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TCFD reporting requirements and assurance considerations

A guide to prepare disclosures

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For accounting periods beginning on or after 1 January 2021, all UK premium listed companies are required to state, in their Annual Report, whether their disclosures are consistent with the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations, or to explain why not.

Companies need to take action now and consider these reporting requirements carefully and decide what assurance is needed to support them.

What are the requirements?

The UK Financial Conduct Authority (FCA) listing rule requires Boards to include a statement in the Annual Report setting out:

- whether disclosures are **consistent with the TCFD's recommendations**;
- where any **disclosures are not consistent** with some or all of the TCFD's recommendations, **provide an explanation as to why**, and a description of any **steps the Board are taking to rectify** this;
- where any disclosures have been **included in a document other than the Annual Report**, an explanation of why; and
- **where** in the Annual Report (or other relevant document) the various disclosures can be found.

The TCFD recommendations address **governance, strategy, risk management, and metrics and targets** and are supported by **11 recommended disclosures**. To make these statements, companies need to embed the recommendations of TCFD across the organisation and describe the activities they are undertaking.

Companies need to ensure the disclosures represent a fair, balanced and understandable assessment of progress and that the impact of climate change has been adequately reflected in the financial statements. The time to act is now.

What are the recommended disclosures?

Governance: governance around climate related risks and opportunities.

Strategy: actual and potential impacts of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Risk management: how the organisation identifies, assesses, and manages climate related risks.

Metrics and targets: metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.

What questions should management ask?

01. Have we clearly defined the **roles and responsibilities** of management relating to climate risk identification, management and reporting?
02. How frequently should management meet to monitor and discuss climate related issues and disclosures? What is the **process for reporting up** to executive committees?
03. What are the sources of data underpinning our **scenario analysis**? What assumptions have been made in the scenarios presented?
04. Have we ensured that identified climate risks and opportunities are adequately factored into **short, medium and long term strategies and financial planning**?
05. Which **targets and metrics** should be reported? Do those targets and metrics adequately demonstrate how identified climate risks are being mitigated or addressed?
06. Have we ensured **consistency** between TCFD disclosures and disclosures contained within the annual financial statements?

What questions might the Board of Directors ask?

01. Do we have a good **understanding of existing gaps** within our current TCFD disclosures when compared to requirements? Is there a **plan in place to remediate any gaps** identified?
02. Have we adequately considered and reported on **the effectiveness of systems of internal control and risk management** for climate related risks and how climate change issues are considered when reviewing the company's financial performance, strategy and business plans?
03. Have we appropriately defined and considered any material **climate related risks in preparing the financial statements** and ensured consistency of reporting between the annual report narratives and the financial statement disclosures?
04. Is **non-financial information used in the TCFD disclosures reliable and fit for purpose?** Is it produced with the same rigour as financial information?
05. What **assurance do we require** to support TCFD disclosures and/or the adequacy of systems and controls to comply with the TCFD recommendations? **Is this assurance sufficiently robust and independent?**

The value of assurance to support TCFD disclosures

It is likely that in the near future, the requirement for external assurance over TCFD disclosures will be mandatory. It is critical that businesses understand the value they seek from such assurance, and importantly the robustness of approach and reporting being taken by your assurance provider.

Stakeholder engagement and confidence: investors, regulators, customers and employees are increasingly making decisions that factor in climate related pledges. TCFD assurance provides a clear message of intent, commitment and confidence to these stakeholders. Notably, the FCA set out that they also see significant value in external assurance of listed companies' TCFD disclosures.

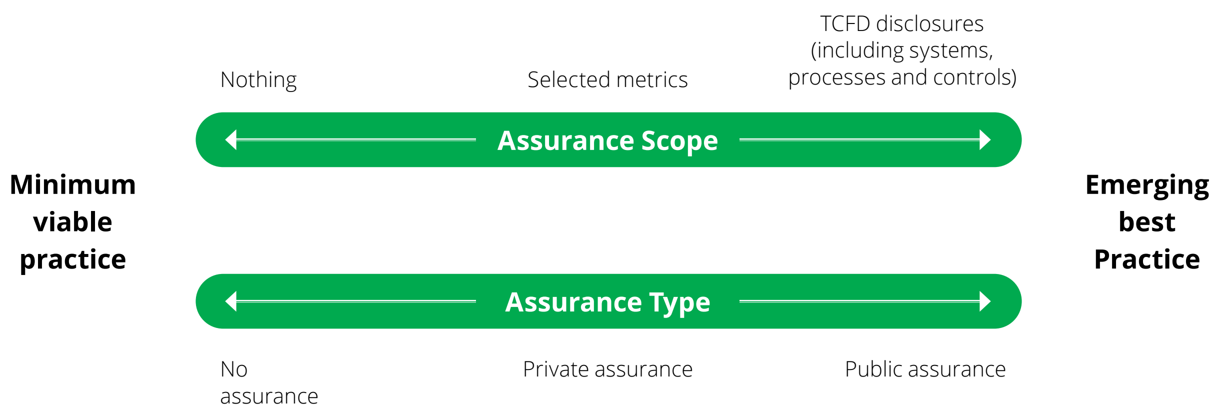
Strategic and competitive considerations: in a marketplace inundated with unchecked environmental, social and governance ("ESG") claims and "greenwashing", TCFD assurance can provide differentiation, and in the case of sustainable finance, can help with access to broader, economically viable finance options.

Demonstrating strong internal controls and processes: The world of ESG reporting is evolving at a rapid pace with continuous changes to the level and complexity of disclosures required. TCFD assurance can provide evidence of a robust system of internal control over how ESG data is collected, managed and ultimately reported.

What are the TCFD assurance options?

At present, the range of assurance options available is considerable. From minimum viable practice (companies not seeking any assurance) to emerging best practice (those seeking public assurance on not only their metrics but also their underlying systems, processes and controls). There are many permutations in between with private and public assurance options over a range of metrics, disclosures and processes and controls, making comparability and therefore usability all the more challenging for stakeholders.

For management, it's important to understand where the organisation's leadership expect to be on this range, understanding that there might be a number of intermediate steps, and establishing a clear path to get there.



The use of International Standards on Assurance Engagements (e.g. ISAE 3000)

Investors and regulators are looking for clarity on the level of assurance obtained. Where data in the front half of the Annual Report is described as being "assured" or "reviewed", the description must be accurate and must not be misleading or imply a greater level of assurance than was provided.

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