UNEP FI INPUTS TO THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Facilitating the flows and integration of climate information for a smooth but determined transition to the new climate economy

Eric Usher, Acting Head, UNEP Finance Initiative

First meeting of the TCFD **9 February 2016 – London, UK**

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A UNEP-run network of **financial institutions** worldwide

- Members: 230 listed and un-listed financial corporations from banking, insurance, and asset management; development banks.
- Objective: Financial institutions fit for financing sustainable development
- **Two agendas**:
  - ✓ **Environmental risk** agenda (managing brown problems)
  - ✓ **Environmental performance** agenda (delivering green solutions)
- **Availability + integration** of information central to both agendas

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- UNEP FI has track record both on
  - ✓ Financial institutions as the readers of information
  - ✓ Financial institutions as the issuers of information

- **FIs as readers:** require standardised; material, integrated and verified information.

- **FIs as issuers:** FI disclosure less advanced than disclosure in the real economy.

RELEVANT INITIATIVES

POSITIVE IMPACT MANIFESTO

Positive Impact Workstream
130 banks driving positive impact. Enabling assessment and disclosure.

UNEP Inquiry:
Design of a Sustainable Financial System

PSI
Principles for Sustainable Insurance

Risk managers, risk carriers and investors

Sustainable Stock Exchanges
48 members; 15 providing ESG reporting guidance; 13 committed to do so

PRI MontréalPLEDGE

100+ investors comitted to disclosing carbon footprints

Portfolio Decarbonization Coalition

Investor action as the next step to disclosure

USD 600 bn committed towards decarbonization

GREENHOUSE GAS PROTOCOL

2° Investing Initiative

Portfolio Carbon Initiative
FI disclosure approaches and metrics

FIDUCIARY DUTY IN THE 21ST CENTURY

Integrating ESG/carbon information into investment practice.

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From:

Real economy actors → Risk information → **Financial economy actors**

__Recommendation 1__: Include finance sector climate disclosure in the scope of your work.

To:

Real economy actors → Risk information → **Financial economy actors**

Owners
Beneficiaries
Regulators

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Rationale for finance sector disclosure:

1. Enables assessment of climate risks to systemic financial stability
2. Investor disclosure drives corporate disclosure + corporate action
3. It's already starting to happen:

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RÉPUBLIQUE FRANÇAISE

PRI Montréal PLEDGE

Portfolio Decarbonization Coalition

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However:

1. Disclosure requirements, approaches, and metrics for financial actors, as issuers of information, will differ from those for actors in the real economy.

2. Even within the financial economy, disclosure approaches, and metrics are likely to differ according to asset class.

Therefore:

Recommendation 2*: Distinguish between the approaches, requirements, and metrics needed for disclosure by:*

i) Corporations/actors in the real economy
ii) Institutional investors such as pension funds
iii) Other FIs such as lenders

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The different objectives of finance sector disclosure:

1. Assessments of the **climate risk** exposure of financial portfolios, financial institutions & the financial system
   - *how well are FIs reacting to the climate economic transition and effects of climate change?*

2. Assessments of the **climate performance** of financial portfolios, financial institutions & the financial system
   - *to what degree are FIs supporting the climate economic transition?*

Therefore:

> ***Recommendation 3:*** *Distinguish between climate risk objective and climate performance objective, and include the latter in your scope of work.*

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Rationale for distinguishing between risk and performance objectives:

- Climate risk disclosure by FIs allows for an assessment of a rather immediate risk exposure.
- Doesn't say much about the degree to which Fis are conducive (or not) towards the low carbon economy.
- Considering long-term financial stability concerns, shouldn't financial system help drive the transition?
- The French regulation makes the distinction and asks FIs to disclose on both.

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Recommendation 4: *Push for integrated reporting by engaging the financial accounting and audit community*

- COP21 agreed to limit climate change to well below 2°C increase.
- This has profound effects on the valuation of many economic assets that are incompatible with these commitments.
- Critical that financial accounting and audit organizations start to address the valuation implications of the economic transitions that Governments have committed to.

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UNEP FINANCE INITIATIVE'S CLIMATE CHANGE ADVISORY GROUP

A group of recognized climate change experts from the different industries of the finance sector

Chair
Karsten Löffler, Allianz

From banking

Abyd Karmali, BoAML

Giorgio Capurri, Unicredit

Madeleine Ronquest, FirstRand

From investment

Bruce Duguid, Hermes

Frederic Samama, Amundi

From insurance

David Bresch, SwissRe

From UNEP
Nick Robins, Co-Director, UNEP Inquiry

Merlyn VanVoore, Climate Change Coordinator

***Recommendation 1**: Include finance sector climate disclosure in the scope of your work.*

***Recommendation 2:** Distinguish between the approaches, requirements, and metrics needed for disclosure by:*

i) Corporations/actors in the real economy
ii) Institutional investors such as pension funds
iii) Other FIs such as lenders

***Recommendation 3:** Distinguish between climate risk objective and climate performance objective, and include the latter in your scope of work.*

***Recommendation 4:** Push for integrated reporting by engaging the financial accounting and audit community*

THANK YOU.

Eric Usher, Acting Head, UNEP Finance Initiative