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Climate Related Financial Disclosures….is action needed now?

As part of the UK Government's drive for Net Zero and a low carbon economy, the Chancellor confirmed last month that Climate Related Financial Disclosures will be mandatory for UK listed companies by 2022 and for other large firms and asset managers by 2025. This is earlier than anticipated by many UK organisations and puts pressure on industry leaders to prepare and respond. Many of the organisations who will be impacted by this requirement have well developed systems and processes for the collection and reporting of Environmental, Social and Governance (ESG) data but making the step to determining the financial impact of climate change is challenging, particularly given this new and reduced timeframe.

Following the release of the Task Force on Climate related Financial Disclosures (TCFD), recommendations for voluntary consistent climate related financial disclosures in June 2017, the topic has moved up the corporate agenda and the demand for climate related financial disclosures has increased significantly since its launch. The level and quality of climate related disclosures remains varied as companies refine and improve on their climate related financial models and more companies express support to the framework recommendations. With the climate change agenda receiving continued and increasing attention, both at government and public level with and a move to a lower carbon economy, there is becoming an increasing need to standardise and enforce the recommendations to drive action.

The 2020 TCFD Status Report states that the number of organisations expressing support for the recommendations has increased since 2019 to over 1,500 organisations globally. Similarly investor demand for organisations to report in line with the recommendations has increased dramatically. In addition, the report states that over 110 regulators and governmental entities from around the world support the TCFD recommendations including the United Kingdom, a fact clearly communicated in the Chancellor's recent announcement. Banks are also encouraging companies issuing public debt or equity to disclose in the line with the TCFD recommendations and governments across the globe are staring to embed the recommendations into policy and guidance through legislation and regulations.

How is TCFD different to ESG Reporting?

The key difference with the TCFD framework is that is built around a financial metric reporting approach and targets climate related risks only, as opposed to the traditional ESG reporting approaches which focus on a wider range of environmental, social and governance vectors. By aligning with the recommendations, organisations can measure and manage the energy transition and physical climate risks it may be exposed to across the entire organisation.

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The recommendations also put a lot on emphasis on governance, calling for enhanced ownership by the board of directors to ensure that the financial impact of climate change is appropriately assessed and considered in strategic business decisions across the organisation. It encourages a forward-looking approach asking organisations to analyse their climate related risks and opportunities both in the short and long term and test proposed approaches for resilience through testing business plans against different future climate scenarios.

Transparency, consistency and standardised disclosures are at the heart of TCFD. One of the main aims of the framework is help promote more informed investment decisions. By encouraging organisations to disclose their climate related risks and resilience plans in standardised way, investors are able to understand the climate related risks they may be exposed and compare like with like.

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.