TEMPERATURE RISES ON CLIMATE REPORTING – *HELP!*

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It is only four years now that large companies in the G20 countries are requested to report on the potential financial impacts from climate change on their business, after the Task Force on Climate-related Financial Disclosures (TCFD) released their recommendations. Since, a lot has happened. Regulators have gotten interested and investors are stepping up demand. So, for companies, the temperature is rising to report on climate change.

By Wim Bartels

Non-financial becomes financial

For long reporting on climate change consisted of reporting on carbon emissions, demonstrating a company's impact on global warming. This changed with the release of the TCFD's recommendations in 2017. The voluntary framework was amongst the first to directly turn "non-financial impacts of climate change" into financial implications: regardless of the ultimate temperature rise by next century, what are the financial implications for companies and how are they integrating these into strategy and decision-making? That was the key question answered by the Task Force. That is quite different from the net zero commitments that so many companies now appear to release easily – or isn't it?

Covering two sides of the same coin

Over the past four years corporate reporting has seen a shift in that many companies now address climate-related risks in their annual report, notably in the risk section. The TCFD's status report 2021 will show further progress on each of the recommendations, although we are not near a strong majority yet.

A number of companies confuse net zero commitments with having reduced their climate-related risks. When you are in a carbon-intensive industry, carbon reductions of course contribute to reducing the exposure to carbon taxes. Principally though the net zero commitments address the impact *by* rather than the impact *from* climate change for the company.

For the net zero commitments we will shortly be seeing further plans substantiating the actions and investments to get to net zero emissions as investors will ask for it.

Demonstrate resiliency

So what are the investors so concerned about? In short this is resilience of their investments – and the risk that they will need to devalue or even see them getting stranded.

Investors therefore request to understand the future outlooks, on the long term, of the company's business under different scenarios. As we do not know where the world will end in terms of temperature rise, we cannot predict and therefore calculations under different assumptions and pathways are essential.

Never worked with scenarios

This is where I see companies struggling. Most companies are not used in their risk management to look long-term (i.e. longer than say 5 to 10 years) and to work with multiple potential outcomes rather than one based on "likelihood × impact".

Yet, this is what investors need to take their investment decisions. And companies therefore need to just start the journey and disclose on the results.

That is also a journey in itself: except a few, scenarios that can show significant financial impacts and include uncertainties are not easily shared by companies as we also see at the TCFD. In 2019, less than 10% reported on scenarios at all.

> **«Scenario analysis is scary yet critical to address climate risk»**

Regulation as the helping hand

Whereas the TCFD is a privately led initiative that intended to build on the investment chain pressure on reporters to drive reporting on climate-related risks, the help has come from unexpected direction.

First, a number of central banks started collectively to address climate risks in their supervisory activities and provided guidance to the financial sector as a collaboration under the Network for Greening the Financial System.

Secondly, the European Union included the TCFD recommendations in its guidelines for reporting on sustainability in 2019.

And now, the TCFD framework is about to be included in a variety of regulatory initiatives. The SEC is looking into mandating climate reporting, the EU will mandate it as from 2023, the ECB has started to request banks to report on the risks and the new to-be-established International Sustainability Standards Board under the IFRS Foundation will integrate the framework in its first set of standards that will be released in 2022.

Shortly therefore we can expect climate risk reporting to be mainstream for companies. And it is time – as the most recent weather incidents show that climate change is now a "need to address urgently" rather than a "good to work on" issue.

EVENT REVIEW

READY FOR THE CLIMATE CHALLENGE – AS A COMPANY AND IN YOUR CORPORATE ROLE?

Event sponsored by Management Digital Data AG (MDD)

What are the global trends in climate reporting? What recommendations does the Task Force on Climate-related Financial Disclosures (TCFD) make in this regard and how are companies preparing for these new requirements? These and other questions were addressed by our speakers Wim Bartels (KPMG), Claudia Kamensky (Clariant), and Peter Burkhalter (Swisscom).

The recording of Wim's presentation and all the speaker slides are available to CCR members in the protected member area on www.corporate-reporting.com