



A4S

ACCOUNTING FOR
SUSTAINABILITY

Part of The Prince of Wales's Charitable Foundation

WORKSHOP

IMPLEMENTING THE TCFD RECOMMENDATIONS



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Overview of the recommendations of the FSB Task Force on Climate- related Financial Disclosures

BACKGROUND

G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues.

The FSB established the Task Force on Climate-related Financial Disclosures (TCFD) 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.**”

Industry Led and Geographically Diverse Task Force

The Task Force’s 31 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.



BACKGROUND (CONTINUED)

The Task Force on Climate-related Financial Disclosures published its recommendations in June 2017.

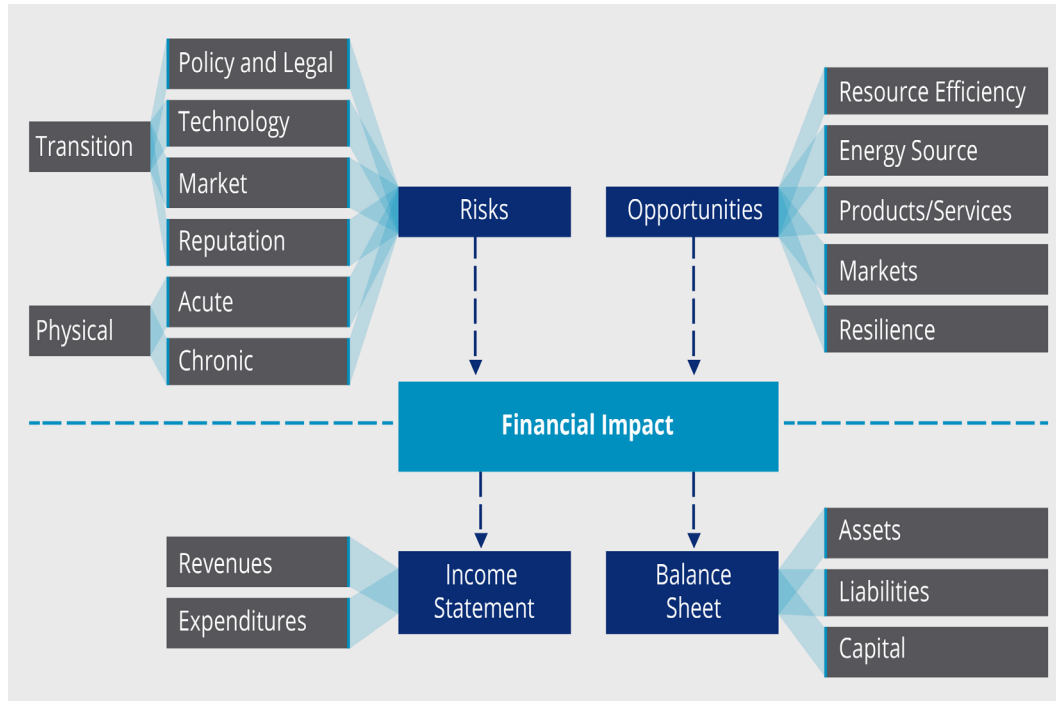
The recommendations help address climate-related disclosure challenges faced by:

- **Issuers** who generally have an obligation under existing law to disclose material information, but lack a coherent framework to do so for climate-related information, and
- **Investors, lenders, and insurers** who need decision-useful, climate-related information to make informed capital allocation and financial decisions



FOCUS ON FINANCIAL IMPACT

The Task Force focused on financial impact of climate-related risks and opportunities on an organization, rather than the impact of an organization on the environment.



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

DISCLOSURE RECOMMENDATIONS (CONTINUED)

The four recommendations are supported by **specific disclosures** organizations should include in financial filings or other reports to provide decision-useful information to investors and others.

| 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. |

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

The financial sector was organized into four major industries largely based on activities performed. The activities are lending (banks), underwriting (insurance companies), asset management (asset managers), and investing (asset owners).

Non-Financial Groups

- Energy
- Transportation
- Materials and Buildings
- Agriculture, Food, and Forest Products

The non-financial groups identified by the Task account for the largest proportion of GHG emissions, energy usage, and water usage.

KEY ELEMENTS OF DISCLOSURE RECOMMENDATIONS

Location of Disclosure

- The Task Force recommends that organizations provide climate-related financial disclosures in their mainstream (i.e., public) **annual financial filings**.
- The recommendations were developed to apply broadly across sectors and jurisdictions and do not supersede national disclosure requirements for financial filings.
- If certain elements are incompatible with national disclosure requirements, the Task Force encourages organizations to disclose those elements in **other official company reports**.
- Organizations in the four non-financial groups that have more than one billion U.S. dollar equivalent (USDE) in annual revenue **should consider disclosing** strategy and metrics and targets information in other reports when the information is not deemed material and not included in financial filings.

Financial Filings

Required annual reporting packages in which organizations deliver their audited financial results under the laws of the jurisdictions in which they operate.

Other Official Company Reports

Should be 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.

KEY ELEMENTS OF DISCLOSURE RECOMMENDATIONS (CONTINUED)

Principle of Materiality

- The disclosures related to the **Strategy and Metrics and Targets recommendations** are subject to an assessment of materiality.
- The disclosures related to the **Governance and Risk Management recommendations** should be provided because many investors want insight into the governance and risk management context in which organizations' financial and operating results are achieved.

Scenario Analysis

- The Task Force encourages forward-looking information through scenario analysis—a useful tool for considering and enhancing resiliency and flexibility of strategic plans.
- Many investors want to understand how **resilient organizations' strategies are to climate-related risks**.
- Recommended disclosure (c) under Strategy and the related guidance asks organizations to describe the resilience of their strategies, taking into consideration different climate-related scenarios, including **a 2°C or lower scenario**.

2°C Scenario

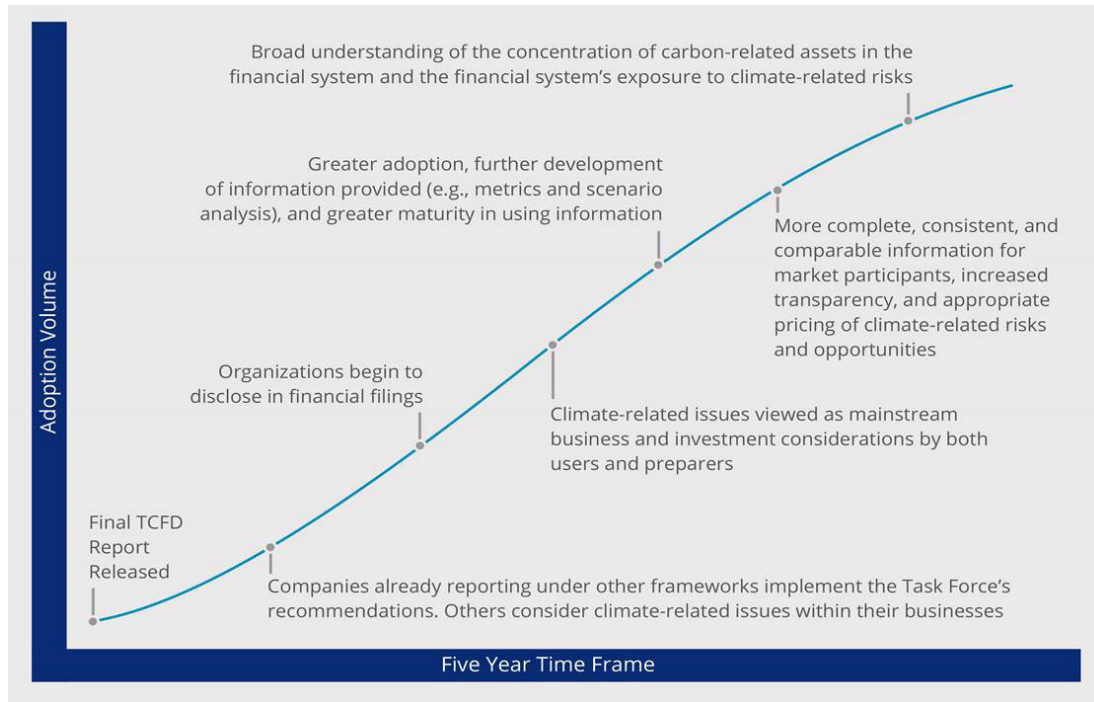
Provides a common reference point that is generally aligned with the objectives of the Paris Agreement.

Scenario Analysis Threshold

The Task Force established a threshold for organizations that should consider conducting more robust scenario analysis to assess the resilience of their strategies (those in the four non-financial groups with more than 1B USDE in annual revenue).

ILLUSTRATIVE IMPLEMENTATION PATH

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.



BENEFITS OF IMPLEMENTING THE RECOMMENDATIONS

Some of the potential benefits associated with implementing the Task Force's recommendations include:

- Easier or better access to capital by increasing investors' and lenders' confidence that the company's climate-related risks are appropriately assessed and managed
- More effectively meeting existing disclosure requirements to report material information in financial filings
- Increased awareness and understanding of climate-related risks and opportunities within the company resulting in better risk management and more informed strategic planning
- Proactively addressing investors' demand for climate-related information in a framework that investors are increasingly asking for, which could ultimately reduce the number of climate-related information requests received

INITIAL STEPS FOR IMPLEMENTATION

Organizations can begin to implement the recommendations by:

- Considering to what extent existing disclosures already align with the TCFD recommendations
- Reviewing processes for identifying and assessing risks and opportunities and whether they account for the unique nature of climate-related issues
- Identifying areas of enhancement in disclosures to more closely align with TCFD recommendations
- Considering relevant scenarios and how those scenarios could affect the organization's strategy
- Evaluating existing climate-related risk indicators to select key metrics and targets
- Assessing whether new or changed reporting systems and controls are necessary to identify and report metrics on climate-related risks

APPENDIX: CLIMATE-RELATED RISKS AND OPPORTUNITIES

| Type | Climate-Related Risks |
|------------------|---|
| Transition Risks | Policy and Legal <ul style="list-style-type: none"> Increased pricing of GHG emissions Enhanced emissions-reporting obligations Mandates on and regulation of existing products and services Exposure to litigation |
| | Technology <ul style="list-style-type: none"> Substitution of existing products and services with lower emissions options Unsuccessful investment in new technologies Upfront costs to transition to lower emissions technology |
| | Markets <ul style="list-style-type: none"> Changing customer behavior Uncertainty in market signals Increased cost of raw materials |
| | Reputation <ul style="list-style-type: none"> Shift in consumer preferences Stigmatization of sector Increased stakeholder concern or negative stakeholder feedback |
| | |
| Physical Risks | Acute <ul style="list-style-type: none"> Increased severity of extreme weather events such as cyclones and floods |
| | Chronic <ul style="list-style-type: none"> Changes in precipitation patterns and extreme weather variability Rising mean temperatures Rising sea levels |

| Type | Climate-Related Opportunities |
|-----------------------|--|
| Resource Efficiency | <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> New markets Public-sector incentives Community needs and initiatives Development banks |
| Resilience | <ul style="list-style-type: none"> Participate in renewable energy programs and adopt energy-efficiency measures Resource substitutes/diversification New assets and locations needing insurance coverage |
| | |

APPENDIX: 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.



NOTES



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MY TOP ACTIONS...

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ABOUT A4S

The Prince's Accounting for Sustainability Project (A4S) was established by HRH The Prince of Wales in 2004. Our aim is to make sustainable decision making business as usual.

We work with the finance and accounting community to:

- **Inspire finance leaders** to adopt sustainable and resilient business models
- **Transform financial decision making** to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues
- **Scale up action** across the global finance and accounting community

A4S has three global networks: the **Chief Financial Officers Leadership Network**, a group of CFOs from leading organizations seeking to transform finance and accounting; the **Accounting Bodies Network** whose members comprise approximately two thirds of the world's accountants; and, the **Asset Owners Network** which brings together Pension Fund Chairs to integrate sustainability into investment.

www.accountingforsustainability.org

THE A4S ESSENTIAL GUIDE SERIES

The A4S Essential Guide Series has been produced by the A4S CFO Leadership Network to help organizations embed social and environmental considerations into their strategy, culture and processes. In other words, they support the adoption of integrated thinking and management. They are developed by finance teams for finance teams, but will also be of interest to others seeking to understand current approaches for integrating sustainability into financial practices and decision making.

LEAD THE WAY

Developing a strategic response to macro sustainability trends

- Finance Culture*
- Managing Future Uncertainty
- Incentivizing Action*
- Engaging the Board*

MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting

TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting*
- Integrated Management Reporting*
- Capex

ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance*
- Implementing the TCFD*



ACCOUNTING FOR SUSTAINABILITY



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