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Task Force on Climate-Related Financial Disclosures: 2018 Status Report

2018 Status Report: Executive Summary

In June 2017, The Task Force on Climate-related Financial Disclosures (Task Force or TCFD) released its final recommendations (2017 report), which provide a framework for companies to develop more effective climate-related financial disclosures through their existing reporting processes. In its 2017 report, the Task Force emphasized the importance of transparency in pricing risk—including risk related to climate change—to support informed, efficient capital-allocation decisions. The Task Force also recognized the challenges associated with measuring and disclosing information on risks related to climate change, but underscored that moving climate-related issues into mainstream annual financial filings would allow practices and techniques to evolve more rapidly.

For many investors, climate change poses significant financial challenges and opportunities. The expected transition to a lower-carbon economy is estimated to require around $3.5 trillion, on average, in energy sector investments a year for the foreseeable future, generating new investment opportunities. At the same time, the risk-return profile of companies exposed to climate-related risks may change significantly because of physical impacts of climate change, climate policy, or new technologies. In fact, one study estimated the value at risk to the total global stock of manageable assets because of climate change ranges from $4.2 trillion to $43 trillion between now and the end of the century. The study highlights that "much of the impact on future assets will come through weaker growth and lower asset returns across the board." This suggests investors may not be able to avoid climate-related risks by moving out of certain asset classes as a wide range of asset types could be affected.

Both investors and the companies in which they invest, therefore, should consider their longer-term strategies and most efficient allocation of capital. Companies that invest in activities that are susceptible to climate-related risks may be less resilient to the transition to a lower-carbon economy; and their investors may experience lower returns. Compounding the effect on longer-term returns is the risk that present valuations do not adequately factor in climate-related risks because of insufficient information. As such, long-term investors need adequate information on how companies are preparing for a lower-carbon economy; and those companies that meet this need may have a competitive advantage over others.

Climate-Related Financial Disclosure Review

As part of its efforts to promote adoption of the recommendations, the Task Force prepared this status report to provide an overview of current disclosure practices related to core elements of the TCFD recommendations as well as additional information to support preparers in implementing the recommendations. It is important to note that the Task Force has not attempted to assess the level of adoption of its recommendations for this report nor whether existing climate-related financial disclosures fully meet the TCFD recommendations. Companies implementing the recommendations in their 2017 reports had a very limited amount of time between the release of the Task Force's 2017 report and the start of their internal processes to prepare their 2017 financial filings. As a result, in its review of disclosures, the Task Force focused on how many companies, in eight specific groups, included information in recent reports that addressed the core elements of the Task Force's recommended disclosures.

While the Task Force found some of the results of its disclosure review encouraging, it also recognized further work is needed for disclosures to contain more *decision-useful* climate-related information. The majority of companies reviewed disclosed information that is aligned with at least one of the recommended disclosures in their financial filings, annual reports, or sustainability reports. In addition, the Task Force found several instances of disclosures addressing the core element of each of the 11 recommended disclosures. These results demonstrate that it is both possible and practicable for companies to disclose certain baseline climate-related information today. Key takeaways from the review are summarized in Figure E1.

The review results also indicate that climate-related financial disclosures are still in early stages. This is consistent with the Task Force's view that implementation of its recommendations is a journey and companies are in different places in terms of their exposure to climate-related risks and opportunities and their reporting capabilities. The Task Force encourages more companies to use its recommendations as a framework for reporting on climate-related risks and opportunities during the next reporting cycle, especially companies with material climate-related risks. Companies in early stages of evaluating the impact of climate change on their businesses and strategies and those that have determined climate-related issues are not material are encouraged to disclose information on their governance and risk management practices.

The Task Force believes the results of its climate-related financial disclosures review highlight the need for continued efforts to support implementation of the recommendations. To this end, companies supporting the Task Force's work have undertaken many initiatives to encourage implementation in different industries and with different areas of focus. The TCFD Knowledge Hub, with more than 400 resources, offers a starting place for companies working on implementing the TCFD recommendations. In addition, industry working groups are tackling industry-specific implementation challenges, including scenario analysis. These and many other efforts are critical for achieving climate-related financial disclosures that provide decision-useful information for investors and others.

Next Steps

In the nearly 15 months since the 2017 report was released, the Task Force has focused on promoting and monitoring adoption of its recommendations. During that time, the Task Force has seen significant momentum around and support for its work. When the report was issued, it was supported by just over 100 chief executive officers. Less than six months later, at President Emmanuel Macron's One Planet Summit in Paris, Michael Bloomberg announced the TCFD had over 230 supporters. Today, the TCFD has more than 500 supporters, including 457 companies and 56 other organizations (e.g., industry associations, governments). The companies represent a broad range of sectors with a combined market capitalization of over $7.9 trillion. This includes over 287 financial firms, responsible for assets of nearly $100 trillion. In addition to the 457 companies that support the TCFD, the Task Force's review identified another 104 companies that, in their financial filings or sustainability reports, stated they are already aligning their reporting with the TCFD or expressed intent to implement the recommendations. The TCFD has also received support from governments—Belgium, France, Sweden, and the United Kingdom—as well as financial regulators around the world, including in Australia, Belgium, France, Hong Kong, Japan, the Netherlands, Singapore, South Africa, Sweden, and the United Kingdom.

Over the next nine months, the Task Force will continue to promote and monitor adoption of its recommendations and will prepare a second status report for the Financial Stability Board in mid-2019. The Task Force believes the success of its recommendations depends on continued, widespread adoption by companies in the financial and non-financial sectors. Through widespread adoption, climate-related risks and opportunities will become a natural part of companies' risk management and strategic planning processes. As this occurs, companies' and investors' understanding of the financial implications associated with climate change will grow, information will become more useful for decision making, and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital.

2018 Status Report: Key Takeaways

The majority disclose some climate-related information. The majority of companies reviewed disclosed information aligned with at least one recommended disclosure, usually in sustainability reports.

Financial implications are often not disclosed. While many companies disclose climate-related information, few disclose the financial impact of climate change on the company.

Information on strategy resilience under different climate-related scenarios is limited. Few companies describe the resilience of their strategies under different climate-related scenarios, including a 2°C or lower scenario, which is a key area of focus for the Task Force.

Disclosures vary across industries and regions. Companies' areas of focus in terms of climate-related financial disclosures vary significantly. For example, a higher percentage of non-financial companies reported information on their climate-related metrics and targets compared to financial companies; but a higher percentage of financial companies indicated their enterprise risk management processes included climate-related risks. In terms of regional differences, a higher percentage of companies in Europe disclosed information aligned with the recommendations compared to companies in other regions.

Disclosures are often made in multiple reports. Companies often provided information aligned with the TCFD recommendations in multiple reports—financial filings, annual reports, and sustainability reports.

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