



# Identifying and reporting climate-related financial risk

**How KPMG can help**

[kpmg.com/sustainability](https://kpmg.com/sustainability)



# Business is under pressure to tackle the financial risks of climate change

## KPMG firms can help

Climate change is rapidly emerging as a threat to the stability of our financial systems.

More frequent and severe weather events are damaging infrastructure and disrupting supply chains. Transition to a lower carbon economy is bringing new policies, regulations and rapid changes to market dynamics. And some carbon-intensive companies are already facing law suits over their contributions to climate change.

Together these trends threaten to bring serious financial risks to companies and their investors, lenders and insurers.

That's why, in 2015, the Financial Stability Board (FSB) formed the Task Force on Climate-related Financial Disclosures (TCFD) and asked it to recommend how companies should disclose their material climate-related risks to financial stakeholders.

Since then, many banks, pension funds, asset managers, insurers and others have put growing pressure on companies to apply the TCFD recommendations and hundreds of companies have signed up to doing so.

For most companies, assessing, disclosing and responding to climate-risk is a new challenge. KPMG professionals can help. Our member firms can support clients in making sense of the TCFD recommendations, and work shoulder-to-shoulder with you to identify climate-related risks and opportunities, understand the financial implications, and incorporate relevant disclosures into financial filings.

**Contact us to find out how KPMG member firms can help you.**



### Wim Bartels

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With over 20 years of experience, Wim helps large companies understand and disclose their financial exposure to climate-related risks. He was the first professional from a Big Four accounting firm to be invited to join the TCFD and has been closely involved in the development of the TCFD recommendations.



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Arjan leads the Climate Change & Sustainability practice at KPMG in the Netherlands. He has over 20 years' experience in sustainability consulting including climate risk services.



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Anne-Cecile (AC) leads KPMG's global network of subject matter experts in climate risk assessment and TCFD reporting. AC specializes in helping KPMG clients to assess and disclose climate-related financial risks.

# How we can help

**KPMG member firms can provide bespoke services to help clients address climate-related financial risks. Our support covers the following areas:**



## **Assess and improve readiness for reporting:**

Using advanced tools, KPMG professionals can evaluate the extent to which your business's processes, methods and disclosures currently fulfil the TCFD recommendations. We can benchmark your company's performance against industry best practice to show where you stand in the market.



## **Map climate-related risks:**

KPMG specialists can help you to understand your company's exposure both to the physical effects of climate change and to the likely regulatory and economic impacts of the shift to a low-carbon economy. We can identify the areas of your business, as well as the countries where your operations are located, which are - or will be - most affected by climate change.



## **Use scenario analysis to assess resilience:**

In line with the TCFD recommendations, KPMG member firms can help you understand how climate-related risks and opportunities could affect your business in a variety of regulatory, economic and climate scenarios. We can explore what these scenarios would mean for your business in the short, medium and long terms and develop tools and procedures to assess and quantify the potential financial impacts.



## **Inform business strategy:**

KPMG professionals can help you identify the climate risks that are most pressing for your company. We can provide recommendations on how to develop a robust climate resilience strategy for operations and product portfolios taking into consideration the different scenarios that could pan out in the future.



## **Adapt investment strategies:**

KPMG specialists can work with asset owners and managers to review and adapt their investment strategies in order to reduce exposure to climate-related risk.



## **Manage and report on risks:**

KPMG member firms can help you define appropriate data collection systems, metrics and targets to monitor, manage, and report on climate-related risks in line with the TCFD recommendations. We can provide advice on how best to disclose your climate-related risks in your financial disclosures and provide good practice examples to guide your reporting.

# About the TCFD and its recommendations

**The Financial Stability Board (FSB) founded the TCFD at the request of G20 finance ministers. Its purpose is to improve business and financial sector transparency on the financial risks and opportunities of climate change.**

The TCFD recommendations, released in 2017, focus specifically on business disclosure of how climate change affects financial performance now and in the future. They do not address disclosure of how a company may, or may not, be contributing to climate change.

The recommendations can be summarized as follows:



**Governance:** Companies should disclose the governance structures, oversight and management processes in place to manage climate-related financial risks and opportunities.



**Strategy:** Companies should disclose the actual and potential risks, and opportunities, of climate change on its business, strategy and financial planning. Scenario analysis should be used to test the resilience of the company's strategy under various climate scenarios.



**Risk management:** Companies should disclose how they identify, assess and manage climate-related financial risks.



**Metrics and targets:** Companies should disclose the metrics and targets they use to assess and manage climate-related financial risks and opportunities.

**Further information can be found at:**  
[www.fsb-tcf.org](http://www.fsb-tcf.org)

# Client story

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## Helping a global consumer goods brand to assess and manage climate-related risks

KPMG in France, KPMG in the Netherlands and KPMG in Australia collaborated to help a global consumer goods brand understand its exposure to climate-related risks.

The project followed a 6-stage process:

**Stage 1. Identify risks:** The team conducted in-depth research and analysis to identify and map a wide range of climate-related physical and economic risks across the client's global value chain.

**Stage 2. Prioritize risks:** KPMG's proprietary Dynamic Risk Assessment (DRA) methodology added further sophistication to the risk assessment by identifying connections between risks, risk clusters, potential triggers and tipping points. It also assessed the potential speed and severity of the risks. The results enabled the client to define and prioritize a clear set of climate-related risks for each product category.

**Stage 4. Develop scenarios:** KPMG developed a series of detailed scenarios against which to test the company's risk exposure and resilience. The scenarios included the potential impacts of climate-related extreme weather as well as possible climate-related developments in policy, law, regulation and societal trends.

**Stage 5. Assess risk exposure and potential impact:** The team carried out a detailed analysis of the risks against the chosen scenarios. The analysis explored how climate change might affect supplies of critical inputs and how it might alter current patterns of consumer behavior and demand. It also assessed the potential financial impacts of climate-related risks on the company's bottom line.

**Stage 6: Design resilience strategy:** Using the risk assessment and scenario analysis as a foundation, the client is now working with KPMG to develop its climate risk mitigation and resilience strategies.

With KPMG's support, the client now has a comprehensive understanding of how its business may be affected by climate-related risks. Its executives have detailed insights into how different risks could affect specific product lines. The company is better informed and better positioned to develop strategies to reduce and avoid climate-related risks, and to channel innovation investment into climate resilient product strategies.



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