Implementation of the TCFD Recommendations

David Wei

Director, Climate

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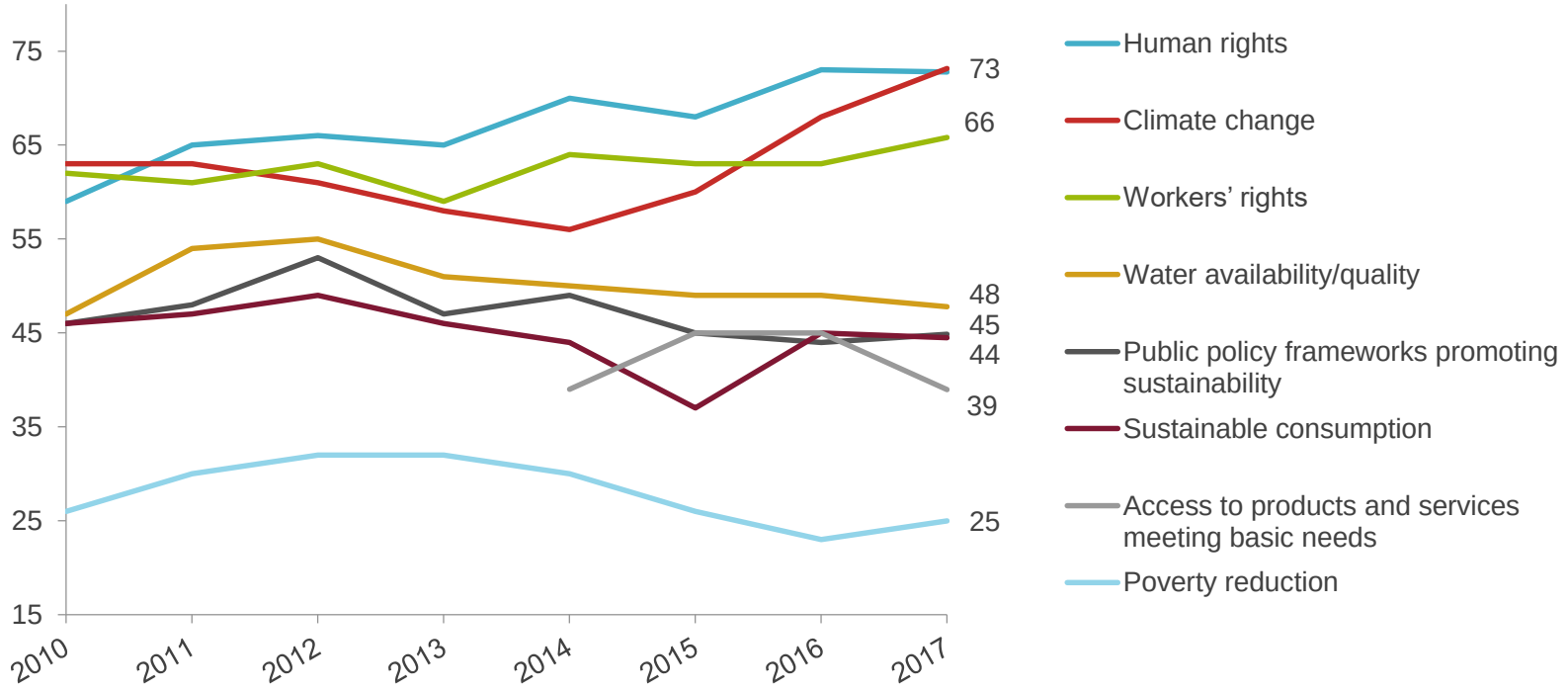
The Business of a Better World

Climate Change Is the Top Corporate Sustainability Priority for Business, Along with Human Rights, for the First Time since 2010

Corporate Sustainability Priorities over the Next 12 Months, 2010-2017 (Percentage of All Respondents Identifying an Issue as a "Significant Priority"*)



*Percentage of respondents who selected a 4 or 5 on a 5-point scale where 1 is "Not at all a priority" and 5 is "A very significant priority"

Q2. When you think about the focus of your company's sustainability efforts in the next 12 months, how much of a priority are each of the following issues?

BSR's 3 Priority Issues on Climate

Resilience to climate risks

- A climate-resilient world is not possible without private sector engagement.
- Companies have a clear north star for emissions reductions (SBT) and renewable energy (RE100), but not for resilience.

Collaboration in high-emitting sectors

- High-emission sectors require systemic solutions.
- BSR is advancing collaborations on renewable energy, freight and agriculture.

Value chain (scope 3) emissions

- Emission reductions in direct operations is mainstream.
- Value chain engagement has great potential for impact.

Climate resilience is on the sustainability agenda

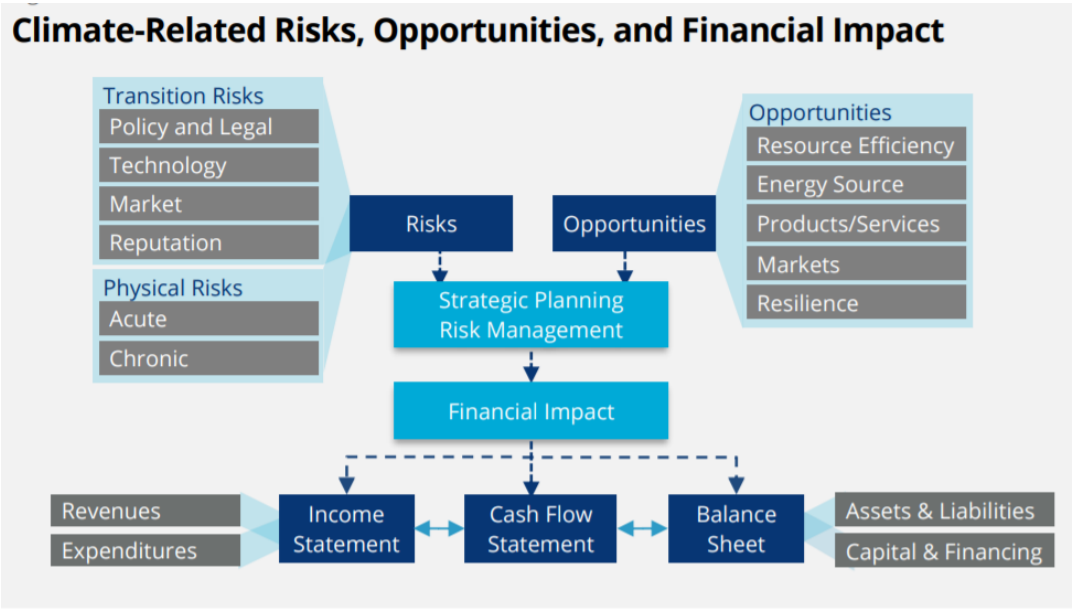
The Future of Sustainable Business

New Agenda, New Approach, New Advocacy

	The Challenge	The Opportunity	The Uncertainties
Climate Resilience	The impacts of climate change are being felt today. Extreme weather has introduced new levels of financial, operational, and human vulnerability. Companies need to build resilience in the face of climate change, water scarcity, and related disruptions, both in their own operations, infrastructure, and supply chains, and in the communities in which they operate and invest.	Attending to this issue will mitigate risk, ensure business continuity, and involve business in parlaying its skills and knowledge as part of the overall climate solution.	Creating resilience requires broad collaboration for a benefit that cannot be predicted with certainty. While some aspects of resilience can be measured tangibly (e.g., infrastructure that can withstand extreme weather), other elements of resilience are difficult to measure (e.g., community resilience). Additionally, climate resilience efforts will be influenced by many uncertain factors, including the policy landscape, the ability of stakeholders to coordinate, the pace of mitigation efforts, and the development of new technological solutions.

Benefits of TCFD Implementation

1. Convergence of frameworks for risks/opportunities and climate action
2. Stay ahead of peers, external stakeholders, and potential regulation
3. More comprehensive enterprise risk management processes
4. More resilient business strategy



Illustrative roadmap for implementation

From the TCFD Secretariat

Year 1

- Compare current disclosures to the recommendations, especially Governance and Risk Management, and **identify alignment and gaps**
- Determine information and data needs and process changes
- Begin evaluating metrics for assessing climate-related risks and opportunities
- Incorporate climate-related risks into risk identification and assessment process as needed
- Assign oversight to board committees and management as needed
- Disclose information related to **Governance and Risk Management** recommendations or disclose intention to implement the TCFD recommendations

Year 2

- Implement new processes for information and data collection and reporting
- Identify metrics useful for assessing climate-related risks and opportunities
- Adjust data collection to support metrics
- Identify climate-related risks and opportunities and assess whether they are material
- Identify relevant climate-related scenarios and consider how those scenarios might affect the organization
- Disclose information related to Governance and Risk Management recommendations and **item (a) of the Strategy recommendation**, where the information is material

Year 3

- Calculate and use metrics for assessing climate-related risks and opportunities
- **Integrate scenario analysis into strategic planning and/or risk management frameworks**
- Disclose information related to Governance and Risk Management recommendations
- Disclose information related to **Strategy and Metrics and Targets** recommendations, where the information is material

Strategic implementation is a gap

Ready or Not (March 2018): Global snapshot of 2017 CDP disclosures of over 1,600 companies

Governance	• 82% of companies have board-level oversight of climate risks, but only 12% incentivize management of these risks • 46% review climate risks for the board >1x / year
Strategy	• Only 28% consider a transition risk with a timeframe >6 years • Only 34% consider a physical risk with a timeframe >6 years
Risk Management	• Companies reactive to short-term impacts • 63% of companies highlight reputation/customer behavior as a substantive risk
Metrics and Targets	• 90% of companies state they have emissions reduction initiatives, but only 68% report a decrease in emissions from 2016

Standalone TCFD disclosure

A $40.7Bn commercial and retail bank located in Canada.
Canada's largest bank by capitalization.

Disclosure follows the TCFD pillars:

Governance

The Governance Committee of our Board of Directors provides oversight of RBC's Corporate Citizenship strategy, which includes our corporate environmental strategy. The Risk Committee of our Board of Directors provides oversight to ensure that management has established policies, processes and procedures to manage all risks, including E&S risks such as climate change. E&S risks are described in our enterprise risk management and reputation risk management frameworks, which are reviewed and approved annually by the Risk Committee of the Board. RBC's Corporate Governance Framework provides an overview of our corporate governance structures, principles, policies and practices. Group Risk Management (GRM) has oversight over the management of E&S risks, with a dedicated team responsible for identifying, assessing, managing and, where possible, mitigating those issues that may pose risks to RBC.

Strategy

RBC's Corporate Citizenship sets our corporate environmental strategy, which is outlined in RBC's Environmental Blueprint. This strategic approach focuses on reducing GHG emissions from our operations; supporting the growth and evolution of businesses in the renewable energy and clean technology sectors with a dedicated advisory team; subjecting our lending, and debt and equity underwriting services in all regions in which we operate to E&S due diligence; and promoting environmental sustainability in communities where we operate. RBC is also committed to providing leadership and publishing research on climate-related topics and we have publically articulated our views on important issues such as carbon pricing, clean innovation, and the role of infrastructure development in creating more resilient communities. Please see the reports from RBC Economics (September 2016, April 2017, October 2017).

Risk Management

E&S risks, including climate change, may be drivers of other risk types. Our enterprise credit and reputation risk management frameworks articulate RBC's approach to identifying and managing risks, and include reference to climate change as a potential source of risk. These frameworks are supported by a suite of enterprise-wide and business-specific E&S risk management policies. These policies require a risk-based approach whereby we apply enhanced due diligence, and escalation procedures apply to sectors, clients and business activities that may be exposed to E&S issues. For clients in sectors categorized as medium and high environmental risk this includes evaluation of whether clients have assessed and quantified the regulatory impacts of climate change. For project financing this includes identification of projects with GHG emissions (Scope 1 and 2) that are expected to be greater than 100,000 tonnes of CO_2 equivalent annually, and requires an alternatives analysis for such projects, as per the Equator Principles. Additional information can be found here.

Metrics and Targets

RBC tracks and reports on our key environmental performance metrics and targets in our Corporate Citizenship Report, which we update annually; our fiscal 2017 data will be published in March 2018. This includes data related to GHG emissions, energy use, green buildings, water consumption, waste management, products and services that support the low carbon transition, socially responsible investments, and E&S risk management. As a responder and signatory to the Carbon Disclosure Project, RBC has been publicly reporting climate change data since 2007, including multi-year data on absolute and intensity-based GHG emissions (Scope 1 and Scope 2) calculated according to the GHG Protocol. Since 2015, RBC has received third-party verification and third-party limited assurance of our energy and emissions performance.

http://www.rbc.com/community-sustainability/_assets-custom/pdf/RBC_ClimateChangePosition_Disclosure_Statement_2017.pdf

Disclosures

- Position on climate change
- Statement on climate change disclosures
- Governance:
  - Risk committee reviews E&S risks such as climate change
  - ERM and reputational risk management frameworks
- Risk Management:
  - Climate as drivers of other risks
  - Review of clients' approaches (esp. in medium-high risk sectors)
- Metrics and Targets:
  - Corporate Citizenship report; CDP reporting

Focus on risk management

A $134Bn integrated energy company based in the United States.

Chevron produces a report on its framework for climate resilience

2.1

integration of climate change into chevron risk management

Potential climate change risks are integrated into multiple ERM risk categories because a truly global challenge like climate change requires a comprehensive review strategy. The Board of Directors and executive leadership believe this integrated approach is appropriate because it enables climate change risks to be examined in connection with other broad-ranging risks affecting Chevron.

https://www.chevron.com/-/media/shared-media/documents/climate-change-resilience.pdf

Disclosures

- Risks: physical (e.g. sea level rise), geopolitical (e.g. carbon price), strategic (e.g. energy demand)
- Climate policy
- Methane intensity of operations
- Actions on efficiency, methane cuts, CCS, renewable energy

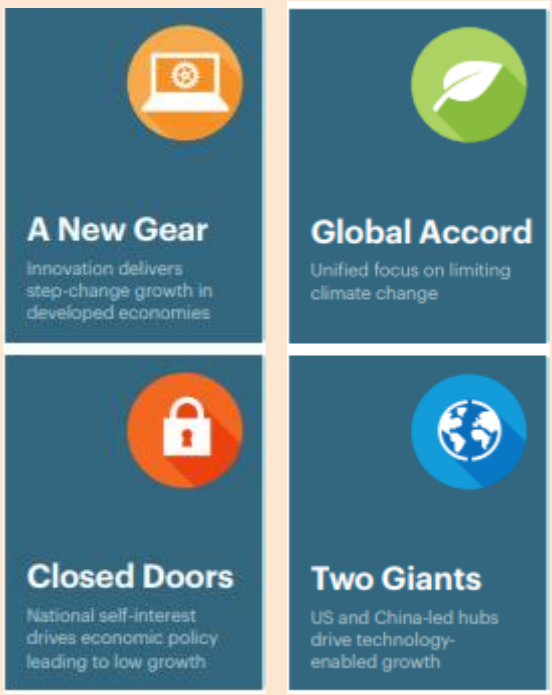
Framework for climate resilience

- Standalone report for on managing climate risk primarily geared toward investors
- Board governance and ERM integration
- Outlooks for energy demand, oil prices, carbon prices
- Competitive advantages of petroleum to other fuels and renewable electricity

Classic scenario analysis

A $38Bn global mining and minerals company headquartered in Australia.

Four scenarios used to test investment portfolio on climate-related shocks:



https://www.bhp.com/environment/climate-change

Disclosures

- Board governance and risk management approach
- Operational emissions reductions
- Adaptation to climate impacts
- Investment in low-carbon technology
- Mechanisms to finance emissions reductions
- Engagement with investors, governments, and other stakeholders

Some practical observations

- **Early adopters** are working through implementation
  - **Level of detail** can vary widely. For example, governance disclosures can include the relevant Board and executive committees (+) chairs (+) responsibilities (+) recent activities
  - **Location of disclosure also varies.** Options outside of mainstream financial filings include the annual report, sustainability report, and a standalone climate disclosure
  - As always, the **intended audience** matters. Disclosure outside of financial filings will be to stakeholders beyond investors, underwriters and insurers
- **Scenario analysis** has been focused on transition risks and high-emitting companies. **Physical risks** have been considered less
  - Sometimes companies appear to use scenarios as forecasts

BSR is a global nonprofit organization that works with its network of more than 250 member companies to build a just and sustainable world. From its offices in Asia, Europe, and North America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration.

David Wei, Director, Climate: dwei@bsr.org
Asako Nagai, Director: anagai.ic@bsr.org

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