Task Force on Climate-Related Financial Disclosures Quick Reference Guide

September 2022

About the TCFD

The role of climate-related disclosures is becoming increasingly important to investors as they aim for clear and comprehensive information on the risks and impacts on firms presented by climate change. In 2017, **The Task Force on Climate-Related Financial Disclosures (TCFD)** released climate-related financial disclosure recommendations designed to help companies provide better information to support informed capital allocations. Today, there are 8 jurisdictions with TCFD-aligned official reporting requirements, including the UK, EU, New Zealand, Hong Kong, Japan, Switzerland, Brazil, and Malaysia.

While TCFD-aligned reporting remains optional in the United States, the Securities and Exchange Commission (SEC) recently proposed an amendment to rules and reporting forms to promote consistent, comparable, and reliable information for investors concerning funds' and advisers' incorporation of ESG factors. With the inclusion of TCFD recommendations in the SEC's proposal, firms that are already structuring their climate-related policies in line with TCFD disclosure recommendations will likely be well positioned to meet new regulatory demands coming out of the SEC.

This quick reference guidance is intended to simplify the TCFD reporting process by providing a guide on how to gather and report on relevant data.

Contents

Establish Climate Governance Structure

Build a cross-functional team to better understand and manage climate risks

Assembling a multidisciplinary team representing various functions of your company will enable you to identify climate-related risks across your business while educating yourselves about the TCFD standards and climate scenario analyses. Establishing this oversight structure will also assist in strategizing and decision-making to manage risks over time.

While the makeup of the governance structure will vary by organization, the following roles and perspectives should be considered for inclusion:

1. The Finance Department – the Chief Financial Officer, Finance Directors and Divisional Finance Directors play a key role in assessing the financial implications under different scenarios
2. Environmental, Social and Governance (ESG) Leaders - Chief Sustainability Officer or ESG committee to advise the board, Executive Committee, and business units on climate-related matters and provide support in the implementation of relevant initiatives
3. Other Stakeholders - Consider the views of other departments, such as compliance, business operations, procurement, legal, and investor relations on risks and time horizons

For more information, contact us here.

Identify the Right Guidance for the Firm

TCFD provides supplemental guidance for the following sectors

Financial Sector	Non-Financial Groups
Banks (lending)	Energy, Materials, and Buildings
Insurance Companies (underwriting)	Transportation
Asset Managers (asset management)	Agriculture, Food, and Forest Products
Asset Owners (investing)	

By providing supplemental guidance for multiple sectors, the TCFD recognizes that different types of companies utilize different metrics and reporting criteria. For example, carbon emissions of assets and investments are likely to be more significant than operational emissions to financial institutions. The TCFD recommends that asset owners disclose the weighted average carbon intensity of their portfolios in terms of metric tons of carbon dioxide equivalent (tCO2e) per million U.S. dollars revenue. Other useful metrics include the total carbon emissions of a portfolio normalized by its market value expressed as tCO2e/USD million invested, or the carbon efficiency of a portfolio measured as tCO2e/USD million revenue.

Non-Financial, or “high risk” organizations, may focus on the reporting of climate change risks they may face, such as operational, communication and technology, conduct and compliance, and reputational risks.

Read more about the TCFD’s Supplemental Guidance **here**.

Identify Climate-Related Risks and Opportunities

Set a baseline understanding of your climate-related risks and opportunities

Physical Risks

Collect, and map data by looking at operations geographically, review critical supply chain materials, and customer and end-markets to determine what and where physical risks of climate change may impact a business. There are two types of physical risk to consider:

1. **Acute Physical Risk:** extreme weather, including hurricanes, flooding, wildfire, drought, and heat waves, which could disrupt operations
2. **Chronic Physical Risk:** long-term changes in climate and weather patterns, including sea-level rise and mean temperatures that could increase operational costs through increased energy usage and spend

The following chart displays possible physical risks and their related impacts on various sectors.

Sector	Climate Scenario	Physical Risk	Impact on Business
Financial	2°C global temperature rise by 2100	Tropical cyclones, extreme precipitation, floods, wildfires	Increased losses and loss variability (reduced profits) for property insurers
Industrial	2°C global temperature rise by 2100	Sustained temperature rise, extreme temperatures and precipitation, ice melt/ permafrost melt, tropical cyclones	Increased road, rail, and bridge maintenance cost
Utilities	2°C global temperature rise by 2100	Tropical cyclones, extreme precipitation, floods, wildfires ice melt/ permafrost melt	Reduced integrity and reliability of pipelines and electricity grids

Transition Risk

To assess transition risk, companies must evaluate how socio-economic fluctuations resulting from society's response to climate change could impact their business.

There are two types of transition risk to consider:

1. **Policy, Legal, and Market Risks:** companies could be subject to regulatory developments related to climate change and energy-specific regulations globally, such as regulation of greenhouse gas emissions, carbon pricing, energy and fuel costs, and energy policy
2. **Reputational Risk:** businesses can be subject to reputational risk as climate change moves up the consumer and investor agenda if they are not contributing to climate change mitigation

The following chart displays possible transition risks and their related impacts on various sectors.

Sector	Climate Scenario	Physical Risk	Impact on Business
Industrial	2°C global temperature rise with regulation of greenhouse gas emissions	Policy driven increased costs, e.g., carbon tax	Alter the underlying economics of the business and force changes to the business model
Energy	2°C global temperature rise with energy pricing	Regulatory and reputational factors	Impact operational activities, reserve valuations, and investments in renewable energy
Automobile Manufacturers	2°C global temperature rise with regulation of greenhouse gas emissions	Market factors, such as changing consumer and investor preferences for low-emission vehicles	Impact on production choices, operational capabilities, and future expenditure

Climate-Related Opportunities

When adapting to climate change, companies are encouraged to consider the opportunities that may arise from the transition to a low carbon economy. The TCFD identifies the following areas for potential climate-related opportunities across several industries:

Resource Efficiency: improving operating efficiency in relation to water, waste management, and materials could lead to cost savings over the long term that also contribute to climate mitigation efforts

Energy Source: businesses that switch their energy sources to low emission alternatives may capture savings on annual energy costs in the future

Products and Services: businesses that innovate their products and services towards lower emissions may be able to take advantage of shifting consumer and investor preferences

Markets: companies are encouraged to actively pursue opportunities in new markets to diversify their business or portfolios in consideration of the transition to a lower carbon economy e.g., financing green bonds

Resilience: climate resilience entails developing adaptive capacity to respond to transition risks and physical risks, especially for businesses with long-lived fixed assets or broad supply chains through new production processes or new products

Carry Out Scenario Analysis

Using quantitative data, evaluate the potential impact of climate-related physical and transition risks

The Role of Outsourcing Data through ESG Data Providers

Conducting scenario analysis remains one of the most challenging aspects of preparing climate-related disclosures due to the complexity of the modeling associated with comprehensive climate scenario analysis. There is also difficulty in defining scenarios that are relevant to a business and determining the related risks and financial impacts due to a lack of data. Choosing an ESG data provider that meets a company's needs may be a useful tool to track and integrate relevant, quantitative climate data into scenario analysis.

Things to Consider When Choosing a Data Provider:

Identify gaps in existing data that is needed to conduct your scenario analysis

1. Look for providers that meet the company's ESG needs and that can provide data relevant to your firm
2. Does their product support reporting for TCFD?
    - Does this product contain any ESG rating data?
    - What is the total number of ESG metrics available on this product?
    - In what format is the data provided and what is the delivery mechanism for this data? (Online portal, API, or both)
    - Does the product offer the ability to report on multiple levels? (Portfolio level, product level, firmwide, issuer mapping to securities)
    - Does the product offer ISN or NAICS search functions?
    - Does the product offer exclusionary screening options?
    - What is the geographical breakdown covered by this product? (e.g., does this product break data down by unit countries?)
    - Is the product transparent regarding its data sources?
    - Is support provided on an ongoing basis?

For more information, contact us here.

Assign a Monetary Value to the Identified Climate Risks

Understanding how these risks affect all asset prices is crucial to understanding the financial stability of the business

Finance Director and Divisional Finance Directors will play a key role in this step to assess the financial implications of the climate risks and scenarios identified.

Things to consider when quantifying risk:

1. The organization's product and service offerings, client demographics, and countries/ regions of operation
2. The impact of climate-related issues on financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities)

Climate Scenario → Climate Risk → Impact on Your Business → Monetary Value of Impact

When deciding on a climate risk to examine, try to prioritize plausible and challenging uncertainties that are most relevant to the business. For example, an energy company may be most concerned about climate change and energy-specific regulations, while a consumer products company may be concerned with the physical risk of changing weather patterns that could result in disruptions to operations or increased operational costs.

Establish Goals for a Climate Transition Plan

Set realistic goals that the organization can work towards

A climate transition plan is a time-bound action plan that outlines how a business will pivot its assets, operations, and business model towards a trajectory that aligns with climate science recommendations.

Your Climate Transition Plan should be:

- Actionable and linked to specific goals and initiatives
- Rooted in quantitative elements, such as climate-related metrics and targets, and designed in a way that those targets are achievable
- Approved by the board and regularly overseen by the board and senior management with client expertise
- Regularly tracked

The TCFD encourages organizations to disclose the following key information from their transition plans as part of their disclosure of climate-related financial information:

- Current GHG emissions performance
- Impact on business, strategy, and financial planning from a low-carbon transition
- Actions and activities to support transition, including GHG emissions reduction targets and planned changes to business and strategy

For more information, contact us here.

Complete Required Reporting

Provide data and reporting information to key stakeholders

Present findings to the board, agree on what to disclose, and produce a report for publication. Formal channels established for climate risk reporting such as the Net Zero Asset Managers Initiative (NZAMI), the Paris Aligned Investment Initiative (PAII), etc., could help firms set emissions targets and complete disclosures.

To achieve a high-quality disclosure that can help stakeholders understand the organization's climate-related risks and impacts, the TCFD recommends companies consider the following principles:

1. Disclosures should be specific and complete
2. The disclosure on the report should provide relevant information
3. Climate-related disclosure should be balanced and understandable
4. Disclosure should be consistent over time
5. The disclosure should be comparable to other companies in the same portfolio or industry
6. The disclosure should be objective and verifiable
7. The disclosure of the report should be given on a timely basis

Monitor and Report on Progress

Follow up on progress regarding implementation of the TCFD recommendations

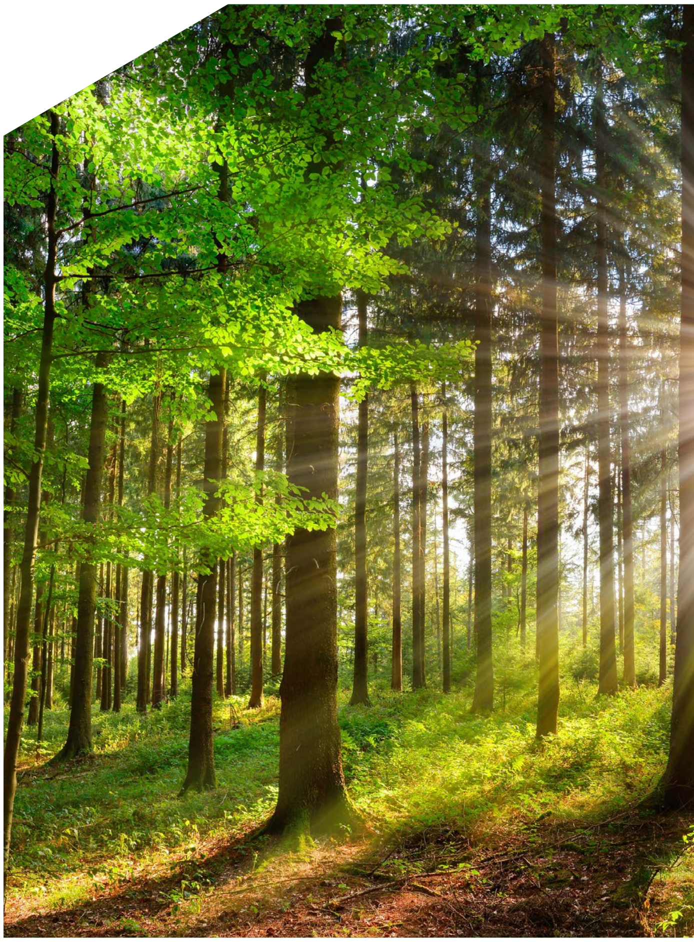
1. Work towards incorporating climate-related factors into a central risk management process and monitor climate-related metrics and targets relevant to the company
2. Continue to report on the company's TCFD related initiatives and its climate resilience response
3. Work with the Finance Director, investor relations team, and ESG committee to ensure external and stakeholder feedback is addressed in subsequent disclosures

For more information, contact us here.

How We Help

Following the TCFD recommendations can help a firm effectively manage climate risks, systemically track emerging opportunities, and consistently disclose climate risk information. ACA provides guidance and support for preparing TCFD disclosures by working with clients to help them understand what it means to be a TCFD supporter, build a TCFD-aligned climate risk management program, and assess readiness for TCFD-aligned reporting. Our services include helping investment managers understand their own carbon footprint as well as the carbon intensity of their portfolios, develop leadership education materials which support consensus building and collaboration around climate risk management, establish metrics and KPIs for climate reporting, and produce TCFD-aligned climate risk disclosures.

Learn more about our ESG solutions here.



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For more information, contact us here.