Task Force on Climate-related Financial Disclosures

Overview of Final Recommendations

June 2017
The Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) on December 4, 2015 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.”
CURRENT CHALLENGES

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*
<table>
<thead>
<tr>
<th>Type</th>
<th>Climate-Related Risks</th>
<th>Type</th>
<th>Climate-Related Opportunities</th>
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<tbody>
<tr>
<td></td>
<td>Policy and Legal</td>
<td></td>
<td>- Use of more efficient modes of transport</td>
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<td>Transition Risks</td>
<td>- Increased pricing of GHG emissions</td>
<td></td>
<td>- Use of more efficient production and distribution processes</td>
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<td></td>
<td>- Enhanced emissions-reporting obligations</td>
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<td>- Use of recycling</td>
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<td>- Mandates on and regulation of existing products and services</td>
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<td>- Move to more efficient buildings</td>
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<td></td>
<td>- Exposure to litigation</td>
<td></td>
<td>- Reduced water usage and consumption</td>
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<td></td>
<td>Technology</td>
<td></td>
<td>- Use of lower-emission sources of energy</td>
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<td></td>
<td>- Substitution of existing products and services with lower emissions options</td>
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<td>- Use of supportive policy incentives</td>
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<td></td>
<td>- Unsuccessful investment in new technologies</td>
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<td>- Use of new technologies</td>
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<td></td>
<td>- Costs to transition to lower emissions technology</td>
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<td>- Participation in carbon market</td>
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<td></td>
<td>Markets</td>
<td></td>
<td>- Shift towards decentralized energy generation</td>
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<td></td>
<td>- Changing customer behavior</td>
<td></td>
<td>- Develop and/or expand low emission goods and services</td>
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<td>- Uncertainty in market signals</td>
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<td>- Development of climate adaptation and insurance risk solutions</td>
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<td></td>
<td>- Increased cost of raw materials</td>
<td></td>
<td>- Development of new products or services through R&amp;D and innovation</td>
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<td>Reputation</td>
<td>- Shifts in consumer preferences</td>
<td></td>
<td>- Ability to diversify business activities</td>
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<td></td>
<td>- Stigmatization of sector</td>
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<td>- Shift in consumer preferences</td>
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<td>- Increased stakeholder concern or negative stakeholder feedback</td>
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<td>- Access to new markets</td>
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<td>Acute Risk</td>
<td>- Increased severity of extreme weather events such as cyclones and floods</td>
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<td>- Use of public-sector incentives</td>
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<td>Physical Risks</td>
<td></td>
<td></td>
<td>- Access to new assets and locations needing insurance coverage</td>
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<tr>
<td>Chronic</td>
<td>- Changes in precipitation patterns and extreme variability in weather patterns</td>
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<td>- Participation in renewable energy programs and adoption of energy-efficiency measures</td>
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<td></td>
<td>- Rising mean temperatures</td>
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<td>- Resource substitutes/diversification</td>
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<tr>
<td></td>
<td>- Rising sea levels</td>
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<td>- Resource substitutes/diversification</td>
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Climate-related risks and opportunities can impact an organization’s financial performance.
DEVELOPMENT OF RECOMMENDATIONS

In developing its recommendations, the Task Force:

- Considered the **challenges for preparers** of disclosures as well as the **benefits** of such disclosures to investors, lenders, and insurance underwriters

- Engaged in **significant outreach and consultation** with users and preparers of disclosures and other stakeholders, including two public consultations, individual discussions and focus groups with industry, webinars, and outreach events in multiple countries

- Drew from existing climate-related disclosure regimes and sought to develop a decision-useful framework to **align and supplement existing disclosure frameworks**

- Created **guidance** for all sectors and supplemental guidance for specific sectors

The Task Force expects that **reporting of climate-related information will evolve** over time as organizations, investors, and others contribute to the quality and consistency of the information disclosed.
The Task Force’s report was published on December 14, 2016 for a 60-day public consultation.

- The Task Force received over 300 responses to its online questionnaire, as well as feedback through comment letters and discussions with stakeholders. Feedback was received from respondents in 30 countries.

- Overall, commenters were generally supportive of the Task Force’s recommendations; however, several provided specific and constructive feedback.

- Key themes from this feedback are included below. The Task Force addressed these themes in the final version of the report.

**Materiality and Location of Disclosures**
Clarifying which recommended disclosures depend on materiality assessment and providing flexibility for organizations to provide some or all disclosures in reports other than financial filings.

**Scenario Analysis**
Improving ease of implementation, and comparability of scenario analysis by specifying standard scenario(s) and providing additional guidance and tools.

**Metrics for Non-Financial Sectors**
Improving comparability and consistency of the illustrative metrics for non-financial sectors, clarifying the links to financial impact and climate-related risks and opportunities.

**Metrics for Financial Sector**
Encouraging further development and standardization of metrics for the financial sector.

**Implementation**
Providing disclosure examples to support preparers in developing relevant climate-related disclosures.
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 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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<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 where such information is material.</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 where such information is material.</td>
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**Recommended Disclosures**

a) Describe the board’s oversight of climate-related risks and opportunities.

b) Describe management’s role in assessing and managing climate-related risks and opportunities.

c) Describe the resilience of the organization’s strategy, taking into consideration different climate scenarios, including a 2°C or lower scenario.

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

b) Describe the impact of climate-related risks and opportunities 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.

a) Describe the organization’s processes for identifying and assessing climate-related risks.

b) Describe the organization’s processes for managing climate-related risks.

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

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) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

c) Disclose the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
SUPPLEMENTAL GUIDANCE

In addition to guidance for all sectors, the Task Force developed supplemental guidance for financial and non-financial organizations to assist those organizations in implementing the recommended disclosures.

Financial Industries
- Banks
- Insurance Companies
- Asset Managers
- Asset Owners

Non-Financial Groups
- Energy
- Transportation
- Materials and Buildings
- Agriculture, Food, and Forest Products

In the supplemental guidance, the Task Force also provides illustrative metrics for select non-financial industries to help organizations consider the types of metrics best suited for their activities and operations.
The Task Force encourages forward-looking information through scenario analysis—a useful tool for enhancing resiliency and flexibility of strategic plans.

Such information is important for investors and other stakeholders in understanding how vulnerable individual organizations are to climate-related risks and how such vulnerabilities are or would be addressed.

### Reasons to Use Scenario Analysis for Climate Change

<table>
<thead>
<tr>
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<th>Scenario analysis can help organizations consider issues, like climate change, that have the following characteristics:</th>
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<tbody>
<tr>
<td>1</td>
<td>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)</td>
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<tr>
<td></td>
<td>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)</td>
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<td></td>
<td>Potential disruptive effects that, due to uncertainty and complexity, are substantial</td>
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<td>2</td>
<td>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.</td>
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<td>3</td>
<td>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 may lead to more robust strategies under a wider range of uncertain future conditions.</td>
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</table>
The Task Force believes Organizations should provide such disclosures in their mainstream (i.e., public) financial filings.

- The disclosures related to the **Strategy** and **Metrics and Targets** recommendations involve an assessment of materiality.

- The Task Force recommends disclosures related to **Governance** and **Risk Management** are provided in annual financial filings, independent of an assessment of materiality.

- Organizations in the four **non-financial groups that have more than one billion U.S. dollar equivalent in annual revenue** should disclose Strategy and Metrics and Targets in other reports when the information is not deemed material and not included in financial filings.

If certain elements of the recommendations are incompatible with national disclosure requirements for financial filings, the Task Force encourages organizations to disclose those elements in other official company reports that are issued at least annually, widely distributed and available to investors and others, and subject to internal governance processes that are the same or substantially similar to those used for financial reporting.
The TCFD expects that **reporting of climate-related risks and opportunities will evolve** over time as organizations, investors, and others contribute to the quality and consistency of the information disclosed.
The Task Force is in the process of evaluating feedback and potential changes to the report, which is scheduled to be finalized and released on June 29, 2017.

The FSB has extended the Task Force through September 2018 to support and monitor adoption.

**Timeline**

<table>
<thead>
<tr>
<th>Second Quarter 2017</th>
<th>Third Quarter 2017</th>
<th>Fourth Quarter 2017</th>
<th>First Quarter 2018</th>
<th>Second Quarter 2018</th>
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<tbody>
<tr>
<td><strong>Jun 29:</strong> Issuance of final report to FSB</td>
<td><strong>Jul 7-8:</strong> FSB report presentation at G20 Summit</td>
<td><strong>Q2 2017-Q2 2018:</strong> Outreach and engagement</td>
<td><strong>Q4 2017-Q2 2018:</strong> Implementation monitoring</td>
<td><strong>Q2 2018:</strong> Submission of implementation monitoring report</td>
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# Task Force Members

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Founder and President  
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Special Adviser  
Singapore Exchange  

**Graeme Pitkethly**  
Vice-Chair  
Chief Financial Officer  
Unilever

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