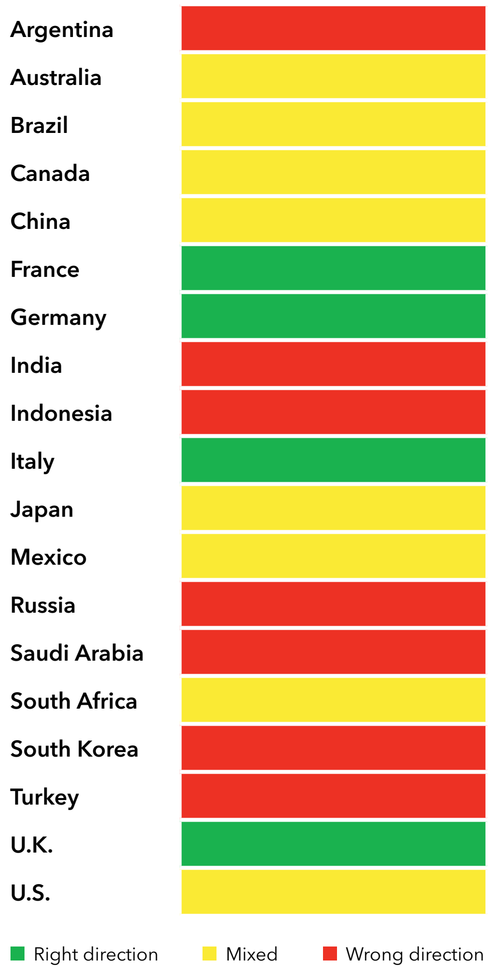
Climate risk disclosure

Assessment

- Climate-risk policies can have a forward-looking dimension, such as when governments or central banks conduct stress-tests to assess future impacts of climate change on the profitability of a company or stability of a financial institution. Climate-risk policies can also assess the effects of environmental changes and climate policies on the current performance of companies and financial products. Countries with mixed progress, such as Australia or Brazil, lack specific climate risk regulations. However, they have initiatives that set the right foundation to develop further climate-risk regulatory standards.
- The TCFD recommendations offer a robust framework for evaluating the impacts of climate change on organizations. TCFD promotes scenario analysis to better understand how organizations might perform under various future climate scenarios and this can be the most challenging component for supporters to implement. It falls to policy makers to develop further guidance on scenario analysis, ensuring it can also be supported by central banks that have launched climate risk stress-test pilots, like the European and French banks. As others, including Japan and Australia, undertake stress tests, understanding of scenario analysis should improve.
- In December 2017, eight central banks and supervisors established the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Most central banks are now members of the initiative, which aims to enhance how financial institutions identify and manage climate risks, among other goals.
- Despite the positive momentum, financial institutions still lack much of the data needed to assess fully climate-related risks associated with their investments. This puts the onus on regulators to enforce disclosure regulations focusing on physical assets and environmental data. The availability of such information, available in a standardized manner, is key to ensuring more accurate climate-risk assessments. It also alleviates the use of estimates that may paint an inaccurate picture of climate risks.
- To ensure wider adoption of best climate-risk disclosure practices from financial and non-financial organizations, countries should aim for uniformity and harmonization between regulatory standards. The Chinese central bank announcing its cooperation with the EU on developing a jointly recognized green taxonomy is a great example of such initiatives.

Progress on climate risk disclosure policies



Source: BloombergNEF. Note: Click here for our definitions of 'Right' and 'Wrong direction'

BloombergNEF

Country snapshots

Argentina

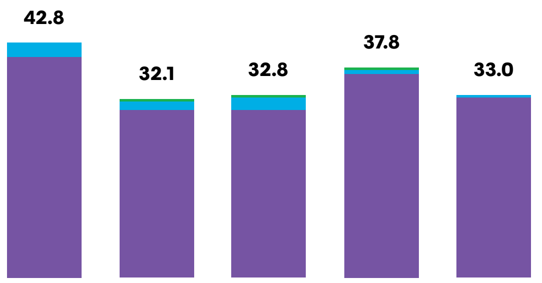
Non-Annex I party

Argentina was one of the first G-20 members to increase the ambition of its 2030 emission target. However, the new goal may require relatively little effort to achieve, based on BNEF analysis. The same cannot be said for its new net-zero pledge for 2050. The government has introduced policies to promote renewables but the macroeconomic crisis and bottleneck on the power transmission network is hindering investment. It will need to implement significant new support to achieve this target, especially to decarbonize the transport and agriculture sectors.

- Argentina still provides significant direct support to fossil fuels, with the second-highest per-capita total capita (at $734 in 2019). It decreased total support by 23% over 2015–19, with cuts focused mainly on scaling back subsidies received by consumers.
- As a result, fossil-fuel producers and utilities benefited from 81% of total support in 2019, driven by investment from state-owned enterprises, YPF and Integracion Energetica Argentina. These figures are likely an underestimate due to lack of transparency around support provided to state-owned enterprises, and funding provided by export credit agencies.
- Argentina and Canada have yet to announce the results of their mutual subsidy peer review agreed in 2018. While there is no official deadline, previous reviews have taken 12–18 months.
- In 2018, Argentina introduced a carbon tax on liquid fuels and coal, covering around a fifth of emissions. The official rate is $10 per metric ton but due to currency devaluation, liable entities pay around $3.60. The measure therefore has relatively little impact in practice. Tax revenue has been allocated to the National Housing Fund, the Transport Infrastructure Trust and the social security system.
- Argentina lacks policy on climate-risk disclosure, with no TCFD reporting requirements and no local TCFD supporters. It also imposes no mandatory rules regarding climate risk and does not participate in the NGFS initiative. So far, only companies with over 300 employees must produce annual sustainability report.

Fossil-fuel support

Total (2015–19)	$178 billion
Share spent on coal (2019)	0.1%
Share targeted at producers & utilities (2019)	81%



Source: OECD, IEA, Oil Change International, ODI, IISD, BloombergNEF.

Carbon pricing

Carbon-pricing policy	√
National emissions covered by carbon price	20%
Average carbon price (2020)	$10/metric ton

Climate risk disclosure

Mandatory TCFD policy	X
Corporate, financial and government TCFD supporters	0
Investor climate-risk policy	X
Central bank climate-risk stress-testing	X
Environmental taxonomy	X

Australia

Annex I party

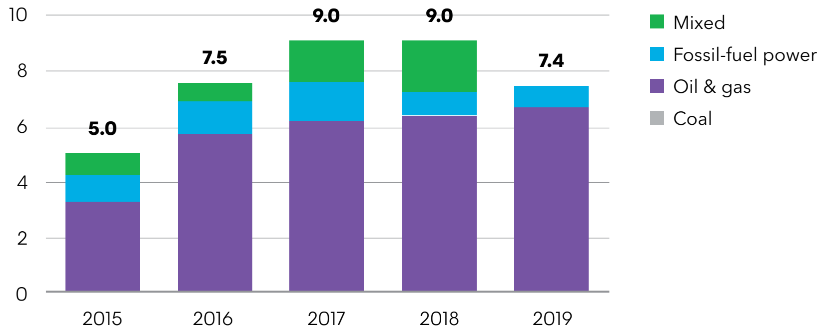
Australia has made mixed progress on the three priority areas, with room for improvement regarding fossil-fuel support and carbon pricing. Discussions on a national net-zero target are underway, although states and territories have legislated a goal of their own, or are in the process of doing so. Australia has begun to decarbonize its power system but achieving its 2030 emission target will require more policy measures for transport and industry.

- Among the G-20, Australia had boosted its financial support for fossil fuels the most 2015-2019, with spending up 48% over that time. The rise has predominantly gone to oil and gas consumers.
- Tax breaks account for the lion's share of fossil-fuel support in Australia, thanks to capex deductions for mining and petroleum operations, fuel-tax credits, reduced fuel-excise rates and offset schemes. In total, the country lost out on nearly U.S. $6 billion in foregone taxes 2015–19.
- Carbon pricing is controversial in Australian politics. Introduced in 2016, the national Emissions Reduction Fund Safeguard Mechanism acts as a 'baseline and credit system' under which industrial and power companies must surrender offsets if they exceed their government-set baseline level of emissions. It lacks ambition, however, as it was not designed to cut emissions – just ensure they remain below the baseline.
- Australia has taken some steps to promote climate-risk disclosure, with limited success. TCFD policy is not mandatory and only members of the Financial Services Council are required to report their ESG risk-management policy. The Council is an industry body representing over 100 financial-service companies.
- Two drivers could spur more action: the Australian Securities and Investment Commission has encouraged TCFD reporting and welcomed it as the preferred market standard; and the Australian Prudential Regulation Authority is increasing scrutiny of climate-risk management while undertaking a consultation on how to manage the financial risks of climate change.

Fossil-fuel support

Total (2015–19)	$38 billion
Share spent on coal (2019)	0%
Share targeted at producers & utilities (2019)	31%

Fossil-fuel support ($billion)



Source: OECD, IEA, Oil Change International, ODI, IISD, BloombergNEF.

Carbon pricing

Carbon-pricing policy	√
National emissions covered by carbon price	50%
Average carbon price (2020)	$12/metric ton

Climate risk disclosure

Mandatory TCFD policy	*Recommended only*	X
Corporate, financial and government TCFD supporters		**103**
Investor climate-risk policy		X
Central bank climate-risk stress-testing	*Planned for 2021*	X
Environmental taxonomy		X

BloombergNEF

Brazil

Non-Annex I party

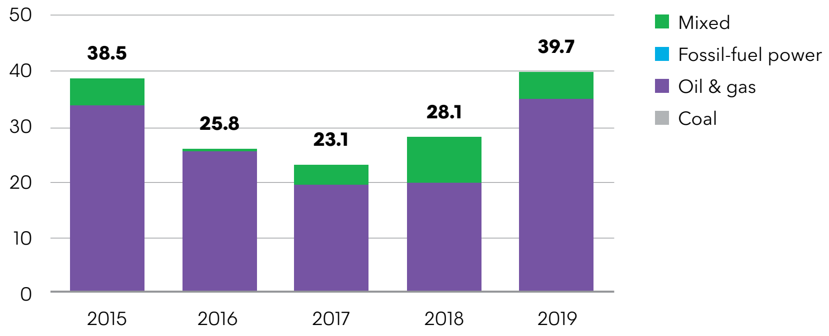
Brazil has been a leader in renewable power auctions and biofuels production due to its incentive program and access to feedstock. Yet the real challenge for decarbonization will be the country's agriculture, forestry and land-use sectors, which together comprised 62% of emissions in 2018. President Jair Bolsonaro said at the U.S.-convened climate ambition summit in April that Brazil would reach climate neutrality by 2050. But this would be contingent on financial support from developed countries.

- Brazil saw a slight increase (3%) in support for fossil fuels 2015–19, and its per-capita total in 2019 ($188) was some way above the G-20 average. The country has taken steps toward phase-out, halving aid for consumers from 2015–19.
- This therefore means that Brazil has the second-highest share of support given to fossil-fuel producers and utilities, most of which comprises investment in oil and gas state-owned enterprises.
- In December 2019, Brazil's Ministry of Economy pledged to 'accelerate studies on the creation of a carbon pricing system based on national greenhouse gas emissions trading'. It is undertaking impact assessments for both an ETS and a tax.
- There is relatively little backing among companies for TCFD reporting, as shown by the low number of local supporters of the initiative. But the central bank plans to implement reporting in line with TCFD recommendations and issue regulations to enforce it for the rest of the economy in 2021/22.
- Brazil's central bank has required financial institutions to maintain processes to manage environmental risks since 2014. It is also part of the NGFS initiative and is discussing how to integrate a climate-risk stress-testing.

Fossil-fuel support

Total (2015–19)	$155 billion
Share spent on coal (2019)	0.4%
Share targeted at producers & utilities (2019)	90%

Fossil-fuel support ($billion)



Source: OECD, IEA, Oil Change International, ODI, IISD, BloombergNEF.

Carbon pricing

Carbon-pricing policy	X
National emissions covered by carbon price	0%
Average carbon price (2020)	n/a

Climate risk disclosure

Mandatory TCFD policy	*Under discussion*	X
Corporate, financial and government TCFD supporters		31
Investor climate-risk policy	*Generic ESG reporting for funds*	X
Central bank climate-risk stress-testing	*Under discussion*	X
Environmental taxonomy		X

BloombergNEF