FSB's Task Force on Climate-Related Financial Disclosure

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MAY 12, 2017

Overview

- Introduction of the TCFD
- Underlying theory of the TCFD
- Framework of TCFD Proposed Disclosure
- Canadian participants on the TCFD
- Take-up to date in discussions in Ontario

Introduction of the TFCD

- Bank of England Governor Mark Carney (former head of the Bank of Canada) gave a speech in September, 2015: The Tragedy of the Horizon identifying:
- (1) global risks to property, political stability, and food and water security from climate change, but discussing
- (2) three categories of financial stability risks caused by:
- (A) the physical changes induced by climate change;
- (B) liability risks if “extractors and emitters” and/or their officers and directors were to be held liable for the negative effects of their products; and
- (C) financial risks from the transition to a low-carbon economy, given “stranded assets” on the balance sheets of banks, insurance companies and pension funds being rapidly re-priced downward.
- Concern that “an abrupt resolution of the tragedy of the horizons is itself a financial stability risk.”

Solution: Better Information

- Mr. Carney recognized that there are “400 or more” voluntary disclosure initiatives
- But no framework for producing high—quality, consistently-produced, comparable information on companies GHG emissions but also how they planned to transition to a low-carbon economy
- At the time, Mr. Carney was the head of the Financial Stability Board (FSB), and so he asked the FSB to ask the G20 to establish the TCFD, which it did in November, 2016.

The underlying theory of the TCFD

- https://www.fsb-tcfd.org/event/tcfd-bloomberg-new-energy-finance-future-energy-summit/
- So companies “manage what they measure”
- And investors will make rational decisions about allocating their funds once they know more information about every specific company’s risks and opportunities from the transition to a low-carbon economy
  - The financial crisis of 2007-2008 does not seem to have shaken faith in markets and investors as powerful agents of change

Consultation Process and Recommendations

- TCFD headed up by Michael Bloomberg, founder of Bloomberg LP and former mayor of NYC
- Members include investors, accounting firm representatives, companies, asset managers, sustainability professionals
- Canadian Task Force Members included:
  - Jane Ambachtsheer, Chair, Responsible Investment, Mercer
  - Stephanie Leaist, Head of Sustainable Investing, CPPIB

Framework for Disclosure

Figure 3

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Disclose how the organization identifies, assesses, and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	**a)** Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	**a)** Describe the organization's processes for identifying and assessing climate-related risks.	**a)** Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	**b)** Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	**b)** Describe the organization's processes for managing climate-related risks.	**b)** Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the potential impact of different scenarios, including a 2°C scenario, on the organization's businesses, strategy, and financial planning.	**c)** Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	**c)** Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Principles Underlying

To underpin its recommendations and help guide current and future developments in climate-related financial reporting, the Task Force developed seven principles for effective disclosure (Figure 4), which are described more fully in Appendix 6. When used by organizations in preparing their climate-related financial disclosures, these principles can help achieve high-quality and decision-useful disclosures that enable users to understand the impact of climate change on organizations. The Task Force encourages organizations adopting its recommendations to consider these principles as they develop climate-related financial disclosures.

The Task Force's disclosure principles are largely consistent with internationally accepted frameworks for financial reporting and are generally applicable to most providers of financial disclosures. The principles, taken together, are designed to assist organizations in making clear the linkages and connections between climate-related issues and their governance, strategy, risk management, and metrics and targets.

Figure 4

Principles for Effective Disclosures

1. Disclosures should represent relevant information
2. Disclosures should be specific and complete
3. Disclosures should be clear, balanced, and understandable
4. Disclosures should be consistent over time
5. Disclosures should be comparable among companies within a sector, industry, or portfolio
6. Disclosures should be reliable, verifiable, and objective
7. Disclosures should be provided on a timely basis

In addition, the Task Force recognizes that many organizations already disclose information on climate-related issues under other voluntary and mandatory reporting frameworks. For these organizations, significant effort has gone into developing processes and collecting information needed for disclosing under these regimes. The Task Force expects preparers disclosing climate-related information under other regimes will be able to use existing processes when providing disclosures in financial filings based on the Task Force's recommendations.

Take up to date in Ontario

- Certainly being discussed
- CPA (Certified Professional Accountants) Canada evaluating climate disclosure and promoting
- CSA (Canadian Securities Administrators) has started a consultation to evaluate climate disclosure
- OSC watching so far as I know, but others may know more
- Some civil society partners are interested in promoting, including RIA and others
- Huge opportunity for Ontario to show its leadership on climate finance by making this disclosure mandatory.
- Thank you!