

25 March 2016

Task force on climate-related financial disclosures

Dear task force members,

We are writing on behalf of three international investor organizations focused on investment risks and opportunities related to climate change. We are delighted that the Financial Stability Board has created the Task Force and appreciate the opportunity to provide input into the scoping of your work. We believe the Task Force can play a critical role in addressing the needs of investors and other financial market participants for meaningful disclosure of climate-related financial risks facing companies and providing useful guidance on what such disclosures should contain to enable the evaluation of these risks in investment decisions. The work of the Task Force is particularly timely in the wake of the Paris climate agreement, expanding policy responses to climate change, accelerating energy transition and evidence of increasing climate impacts. We hope we can serve as a helpful resource to the Task Force as your work moves forward.

Our organizations represent 304 long-term investors with over \$30 trillion U.S. dollars of assets under management. We appreciate the opportunity to share our perspective on the kind of climate-related disclosures by companies that would be useful for long-term investors. The Institutional Investors Group on Climate Change (IIGCC, Europe), the Ceres Investor Network on Climate Risk (INCR, North America) and the Investors Group on Climate Change (IGCC, Australasia and New Zealand) together form the Global Investor Coalition on Climate Change. For over a decade our members have engaged actively with companies in which they invest to ensure that they disclose the potential impact of climate change and climate policy on their businesses, and to encourage them to disclose material climate risks in their financial filings.

In summary

In the following, we set out the Global Investor Coalition's recommendations for the scope of the work of the Task Force on Climate-related Financial Disclosures:

- It is important that companies adopt a climate risk management and disclosure approach, which combines quantitative and narrative reporting about exposures and risk mitigation strategies. We suggest a 5-part framework covering central areas of climate risk, which could form the basis of a disclosure taxonomy for all industries. Scope I, II and where relevant Scope III emissions should be reported.
- Narrative reporting should have long timescale reflective of investment horizons for relevant sectors and the long-range nature of climate change. It should be forward-looking and risk-based.
- 2 degrees stress-testing in those sectors where climate change is expected to have a material impact will be necessary.

Considering the important role of asset owners (pension funds, insurance companies, endowments), which are the end of the investment chain, we recommend that the TCFD appoint additional asset owner members when you expand your membership.

Progress made towards implementation of the task force recommendations should be reviewed annually.

Task Force on Climate-related Financial Disclosures (TCFD) scope of work

We advocate that companies adopt a risk management and disclosure approach that would include both the narrative and quantitative disclosure of climate risk information. Reporting needs to cover relatively long time horizons, reflective of the challenge of climate change. Carbon risk should incorporate both transitional and physical risk dimensions. Reporting should also be forward-looking and risk-based. It should look at equity as well as fixed income exposures.

Institutional investors recommend the TCFD considers developing a taxonomy of disclosure that sets out an overarching reporting framework for all industries and provides additional guidance for companies in high risk or high impact industries. This could draw upon existing guidance and disclosure in the public domain, such as our own disclosure and engagement guides for the oil and gas, mining, electric power and transportation sectors.¹ In addition, to address those climate risks related to human capital, workers and communities at risk should be identified in order to provide for a just transition as described in the Paris Agreement.

A 5-part framework should be developed, which includes the following disclosures:

- The company's own GHG emissions, covering at least Scope I and II. Scope III is also of relevance, particularly where the company's products or services are carbon intensive.
- Longer term business model resilience to climate change – this should provide a strategic appraisal of the vulnerability of the company's business model to climate change and how it can mitigate risks and seize opportunities
- The company's investment in new research and development
- The company's public policy position on climate change and how this influences policy through lobbying activity, either directly or via other organizations
- The governance of the company's policy and approach to climate change, including relevant key performance indicators related to climate change

The UK has already mandated long-range viability statements which could contain this information for listed companies. A similar approach would be useful for other G20 countries.

2 degree stress-testing

Disclosures should contain a stress-test against a 2 degrees scenario in sectors where climate change is expected to have a material impact. This should include a discussion of the risks to assets posed by the physical impacts of climate change, such as extreme weather, water stress, and sea level rise. In the following, we outline what these 2 degree stress tests could look like in some of the most at-risk sectors.

For energy companies, which continue to be a priority for us, investors need public disclosure and comprehensive methodologies for two degree scenario stress testing, alongside a range of decarbonization scenarios. This involves companies publishing scenarios against which they have tested their current and future potential portfolios the range of carbon prices used, the impact of each scenario on demand, supply and price, the margin impact and the effect on strategy (capital expenditure plans, portfolio composition and R&D).

For oil and gas companies, investors require disclosure of how a company's strategy can adjust for significant changes (upwards and downwards) in demand for these fossil fuels, particularly given increasing deployment of renewable energy. Institutional investors also require disclosure of proven and probable reserves (including breakeven oil price) in different projects categorized by the nature of their environment (ultra-deep waters, oil sands etc.), as well as the break even oil price for projects across a company's portfolio where appropriate. There is a role for TCFD to provide guidance on methodologies and definitions to ensure uniform approaches to reporting across companies within these sectors. These could potentially include additional information on the impact of the growth in renewables and the different nature, cost structures and project lives of different production types (deep water versus shale versus conventional, for example).

We would encourage TCFD to consider disclosure from industries facing the most significant risks and opportunities from climate change, such as energy, transportation, real estate and agriculture, as well as other sectors exposed to these businesses, such as banks and insurers. However, we do not suggest limiting your work to those industries, because there are a number of others where the policies, technological shifts and market responses to climate change could have significant and material financial impacts.

We encourage TCFD to take into account the potential importance of being able to aggregate or otherwise analyze information for financial stability purposes. To build on initial efforts already made by the French and UK governments to examine these risks, TCFD's work should take into account the disclosure of risk exposure for assets, evidence of materiality at the portfolio and financial institution levels, and the assessment of systemic climate or carbon asset risks.

¹ Available at <http://www.iigcc.org/publications/category/investor-guides>.

Gaps in current climate disclosures

Current disclosure has a number of important limitations. These limit the usefulness of the information disclosed or data generated and make it more difficult for our members to base their investment decisions upon these disclosures. Whereas company disclosure of climate risk has evolved in recent years, further improvements are necessary in order to make the information fully usable.

For example, reporting on Scope I, II and III emissions is currently uneven. Larger companies, particularly in sectors that tend to be more emissions-intensive, generally report Scope I and II emissions; smaller companies generally do not report. Scope III emissions are rarely reported at all. Yet for some sectors—notably the financial sector, and some manufacturing industries—Scope III emissions are far more significant than Scope I and II emissions.

Emissions associated with significant or material equity exposures need to be reported. The majority of current carbon disclosure solely covers direct emissions for which an entity has operational control. There are significant gaps in the reporting of emissions associated with equity exposures. From the investor perspective, equity exposures to significant carbon holdings also pose a significant financial risk and should be incorporated into reporting. However, disclosure should also cover fixed income.

Even if emissions reporting were complete and uniform, these disclosures cover only one part of the spectrum of climate risk. It is unusual to find robust company reporting on the risks from the physical impacts of climate change—e.g. sea level rise, increasing storm severity, increased incidence of floods, droughts and heat waves—but these risks are much more widely distributed than the risks associated with emissions. For some sectors these risks are quite significant, and have already begun to shape behavior for insurance and reinsurance companies.

In addition, climate disclosures need to be comparable across markets and need to incorporate the physical, liability and transition risks associated with climate change.

Participation of asset owners and other additional stakeholders

Asset owners such as pension funds, insurance companies and endowments are at the end of the investment chain and represent the ultimate beneficiaries of the investment process. As such, their needs and requirements will be a crucial driver for the overall success of TCFD's work. We would like therefore to respectfully encourage TCFD to appoint additional asset owners representatives, especially pension funds, to its ranks in order to ensure the body can reflect better the needs of our members.

We also believe TCFD must seek input from and engage with representatives of government, securities regulators and central banks to ensure integration and alignment between current financial reporting practices on the one hand, and carbon risk reporting, on the other. Such engagement will further several objectives: to understand the successes and obstacles governments have faced when trying to require and improve climate risk disclosure, to educate officials about the need for improved reporting, and to increase the likelihood that governments will put in place enabling policy frameworks which support the objectives of the task force.

In addition, we request that such engagement - which could include public workshops, regular outreach and granting observer status to officials at TCFD meetings - be extended to include representatives of the World Federation of Exchanges (WFE) and International Organization of Securities Commissioners (IOSCO), given their potential to improve climate risk disclosure by publicly traded companies. This is particularly timely given the WFE's recent release of material ESG reporting metrics, and efforts by investors worldwide to encourage IOSCO to take initial steps to improve sustainability reporting by issuers.

Going forward

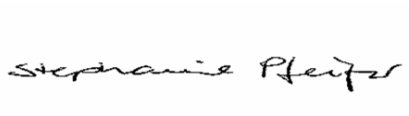
GIC members believe it is critical that, beginning in 2017, the FSB annually assess progress towards implementing TCFD recommendations. Similar annual evaluations have been used, as you know, by the FSB's Enhanced Disclosure Task Force (EDTF), which offers a model for many aspects of the TCFD's work. The EDTF's four annual evaluations have demonstrated significant progress towards implementation of its guidance, including by participating banks who disclose 82% of the information recommended. In addition, the continued participation of both preparers and users of disclosures has proved critical to the success of these evaluations. In the case of TCFD, annual surveys of companies in industries facing the most significant climate risks and opportunities, alongside a review of selected disclosures by investors and other data users, will be critical to build momentum over time towards better reporting of climate risk.

Thank you very much for your consideration. Institutional investors look forward to providing any assistance that you find helpful as the task force advances its important work.

Yours sincerely,



Emma Herd
Chief Executive, Investor Group on Climate Change



Stephanie Pfeifer
Chief Executive, Institutional Investors Group on Climate Change



Chris Davis
Chief of Staff, Ceres Investor Network on Climate Risk