

ICEF 2018 “Decarbonisation by Industrial Sector” Session

Effective climate-related disclosures and the drive towards decarbonisation

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The Taskforce on Climate-related Financial Disclosures' (TCFD) Recommendations and their Implications on Decarbonisation

Key features of the TCFD recommendations

- Adoptable by all organizations
- Designed to solicit decision-useful, forward-looking information on financial impacts
- Brings the “future” nature of issues into the present through scenario analysis
- Strong focus on risks and opportunities related to the transition to a lower-carbon economy

The TCFD Recommendations (continued)

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

(TCFD Recommendations, June 2017)

How institutional investors are responding (non-exhaustive)

Principles for Responsible Investment (PRI)

Integrated new climate-related indicators with the following underpinning principles for good disclosures (as a guide for asset owners);

1. **Strategy: describe the *how***
2. **Discuss in firm-specific terms**
3. **Quantitative information such as weighted average carbon intensity**
4. **Consider a range of scenarios**
5. **Location of disclosure: annual report, website, member communications**

(PRI “Implementing the TCFD recommendations” May 2018)

Launched the **Transition Pathway Initiative**, a transition risk assessment tool for asset owners with a focus on **management quality** and **carbon performance**

(Transition Pathway Initiative, July 2018)

Asset Owners Disclosure Project (AODP)

Interviews with 22 leading asset owners revealed how they are aligning themselves with the TCFD recommendations, including;

1. **Upgrading climate governance**
2. **Assessing physical impact risks across asset classes**
3. **Urging asset managers to focus on climate-related issues**
4. **Fine tuning engagement approaches (e.g. Climate Action 100+)**
5. **Setting climate-related targets**
6. **Developing methodologies for scenario analysis**

(“Winning Climate Strategies” June 2018)

Work in progress:

Stimulating creative thinking to advance climate-related corporate disclosure practices

- ◆ In contrast to the investment community, not much discussion on the TCFD recommendations seems to have taken place in the non-financial sectors, with the exception of oil & gas.
- ◆ It is imperative for the non-financial sectors to identify strengths and opportunities retained, which may be undervalued or even unnoticed by investors for lack of disclosure.
- ◆ The following items may deserve in-depth study to establish global recognition standards;
 - **Avoided GHG emissions throughout a product's life cycle**
 - **Comparatively high resource recycle ratio (including plastics)**
 - **Climate resilience** (e.g. how a product can withstand severe weather-related disasters)
- ◆ Japan's **Ministry of Economy, Trade and Industry (METI)** established the **Study Group on Implementing TCFD Recommendations for Mobilizing Green Finance through Proactive Corporate Disclosure** in July 2018. The Study Group brings together high-level experts from both financial and non-financial sectors, with the aim to compile a methodology to promote dialogues between businesses and investors.