Task Force on Climate-related Financial Disclosures

Overview of Recommendations and Guidance

March 2018
BACKGROUND

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.”

The Task Force’s 31 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.
The Task Force published its final report in June 2017. The report outlines recommendations to help address climate-related disclosure challenges 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, and

- **Investors, lenders, and insurers** who need decision-useful, climate-related information to make informed capital allocation and financial decisions.
FOCUS ON FINANCIAL IMPACT

RISKS

**Transition**
- Policy and Legal
  - Carbon pricing and reporting obligations
  - Mandates on and regulation of existing products and services
  - Exposure to litigation
- Technology
  - Substitution of existing products and services with lower emissions options
  - Unsuccessful investment in new technologies
- Market
  - Changing customer behavior
  - Uncertainty in market signals
  - Increased cost of raw materials
- Reputation
  - Shift in consumer preferences
  - Increased stakeholder concern/negative feedback
  - Stigmatization of sector
- Physical
  - Acute: Extreme weather events
  - Chronic: Changing weather patterns and rising mean temperature and sea levels

**OPPORTUNITIES**

**Resource Efficiency**
- Use of more efficient modes of transport and production and distribution processes
- Use of recycling
- Move to more efficient buildings
- Reduced water usage and consumption

**Energy Source**
- Use of lower-emission sources of energy
- Use of supportive policy incentives
- Use of new technologies
- Participation in carbon market

**Products & Services**
- Development and/or expansion of low emission goods and services
- Development of climate adaptation and insurance risk solutions
- Development of new products or services through R&D and innovation

**Markets**
- Access to new markets
- Use of public-sector incentives
- Access to new assets and locations needing insurance coverage

**Resilience**
- Participation in renewable energy programs and adoption of energy-efficiency measures
- Resource substitutes/diversification

Revenues
Expenditures

Income Statement
Cash Flow Statement
Balance Sheet
Assets & Liabilities
Capital & Financing

Strategic Planning Risk Management

Financial Impact

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES
To assist organizations in understanding how climate-related risks may impact them financially, the Task Force prepared a high-level overview of the types of financial impact of climate-related risks that have been identified for specific industries and groups.

The financial impacts from climate-related risks are grouped into the following general categories:

- Revenues
- Expenditures
- Assets and Liabilities
- Capital and Financing

*Largely, but not solely, based on select content from the Sustainability Accounting Standards Board (SASB) “Financial Impacts of Climate Risk” table in its Climate Risk Technical Bulletin*
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>
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<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>
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**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.

**Recommended Disclosures**

- **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.

**Recommended Disclosures**

- **a)** Describe the organization’s processes for identifying and assessing climate-related risks.
- **b)** Describe the organization’s processes for managing climate-related risks.

**Recommended Disclosures**

- **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.
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.
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** are *not* subject to an assessment of materiality and 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).*
Benefits of Implementing the Recommendations

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
ILLUSTRATIVE 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.**
For organizations in early stages of assessing climate-related risks and opportunities, it may be helpful to develop a roadmap for implementing the recommendations.

**Year 1**
- Compare current disclosures to the recommendations, especially Governance and Risk Management, and identify alignment and gaps
- Determine information and data needs and process changes
- Begin evaluating metrics for assessing climate-related risks and opportunities
- Incorporate climate-related risks into risk identification and assessment process as needed
- Assign oversight to board committees and management as needed
- Disclose information related to Governance and Risk Management recommendations or disclose intention to implement the TCFD recommendations

**Year 2**
- Implement new processes for information and data collection and reporting
- Identify metrics useful for assessing climate-related risks and opportunities
- Adjust data collection to support metrics
- Identify climate-related risks and opportunities and assess whether they are material
- Identify relevant climate-related scenarios and consider how those scenarios might affect the organization
- Disclose information related to Governance and Risk Management recommendations or disclose intention to implement the TCFD recommendations

**Year 3**
- Calculate and use metrics for assessing climate-related risks and opportunities
- Integrate scenario analysis into strategic planning and/or risk management frameworks
- Disclose information related to Governance and Risk Management recommendations
- Disclose information related to Strategy and Metrics and Targets recommendations, where the information is material

**For organizations in early stages of assessing climate-related risks and opportunities, it may be helpful to develop a roadmap for implementing the recommendations.**
In June 2017 more than 100 global CEOs signed a letter committing to support the Task Force’s recommendations. Hundreds of additional companies have since joined statements of support for or commitments to implement the recommendations.
On December 12, French President Emmanuel Macron hosted the One Planet Summit on the two year anniversary of the Paris Agreement. In advance of this summit more than 130 additional companies announced their support for the TCFD, demonstrating significant traction among both financial institutions and public corporations.

237 supporting companies with over $6.3 trillion in market cap, headquartered in 29 countries, 
- including over 150 financial firms responsible for assets of more than $81.7 trillion.

In addition to 3 national governments,
- over a dozen accounting organizations, and
- the largest proxy advisory firms
EXTENSION OF TCFD REMIT

In February 2017, the FSB welcomed a proposal by the Task Force to continue its work until at least September 2018 with a focus on the following:

- promoting and monitoring adoption of the TCFD’s recommendations by companies
- evaluating the extent to which the recommended disclosures are meeting the needs of users
CURRENT AND PLANNED ACTIVITIES

Since its report was issued, the Task Force has been focused on promoting adoption of the recommendations through the activities described below.

Current and Planned Activities

- Held a two-day conference in collaboration with the Bank of England on scenario analysis.
- Formed a “preparer forum” for European oil and gas companies to discuss implementation issues.
- Speaking at conferences to build awareness and understanding of the TCFD recommendations.
- Engaging with companies working on implementation of the recommendations to clarify expectations.
- Conducting preparer workshops to support implementation.
- Engaging with industry associations and NGOs to identify areas of common interest and possible collaboration.
- Engaging with financial and non-financial companies, investors, industry associations, NGOs, and others to gain additional support for the recommendations.
- Supporting integration of the TCFD recommendations into existing climate-related reporting frameworks.