TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

PROPOSED GUIDANCE ON CLIMATE-RELATED METRICS, TARGETS, AND TRANSITION PLANS

June 2021

Agenda and Speakers

01 Introduction to TCFD

02 Proposed updates to guidance:

- Climate-related Metrics and Financial Impacts
- Climate-related Targets
- Climate-related Transition Plans

03 Q&A

We invite you to participate in the latest public consultation by completing these steps:
Step 1: Read the **Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans** and the **Portfolio Alignment Technical Supplement**
Step 2: Share your input in our **Consultation Questionnaire:**
These materials can be found at: https://www.fsb-tcfd.org/publications/

Curtis Ravenel
Secretariat
Speaker

Alban Pyanet
Oliver Wyman
Speaker

Liidia Liuksila
TCFD Head of Communications
Moderator

01

INTRODUCTION TO TCFD

FSB established TCFD to help identify data needed by financial sector to appropriately assess and price climate-related risks

G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues.

The FSB established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for more effective climate-related disclosures that:

– could **"promote more informed investment, credit, and insurance underwriting decisions"** and,

– in turn, "would enable stakeholders to **understand better** the concentrations of **carbon-related assets in the financial sector** and the financial system's **exposures to climate-related risks**."

Industry Led and Geographically Diverse Task Force

The Task Force's 31 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.

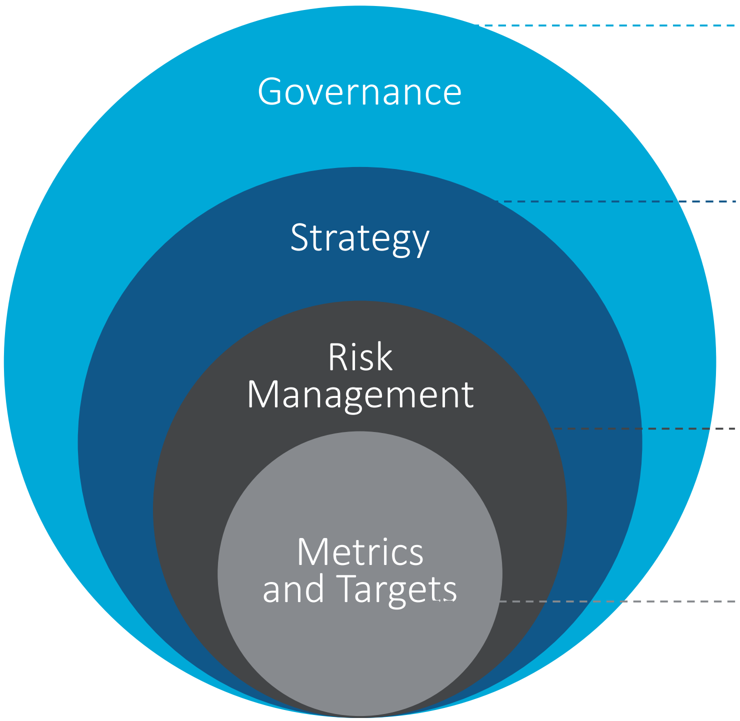
17 — Experts from the Financial Sector

8 — Experts from Non-Financial Sectors

6 — Other Experts

The Task Force developed four widely-adoptable recommendations on climate-related financial disclosures

Core elements of the TCFD recommendations



Governance

The company's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning

Risk Management

The processes used by the company to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

The four recommendations include 11 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 where such information is material.	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 where such information is material.
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 resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	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.

Since 2017, TCFD has released a number of additional reports and guidance to measure progress and aid implementation

Final Recommendations

2017

Implementing Guidance (Annex)

Scenario Analysis Technical Supplement

2018

Status Report

2019

Status Report

2020

Status Report

Forward-looking Financial Sector Metrics Consultation

Risk Management Guidance

Scenario Analysis Guidance

02

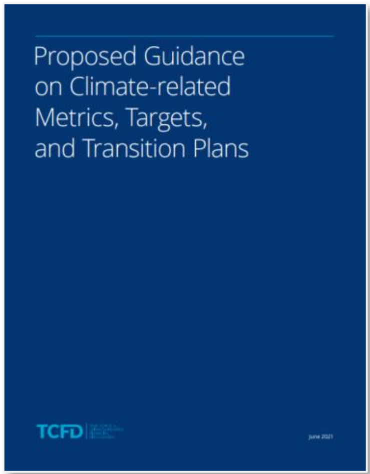
PROPOSED UPDATES TO GUIDANCE

Why Metrics, Targets, and Transition Plan Guidance? Why now?

Context	Goals
Metrics and targets recommended disclosures are difficult to implement	Provide **accessible framework** for metrics and targets that support the three other TCFD pillars
The industry has matured since 2017	Update guidance to **reflect latest thinking** (e.g., scope 3 emissions, carbon-related assets)
Market participants want comparable, clear metrics that can be standardized	Converge on a **discrete set of decision-useful, well-defined, and** comparable metrics
Organizations are struggling to measure financial impacts	Provide guidance on **estimating financial impacts**
Organizations are requesting guidance on portfolio alignment and transition planning	Provide guidance for how organizations should disclose **transition plans** and **portfolio alignment**

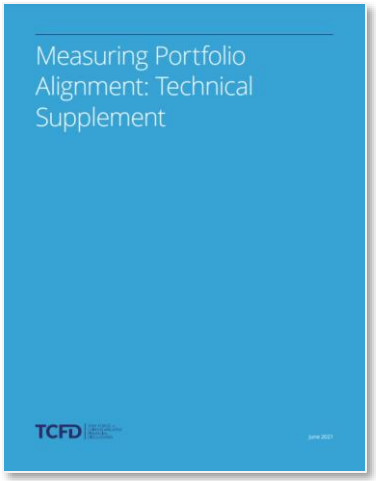
TCFD is soliciting input on two documents released for consultation

Scope of consultation



Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans

- Set of cross-industry, climate-related metrics
- Link to climate-related financial impact
- Updates on financial sector specific metrics
- Guidance on setting and disclosing targets
- Guidance on disclosing transition plans



Portfolio Alignment Technical Supplement

- Purpose of portfolio alignment tools
- Potential methodologies
- Tool selection and construction
- The target setting process
- Methods for quantifying transition risks

The proposed updates for consultation would be issued both as a standalone guidance and as changes to TCFD's Annex

No changes	Recommendations		
No changes	Recommended Disclosures	Guidance for All Sectors	Updated language across select recommended disclosures
		Supplemental Guidance for Certain Sectors	Updated language across select recommended disclosures for financial institutions
	Metrics, Targets and Transition Plan Guidance Portfolio Alignment Team Technical Supplement		Publish detailed guidance in separate documents

These new documents will provide guidance across several aspects of the implementation journey…

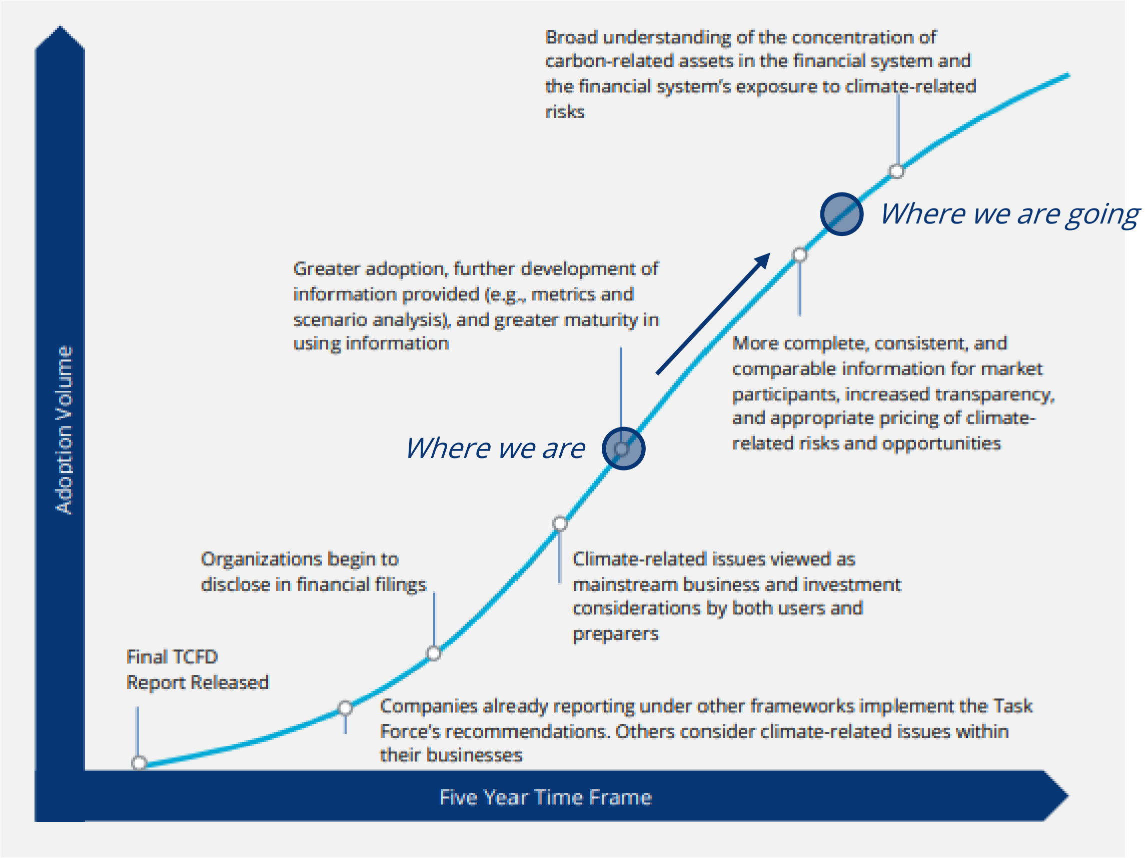
Focus of the proposed guidance

1. Understand climate-related **risks and opportunities**
2. Set climate **ambition** and define high-level climate **strategy**
3. Define climate-related **metrics**
4. Estimate climate-related **financial impacts** (e.g., w/ scenario analysis)
5. Set **targets** aligned with climate ambition
6. Articulate **transition planning** as part of climate strategy
7. **Report and disclose**

This is an iterative process with each step providing a feedback loop to others

...and will help move participants along the TCFD implementation path

Implementation path (Illustrative)



Principles for defining metrics

- ✓ Decision-useful
- ✓ Understandable
- ✓ Verifiable
- ✓ Objective
- ✓ Trackable and consistent
- ✓ Aligned to TCFD pillars

TCFD has identified a discrete set of cross-industry, climate-related metrics and impacts to promote comparability

Climate-related metrics

Quantities indicative of the level of climate risks and opportunities

- GHG emissions (Absolute Scope 1, Scope 2, and relevant, material categories of Scope 3 emissions, as well as carbon intensity)
- Carbon price(s) (external and shadow/internal)
- Proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks
- Proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks
- Proportion assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities
- Amount of senior management remuneration impacted by climate considerations
- Amount of expenditure or capital investment deployed toward climate risks and opportunities

Climate-related financial impacts

Impact of climate risks and opportunities on financial performance or position

Impact of material climate-related risks or opportunities on financial performance e.g.:

- Change in profitability/cash flow
  - Impact on revenue due to climate opportunities
  - Impact on cost from carbon price, business interruption, contingency, repairs, etc.
- Impairment charges due to assets exposed to physical and transition risks

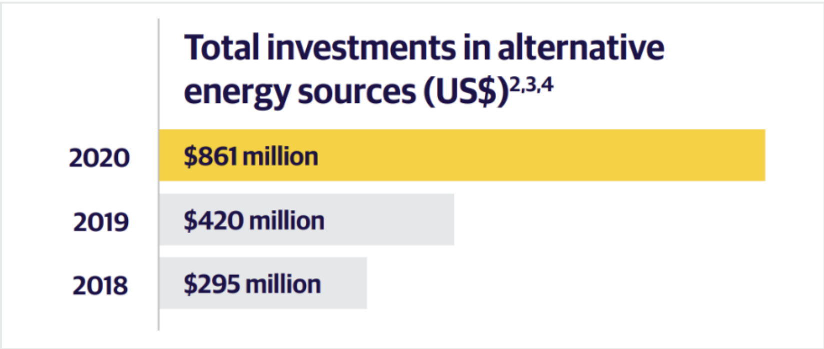
Impact of any material climate-related risks or opportunities on financial position e.g.:

- Carrying amount of assets due to exposure to physical and transition risks
- Expected portfolio value given climate risks and opportunities

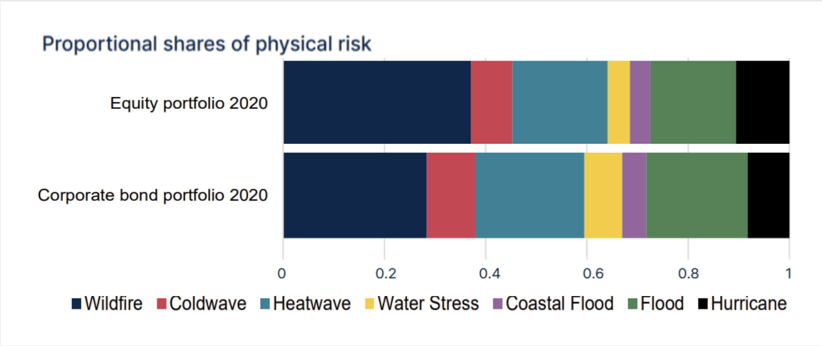
These metrics and impacts have been identified as needed data and are already being disclosed by a number of organizations

Carbon price(s) (external and shadow/internal)[1]

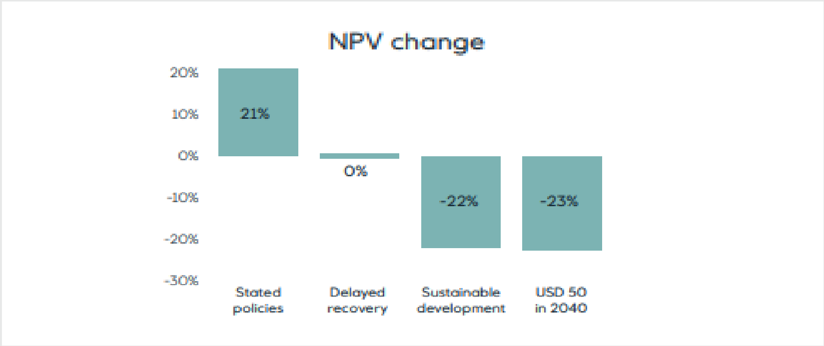
Amount of expenditure or capital investment deployed toward climate risks and opportunities[2]



Proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks[3]



Impact of any material climate-related risks or opportunities on financial position[4]



Sources
1. Aker BP, Sustainability Report 2020 p.25
2. Liberty Mutual, TCFD Report 2020, p.14
3. Ilmarinen, Annual and Sustainability Report 2020, p.50
4. Equinor, 2020 Sustainability Report, p.17

Cross-industry metrics can help estimate financial impact and are critical to measuring progress against the three other pillars

	Key Questions	Climate-related Metrics
Governance	*Is the organization's governance enabling oversight, assessment and management of climate risks and opportunities?*	Amount of senior management remuneration impacted by climate considerations
Strategy	*Is the organization aligning its businesses, strategy, and financial planning in light of climate risks and opportunities?*	Proportion of assets and/or operating, investing, or financing activities aligned toward climate opportunities Amount of expenditure or capital investment deployed toward climate risks and opportunities GHG emissions
Risk Management	*What is the organization's exposure to climate risk?*	Carbon price(s) (external and shadow/internal) Proportion of assets and/or operating, investing, or financing activities exposed to material transition risks Proportion of assets and/or operating, investing, or financing activities exposed to material physical risks

Climate-related Financial Impacts

Impact of any material climate-related risks or opportunities on financial performance e.g.:

- Change in profitability/ cash flow
  - Impact on revenue due to climate opportunities
  - Impact on cost from carbon price, business interruption, contingency, repairs, etc.
- Impairment charges due to assets exposed to physical and transition risks

Impact of any material climate-related risks or opportunities on financial position e.g.:

- Carrying amount of assets due to exposure to physical and transition risks
- Expected portfolio value given climate risks and opportunities

Example consultation questions

Preparer perspective:

- Benefits of disclosing these metrics
- Challenges of disclosing these metrics
- How these metrics may inform planning and decision making

User perspective:

- Usefulness of preparers' disclosure of these metrics

All respondents:

- Potential for improving comparability
- Additional metrics for consideration

→ Example information flow between climate-related metrics and financial impacts

1. Sources hyperlinked in organization name or after quote (if not available as link)

TCFD is requesting input on whether these cross-industry metrics should be subject to a materiality assessment

2017 Annex language

*The disclosures related to the **Strategy and Metrics and Targets recommendations involve an assessment of materiality**…Certain organizations—those in the four **non-financial groups that have more than one billion U.S. dollar equivalent** (USDE) in annual revenue—**should consider disclosing** information related to the Strategy and Metrics and Targets recommendations in other reports when the information is not deemed material and not included in financial filings.*

2017 Annex, Section A.3

Benefits of including a materiality assessment

The **cornerstone of many disclosure standards** and requirements is a determination of materiality

Benefits of omitting a materiality assessment

The cross-industry, climate-related metrics, particularly GHG emissions, **are key to understanding climate-related risks and opportunities** and aggregating risks across the economic system

Example consultation questions

All respondents:

Guidance for **including or omitting materiality assessment** across all or a subset of seven cross-industry, climate-related metrics

Language around Scope 3 and financed emissions has been expanded to capture the evolving expectations of the market

Guidance for All Sectors

Dark blue – 2017 language | Light blue – New language

Metrics and targets recommended disclosure b)

- Organizations should ~~provide~~ disclose their **absolute** Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks. New footnote [*Other language remains the same*]
- Disclosures should include methodologies and emission factors used
- **New footnote:** TCFD believes that data and methodologies have matured sufficiently such that Scope 3 disclosure is appropriate for all sectors. Disclosure is particularly important for organizations for which Scope 3 emissions account for 40% or more of the total emissions of the organization or for which Scope 3 emissions have been deemed a significant risk in their value chain

Supplemental Guidance for the Financial Sector

Metrics and targets recommended disclosure a)

- Banks, asset owners, and asset managers should disclose the appropriate financed-emissions metric, based on the Partnership for Carbon Accounting Financials (PCAF's) methodology and weighted average carbon intensity (WACI), if relevant, or a comparable methodology.
- (Re)insurance underwriters should disclose WACI for their Commercial Property and Specialty Lines of business that cover tangible properties and goods, for which data and some methodologies are available. More complex Commercial and Retail lines may be addressed at a later stage.[3]

Example consultation questions

Financial sector respondents

- **Methodology** for estimating financed emissions
- **Key challenges** in **disclosing** financed emissions
- **Benefits** of estimating and disclosing financed emissions

1. See discussion of 40% threshold in SBTi's paper, SBTi Criteria and Recommendations (Section V, p. 10, Version 4.1)
2. The Global PCAF Standard covers six asset classes, but currently does not include insurance
3. Note, the CRO Forum's 2020 Carbon Footprinting Methodology for Underwriting Portfolios is currently the most advanced adaptation of WACI to insurance portfolios. (Re)insurers should follow latest industry guidance as it becomes available.

The guidance incorporates recommendations from the Portfolio Alignment Technical Supplement

Example Types of Portfolio Alignment Tools

Binary Target Measurement

- Percent of investments or counterparties with declared net-zero targets
- Primary issue: incentivizes target setting, but does not provide temperature alignment assessment

Benchmark Divergence Models

- Measures forward-looking performance against normative benchmarks
- Primary issue: poorly constructed methods can lead to additional unintended consequences

Implied Temperature Rise Models (ITR)

- Translates degree of alignment into impact in the form of a temperature score
- Primary issue: rely on a complex set of assumptions

All financial institutions should **measure and disclose forward-looking metrics** and **banks, asset owners, and asset managers should disclose the alignment of their portfolios** consistent with a 2°C or lower temperature pathway (e.g., Paris-aligned).

The PAT Supplement provides guidance on best practice around key design judgments in the construction of portfolio alignment metrics.

Example consultation questions

Financial sector respondents:

- **Use** of portfolio alignment tools
- **Purpose** of using portfolio alignment tools
- **Key challenges** of using and adopting portfolio alignment tools
- **Key benefits** of portfolio alignment tools

The targets setting section will look to reinforce and expand on guidance issued in 2017

Principles for setting targets

- ✓ **Based on recognized metrics**
  - Cross-industry, climate-related metrics
  - Sector or organization-specific metrics
- ✓ **Quantified and granular**
- ✓ **Designed in consideration of an organization's strategy and forecasting and informed notably by scenario analysis and climate science**
- ✓ **Clearly specified over time**
  - Baseline
  - Time horizon
  - Interim targets at appropriate, granular intervals (e.g., 5-10 years)
- ✓ **Reviewed and updated, when appropriate**
  - Clear process
  - Every five years, at minimum
- ✓ **Reported annually**

Example consultation questions

Preparer perspective:

- **Timeline** for setting quantitative targets across proposed metrics

All respondents:

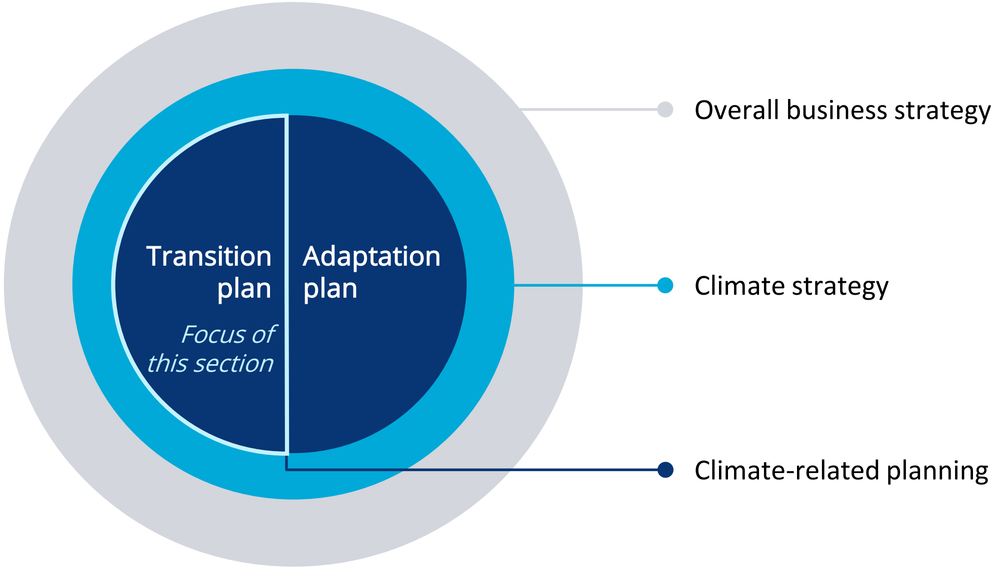
- **Usefulness** for preparers to disclose quantitative targets

1. Paper will include box referencing particularly important external timeframes (e.g. 2030) that firms should consider when setting interim milestones

The guidance will also help organizations in defining transition plans

An organization's transition plan:

- Is an aspect of an organization's overall business strategy
- Lays out how an organization aims to minimize risks and increase opportunities as the world transitions to a low-carbon economy
- Allows users and other market participants to appropriately assess and price climate-related risks and opportunities
- Provides comparability across organizations to allow regulators to assess systemic risks



Example consultation questions

Preparer perspective:

- **Timeline** for setting a transition plan
- **Key challenges** in setting a transition plan

User perspective:

- **Usefulness** for preparers to disclose transition plans

All respondents:

- **Usefulness** of climate-related metrics for **structuring and tracking progress** of a transition plan
- Whether TCFD should develop **guidance on adaptation plans**

Transition plans should especially be disclosed by organizations that have identified material transition risks

Disclosure of transition plan

Should

An organization **should disclose a transition plan if the organization has identified material transition risk**, including:

- If an organization operates in a jurisdiction with an emissions reduction commitment
- If an organization has made an emissions reduction commitment
- If an organization seeks to meet emissions reduction expectations from financial market participants

Should consider

All other organizations **should consider disclosing** a transition plan if their business activity includes significant emissions (Scope 1, 2, or 3) or is materially dependent on carbon-related assets.

Example consultation questions

All respondents:

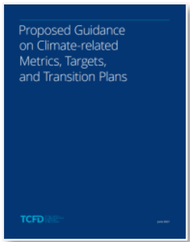
- **Types of organizations** that should disclose a transition plan
- Demand for **guidance on climate adaptation** strategy

03

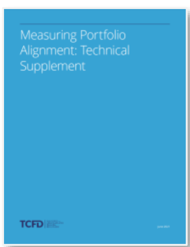
Q&A

Timeline of consultation and planned publication

June | July | August | September | October



Guidance on Metrics, Targets, and Transition Plans (MTT)



Portfolio Alignment Technical Supplement (PAT)

Public Consultation
June 7 – July 7

Revisions and final Task Force review

Submit to Financial Stability Board
September 15

Documents Published
Mid-October 2021

Updated 2021 Implementation Guidelines will also be published in October

We are eager to hear your views and your contribution is appreciated
Further questions can be sent to the TCFD at info@fsb-tcfd.org

APPENDIX

SUMMARY OF ADDITIONS TO GUIDANCE

Summary of additions to Guidance for All Sectors and Supplemental Guidance for the Financial Sector (1/3)

Dark blue – Recommended Disclosure | Light blue – New Language

Governance

a) Describe the board's oversight of climate-related risks and opportunities.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

Supplemental Guidance for the Financial Sector

- Expands definition of "exposure to carbon-related assets" to include all Non-Financial Sector Groups and extends the Supplemental Guidance to apply to insurance companies, asset owners, and asset managers in addition to banks.

b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Guidance for All Sectors

- Organizations should disclose climate-related financial impacts, estimated in consideration of climate-related metrics, among other factors, and reported for the historical and current period

c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Guidance for All Sectors

- Organizations should disclose climate-related financial impacts, estimated in consideration of climate-related metrics, among other factors, and reported for the forward-looking period
- Organizations should release a transition plan component of its strategy if an organization determines it has material climate-related transition risks, including if it operates in a jurisdiction with an emissions reduction commitment, has made an emissions reduction commitment, or seeks to meet emissions reduction expectations from financial market participants.

Summary of additions to Guidance for All Sectors and Supplemental Guidance for the Financial Sector (2/3)

Dark blue – Recommended Disclosure | Light blue – New Language

Risk Management	
a)	Describe the organization's processes for identifying and assessing climate-related risks.
b)	Describe the organization's processes for managing climate-related risks.
c)	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Metrics and Targets

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

Guidance for All Sectors

- Organizations should disclose a set of cross-industry, climate-related metrics for the historical, current, and forward-looking period:
  - GHG emissions (Absolute Scope 1, Scope 2, and relevant, material categories of Scope 3 emissions, as well as carbon intensity)
  - Carbon price(s) (external and shadow/internal)
  - Proportion of assets and/or operating, investing, or financing activities materially exposed to physical risks, based on key categories of commonly accepted risks
  - Proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks, based on key categories of commonly accepted risks
  - Proportion of assets and/or operating, investing, or financing activities aligned toward climate-related opportunities, based on key categories of commonly accepted opportunities
  - Amount of senior management remuneration impacted by climate considerations
  - Amount of expenditure or capital investment deployed toward climate risks and opportunities

Supplemental Guidance for the Financial Sector

- All financial institutions should measure and disclose forward-looking metrics and banks, asset owners, and asset managers should disclose the alignment of their portfolios consistent with a 2°C or lower temperature pathway (e.g., Paris-aligned).

1. TCFD believes that data and methodologies have matured such that Scope 3 disclosure is appropriate for all sectors

Summary of additions to Guidance for All Sectors and Supplemental Guidance for the Financial Sector (3/3)

Dark blue – Recommended Disclosure | Light blue – New Language

Metrics and Targets

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Guidance for All Sectors

- TCFD believes that data and methodologies have matured sufficiently such that Scope 3 disclosure is appropriate for all sectors. Disclosure is particularly important for organizations for which Scope 3 emissions account for 40% or more of the total emissions of the organization or for which Scope 3 emissions have been deemed a significant risk in their value chain.

Supplemental Guidance for the Financial Sector

- Banks, asset owners, and asset managers should disclose their financed emissions in line with the PCAF and WACI, if relevant, or a comparable methodology.
- (Re)insurance underwriters should disclose WACI for their Commercial Property and Specialty Lines of business that cover tangible properties and goods, for which data and some methodologies are available. More complex Commercial and Retail lines may be addressed at a later stage.

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Guidance for All Sectors

- Organizations should disclose climate-related targets, especially those based on cross-industry, climate-related metrics noted in recommended disclosure a) and should disclose key industry-specific metrics
- Targets should be informed by qualitative and / or quantitative scenario analysis and company forecasting, and should be quantified and sufficiently granular to enable tracking
- Targets should include interim targets and should be reported annually and reviewed regularly