Practical implementation of climate-related financial disclosures and their relationship to the SDGs

Presented by

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Overview of the TCFD recommendations

Mardi McBrien, Managing Director, CDSB
TCFD recommendations

Overview

1. Voluntary
2. Report climate-related **financial** disclosures in the **annual financial filings** (mainstream report)
3. Financial sector & high risk non-financial sectors
4. Transition risks & physical risks (and opportunities)
5. Scenario analysis & forward-looking information
6. Short-term, medium-term & long-term
7. Qualitative & quantitative disclosures
TCFD recommendations

7 Principles for effective disclosure

1. Disclosures should present 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 organisations within a sector, industry, or portfolio
6. Disclosures should be reliable, verifiable, and objective
7. Disclosures should be provided on a timely basis
Figure 1
Climate-Related Risks, Opportunities, and Financial Impact

Transition
- Policy and Legal
- Technology
- Market
- Reputation
- Acute
- Chronic

Physical

Risks
Opportunities

Financial Impact

Income Statement
Balance Sheet

Resource Efficiency
- Energy Source
- Products/Services
- Markets
- Resilience

Assets
- Liabilities
- Capital

Revenues
Expenditures
### Governance
- Disclose the organization’s governance around climate-related risks and opportunities.
- a) Describe the board’s oversight of climate-related risks and opportunities.
- b) Describe management’s role in assessing and managing 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.
- 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 the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

### Risk Management
- Disclose how the organization identifies, assesses, and manages climate-related risks.
- 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 how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.

### Metrics and Targets
- Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
- 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) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.
Overview of the TCFD recommendations

2019 Status Report

Task Force on Climate-related Financial Disclosures: Status Report

867 supporters globally, with market capitalisation of more than $9 trillion.

<table>
<thead>
<tr>
<th>Financial Sector</th>
<th>Non-Financial Sector</th>
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<td>Banks</td>
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What was reviewed?

- Reports for over 1,100 large companies across multiple sectors and regions
- Companies’ efforts to implement the TCFD recommendations
- Users’ views on the usefulness of climate-related financial disclosures for decision-making
Key themes from the 2019 Status Report

1. Disclosure of climate-related financial information has increased since 2016, but is still insufficient for investors.

2. More clarity is needed on the potential financial impact of climate-related issues on companies.

3. Of companies using scenarios, the majority do not disclose information on the resilience of their strategies.

4. Mainstreaming climate-related issues requires input from multiple departments across the organisation.
Progress to date

- 78% aligned with at least 1 of the recommendations disclosures
- 1 in 4 companies aligned with more than 5 of the recommended disclosures
- 4% of companies aligned with at least 10 of the recommended disclosures
- Number of disclosures increased by 0.8
- None of the recommended disclosures are over 50% even for governance and risk
- 78% of companies made a least one recommended disclosure
- 9% of companies disclosed information on strategy resilience
- Increase of 3% from 2016
Location of the 11 recommended disclosures

The Task Force recommends that:

- Disclosures are made in the mainstream (i.e., public) annual financial filings;

- Material information should be disclosed in financial filings;

- Disclosures adhere to national law;

- Disclosures should be subject to appropriate internal governance and risk management processes; and

- Asset managers and asset owners use existing means of financial reporting.
What do the findings mean?
“... progress must be accelerated. Today’s disclosures remain far from the scale the markets need to channel investment to sustainable and resilient solutions, opportunities, and business models. I believe in the power of transparency to spur action on climate change through market forces.”

Michael Bloomberg, Chair, TCFD
Challenges of TCFD implementation

- Lack of standardised industry metrics;
- Concerns about revealing confidential information;
- More clarity on the financial impact of climate-related issues; and
- Challenges in adopting scenario analysis.
Commitment from the TCFD

The Task Force will continue to promote and monitor adoption of its recommendations and will prepare another status report for the Financial Stability Board in September 2020.

The Task Force is also considering additional work on:

• Clarifying elements of its supplemental implementation guidance contained in the annex to its 2017 report;

• Developing further process guidance around how to introduce and conduct climate-related scenario analysis; and

• Identifying business-relevant and accessible climate-related scenarios.
Parallels with SDGs

MEASURE  REPORT  IMPACT
Parallels with SDGs
Opportunities for implementation
“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction.”

Bill Gates
Questions?

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