FSB Task Force on Climate-related Financial Disclosures

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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”


- 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.

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

- Agriculture: $125 bn
- Telecommunications: $600 bn
- Transport infrastructure: $805 bn
- Water: $1,320 bn
- Buildings & industry: $613 bn
- Transport vehicles: $845 bn
- Energy: $619 bn
- Forestry: $64 bn

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

- Buildings & industry: $331 bn
- Forestry: $40 bn
- Energy: $139 bn
- Transport vehicles: $187 bn

Investment that needs to be ‘greened’

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

Proposed Disclosures
## Climate risks and opportunities

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Physical Risks</th>
<th>Non-Physical Risks</th>
<th>Opportunities</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Acute</td>
<td>Physical</td>
<td>Policy/Legal/Litigation</td>
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<td></td>
<td>Chronic</td>
<td>Physical</td>
<td>Physical impact of more intense weather on investments</td>
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<tr>
<td>Description</td>
<td>Physical impact of more frequent catastrophic weather events</td>
<td>The rate of progress and investment in low-carbon technology</td>
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<td>Financial Impacts</td>
<td>Damage to physical assets; disruptions to operations, supply chains, etc.</td>
<td>Degradation or limitations on resources</td>
<td>Compliance costs, liabilities, restrictions on use of carbon-intensive assets; stranded assets</td>
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<td>Category</td>
<td>Recommended Disclosure</td>
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<tr>
<td>1. Governance</td>
<td>A description of:</td>
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<td></td>
<td>a. The board's oversight of climate-related risks and opportunities.</td>
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<td>b. How the organization determines the materiality of climate-related risks and opportunities.</td>
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<td>c. Management's role in assessing and managing climate-related risks and opportunities.</td>
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<td>2. Strategy</td>
<td>A description of:</td>
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<td></td>
<td>a. The climate-related risks and opportunities the organization has identified over the short, medium, and long term.</td>
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<td>b. The potential impact of climate-related risks and opportunities on the organization's businesses and strategy.</td>
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<td>c. <strong>(under consideration)</strong> The impact of a 2 degree scenario on business model, strategy, and financial plan.</td>
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<td>d. The potential impact of climate-related risks and opportunities on the organization's financial planning.</td>
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<td>3. Risk Management</td>
<td>A description of:</td>
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<td></td>
<td>a. The organization's processes for identifying and assessing climate-related risks.</td>
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<td>b. The organization's processes for managing climate-related risks and how those processes are integrated into overall risk management.</td>
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<td>4. Metrics and Targets</td>
<td>Disclosure of:</td>
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<td>a. The metrics used by the organization to measure and monitor climate-related risks and opportunities in line with its strategy and risk management process.</td>
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<td>b. Scope 1, Scope 2 and, if relevant to the organization, Scope 3 Green House Gas (GHG) emissions, and the related risks.</td>
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<td>c. The goals and targets used by the organization to manage climate-related risks and opportunities and performance against targets.</td>
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<td>d. <strong>(under consideration)</strong> 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)</td>
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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?