2022-2023 Spring Term
Green transition from international and European perspective

Decarbonisation & Business

Lecture 4 | 31 March 2023

Marina Olshanskaya & Aleksandra Noviko

Recommendations for Reporting

Task Force on Climate-related Financial Disclosures (TCFD)

Background

G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues.

The FSB established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for climate-related disclosures that:

- could "**promote more informed investment, credit, and insurance underwriting decisions**" and,
- in turn, "would enable stakeholders to **understand better** the concentrations of **carbon-related assets in the financial sector** and the financial system's **exposures to climate-related risks**."

The Task Force published its final report in June 2017. The report outlines recommendations to help address climate-related disclosure challenges faced by:

- **Issuers** who generally have an obligation under existing law to disclose material information, but lack a coherent framework to do so for climate-related information, and
- **Investors, lenders, and insurers** who need decision-useful, climate-related information to make informed capital allocation and financial decisions

Industry Led and Geographically Diverse Task Force

The Task Force's 31 international members, led by Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.

Focus on Financial Impact

Hilton Hotels – No Assessment or Mitigation

RISKS

Transition

Policy and Legal
- Carbon pricing and reporting obligations
- Mandates on and regulation of existing products and services
- Exposure to litigation

Technology
- Substitution of existing products and services with lower emissions options
- Unsuccessful investment in new technologies

Market
- Changing customer behavior
- Uncertainty in market signals
- Increased cost of raw materials

Reputation
- Shift in consumer preferences
- Increased stakeholder concern/negative feedback
- Stigmatization of sector

Physical
- Acute: Extreme weather events
- Chronic: Changing weather patterns and rising mean temperature and sea levels

OPPORTUNITIES

Resource Efficiency
- Use of more efficient modes of transport and production and distribution processes
- Use of recycling
- Move to more efficient buildings
- Reduced water usage and consumption

Energy Source
- Use of lower-emission sources of energy
- Use of supportive policy incentives
- Use of new technologies
- Participation in carbon market

Products & Services
- Development and/or expansion of low emission goods and services
- Development of climate adaptation and insurance risk solutions
- Development of new products or services through R&D and innovation

Markets
- Access to new markets
- Use of public-sector incentives
- Access to new assets and locations needing insurance coverage

Resilience
- Participation in renewable energy programs and adoption of energy-efficiency measures
- Resource substitutes/diversification

Strategic Planning Risk Management

Financial Impact

Revenues
Expenditures

Income Statement ↔ Cash Flow Statement ↔ Balance Sheet

Assets & Liabilities
Capital & Financing

Disclosure Recommendations

The Task Force developed **four widely-adoptable recommendations** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate:

Governance
The organization’s governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

DISCLOSURE RECOMMENDATIONS *(CONTINUED)*

The four recommendations are supported by **specific disclosures** organizations should include in financial filings or other reports to provide decision-useful information to investors and others.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Key Elements of Disclosure Recommendations

Principle of Materiality

- Materiality is a core issue in the scenario analysis: it represents a substantial likelihood that a reasonable investor would consider it important. The trigger areas could be legislation/regulation, international agreements, indirect consequences of regulations and businesses, and physical impacts
- The disclosures related to the **Strategy and Metrics and Targets recommendations** are subject to an assessment of materiality.
- The disclosures related to the **Governance and Risk Management recommendations** are *not* subject to an assessment of materiality and should be provided because many investors want insight into the governance and risk management context in which organizations’ financial and operating results are achieved.

Scenario Analysis

- The Task Force encourages forward-looking information through scenario analysis—a useful tool for considering and enhancing resiliency and flexibility of strategic plans.
- Many investors want to understand how **resilient organizations’ strategies are to climate-related risks**.
- Recommended disclosure (c) under Strategy and the related guidance asks organizations to describe the resilience of their strategies, taking into consideration different climate-related scenarios, including **a 2 C or lower scenario**.

2 C Scenario

Provides a common reference point that is generally aligned with the objectives of the Paris Agreement.

Scenario Analysis Threshold

The Task Force established a threshold for organizations that should consider conducting more robust scenario analysis to assess the resilience of their strategies (those in the four non-financial groups with more than 1B USDE in annual revenue).

CLIMATE SCENARIO REPORTS

- How did they balance voluntary reporting vs materiality considerations, given investor expectations?
- At what point do the results of a scenario analysis become material?
- How can a company talk about opportunities?
- What about physical risks?

FIRST CLIMATE FRAUD LAWSUIT: EXXON MOBIL

FILED: NEW YORK COUNTY CLERK 10/24/2018 12:55 PM

NYSCEF DOC. NO. 1 RE

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

PEOPLE OF THE STATE OF NEW YORK, By BARBARA D. UNDERWOOD, Attorney General of the State of New York, Plaintiff, - against - EXXON MOBIL CORPORATION, Defendant.	Index No. **SUMMONS**

The USD 1.6 billion lawsuit brought by the New York attorney general's office alleged that Exxon deceived investors about the true cost of climate change. This was the first climate fraud lawsuit to go to trial that resulted in a 4-year investigation.

Plaintiff, the People of the State of New York (the "State"), by Attorney General Barbara D. Underwood, alleges upon information and belief the following against Defendant Exxon Mobil Corporation ("Exxon").

NATURE OF THE ACTION

1. This case seeks redress for a longstanding fraudulent scheme by Exxon, one of the world's largest oil and gas companies, to deceive investors and the investment community, including equity research analysts and underwriters of debt securities (together, "investors"), concerning the company's management of the risks posed to its business by climate change regulation. Exxon provided false and misleading assurances that it is effectively managing the economic risks posed to its business by the increasingly stringent policies and regulations that it expects governments to adopt to address climate change. Instead of managing those risks in the manner it represented to investors, Exxon employed internal practices that were inconsistent with

First climate fraud lawsuit: Exxon Mobil, cont.

The New York Times

New York Loses Climate Change Fraud Case Against Exxon Mobil

In 2018, Exxon Mobil filed against New York, claiming that the state discriminated against Exxon and violated the company's constitutional rights:

the investigation and lawsuit were "politically motivated and resulted from a coordinated effort by anti-fossil fuel groups and contingency fee lawyers involved in other lawsuits against industry."

https://ag.ny.gov/press-release/2022/circuit-court-rejects-exxon-mobils-attempts-sue-new-york

Home » Media Center » Press Releases » March 15th 2022

Circuit Court Rejects Exxon Mobil's Attempts to Sue New York

Second Circuit Rules to Stop Exxon's Baseless Attack on OAG Investigation and Lawsuit

NEW YORK – New York Attorney General Letitia James released the following statement in response to the **U.S. Court of Appeals for the Second Circuit's decision to reject Exxon Mobil's attempts** to sue the New York Attorney General over previous litigation that the Attorney General's Office filed against Exxon:

"We are pleased with the Second Circuit's decision today, which rejected Exxon Mobil's baseless attempts to challenge state law enforcement efforts. We will continue our efforts to protect New York consumers and investors from any harm or deceit."

In March 2018, the **U.S. District Court for the Southern District of New York rejected** a lawsuit that Exxon Mobil filed against New York, claiming that the state discriminated against Exxon and violated the company's constitutional rights. Exxon appealed that decision to the U.S. Court of Appeals for the Second Circuit, which today, rejected that appeal and again dismissed Exxon's attempts to sue the state.

SINCE THEN:

https://www.google.com/search?q="climate+fraud+suit"&lr=&safe=images&hl=en-AT&tbas=0&tbas=0&source=lnt&sa=X&ved=2ahUKEwi-sliAz 90%

Google

"climate fraud suit"

All | News | Images | Shopping | Videos | More | Tools

About 596 results (0,37 seconds)

https://climateintegrity.org › news › minnesotas-climate...

Minnesota's climate fraud suit against Exxon, Koch, API ...

31 Mar 2021 — Minnesota's **climate fraud suit** against Exxon, Koch, API belongs in state court, judge. Minnesota's lawsuit seeking to hold Exxon and two ...

https://climateintegrity.org › cases › state-of-minnesota

The State of Minnesota - The Center for Climate Integrity

... Koch, and the American Petroleum Institute to court for lying about climate change (2020) • Minnesota's **climate fraud suit** against Exxon, Koch, ...

https://www.aljazeera.com › economy › 2019/11 › exx...

Exxon lawyer dubs climate fraud suit a 'cruel joke' as trial ends

7 Nov 2019 — Exxon lawyer dubs **climate fraud suit** a 'cruel joke' as trial ends. New York attorney general says Exxon used two sets of books to hide the ...

https://today.westlaw.com › Document › View › FullText

Federal judge remands Delaware climate fraud suit to state court

7 Jan 2022 — View on Westlaw or start a FREE TRIAL today, Federal judge remands Delaware **climate fraud suit** to state court, Secondary Sources.

https://www.climatedocket.com › 2020/07/28 › minnes...

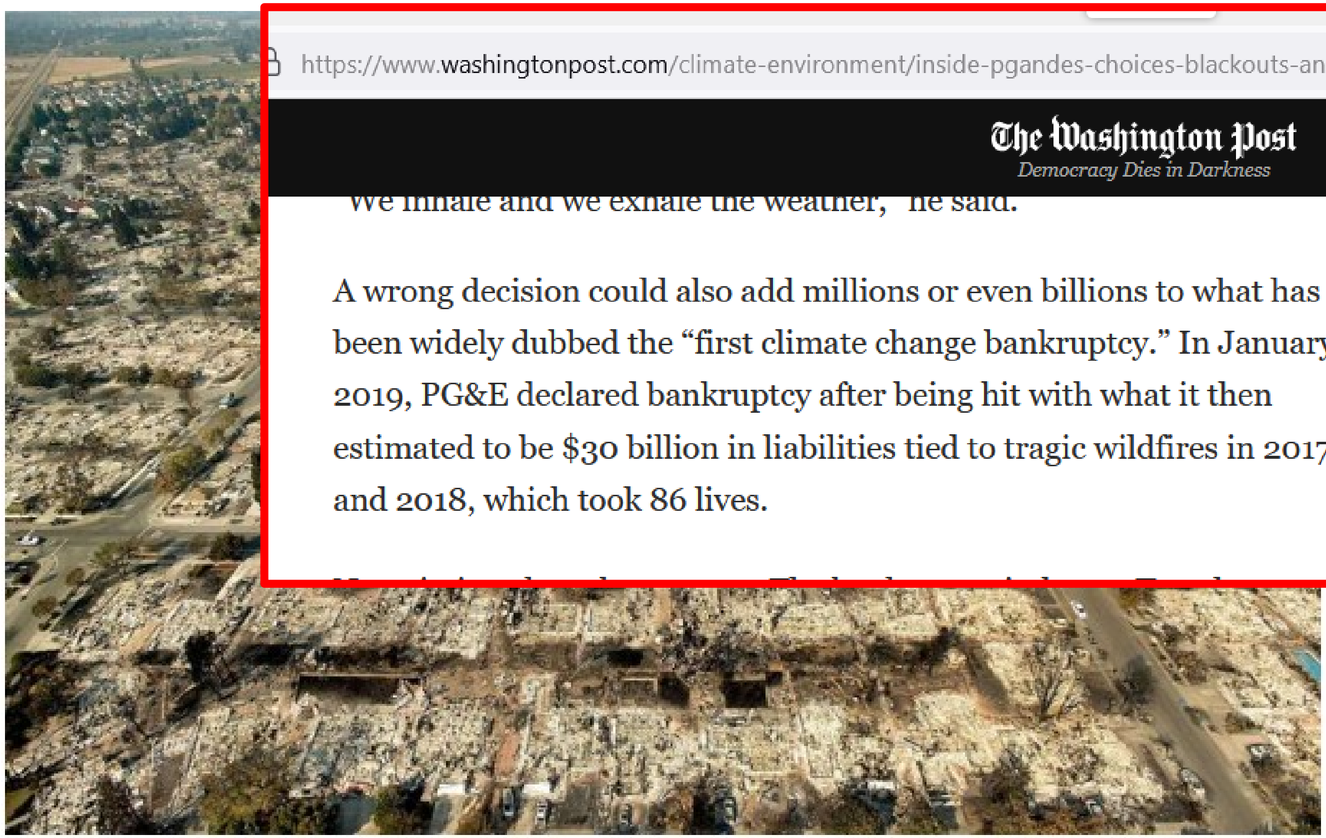
Minnesota Climate Fraud Suit Moved to Federal Court—For Now ...

Minnesota **Climate Fraud Suit** Moved to Federal Court—For Now. July 28, 2020 Filed Under:

CLIMATE CHANGE BANKRUPTCY

…It was late November 2019, and strong winds were beginning to blow in from the ocean, careening through valleys of northern California. That raised dangers that the utility's aging power poles might tumble over, setting alight the bone-dry grass and trees.

The senior director of emergency preparedness and response of Pacific Gas & Electric was trying to decide just how many of the utility's customers were going to lose their electricity. He was struggling to decide whether to lean toward safety even if that meant disrupting lives. The utility had already notified approximately 250,000 customers in 19 counties that their lights might be switched off. Doing that would take one to three hours and — surrounded by experts in planning, intelligence, logistics, operations, communications and finance. ***<u>But decided not to deenergize people who don't need it.</u>***



https://www.washingtonpost.com/climate-environment/inside-pgandes-choices-blackouts-and-the

The Washington Post
Democracy Dies in Darkness

"We inhale and we exhale the weather," he said.

A wrong decision could also add millions or even billions to what has been widely dubbed the "first climate change bankruptcy." In January 2019, PG&E declared bankruptcy after being hit with what it then estimated to be $30 billion in liabilities tied to tragic wildfires in 2017 and 2018, which took 86 lives.

Source: https://s.hdnux.com/photos/66/52/67/14331372/11/920x920.jpg

Hungarian Plastic Co: Net Zero Carbon Journey

Questions for the consultant

Does the Co need to calculate Scope 3, should it be a full calculation or can we limit our focus?

The Co is the European polyolefin XX solution provider for people's safety and comfort. It manufactures chemically cross-linked and physically cross-linked products based on polyolefin foams, e.g. air ducts, vacuum form parts, compression moulded parts, turf shock pads for the automotive, sport, home, leisure, insulation, construction, footwear and packaging industries

What would be your answer?

ESG Related Allocation Shifts & Divestments

A growing number of global investors are allocating capital to ESG investments, or divesting from fossil fuels.

PimCo Starts First Climate Bond Fund as Green Market Expands *Bloomberg*
Pimco said its new offering seeks to produce optimal risk-adjusted returns, or performance measured by the amount of risk undertaken. The fund also will help investors reduce exposure to climate-related dangers, according to the firm, which oversaw $1.88 trillion in assets as of Sept. 30.

Norway's $1tn wealth fund set to cut oil and gas stocks *FT*
The world's largest sovereign wealth fund, which manages $1tn (£770bn) of Norway's assets, is to dump investments in firms that explore for oil and gas, but will still hold stakes in firms such as BP and Shell that have renewable energy divisions. The strategy shift, on the back of advice from the country's central Norges Bank, will affect 1.2% of its equity holdings.

Riksbank selling bonds for climate reasons
Riksbank Press Release
Last year the Executive Board decided that sustainability aspects will be given consideration in investment decisions. This can mean investing some of the foreign exchange reserves in particularly climate-friendly assets, such as green bonds. "We have therefore recently sold holdings of bonds issued by the Canadian province of Alberta and the Australian states of Queensland and Western Australia,"

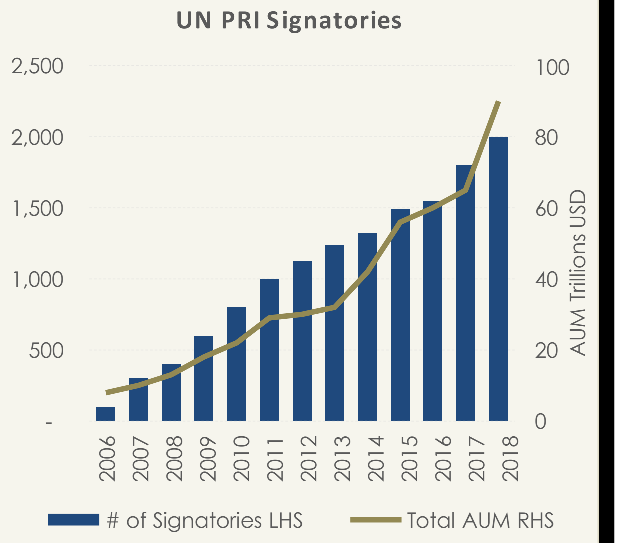
Norway's US$1.1 trillion wealth fund to deepen climate risk analysis *Bloomberg*
Norway's US$1.1 trillion sovereign wealth fund plans to expand its work on assessing climate risk, from pushing for better company reporting to expanding flood analysis for its real estate assets.

World's biggest pension fund steps up passive stewardship efforts *FT*
Government Pension Investment Fund plans to increase the range of sustainable indices it allocates money to as the influential passive investor ramps up its efforts to hold companies to account on their environmental, social and governance responsibilities. GPIF will begin a search for an index that selects and weights companies based on ESG factors and a diversity-focused index constructed according to themes such as women's empowerment. It also wants to receive ideas for a green bond index for Japanese and non-Japanese fixed income.

Repsol Takes Writedown to Attain Zero-Emissions Goal *Bloomberg*
Repsol SA wrote down the value of its oil and gas assets by 4.8 billion euros as part of the Spanish oil company's pledge to eliminate greenhouse gas from its operations and those of its customers by 2050

Sharp Rise in Number of Investors Dumping Fossil Fuel Stocks *FT*
The number of institutional investors committed to cutting fossil fuel stocks from their portfolios has risen from 180 in 2014 to more than 1,100 now, as activists turn up the heat on companies over climate change.

ESG: Amundi's 3-year action plan *Amundi Press Release*
"By end of 2021, all actively managed open-ended funds of Amundi will have to maintain a higher ESG score than their benchmark index. Passive management strategies can be ESG as well. By end of 2021, 100% of our votes will take ESG issues into consideration."



AXA Plans to Double its Green Investment 2023
AXA Press Release
French multinational insurance firm AXA plans to double its green investments to EUR24B by 2023 and end its exposure to the coal industry by 2040. Axa has 100% divested from coal and will also invest in transition bonds as part of its 1.5°C commitment.

UN-convened Net-Zero Asset Owner Alliance total AUM surpasses $3.9 trillion. *UN*
AXA, AVIVA, CNP, FRR Join UN-convened asset owner alliance pushing for net-zero portfolios by 2050. The Alliance is a group of the world's largest pension funds and insurers committing to fully decarbonise their portfolios to avoid a global temperature increase above 1.5 C. The Alliance has already begun the process of establishing a work plan for 2020.

Sustainability as an unique selling point

Factsheet:

- The first and largest social-ecological bank in Germany
- Founded in 1974
- Focusses on cultural, social and ecological initiatives
- Total balance sheet: 5,68 billion EUR, number of costumers: 52.200

Business model:

I. Investments in education, regenerative technology, social business and ecological agriculture
II. No investments in alcohol- and tobacco, nuclear power, gene technology, weapons, etc.
III. Transparent bank lending

The challenge of incorporating the risks

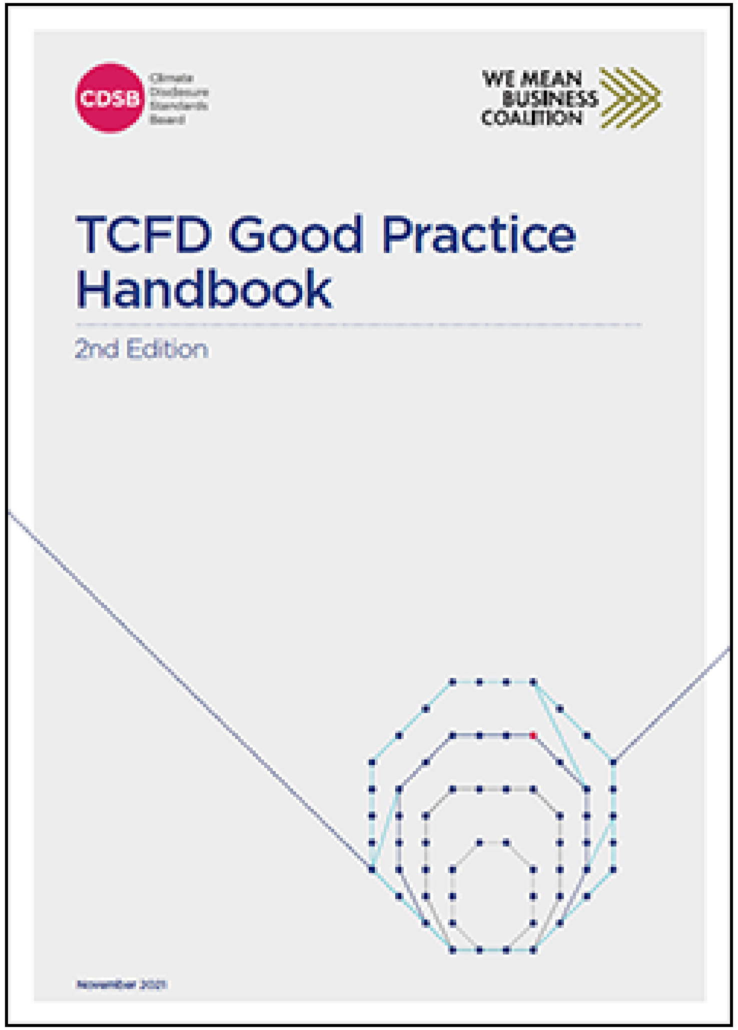
- Risks of own facilities
- Supply chain risk
- Risk to portfolio assets

->

TCFD Good Practice Handbook:

Highlights of good practice in TCFD disclosures

(see the list of key info sources)



Climate Disclosure Project (CDP)

CDP runs the global environmental disclosure system:

8,400+ companies responded to climate change, water security and forests questionnaires in 2018. These companies represent over 50% of global market value

920+ cities, states and regions disclosed environmental information through CDP in 2018

525+ investors with US$96 trillion in assets request information on climate change, water security or forests through CDP

Key take-aways

- ✓ Yesterday, we thought that the climate change challenge is the issue of the future. Today, the future has come, and the corporate world must respond to the challenge.
- ✓ Should you need to understand climate risks and opportunities of corporations, including the financial industry firms, now you know where to search for their climate-related information
- ✓ To read analyze the disclosure report, it is useful to rely on the respective standards, recommendations and guidelines

https://avantgarde-group.eu