Task Force on Climate-related Financial Disclosures

Overview of Report, Recommendations, and Guidance

March 2017

TASK FORCE ON CLIMATE–RELATED FINANCIAL DISCLOSURES

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

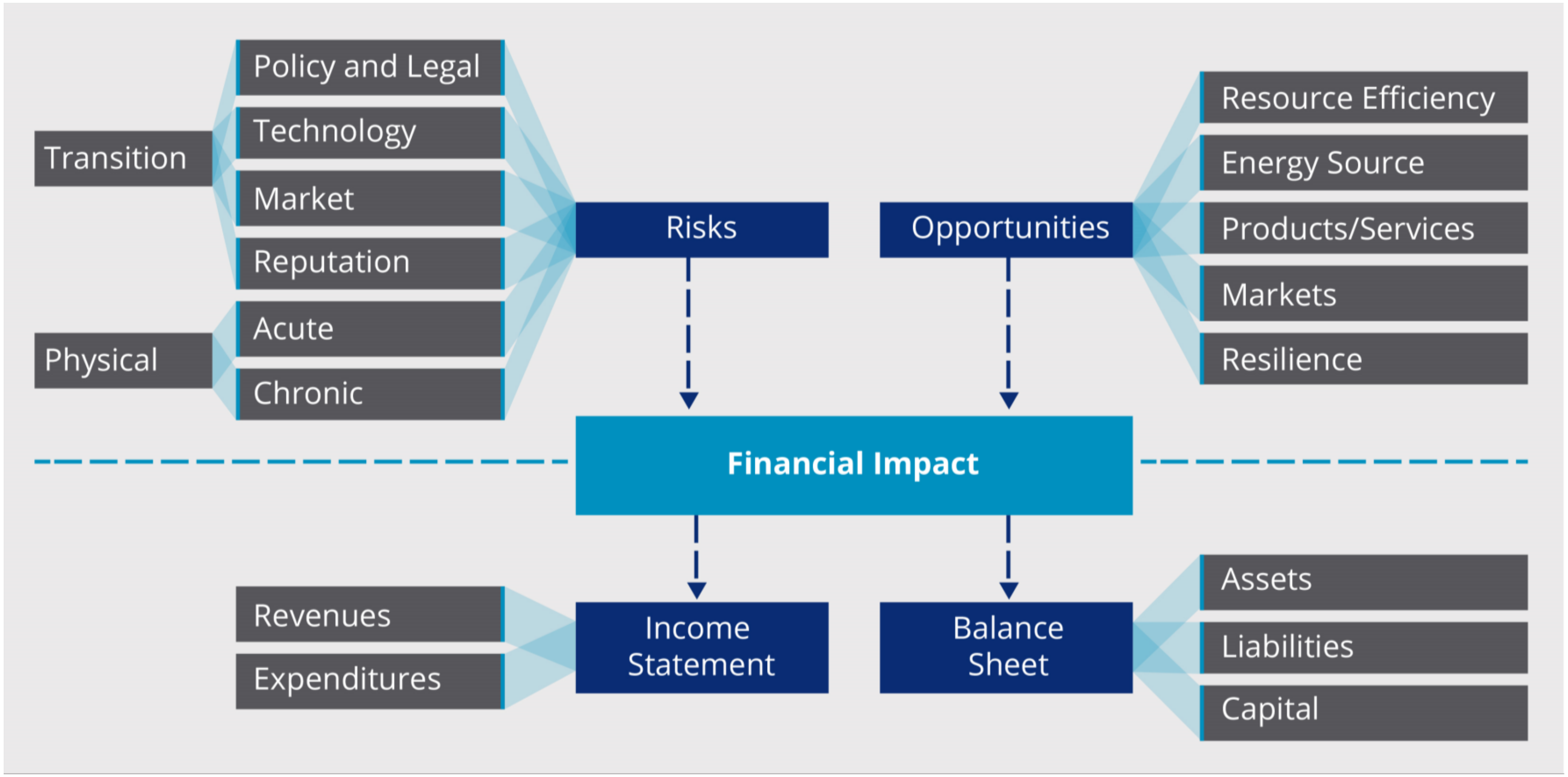
Climate-Related Risks and Opportunities

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.



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.

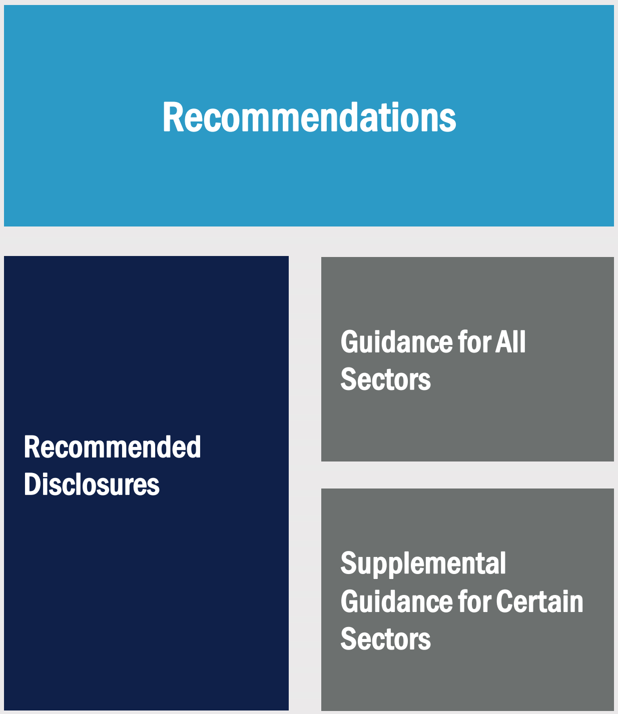
Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Disclose 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.

Outreach and Engagement

The Task Force engaged a broad range of external stakeholders through interviews, webinars, and other forums.

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
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

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.

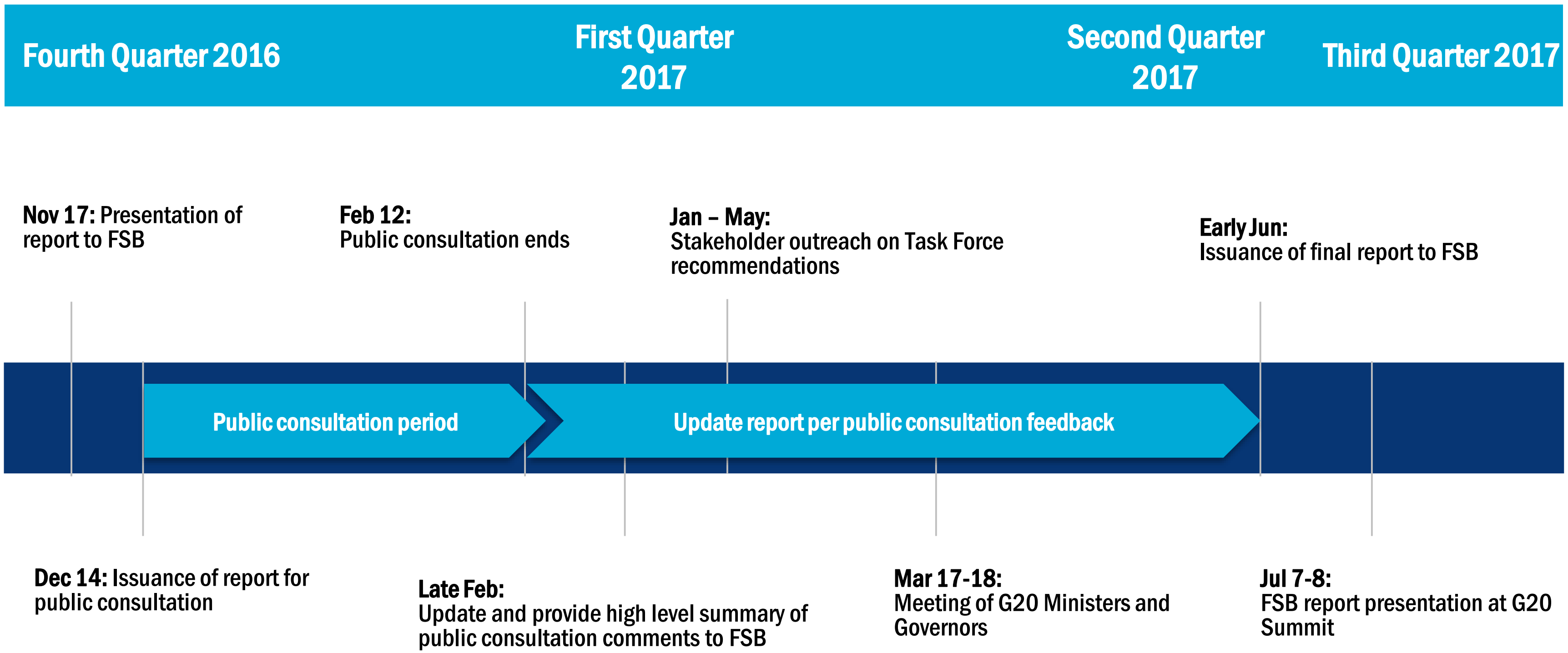
1. Scenario analysis can help organizations consider issues, like climate change, that have the following characteristics:
   - Possible outcomes that are highly uncertain (e.g., the physical response of the climate and ecosystems to higher levels of GHG emissions in the atmosphere)
   - Outcomes that 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.

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.

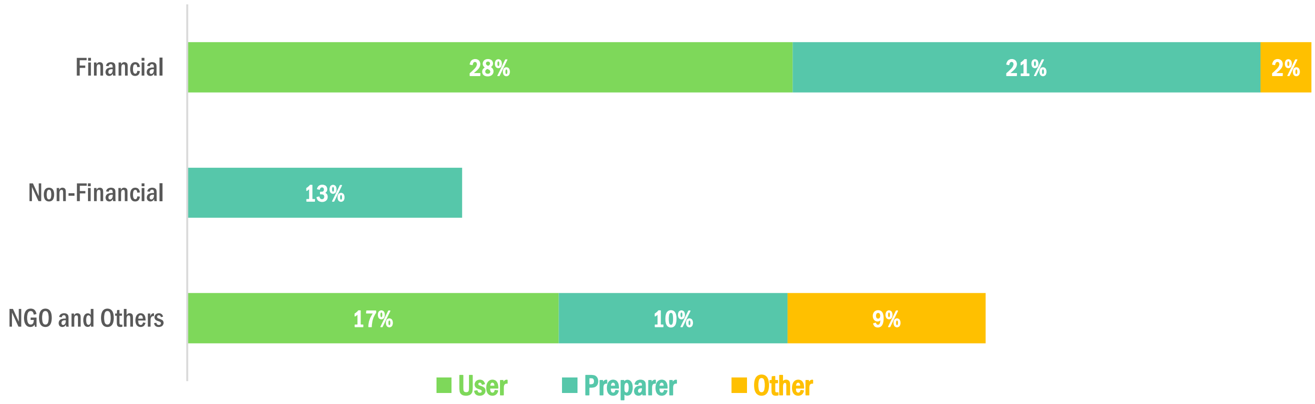
Relationship to Other Reporting Initiatives	Encourage standard setting organizations and others to actively work toward greater alignment of frameworks and to support adoption
Data Quality and Financial Impact	Undertake further research and analysis to better measure and understand how climate-related 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

TASK FORCE TIMELINE

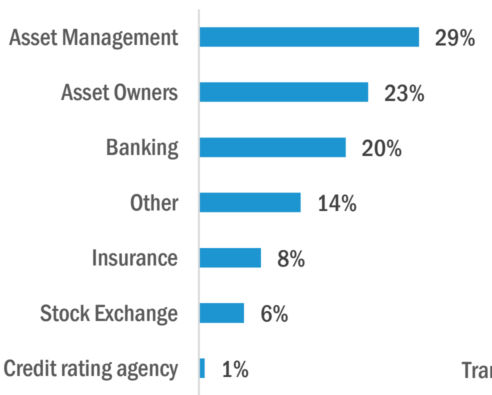


PUBLIC CONSULTATION

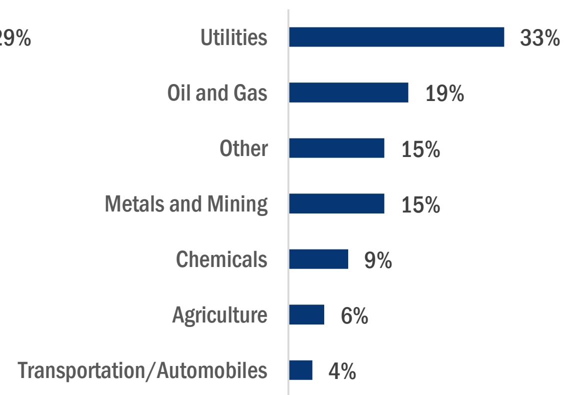
132 respondents work in the financial sector, 54 in non-financial sectors, and 120 in "Academia," "NGO", or "Other" categories ("NGOs and Others").



FINANCIAL



NON-FINANCIAL



NGOS AND OTHERS

PUBLIC CONSULTATION (CONTINUED)

Task Force received 306 consultation responses and 59 comment letters.

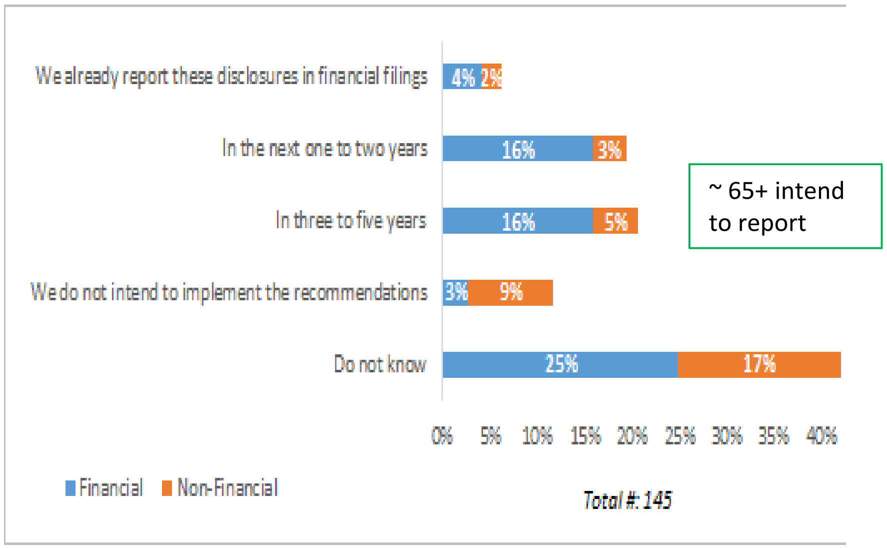
- In addition, feedback was received through discussions with stakeholders.
- Overall, respondents expressed support for the Task Force's recommendations in the online questionnaire.

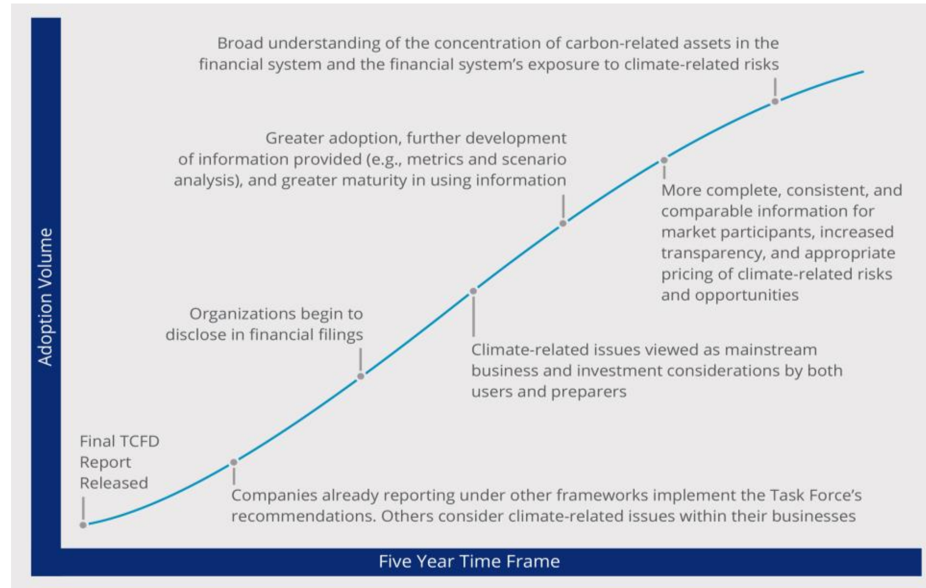
QUESTION	RESPONDENTS	USEFUL	NOT USEFUL	NEITHER	DON'T KNOW
How useful are the recommendations and guidance for all sectors in preparing disclosures?	Preparers	75%	12%	11%	2%
How useful is the supplemental guidance in preparing disclosures?	Preparers	66%	14%	18%	2%
If organizations disclose the recommended information, how useful would it be for decision making?	Users and Others	77%	3%	10%	10%
How useful is a description of potential performance across a range of scenarios to understanding climate-related impacts on an organization's businesses, strategy, and financial planning?	Financial	74%	7%	9%	10%
	Non-Financial	17%	50%	26%	7%
	Other Areas	86%	7%	6%	2%
How useful are the illustrative examples of metrics and targets?	Financial	74%	4%	5%	17%
	Non-Financial	33%	33%	30%	4%
	Other Areas	72%	3%	15%	11%
How useful would the disclosure of GHG emissions associated with investments be for economic decision-making purposes (e.g., investing decisions)?	Financial	68%	11%	14%	8%
	Other Areas	74%	7%	13%	7%

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.

Exhibit 8: Timeframe in which Preparers Might Implement the Recommendations in Financial Filings





40% of financial and non-financial respondents indicated that they do not know whether or when they would implement the recommendations. The most often cited reasons, in descending order, include the following:

- the organization has not yet decided whether to implement the recommendations,
- the organization will report outside of financial filings, and
- the organization will likely implement the recommendations, but could not commit at this time.

Task Force Members

Chair and Vice-Chairs

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