# Chaire Energie & Prospérité
# Séminaire Innovations et régulation financières
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Présentation et discussion

du Rapport de la

**Task force on Climate-Related Financial Disclosures (TCFD)**

# Task Force on Climate-related Financial Disclosures

## Overview of Report and Implementation Guidance

December 2016

# Background

- One of the most significant risk that organizations face today relates to climate change
- Organizations incorrectly perceive the potential impact of climate change
- Implications of climate change are not only long term and physical, but also short-term and financial
- The expected transition to a lower-carbon economy affects most economic sectors and industries

# Background

- Policy-makers are concerned by the implications of climate change :
  - **Mark Carney conference** in London (September 2015) warned investors about risks related to climate change
  - **COP21 in Paris** (December 2015) : international agreement by 195 countries to limit the rise in temperature below 2°C.
  - **G20** Finance Ministers and Central Bank Governors asked the **Financial Stabilty Board** to review how the financial sector can take into account the climate-related issues

# BACKGROUND

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**.”

**Industry Led and Geographically Diverse Task Force**

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.

# 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

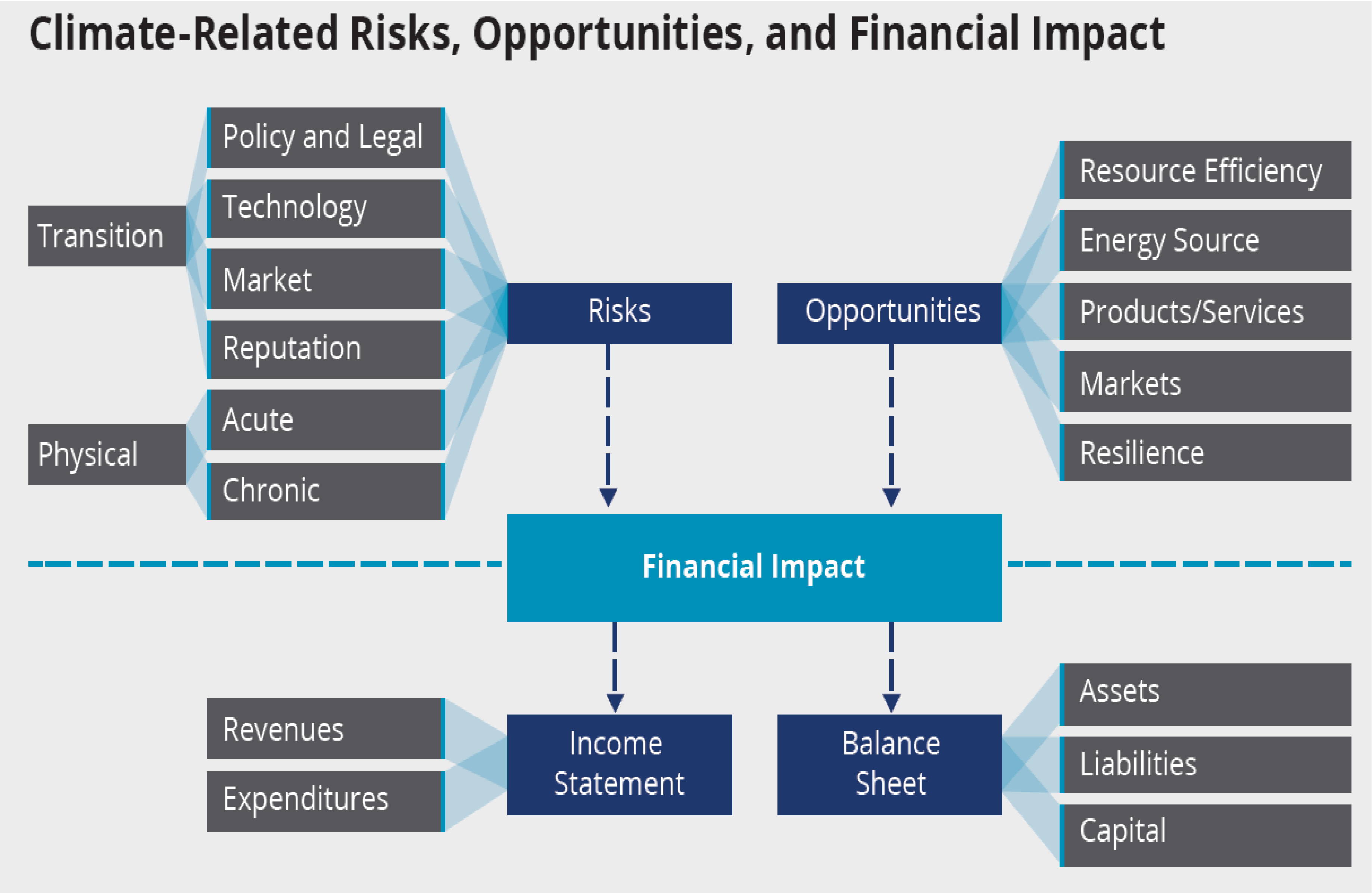
The Task Force aims to provide the solution:

**a clear, efficient, and voluntary disclosure framework that improves the ease of both producing and using climate-related financial disclosures**

# Climate-Related Risks and Opportunities

| Type | Climate-Related Risks |
|---|---|
| Transition Risks | **Policy and Legal** |
| | – Increased pricing of GHG emissions |
| | – Enhanced emissions-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 |
| | – Upfront costs to transition to lower emissions technology |
| | **Markets** |
| | – Changing customer behavior |
| | – Uncertainty in market signals |
| | – Increased cost of raw materials |
| | **Reputation** |
| | – Shift in consumer preferences |
| | – Stigmatization of sector |
| | – Increased stakeholder concern or negative stakeholder feedback |
| Physical Risks | **Acute** |
| | – Increased severity of extreme weather events such as cyclones and floods |
| | **Chronic** |
| | – Changes in precipitation patterns and extreme weather variability |
| | – Rising mean temperatures |
| | – Rising sea levels |

| Type | Climate-Related Opportunities |
|---|---|
| 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 |
| Energy Source | – Lower-emission sources of energy |
| | – Supportive policy incentives |
| | – Emergence of new technologies |
| | – Participating in carbon market |
| | – Energy security and shift towards decentralization |
| 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 |
| Markets | – New markets |
| | – Public-sector incentives |
| | – Community needs and initiatives |
| | – Development banks |
| Resilience | – Participate in renewable energy programs and adopt energy-efficiency measures |
| | – Resource substitutes/diversification |
| | – New assets and locations needing insurance coverage |



Climate-Related Risks, Opportunities, and Financial Impact
Transition
Physical
Policy and Legal
Technology
Market
Reputation
Acute
Chronic
Risks
Opportunities
Resource Efficiency
Energy Source
Products/Services
Markets
Resilience
Financial Impact
Revenues
Expenditures
Income Statement
Balance Sheet
Assets
Liabilities
Capital

## Recommendations and Guidance


**Recommendations**
Four widely adoptable recommendations tied to: governance, strategy, risk management, and metrics and targets

**Recommended Disclosures**
Specific recommended disclosures organizations should include in their financial filings to provide decision-useful information

**Guidance for All Sectors**
Guidance providing context and suggestions for implementing the recommended disclosures for all organizations

**Supplemental Guidance for Certain Sectors**
Guidance that highlights important considerations for certain sectors and provides a fuller picture of potential climate-related financial impacts in those sectors

Supplemental guidance is provided for the financial sector and for non-financial sectors potentially most affected by climate change

# Key Features of Recommendations

- Adoptable by all organizations
- Included in financial filings
- Designed to solicit decision-useful, forward-looking information on financial impacts
- Strong focus on risks and opportunities related to transition to lower-carbon economy

## Principles for Effective Disclosures

1. Disclosures should represent relevant information
2. Disclosures should be specific and complete
3. Disclosures should be clear, balanced, and understandable
4. Disclosures should be consistent over time
5. Disclosures should be comparable among companies within a sector, industry, or portfolio
6. Disclosures should be reliable, verifiable, and objective
7. Disclosures should be provided on a timely basis

# Disclosure 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

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.

| Governance | Strategy | Risk Management | Metrics and Targets |
|---|---|---|---|
| Disclose the organization's governance around climate-related risks and opportunities. | Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. | Disclose how the organization identifies, assesses, and manages climate-related risks. | Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities. |
| **Recommended Disclosures** | **Recommended Disclosures** | **Recommended Disclosures** | **Recommended Disclosures** |
| a) Describe the board's oversight of climate-related risks and opportunities. | a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. | a) Describe the organization's processes for identifying and assessing climate-related risks. | a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. |
| b) Describe management's role in assessing and managing climate-related risks and opportunities. | b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. | b) Describe the organization's processes for managing climate-related risks. | b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. |
| | c) Describe the potential impact of different scenarios, including a 2° c scenario, on the organization's businesses, strategy, and financial planning. | c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management. | c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. |

Based on its assessment, the Task Force identified the sectors and industries listed in the table below as those that would most benefit from supplemental sector-specific guidance.

| Energy | Transportation | Materials and Buildings | Agriculture, Food, and Forest Products |
| --- | --- | --- | --- |
| – Oil and Gas<br>– Coal<br>– Electric Utilities | – Air Freight<br>– Passenger Air Transportation<br>– Maritime Transportation<br>– Rail Transportation<br>– Trucking Services<br>– Automobiles<br>– Related Transportation Infrastructure | – Metals and Mining<br>– Chemicals<br>– Construction Materials<br>– Capital Goods<br>– Real Estate Management and Development | – Beverage<br>– Agriculture<br>– Packaged Foods and Meats<br>– Paper and Forest Products |

# Scenario Analysis

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.

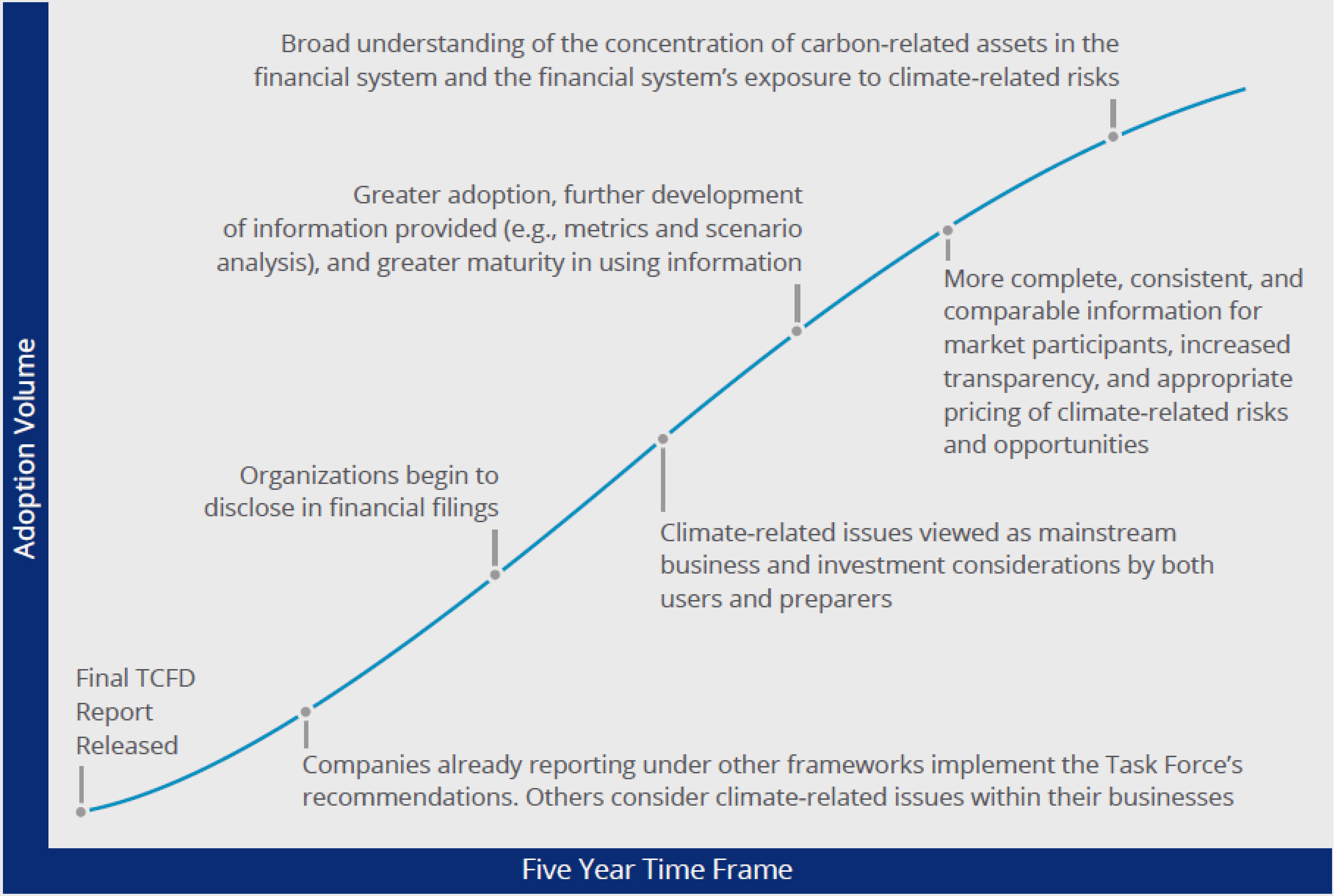
4 Scenario analysis can help organizations identify indicators to monitor the external environment and better recognize when the environment is moving toward a different scenario state (or to a different stage along a scenario path). This allows organizations the opportunity to reassess and adjust their 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.

# Benefits of Recommendations

- Foundation for immediate adoption and flexible enough to accommodate evolving practices
- Promote board and senior management engagement on climate-related issues
- Bring the "future" nature of issues into the present through scenario analysis
- Support understanding of financial sector's exposure to climate-related risks
- Designed to solicit decision-useful, forward-looking information on financial impacts

## Implementation Path *(Illustrative)*



# Two concluding remarks

TFCD report based on two beliefs (hypotheses) :

**1/ Informational efficient market hypothesis** : disclosures (i.e. increased transparency) will lead to efficient capital-allocation decisions with respect to climate-related risks

2/ Non constraining recommendations to the business sector (i.e. **soft law**) is the best way to reduce climate-related risks by improving governance and risk management.