EXCEL Brief:
The Task Force on Climate-Related Disclosure (TCFD)

Canada's Business and Sustainability Partnership

2018 Brief

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Since 1996 EXCEL has been Canada's leading corporate sustainability partnership. This white paper is focused on helping EXCEL member companies generate higher value for shareholders, stakeholders and communities.

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1. Introduction

The Task Force on Climate-Related Financial Disclosure, or TCFD, is creating tailwinds for the integration of climate disclosure into mainstream financial reporting. Over 100 companies, including Barrick Gold, Shell and Unilever, support and are implementing the recommendations. In addition, 390 investor groups, representing more than USD $22 trillion in assets under management, signed a letter calling upon the G20 leaders to support the TCFD recommendations.

In contrast to other climate-related disclosure frameworks, the momentum and support of the TCFD recommendations is significant. It is largely due to the fact that this is a private-sector led initiative supported by the G20 and related to the financial sector. The TCFD was established in 2015 by the Financial Stability Board, led by Bank of England Governor Mark Carney, to address the rising concern in the financial and insurance sectors about the lack of understanding and disclosure on the impacts of climate change and the transition to a lower-carbon economy. Without adequate information and disclosure from companies, investors, banks, regulators and insurers cannot adequately evaluate and price climate risk. The TCFD seeks to remedy this. Its framework provides a standardized guide for companies to build the necessary corporate governance, strategy and risk management structures needed to adequately identify, manage, and then disclose in financial fillings material climate-related risks and opportunities.

For companies operating in Canada, the TCFD and climate-related disclosure in financial fillings have been in the spotlight in recent months. The Canadian Securities Administrators (CSA) assessed and released their findings on climate-related disclosures in Canada in April in their *Report on Climate change-related Disclosure Project*. The CSA plans to continue this work by developing new guidance on climate disclosure, monitoring the quality of climate-related disclosure and considering new disclosure requirements. In addition, the Expert Panel on Sustainable Finance, a joint effort by Minister Morneau and McKenna will build on the CSA's report to further analyze the global trends in climate-related disclosures, roles and responsibilities for sustainable finance in Canada, opportunities and challenges relating to sustainable finance and climate disclosure for Canada, and will recommend next steps for each jurisdiction. As further regulation on climate-related disclosure appears to be on the horizon for Canada, leading Canadian companies can proactively prepare for the future of climate disclosure with the TCFD recommendations. This exclusive EXCEL brief will provide you and your company with an overview of the TCFD recommendations, questions to gauge your company's progress on implementing the recommendation and a high-level roadmap and next steps.

2. Overview of Recommendations

The TCFD has four overarching recommendation areas: Governance, Strategy, Risk Management and Targets and Metrics. These broad recommendations are intended to be applied across all sectors, and again, are meant to be disclosed in financial fillings. Throughout these four core recommendations, the TCFD asks companies to identify, evaluate, manage and disclose their climate-related risks and opportunities and potential financial impacts. To support consistent disclosure, the TCFD does define both transition and physical risks and opportunities into various categories. In addition, the TCFD connects how the, indirect impacts of material climate-related risks and opportunities impact financial statements (See Appendix). An overview of the recommendations can be found below:

- **Governance** focuses on the organization's governance structure for managing climate-related risks and opportunities. In particular, it looks at the board's oversight and integration of these risks and opportunities into decision-making processes, and of management's ability to effectively oversee these areas.

- **Strategy** centers on the identification and evaluation of climate-related risks and opportunities in the short, medium and long term. The recommended disclosure looks to show how adaptable and resilient the organization may be in light of these risks and opportunities. As part of this, the TCFD recommends that companies conduct scenario analysis to understand how their business may fair in a world that is impacted by climate change. Thus, the TCFD recommends that organizations evaluate their business under different scenarios, including a 2 degree or lower scenario. Scenario analysis is considered one, if not, the most challenging recommendations for companies to implement. The TCFD understands this, and recognizes that scenario analysis will be a process. At inception, it will likely be a more qualitative exercise, that overtime could develop into a more robust, quantitative analysis.

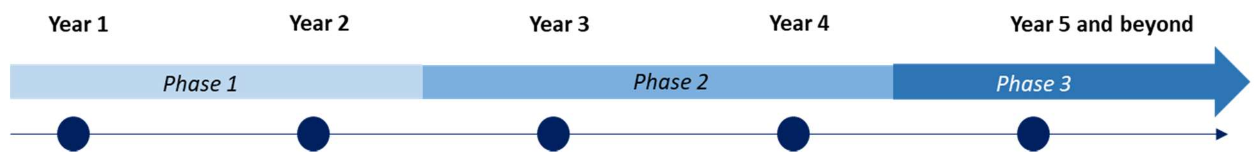
- **Risk Management** seeks disclosure on the organization's processes for identifying, assessing, and managing potential climate-related risks. The TCFD also recommends that eventually the risk management process for climate-related risks become incorporated into a company's enterprise risk management.

- **Targets and Metrics** looks for disclosure on the company's climate-related goals and its performance. Targets should consider including the time horizon, base year and key performance indicators that measure progress. In addition, climate-related metrics and targets should be considered into remuneration.

3. Implementation Framework

While the TCFD recommendations did consider the difficulties in integrating and preparing the recommended disclosure, these recommendations may seem intimidating for companies that may be at beginning of their TCFD journey. To support companies on implementing the TCFD recommendations, we have developed a set of questions, the responses to which will help determine how far a company has progressed towards fully adopting the TCFD recommendations. After answering the questions, a company can use the high-level roadmap below to determine which steps they should take to advance their adoption of the recommendations.

Implementation Roadmap



Understanding that the majority of EXCEL members are still in the first phase of their TCFD journey, we have provided a description of each phase and a few strategic recommendations that will enable you to transition smoothly through the phases of TCFD adoption.

Implementation Questions:

The questions below are divided the into the four overarching TCFD recommendation areas. These questions can be used to help gauge your company's advancement and implementation of TCFD recommendations. The number following each question corresponds to the phases shown above. If you confidently answer 'Yes' to the questions in a phase, continue on to the questions for the following phase. If not, continue to the recommendations in the corresponding phase.

Governance Recommendation Questions

- ☐ Is the board regularly informed of climate-related issues (1x/year or more)? (1)
- ☐ Has your company assigned responsibility for climate-related issues to a person or group? (1)
- ☐ Is there a board committee that discusses climate-related issues? (1-2)
- ☐ Is the board reviewing climate-related risks when it reviews other enterprise risks? (1-2)
- ☐ Does the board review climate-related issues as part of its guidance and oversight of strategy, and budgetary and capital planning? (2-3)
- ☐ Is there integration between management's review of the company's strategy, budget and business plans and climate-related risks and opportunities? (2-3)
- ☐ Are climate-related financial disclosures reviewed by the chief financial officer or audit committee? (2-3)
- ☐ Does the board monitor the company's and management's progress on climate-related goals? (3)

Strategy Recommendation Questions

- Does the company identify climate-related risks and opportunities it may face over the short, medium and long term? (1)
- Does the company have a process for assessing if climate-related issues could have a material financial impact? (1-2)
- Does the company pursue scenario analysis (1-2)?
- Does the company conduct multiple analysis of different scenarios, including a 2 degree or lower scenario? (2-3)
- Is the scenario analysis process both qualitative and quantitative? (2-3)
- Are the insights gained from scenario analysis integrated into the company's decisions? (2-3)
- Are climate-related risks and opportunities integrated into strategic, budgetary and capital decisions? (2-3)
- Is the company's disclosing in its mainstream annual financial filings where it might be affected by climate-related risks and opportunities? Is the company disclosing its strategies to manage these? (or if filings are deemed unsuitable, an explanation provided)? (3)

Risk Management Recommendation Questions

- Does the company have a process for identifying and assessing climate-related risks (both physical and transition)? (1)
- Does the company have a process for managing climate-related risks? (1)
- Is the process for identifying, evaluating and managing climate-related risks integrated into the company's overall risk management framework? (2-3)

Metrics and Targets

- Does the company have climate-related metrics that align with the company's strategy and risk management processes (1)?
- Are scopes 1, 2 and if appropriate, scope 3 emissions disclosed? (1)
- Is management's remuneration tied to performance on climate-related metrics and targets? (2-3)
- Does the company have climate-related targets that align with the company's strategy (2-3)?
- Are targets and metrics publicly disclosed? (2-3)

Description of Phases:

The table below provides a description of the three major phases. The questions above complement the descriptions and will further help guide you and your company's TCFD journey.

	Governance	Strategy	Risk Management	Metrics & Targets
Phase 1	• The board and/or board committees are informed about climate-related issues and how these issues may impact the company in the near, medium and long term. • The board has started considering climate-related issues when reviewing and deciding on strategy, policies, budgets and capital expenditures. • The company has assigned climate-related responsibilities to management-level positions or committees.	• The company has identified both physical and transition risks and opportunities by business and/or geography for the short, medium and long-term. • Risks and opportunities are integrated into a high-level scenario analysis. 1-2 scenarios, including a 2-degree scenario are used as part of the process. • The company has qualitatively evaluated the impact of climate-related risks and opportunities on some of its: products and services, supply chain, investment in research and development, operations, operating costs and revenues, capital expenditures and allocation, acquisitions and divestments, and access to capital. • The high-level impacts of climate-related risks and opportunities are known to senior management.	• Both transition and physical climate-related risks have been identified for the short, medium and long term. • The company has begun to evaluate the impacts of climate-related risks, even if it is qualitatively. • The company has started to formulate plans to manage identified risks. • Some high-level risk management processes are started to be disclosed (internal carbon prices, etc.).	• Scope 1, 2 and if appropriate, 3 emissions are measured and disclosed. • Metrics are established and used to assess climate-related risks and opportunities in line with strategy. • Targets are formed that align with the company's strategy and metrics.

Phase 2	• The board / board committees are regularly informed about climate-related issues. • The board consistently considers climate-related issues when reviewing and guiding strategy, major plans of action, policies, budgets, and capital expenditures. • The company has established a process for informing management about climate-related risks. Management is regularly updated on climate-related issues. • Management has responsibility and accountability for climate-related issues.	• Management is integrating climate-related risks and opportunities into its decision-making processes. • The list of key climate related risks and opportunities is expanded. Scenarios become more complex and quantitative. 3-4 scenarios are used as part of the process. • The company has increased its qualitative scenario analysis, and possibly started to incorporate more quantitative analysis of the impacts of climate-related risks on its: products and services, value chain, investment in research and development, operations, operating costs and revenues, capital expenditures and allocation, acquisitions and divestments, and access to capital.	• The company has established processes for identifying, assessing and managing climate-related risks. • The company has a process for determining the potential size and scope of identified climate-related risks, and the relative significance of climate-related risks in relation to other risks. • Climate-related risks are integrated into the company's overall risk management processes. • The company may begin disclosing its climate-related risks and strategy to mitigate risks and seize opportunities in its financial filings.	• Climate-related metrics and targets are disclosed in financial fillings. • Metrics and targets continue to be aligned with the company's strategy • If targets are achieved, the company reevaluates metrics and targets to better reflect the company's strategy.
Phase 3	• The board continues to be regularly informed about climate-related issues and integrates information into decision making process. • The board may have a dedicated committee or director with climate-related expertise. • The board monitors and oversees progress against goals and targets for addressing climate-related issues in addition to its responsibilities in Phase 2. • Management continues to be accountable for climate-related issues. • The CFO reviews climate-related disclosure.	• Management is routinely updated about climate-related issues and has an established process for integrating risks and opportunities into business, strategic, budgetary and capital planning decisions. • Detailed scenario analysis with 3-4 scenarios is undertaken. This process includes disclosing climate-related risks and opportunities over the short, medium and long term, as well as the quantitative impacts of risks and opportunities on the business, strategy, and financial planning. • Recommended disclosures are included in annual financial filings - if filings are deemed an unsuitable disclosure location, an explanation is provided.	• Identification, assessment and management of climate-related risks are fully incorporated into the company's enterprise risk management practices.	• Companies may expand their emissions reporting to include scope 3 data. • Management's remuneration is tied to performance on climate-related areas. • Metrics and targets continue to be aligned with the company's strategy • If targets are achieved, the company reevaluates metrics and targets to better reflect the company's strategy. • Metrics and targets are publicly disclosed in financial filings.

4. Recommended Steps by Phases

Depending on the phase your company is at, the following presents overarching recommended steps for companies in each phase:

Phase 1

- **Educate senior management and the board**: Senior management and board understanding of climate-related issues and impacts will support the incorporation of climate issues into strategic, operational and financial decision processes. Education could include presentations on climate-related risks that are, or could, affect the company's market, supply chain, etc. Continual education is important to increasing awareness and integration of assessing climate-related issues into the company.

- **Set up Communication Networks**: Many of the TCFD recommendations require communication between many different people and functions within a company. For example, the audit and risk committees would conduct much of the work necessary for a thorough climate risk analysis, and engaging them as part of the process of assessing climate risks and opportunities ensures that work is not being duplicated. Companies should start, if they have not already done so, to connect and communicate with the various business units, such as the sustainability team, audit and risk teams, the CFO's office, and corporate strategists. Bringing these different perspectives together will help create a more effective and efficient conversations around climate risk.

- **Start Collecting Data:** As a company evolves, many of the recommendations, such as those related to risk and opportunity evaluation and scenario analysis, should become more quantitative. The TCFD acknowledges that many companies will not provide quantitative disclosures within the first years of disclosing. Companies should start to collect the required data from various sources both within the company and outside of it, a process which could take several months and/or years. Initiating this process early on will enable an easier transition to the more quantitative disclosures. This will also help prepare companies for potential future regulatory requirements.

Phase 2

- **Continuing education** on climate-related issues and socialization of the company's climate work throughout the company will be important. As more functions and employees are aware of climate-relate issues, they will be better able to support management's ability to identify and manage these risks and opportunities. For example, if procurement teams are knowledgeable about climate-related issues, they could proactively begin to optimize its supply chain to decrease its vulnerability to severe weather and climate impacts, which could create savings for the company.

- **Begin quantifying risks and opportunities:** After a company has started to collect data, as described in Phase 1, it can utilize the data to conduct more quantitative scenario analysis. This will help companies better evaluate the financial impacts of climate-risks and opportunities, which can provide risk management and corporate strategists with decision-useful information.

- **Use performance data to inform targets:** As a company has a greater understanding of the impacts of its climate-related risks and opportunities and of its performance on these issues, a company will be better equipped to set appropriate, yet challenging, targets. For example, a company that starts to report its GHG emissions in Phase 1 may have a general target of "decrease emissions." After collecting performance data from Phase 1, ac company may be able to set more explicit, measurable and quantifiable targets.

- **Disclosure:** During Phase 1, companies are largely learning about the risks and opportunities that climate change may present and about building processes to manage these issues. As such, the company many only have limited disclosure. In Phase 2, companies should be able to increase their discloser, even if it is general, in the four TCFD recommendation areas.

Phase 3

- **Expand scenario analysis:** Companies in Phase 3 should continue to evolve their scenario analysis to include more quantitative analysis. If a company is using established, more generic scenarios, such as the IEA's, the company may consider customizing the scenarios to incorporate variables and data that better reflect factors that may influence the impact of company-specific climate-related risks. This could include more localized scenarios targeted at where the company operates.

- **Enhance disclosure:** By Phase 3, senior management, including the CFO, should be actively managing climate-related risks. Companies should be able to disclosure in financial fillings according to the TCFD recommendations. If not, companies should provide an explanation.

- **Continue integration:** Companies in Phase 3 that have been successful at implementing and disclosing TFD recommendations should continue to integrate and improve their understanding of climate-related issues throughout the company. By increasing awareness of climate-related issues, companies will be able to build internal capacity and ownership of these issues, which can help build sustainable and lasting processes.

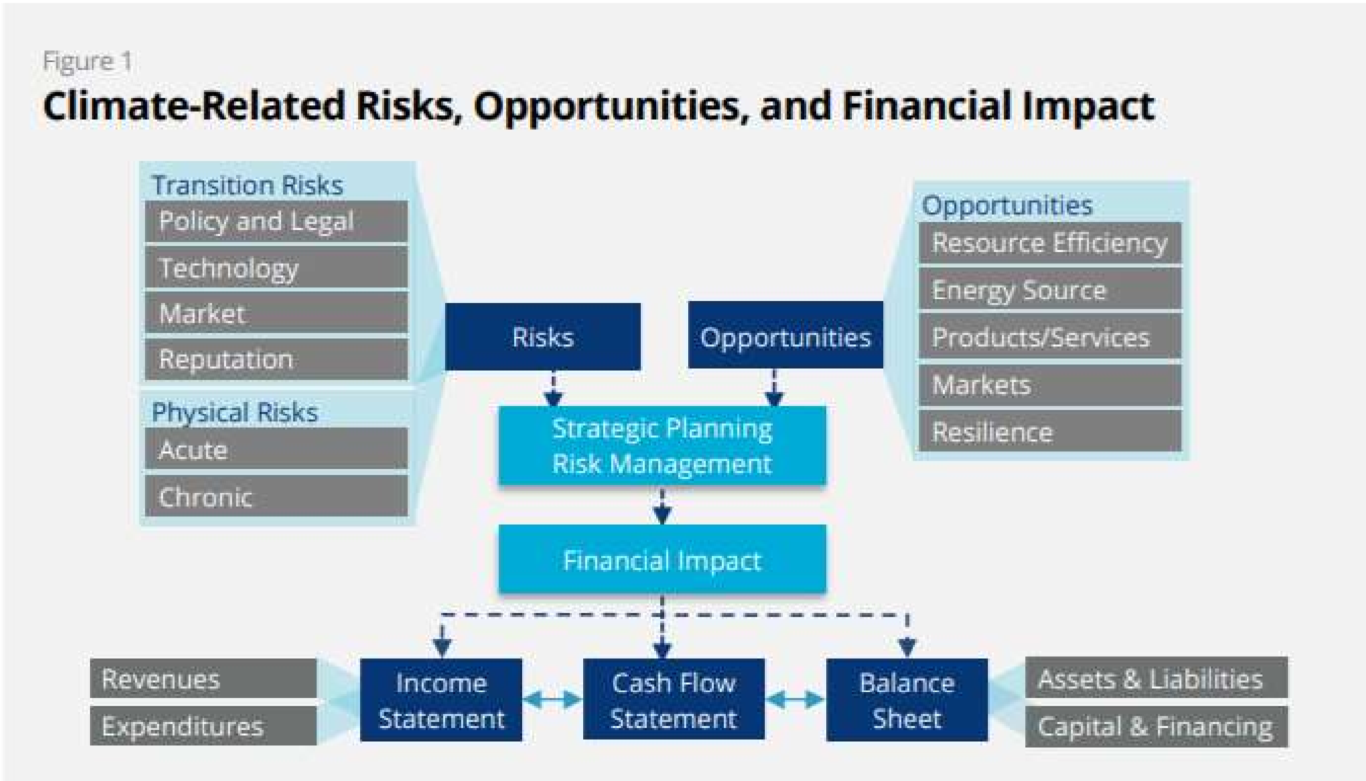
5. Final Points

The movement and support of the TCFD, and climate-related financial disclosure, by investors and companies alike is only growing, as seen by the formation of Canada's Expert Panel on Sustainable Finance and the EU Commission's recent announcement of three legislative proposals for sustainable finance. In addition, an increasing number of jurisdictions are enacting carbon-related legislation (over 42 national and 25 subnational jurisdictions[1]) and providing incentives to move towards a lower carbon economy. These policy shifts combined with the increase in frequency and severity of weather events makes an even more compelling argument for companies to adopt the TCFD recommendations and to appropriately identify, evaluate, manage and disclosure their climate-related risks and opportunities. By doing so, a company will create a more resilient and sustainable businesses for all its stakeholders, including investors.

[1] https://www.carbonpricingleadership.org/who/

6. Appendix

The graphic below shows the TCFD's framework[2] for the types of transition and physical and opportunities and their financial impact.



[2] https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf