



Closing the gap between climate risk and climate strategy

Financial Reporting Webinar Series

Friday 10 June 2022



Points to note

- **The webinar will start at 3:30 pm.**
- **To receive the Confirmation of Attendance, please provide your name and email when signing in.**
- **Please note all the lines will be muted throughout the webinar duration.**
- **If you have questions for the speakers, please submit them via the chat box panel to “All panelists”. Your questions will be raised during the Q&A session, subject to available time**
- **A Feedback survey will be available at the end of the webinar on WebEx. Please complete the survey, your feedback is important to us**

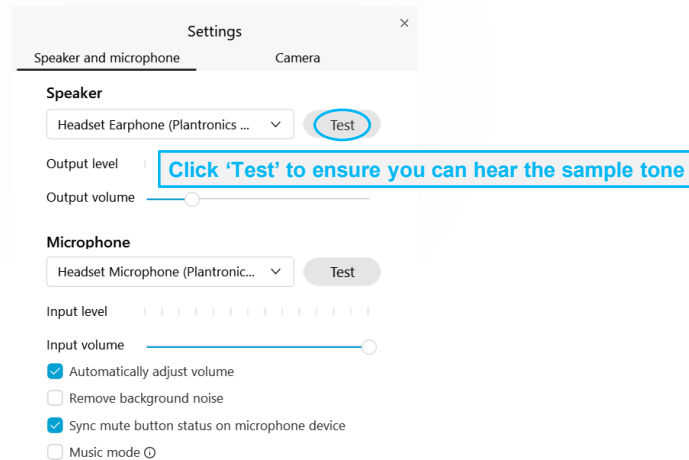
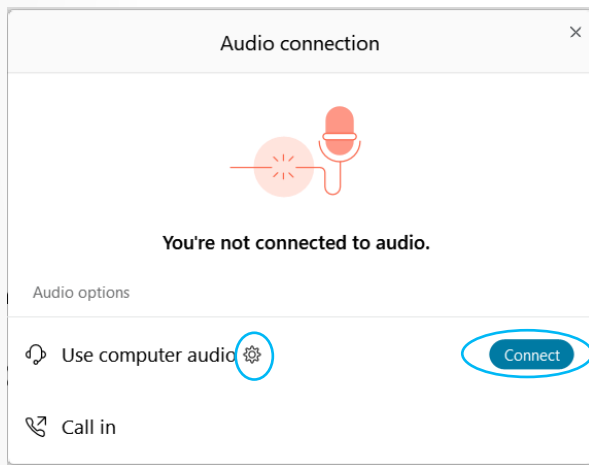


Check your audio settings

Audio

Click the  to check your 'Audio connection' (choose  Connect audio) and 'Speaker and microphone settings')

Background music is playing now. If you are unable to hear the music or 'Test' tone at the speaker, you may try  Call in using the toll-free Hong Kong number +852 3009 5121 (Access code: 2511 231 7084)



If you encounter any problem, you may contact Korie Lau (korie.lau@kpmg.com, +852 2847 5181) for help.



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With you today



Simon Weaver

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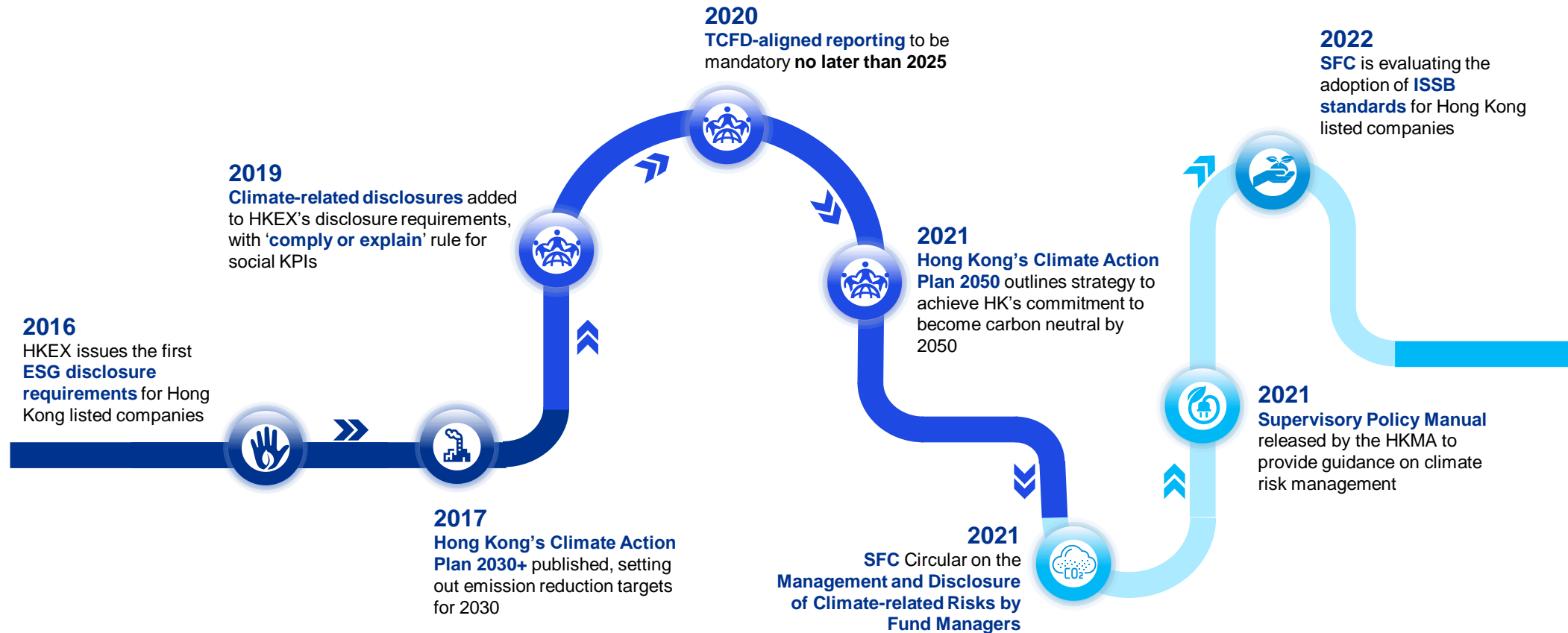
Partner
ESG Reporting and Sustainability
KPMG China

Overview: TCFD Recommendations

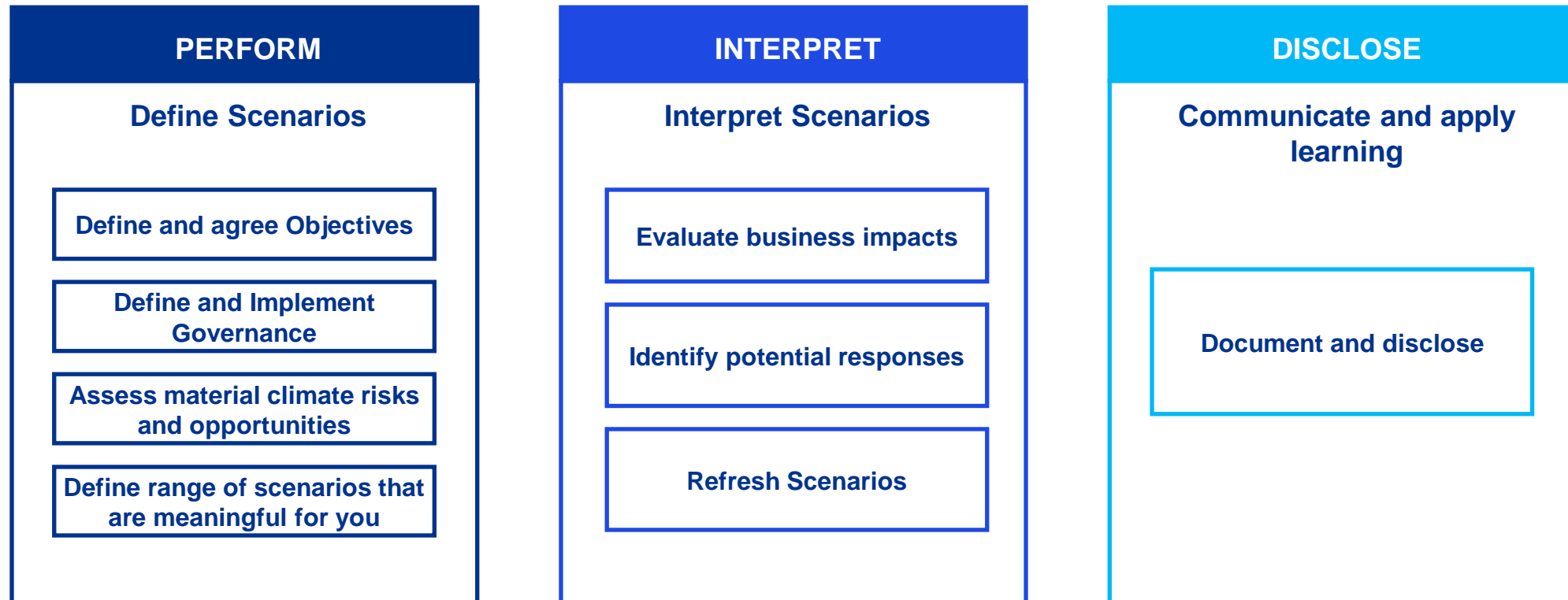
Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where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

Source: TCFD

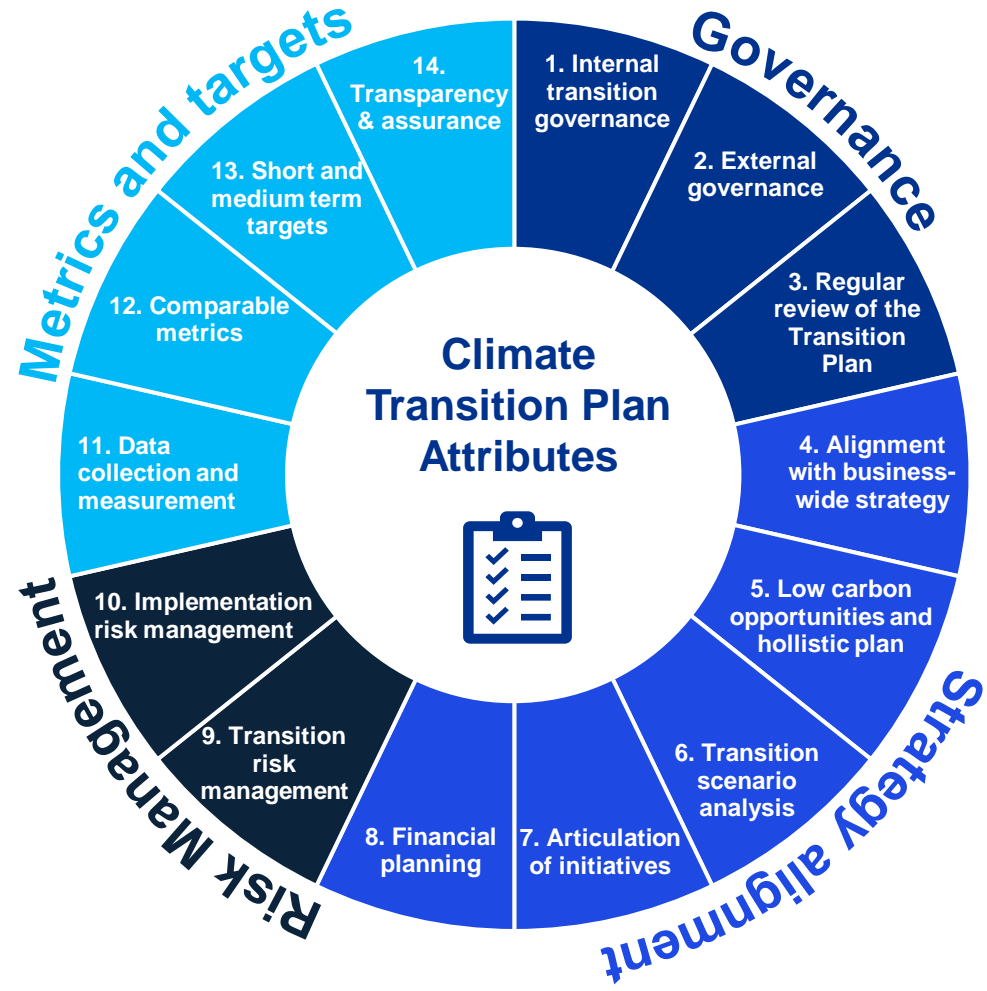
Momentum for climate action is growing in Hong Kong



Scenario analysis – key steps



Key climate transition plan components



Set up of ISSB – increase standardisation



The ISSB's standards and where it fits in corporate reporting?

The three lenses for corporate disclosure:

Sustainability reporting (broader multi-stakeholder focus)

Reporting on all sustainability matters that reflect significant positive or negative impacts on people, the environment and the economy

Sustainability-related financial disclosures (investor focus)

Reporting on those sustainability matters that may create or erode enterprise value over the short, medium and long term

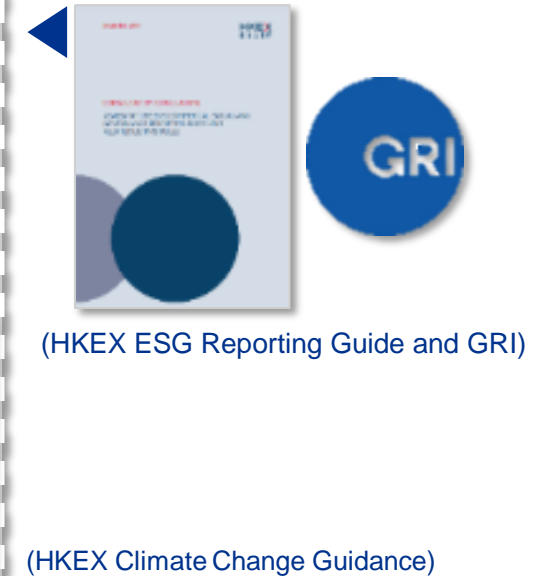
Financial reporting (investor focus)

Reflected in monetary amounts in the financial statements

IASB

Other GAAP
(e.g. FASB)

Integrated reporting



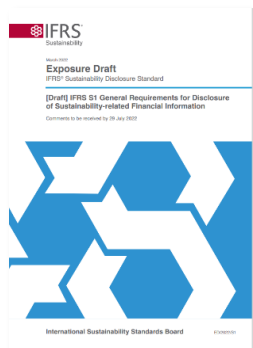
(HKEX ESG Reporting Guide and GRI)

(HKEX Climate Change Guidance)

Source: GRI/SASB/IR 2020 work on harmonisation www.sasb.org/wp-content/uploads/2020/08/Invitation-to-Comment-SASB-CF-RoP.pdf

IFRS Sustainability Standards - Two intersecting proposals

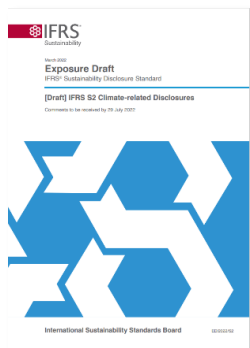
Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information



Sets the foundation

- General features of reporting, including on materiality.
- A **content structure across the four areas** of governance, strategy, risk management and, metrics and targets.
- Practical guidance, including on presentation of information.

Exposure Draft IFRS S2 Climate-related Disclosures



Provides additional detail

- Builds on the four content areas with additional guidance, particularly in relation to:
 - disclosure of **risks, climate transition plans and scenario analysis**; and
 - general and industry-specific **metrics**.

Climate proposal

General requirements proposal

Scope and objectives

Content requirements

Governance

Strategy



Guidance on risks, transition plans and scenario analysis

Risk management

Metrics and targets



Climate-related metrics (general and industry-specific)

Presentation

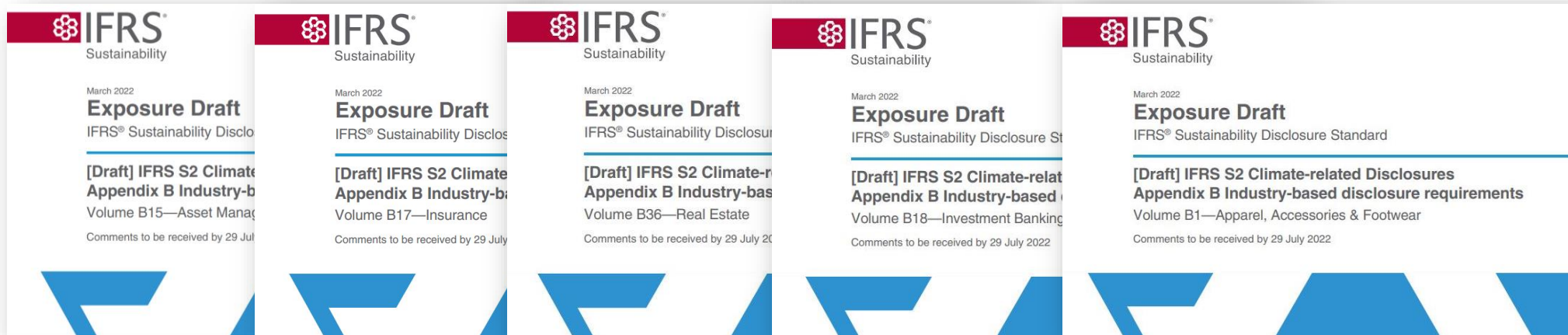
Practicalities of reporting

Industry-based climate-related disclosures

Appendix B of the climate proposal sets out the draft requirements for identifying, measuring and disclosing information related to **significant climate-related risks and opportunities associated with particular industries**.

The industry-based disclosure requirements are mostly derived from the **SASB Standards**.

Definition and measurements for industry-based metrics across 11 sectors, comprising 68 industries are provided.



TCFD Best Practice Examples



- Clear framework disclosed
- Detailed response to challenges of climate change
- Outlines opportunities to decarbonise across the business

Our Strategic Focus

The findings from ClimateVult make it clear that we need to be strategic in our response, by managing our exposure to physical impacts and seizing the opportunities of contributing to the low carbon future. Our Climate Transition Plan is the roadmap to achieve this across our business.

To deliver on our climate ambition, and reduce our exposure to climate-related risks, we focus on five key areas:



Accountability and Leadership

We advocate for systemic changes to the international financial architecture to ensure climate-related risks are properly reflected in the cost of capital.

Decarbonising our Investment Portfolio

We have set our ambition to become a Net Zero in our Portfolio by 2040. We have signed the Glasgow Global Polluter in our Climate Engagement Evaluation Programme.

Insuring a Net Zero Future

We have set our ambition to become a Net Zero in our Portfolio by 2040. We have signed the Glasgow Global Polluter in our Climate Engagement Evaluation Programme.

Decarbonising our Operations and Supply Chain

We have committed to using 100% renewable electricity for all our offices by 2025.

Embedding Climate in our Culture

We have implemented an investment process for companies making more than 5% of revenue from thermal coal.



- Each risk and opportunity clearly linked to time horizon and internal progress
- Disclosed key strategic activities and ambitions
- Visuals used to present data

Strategy

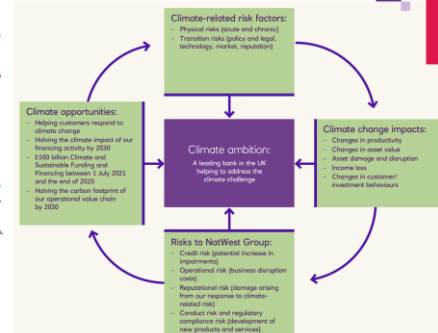
3.1 NatWest Group and Climate Change

We recognise that climate change is a global issue which has significant implications for our customers, employees, suppliers, partners, investors and therefore NatWest Group itself. Our ambition to be a leading bank in the UK helping to address the climate challenge has been influenced by the impact of climate change on us and our potential to take action to influence the impact of climate change.

As a primarily UK-focused bank the majority of climate-related risks and opportunities have been considered through a UK lens. Notable exceptions are included as part of this report, for example our operational risk scenarios covered in section 4.3.

Risks: The physical and transition risks associated with climate change are transmitted through the economy to NatWest Group. This transmission happens in a number of ways, including, but not limited to, impacts on NatWest Group's key risks. See Section 3.2 for further details.

Opportunities: Addressing the climate challenge provides a range of opportunities, such as the provision of funding and financing within our CSR criteria. See section 3.3 for further details.



- Significant consideration of climate opportunities and their relevant merits
- Linked each climate risk to a relevant IFRS standard

CIRCULAR CONSTRUCTION: THE OPPORTUNITY OF OUR TIME
Circularity is the opportunity of our time. The world economy has grown to unprecedented levels, with global GDP now exceeding USD 94 trillion. On this trajectory, our linear economy of "take-make-waste" is set to consume 2.3 planets by 2040. To make our future work for people and the planet, we need to shift gears to a circular economy of "reduce-reuse-recycle".*

Most of the carbon efficiencies achieved in cement and concrete manufacturing since 1990 are related to the reuse and recycling of waste-derived products. These are still at the core of our strategy.

Reducing materials and CO₂ footprint by empowering smart design
With today's rise in population and urbanization, we expect to build 10 billion square meters of floors each year to house more than two billion additional people in cities by 2050. Circular systems will make a real difference.

A recent example of this is an innovative lightweight flooring system we developed in partnership with ETH that has an 80% lower carbon footprint compared to traditional structures.

With its smart design it uses 50% less materials, with no steel reinforcements



CIRCULAR CONSTRUCTION IS

SOCIALLY INCLUSIVE
creating new jobs and business models. For instance, it is estimated that every 10,000 tons of waste that is recycled can create more than 100 jobs, while the repairing and leasing economy could create exponentially more.

CLIMATE-FRIENDLY
in line with the world's urgency to keep global warming within 1.5°C. Reaching 85% material recycling rate across our economy would reduce CO₂ emissions by up to 50 billion tons, the equivalent of taking 10 billion cars off our roads.

NATURE POSITIVE
with regenerative business models that will increasingly substitute resources drawn from nature with recycled materials, thus preserving biodiversity and reducing water use.

Reflections



Climate risk is a business risk



Navigate climate-related scenario analysis



Data and Information: qualitative, quantitative, granularity, systems, process, controls, verifiability



Common climate and sustainability reporting standards are coming



Go beyond reporting - embedding climate change/sustainability in business



Capacity building and collaboration to accelerate actions and results

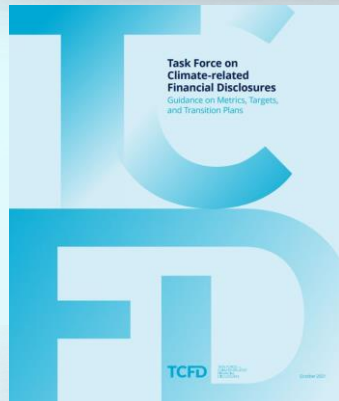
Resources



KPMG –
Climate Risk Management
[Banking sector]



KPMG –
Towards Net Zero – How the world's largest companies report on climate risk and net zero transition



TCFD –
Guidance on Metrics, Targets, and Transition Plans



TCFD –
Guidance on Scenario Analysis for Non-Financial Companies



TCFD –
2021 Status Report

Webinar dates and topics for 2022

- 26 January – HKEX Listing Rules Update
- 18 March – IFRS Sustainability Standards – The climate-related and general disclosure prototypes
- 20 May – Get ready for 2022 Interim Reporting season
- **10 June – Closing the gap between climate risk and climate strategy**
- **15 July – Accounting for crypto-assets**
- **2 September – IASB projects update**
- **18 November – ESG update/TCFD/Climate-risk on financial reports**
- **16 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>

Thank you



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