TCFD (Task Force on Climate-Related Financial Disclosures)

Moderator: Todd Cort, YISF

Todd Cort opened the session with an introduction on TCFD, noting that it is anchored by one paper by Erik Landry, a research associate at MIT.

Erik Landry, Massachusetts Institute of Technology, discussed the paper that he wrote in collaboration with Jason Jay (also MIT). Task Force on Climate-Related Financial Disclosures was created by a financial stability board, because there was no clear consensus on how companies should be reporting on climate-related risks and opportunities. There are 3 main design implementations in the formation of TCFD recommendations: financial materiality and materiality in sustainability reporting, flexibility and comparability, and climate-related scenario analysis. The ramifications of financial materiality is that it might emphasize climate change adaptation and resilience at the expense of climate change mitigation, whereas materiality in sustainability reporting might incentivize positive spillover effects. There is tension between flexibility, which grants increased customization, and comparability of ESG metrics. TCFD has a specific process for climate-related scenario analysis, but at each stage, a company has different priorities, using different metrics and data, and leading to very different outcomes. According to Erik, TCFD helps companies deal with ESG risk and translate that into financial risk. He believes that companies should develop integrated reporting, rather than separating financial and sustainability reporting.

Hui Wen Chan, Citi, discussed how Citi is implementing and giving recommendations to TCFD. Citi was one of the early supporters of the TCFD and a member of the consultation process. Citi collaborated with peers to form a banking sector working group to pilot recommendations on climate scenario analysis, the UNEP FI TCFD Banking Sector Pilot Project. The climate risks that banks and many other companies face include transition risks, physical risks, and liability risks. The working group tested different methodologies to deal with those risks, and the banks in the working group have committed to report on TCFD standards. For the energy sector, they have also partnered with Bloomberg to develop a tool which brings asset-level and climate data together to enable analyzing exposure to physical risks.

Jim Coburn, Ceres, discussed Ceres’ support of the TCFD initiative. He believes that it is structured in a way that companies think about other risks. He has seen companies do anything from align existing risk categories with TCFD, to develop a TCFD report, or even engage investors in the process. He discussed the Climate Action 100 initiative, in which Ceres engages with the 100 highest emitting companies around the world on a five-year basis. Many investors are going after these companies because Scope 1-3 greenhouse gas emissions by these companies comprise eighty percent of annual greenhouse gas emissions. The initiative bases its disclosure recommendations on TCFD, with scenario analysis being the most important aspect. He believes that efforts by companies to work together as an industry (such as the UNEP FI working group) are most effective.
**Q and A:** Questions focused on Citi’s involvement in the UNEP FI working group, as well as the role of general counsels in TCFD reporting. Hui commented on the positive effect of the pilot project in engaging people who don’t normally think about sustainability issues. In response to a comment that JP Morgan has stated that they don’t think they have any actual exposure to climate risk, Hui noted that since the average duration of a bank loan is 2-5 years, it is challenging to get credit risk people to understand why they should want to look at 2030 or 2040. She discussed the uncertainty that comes with prioritizing some risks over others when the most accurate data on all risks isn’t always available. It is difficult to make data transparent in the US which is a very litigious country. General counsels have often between the block between TCFD going from a voluntary report to part of the financial report. However, Erik noted that if a risk meets the definition of materiality from the SEC, it will go into your financial filing. Finally, the panel discussed the IPCC 1.5 report which shifts climate-related scenario analysis to a global temperature increase of only 1.5 degrees celsius. However, Erik commented that this is not realistic and not in the mainstream.