

A Status Report recently published by the Task Force on Climate-related Financial Disclosures 2019 finds encouraging progress on the adoption of disclosure practices

Background

The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB) in December 2015 to develop a set of voluntary, consistent disclosure recommendations for use by companies in providing information to investors, lenders, insurance underwriters and other stakeholders about their climate-related financial risks. Disclosures will help financial market participants understand their climate-related risks, while access to high quality financial information will allow market participants and policymakers to understand and better manage those risks, which the FSB understood were likely to grow with time.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability.

The Task Force was created to consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.

The work of the Task Force is vital to improving the reporting and understanding of climate-related financial risks. TCFD supporters now manage almost USD 110 trillion on assets.

The Task Force published its final recommendations in June 2017,¹ after extensive public engagement and consultation. The TCFD developed 11 recommendations on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions. Those recommendations are structured around four thematic areas: governance, strategy, risk management and metrics and targets.

| Thematic areas and key recommendations | |
|---|--|
| Governance | Disclose the organization's governance around climate-related risks and opportunities. |
| Strategy | 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 |
| Risk Management | Disclose how the organization identifies, assesses, and manages climate-related risks. |
| Metrics and Targets | Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. |

Since the TCFD's recommendations to the G20 Leaders' Summit there has been a step change in the demand by investors for better climate reporting

¹ Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (2017 report)

The 2019 Status Report

The industry-led TCFD published its second Status Report to the Financial Stability Board on Wednesday, June 5, 2019.² The report focuses on the continued progress of companies in disclosing information on climate-related risks and opportunities since the release of the final TCFD recommendations in June 2017, which provided a framework for companies and other organizations to develop more effective climate-related financial disclosures through their existing reporting processes.

The rationale for the deployment of efforts by companies in disclosing information on climate-related risks and opportunities is based on the growing evidence and awareness that climate change presents financial risk to the global economy.

In fact, the relevance of climate-related risks to today's financial decisions and the need for greater transparency have become clearer and more urgent over the past two years. As highlighted by the Network for Greening the Financial System (NGFS) "climate-related risks are a source of financial risk [and it] falls squarely within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks."³ According to the United Nations, delayed action in enacting climate policy aiming at tackling this issue could cost companies nearly \$1.2 trillion over the next 15 years.⁴ On the physical side, extreme weather events are increasing in frequency and intensity, resulting in severe repercussions for livelihoods, communities as well as, through impacts on operations, supply chains and customers, for companies.

The recent report by the Intergovernmental Panel on Climate Change indicates that urgent and unprecedented changes are needed to meet the goals of the Paris Agreement.⁵ Hence, it is critical for companies to consider the impact of climate change and associated mitigation and adaptation efforts on their strategies and operations and disclose related material information, as investors also face a considerable risk from the required transition to a low-carbon economy, as companies that invest in activities that may not be viable in the longer term, may be less resilient to risks related to climate change; and their investors may experience lower financial returns. In addition, there is an increasing risk that present valuations do not adequately factor in climate-related risks because of insufficient information. Furthermore, financial regulators and investors are driving a growing demand for climate-related information to weather-driven events resulting in significant financial impacts and consequently on systemic and sectoral exposure to climate-related risks.

Review Methodology

The Task Force reviewed, using artificial intelligence (AI) technology, financial filings, annual reports, integrated reports, and sustainability reports of 1,126 large companies from 142 countries in eight industries. Six of the eight industries align with groups highlighted in the Task Force's 2017 report: Banking, Insurance, Energy, Materials and Buildings, Transportation, and Agriculture, Food, and Forest Products. Two new industries have been added to the review—Technology and Media and Consumer Goods—to incorporate additional large companies that may be exposed to climate-related risks.

Key findings

² The Task Force on Climate-related Financial Disclosures (TCFD) published its 2018 Status Report in September 2018.

³ The Network for Greening the Financial System is a group of 36 central banks and supervisors.

⁴ UNEP FI, May 2019.

⁵ Intergovernmental Panel on Climate Change, Summary for Policymakers: Global Warming of 1.5°C., October 2018.

With the aim of promoting and monitoring adoption of the TCFD recommendations by companies, the report primarily provides:

- 1) an overview of disclosure practices that are aligned with the Task Force’s recommendations over a three-year period,
- 2) information on the adoption and use of the TCFD recommendations, and
- 3) other information to support preparers in implementing the recommendations.

The key themes and findings of the report are listed in the following table:

| Key themes and findings |
|--|
| Disclosure of climate-related financial information has increased since 2016, but is still insufficient for investors |
| More clarity is needed on the potential financial impact of climate-related issues on companies |
| Of companies using scenarios, the majority do not disclose information on the resilience of their strategies |
| Mainstreaming climate-related issues requires the involvement of multiple functions |

Among the challenges in implementing TCFD key ones were identified by preparers including:

- ✓ Climate is embedded in processes and is challenging to discuss separately in disclosures
- ✓ Disclosing assumptions is difficult because they include confidential business information
- ✓ There is a lack of standardized metrics for the financial industry

The 2019 Status Report also highlights that support for the TCFD continues to grow, that many companies are putting significant thought and effort into implementing the recommendations of the Task Force, important progress is being made and many investors have seen this work pay off in the form of increases in the availability and quality of disclosure. However, disclosures remain far from the scale the markets need to channel investment to sustainable and resilient solutions, opportunities, and business models and consequently progress must be accelerated.

Sources: This note is based on excerpts from the following reports, information and press releases:

Task Force on Climate-related Financial Disclosures (2019). 2019 Status Report. June 2019.
 TCFD Publishes First Status Report while Industry Support Continues to Grow. WEDNESDAY, SEPTEMBER 26, 2018.
 UNEP FI Initiative (2019. Changing Course. May 2019.
 FSB Press release. Ref no: 91/2015. 4 December 2015
 Network for Greening the Financial System (NGFS)