Financial Stability Board: Task Force on Climate-related Financial Disclosures

Climate change in a financial stability context

What is the Task Force and why has it been set up?

Climate change is emerging as a threat to the stability of the financial system. The G20 finance ministers and Central Bank governors therefore asked the Financial Stability Board (FSB) to review how the financial sector can best take account of climate-related issues.

In order for investors, lenders, insurers and other financial stakeholders to take account of these issues, corporations need to provide relevant information. However, there is currently no recognized best practice for corporations to identify, quantify and report climate-related financial risks.

On 4 December 2015, Mark Carney – the Chair of the FSB and Governor of the Bank of England – announced the formation of the **Task Force on Climate-related Financial Disclosures.**

It is the first international initiative to examine climate change in a financial stability context.

What will the Task Force do?

The Task Force will provide clear recommendations for preparers (corporations as well as financial sector participants) to disclose consistent information on the climate-related financial risks they face and the potential impact. The recommendations will be for voluntary disclosures in mainstream financial reports. They are expected to address both quantitative and qualitative disclosure needs. Also, in order to be decision-useful, they will require forward-looking information in addition to historical data.

The Task Force is expected to deliver its final report to the FSB by the end of 2016.

In preparing this report, the Task Force is reviewing existing disclosure initiatives and analyzing the gap between what exists and what is needed. It is identifying the key climate-related risks, cataloguing the information that financial stakeholders need, and understanding the challenges that corporations face in delivering this information.

The final recommendations will be intended for issuers of public securities and key financial-sector participants. The Task Force plans to drive voluntary adoption by ensuring that the recommendations:

- reflect a consensus view on leading practices for disclosure
- advance principles of good governance, fiduciary duty, and stewardship
- provide a basis for consistent and comparable application by firms in countries throughout (but not limited to) the G20.

What has happened so far?

On 1 April 2016 the Task Force published its Phase I Report. This report contains a high-level review of the existing landscape of climate-related disclosures and also sets out the scope and objectives of the Task Force's work for Phase II leading up to the publication of its recommendations.

In the Phase I report, the Task Force also identifies seven fundamental principles that are critical for an effective regime for climate-related financial disclosure.

You can download the full Phase I report here.

What are climate-related financial risks?

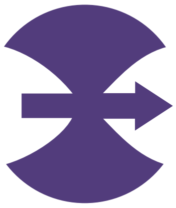
The Task Force is focusing on physical, liability and transitional risks:

Physical risks

include the financial impacts of the physical effects of climate change. These include disruption to a corporation's operations and value chain from extreme weather such as floods, droughts, heatwaves and hurricanes.

Liability risks

include the financial impacts of legislation to limit carbon emissions such as carbon taxes or trading systems. They also include the increasing potential for corporations to be held legally liable for contributing to climate change, or failing to act on it.



Transitional risks

include the financial impacts of failing to make a successful commercial transition to the low carbon economy.

Under the Paris Agreement of 2015, the world's countries have agreed to reduce carbon emissions dramatically in coming decades. This requires rapid decarbonization of the global economy and will lead to disruption and transformation of markets. There are significant risks for corporations that fail to adapt quickly enough.

In addition, the Task Force may explore reputational risks – i.e. brand damage – and social risks which include the financial impacts of climate-related social unrest and migration.

Opinion

What does this mean for KPMG member firm clients?

Few corporations currently disclose climate-related financial risks. But that is set to change. Simply put, investors, lenders and insurers need much more, and much better, information on the financial risks corporations face from climate change.

The Task Force on Climate-related Financial Disclosure is a potential game changer. It has serious credibility with the involvement of the G20, the FSB and some of the biggest names in the global financial community.

The guidelines that emerge, while voluntary, are likely – with the imprimatur of the FSB – to be accepted as de-facto global best practice. Or, at the very least, they will be used by regulators and stock exchanges to determine local standards. Board directors, as part of their fiduciary duty, will be expected to ensure they are applied so that the corporation reports appropriately on climate-related risk along with other material risks.

What can KPMG clients do to prepare? Our advice is to start now with a full assessment of where climate-related risk lies within the organization, with a focus on the physical, liability and transitional risks prioritized by the Task Force. We also recommend that corporations assess the current state of their processes and data quality for identifying and reporting climate-related risks. This will include systems for reporting carbon emissions and progress against carbon reduction targets, but will have to go further to translate this data into financial risks. Assessing the linkage of climate change to risk management and scenario analyses will be critical in light of the Task Force's forthcoming recommendations.

Adrian King
KPMG's Global Head
of Sustainability Services

Who is on the Task Force?

The Task Force is chaired by Michael Bloomberg and includes senior executives from some of the world's biggest and best known corporations and financial institutions. KPMG is currently the only Big 4 firm with a partner on the Task Force: Wim Bartels, KPMG's Global Head of Sustainability Reporting & Assurance. Task Force members have been invited to contribute in a personal capacity.

The list of Task Force members is as follows:

Michael R. Bloomberg (Chair)	Founder and President	Bloomberg LP
Denise Pavarina (Vice Chair)	Managing Officer	Banco Bradesco
Graeme Pitkethly (Vice Chair)	Chief Financial Officer	Unilever
Christian Thimann (Vice Chair)	Group Head of Strategy and Public Affairs	AXA
Yeo Lian Sim (Vice Chair)	Special Adviser	Singapore Exchange
Jane Ambachtsheer	Partner, Chair Responsible Investment	Mercer
Matt Arnold	Global Head of Social and Sustainable Finance	JPMorgan Chase & Co.
Wim Bartels	Global Head Sustainability Reporting and Assurance	KPMG
David Blood	Senior Partner	Generation Investment Management
Koushik Chatterjee	Group Executive Director Finance and Corporate	Tata Steel Limited
Liliana Franco	Director, Accounting Organisation and Methods	Air Liquide Group
Thomas Kusterer	Chief Financial Officer	EnBW
Ruixia Liu	General Manager, Risk Department	Industrial and Commercial Bank of China
Giuseppe Ricci	Executive VP, Health, Safety, Environment & Quality	Eni
Masaaki Nagamura	Head, Corporate Social Responsibility	Tokio Marine Holdings
Didem Nasanci	Managing Director	Promontory Financial Group
Russell Picot	Co-Chair, Enhanced Disclosure Task Force, Group Chief Accounting Officer	HSBC
Curtis Ravenel	Global Head, Sustainable Business & Finance	Bloomberg
Martin Skancke	Chair, Risk Committee, Chair	Storebrand, Principles for Responsible Investment
Mary Schapiro	Former Chair	US SEC
Andreas Spiegel	Head Group Sustainability	Swiss Re
Steve Waygood	Chief Responsible Investment Officer	Aviva Investors
Michael Wilkins	Managing Director, Global Head of Environmental & Climate Risk Research	Standard and Poor's
Fiona Wild	VP, Environment and Climate Change	BHP Billiton
Deborah Winshel	MD, Global Head of Impact Investing	BlackRock

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