
Primer on Climate Risk Disclosures

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Overview of the financial disclosures related to climate change

Climate risk disclosure differs from financial disclosure as it often targets a wider audience and is multidimensional, difficult to measure in monetary terms, hard to compare and standardize, and has externality benefits beyond a firm as well. (Christensen, Hail, and Leuz 2021)

Companies, financial institutions, and people are all at risk from climate change. The value of companies and their assets could be significantly impacted by both physical and transition risks. Physical risks are those posed by climate change (such as an increase in the frequency and severity of extreme weather events), whereas transition risks are those caused by the changes that will occur in technology, markets, policy, regulation, and consumer perception as a result of our transition to net zero.

As we adapt to a low-carbon economy, disclosures of significant climate-related financial information will support investment decisions. Investors will be better able to incorporate climate-related risks and opportunities into their investment and business decisions as it becomes simpler to compare companies' exposures to these risks and opportunities. This will also give other stakeholders more information for making appropriate decisions. Businesses may be able to better assess what they need to do to address these for their organization, operations, and workforce if they prepare disclosures on what the changing climate will mean for them, its impacts, risks, and opportunities.

The Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) guidelines are recognized by the government as one of the best frameworks for businesses to assess, interpret, and ultimately publish climate-related financial information. The government has chosen to use the TCFD recommendations as the foundation for adopting climate-related financial disclosures as a result of the suggestions receiving broad international support from major corporations, governments, stock exchanges, and the investment community. These regulations are a part of synchronized efforts by the government and multiple agencies to require financial disclosures about climate change that are in line with the TCFD. The government's plans to expand on these disclosure requirements to develop a wider strategy to provide investors and others with the information they need to integrate climate change and sustainability in all financial decisions are laid out in "Greening Finance: A Roadmap to Sustainable Investing," published on October 18, 2013.

Climate-related threats

International efforts to manage financial risks associated with climate change are being coordinated by the FSB. These hazards are global in scope and will impact every organization, industry, and economy. Extreme climate events and a disorderly shift to a low-carbon economy might have a disruptive impact on the financial system. The financial system has the potential to increase climate-related hazards globally and across industries.

Threats associated with the climate are extensive and distinct from other risks to financial stability. Risks associated with the climate could be highly speculative, and their effects on the financial system could be unpredictable. Long time spans for the effects mean that the severity of dangers in the years to come may depend on the activities taken now. The complexity of climate-related hazards, especially the potential for their simultaneous occurrence across numerous countries and industries, has an impact on the financial system's resilience. Therefore, in order to address threats to both individual businesses and the system as a whole, bottom-up and top-down activities are required.

SEC Climate Disclosure Requirements

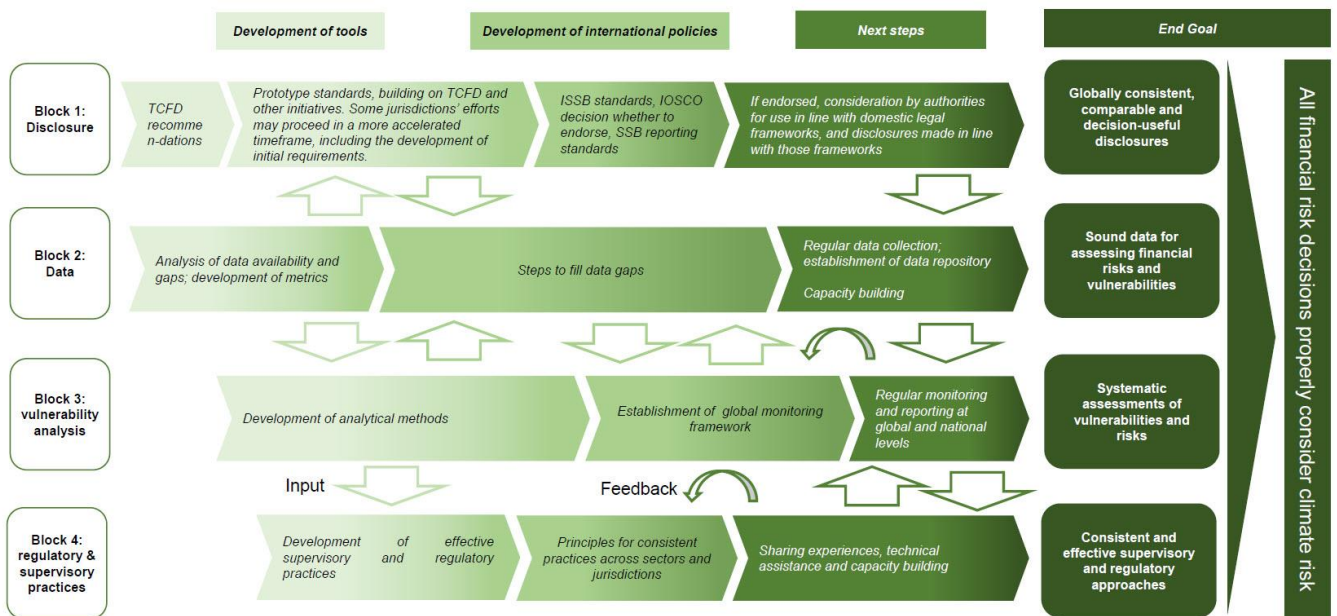
The SEC will complete its legal guidelines for disclosure of climate change, which are anticipated to appear in the final guidelines later in 2022. The TCFD (Task Force on Climate-Related Financial Disclosures) guidelines are used to inform and influence the SEC's climate disclosure rules, thus it is advised that companies become familiar with them if they haven't previously. The TCFD's four major reporting pillars are:

- Governance
- Strategy
- Risk Management
- Metrics and Targets

Concerning each of these four themes, SEC filers will similarly need to think about, prepare, and provide remarks. Starting in 2023, anticipating that qualifying organizations will have to perform the following annual compliance procedures in order to comply with the SEC's new regulations:

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- Adapt your routine financial accounting and regulatory reporting processes to account for climate risk.
 - Keep track of and share the necessary information. Management information and data about a company's:
 - Materiality prediction in choice of materials ESG focused areas, hazards, and themes
 - Information on how the board and management oversee the company, set climate-related objectives, and disclose their climate-related expertise
 - Aims, goals, and developments in sustainability and ESG performance
 - Risks associated with sustainability and the environment (particularly climate change) for the company
 - How operating results, financial performance, and shareholder value may be impacted by sustainability and ESG risks
 - Scope 1-2-3 GHG disclosure
 - Any ESG or climate analytics techniques that the registrant employs to evaluate how climate-related risks may affect its operations and consolidated financial statements or that enhance business model resilience in the face of known climate-related hazards, such as scenario analysis
 - Information pertinent to the usage of carbon offsets, credits, and/or renewable energy credits or certificates (RECs) by an organization as a component of its overall net emissions reduction strategy.
 - Third-party certification as per the proposed regulations, accelerated filers and large accelerated filers that submit climate-related disclosures to the SEC must also submit an attestation report from a neutral, reputable, and knowledgeable third party that attests to the company's disclosure of its Scope 1 and Scope 2 emissions, at the very least. Additionally, this report needs to make a few related disclosures regarding the assurance service.

FBS roadmap for addressing climate-related financial risks



What's in the climate related disclosure rule?

According to the SEC's proposed regulation, statements and reports to the commission must include standardized information about climate change. The disclosure standards were created by the commission to aid investors in risk assessment. The disclosures' information is derived from the Task Force on Climate-Related Financial Disclosure and includes the following:

- The company's board of directors and management are in charge of monitoring and managing climate-related risks
- The business may be impacted in the short, medium, or long term by climate-related risks, including identified hazards and risks that are reasonably likely to have a major impact on the business or consolidated financial statements.
- How the company's strategy, business model, and future have been molded by or are likely to be impacted by climate-related issues
- Processes used by the organization to identify, evaluate, and manage climate risks, as well as how those processes fit into overall risk management
- The effect of transitional activities (like changing policies) and climate-related occurrences (like severe weather) on the company's consolidated financial statements' line items as well as on the financial estimates and assumptions behind those financial statements.

Companies can provide information on opportunities related to the climate under the rule, but it is not a requirement. Companies that have implemented climate planning, such as a transition plan or scenario analysis, or that have set climate-related targets would also need to disclose information about their planning procedures. In accordance with the widely used Greenhouse Gas Protocol, the proposed rule would also compel businesses to disclose certain metrics related to greenhouse gas emissions, such as:

- Metrics on Scope 1 and 2 emissions, provided in quantitative and intensity numbers, segmented by specific greenhouse gas components.
- Scope 3 emissions and intensity, with some limitations, if significant or if the company has established an emissions target that incorporates Scope 3 emissions.

Climate change creates financial risk for companies

Companies are now facing a variety of new hazards as the effects of climate change become more evident. The physical effects of climate change, such as worsening natural disasters from risky flooding and hazardous heat waves, must be addressed by businesses. As states and nations take initiatives to minimize greenhouse gas emissions, they must also adjust to altering consumer preferences and a regulatory environment. These climate-related hazards put businesses and their investors at risk financially. An international nonprofit organization called CDP that focuses on environmental disclosure revealed in a 2019 poll that 215 of the biggest global firms were at risk from climate impacts to the cost of around \$1 trillion.

More reliable information on climate risk is required by investors

Investors are demanding clearer and more comprehensive information to make educated decisions, and this demand is related to how a company prepares for and responds to climate threats. For instance, the United Nations-sponsored Principles for Responsible Investment are supported by over 4,000 investment companies that manage over \$120 trillion in assets. These signatories, which include major US asset managers BlackRock, Vanguard, State Street, and others, pledge to include environmental, social, and governance (ESG) considerations, such as climate risk, in their investment research and to demand disclosure from the businesses in which they invest.

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Conclusion

The first step in improving the standard of financial disclosures related to climate change is for organizations to implement the Task Force's recommendations. It may be possible for organizations who already report information relevant to climate change under other frameworks to do so again under this one immediately, and they are strongly advised to disclosure of climate-related concerns as they relate to governance, strategy, and risk management procedures can be the first step for organizations that are only starting to assess the effects of climate change on their operations and business strategies. The Task Force's recommendations provide a framework to enhance investors and others abilities to accurately analyze and price climate-related risk and opportunities, while also taking into account the fact that climate-related financial reporting is still in its development. The Task Force's suggestions are meant to be idealistic while remaining realistic for quick adoption. In addition to increasing investor engagement with boards and top execs on climate-related concerns, the Task Force hopes to improve the quality of mainstream financial disclosures relating to the possible effects of climate change on companies today and in the future. The quality of financial disclosures connected to climate change should be significantly improved through improved procedures and methods, including data analytics. This will ultimately promote more sensible risk pricing and capital allocation in the global economy.

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