

Task Force on Climate-related Financial Disclosures

Overview of Recommendations and Guidance

June 2019

BACKGROUND

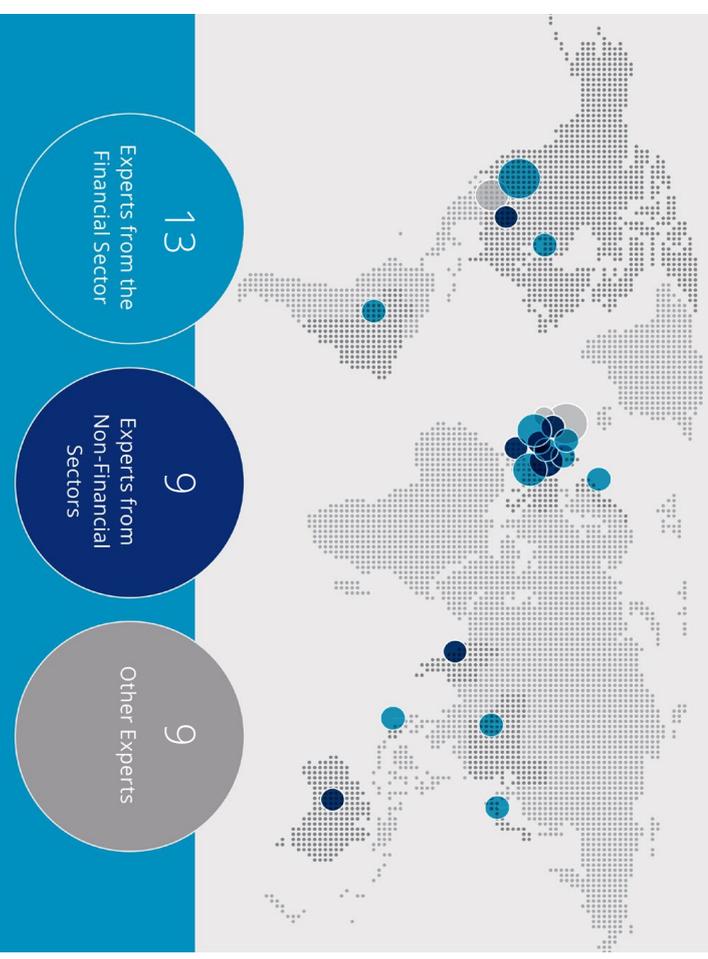
G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues.

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.



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

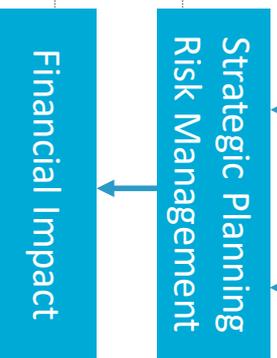
- Development and/or expansion of low emission goods and services
- Development of climate adaptation and insurance risk solutions
- Development of new products or services through R&D and innovation

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



FINANCIAL IMPACT BY INDUSTRY

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

Evidence of Financial Impact*

Groups and Industries	Revenues	Expenditures	Assets and Liabilities	Capital and Financing
Financial				
Banks	■		■	
Insurers	■	■	■	
Asset Owners	■		■	
Asset Managers	■		■	
Energy				
Oil and Gas	■	■	■	■
Coal		■	■	■
Electric Utilities	■	■		■
Air Freight		■		■
Passenger Air Transportation		■		■
Maritime Transportation		■		■
Rail Transportation		■		■
Trucking Services		■		■
Transportation				
Automobiles and Components	■	■		■
Materials and Buildings				
Metals and Mining		■		■
Chemicals	■	■		■
Construction Materials	■	■		■
Capital Goods	■	■		
Real Estate Management and Development	■	■	■	■
Ag, Food, and Forest				
Beverages		■		■
Agriculture	■	■	■	■
Packaged Foods and Meats		■	■	■
Paper and Forest Products	■	■	■	■

*Largely, but not solely, based on select content from the Sustainability Accounting Standards Board (SASB) "Financial Impacts of Climate Risk" table in its Climate Risk Technical Bulletin

STRUCTURE OF 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

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>
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
<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>

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**.
- 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

- 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 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.

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 that allows investors 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**.

BENEFITS OF IMPLEMENTING THE RECOMMENDATIONS

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

BEGINNING THE JOURNEY – ILLUSTRATIVE ROADMAP

For organizations in early stages of assessing climate-related risks and opportunities, it may be helpful to develop a roadmap for implementing the recommendations.

Year 1

- Compare current disclosures to the recommendations, especially Governance and Risk Management, and identify alignment and gaps
- Determine information and data needs and process changes
- Begin evaluating metrics for assessing climate-related risks and opportunities
- Incorporate climate-related risks into risk identification and assessment process as needed
- Assign oversight to board committees and management as needed
- Disclose information related to Governance and Risk Management recommendations or disclose intention to implement the TCFD recommendations

Year 2

- Implement new processes for information and data collection and reporting
- Identify metrics useful for assessing climate-related risks and opportunities
- Adjust data collection to support metrics
- Identify climate-related risks and opportunities and assess whether they are material
- Identify relevant climate-related scenarios and consider how those scenarios might affect the organization
- Disclose information related to Governance and Risk Management recommendations and item (a) of the Strategy recommendation, where the information is material

Year 3

- Calculate and use metrics for assessing climate-related risks and opportunities
- Integrate scenario analysis into strategic planning and/or risk management frameworks
- Disclose information related to Governance and Risk Management recommendations
- Disclose information related to Strategy and Metrics and Targets recommendations, where the information is material

GROWING SUPPORT FOR TCFD AND ITS WORK

**June
2017**

When the Task Force released its disclosure recommendations in June 2017, it did so with the support of over 100 CEOs.

**December
2017**

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.

**September
2018**

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

TCFD by the Numbers

785

Supporters as of June 2019

With a market capitalization of over **9 trillion USD**.
Including **374** financial firms, responsible for assets
of over **118 trillion USD**.

To Become a Supporter Email info@fsb-tcfid.org

TCFD

TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

TCFD 2018 AND 2019 STATUS REPORTS

The TCFD status reports provide an overview of disclosure practices related to the TCFD recommendations as well as additional information to support preparers with implementing the recommendations. The 2019 status report will be released on June 5, 2019.

The Task Force's reports focus on the following:

- summarizing **disclosure practices** relative to core elements of the recommended disclosures
- providing **examples of disclosures** that contain information aligned with the recommended disclosures
- sharing **user perspectives on decision-useful information**
- 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 **major initiatives that support the TCFD** and implementation of its recommendations



KEY TAKEAWAYS OF THE TCFD STATUS REPORTS

The Task Force reviewed disclosures of several companies and found disclosing information in alignment with its 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 majority disclose some climate-related information.

The majority of companies disclosed information aligned with at least one recommended disclosure, usually in sustainability report.

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 financial disclosures vary significantly. For example a higher percentage of non-financial companies reported information on their climate related metrics and targets compared to financial companies, but a higher percentage of financial companies indicated their enterprise risk management process included climate-related risk.

Disclosures are often made in multiple reports.

Companies are often provided information aligned with the TCFD recommendations in multiple reports—financial filings, annual reports, and sustainability reports.

MAJOR INITIATIVES SUPPORTING TCFD

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:

- **Group Focused Implementation Initiatives:** Organizations and preparers of disclosure that are working together on implementing the TCFD recommendations, in the financial sector and non-financial industries including oil and gas, chemicals, utilities, metals and mining, and others.
- **Investor Initiatives:** Groups of investors that are voicing demand for better availability and quality of disclosures made in alignment with the TCFD recommendations.
- **Alignment of Reporting Guidelines:** Standard-setting organizations that have adjusted their frameworks based on the TCFD recommendations to increase alignment of disclosure standards.
- **Government Support:** Government support for the TCFD, including TCFD supporters, government-sponsored working groups, and reports and action plans related to TCFD.
- **Tools and Resources:** Information to facilitate implementation of the TCFD recommendations, primarily hosted on the TCFD Knowledge Hub, created by CDSB. The Hub houses publicly available resources, events, and case studies, guidance on the TCFD Recommendations, climate-related tools and other resources for users and preparers of disclosure alike.