Task Force on Climate-related Financial Disclosures

Overview of TCFD Recommendations

TCFD Scenario Analysis Conference
May 1, 2018

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

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**."

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.

Final report published in June 2017.

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

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

Strategic Planning
Risk Management

Financial Impact

Revenues
Expenditures

Income Statement

Cash Flow Statement

Balance Sheet

Assets & Liabilities
Capital & Financing

TCFD RECOMMENDATIONS

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.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	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.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	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) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Key Elements: 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: 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** 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.

Key Element: Scenario Analysis

Scenario Analysis

– Under the Strategy Recommendation, the Task Force encourages the disclosure of forward-looking information through the use of scenario analysis—a useful tool for considering and enhancing resiliency and flexibility of strategic plans.

– In particular, organizations are asked to describe the resilience of their strategies, taking into consideration different climate-related scenarios, including **a 2°C or lower scenario**.

– Many investors want to understand how **resilient organizations' strategies are to climate-related risks and how flexible toward climate-related opportunities**.

– Organizations should consider discussing in their disclosures:

– where they believe their strategies may be affected by climate-related risks and opportunities;

– how their strategies might change to address such potential risks and opportunities; and

– the climate-related scenarios and associated time horizon(s) considered.

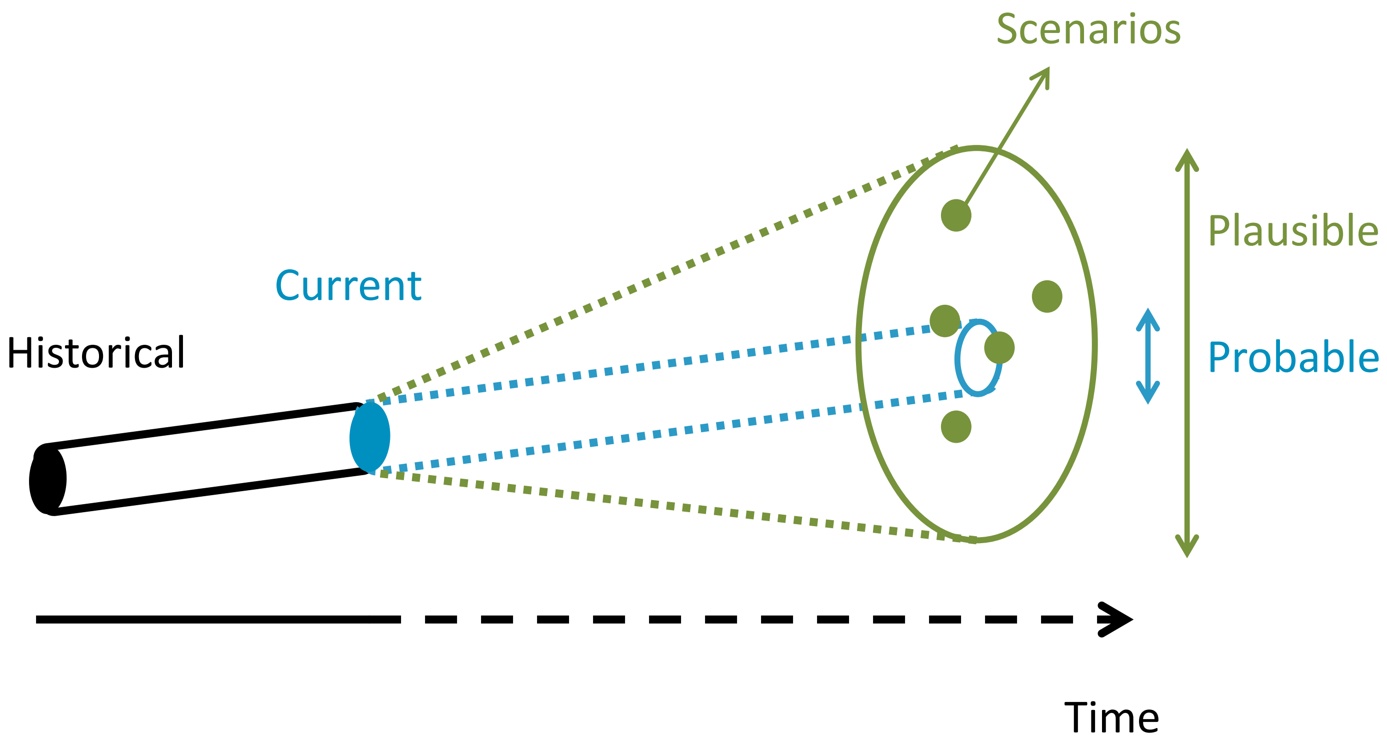
2°C Scenario

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

It is important, however, to use more than one scenario. Selected scenarios should span the plausible range of future states. Typically 3-4 scenarios are the norm.

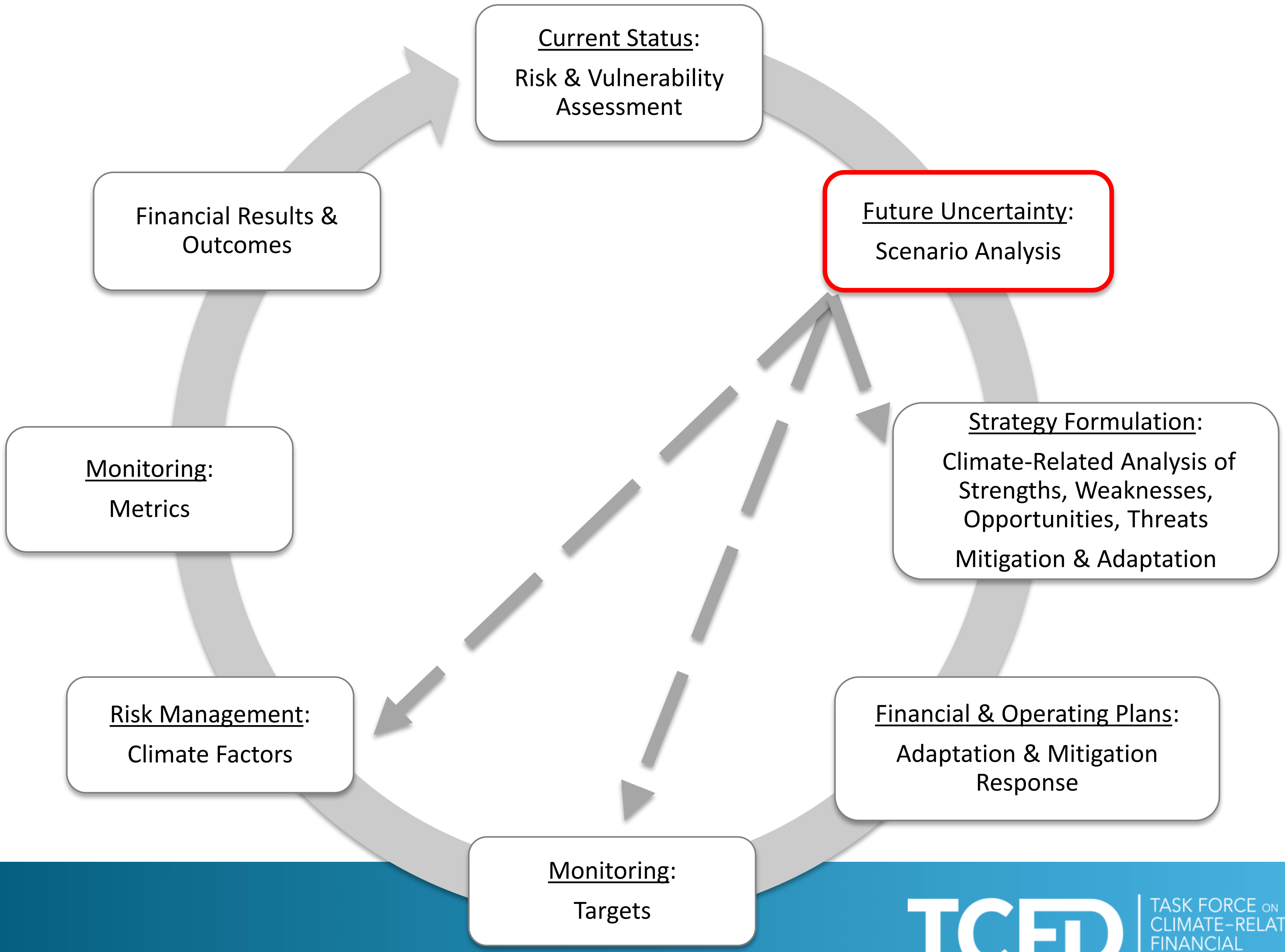
Larger organizations (more than 1B USDE in annual revenue) should consider conducting more robust scenario analyses.

Scenario Analysis is NOT a forecast or prediction



Source: http://scenariohub.net/about

Business Uses for Scenario Analysis



Today's Discussion Around Scenario Analysis

The Process of Scenario Analysis

- Developing scenarios
- Identifying assumptions and key drivers
- Identifying strategic options and implications

Capacity to conduct scenario analysis

- Available data
- Expertise, time and resources

Disclosure

- Commercial sensitivity of forward-looking disclosure

Examples or case studies; organizations' practical experiences with scenario analysis

Knowledge sharing within and across sectors