



BANK OF ENGLAND

# Speech

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## Remarks on the launch of the Recommendations of the Task Force on Climate-related Financial Disclosures

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Delivered at the Tate Modern

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*Welcome*

It is my great pleasure to have been invited, in my capacity as Chair of the Financial Stability Board (FSB), to help launch the Task Force on Climate-related Financial Disclosures consultative report.

In late 2015, at the request of the G20<sup>1</sup>, the FSB established this private-sector, industry-led Task Force, under the leadership of Michael Bloomberg.

Its mandate was to develop recommendations for voluntary, consistent, comparable, clear and reliable disclosures around climate-related financial risks for companies. The purpose was to provide the information that investors, lenders, insurers and other stakeholders need to manage these risks, and seize the associated opportunities.

As those of you who've had an opportunity to read their report will have seen, the Task Force has achieved a great deal during the year.

So on behalf of shareholders, creditors and citizens, I thank all of the Task Force members for their tremendous efforts, and your companies for making you available for this important work. If you want a job done well, give it to busy people.

Public authorities – like the G20 and the FSB – could identify the problem, but we needed the private-sector to provide the solution.

This is a solution for the market, by the market.

The Task Force members are drawn from the private sector from across advanced and emerging G20 economies, including major companies, large investors, global banks and insurers, all the major accounting firms and credit rating agencies.<sup>2</sup>

As such, the Task Force represents a true cross-section of those who prepare, demand and use climate-related financial disclosures.

*Let me briefly recap the financial stability imperative to act on climate-related financial risks*

From rising sea levels to more severe storms and more intense droughts, climate change is already presenting physical risks

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<sup>1</sup> The G20 had asked, in its April 2015 Communique, that the FSB “convene public- and private-sector participants to review how the financial sector can take account of climate-related issues”.

<sup>2</sup> A full list of Task Force members can be found at: <https://www.fsb-tcfd.org/about/#>

Since the 1980s the number of registered weather-related loss events has tripled. Inflation-adjusted insurance losses from these events have increased fivefold since the 1980s to around \$50bn over the past decade.<sup>3</sup>

Insurers are therefore amongst those with the greatest commercial incentives to understand and tackle climate change in the short term. Their response here in London is at the cutting edge of the understanding and management of such risks.

For example, Lloyd's of London underwriters were the first to use storm records to mesh natural science with finance in order to analyse changing weather patterns. Today Lloyd's underwriters are required to consider climate change explicitly in their business plans and underwriting models.

The bigger risks and opportunities are still to come for nearly every industry.

Public policy, consumer demand and technological innovation are all driving a shift towards a low carbon economy. A year ago in Paris, 195 countries committed to limit the rise in global average temperatures to less than 2°C, with 117 countries having now ratified that commitment.

So citizens, consumers, businesses, governments, and international organisations are all taking action. And entrepreneurs are developing disruptive technologies that will create and destroy value.

But which financial institutions are best positioned to gain and which to lose from this transition? Which companies and industries are most, and least, dependent on fossil fuels? Which businesses are most vulnerable to potential damage from rising physical risks? In every case, which firms have the governance, resources and the strategy to manage, and profit from, these major shifts?

At present, the challenge is that investors currently don't have the information they need to answer to these questions. This must change if financial markets are going to do what they do best: allocate capital to manage risks and seize new opportunities. Without the necessary information, market adjustments to climate change will be incomplete, late and potentially destabilising.

But with the right information, financial markets can smooth the transition to a 2-degree world. Risks to financial stability will be reduced if the transition to a low carbon economy begins early and follows a predictable path.

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<sup>3</sup> See Carney (2016), "Breaking the Tragedy of the Horizon – climate change and financial stability", speech given at Lloyd's of London, September 2015.

Of course, given the uncertainties around climate, not everyone will agree on the timing or the scale of adjustments required to achieve this goal. But the right information will allow optimists and pessimists, sceptics and evangelists, to back their convictions with their capital.

The main obstacle standing in the way of a smooth and timely market-led adjustment has been the absence of quality information on climate-related financial risks and opportunities.

As the Task Force has highlighted, a significant number of climate-disclosure regimes – indeed on some counts around 400<sup>4</sup> – already exist. But existing schemes vary in their status, coverage and ambition.

For example, while 80% of Fortune 500 companies participate in one of the existing schemes, it remains the case that only around a third of the top 1,000 US companies produce broadly comparable information on the climate-related *financial* risks they face.

The Task Force's report – presented to you today – shows the way forward.

Let me highlight some of its recommendations that will make a major contribution.

The first breakthrough is a disclosure framework that is sufficiently comprehensive for use by all publicly-listed companies, whatever their sector, across the full set of climate-related financial risks they face.

The recommendations are designed to leverage, rather than replace, existing disclosure regimes.

So the Task Force has set out how firms can comply more effectively with existing disclosure obligations, by disclosing their climate-related financial risks and opportunities in their mainstream financial reports.

In turn, this should ensure that consideration of climate-related financial risk, and opportunities, is properly embedded within, and subject to, firms' corporate governance and risk management. Reporting on these risks cannot remain a niche activity.

#### *Decision-useful, actionable information*

The disclosure recommendations deliver actionable information that will be useful in decision making. In particular, they focus on four areas critical to how real-world businesses operate: governance, strategy, risk management, and metrics.

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<sup>4</sup> See OECD (2015), "Climate Change Disclosure in G20 countries".

The expectation is that qualitative and narrative disclosures will be complemented with quantitative ones as is the case for other disclosures made in financial statements. These are grouped into the categories of revenues, expenditures, assets and liabilities and capital.

More specifically, all firms, from energy giants through to consumer goods producers, are encouraged to disclose their:

- direct carbon emissions plus those from their energy consumption, in a consistent manner (i.e. scope 1 and 2), complemented by any emission reduction targets that companies may set for themselves.
- these can be supplemented, where judged appropriate, with upstream and downstream (i.e. scope 3) emissions

At the same time, the Task Force has set out sector-specific guidance for those sectors with the biggest carbon footprints and exposures. This will ensure investors know how much utility companies are investing in low carbon alternatives. And what progress car manufacturers are making towards fuel efficiency.

#### *Scenario analysis*

The recommendations recognise also that static disclosures of current carbon footprints will not be sufficient to reveal a company's climate-related financial risks and opportunities.

For investors to price financial risks and opportunities correctly, they need to weigh firms' strategies against plausible public policy developments, technological advances and evolving physical risks and opportunities.

In a ground breaking innovation, the Task Force recommends that companies explore and disclose the potential impacts of climate-related risks and opportunities on their businesses, strategies and financial planning under different potential future scenarios.

A full exploration of transition risks may require consideration of financial risks and opportunities under several scenarios, which firms may develop directly or using commonly available models. Reflecting the commitments made in Paris, the Task Force recommends that this should include using a 2-degree scenario.

And consistent with the concept enshrined in the Paris Agreement of common but differentiated responsibilities, transition scenarios could take account of different national targets for emissions reduction. This makes them particularly useful for companies headquartered in emerging economies.

Over time, the Task Force expects to see a greater emphasis on quantitative analyses in scenario-related disclosures, including the underlying assumptions associated with the climate-related scenarios used.

*Scope extends to asset owners and managers.*

A further important feature is the expectation that, where available, asset managers and owners will make disclosures of the aggregate greenhouse gas (GHG) emissions embedded in their investment portfolios.

Achieving broad coverage will take time and obviously depends on adoption by issuers.

### *Implementation*

We are pleased that all Task Force member organisations, companies with market capitalisations of around \$1.5 trillion and financial institutions responsible for assets of \$20 trillion, have today announced their support for the disclosure recommendations.<sup>5</sup>

With better disclosure, a market in the transition to a 2-degree world can be built. That market will expose the likely future cost of doing business, of paying for emissions, and of changing processes given both those charges and tighter regulation. And it will help smooth price adjustments as opinions change, rather than concentrating them in a short, dangerous space of time.

Early disclosure rules allowed 20th-century financial markets to grow our economies by pricing risks more accurately. The spread of such standards internationally has helped lift more than a billion people out of poverty. Climate-related disclosures could be as transformative for 21st-century markets.

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<sup>5</sup> Bloomberg data and Bank calculations using market capitalisation as at 12 December 2016 and assets at end-2015.