ESG Strategy Series

Using ESG to Build Climate Resilience

As we emerge from our' lock down bubbles' and evolve into our 'new norm', reflection on business preparation and resilience is at the forefront. World events can very quickly impact company operations. The pandemic has put into sharper focus several aspects of corporate performance, including how businesses prepare for and contribute to a range of direct and indirect issues. For example, the increasing frequency of extreme weather events and the potential impact to supply chains and operations is shifting business focus towards understanding climate risk and preparedness. Investors are also demanding clearer messaging, disclosure and transparency about how the businesses they are invested in are managing climate related risks.

Task Force on Climate-related Financial Disclosure (TCFD):

The TCFD recommendations require voluntary consistent climate rated financial disclosures. Since its release in June 2017, the topic of "TCFD" has fast been gaining momentum and moving up the corporate agenda and is increasingly seen as the go to framework to build climate resilience. The financial metric-based approach of the framework also enables greater transparency and aligns its approach with how interested stakeholders are starting to want to gather this data. Environmental, social and governance (ESG) Industry benchmarks such as GRESB, PRI and CDP have also aligned their climate resilience modules with the framework. In addition, the UK Government's July 2019 Green Finance Strategy states that *'The Government expects all listed companies and large asset owners to be disclosing in line with the TCFD recommendations by 2022'.*

"Increasing transparency makes markets more efficient, and economies more stable and resilient."—Michael R. Bloomberg

How it works:

To communicate or report performance aligned with the TCFD recommendations, a company must provide information on four thematic areas:

- **Governance:** The organisation's governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.
- **Risk Management:** The processes used by the organisation to identify, assess and manage climate-related risks.
- **Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

TCFD, Final Report - Recommendations of the TCFD, June 2017

How it helps:

- **Builds confidence and trust;** by quantifying and disclosing climate related information investors and lenders are able to see that climate related risks are appropriately assessed and managed.
- **Adds value and manages risk;** by increasing awareness and understanding of climate related risks and opportunities a business may be exposed to, thus enabling more informed and strategic planning.
- **Establishes consistent and efficient implementation;** by proactively addressing investor's demands for climate related information within an industry accepted and approved framework.

The Environmental, Social and Governance (ESG) Strategy Series offers a topical and practical perspective on how ESG can benefit business. Each month, our Sustainable Business team will provide the best of their insight, findings and project experience on how ESG can build value. We welcome inquiries and feedback at esg@itpenergised.com

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