

# Task Force on Climate-related Financial Disclosures

Overview of Recommendations

September 2017

# 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 31 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.



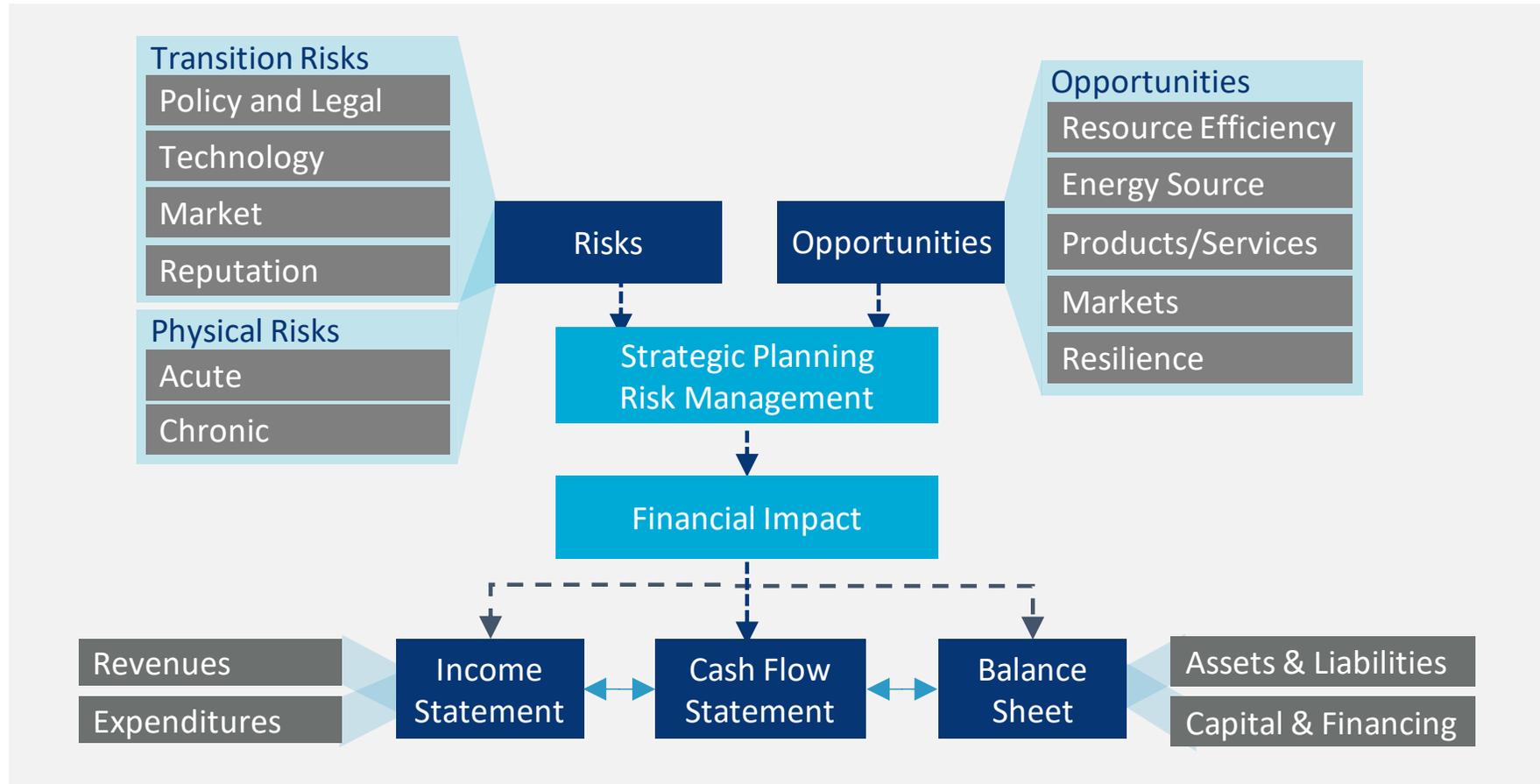
## BACKGROUND (CONTINUED)

- The Task Force on Climate-related Financial Disclosures published its recommendations in June 2017.
- The recommendations 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

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.



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

# SUPPLEMENTAL GUIDANCE

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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**

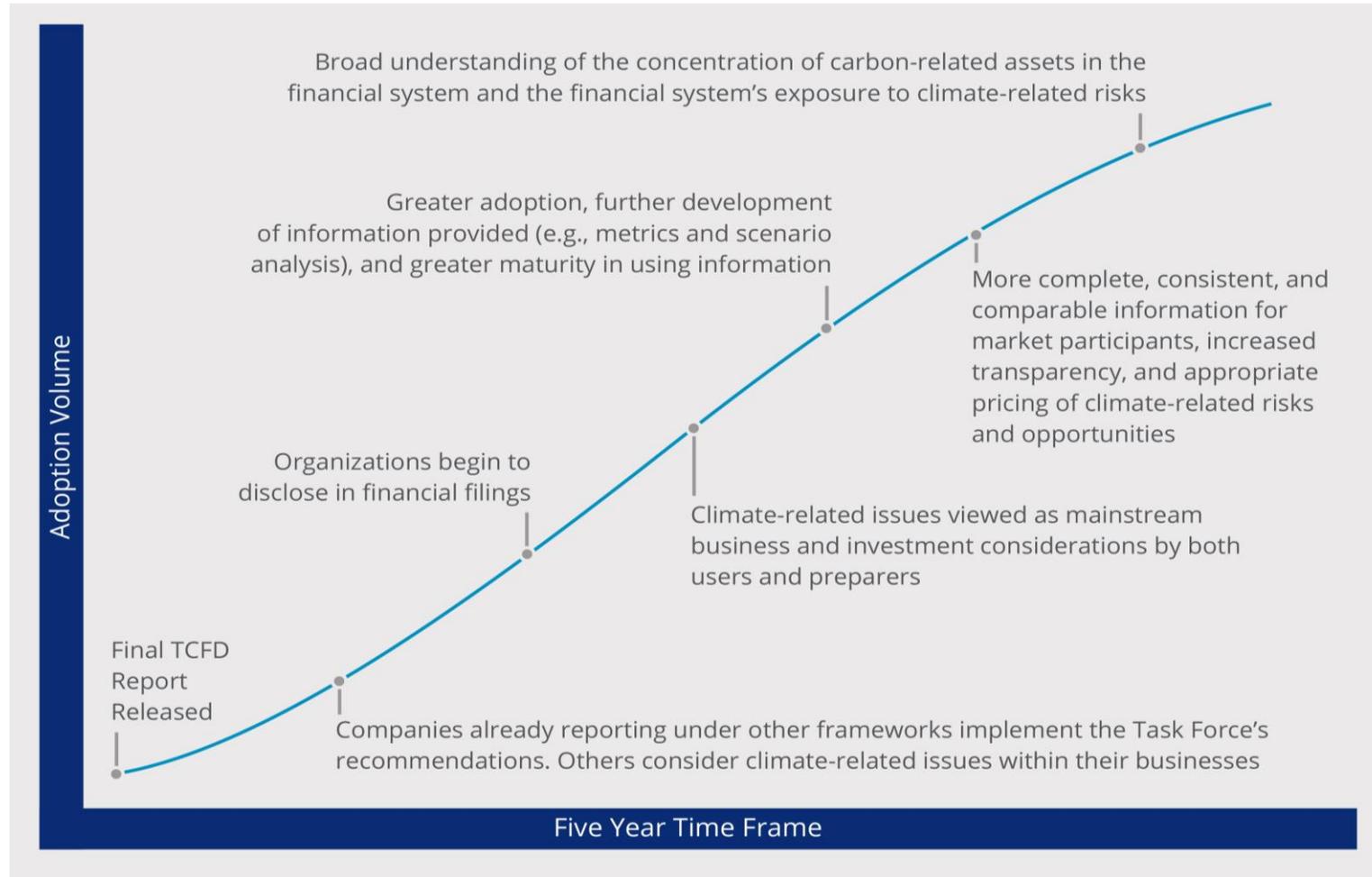
*Provides a common reference point that is generally aligned with the objectives of the Paris Agreement.*

### **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).*

# 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.



## BENEFITS OF IMPLEMENTING THE RECOMMENDATIONS

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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

# NEXT STEPS

The Task Force will work with organizations and other partners to support and monitor adoption and submit a report on implementation of the recommendations to the FSB in September 2018.

## Timeline



# APPENDIX

# TASK FORCE MEMBERS

Chair and Vice-Chairs	
<b>Michael Bloomberg</b> Chairman Founder and President Bloomberg L.P.	
<b>Yeo Lian Sim</b> Vice-Chair Special Adviser Singapore Exchange	<b>Denise Pavarina</b> Vice-Chair Managing Officer Banco Bradesco
<b>Graeme Pitkethly</b> Vice-Chair Chief Financial Officer Unilever	<b>Christian Thimann</b> Vice-Chair Group Head of Strategy, Sustainability and Public Affairs AXA
Members	
<b>Jane Ambachtsheer</b> Partner, Chair – Responsible Investment Mercer	<b>Matt Arnold</b> Managing Director and Global Head of Sustainable Finance JPMorgan Chase & Co.
<b>Wim Bartels</b> Partner Corporate Reporting KPMG	<b>Bruno Bertocci</b> Managing Director, Head of Sustainable Investors UBS Asset Management
<b>David Blood</b> Senior Partner Generation Investment Management	<b>Richard Cantor</b> Chief Risk Officer Moody's Chief Credit Officer Moody's Investor Service
<b>Koushik Chatterjee</b> Group Executive Director, Finance and Corporate Tata Group	<b>Eric Dugelay</b> Global Leader, Sustainability Services Deloitte
<b>Liliana Franco</b> Director, Accounting Organization and Methods Air Liquide Group	<b>Udo Hartmann</b> Senior Manager, Group Environmental Protection & Energy Management Daimler
<b>Neil Hawkins</b> Corporate Vice President and Chief Sustainability Officer The Dow Chemical Company	<b>Thomas Kusterer</b> Chief Financial Officer EnBW
<b>Diane Larsen</b> Audit Partner, Global Professional Practice EY	<b>Stephanie Laist</b> Managing Director, Head of Sustainable Investing Canada Pension Plan Investment Board
<b>Mark Lewis</b> Managing Director, Head of European Utilities Equity Research Barclays	<b>Eloy Lindeijer</b> Chief, Investment Management PGGM
<b>Ruixia Liu</b> General Manager, Risk Department Industrial and Commercial Bank of China	<b>Giuseppe Ricci</b> Health, Safety, Environment and Quality Executive Vice President ENI
<b>Martin Skancke</b> Chair, Risk Committee Storebrand	<b>Andreas Spiegel</b> Head Group Sustainability Risk Swiss Re
<b>Steve Waygood</b> Chief Responsible Investment Officer Aviva Investors	<b>Fiona Wild</b> Vice President, Sustainability and Climate Change BHP Billiton
<b>Michael Wilkins</b> Managing Director, Environment & Climate Risk Research S&P Global Ratings	<b>Jon Williams</b> Partner, Sustainability and Climate Change PwC
<b>Deborah Winshel</b> Managing Director, Global Head of Impact Investing BlackRock	
Special Adviser	
<b>Russell Picot</b> Chair, Audit and Risk Committee, LifeSight Board Chair, HSBC Bank (UK) Pension Scheme Trustee Former Group Chief Accounting Officer HSBC	

# CLIMATE-RELATED RISKS AND OPPORTUNITIES

Type	Climate-Related Risks	Type	Climate-Related Opportunities		
Transition Risks	<b>Policy and Legal</b>	Resource Efficiency	<ul style="list-style-type: none"> <li>– Use of more efficient modes of transport</li> <li>– Use of more efficient production and distribution processes</li> <li>– Use of recycling</li> <li>– Move to more efficient buildings</li> <li>– Reduced water usage and consumption</li> </ul>		
	<ul style="list-style-type: none"> <li>– Increased pricing of GHG emissions</li> <li>– Enhanced emissions-reporting obligations</li> <li>– Mandates on and regulation of existing products and services</li> <li>– Exposure to litigation</li> </ul>		Energy Source	<ul style="list-style-type: none"> <li>– Use of lower-emission sources of energy</li> <li>– Use of supportive policy incentives</li> <li>– Use of new technologies</li> <li>– Participation in carbon market</li> <li>– Shift towards decentralized energy generation</li> </ul>	
	<b>Technology</b>	<ul style="list-style-type: none"> <li>– Substitution of existing products and services with lower emissions options</li> <li>– Unsuccessful investment in new technologies</li> <li>– Costs to transition to lower emissions technology</li> </ul>		Products and Services	<ul style="list-style-type: none"> <li>– Develop and/or expand low emission goods and services</li> <li>– Development of climate adaptation and insurance risk solutions</li> <li>– Development of new products or services through R&amp;D and innovation</li> <li>– Ability to diversify business activities</li> <li>– Shift in consumer preferences</li> </ul>
	<b>Markets</b>	<ul style="list-style-type: none"> <li>– Changing customer behavior</li> <li>– Uncertainty in market signals</li> <li>– Increased cost of raw materials</li> </ul>			Markets
	<b>Reputation</b>	<ul style="list-style-type: none"> <li>– Shifts in consumer preferences</li> <li>– Stigmatization of sector</li> <li>– Increased stakeholder concern or negative stakeholder feedback</li> </ul>	Resilience	<ul style="list-style-type: none"> <li>– Participation in renewable energy programs and adoption of energy-efficiency measures</li> <li>– Resource substitutes/diversification</li> </ul>	
Physical Risks	<b>Acute</b>				
	<ul style="list-style-type: none"> <li>– Increased severity of extreme weather events such as cyclones and floods</li> </ul>				
	<b>Chronic</b>				
	<ul style="list-style-type: none"> <li>– Changes in precipitation patterns and extreme variability in weather patterns</li> <li>– Rising mean temperatures</li> <li>– Rising sea levels</li> </ul>				

# DEVELOPMENT OF RECOMMENDATIONS

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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.