LSA Task Force on Climate-Related Financial Disclosures (TCFD) Summary

Executive Summary

Established by the Financial Stability Board to develop recommendations for more effective climate-related disclosures, the goal of the TCFD is to help stakeholders better understand the financial system's exposures to climate-related risks — a company that communicates its climate resiliency to its investors will have a competitive advantage over those that don't. There are now over 2000 TCFD supporters.

Who should implement the TCFD recommendations?

It is recommended that all organisations with public debt or equity implement TCFD recommendations. Asset managers and asset owners will therefore be better positioned to help their clients and beneficiaries better understand the performance of their assets, consider the risks of their investments, and make more informed investment choices.

There is also sector-specific supplemental guidance for different industries (banks/insurance companies/asset managers/asset owners) and non-financial groups (energy/transportation/materials and buildings, agriculture, food and forest products).

Recommendations are structured around four thematic areas:

1. Governance

Disclose the organisation's governance around climate-related risks and opportunities.

- Describe the board's oversight of climate-related risks and opportunities,
- Describe management's role in assessing and managing climate-related risks and opportunities.

2. Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.
- Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.
- Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

3. Risk management

Disclose how the organisation identifies, assesses and manages climate-related risk.

- Describe the organisation's processes for identifying and assessing climate-related risks.
- Describe the organisation's processes for managing climate-related risks.
- Describe how processes for identifying, assessing and managing climate-related risks and integrated into the organisation's overall risk management.

4. Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

- Disclose Scope 1, Scope 2, and if appropriate, Scope 2 greenhouse gas (GHG) emissions, and the related risks.
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Risks and Opportunities

Risks	Opportunities
Policy and Legal • Carbon pricing and reporting obligations • Mandates on and regulation of existing products and services • Exposure to litigation	**Resource efficiency** • Use of more efficient modes of transport and production and distribution processes • Recycling • Move to more efficient buildings • Reduced water usage and consumption
Technology • Substitution of existing products and services with lower emission options • Unsuccessful investment in new technologies	**Energy source** • Use of lower-emission sources of energy • Use of supportive policy incentives • Use of new technologies • Participation in carbon market
Market • Changing customer behaviour • Uncertainty in market signals • Increase cost of raw materials	**Products and services** • Development and/or expansion of low emission goods and services • Development of climate adaption and insurance risk solutions • Development of new products or services through R&D and innovation
Reputation • Shift in consumer preferences • Increased stakeholder concern/negative feedback • Stigmatisation of sector	**Markets** • Access to new markets • Use of public-sector incentives • Access to new assets and locations needing insurance coverage
Weather • Extreme weather events and changing weather patterns and rising mean temperature and sea levels	**Resilience** • Participation in renewable energy programs and adoption of energy efficiency measures • Resource substitution/diversification

Benefits of implementation

- Easier/better access to capital by increasing investors' and lenders' confidence,
- Meet existing disclosure requirements more effectively.
- Increased awareness and understanding of climate-related risks and opportunities,
- Address investor's demand for climate-related information in a framework that investors are increasingly asking for.

Momentum for the TCFD

In June 2019, the European Commission incorporated the TCFD recommendations into its *Guidelines on Reporting Climate-Related Information* to support companies in disclosing climate-related information under the EU's reporting requirements.

In November 2020, the UK announced that all publicly listed UK companies with a premium listing will be required to 'comply or explain' with the TCFD's requirements by 2023, with mandatory TCFD-aligned disclosures across non-financial and financial sectors of the UK economy by 2025.