Market Risk Advisory Committee Statement
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Commissioner Behnam and members of the committee, thank you for the opportunity to speak with you today.

C2ES is an independent, nonprofit, nonpartisan organization. Our mission is to advance strong policy and action to reduce greenhouse gas emissions, promote clean energy, and strengthen resilience to climate impacts. Our work is informed by our Business Environmental Leadership Council (BELC), a group of 34 major companies that work with C2ES on addressing climate change risks and identifying solutions. These companies represent a range of sectors with combined revenues of nearly $3 trillion and over 3.5 million employees.

In my role at C2ES I manage the activities of the BELC, which has included facilitating activities for a cross-sector working group focused on implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The focus of this working group is to support companies in implementing the TCFD's recommendations. My remarks will focus on key takeaways I gathered from two meetings C2ES held earlier this spring with members of our business council and other stakeholders. The committee may also be interested in the C2ES brief entitled, "Using Scenarios to Assess and Report Climate-Related Financial Risk," which highlights best practices in this area.

First steps companies are taking

Many companies are completing their first-generation climate-related financial disclosures using TCFD guidance. Companies across sectors are eager to learn from one another during this process. However, the process is iterative and gradual.

With TCFD's focus on financial outcomes, climate change discussions have broadened beyond corporate sustainability teams. Implementing the TCFD recommendations requires coordination among several corporate functions. The framework includes elements of risk management, strategic planning, and sustainability/ESG reporting. For example, managing physical risk often falls under the purview of risk managers, whereas transition risk is an area of focus for strategy teams, and greenhouse gas emissions management is typically the focus of sustainability teams. In addition, legal teams must also be engaged, particularly when it comes to reporting. Bridging information gaps and coordinating among business units is a major hurdle for many companies starting to engage in TCFD reporting.

Challenges of physical and transition risk analysis

An important element of the TCFD framework is the recommendation to analyze scenarios that consider both the transition risks/opportunities and the physical impacts of climate change. For many companies, the physical risks are often easier to translate into financial outcomes, which involves assessing business continuity plans and possible supply chain issues. For some companies, the physical impacts represent a more immediate threat. Transition risks also can be harder to quantify given the uncertainty of assumptions around policy and technology, which makes it more difficult for companies to translate outcomes from those modeling exercises into financial impacts.

Despite the challenge of translating outcomes, many companies have focused their first iteration of TCFD analysis on transition risk, often harnessing existing capabilities of internal strategic planning teams. Climate modeling requires much more scientific expertise than the economic modeling used for assessing transition risk, and most companies do not have climate scientists on staff. However, the past few years have seen a proliferation of private consulting firms with climate modeling expertise ready to help companies conduct more granular scenarios exercises to analyze physical impacts.

Companies also encounter challenges when modeling transition scenarios. For example, most models assume smooth transitions. However, climate-related financial risk is most likely to occur during times of disruption. Companies recognize this and are exploring ways to stress test the outcomes of their models to better anticipate potential rough points in a transition.

Reporting Outcomes

Reporting is another key challenge area for companies implementing the TCFD recommendations. Some companies have concerns about opening up potential legal liability once a risk has been disclosed. Other companies are concerned that scenarios exercises could be misconstrued as forecasts. And while models are good at developing insights, they are not designed to deliver absolutes.

Part of the challenge is that companies must appropriately qualify the uncertainties involved in their modeling since models rely on many assumptions. In transition scenarios, policy design and technology assumptions are critical inputs, yet different models use very different assumptions for those factors.

Therefore, companies are challenged to frame key uncertainties that have a material impact on the modeled outcomes. Rather than reporting the outcomes in quantitative terms, companies often look for ways to relay strategic options that are robust within a range of uncertainty, but without disclosing confidential business information – often a difficult balance to strike.

In conclusion, we have seen significant progress toward implementation of the TCFD recommendations. More companies than ever are working to assess and quantify the risks presented by climate change - a critical step in managing related financial impacts more broadly. However, the process is still evolving and there are many challenges that companies are working to resolve. C2ES will continue to support businesses in the implementation process and looks forward to engaging with stakeholders in this area as the field matures.