

Introduction to TCFD

Reporting a company's climate-related risks and opportunities following the TCFD recommendations



Emma Baldassari, December 2022

Executive summary

- The Task force on Climate-related Financial Disclosure (TCFD) released a set of recommendations on climate financial disclosure, to help companies identify and disclose their climate-related risks and opportunities.
 - Disclosing climate-related risks and opportunities following the TCFD guidelines is now compulsory for some companies, depending on the country they are registered in, the sector they operate in, and their size.
 - Following the TCFD guidelines and disclosing climate-related risks and opportunities can be helpful for smaller companies as well, as it attracts investors and prepares the company itself to manage the identified risks and take advantage of the identified opportunities.
-

As part of your climate disclosure, you might want or need to report your company's climate-related risks and opportunities. While doing so, you may be advised or required to follow the TCFD recommendations, that is, the recommendations released by the Task force on Climate-related Financial Disclosure. In this short article, we will introduce TCFD and its guidelines, we will explain what companies are legally obliged to report their climate-related risks and opportunities following the TCFD guidelines, and we will present some reasons why it may be important for your company to invest some time and resources to produce a high quality report of your climate-related risks and opportunities even if you are not legally required to produce such report. Finally, we will provide a list of resources that might help you through the process of identifying your company's climate-related risks and opportunities, managing the risks, and taking advantage of the opportunities.

What is TCFD?

TCFD stands for **Task force on Climate related Financial Disclosure**. This task force developed widely adoptable recommendations on climate-related financial disclosures that are applicable to organisations across sectors and jurisdictions. In particular, TCFD recommends disclosing the organisation's **governance** around climate-related risks and opportunities; the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, **strategy**, and financial planning; the processes used by the organisation to identify, assess, and **manage climate-related risks**; and the **metrics and targets** used to assess and manage relevant climate-related risks and opportunities.

What should you report?

More specifically, in your TCFD report you should include:

- **Carbon data** to assess your company's risk exposure using metrics and targets. This will include your operational (**scope 1 and 2**) **emissions** at a minimum, but also, if appropriate, your scope 3 emissions.
- Identification of all **actual and potential climate change risks and opportunities** to your business (e.g., policy/legal, technology, market, reputation, and physical risks). These should consider different climate change scenarios, including a 2 degrees Celsius or lower scenario.





























- Evaluation of the impact of these risks and opportunities on your business, strategy, and financial planning.

TCFD recommends dividing your report into four sections: governance, strategy, risk management and metrics & targets. A thorough description of what should be included in each section is provided in the table below, taken from the 2022 TCFD Status Report, published in October 2022.

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the company's governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the company identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p>a) Describe the board's oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the company has identified over the short, medium, and long term.</p>	<p>a) Describe the company's processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the company's businesses, strategy, and financial planning.</p>	<p>b) Describe the company's processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management.</p>	<p>c) Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets.</p>

Who needs to report their climate-related risks and opportunities?

When the TCFD recommendations on climate-related financial disclosure were introduced in 2017, they only served as guidelines for those companies that decided to analyse their climate-related financial risks and opportunities on a voluntary basis, for internal purposes or as a competitor advantage with investors. In the following years, these recommendations have become requirements for certain companies, **depending on the country they are registered in, their size, and the sector they operate in**. The figure below is taken from the 2022 TCFD Status Report and illustrates TCFD disclosure requirements for UK companies. The meaning of each symbol used in the table is explained below. This report, linked in the “Resources” section, also contains requirements for companies based in all the other countries.

United Kingdom: UK Parliament	 Specific UK companies and Limited Liability Partnerships >500 employees ¹⁰⁹		
	 Occupational pension schemes: assets >£5B		
	 Occupational pension schemes: assets >£1B		
United Kingdom: Financial Conduct Authority	 Issuers of standard-listed shares and GDR		
	 Asset managers: AUM >£50B Asset owners: AUM >£25B		
	 Asset managers and asset owners: AUM >£5B		
Legend:			
Scope  Listed Companies  Financial Institutions  Other	Time Frame  In Effect  FY 2022  FY 2023	 FY 2024 and Later P Phased in Based on Effective Date	Report Type  Financial Filing/Annual Report  Sustainability Report  Other

Why should you report your climate-related risks and opportunities?

Despite not being legally obliged to perform an analysis of their climate-related risks and opportunities, many smaller companies choose to do it anyways, because using the TCFD scheme and disclosing a company’s climate-related risks and opportunities can be beneficial for the company itself, for several reasons. Firstly, it can **attract investors**, either because they are interested in high-quality ESG practice or because they prefer to invest in companies aware of the risks they are and will be facing due to climate change and having a plan to deal with them and to take advantage of any relevant climate-related financial opportunity.

Also, disclosing a company's climate-related risks and opportunities following the TCFD guidelines can **better prepare a company to manage these risks** and take advantages of the opportunities, and make business decisions accordingly. Finally, it being a complex process that requires many resources, thinking about it ahead of time can **make it easier for a company to disclose their climate related risks and opportunities once the requirement extends to their company.**

Resources

Assessing a company's climate-related risks and opportunities is not an easy practice, and especially if this is your first time doing this, you might find it particularly tricky. Here are a few resources that might help you through this process.

- [2022 TCFD Status Report](#)
- [Uncertainty in climate scenarios](#)
- [The Next Stages: A Policy Brief](#)

If you need assistance, Carbon Responsible is here to help with all TCFD-related support. Please contact us and we will do our best to help you identify and manage your climate-related risks and opportunities.