Client briefing
G20 Task Force on Climate-related Financial Disclosures

pwc

Context

The G20's Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) was convened to address concerns that companies are not sufficiently disclosing the impacts of climate change to their strategy, businesses and financial plans. Without adequate disclosure, markets cannot function efficiently and risks are not appropriately priced. PwC is a member of the TCFD.

Broadly climate risks can be divided into:
- **Transition risks** such as climate policy (e.g. a carbon tax) or technological shifts (e.g. the rise of electric vehicles) which impact demand and costs of supply; and
- **Physical risks** such as the impacts of more frequent/extreme weather events on assets, operations or supply chains.

These are occurring today and will continue to manifest in the coming years.

The TCFD's recommendations were launched in June 2017 and presented to the G20 Summit on 7–8 July. The recommendations' scope covers all companies with listed equity/debt as well as asset managers, asset owners (e.g. pension funds) and insurance companies. Thus, they address the whole investment chain.

The TCFD's recommendations cover:
- **Governance**: extent of board and senior management oversight on the issue;
- **Strategy**: risks and impacts on strategy, business and forward looking scenario analysis;
- **Risk Management**: how climate risks are identified, assessed, managed and integrated into existing risk management frameworks; and
- **Metrics and targets**: how performance on climate risks and opportunities is being measured.

What's new?
- **Scenario analysis**: The TCFD recommends that companies conduct forward looking scenario analysis to understand how their businesses will be impacted by climate change and the low carbon transition.
- **Mainstream disclosure**: The TCFD recommends disclosure in mainstream annual reports; this is an elevation of the climate issue to centre stage and is a major shift away from sustainability/corporate responsibility reports where climate issues traditionally reside.
- **Internal stakeholders**: Functions such as Finance and Investor Relations as well as the Audit Committee need to understand the financial implications of climate change, explain their materiality and how this is being governed, managed and disclosed. Strategy functions will also need to incorporate these into long term plans.

5 key questions

Do you have the right strategy and governance structures in place?

1

Do you have an understanding of how climate change could financially impact your business?

2

Is your business prepared to respond to the identified climate-related risks and opportunities?

3

Are you in a position to meet investor and stakeholder demands for climate-related financial information?

4

Do you have the right data and systems in place?

5

Game changers

The Paris Agreement: Signed by 195 countries; entered into force in Nov 2016. Governments committed to accelerate the transition to a low carbon economy; resulting policies plus evolving market sentiment are changing the risk profiles of companies.

Shareholder action: Major institutional investors such as BlackRock, Vanguard, Aviva, AXA and L&G have made climate risks engagement priorities. They have also stated that they will be exercising their voting power to demand better disclosure on the financial impacts of climate change.

Debt/Equity analysts: S&P and Moody's have highlighted how climate change could affect credit ratings and are incorporating this into their analysis. Barclays's equity research team has highlighted how power utilities valuations differ drastically once climate risks are taken into consideration.

Regulators: We expect that leading G20 countries will implement the TCFD's recommendations but recognise that this will take time. France already has Article 173 which mandates disclosure of climate risks. The EU is expected to move swiftly, along with countries such as China and Canada.

How can we help?

- **Governance**: We can help review existing governance structures, raise board and executive level awareness and knowledge of climate risks, and engage with key stakeholders to understand views and priorities.
- **Strategy**: We can help companies understand how climate change can impact their business under various forward-looking scenarios, how material this could be, and how to position their companies today to capture opportunities and mitigate risks.
- **Risk Management**: We can help quantify and assess the financial impact of climate risks across different business divisions, products, portfolios, sectors and geographies. Where material, we can help establish and integrate policies and processes to manage such risks.
- **Reporting**: We can help develop disclosures based on the above, including what metrics are suitable and what targets to set. We can also develop the systems and processes needed to collate data.

Our services

- TCFD Readiness Assessment
- Identification and assessment of material climate risks
- Advice on scenario analysis
- Development of adequate governance structures
- Integration of climate-related risks into strategy processes and risk management structures
- Development and implementation of strategic options for risk and cost reduction, incl.
  - goal, benchmark and KPI definition
  - structured opportunity analysis
  - identification and assessment of technological, operational and organisational options
- Development of efficient and targeted reporting

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