

ESG Strategy Series

Building a Practical TCFD Approach

This article expands on our other Task Force for Climate-Related Financial Disclosures (TCFD) and climate reporting insights, including [Climate Related Financial Disclosures...Is Action Needed Now?](#)

In this article, we'll focus on the insights gained from a recent webinar hosted by ITPenergised and Addleshaw Goddard on the TCFD, specifically:

- Regulatory and market trends relating to climate-related disclosures.
- Benefits of the TCFD framework for businesses.
- Practical steps to start implementing a climate risk strategy and TCFD report.

Increased momentum around climate-related disclosures

When companies disclose the potential impacts of climate risk on their business strategy and financial planning, it enables investors to make more informed decisions. The TCFD provides a framework for organisations to consistently assess and disclose the financial, transition and physical risks and opportunities associated with climate change.

In view of soon-to-be mandatory TCFD disclosures across the UK economy and a societal shift towards recognising the urgency of climate action, the framework is rapidly gaining traction. The mandate to consider the impacts of climate change can seem daunting to businesses but the TCFD framework can be broken down into manageable steps and navigated easily. Over the past year, companies have proven their resilience by rapidly and successfully assessing, managing, and mitigating the risks of COVID-19. In the same way, they can, and must, consider climate-related risks, both actual and potential, and how these impact business operations, value, and strategy.

ITPenergised recently hosted a webinar in partnership with Addleshaw Goddard and Ventient Energy. This article shares some insights from the panellists outlining the main benefits of the TCFD and their practical experience of implementing the framework.

What are the benefits of TCFD?

a. **Complying with regulations**

The UK Government has made the world-leading decision to mandate TCFD reporting and businesses must keep pace with the legal requirements. This financial year, the regulation applies only to [premium](#) listed companies, but the rollout will be extended to asset managers, insurers, other listed companies, and large private companies in 2022.

b. **Meeting investor expectations**

Increasingly, investors require their portfolio companies to disclose performance data and set targets in relation to climate change, and the TCFD enables this information to be communicated consistently. While TCFD disclosures remain a differentiator for now, it will soon be imperative for businesses to engage with the process to secure continued investment.

c. **Reflect on how climate change may impact your organisation**

The framework challenges traditional short-term thinking and encourages businesses to think strategically about the longer-term implications of climate change. The TCFD is commonly seen as a risk management framework but it is important to also consider the significant opportunities associated with the energy transition.



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There are four key elements to be addressed when implementing the TCFD framework: governance, strategy, risk management, and metrics and targets. The recommendations require organisations to have board-level oversight of the process, conduct scenario analysis to assess the impact of climate on business strategy resilience, adapt their strategy accordingly, assess material climate-related risks and opportunities, implement risk management frameworks, and track metrics such as their carbon footprint to work towards meeting climate-related targets.

What are the key practical steps for TCFD implementation?

a. **Gain cross-functional buy-in**

TCFD disclosures and climate risk strategies must be complementary to the wider business strategy and developed by a cross-functional team, rather than a siloed ESG committee. Buy-in from the board is essential and this can be particularly challenging for businesses who consider their climate risk exposure to be low. In this instance, it can be helpful to frame the TCFD as a tool for differentiation and opportunity identification.

b. **Integrate within existing frameworks**

Most companies already consider a range of business risks through their risk management framework. TCFD is another layer to this project and climate risks should be systematically assessed and managed in the same way. Many businesses also have existing ESG reporting requirements within which TCFD should be integrated.

Practical implementation can prove challenging for businesses but getting started is both the hardest and most important step. TCFD reporting will evolve, improve and become easier as understanding of the framework increases and businesses establish the processes, frameworks and strategies that form the foundation of climate-related risk and opportunity disclosures.

The webinar recording is [now available on-demand](#), should you wish to find out more about how to implement your own climate risk strategy and TCFD report.

Ways we can support:

- *Demystifying the TCFD and working with organisations to communicate to executives and decision makers what the practical implications are.*
- *Development of integrated corporate strategies to build TCFD into existing financial models using existing ESG data and processes.*
- *Materiality mapping to ensure that disclosures are pertinent to an organisation's specific drivers and futureproofed to protect business models.*
- *Key Performance Indicator (KPI) setting and benchmarking using standardised and bespoke metrics.*
- *Scenario analysis selection based on a qualitative and quantitative risk-based approach.*
- *Reporting and disclosure support.*

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.

