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TCFD: TASK FORCE ON CLIMATE RELATED DISCLOSURES

ALL YOU NEED TO KNOW

Executive summary

The TCFD recommendations are gaining traction among investors as governments and companies grapple with the message of urgency from last year's Intergovernmental Panel on Climate Change (IPCC)'s 1.5°C report.

Investors are asking more questions about companies' climate change governance, strategy, risk management, and metrics and targets. Takeup of the TCFD will lead to more (comparable) and better data, allowing better assessment, management, and pricing of climate-related risks. This short briefing paper will help you understand what the TCFD recommendations are, their benefits, and how you can prepare to respond to questions from investors and other stakeholders.

What exactly is TCFD?

Task Force for Climate-Related Financial Disclosures (TCFD): an industry-led body with representatives from large banks, insurance companies, asset managers, pension funds, large non-financial companies, accounting and consulting firms, and credit rating agencies. As such, it includes data users, data preparers, and other experts.

Financial Stability Board (FSB): set up by the G20 in 2009 to monitor and promote international financial stability by coordinating national financial authorities and international standard-setting bodies.

The TCFD was convened by the FSB to help **identify the information that investors, lenders, and insurance underwriters would need to appropriately assess and price climate-related**

Who is already supporting TCFD?

As of June, 785 companies have committed to support TCFD, of thosek 411 are non-financial. The World Business Council for Sustainable Development (WBCSD) has set up working groups to implement TCFD reporting in the oil & gas and mining & metals industries. 10 Companies, including Iberdrola, M&S, Royal DSM, and WPP have signed a commitment to implement the recommendations by 2020. A total of 21 companies have committed to implement TCFD through the Climate Disclosure Standards Board within 3 years of signing. According to the Carbon Trust, 67% of UK corporates will partially align their 2019 disclosures to TCFD, while 23% are expected to fully report in line with TCFD.

opportunities and risks. It develops recommendations for voluntary climate-related financial disclosures, aiming to make such disclosures consistent, comparable, reliable, clear, and efficient. The TCFD's recommendations were published in June 2017, after an 18-month consultation involving a wide variety of business and financial leaders.

The recommendations are structured around four core elements:

1. **Governance** of climate-related risks and opportunities
2. **Strategy** and actual or potential impacts of climate-related risks and opportunities on business, strategy and financial planning
3. **Risk management** including processes to identify, assess and manage climate-related risks
4. **Metrics and targets** used to assess and manage climate-related risks and opportunities.

What is TCFD's theory of change?

The main theory of change behind the TCFD is that better access to data will lead to **better assessment, management, and pricing of climate-related risks**. Companies can better measure and evaluate both their own risks and those of their suppliers and competitors. Widespread adoption of the TCFD's recommendations would ensure routine consideration of climate change effects in business and investment decisions. Companies adopting the recommendations would **better demonstrate foresight and responsibility in their consideration of climate issues.** In the long term, TCFD is expected to drive integration in reporting as non-financial data is required to be disclosed alongside financials in annual disclosures.

Why does TCFD matter?

After the IPCC's call to action and worldwide climate protests, governments and companies are increasingly considering a range of options to reduce Greenhouse Gas (GHG) emissions. Disruptive changes across regions and economic sectors could ensue in the near term. As climate-related risks dominate the World Economic Forum (WEF) Global Risks Report top 10, investors are at risk from not accurately factoring in climate-related impacts into present valuations, according to the 2019 TCFD status report. In consequence, **investors will need better information** on how companies are preparing, or have prepared, for a lower-carbon economy. **Those companies that provide transparent information on their preparedness "may have a competitive advantage over others".**

Increasing pressure to report against TCFD requirements is expected. The world's largest responsible investment organisation, the **UN Principles for Responsible Investment** (UNPRI), are making reporting against strategy and governance indicators aligned with TCFD mandatory from 2020 onwards for its ~2,500 signatories with over $80 trillion Assets Under Management (AUM). **Over 500 investors** are already reporting against TCFD, of which most are based in the UK or US.

Climate Action 100+, an initiative of over 340 investors with nearly $34 trillion AUM, has committed to engage the world's largest GHG emitters to implement the TCFD recommendations to strengthen their climate-related disclosures. The Network for Greening the Financial System, comprised of **36 central banks and supervisors** from five continents, last April recommended "all companies issuing public debt or equity as well as financial sector institutions to disclose in line with the TCFD recommendations". The London, Malaysia, Hong Kong, Australian, and Nasdaq **stock exchanges** have become TCFD supporters, recommending listed companies to disclose against (part of) the TCFD recommendations. To facilitate company reporting, **CDP** has aligned its disclosure platform to TCFD.

At governmental level, the 2019 TCFD status report finds five countries actively support TCFD, including the **UK**, **France** and **Canada**, and financial regulators from a larger number of countries have also expressed support. In the UK, the House of Commons Environmental Audit Committee (EAC) has called for the government to encourage take-up of the TCFD; the Green Finance Taskforce's Accelerating Green Finance report, commissioned by the government, recommended the government to implement the TCFD recommendations. The EAC has called on the government to **make TCFD reporting mandatory** (recommendation 6, paragraph 87). A further 10 countries are consulting on TCFD, including **Japan** and **Australia**. The **European Commission** has integrated the TCFD recommendations into guidance on climate-related information under the Non-Financial Reporting Directive (NFRD), which covers over 7,000 companies in Europe.[2] The **United States Congress** is considering the 'Climate Risk Disclosure Act of 2019', a bill that would require companies to report, annually and publicly, on exposure to climate-related risks. It would also require the Securities and Exchange Commission (SEC) to establish qualitative and quantitative disclosure metrics and guidance.

Drawing the above together, Mark Carney, Governor of the **Bank of England**, has warned that **if companies do not agree rules for reporting climate risks, global regulators will devise their own and make them compulsory**. Companies that ignore the transition to net-zero will not survive, Carney said in a recent interview, while firms that are part of the solution will do well.

A short history: investor engagement on climate change

Investor engagement on climate change has entered the mainstream this decade. In 2017, **62% of shareholders voted against ExxonMobil's management** forcing the oil & gas giant to conduct an annual 'stress test' of how its assets will be affected by regulation. "Climate change is a material financial risk and **shareholders want to know how companies will manage the change to a low carbon economy**", said Edward Mason, head of responsible investment at Church Commissioners for England. **Engagement goes beyond large polluters, too**: 55 companies were recently called out by a group of investors with $2 trillion AUM led by the Church of England Pensions Board for lobbying against climate policy, including Danone from the F&B sector and Siemens from tech.

[2] The NFRD covers companies with over 500 employees, including listed companies, banks, insurers, and other companies designated as public interest entities by national authorities. Though the NFRD is compulsory by law, separate guidance such as that on climate-related information is non-binding.

Where to start?

When considering whether to align your company reporting to TCFD, consider the following questions:

- Is your Investor Relations team receiving enquiries regarding your company's climate change preparedness, regarding risks and /or opportunities?
- Review TCFD governance, strategy and risk/opportunities framework and gauge how well they align with your organisation's frameworks. If there are gaps, consider aligning the requirements.
- Review your climate change disclosures in your Annual Report and consider aligning the topics and definitions to TCFD frameworks.
- Consider developing a 'scenario analysis' to understand and map your company's preparedness for future climate change impacts – both risks and opportunities.

Further resources regarding TCFD reporting requirements:

- Final Report of the TCFD Recommendations, chapter C section 2: Implementing the Recommendations, p.17-23.
- TCFD Knowledge Hub, which links to a wealth of further resources to help companies implement the recommendations
- CDSB's 10-point checklist on preparing for the TCFD recommendations
- CDSB Beyond Disclosure, a programme providing support and feedback to meet TCFD recommendations.

Appendix – detailed overview of TCFD recommendations

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	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.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: Final Report, Recommendations of the Task Force on Climate-Related Financial Disclosures, p.14