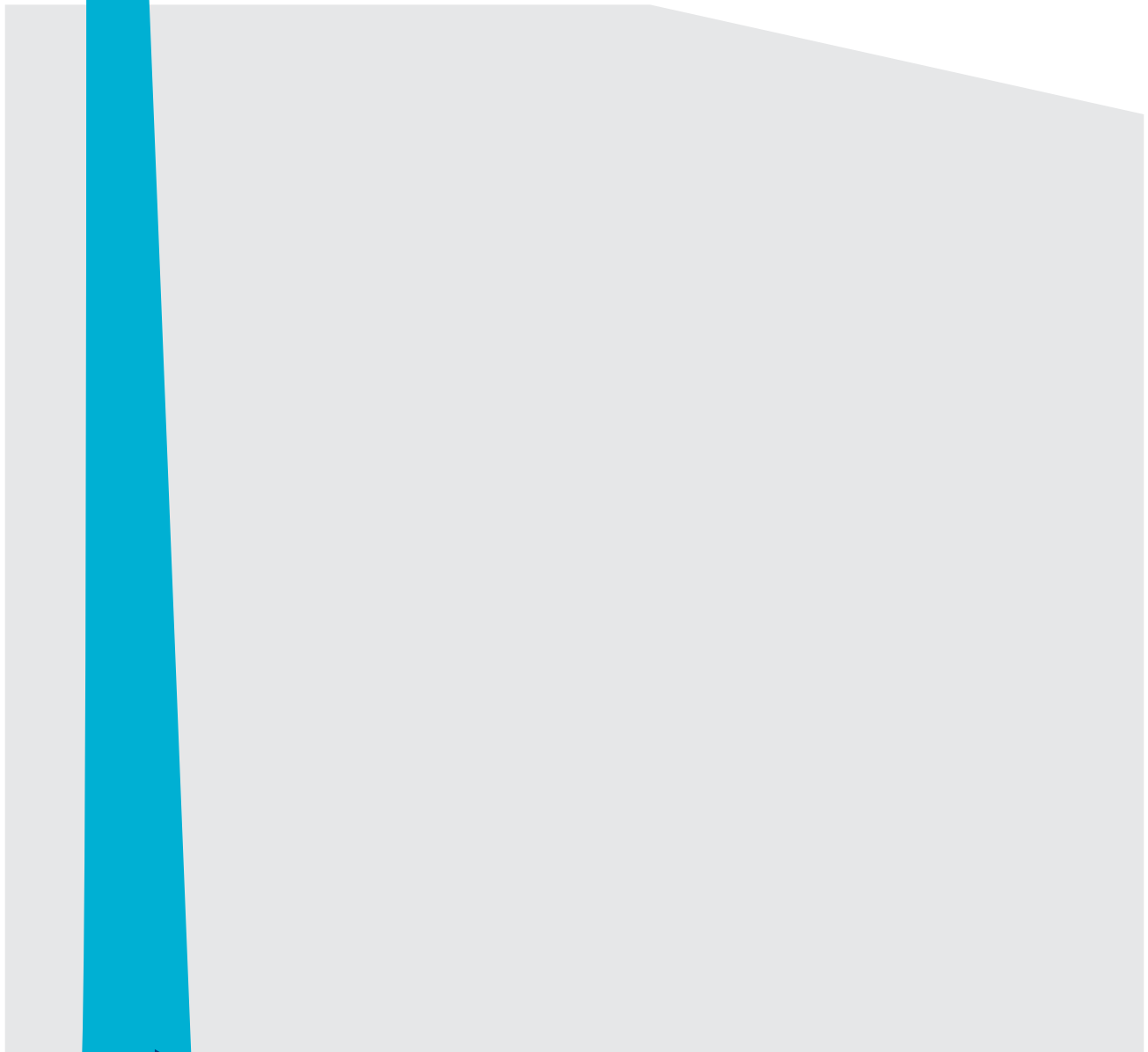




REPORTING CLIMATE RESILIENCE: THE CHALLENGES AHEAD



Key Takeaways

- The growing focus on climate resilience is driven by the view that companies that assess and understand climate-related risks and opportunities will be able to make better decisions for their future business.
- Companies in all sectors, including the financial-services industry, are being asked: What are the implications of climate change risks and opportunities for your organization's financial performance?
- The release of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in June 2017 has accelerated this focus by providing a framework for disclosures on the financial impacts of physical and transition climate-related risks.
- One year from the release, there is accelerating support for the TCFD recommendation from policy makers, investors, and financial institutions.
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Exhibit 1: Broad acceptance of TCFD recommendations

As a result of the TCFD recommendations, a wide range of governments, regulators, and investors have adopted TCFD recommendations into their policies and practices.

Government and regulatory support (selected examples) EU HLEG

UK Government established the Green Finance Task Force, which has recommended the UK Government to support the TCFD recommendations.

Sweden and France have adopted TCFD recommendations into their national policies.

UK-China Pilot Project is a joint initiative between the UK and China to promote TCFD recommendations.

Canadian Provincial Securities Regulators have adopted TCFD recommendations into their regulatory frameworks.

Australian Government has adopted TCFD recommendations into its national policies.

BY THE NUMBERS

250+ countries have signed the TCFD recommendations.

\$130T in assets under management have committed to TCFD recommendations.

16 countries have signed the CDSB recommendations.

NOTABLE COLLECTIVE EFFORTS

Worldwide adoption of TCFD recommendations.

Global TCFD Hub established to support implementation.

TCFD recommendations incorporated into national policies.

Engagement on climate change and GHG emissions by investors.

Collaborative efforts to advance TCFD recommendations.

Worldwide adoption of TCFD recommendations.

Collaborative efforts to advance TCFD recommendations.

Exhibit 2: A paradigm shift to climate resilience

About the TCFD Recommendations

The TCFD was tasked with developing a set of voluntary, financially relevant, climate disclosure recommendations that could promote informed investment, credit, and insurance underwriting decisions on assets exposed to climate related risks.

The recommendations are applicable to organizations across sectors and jurisdictions and are related to the core elements of how organizations operate. They are supplemented by specific recommendations to support organizations in providing climate-related financial disclosures in their public filings.

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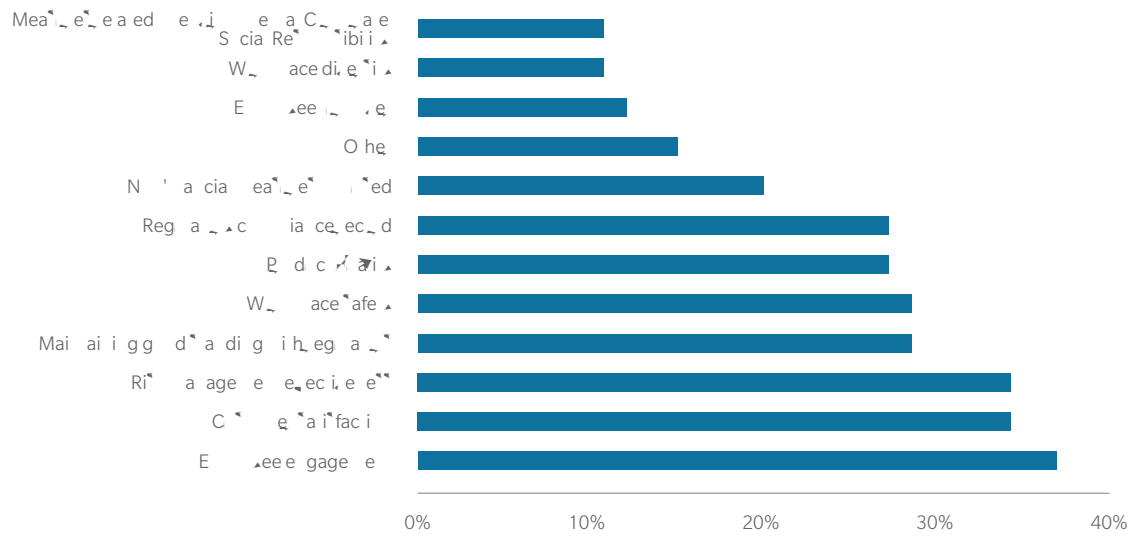
Governance and securing leadership support

3 *Ready or not: Are companies prepared for the TCFD recommendations?* CDP and CDSB 2018

4 *National Association of Corporate Directors' 2017-2018 NACD Public Company Governance Survey*

5 *National Association of Corporate Directors' 2017-2018 NACD Public Company Governance Survey*

Exhibit 4: What are the key non-financial metrics used by your board to set CEO pay?



Source: National Association of Corporate Directors; 2017-2018 NACD Public Company Governance Survey

Research by the MMC Global Risk Center flagged disconnects between corporate finance modelling/ risk management and corporate sustainability departments. (See Exhibit 5.) Their research showed how climate risk assessments can be significantly impacted by a lack of clarity around defining the

Application of scenario analysis

7 The TCFD report *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-related Risks and Opportunities* (June 2017) offers descriptions of various climate change scenarios

Second, organizations must translate climate-economic scenarios into meaningful financial terms. Most models were developed as economic or academic use cases, not financial ones. Industries within a sector can have distinct sector-level risk

Next steps

Companies are focusing increasingly on the impact of the climate change and environmental issues on current and future corporate performance. Business leaders have begun to realize that climate risks and opportunities are not abstract concepts, but instead are essential for creating a business model that delivers long-term value. As one utilities conglomerate said: "The real gain in disclosing climate-related risks is in the identification of new risk areas not typically captured under the lens of traditional risk assessments." Going forward, as regulators and investors continue to increase their interest in climate-related financial disclosures, it will become critical to review their climate reporting processes.

Most organizations are only in the early stages of this, but they are already realizing that adopting the TCFD recommendations will require a shift in existing processes. Firms will have to overcome a variety of challenges, especially within the areas of governance and leadership, risk management processes, and scenario analysis. The TCFD Knowledge Hub, with more than 400 resources for companies to explore, offers a starting place for companies as they combat these challenges on the road to TCFD implementation.

Over the next 12 months, CDP and Marsh & McLennan Companies' Global Risk Center will explore how corporates (such as non-financial institutions) are approaching the TCFD

recommendations, and develop insights and guidance to help address the challenges. This will be accomplished by conducting a detailed scan of corporate intent to adopt recommendations, identification of key questions and challenges, and initial lessons from first movers, slow movers, and non-adopters. This research will leverage findings from other TCFD-related initiatives such as the project lead by Oliver Wyman, Mercer, and the UNEP FI with 16 of the world's leading banks to promote consistency and comparability

*THE REAL GAIN IN DISCLOSING
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ABOUT CDP