IT HAS been a year since the Task Force on Climate-related Financial Disclosures released its final recommendations, during which time many businesses have taken steps to increase their disclosures of climate risk and strategy.

The Task Force on Climate-related Financial Disclosures (TCFD) is no mere sustainability project – it was spearheaded by Bank of England Governor Mark Carney and former Mayor of New York and philanthropist Michael Bloomberg. The recommendations are formed on the basis that climate change risk is one of the most pressing global economic issues and that the finance sector must be at the heart of addressing this risk – by putting their investments in the right types of companies and initiatives. To improve investors’ ability to assess climate-related risks and opportunities, companies must disclose these risks and related activities at the highest levels as well as in financial filings.

The pressure is mounting on organisations globally to commit to a new approach to disclosure. The recommendations are already having a ripple-effect across the disclosure landscape. Major reporting initiatives and frameworks are beginning to align themselves with the TCFD, the most notable being CDP updating its 2018 questionnaires. The pressure is mounting on organisations globally to commit to a new approach to disclosure.

What does this mean in real terms for organisations? Principally, it increases the expectation for long-term strategy. Investors want to see that the companies they invest in are future-proof. To achieve this, the TCFD advocates an analysis of climate change scenarios to assess the resilience of the organisation dependent on different potential climate realities, including a 2°C of warming or lower scenario.

Businesses should acknowledge physical risks (eg, severe weather) and transition risks (eg, market changes). As every organisation and sector will be unique in its considerations, there is no prescribed risks to address; rather, assessment must be appropriate. The overall strategy for mitigation and targets must be demonstrably managed at the top of the organisation and embedded throughout it.

DISCLOSURE INSIGHTS
At present over 275 companies (with a combined market capital of over $7.1 trillion) and 47 organisations have publicly expressed support for the recommendations, including ABN Amro, Allianz, Aviva, CaPiERS, Enel, PepsiCo, Shell and Suncor.

Research indicates that companies in France, the UK and Germany lead the way on disclosing in line with the TCFD recommendations. China is currently lagging generally in disclosures, but this will likely change when mandatory reporting requirements come into force in 2020.

There are opportunities to be discovered for companies willing to embed climate change at the heart of their business strategy

However, even among companies that demonstrate good governance on climate-related risks, there appears to remain a disconnect between awareness and action, as organisations face the challenges of change.

Indeed, our research into the Sustainability Reporting Performance of the UK’s 100 largest public companies showed that even though 77 FTSE 100 companies recognise that climate change is a risk to their business, only 39 recognise it in their annual report.

THE HIGH-ACHIEVERS
Insurers and financial institutions, although not generally rated highly in sustainability reporting performance...
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Comparative to other sectors, are setting the bar for these new disclosures.

Aviva, a global insurance group, has embedded risk management into its operations. It has looked at the environmental risks at a global and local level to identify the most significant impacts and disclosed steps to mitigate these, demonstrating board-level governance. This is achieved by taking a methodical approach to each of the four areas of the TCFD.

Barclays has also been quick off the mark to demonstrate support for the recommendations and transparency in addressing them, integrating their risk review and management within its main annual financial filings. This shows climate-related risk is an integral part of the bank’s business outlook.

**TURNING DISCLOSURE INTO OPPORTUNITY**

It’s not all a challenge of disclosure. There are opportunities to be discovered for companies willing to embed climate change at the heart of their business strategy, from operational efficiencies to preparing for future mandatory enforcement in some jurisdictions. (One example is the EU Action Plan, published in March this year, which points to momentum for legislative change.)

More than that, climate disclosure is about future-proofing business models to ensure sustainable investment over short term profits and, ultimately, longevity.

*Mark Chadwick, CEO, Carbon Clear*

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**CASE STUDY: BHP**

Discussion of climate disclosure in recent years has focused on climate-related risk to which companies could be exposed. BHP has experienced first-hand the growing demand from investors for decision-useful, forward-looking information on the potential impacts of climate change on our business. The TCFD was established in 2015 to consider how voluntary corporate disclosures could more effectively provide such information. Its recommendations – released in June 2017 – addressed the risks and opportunities from the transition to a lower-carbon economy and the physical impacts of climate change. The recommendations covered the overarching themes of governance, strategy, risk management, and metrics and targets.
and emphasised the need for companies’ climate disclosures to be included in their mainstream financial filings.

The TCFD is an important step towards establishing a widely accepted framework for climate disclosure, and BHP was one of the first companies to align its disclosures (in our FY2017 Annual Report) with the recommendations.

Adoption of the TCFD recommendations is a recent example from our history of sector-leading disclosure practices. We started reporting on our environmental performance in 1997, and have participated in CDP (formerly the Carbon Disclosure Project) since its inception in 2002. More recently, ahead of the TCFD’s recommendation that organisations use climate scenario analysis as a risk management tool, we disclosed details of how we use scenarios to test the resilience of our portfolio to climate risk in our 2015 report ‘Climate Change: Portfolio Analysis’ and 2016 update, ‘Views after Paris’.

Of course, our approach to climate disclosure extends beyond consideration of climate risk and portfolio resilience. Our integrated climate strategy also encompasses mitigation, adapting to the physical impacts of climate change, and accelerating the development and deployment of low emissions technologies. This strategy is underpinned by our public disclosures and active engagement with stakeholders, including investors, policy-makers, peer companies and non-government organisations.

Our approach to climate disclosure recognises the diversity of these stakeholders’ interests and information requirements. While the TCFD-aligned disclosures in our Annual Report are addressed primarily to our investors, we provide additional climate information in our Sustainability Report and on our website that describes our approach and performance across all the elements of our climate strategy, including details of our public climate targets. We also release topic-specific reports, including our recent review of the alignment between our position on climate policy and the advocacy positions taken by industry associations to which we belong.

As our climate disclosures have expanded from operational performance data to cover a wide range of climate-related strategic and governance issues, they have become more integral to our business processes. For example, implementing the TCFD’s recommendations challenges us to re-examine the structures and processes we have in place to assess and manage long-term strategic risks such as climate change. Similarly, our public climate targets, as well as making us accountable to our external stakeholders, require us to unlock innovation internally.

Climate disclosure best practice continues to develop. As the TCFD recommendations – with their emphasis on disclosure in mainstream financial filings – become more widely adopted, the relevance to investors of alternative voluntary reporting regimes such as CDP may decline. Our climate disclosure approach will evolve to reflect such changes. We will continue to balance investor demand for more detailed and sophisticated disclosures with the need to provide climate information that is accessible and digestible by a diverse group of stakeholders.

Fiona Wild, Vice President Sustainability and Climate Change

Our approach to climate disclosure extends beyond consideration of climate risk and portfolio resilience.
CASE STUDY: CHEVRON

For the past two years, Chevron Corporation has published a report describing the company’s approach to managing climate change risks and its resilience under a low carbon scenario. The 2018 edition, Climate Change Resilience – A Framework for Decision Making, builds on the company’s prior report on managing climate change risks and provides more detail on the company’s approach to governance, risk management, strategic planning and emission reduction investments and activities, including key metrics.

“We proactively consider climate change in our business decisions, and we have the experience, processes and governance in place to manage the risks,” Michael Wirth, Chevron’s Chairman and CEO, said at the report’s publication. “We believe we are equipped to continue to succeed in any business environment as we deliver affordable, reliable energy that is a fundamental driver of economic growth and human progress.”

Aligned with the TCFD’s recommendations, Chevron’s report explains the company’s strategic decision-making approach to climate change related risks.

“We know that climate change is a growing area of interest for its investors and other stakeholders,” said Dr. Ronald Sugar, lead independent director for Chevron’s Board of Directors. “We’re committed to addressing the risks of climate change while delivering the energy that benefits societies and economies.”

Sustainable Development Scenario from the International Energy Agency. The results demonstrate that the company’s portfolio, due to its maturity and diversity across assets and geographies, is resilient in a wide variety of possible scenarios and enables Chevron to be flexible in response to potential changes.

Chevron is a leader in improving how reliable and affordable energy is developed and delivered to meet global demand. The company is making its operations more energy efficient, reducing flaring, managing methane emissions and investing in low-carbon technologies. In addition, Chevron is investing in the innovations and innovators of tomorrow through research and development and investments in science, technology, engineering and math focused education.

Michael Rubio, General Manager of ESG Engagement

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CLIMATE-RELATED RISKS, OPPORTUNITIES, AND FINANCIAL IMPACT

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We proactively consider climate change in our business decisions

The report summarises Chevron’s work to test the competitiveness of its current assets under multiple scenarios, including some of the most restrictive greenhouse gas reduction proposals such as the Sustainable Development Scenario from the International Energy Agency. The results demonstrate that the company’s portfolio, due to its maturity and diversity across assets and geographies, is resilient in a wide variety of possible scenarios and enables Chevron to be flexible in response to potential changes.

Chevron is a leader in improving how reliable and affordable energy is developed and delivered to meet global demand. The company is making its operations more energy efficient, reducing flaring, managing methane emissions and investing in low-carbon technologies. In addition, Chevron is investing in the innovations and innovators of tomorrow through research and development and investments in science, technology, engineering and math focused education.

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