

FSB Task Force on Climate-related Financial Disclosures

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Amstelveen, 13 October 2016

Agenda

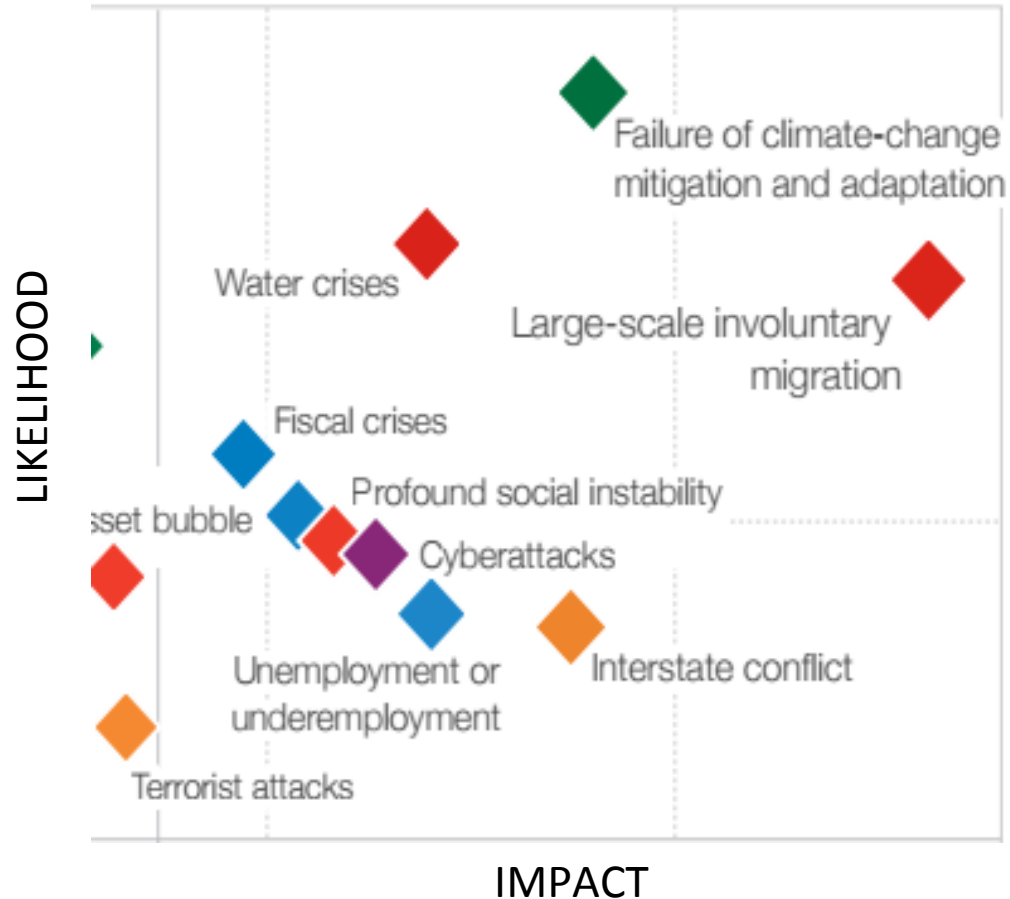
- Background
- Introduction to the Task Force
- Relevance for the Netherlands
- Proposed Disclosures
- Next Steps

Background

Perhaps the most significant component of the myriad sustainability issues is “Climate Change”

World Economic Forum (WEF) ‘Global Risks Report for 2016’

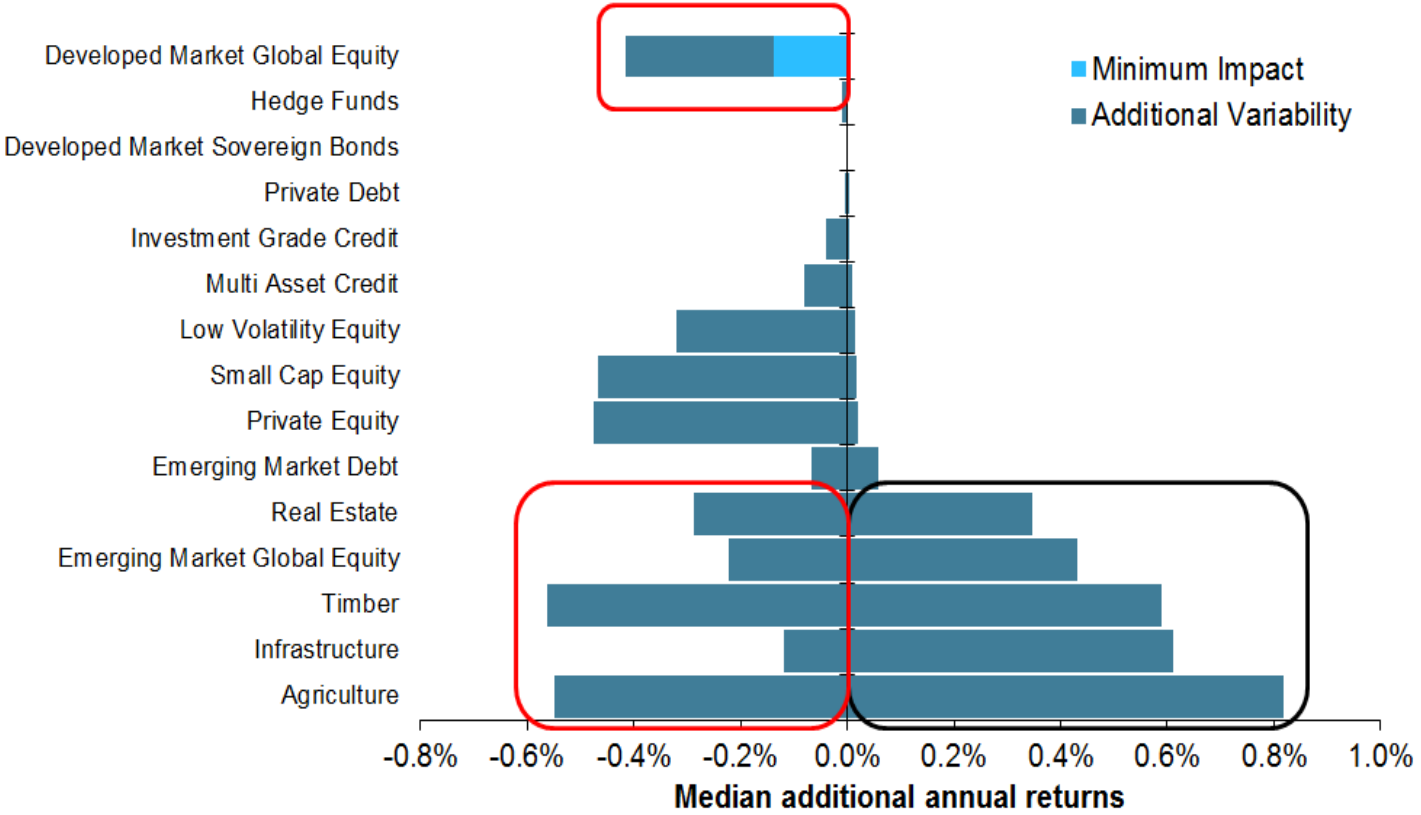
- A global risk is an uncertain event or condition that, if it occurs, can cause significant negative impact for several countries or industries within the next 10 years.



<http://www.weforum.org/reports/the-global-risks-report-2016>

Research suggests climate risk could have a material impact on investments over the long-term...

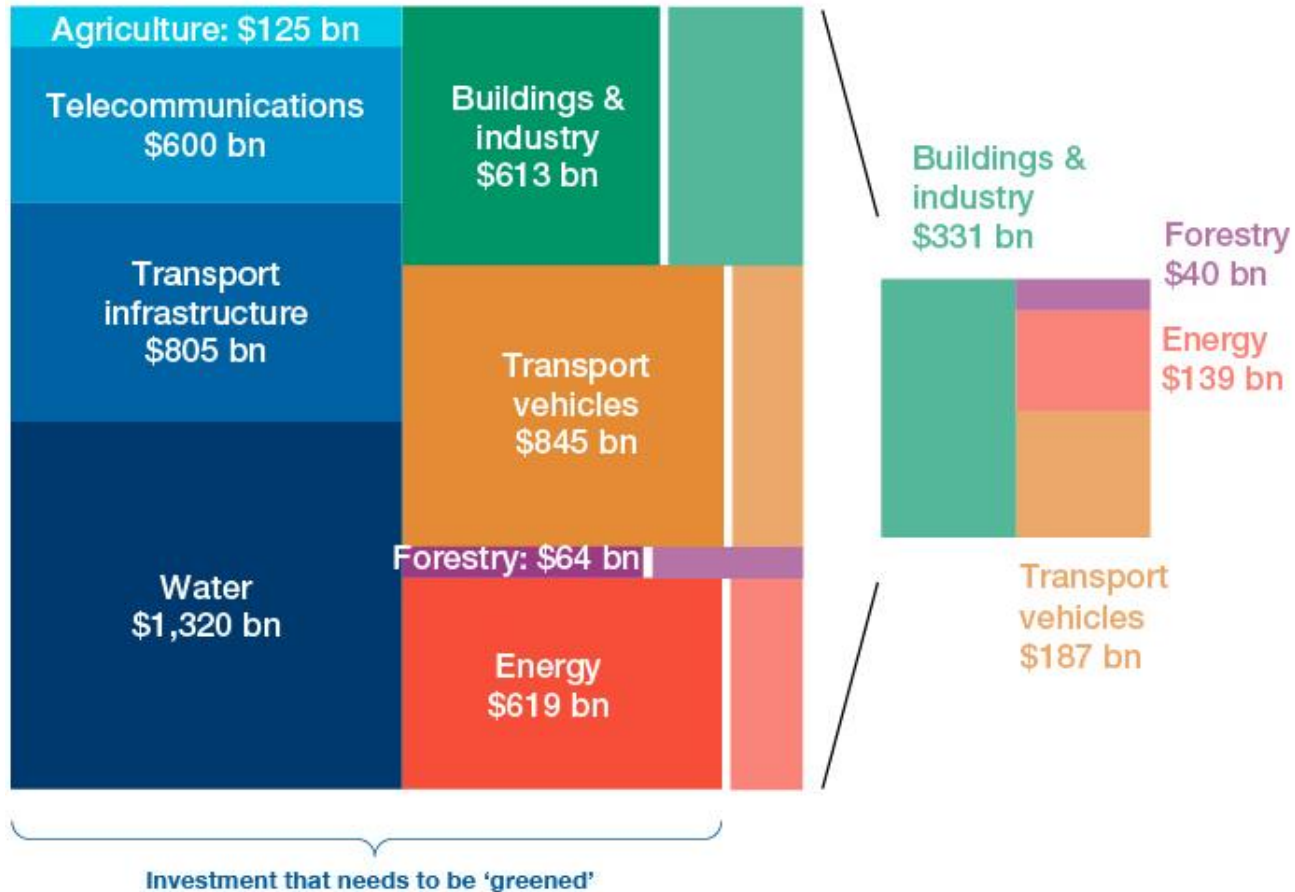
Climate impact on future returns: median return impact by asset class (35 years)



Investment Opportunities

Total investment requirements :
\$5.0 trillion / year

Additional investment requirements in a green growth scenario: \$0.7 trillion / year



Source: World Economic Forum (2013)

Introduction to the Task Force

Three Problems: One Solution

1. Lack of a coherent financial reporting framework
2. Challenge for investors, creditors, and underwriters to effectively use existing disclosures in their financial decisions
3. Regulators struggle to use existing financial disclosures to determine whether financial systems might be vulnerable to climate-related risks



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

FSB Task Force on Climate-related Financial Disclosures was established by the G20 to focus on this challenge

- Established by the Financial Stability Board on 4 December 2015
- The first **global, industry-led** initiative developing recommendations for voluntary climate-related financial disclosures for companies
- Chaired by Michael R. Bloomberg



FSB Task Force remit

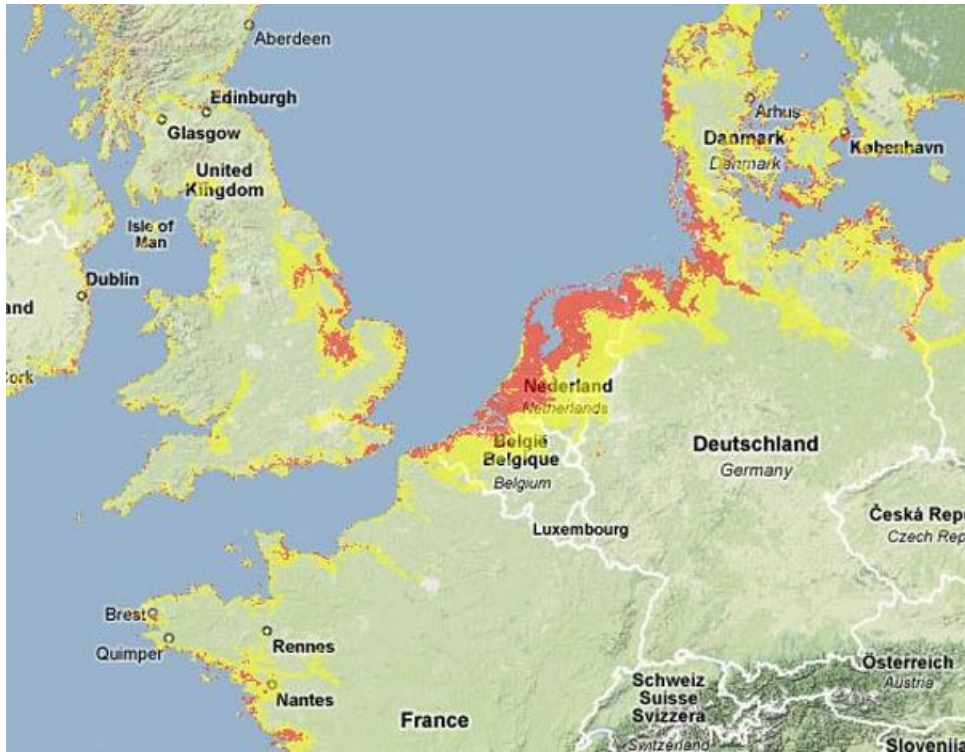
A key objective of the Task Force on Climate-related Financial Disclosures is to promote more effective climate-related disclosures that will:

- **Promote more informed investment, credit, and insurance underwriting decisions** about [reporting] companies
- 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**

Scope: Understanding the needs of users helps to influence the types of disclosure recommendations we put forward for preparers

Relevance for the Netherlands

Netherlands: Vulnerable and Lagging



Left figure

Red area: below or up to 2 meters above sea level

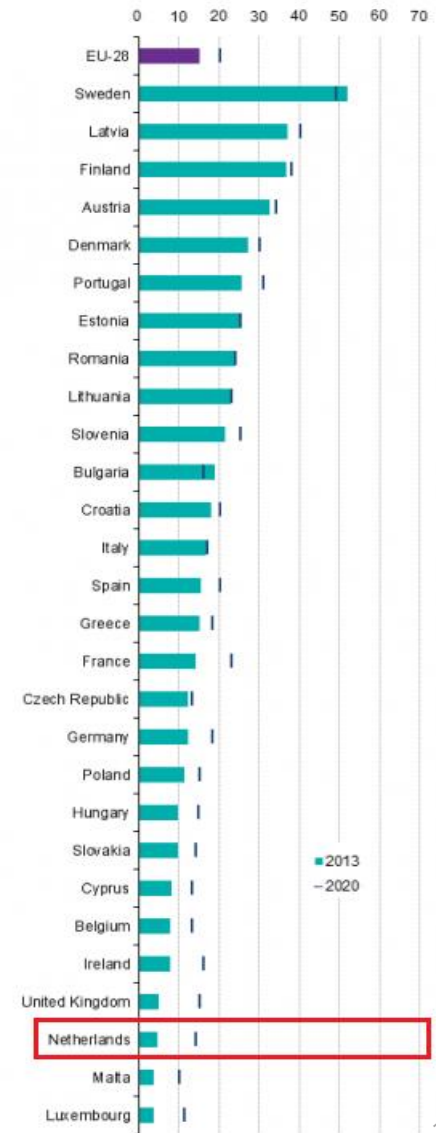
Yellow area: 2–15 meters above sea level

Source: New Scientist

Right figure

Share of renewable energy (2013)

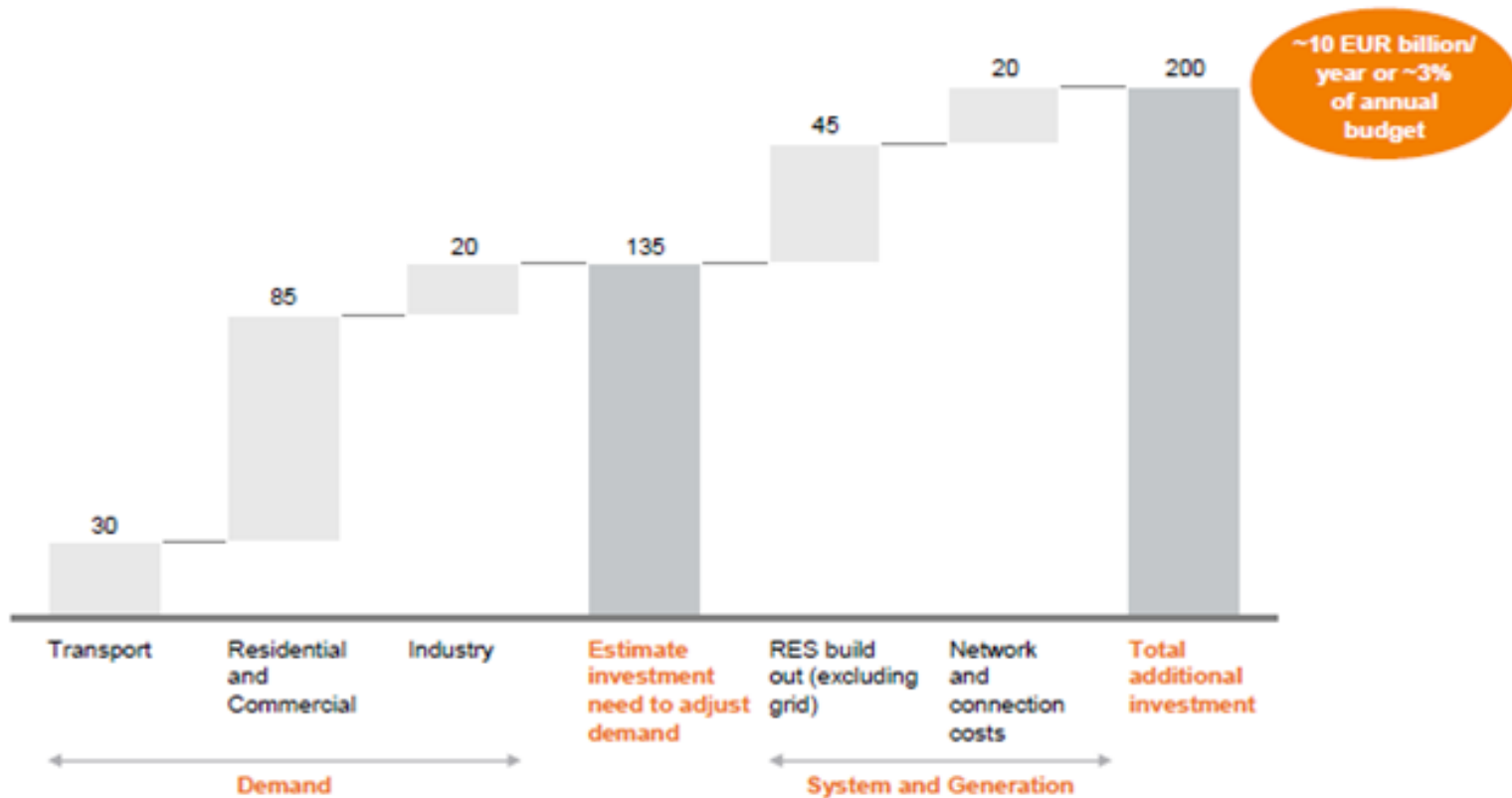
Source: Eurostat



Netherlands: Investment Needs for Energy Transition

An annual investment of ~EUR 10 billion would be needed to move towards a 60% CO₂ reduction by 2040

Indicative net investment need, EUR billions, 2020 to 2040



Source: McKinsey (2016)

Proposed Disclosures

Climate risks and opportunities

Risk Type	Physical Risks		Non-Physical Risks				Opportunities
	Acute	Chronic	Policy/Legal / Litigation	Technology	Market/Economic	Reputation	Financial
Description	Physical impact of more intense weather on investments	Physical impact of more frequent catastrophic weather events	Legislation and regulation to address climate change & risks associated with policy-driven transitions (transition risks & liability risks)	The rate of progress and investment in low-carbon technology	Changes in supply, demand, and competition; re-pricing of carbon-intensive assets	Damage to reputation stemming from association with an asset or company	The commercial benefits stemming from transition to a lower carbon economy
Financial Impacts	Damage to physical assets; disruptions to operations, supply chains, etc.	Degradation or limitations on resources	Compliance costs, liabilities, restrictions on use of carbon-intensive assets; stranded assets	Required investment in new technology; write-offs of existing technology	Asset impairment; viability of certain business models; company or securities valuation	Damage to brand value, lost revenue, additional expenditures	Identification of new revenue streams; improved operating efficiency; enhanced market pricing and transparency; accelerated technological innovation

Category	Recommended Disclosure
1. Governance	
Disclose the organization's governance around climate-related risks and opportunities.	<p>A description of:</p> <ol style="list-style-type: none"> The board's oversight of climate-related risks and opportunities. How the organization determines the materiality of climate-related risks and opportunities. Management's role in assessing and managing climate-related risks and opportunities.
2. Strategy	
Disclose the potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	<p>A description of:</p> <ol style="list-style-type: none"> The climate-related risks and opportunities the organization has identified over the short, medium, and long term. The potential impact of climate-related risks and opportunities on the organization's <u>businesses and strategy</u>. (under consideration) The impact of a 2 degree scenario on business model, strategy, and financial plan. The potential impact of climate-related risks and opportunities on the organization's <u>financial planning</u>.
3. Risk Management	
Disclose how the organization identifies, assesses, and manages climate-related risks.	<p>A description of:</p> <ol style="list-style-type: none"> The organization's processes for identifying and assessing climate-related risks. The organization's processes for managing climate-related risks and how those processes are integrated into overall risk management.
4. Metrics and Targets	
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.	<p>Disclosure of:</p> <ol style="list-style-type: none"> The metrics used by the organization to measure and monitor climate-related risks and opportunities in line with its strategy and risk management process. Scope 1, Scope 2 and, if relevant to the organization, Scope 3 Green House Gas (GHG) emissions, and the related risks. The goals and targets used by the organization to manage climate-related risks and opportunities and performance against targets. (under consideration) Where appropriate, the outputs, process, and underlying assumptions for assessing the impact of climate-related risks and opportunities under scenarios (including a scenario in line with current international commitments)

Next Steps

What should you leave here knowing?

- The FSB Task Force aims to develop voluntary, consistent climate-related financial disclosures for companies and investors
- Recommendations will be published in Q1 2017
- Be prepared:
 - As preparers
 - As users

Together we will all benefit from an enhanced framework for understanding climate-related financial risks and opportunities.

Questions?