



Leading the way in climate action transparency

Why publish climate-related disclosures?

In a recent round table discussion co-organized by WTW's Climate and Resilience Hub and the Philippine Government's Climate Change Commission (CCC), panelists from the Task Force on Climate-related Financial Disclosures (TCFD) and two Philippine conglomerates help raise awareness on how the TCFD's guidelines promote quality climate-related disclosure – and help companies in their journey towards climate resilience. They also discuss the benefits and challenges, particularly for Philippine corporations, in undertaking these recommendations.

The impacts of climate change are becoming more evident, prevalent, and far-reaching – and businesses are affected in many ways. For instance, the increasing severity of extreme events, such as typhoons, and rising sea levels and temperatures can hurt companies' profits because of climate-related loss and damages to their physical assets. Changing regulation due to governments' commitments to reduce greenhouse gases can force businesses to write off certain assets such as coal-fired powered plants. Stakeholders' increasing concern for the environment can also impact how a company attracts and retains not just customers but employees as well.

Stakeholders, most especially investors, have then been requiring clear, complete, and high-quality information from corporations on how both risks and opportunities due to climate change impact their business. To address this need, the TCFD has created recommendations on how entities can measure and disclose the financial impacts of climate change to their business. Over 2,700 companies around the world have publicly shown their support for these recommendations.

Panelists

Vickie Tan

Group Head, Enterprise Risk Management and Sustainability Unit, Ayala Corporation

Timothy Daniels

Consultant, Investor Relations and Sustainability
SM Investments Corporation

Masaaki Nagamura

Member, Task Force on Climate-Related Financial Disclosures (TCFD)

Augusto Hidalgo

Senior Director, Climate and Resilience Hub, WTW

Moderator

Dr. Marqueza Reyes

Climate Finance Expert
Climate Change Commission - UNDP Nationally Determined Contribution (NDC) Support Project to the Philippines

Marqueza: Currently, Japan has more than 450 organizations that support the TCFD recommendations. This is believed to be the largest number worldwide. You mentioned that a third of these supporters are financial institutions, an improvement from just two. What made this change possible?

Masaaki: The push from the Japanese government, especially the Ministry of Economy, Trade, and Industry (METI), was very important. It is always said that whenever METI moves, the industry moves. The involvement of this ministry then was a very strong driver and encouraging factor for non-financial companies to move ahead.

Another factor was the involvement of the Government Pension Investment Fund (GPIF), which takes care of Japanese pensions and is arguably the biggest asset owner in the world. They publicly expressed their support for the TCFD recommendations and started constructing their own ESG indices, some of which take into account TCFD disclosures. That prompted the attention of many market participants.

Marqueza: The Securities and Exchange Commission (SEC) allows Philippine publicly listed companies to use the “comply or explain” approach for now when preparing their sustainability reports. This means that companies are not required to disclose on all environment, social, and governance (ESG) topics but only on those determined by companies to be material after their assessment. Doesn’t this approach leave room for businesses to cherry pick the information that they disclose?

Vickie: Cherry picking at this point will not help companies because those material topics you have identified from your materiality assessment are your ESG risks. It is for your company’s benefit that you know and understand your material topics and appreciate the materiality exercise from a risk perspective. Doing so gives your whole organization awareness on these topics and guides different functions in coming up with mitigation strategies.

Remember, the flip side of risk is opportunity. A company can streamline processes, achieve operational efficiency, or come up with innovative solutions to turn risks into opportunities. That is why at Ayala Corporation, the materiality assessment is a year-round process. We must understand holistically the issues our stakeholders face and how they will impact our businesses.

Marqueza: Do you regularly conduct climate risk assessments or scenario analysis on your business units? If so, how do you conduct this and do you follow certain standards? Do you also communicate results to stakeholders?

Timothy: First, there is a lot of engineering and planning that goes on behind an SM Mall development in a new area. We come up with a forward thinking plan that considers the different stakeholder groups, the building’s physical construction aspects, the risks, the environment, climate change, etc. We also tend to go in with a holistic viewpoint and consider how the project will expand over time in a very synergistic way, such as how housing, hotels, and community facilities relate to the mall project. That kind of long-term planning means we must have a very comprehensive day zero plan.

On the second level, disaster resilience is particularly important in the Philippines given the number of disasters we face regularly and the likely worsening of those under climate change. In fact, Hans Sy, a second generation leader of the SM Group who personally has led our Mall expansion, has been a

member of the United Nations (UN) Global Compact with the private sector involvement of ARISE. Disaster resilience then has been the focus of our scenario analysis and our planning, which is a very heavy exercise. Now that we signed up as a supporter of the TCFD recommendations, we must ask more specific questions and think of how to incorporate the framework across the SM Group. We can then pivot the scenario analysis in a way that meets the TCFD recommendations.

A TCFD-aligned scenario analysis would require a different way of thinking and so, we recognize the need to get the right advice on how to do it. Before we can get comfortable with making statements about long-term commitments or ways to mitigate certain risks, we need to have a well-established baseline on the risk side, much like how it is for our baseline

Marqueza: Can you compare how ready the Philippine business sector is compared to, let’s say, the frontrunner when it comes to following the TCFD recommendations?

Augusto: There are some frames or lenses that one can look at in terms of how far our country is in this climate action and disclosure journey.

One can categorize the world into Group of Twenty (G20) and non-G20 countries. The Philippine SEC’s guidelines on sustainability reporting makes a nod at TCFD. However, it’s clear that TCFD readiness is at different speeds for G20 and non-G20 countries such as the Philippines. You can also categorize the world into developed and less developed; I believe the Philippines would fall in the middle income category now. Another frame might be countries that are more vulnerable and less vulnerable to disasters – and we would all agree that the Philippines is clearly a vulnerable place.

Looking at climate disclosure from these lenses, I think we will find out after getting our survey responses that, to no surprise, the Philippines is probably not doing as great as the UK which has been a leader in policy for climate. Comparing our TCFD readiness with that of a frontrunner such as the UK is a bit difficult.

But I think what is more relevant to consider in the Philippine context is that decision makers probably care more about how climate disclosure can help their organizations achieve their goals. To me, currently, climate disclosure and TCFD in our country is about baselining. Consider one scenario wherein foreign investors now have more access to companies listed on the Philippine bourse. Those investors with billions of dollars of asset manager funds are very sensitive to climate disclosure. They will look at Philippine corporates and say they prefer the top ten climate actors over the bottom ten. Note that they will move on quickly to corporates elsewhere because they have several other countries to invest in.

These are the considerations which I believe would make a corporate decision-maker think of the impetus to start a climate disclosure journey.

Marqueza: What do you think about a possible move towards mandatory climate-related financial reporting in the Philippines? Is there a need for this?

Masaaki: The TCFD-aligned disclosures were meant to be a voluntary practice when the recommendations were created. But the air has changed and we now see most leading economies looking at a mandatory practice, which has its pros and cons. While Japan is still holding on to the recommendations' voluntary nature, recently, the regulator has tasked an expert commission to consider how regulatory reporting should take account of TCFD-aligned disclosures.

I would say that the TCFD itself does not take any position on whether disclosures should be mandatory. We believe this decision is up to the jurisdictions, which each have their own unique backgrounds. What works in certain jurisdictions may not work for others. The Philippine regulator then should carefully assess what would work best for their corporates.

What the TCFD recommends, however, is that any organization that issues equities or bonds should disclose climate-related financial information.

Augusto: I do not think TCFD-aligned disclosures in the Philippine or developing countries will be mandatory. However, there is a clear differentiation for companies issuing these disclosures.

Many Boards of Directors of corporations in the Philippines are asking the bare minimum actions they can take to comply with the SEC's memo on sustainability reporting. They ask this since some would just do what is required. But I think the rewards are going to come relatively quickly for those who demonstrate that a corporation should also be able to earn profits by being a good climate actor – and be able to explain that this virtuous cycle is happening.

What we at WTW are trying to do is to recruit the efforts of those that believe that the world's capital should go to the most resilient. For climate-related disclosures to work in developing countries, people should see something positive, the carrot rather than the stick. For instance, the role of multilateral development banks is critical in a country like ours; they have billions of dollars coming in from developed countries, some of which are private sector financing. And who do you think will be invited to participate in their projects? The companies showing climate leadership.

Marqueza: From the point of view of an issuer/reporter of climate-related financial disclosures, what could hinder companies from complying with a requirement to issue such disclosures?

Vickie: I recall my conversation with one of the Commissioners of the SEC. At that time, Ayala Corporation was asked to provide comments on the SEC's draft circular on sustainability reporting. I agree with the Commissioner when he said that the TCFD framework will help foreign investments flow into the country. And being a natural catastrophe-prone country, the Philippines will need capital to finance climate-related solutions. Hence, the TCFD framework was included as one of the sustainability reporting frameworks in the final version of the SEC circular.

Challenges in adopting the recommended climate-related disclosures are:

- The huge amount of data that needs collection and analysis that may require skills or platforms not available in the country; and,
- The decision to disclose and how much to disclose due to the risk of revealing competitive or proprietary knowledge.

But I think information on the general direction of the impacts of climate change on the company's business, the mitigation strategies, and the climate-related opportunities are information an investor would want to know. Identifying this information has another benefit from a risk management point of view – it is one way to future-proof a business.

Climate disclosures matter to insurers as well and I'll give an example of this from the Ayala Group's experience. Advanced insurers which do their own catastrophe modeling can shy away from our country given our vulnerability to disasters. However, thanks to the Ayala Group's climate disclosures which these insurers found valuable, we achieved over subscriptions in all layers of our complex insurance program in our recent group insurance renewal.

Timothy: There is an expectation on companies to be responsible for sustainability and increasingly for climate change as well. We see that from fundamental asset owners, such as families, institutions, and pension funds, who are pressuring the people who manage the money for them and the companies that they are investing in. The benefits of climate disclosures to a company are enormous because you get the right kind of investors and market appreciation of your stock, which also impacts the country's attractiveness as an investment destination.

The conversations I have with institutional investors around the world have been interesting. They do not say they expect SM Group to do something by a certain date and have these targets and goals ready. What they ask is: where are you on the journey to sustainability reporting and are you committed to carrying on the journey? They ask about what has happened since the last time we spoke and if we are still on that journey. They want the dialogue with us to see the intent from our Group.

One of my takeaways from the 6th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) is many countries have made climate-related commitments years ago but only a minority of them have delivered. Making a statement that you must do something is not the same as knowing how to deliver it. If that is the failure globally at the country level, how much more so is that when we get to companies in the Philippines who are earlier on the journey and are wrestling with how to do deliver on their commitments?

I believe if we want to get quality reporting on sustainability and climate, guidelines must reflect the journey that people are on. We need to give companies the options to figure out their own materiality topics and encourage that process along the way. That will win much more credible commitments and encourage companies to think of climate or sustainability reporting not just as a compliance exercise but as part of strategy planning and risk management. This way of thinking will not only produce better commitments but also better delivery on those commitments. If regulators come in with a hard stick of mandating, they might just get garbage in, garbage out.

Marqueza: The SEC's memo on sustainability reporting gives publicly listed companies guidelines on how to disclose performance across various ESG aspects. Integrated reporting would pull together all information that sits in separate reporting strands (e.g. annual financial reports, sustainability reports). Should companies just leapfrog to integrated reporting instead of focus on sustainability reporting?

Vickie: Ayala Corporation had been talking about integrated reporting in 2014. I spent 2015 learning how we can transition from separate sustainability and annual financial reports to integrated reporting. Our report was only published in 2016 because I believe our philosophy is that we should start disclosing and listening to our stakeholders. For instance, some of our institutional investors had been recommending that we take a crack at integrated reporting. There was also some discussion between members of the Singapore team of one of our companies. That is when we realized it is probably to good start this kind of reporting.

I had to make sure that the publicly-listed subsidiaries of the Ayala Group will get behind the parent company's moves. Integrated reporting is a bottoms-up approach. It will only be adequate if we have made a cohesive narrative out of the different experiences of our business units.

Integrated reporting made a big difference to the way we communicate our value creation stories. Again, you can look at this "octopus" of integrated reporting from the risk lens. We have an appreciation of the different capitals that are available to us and the strategies that we need to employ to create more value to the company and to our different stakeholders from

this capital. Integrated reporting is very dynamic – it keeps us on our toes.

Timothy: The SM Group has started integrated reporting and it has been a very useful thing to do. It makes one talk differently but also, arguably, it makes one think differently. It pushes us to have a different dialogue within the organization and makes us ask several questions:

- Where do we create value?
- What are we using? How are we sharing it?
- How do we make it more circular?
- How do all these things tie together?

We had a year where we tried to publish an integrated report without calling it as such. We could have called it an integrated report but we decided to wait until we were comfortable that we had nailed how we wanted to produce that document.

The journey towards an integrated report is similar with how we are approaching the TCFD framework. We want to build up our work through a series of sustainability reports that over the years become more scope-intensive and deeper in terms of content and would apply other frameworks. We have this approach since I believe we would have found it very difficult to jump to integrated reporting without having tripping over ourselves along the way. We would have had, again, garbage in, garbage out.

Marqueza: How else can businesses ensure that climate change effects become routinely considered in business and investment decisions and are not just incorporated into decision-making for reporting or compliance purposes?

Augusto: One thing that corporates might be thinking about in light of climate change is that, as highlighted in the IPCC 6th Assessment Report, its effects are largely anthropogenic or made by people. Therefore, we can also reverse it. Just look at what happened in 2020 – emissions decreased by 7% globally because of lockdowns induced by the COVID-19 pandemic.

When we think of climate change as something people are responsible for, the people and the organizational behavior piece becomes a relevant conversation within organizations. And this aspect of people, including investment and risk, is where WTW tries to be helpful when interacting with corporates and governments. On the people side, for instance, we help companies assess if corporate cultures already reflect climate consciousness. On the investment side, we have launched a Climate Transition Index of global stocks, one of many existing climate indices. Maybe corporates could consider not just how they will tick the boxes in terms of TCFD but also how they can be included in an emerging markets climate stock index.

Masaaki: I believe further enhancing organizational behavior is very important. Most corporates listen to the investors' view so if banks or financial institutions can bring climate change on the table whenever they speak to corporates, that would be an effective way for climate-related decision making to be embedded in organizations.

I think it is also important to have a community where business players can get together and share their experiences and knowledge on climate. The TCFD Consortium of Japan has been very effective in making that happen; it has become a place where corporates can learn from their peers. You can also understand the views of the other side of the investment spectrum, particularly how investors are looking at you, and what investors constitute as meaningful, useful disclosure. That kind of collaborative atmosphere is very important.

Vickie: First, having an environmental, social, and governance (ESG) investing policy in place would help companies ensure climate change is incorporated into investment decisions. Companies can learn from the United Nations (UN) supported Principles of Responsible Investment if they want to adapt such policies. Our policy in the Ayala Group may not be that structured for now, but environmental, social, and economic impacts are always part of our investment decision-making process.

Second, issues on climate change risks and opportunities should always be part of the Board of Directors' agenda. At the parent company level, we have two committees looking at climate change because we think this is truly an existential threat not just to our businesses but to our many stakeholders.

Third, we must communicate to stakeholders about climate change. The things we do may encourage others to think more deeply about this topic and follow a similar climate journey roadmap. For instance, I hope we can be of big help to small and medium enterprises who are the backbone of our economy. After all, the whole of society needs to address climate change. Our company may not have all the data and expertise to tackle this issue but by communicating with others, we will both learn from others and collaborate with them along the way.

Timothy: When you are faced with a scorecard of disclosures, it is easy to think of it as homework which you, a student, must finish by a deadline. A good student will hit the deadlines, but an excellent student will try to stretch their mind and evaluate what they are doing. I think the latter two are the more important tasks.

Regardless of whether climate disclosures are mandatory or not, I think corporates should ask questions that have been posed in this panel discussion:

- Where am I having an impact?
- Where can I make a bigger impact?
- What is happening in my operations? Which are the ones most relevant to climate change?
- Which stakeholders do I need to work closely with?
- How is my company culture?
- How can I influence people within my supply chain or in my organization?
- And finally, which partners from the outside can help me assess outside-in impact?

There is no straightforward way to get to the answers but asking those questions will help you be a stronger student with a better paper and, importantly, better understanding at the end of the term.

Contact us

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About WTW

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