GLOBAL CLIMATE RELATED FINANCIAL DISCLOSURES NEW FRONTIERS

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Global Climate Challenges and Pressures

Globally many leading countries and key players are recognising the urgent needs to control climate changes and manage climate risks. There are plans for new green investments to reduce emissions and reduce global warming. There are also urgent needs to improve the resilience and robustness of leading banks and companies globally to manage the negative effects of climate change and the associated climate risks. The signing of the Paris Agreement on Climate Change in December 2015 marked a new way-forward for key countries globally to work together to improve climate change. Combining the Paris Agreement with the 2015 Sustainable Development Goals, these demonstrated the worldwide commitment by many leading countries and governments to work jointly together to manage climate change and its risks globally. They aspired to work together to achieve a low carbon future for the world plus to transform their economies so that these will become less carbon intensive and more climate-resilient.

Globally there are serious rising concerns about climate risks and their implications to leading banks and companies globally. Climate risks poised serious environmental and reputational impacts which could seriously affect the business and financial performances plus the bottom lines of leading banks and corporates globally. There are also serious concerns by the G20 Finance Ministers and key Central Bank Governors that the financial implications of climate change are not being adequately disclosed by corporates globally to the market and their investors. Whilst corporates might have taken into account the physical risks associated with climate change, the transitional risks are often being ignored. These insufficient disclosures could hinder the international capital markets and financial institutions from making good asset allocation and risk pricing decisions. All these could contribute to serious market and financial instabilities globally which could have serious negative impacts on global economies.

There are also serious rising shareholder demands and pressures on leading companies and banks on improving their climate risk reporting. A good shareholder action example was that in Australia in 2017, the shareholders of the Commonwealth Bank, successfully sued the bank for failure to adequately disclose in their Annual Report the risks to the business of the bank which were posed by climate change. They cited wide ranges of potential climate risks including the investments by the Bank in the extractive industry and the housing markets in Australia. These legal challenges coincided with the serious warning by the Australian financial regulator that climate change risks could create serious material risks and damages to the financial systems of Australia.

Recently some 100 ethnical investors globally, who are collectively holding some U$1trillon in assets and investments globally, have jointly sent an important letter to each of the top 60 largest banks in the world. In their joint shareholder letters, they have requested the board and management of each of these sixty largest banks to clearly inform their shareholders about how their investments in these banks could be affected by the rising climate change risks.

In face of all these intense international, government and shareholder pressures, leading banks and companies globally have to take these new requirements on climate related financial disclosures very seriously. Their board and top management have to put in place the necessary new systems and processes to compile with the new disclosure and reporting requirements. They should try their best to meet and compile with these new requirements from governments, international agencies and shareholders. Otherwise they could be opening themselves to serious challenges and even lawsuits from the regulators, media and investors.

G20 Task Force on Climate Related Financial Disclosures TCFD Recommendations

The G20 Finance Ministers and Central Bank Governors have a lot of concerns that companies and banks internationally are not adequately disclosing the financial implications of climate change and climate risks to the international markets and investors. Whilst corporates might have taken into account the physical risks associated with climate change, 3

the transitional risks are more often ignored. Insufficient disclosure would hinder the international capital markets from making well-informed credit rating plus asset allocation and risk pricing decisions. These could also lead to serious financial and market in-stability problems. It is generally recommended that leading banks and companies should take into account the physical climate change risks as well as the transitional risks in future in their strategic planning and management. Then the capital markets could make better informed decisions on their credit rating, asset allocation and risk pricing etc. These would help to maintain and improve the robustness and stabilities of financial and stock markets globally.

It is generally recognized that the first step towards better management of climate change and its risks is the accurate measurement and reporting of these important areas. Hence Mark Carney, the Financial Stability Board (FSB) Chair, created the G20 Task Force on Climate-related Financial Disclosures (TCFD) in December 2015. The TCFD was chaired by Michael Bloomberg and comprised of 32 industry leaders across the world. They have undertaken extensive engagements, surveys and reviews in developing their recommendations and report.

In June 2017, the G20s Financial Stability Board's "*Task Force on Climate Related Financial Disclosure*" (TCFD) published *its Final Report and*

Recommendations which contained detailed recommendations on voluntary climate related financial disclosures. The Task Force on Climate-related Financial Disclosures (TCFD) Report contained important disclosure recommendations with seven key principles. Their recommendations sought to balance the global need to raise the bar for existing climate financial disclosure standards together with the desire to achieve widespread adoption by leading banks and companies globally. They provided new guidelines on how leading banks and companies globally can use their mainstream, and publicly available, financial reporting instruments to report on the climate change risks and opportunities that they would face in the short, medium and long term. In general, the TCFD recommendations represented very carefully considered, open and transparent new approaches for climate related financial disclosures by leading banks and companies. The TCFD team has also identified some key industrial sectors globally that could suffer higher climate risk internationally. These sectors included the energy sector, transportation, construction, agriculture, food and forestry.

In the April 2017 meeting of the G20 Finance Ministers and Central Bank Governors, they generally accepted the TCFD recommendations and supported their voluntary adoption by companies and banks globally. As it is a private sector report, the G20 will not approve the report. However, it is worth noting that the April 2017 meeting of the G20 Finance Ministers and Central Bank Governors generally accepted the TCFD recommendations and supported their voluntary adoption by companies and banks globally. Looking ahead, it is likely that some key countries will be leaning towards introducing new regulations in future to enforce the TCFD recommendations. However some other countries might prefer softer approaches such as recommended guidances for voluntary adoption. Looking ahead it is generally believed that these new TCFD recommendations will become important new international requirements that leading companies and banks globally will have to meet and 4

comply with in future. Otherwise they could face serious challenges and even lawsuits from the regulators, media, investors, shareholders and stakeholders.

Recognizing that these new TCFD approaches will evolve over time, the Task Force also developed a set of 7 principles to underpin companies' disclosures. The Report invited leading companies and banks globally to report on four key corporate areas covering climate governance, climate strategy, climate risks and management targets.

On climate governance, it is recommended that the boards of leading banks and companies will have to disclose details of their new governance processes and systems for assessing and managing climate change related risks and opportunities. These should include the governance systems via which the boards would be overseeing climate governance plus the associated governance processes. These should include how frequently should the board be informed on progress and how would they review these with their top management. In addition, the boards should disclosure how they will be assessing the actual governance outcomes against major business plans or risks. In addition, the boards should define what will be the top management's roles and accountabilities in addressing these climate related risks and opportunities.

On climate strategy, the Boards and senior management will be required to report on the various climate strategies and scenarios that they have considered. These should include what are the actual and potential impacts of climate changes on the business and performances of the leading banks and companies. They should also consider climate impacts on their business organisation, strategy and financial planning.

On climate risks, the senior management of leading banks and companies should give details on their climate risk assessments and risk management systems. These should include how do they actually evaluate, identify, assess and manage climate risks plus opportunities? In addition, they should disclosure what are the risk management systems and action plans that they have put in place to mitigate the serious climate risks and their potential impacts on their businesses.

On climate metrics and targets, it is recommended that the board and senior management should give details of the appropriate climate metrics and targets that have been established for their businesses. These new metrics and targets should ensure that management are undertaking their tasks in assessing and managing climate change risks and opportunities effectively.

It is important for international banks and companies globally to recognise that climate change impacts and risks on their businesses could also be heavily influenced by new government policies and changes in the law. A good example would include changes in the energy policies for fossil fuel and renewable energies by various key countries globally. There are also ever rising risks of litigation by stakeholders and shareholders globally.

In addition, certain specific physical climate risks could affect various businesses different. Typical good examples would include the availability of suitable raw materials or scarcity of water plus how to source these on a sustainable basis. All of these important risks could seriously affect a company's revenue, expenditure, assets, liabilities, capital and their 5

financing. In addition, it is important for management to recognise that there could also be new interesting business opportunities created by climate change. These could include new markets, new employment, new green financing, new green investments to improve resource efficiencies and energy efficiencies etc.

Global Developments and Way-forward

It is generally believed that these TCFD recommendations will become important new international requirements globally. Leading companies and banks globally will have to do their best to meet and comply with these requirements. Looking ahead, it is recongised that different countries and government might follow different paths for compliance. Some key countries will be leaning towards introducing new regulations in future to enforce the TCFD recommendations. However some other countries might prefer softer approaches such as recommended guidances for voluntary adoption. Two actual example of important new developments in the UK and Hong Kong are described in more details below.

In UK in September 2017, the UK *Department of Business, Energy and Industrial Strategy* (BEIS) launched *the Green Finance Initiative Taskforce* GFI to encourage the growth of the green finance sector in the UK's transition to a low carbon economy. It is generally agreed that TCFD reporting will play a big part in accelerating the low carbon transition

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Community Park

MIF believes in investing in people, specifically the children who will become the change-makers and leaders of tomorrow. Following this, the Foundation works with the children of its partner NGOs to sensitize them about the various environmental issues and equip them with some information and knowledge required to address them. With these children MIF conducts tree plantation and then the children are responsible for taking care of the tree. The children are also taught about the various benefits of the particular plant that they are responsible for. Other activities encouraging recycling and reuse are also conducted whereby, children reuse plastic bottles as planters, piggy banks and so on. Waste segregation and proper disposal is also another area which the children are sensitized on. Children are encouraged to share the information they acquire from these sessions with their families and friends so that we can have maximum outreach.

MIF believes in being a part of the solution rather than the pollution and hopes to bring about a greener and sustainable future. All of these initiatives help the foundation do its bit in making the earth a better place for the future generations.

Plantation Drive
with Children

World Environment
Celebration with Children

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process in UK. The key reason is that in order to accelerate new green investment, via debt or equity, the leading corporates and lenders will all need to be able to understand the related climate risks and impacts better. Hence clear robust and transparent reporting would be key. This has resulted in the UK Government voicing its support for the TCFD recommendations and promoting the *British Standard*'s (BSI's) work on an *International Voluntary Sustainable Financial Management Standard*, which is due to come out soon.

In May 2018, the Hong Kong Stock Exchange published its first report on the analysis of environmental, social and governance (ESG) practice disclosures which are closely linked to TCFD recommendations. They have reviewed 400 annual reports of listed issuers and found that only 38 per cent of the listed issuers under review were in full compliance with the 11 aspects of the environmental, social and governance areas which are subjected to ESG disclosures. There are rooms for much further improvements by these listed companies. The Hong Kong Stock Exchange has urged their listed companies and issuers to improve and enhance their disclosures in their new ESG reports.

Looking ahead, with the *Paris Agreement* commitments looming and the plans by key governments globally to transition to low carbon economies, there is a very real possibility that all these "voluntary reporting" could become mandatory in the near future. It is recommended that the Boards and senior management of leading banks and companies globally should develop good understanding of how they can improve their climate related financial disclosures accordingly to meet the new requirements. These would be necessary for them to meet the new international disclosure requirements plus to shield themselves and their corporations from potential challenges and even lawsuits. In addition, these should also help them to better seize and monetise the new consequential climate related opportunities 6

that might be available to their businesses. In addition, these should help leading banks and companies to avoid rising challenges and even lawsuits from their regulators, lenders, shareholders and stakeholders.

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