European Bank for Reconstruction and Development

Global Centre of Excellence on Climate Adaptation

Advancing TCFD Guidance on Physical Climate Risks and Opportunities 31st May 2018, London Conference Summary

On 31st May 2018, the European Bank for Reconstruction and Development (EBRD), in partnership with the Global Centre of Excellence on Climate Adaptation (GCECA), held the conference Advancing TCFD Guidance on Physical Climate Risks and Opportunities. The EBRD welcomed the opportunity to host this event as a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The EBRD is the first multilateral development bank to officially join over 280 supporter organisations in becoming a supporter of the TCFD and of its recommendations on including climate-related information – both risks and opportunities – in financial disclosures.

The event launched the EBRD-GCECA report that builds on the TCFD recommendations and presents practical guidance for corporates looking to disclose their risks and opportunities with regard to physical climate impacts. This report is the result of a six month dialogue between industry-led working groups composed of representatives of corporates, financial institutions and regulators.

In light of the report's 18 recommendations, the conference facilitated discussion and reflections on the relevance of physical climate-related risks and opportunities to financial markets. Three panels, gathering corporations, banks, regulators, asset managers, rating agencies, and others were convened to discuss the practical implementation of physical climate-related disclosure metrics by corporations.

Event summary

The conference was opened by Josué Tanaka, EBRD Managing Director, and Pierre Heilbronn, EBRD Vice President, who welcomed the audience and set the scene by highlighting EBRD's long-standing commitment to financing the transition to a low-carbon and climate-resilient economy.

Henk Reinders, speaking on behalf of the Dutch Central Bank DNB, stressed the role that regulators must play regarding physical risk. Curtis Ravenel, Global Head of Sustainable Business and Finance at Bloomberg, presented TCFD recommendations related to physical climate risks and opportunities, and the challenges related to their eventual identification on balance sheets. Roelfien Kuijpers, Head of Responsible Investments and Strategic Relationships at DWS, encouraged investors to address physical climate disclosures through shareholder engagement to support a "just transition" that addresses the equity implications of repricing exposed assets. She also called on regulators to support this effort by requiring sector-based climate-related disclosure protocols and helping develop a new climate analytics industry.

The first panel 'Advancing TCFD recommendations on physical climate risks and opportunities' gathered the three chairs of the working groups who presented the EBRD-GCECA report's findings. Murray Birt, DWS, stressed the importance of assessing climate risks over longer timeframes of assets and instruments, disclosing information on the location of critical facilities, providing detailed information on the financial impacts of recent extreme weather events and weather variability on facilities and value chains, as well as forecasting financial impacts of future physical climate risks. Simon Connell, Standard Chartered Bank, focused on opportunities, defined as increasing the resilience of existing assets to current and future physical climate risks, along with identifying new markets that may emerge as a result of shifting climate patterns through scenario planning. He highlighted the importance of identifying and disclosing physical climate-related opportunities at the segment level as well as wider co-benefits from climate resilience investments. Greg Lowe, Aon, explained that physical climate scenarios constitute a critical tool to ensure better capital allocation, as they provide useful views of plausible futures; as such, the analysis of physical climate scenarios requires an exploration of different GHG pathways and their impacts on climate and weather systems. Finally, Craig Davies, EBRD, presented the Bank's efforts to support market transformation toward climate resilient economies by mobilising wider market action through developing new ways of sharing market information about physical climate change impacts.

The second panel 'Managing physical climate risks and opportunities – experience to date' brought together physical climate risk disclosure preparer and user perspectives, as Maersk, Citi, Bank of America Merrill Lynch, and Moody's shared their experiences on the management of physical climate risks and opportunities. While their experiences to date varied, panellists all welcomed the TCFD framework as a means to bring physical climate risks and opportunities under deeper scrutiny in their organisations. The need for engagement emerged as an important theme from the panel. The interdependencies between financial institutions and corporates, and in turn between corporates and their supply chains was said to require new relationships and engagement at multiple levels – both externally and internally. Another takeaway was the desire to strike the right balance between disclosures that are useful for financial institutions and for corporates' strategic purposes. In these early stages of physical climate risk analysis and disclosure, what is truly 'decision useful information' is yet to be determined, though panellists maintained that the new EBRD-GCECA report goes a long way to provide guidance on this.

The third panel 'How to include physical climate risks and opportunities in financial disclosure' capped the event, bringing together financial regulators and government actors, as well as the voluntary disclosure perspective. Jean Boissinot, French Treasury, discussed that while there is now room for further regulation on physical climate risk disclosures, regulators need to think carefully about it to ensure it results in information that is complementary, enabling information flows, and is aligned with other initiatives such as TCFD. Mark Cornelius, Bank of England, discussed the Bank's current information gathering initiative in the insurance and banking sectors and ensured the Bank and its regulatory functions are highly supportive of initiatives like TCFD that are by and for the market. Simon Messenger, Climate Disclosure Standards Board, commented that stronger regulation can help standardise physical climate-related disclosures. Antoine Begasse, European Commission, agreed that regulators have a role to play, but that regulation needs to be fit for purpose to generate comparable information from industry. In this light, the Commission is launching a public consultation on strengthening reporting requirements, and developing a taxonomy of adaptation (and mitigation) finance including metrics to be used in climate-related disclosures, to be integrated into regulation and to support climate-related reporting.

Closing remarks were provided by Roald Lapperre, Deputy Minister at the Netherlands Ministry of Infrastructure and Water Management, Curtis Ravenel of Bloomberg, and Josué Tanaka of EBRD. The host concluded that the disclosure process is happening, and that TCFD and the emerging EU sustainable finance approach provide useful frameworks. It was also recognised the tension between the need for consistency and the need for sector-specific metrics. Ultimately, there is high demand to translate awareness of physical climate risks and opportunities into metrics that can influence the decisions made by businesses and financial institutions.

Key Takeaways

- **Physical climate-related disclosures are part of an iterative process** and constitute a learning exercise for financial institutions. They will need to include both quantitative and qualitative elements, to avoid the publication of commercially-sensitive data and competitive disadvantages related to the provision of detailed climate risk information.
- **Disclosures and scenario analysis are not an end per se.** The analysis of physical climate risks and opportunities should be about strategic analysis as much as it should be about disclosure.
- **There is a general need for better and more granular data** provision on corporates' facilities, their importance and their location. The information can come from universities and analytics firms as well as from better engagement between investors and clients.
- **Better disclosures of physical climate risks and opportunities will arise from a cooperative working process** to ensure learning and awareness-raising between the following actors: banks (involving all teams including credit risk, industry teams and sustainability departments), investors asking questions to companies in which they invest, along with the latter assessing their whole value chain.
- **The long-term horizon is relevant for physical climate scenario analysis,** as due diligence processes usually entail longer timeframes, and relationships with clients extend over the longer term.
- **The development of guidance and protocols on physical climate-related disclosures should be pursued.** They should support market participants in increasing their climate risk awareness and contribute towards shifting the focus from acute to chronic physical climate risks. Regulators need to ensure that any new climate (including physical climate) disclosure regulation results in information that is complementary, enabling information flows, and aligned with other initiatives such as TCFD.
- **MDBs have a role to play in ensuring that emerging economies are not left behind as new regulatory and market practices on climate-related disclosures (including physical climate) emerge.** They can support businesses and financial institutions in emerging markets to adopt and keep up with evolving best international practices on climate-related disclosures, for example through supporting skills transfer, capacity building and policy dialogue, as well as exploring the development of new financing instruments that include e.g. the appropriate use of concessionality and calibrated loan pricing.
- **The TCFD provides a useful framework for the analysis of climate risk and opportunities. Together with the EU sustainable finance approach, it is the push many corporates need to get started on their journey to uncover physical climate risks and opportunities.** Growing awareness on physical climate risks and opportunities needs to translate into the development and use of robust metrics that inform better market decisions and the more rational allocation of capital in the light of information about physical climate change impacts.