Taskforce on Climate-Related Financial Disclosures ("TCFD")

Status update, common challenges and illustrative examples

Recap on the journey thus far

In September 2020, New Zealand was the first jurisdiction to make climate risk reporting mandatory for publicly listed companies and large financial institutions. The UK Government followed suit in November 2020 and announced mandatory climate risk reporting aligned with TCFD guidelines for premium listed companies on a *"comply or explain"* basis, for accounting periods beginning on or after 1 January 2021. In June 2021 G7 Summit, the remaining G7 advanced economies are now also committed to rolling out mandatory climate-related financial disclosures for companies in the near future.

In the UK, two notable consultations have been launched which will likely shape the next steps in TCFD application, namely:

- The Business, Energy & Industrial Strategy (BEIS) March 2021 consultation paper on requiring mandatory climate-related financial disclosures by publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs)[1]; and
- The FCA's consultation (CP21/18) released on 23rd June 2021, which seeks to extend the application of the FCA's climate-related disclosure requirements for commercial companies with a UK premium listing to issuers of standard listed equity shares[2].

Roadmap towards mandatory TCFD-aligned disclosures in the UK

2021	2022	2023	2024
• Occupational pension schemes (>£5 billion) • Banks, building societies and insurance companies (deadline for supervisory expectations) • FCA Premium listed companies	• Occupational pension schemes (>£1 billion) • Largest UK-authorised asset managers, life insurers and FCA-regulated pension providers • UK registered companies and FCA wider scope of listed companies	• Other UK-authorised asset managers, life insurers and FCA-regulated pension providers	• Other occupational pension schemes (subject to review) • Potential further refinements to measures across categories, including in response to evolving best practice

Source: FINAL_TCFD_ROADMAP.pdf (publishing.service.gov.uk) /

Reminder – What are the recommended disclosures?

Recommended disclosures	
Governance	Firms must describe:
	The organisation's governance around climate-related risks and opportunities.
	Management's role in assessing and managing climate-related risks and opportunities.
Strategy	The climate-related risks and opportunities the organisation has identified over the short, medium, and long terms.
	The impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.
	The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
Risk management	The organisation's processes for identifying and assessing climate-related risks.
	The organisation's processes for managing climate-related risks.
	How processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
Metrics and targets	Firms must disclose:
	The metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
	Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
	The targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Given that we are now over halfway through the first year of compliance in the UK for premium-listed entities, what are current TCFD disclosures looking like in the market? What are the main challenges to compliance, and what does best practice look like?

1 https://www.iasplus.com/en-gb/news/2021/03/mandatory-climate-related-financial-disclosures-beis
2 https://www.iasplus.com/en-gb/news/2021/june/fca-consults-on-further-climate-related-disclosure-rules

Common challenges on TCFD disclosures and current illustrative examples

Common challenges

Governance	Strategy and scenario analysis	Risk management	Metrics and targets: Defining and embedding
• **Board oversight** is generally well established, with some exceptions. Notably many reports do not explicitly detail the **skills and oversight of the Board** and members of any ESG/Climate working group, to address climate-related risks and opportunities. • Many companies provide only a **limited description of relevant roles, responsibilities** and oversight which does not clearly describe how or how often climate-related risks and opportunities are **communicated to the CEO and the Board.** There is often also confusion between the role of finance vs risk vs sustainability teams. • Often the skills and experience of any **separate ESG/Climate/Sustainability Management** teams are not disclosed.	• **Scenario analysis** is a complex area and good practice is still emerging. Crucially, key assumptions and limitations are **not always disclosed**, and the focus tends to be on risks to the detriment of giving **opportunities** due attention. • First-time adopters have begun with **qualitative analysis** which can be translated into estimates of financial impact - best practice will involve **quantitative analysis** of both risks and opportunities using robust, assured data. • Quantifying the financial risks of climate change is critical to determine the **degree of resilience** of a company's strategies relative to identified climate-related risks and opportunities.	• **Integrating climate-related risks** into the organisation's overall risk management programme can be challenging, especially if the risks of climate change are not obvious to the business **based on operations and/ or geographies.** • Processes for **prioritisation of climate-related risks** and determining materiality need to be developed and implemented. Once identified, climate-related risks then need to be **managed appropriately**, through mitigation, adaptation and risk controls. • **Definition and description** of risks and opportunities relevant to **short, medium and long-term** range horizons is still developing.	• While it is now commonplace for companies to report on Scope 1 and 2 GHG emissions, **Scope 3 (supply chain)** emissions are not routinely measured or reported, despite often forming the largest proportion of a company's carbon footprint. • Targets to manage climate-related risks and opportunities, with associated **performance measurement** against these, are not routinely reported on. Targets should be **baselined and time-bound**, include **KPIs** and include a **methodology.** • A description of oversight applied to all climate-related metrics and targets, **including assurance** is often not provided.

Connectivity with financial statements – The integration of finance teams into the TCFD disclosures process is **often not a well-developed process**, meaning that there is not a clear link from the TCFD disclosures to the financial statements, including how climate-related actions, risks and opportunities disclosed in the front half of an annual report will impact measurement, recognition or disclosures in the back half. For example, it's not always clear whether scope 1 and 2 net zero commitments have clear plans behind them that (subject to specific restrictions) feed into **potential asset impairment assessments**.

Current illustrative examples

Governance	Strategy and scenario analysis	Risk management	Metrics and targets
In their 2021 Annual Report, **British Land** present a clear and **succinct** description of how the Board has oversight over climate-related matters, including **named individuals** at a senior level and their relevant skills and **competence** in this area. Source: 2021-annual-report.pdf (britishland.com)	In their 2020 Annual Report, **Unilever** presented the results of **quantitative scenario analysis** in two scenarios; a 2ºC temperature increase (transition impact) and a 4ºc increase (physical impact). The **financial impact** and an assessment of **materiality** were also presented. Source: Annual Report and Accounts 2020 Highlights | Investors | Unilever global company website	**BHP**'s 2019 Annual Report was used as an example in the 2020 TCFD Status report demonstrating how a company's disclosures **clearly describe** its governance and risk management processes and how they address climate-related issues, including how the significance of climate risks **relative to other risks** is determined. Source: BHP Annual Report 2019 (bhp.com)	In their 2021 Annual Report, **BT Group** report on their Scope 1, 2 and 3 GHG emissions and present data for the previous 3 years. They also stated a series of **targets to respond to climate-related risks and opportunities**, including to be net zero carbon emissions by 2045 and to reduce **supplier carbon emissions** by 42% by 2031. Source: BT Group plc Annual Report 2021
Further examples: • Meggitt • Direct Line	**Further examples:** • Tesco • John Laing • GSK • NatWest Group	**Further examples:** • Aviva • Landsec • Barclays	**Further examples:** • Diageo • United Utilities • UBS

Progress to date and best practice roundup

According to the FSB's most recent TCFD status report[1], more than 1,500 organisations have expressed their support for the TCFD recommendations — *"an increase of >85% since the 2019 status report"* — and nearly 60% of the world's largest public companies either support and/or report in line with the TCFD recommendations. However, the report also highlights the need for further improvement in the levels and consistency of disclosures, with scenario analysis still relatively scarce and no harmonised standard for disclosure.

The FSB's 2020 Status Report on TCFD Disclosures includes further illustrative examples:

[1]https://www.fsb.org/2020/10/2020-status-report-task-force-on-climate-related-financial-disclosures/

In general, TCFD disclosures are to be viewed as a marathon, not a sprint. Embedding climate-related financial considerations into your existing business governance and strategy is a time consuming and complex process. In our experience the best TCFD disclosures are given by those who have a clear climate strategy that is integrated into the business model - organisations who have Board-level "buy-in" and oversight, and as such are measuring and reporting on climate-related metrics, setting targets and conducting climate risk and opportunity analysis **at a governance** level.

With the increased scrutiny of regulators and the move towards mandatory climate risk reporting and assurance, all organisations should be refining their approach to TCFD in 2021.

For further information on TCFD disclosures, TCFD assurance or Environmental, Social and Governance ("ESG") matters more broadly, please speak to your lead audit partner or contact one of the individuals below.


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