

TCFD calls for further progress on climate-related reporting

AT A GLANCE

November 2020

What's new?

- The Task Force on Climate-related Financial Disclosures (TCFD) published its [2020 Status Report](#) on 29 October 2020. The report provides an overview of current TCFD-aligned disclosure practices, as well specific climate-related information expert 'users' identified as most useful for financial decision-making.
- More than 1,500 organisations have expressed support for the TCFD recommendations to date, an increase of over 85% since 2019. However, the report also highlights the continuing need for progress, given the urgent demand for consistency and comparability in climate-related reporting.
- In addition, the Task Force has issued guidance on a number of areas - including the [integration of climate risk into existing risk management processes](#) and a [consultation on forward-looking financial metrics](#).

What does this mean?

- The 2020 TCFD Status Report shows steady progress in the "mainstreaming" of the Task Force's recommendations, driven by investor demand, policy and regulatory actions, and good business practices.
- Overall, the levels of TCFD-aligned disclosure increased by 6% on average between 2017 and 2019.
- However, the TCFD acknowledges that full implementation of the recommendations will be an iterative process. Growing support for the recommendations, alongside regulatory initiatives to mandate TCFD-aligned disclosures, should lead to further progress going forward.
- The largest increases in levels of disclosure related to how firms identify, assess, and manage climate-related risk.
- Disclosure of the potential financial impact of climate change on business models and corporate strategy remains low, despite being considered the most useful information to inform financial decision-making by users of the disclosures.
- In addition, users of disclosures identified information about a company's material climate-related issues for each sector and geography and its key metrics as extremely useful for financial decision-making.
- TCFD-aligned reporting by asset managers and owners increased significantly between 2019 and 2020, driven by the Principles for Responsible Investment's mandatory reporting requirements for specific climate-related indicators in 2020.
- However, given the lack of publicly-available reporting produced by asset managers and owners, the TCFD noted that the current level of reporting to clients and beneficiaries may be insufficient.
- The most common implementation challenge cited by firms was around the difficulty in making separate or explicit climate-related disclosures when these were already integrated into existing risk management frameworks.
- A lack of standardised climate metrics, as well as the potential disclosure of confidential information in scenario analysis assumptions, were also identified as key implementation challenges.

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What do firms need to do?

- In their capacity as preparers of disclosures, financial services firms should review their existing climate-related disclosures against the TCFD-aligned recommendations, and consider how best to report against them if not currently doing so.
- Firms should consider the messages in the report in the context of the wider UK regulatory agenda around implementing TCFD-aligned disclosures. This includes the FCA's proposed 'comply or explain' regime for premium listed issuers, as well as the Department for Work and Pensions' consultation on proposals to embed climate risk management within certain pension schemes.
- Preparers of TCFD disclosures should consider expert users' relative ranking of specific types of climate-related information to prioritise the disclosure of decision-useful information (such as the strategic and financial impact of climate change on the firm's business model).
- Preparers should also review publications by industry associations and standard setters to guide their approach to developing comparable and decision-useful climate metrics, including the TCFD's guidance consultation and the Climate Financial Risk Forum's guidance chapter on risk management.
- The TCFD guidance on risk management integration and disclosure should be used to inform approaches on integrating climate-related risks into existing risk management processes, as well as disclosing information on these processes in alignment with the TCFD recommendations.
- Preparers that are concerned about disclosing certain information related to their scenario analysis assumptions should consider a 'stepwise' approach to disclosure, beginning with broader, qualitative information before moving to more specific, quantitative data and information over time.
- Where relevant and feasible, asset managers and owners should use their existing financial reporting channels when disclosing climate-related information to clients and beneficiaries.
- In addition, the TCFD believes asset managers and owners should continue to focus on the development of the metrics and targets they provide on each product, fund, and investment strategy, in order to provide an indication of the level of climate-related risk associated with them.
- As users of disclosures, financial services firms should ensure they have a robust strategy in place for engaging with investee companies and to drive further improvements in climate-related disclosures over time.

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Next steps

The TCFD will publish a further status report in **September 2021** and undertake additional analysis on the extent to which companies describe the financial impact of climate-related risks and opportunities on their businesses and strategies. The TCFD also plans to gain better insight into reporting practices of asset managers and asset owners.

The Task Force also seeks feedback on its consultation on decision-useful, forward-looking metrics for the financial sector. The consultation will close on **27 January 2021**.

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