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2018 Rising Trends in Corporate Climate Disclosures

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The arrival of a new year marks the beginning of the annual proxy season. And this year, shareholders can expect to see a lot more climate change disclosure in 2017 corporate financials.

Companies now have guidelines to help do that. In June 2017, the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) issued voluntary disclosure recommendations, so companies can provide shareholders with information about the business risks, opportunities, and impacts posed by climate change. The TCFD is an international coalition of business, government, and financial leaders tasked with developing voluntary disclosure recommendations to help companies identify, report, and protect against climate risks. Companies that apply these recommendations will be able to tell investors a more transparent story, one that can provide apples-to-apples comparisons and reveal insights previously buried in planning or financial data.

The TCFD recommendations address two categories of risk:

- **Transitional risks** include the business costs of shifting to a low-carbon economy, such as the costs imposed by changing market trends, new technology, climate policy, litigation, and reputational harm.
- **Physical risks** include the business costs associated with things like extreme weather events, supply chain disruption, and temperature changes.

The categories of risk span industries and business types, raising important distinctions between actors in the same industry and allowing irrelevant issues to be ignored. The categories are organized into four themes to help make implementation more straightforward: corporate governance, management, strategy, and metrics and targets.

Increasing Support for TCFD Recommendations

As of late last year, 237 companies from 29 countries had agreed to adopt the TCFD's recommendations. This trend was partly due to increased shareholder demand for information about how climate change affects business and profitability. For example, we previously wrote about this issue in connection with last year's vote by ExxonMobil shareholders to disclose climate-related risks and opportunities.

ExxonMobil is not alone with respect to shareholders – particularly institutional investors – demanding transparency. During the 2017 proxy season, 34 companies in the S&P 500 received climate change-related shareholder proposals, three of which were successful and several of which received over 40 percent of shareholder votes.

Given the relative success of climate change-related shareholder proposals during the 2017 proxy season, companies can expect to see more in the 2018 proxy season. Proxy advisory firms are showing increasing support for these proposals as well. Both Institutional Shareholder Services (ISS) and Glass, Lewis & Co. (Glass Lewis) indicated a greater willingness to recommend votes in favor of climate change-related shareholder proposals in their 2018 proxy season guidelines. Glass Lewis generally supports the TCFD's disclosure recommendations, but will evaluate shareholder proposals on a case-by-case basis taking into account various factors, including the company's industry. It typically recommends voting in favor of resolutions requesting disclosure in extractive or energy-intensive industries. Similarly, ISS generally recommends that shareholders vote in favor of resolutions that request company disclosure of the financial, physical, and regulatory risks related to climate change or information about how a company identifies, measures, and manages those risks. This approach closely follows the TCFD's disclosure recommendations.

Expect Less Transparency on Risks and Benefits

Despite strong support from the financial sector for the new TCFD recommendations, some shareholders may not see more robust information related to climate risks and benefits this year. For example, a November 2017 survey showed that more than 75 percent of respondents were unsure whether they would use the TCFD guidelines for this year's reports. Yet another survey showed that around 72 percent of large- and mid-size companies around the world do not acknowledge the financial risks of climate change in their financial reports at all.

Still, companies will face increasing pressure to disclose climate risks in line with the 2017 TCFD framework. Early in January, New York City announced its intention to change its investment behavior by taking into account climate-related issues. As more businesses and governments adopt these recommendations, the FSB hopes that the effects of climate change, in turn, become routinely considered in business and investment decisions.

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