Insights

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) AND ITS UK REMIT: AN AIDE MEMOIRE

6 July 2021

What is it?

The Task Force on Climate-Related Financial Disclosures (TCFD) is a group comprising 31 members from across the G20. It is chaired by Michael Bloomberg. The Task Force was created by the Financial Stability Board (**FSB**) in 2015 to develop a set of voluntary and consistent disclosure recommendations for more effective climate-related disclosures across all sectors. In a nutshell, to help business provide better information to support informed capital allocation. After extensive public engagement and consultation, the TCFD disclosure recommendations were finalised in its 2017 Final Report. The Final Report and Annex, along with all of the other TCFD publications, are on the TCFD website.

Why is it relevant?

According to the latest TCFD Status Report (October 2020) nearly 60% of the world's 100 largest public companies support the TCFD, report in line with the TCFD recommendations, or both. In addition, nearly 700 organisations have become TCFD supporters since the Task Force issued its 2019 Status Report, an increase of over 85%. However, the latest report highlights the continuing need for progress in improving levels of TCFD-aligned disclosures given the urgent demand for consistency and comparability in reporting. Also that asset manager and asset owner reporting is likely insufficient.

How do asset managers and owners feature?

As acknowledged in the TCFD Final Report, large asset owners and asset managers sit at the top of the investment chain and therefore have an important role to play in influencing the organisations in which they invest to provide better climate-related financial disclosures. The Task Force recognises that reporting by this sector group can take a different approach from mainstream corporate financial reporting - including contrasting requirements of clients, beneficiaries, regulators and oversight bodies - and that they should consider materiality in the context of their respective mandates and investment performance.

What are the main TCFD recommendations and guidance?

The TCFD framework is structured around four thematic areas of disclosures, with 11 more specific recommendations. It includes guidance to support all organisations in developing consistent disclosures, as well as supplemental guidance for specific sectors.

We have extracted and set out below the TCFD Recommendations and Supporting Recommended Disclosures as well as specific considerations for asset owners and managers when reporting to clients. The guidance sets out information an organisation should disclose and that which it should consider disclosing.

Governance	**Strategy**	**Risk Management**	**Metrics and Targets**
Disclose the organisation's governance around climate-related risks and opportunities	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	Disclose how the organisation identifies, assesses, and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	a) Describe the organisation's processes for identifying and assessing climate-related risks	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

Governance	Strategy	Risk Management	Metrics and Targets
		Asset owners and managers should describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks to improve data availability and asset owners' ability to assess climate-related risks. Also for asset managers, how they identify and assess material climate-related risks for each product or investment strategy.	*Asset owners and managers should describe metrics used to assess climate-related risks and opportunities in each fund or investment strategy. Where relevant, they should also consider how these metrics have changed over time. Asset owners and managers should also provide metrics considered in investment decisions and monitoring.*
b) Describe management's role in assessing and managing climate-related risks and opportunities	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	b) Describe the organisation's processes for managing climate-related risks	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

Governance	Strategy	Risk Management	Metrics and Targets
	Asset owners and managers should describe how climate-related risks and opportunities are factored into relevant investment strategies. Also, for asset managers, how each product or investment strategy might be affected by the transition to a low carbon economy.	*Asset owners should describe how they consider the positioning of their total portfolio with respect to the transition to a lower-carbon energy supply, production, and use (eg how they actively manage their portfolios' positioning for this). For asset managers, how they manage material climate-related risks for each product or investment strategy.*	*Asset owners and managers should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy. They should also provide other metrics they believe are useful for decision-making along with a description of the methodology used.*
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Governance	Strategy	Risk Management	Metrics and Targets
	Asset owners that perform scenario analysis should consider providing a discussion of how climate-related scenarios are used, such as to inform investments in specific assets.		

The TCFD sets out seven fundamental principles for effective disclosure, as follows:

1. Disclosures should present relevant information

2. Disclosures should be specific and complete

3. Disclosures should be clear, balanced and understandable

4. Disclosures should be consistent over time

5. Disclosures should be comparable among organisations within a sector, industry or portfolio

6. Disclosures should be reliable, verifiable and objective

7. Disclosures should be provided on a timely basis

What is the TCFD's impact in the UK?

In September 2017 the UK became one of the first countries to endorse the TCFD guidance. In November 2020 the joint HM Treasury-led UK government TCFD Taskforce published its TCFD Interim Report and Roadmap setting out its commitment for making TCFD-aligned disclosures mandatory across the entire UK business and financial community by 2025.

Implementation of TCFD-aligned reporting in the UK involves several overlapping proposed climate disclosure requirements. We have set out the principal measures under consideration below. These form part of a broad range of disclosure requirements at UK, European and international levels.

- FCA proposals for asset managers, life insurers and FCA-regulated pension providers. See our June 2021 blog Climate-related disclosures for the UK asset management industry: the FCA consults on TCFD-compliant measures.
- Listing Rule requirements for standard listed companies. The FCA proposals would apply on a 'comply or explain' basis to standard listed companies (equivalent provisions came into force in January 2021 for premium listed companies), although this could change to be mandatory in the future. See our June 2021 blog Proposed climate-related disclosures for standard listed companies
- BEIS proposals for mandatory disclosures to apply to publicly quoted, large private companies and LLPs. See our March 2021 blog Climate-related financial disclosures for large UK corporates: the UK TCFD roadmap in action

How do these specific proposals and policies interact with the EU's sustainable finance legislative package?

UK asset managers and insurers, along with groups operating cross-border in Europe, may also be within scope of the EU's Sustainable Finance Disclosure Regulation (**SFDR**) and Taxonomy Regulation. The FCA TCFD-aligned proposals for asset managers (as described above) are based on a similar approach to that of the SFDR: the principal obligations relate to disclosures at manager/entity-level and those that are product specific. However, there is likely to be some additional compliance burden for firms subject to both regimes, particularly in terms of the specific details to be reported on.

Are there any updates pending to the TCFD materials?

The TCFD recently sought public comment on two documents (closing on 18 July 2021): proposed Guidance on Climate-related Metrics, Targets and Transition Plans and a draft technical supplement on Measuring Portfolio Alignment. Assuming that the TCFD updates are broadly consistent with the changes proposed in the UK consultations set out above, the FCA intends to refer to the updated versions of the TCFD materials (once published) in its FCA Handbook materials when its proposed revisions are finalised later in 2021.

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