

FACTSHEET

TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES: WHAT DOES IT MEAN FOR RESPONSIBLE BUSINESS?

Climate change poses an existential threat to people and planet. It also represents a financial risk to the global economy – it is important that all UK businesses start to think about the risks associated with a changing climate, the resulting transition to a low-carbon economy and how to mitigate these.

What is the Taskforce on Climate-related Financial Disclosures (TCFD)?

The TCFD was established by the Financial Stability Board (FSB) in 2015. The aim of the group was to “develop consistent climate-related financial risk disclosures for use by companies, banks, and investors”. This framework would in turn:

- **Strengthen** the stability of the financial system
- **Contribute** to greater understanding of climate risks
- **Facilitate** financing of transition to a low-carbon economyⁱ

From 2021, the UK legislated for all premium listed companies to disclose the climate-related financial risks associated with their business model or explain why they have not. These disclosures must also be aligned to the recommendations made by the TCFD. This will be extended across the whole economy by 2025 – making the UK one of the first countries in the world to do so.ⁱⁱ (see right for a timeline)

IN THIS YEAR OF CLIMATE ACTION, LET'S BUILD ON THE MOMENTUM TO IMPROVE QUALITY AND QUANTITY OF DISCLOSURE AND BUILD A MARKET IN THE TRANSITION TO NET ZERO

Mark Carney, UN Climate Change Envoy

BUSINESS IN THE COMMUNITY MEMBERS REFERENCED IN THIS FACTSHEET

- Tesco
- Lloyds Banking Group
- EDF

Paris Agreement

Task Force on Climate-related Financial Disclosures (TCFD) formed



TCFD recommendations published

Stakeholder pressure mounts with investors leading the push



UK Green Finance Strategy: listed issuers and large asset owners should align with TCFD by 2022

TCFD UK Taskforce formed

PRA Supervisory Statement for insurance, banks, building societies



TCFD aligned reporting mandatory for UK premium listed companies
Government launches consultation on expanding scope



TCFD aligned reporting mandatory across UK economy



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What are climate-related risks?

Climate-related risks can be categorised into two broad categories – the impacts of a changing climate, and the impacts of the transition to a low carbon economy.

Impacts of a changing climate (physical risks)

- Economic disruption and damage caused by storms, droughts, wildfires, and other extreme weather events (e.g. supply chain disruptions)
- Financial losses resulting from climate change (e.g., the effect of rising sea level on credit secured by coastal real estate)

Transition to a low-carbon economy (transition risks)

- Abrupt adjustments to a low-carbon economy may lead to rapid losses in the value of assets and viability of business due to changing policy or consumer preferences
- Climate-related financial risks could affect the economy through elevated credit spreads, greater precautionary saving, and rapid pricing readjustments.ⁱⁱⁱ

What are TCFD-aligned disclosures?

Disclosures of climate-related risk are not new, and there are a range of voluntary climate reporting frameworks already available. However, policy change has meant that these frameworks are now uniting around the ‘common language’ of TCFD. Other reporting frameworks and tools, such as CDP, UN Principles for Sustainable Investing (PRI), Sustainability Accounting Standards Board (SASB), and the Global Reporting Initiative are starting to map their disclosures against the TCFD recommendations.^{iv} TCFD recommends that disclosures cover the following focus areas:

Governance: disclose details of governance as well as the board and senior management’s role in assessing and managing risks and opportunities.

Strategy: disclose how climate risks will impact on the strategy, financial planning, and organisation of your business in the short, medium, and long-term. This should include a description of the resilience of the strategy according to different climate scenarios (we recommend that the analysis should include the consideration of a 1.5C scenario, in line with the objectives of the Paris Agreement).

Risk management: disclose how climate-related risks are identified, assessed, and managed, including how these processes play into the organisation's overall risk management.

Metrics and targets: disclose the metrics and targets used to assess risks, which should include Scope 1 and 2 greenhouse gas emissions and related risks (we recommend that Scope 3 emissions should be included, where they are material).^v

What are the benefits to your business?

Although legislation requiring all UK companies across the board to disclose their climate-related risks does not come into effect until 2025, there is also a clear business case to starting early. The business benefits include:

Better decisions

- Increased awareness of climate related risks will result in more informed strategic planning and resilience.
- Identification of new investment, products, or business opportunities.
- Improved availability, timeliness, relevance, and quality of climate related data.

Improved disclosures

- Convergence around a consistent global framework will enable you to meet existing requirements and growing investor demands.
- Greater readiness and involvement in shaping disclosure requirements, prior to any regulatory action.

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Access to capital

- Improved evaluation of risks and exposures by lenders, insurers, and underwriters.
- Maintained access to capital and potential lower cost of capital, by enhancing investors' and lenders' confidence that climate-related risks are appropriately assessed and managed.
- Greater access to additional sources of finance from investors and lenders interested in opportunities related to the transition to a low carbon economy and building greater resilience.^{vi}

How to get started

Many large businesses already have sophisticated approaches to TCFD reporting, and this can make getting started an intimidating process for businesses not currently in the spotlight. The Prince's Accounting for Sustainability Project has developed a series of top tips, based on workshops held world-wide with finance teams from a range of businesses.

1. Understand where you are now

In order to learn where you need to get to, assess current practices and develop a plan in response.

2. Get internal buy-in

Engage with the Board and senior management to get the 'tone at the top' right whilst building support across the organisation, including finance teams who need to be involved from the start.

3. Get started

Few organisations will have all the information needed to adopt the TCFD recommendations in full in their first year of reporting. Start with areas that you can address easily (such as governance) while developing a longer-term plan to tackle more challenging areas.

4. Collaborate

Pooling knowledge and harmonizing approaches used will improve the usefulness of disclosures and support efficient adoption.

5. Learn from others

Some companies have started to disclose climate related risks and opportunities. These are a great resource to help identify approaches that could also work for your organization.^{vii}

What are BITC members doing?

Tesco: the Corporate Responsibility Committee of Tesco's Board is responsible for managing the organisation's impacts around climate change, as well as the risks that climate change may pose to the business. The Committee meets three times during the year and receives regular updates on [their Little Helps Plan](#) commitments and performance.

Lloyds Banking Group set an ambitious goal in 2020, working with customers, government, and the market to help reduce the emissions that they finance by more than 50% by 2030, and on the path to net zero by 2050 or sooner, supporting both the UK Government's ambition and the 2015 Paris Agreement.

EDF: In June 2017, EDF was one of the first companies to voluntarily support the TCFD. Since 2018, EDF has disclosed its climate-related risks and how it meets the TCFD recommendations in its annual report. It has updated the Group-wide climate physical and transition risks, impacts and adaptation plans and strengthened its Executive Committee and Board level climate-related governance.

How can BITC support you?

If this is the first time you are preparing to report in line with the TCFD, it may seem like a daunting task; but the likelihood is you already have the foundations in place. Our Advisory team can help you conduct a TCFD readiness assessment and provide recommendations to help you understand where the largest gaps are and what you need to do next. We can also help you obtain a view of what your peers and wider sector are doing and provide

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recommendations on good practice and shaping or improving your disclosures.

Additional resources

TCFD Hub has a range of resources that can help companies identify, analyse and report climate-related financial information.

<https://www.tcfdhub.org/>

Accounting for Sustainability has examples of annual reports from businesses adopting TCFD recommendations as well as other resources.

www.accountingforsustainability.org/tcfd

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REFERENCES

ⁱ [UN Environment Programme Finance Initiative, TCFD - Taskforce for Climate-Related Financial Disclosures \[online\]](#)

ⁱⁱ [Linklaters LLP \(2020\), UK paves way for mandatory TCFD climate disclosure for companies and other organisations by 2025 \[online\]](#)

ⁱⁱⁱ [Taskforce on Climate-Related Financial Disclosures \(2019\), Overview Report \[online\]](#)

^{iv} [GLOBE Series \(2021\), Top Tips for TCFD Disclosure \[online\]](#)

^v [Taskforce on Climate-Related Financial Disclosures \(2017\), Final Report: Recommendations of the Taskforce on Climate-Related Financial Disclosures \[online\]](#),

^{vi} [Accounting for Sustainability \(2019\), Implementing the recommendations of the FSB Taskforce on Climate-Related Financial Disclosures: TCFD Top Tips for Finance Teams \[online\]](#)

^{vii} [Accounting for Sustainability \(2019\), Implementing the recommendations of the FSB Taskforce on Climate-Related Financial Disclosures: TCFD Top Tips for Finance Teams \[online\]](#)