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Global task force recommends mainstreaming climate related financial disclosure

Briefing

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The Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (Task Force) published its recommendations on climate related financial disclosure on December 14, 2016. The final report will go to the G20 in May 2017.

In April 2015, the G20 asked the FSB to "convene public- and private-sector participants to review how the financial sector can take account of climate-related issues". In response, the Task Force was launched in December 2015 to develop recommendations for voluntary climate-related financial disclosures. It is chaired by Michael Bloomberg, and is made up of 32 members drawn from the private sector across G20 economies, including major companies, accounting firms, banks and insurers.

It is clear that climate change poses significant economic risks across all industries. As a result, investors are increasingly demanding further analysis of these risks before investing.

The Task Force has considered both the risks associated with transitioning to a lower-carbon economy, as well as the risks related to the physical impacts of climate change. It aims to identify the information needed by investors, lenders, and insurance underwriters to appropriately assess climate change and price climate-related risks and opportunities.

Recommendations

The Task Force's recommendations cover the thematic areas of

- Governance - who should be responsible for assessing and reporting on climate-related risks and opportunities
- Strategy – what the actual and potential impacts of climate-related risks and opportunities are
- Risk Management – what processes are used to address these
- Metrics and Targets – what data sources and methodologies are used to measure this.

In brief, the Task Force recommendations represent a strong push by an influential body of stakeholders to propel climate related risk reporting from the periphery to the core of public financial reporting. The clear hope is that, despite the challenges this poses, the area will develop and standardise rapidly.

Key takeaways for financial institutions and corporations include

- *Climate related disclosure cannot be ignored*. The Task Force recommends climate-related financial disclosures to be made in mainstream (i.e., public) financial filings and climate-related risk management integrated into overall risk management processes. The recommendations suggest that this should already be occurring as climate impacts amount to a material cross-sectoral risk. The recommendations seek to provide the framework by which that can occur in a consistent fashion. The Task Force is also pushing for asset managers and asset owners to report on a similar basis through their main financial reporting channels to investors. That said, the recommendations recognise that this cannot happen overnight.
- *Financial impact assessment will require senior management engagement*. The Task Force considers the scenario testing recommended will lead to the need to assess the impact of that on core financial metrics such as cash flow analysis and asset valuation. As such, the expectation is that CFOs will need to be involved in the evaluation of climate-related risks and opportunities.
- *Climate risks and opportunities are sufficiently known to be assessed*. The Task Force warns against assumptions that climate-related risks and opportunities are not material because some climate related risks are of a long term nature.
- *Disclosure needs to be useful*. The Task Force is pushing the mantra of "forward looking, decision-useful information" as the basis for disclosure. It recognises concerns around scenario testing revealing commercially sensitive business strategies or being used as fodder for climate litigation, but considers these should be able to be managed rather than used as a basis for making limited disclosure.

- *Waiting for better data tools is not good enough*. The Task Force is pushing for disclosure to work with the data and methodologies available and suggests that gaps and limitations are highlighted (rather than those gaps being used as the reason for not disclosing). In particular, the Task Force considers that asset owners and asset managers should engage with reporting metrics on GHG emissions associated with their investments.

- *Wide-spread adoption is the key to success*. In the Task Force's view, the success of these recommendations depends on near-term, widespread adoption by organizations in the financial and non-financial sectors, as only then will climate change risk analysis become ingrained in business risk management and strategic planning processes. Support from the G20 and other governments and supranational authorities such as the FSB is therefore important.

Moving forward

Will this report be a step change for companies and financial institutions, having similar impact as the Stern Report? The process of moving from these recommendations to actual reporting is not clear and will likely depend on first movers taking them up. However, there has been a marked increase in climate leadership by corporations and financial institutions since the Paris Climate Agreement. The timing is right for business to engage with this report and to lead significant innovation.

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