Task Force on Climate-related Financial Disclosures

Overview of Recommendations

June 2017
G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues.

The FSB established the Task Force on Climate-related Financial Disclosures (TCFD) 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.”
CURRENT CLIMATE-RELATED DISCLOSURE CHALLENGES

Currently, challenges with respect to climate-related disclosure are faced by:

— **Issuers** who generally have an obligation under existing law to disclose material information, but lack a coherent framework to do so for climate-related information,

— **Investors, lenders, and insurers** who need decision-useful, climate-related information 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 voluntary, consistent disclosure framework that improves the ease of both producing and using climate-related financial disclosures*
The Task Force focused on financial impact of climate-related risks and opportunities on an organization, rather than the impact of an organization on the environment.
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

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.
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 should include in financial filings or other reports to provide decision-useful information to investors and others.

<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclose the organization’s governance around climate-related risks and opportunities.</td>
<td>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.</td>
<td>Disclose how the organization identifies, assesses, and manages climate-related risks.</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</td>
</tr>
</tbody>
</table>

**Recommended Disclosures**

- **a)** Describe the board’s oversight of climate-related risks and opportunities.
- **b)** Describe management’s role in assessing and managing climate-related risks and opportunities.
- **c)** Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

- **a)** Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
- **b)** Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.
- **c)** Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.

- **a)** Describe the organization’s processes for identifying and assessing climate-related risks.
- **b)** Describe the organization’s processes for managing climate-related risks.
- **c)** Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

- **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)** Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- **c)** Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

---

**Disclosure Recommendations (continued)**

The four recommendations are supported by **specific disclosures** organizations should include in financial filings or other reports to provide decision-useful information to investors and others.
Supplemental Guidance

In addition to guidance for all sectors, the Task Force developed supplemental guidance for financial and non-financial organizations to assist those organizations in implementing the recommended disclosures.

Financial Industries

- Banks
- Insurance Companies
- Asset Managers
- Asset Owners

The financial sector was organized into four major industries largely based on activities performed. The activities are lending (banks), underwriting (insurance companies), asset management (asset managers), and investing (asset owners).

Non-Financial Groups

- Energy
- Transportation
- Materials and Buildings
- Agriculture, Food, and Forest Products

The non-financial groups identified by the Task account for the largest proportion of GHG emissions, energy usage, and water usage.
KEY ELEMENTS OF DISCLOSURE RECOMMENDATIONS

Location of Disclosure

– The Task Force recommends that organizations provide climate-related financial disclosures in their mainstream (i.e., public) annual financial filings.

– The recommendations were developed to apply broadly across sectors and jurisdictions and do not supersede national disclosure requirements for financial filings.

– If certain elements are incompatible with national disclosure requirements, the Task Force encourages organizations to disclose those elements in other official company reports.

– Organizations in the four non-financial groups that have more than one billion U.S. dollar equivalent (USDE) in annual revenue should consider disclosing strategy and metrics and targets information in other reports when the information is not deemed material and not included in financial filings.

Financial Filings

Required annual reporting packages in which organizations deliver their audited financial results under the laws of the jurisdictions in which they operate.

Other Official Company Reports

Should be issued at least annually, widely distributed and available to investors and others, and subject to internal governance processes that are the same or substantially similar to those used for financial reporting.
KEY ELEMENTS OF DISCLOSURE RECOMMENDATIONS (CONTINUED)

Principle of Materiality

- The disclosures related to the **Strategy and Metrics and Targets recommendations** are subject to an assessment of materiality.

- The disclosures related to the **Governance and Risk Management recommendations** should be provided because many investors want insight into the governance and risk management context in which organizations’ financial and operating results are achieved.

Scenario Analysis

- The Task Force encourages forward-looking information through scenario analysis—a useful tool for considering and enhancing resiliency and flexibility of strategic plans.

- Many investors want to understand how resilient organizations’ strategies are to climate-related risks.

- Recommended disclosure (c) under Strategy and the related guidance asks organizations to describe the resilience of their strategies, taking into consideration different climate-related scenarios, including a **2°C or lower scenario**.

---

**2°C Scenario**

*Provides a common reference point that is generally aligned with the objectives of the Paris Agreement.*

**Scenario Analysis Threshold**

*The Task Force established a threshold for organizations that should consider conducting more robust scenario analysis to assess the resilience of their strategies (those in the four non-financial groups with more than 1B USDE in annual revenue).*
Some of the potential benefits associated with implementing the Task Force’s recommendations include:

- easier or better access to capital by increasing investors’ and lenders’ confidence that the company’s climate-related risks are appropriately assessed and managed

- more effectively meeting existing disclosure requirements to report material information in financial filings

- increased awareness and understanding of climate-related risks and opportunities within the company resulting in better risk management and more informed strategic planning

- proactively addressing investors’ demand for climate-related information in a framework that investors are increasingly asking for, which could ultimately reduce the number of climate-related information requests received
**IMPLEMENTATION PATH**

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

![Graph showing the implementation path](image)

- **Final TCFD Report Released**
- **Companies already reporting under other frameworks implement the Task Force’s recommendations. Others consider climate-related issues within their businesses**
- **Organizations begin to disclose in financial filings**
- **Greater adoption, further development of information provided (e.g., metrics and scenario analysis), and greater maturity in using information**
- **Broad understanding of the concentration of carbon-related assets in the financial system and the financial system’s exposure to climate-related risks**
- **More complete, consistent, and comparable information for market participants, increased transparency, and appropriate pricing of climate-related risks and opportunities**

Five Year Time Frame
The Task Force’s report is scheduled to be released on June 29, 2017. In addition, the FSB has extended the Task Force through September 2018 to support and monitor adoption.

**Timeline**

<table>
<thead>
<tr>
<th>Second Quarter 2017</th>
<th>Third Quarter 2017</th>
<th>Fourth Quarter 2017</th>
<th>First Quarter 2018</th>
<th>Second Quarter 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Q2 2017</strong></td>
<td><strong>Q3 2017</strong></td>
<td><strong>Q4 2017</strong></td>
<td><strong>Q1 2018</strong></td>
<td><strong>Q2 2018</strong></td>
</tr>
<tr>
<td><strong>Q2 2017-Q2 2018</strong></td>
<td><strong>Q3 2017-Q3 2018</strong></td>
<td><strong>Q4 2017-Q4 2018</strong></td>
<td><strong>Q1 2018-Q1 2018</strong></td>
<td><strong>Q2 2018-Q2 2018</strong></td>
</tr>
</tbody>
</table>

- **Q2 2017:** Update report per consultation feedback
- **Q3 2017-Q3 2018:** Outreach and engagement
- **Q4 2017-Q4 2018:** Implementation monitoring
- **Q1 2018-Q1 2018:** Submission of implementation monitoring report
- **Q2 2018-Q2 2018:** Submission of implementation monitoring report

- **Jun 29:** Issuance of final report
- **Jul 7-8:** TCFD report presented at G20 Summit
- **Q2 2017-Q2 2018:** Outreach and engagement
# Task Force Members

<table>
<thead>
<tr>
<th>Chair and Vice-Chairs</th>
</tr>
</thead>
</table>
| **Michael Bloomberg**  
Chairman  
Founder and President  
Bloomberg L.P. |
| **Yeo Lian Sim**  
Vice-Chair  
Special Adviser  
Singapore Exchange |
| **Graeme Pitkethly**  
Vice-Chair  
Chief Financial Officer  
Unilever |
| **Members** |
| **Jane Ambachtsheer**  
Partner, Chair – Responsible Investment  
Mercer |
| **Wim Bartels**  
Partner Corporate Reporting  
KPMG |
| **David Blood**  
Senior Partner  
Generation Investment Management |
| **Koushik Chatterjee**  
Group Executive Director, Finance and Corporate  
Tata Group |
| **Liliana Franco**  
Director, Accounting Organization and Methods  
Air Liquide Group |
| **Neil Hawkins**  
Corporate Vice President and Chief Sustainability Officer  
The Dow Chemical Company |
| **Diane Larsen**  
Audit Partner, Global Professional Practice  
EY |
| **Mark Lewis**  
Managing Director, Head of European Utilities Equity Research  
Barclays |
| **Ruixia Liu**  
General Manager, Risk Department  
Industrial and Commercial Bank of China |
| **Giuseppe Ricci**  
Health, Safety, Environment and Quality Executive Vice President  
Eni |
| **Andreas Spiegel**  
Head Group Sustainability Risk  
Swiss Re |
| **Fiona Wild**  
Vice President, Sustainability and Climate Change  
BHP Billiton |
| **Jon Williams**  
Partner, Sustainability and Climate Change  
PwC |
| **Special Adviser** |
| **Russell Picot**  
Chair, Audit and Risk Committee, LifeSight  
Board Chair, HSBC Bank (UK) Pension Scheme Trustee  
Former Group Chief Accounting Officer  
HSBC |

| **Eric Dugelay**  
Global Leader, Sustainability Services  
Deloitte |
| **Udo Hartmann**  
Senior Manager, Group Environmental Protection & Energy Management  
Daimler |
| **Thomas Kusterer**  
Chief Financial Officer  
EnBW |
| **Stephanie Leaist**  
Managing Director, Head of Sustainable Investing  
Canada Pension Plan Investment Board |
| **Eloy Lindeijer**  
Chief, Investment Management  
PGGM |
| **Masaaki Nagamura**  
Head, Corporate Social Responsibility  
Tokio Marine Holdings |
| **Martin Skancke**  
Chair, Risk Committee Storebrand |
| **Steve Waygood**  
Chief Responsible Investment Officer  
Aviva Investors |
| **Michael Wilkins**  
Managing Director, Environment & Climate Risk Research  
S&P Global Ratings |
| **Deborah Winshel**  
Managing Director, Global Head of Impact Investing  
BlackRock |
## Climate-Related Risks and Opportunities

<table>
<thead>
<tr>
<th>Type</th>
<th>Climate-Related Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy and Legal</strong></td>
<td>- Increased pricing of GHG emissions&lt;br&gt;- Enhanced emissions-reporting obligations&lt;br&gt;- Mandates on and regulation of existing products and services&lt;br&gt;- Exposure to litigation</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>- Substitution of existing products and services with lower emissions options&lt;br&gt;- Unsuccessful investment in new technologies&lt;br&gt;- Costs to transition to lower emissions technology</td>
</tr>
<tr>
<td><strong>Markets</strong></td>
<td>- Changing customer behavior&lt;br&gt;- Uncertainty in market signals&lt;br&gt;- Increased cost of raw materials</td>
</tr>
<tr>
<td><strong>Reputation</strong></td>
<td>- Shifts in consumer preferences&lt;br&gt;- Stigmatization of sector&lt;br&gt;- Increased stakeholder concern or negative stakeholder feedback</td>
</tr>
<tr>
<td><strong>Acute</strong></td>
<td>- Increased severity of extreme weather events such as cyclones and floods</td>
</tr>
<tr>
<td><strong>Chronic</strong></td>
<td>- Changes in precipitation patterns and extreme variability in weather patterns&lt;br&gt;- Rising mean temperatures&lt;br&gt;- Rising sea levels</td>
</tr>
</tbody>
</table>

### Transition Risks

<table>
<thead>
<tr>
<th>Type</th>
<th>Climate-Related Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resource Efficiency</strong></td>
<td>- Use of more efficient modes of transport&lt;br&gt;- Use of more efficient production and distribution processes&lt;br&gt;- Use of recycling&lt;br&gt;- Move to more efficient buildings&lt;br&gt;- Reduced water usage and consumption</td>
</tr>
<tr>
<td><strong>Energy Source</strong></td>
<td>- Use of lower-emission sources of energy&lt;br&gt;- Use of supportive policy incentives&lt;br&gt;- Use of new technologies&lt;br&gt;- Participation in carbon market&lt;br&gt;- Shift towards decentralized energy generation</td>
</tr>
<tr>
<td><strong>Products and Services</strong></td>
<td>- Develop and/or expand low emission goods and services&lt;br&gt;- Development of climate adaptation and insurance risk solutions&lt;br&gt;- Development of new products or services through R&amp;D and innovation&lt;br&gt;- Ability to diversify business activities&lt;br&gt;- Shift in consumer preferences</td>
</tr>
<tr>
<td><strong>Markets</strong></td>
<td>- Access to new markets&lt;br&gt;- Use of public-sector incentives&lt;br&gt;- Access to new assets and locations needing insurance coverage</td>
</tr>
<tr>
<td><strong>Resilience</strong></td>
<td>- Participation in renewable energy programs and adoption of energy-efficiency measures&lt;br&gt;- Resource substitutes/diversification</td>
</tr>
</tbody>
</table>