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

Materials will be available at: www.eesi.org/092022risk
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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

- *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 climate-related financial risk.

<table>
<thead>
<tr>
<th></th>
<th>FED</th>
<th>FDIC</th>
<th>OCC</th>
<th>NCUA</th>
<th>SEC</th>
<th>MSRB</th>
<th>CFTC</th>
<th>FHFA</th>
<th>Treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Publicly affirm climate as a systemic risk</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>2</td>
<td>Produce research and data on climate change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔️</td>
<td></td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>3</td>
<td>Assess climate risks on “financially vulnerable communities”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔️</td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td>4</td>
<td>Appoint senior staff to focus on climate change</td>
<td>✔️</td>
<td></td>
<td>✔️</td>
<td></td>
<td></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>5</td>
<td>Improve climate-related disclosure</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Include climate risk in supervision and regulation</td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
<td>✔️</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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
Physical risk
Changing climate conditions
Extreme weather events

Transition risk
Policy changes
Technological innovation
Social adaptation

Liability risk
Stakeholder litigation
Regulatory enforcement

Direct damage to assets or property
- Lower asset values
- Defaults on loans
- Increased insurance claims

Disruption from adjustment to low-carbon economy
- Impacts on pricing and demand
- Stranded assets
- Supply chain disruption

Not considering or responding to the impacts of climate change
- Business disruption resulting from litigation
- Penalties resulting from litigation

Climate Risk and Analytics is a Big & Growing Business

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.

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

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
### 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

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**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
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 and transition risks and opportunities
## The TCFD Recommendations

<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclose the organization’s governance around climate-related risks and</td>
<td>Disclose the actual and potential impacts of climate-related risks and opportunities on</td>
<td>Disclose how the organization identifies, assesses, and manages climate-related risks.</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related</td>
</tr>
<tr>
<td>opportunities.</td>
<td>the organization’s businesses, strategy, and financial planning where such information is</td>
<td></td>
<td>risks and opportunities where such information is material.</td>
</tr>
<tr>
<td>a) Describe the board’s oversight of climate-related risks and opportunities.</td>
<td>a) Describe the climate-related risks and opportunities the organization has identified over</td>
<td>a) Describe the organization’s processes for identifying and assessing climate-related risks.</td>
<td></td>
</tr>
<tr>
<td>b) Describe management’s role in assessing and managing climate-related</td>
<td>the short, medium, and long term.</td>
<td>b) Describe the organization’s processes for managing climate-related risks.</td>
<td></td>
</tr>
<tr>
<td>risks and opportunities.</td>
<td>b) Describe the impact of climate-related risks and opportunities on the organization’s</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Describe the resilience of the organization’s strategy, taking into</td>
<td>businesses, strategy, and financial planning.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>consideration different climate-related scenarios, including a 2°C or</td>
<td>c) Describe how processes for identifying, assessing, and managing climate-related risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>lower scenario.</td>
<td>are integrated into the organization’s overall risk management.</td>
<td></td>
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<tr>
<td>WSP</td>
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</tr>
</tbody>
</table>
Climate-related Risks, Opportunities, and Financial Impact

Source: TCFD 2021 Implementing Guidance, 2021
Climate Scenarios

2100 WARMING PROJECTIONS
Emissions and expected warming based on pledges and current policies

- Baseline: 4.1 – 4.8°C
- Current policies: 3.0 – 3.4°C
- Optimistic policies: 2.9°C
- Pledges & Targets: 2.6 – 2.9°C
- 2°C consistent: 1.6 – 1.7°C
- 1.5°C consistent: 1.3°C

Sept 2019 update

<table>
<thead>
<tr>
<th>1.5°C</th>
<th>2°C</th>
<th>2°C IMPACTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXTREME HEAT</td>
<td>Global population exposed to severe heat at least once every five years</td>
<td>14%</td>
</tr>
<tr>
<td>SEA LEVEL RISE</td>
<td>Amount of sea level rise by 2000</td>
<td>0.40 METERS</td>
</tr>
<tr>
<td>ECOSYSTEMS</td>
<td>Amount of Earth's land area where ecosystems will shift to a new biome</td>
<td>7%</td>
</tr>
<tr>
<td>CORAL REEFS</td>
<td>Further decline in coral reefs</td>
<td>70–90%</td>
</tr>
</tbody>
</table>

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

4°C warming
- More physical risk
- Less transition risk

- 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

- 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**
- Develop a gap analysis of existing processes, data and disclosure

**Enhance Value**
- Conduct scenario analysis and understand potential futures
- Create an internal working group
- Integrate climate-related information into decision-making (begin mainstreaming)

**Create Value**
- 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

- Flood or Fire Protection
- Natural Infrastructure Investments
- Infrastructure and Building Design and Upgrades
- Cooling Centers
- Business Continuity Planning

**Transition Planning**
Actions to reduce emissions that cause climate change

- Sustainable Transportation
- Combined Heat and Power
- Energy Efficiency
- Carbon Sinks
- Renewable Energy
- Urban Forests
- Water and Energy Conservation
- Community Building
- Natural Infrastructure Investments
- Cooling Centers
Examples of Corporate Adaptation and Resilience Initiatives

CEO Water Mandate (2000)
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

50x Strategic and network partners

9,000x Global business

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

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

NEW STANDARDS AND LEGISLATION

ISSB

U.S. SECURITIES AND EXCHANGE COMMISSION
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.
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)
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
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”

- 1.5°C orientation, but not viable given current rules of the game of policy framework
- Potential company cost/emissions orientation
- Boundaries for viable business models in the given policy framework
- Marginal abatement cost curve for emissions within policy framework
What did you think of the briefing?

Please take 2 minutes to let us know at:
www.eesi.org/survey

*Materials will be available at:*
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