TCFD Overview
UNEP Roundtable- Workshop
16 October 2019
Agenda

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1 TCFD overview
Markets need the right information to seize the opportunities and mitigate the risks that are being created by the transition to a low carbon economy.

– Mark Carney, Chair of the FSB 2011-2018
TCFD recommendation pillars
UNEP-FI programs aspire to empower participants across the financial industry to engage with the TCFD recommendations

TCFD recommendation pillars

Core Elements of Recommended Climate-Related Financial Disclosures

- **Governance**
  The organization's governance around climate-related risks and opportunities

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

- **Risk Management**
  The processes used by the organization 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
TCFD recommended disclosures

Presently, average companies are only disclosing between 3 and 4 of the recommended disclosures

11 recommended disclosures

<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics &amp; Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclose the organisation's governance around climate-related risks and opportunities.</td>
<td>Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.</td>
<td>Disclose how the organisation identifies, assesses, and manages climate-related risks.</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</td>
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<tr>
<td>a) Describe the board's oversight of climate-related risks and opportunities.</td>
<td>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.</td>
<td>a) Describe the organisation's processes for identifying and assessing climate-related risks.</td>
<td>a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</td>
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<tr>
<td>b) Describe management's role in assessing and managing climate-related risks and opportunities.</td>
<td>b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.</td>
<td>b) Describe the organisation's processes for managing climate-related risks.</td>
<td>b) Disclose Scope 1, Scope 2, and if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks.</td>
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<td>c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</td>
<td>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.</td>
<td>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</td>
<td></td>
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2 TCFD good practice examples
TCFD good practices
The recent handbook seeks to provide specific examples of good practice and elaborate on the TCFD Implementation Guide
Good practices: Governance
Example from RBC annual report

Royal Bank of Canada
Annual Report 2018

This extract from the Royal Bank of Canada, a Canadian multinational banking and financial services company, shows that climate issues feature prominently at the top. Here, the Chair of the Board, in introducing the annual report, refers to climate change as the “most pressing issue of our age” and explains the Board’s oversight function in this respect.

This second extract from the Royal Bank of Canada explains which functions are involved in identifying, assessing, monitoring and reporting on climate-related issues, and ties this back to performance goals at a management level.

The board believes strongly that achieving sustainable growth goes beyond generating profits, and that RBC has an important role to play as a corporate citizen that is fully involved in each of the communities where we do business. Specifically, we recognize that climate change is the most pressing issue of our age, and we oversee the bank’s enterprise-wide approach to accelerating clean economic growth and supporting the transition to a low-carbon economy.

The Board and its Committees oversee senior management who is responsible for the execution of the management of E&S risks and opportunities. The Board provides oversight of our environmental strategy and our E&S risks, including our approach to managing these risks. GRM has a dedicated E&S risk team that develops approaches to identify, assess, monitor and report on climate-related risks, as appropriate. Performance goals on climate-related risks have been established at the management level.
Good practices: Strategy
Example from Commonwealth Bank annual report

Commonwealth of Australia
“Becoming a simpler, better bank”
Annual Report 2018

The following examples demonstrate different approaches for disclosing the resilience of the organisational strategy taking into account different climate scenarios.

### 2018 financial year climate change scenario analysis program

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Physical</th>
<th>Transition</th>
<th>Global Contributions</th>
<th>Direct Impacts</th>
<th>Indirect Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>Risks increase for reserve and reinsurance markets</td>
<td>Insurers may experience operational challenges</td>
<td>Higher costs for reinsurance</td>
<td>Insurance companies may experience increased claims</td>
<td>Increase in demand for reinsurance products</td>
</tr>
<tr>
<td>Retail lending</td>
<td>Risks increase for loan portfolio and credit risk</td>
<td>Lenders may experience increased late payment rates</td>
<td>Increase in loan defaults</td>
<td>Banks may experience increased losses</td>
<td>Increase in loan loss provision</td>
</tr>
<tr>
<td>Wealth</td>
<td>Risks increase for investment portfolio and retirement savings</td>
<td>Investors may experience decreased returns</td>
<td>Decrease in investment returns</td>
<td>Wealth management businesses may experience decreased revenue</td>
<td>Decrease in client assets</td>
</tr>
<tr>
<td>Business lending</td>
<td>Risks increase for corporate and commercial lending</td>
<td>Lenders may experience increased credit risk</td>
<td>Increase in credit losses</td>
<td>Corporations may experience decreased access to funding</td>
<td>Decrease in loan volume</td>
</tr>
</tbody>
</table>

The Commonwealth Bank of Australia demonstrates the findings of the scenario analysis it conducted as a diagram. The diagram shows the three scenarios it used, the related physical and transition risks, and the strategic response of the insurance, retail lending, wealth and business lending businesses. This diagram provides a useful overview of the elements which make up its scenario analysis programme and is supported by additional narrative with further details.

In the narrative which accompanies the diagram, the Commonwealth Bank of Australia describes the company-wide process it took to understand the potential impacts of climate-related risks and opportunities, noting that it prioritised the areas most material to its portfolios. It states that the scenarios are based on assumptions and should not be viewed as forecasts or predictions, offering descriptions of the underlying assumptions made for each of the three scenarios considered (i.e. 2°C with and without global coordination and a 3°C policy inertia scenario).
HSBC Holdings Plc
Annual Report and Accounts 2018

British multinational banking and financial services institution HSBC shows how climate risks can be integrated into existing risk management processes over time. For example, it explains how the bank is working to embed transition risks into its day-to-day credit management. Moreover, the bank has identified six higher transition risk sectors based on their contribution to global carbon dioxide emissions and considers its exposure to these.

Risk Management
We are increasingly incorporating climate-related risk, both physical and transition, into how we manage and oversee risks internally and with our customers. Climate risk is now included as a theme in our “Top and emerging risks report” to ensure it receives monthly management oversight via the Risk Management Meeting of the Group Management Board (‘RMMB’) (see page 30). In addition, our Board-approved risk appetite statement contains a qualitative statement on our approach to sustainability, which will be further expanded in 2019 to include climate risk explicitly.

We have a number of sustainability risk policies covering specific sectors. In 2018, we updated our energy policy to limit the financing of high-carbon-intensity energy projects, while still supporting energy customers on their transition to a low-carbon economy. From the release of the new energy policy in April 2018 until the end of 2018, HSBC financed no new coal-fired power plants.

Transition risk, in the context of climate change, is the possibility that a customer’s ability to meet its financial obligations will deteriorate due to the global movement from a high-carbon to a low-carbon economy. HSBC is working to embed transition risk into its day-to-day credit risk management. The aim is that over time, each wholesale counterparty will receive a client transition risk rating based on their susceptibility to, and ability to manage transition risk.

Climate risk will also be explicitly included in the Board-approved risk management statement for 2019, showing the crucial linkages between board oversight of climate-related issues and risk management.

We have identified six higher transition risk sectors based on their contribution to global carbon dioxide emissions. These sectors are: oil and gas; building and construction; chemicals; automotive; power and utilities; and metals and mining. Over time we may identify additional sectors as having higher transition risk depending on a variety of factors, including country-level carbon dioxide reduction plans per the Paris Agreement.

The table below presents our exposure to the six higher transition risk sectors. These figures capture all lending activity, including environmentally responsible customers and sustainable financing. Further details on our approach to the quantification of exposures can be found in footnote 37 on page 67. This is expected to evolve over time as we develop new climate-related metrics.

The excerpt also shows how risk management disclosures and underlying approaches are likely to mature and evolve over time and will include development of related metrics.
Good practices: Targets and Metrics
Example from Prudential PLC annual report

Prudential Plc
“We do life.”
Annual Report 2018

Prudential plc, a British multinational life insurance and financial services company, provides an in-depth discussion of its climate-related performance. When discussing its Scope 1, 2, and 3 emissions, Prudential specifically notes the scope and methodology utilized to calculate its Scope 3 emissions related to the air travel of its employees. Prudential also provides in-depth discussion on its Scope 2 emissions, which make up the majority of its overall emissions.

Prudential Group Scope 1 and 2 GHG Emissions
We achieved a ranking of 8 in the 2018 CDP Climate Change disclosure benchmark, and in ClimateWise, the insurance sector climate initiative managed by the Cambridge Institute for Sustainability Leadership, we improved our score, achieving 78 per cent (2017: 72 per cent). Our performance in ClimateWise against six core principles (independently audited by PwC).

As a Group, we signed up to RE100 in 2018 to achieve 100 per cent renewable electricity by 2025 across our occupied and managed investment estates. 30 per cent of our global electric consumption is procured from 100 per cent certified renewable sources (solar PV and on-shore wind). Our Group Scope 2 (market-based) emissions are independently audited by Deloitte. Looking ahead, we will develop roadmaps in 2019 for the demerged businesses to set out strategies to achieve this target, on a company-by-country basis.

As our business becomes increasingly global, we recognize the importance of understanding the impact of air travel on our overall corporate carbon footprint. We have collated all travel data internally across all three regions for the first time. We have elected to disclose Scope 3 GHG emissions data from air travel for the UK and Europe business unit. This amounted to 21,622 tCO₂e, representing a 50 per cent increase over preliminary estimates (2017: 14,413 tCO₂e). The scope of this data now includes air travel from our sites in the UK, Japan, Kenya, Poland and Zambia, which are controlled by the UK and Europe business unit.

Our combined reported and unreported carbon footprint from air travel is a significant contribution to our overall emissions. Therefore, as part of a holistic approach to the management of our climate impacts, we will focus management effort on reducing the need for air travel through the deployment of digitally enabled office working practices and offsetting emissions from unavoidable flights as final mitigation. Plans will be developed in 2019 to establish a CO₂ offsetting programme for air travel emissions.
3 What comes next
Recent developments suggest a growing role for the TCFD in regulatory policy over the coming years

- TCFD disclosures likely to become mandatory in certain geographies
- NGFS to issue specific guidance and scenarios for climate risk
- BOE to create climate stress tests

- Companies have begun releasing TCFD reports
- Increasing focus on climate scenario analysis
- Issuance of good practice guidance

- 2007 CDSB established
- 2009 FSB established
- 2015 TCFD creation announced
- 2017 NGFS formed
- 2019 TCFD Implementation Guide published
Additional TCFD resources
Additional TCFD resources

- TCFD Implementation Guide- specific instructions provided by the SASB regarding TCFD disclosures

- TCFD Good Practice Handbook- illustrative case studies compiled by the CDSB reflecting each aspect of TCFD recommendations

- TCFDHub- an online resource that covers the recommendations and latest guidance regarding the TCFD

- TCFD Disclosures- publicly available disclosures from peer companies

- To come in 2020: UNEP-FI Hub- providing specific focus on disclosures, methodologies, and practices within the financial services industry
Regional survey update
FIRST SURVEY ON CLIMATE RISKS IN THE BANKING SECTOR CARRIED OUT AT A REGIONAL LEVEL: LATIN AMERICA AND THE CARIBBEAN

Objectives:

• Measuring the levels of knowledge, commitment and goals regarding climate risk management the banking sector,
• Establishing a comparative diagnosis at the regional level that can be both a baseline and of utility for banks,
• Releasing aggregate results in December during COP 25.

Target audience:

• Estimate total of more than 330 banks throughout the region. So far, only 36 banks have completed the survey.
• Chile, Colombia and Mexico conducted their own surveys locally, the results of which will be included in the analysis. The banking sector from these countries will not be addressed.

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