Task Force on Climate-related Financial Disclosures

Overview of Report and Implementation Guidance
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."

BACKGROUND

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.
**Task Force Members – Industry Led**

<table>
<thead>
<tr>
<th>Chair and Vice-Chairs</th>
<th>Members</th>
<th>Special Adviser</th>
</tr>
</thead>
</table>
| **Michael Bloomberg** | **Koushik Chatterjee**
  Group Executive Director, Finance and Corporate
  Tata Group | **Giuseppe Ricci**
  Health, Safety, Environment and Quality Executive Vice President
  ENI | **Martin Skancke**
  Chair, Risk Committee
  Storebrand |
| **Yeo Lian Sim** | **Eric Dugelay**
  Global Leader, Sustainability Services
  Deloitte | **Andreas Spiegel**
  Head Group Sustainability Risk
  Swiss Re | **Steve Waygood**
  Chief Responsible Investment Officer
  Aviva Investors |
| **Graeme Pitkethly** | **Liliana Franco**
  Director, Accounting Organization and Methods
  Air Liquide Group | **Thomas Kusterer**
  Chief Financial Officer
  EnBW | **Deborah Winshel**
  Managing Director, Global Head of Impact Investing
  BlackRock | **Fiona Wild**
  Vice President,
  Environment and Climate Change
  BHP Billiton |
| **Denise Pavarina** | **Neil Hawkins**
  Corporate Vice President and Chief Sustainability Officer
  The Dow Chemical Company | **Stephanie Leaist**
  Managing Director, Head of Sustainable Investing
  Canada Pension Plan Investment Board |
| **Christian Thimann** | **Diane Larsen**
  Audit Partner, Global Professional Practice
  EY | **Eloy Lindeijer**
  Chief, Investment Management
  PGGM |
| **Members** | **Mark Lewis**
  Managing Director, Head of European Utilities Equity Research
  Barclays | **Jon Williams**
  Partner, Sustainability and Climate Change
  PwC |
| **Jane Ambachtsheer** | **Ruixia Liu**
  General Manager, Risk Department
  Industrial and Commercial Bank of China | **Michael Wilkins**
  Managing Director, Environmental Finance
  S&P Global Ratings |
| **Matt Arnold** | **Stephanie Leaist**
  Managing Director, Head of Sustainable Investing
  Canada Pension Plan Investment Board |
| **Bruno Bertocci** | **Eloy Lindeijer**
  Chief, Investment Management
  PGGM | **Russell Picot**
  Chair, Audit and Risk Committee, LifeSight
  Former Group Chief Accounting Officer
  HSBC |
| **Diane Larsen** | **Mark Lewis**
  Managing Director, Head of European Utilities Equity Research
  Barclays | **Richard Cantor**
  Chief Risk Officer
  Moody’s |
| **Koushik Chatterjee** | **Ruixia Liu**
  General Manager, Risk Department
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  Head, Corporate Social Responsibility
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**Special Adviser**

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  Former Group Chief Accounting Officer
  HSBC
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
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 additional 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

<table>
<thead>
<tr>
<th>Type</th>
<th>Climate-Related Risks</th>
<th>Type</th>
<th>Climate-Related Opportunities</th>
</tr>
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</table>
| **Policy and Legal**  | - Increased pricing of GHG emissions  
- Enhanced emissions-reporting obligations  
- Mandates on and regulation of existing products and services  
- Exposure to litigation | **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 |
| **Technology**        | - Substitution of existing products and services with lower emissions options  
- Unsuccessful investment in new technologies  
- Upfront costs to transition to lower emissions technology | **Energy Source**  
- Lower-emission sources of energy  
- Supportive policy incentives  
- Emergence of new technologies  
- Participating in carbon market  
- Energy security and shift towards decentralization |
| **Markets**           | - Changing customer behavior  
- Uncertainty in market signals  
- Increased cost of raw materials | **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 |
| **Reputation**        | - Shift in consumer preferences  
- Stigmatization of sector  
- Increased stakeholder concern or negative stakeholder feedback | **Markets**  
- New markets  
- Public-sector incentives  
- Community needs and initiatives  
- Development banks |
| **Acute**             | - Increased severity of extreme weather events such as cyclones and floods | **Resilience**  
- Participate in renewable energy programs and adopt energy-efficiency measures  
- Resource substitutes/diversification  
- New assets and locations needing insurance coverage |
| **Chronic**           | - Changes in precipitation patterns and extreme weather variability  
- Rising mean temperatures  
- Rising sea levels |
Climate-related risks and opportunities can impact organizations’ financial performance.
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
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.

<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
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</thead>
<tbody>
<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.</td>
<td>Disclose how the organization identifies, assesses, and manages climate-related risks.</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.</td>
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**Recommended Disclosures**

<table>
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<tr>
<th>a)</th>
<th>b)</th>
<th>c)</th>
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<tbody>
<tr>
<td>Describe the board’s oversight of climate-related risks and opportunities.</td>
<td>Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.</td>
<td>Describe the potential impact of different scenarios, including a 2°C scenario, on the organization’s businesses, strategy, and financial planning.</td>
</tr>
<tr>
<td>Describe management’s role in assessing and managing climate-related risks and opportunities.</td>
<td>Describe the organization’s processes for managing climate-related risks.</td>
<td>Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.</td>
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<tr>
<td>a)</td>
<td>b)</td>
<td>c)</td>
</tr>
<tr>
<td>Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</td>
<td>Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</td>
<td>Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</td>
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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.

<table>
<thead>
<tr>
<th>Recommendations</th>
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<tbody>
<tr>
<td><strong>Four widely adoptable recommendations tied to:</strong> governance, strategy, risk management, and metrics and targets</td>
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</table>

<table>
<thead>
<tr>
<th>Recommended Disclosures</th>
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<tbody>
<tr>
<td><strong>Specific recommended disclosures organizations should include in their financial filings to provide decision-useful information</strong></td>
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<tr>
<th>Guidance for All Sectors</th>
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<tbody>
<tr>
<td><strong>Guidance providing context and suggestions for implementing the recommended disclosures for all organizations</strong></td>
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<tr>
<th>Supplemental Guidance for Certain Sectors</th>
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<tbody>
<tr>
<td><strong>Guidance that highlights important considerations for certain sectors and provides a fuller picture of potential climate-related financial impacts in those sectors</strong></td>
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Supplemental guidance is provided for the financial sector and for non-financial sectors potentially most affected by climate change.
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.
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.
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.
<table>
<thead>
<tr>
<th><strong>TASK FORCE TIMELINE</strong></th>
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<tbody>
<tr>
<td><strong>Fourth Quarter 2016</strong></td>
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<tr>
<td><strong>Nov 17:</strong> Presentation of report to FSB</td>
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<td><strong>Dec 14:</strong> Issuance of report for public consultation</td>
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Please participate!
The TCFD expects the quality and quantity of reporting on climate-related risks and opportunities to evolve over time.

Key investors points
- Discuss the Task Force in 2017 / 2018 company engagements
- Report against the TCFD framework in 2017, via the PRI Assessment Platform
- Be prepared to discuss: Governance; Strategy; Risk Management; Targets/Metrics
- Communicate to clients / beneficiaries