Identifying and reporting climate-related financial risk

How KPMG can help

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Business is under pressure to tackle the financial risks of climate change

KPMG firms can help

Climate change is rapidly emerging as a threat to the stability of our financial systems.

More frequent and severe weather events are damaging infrastructure and disrupting supply chains. Transition to a lower carbon economy is bringing new policies, regulations and rapid changes to market dynamics. And some carbon-intensive companies are already facing law suits over their contributions to climate change.

Together these trends threaten to bring serious financial risks to companies and their investors, lenders and insurers.

That's why, in 2015, the Financial Stability Board (FSB) formed the Task Force on Climate-related Financial Disclosures (TCFD) and asked it to recommend how companies should disclose their material climate-related risks to financial stakeholders.

Since then, many banks, pension funds, asset managers, insurers and others have put growing pressure on companies to apply the TCFD recommendations and hundreds of companies have signed up to doing so.

For most companies, assessing, disclosing and responding to climate-risk is a new challenge. KPMG professionals can help. Our member firms can support clients in making sense of the TCFD recommendations, and work shoulder-to-shoulder with you to identify climate-related risks and opportunities, understand the financial implications, and incorporate relevant disclosures into financial filings.

Contact us to find out how KPMG member firms can help you.

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With over 20 years of experience, Wim helps large companies understand and disclose their financial exposure to climate-related risks. He was the first professional from a Big Four accounting firm to be invited to join the TCFD and has been closely involved in the development of the TCFD recommendations. He is also the lead author of many research reports including KPMG's successful series of surveys of corporate responsibility reporting.

Christian Hell

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As an experienced auditor and business advisor, Christian helps large companies improve their sustainability performance. He designed KPMG's methodology for measuring climate-related risks and performing climate scenario analysis. He has served in technical working groups of leading sustainable business organizations including GRI (Global Reporting Initiative), Climate Disclosure Standards Board (CDSB) and the World Business Council for Sustainable Development (WBCSD).

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How we can help

KPMG member firms can provide bespoke services to help clients address climate-related financial risks. Our support covers the following areas:

Assess and improve readiness for reporting:

Using advanced tools, KPMG professionals can evaluate the extent to which your business's processes, methods and disclosures currently fulfil the TCFD recommendations. We can benchmark your company's performance against industry best practice to show where you stand in the market.

Map climate-related risks:

KPMG specialists can help you to understand your company's exposure both to the physical effects of climate change and to the likely regulatory and economic impacts of the shift to a low-carbon economy. We can identify the areas of your business, as well as the countries where your operations are located, which are - or will be - most affected by climate change.

Use scenario analysis to assess resilience:

In line with the TCFD recommendations, KPMG member firms can help you understand how climate-related risks and opportunities could affect your business in a variety of regulatory, economic and climate scenarios. We can explore what these scenarios would mean for your business in the short, medium and long terms and develop tools and procedures to assess and quantify the potential financial impacts.

Inform business strategy:

KPMG professionals can help you identify the climate risks that are most pressing for your company. We can provide recommendations on how to develop a robust climate resilience strategy for operations and product portfolios taking into consideration the different scenarios that could pan out in the future.

Adapt investment strategies:

KPMG specialists can work with asset owners and managers to review and adapt their investment strategies in order to reduce exposure to climate-related risk.

Manage and report on risks:

KPMG member firms can help you define appropriate data collection systems, metrics and targets to monitor, manage, and report on climate-related risks in line with the TCFD recommendations. We can provide advice on how best to disclose your climate-related risks in your financial disclosures and provide good practice examples to guide your reporting.

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About the TCFD and its recommendations

The Financial Stability Board (FSB) founded the TCFD at the request of G20 finance ministers. Its purpose is to improve business and financial sector transparency on the financial risks and opportunities of climate change.

The TCFD recommendations, released in 2017, focus specifically on business disclosure of how climate change affects financial performance now and in the future. They do not address disclosure of how a company may, or may not, be contributing to climate change.

The recommendations can be summarized as follows:

Governance: Companies should disclose the governance structures, oversight and management processes in place to manage climate-related financial risks and opportunities.

Strategy: Companies should disclose the actual and potential risks, and opportunities, of climate change on its business, strategy and financial planning. Scenario analysis should be used to test the resilience of the company's strategy under various climate scenarios.

Risk management: Companies should disclose how they identify, assess and manage climate-related financial risks.

Metrics and targets: Companies should disclose the metrics and targets they use to assess and manage climate-related financial risks and opportunities.

Further information can be found at www.fsb-tcfd.org

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Client story

01 Financial services group aligns its disclosures with the TCFD recommendations

Following the release of the TCFD recommendations on disclosure of climate-related financial risks and opportunities, a leading financial services group in North America wanted to understand the extent to which its existing disclosures met the recommendations and to improve its disclosure where necessary.

KPMG in Canada evaluated the company's disclosures, investment policies and approaches for addressing climate change to determine to what extent the client's practices and policies were in line with the TCFD recommendations and industry best practice. KPMG also conducted interviews with senior executives across the group from risk to finance and sustainability.

KPMG found that the client's existing governance processes were largely in line with the TCFD recommendations and the group was following industry best practice. For example, the group had implemented Board-level committees that measured and addressed climate-related risks and reported regularly to the Board. There was also strong executive commitment towards on-going management of climate-related risks.

At the same time, KPMG identified several opportunities to strengthen the company's ability to respond to the TCFD recommendations. While the company had conducted scenario analysis for various climate scenarios, KPMG recommended that the client should perform additional risk analysis under a "2 degree" scenario, in line with the TCFD recommendations.[1] The KPMG team also made further recommendations for the client to expand its existing climate change strategy through additional long-term goals and targets.

With KPMG's support, the client now has a better understanding of what it needs to do to align its financial disclosures with the TCFD recommendations. It has also developed a short-term action plan towards full alignment. KPMG continues to support the group on this journey, for example through workshops to assess the potential impact of various climate scenarios on the group's business and financial performance.

[1] A scenario under which the Earth's temperature has risen more than 2 degrees Celsius above pre-industrial levels.

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