

IFRS in Focus

Task Force on Climate-related Financial Disclosures releases its Recommendations

Contents

[In a nutshell](#)

[The need](#)

[Responsibility for the disclosures](#)

[Structure of the Recommendations](#)

[Recommendations and Guidance](#)

[Features and thematic areas](#)

[Primary users](#)

[Climate-related risks, opportunities
and financial impacts](#)

[Recommended Disclosures](#)

[Disclosure principles](#)

[Observations](#)

In a nutshell

A Financial Stability Board Task Force has developed a set of voluntary recommendations, compatible with current capital market disclosure requirements, which aim to provide investors, lenders and insurance underwriters with consistent climate-related financial disclosures that are useful in understanding material climate-related risks.

The “widely adoptable” recommendations are intended to encourage market-led, industry-focused initiatives within the financial reporting envelope, and address governance, strategy, risk management, and metrics and targets. They are applicable to all organisations, with emphasis on the financial sector, including insurance companies.

The recommended disclosures focus on climate-related risks (including physical and transitional risks) and opportunities (including better resource efficiency), and related financial impacts on cash flows, assets and liabilities, net income and other metrics.

They will result in more quantitative financial disclosures and, in particular, reporting metrics about the actual or possible financial impact of climate-related risks. Financial statement items may also be affected directly.

Governance processes for the disclosures are expected to be similar to those used for existing public financial disclosures and would likely involve review by the chief financial officer and audit committee.

Comments, by 12 February 2017, would be welcomed by the Task Force.

In December 2015, at the request of the G20, the Financial Stability Board established an industry-led Task Force on Climate-related Financial Disclosures with a mandate to design a set of recommendations for consistent disclosures that would help “financial market participants understand their climate-related risks.” This request followed the Paris Agreement of December 2015, which committed nearly 200 governments to strengthen the global response to the threat of climate change. This is a long-term commitment and a challenging one in economic policy terms.

For more information please see
the following websites:

www.iasplus.com

www.deloitte.com

The Task Force, chaired by Michael Bloomberg, brought together a diverse group of experts from across the financial markets including non-financial companies, investors, insurance companies, banks, ratings agencies, assurance providers and pension plans. Eric Dugelay (Deloitte's Global Leader, Sustainability Services) is a member. The Task Force was 'policy-neutral' and concentrated on how best to provide relevant, consistent, comparable and reliable information to the financial system. It has developed a set of voluntary recommendations that seek to respond to the G20's mandate and are compatible with current capital market disclosure requirements. The Recommendations, released on 14 December 2016, have a simple aim: to ensure that investors, lenders and insurance underwriters have consistent climate-related financial disclosures that are useful in understanding material climate-related risks.

The need

The Recommendations recognise that one of the lessons learned from the 2007-2008 financial crisis was that weak corporate governance and risk management led to incorrect pricing of assets and risk and, consequently, a misallocation of capital. The market did not have consistent, reliable information about risks to price assets and liabilities appropriately. The insurance industry is particularly exposed – on both sides of their balance sheet: as risk underwriters, especially in the property and casualty business where weather-related losses have increased significantly over the past 20 years, and as long-term investors.

The Task Force sees risks related to climate change as a significant and "perhaps most misunderstood" risk facing organisations today. The Paris Agreement will lead to short, medium and long-term effects and disruption as economies transition to a lower-carbon economy. This transitional risk is important to policymakers interested in the stability and resilience of the global financial system. If the economic impact of sharp changes in energy use and the revaluation of carbon-intensive assets are to be managed effectively, global financial markets will require better and more consistent information to support well-informed investment, lending and insurance underwriting decisions.

The Recommendations have a simple aim: to ensure that investors, lenders and insurance underwriters have consistent climate-related financial disclosures that are useful in understanding material climate-related risks.

"[The] question of the potential impact of climate change on the safety and soundness of the insurance industry, and therefore its ability to honour its policy obligations, is fundamental to the supervision of it."

Mark Carney, House of Lords Economic Affairs Committee, 10 March 2015

Responsibility for the disclosures

The Task Force has developed four “widely adoptable” recommendations on climate-related financial disclosures, applicable across sectors and jurisdictions, addressing governance, strategy, risk management, and metrics and targets. The Task Force emphasises that the recommendations apply across the financial sector: banks, insurance companies, asset managers and asset owners (although they apply to other sectors, too). This application is important, because “large asset owners and asset managers sit at the top of the investment chain and, therefore, have an important role to play in influencing the organisations in which they invest to provide better climate-related financial disclosures.”

Equally important is where the disclosures are made and who is responsible for making them. The Task Force thinks that climate-related financial disclosures should be included in an organisation's mainstream (i.e. public) financial filings (the annual financial statements and related disclosure documents) filed with securities markets regulators. Most G20 jurisdictions already require a discussion of material risks and uncertainties, and these would include material climate-related risks. The Task Force's recommendations should be useful in helping the Directors meet this existing obligation more efficiently and effectively.

Furthermore, the Task Force notes that its recommendations will result in more quantitative financial disclosures and, in particular, reporting metrics about the actual or possible financial impact of climate-related risks. Financial statement items may also be affected directly: cash flows from operations, asset valuation, net income and capital ratios. Thus, “financial executives (e.g., chief financial officers, chief accounting officers, and controllers) will need to be involved in the organisation's evaluation of climate-related risks and opportunities and the efforts undertaken to manage the risks and maximize the opportunities.”

Finally, and critical to enabling their recommendations to lead to reliable and consistent disclosures, the Task Force addresses corporate governance and (by implication) systems of internal control. The Task Force expects “that the governance processes for these disclosures would be similar to those used for existing public financial disclosures and would likely involve review by the chief financial officer and audit committee, as appropriate.”

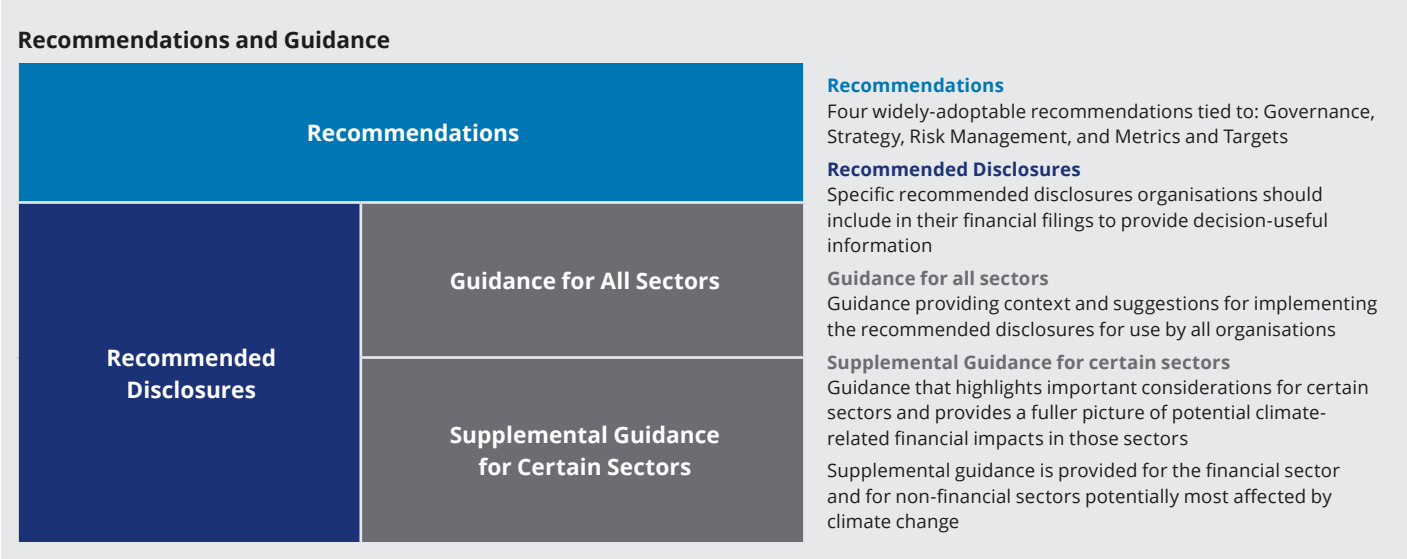
Climate-related risks are no longer a niche responsibility: they should be the responsibility of the CFO, CEO, and the Board of Directors.

Climate-related risks are no longer a niche responsibility: they should be the responsibility of the CFO, CEO, and the Board of Directors.

Structure of the Recommendations

The Task Force’s Recommendations share four ‘key features’, which support their voluntary adoption by reporting organisations. They are adoptable by all organisations; included in financial filings; designed to solicit decision-useful, forward-looking information on financial impacts; and have a strong focus on risks and opportunities related to the transition to a lower-carbon economy.

The Recommendations are built around four thematic areas that represent the primary elements common to the operation of all organisations: governance, strategy, risk management, and metrics and targets. Each of the thematic areas have associated climate-related financial disclosures (‘Recommended Disclosures’) that develop the framework, providing information that will assist investors and others to understand how an organisation considers and assesses climate-related risks and opportunities. There is also generic guidance, applicable to all sectors, and supplemental guidance for particular sectors (e.g., insurance companies and the energy sector), that will support the development of disclosures consistent with the Task Force’s Recommendations. The structure can be depicted thus:



Source: Recommendations of the Task Force on Climate-related Financial Disclosures

Features and thematic areas

The Recommendations are structured around four thematic areas, related to how all businesses operate:

- *Governance*: The organisation’s governance around climate-related risks and opportunities.
- *Strategy*: The actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.
- *Risk Management*: The processes used by the organisation 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 Report includes guidance to assist in developing climate-related financial disclosures consistent with the Recommendations and Recommended Disclosures. The guidance should assist preparers by providing context and suggestions for implementing the Recommended Disclosures. The supplemental guidance for the financial sector and certain non-financial sectors highlights important sector-specific considerations.

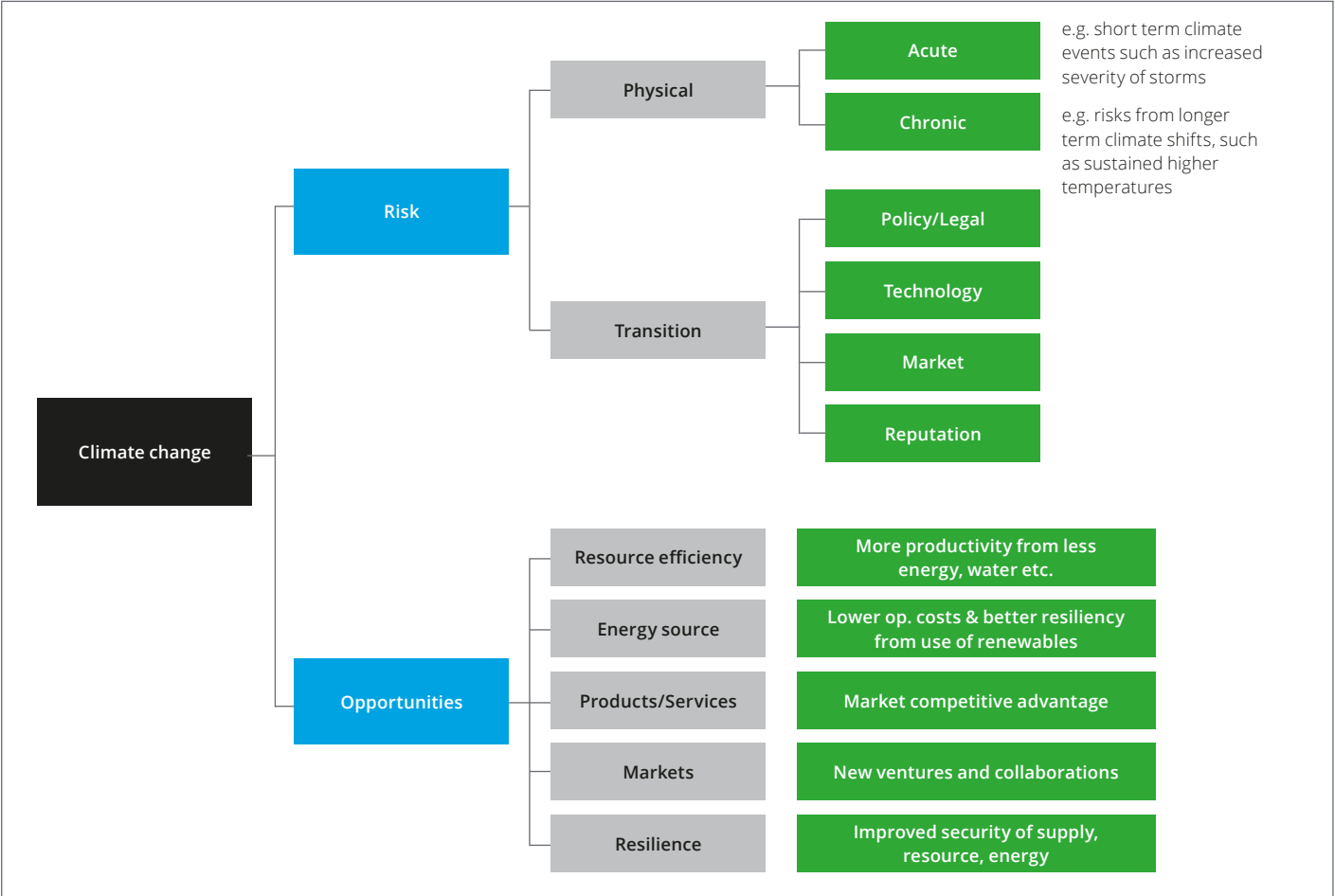
Primary users

At the FSB’s request, the Task Force considered carefully whether the target audience of users of climate-related financial disclosures should “extend beyond investors, lenders, and insurance underwriters” (‘primary users’). The Task Force confirmed that the primary users are the “appropriate target audience” because they “assume the financial risk and reward of the decisions they make.” In addition, they note that whilst “many other organisations, including credit rating agencies, equity analysts, stock exchanges, investment consultants, and proxy advisors” will use the disclosures throughout the credit and investment chain, such organisations depend on and use the same types of information as primary users.

The Task Force’s primary user group is consistent with that of securities markets regulators, financial reporting standard-setters and related organisations such as the Climate Disclosure Standards Board, the International Integrated Reporting Council and the Sustainability Accounting Standards Board.

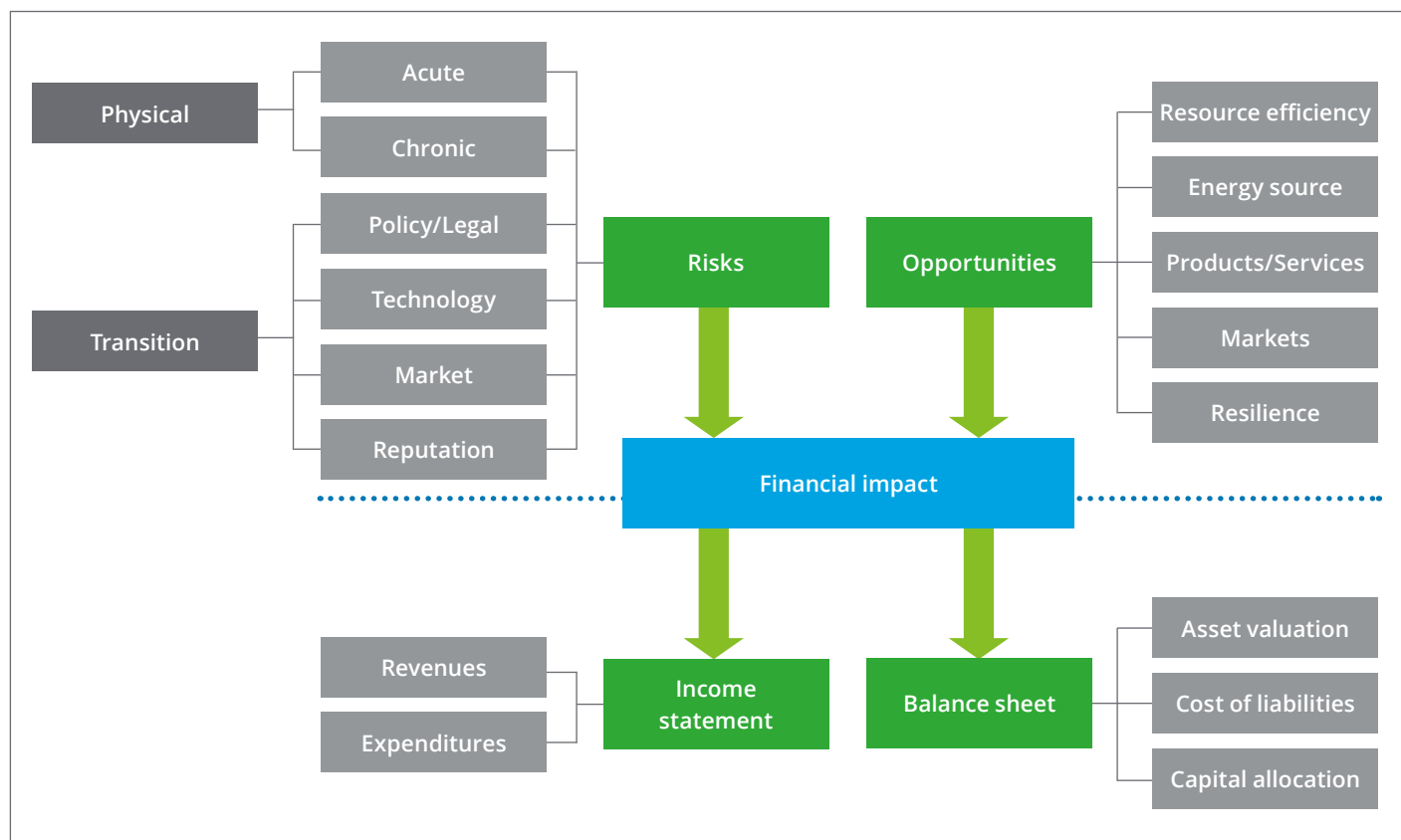
Climate-related risks, opportunities and financial Impacts

The Task Force seeks to draw on the several climate-related disclosure frameworks and provide a common framework to promote better alignment and thus greater consistency for climate-related financial disclosure. Its framework categorises these disclosures as climate-related risks and climate-related opportunities, with sub-categories as necessary:



Financial Impacts

The primary goal of the Task Force’s work is providing “better information on and better understanding of the potential financial implications of climate-related risks and opportunities” on an organisation. Investors, lenders, and insurance underwriters “need to understand how climate-related risks and opportunities are likely to impact an organisation’s future cash flows and its assets and liabilities in order to make more informed financial decisions.” The Task Force’s Report demonstrates how the financial impacts are related to the risks and opportunities noted above:



Source: Recommendations of the Task Force on Climate-related Financial Disclosures

Recommended Disclosures

The principal Recommendations and Recommended Disclosures are summarised below.

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 business, strategy, and financial planning.	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.
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 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) Describe Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and related risks.
	c) Describe the potential impact of different scenarios, including a 2°C scenario, on the organisation's businesses, strategy, and financial planning.	c) Describe how processes for identifying assessing, and management 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.

Source: Recommendations of the Task Force on Climate-related Financial Disclosures

Disclosure principles

The overall disclosure framework is supported by seven ‘principles for effective disclosure’ that are intended to “guide current and future developments” in climate-related financial reporting. The Task Force intends that using these principles “can help achieve transparent, high-quality disclosures that enable users to understand the impact of climate change on organisations.” The principles are consistent with common regulatory requirements and/or recent statements by some national and regional securities markets regulators on the use of alternative performance measures.

Principle 1	• Disclosures should present relevant information
Principle 2	• Disclosures should be specific and complete
Principle 3	• Disclosures should be clear, balanced and understandable
Principle 4	• Disclosures should be consistent overtime
Principle 5	• Disclosures should be comparable among companies within a sector, industry, or portfolio
Principle 6	• Disclosures should be reliable, verifiable, and objective
Principle 7	• Disclosures should be provided on a timely basis

The Task Force recognises that the success of its Recommendations depends on quick widespread adoption by organisations in the financial and non-financial sectors as well as the on-going leadership of the G20 and its member countries. Given that the FSB will be at the forefront of providing that leadership, it is worth noting the support of the FSB’s Chairman, Mark Carney: “The disclosure recommendations will give financial markets the information they need to manage risks, and seize opportunities, stemming from climate change. As a private sector solution to a market issue, the Task Force has focused on the practical, material disclosures investors want and which all capital-raising companies can compile.”

The Task Force’s Recommendations are open to public comment until 12 February 2016.

Observations

The Task Force’s Recommendations should help to bring clarity and consistency to the area of climate-related financial disclosures.

The Task Force’s Recommendations are capable of being used by all organisations, although it is implicit that publicly-listed organisations are the immediate focus. By tying the disclosures explicitly to the responsibility to present a *clear, balanced and understandable* discussion of climate-related risks and opportunities and the related financial effects in the context of continuous financial disclosure by publicly-listed organisations, the Task Force has stated without any doubt that senior financial managers and directors should be ultimately responsible for those disclosures.

The Task Force is not seeking immediate regulatory change. Rather, it is using ‘soft power’, to encourage market-led, industry-focused initiatives within the financial reporting envelope. It is no accident that this is an area in which the directors have an existing responsibility for ensuring that there are appropriate systems in place to generate data that is reliable, verifiable and objective.

Using common metrics should bring greater comparability within industries and across sectors.

The Task Force’s Recommendations are available on the FSB’s website:

<http://www.fsb.org/2016/12/recommendations-of-the-task-force-on-climate-related-financial-disclosures/>

Deloitte contacts		
Region	Name	Email
Global	Eric Dugelay	edugelay@deloitte.fr
Americas		
Americas	Kristen Sullivan	ksullivan@deloitte.com
United States	Helena Barton	hebarton@deloitte.com
Asia-Pacific		
Asia Pacific	Paul Dobson	padobson@deloitte.com.au
Australia	Shailesh Tyagi	shtyagi@deloitte.com.au
EMEA		
EMEA	Florence Didier-Noaro	fdidiernoaro@deloitte.fr
France	Julien Rivals	jrivals@deloitte.fr
United Kingdom	Michael Barber	mbarber@deloitte.co.uk
United Kingdom	Stuart Wright	stuawright@deloitte.co.uk



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 225,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that might affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2016. For information, contact Deloitte Touche Tohmatsu Limited.

Designed and produced by The Creative Studio at Deloitte, London. J10761