

What is the TCFD?

The Task Force on Climate-related Financial Disclosures (TCFD) was established - at the request of the G20 - by the UK's Financial Stability Board led by then Governor of the Bank of England Mark Carney, with Michael Bloomberg chairing the Task Force. Their aim was to develop consistent climate-related financial disclosures that would be useful to investors in understanding the risks and opportunities to organizations stemming from climate change and the transition to a lower-carbon economy. The significance of climate change has implications for the global financial system including "avoiding financial dislocations and sudden losses in asset values". The TCFD framework¹ was released in 2017 and focuses on delivering information on four recommendations (pillars) and 11 recommended disclosures, which can be applied by organizations across sectors and jurisdictions².

Voluntary or mandatory?

The TCFD is a voluntary disclosure framework. Recent figures are that over 1600 organizations, stock exchanges, reporting standards bodies and most of the global Top 100 listed companies have formally supported it. The New Zealand and UK governments have made it mandatory for listed companies and others to report their climate-change disclosures in line with TCFD. In South Africa, the National Treasury Technical Paper 2020³ recommended that TCFD-type reporting be explored by financial sector regulators and the financial industry.

Organizations are issuing detailed, separate TCFD reports

The TCFD focus is the disclosure of material climate-related financial disclosures in an organization's primary financial report and filings. As a result, however, of the depth and detail of the recommended disclosures some organizations issue a separate TCFD report and include material information in the financial statements, sustainability report and integrated report. Other organizations have opted for a TCFD content index containing links to where the information on the recommended disclosures can be found.

Climate-related costs in the financial statements

Climate-related costs and impacts (historical and affecting projected future cash flows) are included in financial statements when applying the International Financial Reporting Standards (IFRS). The financial accounting considerations can be numerous and include⁴: asset impairment (including goodwill); changes in the fair valuation of assets; effects on impairment calculations because of increased costs or reduced demand; changes in provisions for onerous contracts because of increased costs or reduced demand; changes in provisions and contingent liabilities arising from fines and penalties; and, changes in expected credit losses for loans and other financial assets.

¹ <https://www.fsb-tcfd.org/recommendations/>

² The TCFD offers supplemental implementation guidance addressing the needs of the financial sector and non-financial groups, as well as publications on scenario analysis and risk management integration
<https://www.fsb-tcfd.org/publications/>

³ <http://www.treasury.gov.za/publications/other/Sustainability%20technical%20paper%202020.pdf>

⁴ Nick Anderson, "IFRS Standards and climate-related disclosures", *In Brief*, IFRS Foundation (November 2019)
<https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en>

How can climate change affect an organization's strategy?

The Intergovernmental Panel on Climate Change reports set out the projected effects of climate change across the world, with climate change already having significant social and economic impacts. In southern Africa, predictions are that temperatures in some parts will rise higher and faster than the global average and potentially affect productivity, biodiversity, quality of life, food security, health, accelerated species loss, eco-systems degradation, water stress and more. The TCFD's underlying processes can help identify and manage the climate change risks for an organization. Through scenario appraisal and the reassessment of strategy in the light of the identified risks, investors can assess whether the organization will be resilient to changes that could come from regulations (emission caps and carbon tax), extreme weather events, consumer swings to sustainable products, or financing restrictions in the move to a "green economy".

The TCFD's four recommendations and 11 recommended disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization 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 organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
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 organization's businesses, strategy, and financial planning.	b) Describe the organization'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.
	c) Describe the resilience of the organization'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 organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Figure 1: Recommendations and supporting Recommended Disclosures⁵

For further information on the recommendations and recommended disclosures please see the TCFD Recommendations Report <https://www.fsb-tcf.org/recommendations/>.

The TCFD also offers seven disclosure principles⁶ designed to help organizations achieve effective disclosures that will enable users to understand the impact of climate change on an organization. The Task Force has recommended that climate-related risk information that could affect the decision-making of investors be deemed as material. In assessing the

⁵ Recommendations of the Task Force for Climate-related Financial Disclosures, page 14, <https://www.fsb-tcf.org/recommendations/>

⁶ <https://www.fsb-tcf.org/recommendations/>

materiality of climate-related risks, considerations can include the urgency of drastically reduced global emissions to avoid climate change tipping points and disruptive change; the known milestones for reductions; and that major adaptive technologies may be required with concomitant capital investments and operating changes.

How does this fit into the integrated report?

The integrated report discloses material information on the organization's external environment, business model, strategy, risks and opportunities, performance, outlook and governance. The TCFD recommendations focus singly on climate-related disclosures, with some of its recommended disclosures requiring detailed information.

The conclusions and highlights under each of the TCFD's four recommendations is relevant information and, as such, would as a matter of course be considered by the organization in the integrated report preparation and presentation process. The material nature of climate change means that to many organizations such information could appear in several places in the integrated report. For instance, in the statements by the Chair, CEO and CFO; and in the content elements of external environment, governance, strategy, business model, performance, risk and opportunities (encompassing those material identified in the climate-change assessment process) and outlook; as well as in the process of determining materiality and the identified material matters.

While the integrated report offers the material information on climate-related information reference can be made to additional, detailed information available on the organization's website or in a separate report, such as the TCFD report mentioned earlier. For instance, this might be case with the detailed TCFD disclosure on the methodologies, assumptions, scenario analysis and metrics. This approach follows the IRC's *FAQ: The Octopus Approach* - where the integrated report is positioned as the head of the octopus (the primary report) with other detailed and subject-specific reports or information being the arms of the octopus.

Some useful resources include:

1. The TCFD knowledge hub: <https://www.tcfdhub.org>
2. The work of the IFRS Foundation and its International Sustainability Standards Board, which will be releasing a standard on reporting on climate change based on the TCFD recommendations <https://www.ifrs.org/projects/work-plan/sustainability-reporting/>
3. "Reporting on Enterprise Value: Illustrated with a Prototype climate-related financial disclosure standard", December 2020, https://integratedreportingsa.org/ircsa/wp-content/uploads/2021/01/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf

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