Dairy Australia
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Profitable dairying FAQ

Task Force on Climate-related Financial Disclosures

This Frequently Asked Questions (FAQ) on the Task Force on Climate-related Financial Disclosures and its relevance to the Australian dairy industry has been developed as part of the *Profitable Dairying in a Carbon Constrained Future* project.

It is one in a series of resources developed to profile practices that profitably reduce greenhouse gas emissions from dairy farm systems, embedded in the context of every-day farm management decisions.

Global action on climate change (Paris Agreement and Task Force on Climate Related Disclosures) will have implications for sustainability and emissions reductions in the short term. The dairy sector needs to be aware of these activities in order to make informed decisions about the imperative for emissions reductions on farm.

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Global agreement on addressing climate change

The evidence for global warming is clear. Human activities, such as burning fossil fuels, clearing forests and expansion of agriculture, have played a role in the increase in greenhouse gas emissions since the mid-20th century. 2015 was the warmest year on record since reliable global surface air temperature records began in 1880 (CSIRO State of the Climate 2016).

There is increasing consensus that continued emission of greenhouse gases will cause further warming of the Earth and that warming above 2° Celsius (2°C), relative to the pre-industrial period, could lead to catastrophic economic and social consequences.

As evidence of the growing recognition of the risks posed by climate change, in December 2015, nearly 200 governments agreed to strengthen the global response to the threat of climate change by "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels," referred to as the Paris Agreement.

Task Force on Climate-related Financial Disclosures

Given such concerns, and the potential impact on financial intermediaries and investors, the G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues.

In 2016, the FSB established an industry-led task force: the Task Force on Climate-related Financial Disclosures (TFCD).

It was asked to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks.

"Increasing transparency makes markets more efficient and economies more stable and resilient." ***Michael R. Bloomberg, TFCD Chair***

The TFCD considered the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.

Who is the TFCD?

The 32-member Task Force is global; its members come from various organizations, including large banks, insurance companies, asset managers, pension funds, large non-financial companies, accounting and consulting firms, and credit rating agencies.

The members were chosen by the FSB to include both users and preparers of disclosures from across the G20's constituency covering a broad range of economic sectors and financial markets.

Recommendations of TFCD

In December 2016 the TFCD report Recommendations of the Task Force on Climate-related Financial Disclosures was released.

The report provides recommendations for helping businesses disclose climate-related financial risks and opportunities within the context of their existing disclosure requirements.

It outlined four widely adoptable recommendations on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions (Figure 1).

> Figure 1
> **Key Features of Recommendations**
> - Adoptable by all organisations
> - Included in financial filings
> - Designed to solicit decision-useful, forward-looking information on financial impacts
> - Strong focus on risks and opportunities related to transition to lower-carbon economy.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets (Figure 2).

Benefits of the TFCD recommendations

Recognizing that climate-related financial reporting is still at an early stage, the TFCD recommendations provide a foundation to improve investors' and others' ability to appropriately assess and price climate-related risk and opportunities.

If/when those recommendations are implemented, the TFCD will deliver:

- Better access to data to enhance how climate-related risks are assessed, priced, and managed
- More effective measurement and evaluation of a company's own risks and those of their suppliers and competitors
- Better informed decisions on where and how investors allocate their capital
- Lenders, insurers and underwriters will be better able to evaluate their risks and exposures over the short, medium, and long-term.

Figure 2
Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Implications for the dairy sector

Climate risk is an emerging requirement of corporate governance and has the potential to impact on dairy enterprises access to capital and markets.

Consider climate risk

A recent report commissioned by the Centre for Policy Development and the Future Business Council found that there is a fiduciary responsibility on company directors to 'foresee, adapt or mitigate certain effects of climate change'. Directors who fail to consider climate change risks could be found liable for breaching their duty of care and diligence.

For dairy businesses, this means understanding their exposure to climate risks, but also understanding the potential impact of a changed climate on competitors.

Scenario analysis

One of the TFCD key recommended disclosures is related to the disclosure of potential impacts of climate-related risks and opportunities on an organization's businesses, strategies, and financial planning under different potential future states (scenarios), including a 2° C scenario.

A recently completed project, Dairy Businesses for Future Climates, investigated what a changing climate really means for Australian dairy farms and found that:

- Year to year climate variability already experienced will continue and rainfall variability may be increased. Climate variability can have a greater impact on financial returns compared to the general trend in climate change alone.
- If climate change follows the high change trajectory, less pasture will be grown on farm and profitable years will become less likely. This means that farmers will need to adapt further to greater risk, and will need to have biophysical adaptations and financial plans in place to buffer low production in years with poor seasonal conditions.
- The factors which influence farm profitability in historic climates, pasture utilisation and feed costs together with milk prices, will continue to have dominant influences in the 2040 climates.
- In the 2040 high climate scenario, none of the farm development options modelled in this research increased profit, but the options were affected differently.
- The environment beyond the farm gate will influence farm development pathways - industry reputation, market demand for dairy products, agriculture and environmental policies, workforce access and regional economics and development.

Dairy businesses should consider the outcomes of DBFC for their business and ensure decisions into the future consider these scenarios.

Emissions reduction

Global action on climate change will have implications for sustainability and emissions reductions in the short term. The dairy sector needs to be aware of these activities in order to make informed decisions about the imperative for emissions reductions on farm.

The dairy industry has an interest in contributing to the global and domestic efforts to reducing greenhouse gas emissions.

Recommendations for dairy industry:

- Global action on climate change (Paris Agreement and Task Force on Climate Related Disclosures) will have implications for sustainability and emissions reductions in the short term.
- Management of climate risk will increasingly be an emerging requirement of corporate governance, access to capital and access to markets for the dairy sector.
- Climate risk needs to be considered like any other material risk to companies/enterprises.
- The dairy industry has an interest in contributing to the global and domestic efforts to reducing greenhouse gas emissions.

Where can I go for more information on this topic?

For more on this topic see:

TFCD Official Website

Dairy Climate Toolkit – Managing for climate risk

Fiduciary duties and climate change – Future Business Council

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