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2021 Deloitte TCFD Report

DELOITTE REPORT FOLLOWING THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

MAKING AN IMPACT THAT MATTERS since 1845

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Letter from the Deloitte Global CEO

I am proud to introduce Deloitte's first report that follows the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Although the COVID-19 pandemic has had a major impact on many of us worldwide, the climate crisis remains one of the most important societal challenges of our time. As temperatures rise, we face a cascade of dire consequences—from increasingly catastrophic weather events to disrupted ecosystems to extreme social and economic shocks. To support a world where humanity can thrive, climate change must be a top priority on the corporate agenda. We know it already is for many of our key stakeholders (e.g., our people, Deloitte clients, investors, regulators).

So, we must seize the opportunity now for the public and private sectors to work together in building a better, more sustainable, future. As a large, global organization, Deloitte has the skills, knowledge, and influence to lead the way on this. We maintain a vital position in the financial markets' ecosystem and a public interest responsibility to actively participate in the battle against climate change. It's a role we enthusiastically embrace.

Deloitte is committed to being transparent with our stakeholders throughout this journey. That starts with reducing and reporting on our organization's own environmental footprint. Last year, Deloitte launched a strategic initiative, World*Climate*, which aims to deliver on our global ambition through four key commitments:

- **Achieving net-zero greenhouse gas emissions by 2030** through science-based targets, in-line with the Paris Agreement's 1.5 degrees Celsius scenario.
- **Align Deloitte internal policies and procedures with our climate ambitions.** We are embedding climate-smart considerations into decisions on office operations and real estate.
- **Engage Deloitte's 330,000 people** in making responsible climate choices so they can reduce their individual and household impacts on the environment.
- **Work with ecosystems to address climate change.** We are exploring opportunities to collaborate with Deloitte clients, alliance partners, NGOs, and industry groups to increase demand for responsible products and services, remove roadblocks that get in the way of change, and create innovative climate solutions.

Deloitte leaders around the world—myself included—are using our voices to advance the conversation on climate-related issues.

As a business, we know it is important to measure what matters. One of Deloitte's most recent and significant collaborations in this space has been on a project spearheaded by the World Economic Forum's International Business Council to identify a core set of ESG metrics curated from the work of recognized standard setters. These metrics explicitly include implementation of TCFD. Starting to report on these issues can build capacity and capability in a company, enhance transparency, and act as a lever for action.

This is why Deloitte strongly supports the move by the International Financial Reporting Standards Foundation (IFRSF) to establish global sustainability standards. We facilitated the work of the leading sustainability standard-setters on a prototype climate-related financial disclosure standard, which the IFRSF has confirmed is a potential basis for sustainability standards to be developed and issued by a future International Sustainability Standards Board.

If the last year has taught us anything, it's that change isn't just possible, it's imperative. But, it's up to us to use that knowledge to do better. So, as a global organization, Deloitte will continue to invest in innovative climate solutions, prioritize sustainability within our own operations, and bring others along on our climate journey.

Punit Renjen
Deloitte Global CEO

Introduction

This Deloitte Global report presents disclosure on the impacts of climate change across the Deloitte organization aligned to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Deloitte recognizes the TCFD recommendations as a useful framework for assessing and reporting on climate-related risks and opportunities. This is the first TCFD report issued by Deloitte and we anticipate we will build upon the information in future years as we deepen our understanding of and response to climate change.

At the heart of Deloitte are its 330,000 people living around the globe, the majority of whom belong to the millennial or Generation Z (Gen Z) demographic. The 2021 Deloitte Global Millennial Survey[1] shows that climate change is a top societal concern among millennials and Gen Zs, and they want organizations—governments, educational systems, and business— to work together to drive change on a broad scale. Deloitte's commitment to our people, and all stakeholders is to show the actions we are taking are in line with climate science and designed to mitigate and reverse the negative impacts of climate change. Doing so aligns with Deloitte's purpose to make an impact that matters.

Deloitte has a long history of reporting on its environmental impact through annual publishing of its Global Impact Report in accordance with the Global Reporting Initiative standards; reporting annually to CDP; and contributing to the creation of common metrics for measuring stakeholder capitalism, an initiative championed by the World Economic Forum's International Business Council. We see this first TCFD disclosure as building on our strong legacy of reporting and transparency.

TCFD draws attention to the financial impacts of climate change. Quantifying the potential financial impacts of climate change facilitates its comparability to other issues by translating its effects into a language that management at Deloitte and elsewhere has traditionally relied upon.

The TCFD was established in 2015 by Mark Carney, who was the Bank of England's governor and chair of the Financial Stability Board. The task force is chaired by Michael Bloomberg. It was created to develop recommendations for more effective climate-related financial disclosures to:

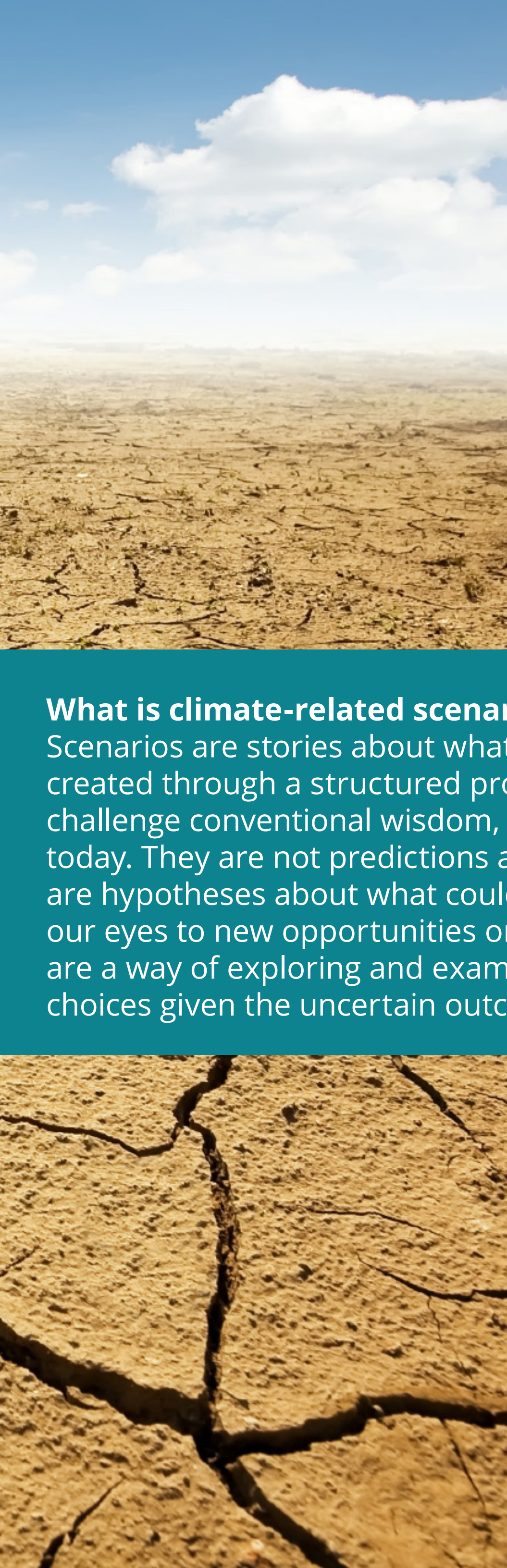
- Promote more informed investment, credit, and insurance underwriting decisions; and
- Enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

The TCFD recommendations are organized around four areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets. These areas are interlinked and are designed to function together to provide an effective climate change risk management framework.

Deloitte has both been involved in and expressed support for the task force with representatives serving on the task force. Eric Dugelay of Deloitte France (now retired) served as a member of the Task Force through early 2021 and has now been succeeded by Catherine Saire of Deloitte France. At the time the recommendations were first issued Deloitte Global's then-chair, David Cruickshank, and current CEO, Punit Renjen, signed statements of support for the recommendations.

This report covers each of the four areas of the TCFD, describing how Deloitte assesses climate-related risks and opportunities and embeds climate considerations in its governance, strategy, and risk management. It also includes metrics used to manage those risks and associated targets. The content addresses the TCFD recommendations from the perspective of Deloitte Global and the network of member firms. See the final page of this report for a more detailed description of the Deloitte structure.

[1] The Deloitte Global Millennial Survey 2021 *explored the views of more than 23,000 millennials and Gen Zs, from 45 countries to understand their perspectives on business, government, climate, and the pandemic, among other issues.*



Risks, opportunities, and scenario analysis

Deloitte Global conducted its first climate-related risk assessment and scenario analysis exercise in 2018 to help assess potential effects of climate change on Deloitte and develop capacity to address different climate futures. Insights and data were provided by Deloitte sustainability specialists, leaders of key industries, and global leaders of specific sectors. This initial assessment served as an important backdrop for formulating this report and, in the development of World*Climate*, Deloitte's strategy for addressing climate change. Prior to publication, key risks and opportunities and scenario choices were updated to reflect recent insights and developments.

Scenario choices
Central to the TCFD recommendations is assessing risks and opportunities across future time horizons and climate scenarios. Deloitte's analysis focused on two scenarios. It is primarily qualitative in approach and intentionally extreme to provide a sharp contrast between potential futures. These scenarios draw on the Representative Concentration Pathways (RCPs) set out by the Intergovernmental Panel on Climate Change (IPCC). The "aggressive mitigation" scenario aligns with the IPCC's RCP2.6 pathway and the "no climate action" scenario aligns with the RCP8.5 pathway.

What is climate-related scenario analysis?
Scenarios are stories about what the future may be like, created through a structured process to stretch thinking, challenge conventional wisdom, and drive better decisions today. They are not predictions about what will happen. They are hypotheses about what could happen, designed to open our eyes to new opportunities or hidden risks. These narratives are a way of exploring and examining impacts and strategic choices given the uncertain outcomes of climate change.

AGGRESSIVE MITIGATION
Aligns with the goals of the Paris Agreement and requires steep global annual emissions reductions, sustained for decades, to stay within a 1.5 degrees Celsius carbon budget

NO CLIMATE ACTION
Limited climate action leading to global warming of 4 degrees Celsius above preindustrial levels by 2100

Additional details on each of these scenarios are shown below.

AGGRESSIVE MITIGATION

Aligns with the goals of the Paris Agreement and requires steep global annual emissions reductions, sustained for decades, to stay within a 1.5 degrees Celsius carbon budget

Climate: Global warming is limited to less than 1.5 degrees Celsius above preindustrial levels and global emissions reach net-zero by 2050.

Societal approach to climate: Collaborative action drives rapid decarbonization. Awareness of the urgency of decarbonization is high, and there is broad global support and collaboration to reduce global emissions to net-zero by 2050, putting the world on track to limit global warming to 1.5 degrees Celsius above preindustrial levels. Policies are enacted across major economies to meet these requirements. Technological advances also help propel the world toward this outcome.

Economy: The world makes a gradual but continual shift away from valuing only economic growth toward a wider sense of well-being. Emissions growth is decoupled from economic growth.

Consequences: The most dangerous consequences of higher levels of warming have been avoided, although the effects of "locked-in" climate change continue to impose costs. The rapid transition to a low-carbon economy through technological advances and policy changes is disruptive; some businesses benefit significantly while others have their entire business models challenged. Businesses that can't or don't adapt, fail.

Deloitte's resilience to this scenario: The greatest risks and opportunities for Deloitte under this scenario are largely related to transition impacts. These include the following which are described in more detail in Table 1:

Risks
- **Products and services** – Revenue loss from clients who fail or contract as a result of the rapid transition
- **Products and services** – Revenue loss from not meeting client needs for transition services
- **Policy** - Increase in costs from carbon price exposure
- **Pensions and investment** - Loss in value of pension funds

Opportunities
- **Products and services** - Increase in revenue from serving clients in transition and growth in sustainability services and environmental, social, and governance (ESG) assurance
- **Reputation** - Increase in brand value, talent engagement and retention, and client loyalty
- **Policy** - Avoided travel costs
- **Resource efficiency and energy sources** - Reduced operational costs

Deloitte is well positioned to deal with this scenario. In a rapid transition, increased revenue from transition, sustainability and ESG assurance services will likely more than offset revenue losses from clients who cut back on professional services or who fail as a result of the rapid transition. To fully realize the opportunities under this scenario, investment may be needed to maintain competitive offerings in the transition space. The rapid transition may require creating new business alliances and hiring and/or training of practitioners to ensure sufficient capacity and capability of staff to fully capture available market opportunities. Deloitte's existing practices around hiring, a strong emphasis on training, and our own climate goals position us well to attract and retain talent under this scenario. Assuming Deloitte embraces the transition and is seen as an agent of change, it could see an increase in brand value, ability to attract and retain talent and client loyalty.

NO CLIMATE ACTION

Limited climate action leading to global warming of 4 degrees Celsius above preindustrial levels by 2100

Climate: Global warming of 4 degrees Celsius above preindustrial levels by 2100.

Societal approach to climate: Focused on protecting people from a changing climate, as opposed to reducing human-induced climate change.

Economy: The world continues to prioritize short-term economic growth, driven by the continued use of fossil fuels and energy-intensive activities and lifestyles. The toll of climate change puts unprecedented strain on economic growth.

Consequences: Little or no concerted mitigation action is taken and catastrophic consequences result. Changes in climate lead to increased frequency and severity of physical events including storms, floods, droughts, fires, heat waves, typhoons, and hurricanes. Whole systems are impacted, creating water and food scarcity, displacement of coastal populations, rapid biodiversity loss, and decreased business productivity. The physical effects of climate change also lead to increased conflict, social instability, resource competition, commodity price shocks, health issues, and food insecurity. Protectionist policies prevail and governments compete to access cheap and stable energy sources and other commodities. Adaptation measures are used to protect assets and vulnerable populations; however, the cost of deploying these measures becomes a heavy burden on organizations and the economy.

Deloitte's resilience to this scenario: The greatest risks and opportunities to Deloitte under this scenario come from the physical impacts of climate change and the societal instability. These include the following which are described in more detail in Table 1:

Risks

- **Physical** - Increased costs from property damage
- **Physical** - Productivity loss from local physical disruptions and travel disruptions
- **Physical** - Revenue loss from disruption to clients or clients becoming insolvent

Opportunities

- **Products and services** - Increase in revenues from clients dealing with physical risks

Under this scenario, the increasing intensity and frequency of severe weather events could have an impact on productivity and physical assets. Deloitte's business continuity plans will serve to mitigate disruption to client services caused by the physical impacts associated with climate change. Insurance also serves as a mitigation measure against potential financial losses to Deloitte offices. Both of these measures, however, are unlikely to completely negate the impacts. Under this scenario, insurance costs would likely increase and, in some cases, certain assets may become uninsurable.

The level of societal instability under this scenario could also have dramatic impacts which cannot be easily mitigated and could result in some Deloitte firms operating successfully while others struggle. Around the globe, Deloitte people could experience personal tragedies due to physical impacts or social upheaval. Revenue could become erratic as years with more physical or social disruptions are followed by more stable ones. It may be harder to recruit talent if Deloitte is continuing to work with industries or technologies that do not support a transition to low carbon or if the erratic nature of revenue results in frequent cycles of hiring and layoffs. Deloitte's resilience will be bolstered by our global presence and the broad range of industries served, but even with a diverse portfolio of locations and clients, it is highly unlikely that all impacts can be mitigated.

Deloitte services will also need to evolve to further support shifting client needs, such as business continuity and redesigned supply chains. These services will likely see increased revenue under this scenario.

Risks and opportunities

Table 1 summarizes what Deloitte currently believes to be the most significant climate-related risks and opportunities relevant to Deloitte's businesses with both scenarios – an imagined future that meets the goals of the Paris Agreement and an alternate future that falls significantly short of these goals. These risks and opportunities were identified and validated through surveys and interviews with Deloitte stakeholders and subject matter specialists. The impacts are not listed in order of significance, nor are they meant to be exhaustive. We assess the impact over short (one to three years), medium (four to eight years) and long terms (more than eight years). In most cases, the potential financial implications shown in the table are based on making broad assumptions and have significant estimation risk. They also relied on pre-COVID-19 pandemic base assumptions, which may prove to be erroneous post-pandemic. While they should not be seen as predictions, we think there is value in estimating ranges of costs under certain plausible projections to give an understanding of the order-of-magnitude of impacts. All risks and opportunities listed apply to both scenarios modelled, except for the "Resource efficiency and energy sources" opportunity, which applies to the aggressive mitigation scenario only. The time horizon for all the risks and opportunities described ranges from short to long term, except for "Pensions and investments" risk that applies to medium- and long-term horizons.

In disclosing the risks and opportunities in the table, many of the financial impacts are evaluated based on assumed ranges of causal events. As such, the construct of a strict materiality concept cannot be applied. As Deloitte continues to evolve its approach to quantifying climate-related risks and opportunities, and as quantification of such risks and opportunities matures, we anticipate our analysis of materiality will also evolve.

Table 1: Climate risks and opportunities

Risks and opportunities	Description and impacts	Potential financial Implications
Physical (acute and chronic physical risks)	Climate-related events could affect Deloitte's offices and data centers, and cause disruptions to the organization's workforce, suppliers, communities and clients—leading to direct and indirect costs, including losses in productivity or working days, increased costs for improving office resilience, and higher insurance premiums, among others. Some Deloitte offices are located in areas that could experience flooding from sea level rise or riverine flooding, leading to property loss or damage, increases in insurance premiums, or the need to temporarily or permanently relocate offices and personnel. Increasing temporary closures of offices may also result due to severe weather events, including hurricanes, typhoons, fires, and storm flooding. Systemwide infrastructure failures may also occur across regions due to these acute impacts affecting both Deloitte and clients. Severe weather events could impact Deloitte people by causing personal property loss, power interruptions or other physical impacts which prevent or limit work. Exposure to high temperatures and extreme weather events—such as floods, hurricanes, fires, typhoons, and heat waves—could also increase health risks to Deloitte people, including heat-induced illnesses, respiratory issues, physical injuries, and infectious diseases. Theses physical and health impacts could, in turn, impact well-being by leading to trauma or increased stress. Both the severe weather impacts and the health impacts could reduce employee productivity, thereby affecting revenue.	**Risks** Expenses from property damage Because Deloitte leases most offices, the direct financial impact of severe weather events is limited and certain losses to property may be covered by insurance. However, there may be indirect costs as lessors look to pass through their higher insurance premiums to Deloitte firms as lessee. For Deloitte owned real estate, there are some risks which may not be insured (e.g., high hazard wind/flood zones) or insured to a lesser extent as insurers themselves attempt to mitigate their own capital at risk. For example, a direct hit by a hurricane to an owned facility requiring full replacement could result in a combination of reduced insurance limits and self-insured costs in excess of US$10 million on subsequent policy renewals. Productivity loss from local disruptions We estimate productivity losses from disruption to Deloitte's workforce from a single extreme weather event impacting a large metropolitan area where a Deloitte firm has a significant presence to potentially reduce revenue by US$1.5 million to US$3 million. This range is based on the assumption that 500 Deloitte practitioners are unable to work for one week. Disruptions impacting more people or lasting longer will increase losses. Productivity loss and expenses from travel disruptions Under a simplified assumption of all Deloitte client service practitioners losing one day of billable time annually due to travel disruptions, the resulting annual loss in revenue would be in the range of $250 million to $350 million. With Deloitte's continued efforts to reduce travel to meet our travel emission reduction goals, and with the shift to increased virtual work as a result of the pandemic, these risks are somewhat mitigated.

Table 1: Climate risks and opportunities

Risks and opportunities	Description and impacts	Potential financial Implications
Physical (acute and chronic physical risks) *(cont.)*	The supply chain disruptions that could affect Deloitte the most are those associated with flight delays and cancellations once travel restrictions are lifted in a post-pandemic environment. These could affect productivity and increase expenses from accommodations and transport. Clients may also move locations as a result of physical impacts, which may also result in Deloitte closing or reducing staffing in certain offices and expanding in others. As these types of events and impacts become better understood, real estate strategies likely will increasingly consider climate-related risks. In addition to the direct impacts of physical risk, Deloitte also faces indirect risks when clients' operations are impacted. Climate physical risks experienced by clients—such as water stress, sea level rise, fires, extreme temperatures, and weather events—could result in supply chain disruptions, physical facility closures, financial losses, and in some cases, cessation of business. In turn, this may result in clients canceling, postponing, or reducing Deloitte engagements. When physical impacts happen, business continuity is essential to avoid losses. Deloitte mitigation measures include a robust approach to business continuity as described later in this report.	Revenue loss from disruption to clients If clients eliminate services from Deloitte by 0.5% to 2% as a result of physical effects, the loss of revenue would range from approximately US$250 million to US$1 billion per year based on historical revenue. The location and frequency of severe weather events are not predictable. However, the trend—particularly under the no climate action scenario—is that these physical impacts are expected to increase in both severity and frequency. Other losses Under the no climate action scenario, the humanitarian costs will be significant, including displacement, conflict, famines, and death. It is not possible nor appropriate to translate suffering or loss of life into financial terms, but the immensity and tragedy of circumstances resulting under the no climate action scenario to humanity should be acknowledged.
Products and services	Deloitte clients include companies that are subject to policy, market, and technology changes under the transition to low carbon. Some companies may not have the ability to transition or adapt and, as such, could incur financial losses leading them to cancel or curtail Deloitte services. We believe this potential loss of revenue will be largely offset by the growth in services related to business transformation, policy changes, supply chain reengineering, accessing capital, and other service areas that help Deloitte clients transition their business strategies. Clients are increasingly looking to understand climate-related risks and opportunities and for assistance on their decarbonization journeys. With aggressive mitigation, challenges faced by clients may also result in growth in services related to mergers and acquisitions and corporate restructuring. Under no climate action, certain client services that relate to coping with the physical impacts such as supply chain strategies, business continuity planning, and insurance could see growth in the marketplace.	**Risks** Revenue loss from clients Deloitte serves clients globally across all industries. Many clients, but not all, have begun developing plans to transition their business operations for a low-carbon future. Most affected will be those that are in carbon intensive industries where the transition timeline could take many years, possibly decades, and will require significant capital investment. If these companies fail to adapt effectively, their revenues could also be materially impacted as either regulation increases or downstream customers shift towards more sustainable providers. The energy, resources and industrial (ER&I) sector is the most likely to be impacted, particularly under the aggressive mitigation scenario. In FY2020, this sector accounted for US$7.9 billion, or 17% of aggregate Deloitte firm revenue. This also includes work with renewable energy companies, which is likely to increase. If Deloitte client revenue in the ER&I sector were to decline by 10-20%, the loss of revenue would range from approximately US$800 million to US$1.6 billion per year. We are actively working to help Deloitte clients effectively adopt new carbon abatement and reduction technologies, institute sustainable operating practices, and transform their business models for success in a low-carbon future.

Table 1: Climate risks and opportunities

Risks and opportunities	Description and impacts	Potential financial Implications
Products and services *(cont.)*	ESG and climate-related risk disclosures are undergoing major global shifts, driven by regulatory and market efforts by ESG standard setters to harmonize the disclosure standards. Many companies are increasing their transition targets, changing their asset allocations toward green energy, decarbonizing their operations and value chains, and investing in renewable energy and carbon-removal technologies that are essential for mitigating greenhouse gas emissions and meeting the goals of the Paris Agreement. This helps grow Deloitte climate-related services and elevate the importance of supporting clients on their net-zero transformation and climate risk and opportunity management. The increased emphasis on ESG disclosures will likely lead to an increase in assurance services related to these non-financial metrics. While we acknowledge the opportunity to further expand these services, Deloitte is also exposed to the risk of not growing its own services appropriately or fast enough to meet clients' needs, allowing existing or new competitors to take greater market share.	**Opportunities** Revenue growth from services Revenue from climate-related client services are anticipated to grow with the rate of growth accelerating or slowing depending on the scenarios. This is a rapidly evolving area and not all services may be directly related to climate-led offerings but instead may be embedded in traditional services and therefore harder to identify as revenue growth arising from climate change. For these reasons we have chosen to refrain from estimating the financial value of these services at this time.
Reputation	Deloitte could face reputational risks related to climate change from a variety of stakeholders. Internal or external activists could target Deloitte for the organization's response to climate change focused on the work or perceived work done with clients; advocacy done either directly or indirectly through trade associations; investments held in investment portfolios; or Deloitte's progress in addressing its own emissions. Certain clients could also choose to limit or not do business with Deloitte if they perceive us as not adequately addressing climate change within our own operations. Brand risk could also arise from being associated with companies who are themselves not being seen to take appropriate climate action or who are not making disclosures required by regulation and professional standards around climate. The impacts of these reputational risks could include increased costs to attract talent or the inability to do so; increased turnover of staff; increased security costs needed to protect Deloitte people; and increased management attention required to deal with activism incidents. All of these risks could lead to either increased expenses and/or decreased revenue. Deloitte's greenhouse gas emission reduction goals and strong commitments through our global climate change strategy, World*Climate*, support positive brand recognition by clients, talent, and other key stakeholders. Deloitte's climate commitments may also make the organization more attractive as an employer, increasing Deloitte's ability to recruit and maintain a skilled workforce. Deloitte's travel emission-reduction goals will potentially increase productivity and enable Deloitte to access a larger talent pool with more flexible travel requirements.	**Risks** Potential increase in talent turnover, loss of client services, loss of brand value Every 1% increase in talent turnover is estimated to cost between US$100 million and US$300 million. Loss of revenue due to a fall in reputation and loss of investor confidence is difficult to gauge; however, a 1% drop in annual revenue equates to US$480 million, based on historical data. A one-point loss in Deloitte's Brand Strength Index is estimated to drop Deloitte's brand value by US$350 million to US$450 million out of an estimated total brand value of US$26.6 billion.[2] **Opportunities** Brand recognition, talent engagement and retention, client loyalty Similarly, a 1% reduction in talent turnover would result in cost avoidance of between US$100 million and US$300 million and a 1% increase in annual revenue equates to US$480 million based on historic revenues.

[2] Based on information from Brand Finance. Brand Strength Index is a composite score (1-100) that measures the strength of a brand in terms of ability to drive business value. It influences the royalty rate, forecast growth, and discount rate used in Brand Finance's valuation. Values shown are from the 2021 Brand Strength Index based on data from calendar year 2020.

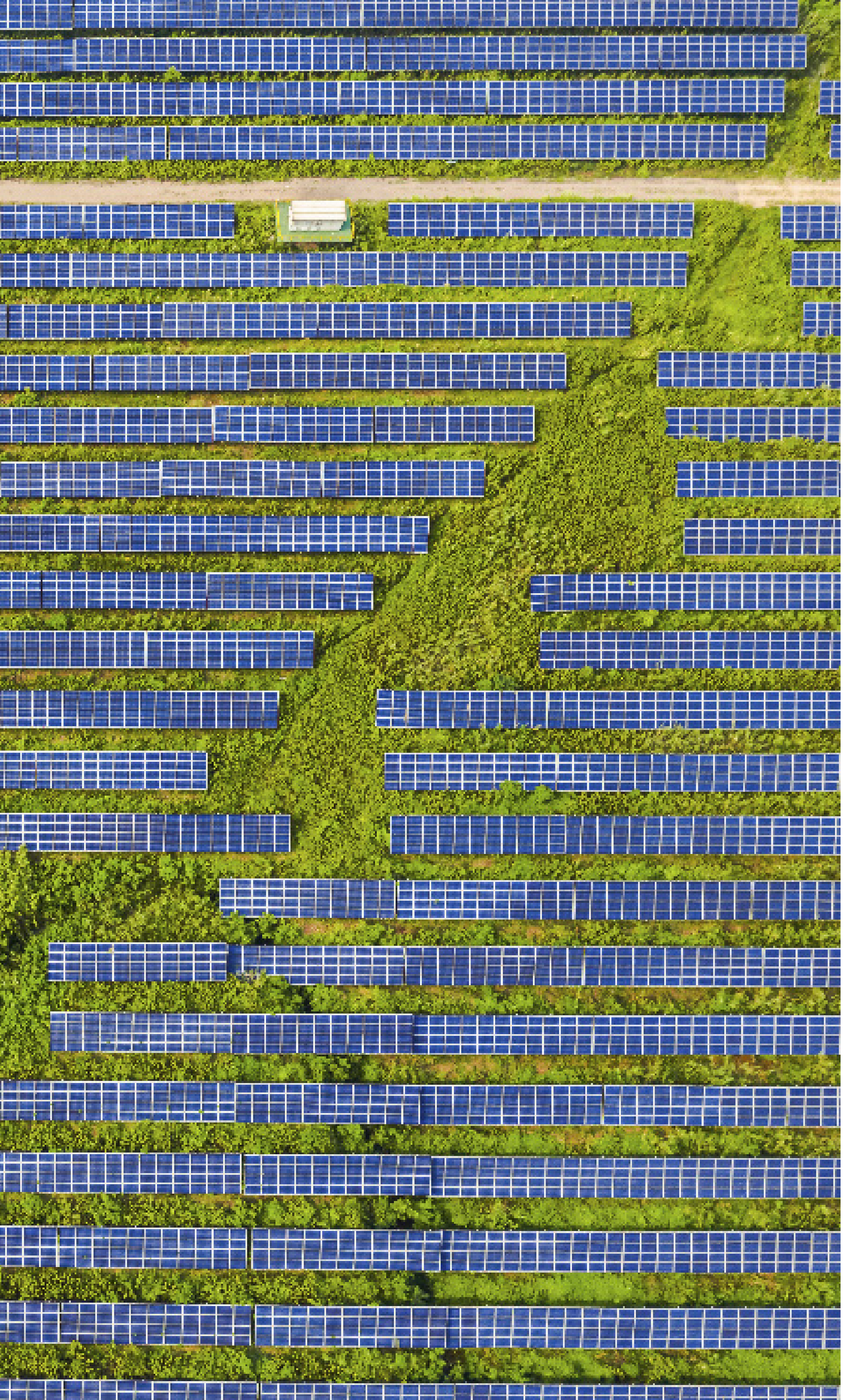
Risks and opportunities
Table 1: Climate risks and opportunities

Risks and opportunities	Description and impacts	Potential financial Implications
Pensions and investments	Deloitte firms hold a variety of pension assets in investment funds and offer retirement investment programs that include a line-up of available options (e.g., a 401(k) plan in the US) for the benefit of their people. Deloitte firms' pension fund holdings could be in sectors subject to increasing policy, market, and technology changes. As many companies transition to low carbon, they may lose value due to stranded assets or business model impacts. Pension fund holdings could lose value from exposure to underappreciated and/or unhedged risks from the physical effects of climate change or from activism risks. In general, pension funds and retirement programs are regulated at the country level and managed by individual firms, therefore, a combined view is not readily available. In some countries, there has been a growing emphasis on ensuring that ESG factors, among other considerations, are thoughtfully integrated into the investment decision-making process and aligned with Deloitte priorities. To date, no aggregation of exposure to climate change risks in pension funds across all geographies has been undertaken.	**Risks** Loss of value of Deloitte firms' pension funds Not quantified at this time. In some jurisdictions, there is a move toward occupational pension schemes to adopt the TCFD recommendations and disclose against them, which may help to quantify these risks in the future.
Policy	Implementation of external carbon-pricing policies—such as taxes on aviation, energy, or fuel suppliers to drive the low-carbon transition or elimination of fuel subsidies—could increase Deloitte's expenses. Elimination of fuel subsidies could similarly increase expenses. These pricing mandates could affect Deloitte directly or indirectly if the costs are passed through by vendors. Prior to the COVID-19 crisis, business travel was a significant and consistent source of greenhouse gas emissions for Deloitte. The cost of flights could increase through carbon taxes on airline emissions or aviation fuels. These increased costs could further incentivize Deloitte to deliver on its travel emission reduction goals, consider a more localized business model, and expand the use of videoconferencing—all of which could mitigate the effect. Note that travel reductions may not occur uniformly across all businesses as some functions, such as audit, may require more on-site presence than others to achieve expected standards of quality. Energy costs to Deloitte could also increase if suppliers facing carbon pricing regulations, particularly utility providers, pass through the financial impacts to Deloitte. The magnitude of this risk is considered low because, currently, electricity costs are less than 5% of operating costs.	**Risks** Increased costs from carbon price exposure Deloitte's potential increase in air travel costs from carbon price exposure could be in the range of US$20 million to US$40 million in 2030 under an aggressive mitigation scenario[3]. These are the costs associated with non-client service travel and are based on pre-pandemic levels of travel. We estimate approximately half of these costs to be mitigated if Deloitte meets its 2030 travel emission reduction targets. **Opportunities** Avoided travel costs Meeting our travel emission reduction targets by reducing travel and increasing use of videoconferencing technologies could reduce Deloitte travel costs by US$500 million to US$800 million in 2030 (assuming pre-pandemic levels of travel), in addition to reducing costs to clients, decreasing spend on carbon offsets, and reducing potential productivity losses from flight delays or cancellations.

[3] *Based on projected carbon prices from International Energy Agency World Energy Outlook 2020*

Table 1: Climate risks and opportunities

Risks and opportunities	Description and impacts	Potential financial Implications
Resource efficiency and energy sources	Most Deloitte offices are leased rather than owned. As leases turn over, Deloitte has the opportunity to choose properties that are more efficient, thereby reducing energy consumption in the medium to long term. Improvements in battery storage, reduction in the cost per unit of solar panels, and other technology innovations are expected to continue to drive down the cost of renewable energy. The marketplace for renewable energy is also growing, and in many locations it is becoming less costly while benefiting from more flexible regulations. By tapping into the opportunity to select more sustainable offices or renewable sources of power, Deloitte could benefit from reduced operational costs through energy efficiency, lower emissions, and the creation of reputational benefits around sustainable and smart buildings. Deloitte also has the opportunity to reduce its overall real estate footprint as post-pandemic return-to-work scenarios are developed and tested, which could also change the overall portfolio efficiency depending on facility leases which are terminated or not renewed.	**Opportunities** Reduced operational costs If energy consumption in FY2030 could be reduced by 35% from FY2019 levels—thereby reaching the benchmark level of efficiency recommended by the UK Green Building Council for alignment with the Paris Agreement—estimated savings could be in the range of US$20 million to US$25 million.



Taking action

Deloitte climate change strategy

Deloitte's climate change strategy is founded on two complementary pillars: Deloitte's actions to address climate change across its value chain, and the services provided to clients.

Deloitte Global CEO Punit Renjen announced World*Climate*, Deloitte's approach to climate change, in September 2020. World*Climate* has as its foundation aligned greenhouse gas emissions reductions consistent with a 1.5 degrees Celsius pathway, validated by the Science Based Targets initiative. These goals are currently leading in the marketplace which supports Deloitte's brand and reputation. As described in the previous table, by emphasizing travel reduction and renewable energy, Deloitte can mitigate impacts under both identified scenarios. More importantly, as described in the sidebar, World*Climate* seeks to address Deloitte's operations, empower all Deloitte people to be agents of change, and create collaborations that will directly address climate change.

Serving Deloitte clients with insights and experience

Deloitte's purpose is to make an impact that matters. One way we do so is through serving Deloitte clients with distinction. Deloitte recognizes climate change will require large-scale transformation across industries. To help clients navigate these changes Deloitte offers clients integrated solutions to address climate change considering opportunity, risk and value creation. Deep expertise in climate risk identification and mitigation, carbon emissions inventories, and decarbonization strategies enhance delivery of business transformation solutions involving strategy, innovation, data analytics, and supply chain reengineering. Assurance of climate-impact reporting and metrics also advances marketplace trust in companies' claims regarding climate change action. Consideration of climate change within the context of overall client challenges supports delivery of impactful and resilient outcomes. Helping clients plan for their future, regardless of specific services offered, means helping them plan and address climate change. More about how Deloitte works with clients to help them transition can be found here.

Business continuity and crisis response

One of the climate risks for Deloitte identified above is the risk of physical impacts from severe weather events to our people and business operations. A key mitigation measure for Deloitte to address the disruptions caused by hurricanes, typhoons, floods, fires, and other physical impacts is business continuity planning, which is a key component of our Global Security Policy and Standards. The Deloitte Global Security Office (GSO) works with Deloitte firms worldwide to formulate and implement effective business-continuity programs and to help keep Deloitte people safe, particularly during times of emergency.

The GSO's regional security managers help enhance Deloitte's security and crisis-response capabilities through on-site assessments, meetings with Deloitte firm managing partners, and through coordination with a Global Security Council made up of security officers from each Deloitte firm. Examples of business-continuity programs include our global emergency communications system, used to account for the well-being of Deloitte people and offer critical guidance when emergencies strike; a global travel tracker, which quickly accounts for the safety of traveling professionals; and 24-hour emergency medical and security resources that can be deployed in the event of severe weather events, fires, and other acute physical impacts expected to increase with climate change. The GSO team monitors world events for potential impact to Deloitte people and business operations and provides direct support to Deloitte firms during actual crisis events.

World*Climate* commitments

NET-ZERO

We commit to achieving net-zero greenhouse gas emissions by 2030 for our operations, ahead of the 2050 timeframe set by the Paris Agreement.

- Reducing our business travel emissions 50% per FTE by FY2030 from FY2019 levels;
- Sourcing 100% renewable energy for our buildings by FY2030;
- Converting 100% of our fleet to hybrid and electric vehicles by FY2030;
- Engaging with our major suppliers with the goal of having two-thirds (by emissions) adopt science-based targets; and
- Investing in meaningful market solutions for emissions we cannot eliminate.

EMBED SUSTAINABILITY

We recognize we must align our climate policies, practices, and actions across our organization by:

- Designating a senior leader in each geography to be responsible for delivering the World*Climate* strategy;
- Prioritizing discussion of climate change on executive agendas; and
- Embedding climate-smart considerations into decisions on office operations and real estate.

EMPOWER INDIVIDUALS

By engaging and educating Deloitte people on climate change impacts—decisions about what they consume, use, and buy—we will enable our people to make positive climate choices at home and at work, and amplify these through their personal networks. Starting in 2021, all Deloitte people will be able to complete a climate change learning module to help them better understand climate change, Deloitte's goals, and how they themselves can make responsible climate choices. This learning will be augmented with other opportunities to engage on the subject, including through livestream events, commitments on social media, activation videos, and a climate hub website and learning channel that connect them to resources on specific topics.

ECOSYSTEM BOLD PLAYS

We will collaborate with Deloitte clients, alliance partners, NGOs, industry groups, suppliers, and others to address climate change and work on initiatives where, collectively, we can accomplish significant change.

Deloitte's emissions-reduction targets have been approved by the Science Based Targets initiative as consistent with levels required to meet the goals of the Paris Agreement (1.5 degrees Celsius trajectory). Deloitte's target for engaging with its major suppliers meets the Science Based Target initiative's criteria for ambitious value chain goals, meaning it is in line with current best practice. Information on the target baseline and current performance against these goals can be found in the Performance metrics section of the Deloitte Global Impact Report.

Governance

Oversight and management of climate-related risks and opportunities is conducted at two levels within Deloitte—at Deloitte Global and at the member firm level.

The Deloitte Global Deputy CEO and Chief People and Purpose Officer ("Deputy CEO") has executive accountability for Deloitte's internal global climate strategy. The Deputy CEO reports to the Deloitte Global CEO and is a member of the Deloitte Global Executive. The Deloitte Global Internal Sustainability Leader ("IS Leader") is responsible for aggregating greenhouse gas emissions as reported from across the Deloitte organization and reporting that information to stakeholders as well as preparing summaries of climate-related risks and opportunities. The IS Leader reports to the Deputy CEO.

The Deputy CEO and the IS Leader report regularly to the Deloitte Global Executive and the Deloitte Global Board on climate-related matters.

To align actions at a member firm level with those of Deloitte Global and share best practices on ESG matters, the Deputy CEO leads a World*Impact* Council (WIC). The Deloitte Global Chair and the Deloitte Global CEO chair the WIC meetings which occur quarterly, and the topic of climate change is regularly on the agenda of the WIC. WIC membership is drawn from the Deloitte Global Board, the Deloitte Global Executive and other senior Deloitte leaders, including member firm Purpose leaders. The Deloitte Global IS Leader leads a WIC sub-group focused on World*Climate*, comprised of member firm internal sustainability leaders.

The adoption of Deloitte's greenhouse gas emissions-reduction goals was formulated by the WIC and agreed to by the Deloitte Global Executive and the Deloitte Global Board.

The Deloitte Global CEO plays an important role in driving climate change action both within Deloitte and beyond. In addition to his Deloitte Global role in oversight of climate matters as described above, he also is a member of the Alliance of CEO Climate Leaders convened through the World Economic Forum (WEF) and, for example, was a signatory to the WEF open letter on climate policy.

The Deloitte Global Executive and Deloitte Global Board also set the strategic direction to focus services on addressing the needs of clients in the face of climate change and monitor development and outcomes. In a newly created role, the Deloitte Global Environmental, Social, and Governance Marketplace Leader works with global businesses and member firm leaders to help facilitate client growth plans and investments globally.

Each Deloitte member firm generally has additional personnel assigned to manage internal sustainability matters, including monitoring emissions and supporting action. The reporting structure for these roles vary depending on factors such as the size of the member firm, but typically includes reporting to a senior leader in the member firm.

The Deloitte Global Executive and Deloitte Global Board review Deloitte's annual ESG reporting. Both the Risk and Ethics Committee and the Finance and Audit Committee of the Deloitte Global Board have reviewed and discussed the content of this report.

The Risk and Ethics Committee of the Deloitte Global Board is also tasked with oversight of Deloitte Global's risk management activities. As part of Deloitte Global's Enterprise Risk Framework (ERF), climate change was identified as an emerging risk in FY2020 and continues to be monitored actively. See the subsequent section for additional details on risk management.

Deloitte acknowledges that the world's understanding of climate change and its impacts continues to evolve. We anticipate that the governance and management practices at Deloitte may similarly also change as the potential climate impacts on our strategy and operations become more clearly identified and understood.

Risk management

Deloitte has a robust process for identifying, assessing, managing, and monitoring risks, both at the Deloitte Global level and at the member firm level through their respective Enterprise Risk Frameworks (ERFs).

The global ERF sets out the Deloitte Global Executive's assessment of the priority risks facing Deloitte—specifically, those that could impact the ability of Deloitte to meet its strategy and public interest obligations, as well as those that could impact the reputation of the organization. The member firm frameworks are managed in coordination with the Deloitte Global ERF.

There is ongoing and frequent dialogue between the Deloitte Global ERF team, which facilitates the operation of the ERF, the member firm risk-owners and other Deloitte Global teams to ensure early identification and escalation of any matters requiring consideration by the risk owner or the Deloitte Global Chief Risk Officer (CRO). This is complemented by a regular cadence of meetings between the Deloitte Global CRO and each risk owner at which the exposure to each risk is assessed. Emerging issues also are discussed, and any necessary mitigation actions are agreed upon.

The Deloitte Global CRO reports on Deloitte's priority risks on a regular cadence to the Deloitte Global Executive, enabling discussion of risk exposures and mitigation actions. Oversight of risks is also a key responsibility of the Global Board and priority risks are regularly reviewed by the Risk and Ethics Committee of the Deloitte Global Board.

In addition to assessing priority risks, the Deloitte Global ERF process identifies emerging risks. In the last two years, climate change has been identified as an emerging risk. As such, it has been assigned an executive sponsor (the Deputy CEO). This means the trending of the climate-related risks and opportunities identified in this report will be regularly monitored by the Deloitte Global Executive and the Risk and Ethics Committee to ensure the adequacy of mitigating actions. As climate change has been considered an emerging risk over the last two years, additional focus will be placed on how this risk impacts Deloitte.

Metrics and targets

Risk metrics
Deloitte annually calculates and reports a set of Performance metrics, including environmental indicators such as greenhouse gas emissions (by source, greenhouse gas scope, and intensity), energy consumption, percentage of renewable energy, and material usage.

While these metrics provide an overall perspective on how Deloitte is doing on its own emission-performance goals, other measures are also monitored and discussed in assessing climate related risks and opportunities, including the following:

- Any severe weather event or other physical event impacting the safety of Deloitte people and/or materially reducing the ability to deliver client service would be reported to senior leadership in the local geography;
- The demographic breakdown of Deloitte people and the sentiment of millennials and Gen Zs regarding climate change, which provides insight on reputational and activism risk—in recent years, the Deloitte Millennial Survey has shown that climate change continues to be the primary societal concern for both millennials and Gen Zs;
- The World Economic Forum's Global Risks Report and the number of climate-related risks in the top-10 risks by likelihood and impact;
- Regulatory changes and country legislation, including those related to required actions and country emissions goals;
- Investor, regulator, and NGO activism, publications, and reports;
- Changes in revenue generated from sustainability services;
- Changes in market pricing and availability for offsets and renewable energy credits; and
- The frequency of Deloitte client inquiries regarding Deloitte actions.

Deloitte's greenhouse gas emissions profile
Deloitte's greenhouse gas inventory is included in the Deloitte Global Impact Report and can be found in detail in the Performance metrics section of the report. Reported emissions include scopes 1, 2 and 3. The table in that report also shows Deloitte's performance in pursuit of science-based greenhouse gas reduction goals. The inventory was prepared according to the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and the Corporate Value Chain (scope 3) Accounting and Reporting Standard created by the World Resources Institute and the World Business Council for Sustainable Development, with emissions accounted for on the basis of operational control. More detailed information on the reporting methodology can be found in the Basis of reporting of the Global Impact Report. Starting in FY2019, reporting includes an estimate of emissions from all purchased goods and services. These supply chain emissions are difficult to quantify, and the estimation methodology used has large uncertainties. Deloitte is committed to improving the accuracy of the data sources and calculation methodology and continuing to recognize our supply chain as one of the key components of our greenhouse gas footprint.

We also recognize that inventory methodologies and standards continue to evolve and may change future greenhouse gas reporting processes or may result in recalculation of some metrics for year-over-year comparability.

The path forward

This is the inaugural TCFD report for Deloitte and regular updates are anticipated. As is often the case with inaugural reports, much of the value is in the reporting process itself. Identifying risks and opportunities and translating those into financial metrics has allowed deeper conversations with a wider group of stakeholders. The focus on the estimated financial metrics has also served to translate greenhouse gas emissions numbers and climate scenarios, which are generally under the purview of a small set of sustainability professionals within the organization, for a larger business audience. Bringing the compilation of risks to the attention of senior leaders with a structured approach also serves to focus attention on the need for climate action. For these reasons, we see continued value in the TCFD framework for climate change reporting and encourage others to use it, as well.

This report was prepared during the COVID-19 pandemic. Many of the underlying assumptions in the financial estimates are based on pre-pandemic business practices. We recognize that the pandemic is likely to permanently change some of the ways in which Deloitte and Deloitte clients operate, but it is too early to have sufficient insight into the long-term business impacts to use them as the basis for estimations. Using pre-pandemic levels, nevertheless, gives insight into the risks and opportunities of returning to pre-pandemic, business-as-usual practices.

During this past year, the pandemic has also illustrated to many how humanity's impact on nature can be reduced with changes in behavior in a very short period of time. We hope that we and others can carry forth the environmental insights and momentum unexpectedly revealed by the pandemic.