# Task Force on Climate-Related Financial Disclosures

Special Session following Phase I report submission to FSB

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# THREE PROBLEMS: ONE SOLUTION

- In G20 jurisdictions, issuers generally have a legal obligation to disclose material climate-related financial information, but they don't have a coherent framework to do so
- Fragmented, non-comparable reporting prevents investors, creditors, and underwriters from effectively using existing disclosures in their financial decisions
- In turn, regulators struggle to use existing financial disclosures to determine whether financial systems might be vulnerable to climate-related risks

The solution to all three is a clear, efficient disclosure framework that improves the ease of both producing and using financial disclosures

# BACKGROUND

- Established by the FSB on 4 December 2015
  - Phase I: Survey of landscape to help inform our scope, high-level objectives, principles of disclosure

    **Due by end-March, 2016**
  - Phase II: Identify gaps in disclosure and leading disclosure practices, deliver recommendations to improve consistency, accessibility, clarity and usefulness of climate-related financial disclosures by a wide range of financial sector participants

    **Due by end-December, 2016**

- Membership: 21 total members
  - 1 Chair, 4 International Vice-Chairs
  - 7 disclosure users; 6 disclosure preparers; 3 other experts
  - Includes private providers of capital, major issuers, accounting firms, and a credit rating agency; geographically diverse

- FSB Remit: The Task Force will seek to develop a set of voluntary recommendations that help facilitate consistent, comparable, reliable, clear and efficient disclosures that are decision-useful for the financial sector

# TASK FORCE PROCESS – PHASE I

- Plenary meetings: Task Force has met twice, in London and Singapore
  - Each plenary meeting included a program for outreach with external stakeholders for engagement and input
  - London: 12 external presenters, 160 public attendees
  - Singapore: 3 Task Force panels, 115 attendees representing more than 100 organizations

- Four workstreams
  - G20 Landscape
  - Objectives and Scope
  - Principles
  - Stakeholder Outreach

- Transparency and Consultation:
  - Task Force website, Twitter, and e-mail account
    - Public sessions of plenary meetings are recorded and posted website
  - Public consultations to solicit structured feedback from external stakeholders

# LANDSCAPE | DEMAND FOR DISCLOSURES

- **Background:** Considerable agreement has emerged globally that climate-related impacts pose financial risks. This has resulted in a proliferation of climate-related disclosure frameworks, including those by governments/regulators, stock exchanges, industry organizations, and NGOs
  - Increasing agreement in the business and financial communities that they may present material risks and opportunities
  - Corresponding increase in demand for decision-useful, climate-related financial information by investors, lenders, and underwriters

- **G20 Landscape:** Most G20 jurisdictions (16 out of 20) have some type of rule or regulatory guidance that requires climate-related disclosure for (at least some) corporations, but a limited number pertain directly to climate-related *financial* risks.

- **Stock Exchanges:** Stock exchanges are increasingly requiring listed companies to disclose climate-related information
  - Of the top 10 exchanges by market capitalization, eight offer sustainability-related indices, five have signed onto the United Nations Sustainable Stock Exchanges commitment letter, and four require comprehensive sustainability reporting
  - The World Federation of Exchanges issued guidance in November 2015 recommending that member stock exchanges incorporate a set of 34 ESG factors into their disclosure guidance for listed companies and offered advice on how to roll out enhanced sustainability disclosure

# LANDSCAPE | KEY CHALLENGES

- **Materiality:** a lack of consensus on what constitutes a material climate risk; uncertainty in assessing when, where, and to what extent climate risks will likely manifest
  - Climate risk is ubiquitous but can manifest differently in different industries and geographies
  - Information that may not be material now could be material over the medium and long-term

- **Technical/methodological complexities:** uncertainty surrounding the severity, timing, and impact of different climate-related risks on a company or asset class

- **Fragmentation:** Different frameworks and mandatory reporting requirements can be seen as complex, costly, confusing, and burdensome for the preparers of financial reports

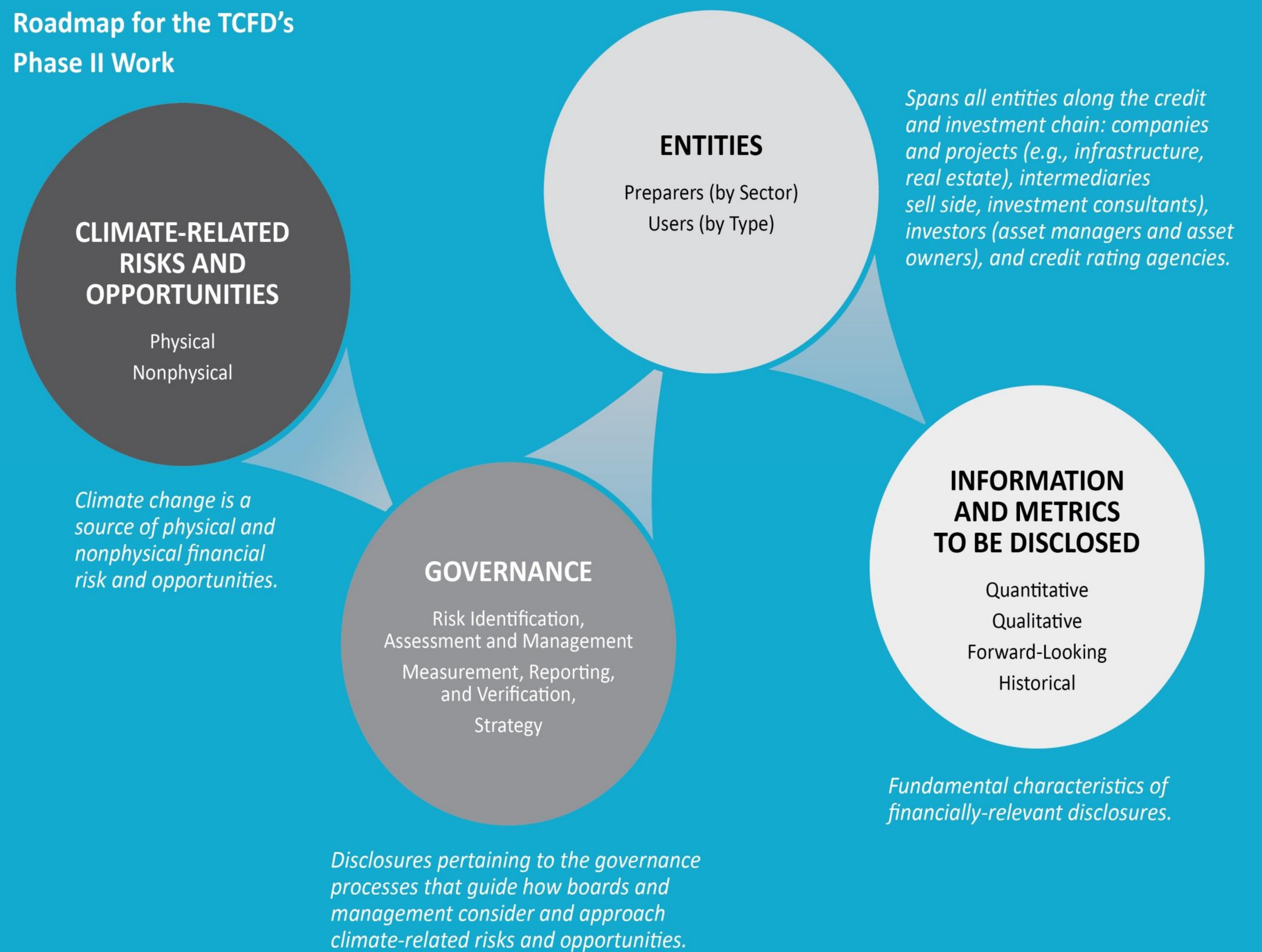
- **Inconsistent placement:** difficult for users to know where to look (sustainability report; annual financial reports; company websites; or provided directly to NGOs or investors)

- **Constraints on demand for disclosure:** demand can be influenced by skewed incentives and differing views on governance, duties to shareholders, and stewardship

# TASK FORCE OBJECTIVES

**Given our review of the landscape of climate-related financial disclosures, the Task Force has identified the following objectives for its work moving forward:**

- Build on the large, well-developed but often disjointed body of work already available
- Review the demand for climate-related financial information, including assessing the relevant legal/regulatory factors
- Develop a principle-based framework that promotes consistency in disclosures and enhances user understanding and decision-making
- Consider elements with potential impacts over the short, medium, and long-term and how to assess their relevance to disclosure
- Ensure that Task Force recommendations provide a basis for consistent and comparable application across G20 countries
- Identify and incorporate examples of leading practices
- Engage extensively with key stakeholders throughout our process to encourage early, voluntary usage by preparers


Roadmap for the TCFD's Phase II Work
CLIMATE-RELATED RISKS AND OPPORTUNITIES
Physical
Nonphysical
Climate change is a source of physical and nonphysical financial risk and opportunities.
ENTITIES
Preparers (by Sector)
Users (by Type)
Spans all entities along the credit and investment chain: companies and projects (e.g., infrastructure, real estate), intermediaries sell side, investment consultants), investors (asset managers and asset owners), and credit rating agencies.
GOVERNANCE
Risk Identification, Assessment and Management
Measurement, Reporting, and Verification,
Strategy
Disclosures pertaining to the governance processes that guide how boards and management consider and approach climate-related risks and opportunities.
INFORMATION AND METRICS TO BE DISCLOSED
Quantitative
Qualitative
Forward-Looking
Historical
Fundamental characteristics of financially-relevant disclosures.

# SEVEN FUNDAMENTAL PRINCIPLES

**Will underpin the recommendations that the Task Force will set out in our Phase II report and provide an enduring framework for future work on these issues:**

1. Present relevant information
2. Specific and complete
3. Clear, balanced, and understandable
4. Consistent over time
5. Comparable among companies within a sector, industry, or portfolio
6. Reliable, verifiable, and objective
7. Provided on a timely basis

# TERMS OF REFERENCE FOR PHASE II

**The Task Force will address the following topics in Phase II:**

- The needs of users of climate-related financial disclosures
- Gaps in disclosures that are currently provided and gaps in the types of entities that should provide disclosures
- Challenges faced by preparers and users around consistency, comparability, reliability, clarity and efficiency of information
- A common and baseline set of voluntary disclosures pertaining to the governance processes that guide how boards and management consider, approach, and ultimately disclose climate-related risks and opportunities
- Specific recommendations, guidelines, and leading practices for voluntary disclosure
- Strategy to promote adoption and implementation of principles and recommendations
- Methodology for measuring progress in the adoption of Task Force recommendations

**The Task Force has established the following workstreams for Phase II:**

- Governance
- Financial Sector
- Nonfinancial Companies
- Stakeholder Outreach and Communication Strategy

# TASK FORCE TIMELINE FOR PHASE II

**The Task Force is scheduled to hold four additional plenary meetings in 2016. The Task Force will also organize events to facilitate regional outreach and participate in external events to discuss our work with key stakeholders.**

- **31 March 2016:** Presentation of Phase I Report to FSB; Task Force outreach event in Tokyo
- **1 April 2016:** Phase I Report published
- **April 2016:** One-month public consultation period
- **4-5 May 2016:** Task Force plenary meeting, Washington DC
- **12-13 July 2016:** Task Force plenary meeting, New York
- **13-14 September 2016**: Task Force plenary meeting, Paris
- **15-16 November 2016:** Task Force Plenary meeting, London
- **Fall 2016**: Task Force update to FSB
- **End-December 2016**: Phase II Report delivered to FSB

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

# Questions?

## Questions Posed by the FSB for Phase I:

- Which types of firms should recommendations cover? Which types of non-financial corporates? Which types of financial firms?
- Which users should be considered as the target audience? Should it be extended beyond lenders, investors and insurers to other users of corporate disclosures (e.g., a wider set of stakeholders which monitor climate issues)?
- Should the group take into account the potential importance of being able to aggregate or otherwise analyze information for financial stability purposes? If so, what does this imply for the recommended level of consistency of disclosures?
- Should the Task Force seek input from the official sector during its work (for instance through workshops or other outreach)?
- What are the key characteristics of effective disclosures for climate-related risks that any recommendations should seek to meet?
- Should the work be focused on carbon emissions, or instead seek to capture other types of climate-related exposures (e.g. including physical or legal exposures)?
- Should the disclosure task force seek to go beyond disclosures of quantitative measures of existing exposures, to more qualitative and forward-looking disclosures of plans to manage risks?

TABLE 3B

**Overview of Common Climate-Related Risks and Opportunities**

| Risk Type | Physical Risks | | Nonphysical Risks | | | | Opportunities |
|---|---|---|---|---|---|---|---|
| | Acute | Chronic | Policy/Legal/ Litigation | Technology | Market/Economic | Reputation | Financial |
| Description | The physical impact of more intense weather events on investments (increasing severity of catastrophic events, e.g. increasing wind speeds, precipitation, etc.). | The physical impact of more frequent catastrophic weather events on investments (increasing probability of weather-related events). | All international, national, and subnational targets, mandates, legislation and regulations to address climate change. This includes possible risks associated with policy-driven transitions to a low-carbon economy (commonly referred to as "transition risks") and changing litigation and related allocation of liabilities, commonly referred to as "liability risks"). | The rate of progress and investment in technology to support the low-carbon economy or mitigate carbon emissions (commonly included under the heading of "transition risks"). | Changes in supply, demand or competition; the potential re-pricing of carbon-intensive financial assets, and the speed at which any such re-pricing might occur. | Financial or non-financial damage to reputation stemming from direct or indirect association with an asset or company. | The commercial benefits to companies, investors and economies stemming from policy-, market-, and/or technology-driven transition to a lower carbon economy, spanning both climate-related adaptation and mitigation strategies. |
| Financial Impacts | Disruptions to operations, transportation, supply chains, distribution chain, etc.;<br><br>Damage to physical assets (plant, equipment, transportation, infrastructure); impacts on insurance liabilities. | Degradation or limitations on resource availability (e.g., water, timber, arable land, etc.); affect companies and investments reliant on the use of resources (e.g., water, natural materials). | Compliance costs, liabilities, restrictions, limitations on the use of carbon-intensive assets, investments in new technology, stranded assets, asset impairment, etc.; affect the value of operating assets and investments. | Write-offs of investments in existing technologies; required investments in new technologies; operational and process changes to accommodate new technologies; etc.; affect the value of operating assets and investments. | Viability of certain business models, company or securities valuations, asset impairment; affect the value of operating assets and investments. | Damage to brand value or reputation, lost revenue, additional expenditures. | Increased natural resource productivity, improved operating efficiency, cost reduction, identification of new revenue streams, demand for new products, potentially improved market liquidity through enhanced market pricing and transparency, accelerated technological innovation, lower asset impairment through increased investment in climate- resilient infrastructure. |

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# TASK FORCE SCOPE

**In narrowing its scope, the Task Force made the following determinations:**

- Focus on climate-related financial risks and opportunities
- Will consider a baseline set of recommendations that apply generally across companies related primarily to governance
- Will also consider industry-specific risks and opportunities
- Primary scope of coverage:
  - Target preparers: listed companies and issuers of public securities
  - Target users: investors, lenders, and underwriters
  - Target location: mainstream financial filings and investor annual reports
- Characteristics of Information:
  - Financially relevant
  - Efficient
  - Qualitative and quantitative (“through the eyes of management”)
  - Historical and forward-looking – scenario analyses
  - Short, medium, and long term