

# A GUIDE TO MANDATORY CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate risk is investment risk. The magnitude of this realisation will be significant for companies as governments begin to mandate the reporting requirements set out by The Task Force on Climate-related Financial Disclosures (TCFD).

TCFD is the first international initiative to examine climate change in the context of financial stability. It was formed after a review by the G20's Financial Stability Board into how the financial sector can best take account of climate-related issues.

## THE CURRENT SITUATION

To date, 1,500 companies voluntarily comply with the TCFD recommendations globally, with the number of organisations expressing support for the TCFD growing more than 85% in the past 15 months.

In September 2020, New Zealand was the first country in the world to make climate risk reporting mandatory for certain publicly listed companies and large financial institutions. This was closely followed by the UK Government, who made the announcement in November 2020 with plans to bring this into effect for some UK companies as early as 2021, using guidelines from the TCFD. Furthermore, it is also expected to become mandatory in the US, as Joe Biden announced that he intends to make this a requirement during the early months of his presidency.

Anthesis is encouraged to see both the accelerating voluntary uptake in climate risk reporting and governments increasingly taking positive action on mandating the reporting in this critical first half of the decisive decade. Whether voluntary or mandatory, climate change impacts are already being materialised across sectors and geographies with record wildfires, temperatures, droughts, floods, storm surges, etc., leading to significant financial impacts and increased exposure.

## ABOUT TCFD

In June 2017, the Financial Stability Board's TCFD released its final recommendations, which provide a framework for companies and other organisations around the world to develop more effective climate-related financial disclosures through their existing reporting processes.

The TCFD sets out overarching recommendations in four thematic areas: governance; strategy; risk management; and metrics and targets. The recommendations will be key in improving organisations' disclosures of climate-related financial risks and opportunities to support efficient and informed capital allocation in the transition to a lower-carbon economy.

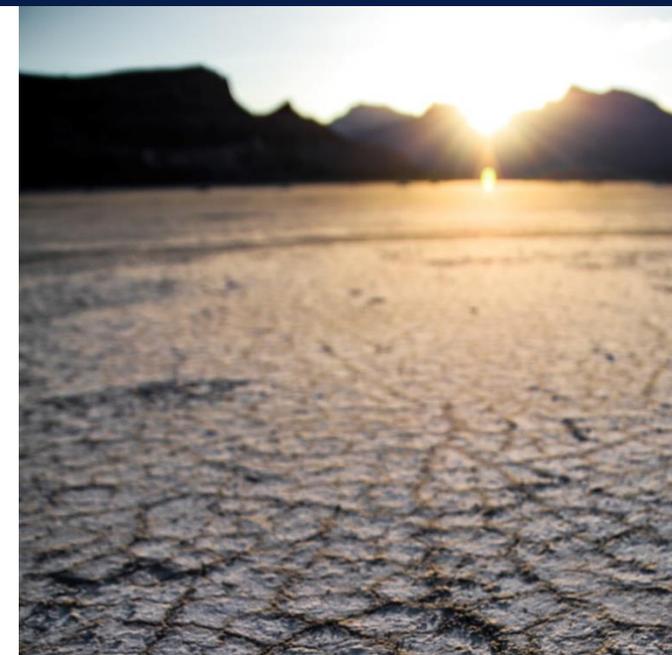
## Reporters Under The UK Scheme

Mandatory TCFD reporting will apply to the following types of UK-headquartered companies:

- Listed commercial companies
- UK-registered large private companies (as defined by the Companies Act 2006)
- Banks and building societies
- Insurance companies
- Asset managers
- Life insurers and FCA-regulated pension schemes
- Occupational pension schemes

## Non-UK Headquartered Companies

Both New Zealand and UK reporting requirements apply to companies headquartered in those countries, respectively. Future applicability to companies headquartered elsewhere is expected to be announced in 2021.



## OUR APPROACH

Our interpretation of global TCFD guidance is that clients need to start simple with an effective organisational approach and an open mind-set to go beyond conventional strategic thinking, as set out in the [latest TCFD guidance](#) released on the 29th October 2020.

From our experience of working on climate risk and implementing the recommendations of TCFD over the last five years, we recommend the following approach to tackling climate-related risk disclosure.

We have broken this down into three bitesize chunks: Engagement, Modelling and Strategy.



## CLIMATE RISK ENGAGEMENT

- Education is key to working with stakeholders to demystify the challenges and understand the financial and commercial impacts of climate change, including climate opportunities.
- The first step is to screen the risks and opportunities that climate change poses to each area of the organisation, facilitated by a climate and TCFD expert.
- An effective way to assess these risks and opportunities is to use an approach that allows stakeholders to drive what is most important to their organisation. This provides significantly more value and transparency over an approach where a third-party tells stakeholders what they perceive to be the key risks and opportunities.
- The screening will result in a list of climate risks of concern or opportunities of interest that are of most relevance and have the greatest impact on the organisation.

## MODELLING CLIMATE RISK

- The [TCFD Strategy](#) recommendations also call for the disclosure of the impact of the climate-related risks and opportunities on financial planning under different climate scenarios.
- While the TCFD recognise the difficulty of translating forward-looking scenarios into meaningful financial implications, its latest guidance suggests that it is important to provide a broad conceptualisation of possible financial pathways at a  $\geq 10$ -year time horizon.
- Clear quantitative insights into scenarios of concern and the resilience of business operations helps organisations achieve a preferred future, and even utilise climate opportunities.

## CLIMATE RISK STRATEGY

- The strategy should bring together all four areas of the TCFD recommendations: Governance, Strategy, Risk Management, Metrics & Targets, to ensure appropriate steps are taken toward resilience in a fast-changing, uncertain world.
- The strategy will help the organisation leverage recommendation areas in future strategic planning, business continuity processes and public disclosure, without the need for reinventing governance processes.

## KEY DATES

The UK Government has set out the roadmap below, but this also acts as an indicative timeframe for implementation in other developed countries that are likely to adopt similar or more ambitious timeframes:

### Roadmap towards mandatory TCFD-aligned disclosures in the UK

#### 2021 - Bigger pension schemes and bigger financial institutions

By 2021, occupational pension schemes greater than £5bn, banks, building societies and insurance companies, and Financial Conduct Authority (FCA) premium listed companies will become aligned towards the TCFD disclosures.

#### 2022 - Smaller pensions schemes and bigger companies

By 2022, occupational pension schemes greater than £1bn, the largest UK-authorized asset managers, life insurers and FCA-regulated pension providers, UK-registered companies, and FCA wider scope of listed companies will become aligned towards the TCFD disclosures.

#### 2023 - Other asset managers

By 2023, Other UK-authorized asset managers, life insurers and FCA-regulated pension providers will become aligned towards the TCFD disclosures.

#### 2024-25 All others eligible

By 2024-25, other occupational pension schemes (subject to review) will become aligned towards the TCFD disclosures, and potential further refinements will be made to measures across categories, including in response to evolving best practice.

## IMPORTANT CONSIDERATIONS

2020 has proven that organisations with strong sustainability credentials have significantly outperformed their conventional counterparts through the acute shocks posed by the pandemic, and this is expected to continue.

Therefore, governments that have announced plans to make climate risk reporting mandatory are acting to support the flow of accurate climate-related information along the investment chain to encourage better business and risk and investment decisions and to help markets to allocate capital to the right projects at the right price.

For companies reporting against climate-related information, this might be the first time that they have reflected on what they think their own climate risks are. This, in turn, could bolster short-term valuation in risk resilience or longer-term value in previously unrecognised climate opportunities.

## HOW WE CAN HELP

In line with the October 2020 TCFD guidance and the latest announcements by governments across the globe, Anthesis expects more governments to follow the UK's path for mandatory climate risk reporting in early 2021, with potential actions as early as 2021 based on the UK's timeframes.

The engagement exercise alone is a significant, valuable, and critical step in preparing any organisation for the impending regulatory requirements of climate risk disclosure, and we would advise beginning this as soon as possible.

If you are interested in finding out more about our approach to climate risk reporting, get in [touch](#).



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