EESI
Environmental and Energy Study Institute

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What Congress Needs to Know About Corporate Climate Risk, Resilience, and Disclosures

Tuesday, September 20, 2022

About EESI

Non-partisan Educational Resources for Policymakers

A bipartisan Congressional caucus founded EESI in 1984 to provide non-partisan information on environmental, energy, and climate policies

Direct Assistance for Equitable and Inclusive Financing Program

In addition to a full portfolio of federal policy work, EESI provides direct assistance to utilities to develop "on-bill financing" programs

Commitment to Diversity, Equity, Inclusion, and Justice

We recognize that systemic barriers impede fair environmental, energy, and climate policies and limit the full participation of Black, Indigenous, people of color, and legacy and frontline communities in decision-making

Sustainable Solutions

Our mission is to advance science-based solutions for climate change, energy, and environmental challenges in order to achieve ***our vision of a sustainable, resilient, and equitable world***.

Policymaker Education

Briefings and Webcasts

Live, in-person and online public briefings, archived webcasts, and written summaries

Climate Change Solutions

Bi-weekly newsletter with everything policymakers and concerned citizens need to know, including a legislation and hearings tracker

Fact Sheets and Issue Briefs

Timely, objective coverage of environmental, clean energy, and climate change topics

Social Media (@EESIOnline)

Active engagement on Twitter, Facebook, LinkedIn, and YouTube

What Congress Needs to Know About Corporate Climate Risk, Resilience, and Disclosures
EESI Briefing, September 20, 2022

Madison Condon
Associate Professor of Law,
Boston University

The Biden Administration's "Whole of Government" Approach to Climate Change: Executive Order 14030

BRIEFING ROOM

Executive Order on Climate-Related Financial Risk

MAY 20, 2021 • PRESIDENTIAL ACTIONS

NGFS
Central Banks and Supervisors
Network for Greening the Financial System

- *All* financial regulatory agencies now have a climate risk mandate
- Some are farther along than others in rulemaking proceedings, notably SEC with three rules in works

- Several agencies, in addition to the Federal Reserve (not covered by EO 14030), have joined the international Network for Greening the Financial System

2022 Climate Risk Scorecard

This table assesses more than 230 public actions that federal financial regulators have already implemented to address climated-related financial risk.

	FED	FDIC	OCC	NCUA	SEC	MSRB	CFTC	FHFA	Treasury
1 Publicly **affirm** climate as a systemic risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
2 **Produce** research and data on climate change	—	—	—	—	✓	—	✓	—	✓
3 **Assess** climate risks on "financially vulnerable communities"	—	—	—	X	X	n/a	X	✓	—
4 **Appoint** senior staff to focus on climate change	✓	—	✓	—	✓	—	✓	✓	✓
5 **Improve** climate-related disclosure	X	X	X	X	✓	—	—	—	—
6 **Include** climate risk in supervision and regulation	X	—	—	—	✓	X	X	—	—

Notable progress or action completed

Some Progress

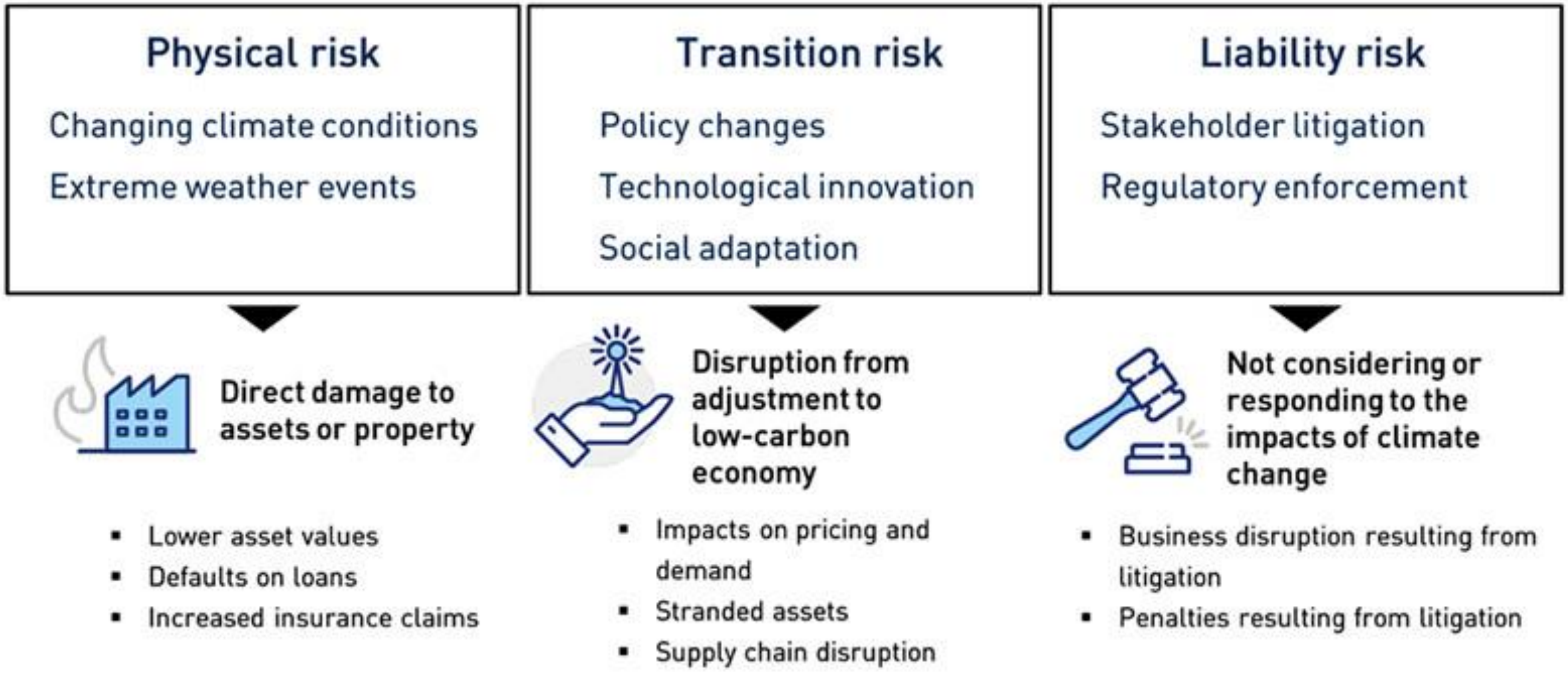
No Progress

Not Applicable

Source: Ceres (2022)

Three ESG-related SEC Rules in the works:

- Proposed Rule to Enhance and Standardize **Climate-Related Disclosures** for Investors – comments closed June 17, 2022
- Proposed Investment Company **Names Rule** – comments closed Aug. 16, 2022
- Proposed **ESG Disclosure Rules** for investment funds and advisers – comments closed Aug. 16, 2022



Source: APRA (2021).

Climate Risk and Analytics is a Big & Growing Business

Bloomberg

Green | ESG

90% of World's Biggest Firms Will Have at Least One Asset Exposed to Climate Risk, Fresh Data Show

By Greg Ritchie +Follow
September 15, 2022 at 12:01 AM EDT

The fallout from climate change will be felt across industries, eroding asset values and forcing investors to make new risk assessments, according to a fresh data analysis tool launched by a unit of S&P Global.

Accelerating M&A Activity Involving Climate or ESG Firms

Buyer	Target	Target Type	Date
Goldman Sachs	NN Investment Partners	Asset Manager	Aug. 21
Moody's	RMS	Data/Analytics	Aug. 21
AMG	Parnassus	Investment firm	Jul. 21
Blackstone	Sphera	Software/FinTech	Jul. 21
AXA	ClimateSeed	Marketplace	Jul. 21
JPMorgan	OpenInvest	Software/FinTech	Jun-21
BlackRock	Baringa Climate Change Scenario Model	Data/Analytics	Jun. 21
KKR	ERM	Consulting	May-21
Deutsche Börse	ISS	Data/Analytics	Feb-21
McKinsey	Vivid Economics & Planetrics	Data/Analytics, Consulting	Mar-21
Perpetual Asset Management	Trillium	Asset manager	Jul-20
Morningstar	Sustainalytics	Data/Analytics	Apr-20
MSCI	Carbon Delta	Data/Analytics	Sep-19
Moody's	Four Twenty Seven	Data/Analytics	Jul-19

Selected deals; list not exhaustive

Table: Shravan Bhat • Source: Center for Climate-Aligned Finance • Created with Datawrapper

Greenwashing concerns at corporate level?

- Are net-zero goals achievable? Based on science? Do they over-rely on unproven or unreliable technologies like carbon capture, removal, or offsets?
- Are "Scope" emissions reporting accurate? Audited?
- Are emissions scenarios used by the company for assessing transition risks reasonable and do they represent a reasonable range of plausible energy demand futures?
- Physical risk has received less attention so far but needs to be a bigger concern, proposal asks for disclosure of location-based risks

Concerns at the fund level?

- Did the fund simply rebrand as ESG with no substantive change to methodology?
- Is the composition of the fund consistent with the prospectus description?
- Do fund investors understand what ESG metrics mean and how they are used? Is the misunderstanding substantial enough to be misleading?
- Fund shareholder voting record on ESG issues?

Types of ESG Funds

- ESG Integration – ESG considered as one of many factors with no special weight
- ESG Focused - with ESG metrics or other factors determining fund strategy and composition
- ESG Impact – seeks to engage and push for change at certain companies in certain ways

TCFD Framework and Corporate Adaptation and Resilience

Prepared for EESI Congressional Briefing

September 2022

Background on the TCFD

What is the TCFD?

- Task Force formed in 2015 by the G20's Financial Stability Board (FSB) leading up to the Paris Agreement
- Task Force co-chaired by former Mayor Michael Bloomberg
- Members of the taskforce are investors, preparers of disclosure, and rating agencies

What is the Task Force's goal?

- The FSB recognized growing risk from climate change to the financial sector to the tune of trillions of dollars
- Investors need a disclosure framework that informs on climate risks to investees, allowing for informed capital allocation decisions

What did they produce?

- TCFD final recommendations released 2017
- Recommendations outline a voluntary framework for climate-related disclosure that includes governance, strategy, risk management, metrics and targets

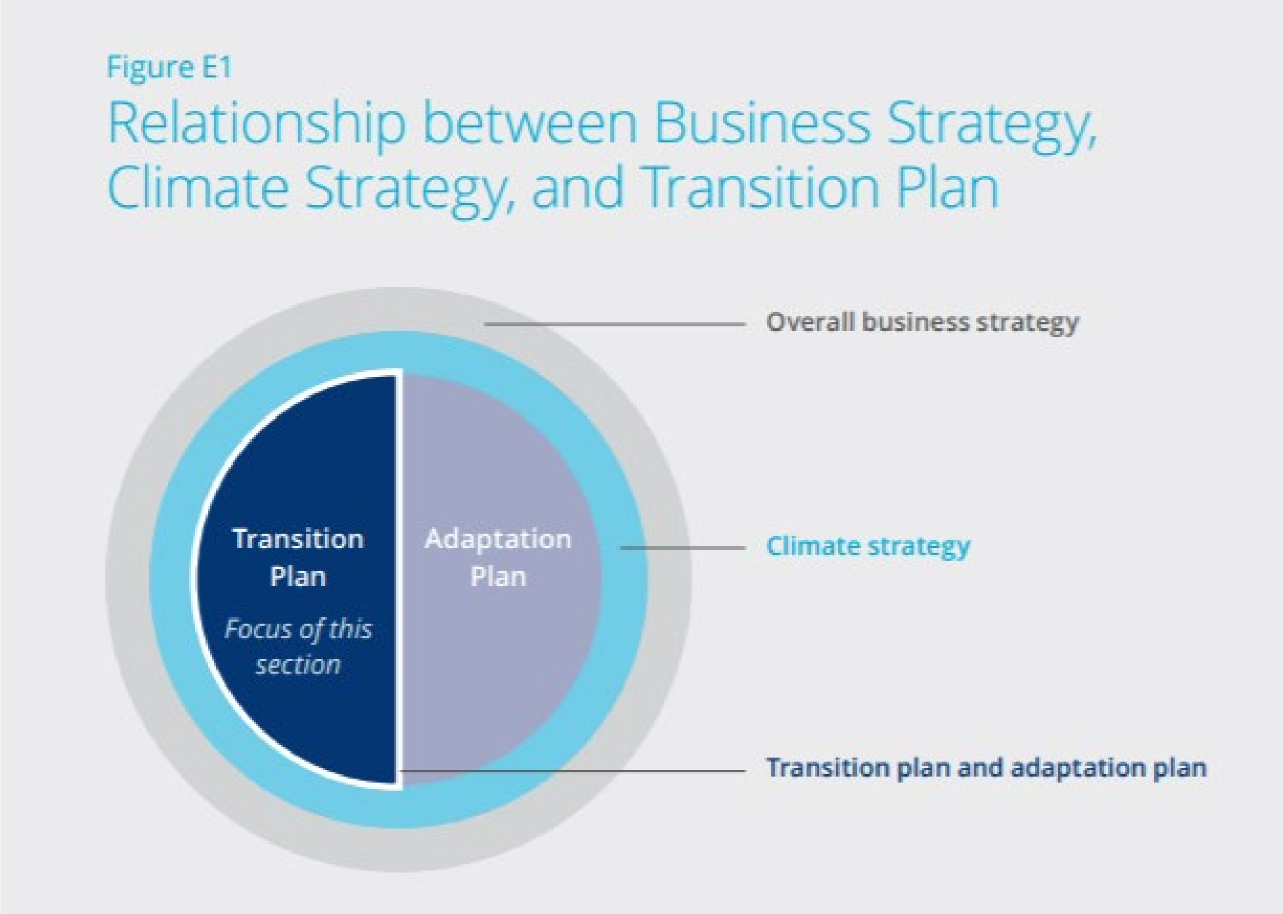
The TCFD recommendations aim to provide disclosures that are:

- *Relevant, specific, complete, clear, balanced, understandable, consistent, comparable, reliable, verifiable, objective, timely;*
- *Forward looking; and*
- *Decision-useful*

2017 Final Report: Recommendations of the TCFD

"With better information as a foundation, we can build a virtuous circle of better understanding of tomorrow's risks, better pricing for investors, better decisions by policymakers, and a smoother transition to a lower-carbon economy."

Mark Carney, Chair of the G20 Financial Stability Board



Source: https://www.fsb-tcfd.org/

The Increasing Value of the TCFD Recommendations

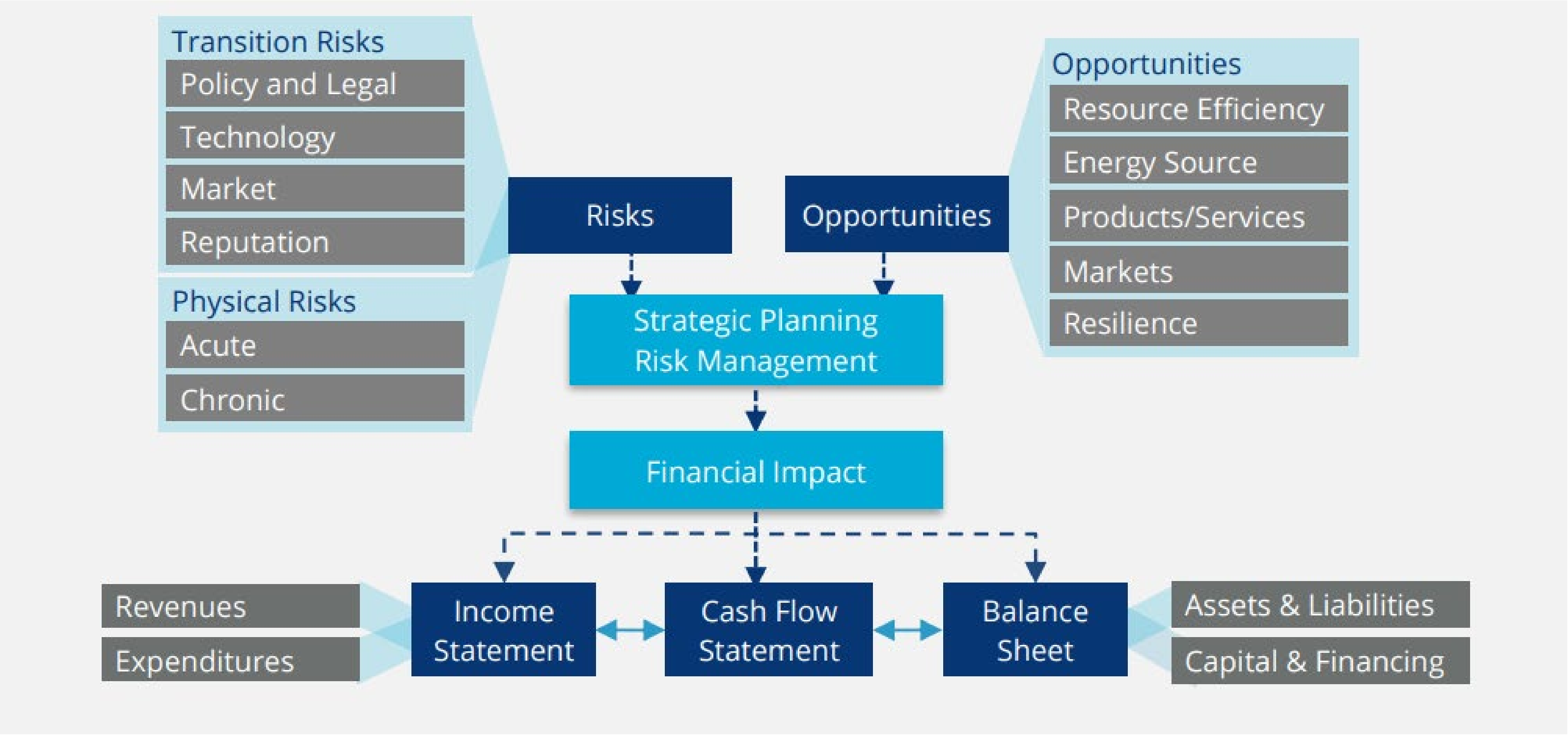
Implementing the TCFD recommendations effectively and equitably can be a vehicle for organizational change management and "mainstreaming" climate change.

- Global best practice for climate risk management and disclosure for accountability and action
- Created by investors to allow for greater transparency around climate risk, enable decision-useful information for investors
- Designed to allow institutions, corporates, and their stakeholders to understand climate risks and opportunities – ultimately tied to financial indicators
- Explores forward-looking physical <u>and</u> transition risks <u>and</u> opportunities

The TCFD Recommendations

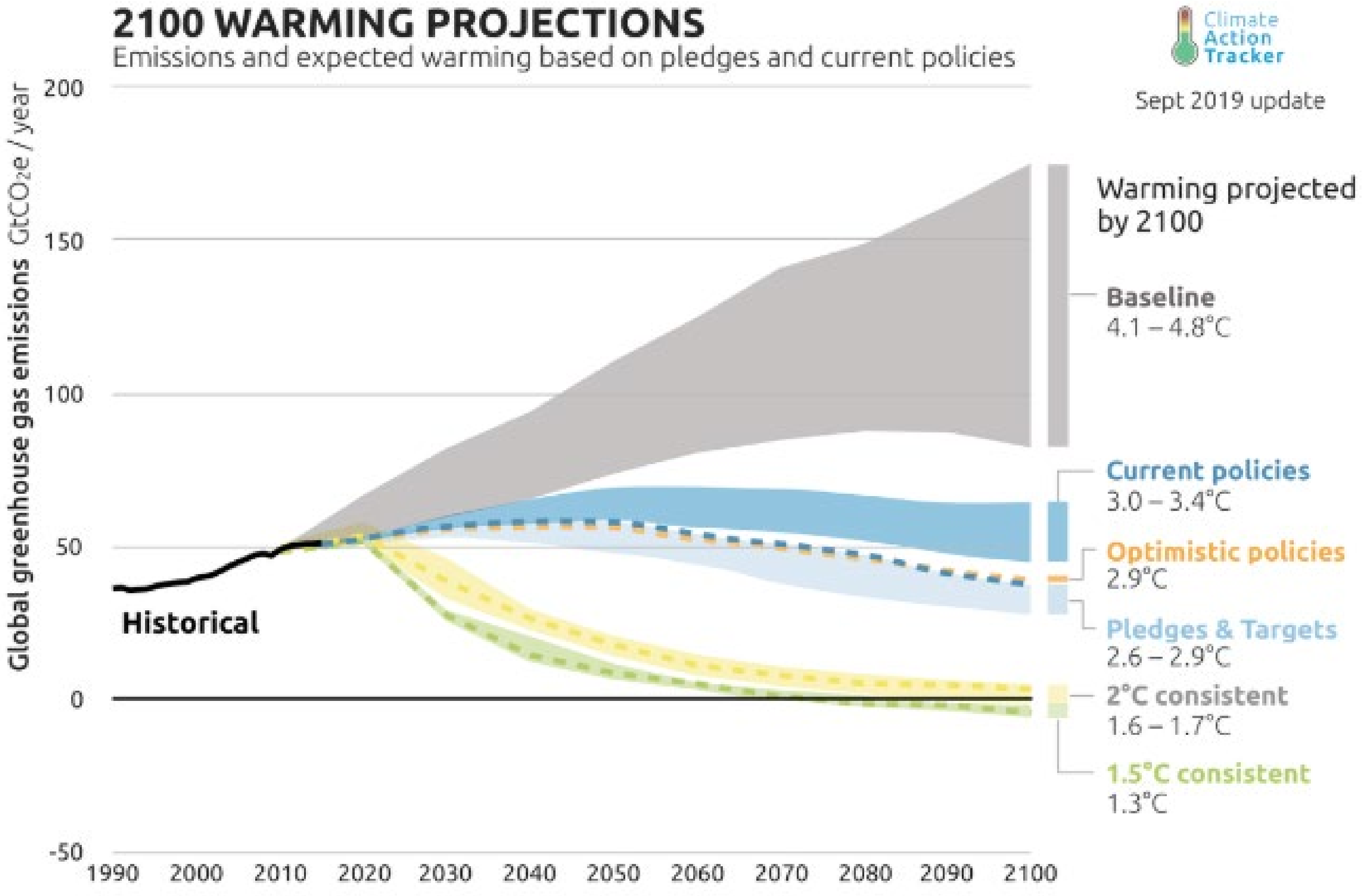
Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where 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.
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.

Climate-related Risks, Opportunities, and Financial Impact



Source: *TCFD 2021 Implementing Guidance*, 2021

Climate Scenarios



	1.5°C	2°C	2°C IMPACTS
EXTREME HEAT Global population exposed to severe heat at least once every five years	14%	37%	2.6x WORSE
SEA LEVEL RISE Amount of sea level rise by 2100	0.40 METERS	0.46 METERS	.06M MORE
ECOSYSTEMS Amount of Earth's land area where ecosystems will shift to a new biome	7%	13%	1.86x WORSE
CORAL REEFS Further decline in coral reefs	70–90%	99%	UP TO 29% WORSE

Source: Carbon Action Tracker, *lhttps://climateactiontracker.org/global/temperatures/*

Source: WRI, https://www.wri.org/blog/2018/10/half-degree-and-world-apart-difference-climate-impacts-between-15-c-and-2-c-warming

Scenario Analysis

Scenario analysis is a tool to explore forward-looking potential physical and transition risks and opportunities

1.5˚C warming

Less physical risk
More transition risk
More transition opportunity

- Large, rapid GHG emission reductions
- Mitigated, but not eliminated, physical risks
- Carbon pricing
- Disruption from the transition to renewable energy and less energy intensive options

4˚C warming

More physical risk
Less transition risk

- GHG emissions continue to rise
- Very slow transition to low-carbon economy
- Damage to assets and infrastructure
- Productivity loss
- Economic losses from strong climate impacts

Implementing the TCFD Recommendations

Assess Value → **Enhance Value** → **Create Value**

You are here

Create an internal working group

Develop a gap analysis of existing processes, data and disclosure

Conduct scenario analysis and understand potential futures

Integrate climate-related information into decision-making (begin mainstreaming)

Embed climate-related risks and opportunities into risk management and decision-making processes (mainstream), and appropriately disclose this to the market

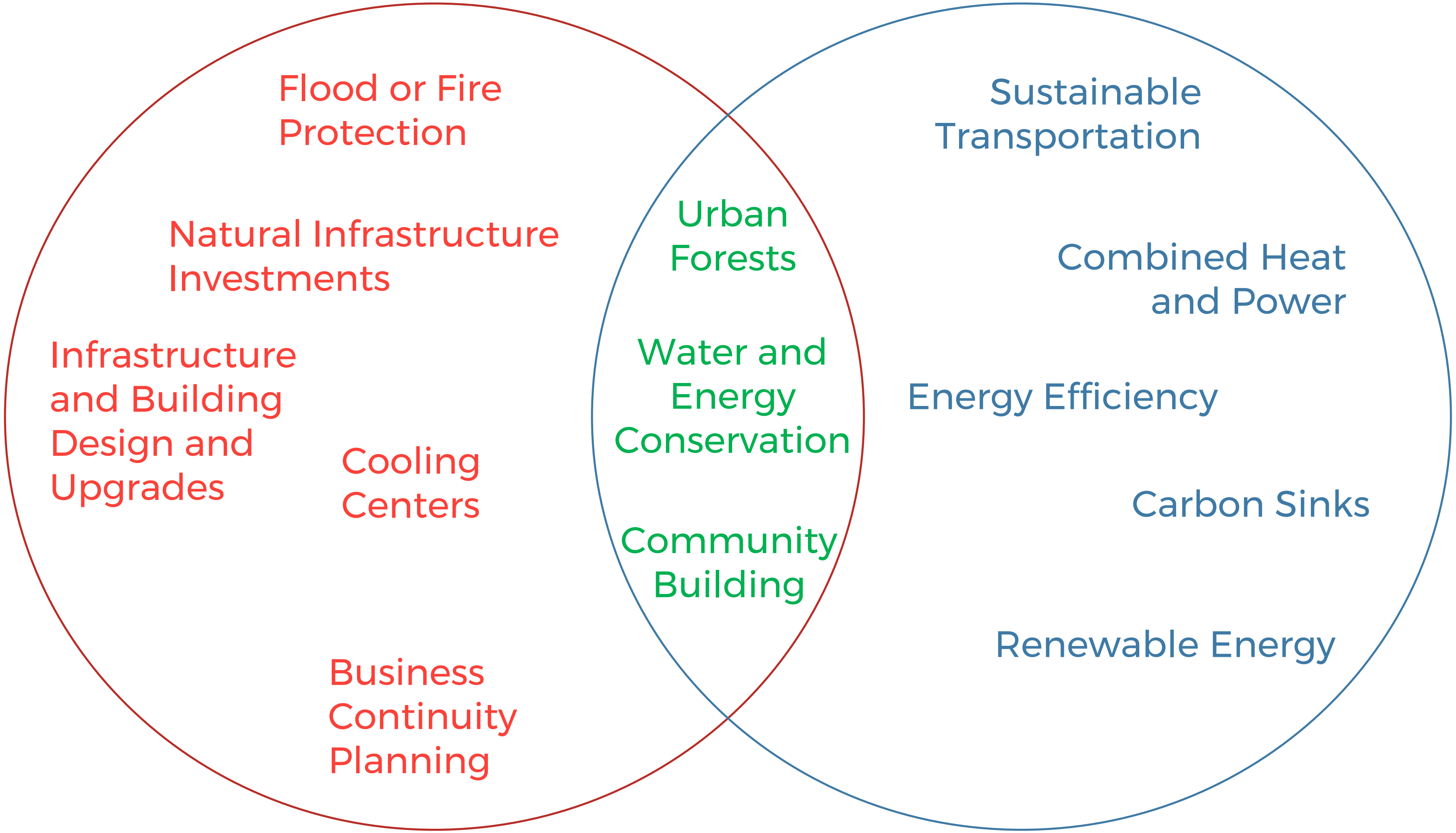
Source: *TCFD 2021 Implementing Guidance*, 2021

Adaptation Planning

Actions to manage the physical impacts of climate change

Transition Planning

Actions to reduce emissions that cause climate change

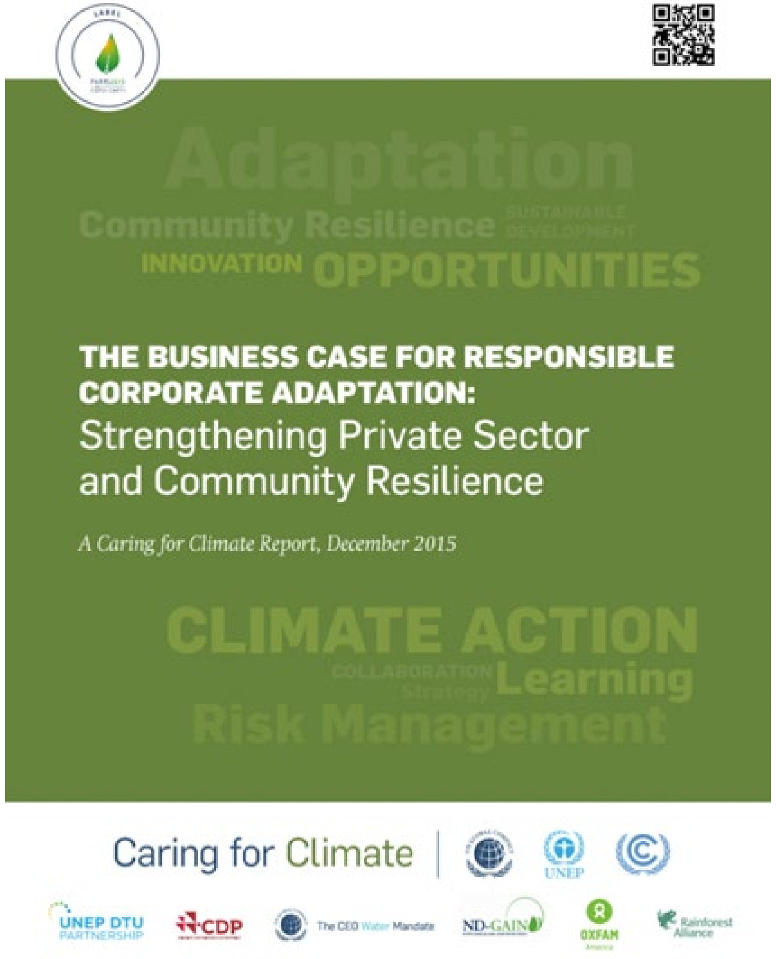


Examples of Corporate Adaptation and Resilience Initiatives

United Nations Global Compact

WATER RESILIENCE COALITION

Water Stress



CEO Water Mandate (2000)

wsp

WE MEAN BUSINESS COALITION

WHAT CONGRESS NEEDS TO KNOW ABOUT CORPORATE CLIMATE RISK, RESILIENCE, AND DISCLOSURES

By: Dr. Jane Thostrup Jagd, Deputy Director, Net Zero Finance

WHO WE ARE

WE GALVANIZE GLOBAL BUSINESS INTO CLIMATE LEADERSHIP

1x
Secretariat

7x
Coalition partners

BSR · CDP · Ceres · CLG Europe · Climate Group · wbcsd · The B Team

50x
Strategic and network partners

Beyond the Coalition, our partners are the leading organizations working on climate action around the world.

9,000x
Global business

Together, we remove obstacles, champion the progress and lead the global business community towards climate leadership.

NEW STANDARDS AND LEGISLATION

WMBC supports the US SEC Climate reporting proposal

BENEFITS AND IMPACTS OF INTERNATIONAL ALIGNMENT

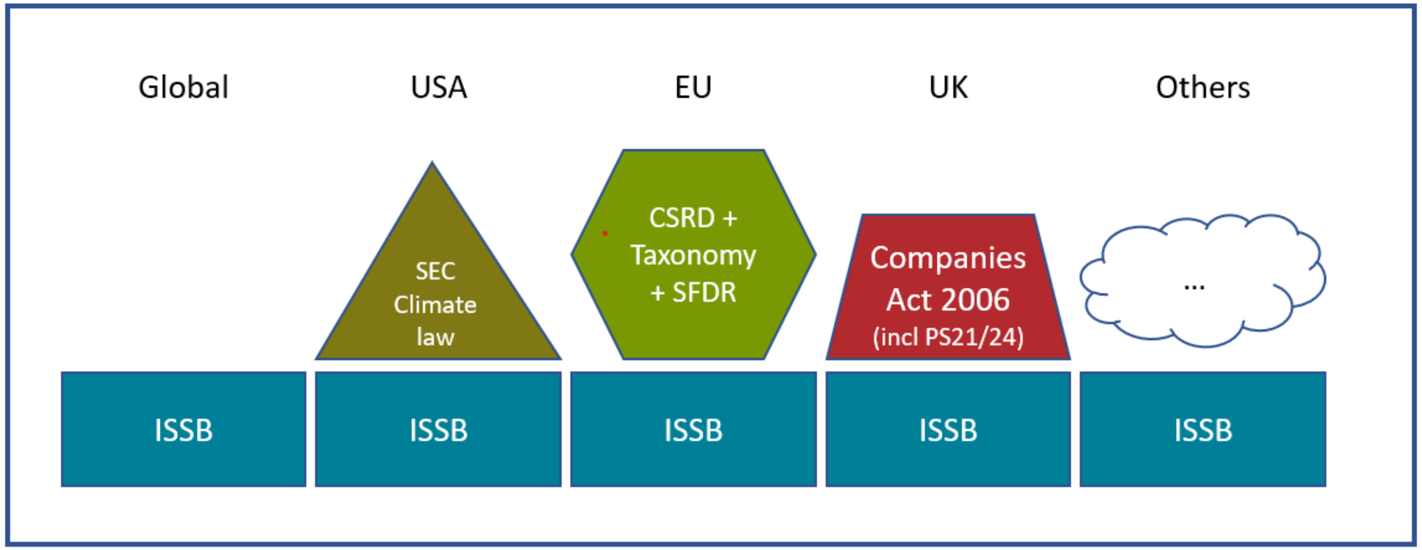
- Cost-efficient solution for companies
- Clearest possible picture to investors
- Provide accountability for corporate climate reporting => less greenwashing

“

How do ISSB and US SEC climate law fit?

They fit fairly well – for now

- Two things must change to future prove that fit
- One clarification is needed to secure cost-efficiency and usability



First thing

ISSB REFERENCE

- To future proof the alignment – US SEC Climate law should refer to ISSB

- ISSB will develop – just like the financial reporting regulations like US GAAP and IFRS have done. So, a reference to ISSB would make continued convergence and comparability across jurisdictions more likely.

Second thing

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS ON CLIMATE

- US SEC Climate law is based on TCFD - good
- TCFD => Scenario reporting on climate resilience
- This will also cover opportunities
- Thus, climate scenario reporting and target setting **should be** subject to the general safe harbor protections under the Private Securities Litigation Reform Act (PLSRA)

The clarification that is needed

FINANCIAL BOUNDARIES ARE KEY

- Boundaries for GHG reporting (scope 1+2) should follow the financial boundaries; meaning:
    - Follow financial consolidation rules
    - Extend financial leasing rules (right-of-use)
- Financial systems can be extended – no need for new systems
- Integrated KPIs like Carbon intensity (GHG vs Revenue) will be useful, as the nominator and denominator are referring the same data boundaries.
- Auditor can assess completeness of GHG reporting.

So,

IT IS CLOSE

- Good legislation draft

- To future proof the international alignment:
  - Refer to ISSB
  - Safe harbor for forward looking statements on climate

- To make it cost efficient and investor useful:
  - Use financial boundaries

WE MEAN BUSINESS COALITION

wemeanbusinesscoalition.org

linkedin.com/company/wemeanbusines

twitter.com/WMBtweets

By: Dr. Jane Thostrup Jagd, Deputy Director, Net Zero Finance
jane@wemeanbusinesscoalition.org

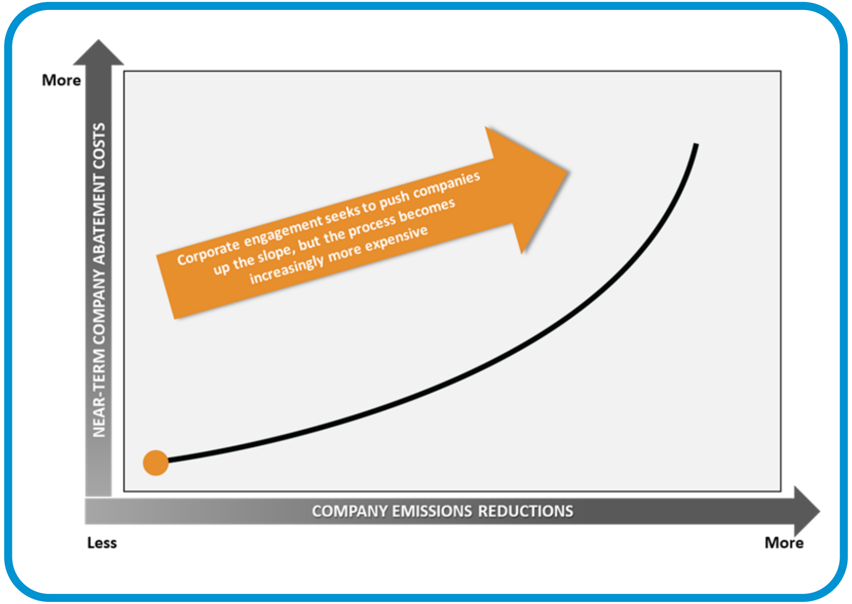
Rethinking how investors engage on climate risk

Defining Key Terms

- **Stewardship:** Encompassing commonly used terms such as **corporate engagement** and **proxy voting**, as well as nascent tools covered in new paper
- **Systemic Risk:** A type of investment risk that **can't be "diversified away"**, i.e., climate change or income inequality
- **Net-Zero Asset Owner Alliance:** UN-convened coalition featuring **70+ asset owners from around the world and over $10 trillion in AUM**
    - Committed to reaching net-zero portfolio / financed emissions by 2050
    - Setting interim targets over five-year periods
    - **Accurate and comparable climate-related information is *essential* for measuring alignment with targets**

The Steepening Cost Curve for Corporate Decarbonization

- In many cases, companies have already acted on opportunities to reduce emissions that also improve their short-term profitability
- Thus, any new emission abatement efforts come at an increasing marginal cost—**investor engagement essentially seeks to push corporations up this steepening cost curve**
- Despite some companies having good reason to move up the curve, we have identified **at least five limits which restrict investors' ability to keep pushing companies up this curve**



Limits of Corporate Engagement

Limit 1:

Significant resources needed for effective engagement

Limit 2:

A narrow, single company focus

Limit 3:

Inefficiencies of focusing on voluntary, company-by-company, disclosure

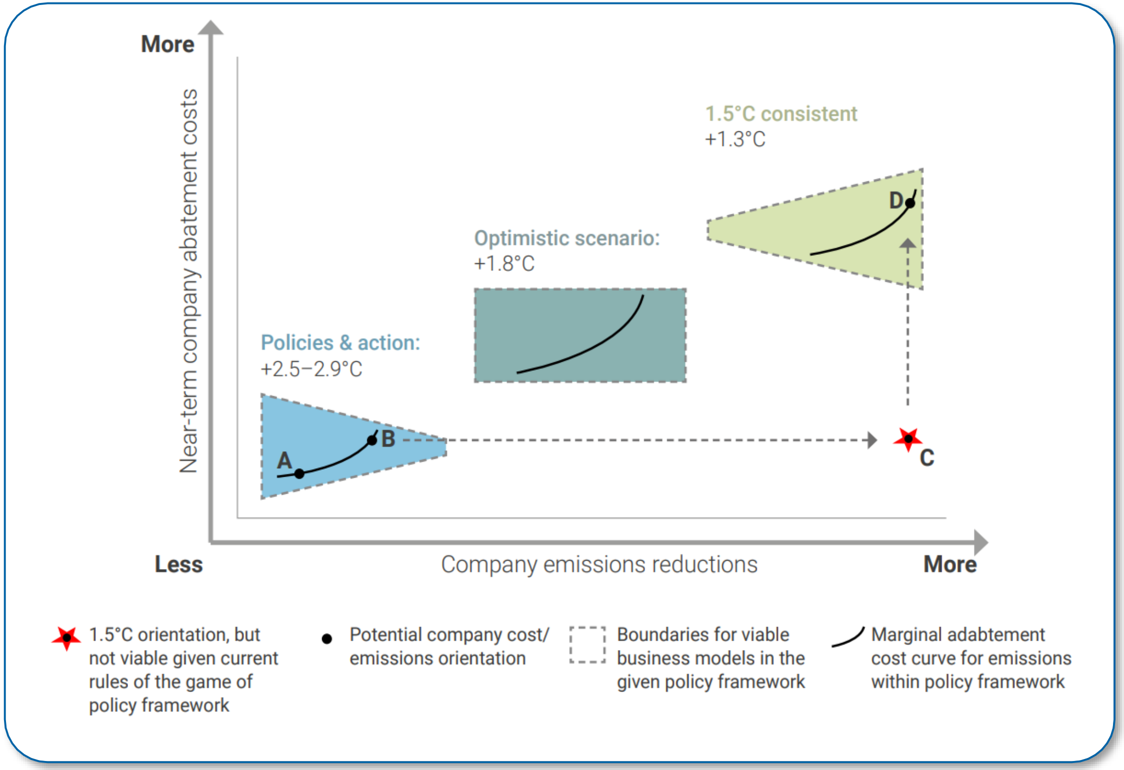
Limit 4:

An uneven investor focus across companies and asset classes

Limit 5:

Boundaries set by the “rules of the game”

Changing the “Rules of the Game”



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