

# Canadian Municipalities: A Focus on Climate-related Financial Disclosure



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# Overview

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# TCFD Guidance for Cities Project

## Background

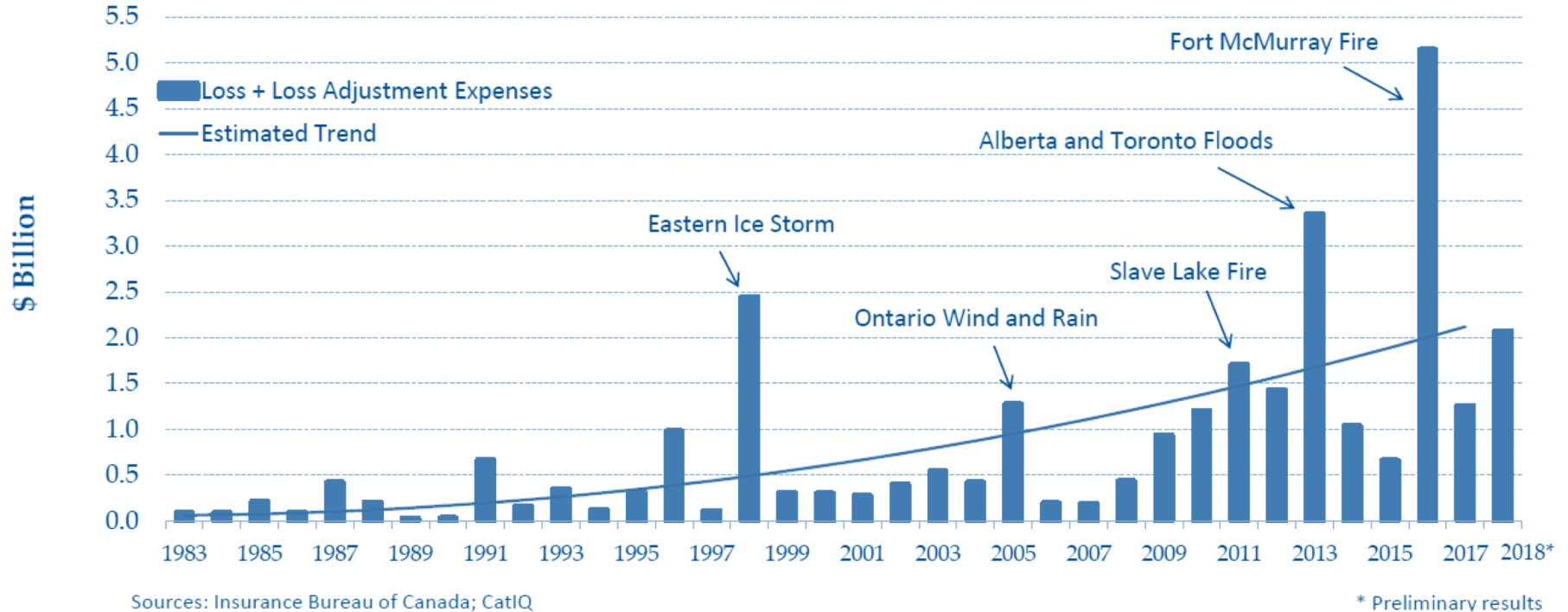
- 12-month project led by CPA Canada, with support from The Delphi Group and funding from Natural Resources Canada
- Guidance developed for cities to evaluate Task Force on Climate-related Financial Disclosures (TCFD) recommendations
- Guidance may be used by cities to:
  - Determine what climate-related information is important for internal decision-making (budgeting and capital planning)
  - Evaluate making enhanced climate-related disclosures in financial statements
- Output will be a publicly-available Guidance document released in Spring 2020

# Working Group Members



# Climate Risk & Cities

# Catastrophic Insured Losses



**Note:** Cost to government and homeowners 3-4X that of private insurer



## Cities at the Centre of Climate Risk...

- Insured losses in Canada have been over *CAD \$1 billion / year for the past five years*
- 70% of cities already being impacted by climate change
- >300 Canadian cities declaring "climate emergencies"
- FCM estimates for every \$1 billion invested in mitigation, \$6 billion in costs can be avoided

# Background on TCFD



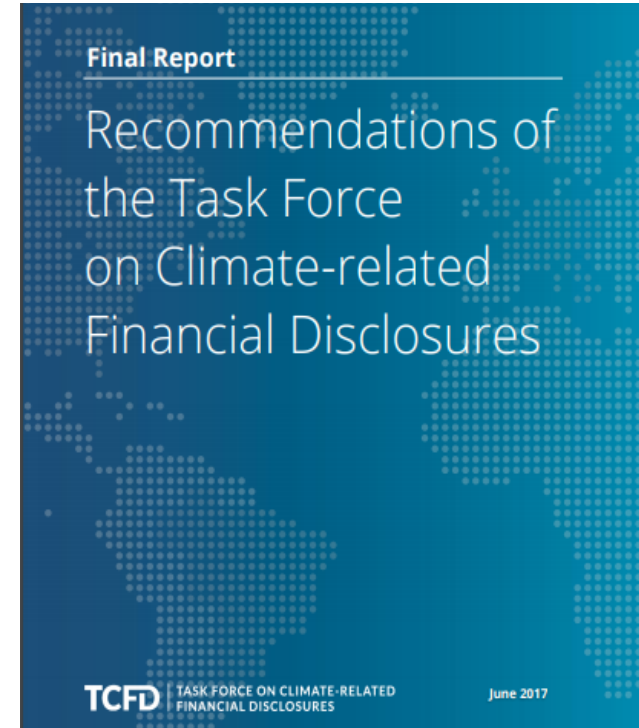
# Background on TCFD

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- Private-sector initiative launched by Mark Carney (Bank of England) and Michael Bloomberg
- TCFD created in December of 2015 by the Financial Stability Board after considerable consultation with industry and finance community
- Supported by the G20 countries and developed with stakeholder input from 30+ countries
- Rising support in Canada, including by Expert Panel on Sustainable Finance

## Purpose

- **Enable efficient allocation of capital** in the transition to a low-carbon economy
- **Enhance market transparency** for investors and insurers
- **Identify information needed in financial disclosures** to help adequately assess and price climate-related risks and opportunities
- **Provide a systematic, standardized approach** to identifying risks, opportunities & financial impacts



# Overview of TCFD Recommendations

- The TCFD recommends climate-related disclosure in four areas:
  - Governance
  - Strategy
  - Risk Management
  - Metrics and Targets
- Recommends the use of *scenario analysis*.
- Recommends reporting material climate-related information in *financial disclosures*.



# TCFD Framework Applied to Cities

TCFD Recommendation Areas	TCFD Recommended Actions (Adapted for Cities)
<b>Governance</b>	Describe mayor and council's oversight of climate-related risks and opportunities.
	Describe management's role in assessing and managing climate-related risks and opportunities.
<b>Strategy</b>	Describe the climate-related risks and opportunities the city has identified over the short-, medium-, and long-term.
	Describe the impact of climate-related risks and opportunities on the strategy and financial planning of the city's businesses.
	Describe the resilience of the city's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
<b>Risk Management</b>	Describe the city's processes for identifying and assessing climate-related risks.
	Describe the city's processes for managing climate-related risks.
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the city's overall risk management.
<b>Metrics &amp; Targets</b>	Disclose the metrics used by the city to assess climate-related risks and opportunities in line with its strategy and risk-management process.
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.
	Describe the metrics used by the city to manage climate-related risks and opportunities and performance against targets.

# Benefits of TCFD for Cities

# Benefits to Cities from Aligning with TCFD

- Enhances data collection and sharing
- Builds internal capacity for managing climate risks
- Quantifies climate-related information in financial terms
- Integrates climate-related risks and opportunities into financial planning
- Enhances access to external sources of funding
- Builds public awareness of climate change impacts

# Current Alignment with TCFD Recommendations



# Canadian Examples



Includes acknowledgement in its financial statements about the costs associated with severe weather impacts that impacted the city.



First Canadian city to include report on climate-related risks and opportunities in alignment with the TCFD framework.



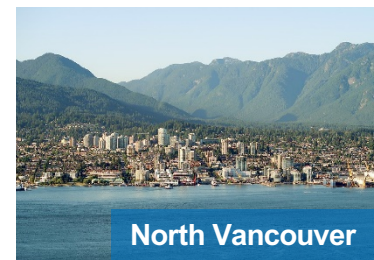
Conducted an impact assessment that estimates that climate impacts to the city could increase by \$8B CAD by 2050, lowering the city's GDP by \$3.2B from today.



Identifies 58 distinct action items within its adaption strategy, resulting from the review of 28 different climate impacts as part of its planning efforts.



Reporting on climate-related program expenditures on an annual basis, climate change adaption, and environmental risk management.



Quantifies the costs of implementing adaptation actions today vs. waiting (Every \$1 today will avert between \$9 to \$38 in future damages).

# Comparison with Current Climate Disclosure Practices

Framework	Overview	TCFD Alignment	TCFD Gaps
<b>CDP Cities</b>	Global, voluntary climate change reporting program and framework (mitigation and adaptation)	<ul style="list-style-type: none"> <li>covers all four recommendations areas of the TCFD</li> <li>focuses on both risks as well as opportunities</li> <li>balances transitional risks with physical risks.</li> </ul>	<ul style="list-style-type: none"> <li>lacks standard financial language (e.g., refers to climate risks as “hazards”)</li> <li>reported information not subject to materiality assessment</li> <li>does not require cities to conduct a quantitative assessment of the financial impacts of climate change</li> <li>cities qualitatively categorize risk as “high, medium, or low”</li> <li>scenario analysis used only within the context of GHG emissions.</li> </ul>
<b>Partners for Climate Protection (PCP)</b>  FCM & ICLEI Canada	Voluntary, Milestone-based GHG mitigation-focused program and framework  402 cities (all sizes) at various Milestones (45 cities at Milestone 5 – highest level)	<ul style="list-style-type: none"> <li>strong with the "metrics and targets" recommendation area</li> <li>includes some focus on "governance" and "strategy".</li> </ul>	<ul style="list-style-type: none"> <li>no risk-related disclosure explicitly required</li> <li>governance only established at a high level and lacks specific accountability and responsibility</li> <li>does not address physical climate and transitional risks.</li> </ul>
<b>Building Adaptive &amp; Resilient Communities (BARC)</b>  ICLEI Canada	Voluntary, Milestone-based climate adaptation-focused program and framework  70 cities at various stages across Canada	<ul style="list-style-type: none"> <li>emphasizes risk identification and understanding, particularly when it comes to physical climate risks</li> <li>requires cities to strategically plan mitigation actions for risks</li> <li>includes elements of governance in the framework.</li> </ul>	<ul style="list-style-type: none"> <li>strong emphasis on physical risks</li> <li>transitional risks not well-addressed</li> <li>quantification of financial impacts of climate change as well as scenario analysis not explicit requirements of the framework.</li> </ul>

# City of Vancouver's 2018 Annual Financial Report

*"In April 2019, Vancouver became the first Canadian city to include disclosure guided by TCFD principles in its annual financial report. TCFD reporting mapped out the City's various public climate-risk policies and discussions and centralized them in one document. This will help us build stronger funding proposals, incorporate climate risk into decision-making across the organization, and bolster the business case for investment in Vancouver."*

- **Patrice Impey**, General Manager & Chief Financial Officer, Finance, Risk & Supply Chain Management, City of Vancouver

## TASK FORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) UNAUDITED

Table 1 – TCFD Recommended Disclosures - Continued

TCFC Recommended Disclosures		City of Vancouver Disclosure
<b>Strategy</b>		
Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	<a href="#">Climate Risk in Vancouver: 2019-2022 Capital Plan</a>
	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	<a href="#">Climate Adaptation in Vancouver: 2018 Budget and Five-Year Financial Plan</a>
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	<a href="#">Climate Risk in Vancouver</a>
<b>Risk Management</b>		
Disclose how the organization identifies, assesses, and manages climate-related risks.	a) Describe the organization's processes for identifying and assessing climate-related risks.	<a href="#">Climate Adaptation in Vancouver: 2019-2022 Capital Plan</a>
	b) Describe the organization's processes for managing climate-related risks.	<a href="#">Climate Risk in Vancouver</a>
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	<a href="#">Climate Adaptation in Vancouver</a>
<b>Metrics and Targets</b>		
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	<a href="#">Vancouver's Climate Metrics and Targets</a>
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	<a href="#">Vancouver's Climate Metrics and Targets</a>
	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	<a href="#">Vancouver's Climate Metrics and Targets</a>

# Climate Risk & Financial Statement Disclosures

# Climate-related Financial Impacts

- Uncertainties about climate-related risks and events may have implications for a city's cash flows, assets, liabilities, reserves, revenue streams and cost of capital. Examples include:
  - Impairment or damage due to climate-related events requiring write-down of assets
  - Recognition/measurement considerations related to investments in and upgrades of critical infrastructure
  - Increases in the significance and number of asset-retirement obligations if city-owned sites are contaminated as a result of increasing extreme weather
  - Changes in insurance liabilities / premiums due to increasing climate-related damage payouts
  - Increased cost of capital if credit rating agencies do not see a city building climate resilience into its long-term planning and operations
  - Increased provisions related to service disruption
  - Potential going concern implications of climate-related impacts

# Questions to ask under Public Sector Accounting Standards

*Climate-Related Issues: Questions to Ask Under Existing Public Sector GAAP and SORPs*

## A. [H1]Financial Statements: PSA Handbook

The following table sets out questions for preparers to consider when determining potential recognition, measurement and disclosure implications of climate-related issues. It should be noted that organization of the questions follows the order of the related standards in the PSA Handbook and does not necessarily reflect the sequence of how information should be collected and assessed.

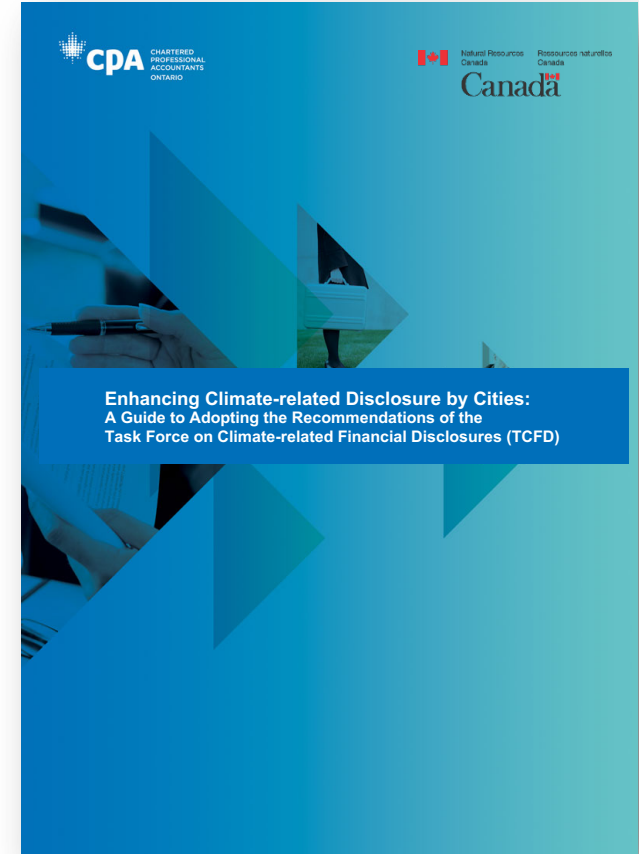
Paragraph # (s)	Section Name	Implications for?	Questions to consider
PS 1000.07	<i>Financial Statement Concepts</i>	Disclosure and possibly recognition	<p>This is part of an overall general assessment to be done after the financial statements have been substantially completed.</p> <ul style="list-style-type: none"> <li>Is there anything missing from the City's financial statements that is climate-related and is necessary for users to understand the City's financial position and results?</li> <li>Does the City have a process in place to remain informed about predicted climate impacts on their jurisdiction and how they might affect the information reported in their financial statements and note disclosures?</li> </ul>
<p><i>A government financial report should present information that is useful in evaluating the government's financial condition at the end of the accounting period and its financial performance during the accounting period. Government financial statements are a fundamental component of a government financial report.</i></p> <p>NOTE: Financial statements report financial position and financial results. Financial position is an aspect of a public sector entity's financial condition. Annual financial results are one aspect of a public sector entity's financial performance in the accounting period.</p> <p>[PSAB's SORP-4 defines "financial condition"]</p>			
PS 1000.20	<i>Financial Statement Concepts</i>	Disclosure	<p>This is part of an overall general assessment to be done after the financial statements have been substantially completed.</p> <ul style="list-style-type: none"> <li>More specifically than paragraph PS 1000.07, are climate-related financial disclosures required because of their potential effect on the government's ability to meet its short and long-term obligations, to deliver future services or affect its future tax requirements?</li> </ul> <p>See also SORP-1 and SORP-4 in Part B of this tool.</p>
<p><b>Users' Needs:</b></p> <p>.... information presented in the financial statements, when used with other information, is useful in gaining an understanding of and assessing:</p> <p>(a) a government's ability to meet its financial obligations, both short- and long-term;</p> <p>(b) a government's ability to maintain the level and quality of its services and to finance new programs;</p> <p>(c) future tax and other revenue requirements; .....</p>			



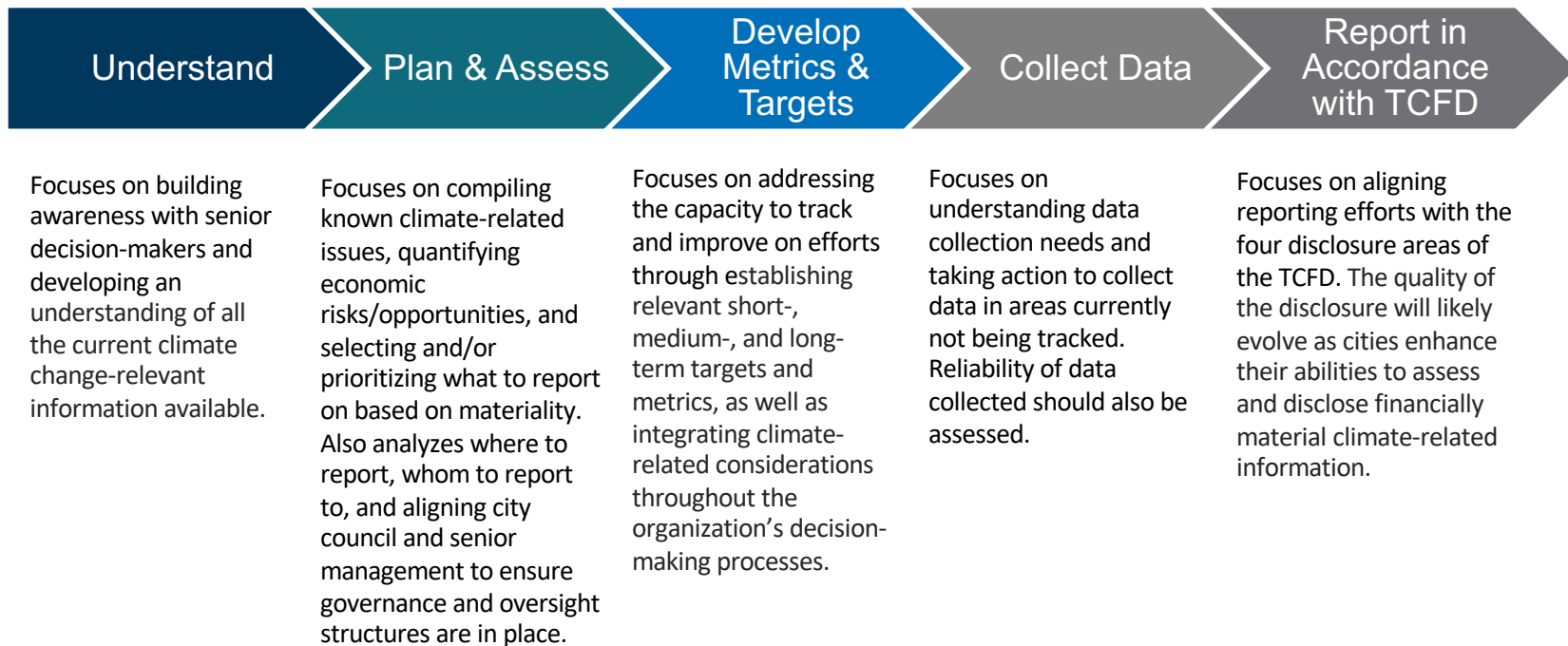
# Key Considerations for Cities

# TCFD Reference Guide for Cities

- Publicly-available Guidance document released by CPA Canada in **Spring 2020**
- Guidance may be used by cities to:
  - Determine what climate-related information is important for internal decision-making (budgeting and capital planning)
  - Evaluate making enhanced climate-related disclosures in financial reports
- Contents include Resource Toolkit for Cities



# Process Framework





# Thank you!

*Contact:*

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