## TCFD, Physical Risks and Natural Capital

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## Climate Change and Financial Risks

#### Mark Carney FSB Chair/BoE Governor



Climate change is the Tragedy of the Horizon. The catastrophic impacts of climate change will be felt beyond the traditional horizons of most actors - imposing a cost on future generations that the current generation has no direct incentive to fix. That means beyond the business cycle, the political cycle, and the horizon of technocratic authorities.

Our role can be in developing the frameworks that help the market itself to adjust efficiently. Any efficient market reaction to climate change risks as well as the technologies and policies to address them must be founded on transparency of information.

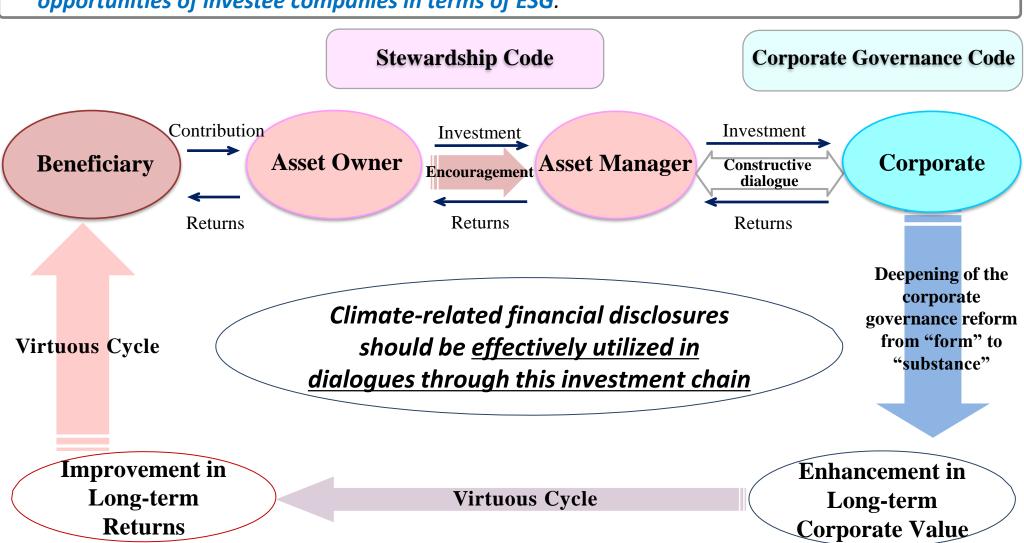
Our efforts will help smooth the transition prompted by these actions. With better information and risk management as the foundations, a virtuous circle is being built with better understanding of tomorrow's risks, better pricing for investors, better decisions by policymakers and a smooth transition to a low carbon economy.

## TCFD Framework and Risks, Opportunities and Impact

#### Climate-Related Risks, Opportunities, and Financial Impact Transition Risks Opportunities Policy and Legal Resource Efficiency Technology **Energy Source** Market Opportunities Risks Products/Services Reputation Markets Physical Risks Strategic Planning Resilience Acute **Risk Management** Chronic **Financial Impact** Assets & Liabilities Revenues Cash Flow Balance Income Statement Sheet Statement Expenditures Capital & Financing

#### TCFD and Investment Chain

- The Corporate Governance Code of Japan encourages corporate disclosure of **ESG-related** information.
- The Stewardship Code of Japan encourages asset owners/managers to look into risks and opportunities of investee companies in terms of ESG.

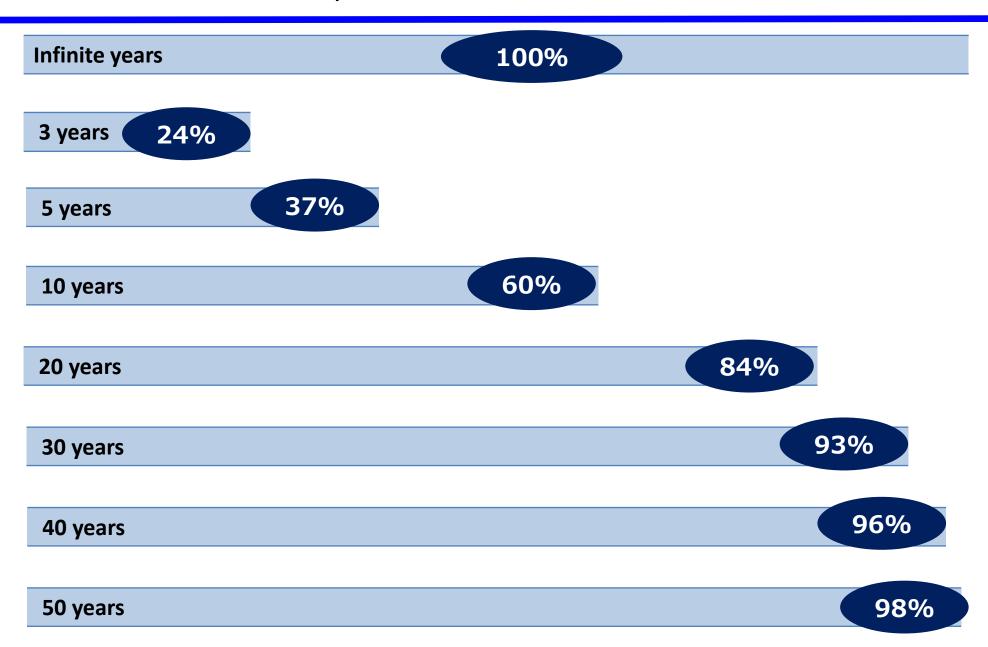


## TCFD Implementation Path

#### Implementation Path (Illustrative) Broad understanding of the concentration of carbon-related assets in the financial system and the financial system's exposure to climate-related Greater adoption, further development of information provided (e.g., metrics and scenario analysis), and greater maturity in More complete, consistent, and using information Adoption Volume comparable information for market participants, increased transparency, and appropriate pricing of climaterelated risks and opportunities Climate-related issues viewed as Organizations begin to mainstream business and investment disclose in financial filings considerations by both users and preparers Final TCFD Report Released Companies already reporting under other frameworks implement the Task Force's recommendations. Others consider climate-related issues within their businesses Five Year Time Frame

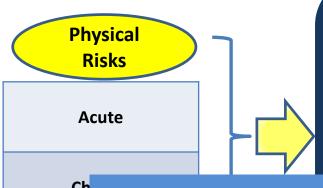
Challenge 1: Fostering Long-termism

### Corporate Value in Time Horizons



# Challenge 2: Developing Risk Assessment Methodologies

## Climate-related Financial Risks and Mapping of Actions



- Identification of channels through which changes in natural conditions stemming from climate change will affect businesses.
- Measurement of the effects of such changes (risk intelligence of the insurance sector will help quantify these effects.)

The economic valuation of natural capital will become a key tool to assess corporate value.

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#### Policy una Legar

**Technology** 

Market

Reputation



- company's production or goods and/or provision of services.
- Evaluation of how the carbon budget impacts demands of a particular good and/or service, and how it will affect the line of business.
- Understanding of such impact channels (e.g., policy and legal, technology, market, and reputation.