Taskforce for Climate-related Financial Disclosures

Where do I start?

May 2021

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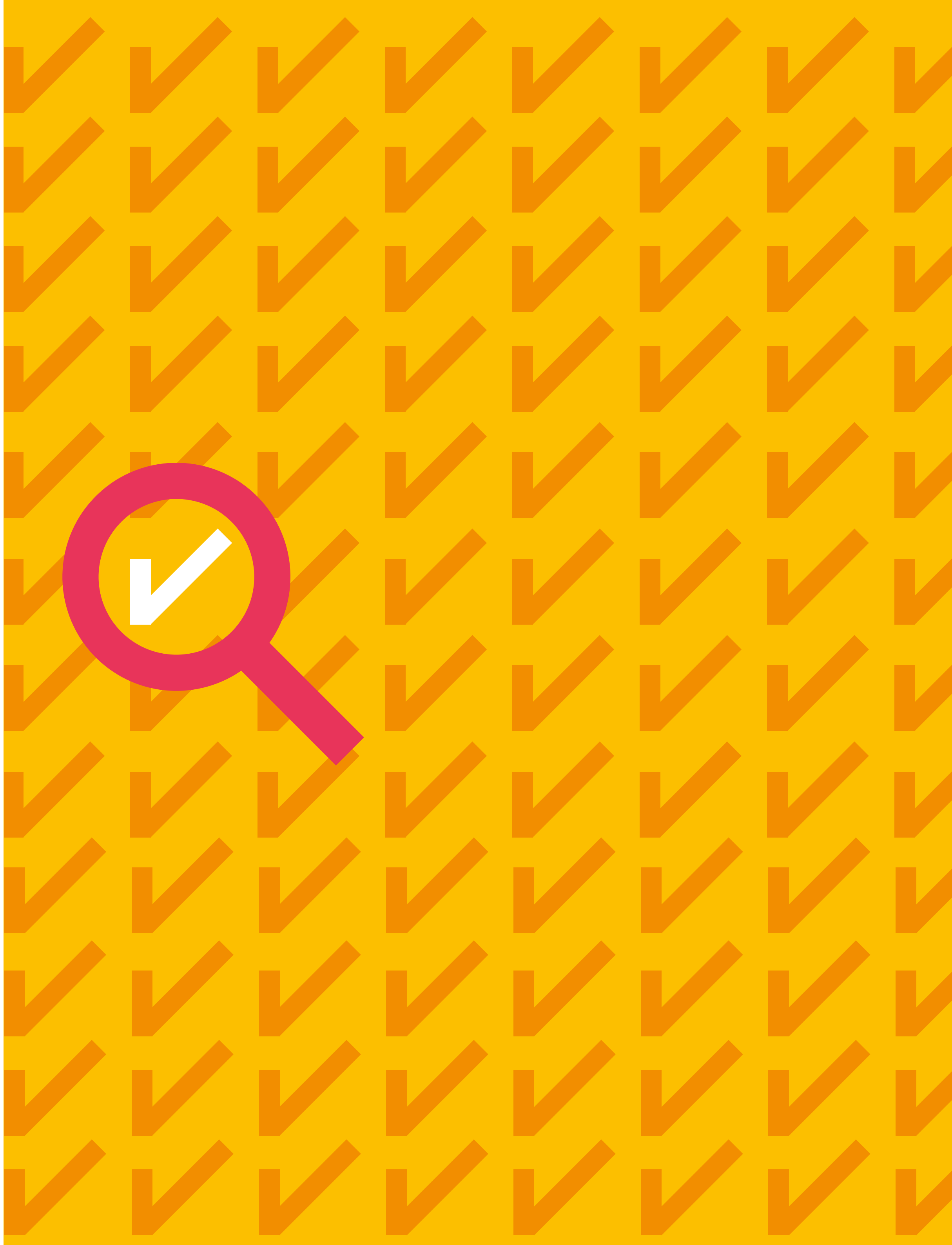


Content overview

1. Introduction and scope of this guide

The global debate about the role of business has turned a spotlight on organisations' environmental, social and governance ('ESG') policies. There are growing calls from investors, regulators and other stakeholder groups for better information on how these issues have been considered, particularly in relation to climate change.

The recommendations of the Taskforce on Climate-related Financial Disclosures ('TCFD') have now begun to be incorporated into the UK regulatory framework and are the focus of this guide, which covers:

- The basic elements of the TCFD framework
- How it is now incorporated into the Financial Conduct Authority ('FCA') Listing Rules for premium listed companies (excluding investment trusts) for periods beginning on or after 1 January 2021
- Key aspects of reporting against the framework in practice
- The relevance of the TCFD framework for organisations other than premium listed companies

TCFD and the financial impacts of climate change

Although it includes narrative disclosures, the TCFD framework is above all about disclosing and accounting for the financial impacts of climate change on businesses. Where applicable – for example assessing whether assets are impaired – these impacts should be factored into financial statements (and audits) today. Climate change is not only a long-term issue affecting companies in the future, it is one that needs consideration today.

Climate change and existing reporting requirements

It is important to recognise that climate change and environmental matters generally are also often relevant to other existing requirements under the UK narrative reporting framework, including principal and emerging risks and:

- The statement on how directors have had regard to their duties under section 172 of the Companies Act (which requires its impact on the environment to be considered as part of promoting the long-term success of a company)
- The non-financial information statement (which requires reporting on environmental matters 'to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity')
- Streamlined Energy and Carbon Reporting (which includes information on energy usage and greenhouse gas emissions that is directly relevant to TCFD disclosures)

Looking ahead

The UK government has published a roadmap of planned developments in climate-related reporting out to 2024-25, which would ultimately extend it beyond premium listed companies to many other types of company, pension schemes, asset managers and others. Information on this is given in section 5 of this document.

2. TCFD – the basics

The TCFD was established by the global Financial Stability Board **'to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks.... its members were selected by the Financial Stability Board and come from various organisations, including large banks, insurance companies, asset managers, pension funds, large non-financial companies, accounting and consulting firms, and credit rating agencies'.** [TCFD Final Report, page iii]

The Final Report of Recommendations was published by the TCFD in June 2017 and sets out a framework of four core elements (sometimes referred to as 'pillars'), supported by eleven recommended disclosures:

Recommendations and Supporting Recommended 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	**Recommended disclosures**	**Recommended disclosures**	**Recommended disclosures**
a. Describe the board's oversight of climate-related risks and opportunities.	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	a. Describe the organisation's processes for identifying and assessing climate-related risks.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b. Describe management's role in assessing and managing climate-related risks and opportunities.	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	b. Describe the organisation's processes for managing climate-related risks.	b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

2. TCFD – the basics (Cont.)

Further guidance has been published by the TCFD to accompany the framework: the TCFD Annex (Implementing the Recommendations of the Taskforce on Climate-related Financial Disclosures) in particular builds out what to consider when putting together the recommended disclosures. More information on this and the other TCFD guidance can be found in section 3 below.

The TCFD also releases status reports that highlight the latest reporting trends in relation to the four core elements and eleven recommended disclosures and include helpful published examples of reporting. The full suite of TCFD documents can be found at www.fsb-tcfd.org/publications.

3. FCA listing rules requirements and guidance – TCFD reporting

Through Policy Statement 20/17, the FCA amended the Listing Rules so that premium listed companies (other than investment trusts) must report on a 'comply-or-explain' basis against the TCFD framework for periods beginning on or after 1 January 2021.

The Listing Rules include 'requirements' (paragraphs indicated by a final 'R') and 'guidance' (paragraphs indicated by a final 'G'). Both of these are summarised below and in section 4. The guidance provides more details on what the requirements are intended to mean for companies and they must have regard to it.

The TCFD's own guidance on applying the four core elements and eleven recommended disclosures of the framework is referred to by the FCA in the Listing Rules guidance paragraphs, which set out how the various TCFD publications are to be taken into account.

The FCA requirements

Under **Listing Rule 9.8.6(8)R**, premium listed companies must include a statement setting out:

- **whether they have made disclosures** consistent with the TCFD's recommendations and recommended disclosures in their annual financial report;
- where they have **not made** disclosures consistent with some or all of the TCFD's recommendations and/or recommended disclosures, an **explanation** of **why**, and a description of any **steps** they are taking or **plan to take** to be able to make consistent disclosures in the future – **including relevant timeframes** for being able to make those disclosures;
- where they have included some, or all, of their disclosures in a document **other than their annual financial report**, an explanation of why; and
- **where** in their annual financial report (or other relevant document) the various disclosures can be found.

The FCA guidance

LR 9.8.6BG '...in determining whether climate-related financial disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, a listed company should undertake a detailed assessment of those disclosures which takes into account:

1. Section C of the TCFD Annex entitled 'Guidance for All Sectors';
2. (where appropriate) Section D of the TCFD Annex entitled 'Supplemental Guidance for the Financial Sector' [i.e. Banks, Insurance Companies, Asset Owners and Asset Managers]; and
3. (where appropriate) Section E of the TCFD Annex entitled 'Supplemental Guidance for Non-Financial Groups' [i.e. Energy, Transportation, Materials and Buildings and Agriculture, Food and Forest Product groups]'.

The implication of LR 9.8.6BG is that these Sections of the TCFD Annex should be considered in detail as part of a company's assessment of its disclosures, emphasising the importance of the Annex to the overall framework. A summary of the TCFD Annex relevant to all companies applying the TCFD framework has therefore been provided in the Appendix to this guide. Sections D & E of the Annex provide additional guidance under each of the eleven recommended disclosures for the types of organisation noted in LR 9.8.6BG (2) & (3) above.

3. FCA listing rules requirements and guidance – TCFD reporting (Cont.)

The FCA guidance (Cont.)

LR 9.8.6CG then lists a number of other TCFD guidance documents that the FCA considers are relevant to a company's assessment of its disclosures:

Guidance document	Summary
TCFD Technical Supplement on the Use of Scenario Analysis in Disclosure of Climate Related Risks and Opportunities (2017)	The Technical Supplement recognises that the use of scenario analysis is currently limited for climate-related risks but advocates it as an important tool in assessing the potential impacts on organisations – particularly as they are likely to emerge over the medium to longer term, and their precise timing and magnitude are uncertain. The Supplement begins by setting out why scenario analysis is useful, what a scenario is, and how selected companies have used scenarios. It goes on to discuss the application of scenario analysis; key parameters, assumptions, and analytical choices organisations should consider when they undertake scenario analysis; and some of the key benefits and challenges.
TCFD Guidance on Risk Management Integration and Disclosure (2020)	This Guidance provides a model for integrating the management of climate change-related risk with a company's main risk management processes and disclosures. It sets out five key takeaways for this: • **Common understanding.** Basic agreement across the company on climate change concepts and their potential impacts. • **Interconnections.** All relevant functions, departments, and experts must be involved. • **Temporal orientation.** Physical and transition risks should be analysed across short, medium and long-term timeframes for operational and strategic planning, potentially extending beyond traditional planning horizons. • **Proportionality.** The integration of climate-related risks into existing risk management processes should be proportionate in the context of the company's other risks, the materiality of its exposure to climate-related risks, and the implications for the company's strategy. • **Consistency.** The methodology used must be consistent over time to allow clarity in the analysis of developments and drivers of change over time.
TCFD Guidance on Scenario Analysis for Non-Financial Companies (where appropriate) (2020)	This Guidance is intended to extend and deepen the 2017 version (see above). The focus is on a 'practical, process-oriented way for businesses to use climate-related scenario analysis' and the main targets are large and mid-sized non-financial companies. The advocated approach emphasises how scenario analysis can inform strategic management and enhance the resilience of a company's strategy to climate change, both of which can be key to TCFD disclosures.

The implication of LR 9.8.6CG is that these guidance documents are relevant but might not have to be considered in the same level of detail in every case.

4. Reporting in practice

Companies need to consider both the TCFD framework itself and how the FCA has implemented it through the Listing Rules. We have considered some of the practical implications of this below under four headings:

a. Case-by-case reporting

b. Elements of TCFD reporting expected of all premium listed companies

c. 'Report and explain'

d. Placement and structure of disclosures

a. Case-by-case reporting

The TCFD framework is not a one size fits all model. It is for individual companies to assess the extent of the impact that climate change will have on them, and how and when it should be reflected in the financial statements as well as the narrative disclosures.

The first step in practice is likely to be an initial risk assessment using a company's existing governance and risk management arrangements, supplemented where necessary by additional specialists, and covering: physical risks (including direct damage to assets and operational disruption) and transition risks (such as policy, legal, technology, and market changes); short, medium and long-term implications; and the implications for others in the same supply chain. This initial assessment should be reflected in the weight that the company places on each of the four elements of the TCFD framework and the whole process should then inform the approach to disclosure.

Both the TCFD and FCA recognise that reporting needs to be done on the basis of such a case-by-case assessment. In particular the FCA states in the Listing Rule Guidance that:

LR 9.8.6DG 'For the purposes of LR 9.8.6R(8), in determining whether climate-related financial disclosures are consistent with the TCFD Recommendations and Recommended Disclosures, a listed company should consider whether those disclosures provide sufficient detail to enable users to assess the listed company's exposure to and approach to addressing climate-related issues. A listed company should carry out its own assessment to ascertain the appropriate level of detail to be included in its climate-related financial disclosures, taking into account factors such as:

1. the level of its exposure to climate-related risks and opportunities; and
2. the scope and objectives of its climate-related strategy, noting that these factors may relate to the nature, size and complexity of the listed company's business'.

4. Reporting in practice (Cont.)

b. Elements of TCFD reporting expected of all premium listed companies

In the guidance in Listing Rule LR 9.8.6EG the FCA makes it clear that all in-scope listed companies should ordinarily be able to make disclosures consistent with the TCFD's recommendations on governance and risk management but that the same is not necessarily true of the other two core elements of the framework, strategy (only parts of which are always expected) and metrics & targets:

LR 9.8.6EG '(2) In particular, the FCA would expect that a listed company should ordinarily be able to make disclosures consistent with:

a. the recommendation and recommended disclosures on **governance** in the TCFD Recommendations and Recommended Disclosures;
b. the recommendation and recommended disclosures on **risk management** in the TCFD Recommendations and Recommended Disclosures; and
c. recommended disclosures (a) and (b) set out under the recommendation on **strategy** in the TCFD Recommendations and Recommended Disclosures, to the extent that the listed company does not face… transitional challenges… in relation to such disclosures'.

This is entirely consistent with the message that each company must apply the framework on a case-by-case basis, which will mean starting with the initial assessment discussed above.

c. 'Report and explain'

Although the FCA refers to its reporting requirement as 'comply or explain' in Policy Statement 20/17, this language is not used in Listing Rule LR 9.8.6(8) in the same way that it used in Listing Rule LR 9.8.6(6) in relation to reporting against the Provisions of the UK Corporate Governance Code. Unlike the corporate governance reporting requirement the TCFD reporting is expected to be a single statement in which a company sets out how the framework has been implemented, including any areas in which disclosure has not been made. It may therefore be helpful to think of it as a 'report and explain' requirement, with the emphasis on what the company has done, while also setting out what is missing and explaining why.

d. Placement and structure of the disclosures

The TCFD states in its Final Report that organisations **'should provide [the required] disclosures in their mainstream [i.e. public] annual financial filings',** other than where there is a local regulatory issue with this or where the nature of an organisation's reporting is not similar to a listed company's annual report. In the Listing Rules, however, the FCA allows for some or all of the TCFD reporting to be in a document other than the annual report and this approach has already been taken in some voluntary early disclosures. Where disclosures need to be very extensive it might, for instance, be helpful for the overall structure and flow of the annual report to include some of the detail in a sustainability or other report.

Companies should, however, bear in mind that information which is considered to be material to the strategic report must be included in that report, and cannot be provided only in a separate report or on a website. Many companies include an 'index table' linking to other disclosures to meet the requirement for a non-financial information statement without being clear as to whether the items referred to are material. If a similar approach is taken to reporting on the TCFD framework, strategically material information on climate change must be included within the strategic report.

5. TCFD requirements beyond premium listed companies

In line with the government roadmap and existing regulatory initiatives, TCFD reporting is being extended to a number of other types of organisations in addition to premium listed companies. The largest extension of scope would come from the recently published consultation by the UK government, but a number of other regulators are also introducing reporting.

a. Consultation Extension of scope to private companies, companies registered in AIM and LLPs

Summary of requirements	Applicable to	Date applicable	Where and how to report
It is proposed that reporting would be against the four core elements of the TCFD framework, but not against the eleven disclosure recommendations or the TCFD guidance documents. Disclosure of scenario testing would also not be expected within the annual report. The requirements would be supplemented by a set of Q&As.	Organisations that would need to report as a result of the proposals are as follows: • All UK companies that are currently required to produce a non-financial information statement, being UK companies that have more than 500 employees and have transferable securities admitted to trading on a UK regulated market (meaning primarily equity or debt listings on the Main Market of the London Stock Exchange), banking companies or insurance companies (Relevant Public Interest Entities (PIEs)); • UK registered companies with securities admitted to AIM with more than 500 employees; • UK registered companies which are not included in the categories above, which have more than 500 employees and a turnover of more than £500m; and • LLPs which have more than 500 employees and a turnover of more than £500m. For companies, these thresholds are consistent with one of the proposed methods of extending the definition of a Public Interest Entity in the separate government consultation: **Restoring trust in audit and corporate governance**.	Periods beginning on or after 6 April 2022.	For companies, it is proposed that the reporting would be in the non-financial information statement element of the strategic report. For LLPs the reporting would be in the Energy and Carbon Report (if they do not produce a strategic report). Reporting against the four core elements is described as mandatory but the proposed level of disclosure is limited and would still be subject to the case-by-case assessment of relevance discussed in section 4 of this guide.

5. TCFD requirements beyond premium listed companies (Cont.)

b. New requirements Prudential Regulation Authority (PRA)

Summary of requirements	Applicable to	Date applicable	Where and how to report
PRA Supervisory Statement SS3/19 (April 2019) and subsequent **PRA Dear CEO letter (July 2020) based on the thematic review.** **Process** In SS3/19 the PRA: • Recognised that climate change affects firms by increasing underwriting, reserving, credit, or market risks; • Called for a strategic approach that is **'proportionate to the nature, scale, and complexity of its business'**; and • Identified specific expectations in relation to firms' governance and risk management around climate change, including that the board should allocate responsibility to a suitable Senior Management Function; build it into their Internal Capital Adequacy Assessment Process (ICAAP) or Own Risk and Solvency Assessment (ORSA) processes; and use scenario analysis where proportionate.	PRA-regulated banks, building societies and insurers.	The PRA has set a deadline of the end of 2021 for firms to be able to demonstrate that they have fully embedded SS3/19 in their approach to managing climate-related financial risks.	Strategic report and Pillar 3 risk disclosures in the annual report. The PRA approach is currently less prescriptive than the Listing Rules requirements or those proposed in the BEIS consultation above and does not mandate the use of the TCFD framework (though, as noted, it does encourage firms to engage with it). Many regulated firms will be in scope for one or other of those sets of requirements too.

5. TCFD requirements beyond premium listed companies (Cont.)

b. New requirements Prudential Regulation Authority (PRA) (Cont.)

Summary of requirements	Applicable to	Date applicable	Where and how to report
Disclosure SS3/19 noted that banks and insurers have existing requirements to disclose information on material risks within their Pillar 3 disclosures and on principal risks and uncertainties in their Strategic Report (as required under the UK Companies Act), but they should also **'consider whether further disclosures are necessary to enhance transparency'**. In this regard, they expect firms **'to consider engaging with the TCFD framework and other initiatives in developing their approach to climate-related financial disclosures'** and for disclosures to mature over time. **PRA/BoE thematic review** This focuses on the progress firms have made with implementing their approaches, and notes that disclosure has been limited by firms' capabilities to date. In particular, data limitations mean that not all firms will be able to **'embed an end-state analysis of climate-related financial risks within your firm's capital frameworks by end-2021'** but that they **'should be able to explain what steps your firm has taken to ensure that, where appropriate, capital levels adequately cover the risks to which your firm is, or might be, exposed'.**	PRA-regulated banks, building societies and insurers.	The PRA has set a deadline of the end of 2021 for firms to be able to demonstrate that they have fully embedded SS3/19 in their approach to managing climate-related financial risks.	Strategic report and Pillar 3 risk disclosures in the annual report. The PRA approach is currently less prescriptive than the Listing Rules requirements or those proposed in the BEIS consultation above and does not mandate the use of the TCFD framework (though, as noted, it does encourage firms to engage with it). Many regulated firms will be in scope for one or other of those sets of requirements too.

5. TCFD requirements beyond premium listed companies (Cont.)

c. Consultation Department for Work and Pensions (DWP)

Summary of requirements	Applicable to	Date applicable	Where and how to report
The DWP consulted ('Taking action on climate risk: improving governance and reporting by occupational pension schemes') in August 2020 on proposed requirements for larger occupational pension schemes and authorised master trusts to publish climate risk disclosures, including reporting against the TCFD framework. Following the passage of The Pension Schemes Bill 2021 they then consulted in January 2021 on draft regulations and statutory guidance produced in light of the outcome of the August policy consultation. Non-statutory guidance for trustees has also been published by the Pensions Climate Risk Industry Group. The January 2021 consultation includes requirements applying the four core elements of the TCFD framework to the specific circumstances of occupational pension schemes. It also sets out that: • Trustees must take a reasonable and proportionate approach, meeting requirements **'as far as they are able'** (the meaning of which is addressed further in the statutory guidance); and • Scenario analysis must be carried out in the first year in which the climate change governance requirements apply and then at least every three years.	**From 1 October 2021 ('Wave 1')** • Occupational pension schemes with >£5bn assets. • Authorised master trusts. • Authorised scheme providing collective money purchase benefits. **From 1 October 2022 ('Wave 2')** • Occupational pension schemes with >£1bn assets. Consulting in 2024 on whether to extend to all occupational schemes.	Governance, strategy, risk management, and accompanying metrics and targets in place from October 2021 (Wave 1) or October 2022 (Wave 2). Must publish a TCFD report within 7 months of the end of the scheme year which is underway on 1 October 2021 (Wave 1) or 1 October 2022 (Wave 2).	A link to a 'TCFD Report' on a publicly available website must be made from the annual report. The DWP has embedded the concept of a proportionate response in its application of the TCFD framework, which will guide the nature and extent of reporting.

6. Further information and contacts

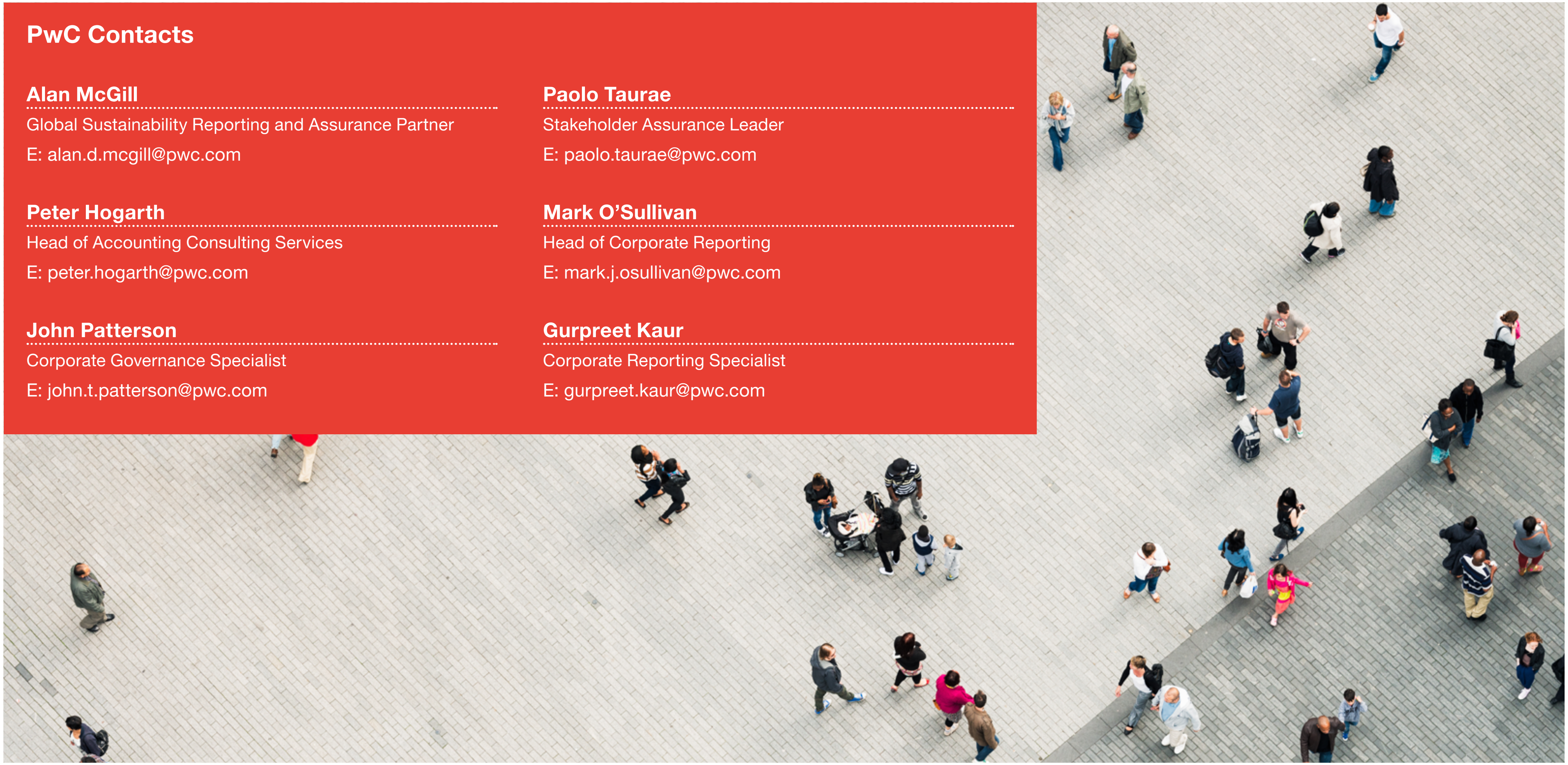
External Guidance

Guidance	Summary	Link to Guidance
Financial Stability Board (FSB) – TCFD Guidance	• This publications hub contains all the TCFD guidance, including the final TCFD report, that has been released by the FSB. • Includes all the documents referred to in this guide. • Includes the latest 2020 Status Report.	FSB TCFD Publications
UK Government – Interim Report and Roadmap	• Report outlining the roadmap to mandatory climate-related disclosures. • Sets out the indicative path covering key sectors and businesses.	UK joint regulator and government TCFD Taskforce: Interim Report
UK Government – Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs	• A consultation seeking views on proposals to require mandatory TCFD aligned climate-related financial disclosures from publicly quoted companies, large private companies and Limited Liability Partnerships (LLPs).	UK Government – Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs
Financial Reporting Council (FRC) – Climate Change Thematic Review	• FRC thematic review of climate-related considerations by boards, companies, auditors, professional bodies and investors.	FRC Thematic Review

PwC Guidance

Guidance	Summary	Link to Guidance
Excellence in Sustainability Reporting	• An overview of good practice in sustainability reporting, with tips for improving your reporting. • A quantitative analysis of the performance of the companies scored.	Excellence in Sustainability Reporting 2020
Excellence in Climate Change Reporting	• A summary of what should be reported and why, set in the framework of the TCFD guidance. • Basic, intermediate and advanced tips for improving your reporting. • A quantitative analysis of the performance of the companies scored as a part of this review.	Excellence in Climate Change Reporting 2020
Climate change – the next emerging risk for your business?	• Summary of the questions businesses should be asking. • Examples of physical and transitional risks, and discussion around the pressures from regulators and investors.	Climate change – the next emerging risk for your business?

6. Further information and contacts (Cont.)



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Appendix

TCFD annex – Aspects relevant to all companies

Matters that should be considered under **LR 9.8.6BG** in relation to the recommended disclosures under each of the core elements.

Governance

Recommended disclosures	What to consider
Describe the board's oversight of climate-related risks and opportunities.	In describing the board's oversight of climate-related issues, organisations should consider including a discussion of the following: • processes and frequency by which the board and/or board committees (e.g. audit, risk, or other committees) are informed about climate-related issues; • whether the board and/or board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organisation's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures; and • how the board monitors and oversees progress against goals and targets for addressing climate-related issues.
Describe management's role in assessing and managing climate-related risks and opportunities.	In describing management's role related to the assessment and management of climate-related issues, organisations should consider including the following information: • whether the organisation has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues; • a description of the associated organisational structure(s); • processes by which management is informed about climate-related issues; and • how management (through specific positions and/or management committees) monitors climate-related issues.

TCFD annex – aspects relevant to all companies (Cont.)

Strategy

Recommended disclosures	What to consider
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Organisations should provide the following information: • a description of what they consider to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organisation's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms; • a description of the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the organisation; and • a description of the process(es) used to determine which risks and opportunities could have a material financial impact on the organisation. Organisations should consider providing a description of their risks and opportunities by sector and/or geography, as appropriate.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Organisations should discuss how identified climate-related issues have affected their businesses, strategy, and financial planning. Organisations should consider including the impact on their businesses and strategy in the following areas: products and services; supply chain and/or value chain; adaptation and mitigation activities; investment in research; and development and operations. Organisations should describe how climate-related issues serve as an input to their financial planning process, the time period(s) used, and how these risks and opportunities are prioritised. Organisations' disclosures should reflect a holistic picture of the interdependencies among the factors that affect their ability to create value over time. Organisations should also consider including in their disclosures the impact on financial planning in the following areas: operating costs and revenues; capital expenditures and capital allocation; acquisitions or divestments; access to capital. If climate-related scenarios were used to inform the organisation's strategy and financial planning, such scenarios should be described.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Organisations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks. Organisations should consider discussing: • where they believe their strategies may be affected by climate-related risks and opportunities; • how their strategies might change to address such potential risks and opportunities; and • the climate-related scenarios and associated time horizon(s) considered.

TCFD annex – aspects relevant to all companies (Cont.)

Risk management

Recommended disclosures	What to consider
Describe the organisation's processes for identifying and assessing climate-related risks.	Organisations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organisations determine the relative significance of climate-related risks in relation to other risks. Organisations should describe whether they consider existing and emerging regulatory requirements related to climate change (e.g. limits on emissions) as well as other relevant factors considered. Organisations should also consider disclosing the following: • Processes for assessing the potential size and scope of identified climate-related risks • Definitions of risk terminology used or references to existing risk classification frameworks used.
Describe the organisation's processes for managing climate-related risks.	Organisations should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. Organisations should describe their processes for prioritising climate-related risks, including how materiality determinations are made within their organisations.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Organisations should describe how their processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.

TCFD annex – aspects relevant to all companies (Cont.)

Metrics and targets

Recommended disclosures	What to consider
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Organisations should provide the key metrics used to measure and manage climate-related risks and opportunities, including transition and physical risks and opportunities. Examples of these risks and opportunities are provided in Tables A1 and A2 in the Appendices to the Annex. Organisations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable. Where climate-related issues are material, organisations should consider describing whether and how related performance metrics are incorporated into remuneration policies. Where relevant, organisations should provide their internal carbon prices as well as climate-related opportunity metrics such as revenue from products and services designed for a lower-carbon economy. Metrics should be provided for historical periods to allow for trend analysis. Where not apparent, organisations should provide a description of the methodologies used to calculate or estimate climate-related metrics.
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Organisations should provide their Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks. GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organisations and jurisdictions. Organisations should consider providing related, generally accepted industry-specific GHG efficiency ratios. GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis. Where not apparent, organisations should provide a description of the methodologies used to calculate or estimate the metrics.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Organisations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc. in line with anticipated regulatory requirements or market constraints or other goals. Other goals may include efficiency or financial goals, financial loss tolerances, avoided GHG emissions through the entire product life cycle, or net revenue goals for products and services designed for a lower carbon economy. In describing their targets, organisations should consider including the following: • Whether the target is absolute or intensity based, • Time frames over which the target applies, • Base year from which progress is measured, and • Key performance indicators used to assess progress against targets. Where not apparent, organisations should provide a description of the methodologies used to calculate targets and measures.