WHAT ARE THE TCFD RECOMMENDATIONS AND HOW WILL THEY AFFECT MY ORGANISATION?
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About the TCFD

Climate change is recognised as a significant threat to the stability of global economic, social and geopolitical systems. There is a growing demand for organisations to properly assess, understand and report climate-related risks.

The Financial Stability Board (FSB), a body that makes recommendations on the global financial system, established the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 at the request of G20 leaders. The Task Force recognises the significant threat climate change poses to the global economy. The recommendations encourage consistent, reliable and clear climate-related financial disclosures enabling investors to take account of climate-related risks.

WHAT IS THE TCFD?

The TCFD sets out to increase the action taken in response to climate-related financial risks. Voluntary recommendations promote the annual disclosure of climate-related financial risks by companies to help create a prepared and robust economy.

WHO ARE THE RECOMMENDATIONS INTENDED FOR?

- All organisations from both the financial and non-financial sectors.
- Especially relevant for those with annual revenue above US$ 1 billion and/or public debt or equity.
- Asset managers and owners looking to better understand risk and how this affects their investments.

$93 TRILLION OF INVESTMENT IS REQUIRED BY 2030 TO LIMIT GLOBAL WARMING TO TWO DEGREES
An introduction to the recommendations of the Task Force on Climate-related Financial Disclosures

1 About the TCFD

WHY ARE THE TCFD RECOMMENDATIONS IMPORTANT?

MITIGATE RISK
The recommendations can help an organisation understand and mitigate against the climate-related risks presented by the rising threat of climate change.

INFORMED INVESTMENT
There is growing interest for clear and consistent disclosure from investors and stakeholders. Effective disclosure encourages transparency and risk analysis, leading to informed investment choices and reduced capital loss.

SUPPORTED BY HLEG
Implementing the TCFD recommendations is supported by the High-Level Expert Group on Sustainable Finance (HLEG), that advises the TCFD recommendations should be implemented at the EU level.

$1.8 TRILLION IN ASSETS
Over 100 investors with $1.8 trillion in assets want 62 of the world’s largest banks to implement the TCFD recommendations.

FRANCE LEADING THE WAY
A similar approach has been adopted by France under Article 173, making it the first country to introduce mandatory climate change-related reporting for institutional investors.

COMPETITIVE ADVANTAGE
The TCFD recommendations are now incorporated in the credit rating of Standard and Poor’s Global Ratings. It therefore has the potential to give a company a competitive advantage but could also negatively affect the rating depending on the environmental and climate risks faced by a company.

In 2017 Aberdeen Roads’ credit rating was reduced from A- to BBB+, a result of construction delays following flooding, utility diversion delays, and uncertainty around the financial implications for the project.

Albemarle Corporation’s credit rating was upgraded from BBB- to BBB following the company’s outstanding operating performance in the lithium market, and its potential to become more profitable given the increasing demand for lithium batteries.
About the TCFD

ALIGNMENT WITH OTHER FRAMEWORKS

There are currently nearly 400 initiatives providing information regarding climate-related disclosures. The TCFD recommendations seek to compliment these standards and create a universal framework.

If organisations implement the TCFD recommendations, these will feed into their existing business disclosures.

UN PRI

The PRI have aligned with the TCFD recommendations by integrating climate-related indicators within their 2018 Reporting Framework. The indicators will not be assessed and are voluntary to report and disclose. Responses will be available in the form of a separate climate transparency report.

CDP

CDP has amended and added questions to the Climate Change Questionnaire to align with the TCFD recommendations.

The 2018 climate, forests, and water CDP questionnaires have a more sector-focused approach to disclosure and reporting.

CDP has taken a more forward-looking perspective to climate risk disclosure, and placed greater emphasis on factors such as board oversight, climate risk assessment and management.

Questionnaires also consider the use of scenario analysis to identify the resilience of a company’s strategy to climate risks.
What are the TCFD recommendations?

The recommendations help organisations to consider the potential implications of climate change to their business model.

Addressing these will help ensure businesses are futureproofed and able to transition to a low-carbon economy. Recommendations are categorised into four areas: Governance, Strategy, Risk Management, and Metrics and Targets.

Each recommendation helps an organisation to consider how they can measure and manage climate-related risks.

**GOVERNANCE**

Within the organisation, who is responsible for assessing and managing climate-related risks and opportunities?

**STRATEGY**

How can an organisation measure the impact of climate-related risks and opportunities on their strategy and financial planning?

**RISK MANAGEMENT**

How can an organisation identify and manage climate-related risks?

**METRICS AND TARGETS**

What metrics and targets should an organisation use to manage the relevant climate-related risks and opportunities?
2 What are the TCFD recommendations?

GOVERNANCE

The TCFD emphasises that climate-related risks and opportunities should be discussed and managed at board level. Addressing the impacts of climate change at the top of the organisation ensures that risk management is well integrated in the organisation’s management system.

RECOMMENDED DISCLOSURES:

- Provide information on the board’s oversight of climate-related risks and opportunities and on the role of management in assessing them.
- Disclose who within the organisation is assessing and managing climate-related risks and opportunities.
- Board directors should ensure the recommendations are applied and that the organisation reports effectively on climate-related risk as well as other material risks.
- Organisations are recommended to disclose in their mainstream annual financial filings.

STRATEGY

The TCFD recommends the disclosure of both the actual and potential impacts of climate-related risks and opportunities on the organisation. This allows organisations to consider the performance of their businesses model under future climate change, improving resilience.

RECOMMENDED DISCLOSURES:

- Identify the climate-related risks and opportunities across a range of timescales.
- Understand how the company may be affected over long timeframes through climate-related scenario planning, with an emphasis on scenarios with a global warming of less than 2°C.
What are the TCFD recommendations?

**RISK MANAGEMENT**

Detail on how climate-related risks are managed within an organisation should be provided, encouraging organisations to ensure the management of climate-related risks are effectively integrated throughout the organisation.

**RECOMMENDED DISCLOSURES:**

- Provide information on the organisation’s processes for identifying, assessing and managing climate-related risks.
- Describe how these processes are integrated into the organisation’s overall risk management.

**METRICS AND TARGETS**

Organisations should disclose what metrics and targets are used to manage relevant climate-related risks and opportunities. This allows organisations to demonstrate how they are futureproofing their growth ahead of future policies and regulations that limit GHG emissions.

**RECOMMENDED DISCLOSURES:**

- Disclose the metrics and targets used for managing climate-related risks.
- Early financial disclosures may be qualitative rather than quantitative.
- Governance and risk management information may be disclosed initially with a delayed disclosure of scenario analysis and performance metrics results.
- Disclosure can be achieved via other non-financial reporting frameworks (i.e. CDP).
What are climate-related risks?

Climate change poses a significant threat to organisations. In order to manage climate-related risk the TCFD sets out recommendations that include both the physical risks and transition risks associated with climate change.

**SCENARIO ANALYSIS**

Organisations can use scenario analysis to determine the resilience of their business’s strategy. Scenario analysis uses data to help develop climate simulations. These simulations hypothesise potential future climatic conditions and assess how an organisation will respond.

Scenarios can be approached in two ways:

**USE AN IDEAL OUTCOME TO DETERMINE WHAT CHANGES ARE REQUIRED TO ACHIEVE THIS.**

The [IPCC](https://www.ipcc.ch/) recommends moving to an emissions pathway consistent with a 2°C warming target. In order to realise this scenario CO₂ emission cannot exceed 450ppm.

**USE LEGISLATION AND POLICY PATHWAYS TO ASSESS HOW CLIMATE WILL CHANGE UNDER THEM.**

The [IEA](https://www.iea.org/) uses policy pathways to determine what will happen to the earth’s climate. Their main scenario considers all national commitments to reduce GHG emissions.

**SCIENCE BASED TARGETS**

SBT are carbon emission targets developed in line with the decarbonisation required to limit global temperature increase to 2°C. These targets allow organisations to determine when and by how much GHG emissions need to be reduced and sets out a pathway to achieve reductions.

Consists of both mid and long-term targets (2030 to 2050).
What are climate-related risks?

**How can scenario analysis help businesses to manage climate-related risk?**

Scenario analysis helps an organisation prepare for both physical and transition risks the economy may face under climate change:

**Physical**

Under different scenarios, organisations can identify the likelihood of physical risks (e.g. flooding), occurring and their magnitude. Adaptation measures can then be implemented.

**Transition**

Organisations can determine where they stand as a contributor to carbon emissions, allowing them to make necessary adjustments in line with reduction targets and increasing readiness for a transition to a low-carbon economy.

**Planning**

Organisations can then project the required capital expenditure to implement reduction targets and necessary adaptation measures.

**The Economy under Climate Change**

The impacts that the economy is likely to face under climate change will differ based on the level of warming the earth experiences:

- **1.8°C**
  - Slowdown of per capita economic growth and global GDP decline by 2060 with the most affected region being the Middle East and North Africa.
  - Major impacts can be avoided as long as global average warming is kept below 2°C.
  - This will require a move towards clean and efficient technologies.

- **2.8°C**
  - Dramatic climatic changes are likely to cause increasing extreme weather events (physical risks).
  - Need to invest and adapt to a dramatically changing environment (transition risks).

- **3.4°C**
  - IPCC projected temperature increase

*Dramatic climatic changes are likely to cause increasing extreme weather events (physical risks).*
3 What are climate-related risks?

HOW MIGHT CLIMATE-RELATED RISKS AFFECT MY ORGANISATION?

Climate change presents significant risks to organisations. The TCFD extends beyond the traditional understanding of climate-related risks that typically refer to the physical impacts resulting from extreme weather events, to include transition risks and the risks associated with moving into a low-carbon economy.

FLOOD RISKS

The Environment Agency who estimate that 5 million residents (not residential homes) are at risk of flooding in the UK. A recent study with a major UK bank found that approximately one million home insurance customers could be affected by flooding, with the average claim between £20,000 - 40,000.
3 What are climate-related risks?

TRANSITION RISKS
Identifying and managing transition risks is important if an organisation is to smoothly move towards a low-carbon economy.

MARKET RISK
As economies react to climate change, supply and demand will shift for certain services and products. The financial security of investments, including employee pension funds, could be at risk as financial markets and investment strategies change, moving away from traditional oil and gas stocks into renewables and other sectors.

RENEWABLE INVESTMENTS
2016 saw a record installation of renewable power capacity worldwide, representing 55% of all new capacity installed globally. This increased uptake comes as the cost of renewable energy drops.

Last year, New York City’s biggest pension fund lost $135 million due to underperforming fossil fuel investments.

REPUTATION RISK
Organisations risk jeopardising their customer base and brand value by failing to appropriately demonstrate adaptation or contribution to a low-carbon economy.

TALENT ACQUISITION
According to a study by MSLGroup, being involved in environment issues is the third most important driver for British millennials when job searching. With over 75% of the workforce set to be millennials by 2025, companies risk compromising their reputation and quality of their candidate pool unless they consider the requirements of millennials.
An introduction to the recommendations of the Task Force on Climate-related Financial Disclosures

3 What are climate-related risks?

TECHNOLOGY RISK
Organisations may be impacted by improvements in technology that support the transition to a lower-carbon economic system as new technologies, such as renewable energy or carbon capture storage, displace older systems and disrupt parts of the current system.

This transition in technology will affect production and distribution costs and the demand for services.

DRIVING FORWARD
The UK and France have revealed plans to ban the sale of new cars with conventional engines by 2040. Norway and India have announced similar plans to come into force by 2025 and 2030 respectively.

The mainstreaming of Electric Vehicles (EVs) will deeply impact the automotive supply chain, with over 70% of gasoline-powered vehicles’ components differing from those of an EV. Demand for exhaust systems and gearbox maintenance will fall as a need for charging station infrastructure, security and software will rise.

POLICY AND LEGAL RISKS
Organisations are at risk of new policies that seek to mitigate climate change or promote climate change adaptation.

There is an increased risk of litigation claims (claims to take legal action) against companies that have failed to act appropriately on climate change, contributed to its causes or inadequately disclose information concerning material financial risks.

Litigation risk is anticipated to rise along with the value of loss and damage caused by climate change.

ARTICLE 173
In 2016, Article 173 of the French Energy Transition Law came into force. The law introduces to France the broadest mandatory climate change-related reporting to date, requiring asset owners and managers to report climate factors and carbon emission footprints. Information must be disclosed by companies about the strategy for addressing transitions to a low-carbon economy.

Companies that fail to adhere to the mandatory reporting requirements will be subject to policy risks as outlined above.

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3. **What are climate-related risks?**

**WHAT OPPORTUNITIES DOES CLIMATE CHANGE PRESENT TO MY ORGANISATION?**

With climate-related risks come business opportunities that companies can capitalise on:

<table>
<thead>
<tr>
<th>IMPROVE RESOURCE EFFICIENCY</th>
<th>REDUCE ENERGY COSTS</th>
<th>DEVELOP NEW PRODUCTS AND SERVICES</th>
<th>DIVERSIFY BUSINESS ACTIVITIES</th>
<th>INCREASE THE RESILIENCE OF YOUR ORGANISATION</th>
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<tr>
<td>✓ Organisations can improve resource efficiency by making changes to transport, the distribution process, buildings and water use.</td>
<td>✓ For the fifth year in a row, investments in renewable energy capacity have exceeded investments in fossil fuel generation and the price per MWh is predicted to fall in this period up to 2022. Shifting energy usage towards low-emission energy sources will help organisations to reduce annual energy costs.</td>
<td>✓ Organisations can improve competitive advantage by developing innovative, new low-emission products. <strong>Green bonds</strong> are a growing investment opportunity and a funding tool for sustainable infrastructure. The issuance of these almost doubled between 2015-2016 to <strong>$74.9 billion</strong>.</td>
<td>✓ New markets diversify an organisation’s business activities.</td>
<td>✓ Organisations can future proof their business by preparing for the transition to a low-carbon economy.</td>
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<tr>
<td>✓ These efficiencies reduce operating costs over the medium to long-term.</td>
<td></td>
<td>✓ Organisations can consider accessing new markets through collaboration with governments, development banks, small-scale local entrepreneurs and community groups.</td>
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**THE BUSINESS CASE: CITIBANK**

In 2015, Citibank found that the ‘Action’ scenario (transition to a low-carbon economy) was cheaper than the ‘Inaction’ scenario (business-as-usual) due to savings from reduced fuel costs and increased energy efficiency.

Over the next 10 years, the bank has committed US$100 billion to finance activities that reduce carbon emissions, help communities adapt to climate change and directly finance sustainable infrastructure, such as low-carbon housing.
What should my business do next?

**CASE STUDY: BARCLAYS**

Companies should start taking action as soon as possible, especially those already disclosing under other frameworks such as CDP.

**Credit Risk**

The dedicated ERM team advise on client transactions that have associated environmental or climate-related risks.

**Operational Risk**

The ERM team identify indicators that affect the resilience and continuous operation of the business, including regulatory risks and extreme weather events (physical and transition risks).

**Reputation Risk**

Climate change has been identified as an emerging reputational issue. Barclays recognise an increasing scrutiny from society, shareholders and potentially national governments with regards to the management and disclosure of their climate-related risks and opportunities, including the activities of certain sections of their client base.

**Climate-Related Opportunities**

In addition to taking steps to measure and manage climate-related risks, Barclays have taken steps to harness the opportunities presented by climate change.

The organisation has multiple business lines actively involved in delivering innovative solutions across product groups, enabling clients to achieve their environmental goals and ambitions. Barclays have continued to support development in the green energy and renewable sectors, and as a result are well positioned to help facilitate the required capital to advance the transition to a low-carbon economy.

**16 UNEP FI** member banks representing many trillions of dollars have committed to developing practical approaches with the aim of piloting the TCFD recommendations. Of the member banks, Barclays has taken steps to implement the recommendations.

In their 2016 **annual report**, Barclays outline the role of the Enterprise Risk Management (ERM) Framework that manages climate change risks under the categories: Credit, Operational and Reputation.
What should my business do next?

**THE APPROACH**

Based on the progress of those organisations already piloting the recommendations, the following approach provides a set of next steps for organisations to consider:

**ASSESS RISK EXPOSURE**
Assess the organisation’s present and future exposure to climate-related risks (physical and transition) and opportunities.

**SCENARIO ANALYSIS**
Investigate how the organisation’s exposure to physical and transition risks and opportunities is affected under potential scenarios (from the IPCC, IEA, etc.).

**FINANCIAL ANALYSIS**
Simulate how the organisation will be affected financially and strategically under these scenarios. Consider operating costs, revenues and supply chain impacts.

**FINALISE STRATEGY**
Based on previous analysis, identify and apply a scenario-based strategy to manage the climate-related risks and opportunities. Ensure adjustments to the organisation’s business model, portfolio and investments are in line with the final plan.
What should my business do next?

TIMING

Timing to finalise a strategy can range from two to six months with in-depth analysis but will vary based on scope and long-term considerations.

MILESTONES

COP21 PARIS
01.11.15

TCFD FINAL REPORT
01.07.17

HLEG REPORT
31.01.18

PRI REPORTING FRAMEWORK
31.03.18

CDP DEADLINE CLIMATE CHANGE, WATER AND FORESTS
31.07.18
The EcoAct Group is an international advisory consultancy and project developer that works with clients to meet the demands of the Paris Climate Change Agreement. We work with many large and complex multinational organisations to offer solutions to their sustainability challenges.

We believe that climate change, energy management and sustainability are drivers of corporate performance and we seek to address business or organisational problems and opportunities in an intelligent way.

The EcoAct Group includes Alliantis, Carbon Clear and Climate Pal.