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REPORT URGES COMPANIES TO DISCLOSE CLIMATE CHANGE IMPACTS IN FINANCIAL FILINGS

Companies will come under pressure to disclose climate change impacts facing their businesses as a result of a new report. In the report, the industry-led Task Force on Climate-related Financial Disclosures[1] has published recommendations and detailed guidelines (the "Recommendations") for companies to include climate-related information within their financial disclosures.

The Recommendations are principally aimed at ensuring investors, lenders and insurance underwriters have sufficient information about how climate change could affect their actual and proposed investments. However, the Task Force suggests that all companies with public equity or debt should adopt them, both in financial and non-financial sectors.

There are four key areas for disclosure:

- Governance: The role of management in assessing climate change risks and opportunities, and oversight by the board;
- Strategy: Where material, a description of impacts of actual and potential risks / opportunities from climate change upon the business's strategy and financial planning over different time horizons; and the resilience of the organisation's strategy based on different climate scenarios;
- Risk Management: Description of the organisation's process for identifying and managing climate-related risks and how these relate to the organisation's overall risk management framework;
- Metrics and Targets: Where material, disclosure of the organisation's Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions[2], and related risks; and a description of the metrics used to identify risks and opportunities.

Key issues

- Industry-led recommendations: all companies with public debt or equity include climate impacts in financial filings
- Disclosure should cover governance, strategy, risk management, metrics and targets
- Emphasis on forward-looking analysis using different climate change scenarios
- Already 100 companies with market capital of over $3.3t and responsibility for assets over $24t have declared support

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1 The Task Force, chaired by Michael Bloomberg, includes representation from a variety of organisations from the financial, services, manufacturing and energy sectors in G20 countries. It was commissioned by the Financial Stability Board, led by Bank of England Governor Mark Carney.

2 Scope 1, 2 and 3 emissions refer to direct and indirect emissions as described by the Greenhouse Gas Protocol standards.

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Significantly, the Task Force recommends that companies include climate disclosure in their mainstream financial filings (rather than in separate reports) where possible. A number of G20 countries already have regulatory requirements to disclose climate-related impacts, often through environmental disclosure requirements and it is intended that these disclosures would be expanded to include the additional reporting.

There is also an expectation that disclosures will be subject to review by an organisation's chief financial officer and audit committee. This should help raise the importance of projected climate-related impacts to board room level.

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The emphasis of reporting is on forward-looking analysis, an area in which the Task Force recognises that disclosures have been weak in the past. Organisations are encouraged to report over different time periods (which the organisation itself should define). The Recommendations' focus on scenario-planning will encourage organisations to consider the risks based on 2 or 3 different global temperature outcomes over those time periods, including the "2C increase" and "less than 2C increase" scenarios envisaged in the Paris International Climate Agreement.

The Task-Force hopes that the Recommendations will create an accepted standard across all sectors. This seems likely to depend on a number of factors, including e.g.:

- ***Reporting requirements and guidance need to be practical***: The report does contain practical guidance (with examples) on how to assess financial impacts from climate change, with additional sector-specific guidance.
- ***Reporting should not place a significant additional burden on organisations***:
  - Some responses to initial consultation on the Recommendations were critical of the additional burden of multiple disclosure frameworks. Indeed, many organisations will already be carrying out much of the data gathering and analysis for external reporting under other frameworks. For example there is overlap with other carbon and environmental reporting frameworks (e.g. Carbon Disclosure Project and Climate Disclosure Standards Board); the Recommendations seek to align reporting under the Recommendations with that undertaken under other frameworks and encourages organisations to use this existing content for their financial disclosures.
  - The new focus on *scenario planning* may make some of the analysis more complex and therefore deter some organisations, although the Task Force has issued specific guidance on how to perform this additional analysis.
- ***In order to gain traction, reporting will need to be widely adopted across all major sectors:*** So far, the Task Force reports that 100+ companies with market capitalisation of over $3.3 trillion, and financial institutions with responsibility for assets of over $24 trillion, have already declared support for the Recommendations.

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The prospects for widespread adoption of the Recommendations seem positive. Our experience of advising companies on carbon reporting frameworks has shown that, while initial implementation can be a major task, once monitoring and reporting systems are up and running, the burden of gathering data, analysis and reporting can be significantly reduced. Looking beyond the additional reporting burdens, the benefits of a fuller understanding

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of the opportunities and risks from climate change for reporting organisations should not be underestimated. When they are making decisions in relation to investments, loans and insurance, financial institutions should also find the data and analysis from reporting organisations provides a more developed and coherent risk profile. If you would like to understand how the Recommendations might apply to your organisation, please contact Nigel Howorth, James Shepherd, Michael Coxall or your usual Clifford Chance contact.

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