Embarking on the TCFD journey

A briefing guide

luminous

Introduction & contents

Embarking on the TCFD journey

Luminous has developed this briefing guide for UK-listed companies starting out on their TCFD reporting journey.

TCFD reporting refers to the set of recommendations published by the Task Force on Climate-related Financial Disclosures in 2017. In November last year, the Financial Conduct Authority (FCA) announced that reporting against the recommendations will become mandatory in the UK from 2022, with disclosures to be included in the Annual Report.

While some of the TCFD recommendations overlap with existing non-financial reporting requirements, others do not and are likely to require new disclosures.

This guide is designed to help companies navigate the recommendations, identify where existing activity and data is relevant, and pinpoint where new information is required.

We deliberately refer to this as a journey because the TCFD recommendations will apply on a 'comply or explain' basis (at least initially) and they are sufficiently flexible to allow companies add to and enhance their disclosures over time.

We hope this guide will provide a helpful and timely starting point for companies embarking on this journey.

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What is TCFD reporting?

TCFD stands for the Task Force on Climate-related Financial Disclosures. It was established in 2015 by the Financial Stability Board under the leadership of Mark Carney, then Governor of the Bank of England. In the context of corporate reporting, the term refers to a framework published by the Task Force in 2017 for use by companies to provide information about their climate-related financial risks to investors and other stakeholders.

The framework consists of 11 recommendations on climate-related financial disclosures structured around four thematic areas:

- Governance
- Strategy
- Risk Management
- Metrics and Targets

The recommendations are designed to be adoptable by all organisations for inclusion in companies' annual financial filings, i.e. the Annual Report for UK-listed companies.

When does TCFD reporting become mandatory?

UK premium listed companies with reporting periods beginning on or after 1 January 2021 are now required by the FCA to adopt TCFD reporting in their Annual Report. The requirement will be rolled out more widely from the following year onwards.

Immediately following the FCA's announcement on mandatory TCFD reporting in November 2020, the Financial Reporting Council (FRC) also announced its support for companies to report against the TCFD recommendations. For reference, at the same time it announced its encouragement for companies also to report against the Sustainability Accounting Standards Board (SASB) metrics, these being metrics designed to help companies report financially material sustainability information to investors on a sector-specific basis. "We encourage companies to report on these areas within their next reporting cycle," the FRC commented. However, reporting against SASB metrics is not mandatory for the time being.

Is TCFD reporting relevant to all listed companies?

The groundswell of support from governments and capital markets regulators for measures to address climate change is now evident globally. Without needing to expand on this trend, the recent launch by the Bank of England of climate stress tests for commercial lenders from June 2021 is relevant here.

In his speech at the Green Horizon Summit on 9 November 2020, Andrew Bailey, Bank of England Governor, commented:

"What we cannot measure we cannot manage, so it is important that financial firms and their clients use the TCFD framework and the latest tools available to measure, model and disclose the climate risks and opportunities they are exposed to today and in different future climate scenarios...

As we have set out in our supervisory expectations, firms must assess how climate risks could impact their business and review whether additional capital needs to be held against this...

An important part of the recovery from Covid will be to stimulate and support investment... To support this, we need to see a strong focus on public metrics that set out the climate impacts of both investment and corporate activities."

Thus, even where climate-related reporting may not feel immediately relevant to all companies, it appears likely that the provision of capital may increasingly be linked to compliance with frameworks such as TCFD.

What level of detail is initially required to comply?

The FCA has confirmed that reporting against TCFD recommendations will initially be introduced on a 'comply or explain' basis. This will be important in allowing companies to start on the journey towards TCFD reporting, with further detail provided over time.

To date, TCFD reporting has been presented in the form of an index table or a narrative, or a combination of both. While it typically features cross-referencing to various sections of the Annual Report, the inherent flexibility provided by the TCFD framework means that additional commentary, beyond an index of disclosures, can - and probably should - be provided.

The benefit of this flexibility was clearly explained by Sarah Abbot, Financial Reporting Manager of FTSE 100 Berkeley Group, which reported against TCFD for the first time in its 2020 Annual Report:

"The flexibility the TCFD framework offers is valuable in allowing each company to set out its own metrics and targets and showcase how it approaches risk management. A company can also showcase both risks and opportunities relating to climate change in an appropriate context. TCFD allows companies to set new targets as the business develops or add new targets as external situations develop. COVID-19 is a good example of when businesses may want to bring in additional targets or amend their existing targets to take account of external factors."

"The flexibility the TCFD framework offers is valuable in allowing each company to set out its own metrics and targets and showcase how it approaches risk management."

Sarah Abbot
Financial Reporting Manager
Berkeley Group plc

What level of detail is initially required to comply? continued

Alongside Berkeley Group, Luminous spoke to two of its other clients which have been early adopters of TCFD reporting, each at sightly different stages in their reporting journey but sharing a clear commitment to climate-related reporting and the TCFD framework:

Severn Trent commented:

"Climate change is a key consideration in our business planning and we have a long history of reducing carbon emissions, having held the Carbon Trust accreditation for over a decade. We include in our Annual Report and Accounts which Directors possess sustainability - and, in particular, climate change - experience and expertise and last year announced our triple carbon pledge of net zero carbon emissions, 100% electric vehicles, and 100% of energy from renewable sources, by 2030.

"Importantly, we also took the decision to report against the TCFD recommendations for the first time. We published our TCFD disclosures in our Sustainability Report along with a commitment to develop science-based targets and are looking forward to building on our TCFD reporting going forward."

Where Severn Trent has committed to publishing science-based targets, Britvic has already done so and described the process as beneficial to the business:

"The climate crisis is the defining issue of our time and the greatest challenge to sustainable development, affecting every country, business and person on the planet.

"At Britvic, our commitment to achieving our science-based carbon reduction targets has concentrated our focus and helped us embed climate-related decision-making across our business. Specifically, our approved science-based targets mean reducing our Scope 1 and 2 emissions by 50% and our Scope 3 emissions by 35% by 2025. We have also pledged to be a carbon-neutral business by 2050.

"Clearly, we are already committed to working towards incorporating the TCFD recommendations in full and we also plan to integrate it in our internal decision making processes."

" We include in our Annual Report and Accounts which Directors possess sustainability – and, in particular, climate change – experience and expertise."

Richard Eadie
Head of Corporate Strategy, Sustainability and Group Transformation
Severn Trent plc

" Our commitment to achieving our science-based carbon reduction targets has concentrated our focus and helped us embed climate-related decision-making right across our business."

Sarah Webster
Director of Sustainable Business
Britvic plc

What new information, if any, is likely to be required?

Given existing non-financial reporting requirements, some of the TCFD recommendations are already being met by listed companies, for instance around greenhouse gas (GHG) emissions under Metrics and Targets. Others are likely to be underway, for instance around Governance, while others still are likely to be achievable (at least in part) within existing structures and processes, for instance around Risk Management.

That said, it is likely that new information will be required by most companies around scenario planning in response to the TCFD Strategy recommendations and, given its complex and technical nature, some investment in specialist data modelling is likely to be required.

Hannah Armitage, Project Manager at The Financial Reporting Council's Financial Reporting Lab, acknowledged this but highlighted that, as more companies report on TCFD, the volume of data available will increase which should, in turn, open up this area of data provision:

"There is a clear need for standardisation in global frameworks but reporting against frameworks like TCFD and SASB is an important interim step. Climate scenarios are complex but as more companies consider these, and as disclosures are increasingly standardised, more data will emerge which should help make benchmarking and scenario planning more accessible."

The FRC's statement on Non-Financial Reporting Frameworks can be found at www.frc.org.uk/news/november-2020/frc-nfr-statement. In addition, its support for IFRS Foundation consultation paper on international sustainability reporting standards can be found at www.gov.uk/government/publications/joint-statement-of-support-for-ifrs-foundation-consultation-on-sustainability-reporting/initial-response-to-ifrs-foundation-trustees-consultation

"There is a clear need for standardisation in global frameworks but reporting against frameworks like TCFD and SASB is an important interim step."

Hannah Armitage
Project Manager
The FRC's Financial Reporting Lab

What new information, if any, is likely to be required?
continued

Based on the TCFD graphic opposite we have sought to identify where companies reporting for the first time are likely to require new information in order to comply, as opposed to referencing relevant existing disclosures:

Figure 1. Identifying likely new information requirements versus likely relevant existing corporate disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organisation's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses strategy, and financial planning where such information is material.	Disclose how the organisation 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			
a) Describe the Board's oversight of climate-related risks and opportunities. **b)** Describe management's role in assessing and managing climate-related risks and opportunities.	**a)** Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term. **b)** Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning. **c)** Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	**a)** Describe the organisation's processes for identifying and assessing climate-related risks. **b)** Describe the organisation's processes for managing climate-related risks. **c)** Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	**a)** Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with strategy and risk management processes. **b)** Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks. **c)** Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.
Luminous commentary on new and/or existing information required			
a) and b) Mechanisms and processes at both **Board** and **executive management** levels are likely already to be in place for ESG/CSR/sustainability issues. With timely planning, these could be extended, as required, to include climate-related issues.	**a)** For many companies, shorter-term key risks and opportunities related to climate change will probably have been identified, if material, but additional data to assess longer-term implications may be required. **A holding statement on the company's intentions/plans may therefore be required.** **b)** As above, if material, it is probable that companies can explain how they have responded in terms of strategy and financial planning to shorter-term risks and opportunities. A description of how they intend to evolve these in the longer term may also be possible based on existing information. **c)** However, an explanation of how companies would respond to specific temperature/climate changes is likely to require **new** information, probably achieved with the help of a specialist third party. **As above, a holding statement on the company's intentions/plans may therefore be required.**	**a), b) and c)** It is likely that the mechanisms and processes for risk identification, management and mitigation will serve, at least initially, to address climate-related risk where it is material. The TCFD recommendations make a distinction in their supporting commentary between **physical risks** (such as flooding) and **transitional risks** (such as regulatory changes in response to climate change) and these should therefore be considered here.	**a)** If climate is already included as a principal risk or is included in a company's emerging risk register (or equivalent), it is likely that appropriate metrics have already been identified/are in use. **b)** Most companies will already make Scope 1 and 2 disclosures (and Scope 3 where appropriate) as part of their GHG emissions disclosures and, since April 2019, to meet the Streamlined Energy and Carbon Reporting (SECR) compliance requirements. **c)** Many companies will already have some targets in place and **may wish to commit to identifying more in due course**. **Science-based targets, probably requiring specialist third-party input, have tended to be considered for year two of TCFD reporting or thereafter, as a next step in enhancing reporting**.

What information are other companies providing?

Set out in the Appendix are some (but by no means all) of the key disclosures made by a selection of companies to illustrate – at a glance – the type of content that could be considered for inclusion in year one.

The intention here is to give a flavour of the kind of information companies are providing, the level of their ambition in terms of disclosures and how they are explaining their position where more information will be provided over time.

Naturally, companies in sectors such as financial services, oil and gas, and fashion are likely to have been earlier adopters of TCFD disclosures and to be providing a greater level of detail based on scenario analysis, financial metrics and, in some instances, science-based targets.

For reference, emissions reduction targets are defined as 'science-based' if they are developed in line with the scale of reductions required to meet the goals of the Paris Agreement or COP 21 (as it was adopted at the 21st Conference of the Parties (COP 21) which took place in Paris in 2015) of limiting global warming to well-below 2°C above pre-industrial levels, and pursuing efforts to limit warming to 1.5°C.

Establishing science-based targets is likely to require specialist input.

Establishing science-based targets is likely to require specialist input.

What does good look like?

More advanced TCFD reporting from early adopters provides a good reference point for best practice. An example here is Landsec, which includes specific financial disclosures as shown below (Figure 2.)

If TCFD reporting is done well, it will reflect the strategic thinking and culture that are firmly embedded in the organisation, and it is likely that this will be seen beyond the early adopters of TCFD reporting over time.

For those starting out, it might be helpful to look at HSBC (Figure 3.), which provides a clear and concise two-page summary.

Figure 2. Landsec Annual Report 2020

Key metrics and targets

Climate-related financial metrics Table 28

	2019/20 £m	2018/19 £m	Change £m
Value of BREEAM certified assets	**7,510**	8,283	(773)
Percentage of total portfolio	**59%**	60%	–1%
Rental income derived from BREEAM certified assets	**380**	387	(7)
Percentage of rental income	**56%**	57%	–1%
Operational expenditure in low-carbon equipment and products	**1.5**	1.5	–
Savings from investments in low-carbon equipment and products	**1.6**	1.9	(0.3)
Capital expenditure in low-carbon equipment and products	**1.5**	2.4	(0.9)
Avoided energy consumption costs measured against 2013/14 baseline	**5**	4	1
Insured value of assets exposed to a 10-20% risk of inland, coastal and flash flooding in a ten-year period	**264**	264	–
Percentage value of portfolio exposed to a 10-20% risk of inland, coastal and flash flooding in a ten-year period	**1.1%**	1.4%	–0.3%

Figure 3. HSBC Annual Report 2019

Strategic report | How we do business

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

We all have a role to play in limiting climate change and supporting the transition to a low-carbon economy. We are a signatory to the disclosure recommendations by the Financial Stability Board's task force. This represents our third disclosure under the framework.

Governance
We have an established governance framework to help ensure that risks associated with climate change are considered at the most senior levels of our business.

At each Board meeting, the Directors are presented with a risk profile report that includes key risks for the business, which may include climate risk where appropriate. Independent non-executive Directors make up the majority of the Board. Both the Group Chief Executive and the Group Chief Financial Officer are required to be members of the Board. In 2019, the Group Chief Risk Officer was also a member of the Board. With effect from 1 January 2020, this role ceased to be a Board member but the Group Chief Risk Officer will still attend Board meetings. In this role, the Group Chief Risk Officer raises any concerns directly by providing verbal or written updates on a regular basis to the Board and Group Management Board.

The Board and regional executive committees provide oversight of our strategic commitments and are advised by our climate business councils. The Risk Management Meeting of the Group Management Board ('RMM') provides oversight of climate risk through the 'top and emerging risk' report, which is reviewed on a monthly basis. A dedicated climate risk forum and an ESG Steering Committee also provides executive oversight of climate commitments. We have formally designated responsibility for managing the financial risks from climate change through the Senior Managers Regime for the relevant entities.

In 2019, the Board held a one-day sustainable finance and climate change 'master class'; the Group Risk Committee carried out a thematic review of sustainability and climate change risk management; and the Group Audit Committee discussed ESG at four separate meetings. Our people have also completed more than 5,300 sustainability training modules in 2019, a 41% increase since the previous year.

For further details on how we incentivise senior management and how climate-related disclosures inform our strategy, see page 15.

Strategy
As part of our priority to support the transition to a low-carbon economy, we pledged to provide $100bn of sustainable finance, facilitation and investment by 2025. At the end of 2019, we reached $52.4bn of that goal, of which $43.6bn relates to green or sustainable products. In 2019, HSBC was named the World's Best Bank for Sustainable Finance by *Euromoney*.

We recognise that many customers are making shifts towards the low-carbon economy and that our industry needs to work together to find new ways to measure these activities.

In 2019, HSBC participated in the CDP (formerly the Carbon Disclosure Project) working group to develop financial sector disclosure. We also partnered with climate change experts at MIT to produce exploratory transition scenarios. These scenarios were used to raise internal awareness of the different speeds with which transition could occur, the resulting investment requirements, the implications for energy system configuration and the broad macroeconomic costs.

Risk management
We are in the process of incorporating climate-related risk, both physical and transition, into how we manage and oversee risk. The Board-approved risk appetite statement contains a qualitative statement on our approach to climate risk. We intend to further enhance the climate risk statement in 2020.

In 2019, we also trained over 800 employees on climate risk to strengthen engagement with customers. For further information on how we manage sustainability risks, see pages 42 to 43 of our *ESG Update*.

We report on the emissions of our own operations via CDP and achieved a leadership score of A- for our 2019 CDP disclosure.

Since the revision of the energy policy, we have not agreed any project financing for any new coal-fired power plants anywhere.

For further details of our sustainability risk policies covering specific sectors, see: www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

For further details about the sustainability of our own operations, see www.hsbc.com/our-approach/building-a-sustainable-future/sustainable-operations.

Table 1: Wholesale loan exposure to transition risk sectors

Transition risk sector	Oil and gas	Building and construction	Chemicals	Automotive	Power and utilities	Metals and mining	Total
% of total wholesale loans and advances to customers and banks in 2019[1,2,3]	**≤ 3.8%**	**≤ 3.9%**	**≤ 3.9%**	**≤ 3.2%**	**≤ 3.2%**	**≤ 2.7%**	**≤ 20.6%**
% of total wholesale loans and advances to customers and banks in 2018[1,2,3]	≤ 3.9%	≤ 3.8%	≤ 3.9%	≤ 3.4%	≤ 3.0%	≤ 2.8%	≤ 20.8%

1 Amounts shown in the table include green and other sustainable finance loans, which support the transition to the low-carbon economy. The methodology for quantifying our exposure to higher transition risk sectors and the transition risk metrics will evolve over time as more data becomes available and is incorporated in our risk management systems and processes.

2 Counterparties are allocated to the higher transition risk sectors via a two-step approach. Firstly, where the main business of a group of connected counterparties is in a higher transition risk sector, all lending to the group is included irrespective of the sector of each individual obligor within the group. Secondly, where the main business of a group of connected counterparties is not in a higher transition risk sector, only lending to individual obligors in the higher transition risk sectors is included.

3 Total wholesale loans and advances to customers and banks amount to $680bn (2018: $668bn).

How we do business

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

Developing our approach to transition risk
We have started to develop and publish new transition metrics to help us gain a deeper understanding of the complexities of this topic.

Transition risk is the possibility that a customer will be unable to meet its financial obligations due to the global movement from a high-carbon to a low-carbon economy.

We are considering transition risk from three perspectives: understanding our exposure to transition risk; understanding how our clients are managing transition risk; and measuring our clients' progress in reducing carbon emissions.

To better understand our exposure to transition risk, we identified six higher transition risk sectors in 2018, based on their contribution to global carbon dioxide emissions and other factors. These transition risk sectors and our exposure to them are disclosed in table 1. Figures in this table capture all lending activity to customers within these sectors, including those that are environmentally responsible as well as sustainable financing activities. This means that green financing for large companies that work in higher transition sectors is included. For further information on how we designate counterparties as 'higher transition risk', see footnote 2 on the previous page.

In 2019, to better understand how our clients are managing transition risk, we had more than 3,000 engagements with customers through meetings or phone calls, across all sectors, to discuss their approach to climate change. We also developed a questionnaire to improve our understanding of our customers' climate transition strategies. We received responses from over 750 customers within the six higher risk transition sectors, which represented 34% of our exposure. We are using this information to inform our decision making and strategy. For instance, this information is helping us to understand which customers need to adapt, their readiness to change and identify potential business opportunities to support the transition. This information is also being used to supplement the management of transition risk in our credit risk management processes.

To improve our understanding of the progress our clients are making in reducing carbon emissions, in 2019 we launched a pilot scheme to develop a series of new transition metrics to help disclose our customers' progress towards a low-carbon economy. As part of the pilot, we calculated a weighted carbon-intensity ratio for over 900 customers within the six high risk transition sectors. We first obtained a client's total revenue carbon intensity from a third-party provider, CDP. The revenue carbon intensity ratio is effectively the carbon that is emitted per million dollars of revenue. It was calculated as emissions from both direct and indirect emissions, known as scope 1 and 2 emissions, divided by total revenue. We then weighted the revenue-carbon intensity ratio by our exposure to that client, within the sector.

Next steps
In 2020, we intend to continue to explore what data is available to provide us with greater insight of our clients' portfolio emissions. We also aim to continue to review our retail exposures on a geographical basis in respect of natural hazard risk, for example considering flood risk for properties that we have provided financing on. These reviews are designed to help us identify key areas of vulnerability to climate change, the associated impact on property portfolios and economic activity. We also aim to review our policies and procedures with respect to physical risks associated with climate change for our own buildings and branches. These reviews will help us to understand any gaps in policies and procedures and will also improve our understanding of our physical risk exposure and how this might change over time.

In next year's TCFD disclosure, we also expect to disclose more qualitative information on our approach to climate stress testing.

Memberships

Founding member, the Climate Finance Leadership Initiative

Founding member, Chapter Zero: The Directors' Climate Forum

Member, the FCA and PRA's Climate Financial Risk Forum ('CFRF')

Chair, climate risk working group of the CFRF

For further details of our sustainability-related memberships, see www.hsbc.com/our-approach/esg-information/sustainability-memberships.

Table 2: Customers' questionnaire responses and pilot carbon intensity metrics

	Oil and gas	Building and construction	Chemicals	Automotive	Power and utilities	Metals and mining	Total
Proportion of sector for which questionnaires were completed[4]	33%	37%	27%	39%	30%	44%	34%
Proportion of questionnaire responses that reported either having a board policy or a management plan[4]	84%	51%	85%	64%	94%	62%	72%
Sector weight as proportion of high transition risk sector[4]	18%	19%	19%	15%	15%	13%	100%
Pilot as % of total sector[4]	38%	41%	30%	52%	42%	46%	41%
Proportion of pilot that report carbon intensity metric through CDP[4]	49%	53%	38%	48%	38%	30%	44%
Weighted average carbon emissions per million dollars of revenue (total client emissions/revenue weighted by exposure)[4,5]	688	408	517	301	7,235	787	

4 All percentages are weighted by exposure.

5 Customer responses to CDP have been used to formulate the carbon intensity metrics in table 2. If a client does not complete the CDP questionnaire, information is not included in the metrics. The CDP questionnaire is voluntarily completed by clients between April and July of a given year and may not all be from a single point in time. Figures obtained from CDP have not been separately validated. The carbon intensity ratio is calculated by CDP using both reported figures and estimated data. Carbon emissions are measured in tonnes of carbon dioxide equivalent (tCO_2e) and revenue is measured in millions of US dollars.

What does good look like?
continued

A more pragmatic approach for those making disclosures for the first time could be informed by companies such as Berkeley Group, which provides a concise one-page summary and signals further disclosures to follow over time, right (Figure 4.)

The index of disclosures provided by BP (Figure 5., below) is another example of clear communication which supports more detailed narrative disclosures against the four main areas of the recommendations. For reference, this sits within a larger narrative set of TCFD disclosures:

Figure 5. BP Annual Report 2019

TCFD index table

TCFD recommended disclosure		Where reported
Governance Disclose the organization's governance around climate-related issues and opportunities.	a. Describe the board's oversight of climate-related risks and opportunities.	Page 42.
	b. Describe the management's role in assessing and managing climate related risks and opportunities.	Page 42.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy and financial planning where such information is material.	a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	Achieving the Paris goals, page 13 – for a discussion of the different pathways and time horizons considered RIC framework, page 41 – for an outline of opportunities. Risk factors, pages 70-71 – description of principal risks.
	b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Risk factors, pages 70-71 – description of principal risks.
	c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Achieving the Paris goals, page 13. Our strategy, page 16.
Risk management Disclose how the organization identifies, assesses and manages climate-related risks.	a. Describe the organization's processes for identifying and assessing climate-related risks.	Risk management, page 44. Upstream, page 50. Downstream, page 56. Other businesses and corporate, page 63.
	b. Describe the organization's processes for managing climate-related risks.	Risk management, page 44.
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	Risk management, page 44. How we manage risk, pages 68-69. Risk factors, pages 70-71.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	Relevant group-wide metrics and targets, page 17.
	b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.	GHG emissions data, page 40.
	c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	RIC framework, page 41. (Also note: Net zero ambition and aims, page 6).

Figure 4. Berkeley Group Annual Report 2020

Task Force on Climate-related Financial Disclosures

Berkeley welcomes the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD). Berkeley reports on climate-related governance, strategy, risk management, and metrics and targets in a stand-alone report as found on our website (www.berkeleygroup.co.uk/about-us/sustainability/reports-and-case-studies) and within our annual response to CDP's Climate Change Programme. Both climate change mitigation and adaptation are key areas of focus for Berkeley, featuring prominently within the Our Vision business strategy.

Berkeley continues to take actions to further implement the TCFD recommendations through the evolution of our processes and reporting mechanisms. The table below summarises the key areas where Berkeley has already made progress and where we have reported on these.

Governance Disclose the organisation's governance around climate-related risks and opportunities.	The Board has ultimate responsibility for climate-related risks and opportunities. A nominated Executive Director, Karl Whiteman, has direct responsibility for climate change and wider sustainability topics. To ensure climate-related actions are incorporated into Berkeley's daily activities, there is a Group Sustainability Team focused on identifying strategic risks and opportunities, performance monitoring and reporting. Dedicated sustainability practitioners are also in place within Berkeley's operating companies to support local management and project teams in meeting their responsibilities to implement Berkeley's Our Vision strategy, identify climate change risks and opportunities facing their business and to drive continual improvement in performance. Read more on pages 76 to 77 and 90.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Climate change mitigation and adaptation are key areas of focus for Berkeley, featuring prominently within the Our Vision business strategy. A detailed climate change adaptation risk identification exercise was undertaken in 2014 to inform strategic commitments as part of Our Vision, facilitated by specialist consultants and involving key representatives from across the business. The key risks identified for the homes and places we develop include flooding, overheating and water shortage. These have remained the key risks and areas of focus in terms of the product we build since the risk assessment was first undertaken. In addition to recognising the importance of adapting our homes and places to be resilient to future climate change risks, Berkeley is focused on taking action to reduce the emissions resulting from our direct activities and those resulting from the use of the homes and developments we create as evidenced by our carbon positive and net zero carbon homes commitments. Berkeley will be undertaking more detailed climate-related scenario analysis to evolve our understanding of climate-related risks and opportunities. Read more on pages 16 to 17 and 30 to 45.
Risk Management Disclose how the organisation identifies, assesses and manages climate-related risks.	Climate change is considered a principal risk to Berkeley. The Group Sustainability Team identifies strategic climate change risks and opportunities facing Berkeley through the regular review of issues and trends. Active collaboration with external experts, and representation at conferences and events help to ensure up-to-date knowledge. Identified risks and opportunities are shared with the Board and included within the strategic risk register reviewed by the Audit Committee. Read more on pages 66 to 79.
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate related risks and opportunities where such information is material.	Berkeley reports on greenhouse gas (GHG) emissions for which we are responsible on an annual basis. To minimise Berkeley's contribution to climate change, we have an operational carbon intensity reduction target under Our Vision that is reviewed every two years to ensure continual improvement. Berkeley has also committed to procuring 100% renewable electricity for its UK operations and offsetting our remaining emissions since 2017/18. Berkeley has broader targets for the homes and places we develop, including the provision of energy efficient lighting and appliances, as well as enabling homes to operate at net zero carbon by 2030. We are currently working with an external consultant to develop longer-term science-based targets for our activities Read more on pages 46 to 47 and 138 to 139.

Berkeley will continue to work with external experts to develop science-based targets, climate-related scenario analysis and related disclosures in line with the recommendations of the TCFD. We have complied with the Streamlined Energy and Carbon Reporting (SECR) framework in our emissions reporting in the Directors' Report on pages 138 to 139.

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What does good look like? continued

When approaching cross-referencing and an index of disclosures, two practical points are worth considering:

First, many larger listed companies will already provide a response to the CDP's annual questionnaire on climate change, forests and water security to provide an assessment of their environmental impact. This is likely to contain information that is relevant to TCFD reporting. However, rather than simply referencing their CDP responses, companies should use them as a starting point for their own TCFD disclosures.

Second, it is always helpful if the data referred to in the TCFD disclosure is located in the same publication, typically the Annual Report, or in full in one location on the corporate website to avoid a time-consuming search for information and the risk of valuable data being overlooked.

Specific aspects of others' reporting may also be helpful to consider. These might include the following:

- **Organisational charts**
  A simple but effective organisational chart is provided by Barclays (Figure 6) and an alternative is from British Land (Figure 7).
- **Opportunities as well as risks**
  There is a tendency for companies to focus primarily or exclusively on risk in their TCFD reporting. Care should therefore be taken to ensure that both risks and opportunities are considered.
- **A clear roadmap to full disclosure**
  The example (Figure 8.) from British Land is a helpful reference point for those ready to commit to a fuller level of disclosures.

Figure 6. Barclays Annual Report 2020

Figure 7. British Land Annual Report 2020

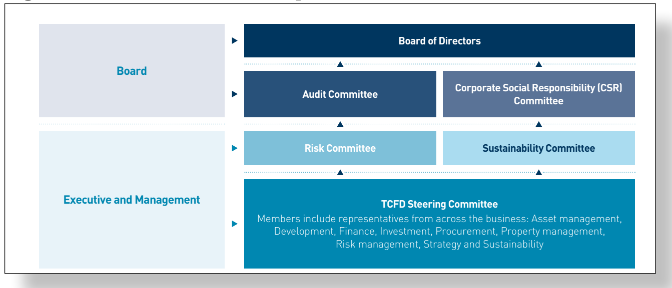

Figure 8. British Land Annual Report 2020

Summary recommendations

Summary recommendations
For those preparing to report against TCFD recommendations for the first time, it is all about being on a journey where more detailed disclosures can be added over time, for instance with reference to scenario analysis or a company's supply chain.

Our conversations with Simon Weaver, Co-Head of Climate Risk and Decarbonisation Strategy at KPMG, have, however, highlighted an important additional point about the way companies approach their TCFD reporting:

Those companies that are reporting on TCFD successfully are looking at it first and foremost through a strategic risk lens, as opposed to a disclosure lens.

The issue with looking at it purely through a disclosure lens, Simon explains, is that there is a risk companies will miss out on getting strategic value from the project. He also highlights that the pace at which boards are moving in this area is so fast that what is seen as good practice today may be not considered to be so in 12 months' time:

"The TCFD is disclosure by name but so much more in nature.

"Climate change will impact most aspects of your operations and therefore the scenario analysis recommended by the TCFD enables you to identify where the strategic risks and opportunities are for your business.

"As more companies are performing this scenario analysis, their boards are requesting this to be quantified to enable them to compare the climate-related risks and opportunities with the wider strategic decisions they are having to make.

"The pace of change in this area means that your stakeholders' expectations will change over the next 12 months, especially as we head to TCFD being mandated, albeit on a comply or explain basis, for all premium listed companies for financial periods starting on or after 1 January 2021.

"It's about being on a journey, but companies should in any case be thinking about providing clear, concise, understandable and well laid out climate change and sustainability information - and have a roadmap to quantification of the material risks and opportunities identified."

Simon Weaver
Co-Head of Climate Risk
and Decarbonisation Strategy
KPMG

"It's about being on a journey, but companies should in any case be thinking about providing clear, concise, understandable and well laid out climate change and sustainability information – and have a roadmap to quantification of the material risks and opportunities identified."

Simon Weaver
Co-Head of Climate Risk and Decarbonisation Strategy
KPMG

Summary recommendations
continued

A set of key recommendations capturing these points and others is set out below:

1. **The 'comply or explain' approach is both relevant and helpful – if it has not been possible to provide all the data, perhaps as a result of COVID-19, then it is possible to provide an explanation to reflect that.**
2. **Companies should aim to provide a disclosure roadmap or commentary about future disclosure plans. Some companies may initially focus on a qualitative set of disclosures with a quantitative set of disclosures to follow.**
3. **Climate-related opportunities as well as risks should be considered and explained wherever relevant.**
4. **Commentary on training around climate-related issues and/or TCFD specifically may be a useful addition to Governance disclosures.**
5. **Linking to purpose and values could be helpful, particularly under Governance, cross-referencing to other information in the Annual Report and helping to demonstrate that climate considerations are embedded in a company's strategy and culture.**
6. **Effective use of graphics and icons, which are not widely seen in TCFD reporting, can help make the statement more accessible.**

What are the next steps?

Next steps to getting started and how Luminous can help
Working closely with our clients, Luminous has developed a three-step process to prepare for a first set of TCFD disclosures in the Annual Report, as follows:

Stage 1: **Investigation, education and intelligence gathering**, consisting of the following:

- **A detailed review is undertaken** by Luminous of the client's relevant collaterals, including corporate website content.
- **Initial TCFD briefing sessions** are held for the Sustainability and Risk teams and other relevant management, led by Luminous, to provide an overview of TCFD reporting and explain what is required, with a view to sourcing and collating all relevant information from within the organisation and identifying any significant data or process 'gaps'.

Stage 2: **Workshop to establish a comply or explain disclosure roadmap** for year one, consisting of the following:

- **A workshop, facilitated by Luminous,** is held for the client's TCFD working group to agree reporting objectives for year one, identify timescales for key information gathering/commissioning and allocate responsibilities in order to produce an initial disclosure roadmap.
- **A TCFD disclosure template** is provided by Luminous to be populated for the Annual Report.

Stage 3: **Support in commissioning technical data around scenario planning, as required, devising a disclosure roadmap with a two to three-year view:**

- **Some investment in third-party,** specialist advice is likely to be required in year one or thereafter around scenario modelling and, if appropriate, around establishing science-based targets.
- **Luminous has relationships** with a number of recommended third-party providers, and would be pleased to provide an introduction.

Further information
A Luminous podcast on TCFD reporting for the first time, featuring an interview with Simon Weaver, Co-Head of Climate Risk and Decarbonisation Strategy at KPMG, can be found on the Luminous website at www.luminous.co.uk/insights.

Further information can also be provided direct by Harriet Rumball at harriet.rumball@luminous.co.uk or online via the TCFD Knowledge Hub at www.tcfdhub.org.

We hope that this briefing guide proves helpful and would be delighted to hear from you.

Harriet Rumball
Senior Investor Engagement Consultant
Luminous

Appendix

Set out in this Appendix are some (but by no means all) of the key disclosures made by a selection of companies to illustrate – at a glance – the type of content that could be considered for inclusion in year one.

Introduction to TCFD statements	Company
The Group will continue to **work towards** the TCFD recommendations and continue to **report our progress** in future disclosures	Pennon
Berkeley continues to take actions to further implement the TCFD recommendations through the **evolution of our processes and reporting mechanisms**	Berkeley Group
The Board **recognises the systemic threat** posed by climate change and the **need for urgent mitigating action**	British Land
As the global climate crisis becomes more critical, we recognise the **importance of addressing** long-term sustainability challenges and the **potential impacts** of climate change on our business	Burberry
We are **taking steps to better understand** the direct and indirect impacts of climate change and water stress on our business, so that we can f**urther develop adaptation plans** to ensure our supply chains are resilient **We recognise** the importance of considering climate-related risks and opportunities in business decisions and strategic planning, and we **acknowledge** that adopting the [TCFD] recommendations is an **important step** in addressing climate change risks and supporting a transition to a low-carbon economy	Diageo
We have made a **formal commitment** to implement the recommendations of the TCFD, and in **2020 we will be developing a disclosure roadmap** for the coming years Our v**alues and behaviours,** underpinned by our **Code of Conduct**, inform our decision-making at all levels	IHG
As **signatories** of the Task Force on Climate-related Financial Disclosures (TCFD), **we will implement** their recommendations in 2020/21. This will include using **scenario modelling** to further assess the impact of current and emerging climate change on our business model	J Sainsbury
[We are] **committed to implementing** the TCFD recommendations, providing **investors and other stakeholders with decision-useful informatio**n on climate-related risks and opportunities that are relevant to our business	Landsec

Appendix
continued

Governance at Board level	Governance at management level	Company
Board Sustainability Committee with membership including the **CEO** and **CFO**	**Director of Environment and Sustainability, Group Risk Director** and **Group Head of Property and Facilitie**s	Pennon
The **Board** has ultimate responsibility for climate-related risks and opportunities	**Group Sustainability Team,** plus **dedicated sustainability practitioner**s and **local management and project teams**	Berkeley Group
The **Board Risk Committee** and **Board Governance Committee** oversee our management of climate-related risks and opportunities	**Chief Risk Officers** (CROs) are responsible for ensuring that climate-related risks and opportunities are identified, monitored and managed, overseen by the **Group CRO.** There is also a **group-wide** climate-related risks and opportunities **project** underway.	Aviva
Responsibility has been taken up by the **Board,** where previously it was overseen by the Board Reputation Committee	A senior **TCFD Forum** has been established, chaired by the Global Head of Sustainability and ESG	Barclays
Our Board Director responsible for climate-related issues is [the] **CFO.** The **Board CSR Committee** meets three times a year and oversees the delivery of the sustainability strategy	**Newly formed TCFD Steering Committee**	British Land
Sustainability Steering Group (SSG) is chaired by the **CEO** and is attended by the **CFO**	A Sustainability Steering Group (SSG) is in place as well as a **cross-functional TCFD working group which** reports to the Risk Committee chaired by the CO&FO The **Remuneration Committee** is considering how to include non-financial performance metrics including the achievement of ESG targets for senior leaders across the Group	Burberry
The **CEO** is the main Board member with overall accountability for sustainability The **Responsible Business Committee,** a principal committee of the main Board, oversees the management of our climate related risks and opportunities	The **Sustainability Committee** oversees the performance of our climate-related activity Each year **senior managers from the various business functions report their key risks** (which include sustainability/climate change-related risks) to the Executive Committee	Derwent London
Corporate Responsibility and Sustainability Committee is in place The Board is accountable for the delivery of the seven pillars of our Net Zero plan and we will report progress against each of them at our interim results in November	**Net Zero Steering Group,** along with specific working groups	J Sainsbury
The **CEO** has overall responsibility for climate-related risks and opportunities The **Audit Committee** supports the Board in the management of risk, which includes climate-related risks The S**ustainability Committee** is chaired by the CEO	The **Sustainability Committee** is attended by our **Group Corporate Affairs & Sustainability Director, Group HR Director** and senior representation from **portfolio management** and **development teams** Both the **Executive Directors** and **Risk Champions** are responsible for climate-related risk and ensuring integration with the overall risk management process	Landsec

Appendix
continued

Governance at Board level - training provided	Governance at management level - training provided	Company
In May 2019, the **Responsible Business Committee received training** on TCFD		Derwent London
	To support the broadening of their remit, senior leaders will receive **climate crisis training**. This will outline the risks and opportunities that climate change poses to WPP and its largest clients, while enabling our leaders to take progressive measures to mitigate climate risk in their operations and maximise commercial opportunities Our climate crisis training will ensure that our people recognise the importance of our sector's role in addressing the climate crisis. It will be **part of a broader sustainability training programme** which we will run in **multiple markets with localised content in key regions.** We are also developing internal tools to help our people identify environmentally harmful briefs. These tools will embed climate-related issues within existing content-review procedures across the organisation Sustainability will also be integrated into our global **How We Behave training** in 2020 and will be delivered to **all new employees**	WPP

Appendix
continued

Strategy	Company
Physical risks and **transitional** risks separately identified	Pennon
A **detailed climate change adaptation risk identification exercise** was undertaken in 2014; we will be **undertaking more detailed climate-related scenario analysis** to evolve our understanding of climate-related risks and opportunities The **key risks identified,** e.g. flooding, overheating and water shortage, and currently taking action to **reduce emissions**	Berkeley Group
Joined-up **four-pillar approach in place** covering business divisions - investments, insurance, our operations - plus **influence** including "A Marshall Plan for the Planet" report This strategy is **aligned to our Company Purpose** 'With you today, for a better tomorrow' and will be implemented as part of the Group	Aviva
Scenario-based assessments of **physical** and **transitional** risks and opportunities are undertaken	Barclays
A **new sustainability strategy** has been created, including the delivery of the **Pathway to net zero** and the management of climate-related risks Informed by the internal scenarios workshops held in summer 2019, and **we will carry out TCFD-aligned scenario analysis in 2020,** including a scenario where global warming is limited to 2°C or lower **Risks and opportunities tackled separately in table format**	British Land
Building on the **scenario analysis undertaken in FY 2018/19** regarding forecasted climate-change **impacts to 2040**, this year the Group strategy team initiated a review of our broader sustainability commitment and identified **key priorities and areas of risk that require increased focus** Areas for focus **over the next 12 months** include ensuring climate change risks and opportunities are considered in our long-term business strategy and **quantifying short-, medium- and long-term climate change risks and opportunities** to inform business strategy and financial planning	Burberry
Scenario analysis tool to facilitate planning around the short term (0-5 years), **medium** term (5-10 years) and **long** term (15+ years)	Derwent London
Physical and **transitional** risks separately identified with assessment of the impact of climate-related risks through **quantitative and qualitative scenario analysis,** considering **short- to medium-term until 2030, and long-term beyond 2030 until 2100** Our analysis focuses on **two distinct scenarios, a best-case scenario** where global average temperature increases by **less than two degrees,** and a **worst-case scenario,** where temperatures increase by up to **four degrees** Our strategy to address climate-related risks and opportunities s**pans all areas of our business including investment, development, operation and divestment** We're also implementing an internal **shadow carbon price,** anticipating a potential carbon price in the future, to inform our decision-making process **Our analysis gives us confidence in the resilience of our strategy,** as we're supporting the transition to a low-carbon world whilst managing the impact of climate-related risks to our portfolio	Landsec
In 2020, we will conduct a **qualitative scenario analysis** against a **pathway limiting warming to 2 degrees Celsius** to inform future assessment	WPP

Appendix
continued

Risk Management	Company
Climate change is a **principal risk**, reviewed quarterly and fed back to the **Group Risk Forum**	Pennon
Climate change is considered a principal risk to Berkeley, included within the **strategic risk register** reviewed by the **Audit Committee**	Berkeley Group
Aviva considers climate change to be one of the most material long-term risks to our business model Aviva has developed models and tools to assess the potential impact on our business of the four **Intergovernmental Panel on Climate Change (IPCC) scenarios over the next 15 years** with the ability to look at shorter time periods (three to five years) where appropriate. Each IPCC scenario describes a potential trajectory for future levels of greenhouse gases and other air pollutants. These can be mapped to likely temperature rises: 1.5°C (aggressive mitigation), 2°C (strong mitigation), 3°C (some mitigation) and 4°C (business as usual). **Physical** and **transitional** risks identified and climate stress tests applied to them	Aviva
Complex and detailed scenario planning is already underway with external agencies, building on work already undertaken	Barclays
Climate change is a is a **principal risk** (under 'External risks: Catastrophic business event') with climate-related risks identified and assessed using our **risk management framework** and **monitored by the Risk Committee** on a quarterly basis Climate risks and opportunities are embedded in Asset Plans, our Sustainability Brief for Acquisitions and our Sustainability Brief for Developments	British Land
Climate change is a is **a principal risk.** During the year we performed an exercise to identify the **short-, medium- and long-term risks and opportunities** using the 2040 climate change scenario work performed in FY 2018/19. The cross-functional TCFD Working Group, which includes members from the Risk Management, Finance and Responsibility teams, has defined the **risk management methodology** and approach for identifying and assessing climate-related risks. We have also **assessed the climate change risk in our supply chain** Key next steps will be to **quantify the longer-term financial impac**t associated with identified risks against our current business model and consider whether any further mitigating controls and activities are required	Burberry
Climate change risks are identified and monitored **as part of our wider risk management procedures**	Derwent London
Climate change is a is a **principal risk.** In 2021 **we will complete a comprehensive assessment of physical and transition climate risks** in countries representing a significant share of our production	Diageo
We recognise the importance of identifying and monitoring climate-related risks, which **feature prominently on our principal risk register.** Our climate-change **principal risk** includes both **transition** and **physical** climate risk and is monitored on a quarterly basis using a series of **key risk indicators**	Landsec
Sustainability risks are **integrated into our overall risk management** processes and reviewed by the **Audit Committee** on a regular basis Assessment of risk is informed by **feedback from investors, clients and our people**	WPP

Appendix
continued

Metrics and Targets	Metrics and Targets - Science-based target adoption/commitment	Company
Greenhouse gas (GHG) emissions reported annually	**Intend to set a Science Based Target** in 2020	Pennon
Operational carbon intensity reduction target under Our Vision; committed to procuring 100% renewable electricity; working towards enabling homes to operate at net zero carbon by 2030	Berkeley will **continue to work with external experts to develop science-based targets, climate-related scenario analysis and related disclosures** in line with the recommendations of the TCFD	Berkeley Group
Committed to being a net zero asset owner by 2050	We are **working closely with peers, academics, professional bodies, regulators, governments and international agencies to further develop our tools and approaches**	Aviva
Metrics include **a range of internal and external measures.** To align with the recommendation of the TCFD, we also disclose concentrations of credit exposure to carbon-related assets		Barclays
Through our TCFD Steering Committee work, **we will quantify our total climate-related financial exposure** A **Pathway to net zero** has been established		British Land
We align our reporting against climate-related metrics to recognised standards, including the **GHG Protocol** **Company targets are in place** which cover energy and carbon and the company has **set 2022 targets** to source 100% of our cotton more sustainably, and source 100% of leather from certified tanneries When defining metrics and targets we consider them in two ways: mitigation metrics and monitoring metrics	Burberry **has a science-based target to reduce absolute Scope 1 and 2 GHG emissions by 95% by 2022 and to reduce absolute Scope 3 GHG emissions by 30% by 2030,** both from a 2016/17 base year	Burberry
Compliant with Streamlined Energy and Carbon Reporting (SECR) with the ambition to be net zero carbon by 2030	We have developed a set of **science-based targets which have been approved by the Science-Based Targets Initiative (SBTi).** These targets align our carbon reduction programme with our business activities and minimise the effects of climate change on our managed portfolio	Derwent London
As part of our **responsible business strategy refresh** work, we are also **working with third-party experts to develop our responsible business targets for post 2020** and have made a formal commitment to implement the recommendations of the TCFD In 2020 we will be **developing a disclosure roadmap for the coming years**	In 2019 we published a **science-based target relating to carbon reduction**	IHG
In January 2020 we committed to **investing £1 billion over 20 years** towards becoming **Net Zero across our own operations by 2040** and we are **engaged with our suppliers on our Net Zero by 2040 plan** This year we received a **CDP A rating** for our climate change disclosure for the sixth year running		J Sainsbury
in November 2019, we announced our commitment to becoming a net zero carbon business by 2030	In 2019 we **increased the ambition level of our science-based target, aligning it with a 1.5°C scenario**	Landsec

Further reading

For more thought-leadership, please request recent issues of Reporting Matters, our other white papers or an overview of this year's webinar series by contacting Justin Boucher, Business Development Director, at justin.boucher@luminous.co.uk

Contact

If you would be interested in discussing any of the findings in greater detail or hearing how we could help with your TCFD requirements, please contact

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