

# Task Force on Climate-related Financial Disclosures

## Overview of Recommendations

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# BACKGROUND

The Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) on December 4, 2015 to develop recommendations for more effective climate-related disclosures that:

- could “**promote more informed investment, credit, and insurance underwriting decisions**” and,
- in turn, “would enable stakeholders to **understand better** the concentrations of **carbon-related assets in the financial sector** and the financial system’s **exposures to climate-related risks.**”

## Industry Led and Geographically Diverse Task Force

The Task Force’s 32 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.



# CURRENT CHALLENGES

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In the current climate-related disclosure landscape, challenges are faced by:

- **Issuers** who generally have an obligation under existing law to disclose material risks, but lack a coherent framework to do so for climate-related risk,
- **Lenders, insurers, and investors** who need decision-useful climate-related risk information in order to make informed capital allocation and financial decisions, and
- **Regulators** who need to understand risks that may be building in the financial system

The Task Force aims to provide the solution:

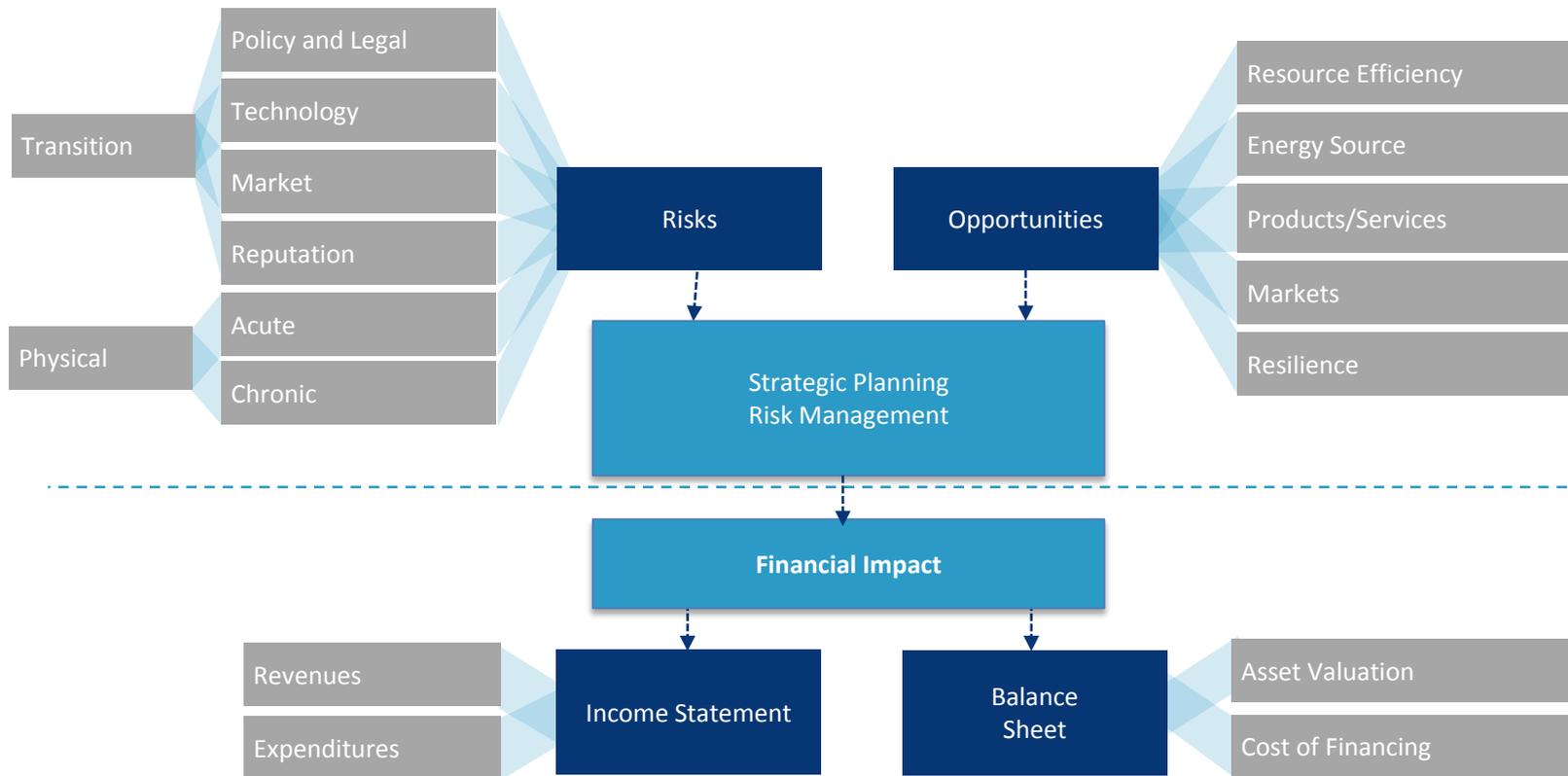
**a clear, efficient, and voluntary disclosure framework that improves the ease of both producing and using climate-related financial disclosures**

# CLIMATE-RELATED RISKS AND OPPORTUNITIES

Type	Climate-Related Risks	Type	Climate-Related Opportunities
Transition Risks	<b>Policy and Legal</b> <ul style="list-style-type: none"> <li>– Increased pricing of GHG emissions</li> <li>– Enhanced emissions-reporting obligations</li> <li>– Mandates on and regulation of existing products and services</li> <li>– Exposure to litigation</li> </ul>	Resource Efficiency	<ul style="list-style-type: none"> <li>– Use of more efficient modes of transport</li> <li>– More efficient production and distribution processes</li> <li>– Use of recycling</li> <li>– More efficient buildings</li> <li>– Reduced water usage and consumption</li> </ul>
	<b>Technology</b> <ul style="list-style-type: none"> <li>– Substitution of existing products and services with lower emissions options</li> <li>– Unsuccessful investment in new technologies</li> <li>– Upfront costs to transition to lower emissions technology</li> </ul>		Energy Source
	<b>Markets</b> <ul style="list-style-type: none"> <li>– Changing customer behavior</li> <li>– Uncertainty in market signals</li> <li>– Increased cost of raw materials</li> </ul>	Products and Services	
	<b>Reputation</b> <ul style="list-style-type: none"> <li>– Shift in consumer preferences</li> <li>– Stigmatization of sector</li> <li>– Increased stakeholder concern or negative stakeholder feedback</li> </ul>		Markets
	Physical Risks	<b>Acute</b> <ul style="list-style-type: none"> <li>– Increased severity of extreme weather events such as cyclones and floods</li> </ul>	
<b>Chronic</b> <ul style="list-style-type: none"> <li>– Changes in precipitation patterns and extreme weather variability</li> <li>– Rising mean temperatures</li> <li>– Rising sea levels</li> </ul>			

# EVALUATING FINANCIAL IMPACT

Climate-related risks and opportunities can impact an organization's financial performance.



# DISCLOSURE RECOMMENDATIONS

The Task Force developed **four widely-adoptable recommendations** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate:



## **Governance**

The organization's governance around climate-related risks and opportunities

## **Strategy**

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

## **Risk Management**

The processes used by the organization to identify, assess, and manage climate-related risks

## **Metrics and Targets**

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

# DISCLOSURE RECOMMENDATIONS *(CONTINUED)*

The four recommendations are supported by **specific disclosures** organizations can include in financial filings to provide decision-useful information about their climate-related risks and opportunities.

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

# DEVELOPMENT OF RECOMMENDATIONS

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In developing its recommendations, the Task Force:

- Considered the **challenges for preparers** of disclosures as well as the **benefits** of such disclosures to investors, lenders, and insurance underwriters
- Engaged in **significant outreach and consultation** with users and preparers of disclosures and other stakeholders, including two public consultations, individual discussions and focus groups with industry, webinars, and outreach events in multiple countries
- Drew from existing climate-related disclosure regimes and sought to develop a decision-useful framework to **align and supplement existing disclosure frameworks**
- Created **guidance** for all sectors and supplemental guidance for specific sectors to assist organizations in implementing the recommended disclosures

The Task Force expects that **reporting of climate-related information will evolve** over time as organizations, investors, and others contribute to the quality and consistency of the information disclosed.

# ASSET OWNERS AND ASSET MANAGERS

## Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

### Recommended Disclosure

- b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

### Supplemental Guidance for Asset Owners and Asset Managers

Asset owners and asset managers should provide GHG emissions, where data are available, associated with each fund, product or investment strategy normalized for every million of the reporting currency invested.\*

*Note: The Task Force acknowledges the challenges and limitations of reporting GHG emissions associated with investments, including that GHG emissions should not be interpreted as a risk metric. The Task Force views the reporting of GHG emissions associated with investments as a first step and expects disclosure of this information to prompt important advancements in the development of decision-useful, climate-related risk metrics. The Task Force recognizes that some asset owners and asset managers may be able to report such information for only a portion of their investments given data availability and methodological issues.*

\*Guidance as of December 2016

# PUBLIC CONSULTATION AND FEEDBACK

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The Task Force's report was published on December 14, 2016 for a 60-day **public consultation**.

- The Task Force received over **300 responses** to its online questionnaire, as well as feedback through comment letters and discussions with stakeholders. Feedback was received from respondents in 30 countries.
- Overall, **commenters were generally supportive** of the Task Force's recommendations; however, several provided specific and constructive feedback.
- Key themes from this feedback are included below. The Task Force will address these themes in the final version of the report.

## Materiality and Location of Disclosures

Clarifying which recommended disclosures **depend on materiality assessment** and providing flexibility for organizations to provide some or all disclosures in reports other than financial filings.

## Metrics for Non-Financial Sectors

Improving comparability and consistency of the **illustrative metrics** for non-financial sectors, clarifying the links to financial impact and climate-related risks and opportunities.

## Scenario Analysis

Improving ease of implementation, and comparability of **scenario analysis** by specifying standard scenario(s) and providing additional guidance and tools.

## Metrics for Financial Sector

Encouraging **further development and standardization of metrics for the financial sector**.

## Implementation

Providing **disclosure examples** to support preparers in developing relevant climate-related disclosures.

# NEXT STEPS

The Task Force is in the process of evaluating feedback and potential changes to the report, which is scheduled to be finalized and released in June 2017.

The FSB has extended the Task Force through mid-2018 to support and monitor adoption.

## Timeline



# TASK FORCE MEMBERS

Chair and Vice-Chairs	
<p><b>Michael Bloomberg</b> Chairman Founder and President Bloomberg L.P.</p>	
<p><b>Yeo Lian Sim</b> Vice-Chair Special Adviser, Diversity Singapore Exchange</p>	<p><b>Denise Pavarina</b> Vice-Chair Managing Officer Banco Bradesco</p>
<p><b>Graeme Pitkethly</b> Vice-Chair Chief Financial Officer Unilever</p>	<p><b>Christian Thimann</b> Vice-Chair Group Head of Regulation, Sustainability and Insurance Foresight AXA</p>
Members	
<p><b>Jane Ambachtsheer</b> Partner, Chair – Responsible Investment Mercer</p>	<p><b>Matt Arnold</b> Managing Director and Global Head of Sustainable Finance JPMorgan Chase &amp; Co.</p>
<p><b>Wim Bartels</b> Partner, Corporate Reporting KPMG</p>	<p><b>Bruno Bertocci</b> Managing Director, Head of Sustainable Investors UBS Asset Management</p>
<p><b>David Blood</b> Senior Partner Generation Investment Management</p>	<p><b>Richard Cantor</b> Chief Risk Officer Moody's Corporation Chief Credit Officer Moody's Investors Service</p>
<p><b>Koushik Chatterjee</b> Group Executive Director, Finance and Corporate Tata Group</p>	<p><b>Eric Dugelay</b> Global Leader, Sustainability Services Deloitte</p>
<p><b>Liliana Franco</b> Director, Accounting Organization and Methods Air Liquide Group</p>	<p><b>Udo Hartmann</b> Senior Manager, Group Environmental Protection &amp; Energy Management Daimler</p>
<p><b>Neil Hawkins</b> Corporate Vice President and Chief Sustainability Officer The Dow Chemical Company</p>	<p><b>Thomas Kusterer</b> Chief Financial Officer EnBW Energie Baden- Württemberg AG</p>
<p><b>Diane Larsen</b> Audit Partner, Global Professional Practice EY</p>	<p><b>Stephanie Laist</b> Managing Director, Head of Sustainable Investing Canada Pension Plan Investment Board</p>
<p><b>Mark Lewis</b> Managing Director, Head of European Utilities Equity Research Barclays</p>	<p><b>Eloy Lindeijer</b> Chief Investment Management, member Executive Committee PGGM</p>
<p><b>Ruixia Liu</b> General Manager, Risk Department Industrial and Commercial Bank of China</p>	<p><b>Masaaki Nagamura</b> Head, Corporate Social Responsibility Tokio Marine Holdings</p>
<p><b>Giuseppe Ricci</b> Health, Safety, Environment and Quality Executive Vice President ENI</p>	<p><b>Martin Skancke</b> Chair, Risk Committee Storebrand</p>
<p><b>Andreas Spiegel</b> Head Group Sustainability Risk Swiss Re</p>	<p><b>Steve Waygood</b> Chief Responsible Investment Officer Aviva Investors</p>
<p><b>Deborah Winshel</b> Managing Director, Global Head of Impact Investing BlackRock</p>	<p><b>Fiona Wild</b> Vice President, Environment and Climate Change BHP Billiton</p>
<p><b>Michael Wilkins</b> Managing Director, Environmental Finance S&amp;P Global Ratings</p>	<p><b>Jon Williams</b> Partner, Sustainability and Climate Change PwC</p>
Special Adviser	
<p><b>Russell Picot</b> Chair, Audit and Risk Committee, LifeSight; Board Chair of HSBC Bank (UK) Pension Scheme Trustee, Former Group Chief Accounting Officer HSBC</p>	

# QUESTIONS?