

# The FSB TCFD

The Task Force recommendations

South Africa workshops  
14<sup>th</sup> and 16<sup>th</sup> March 2017

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# Background

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- ▼ The TCFD (Task Force on Climate-related Financial Disclosures) is an industry-led initiative created by the Financial Stability Board (FSB) chair, Mark Carney
- ▼ Responsible for developing voluntary recommendations
- ▼ **The objective:** Integrate climate-related financial information in to mainstream reports for enhanced analysis and decision-making for lenders, insurers and investors
- ▼ **Membership:** 32 members across the G20

# TCFD – an industry-led initiative

The Task Force's 32 international members, led by Michael Bloomberg, are providers of capital, insurers, large non-financial public companies, accounting and consulting firms, and credit rating agencies



**Industry-Led and Geographically Diverse Task Force**

## Core Elements of Recommended Climate-Related Financial Disclosures



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# Governance

## Governance

Disclose the organization's governance around climate-related risks and opportunities.

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Supporting disclosures should describe:

- a) The boards oversight of risks and opportunities
- b) Management's role in assessing and managing risks and opportunities

# Strategy

## Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

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Supporting disclosures should describe:

- a) Climate-related risks and opportunities over the short, medium and long term
- b) Impact of risks and opportunities on the organization's businesses, strategy and financial planning
- c) Potential impact of different scenarios including 2-degree scenario

# Risk Management

## Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

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Supporting disclosures should describe:

- a) Processes used for identifying and assessing risks
- b) Processes for managing risks
- c) How these can be integrated into the organization's overall risk management



# Metrics and Targets

## Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

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Supporting disclosures should describe:

- a) Disclose metrics used for risks and opportunities in line with strategy and risk management
- b) Disclose scope 1 and 2 and if appropriate scope 3 GHG emissions and related risks
- c) Describe targets used to manage risks and opportunities and performance against targets

# Four key goals for the recommendations

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The recommendations aim to:

1. Be **adoptable** by a wide range of organisations including companies, investors and other financial actors across sectors and jurisdictions;
2. **Define information** that should be included in mainstream financial filings;
3. Call on companies to **disclose decision-useful information** for investors and other interested parties; and
4. **Focus on risks and opportunities** associated with the low-carbon transition.

# Recommendations

**Recommended  
Disclosures**

**Guidance for All Sectors**

**Supplemental Guidance  
for Certain Sectors**

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# How do the recommendations apply to particular sectors?

## Who should disclose?

All financial organisations and non-financial firms with public debt or equity. However, all organisations are encouraged to implement the recommendations too.

### Financial Sector

Banks	Insurance Companies	Asset Owners	Asset Managers
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### Non-Financials Sector and Industry Groupings

Energy	Transportation	Materials and Buildings	Agriculture, Food, and Forest Products
<ul style="list-style-type: none"><li>– Oil and Gas</li><li>– Coal and Consumable Fuels</li><li>– Electric Utilities</li><li>– Renewable Electricity</li></ul>	<ul style="list-style-type: none"><li>– Air Freight and Logistics</li><li>– Airlines</li><li>– Marine</li><li>– Road and Rail</li><li>– Automobiles</li><li>– Transportation Infrastructure</li></ul>	<ul style="list-style-type: none"><li>– Chemicals</li><li>– Construction Materials</li><li>– Metals and Mining</li><li>– Capital Goods</li><li>– Real Estate Development and Management</li></ul>	<ul style="list-style-type: none"><li>– Paper and Forest Products</li><li>– Beverages</li><li>– Food Products, including Agriculture Products and Packaged Foods and Meats</li><li>– Non-Food Agriculture</li></ul>

## 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

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# Scenario analysis

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## What is scenario analysis?

▼ The process of estimating the expected value of assets after a given period of time. Based upon specific assumptions and changes relating to the transition to a low-carbon economy

## Key concepts for scenario analysis:

- ▼ **Critical uncertainties**
- ▼ Encountered/developed scenarios used should cover **the 3Ps: Plausible, Probable, Preferable** to surface blind spots and highlight compelling visions
- ▼ **Resilience** by being prepared for multiple scenarios rather than just a preferred one
- ▼ **Stress testing** assets to gauge how identified uncertainties will affect the organization

# Scenario analysis in the TCFD recommendations

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- ▼ The Task Force recognizes that organizations are at different levels of experience in using scenario analysis. However, the recommendations call on **all organizations** to consider applying a basic level of scenario analysis.
- ▼ Organizations that are significantly affected by the low-carbon transition are encouraged to consider undertaking more rigorous qualitative and quantitative scenario analysis.
- ▼ It recommends the selection of more than one set of scenarios for the purposes of analysis so that a reasonable variety of future outcomes – both favorable and unfavorable – are considered. In addition to the **2-degree C scenario** (which should be used in all cases)

# Publicly available transitional and physical scenarios

Figure 4.1

## Overview of Publicly-Available Climate-Related Scenarios

Publicly-Available Scenarios	
Transition	Physical
<b>3.6°C</b> IEA Current/New Policies Scenarios	<b>6°C</b> RCP 8.5
<b>2°C</b> IEA 2DS/450 Scenarios, DDPP, IRENA, Greenpeace	<b>4°C</b> RCP 6.0
<b>1.5°C</b> Forthcoming IEA 1.5DS scenario	<b>2.6°C</b> RCP 4.5
	<b>2°C</b> RCP 2.6

▼ **Transitional scenarios** – plausible assumptions about the development of climate policies and the deployment of “climate-friendly” technologies to limit GHG emissions

▼ **Physical scenarios** – typically present the results of global climate models in response to changes in atmospheric GHG concentrations



# Mainstream filings

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*“The Task Force recommends that preparers of climate-related financial disclosures provide such disclosures in their mainstream (i.e., public) financial filings.”*



## **Mission:**

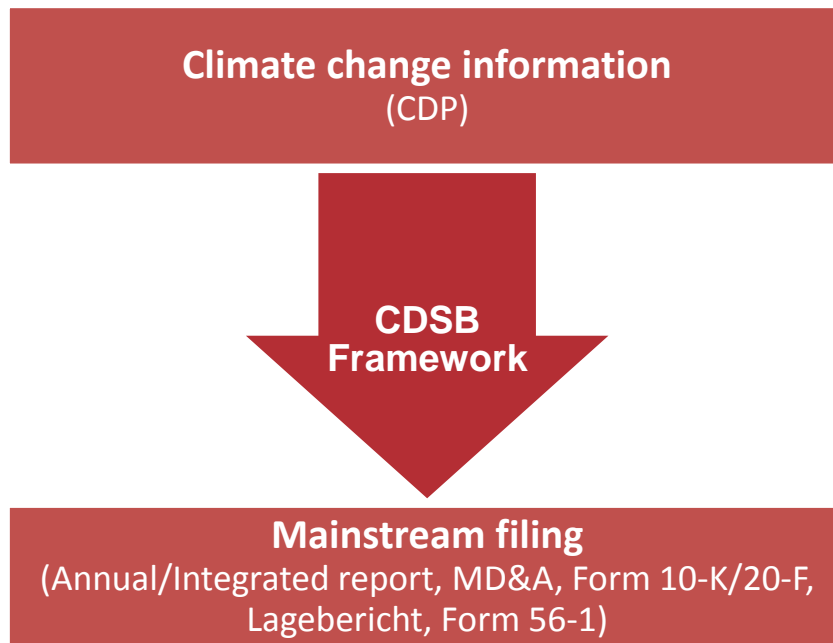
To provide decision-useful climate change & environmental information to markets via the **mainstream corporate report**.



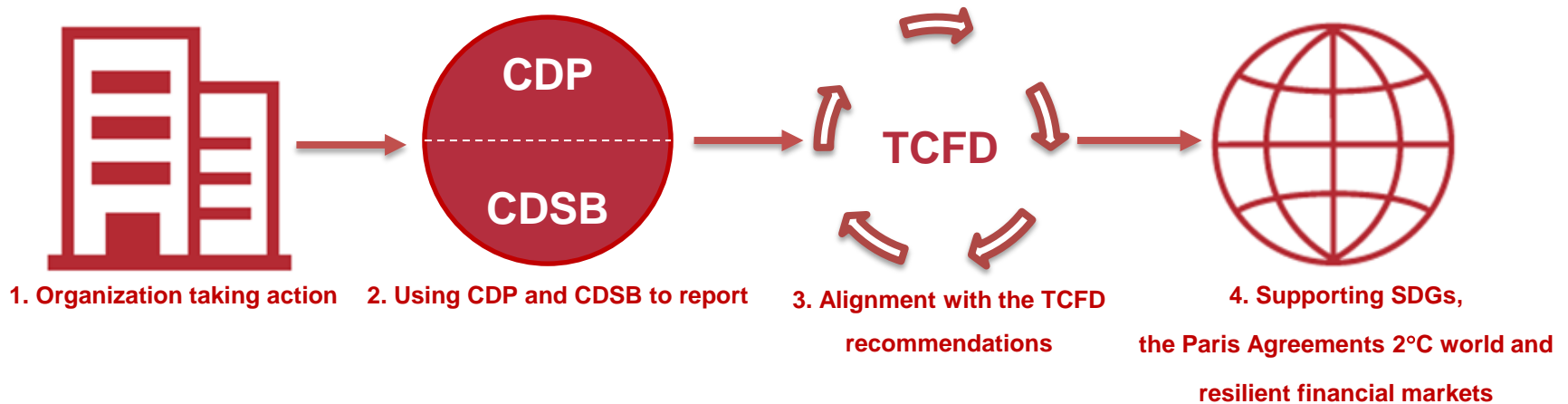
# CDSB Framework



[cdsb.net/climate](https://cdsb.net/climate)



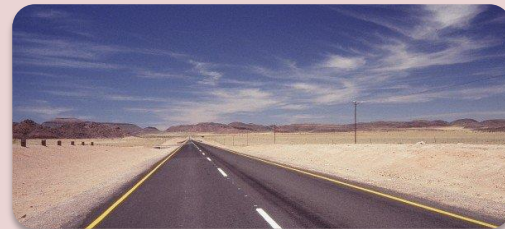
# How it all fits together



# CDP's Reimagining Disclosure Initiative



**TCFD**



## Sectors

Energy  
Transport  
Materials  
Agriculture

## Task Force on Climate-related Financial Disclosures

Adopt  
recommendations

## Evolution

Forward looking  
Align across climate,  
water & forests

# TCFD recommendations fit with CDP structure



## **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

# TCFD recommendations fit closely with CDP

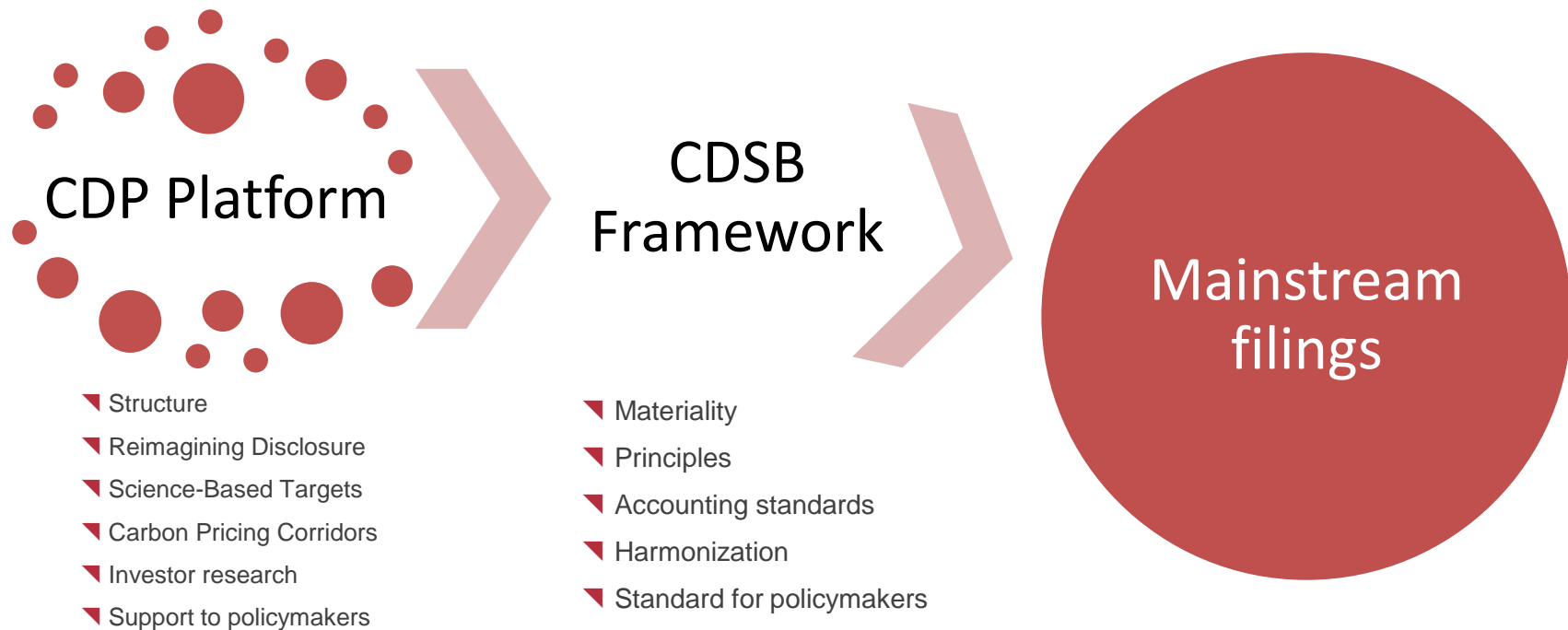
Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Disclose 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.

# Guidance in CDSB Framework



- ▼ Integrating into existing mainstream reporting is achieved- risk factors, MD&A, description of the business, strategic reporting;
- ▼ Linking to existing requirements from corporate governance codes and energy/climate regulation
- ▼ Link to financial accounting

# CDP and CDSB, aiding the TCFD's remit





# Task Force Timeline

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- ▼ **14<sup>th</sup> December 2016** – TCFD draft Phase II recommendations released for public consultation
- ▼ **12<sup>th</sup> February 2017** - 60-day public consultation closed
- ▼ **February – June 2017** - The Task Force will review public responses and integrate them in to the report as appropriate
- ▼ **June 2017** – final report issued to the FSB
- ▼ **7<sup>th</sup> and 8<sup>th</sup> July 2017** - FSB presents the final recommendations at the G20 summit
- ▼ **July 2017 - September 2018** – The Task Force will continue its work, focusing on organizational uptake of the recommendations

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# Get started now

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- ▼ Continue engaging with CDP and CDSB
- ▼ Have your say in CDPs 2018 questionnaire consultation
- ▼ Continue responding to CDPs questionnaires
- ▼ Adopt the CDSB framework to aid in the translation of climate-related financial information for mainstream filings





*“We will continue to work with investors, companies and cities in the drive for mandating regulatory disclosure. We will also continue to innovate in the 'next phase of experimentation' to 2020 and beyond, taking the best developments in science, benchmarking and new technologies forward. This will ensure companies and investors better understand climate risk and can better prepare for a more sustainable future.”*

Paul Simpson



Q+A