JOURNEY

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Task Force on Climate Related Financial Disclosures

Task Force on Climate-Related Financial Disclosures

WHAT IS TCFD?

Created in 2015 by FSB (Financial Stability Board), it is a global initiative led by Mark Carney with 31 international members, including investors, insurance companies, large non-financial corporations, accounting and consultancy firms and rating agencies.

PURPOSE

To develop recommendations for more effective climate-related disclosures.

WHY?

More effective disclosures promote well-informed and sustainable decisions related to investment, credit, and subscription of insurance.

governance

The Company's governance on climate-related risks and opportunities.

strategy

The actual impacts and potential climate-related risks and opportunities on the business, strategy, and financial planning of the company.

risk management

Process used by the organization in order to identify, assess, and manage climate-related risks.

metrics and targets

Metrics and targets used to assess and manage material climate-related risks and opportunities.

EIn 2017, TCFD announced the recommendations of climate-related financial disclosure, in order to help companies provide better information to support the disclosed capital allocation.

The disclosure of climate-related information must be organized into 4 core elements: Governance, strategy, risk management, and metrics and targets.

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

METRICS

Climate-related metrics help companies understand the potential impacts of the climate, the risks and opportunities throughout a specific period.

TARGETS

Just like the Metrics, targets also must follow some basic principles for them to be effective.

USEFUL
Metrics must be relevant to the company's risks and opportunities and useful to the decision-making process.

VERIFIABLE
Metrics that can support effective internal controls with the purpose of verifying and ensuring the data.

COMPREHENSIBLE
Metrics must be presented in a clear form, and any limitations and caution must be explicitly disclosed.

TRACEABLE AND CONSISTENT
Metrics must be calculated and disclosed in a consistent manner every year, in order to streamline comparison and trend analyses

ALIGNED WITH TCFD
Metrics must be aligned to the processes of the Company, such as governance, strategy, and management of risks.

OBJECTIVE
Metrics are free of prejudice and judgment call.

BASED ON KNOWN METRICS
Targets must be based on a set of recognized metrics.

SPECIFIED OVER TIME
Targets must be clearly established throughout time, with specific baseline, timeframe, and intermediate goals.

REVIEWED AND UP TO DATE
Companies must review their targets every five years and update them, if needed.

QUANTIFIED AND GRANULAR
Targets must be quantified and granular enough to allow its traceability.

ALIGNED WITH STRATEGIC VIEW AND SCIENCE
Targets must be aligned to and support the strategy and strategic goals of the company, and they must be disclosed by the company's projections and the climate science.

ANNUALLY REPORTED
The progress of the targets must be annually reported.

JOURNEY TO NET ZERO

According to the IPCC, to keep warming at 1.5°C, emissions must reach "net zero" by 2050. The "net" in net zero means any residual emissions from hard-to-abate industries need to be removed from the atmosphere through technological or nature-based solutions.

What does it mean to achieve net-zero emissions at the corporate level?

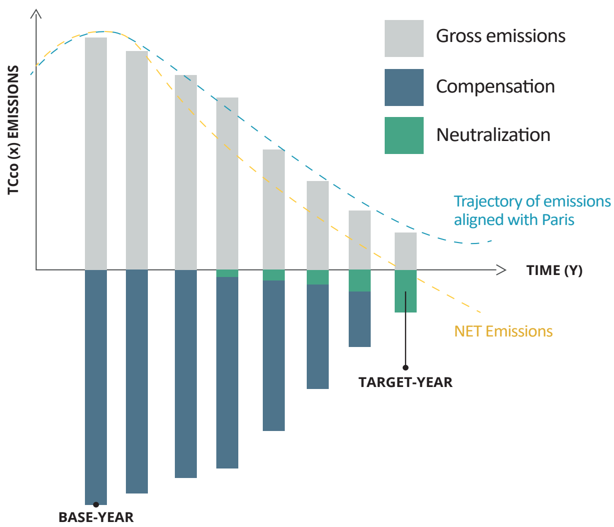
Achieving a net-zero emissions status for companies consistent with achieving global net-zero emissions, while maintaining alignment with society's goals in terms of climate and sustainability, implies two conditions:

- Achieve a range of value chain emission reductions that is consistent with the depth of reduction achieved on trajectories that limit warming to 1.5°C, with no overshoot or limited overshoot and;

- Neutralize the impact of any source of residual emissions that remain infeasible to be eliminated, permanently removing this equivalent amount of atmospheric carbon dioxide, through technologies or solutions based on nature.

NET ZERO 2050

During the reduction trajectory, emissions that are not reduced will be compensated annually and in 2050, if there are residual emissions, they will be neutralized.



COMPENSATORY MEASURES
Actions that companies take to help society avoid or reduce emissions outside of their value chain.

NEUTRALIZATION MEASURES
Those measures that aim to remove carbon from the atmosphere inside or outside the value chain.

Both are being used by companies in order to offset emissions:

1. During the transition to net-zero emissions: companies can choose to offset or neutralize emissions that are still being released into the atmosphere while transitioning to the net-zero emissions state;

2. By achieving net-zero emissions: companies that have residual emissions in their value chain are expected to neutralize these emissions with the equivalent amount of carbon dioxide removals.

RISK MANAGEMENT

One of the main goals of the TCFD is the best disclosure for the company of the main impacts of the climate-related risks and opportunities.

TRANSITION RISKS
Policy and Legal Risks
Technology Risk
Market Risk
Reputation Risk

PHYSICAL RISKS
Acute risks
Chronic risks

TYPES OF OPPORTUNITY
Resource efficiency
Energy source
Products and Services
Markets
Resilience

TRANSITION RISKS

The transition to a low-carbon economy can entail major political, legal, technological and market changes to meet climate change-related mitigation and adaptation requirements.

POLICY AND LEGAL RISKS

Policy actions around climate change continue to evolve. Its objectives generally fall into (i) political actions that seek to restrict actions and (ii) political actions that seek to promote adaptation to climate change.

TECHNOLOGICAL RISK

Technological improvements or innovations that sustain the transition to a low-carbon, energy-efficient economic system can have a significant impact on organizations.

MARKET RISK

While markets can be affected by climate change in different and complex ways, one of the main ways is through changes in the supply and demand for certain commodities and certain products and services.

PHYSICAL RISKS

Physical risks can have financial implications for organizations, such as direct damage to assets and indirect impacts caused by disruption in the supply chain. The financial performance of organizations can also be affected by changes in water availability, supply and quality; in food safety; etc.

ACUTE RISK

Acute physical hazards are those driven by events, including the increased severity of extreme weather events such as cyclones, hurricanes or floods.

CHRONIC RISK

Chronic physical hazards refer to long-term changes in weather patterns that can cause sea level rise or chronic heat waves.

REPUTATION RISK

Climate change has been identified as a possible source of reputational risk associated with changes in the perception of customers or communities about whether the organization contributes to or hinders the transition to a low-carbon economy.

RISK IDENTIFICATION

1. Establishing scope/units/assets
2. Establishing timeframe (short, medium, and long term)
3. Establishing strategic/financial impact
4. Identifying risks and establishing scenarios
   - Likelihood
   - Magnitude
   - Climate model reliability
   - Perception of areas
   - Weighting

RISK MANAGEMENT

Based on the identification and quantification of climate-related risks, the company must create an information flow including:

1. How should the decision-making process for risk prioritization be?

   What is the weight and what should be the risk scale?

2. Who will be in charge of the risk?

   You must appoint a person to be in charge of the risk, someone who should review and be responsible for the risk management, as well as to review and/or report any changes to the processes that may alter or increase the identified risk.

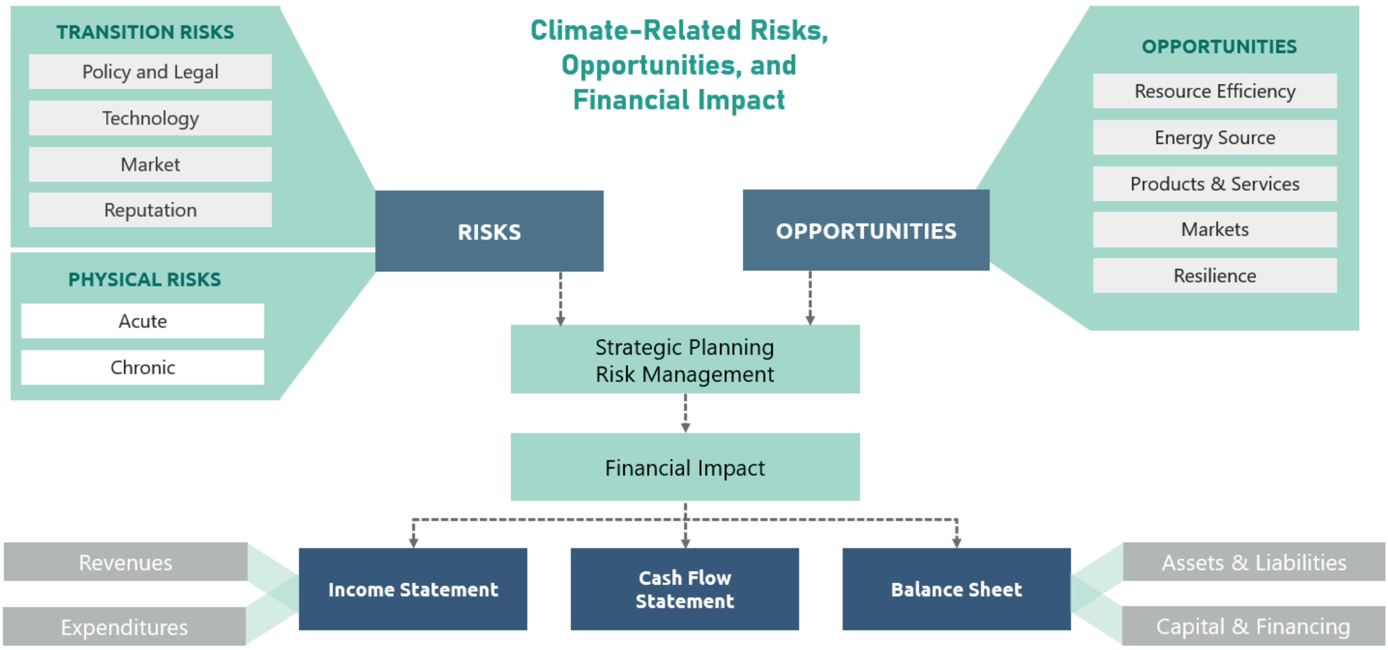
3. The decision-making process (committees/meetings) that will be used to manage the risk, as well as how the reporting to high management will be made, decision making and communication.

4. Mitigation and/or adaptative actions to reduce exposure to risk.

   Those actions must be aligned with the company's strategic plan and long-term desire within the climate agenda.

CLIMATE OPPORTUNITIES

1. Establishing scope/units/assets
2. Establishing a timeframe
3. Establishing financial and strategic impact
4. Identification of opportunity and establishing scenarios
   - Likelihood / Reliability of climate model
   - Perception of areas (ESG / Sustainability / Operations / Strategy)
   - Mapping opportunities according to the company's strategic plan on the long term.



STRATEGY

Investors and other stakeholders need to understand how climate-related issues may affect the business, strategy, and financial planning of companies in the short, medium, and long term. The information is used to draw projections on the future performance of the companies.

Given that the company has identified and assessed the risks and opportunities according to the processes mentioned in section "Risk Management", the Business Strategy report must:

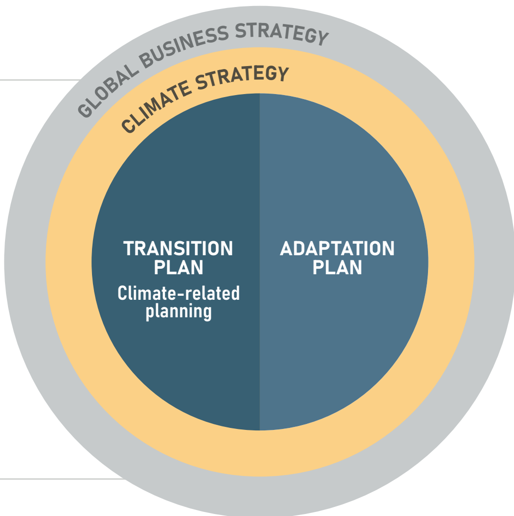
- Provide clarity to the process of assessing the materiality of risks and opportunities
- Report which assumptions were taken into account in order to establish values to the financial impact
- Specify strategies to respond to risk or materialization of the opportunity

TRANSITION PLAN

The company must develop a transition plan as an element to its strategy, in the event the company is exposed to climate-related transition risks.

Meaning that, if the company operates in a region where there is an emission-reduction obligation, enters into an emission-reduction obligation, or aims to achieve the stakeholders' expectation of emission reduction, especially investors and creditors.

1. *Reported as part of a broader strategy of the company*
2. *Based on quantitative elements, including climate-related metrics and goals*
3. *Approved and overseen by the board*
4. *Feasible and associated to specific initiatives*
5. *Detailed and verifiable*



SCENARIO ANALYSIS

1 Ensuring the governance is well established

To incorporate the scenario analysis in the planning scenarios, companies need to establish which committees/sub-committees will oversee the process. To identify which internal (and external) stakeholders will be involved and how. (Governance)

2 Assessing the materiality of climate-related risks

What is the current and projected exposure to climate-related risks and opportunities? Do they have the potential to become material in the future? Are the stakeholders concerned about the risks? (Risk Management)

3 Identifying and establishing scenarios

What are the appropriate scenarios (and narratives) given the company's exposure? Considering what are the first input parameters, assumptions, and analytical choices. What scenario is being used as reference?

4 Evaluating impacts on the business

Evaluate potential threats to the financial position and strategy of the company in each of the established scenarios. Identify key sensitivities.

5 Identifying potential responses

Use the results to find realistic decisions to manage the identified risks and opportunities. What adjustments to the financial and strategic plan should be made?

6 Reporting and disclosing

Report the process; disclose it to the stakeholders.

GOVERNANCE

Investors and other stakeholders are interested in understanding what the role of the board of the companies is in overseeing climate-related matters, as well as the role of the management in the assessment and management of those matters. This information will be used to assess if the climate-related matters are getting the appropriate attention from the board and the management.

1. Boards' climate responsibility

The board is responsible for informing the long-term strategy of the company to the shareholders. Thus, the board should be responsible for the long-term resilience associated to the potential changes in the business environment as effect from climate change.

2. Climate-related matters leadership

The board should ensure that it is sufficiently diverse in knowledge, skills, experience, and background in order to effectively debate and make informed decisions for the awareness and understanding of climate-related threats and opportunities.

3. Board structure

The board, as the entity responsible for long-term performance and resilience, should establish the most effective form of incorporating climate-related matters in its structure and committees.

4. Assessment of risks and opportunities materiality

The board should ensure that the management will assess the short-, medium-, and long-term materiality of climate-related risks and opportunities of the company on an ongoing basis. In addition, the board must ensure that the company's actions and responses to the climate-related matters fit the materiality of the subject to the company.

5. Strategic and organizational incorporation

The board should ensure that climate-related matters will be systematically reported to the strategic investment planning and the decision-making processes. In addition, climate change should be incorporated in the management of risks and opportunities within the company.

6. Financial incentives

The board should ensure that incentives to executive members are aligned with the promotion of the well-being of the company in the long term. The board may consider the inclusion of climate-related goals and indicators in the compensation arrangement of the executive members, as applicable.

7. Reporting and transparency

The board should ensure that the risks, opportunities, and strategic decisions are consistently and clearly reported to all stakeholders – especially to investors and, if needed, to regulators. Those reports should be made in financial forms, such as in reference forms, and be subject to the same governance as the financial reports.

8. Communication

The board should keep conversations with peers, policy formulators, investors, and other stakeholders in order to encourage the sharing of methodologies and to keep them informed on the latest climate-related risks, regulatory requirements, etc.

85% of the companies report on the ESG risk management, but approximately half (47%) of them link the agenda to the corporate risk management, and only 27% provide visibility to the governance of the matter in the company.

80% of the companies prepare an annual report or a sustainability report, and 66% of the companies adopt international standards when preparing those documents. However, only 36% of the companies have processes to ensure such information.

There still is a gap in data quality

In Brazil, the subject of TCFD is already being regulated by financial sector agents, the Central Bank of Brazil has already published a series of resolutions that deal with the management of social, climate and environmental risks by banks and establish rules for a reporting on these issues, which will become mandatory for financial institutions as of 2023. CVM should soon publish an amendment to its Reference Form, making it mandatory for listed companies to report on climate risks in line with TCFD recommendations. And SUSEP is in the process of public consultation to review risk management and investment assessment with sustainability criteria.