Glossary for the Survey on Task force on climate-related financial disclosures (TCFD)

Dear participants

Climate Related Risk Reporting working party would like to reach out to you to get an update on the progress made on their climate-related financial disclosures journey.

The survey focuses on the four TCFD Climate Risk Reporting themes:

- Governance
- Strategy
- Risk Management
- Metrics and Targets

Our intention is to share the collated results of the survey with all the participants through a conference to help the industry to be more aligned and progress further.

Glossary

1. **Climate Biennial Exploratory Scenario (CBES):** is a forward-looking scenario analysis conducted by Bank of England to assess the potential risks and vulnerabilities of financial institutions and the financial system in relation to climate change. It involves exploring hypothetical climate-related scenarios to understand their impact on the financial sector.

2. **Greenhouse gas (GHG) emissions** are gases that trap heat in the Earth's atmosphere, contributing to the greenhouse effect and climate change. Common GHGs include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), and fluorinated gases. GHG emissions result from human activities such as burning fossil fuels, deforestation, and industrial processes.

3. **Liability risk:** relates to the potential legal and financial consequences an entity may face due to climate-related events or actions. This includes the risk of being held legally responsible for damages caused by climate change impacts, regulatory non-compliance, or inadequate disclosure of climate-related information.

4. **Link to PRA's Statement:** SS319 (bankofengland.co.uk)

5. **Litigation risk:** refers to the likelihood that an organisation may face legal actions or lawsuits related to climate change. This can include lawsuits from stakeholders, communities, or governments alleging damages, negligence, or non-compliance with climate-related regulations.

6. **Net zero plans:** outline an organisation's strategy to achieve a state where its greenhouse gas (GHG) emissions are balanced by removing an equivalent amount of GHGs from the atmosphere, resulting in a net-zero carbon footprint. This often involves a combination of emission reduction measures and carbon offsetting.

7. **Paris Agreement:** is an international treaty adopted in 2015 under the United Nations Framework Convention on Climate Change (UNFCCC). It aims to limit global warming to well below 2 degrees Celsius above pre-industrial levels, with efforts to limit it to 1.5 degrees Celsius. The agreement outlines commitments by participating countries to reduce greenhouse gas emissions, enhance adaptation measures, and provide financial support to developing nations.

8. **Physical risk:** refers to the potential negative impacts that climate-related events and conditions, such as extreme weather events, rising sea levels, and temperature changes, can have on businesses, assets, and infrastructure. It encompasses both acute events (e.g. hurricanes, floods) and chronic changes (e.g. gradual temperature increases).

9. **Scenario analysis:** is a method used to assess the potential impact of different future scenarios on an organisation. In the context of climate risk, scenario analysis involves exploring various likely future conditions, such as climate-related events and policy changes, to understand how they may affect an organisation's financial performance, strategy, and resilience.

10. **Scope 3 emissions:** are indirect greenhouse gas emissions that occur throughout an organisation's value chain but are not directly owned or controlled by the organisation. This includes emissions from the supply chain, transportation, product use, and disposal. Scope 3 emissions are a comprehensive measure of an organisation's total carbon footprint.

11. **Transition risk** refers to the financial risks associated with the transition to a low-carbon economy. This includes the potential impact of changes in policy, technology, market preferences, and societal attitudes that may affect the value of assets or lead to liabilities for businesses and investors.