



**finance
initiative**



TCFD training for MENA
Part 1: Introducing TCFD
8 March 2021

SESSION OVERVIEW

Participants

- Senior-level sustainability managers
- On-ground implementing colleagues

Key topics

1. Introduction to climate risks
2. Relevance of climate risks to banks
3. Explanation of TCFD goals and guidance
4. Overview of the latest regulatory and industry developments on climate disclosures
5. Next steps

Learning objectives

- Gain an initial understanding of why climate risks matter for banks
- Develop knowledge of how the financial industry is trying to address climate risks

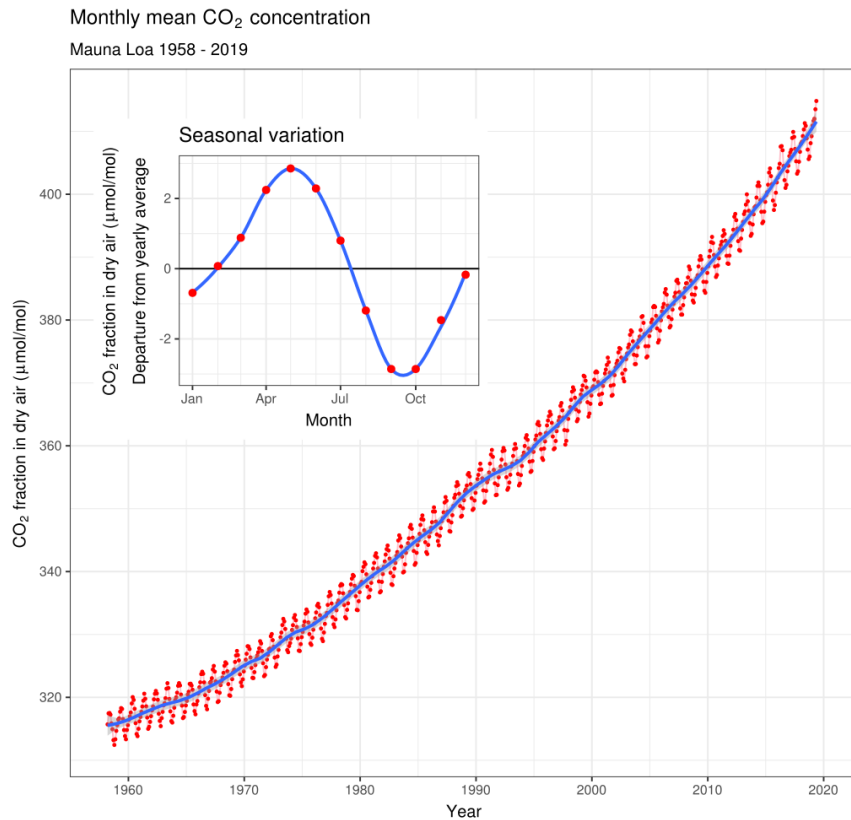
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INTRODUCTION TO CLIMATE RISKS

WHAT IS CHANGING THE CLIMATE?

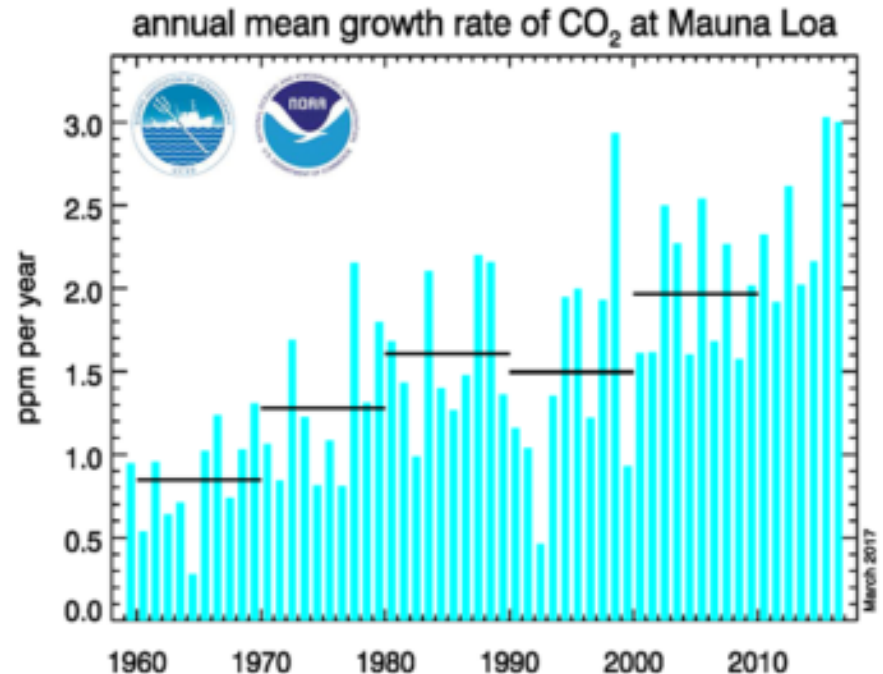
HUMAN ACTIVITIES HAVE DRIVEN CO₂ TO ITS HIGHEST LEVEL IN HUNDREDS OF THOUSANDS OF YEARS

The Keeling curve₁
PPM CO₂



Data : R. F. Keeling, S. J. Walker, S. C. Piper and A. F. Bollenbacher
Scripps CO₂ Program (<http://scrippsco2.ucsd.edu>). Accessed 2019-07-20

Rate of CO₂ increase₂



1. Scripps Institute, 2019
2. NOAA, 2017

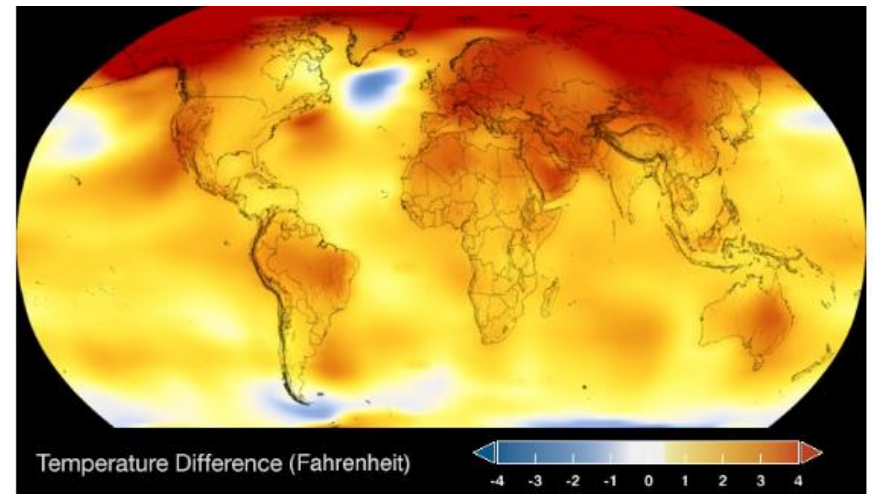
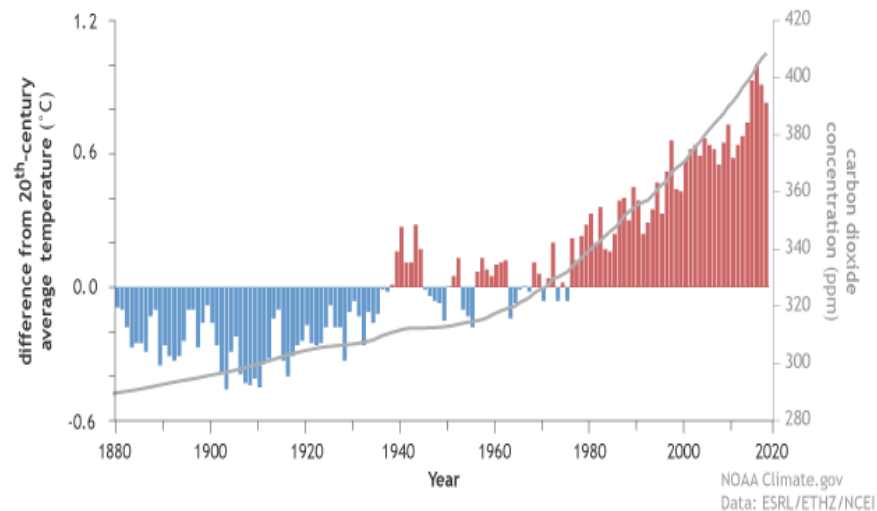
HOW WARM HAS THE PLANET GOTTEN?

THE WORLD IS CURRENTLY 1.1 °C WARMER THAN PRE-INDUSTRIAL TIMES, AND WARMING AT A RATE UNPRECEDENTED IN GEOLOGIC HISTORY

Keeling curve overlayed with temperature change₁
PPM CO₂, C°

Temperature change from 1884 to 2018₂

Atmospheric carbon dioxide and Earth's surface temperature (1880-2018)

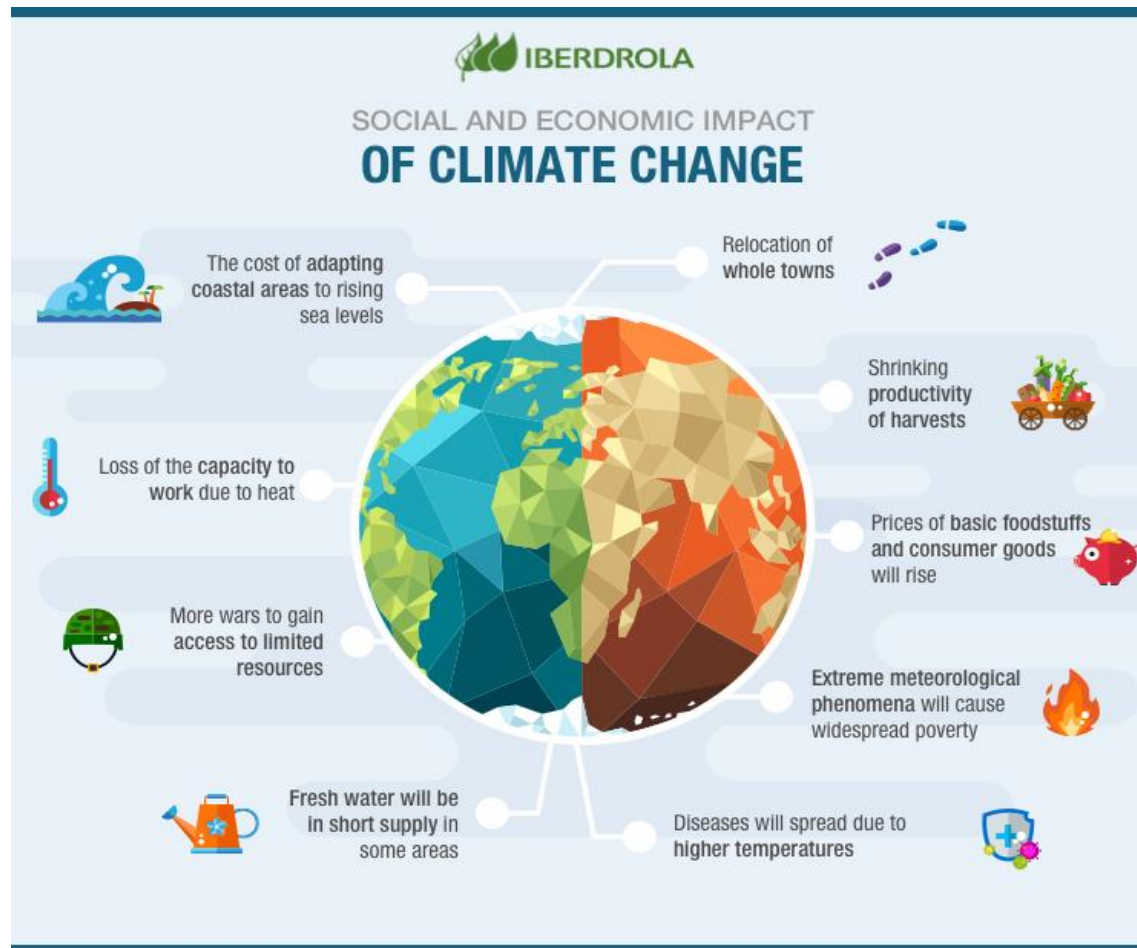


1. NOAA, 2018
2. NASA, 2018

WHAT ARE THE EFFECTS OF CLIMATE CHANGE?

THERE ARE A VARIETY OF ECONOMIC, SOCIAL, AND POLITICAL CONSEQUENCES THAT ARISE FROM PERTURBING THE GLOBAL CLIMATE SYSTEM

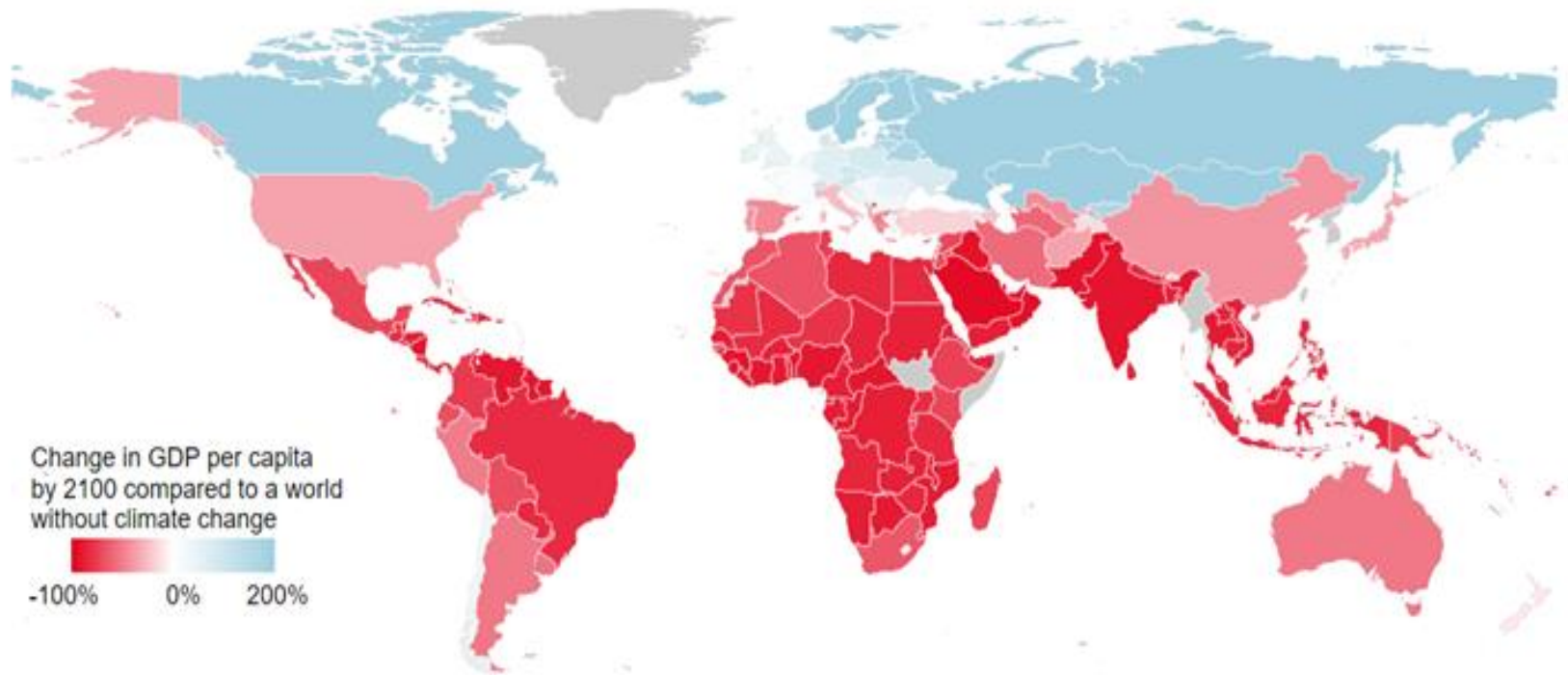
Detrimental social and economic impacts of climate change₁



WHAT MIGHT THE ECONOMIC IMPACTS OF CLIMATE CHANGE BE?

CLIMATE CHANGE WILL RESULT IN SEVERE ECONOMIC LOSSES

Projected impacts of climate change on GDP per capita between now and 2100, relative to a world without climate change₁



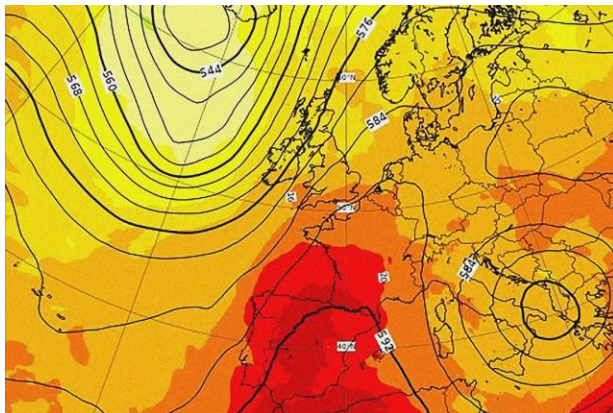
Projected calculations combined estimates of future temperature change, future change in population and GDP absent climate change and how GDP growth rates respond to temperature.

PHYSICAL AND TRANSITION RISKS IN THE MENA REGION

CLIMATE SCIENTISTS CONSIDER MENA LIKELY TO EXPERIENCE SIGNIFICANT CLIMATE DISRUPTION¹

Physical risks

- Incremental events
 - Water stress and drought
 - Changes in crop productivity
 - Increase in average temperatures
- Extreme events
 - Increase in the duration and severity of heatwaves
 - Increased flooding



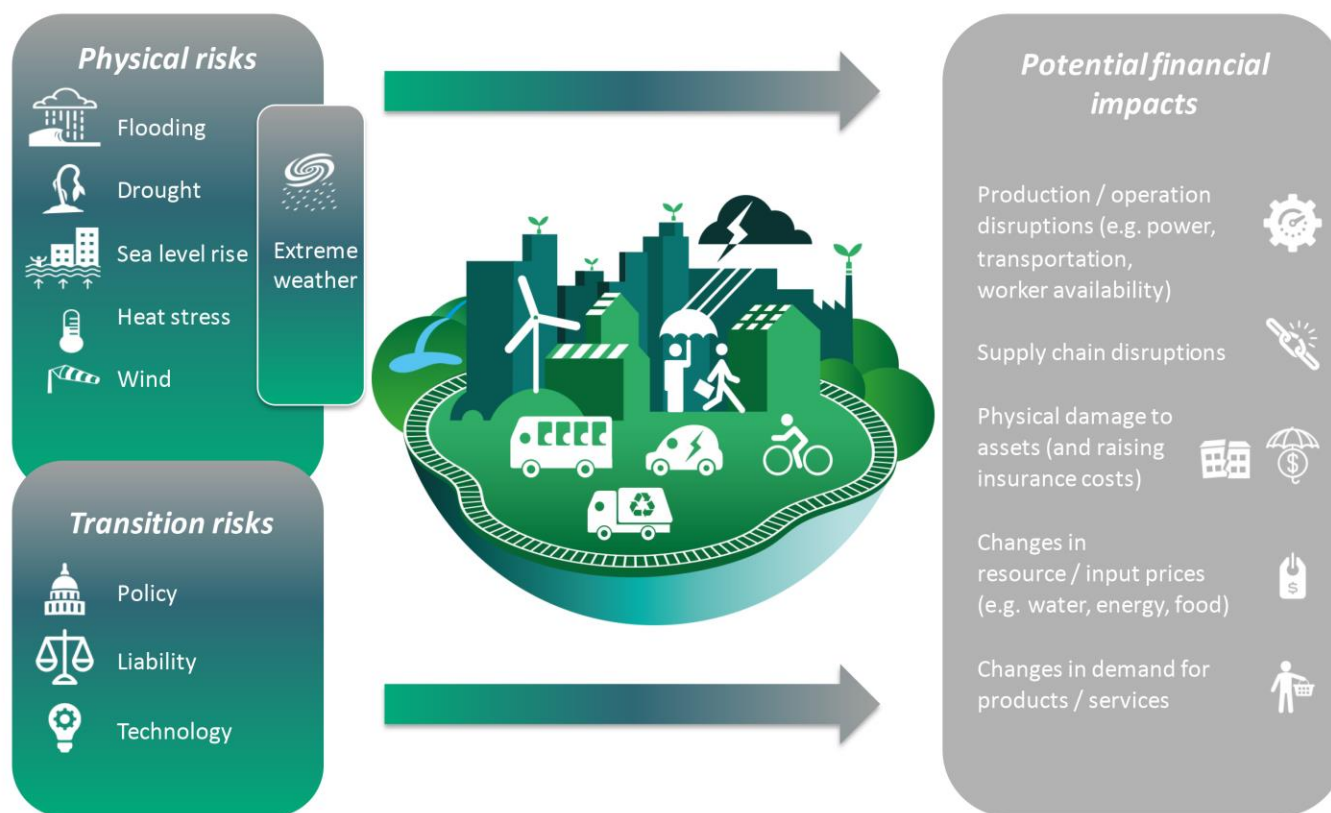
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RELEVANCE OF CLIMATE RISKS TO BANKS

HOW CLIMATE RISKS IMPACT FINANCIAL INSTITUTIONS (1/3)

CLIMATE RISKS ARE FINANCIAL RISKS

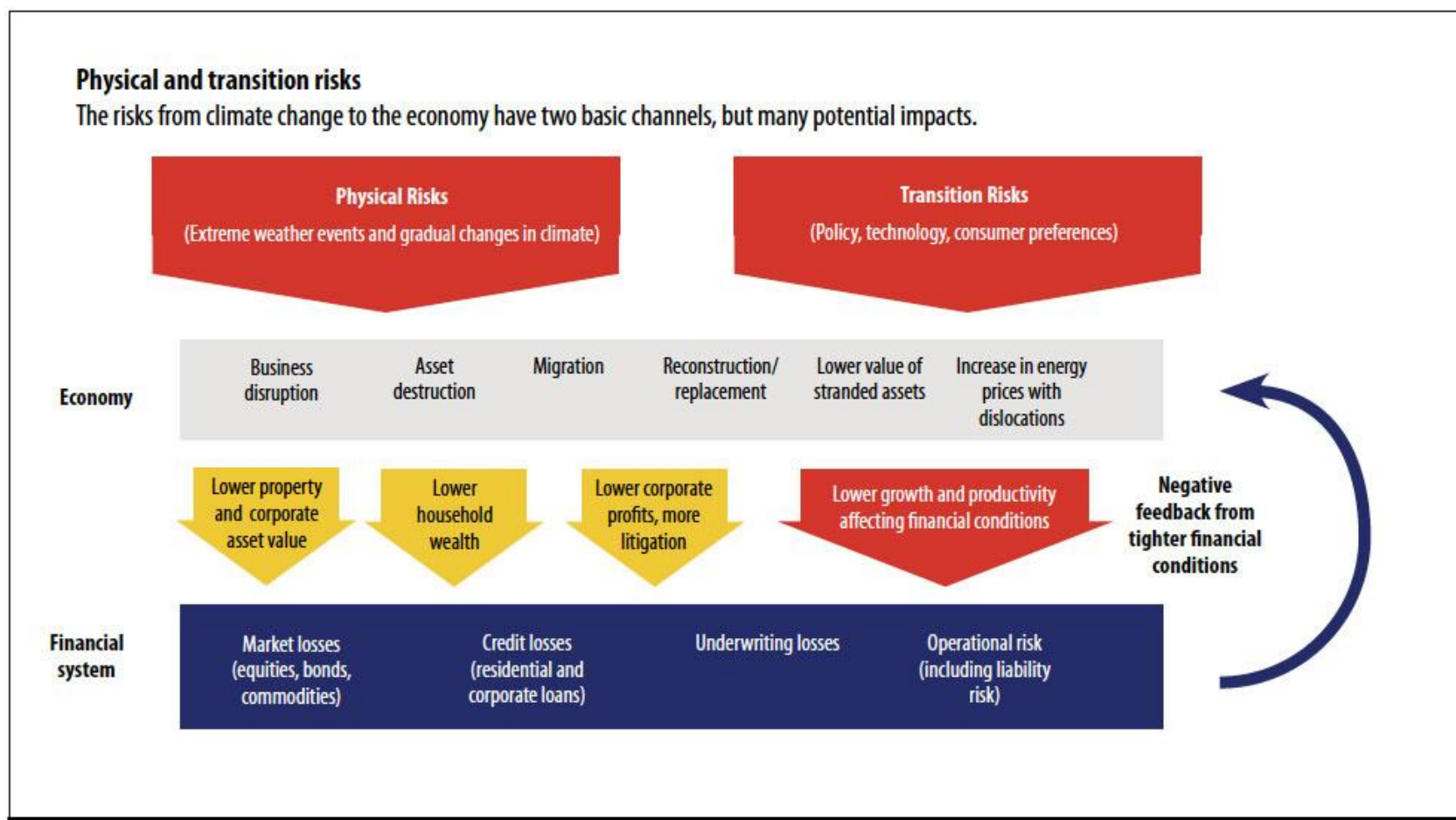
Climate risks and financial impacts₁



HOW CLIMATE RISKS IMPACT FINANCIAL INSTITUTIONS (2/3)

PHYSICAL AND TRANSITION RISKS CAN CREATE A CASCADE OF DESTABILIZING FINANCIAL EFFECTS






Risk transmission in the financial system₁



HOW CLIMATE RISKS IMPACT FINANCIAL INSTITUTIONS (3/3)

REGULATORS HAVE RECOGNIZED THAT FINANCIAL INSTITUTIONS FACE CLIMATE DRIVEN CREDIT, MARKET, AND OPERATIONAL RISKS

Various climate driven financial risks to a firm's assets₁

	 Credit	 Market	 Operational
 Physical	Increasing flood risk to mortgage portfolios Declining agricultural output increases default rates	Severe weather events lead to re-pricing of sovereign debt	Severe weather events impact business continuity
 Transition	Tightening energy efficiency standards impact property exposures Stranded assets impair loan portfolios Disruptive technology leads to auto finance losses	Tightening climate-related policy leads to re-pricing of securities and derivatives	Changing sentiment on climate issues leads to reputational risks

1. Bank of England

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EXPLANATION OF TCFD GOALS AND GUIDANCE



“The TCFD is helping to bring climate risks and resilience into the heart of financial decision-making, making climate disclosure more comprehensive and comparable and helping investment for a two-degree world go mainstream.”



– Mark Carney, Chair of the Financial Stability Board 2011-2018

THE TASKFORCE FOR CLIMATE RELATED FINANCIAL DISCLOSURES (TCFD)

THE TCFD WAS CREATED IN 2015 TO ENABLE FINANCIAL MARKETS TO BETTER ASSESS AND PRICE CLIMATE RISK

TCFD recommendation pillars₁

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

WHILE DISCLOSURES ARE IMPROVING RAPIDLY, QUANTITATIVE SCENARIO ANALYSIS REMAINS A CHALLENGE FOR MANY INSTITUTIONS

11 recommended disclosures₁

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organisation's governance around climate-related risks and opportunities.	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.	Disclose how the organisation 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.
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organisation 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 organisation's businesses, strategy, and financial planning.	b) Describe the organisation'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 organisation'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 organisation's overall risk management.	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

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OVERVIEW OF THE LATEST REGULATORY AND INDUSTRY DEVELOPMENTS ON CLIMATE DISCLOSURES

TCFD UPDATES

THE TCFD CONTINUES TO BE THE STANDARD FOR CLIMATE RISK DISCLOSURES

2020 progress

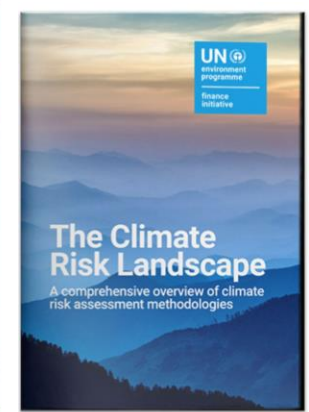
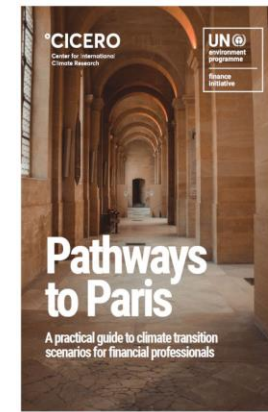
- Currently over 1000 supporters with a market capitalization of nearly \$12 trillion
- Consultation on forward-looking metrics issued
- 2020 Status report key conclusions
 - Disclosure of climate-related financial information has increased since 2017, but many institutions are still in the early stages of their disclosure journey
 - Additional quantification and standardization of disclosures is needed
 - Asset manager and asset owner reporting to their clients and beneficiaries, respectively, is likely insufficient

2021 plans

- TCFD will explore forward-looking and alignment metrics based on the results of their public consultation
- TCFD will look to establish a set of metrics for disclosure



The latest TCFD status report describes the progress companies are making in implementing the TCFD recommendations



UNEP FI's Latest TCFD publications

LATEST REGULATORY DEVELOPMENTS ON CLIMATE DISCLOSURES (1/3)

A GROWING NUMBER OF JURISDICTIONS HAVE ANNOUNCED PLANS TO MANDATE CLIMATE-RELATED DISCLOSURES

MENA

- **Egypt**, the Financial Regulatory Authority (FRA) joined the NGFS in 2020
- The **Islamic Development Bank (IsDB)** got involved in the joint report on multilateral development bank – climate finance in 2019
- **UAE**
 - The Dubai Financial Services Authority (DFSA) joined the NGFS in 2019,
 - The Abu Dhabi Global Market (ADGM) announced that its Financial Services Regulatory Authority (FSRA) joined the NGFS in 2019



Europe

- **UK** PRA proposed climate stress test in next exploratory scenario. UK will also make climate disclosures mandatory
- **France** Bank of France will define stress test parameters
- **Netherlands** Conducted climate stress test in 2019
- **Norway** Norway's central bank announced need to integrate climate into risk assessment
- **Denmark** stress test development
- **EU** ECB Guidelines on climate and environmental risks. New guidance on climate risk disclosures



LATEST REGULATORY DEVELOPMENTS ON CLIMATE DISCLOSURES (2/3)

A GROWING NUMBER OF JURISDICTIONS HAVE ANNOUNCED PLANS TO MANDATE CLIMATE-RELATED DISCLOSURES

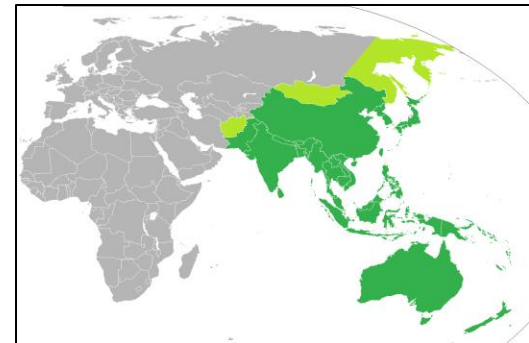
Americas

- **United States**
 - Fed recently joined the NGFS and discussed climate risk in semiannual Financial Stability Report
 - “Climate Change Financial Risk Act” to mandate climate stress testing and “Climate Risk Disclosure Act” to mandate climate-related disclosures introduced in last Congress
 - CFTC report: “Managing Climate Risk in the US Financial System”
- **Canada** Bank of Canada announced intent to develop climate stress tests



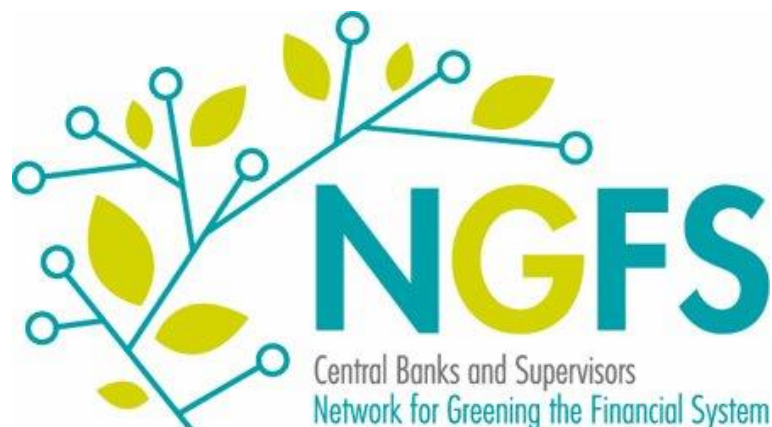
Asia & Oceania

- **Hong Kong** HK Monetary Authority (HKMA) will begin climate-related stress testing
- **Singapore** Monetary Authority of Singapore (MAS) will begin climate-related stress testing
- **Australia** Australian Prudential Regulatory Authority (APRA) puts climate stress tests on list of priorities for 2020
- **New Zealand** Will require financial institutions disclose their climate risks in alignment with TCFD



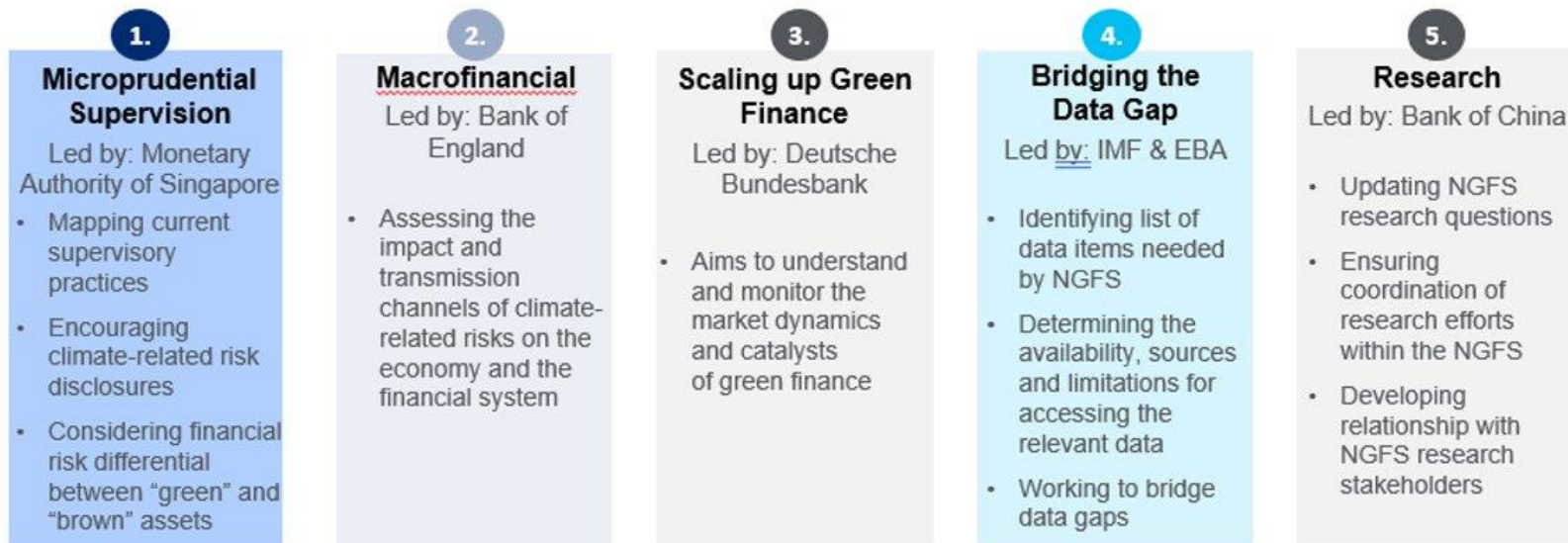
LATEST REGULATORY DEVELOPMENTS ON CLIMATE DISCLOSURES (3/3)

MEET THE NETWORK FOR GREENING THE FINANCIAL SYSTEM (NGFS)



- The Network for Greening the Financial System (“NGFS”) is a peer-learning network of central banks and supervisors (with nearly 100 members and observers, including the U.S. Federal Reserve) focused on the financial system’s risks from and impacts on environmental risks and climate change
- Its work covers **five work streams** considered important for global harmonization on climate risk. They’ve issued guidance and reports for central banks and supervisors, and also developed reference climate scenarios

Work Streams



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NEXT STEPS

QUESTIONS AND DISCUSSION

Poll questions

- Do you see a demand from your clients to have financial institutions disclose their risks?
- Have you felt any regulatory pressure regarding climate risk? How has that pressure been manifested?

Polling will be provided during the session

Discussion questions (after the session with your team)

- Do you already see certain physical risks impacting your activities? If so, which ones?
- Which sector(s) do you believe will be more likely to experience severe physical risks?
- What is your institution currently doing to measure and manage climate risk?
 - What qualitative approaches have you considered?
 - What quantitative approaches have you considered?

UPCOMING SESSION

Next session: Understanding physical and transition risks

Date: 10 March 2021

Participants

- Senior-level sustainability managers
- On-ground implementing colleagues

Agenda

1. Physical risks- extreme events and incremental changes
2. Transition risks- policy, technology, and other drivers
3. Physical and transition risks in the MENA region
4. Introduction to climate scenarios and climate data

Learning objectives

- Develop an understanding of the nature of physical and transition risks affecting the MENA region and overall
- Learn how to identify physical and transition risks within portfolios

THANK YOU FOR YOUR ATTENTION!

IF YOU HAVE ANY QUESTIONS ABOUT TODAY'S CONTENT OR UNEP FI'S TCFD PROGRAMS, PLEASE DO NOT HESITATE TO REACH OUT



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