeholders' and 'Contribution to the UN Sustainable Development Goals' measures, which are some of the non-financial performance measures included in the AIP. Further detail, including the weightings for each of the detailed measures outlined below, can be found within the Remuneration Committee Report on page 152 of SSE's Annual Report 2021

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Outcome
Contribution to the UN Sustainable Development Goals (20% of total AIP)	**Climate action:** Take urgent action to combat climate change and its impacts	Reduce the carbon intensity of electricity generated by 60% by 2030, compared to 2018 levels, to around 120gCO$_2$e/kWh.	Carbon intensity of electricity generated decreased by 11% compared to the previous year and was the lowest since SSE's records began. No coal output following closure of last coal-powered station in March 2020. Keadby 3 progressing through planning as part of Zero Carbon Humber. Progress in development of Peterhead CCUS.	80% Exceeded expectation
	Affordable and clean energy: Affordable, reliable and sustainable energy for all Industry, innovation and	Develop and build by 2030 more renewable energy to contribute renewable output of 30TWh a year.	SSE's renewable generation output decreased over the year due to poor weather conditions across wind and hydro. However, excellent progress was made over the year to develop and construct the assets which will enable SSE to meet its 2030 Goal.	85% Far exceeded expectation
	Industry, innovation and infrastructure: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030.	Project LEO and a partnership between Government and network owners in Scotland represent two of the most significant projects in the UK that will help accelerate transport electrification. RIIO-ED2 business plan is nearing completion, which will inform the investment needed in ED2 and beyond to meet the net zero decarbonisation goal. Launched a new low emission company car scheme to deliver a focus on the benefits of low emission cars.	85% Far exceeded expectation
	Decent work and economic growth: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.	SSE achieved ongoing accreditation of both the Fair Tax Mark and the Living Wage, supporting both campaigns to attract more companies to become accredited. Furthermore, SSE published its Talking Tax reports offering transparent disclosure of its tax approach. SSE has become one of the first companies to gain Living Hours accreditation.	90% Far exceeded expectation
Stakeholders (15% of total AIP)	**Customers**	**Business Energy –** A range of measures including customer complaints and satisfaction. Gateway for threshold performance at median performance of Citizens Advice league table.	Rank 3 against 17 business energy providers by Citizens Advice.	93% Far exceeded expectation
		Electricity Networks – A range of measures including customer interruptions and customer minutes lost.	Improved performance on previous year across a range of metrics as other DNOs have improved too. There is tight clustering in the league tables where a single percentage point can be the difference between below median and first. The out-turn reflects particularly strong performance in the North and in the Connections business.	40% Met expectation

Source: SSE plc Sustainability Report 2021

SSE plc: Strategy - climate related risks and opportunities

TRANSITION RISKS:

Risk 3 Climate policy brings forward the closures of unabated gas from 2030.

Transition risk factors that impact SSE's Thermal business:	Potential financial impact of the physical risk of climate change to SSE's business:
Policy and Legal risk: More aggressive climate change policy brings forward the closure of unabated gas generation from 2030.	**Potential financial Impact** **Up to £300m potential adverse impact on earnings cumulatively over five years from 2030**
The net zero transition requires a significant increase in renewable generation. Flexible generation is required to provide electricity when renewable output is low. In the medium-term gas generation is likely to play a key strategic role in balancing the variability of renewables, albeit with shorter running regimes, until sufficient net zero alternatives are deployed. While the 'Balanced Net Zero Pathway' scenario in the Climate Change Committee's 6th Carbon Budget, suggests the phasing out of unabated gas generation by 2035, it is plausible that to meet climate change commitments the UK Government (and potentially the Irish Government too) may strengthen climate change policies to require unabated gas generation to cease from 2030.	SSE's existing 5.3GW fleet of installed gas- and oil-fired generation will be nearing the end of its expected life by the end of the 2020s. However, 2.1GW of Combined Cycle Gas Turbine (CCGT) capacity will still be in operation in 2030. It is a plausible scenario that this capacity will not be able to generate beyond 2030 without low-carbon abatement technology. It is therefore assumed that the financial impact of this policy change is a loss of five years of earnings for the remaining life of these assets. **The early closure of the remaining gas assets is estimated to have an adverse impact on earnings of up to £300m cumulatively over five years after 2030.**

SSE describes the potential financial impact in an early closure of gas assets scenario from 2035 to 2030

Source: SSE plc Sustainability Report 2021

SSE plc: Strategy - climate related risks and opportunities

Opp 1 New off- and on-shore wind is crucial to a net zero world.

Opportunity described for SSE Renewables:	Potential financial impact of the climate-related opportunity to SSE's business:
Products and Services:	**Potential financial Impact**
The commercial development of SSE's off- and on-shore wind pipeline, beyond those currently in construction or those due for imminent final investment decision.	**Additional revenue of up to £3.75bn cumulatively between 2025 and 2030.**
In a low-carbon world, new off- and on-shore wind has a crucial role to play. The UK Government has committed to an additional 40GW of installed offshore wind capacity by end of 2030 and the Climate Change Committee sees at least 75GW by 2050. In Ireland a further 5GW offshore wind target by 2030 has been set. The continued access to Contracts for Difference (CfD) or other price stabilisation mechanism would continue to support an investment case for SSE in off- and on-shore wind projects.	SSE has an off- and on-shore wind development pipeline at varying stages of development, with a clear aspiration to reach a run rate of at least 1GW of new assets a year during the second half of this decade. As a result, SSE now expects to exceed its target for trebling its renewable output by 2030. The opportunities that exist include consented as well as pipeline development projects. Growth opportunities come from consented offshore projects which could be operational by 2025/26 involving: Seagreen 1A (360MW, 49% share) and Arklow Bank (520MW). SSE has future onshore growth through consented sites at Strathy South (208MW) and Tangy repower (57MW) in Scotland and Yellow River (105MW) in Ireland. Further development projects involve: Berwick Bank and Marr Bank offshore wind farms located off the Firth of Forth (up to 4,150MW); North Falls offshore wind farm an extension to Greater Gabbard wind farm off the east coast of England (up to 504MW 50% share)); and in Ireland 800MW Braymore Point and 800MW Celtic Sea offshore wind projects. Future onshore growth can come from yet to be consented sites and further prospects. This takes the total GB and Ireland onshore wind pipeline to over 1100MW. **Assuming potential £250m of additional revenue for every 1GW of extra wind capacity then the cumulative impact on revenue between 2025 to 2030 is around £3.75bn.**

SSE discloses the potential financial impact opportunities from growing its renewable energy output

Source: SSE plc Sustainability Report 2021

Allianz: Impact of two transition scenarios

Assets and business impact under transition scenarios (source: Allianz, excerpt)

Global		2°C					1.5°C				
		2020	2025	2030	2035	2040	2020	2025	2030	2035	2040
Energy	Integrated oil and gas	(M)	(M)				(M)				T
Energy	Oil and gas storage and transportation										
Energy	Coal and consumable fuels				T, P	T, P				T, P	T, P
Materials	Fertilizers and agricultural chemicals	(T)	(T)	(T)	(T)	(T)	(T)	(T)	(T)	P	
Materials	Aluminium										
Materials	Steel										
Industrials	Industrial conglomerates										
Industrials	Airlines	(T)	P				(T)	P			
Consumer discretionary	Auto components										
Consumer discretionary	Automobiles			P	P, T	T		P	P	P, T	P, T
Utilities	Electric utilities	P	(M)		P	P	P	(M)		P	P
Utilities	Renewable electricity				T	T				T	T

Risk enhancer:
P = policy
T = substitution technology
M = related market forces

Risk mitigator:
(P) = policy
(T) = little substitution technology
(M) = countering market forces

Risk:
Low
Medium
High
Very high

Allianz Group, Sustainability Report 2020, p. 86
Note: Some content was reformatted in order to fit the page.

Allianz highlights the impact of two transition risk scenarios — both 2°C or lower — on the risk exposure (i.e., resilience) of Allianz's strategy. It shows various time horizons, asset types, risk levels, and factors that may enhance or mitigate potential risk exposures in order to increase resilience (e.g., policy, technology substitutions, and other market forces).

Source: Task Force on Climate-related Financial Disclosures 2021 Status Report

Risk management disclosure

Climate risk vulnerability heat maps – Macquarie Group

[Macquarie TCFD implementation progress and scenario analysis 2020]

FY2020 SCENARIO ANALYSIS | TRANSITION RISK

Heat map extract

Transition Risk	Orderly Scenario			Disorderly Scenario		
	World			World		
Macquarie Sector Groups	2025	2035	2050	2025	2035	2050
Agriculture						
Consumer Staples (including Food and Beverages)						
Commercial and Professional Services						
Consumer Discretionary						
Consumer Discretionary: Automobiles						
Consumer Discretionary: Automobiles – Electric Vehicles						
Financials						
Health and Education						
Technology and Telecommunications						
Aircraft and Airlines						
Rail Transport						
Road Transport						
Shipping						
Chemicals						
Heavy Building Materials						
Metals and Mining						
Metals and Mining (Green Minerals)						
Coal Mining (Coking)						
Coal Mining (Thermal)						
Gas Exploration and Production						
Oil Exploration and Production						
Capital Goods						
Capital Goods: Renewables Equipment						
Property and Real Estate						
Utilities: Power and Gas						
Utilities: Power Generation – High Carbon						
Utilities: Power Generation – Low Carbon						
Utilities: Water and Sewerage						

Legend – Transition Gradient scale

Positive profit impact | No or limited profit impact | Negative profit impact

[Physical and transition climate risk vulnerability heat maps for lending and equity portfolios across sectors and geographies]

Risk management disclosure

Describe the organisation's processes for managing climate-related risks – Macquarie Group

[Macquarie TCFD implementation progress and scenario analysis 2021]

	Risk management
Progress to end of FY2020	• Incorporated climate-related risks into environmental and social risk and credit analysis for carbon intensive sectors. • Established approaches to transition risk analysis in the oil, gas, coal and power generation sectors of our lending and equity portfolios. • Included climate change risk within Macquarie's Risk Appetite Statement and Risk Management Strategy. • Generated physical and transition climate risk vulnerability heat maps for lending and equity portfolios across sectors and geographies. • Conducted scenario risk analysis of lending and equity portfolios for the oil, gas, coal and power generation sectors, representing transition pathways to 1.5°C, 2°C and 4°C warming by 2100. • Analysed physical risk of Macquarie's mortgage portfolio, representing pathways to 1.5°C and 4°C warming by 2100.
Progress during FY2021	• Analysed physical risk of Macquarie's equity portfolio for the utilities, oil and gas sectors, representing pathways to 1.5°C and 4°C warming by 2100. • Assessed vulnerability and resilience of our business premises to physical climate risks.
Focus beyond FY2021	• Continue integration of climate-related risks through our risk management framework. • Refine climate scenario analysis and evolve approaches to integrate into broader stress testing. • Evolve strategic response to vulnerability and resilience of our business premises to physical climate risks.

Metrics and targets disclosure

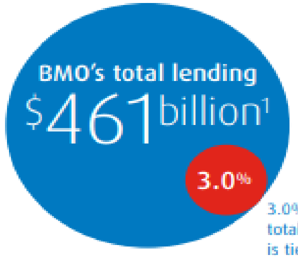
Financed Emission Metrics

Reporting sectors' climate risk exposure – BMO

[BMO 2020 Climate Report](#)

Exposure in each sector are reported as a percentage of total portfolio net loans and acceptances

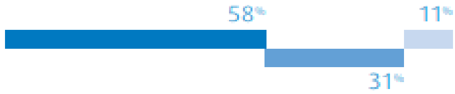
Lending to Carbon-Related Assets



3.0% of BMO's total loan portfolio is tied to carbon-related assets

1 Total loans and acceptances, net of allowance for credit losses on impaired loans.

BMO's Lending to Power Generation, as at October 31, 2020



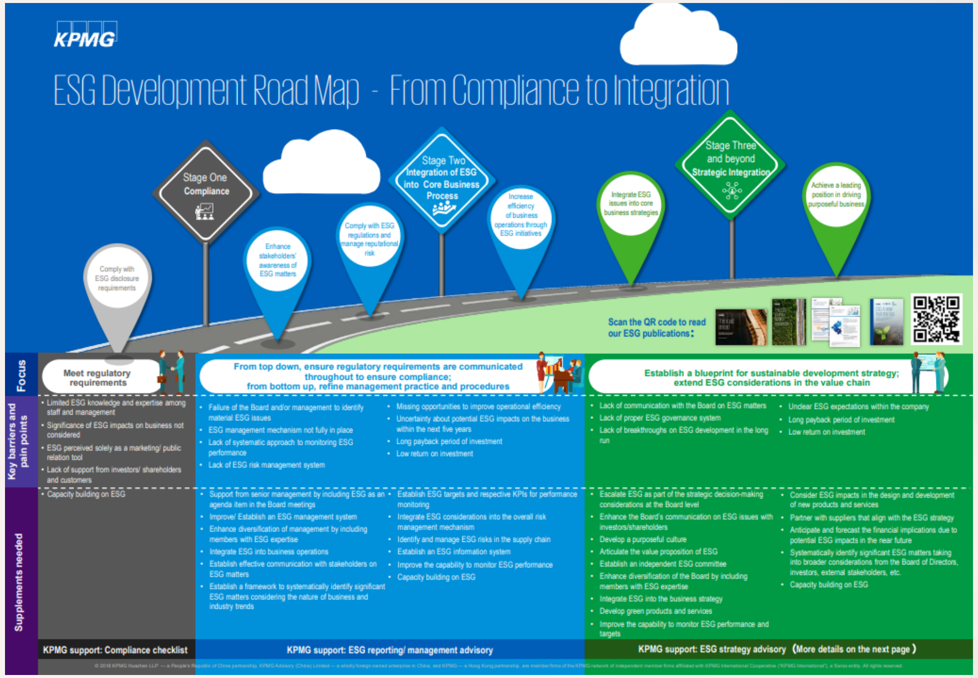
Category	%
Low-carbon energy generation	58%
Fossil-fuel based energy generation	31%
Other (unclassified)	11%

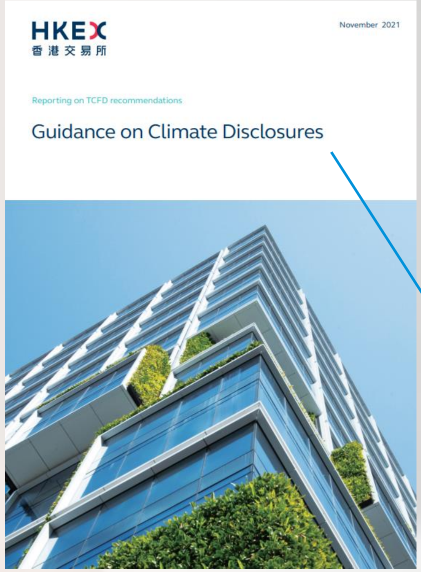
Sensitivity to Climate Risk of BMO Lending Exposures, as at October 31, 2020

Industry	% of Net Loans and Acceptances
Residential mortgages	27.5%
Consumer instalment and other personal loans	15.2%
Service industries	10.4%
Financial	9.8%
Commercial real estate	8.7%
Manufacturing	5.7%
Retail trade	4.4%
Wholesale trade	3.4%
Agriculture	2.9%
Transportation	2.8%
Oil and gas	2.7%
Credit cards	1.7%
Utilities	1.1%
Construction (non-real estate)	1.0%
Financing products	0.9%
Mining	0.5%
Government	0.5%
Other	0.4%
Forest products	0.2%
Communications	0.2%

Primarily physical risks; Primarily transition risks; Both physical and transition risks; No significant physical or transition risks identified

Resources





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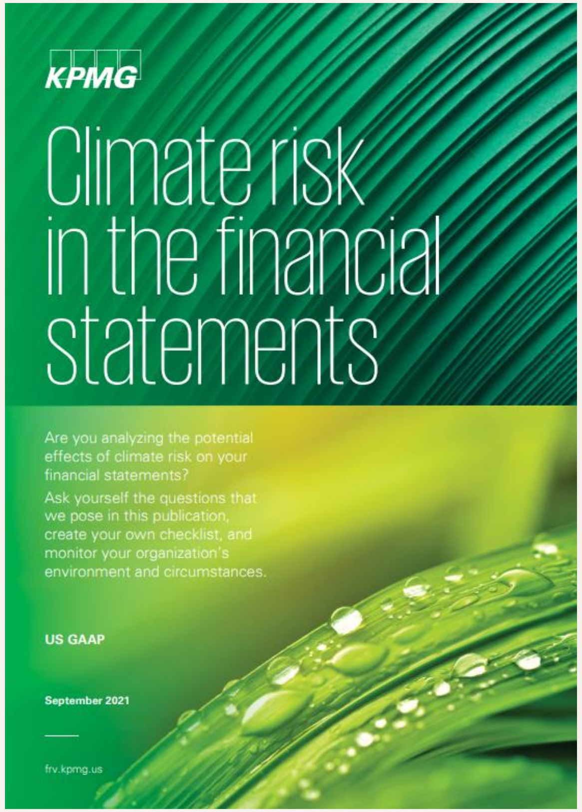
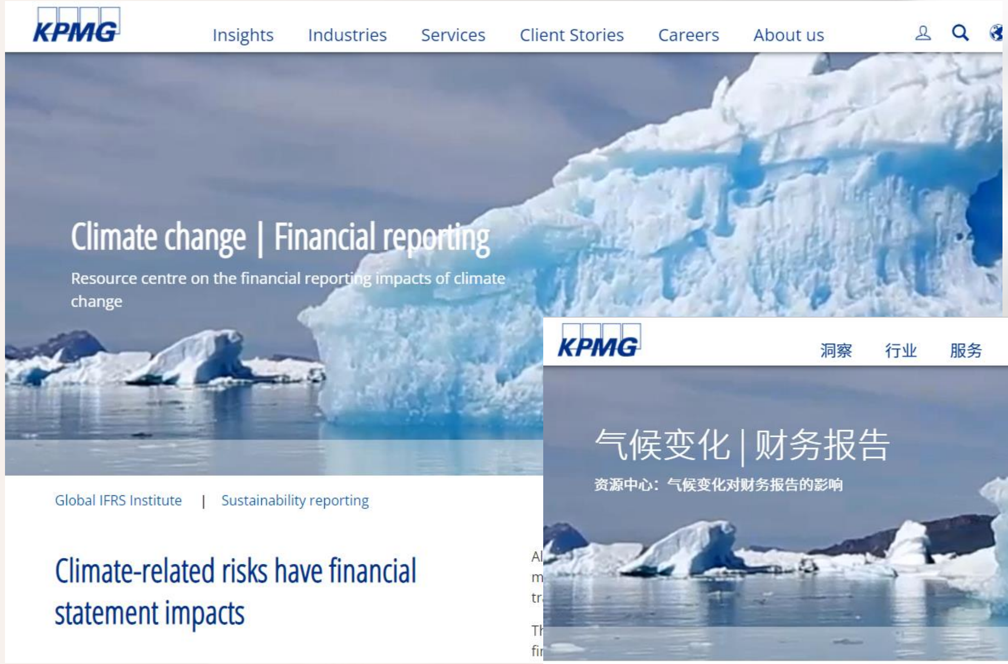
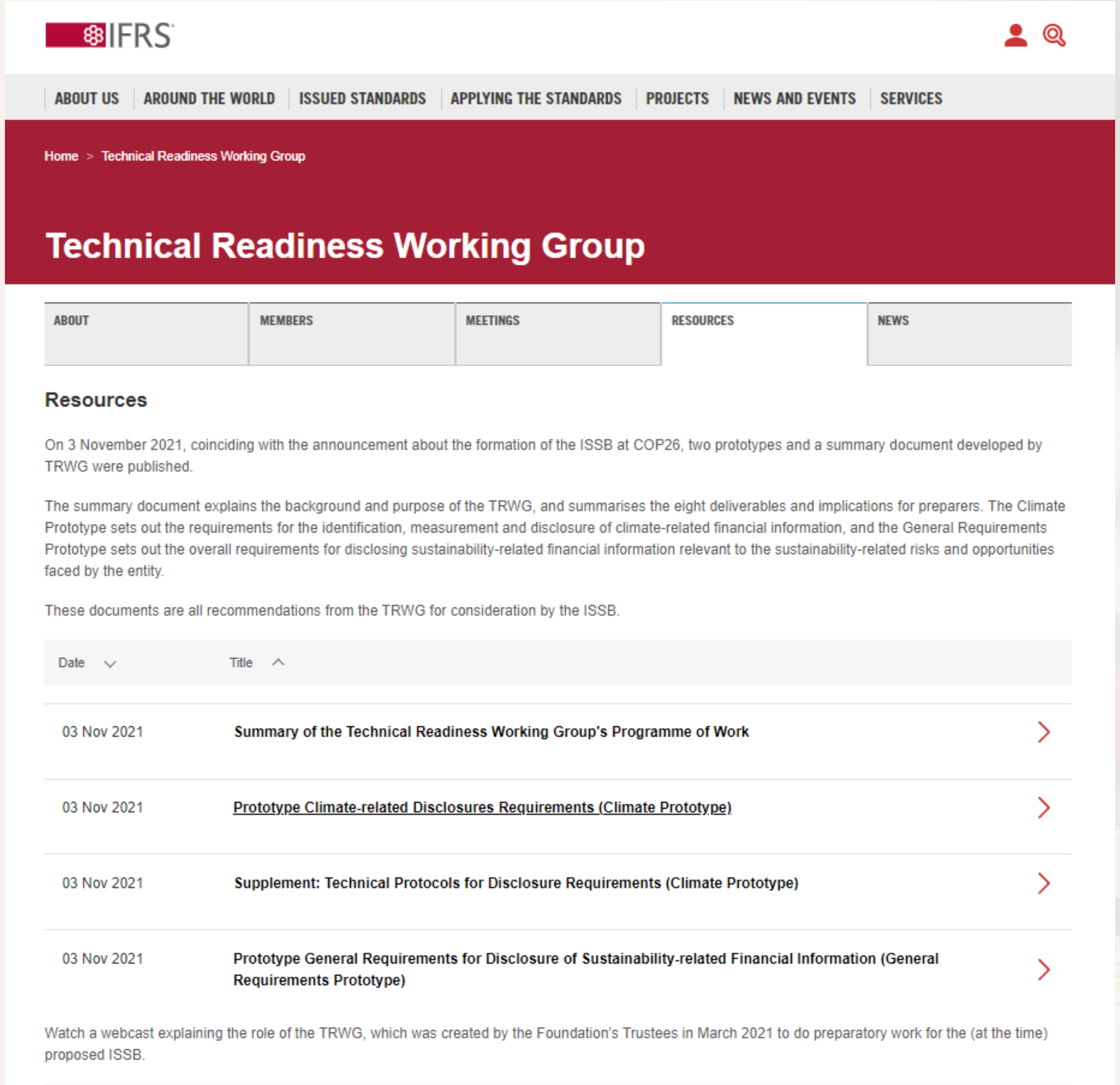
Resources (cont'd)





Resources (cont'd)



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Resources

On 3 November 2021, coinciding with the announcement about the formation of the ISSB at COP26, two prototypes and a summary document developed by TRWG were published.

The summary document explains the background and purpose of the TRWG, and summarises the eight deliverables and implications for preparers. The Climate Prototype sets out the requirements for the identification, measurement and disclosure of climate-related financial information, and the General Requirements Prototype sets out the overall requirements for disclosing sustainability-related financial information relevant to the sustainability-related risks and opportunities faced by the entity.

These documents are all recommendations from the TRWG for consideration by the ISSB.

Date	Title
03 Nov 2021	**Summary of the Technical Readiness Working Group's Programme of Work**
03 Nov 2021	**Prototype Climate-related Disclosures Requirements (Climate Prototype)**
03 Nov 2021	**Supplement: Technical Protocols for Disclosure Requirements (Climate Prototype)**
03 Nov 2021	**Prototype General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Prototype)**

Watch a webcast explaining the role of the TRWG, which was created by the Foundation's Trustees in March 2021 to do preparatory work for the (at the time) proposed ISSB.

Webinar dates and topics for 2021

- 29 January – Navigating potential accounting fraud
- 19 March – IASB project update - Business combinations under common control
- 14 May – Interim reporting update: What's on the horizon
- 16 July – ESG Updates and Financial Reporting Implications
- 30 September – Update on key IASB projects and recent IFRS amendments
- **19 November – ESG Reporting Developments**
- **17 December – Year-end Reporting Reminders**

For more details and access to our webinar series:

https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html

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2021 HKICPA Council Election
Vote for
Leung Sze Kit, Roy
Election period:
24 Nov to 6 Dec
VOTE
Support members in response to regulatory changes
Enhance professional development
Efficient deployment of resources to serve members

Speakers

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