

PRI perspective: TCFD and climate scenario analysis

Martin Skancke, Chair, PRI, TCFD member and advisor to Storebrand

Breakout B

The Taskforce on Climate related Disclosures (TCFD) recommendations

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

The Taskforce on Climate related Disclosures (TCFD)

The PRI supports investors with a guide offering a practical framework to implement TCFD recommendations



- The guide has been prepared for **asset owners looking to improve their practices** according to the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.
- To meet investors' need for practical tools and guidance, this guide offers a **range of actions** across the four pillars of the TCFD framework (governance, strategy, risk management, and metrics and targets).
- The guide highlights **near term actions**, recommendations for **engaging with fund managers** and guidance on **climate scenario analysis**.

TCFD: What are the benefits for asset owners?



Translates
climate change
into financial
metrics



Means to
improve risk
management



Comparable,
flexible
framework



Forward-
looking
approach



Increase
financial trust
and respond to
beneficiaries

PRI's partners on scenario analysis

Publicly available tools and research on climate scenarios



portfolio

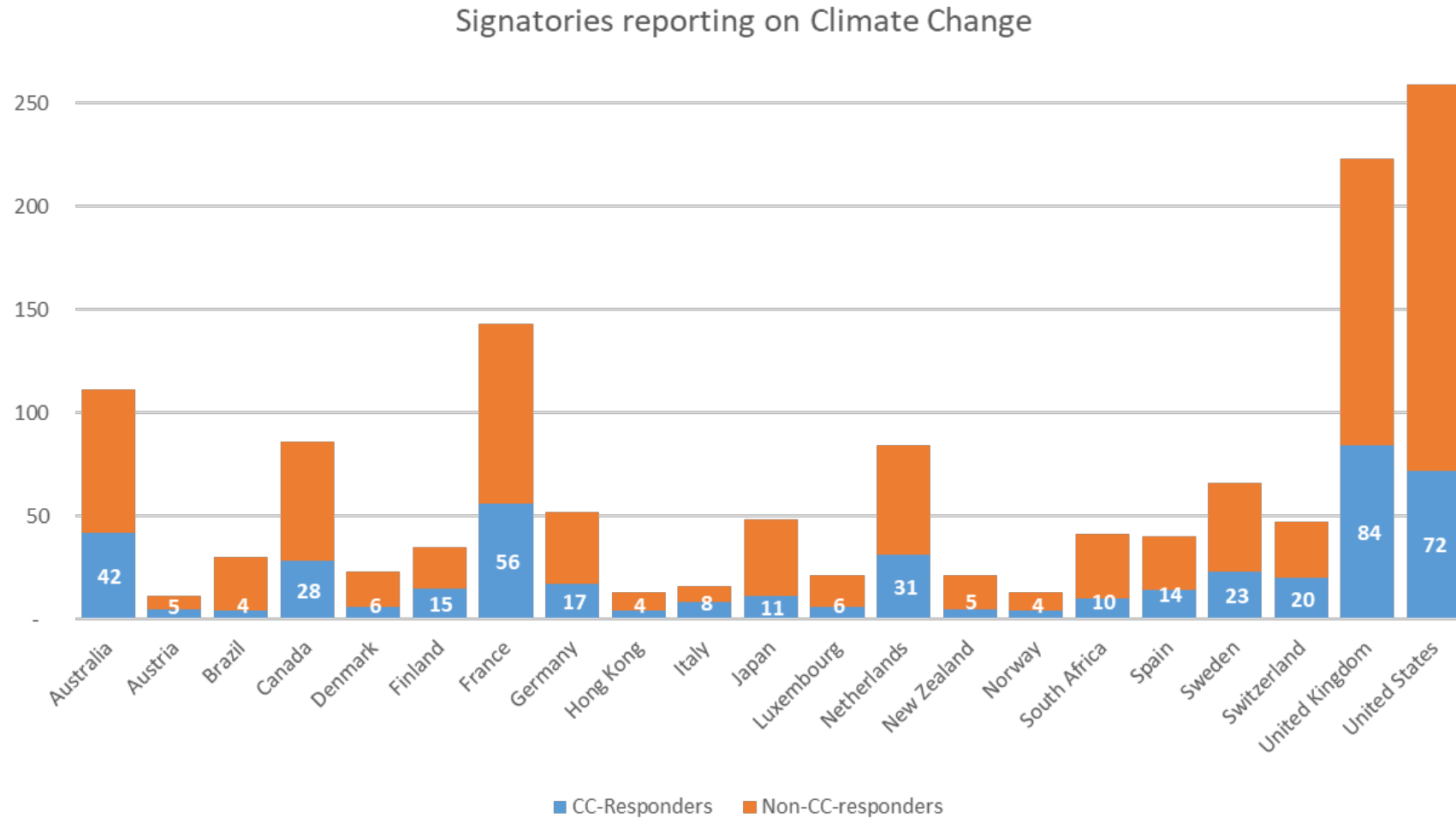
sector

company

More tools available
from professional
service providers...

PRI signatory climate disclosure based on TCFD

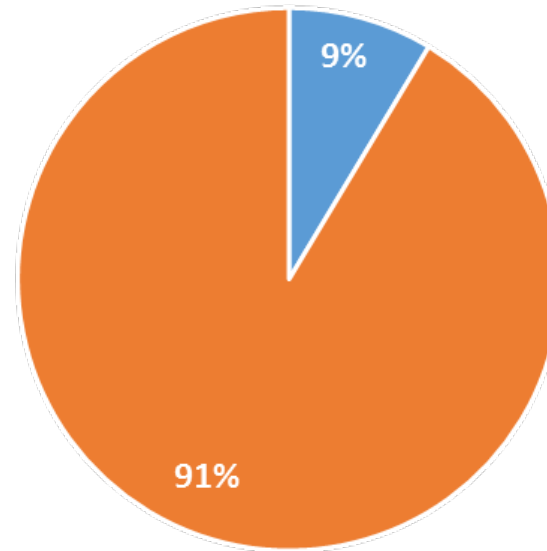
480 signatories opted into the 2018 PRI pilot climate reporting indicators based on TCFD



Climate-related Scenario Analysis

Only 9% of PRI signatories who reported in 2018 conduct scenario analysis that considers a 2° or lower scenario.

Scenario analysis based on 2 degree or lower scenario



■ Include a 2 degree or lower scenario

■ Do not include a 2 degree scenario

Denominator: 1445 reporters

TCFD: how to use climate scenarios

Breakout 2B

Mark Fulton, Founder, Energy Transition Advisors

Tricia Jamison, US Deputy Director, 2 Degrees Investing Initiative

Dave Jones, Commissioner, California Department of Insurance

Mark Lewis, Head of Research, Carbon Tracker Initiative, and TCFD member

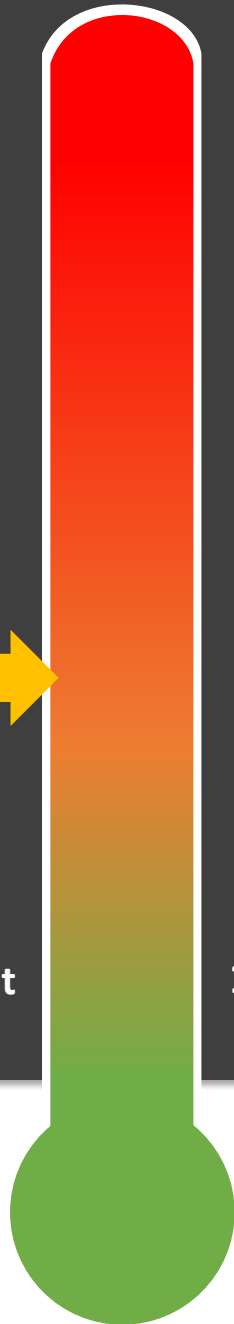
Curtis Ravenel, Global Head of Sustainable Business & Finance, Bloomberg

Moderated by **Martin Skancke**, Chair, PRI, TCFD member and advisor to Storebrand

Online Climate Scenario Analysis Tool

Tricia Jamison, 2° Investing Initiative

My portfolio



5°

4°

2°

1.5°

Paris Agreement



Key questions:

1. What is the exposure of financial portfolios to energy transition risk?
2. How does exposure compare among peers and with the market?
3. How does this exposure change over time?

CLIMATE SCENARIO ANALYSIS TOOL

Uploading a portfolio

2° SCENARIO ANALYSIS

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PRI

Please note that the PACTA climate scenario tool is made available by 2dii and not PRI Association or any of its affiliated entities ("PRI"). PRI takes no responsibility for the performance and/or use of the tool and shall have no liability whatsoever whether arising in contract, tort (including negligence) or otherwise arising under or in connection with these terms and conditions, this website or any use of the PACTA climate scenario tool.

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Your e-mail address, used for surveying only!

Type of Institution

Country of Residence

☐ I agree with the terms and conditions.

☐ I want to join the PRI peer group.

Continue

Upload your portfolio

To participate please enter an Investor Name and Portfolio Name and then upload your portfolio using the following template:

Download Template

Investor name

Portfolio name

The Investor Name and Portfolio Name will solely be used in the report. The Portfolio and all other information (i.e. the results, graphs and report created during the analysis) will be deleted when the analysis-session is ended.

add file

After editing PortfolioInput.csv and adding your data, select and upload it here.

Upload

	A	B	C	D
1	ISIN	MarketValue	Currency	
2	KYG960071028	1666000	USD	
3	KYG0535Q1331	90500	USD	
4	BMG988031446	338500	USD	
5	JP3210200006	309000	USD	
6	JP3486800000	14300	USD	
7	JP3420600003	100700	USD	
8	DE0006062144	12699	USD	
9	JP3882750007	37800	USD	
10	JP3982100004	16800	USD	

CLIMATE SCENARIO ANALYSIS TOOL

Options for using the tool

Paris Agreement Capital Transition Assessment



Your Portfolio is being analyzed

This process may take up to 5 minutes.



Paris Agreement Capital Transition Assessment



Full Report

[Download PDF](#)

[Explore All Data](#)

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[Custom Report](#)



Asset Class

Graphs

Sector/
Technology

Parameters

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1

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2

[Assessed Sector \(\\$\)](#)

[Current Exposure](#)

[Future Exposure](#)

[3 Year Growth Trend](#)

[CO₂-Intensity Trend](#)

[Company Information](#)

[Regional Exposure](#)

[Peer Comparison](#)

3

Sector

[Power](#)

Technology

[Not available](#)

4

Scenario

[Not available](#)

Accounting Principle

[Ownership](#)

Scenario Geography

[Global](#)

Equity Market

[Global](#)

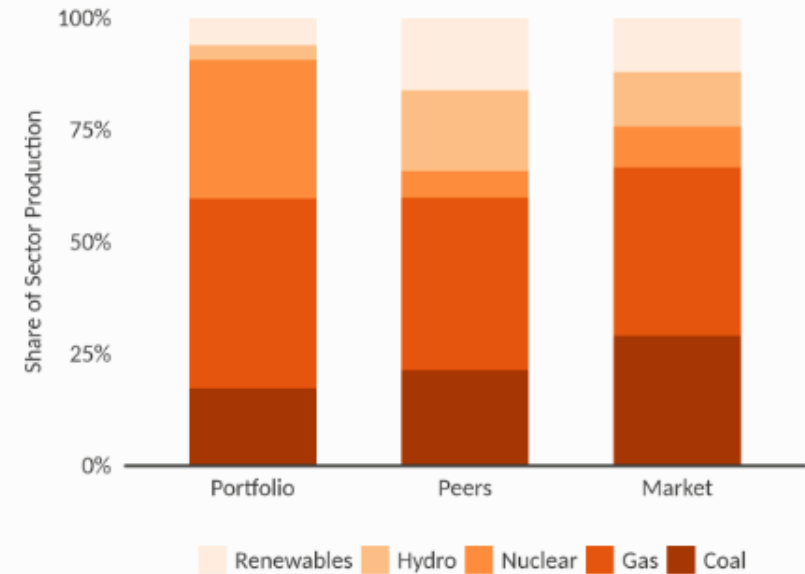
Benchmark Portfolio

[Not available](#)

Peer Group

[Global Funds](#)

Current Exposure in the Power sector



Power Sector: Current Global technology exposure

The graph shows the present relative weighting of each technologies in the Power sector in your Equity

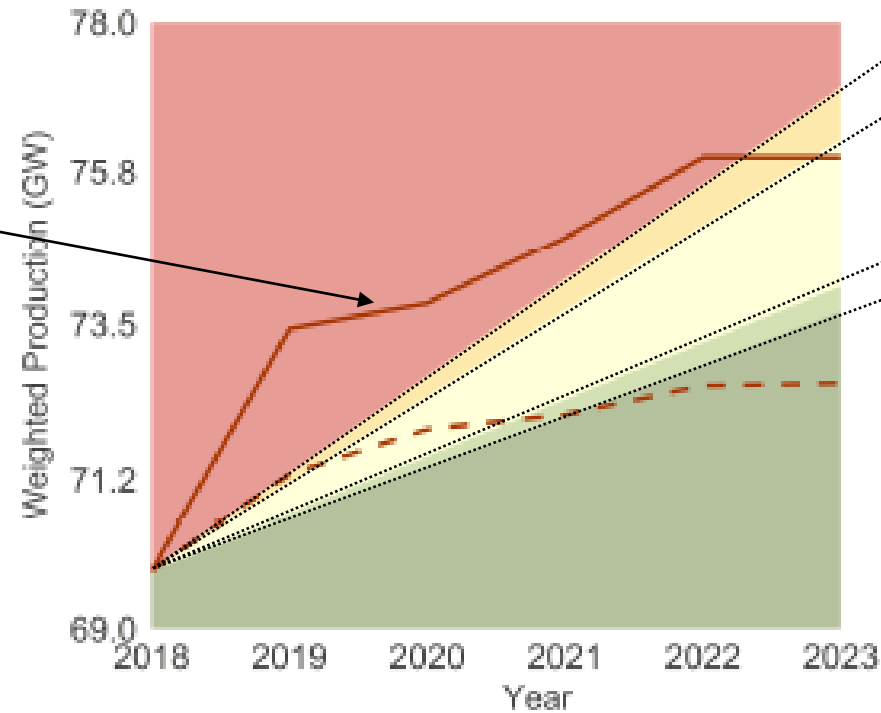
CLIMATE SCENARIO ANALYSIS TOOL

Outputs – Technology exposure evolution

Amount of gas-fired power capacity allocated to the portfolio each year.

This is the portfolio's "planned production profile".

Trajectory of Gas Power Capacity



Portfolio's "alternative production profile" consistent with:

CPS – 6°C

NPS/RTS – 2.7°C

SDS – 2°C

B2DS – 1.75°C

... scenarios.

B2DS

SDS

NPS

CPS

≤ 1.75°C

1.75°C – 2°C

2°C – 2.7°C

2.7°C – 6°C

≥ 6°C

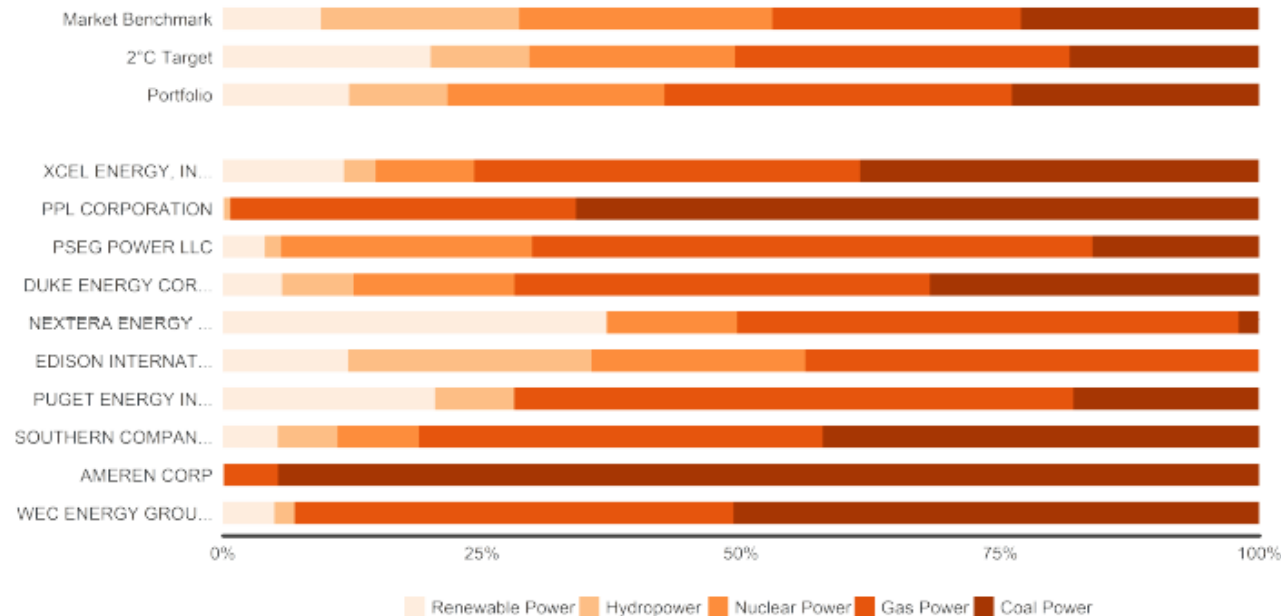
— Equity Portfolio

- - - Equity Benchmark

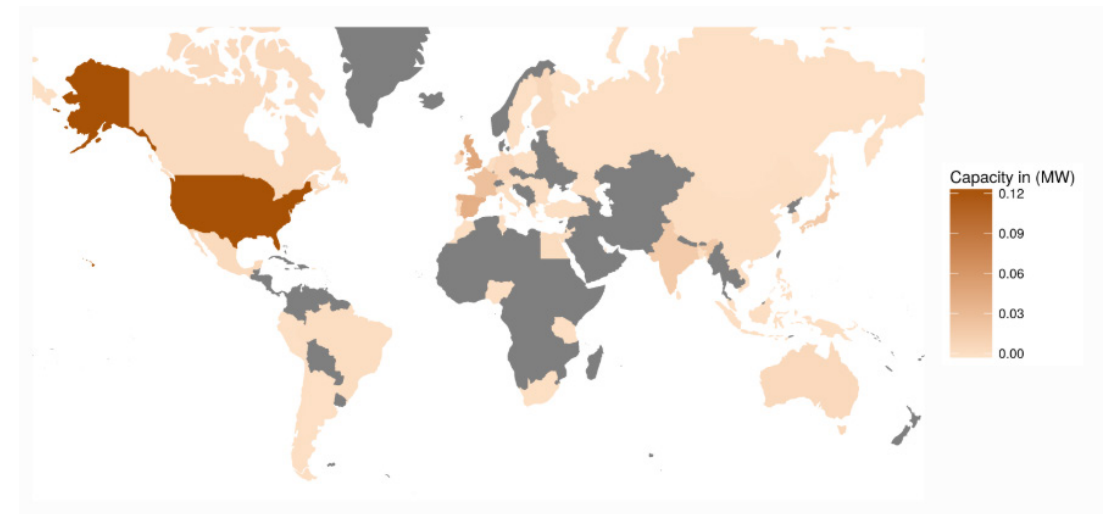
CLIMATE SCENARIO ANALYSIS TOOL

Outputs – Contribution from company and asset location

Technology breakdown of power companies within the fixed income portfolio



Country exposure to renewable capacity within the equity portfolio



Online Climate Scenario Analysis Tool

<https://tool.transitionmonitor.com>



TCFD: how to use climate scenarios

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The Inevitable Policy Response: Act Now Forcing the Climate transition

Mark Fulton, Founder Energy Transition Advisers,
PRI in Person September 2018



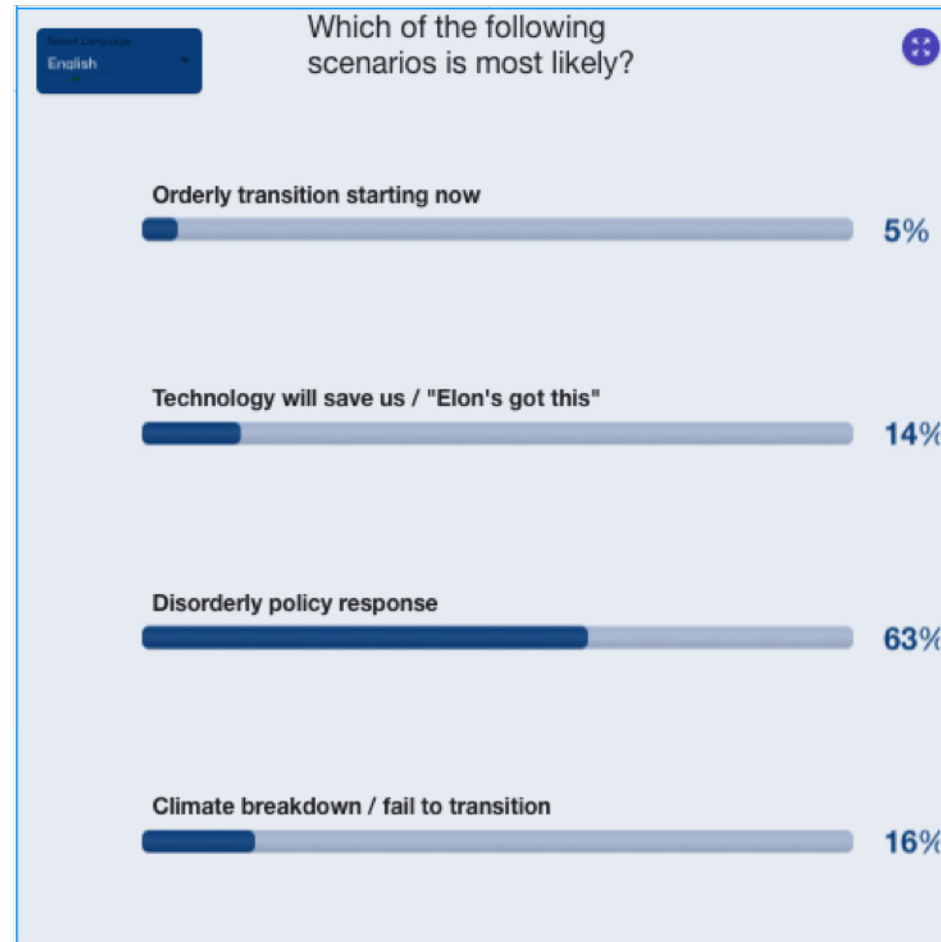
The Inevitable Policy Response: Act Now

- Without much stronger action now - PRI see an Inevitable Policy Response (IPR) to an overshoot of the Paris Agreement to limit global warming to well below 2D.
- While the exact timing remains a scenario, the Paris Agreement 2023 stock take leading to 2025 pledges appear strong candidates for forceful policy announcements.
- We assume implementation by 2030.
- PRI has called on a group of specialists in ETA and Vivid to develop a set of technical papers to develop into an intended work programme:
 - IPR: Why, When, What, How, Strategic Asset Allocation/Portfolio Construction and Investor Actions

The Inevitable Policy Response: Act Now

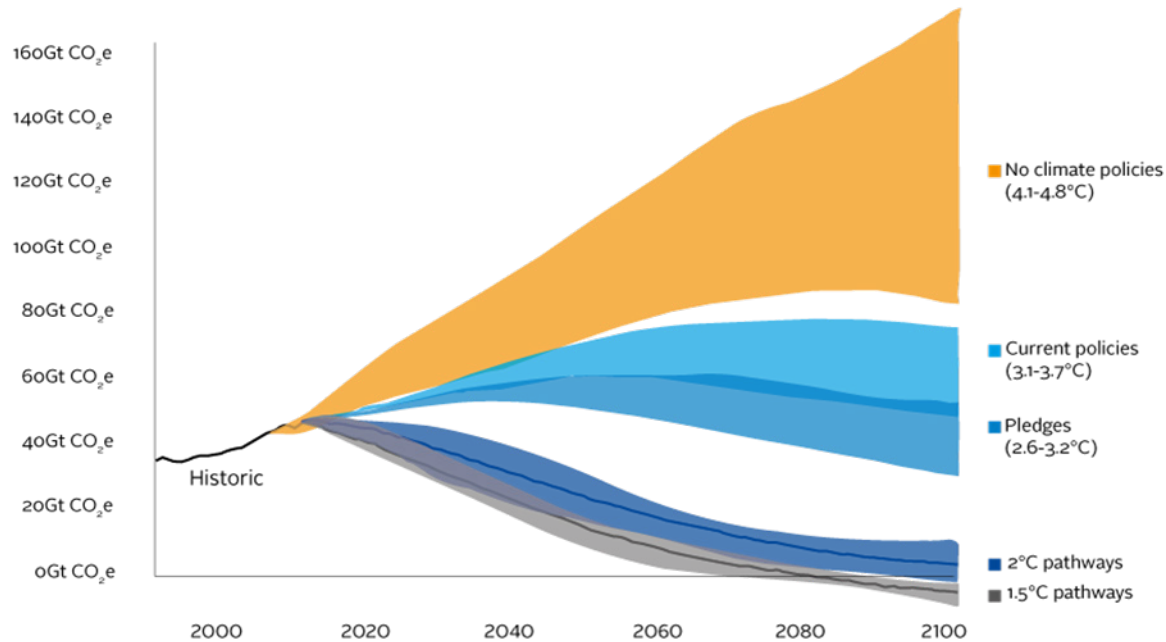
- Importantly this means that all stakeholders in the climate transition should look to act now so that the disruption of the policy action is reduced – the later and the greater the gap the more the volatility.
- Technology trends, Policy and Investor- Company engagement all reduce the impact.
- A key focus is for investors in terms of engagement , governance, service providers and strategic asset allocation/portfolio construction.
- As an intended research/work programme we lay out a framework and key topics showing examples. The modelling for actual impacts is yet to be done.

IPR: What scenario do PRI signatories expect?



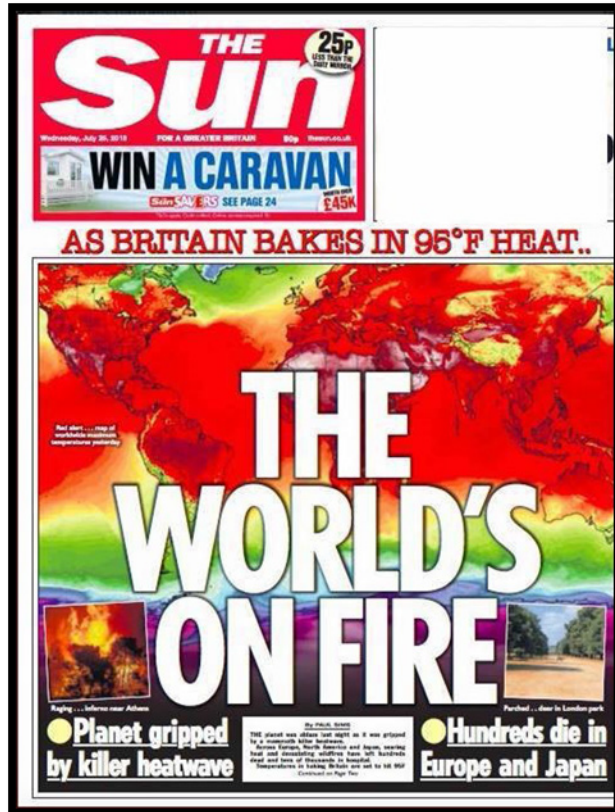
IPR: Why? The World is not on track for Well below 2°C

The faster 1) technology, 2) policy and 3) investor actions to encourage companies to align, the less the gap to close and less the disruption – Act Now.



Study	Temperature Rise Range by 2100
Climate Action Tracker (2018)	2.6 - 3.2°C
IEA INDCs Scenario (2015)	2.6°C
UNEP Gap Report (2017)	At least 3°C
Roglej et al (2016)	2.6 - 3.1°C
Average	2.7 - 3.2°C

IPR: Why? - What drives the change?



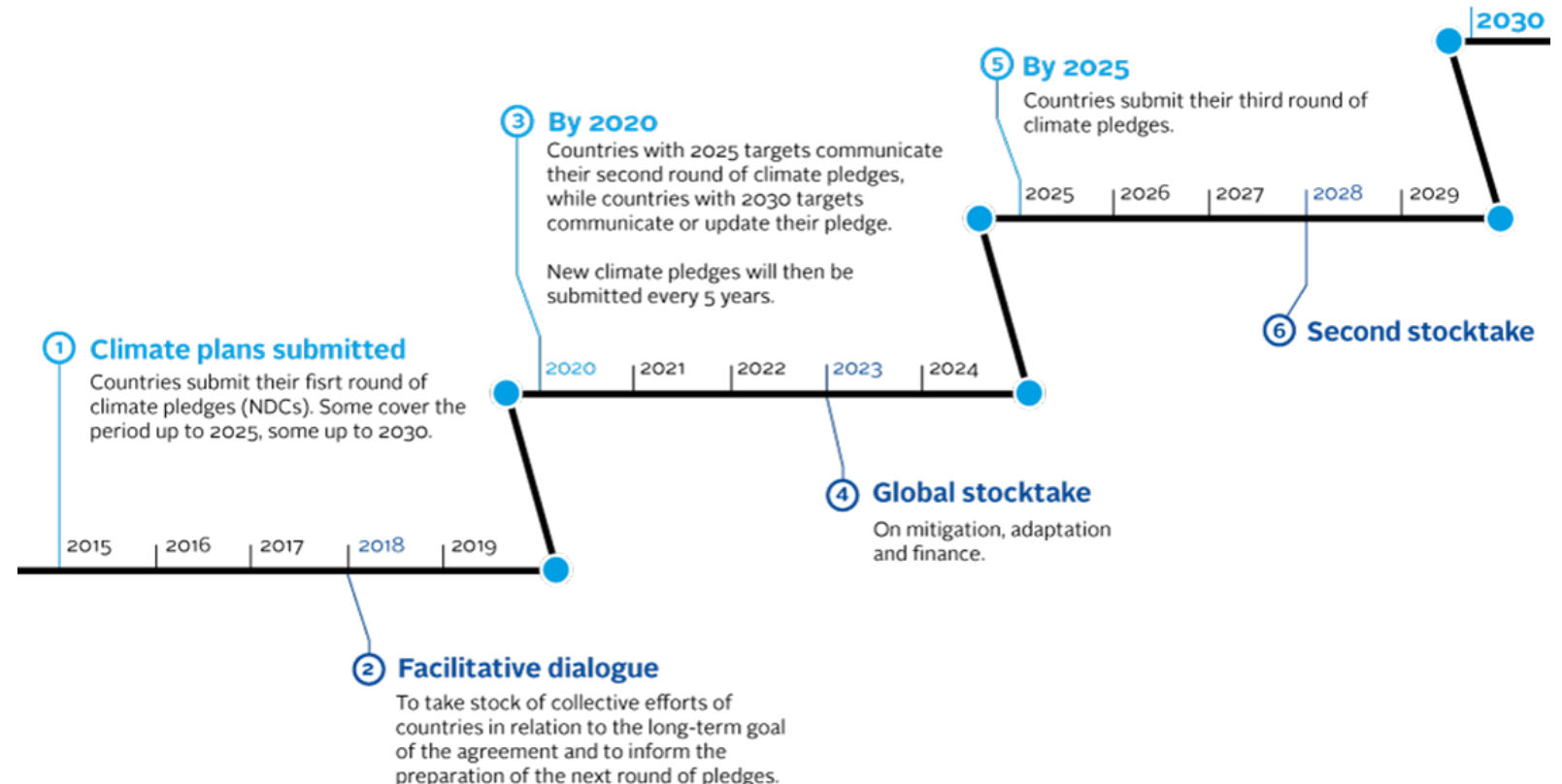
- Need for certainty by all stakeholders particularly business— many companies calling for a carbon price
- Falling costs of low carbon technology - avoiding the costs of damages
- Climate science research into increasing evidence of impacts
- Civil society unease at weather trends
- Security issues – migration, food and water
- The Paris Agreement itself along with the process: stock take and pledges

IPR: When? Paris 2025 pledges announced for 2030 Implementation

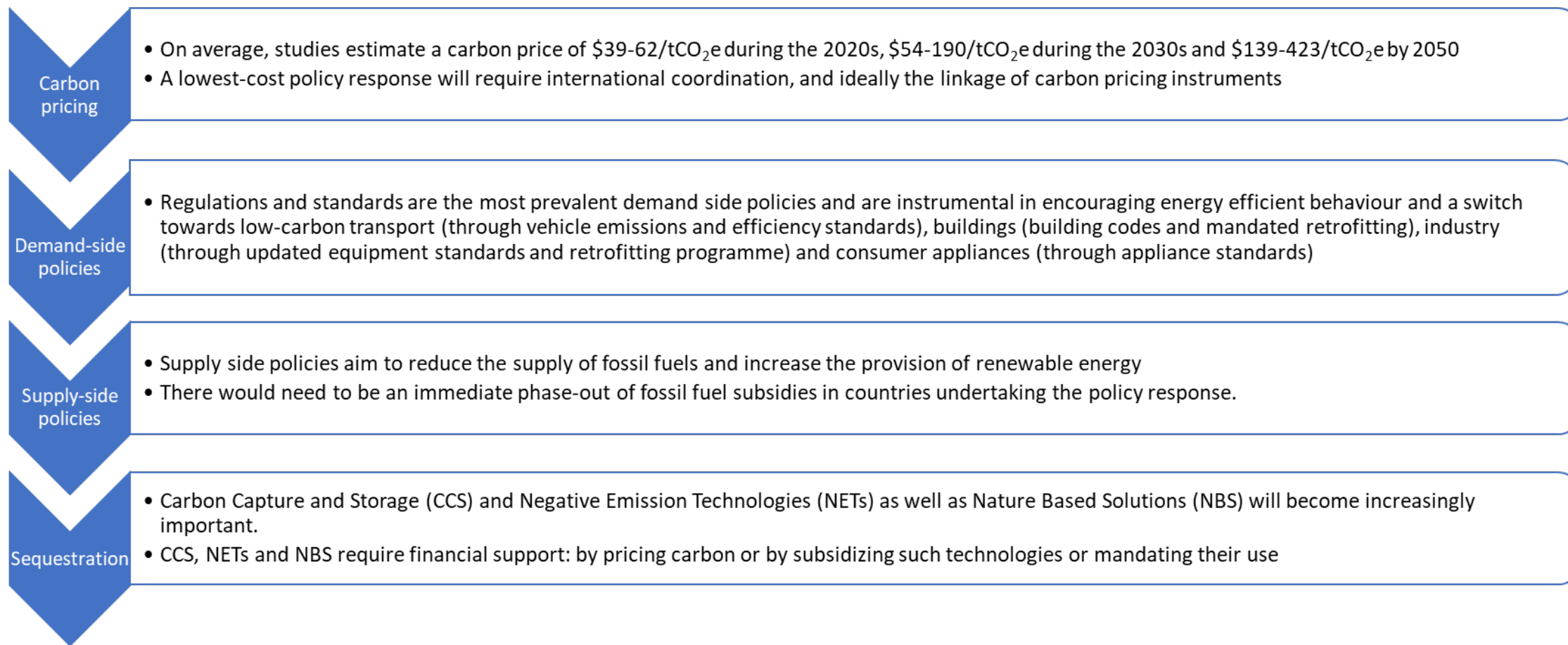
Timeline: How countries plan to raise the ambition of their climate pledges

The Paris “ratchet mechanism” is designed to steadily increase ambition over time, ensuring that the world reaches net zero emissions in the second half of the century and keeps temperature rise “well below 2°C”.

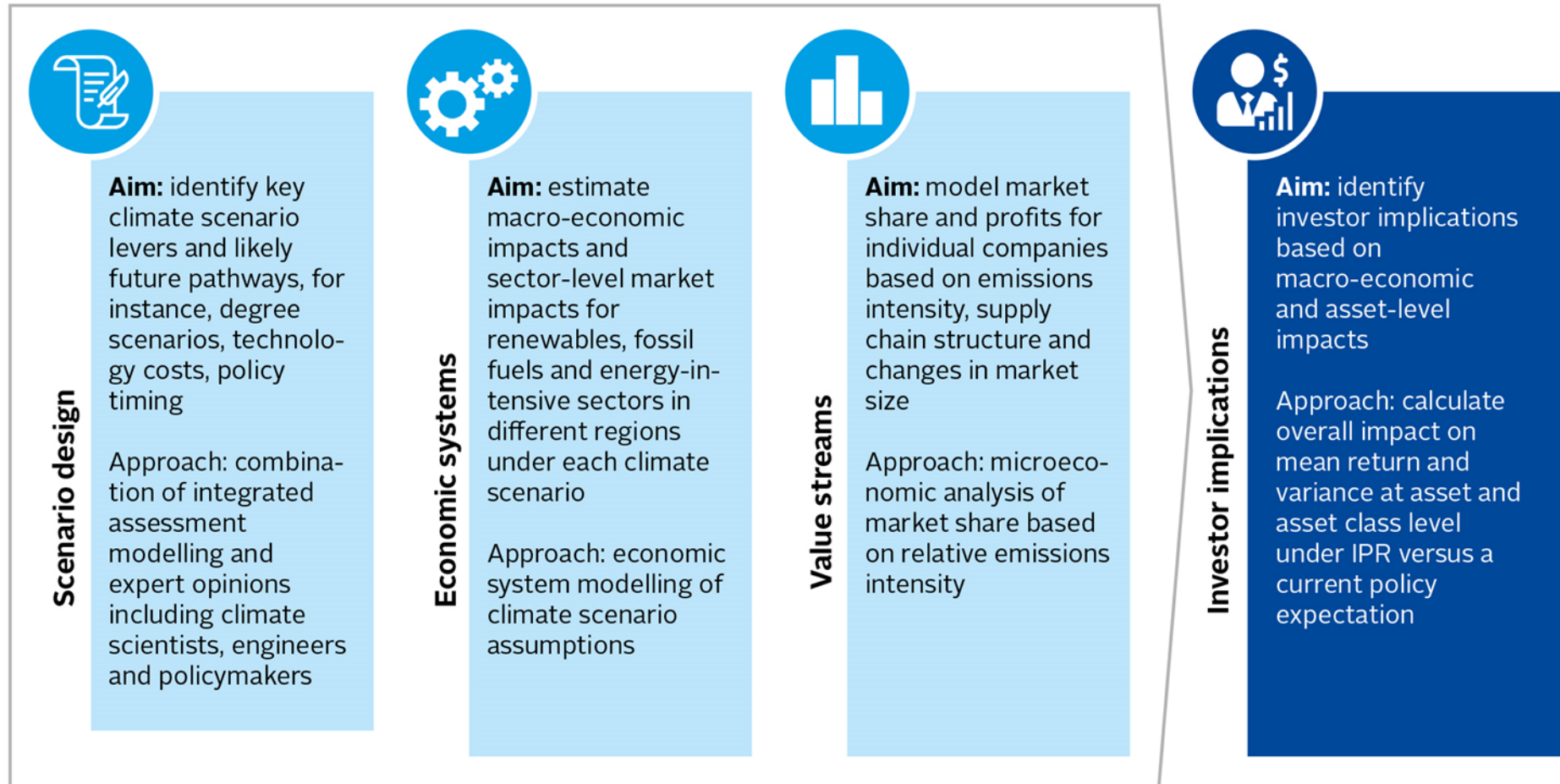
The global stocktake in 2023 and third round of climate pledges by 2025 could catalyse the final closing of the NPs – B2d gap on the inevitable policy Response.



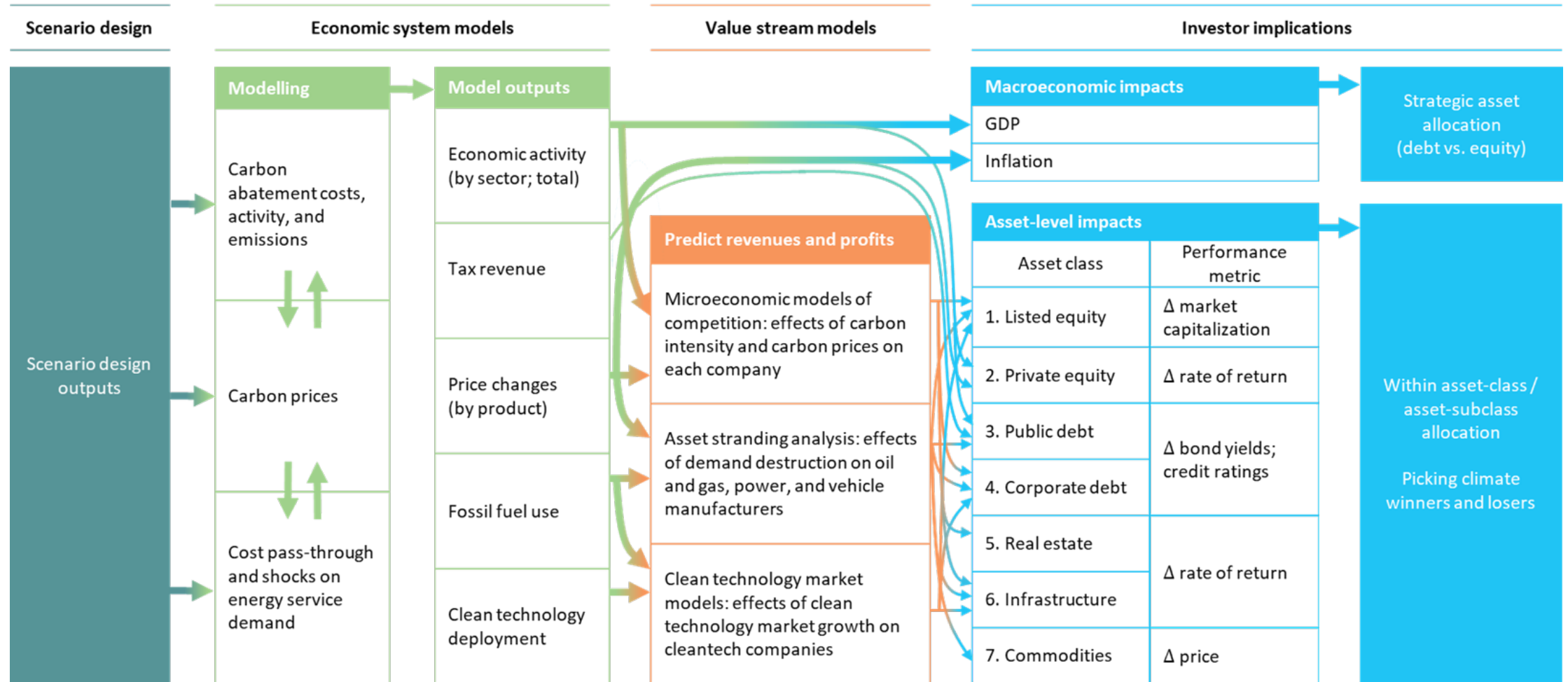
IPR: What? Forceful policies are needed to limit global warming to well below 2°C (1.5-1.75C 50-66% probability)



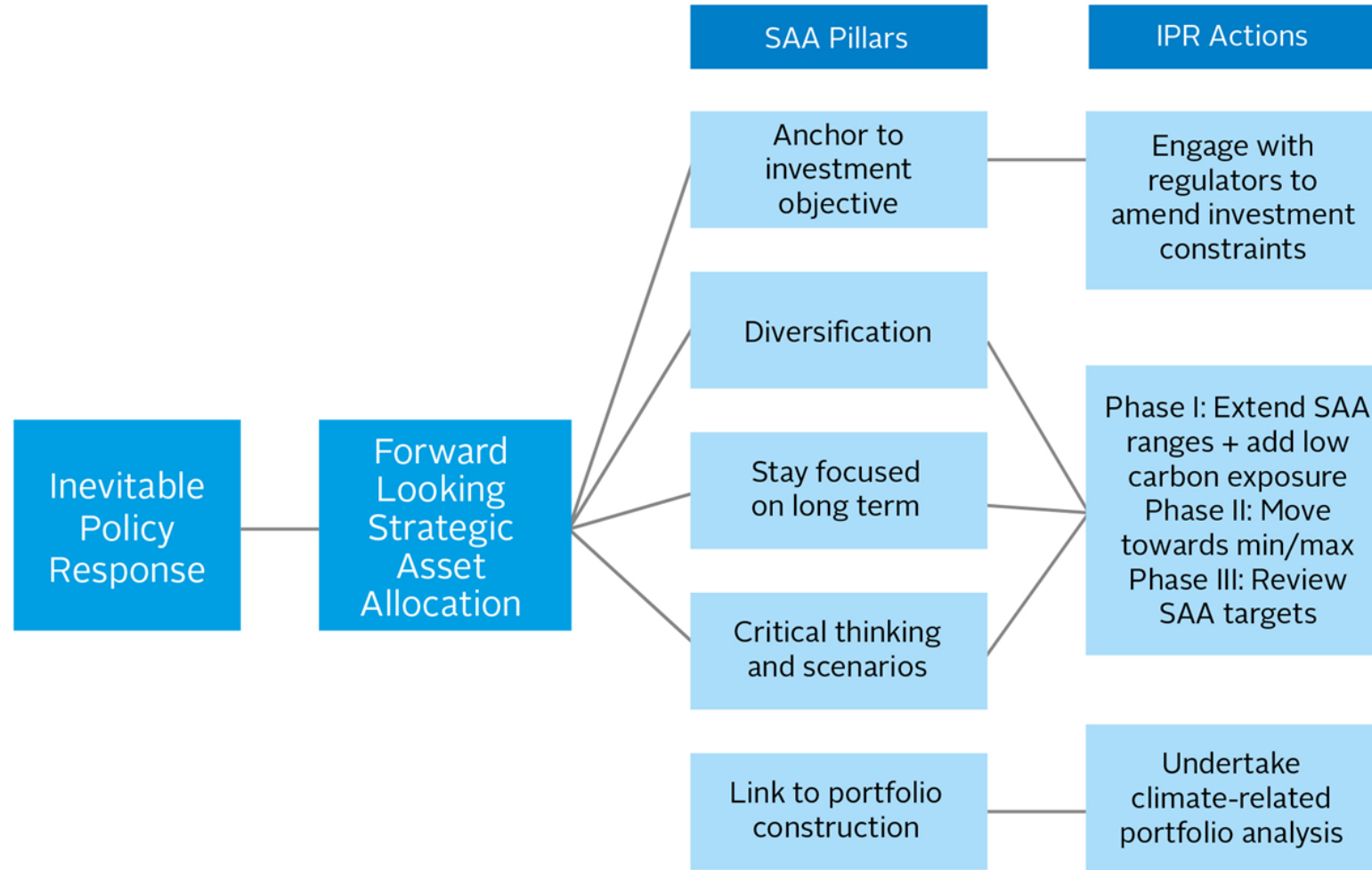
IPR: How? A combination of macro-economic, sector and micro-economic company scenario modelling...



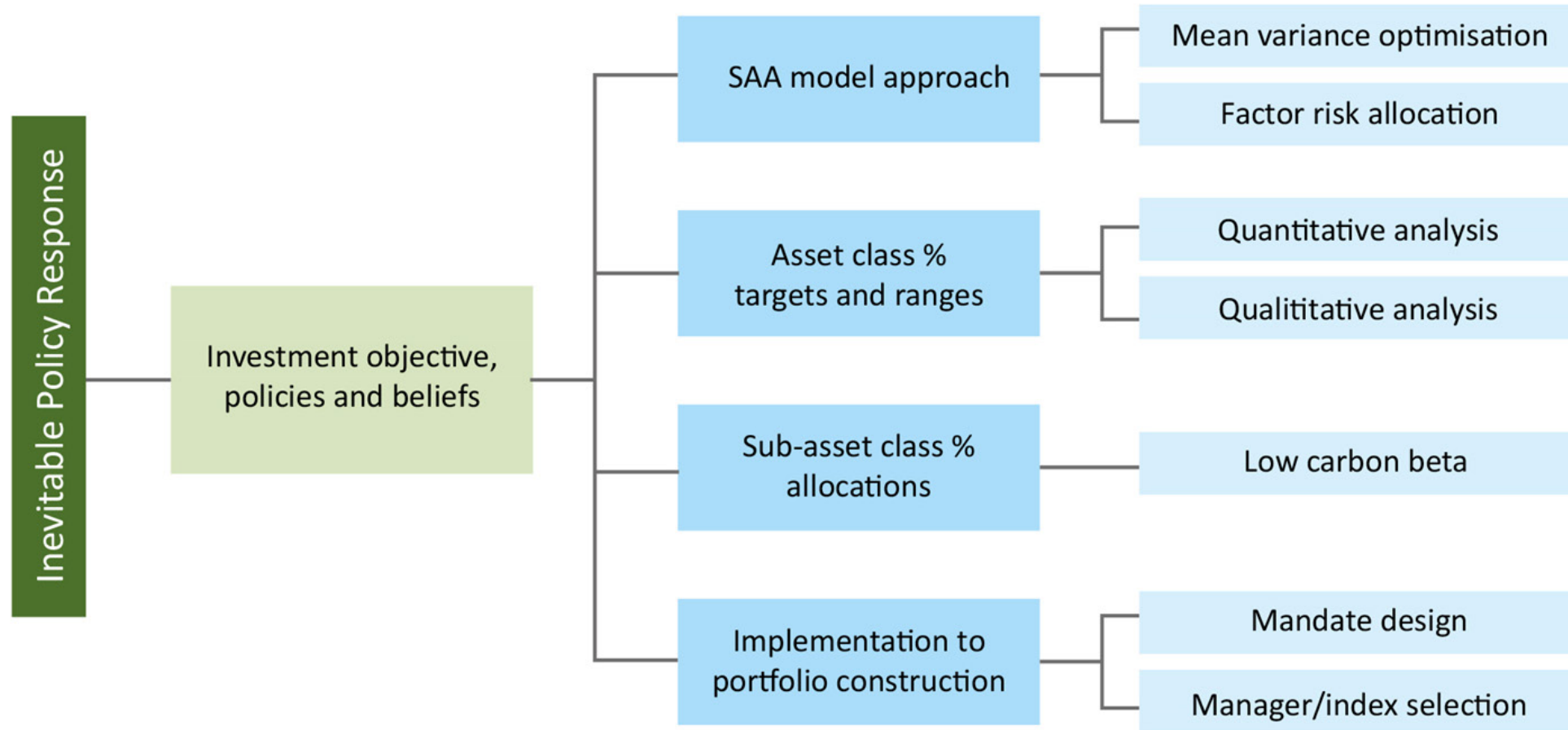
..Feeding into valuations and portfolios



IPR: Strategic Asset Allocation and Portfolio Construction



IPR: Strategic Asset Allocation and Portfolio Construction



IPR: Investor Actions – Asset Owners will need to show leadership

- Engage companies pre IPR to act now to reduce impact. Post IPR to get efficient outcomes
- Asset Owners Engage with key Service Providers pre IPR to get them focused on the risks and post IPR to be able to manage volatility and transition
- Engage with Policy Makers pre IPR to reinforce need for action and certainty. Post IPR with regulators to establish key changes to enable action
- Make Governance fit for purpose in IPR and engage Regulators in that context. Embed IPR in investor beliefs.
- Manage Portfolio risk ahead of IPR and full implementation post IPR including managing stranded assets.

IPR: Key Investor actions for Asset Owners to consider

- Analyse internal behavioral barriers to IPR preparation
- Full preparation of an IPR plan
- Reviewing investment committee role on IPR
- Asking asset managers to respond via IPR product offering
- Analyse the benefits of bringing investment in-house to prepare for IPR
- Asking asset consultants to build capability and understanding of IPR
- Asking Credit Ratings agencies to reflect IPR in ratings
- Amend Service Provider mandates for IPR with new incentives
- Form collaborative leadership group to discuss AO role during IPR

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