

MEMO# 30764

July 3, 2017

FSB-Convened Task Force Releases Final Report on Climate Change Financial Disclosures

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July 3, 2017 TO: ICI Members
Investment Company Directors
ICI Global Members
Closed-End Investment Company Committee
ICI Global Regulated Funds Committee
SEC Rules Committee
Small Funds Committee SUBJECTS: Disclosure
Fund Governance
International/Global
Investment Advisers RE: FSB-Convened Task Force Releases Final Report on Climate Change Financial Disclosures

The Task Force on Climate-related Financial Disclosure recently released a final report setting out recommendations for voluntary climate-related financial disclosures with the aim of allowing investors, lenders, and insurance underwriters to account for material risks related to climate change.[\[1\]](#) The Financial Stability Board convened this industry-led Task Force in December 2015. The Task Force released a draft report and consultation in December 2016,[\[2\]](#) and ICI submitted a comment letter and consultation response.[\[3\]](#) The recommendations in the Task Force's final report largely mirror those outlined in the draft report. The report also addresses comments received, including comments that we provided.

The report notes that the recommended disclosures are voluntary,[\[4\]](#) and also that "several asset owners expressed concern about being identified as the potential 'policing body' charged with ensuring adoption of the Task Force's recommendations by asset managers and underlying organizations." The report encourages asset owners "to help drive adoption of these recommendations" and emphasizes that asset owners and asset managers "have an important role to play in influencing the organizations in which they invest to provide better climate-related financial disclosures."

The Task Force's final recommendations, including its discussion of relevant comments, are summarized briefly below.

I. Task Force's Final Recommendations

Like the draft report, the final report broadly recommends that organizations disclose information in four areas as follows:

1. **Governance.** The organization's governance around climate-related risks and opportunities.
2. **Strategy.** The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
3. **Risk Management.** The organization's processes used to identify, assess, and manage climate-related risks.
4. **Metrics and Targets.** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

The Task Force also released an Annex document that provides more specific guidance on how different types of organizations can apply the report's recommendations. The Annex recommends that asset managers consider making certain disclosures,[\[5\]](#) including the following:

- Description of how the transition to a low-carbon economy would affect each product or investment strategy;
- Description of how the asset manager identifies, assesses, and manages material climate-related risks for each product or investment strategy;
- Description of engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks; and
- Description of metrics used to assess climate-related risks and opportunities in each product or investment strategy, including the weighted average carbon intensity, where data are available or can be reasonably estimated, for each product or investment strategy.

II. Task Force Discussion of Feedback Received on Consultation

Significance of materiality. ICI's response to the Task Force consultation underlined the importance of materiality and noted that many regulatory regimes—such as the US—already require public companies to disclose material information, including material information related to climate change.[\[6\]](#) The report acknowledged this concern and concluded that: (i) organizations should provide disclosure related to the Strategy and Metrics and Targets recommendations in annual financial filings when the information is deemed material; and (ii) organizations should provide disclosures related to the report's Governance and Risk Management recommendations in their annual financial filings regardless of materiality.

Lack of Available Data. ICI's comments on the consultation emphasized that asset managers simply are not able to disclose aggregated data about fund portfolio companies—such as normalized greenhouse gas (GHG) emissions associated with a fund's portfolio companies—when the underlying data for individual companies is not available. In its recommendations for asset managers, the report states that the Task Force “appreciates that climate-related risk reporting by asset managers is in the very early stages and encourages progress and innovation by the industry.” The final recommendations replace GHG emissions reporting with a weighted average carbon intensity metric and encourage asset managers to report the weighted average carbon intensity of their investments as the data is available.

Remuneration. In response to comments, the Task Force revised its final recommendations to ask organizations, where climate-related risks are material, to consider describing whether and how related performance metrics are incorporated into remuneration policies.

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endnotes

[1] *Recommendations of the Task Force on Climate-related Financial Disclosures* (June 2017), available at <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>.

[2] See ICI Memorandum No. 30510, available at <https://www.iciglobal.org/iciglobal/pubs/memos/memo30510>.

[3] See ICI Memorandum No. 30581, available at <https://www.iciglobal.org/iciglobal/pubs/memos/memo30581>.

[4] Mary Schapiro, a member of the Task Force, recently commented, “In the U.S. I have no expectation that there will be a regulatory framework around these recommendations.” *Companies Pressed to Disclose More on Climate-Change Risk*, Wall Street Journal (June 28, 2017), available at <https://www.wsj.com/articles/companies-pressed-to-disclose-more-climate-change-risk-1498716002>.

[5] *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, at p. 38-42, available at <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf>.

[6] The SEC, for example, issued guidance in 2010 interpreting how SEC requirements relate to climate change disclosure, with a focus on materiality and certain topics that may trigger climate change disclosure in a company’s annual report.