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The Task Force for Climate-related Financial Disclosures (TCFD)

Recommendations and Industry Reactions

What is the TCFD?

The TCFD, chaired by Michael Bloomberg, aims to increase climate transparency in financial markets through recommendations on disclosure. These recommendations provide a "*consistent framework that improves the ease of both producing and using climate-related financial disclosures*". It views climate transparency as key to the future of financial markets.

In the wake of the 2015 Paris Climate Agreement, the TCFD was launched by the Financial Stability Board (FSB), chaired by Mark Carney, the Governor of Bank of England. With over 400 disclosure frameworks for corporates and twelve for investors, the TCFD intends to create a sole standard for corporate and investor disclosure.

What are the recommendations?

The recommendations report and supplementary materials were released on 29th June 2017. The recommendations have been split into four themes:

> *"Increasing transparency makes markets more efficient, and economies more stable and resilient."*
> **Michael Bloomberg**

1. **Governance:** The organization's governance around climate-related risks and opportunities

2. **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

3. **Risk management:** The processes used to identify, assess, and manage climate-related risks

4. **Metrics and targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Each theme has sub-themes with specific approaches for assessment and disclosure of the associated climate risk. The intention is that compliance with the themes and metrics will enable the industry to produce consistent and comparable disclosures, benefitting corporates and investors alike. The TCFD created guidance covering all sectors, with specific guidance for Banking, Insurance, Asset Managers & Owners, Energy, Transport, Materials & Buildings, Agriculture and Food & Forestry.

The recommendations include scenario analysis to help investors understand the resilience of organisations to climate-related risks. These scenarios ensure that investors can align their portfolios with decarbonisation efforts by considering companies through a climate lens. The scenarios start at 2°C average global warming versus pre-industrial levels, going lower to 1.5°C and other more ambitious targets.

How has the market reacted?

The following quotes are examples of industry reactions. These are generally reflective of the wider market, with few, if any, voices of disagreement or criticism of the TCFD's work.

"The TCFD will be a mirror and a widow. A mirror as it helps companies study where they can improve their own risk management. A window as it helps the market know where climate risks exist in portfolios." **Steve Waygood, Aviva Investors**	"In light of the TCFD recommendations, investors are seeking better disclosure from companies in sectors exposed to climate change and global efforts to reduce emissions." **Roland Bosch, Hermes EOS**
"The recommendations of the TCFD represent a landmark step in enabling financial firms to understand and manage these risks and adopt a consistent approach across their exposures." **Paul Fisher, CISL**	"There should be no resistance to the adoption on the TCFD's recommendations. With its remit extended to 2018, the TCFD is well placed to monitor take-up of its framework closely." **Philippe Desfosses, ERAFP**

Is there anything missing from the recommendations?

The recommendations provide a robust platform for companies to disclose consistently. However, ISS-Ethix Climate Solutions suggests that the TCFD could consider the following in future iterations or discussions:

› Education and training in implementing the recommendations and how best to use and understand the disclosures.
› How to engage with regulators on taking the recommendations from voluntary to mandatory.
› Guidance on avoided emissions of investments made into low-carbon companies and sectors.

It is important to note that the TCFD is not a framework for investor impact on climate change, but rather a framework for measuring investment risk associated with climate change legislation and effects.

Our Solution

ISS-Ethix Climate Solutions can support asset managers and owners who want to engage with the TCFD in two ways:

Reporting Help clients comply with the TCFD recommendations	Data Help clients build portfolios that are aligned with the TCDF recommendations
› The TCFD have developed specific reporting recommendations for asset managers and asset owners. › These fall under three of the four categories (there are no specific Governance disclosure requirements). › ISS-Ethix Climate Solutions can incorporate these specific recommendations into its Climate Impact Report which, includes a quantitative carbon footprint, climate impact analysis and 2-degree scenario checks, alongside a qualitative review of climate strategy and objectives.	› The specific TCFD recommendations for asset managers and asset owners include both quantitative analysis and qualitative review elements. › For the quantitative analysis, ISS-Ethix Climate Solutions can provide the underlying data for over 25,000 listed companies. › This data can support the process of identifying companies for investment and aligning portfolios to the TCFD recommendations.

Get started on ISS-Ethix Climate Solutions.

Email sales@issgovernance.com or visit www.issgovernance.com/esg for more information.

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