Task Force on Climate-related Financial Disclosures

Overview of Recommendations and Guidance

June 2019
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,
- could "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",
- 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."
Focus on Financial Impact

Risks

- Transition
  - Policy and legal
  - Exposure to litigation
  - Carbon pricing and reporting obligations
- Physical
  - Stigmatization of sector
  - Increased cost of raw materials
  - Uncertainty in market signals
- Reputation
  - Shift in consumer preferences
  - Increased stakeholder concern/ negativity
- Market
  - Inconsistent investment in new services with lower emissions options
- Technology
  - Technology
  - Exposure to litigation
- Resource
  - Reduced water usage and consumption
  - Move to more efficient buildings
  - Use of recycling
- Efficiency
  - Use of more efficient modes of transport
- Products & Services
  - Development and/or expansion of low emission goods and services
  - Development of climate adaptation and insurance risk solutions
- Services
  - Development of new products and services through R&D and innovation
- Markets
  - Access to new markets
  - Increased access to new markets
  - Access to new assets and locations needing insurance coverage
  - Insurance coverage

Opportunities

- Resource
  - Use of lower-emission source of energy
  - Use of new technologies
  - Use of supportive policy incentives
- Efficiency
  - Use of more efficient modes of transport
  - Use of recycling
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Strategic Planning

Financial Impact

- Strategic Planning
- Risk Management

Balance Sheet
- Financial Impact
- Resilience
- Markets
- Products & Services
- Services
- Transition
- Resource
- Efficiency

Statement
- Income
- Expenditures
- Revenues

Cash Flow
- Financial Impact
- Resilience
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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

Following General Categories:

- Revenues: The financial impacts from climate-related risks may impact them financially.

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. Largely, but not solely, based on select content from the Sustainability Accounting Standards Board (SASB) "Financial Impact by Industry" 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

**Risk Management**
- The processes used by the organization to identify, assess, and manage climate-related risks

**Strategy**
- The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning

**Metrics and Targets**
- The metrics and targets used to assess and manage relevant climate-related risks and opportunities

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- The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning

**Metrics and Targets**
- The metrics and targets used to assess and manage relevant climate-related risks and opportunities
<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclose how the organization identifies, assesses, and manages climate-related risks.</td>
<td>Describe the organization’s processes for identifying and assessing climate-related risks.</td>
<td>Include an analysis of climate-related risks in the organization’s material business strategies and financial plans.</td>
<td>Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management processes.</td>
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<td>Disclose the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</td>
<td>Describe the organization’s processes for managing climate-related risks.</td>
<td>Describe the organization’s processes for identifying, assessing, and managing climate-related risks.</td>
<td>Disclose the targets used by the organization to manage climate-related risks and performance.</td>
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<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 the organization’s process for managing climate-related risks.</td>
<td>Describe the board’s oversight of climate-related risks and opportunities.</td>
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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.
Location of Disclosure

- The Task Force recommends that organizations provide climate-related financial disclosures in their mainstream (i.e., public) annual 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.

Principle of Materiality

- Recommended disclosures require a 2°C or lower scenario for resilient organizations’ strategies related to climate-related risks.
- Resilient organizations’ strategies are to align climate-related risks.
- The Task Force encourages forward-looking information through scenario analysis—a useful tool for considering and enhancing resilience and flexibility of strategic plans that allows investors to understand how organizations are achieving their climate-related goals.
- Recommended disclosures (c) under Strategy and the related guidance asks organizations to describe the resiliency of their strategies, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
- The disclosures related to the Strategy and the related guidance are subject to an assessment of materiality. The disclosures related to the Governance and Risk Management recommendations are not and should not 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 understanding the resilience of organizations’ strategies and the flexibility of their strategic plans that allows investors to understand how resilient organizations’ strategies are to climate-related risks.
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 resulting within the company resulting in better risk management and more informed strategic planning

‒ prudently 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

Recommendations include:

BENEFITS OF IMPLEMENTING THE RECOMMENDATIONS
### Year 1
- Begin assessing climate-related risks and opportunities
- Identify relevant climate-related scenarios and consider how they may affect the organization
- Assign oversight to board committees and management as needed
- Calculate and use metrics for assessing climate-related risks and opportunities
- Disclose information related to the TCFD recommendations

### Year 2
- Adjust data collection to support strategic planning and/or risk management framework
- Integrate scenario analysis into management frameworks
- Calculate and use metrics for assessing climate-related risks and opportunities
- Implement new processes for information and data collection and reporting
- Disclose information related to the TCFD recommendations

### Year 3
- Determine information and data needs and process changes needed and identify alignment and gaps with governance and risk management recommendations, especially for organizations in early stages of assessing climate-related risks and opportunities
- Incorporate climate-related risks into risk identification and assessment processes, where needed
- Assign oversight to board committees and management as needed
- Disclose information related to the TCFD recommendations or disclose intention to implement the TCFD recommendations
- Identify climate-related risks and opportunities and assess whether they are material
- Disclose information related to Governance and Risk Management recommendations or disclose intention to implement the TCFD recommendations

**BEGINNING THE JOURNEY – ILLUSTRATIVE ROADMAP**
When the Task Force released its disclosure recommendations in June 2017, it did so with the support of over 100 CEOs.

The Task Force released its first Status Report at the One Planet Summit and announced over 500 supporters.

At French President Emmanuel Macron’s One Planet Summit, Governor Mark Carney and Mike Bloomberg advanced the discussion around the TCFD and announced over 230 supporters.

Including 374 financial firms, responsible for assets of over 9 trillion USD.

With a market capitalization of over 1 trillion USD.

Supporters as of June 2019

785

TCFD by the Numbers

To become a Supporter Email info@fsb-tcfd.org
The Task Force's reports focus on the following:

- summarizing implementation of its recommendations
- summarizing major initiatives that support the TCFD
- sharing user perspectives on decision-useful information
- providing examples of disclosures that contain information aligned with the recommended disclosures
- providing a spotlight on disclosure of strategy resilience and scenario analysis and the results of the November 2018 TCFD survey on implementation of the recommendations
- summarizing disclosure practices relative to core elements of the TCFD recommendations as well as additional information to support preparers with implementing recommendations

The Task Force's reports focus on the following:

The TCFD 2018 and 2019 Status Reports
The majority disclose some climate-related information. The majority of companies disclosed information aligned with at least one recommended disclosure, usually in financial filings, annual reports, and sustainability reports. Companies are often provided information aligned with the TCFD recommendations in multiple reports.

Financial implications are often not disclosed. While many companies disclose climate-related financial information, few disclose the financial impact of climate change on the company.

Information on strategy resilience under climate-related scenarios is limited. Few companies describe the resilience of their strategies under different climate-related scenarios, including a 2°C or lower scenario, which is a key area of focus for the Task Force.

Disclosures vary across industries and regions. Companies’ areas of focus in terms of climate-related disclosures vary significantly. For example, a higher percentage of non-financial companies reported information on their climate-related metrics, but a higher percentage of financial companies disclosed their enterprise risk management process.

Change on the company. Few disclose the financial impact of climate-related risk. While many companies disclose climate-related financial information, it is still needed for disclosures to contain more decision-useful climate-related information.

The Task Force reviewed disclosures of several companies and found disclosing information in alignment with the TCFD recommendations is possible for preparers and helpful to users. It also found climate-related disclosures are still in early stages and further work is still needed for disclosures to contain more decision-useful climate-related information.
The TCFD recognizes that the support of organizations working to help companies implement its recommendations is key to improving climate-related financial disclosures.

Both status reports describe select efforts in the following critical areas:

- **Major Initiatives Supporting TCFD**
- **Tools and Resources**: Information to facilitate implementation of the TCFD recommendations.
- **Government Support**: Government support for the TCFD, including TCFD supporters, frameworks based on the TCFD recommendations to increase alignment of disclosure standards.
- **Alignment of Reporting Guidelines**: Standard-setting organizations that have adjusted their frameworks to align with the TCFD recommendations.
- **Investor Initiatives**: Groups of investors that are voicing demand for better availability and quality of disclosures made in alignment with the TCFD recommendations.
- **Group Focused Implementation Initiatives**: Organizations and preparers of disclosure that are working together on implementing the TCFD recommendations, climate-related industries including oil and gas, chemicals, utilities, metals and mining, and others.

Both status reports describe select efforts in the following critical areas:

- Implementation of disclosures is key to improving climate-related financial disclosures.
- The TCFD recognizes that the support of organizations working to help companies