TO: Task Force on Climate-related Financial Disclosures (TCFD)
Michael Bloomberg, Chair

RE: Consultation on Phase I Report of the TCFD

Dear Task Force Members and Secretariat:

On behalf of New Rules for Global Finance, I would like to thank you for the excellent organization and transparency of this process so far, as well as for your time and energy in producing the Phase I report for public consultation.

Overall, the report is well-written and accessible – but it is clear that the next phase of this process will be critical. So it is our hope that the great organization and transparency will continue, and that engagement with stakeholders will strengthen. Furthermore, the TCFD should also look to improve the regional and sectoral diversity of its own membership – as permitted and encouraged by the Task Force Charter. Greater diversity of views will be essential to avoid least common denominator outcomes, especially as work begins on the Phase II workstreams and subgroups.

The TCFD is taking on a complicated challenge, and we are only beginning to understand the relationship between climate change and financial risks. With its tight timeline, concluding in February 2017, the TCFD can only begin to develop a framework for climate-related financial disclosure. Understanding and breaking the “tragedy of the horizon” will take more than 12 months, so it will be essential that the Task Force ensures this work continues in a well-organized, inclusive and transparent way – either by extending the life of the TCFD’s charter or through an alternative process.

Below you will find our comments organized according to the consultation questions in the Phase I report, followed by some other observations.

Thank you for your commitment to this work, and we look forward to engaging with the TCFD during Phase II.

Sincerely,

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New Rules for Global Finance
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RESPONSE TO TCFD CONSULTATION QUESTIONS

Question 4: For nonfinancial preparers of climate risk and opportunity information, what are the top three key concerns that you would like the Task Force to keep in mind in making our recommendations?

1. Assessing significant climate change impacts on non-financial preparers should be based on the best available scientific evidence, and reflect Assessment Reports produced by the Intergovernmental Panel on Climate Change (IPCC).

2. Establish ways to aggregate firm-level GHG emission data to get meaningful GHG emission information on a sectorial and national basis. As the IPCC makes clear regional average temperature variation around the global average temperature can vary as much as 50% from the global level at any time. Consequently disaggregated national emission data and data on managing potential climate infrastructure damage needs to be based on quite granular geographic reporting. At the minimum scope 1 firm level data needs to be disaggregated on a national basis and scope 2 and scope 3 needs to be disaggregated on a sectorial basis.
   a. Global Legal Entity Identifier System (GLEIS): To improve determination and integration of scope 3 impacts, the TCFD should recommend that preparers of climate-related risks attach disclosure information to the respective entities LEI alphanumeric number. Placing this information within the GLEIS will help “paint the picture” for systemic risks posed to the global financial system.

3. The quality of both quantitative and qualitative information prepared by non-financial companies for climate-related disclosures will impact the quality of climate-related financial disclosures prepared by financial and non-financial companies alike. The Task Force should consider and clarify this relationship with an aim to synchronize climate-related and climate-related financial disclosures to any extent possible. Of course, the Task Force must be mindful of the conflict of interest in reporting/disclosing information that may be viewed as increasing risk (financial or otherwise) for preparers.

Question 7: “Transition Risk” in terms of climate is an evolving term. How would you define this risk? What specific disclosures would help measure it?

1. The TCFD should consider disclosure of human capital risks as well, such as the transition for employees in impacted sectors (like oil and gas). Workers are often misinformed about their own jobs and the risks they are taking (task force should address these “inside risks”).

2. The TCFD should equally emphasize the disclosure of “transition opportunities” such as those identified in TABLE 3B of the Phase 1 report. This will be particularly important when it comes to preparing cost-benefit analysis, which the TCFD has determined to be an essential component of its recommendations.
Question 9: How should the task force consider the challenge of aggregate versus sector-specific climate-related financial risks and opportunities.

Risks can be understood in a number of different ways.

The core of the phase I paper is to expose to management and to potential investors climate-related risks for a given firm. The aggregation of these data at the sector level can provide classes of investors with appropriate knowledge of the potential sector-wide climate-related risks.

The next level of ‘risk’ is when the aggregation of firm and/or sector climate-related risks exposes systemic risks to the planet’s ecosystem balance (called by the IPPC the business-as-usual scenario). It can also exposes systemic risks to the global financial system (this could be termed ‘meta-climate financial risk’). While the individual firm or sector climate-related risks might have an insignificant financial or ecosystem consequence, the aggregation on a global scale could create its own risks to the financial system either directly by concentrated sector dependence on common capital source or indirectly via crowd-like behavior by large classes of investors which suddenly ‘discover’ the aggregated risks.

And there is an upside to another concept of ‘risk’. Properly managing the aggregated risks to the global ecosystem and to its regional and sub-regional ecosystems reduces the probability that a certain level or type of climate risk will threaten financial stability. Meaningful steps to reduce climate-related aggregate risks reduces the statistical chance for a key climate-related tipping point inducing abrupt and irreversible consequences on financial stability.

Question 10: Is there a role for scenario and sensitivity analysis for the nonfinancial and/or financial sectors? Please provide three specific examples

1. Yes. As the terms of reference of the Task Force recognize, significant climate-related financial impacts can come from a number of different directions. Global risk scenario analysis can help expose potential ways that climate-related impacts might bounce back abruptly on the financial system. The awareness of these potential routes will enable the Task Force to better recommend specific quantitative and qualitative disclosure requirements. Examples include:
   a. As regional and sub-regional variation in average air and water temperatures can vary as much as 50% from the global average, what regional and sub-regional areas and business activities might be more or less adversely impacted in 3, 5, or 10 years that other geographic areas.
   b. A scenario that most sectors should analyze is the impacts for different increases in global, regional and sub-regional sea levels. Rising sea levels are expected to significantly impact 70 percent of coastal areas worldwide.1 While this may be considered a long-term horizon issue best dealt with by the insurance sector, it

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undeniably impacts the real estate sector and implicates other long-term financial instruments such as securities or derivatives based on real estate products, syndicated loans for developments or operations in coastal areas and even bond markets (sovereigns and municipals impacted by sea level change).

i. In particular, sovereign debt markets for small island developing states (SIDS) or other countries significantly exposed to the risks of rising sea levels are bound to experience shocks and defaults – due to higher costs of financing based on CRA risk analyses (and better climate-related financial disclosures) as well as reduced capacity to service debts (less tourism, degradation to port facilities or exodus of skilled workforce).

c. Similar to scenarios for sea level change, different sectors should also analyze scenarios for increasing frequency and intensity of climate events such as hurricanes, draughts, typhoons, earthquakes, tornadoes, superstorms and other changes in ecosystems or biodiversity. In 2013, U.S. Superstorm Sandy led to $500,000 million in losses for Geico based on heavy exposure through auto insurance in the region most impacted by storm (New York and New Jersey). 2 Global systemically important financial institutions (G-SIFIs) and insurers (G-SIIs) – as identified by the Financial Stability Board – should be present analysis of such scenarios as part of stress-test and other resiliency assessments.

Question 14: How can climate risk information be simply summarized for retail investors? What standards or mechanisms exist for assuring end investors that climate risks and opportunities have been considered in the way that their savings and investment and pension products have been managed?

The TCFD should propose, as a key principle, that report prepares use “positive” disclosures for climate-related financial disclosures – meaning preparers must express views in a financial report regardless if the view is favorable or unfavorable. Subsequently, the TCFD should discourage the use of “negative” disclosures in reporting – where report preparers would be permitted to state that “he or she has no reason to believe that anything is wrong, but never positively states that he or she believes things to be right” (as defined on page 28 of the Phase 1 report). Negative disclosures would be useless, or possibly misleading, for retail investors in making investment decisions or even understanding exposure to climate-related risks.

Question 20: Is the Task Force focused on the appropriate set of topics for its Phase II work plan?

1. The degree of risk to global financial instability from climate-related matters can be minimized by the rate that financial and non-financial firms move to alter in a constructive direction the shape of the curve in the business-as-usual IPPC scenarios. One goal for the

2 http://blogs.wsj.com/deals/2013/03/01/buffett-superstorm-sandy-causes-worse-ever-loss-for-geico/
phase II report should be to align reducing the risk of global financial instability with reduction the in rate of climate change impact presented in the business-as-usual IPPC scenarios.

2. Document the extent to which large and abrupt financial movements in capital, currencies, and commodity markets might induce nonfinancial firms and the general public to take actions that increase the rate of climate change.

3. Explore how the identification and classification of high risk geographic areas (e.g. reclassification of coastal zoning to account for likely medium term storm surge impacts) and high climate risk sub-sectors (e.g. the non-science based re-classification by credit rating agencies and investment advisors of sub-sectors whose economic viability might be undermined by climate change) may induce significant systemic financial risks.

**Question 21: What additional topics should it consider?**

The TCFD was established by the members of the FSB, but the outcomes of this work will have implications far beyond just FSB member countries. In particular, the TCFD should consider some of the equity issues for low to middle-income countries as climate-related risk disclosures become more robust. Stronger disclosure frameworks are essential, but there will be some unintended consequences, especially for countries that 1) rely on external financing; 2) are determined to be greatly exposed to climate-related risks; and 3) have limited capacity to build resiliency.

In 2015, S&P stated that climate-related disclosures would become more relevant for their ratings, and as a result, some countries have been downgraded (e.g. Vietnam). Downgrades lead to increased costs of financing for developing countries, and subsequently higher external debt. Sovereign debt defaults may rise as a result, but even if this does not present systemic risks to the global financial system, it can generate financial and economic instability at the national level.

At the very least, the TCFD should acknowledge the possibility for such unintended consequences, if not propose an approach to mitigate such outcomes.

**Question 22: The Task Force plans to reach out to a broad sample of key stakeholders among preparers, users, and standard setters. Are there particular types of entities or organizations that you believe the Task Force should reach out to?**

The TCFD should engage more actively and/or include as members, or leaders of subgroups: Pension Funds, Sovereign Wealth Funds (other official sector entities), Social investment funds, accounting experts (practicing and academics), non-governmental organizations (with focus on financial regulation or climate risks) and the International Monetary Fund (which did not include climate risks anywhere in its most recent Global Financial Stability report).
Other Observations

1. TCFD should establish an additional workstream or sub-group to focus on adoption and implementation, with particular attention on strategies to ensure adoption by Globally Systemically Important Financial Institution (GSIFIs) and Insurers (G-SIIs).
   a. Task Force cannot harmonize all the current frameworks for disclosure, but can propose stronger coordination (through the FSB) between Standard Setting Bodies (like IOSCO, IAIS, IASB, and BCBS) on measures to integrate climate-related risk disclosures, including convergence on what constitutes “materiality” in this context. Most SSBs are members of FSB so this should be something the TCFD should consider as part of its Phase II work focused on “strategies for adoption”.
      i. One such strategy that should be considered is incorporating TCFD recommendations as criteria for accreditation or membership in relevant global initiatives, such as the Global Climate Fund (i.e. financial institutions must adopt TCFD principles to become an accredited entity).
2. The phase report alludes to the difference between “climate-related disclosure” and “climate-related financial disclosure” but there should be greater clarification of terms and their relationship.
3. Base the Taskforce’s recommendations on the specific IPPC working group reports on likely climate-change related economic impacts.
4. Review major national and regional climate change reports to identify other science based assessments of likely climate-change related impacts on economic life and include these reports as foundation documents for reporting in their respective regions.
5. Take good advantage of the concepts of and distinctions between ‘risk’, ‘hazard’, and ‘vulnerability’ from the IPPC and environmental literature in order to move beyond the less differentiated use of ‘economic risk’