

# Reporting tips

## Responding to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)



*There are strong signs that the TCFD recommendations will become the benchmark disclosure standard for climate change-related reporting.*

- *Prominent investors, such as BlackRock and State Street, have made climate change a top engagement priority and are using their voting power to get investees to disclose against the TCFD*
- *The UK government has publicly endorsed the TCFD and is looking at how it can be incorporated into legislation*
- *Credible sustainability benchmarks and indices, such as CDP and PRI, are aligning their scoring methodologies to TCFD*
- *Over 230 organisations have already publicly committed to implementing the TCFD recommendations*

*Disclosing your company's activities and intended actions against the TCFD recommendations will help you to demonstrate to your investors and other stakeholders that you are considering climate change's impact on your business and have appropriate management responses.*

The TCFD was set up by the G20 to address concerns around insufficient disclosure of climate-related risks and opportunities for businesses. With 32 members drawn from a range of industries and countries, including PwC Partner Jon Williams, the TCFD published its recommendations for voluntary, consistent climate-related financial disclosures in June 2017.

Most companies disclose backward-looking sustainability metrics such as recycling rates or greenhouse gas emissions (GHGs). The TCFD asks companies to take a forward-looking approach to the financial impacts of climate-related risks and opportunities to their business models. These risks and opportunities can arise from the physical impacts of climate change (more frequent or more extreme weather events) but also from regulatory, technological or market trends as the world transitions to a low carbon economy.

An example of a transitional issue to consider is: How would a tax on your company's GHGs impact costs? Would you have to change your pricing strategy? And how would that impact demand for your products? What should your management response be?

These kinds of questions are exactly those that the TCFD asks companies to consider by testing resilience of their business through the use of climate scenario analysis.

### What companies are doing today

*Although the TCFD framework was only published in June 2017...*



*Source: Based on a sample of companies across the FTSE 350, assessed as part of PwC's Building Public Trust Awards.*

demonstrate that climate-related risks are integrated into their overall risk management

demonstrate that climate-related risks and opportunities are factored into mainstream business planning

disclosed that they have conducted analysis to assess the resilience of their business strategies under different climate scenarios

*... practices are evolving in the right direction*

*“The right information allows sceptics and evangelists alike to back their convictions with their capital.”*

*Mark Carney, Chair of Financial Stability Board and Governor of the Bank of England*

# A reminder of the disclosure requirements

## Scope

All companies with listed debt or equity, plus asset managers and asset owners are included in the TCFD's scope. The TCFD has also identified 8 priority sectors for which additional guidance has been produced: *energy, materials and buildings, transportation, agriculture, food and forest products, banks, insurers, asset owners and asset managers.*

## The core disclosures

### Governance

Companies are asked to disclose the extent of the board and management's oversight of climate-related risks and opportunities. This includes the process and frequency by which board committees, such as the audit committee, are kept informed and how climate change issues are considered when reviewing the company's performance, strategy and business plans. The audit committee's role in overseeing climate-related financial disclosures should be the same as with any other financial disclosure.

### Strategy

If companies deem climate change to be material to their business, they are asked to disclose what climate-related risks and opportunities they are exposed to and how these will impact them, for example by affecting demand for their products and services or their supply chain which potentially lead to impacts on their income statements and balance sheets. Companies are asked to conduct forward-looking scenarios on how their businesses will perform in a world where global warming is limited to 2 degrees Celsius.

### Risk management

Companies are asked to disclose how they identify, assess and manage climate-related risks and specifically, how the management of climate-related risks is integrated into existing risk management frameworks.

### Metrics and targets

Companies which deem climate change to be material are expected to disclose metrics and set targets that are aligned with the risks and opportunities they have identified as material to their business. The report also specifically asks for companies to disclose their Scope 1 and 2 greenhouse gas emissions, and if appropriate, Scope 3 as well. This is in recognition of the fact that rising emissions are still a key driver of global warming, and big emitters are, arguably, subject to greater transition risk.

## Placement

The TCFD framework asks companies to make disclosures in the 'mainstream financial filing', which is the annual report in the UK. The style of the disclosures companies have made in year one makes this possible but it may be that, as more detail is added in relation to metrics and targets in particular, a separate report on TCFD becomes necessary. A summary and/or the key points of this would then need to be reflected in the annual report.





# Early examples

## Unilever plc annual report 2017 (extracts)

### IN FOCUS: CLIMATE CHANGE RISKS AND OPPORTUNITIES

UNILEVER HAS PUBLICLY COMMITTED TO IMPLEMENTING THE RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES.

As a growing number of investors demand more information on how companies are addressing the effects of climate change, Unilever recognises the importance of disclosing climate-related risks and opportunities. Adopting the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations is an important step forward in enabling market forces to drive efficient allocation of capital and support a smooth transition to a low-carbon economy.

In this Annual Report and Accounts, we continue to integrate climate-related disclosures throughout the Strategic Report narrative. However, in recognition of the growing significance of the impacts of climate change on our business, we have also summarised the risks and opportunities arising from climate change, and our response below.

The Boards take overall accountability for the management of climate change risks and opportunities with support from the ULE and the USLP Steering Team (see page 43). Chaired by Keith Weed, the USLP Steering Team includes nine members of the ULE and meets five times a year. During 2017, there were numerous agenda items on topics related to climate change. For 2,872 senior management employees, incentives include fixed pay, a bonus as a percentage of fixed pay and a long-term management co-investment plan (MCIP) linked to financial and USLP performance – including our climate change, water and sustainable sourcing targets (see page 58). The long-term MCIP will be rolled out to the remainder of management employees in 2018.

### UNDERSTANDING IMPACT

Climate change has been identified as a principal risk to Unilever (see page 28). To further understand the impact that climate change could have on Unilever's business we performed a high-level assessment of the impact of 2°C and 4°C global warming scenarios. The 2°C and 4°C scenarios are constructed on the basis that average global temperatures will have increased by 2°C and 4°C in the year 2100. Between today and 2100 there will be gradual changes towards these endpoints and we have looked at the impact on our business in 2030 assuming we have the same business activities as we do today. We also made the following simplifying assumptions:

- Acknowledgment of the importance of better climate disclosures and incorporation of its own disclosures in the Annual Report and Accounts
- Clear description of governance at board and management level including details on remuneration linked to climate change objectives
- Acknowledgment of climate risk as a principal risk
- Detailed description of the scenario analyses undertaken, along with some assumptions used
- Specific climate risks linked to qualitative financial impacts
- Further details available in other sections within the Annual Report and Accounts

- In the 2°C scenario, we assumed that in the period to 2030 society acts rapidly to limit greenhouse gas emissions and puts in place measures to restrain deforestation and discourage emissions (for example implementing carbon pricing at \$75–\$100 per tonne, taken from the International Energy Agency's 450 scenario). We have assumed that there will be no significant impact to our business from the physical ramifications of climate change by 2030 – ie from greater scarcity of water or increased impact of severe weather events. The scenario assesses the impact on our business from regulatory changes.
- In the 4°C scenario, we assumed climate policy is less ambitious and emissions remain high so the physical manifestations of climate change are increasingly apparent by 2030. Given this we have not included impacts from regulatory restrictions but focus on those resulting from the physical impacts.

We identified the material impacts on Unilever's business arising from each of these scenarios based on existing internal and external data. The impacts were assessed without considering any actions that Unilever might take to mitigate or adapt to the adverse impacts or to introduce new products which might offer new sources of revenue as consumers adjust to the new circumstances.

The main impacts of the 2°C scenario were as follows:

- Carbon pricing is introduced in key countries and hence there are increases in both manufacturing costs and the costs of raw materials such as dairy ingredients and the metals used in packaging
- Zero net deforestation requirements are introduced and a shift to sustainable agriculture puts pressure on agricultural production, raising the price of certain raw materials

The main impacts of the 4°C scenario were as follows:

- Chronic and acute water stress reduces agricultural productivity in some regions, raising prices of raw materials
- Increased frequency of extreme weather (storms and floods) causes increased incidence of disruption to our manufacturing and distribution networks
- Temperature increase and extreme weather events reduce economic activity, GDP growth and hence sales levels fall

Our analysis shows that, without action, both scenarios present financial risks to Unilever by 2030, predominantly due to increased costs. However, while there are financial risks which would need to be managed, we would not have to materially change our business model. The most significant impacts of both scenarios are on our supply chain where costs of raw materials and packaging rise, due to carbon pricing and rapid shift to sustainable agriculture in a 2°C scenario and due to chronic water stress and extreme weather in a 4°C scenario. The impacts on sales and our own manufacturing operations are relatively small.

The results of this analysis confirm the importance of doing further work to ensure that we understand the critical dependencies of climate change on our business and to ensure we have action plans in place to help mitigate these risks and thus prepare the business for the future environment in which we will operate. We plan to conduct further analysis on the impact of climate change on our agricultural supply chain and the impact of changing weather patterns (including both persistent effects such as droughts and the temporary effects of storms) on critical markets and manufacturing.

### FURTHER CLIMATE CHANGE DISCLOSURES

This Annual Report and Accounts contains additional disclosures on our climate change risks and opportunities:

- Governance and remuneration: pages 43 and 47 to 76
- Strategy for climate change: pages 14 and 15
- Risk management: page 28
- Metrics and targets: pages 7, 13 and 14

# Early examples

## Support across various industries

### Task Force on Climate-related Financial Disclosures ('TCFD')

#### Initial response to the Financial Stability Board

Reducing global carbon dioxide emissions is a critical challenge for everyone. We recognise its importance and seek to be a leader in managing climate change risk while developing opportunities with – and for – our customers. We welcome the new disclosure recommendations from the FSB taskforce, which assist the understanding of climate-related risks, and we were a signatory to the June 2017 TCFD report. This represents our first disclosure under the framework. We recognise this will evolve and expand over time.

#### HSBC Holdings plc – Annual report and accounts 2017

#### Implementing the recommendations of the FSB Task Force on Climate-related Financial Disclosures

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) signed Statements of Support for the recommendations of the FSB Task Force on Climate-related Financial Disclosures, and we will be implementing the recommendations over the next few years. Our initial disclosure is below.

#### Jupiter Fund Management plc Annual report and accounts 2017

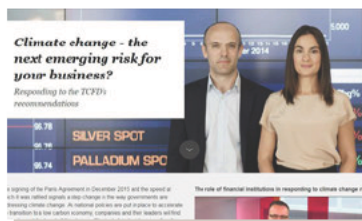
#### Climate-related disclosures

Responding to climate change is an integral part of our strategy and operations. Therefore information relating to climate change is contained throughout this Report. The table below shows how our disclosures in this Report align to the TCFD recommendations, and where the relevant information can be found. Further information can also be found in BHP's Sustainability Report 2017, Climate Change: Portfolio Analysis (2015) and Climate Change: Portfolio Analysis – Views after Paris (2016).

TCFD recommendation	Disclosure	Location
<b>Governance – Disclose the organisation's governance around climate-related risks and opportunities</b>		
(a) Describe the Board's oversight of climate-related risks and opportunities.	Board skills and experience – climate change Sustainability Committee – role and focus	2.8 2.13.4
(b) Describe management's role in assessing and managing climate-related risks and opportunities.	Our climate change strategy Sustainability Committee – role and focus FY2017 STI performance outcomes	1.10.6 2.13.4 3.3.2

#### BHP Billiton plc – Annual report 2017

## Further information



### Climate change – the next emerging risk for your business?

Responding to the TCFD's recommendations

## Contacts

### Jon Williams

Partner

T: +44 (0)20 7804 3978

E: jon.d.williams@pwc.com

### Stephanie Chang

Asst. Director

T: +44 (0)20 7804 6515

E: stephanie.y.chang@pwc.com

### Matthew Johns

Manager

T: +44 (0)20 7213 4076

E: matthew.w.johns@pwc.com

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2018 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details. 180226-093435-GK-OS