Task Force on Climate-related Financial Disclosures

Overview of TCFD Recommendations

18 May 2017

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Background

Background

The Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) on December 4, 2015 to develop recommendations for more efficient and 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.

Three Problems: One Solution

In the current climate-related disclosure landscape, challenges are faced by:

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

- **Lenders, insurers, and investors** who need decision-useful climate-related risk information in order 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 clear, efficient, and voluntary disclosure framework that improves the ease of both producing and using climate-related financial disclosures

Key Innovations

The Task Force's recommendations and guidance:

- Can apply to **any company in the world** and can be scaled to any level of sophistication
- Should be addressed in **financial filings**
- Are designed to solicit **decision-useful information** for investors and others
- Encourage forward-looking information through **scenario analysis**
- Provide **supplemental guidance** to sectors and industries most impacted by climate change
- Apply to organizations across the financial sector to address the full **investment chain**
- Place greater emphasis on risks and opportunities related to the **transition** to a lower-carbon economy
- Represent **consensus** of Task Force members, who come from the financial sector and various non-financial sectors

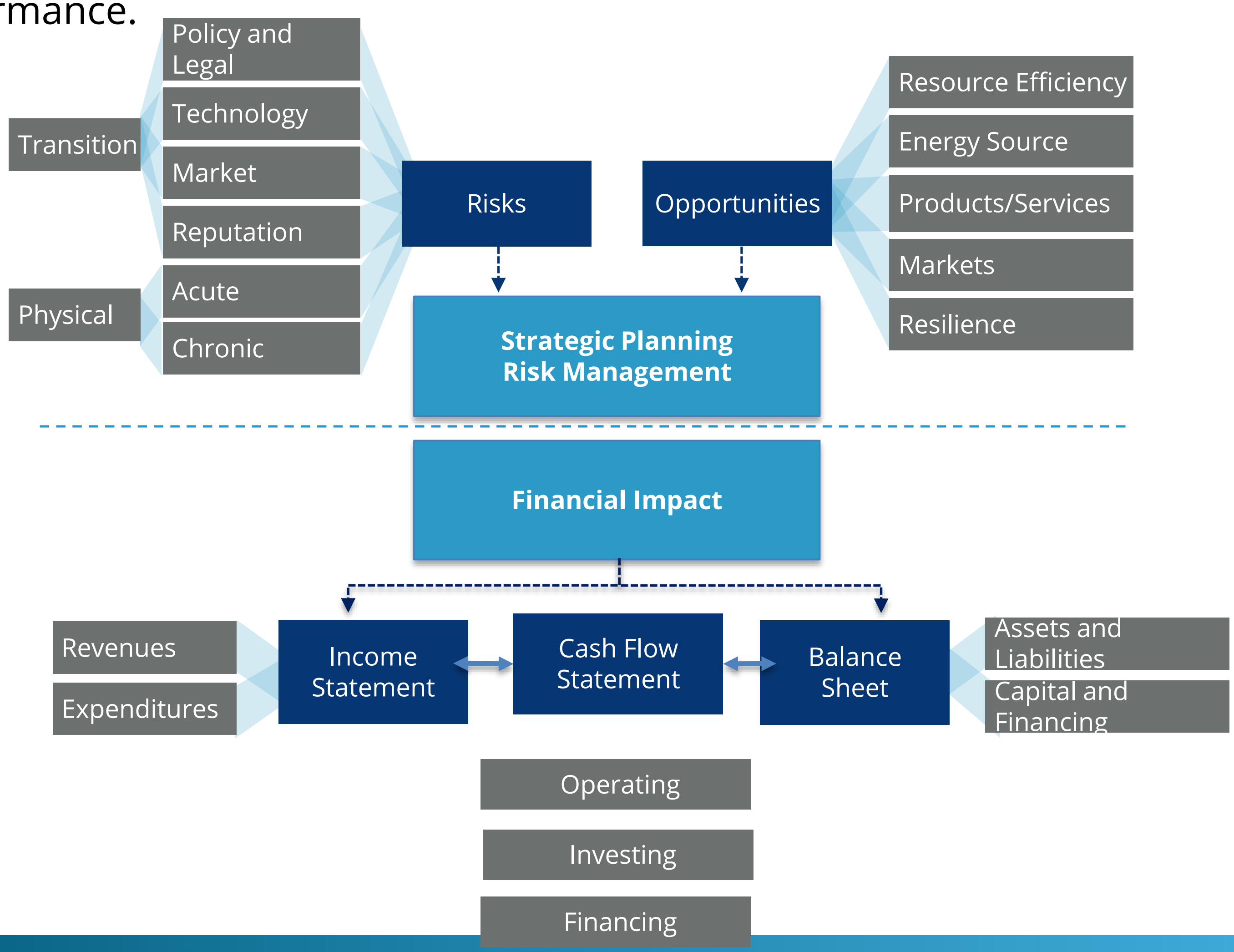
Climate-Related Risks and Opportunities

Type	Climate-Related Risks
Transition Risks	**Policy and Legal**
	– Increased pricing of GHG emissions – Enhanced emissions-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 – Upfront costs to transition to lower emissions technology
	Markets
	– Changing customer behavior – Uncertainty in market signals – Increased cost of raw materials
	Reputation
	– Shift in consumer preferences – Stigmatization of sector – Increased stakeholder concern or negative stakeholder feedback
Physical Risks	**Acute**
	– Increased severity of extreme weather events such as cyclones and floods
	Chronic
	– Changes in precipitation patterns and extreme weather variability – Rising mean temperatures – Rising sea levels

Type	Climate-Related Opportunities
Resource Efficiency	– Use of more efficient modes of transport – More efficient production and distribution processes – Use of recycling – More efficient buildings – Reduced water usage and consumption
Energy Source	– Lower-emission sources of energy – Supportive policy incentives – Emergence of new technologies – Participating in carbon market – Energy security and shift towards decentralization
Products and Services	– Develop and/or expand low emission goods and services – Climate adaptation and insurance risk solutions – R&D and innovation – Diversify business activities – Shifting consumer preferences
Markets	– New markets – Public-sector incentives – Community needs and initiatives – Development banks
Resilience	– Participate in renewable energy programs and adopt energy-efficiency measures – Resource substitutes/diversification – New assets and locations needing insurance coverage

Evaluating Financial Impact

Climate-related risks and opportunities can impact organizations' financial performance.



Recommended Disclosures and Guidance

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

DISCLOSURE RECOMMENDATIONS *(CONTINUED)*

The four recommendations are supported by specific **recommended disclosures** organizations can include in financial filings to provide decision-useful information about their climate-related risks and opportunities.

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.	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.
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 potential impact of different scenarios, including a 2° c scenario, 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.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Development of Recommendations

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, insurance underwriters, and other stakeholders

- Engaged in **significant outreach and consultation** with users and preparers of disclosures and other stakeholders

- Drew from existing climate-related disclosure regimes and sought to develop a decision-useful framework to **harmonize and supplement existing requirements**

DISCLOSURE GUIDANCE FOR ALL SECTORS

The Task Force developed **guidance** to assist organizations in implementing the recommended disclosures. The guidance builds on the recommendations and the recommended disclosures.

Recommendations

Recommended Disclosures

Guidance for All Sectors

Supplemental Guidance for Certain Sectors

Recommendations
Four widely adoptable recommendations tied to: governance, strategy, risk management, and metrics and targets

Recommended Disclosures
Specific recommended disclosures organizations should include in their financial filings to provide decision-useful information

Guidance for All Sectors
Guidance providing context and suggestions for implementing the recommended disclosures for all organizations

Supplemental Guidance for Certain Sectors
Guidance that highlights important considerations for certain sectors and provides a fuller picture of potential climate-related financial impacts in those sectors

Supplemental guidance is provided for the financial sector and for non-financial sectors potentially most affected by climate change

Guidance for All Sectors – Governance Example

Governance

Disclose the organization's governance around climate-related risks and opportunities.

Recommended Disclosure	Guidance for All Sectors
a) Describe the board's oversight of climate-related risks and opportunities.	In describing the board's oversight of climate-related issues, organizations should consider including a discussion of the following: – processes and frequency by which the board and/or board committees (e.g., audit, risk, or other committees) are informed about climate-related issues, – whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures, and – how the board monitors and oversees progress against goals and targets for addressing climate-related issues.

Supplemental Guidance for Certain Sectors

For the financial sector and certain non-financial sectors and industries, the Task Force provides **supplemental guidance** to highlight important sector-specific considerations.

		Governance		Strategy			Risk Management			Metrics and Targets		
	Industries and Groups	A	B	A	B	C	A	B	C	A	B	C
Financial	Banks			■			■			■		
Financial	Insurance Companies				■	■	■	■		■		
Financial	Asset Owners				■	■	■	■		■	■	
Financial	Asset Managers				■		■	■		■	■	
Non-Financial	Energy	■			■	■		■		■	■	
Non-Financial	Transportation				■	■				■	■	■
Non-Financial	Materials and Buildings				■	■				■	■	■
Non-Financial	Agriculture, Food, and Forest Products				■	■				■	■	■

Scenario Analysis

Scenario Analysis

Scenario analysis is an important and useful tool for understanding the **strategic implications of climate-related risks and opportunities**.

The Task Force recommends that organizations describe the potential impact of different scenarios, including a 2°C scenario, on their businesses, strategy, and financial planning.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Recommended Disclosure	Guidance for All Sectors
c) Describe the potential impact of different scenarios, including a 2°C scenario, on the organization's businesses, strategy, and financial planning.	Organizations should describe how their strategies are likely to perform under various forward-looking, climate-related scenarios (e.g., potential effects under different scenarios) and any resulting changes to their strategies and financial plans, risk management activities, or targets/metrics to mitigate risks and take advantage of opportunities.

Scenario Analysis *(continued)*

The table below describes five ways the Task Force believes scenario analysis can be useful for organizations.

1	Scenario analysis can help organizations consider issues, like climate change, that have the following characteristics: – Possible outcomes that are highly uncertain (e.g., the physical response of the climate and ecosystems to higher levels of GHG emissions in the atmosphere) – Outcomes that will play out over the medium to longer term (e.g., timing, distribution, and mechanisms of the transition to a lower-carbon economy) – Potential disruptive effects that, due to uncertainty and complexity, are substantial
2	Scenario analysis can enhance organizations' strategic conversations about the future by considering, in a more structured manner, what may unfold that is different from business-as-usual. Importantly, it broadens decision makers' thinking across a range of plausible scenarios, including scenarios where climate-related impacts can be significant.
3	Scenario analysis can help organizations frame and assess the potential range of plausible business, strategic, and financial impacts from climate change and the associated management actions that may need to be considered in strategic and financial plans. This can lead to more robust strategies under a wider range of uncertain future conditions.
4	Scenario analysis can help organizations identify indicators to monitor the external environment and better recognize when the environment is moving toward a different scenario state (or to a different stage along a scenario path). This allows organizations the opportunity to reassess and adjust their strategies and financial plans accordingly.
5	Scenario analysis can assist investors in understanding the robustness of organizations' strategies and financial plans and in comparing risks and opportunities across organizations.

FUTURE OUTLOOK

Examples of Areas for Further Work

The Task Force also identified certain areas where further work can contribute to the evolution of climate-related financial disclosures.

Relationship to Other Reporting Initiatives	Encourage standard setting organizations and others to actively work toward greater alignment of frameworks and to support adoption
Data Quality and Financial Impact	Undertake further research and analysis to better measure and understand how climate-related issues translate into potential financial impacts
Reporting GHG Emissions Associated with Investments	– Develop methodologies for allocating emissions in asset classes beyond equities, including non-corporate bonds, property/real estate, infrastructure, private equity, and alternative assets – Improve data quality, increase understanding of climate-related risks and opportunities, and enhance risk measurement methodologies broadly
Scenario Analysis	– Further develop applicable 2°C (or lower) transition scenarios and supporting outputs and tools/user interfaces – Develop broadly accepted methodologies, datasets and tools for scenario-based evaluation of physical risk by organizations – Make datasets and tools publicly available and provide commonly available platforms for scenario analysis

Next Steps

The Task Force is in the process of evaluating feedback and potential changes to the report, which is scheduled to be finalized and released in June 2017.

The FSB has extended the Task Force through mid-2018 to support and monitor adoption.

Timeline

Appendix

Task Force Members

Task Force Members

Chair and Vice-Chairs

Michael Bloomberg
Chairman
Founder and President
Bloomberg L.P.

Yeo Lian Sim
Vice-Chair
Special Adviser
Singapore Exchange

Denise Pavarina
Vice-Chair
Managing Officer
Banco Bradesco

Graeme Pitkethly
Vice-Chair
Chief Financial Officer
Unilever

Christian Thimann
Vice-Chair
Group Head of Strategy, Sustainability and Public Affairs
AXA

Members

Jane Ambachtsheer
Partner, Chair – Responsible Investment
Mercer

Matt Arnold
Managing Director and Global Head of Sustainable Finance
JPMorgan Chase & Co.

Wim Bartels
Partner, Global Reporting
KPMG

Bruno Bertocci
Managing Director, Head of Sustainable Investors
UBS Asset Management

David Blood
Senior Partner
Generation Investment Management

Richard Cantor
Chief Risk Officer
Moody's

Koushik Chatterjee
Group Executive Director, Finance and Corporate
Tata Group

Eric Dugelay
Global Leader, Sustainability Services
Deloitte

Liliana Franco
Director, Accounting Organization and Methods
Air Liquide Group

Udo Hartmann
Senior Manager, Group Environmental Protection & Energy Management
Daimler

Neil Hawkins
Corporate Vice President and Chief Sustainability Officer
The Dow Chemical Company

Thomas Kusterer
Chief Financial Officer
EnBW

Diane Larsen
Audit Partner, Global Professional Practice
EY

Stephanie Leaist
Managing Director, Head of Sustainable Investing
Canada Pension Plan Investment Board

Mark Lewis
Managing Director, Head of European Utilities Equity Research
Barclays

Eloy Lindeijer
Chief, Investment Management
PGGM

Ruixia Liu
General Manager, Risk Department
Industrial and Commercial Bank of China

Masaaki Nagamura
Head, Corporate Social Responsibility
Tokio Marine Holdings

Giuseppe Ricci
Chief Refining & Marketing Officer
ENI

Martin Skancke
Chair, Risk Committee
Storebrand

Andreas Spiegel
Head Group Sustainability Risk
Swiss Re

Steve Waygood
Chief Responsible Investment Officer
Aviva Investors

Deborah Winshel
Managing Director, Global Head of Impact Investing
BlackRock

Fiona Wild
Vice President, Environment and Climate Change
BHP Billiton

Michael Wilkins
Managing Director, Global Head of Environmental & Climate Risk Research
S&P Global Ratings

Jon Williams
Partner, Sustainability and Climate Change
PwC

Special Adviser

Russell Picot
Chair, Audit and Risk Committee, LifeSight
Board Chair of HSBC Bank (UK) Pension Scheme Trustee
Former Group Chief Accounting Officer
HSBC

Questions?