The climate writing is on the wall: here's what companies need to do

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When Mark Carney launched the Task Force on Climate-related Financial Disclosures (TCFD) in 2015, frequent climate calamities were largely viewed as financial risks lurking somewhere in the future.

Less than five years on, that future is already here.

A climate emergency has been declared by the EU, not to mention Canada, Argentina, and more than 1,000 local governments across 25 countries. The list of "never seen before" weather events, including the horrific fires in Australia and California, swells at an ever alarming rate. Climate change, and not conflict, is now the biggest single factor driving people from their homes. And CEOs surveyed for KPMG's 2019 CEO Outlook put climate change at the top of their risk list for the first time ever.

TCFD has been a crucial driver to push business leaders into thinking about climate change as a matter of financial risk and resilience rather than corporate social responsibility. It has helped persuade many to look beyond conventional risk horizons and prepare for uncertainty in terms of scenarios rather than forecasts. It has catalyzed action in the financial sector and the regulatory and political spheres.

It has no doubt generated greater corporate awareness of climate risk and more reporting. Yet, we have to question whether the pace of uptake and quality of reporting is enough to meet the sharper scrutiny that may inevitably result from dramatic scenes of climate-driven catastrophe and growing realization of the vast economic, human, and environmental cost.

Our view is that the practice of corporate climate risk management and reporting is going to move a whole lot more quickly over the next two to three years and CEOs need to be prepared.

While the TCFD started out as a disclosure framework, it will become a business management framework, helping companies to identify and scope their climate risks and develop effective resilience strategies.

CEOs will need to ensure their teams have a much more sophisticated grasp of climate risk than they do now. They need a broad understanding of how climate impacts (both physical and transitional) are linked and clustered, where climate triggers and tipping points could set off damaging chain reactions, and how this could impact their entire value chains. Moreover,

[1] https://climateemergencydeclaration.org/climate-emergency-declarations-cover-15-million-citizens/

[2] https://www.oxfam.org/en/press-releases/forced-from-home-eng

[3] https://home.kpmg/xx/en/home/campaigns/2019/05/global-ceo-outlook-2019.html

most may elect to take demonstrable action to mitigate these impacts by making sometimes difficult choices about their asset base, supply chains, and consumption choices.

Financial quantification of climate risk is the obvious next step in reporting. Investors and lenders are soon likely to demand this, and regulators will likely follow by mandating it. The recent multibillion-dollar write-down of fossil fuel assets by an oil and gas major should be seen as a sign of a more rapidly decarbonizing world.

Companies also need to grasp what all this means beyond identifying and reporting risk. They will need to implement tangible actions including effective resilience strategies linked to executive remuneration and incentives. Companies in carbon-intensive sectors will need science-based decarbonization programs to meet regulation, respond to customer demand, reduce costs, and protect reputation and public trust.

CEOs and CFOs should also prepare for rapid change in the financial system as governments and central banks grow increasingly concerned about the impacts of climate change. The Bank of England and Dutch Central Bank have already beefed up their climate stress tests and others will follow suit. The Network for Greening the Financial System—a group of around 50 central banks—is focusing on the issue, and the EU Sustainable Finance Action Plan will increasingly provide favorable access to capital to companies whose businesses are seen as green and sustainable.

The climate writing is clearly on the wall. The question is: Do all business leaders see it yet?