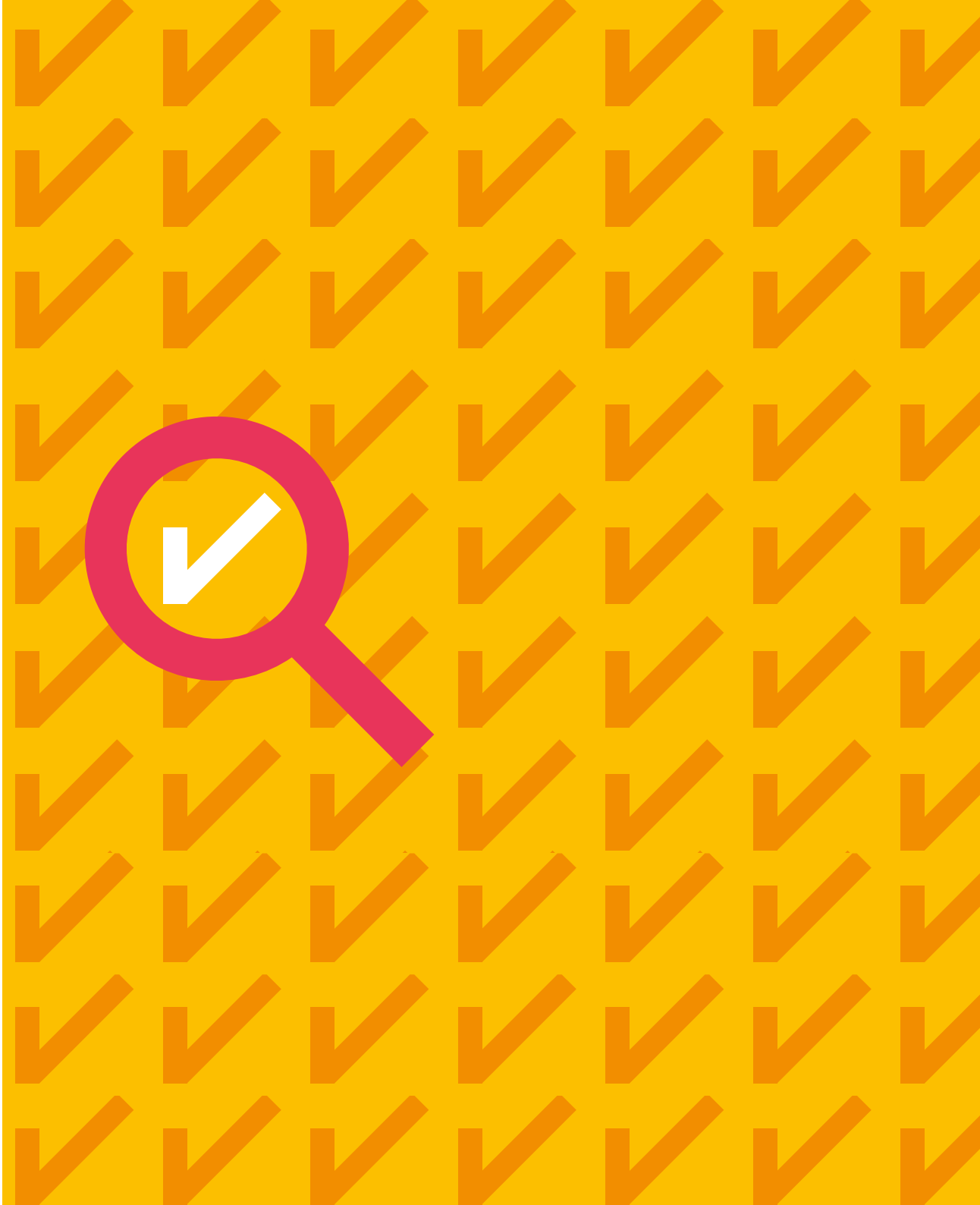
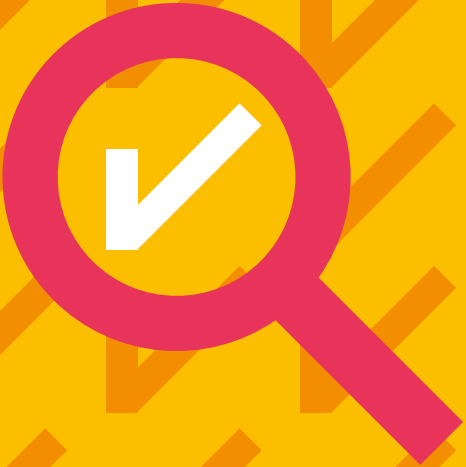


Task Force for Climate-related Financial Disclosures

Where do I start?

December 2021





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1. Introduction to 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, which is one of the most significant risks that organisations face today.

The Task Force for Climate Related Financial Disclosures ('TCFD') was established by the global Financial Stability Board in December 2015 **'to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks'**. [TCFD 2017 Final Report, page iii]

The TCFD framework is currently the benchmark for climate-related financial risk disclosures, and its recommendations have now begun to be incorporated into many regulatory frameworks around the world. Voluntary disclosures are also being increasingly encouraged.

The recommendations of the TCFD were created in response to stakeholder concerns. Currently stakeholders may find it difficult to identify which organisations are most at risk from climate change, those which are taking action to address these climate-related risks, and those taking advantage of climate-related opportunities. The TCFD looks to mitigate this through enhanced and more effective climate-related disclosures.

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, and these impacts should often 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 now.

Specifically, while financial reporting frameworks are mainly based on historical information, there are often a number of underlying assumptions based on expectations of the future within the cash flow forecasts, impairment models and expected credit loss calculations that underpin certain financial disclosures. It can therefore be important to consider climate risks (and opportunities), including any carbon reduction commitments, when preparing financial statements. Narrative disclosures can also help to clarify how this has been done and, where appropriate, explain why there may be inconsistencies between the assumptions underpinning the financial disclosures and those in the front half and/or information disclosed elsewhere in the Annual Report.

Climate change and existing reporting requirements

It is important to recognise that in general, climate change and environmental matters are often relevant to and included within existing reporting framework requirements such as:

- Annual reports;
- Regulatory reporting;
- Sustainability reporting;
- Integrated reporting; and
- Offering documents

This is not an exhaustive list.

The challenge for companies will therefore be to ensure consistency between these existing disclosures and those driven by the TCFD recommendations and to avoid excess repetition and discrepancies.

1. Introduction to this guide (cont'd.)

TCFD publications

In June 2017, the TCFD released its first set of disclosure recommendations – **‘Recommendations of the Task Force on Climate-related Financial Disclosures’**, also known as the ‘the framework’.

A number of pieces of guidance have since been published by the TCFD to accompany the framework. The TCFD ‘Annex’ (Implementing the Recommendations of the Task Force on Climate related Financial Disclosures) included in Appendix A, in particular builds out what to consider when putting together the recommended disclosures. The Annex provides both general and sector-specific guidance. For the purposes of this publication, Appendix A only contains the guidance for all sectors, i.e. the general guidance on implementing the recommended disclosures.

The latest version of the Annex (**2021 TCFD Annex**) both updates and supersedes the 2017 version of ‘Implementing the Recommendations of the TCFD’.

The TCFD also released status reports in 2018, 2019, 2020 and 2021 (**2021 Status Report**) that highlight the latest reporting trends in relation to the four core elements and eleven recommended disclosures and include helpful published examples of reporting.

In addition, in response to issues raised by various organisations, the TCFD sought to clarify these issues in the implementation of the TCFD recommendations by releasing an additional publication in 2021, focusing on **guidance on Metrics, Targets and Transition Plans**. The guidance describes recent developments around climate-related metrics and users’ increasing focus on information describing organisations’ plans for transitioning to a low-carbon economy. Appendix B of this guide contains a summary of the guidance.



2. The basic elements of the TCFD framework

The TCFD framework released in 2017 consists of four core elements (sometimes referred to as ‘pillars’), supported by eleven recommended disclosures (refer to Appendix A). These recommendations were designed to assist businesses in providing climate-related disclosures that are both transparent and meaningful.

These climate-related disclosures include information about the climate-related risks and opportunities that are most pertinent to an organisation’s business activities. The two main climate-related risks identified by the TCFD are transition risks and physical risks.

Transition risks:

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations. [2017 Final TCFD Report, page 5]

Physical risks:

Physical risks resulting from climate change can be event-driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption. [2017 Final TCFD Report, page 6]

Climate-related opportunities can also arise for organisations, in their attempts to adapt to and mitigate climate change. Such opportunities can include developing new products and services, resource efficiency and cost savings to name a few. Depending on the region, industry and market in which an organisation operates, climate-related opportunities may vary between organisations.



Core elements:

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.

[Extract from Figure 4, 2017 TCFD Final Report, page 14]

3. Key aspects of reporting against the framework in practice

Companies need to consider both the TCFD framework itself and any local implementation rules. We have considered some of the practical implications of this below.



a. Case-by-case reporting

The TCFD framework would need to be evaluated on an individual company basis and is not a one size fits all model. An assessment should be made of what is considered to be material for reporting purposes within the TCFD framework.

The first step in practice is likely to be a detailed 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 – both upstream and downstream.

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.

The TCFD recognises that reporting needs to be done on the basis of such a case-by-case assessment.



b. Elements of TCFD reporting expected for all companies

Companies should ordinarily be able to make disclosures consistent with the TCFD's recommendations on governance and risk management (e.g. describing the board's oversight of climate-related risks and opportunities), and what the organisation's process is for identifying climate-related risks as described in Appendix A. However, 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 and targets. 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. Reporting progress to date

The TCFD recognises that it may take some time for companies to be in a position to report fully against the 11 recommended disclosures. As companies transition towards full 'compliance' with the framework, companies are encouraged to include a statement explaining how the framework has been implemented – emphasising what the company has done – while also setting out any areas in which disclosure has not been made, and plans for the future to address these areas.

Page 38 – 49 of the **2021 Status Report** includes examples of reporting disclosures that are aligned with the TCFD framework, and have been mainly sourced from the 2020 fiscal year reporting period.

3. Key aspects of reporting against the framework in practice (cont'd.)



d. Placement and structure of the disclosures

The TCFD states in the **2017 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. For example, this could be a separate section of the annual report outside of the annual financial statements.



e. From signposting to plans, actions and progress

Amid intense scrutiny of companies' consideration of climate risks and carbon reduction commitments, there is growing demand for them to distinguish between aspirational aims/ambitions and specific priorities and actions. This would include:

- Setting out the plans to achieve commitments and accompanying milestones;
- Being clear on the future implications of their business models as progress is made; and
- Reporting progress using quality, comparable metrics.

The TCFD's latest 2021 status report stressed the importance of disclosing transition plans and actual financial impacts and accompanied it with new guidance on '**Metrics, Targets and Transition Plans**'. This guidance explicitly addressed the disclosure of metrics consistent with cross-industry, climate-related metric categories for current, historical and future periods, where appropriate.



4. Further information

External Guidance

Guidance	Summary	Link to Guidance
Financial Stability Board (FSB) – TCFD Guidance	<p>This publications hub contains all of the TCFD guidance released by the FSB including:</p> <ul style="list-style-type: none"> • The final TCFD report; • The latest 2021 Status Report; • Guidance on Metrics, Targets, and Transition Plans; and • The 2021 Implementing the Recommendations of the Task Force on Climate related Financial Disclosures (The Annex). 	FSB TCFD Publications

PwC Guidance

Guidance	Summary	Link to Guidance
Excellence in Sustainability and Climate Change Reporting	<ul style="list-style-type: none"> • An overview of good practice in sustainability reporting, with tips for improving your reporting. • A quantitative analysis of the performance of the companies scored. • 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. 	<p>Excellence in climate change reporting pdf</p> <p>Excellence in sustainability reporting pdf</p>
Climate change – the next emerging risk for your business?	<ul style="list-style-type: none"> • 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?
Getting ready for mandatory climate-related financial disclosures	<ul style="list-style-type: none"> • This thought leadership includes insights into what companies can be doing to prepare for the implementation of TCFD. 	Getting ready for mandatory climate-related financial disclosures

Future guidance can be found on the Global Climate Change landing page on PwC Viewpoint: <https://viewpoint.pwc.com/gx/en/climate-change-.html>

5. Where can I get more information?

For more information, please contact

Henry Daubeney

E: henry.daubeney@pwc.com

Katie Woods

E: katie.woods@pwc.com

Joanne Dunkason

E: joanne.dunkason@pwc.com

Thamesha Chetty

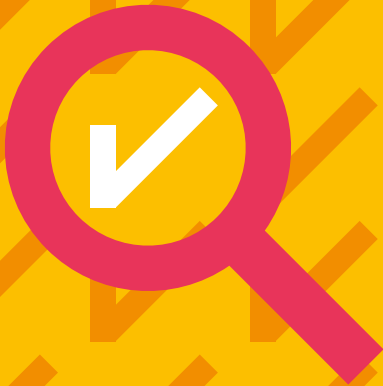
E: thamesha.chetty@pwc.com

or

Mark O'Sullivan

E: mark.j.osullivan@pwc.com

Appendix



Appendix A: TCFD ‘Annex’ – Guidance for All Sectors

Governance

Recommended disclosures	What to consider
Describe the board’s oversight of climate-related risks and opportunities.	<p>In describing the board’s oversight of climate-related issues, organisations should consider including a discussion of the following:</p> <ul style="list-style-type: none">• 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.	<p>In describing management’s role related to the assessment and management of climate related issues, organisations should consider including the following information:</p> <ul style="list-style-type: none">• 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’ – Guidance for All Sectors (cont’d.)

Strategy

Recommended disclosures	What to consider
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	<p>Organisations should provide the following information:</p> <ul style="list-style-type: none">• 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. <p>Organisations should consider providing a description of their risks and opportunities by sector and/or geography, as appropriate.</p>
Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.	<p>Building on recommended disclosure (a), 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, strategy, and financial planning in the following areas:</p> <ul style="list-style-type: none">• Products and services• Supply chain and/or value chain• Adaptation and mitigation activities• Investment in research and development• Operations (including types of operations and location of facilities)• Acquisitions or divestments• Access to capital <p>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.</p>

TCFD ‘Annex’ – Guidance for All Sectors (cont’d.)

Strategy (cont’d.)

Recommended disclosures	What to consider
	<p>Organisations should describe the impact of climate-related issues on their financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities).²⁴ If climate-related scenarios were used to inform the organisation’s strategy and financial planning, such scenarios should be described.</p> <p>Organisations that have made GHG emissions reduction commitments, operate in jurisdictions that have made such commitments, or have agreed to meet investor expectations regarding GHG emissions reductions should describe their plans for transitioning to a low-carbon economy, which could include GHG emissions targets and specific activities intended to reduce GHG emissions in their operations and value chain or to otherwise support the transition.</p>
<p>Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>Organisations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a low-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks.</p> <p>Organisations should consider discussing:</p> <ul style="list-style-type: none">• 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;• The potential impact of climate-related issues on financial performance (e.g., revenues, costs) and financial position (e.g., assets, liabilities); and• The climate-related scenarios and associated time horizon(s) considered.

TCFD ‘Annex’ – aspects relevant to all companies (cont’d.)

Risk management

Recommended disclosures	What to consider
Describe the organisation’s processes for identifying and assessing climate-related risks.	<p>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.</p> <p>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.</p> <p>Organisations should also consider disclosing the following:</p> <ul style="list-style-type: none">• Processes for assessing the potential size and scope of identified climate-related risks and• Definitions of risk terminology used or references to existing risk classification frameworks used.
Describe the organisation’s processes for managing climate-related risks.	<p>Organisations should describe their processes for managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, organisations should describe their processes for prioritising climate-related risks, including how materiality determinations are made within their organisations.</p>
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.	<p>Organisations should describe how their processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.</p>

TCFD ‘Annex’ – aspects relevant to all companies (cont’d.)

Metrics and targets

Recommended disclosures	What to consider
<p>Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>	<p>Organisations should provide the key metrics used to measure and manage climate related risks and opportunities, as described in Tables A1.1 and A1.2 in the 2021 TCFD Annex (pp. 75–76), as well as metrics consistent with the cross-industry, climate-related metric categories described in Table A2.1 in the 2021 TCFD Annex (p. 79). Organisations should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable.</p> <p>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 low-carbon economy.</p> <p>Metrics should be provided for historical periods to allow for trend analysis. Where appropriate, organisations should consider providing forward-looking metrics for the cross-industry, climate-related metric categories described in Table A2.1 of the 2021 TCFD Annex (p. 79), consistent with their business or strategic planning time horizons. In addition, where not apparent, organisations should provide a description of the methodologies used to calculate or estimate climate-related metrics.</p>
<p>Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>	<p>Organisations should provide their Scope 1 and Scope 2 GHG emissions independent of a materiality assessment, and, if appropriate, Scope 3 GHG emissions and the related risks. All organisations should consider disclosing Scope 3 GHG emissions.</p> <p>GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability across organisations and jurisdictions. As appropriate, organisations should consider providing related, generally accepted industry-specific GHG efficiency ratios.</p> <p>GHG emissions and associated metrics should be provided for historical periods to allow for trend analysis. In addition, where not apparent, organisations should provide a description of the methodologies used to calculate or estimate the metrics.</p>

TCFD ‘Annex’ – aspects relevant to all companies (cont’d.)

Metrics and targets (cont’d.)

Recommended disclosures	What to consider
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	<p>Organisations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with the cross-industry, climate related metric categories in Table A2.1 per the 2021 TCFD Annex (p. 79), where relevant, and 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 low-carbon economy.</p> <p>In describing their targets, organisations should consider including the following:</p> <ul style="list-style-type: none">• 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. <p>Organisations disclosing medium-term or long-term targets should also disclose associated interim targets in aggregate or by business line, where available.</p> <p>Where not apparent, organisations should provide a description of the methodologies used to calculate targets and measures.</p>

[2021 Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, Section C, pages 17-22]

Link to a summary of the changes for 2017 to 2021 TCFD Implementing guidance (Annex): [Summary of changes](#)

Appendix B: Summary of Guidance on Metrics, Targets and Transition Plans

Since the release of the TCFD framework in 2017, in response to issues raised by various organisations, the TCFD sought to clarify these issues in the implementation of the TCFD recommendations by releasing an additional publication focusing on guidance on metrics, targets and transition plans.

The TCFD developed this guidance to support preparers in disclosing decision-useful metrics, targets and transition plan information, and linking those disclosures with estimates of financial impacts. Such information will enable users to appropriately assess their investment and lending risks. **[Task Force on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans 2021, page 5].**

The guidance on metrics, targets and transition plans is intended to be useful to companies and organisations of all sizes and which are located in various countries.

The TCFD encourages preparers to read the guidance, taking the following considerations into account:

- Principles for effective disclosure
- Cross-industry metric categories
- Financial sector metrics
- Transition plans
- Implementation over time

The guidance helps a preparer by laying out granular considerations for preparers in relation to:

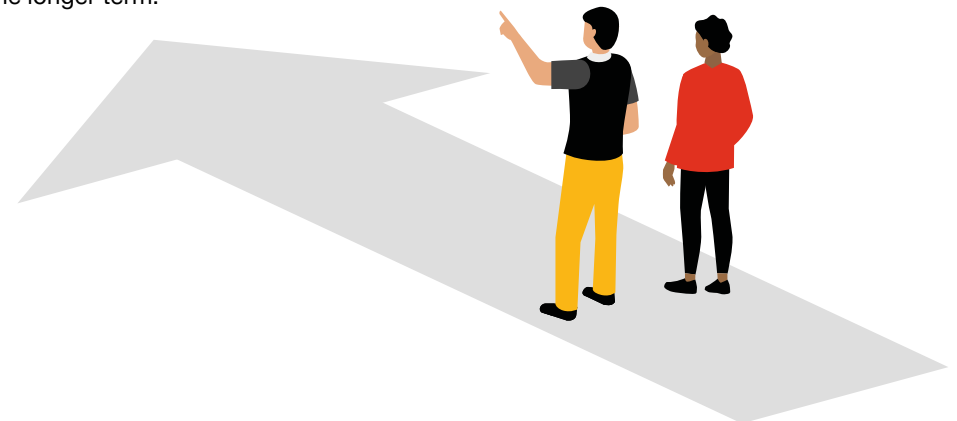
- Climate-related metrics
 - Disclosing climate-related metrics
 - Driving toward comparability: cross-industry metric categories
- Climate-related Targets
- Transition Plans
 - Disclosing transition plan information
- Financial impacts

From the highlights included in the [2021 Status Report](#), it was noted that users have found the disclosure of financial impacts useful to support decision making. In order for users to make informed financial decisions, they need to understand the actual and potential impacts of climate-related risks and opportunities on the financial performance and position, and how those impacts may affect the organisation's enterprise value over the longer term.

The TCFD recognises that disclosing the potential financial impact of climate change may not be consistent with financial filing requirements and encourages organisations to make financial disclosures in accordance with such requirements. If certain elements of the recommendations are incompatible with disclosure requirements for financial filings, the TCFD encourages organisations to disclose those elements in other official reports that are:

- Issued at least annually;
- Widely distributed and available to users; and
- Subject to internal governance processes that are the same or substantially similar to those used for financial reporting.

[Task Force on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans 2021, page 46].



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