ACCOUNTING FOR
SUSTAINABILITY

IMPLEMENTING THE RECOMMENDATIONS OF THE FSB TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TCFD TOP TIPS FOR FINANCE TEAMS

THE PRINCE OF WALES'S
CHARITABLE FUND

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Supporting the TCFD recommendations

The Prince's Accounting for Sustainability Project (A4S) supports the adoption of the TCFD recommendations. To do this, we work with key stakeholder groups to build awareness and provide access to the skills and knowledge required for implementation.

CFOs, Pension Fund Chairs and Accounting Body CEOs have signed A4S Statements of Support to signal their commitment to support the recommendations and work with their peers in a united effort to improve disclosure across sectors and regions.

A4S also runs implementation workshops for finance teams around the world. The tops tips set out in this booklet are based on the experiences of early adopters of the TCFD recommendations shared at these workshops.

To find out more and attend one of our workshops, please contact us via: info@a4s.org

BACKGROUND

Climate change is one of the biggest social and economic risks the world faces today.

The World Economic Forum's latest global risks report ranked extreme weather events as the number one risk facing the global economy. Failed climate change mitigation and natural disasters are identified as the second and third top global risks.

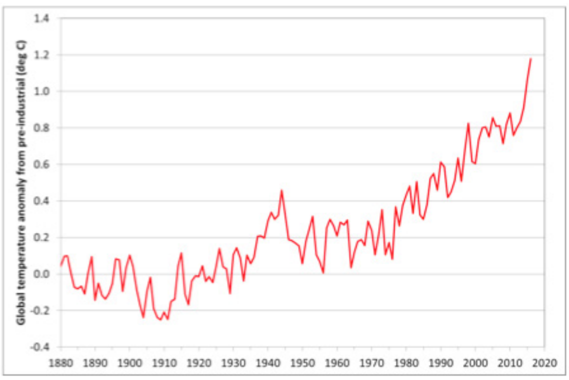
The 2015 Paris Agreement was signed by 194 States and the EU. It aims to keep the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. In order to achieve these stated goals, a steep reduction in greenhouse emissions is required, with the need to transition to a net zero carbon economy to stabilize global temperatures.

With governments around the world making commitments to mitigate climate change, businesses and investors need to be prepared for how actions taken will affect markets, regulation and operations, and respond accordingly.

The recent UN Intergovernmental Panel on Climate Change (IPCC)'s report, authored by world leading scientists, highlighted that we have 12 years for global warming to be kept to a maximum of 1.5°C increase in global average temperatures.[1] Even half a degree more than 1.5°C will significantly worsen the risks of extreme weather events, and in so doing threaten operations and supply chains of businesses, governments, and major infrastructure projects.

1 https://www.ipcc.ch/sr15/

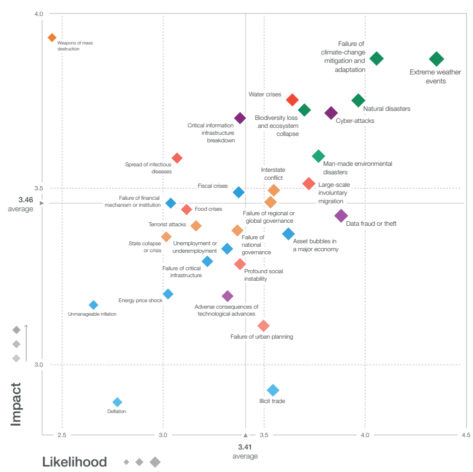
Global Temperatures Change



Data: NOAA, NASA, UK Met Office/CRU

Source: [WMO provisional Statement on the Status of the Global Climate in 2016](), a graph showing global temperature change from the pre-industrial period (Data: NOAA, NASA, UK Met Office/Climatic Research Unit)

The Global Risks Landscape 2019



Source: [World Economic Forum Global Risks Report 2019.]()

THE TCFD RECOMMENDATIONS

The Financial Stability Board's Task Force on Climate related Financial Disclosures was set up by Bank of England Governor and Chair of the Financial Stability Board (FSB), Mark Carney, and is chaired by Michael Bloomberg. It was established to develop recommendations for more effective climate related financial disclosures that:

- Could promote more informed investment, credit and insurance underwriting decisions
- Would enable stakeholders to understand better the concentrations of carbon related assets in the financial sector and the financial system's exposures to climate related risks

"Increasing transparency makes markets more efficient, and economies more stable and resilient."
Michael R. Bloomberg, Chief Executive Officer, Bloomberg

The TCFD recommendations, published in June 2017:

- Provide a framework for disclosing climate related risks and opportunities within mainstream annual financial filings
- Encourage proper Board and Audit Committee oversight around the assessment and response to climate related financial risk and opportunity, and effective disclosure to investors
- Focus on the financial implications of climate change on business
- Structure around the four key components of how an organization operates:
  - o Governance
  - o Strategy
  - o Risk Management
  - o Metrics and Targets
- Focus on disclosing in the short, medium and long term
- Ask the organization to describe the potential impact that climate change will have on the future prospects of the business by performing scenario analysis (to include a 2°C or lower scenario)
- Apply across jurisdictions and to all sectors, including asset owners and asset managers
- Include supplemental guidance for financial and non financial sectors

Read the 'Final TCFD Recommendations Report': https://www.fsb-tcfd.org/publications/final-recommendations-report

THE BUSINESS CASE

Some of the potential benefits associated with implementing the Task Force's recommendations include:

1. Better decisions

- Increased awareness and understanding of climate related risks, opportunities and the implications for the organization, resulting in more informed strategic planning and better risk management.
- Identification of new investment, product or business opportunities.
- Strengthened governance arrangements.
- Improved availability, timeliness, relevance and quality of climate related data to inform decisions, both within the organization and along the value chain/within investee companies.

2. Improved disclosures

- Convergence around a consistent global framework, enabling preparers to meet existing disclosure requirements and growing investor demands more effectively and efficiently.
- Reduced risk of any legal liability which might be faced by companies (and directors) by failing to assess, manage and disclose climate risk in accordance with their duties.
- Greater readiness and involvement in shaping disclosure requirements, prior to any regulatory action.

3. Access to capital

- Improved evaluation of risks and exposures by lenders, insurers and underwriters.
- Maintained access to capital and potential lower cost of capital, by enhancing investors' and lenders' confidence that the company's climate related risks are appropriately assessed and managed. Reduced risk of investor action, which can include voting against the chair's reappointment if disclosures are not made.
- Greater access to additional sources of finance from investors and lenders interested in opportunities related to the transition to a low carbon economy and building greater resilience.

"It's fundamental for every good business to manage and communicate risks and opportunities. We are already obliged to disclose material risk. Climate change is no different."
Graeme Pitkethly, Chief Financial Officer, Unilever

"We are on the path to a low-carbon economy and companies that fail to respond to this reality present a risk to investors' portfolios."
Anton Eser, Chief Investment Officer, LGIM

FIVE TOP TIPS TO IMPLEMENT THE TCFD RECOMMENDATIONS

Taken from the A4S workshops on implementing the TCFD recommendations around the world, the following top tips have been tried and tested by finance teams as they work towards implementing the recommendations.

1

UNDERSTAND WHERE YOU ARE NOW

In order to learn where you need to get to, assess current practices and develop a plan in response.

Prepare a disclosure gap analysis

Look at the four areas: governance, strategy, risk management, and metrics and targets, and undertake work to establish how current practices compare with the TCFD recommended practices, mapping where there are “no significant gaps”, “some gaps” and “significant gaps”.

Identify the company’s current climate related risks and opportunities

This could include assessing carbon emissions along the full value chain, reviewing carbon intensive assets, reviewing investment mandates, identifying low carbon product opportunities, assessing property and supply chain vulnerabilities to physical climate risk. This will give a better understanding of the overall financial impact of climate change on the business.

Review and assess current processes

Understand how you identify and assess risks and opportunities and whether they sufficiently account for climate related issues. Evaluate existing climate related risk indicators to select key metrics and targets. Conclude whether reporting systems and controls need to be transformed, adapted or remain unchanged.

Establish what data sets need to be collected and how

This will require a cross disciplinary effort, and could include setting up a group wide central database system or collecting climate data in the same data warehouse used to store financial information.

Update or develop a formal climate policy and set targets

This should include short, medium and long term targets.

2

GET INTERNAL BUY IN

Engage with the Board and senior management to get the 'tone at the top' right whilst building support across the organization.

Recognize that climate change is a financial risk

Ensure key management and Board members have the necessary information and knowledge to assess the financial impact of climate change on the organization, drawing on in-house resources and external sources as necessary.

Upskill the Board, management and leadership teams

Introduce compulsory training to increase confidence in relevant knowledge, instil a personal need to act and stimulate thinking to overcome barriers and understand climate related opportunities.

Integrate into Board papers and meetings

This could include incorporating into strategy sessions, as well as providing regular updates against targets and plans within Board packs.

Create a cross functional working group

It is important to have the right representation and mandate to influence strategic, operational and investment decisions.

Bring in external expertise

Where needed, set up an external advisory board to advise, input and challenge the strategic response.

Establish accountability and incentive structures

This could include setting clear responsibilities from Board level down, embedding specific climate targets into short and long term remuneration and reward, and appointing "carbon ambassadors" in all key functions to influence change.

"We must ensure that our management, our Boards and our investors have the information needed to act to address climate risk."
Koushik Chatterjee, Executive Director & Chief Financial Officer, Tata Steel

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GET STARTED

Few organizations will have all of the information needed to adopt the TCFD recommendations in full in their first year of reporting. Start with areas that you can address easily while developing a longer term plan to tackle more challenging areas.

Don't wait until you have everything in place to start disclosing

Some elements of the recommendations will take longer to implement than others, such as scenario analysis. Incomplete disclosure is better than no disclosure, in particular if you can signal a clear plan to close gaps.

Define your time horizons

Consider what time horizons will be relevant to your business to enable you to respond effectively to climate risk and opportunity. These may align with the strategic planning and investment horizons already used within your organization, or may require consideration of the implications over a longer period.

Use scenario analysis

Test the resilience of the business and strategic plans by considering several different scenarios including 2°C or lower aligned with the Paris Agreement, and a 4°C 'business as usual' scenario. Consider presenting results visually to make them more accessible. Start with qualitative data and in time input quantitative data – all analysis is worthwhile.

Shape what disclosure is decision useful, before the TCFD recommendations become mandatory

The TCFD suggests a five year period to implement the recommendations, but it is likely that mainstreaming climate related disclosure will become mandatory in many countries sooner rather than later. Play an active part in shaping disclosures that will be decision useful by adopting early, getting feedback from investors and others, and sharing experiences with peers.

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COLLABORATE

Collaboration is critical, both internally and with other organizations. Pooling knowledge and harmonizing approaches used will improve the usefulness of disclosures and support efficient adoption.

Set up a multidisciplinary process

To assess and report on climate risk within your business, involve all relevant departments for example finance, operations, strategy, sustainability, risk, procurement, and R&D.

Work with your peers to pool expertise, knowledge and experience

Establishing the most decision useful data to shape resilient and sustainable business models and develop consistent approaches to scenario analysis will take time. Working with peers from your sector, as well as sharing knowledge across sectors, will make adoption easier, more efficient and more effective. Share case studies to demonstrate good practice, highlight challenges and offer possible solutions to overcoming them.

Engage with your data users

Understand how they will use your disclosures and what information will enable them to respond effectively to climate risk.

> "Sharing sessions allow me to hear the key challenges others are facing and suggestions that may work for us."
> **Low Yen Ling, Star Hub (A4S workshop participant, Singapore 2018)**

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LEARN FROM OTHERS

Some companies have started to disclose climate related risks and opportunities within their annual financial filings in line with the TCFD recommendations. These are a great resource to help identify approaches that could also work for your organization. Areas that participants in A4S workshops found particularly helpful are set out below.

Include an overview table

Provide a summary against each of the four thematic areas, cross referencing to other parts of the annual report for more information.

Set out future plans

This will highlight the intention to close disclosure gaps where they exist.

Integrate

Include more detailed disclosures within the relevant sections of the report, rather than as a standalone section, for example, within existing sections on governance, strategy, risk and performance.

Use graphics/images

This will help bring the information to life.

Present key figures clearly

Use language consistent with the style and tone of the report as a whole.

Focus on the strategic and financial implications for the business

Within the annual financial filings, focus on climate related financial disclosures consistent with the TCFD recommendations. Use sustainability reports and the company website to report more detailed information on wider impacts to address broader stakeholder needs.

Review a selection of these annual reports at:
www.accountingforsustainability.org/tcfd

RESOURCES

- The Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures
  www.fsb-tcfd.org

- Examples of annual reports from businesses that have started to adopt the TCFD recommendations, hosted on the A4S website:
  www.accountingforsustainability.org/tcfd

- TCFD Hub
  The Hub hosts a range of resources that can help companies identify, analyse and report climate-related financial information.
  www.tcfdhub.org

- A4S Essential Guides Series
  Developed by the CFO Leadership Network, these include ways to integrate climate risk into decision making
  www.accountingforsustainability.org/guides

ABOUT A4S

The Prince's Accounting for Sustainability Project (A4S) was established by HRH The Prince of Wales in 2004.

Our aim is to make sustainable decision making business as usual.

We work with the finance and accounting community to:

- Inspire finance leaders to adopt sustainable and resilient business models
- Transform financial decision making to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues
- Scale up action across the global finance and accounting community

A4S has three global networks: the **Chief Financial Officers Leadership Network**, a group of CFOs from leading organizations seeking to transform finance and accounting; the **Accounting Bodies Network** whose members comprise approximately two thirds of the world's accountants; and the **Asset Owners Network** which brings together Pension Fund Chairs to integrate sustainability into investment.

THE A4S ESSENTIAL GUIDE SERIES

LEAD THE WAY

Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Mobilizing Action*
- Finance Culture
- Incentivizing Action*

MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting

TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Integrated Management Reporting*
- Capex

ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance*
- Implementing the TCFD recommendations

*coming soon

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www.accountingforsustainability.org/newsletter

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