Eurosif The European Sustainable Investment Forum

Eurosif's response to the Task Force on Climate-Related Financial Disclosures Consultation, 31.04.2016

1. Which types of non-financial firms should any disclosure recommendations cover? List in order of importance.

5	Consumer Discretionary (auto, durables, retailing, etc.)
6	Consumer Staples (food, beverage, household etc.)
1	Energy (equipment, services, oil, gas etc.)
7	Health Care (equipment, services, pharma, biotech, etc.)
4	Industrials (capital goods, commercial services, transport)
9	Information Technology (semiconductors, software, hardware, etc.)
3	Materials (chemicals, construction, metals & mining, paper & forest, etc.)
8	Telecommunications (diversified, wireless, etc.)
2	Utilities (electric, gas, renewables, water)

2. Which types of financial firms should any disclosure recommendations cover? Check all that apply.

- [x] Banks (diversified, thrifts, mortgage, etc.)
- [x] Diversified Financials (asset management, investment banking/broker-dealer, consumer)
- [x] Insurance (brokers, multi-line, property, reinsurance, etc.)
- [x] Real Estate (REITS, management and development)
- [x] Credit Rating Agencies
- [x] Investment Consultants
- [x] Pension Funds/Schemes
- [ ] Other

3. Which users in the financial sector should be considered as the target audience? Check all that apply.

- [x] Investors (including insurance, asset managers, funds, pensions, etc.)
- [x] Banks (diversified, commercial, project finance)
- [x] Broker-Dealers and Investment Banks
- [x] Credit Rating Agencies
- [x] Consultants/Advisory

☐ Other

4. For non-financial preparers of climate risk and opportunity information, what are the top three key concerns that you would like the Task Force to keep in mind in making our recommendations?

1) The material implications linked to specific industries need to be accounted for appropriately
2) The need for clarity on scope of indirect impacts, for instance regarding risks and opportunities linked to global supply chains
3) The importance of comparability of climate-related financial information and the consequent need for consistency of information through assurance.

5. For users of climate risk and opportunity information, what are five specific points of information that you wish to secure?

1) Availability of information
2) Definition of clear metrics for disclosing a specific climate risk (overall risk calculation vs. specific occurrences)
3) Determining extent of exposure to physical and regulatory risks related to climate change and tracking those over the years
4) Determining operational risks linked to transition risks (to a low carbon economy) related to climate change and tracking those over the years
5) Determining indirect risks linked to supply chain and Business Continuity Management (BCM).

6. Are there any best practice disclosures of climate risks by companies that you would like to bring to our attention? What specific climate elements of this disclosure would you like to highlight? (Please limit to two examples)

L'Oréal has understood the importance of including its suppliers in its climate change program, and implemented a supplier evaluation framework. Part of the CDP's Supply Chain Leadership Collaboration Project since 2007, L'Oréal Group suppliers' activities represent 28% of its carbon emissions.
By engaging and training its buyers, the company has made it possible to mobilise suppliers and convince them that measures aimed at reducing GHG emissions play an inevitable part of a company's global performance. CDP supply chain scoring is a part of L'Oréal partner's evaluation and their performance on climate change is fully included in supplier relationship and challenged during business reviews. Since 2014, it is compulsory for company's strategic suppliers to take part in the CDP Supply Chain and 89% of suppliers invited (192 out of 215) have done so. Among respondents, 85% are measuring their CO2 emissions and over 60% have clear objectives for mitigating climate change risk.

7. "Transition Risk" in terms of climate is an evolving term. How would you define this risk? What specific disclosures would help measure it?

Transition Risk represents the risks arising from shifting to less GHG reliant technologies. Earlier this year, France introduced a change in its Energy Transition Law requiring corporations to disclose climate-related vulnerability and counter-measures adopted and mandating institutional investors to disclose the carbon exposure of their assets (Assemblée Nationale, 2015). The text of Article 173, released in August 2015, requires listed companies to disclosure the following:

- Financial risks related to the effects of climate change
- The measures adopted by the company to reduce them
- The consequences of climate change on the company's activities and of the use of goods and services it produces.

Banks and credit providers are required to disclose the risks of excessive leverage and the risks exposed by regular stress tests.
Institutional Investors have to disclose information on how ESG criteria are considered in their investments decisions and policies alignment with national strategies.

8. Which three sectors do you think are most exposed to climate risks? For these sectors, how are physical, transition and liability risks best measured and reported?

The three sectors most exposed to climate risks are: Insurance, Agriculture and Energy.
All three sectors should report on their adaptation and mitigation strategies. In particular, the insurance companies should disclose how they are reducing their exposure to catastrophic events, which insurance products they are designing to benefit from potential climate-related opportunities, the extent to which they are reducing their corporate carbon footprint, how they integrate climate change issues in asset management and in direct investments.
For Agriculture, specific relevance should be put on the costs and opportunities linked to land conversion.
The Energy sector's mitigation strategies will imply specific reporting particularly on: the ability to cut emissions from fossil fuel extraction and conversion, the extent of the switch to lower-carbon fuels, the use of renewable energy technologies and of nuclear energy.

9. How should the task force consider the challenge of aggregate versus sector-specific climate-related financial risks and opportunities?

The Task force should include two sets of indicators: a basic set of common ones on an aggregate level and another one more in depth set of indicators that looks specifically at what is material per industry.

10. Is there a role for scenario and sensitivity analysis – for the non-financial and/or financial sectors? Please provide three specific examples.

Scenario analysis can be useful for assessing a number of climate-related financial risks. BASF analysed risks linked to changing consumer behavior due to climate change: https://www.basf.com/documents/corp/en/investor-relations/sustainable-investments/sustainability-ratings-and-rankings/Programme_Response_Climate_Change_2015.pdf
Similarly, scenario analysis can also be useful in assessing climate related opportunities - BASF has identified opportunities arising from cap and trade scheme: https://www.basf.com/documents/corp/en/investor-relations/sustainable-investments/sustainability-ratings-and-rankings/Programme_Response_Climate_Change_2015.pdf
Sensitivity analysis can be useful in financial optimisation calculations for assessing methods to drive investment in emission reduction activities: https://www.basf.com/documents/corp/en/investor-relations/sustainable-investments/sustainability-ratings-and-rankings/Programme_Response_Climate_Change_2015.pdf

12. Considering the breadth of services the capital supply chain provides, please provide up to three examples of leading work (research or other) from sell-side brokers' investment recommendations, listing rules of stock exchanges, portfolio management and stewardship examples by fund managers, fund-manager recommendations by consultants, or others we should consider.

Models of Best Practice in Integrated Reporting 2015, Robert G. Eccles, Michael P. Krzus and Sydney Ribot, Institutional Investors' expectations of corporate climate risk management: http://www.iigcc.org/files/publication-files/Institutional-investors-expectations-of-corporate-climate-risk-management.pdf

13. Please identify three examples of existing practice of climate risk disclosures you consider to be effective by investment banks, stock exchanges, investment managers, investment consultants and asset owners? Please indicate preparer and type of disclosure.

The Asst Owner Disclosure Project (AODP) is an independent not-for-profit global organisation whose objective is to protect retirement and savings and other long-term investment from the risks posed by climate change by improving disclosure and industry best practice.
The AODP created a global interactive map on climate reporting by financial institutions and their scores: http://aodproject.net/

14. How can climate risk information be simply summarized for retail investors? What standards or mechanisms exist for assuring end investors that climate risks and opportunities have been considered in the way that their savings and investment and pension products have been managed?

A vehicle could be the Regulation (EU) 1286/2014 on key information documents (KIDs) for PRIIPs (packaged retail investment and insurance products). KIDs provide ESG related information to retail investors prior to their purchase, providing them with key information on features, objectives and targets of these products.

16. One way to measure transition risk is by considering disclosures based on sector/market analysis. What scenario planning work is currently available in this area?

Exploring climate change vulnerability across sectors and scenarios using indicators of impacts and coping capacity. R. Dunford: https://www.google.be/#q=exploring+climate+change+vulenrability+across+across+sectors+and+scenraios+using+in

18. How should the Task Force define "success"?

A successful outcome of TCFD's work would be a situation where the Task Force's recommendations would enable climate related financial disclosure that is reliable, comparable and drives tangible climate performance improvements and long-term investment in climate solutions in line with the Paris agreement.

19. What are the key barriers that you believe the Task Force needs to overcome?

Achieving harmonised reporting that is developed and accepted by a wide range of stakeholders.

Achieving consensus on a definition of material climate-related financial risks.

Having the recommendations implemented by a critical mass of players.

21. What additional topics should it consider?

The social risks can arise from climate change affecting the daily lives of people everywhere in terms of employment and livelihoods, health, gender equity, increasing vulnerabilities and sustainable development.