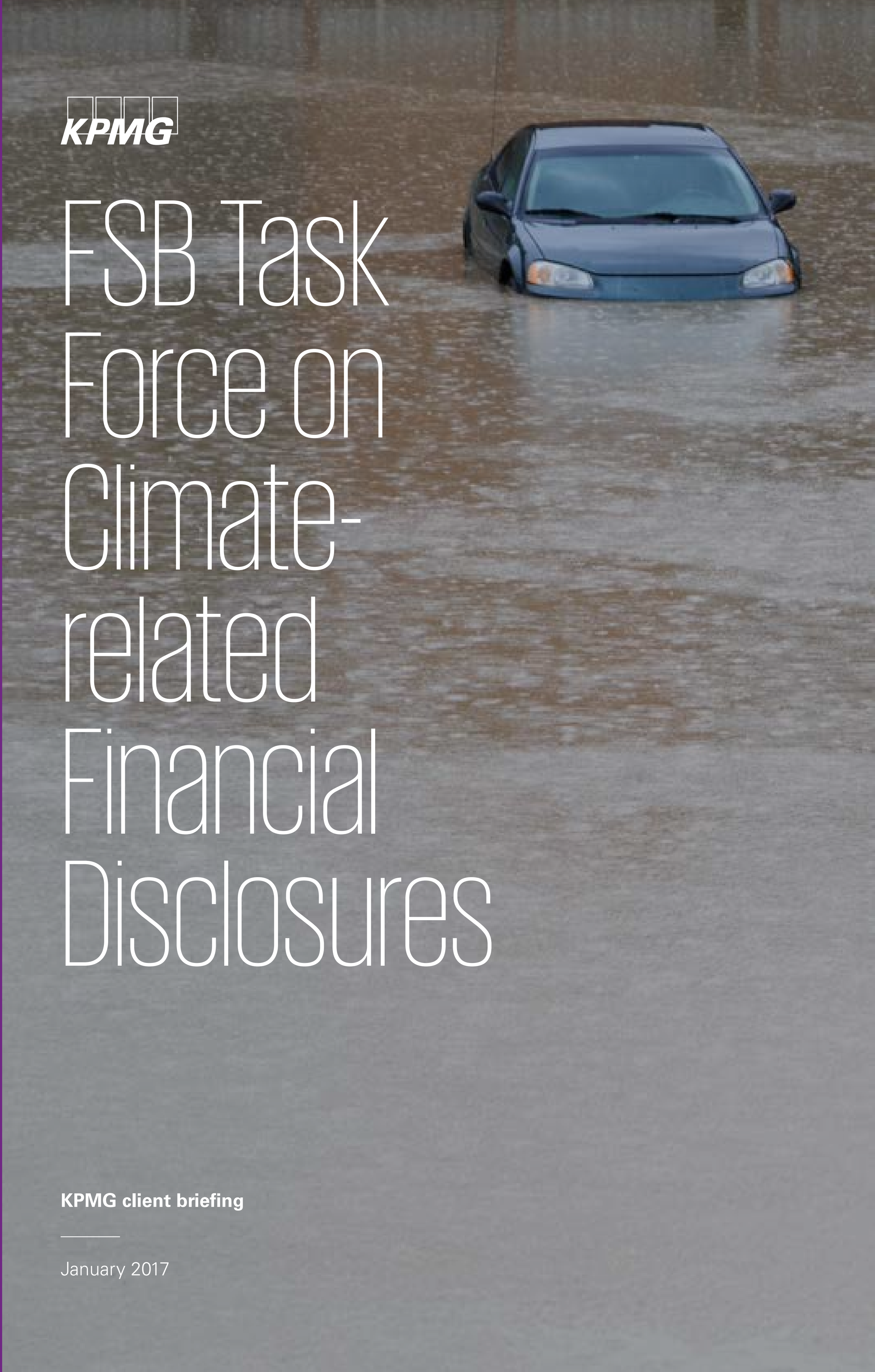

KPMG

FSB Task Force on Climate-related Financial Disclosures

KPMG client briefing

January 2017

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 build climate-related risks into their decisions, corporations need to provide relevant information. However, this information is currently not available and there is not a recognized framework for corporations to identify, quantity and report climate-related financial risks.

That is why, in 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 (TCFD)**.

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

What has the Task Force done and what will happen next?

In December 2016, the Task Force released its Recommendations report. This report provides recommendations for data preparers to disclose consistent information on the climate-related risks and opportunities they face and the potential financial impacts.

In preparing this report, the Task Force reviewed existing disclosure initiatives and analyzed the gap between what exists and what is needed. It has worked to identify key climate-related risks, to catalogue the information that financial stakeholders need, and to understand the challenges that corporations face in providing this information.

The Recommendations report is open for public consultation until February 12 2017. The Task Force will provide its final recommendations to the FSB in June after which the FSB is expected to present the recommendations at the G20 summit in July 2017.

You can download the full Recommendations report here.

What are climate-related financial risks and opportunities?

The Task Force is focusing on Transition risks and Physical risks:

Transition Risks include the financial and reputational impacts of failing to make a successful commercial transition to the low carbon economy. This covers the risks associated with:

- policy action that attempts to mitigate climate change or encourage adaptation to it
- litigation claims against companies for contributing to climate change, or failing to act on it
- new technology developments displacing existing technologies and infrastructure (e.g. renewable energy replacing coal plants)
- changes in market dynamics.

Physical risks include the financial impacts of the physical effects of climate change. These include disruption to a corporations operations and value chain from extreme weather such as floods, droughts, heatwaves and hurricanes. They also include risks from longer-term shifts in climate patterns. For example sustained higher temperatures leading to sea level rise.

The Task Force also outlined **opportunities** that can be realized through efforts to mitigate and adapt to climate change. For example:

- Resource efficiency can reduce operating costs as well as curbing emissions
- The cost of low emission energy sources is decreasing providing organizations with potential opportunities to reduce their energy costs
- The growing global market for low emission products & services provides commercial opportunities for corporations.

What has the Task Force recommended?

The Task Force has developed a set of recommendations that are applicable to organizations in any sector or country.

They offer guidance on how organizations should disclose climate-related risk in mainstream (i.e. public) financial filings (i.e. annual reports).

The recommendations are designed to generate decision-useful, forward-looking information on climate-related financial impacts and also to increase focus on the risks and opportunities related to a transition to a lower-carbon economy.

Core elements of recommendations

The recommendations are structured around four thematic areas: governance, strategy, risk management, and metrics and targets. For each element, the Task Force has defined an overarching recommendation, supported by a set of disclosures organizations should include in their reporting. See breakout box below for details.

Scenario analysis

A key element of the Task Force's recommendations is that organizations should use scenario analysis to assess potential business, strategic, and financial implications of climate-related risks and opportunities and disclose those in their financial filings.

Scenario analysis can help to manage the uncertainties of climate change as, for the majority of organizations, the most significant effects of climate change will be felt in the medium to long term and the timing and magnitude of these are difficult to predict.

The Task Force encourages companies to select a set of scenarios, to include a scenario that assumes global warming of 2°C in addition to 2 or 3 others, and to disclose how the organization's strategy and financial plans may be affected under the scenarios.

At this stage, the Task Force recognizes that analysis will be largely qualitative. However, for organizations with the most significant risks, the Task Force recommends some level of quantitative analysis, if possible. It also encourages such companies to disclose key inputs and assumptions related to their scenario analysis to allow users to understand the process and its limitations.

Principles

The recommendations establish a set of principles that are likely to shape the future expectations of investors, lenders, insurers and other data users.

Firstly, climate-related financial risk needs to be called out as an issue for Board attention. Secondly, corporations need to thoroughly assess their climate-related financial risks and opportunities ideally through scenario planning. Thirdly, corporations need to adapt their existing ERM/risk management processes to be effective at identifying and managing climate-related financial risk. Finally, data users and data preparers must work together to develop effective and decision-useful climate-related risk reporting metrics.

Summary of recommended disclosures

Governance	Strategy	Risk management	Metrics and targets
Recommendation: Disclose the organization s governance around climate-related risks and opportunities	**Recommendation:** Disclose the actual and potential impacts of climate-related risks and opportunities on the organization s businesses, strategy, and financial planning	**Recommendation:** Disclose how the organization identifies, assesses, and manages climate-related financial risks	**Recommendations**: Disclose the metrics and targets used to assess and manage relevant climate-related financial risks and opportunities
Disclosures: Describe the board's oversight of - and management's role in - assessing and managing, climate-related risks and opportunities	**Disclosures:** Describe the climate-related financial risks and opportunities the organization has identified and the impact of these risks to business, strategy and financial planning. Also use scenario analysis to describe the impact of different global warming scenarios and the likely associated policy and market responses	**Disclosures:** Describe the processes for identifying, assessing and managing climate-related financial risks and how these processes are integrated into the organization s overall risk management approach	**Disclosures:** Disclose metrics used to assess climate-related financial risks and opportunities and disclose GHG emissions and the related risks. Describe targets used to manage climate-related risks and opportunities and performance against these targets

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 Disclosures 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 have emerged, 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.

This is the start of the process. But as the impacts of climate change and the associated financial risks to business become more and more apparent, the financial sector's quest for decision-useful risk disclosure will become ever more urgent.

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 transition and physical 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 recommendations.

Understanding climate-related risks and building them into financial reporting will be challenging. So - while there is no immediate requirement to disclose the information publicly – take this time to get ahead. This way, in a few years when climate risk reporting becomes mainstream practice, you will be prepared.

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Who is on the Task Force?

The Task Force on Climate-related Financial Disclosures is an industry-led effort, chaired by Michael Bloomberg. It has 32 global members representing both users and preparers of disclosures covering a broad range of sectors and financial markets.

Vice Chairs

Denise Pavarina	Executive Director	Banco Bradesco
Graeme Pitkethly	Chief Financial Officer	Unilever
Christian Thimann	Group Head of Strategy and Public Affairs, Sustainability and Public Affairs	AXA
Yeo Lian Sim	Special Adviser	Singapore Exchange

Data Users

Matt Arnold	Managing Director and Global Head of Sustainable Finance	JPMorgan Chase & Co.
Bruno Bertocci	Managing Director, Head of Sustainable Investors	UBS Asset Management
David Blood	Senior Partner	Generation Investment Management
Stephanie Leaist	Managing Director, Head of Sustainable Investing	Canada Pension Plan Investment Board
Mark Lewis	Managing Director, Head of European Utilities	Barclays
Eloy Lindeijer	Chief, Investment Management	PGGM
Ruixia Liu	General Manager, Risk Department	Industrial and Commercial Bank of China
Masaaki Nagamura	Head, Corporate Social Responsibility	Tokio Marine Holdings
Martin Skancke	Chair, Risk Committee Storebrand and Chair	Principles for Responsible Investment
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Data Preparers

Liliana Franco	Director, Accounting Organization and Methods	Air Liquide Group
Koushik Chatterjee	Group Executive Director, Finance and Corporate	Tata Steel
Udo Hartmann	Senior Manager, Group Environmental Protection & Energy Management	Daimler
Neil Hawkins	Corporate Vice President and Chief Sustainability Officer	The Dow Chemical Company
Thomas Kusterer	Chief Financial Orricer	EnBW
Giuseppe Ricci	Chief Refining & Marketing Officer	Eni
Fiona Wild	Vice President, Climate Change and Sustainability	BHP Billiton

Other Experts

Jane Ambachtsheer	Partner, Chair - Responsible Investment	Mercer
Wim Bartels	Partner, Corporate Reporting	KPMG
Richard Cantor	Chief Risk Officer	Moody's
Eric Dugelay	Global leader, Sustainability Services	Deloitte
Diane Larsen	Audit Partner, Global Professional Practice	EY
Michael Wilkins	Managing Director, Global Head of Environmental & Climate Risk Research	Standard and Poor s Global Ratings
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