

# Still early days

**A review of year two  
of TCFD reporting**

May 2023



**Practical suggestions to help companies explain the impact of climate change based on a review of the year two TCFD disclosures of 50 FTSE 350 companies.**

In the second year of mandatory reporting on the Task Force on Climate Related Financial Disclosures (TCFD) framework, it remains a significant addition to UK annual reports. The intention behind the framework is to provide investors, banks, and other financial institutions with more detailed information about the actual and potential financial impacts of climate change – and to help build trust in the role of business in the transition to a net zero economy.

As highlighted by our **Green shoots of TCFD reporting** publication, year one of the Listing Rule requirement for premium listed companies<sup>1</sup> saw a step change in the quality and extent of reporting, but many companies recognised that they still had more work to do.

This report looks at how TCFD reporting has progressed in year two based on a review of 50 of the first companies to report for December 2022 year ends.



<sup>1</sup>For a reminder of the basic requirements relating to TCFD reporting please see this [‘Where do I start?’ guide](#).

# The big picture

TCFD reporting was always likely to be a challenge to accommodate within the existing annual report structure and, even when done well, it can still feel disconnected from the rest of the content. The framework is also detailed and extensive when all the guidance is considered, so reports can be lengthy – sometimes to the point that they feel disproportionate. And the eleven recommended disclosures can seem like boxes that need to be ticked, with the Listing Rules calling for companies to identify any areas where they are not consistent.

But, even allowing for the nature of the requirements, the fact is that many reports have largely been rolled forward with minor changes for year two.

Rather than aiming for substantial improvements, updates often relate mainly to areas that were identified as inconsistent with the TCFD framework in year one.

Overall, we also found many year two reports to be far more complex and difficult to follow than we believe they need to be.

So, based on what we have seen this year, our view is that there is room for improvement in many reports. This can apply whether or not they are in sectors where the impact of climate change is high, though of course the content will differ.

The main focus of this report is on providing straightforward, practical recommendations for how the situation can be tackled. We know there is a lot of work going on within companies to manage and respond to the actual and potential impacts of climate change. This report is about reflecting that work better in reporting – and explaining better where there is more to be done.

## What we saw in year two:

The average length of a TCFD section in the annual report in our survey was **nine pages**, though some in high-impact sectors, including banks, were much longer.

The average length of a strategic report was **85 pages** (2021/22 – 80 pages). The ESG section continues to grow as a proportion of this (2022/23 – **33%**, 2021/22 – **29%**), while in stark contrast discussions of core commercial strategy averaged only **six pages**.

## Global ESG reporting developments

Challenges of this kind will also be relevant to the wider sustainability reporting requirements associated with the ISSB and CSRD frameworks.

See our [‘Where do I start?’](#) guide to global ESG reporting developments for more information on these initiatives and their applicability and timing for UK companies.

## Climate change reporting under the UK Companies Act

The principles set out here can also be applied for the purposes of climate reporting as part of a non-financial and sustainability information statement under s414CA of the UK Companies Act.

These disclosures are closely aligned with the TCFD framework and are applicable to a wider range of companies and limited liability partnerships above certain size thresholds for periods beginning on or after 6 April 2022.



# Why is good climate change reporting so important?

## An underlying tension – known unknowns

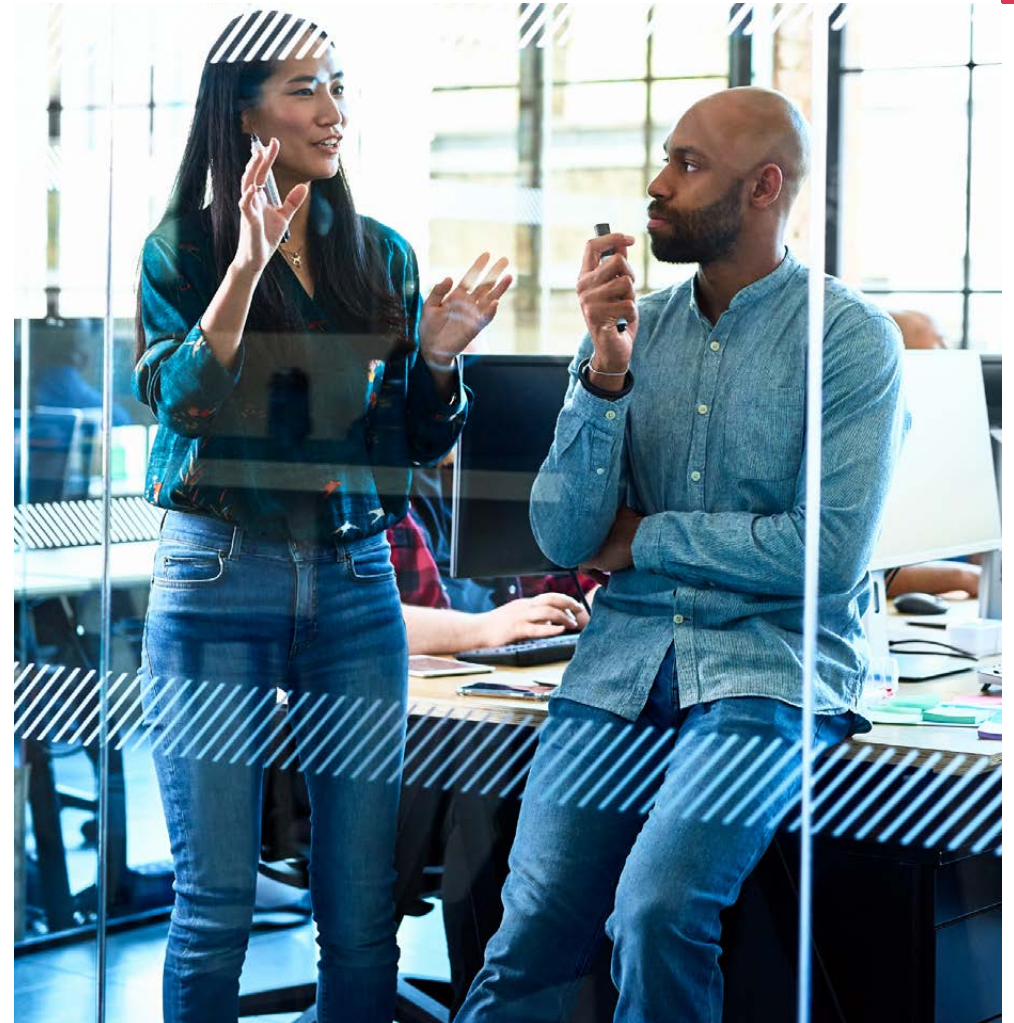
There is an underlying tension in much of the reporting on climate change at the present time. No company knows everything it will need to know about dealing with the challenges it will face in the future. Governments across the world continue to work on the problem but, as in the UK, the details are generally still to be confirmed or subject to further consultation. So there are many known unknowns. And many companies disclose that they do not have all the information they need even in relation to their **existing** risks and opportunities.

Yet companies are being asked to report on climate change in a way that is consistent with the comprehensive and detailed TCFD framework.

Both the TCFD framework and the Listing Rules include a significant amount of flexibility in recognition of this, but companies still generally want to give the impression that they are in control – even though the risks and opportunities are largely, by definition, beyond the control of an individual company.

This issue is particularly relevant to one of the fundamental objectives of the TCFD framework – that reporting should explain the actual or potential **financial** impact of climate change for a particular business. Companies and boards are often reluctant to ‘put a number on’ issues that are seen as uncertain, long term or beyond their control and, where they do, the time horizon is generally short term.

This document aims to show how good reporting can help to deal with these issues and this underlying tension, especially if companies keep in mind the following overarching points.



## Reporting should explain where a company is on its 'journey'

Like society as a whole, companies are generally on a 'journey' towards managing and responding to the challenges of climate change – and, at the same time, towards being able to report that they are fully 'consistent' with the TCFD framework.

As we noted above, few companies can be sure about every detail of the journey that lies ahead and the challenges and expectations are certain to change as the situation develops. Systems and the quality of information available also need to improve in many areas.

Good disclosures will therefore explain a company's plans, including the timelines and how progress will be assessed.

Companies also need to recognise that assessing 'consistency' can itself involve judgement. There is often no bright line in dealing with an issue that marks the point where enough has been done at that stage of the overall journey.

So the first key message, especially in these early years of climate change reporting, is that it is the **explanation** of where a company stands that has the real information value – not simply whether full or partial consistency with the framework is claimed at a particular time.





## Reporting should explain what the key judgements are for a particular company

The relevance of climate-related risks and opportunities of course varies from company to company. The TCFD framework recognises this and expects companies to make judgements about the nature and extent of their disclosures. And the Listing Rules also allow for it by making only the seven recommended disclosures that relate to **how** the judgements are arrived at 'expected'.

The judgements that companies make are also the basis for defining their particular journey, as discussed above. But, too often, reporting still does not reflect the different circumstances that apply to each organisation.

The challenge is to explain **what** is judged to be important (or material) and **why**, and to **which** stakeholder group or groups. The TCFD framework is ultimately aimed at having companies disclose the potential financial impact of climate change on the business, but the agenda that many governments and regulators are following is much wider than this – and arguably makes companies accountable to a wide range of stakeholders to an extent not called for before.

The judgements companies make in this regard must be subject to a robust governance process and formally documented<sup>2</sup>. But, if they are, the second key message is that good reporting on those key judgments should result in an effective disclosure that also meets all of the technical requirements.

We know that climate-related reporting is a complex issue for companies to navigate. They feel pulled in different directions in a high-profile area with potentially serious reputational repercussions. As a result, the key messages can easily be lost, and reporting fall short of both shareholder and wider stakeholder expectations.

At worst, companies can find themselves accused of greenwashing when in fact the problem is the quality of reporting.

Too much information provided without a good enough explanation of its significance can result in information overload.



<sup>2</sup> [Review of TCFD-aligned disclosures by premium listed commercial companies – Getting ready for TCFD-aligned climate-related disclosures](#)

# Four recommendations for improved TCFD reporting





## So what steps can companies take to tackle these issues in their reporting, building on the points discussed above?

We have set out below our recommendations in four areas, with a number of questions to consider under each of them. We have also included statistics on what we saw in year two in our review of the first 50 December 2022 reporters to support the observations we've made, as well as some published examples.

The first two in particular relate closely to the key points discussed in the previous section – they are about how to explain the key messages well rather than have the reader sort them out for themselves. The third area focuses on the structure and logistics of TCFD reporting and the fourth on dealing with the special characteristics of much of the information that is being reported.

We start with explaining the importance of climate change, because assessing the climate-related risks and opportunities is at the heart of the judgements companies make about the issue and how it should be reported on.

The four areas are:

Explain **why** climate change is **important** to the company

Explain **where** the company is on **its** journey

Aim for reporting that is **clear and concise**

Explain the **nature of the information** provided





# Explain why climate change is important to the company

Questions to consider

**Is it easy to see how significant the climate-related risks and opportunities identified in the strategic report are to the particular business, and why?**

For instance:

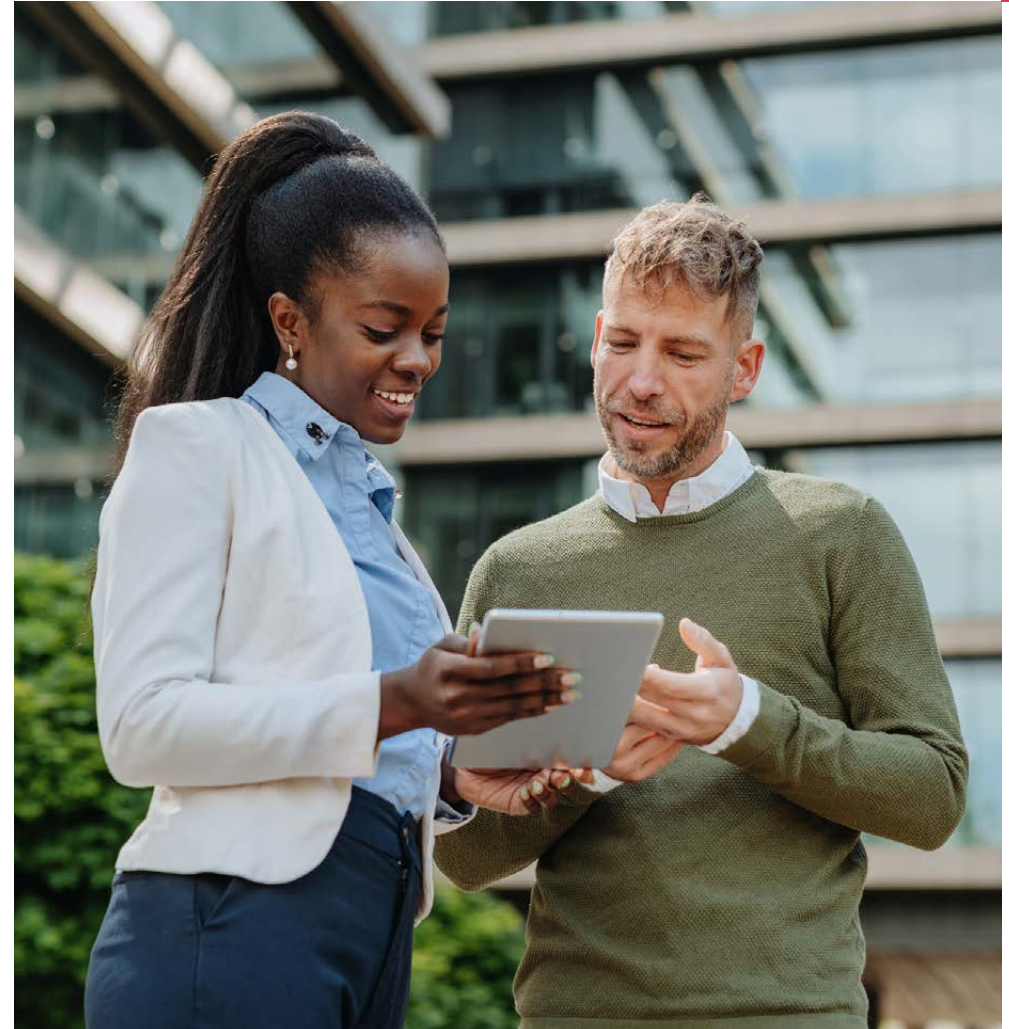
- Which parts of the business are most affected?
- How might the impact on the business compare with others in the industry?

Generic disclosures will rarely provide enough information to understand the actual or potential impacts of climate change fully for a particular company.

But even where more detail is provided, climate-related risks and opportunities are often discussed without any connection being made to the company's business model or strategy. And there is often a limited explanation of their actual or potential financial impact, despite the fact that this is one of the fundamental objectives of the TCFD framework.

This can make it difficult for a reader to understand which risks and opportunities are most relevant to their particular interests.

It can also be helpful to explain how a company's risks and opportunities compare to those noted elsewhere in the industry or sector.



**Published example**

[Associated British Foods plc - Annual report and accounts 2022 - pg.85](#)

ABF included in its strategic report a chart summarising the parts of the business to which climate-related risks and opportunities relate.

Output from the risks and opportunities assessment process		Primark	Sugar	Twinings	Cross divisional
Climate impact on ABF's key agricultural crops	Physical risks	Cotton yields*	Sugar yields (UK, Eswatini, Malawi, Mozambique, South Africa, Tanzania, Zambia)	Tea yields (Argentina, China, India, Indonesia, Kenya, Sri Lanka)	Wheat yields (Australia, UK). Corn yields (US)
Impact of flooding on ABF's end-to-end supply chain including operations		Coastal and river flood risks: Third-party manufacturers (Bangladesh, China) and Primark stores and warehouses			Coastal and river flood risks: Key ABF manufacturing sites
Resilience of workers to mitigate/adapt to climate change		Heat impact on farmers (Bangladesh, India, Pakistan)			
Transition risks as the world reduces its reliance on carbon	Transition risks	Carbon pricing mechanisms	Carbon pricing mechanisms		
Carbon enablement: Providing solutions to reduce carbon	Opportunities		Biofuels, renewable energy		Enzymes, animal feeds, ingredients, on-farm carbon measurement
Efficiency			Fuel substitution, energy efficiency, process optimisation and increased contribution from by-products		

\* The focus of the cotton yield analysis was on Primark Sustainable Cotton Programme (PSCP) locations in India and Pakistan.

## What we saw in year two

- **96%** of companies disclosed a principal or emerging risk relating to climate change, or embedded it in other principal risks (2021/22: **86%**) but it was often unclear how these risks related to the ones set out in the TCFD disclosures.
- Companies took very different approaches to the number of climate-related risks and opportunities that were disclosed: on average there were **5 transition risks and 3 physical risks**, and an average of **3 transition opportunities**. But, within this, there were very different numbers of risks identified, with a range of 0-14 transition risks and 0-13 transition opportunities for instance.
- These differences of approach – which may well be perfectly valid – emphasise the importance of explaining the approach taken and the judgements that have been made in each particular circumstance, including the consistency between the principal and emerging risks and the climate-related risks.
- **80%** of companies reported a carbon reduction-related measure within executive remuneration – either as a specific measure or as part of a scorecard. Inclusion of climate-related measures in remuneration makes it even more important to show how climate links to the core strategy of the business.





## Questions to consider

### Is the significance of specific case studies to the business made clear?

Case studies can be a very useful way of highlighting the key risks and opportunities though, again, their relevance to the business model and strategy need to be drawn out.

Case studies can also be used to shine a light on areas of scrutiny in a particular, measurable area (such as financial impact) or to explain how far the company has progressed in other challenging areas.

## Questions to consider

### Do the content and explanations about risks and opportunities contain quantitative information or are they largely qualitative?

It can be difficult to identify which of the items discussed are the most important for the business and its financial position and prospects without some quantification, unless this is very carefully addressed in the qualitative disclosures.

## Questions to consider

### Do the metrics and targets that are used include some that are financial or are they all, or virtually all, operational?

Readers will often have problems understanding the actual or potential financial impact of purely operational information, even where that information is quantified. The relevance should be explained where appropriate.

(Operational for this purpose includes GHG emissions.)

## What we saw in year two

- Excluding those who simply said it was not material (or similar wording), **26%** of companies included information on the estimated quantitative financial impact of climate change in their strategic report, up from just **8%** in the prior year.
- However, **60%** of companies were unclear in their strategic report on whether the actual or potential impacts of climate change were material. Of the rest, **24%** clearly identified the impacts as material and **16%** as immaterial.
- There is some increase in quantification here, but the actual or potential financial impact clearly remains one of the most challenging aspects of climate change reporting.

## Questions to consider

### Is it easy to see how the metrics and targets used link to climate-related risks and opportunities?

This should demonstrate that companies have metrics and targets that measure the relevant risks and opportunities and allow effective monitoring and tracking over time.

## What we saw in year two

- Only **22%** of companies had a clear link between their metrics and targets and the relevant climate-related risks and opportunities. A further **22%** had links for emissions-related metrics but not for the others.
- Companies disclosed an average of **7 metrics**, but there was a range of between 0-16 metrics.
- Again, this emphasises the importance of explaining a company's approach or position well. It might be that some need to refine their reporting to focus on the more important areas of climate change, while others will need to put additional metrics in place.



**Published example**

[Elementis plc - Annual report and accounts 2022 - pg.52](#)

Elementis included a chart in its strategic report linking its metrics and targets back to the underlying climate-related risks.

**CLIMATE RELATED TARGETS & METRICS**

Climate related risk	2030 Target				Business Metric				
	Operational GHG emissions	Energy (from fuels)	Water withdrawn	Waste sent to third parties	Renewable electricity	Value-chain emissions	Natural content of products	New products launched	Absolute GHG emissions
Customer Demands	◆		◆	◆	◆	◆	◆	◆	◆
Carbon Pricing	◆	◆			◆				◆
Consumer Demands	◆		◆	◆	◆	◆	◆	◆	◆
Raw material supply / prices				◆		◆	◆		
Extreme Weather events	◆		◆						
Water scarcity			◆					◆	
Investor pressure	◆		◆		◆	◆		◆	◆
Energy Prices	◆	◆		◆					◆
Access to renewable electricity	◆	◆			◆				◆
Related Emission Scope	1,2	1,2	3	3	2	3	3	3	1,2,3
Additional information	Pages 52-54	Pages 57-58	Page 59	Page 59	Pages 57-58	Pages 55-56	Pages 37-38	Page 13	Pages 52-56



## Questions to consider

### Do any financial impacts discussed look further forward than the current balance sheet, (or is this not made clear)?

Disclosures within the financial statements are governed by accounting standards but, where appropriate, it is possible in the front half of the annual report to discuss the potential financial impact of future trends in a way that looks out beyond the current balance sheet of a company.

This can be particularly important given the long term nature of some aspects of climate-related risks and opportunities.

## What we saw in year two

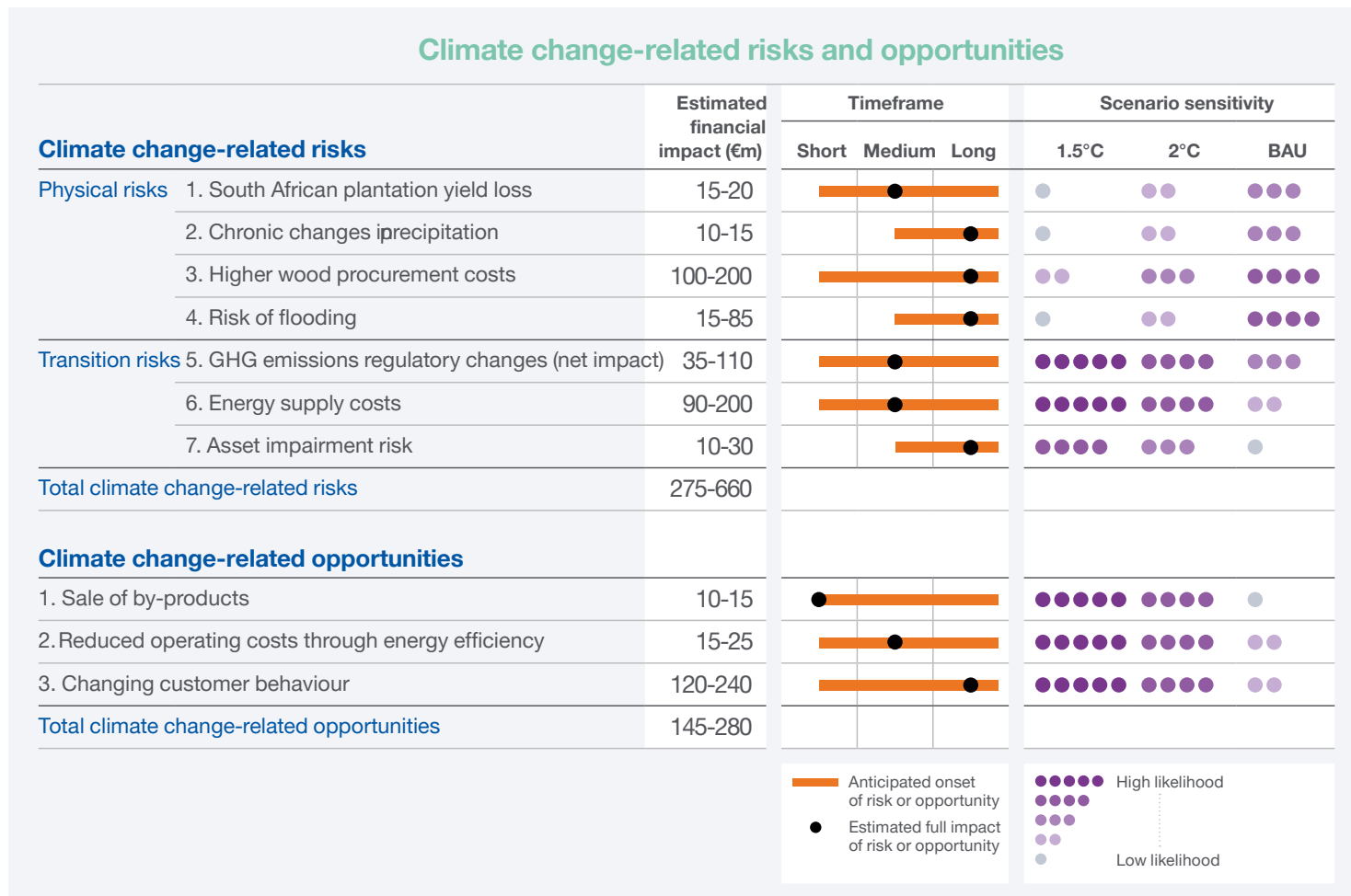
- As noted above in the context of the strategic report, the actual or potential financial impacts remain one of the most challenging aspects of climate-related reporting in general.
- **72%** mentioned the phrase 'climate change' in the financial statements – even though many more (**96%**) classified it as a principal or emerging risk in the front half of the annual report.
- Only **28%** of companies did more than state in the financial statements that climate change had been considered.
- Our review suggests that it remains a top priority in many cases for companies to include more detailed explanations of how the actual or potential impacts of climate change are consistent between the front and back half of the annual report, including where different time horizons are being applied.



**Published example**

Mondi plc - Integrated report and financial statements 2022 - pg.52

Mondi Group included in its strategic report a chart giving quantified information on the estimated financial impact of climate-related risks and opportunities over the short-, medium- and long-term.



## Questions to consider

**Are climate-related risks given due prominence or are they all, or virtually all, 'flipped' into being opportunities for the business to change?**

This point relates to the balance of an annual report. Dealing well with a challenge for a particular business or industry can of course be an opportunity over time (for instance, the possibility of developing new products or markets), but the risk can often be more relevant in the short term so that aspect might need to have more prominence.

## Questions to consider

**Does any scenario analysis set out the financial impact on the specific business or does it focus mainly on explaining the nature of the standard climate scenarios themselves?**

External climate-related scenarios need to be applied to a particular business, and there is considerable judgement in doing this – even without attempting to quantify the potential financial impact. Many disclosures focus primarily on explaining the nature of the scenarios rather than detailing how they have been applied and what this showed about a company's resilience.

## What we saw in year two

- Only **52%** of companies demonstrated clearly how scenarios had been applied to their own situation, typically in the higher impact sectors.
- Companies used a range of scenarios – up to 18 in one case. The average was **4 scenarios** – in many cases 'off the shelf' models such as those from the International Energy Agency (IEA), International Panel on Climate Change (IPCC) and The Network of Central Banks and Supervisors for Greening the Financial System (NFGS), covering a 1.5 degree, 2 degree, 2-3 degree and a 4+ degree scenario.





## Questions to consider

### Does any Scope 3 GHG emissions information address all significant aspects of the business's value chain (or break down Scope 3 emissions sufficiently to be able to tell)?

In many cases Scope 3 emissions are far larger than a company's Scope 1 or 2 emissions, so it's important for a company to be clear when this is the case and explain the nature and extent of the information that it is able to provide – or will need to provide if all the data is not yet available.

## What we saw in year two

- **28%** of companies disclosed a comprehensive set of Scope 3 emissions, mostly leading reporters across the annual report as a whole, and those in high impact sectors such as oil and gas. In these cases some categories were often explained as not material.
- **34%** of companies disclosed certain categories of Scope 3 emissions but not all – and generally without much further explanation.
- **24%** did not disclose any Scope 3 emissions – these tended to be from less high impact sectors.
- Scope 3 generally remains another of the more challenging areas of reporting<sup>3</sup>, but it is fundamental to the climate change management model and companies will need to continue to get to grips with material aspects of it, including those up and down the value chain.



<sup>3</sup> This is recognised in the Government's [Mobilising Green Investment > 2023 Green Finance Strategy](#) publication, which also states that the Government will “explore how it can support Scope 3 reporting and...launch a call for evidence to gather stakeholder views”.

# Explain where the company is on its ‘journey’

## Questions to consider

**Where a company claims to be fully consistent with the TCFD framework, does this feel reasonable?**

In its comments on year one of reporting, the FCA noted that it took a different view from a number of companies on whether their reporting was consistent with the TCFD framework.

It is therefore important for companies to retain documentation of their judgements relating to consistency, taking into account the factors discussed elsewhere in this paper – in particular the tension between companies claiming full consistency with the TCFD framework at a time when they are in the early stages of their ‘journey’.

Companies might also want to compare their approach with an appropriate comparator group from the industry or sector.

## What we saw in year two

- **90%** of companies provided a separate statement or table setting out where they were or were not fully consistent with the TCFD framework, up from **68%** in 2021/22.
- **66%** claimed full consistency (in a few cases with some further work planned); **24%** explicitly stated that they were partially consistent.
- Aspects of the metrics and targets pillar and the consideration of scenarios under recommendation c) of the strategy pillar continued to be the areas in which inconsistency was most often reported.



## Questions to consider

### **Where a company is not fully consistent with the TCFD framework does it provide all the disclosures required under the Listing Rules?**

These include:

- The recommendations and/or recommended disclosures for which it has not included such disclosures.
- The reasons for not including such disclosures.
- Any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures.

It's important to bear in mind that the FCA has indicated it expects every company to be able to report on seven of the eleven recommended disclosures under the TCFD framework<sup>4</sup> so there should be no need to report inconsistency with those.

## Questions to consider

### **Is the extent of a company's inconsistency with one or more aspects of climate change reporting made clear?**

Even though two 'inconsistent' companies could be in very different positions, many did not explain in any detail how much more work is needed to allow them to make the relevant disclosures, or the timeline for this.

## Questions to consider

### **Is the nature or seriousness of a company's inconsistency with one or more aspects of climate change reporting made clear?**

Following on from the previous point, few inconsistency disclosures indicate whether the missing information is expected to identify, or relate to, a financially material issue. Although not all of the work will have been done, it will often be possible to indicate the potential importance of the information.

<sup>4</sup> [LR 9.8.6E \(G\)](#) states that the FCA would expect that a listed company should ordinarily be able to make disclosures consistent with the recommendation and recommended disclosures on governance, risk management and recommended disclosures (a) and (b) on strategy, to the extent that the company does not face transitional challenges in relation to such disclosures.



## Questions to consider

### **Where reporting is not fully consistent with the TCFD framework, are a company's future plans made clear?**

In many cases companies that are not consistent with a particular aspect of the TCFD framework have undertaken to come into line relatively quickly. This could reflect an unwillingness to use the 'comply-or-explain' option under the Listing Rules to avoid potential criticism.

Where companies are not consistent with the framework, however, they should make sure they don't over-commit without having made a considered judgement about the relevance of a particular action.

They should also be clear about what specifically is needed to get to consistency and then continue to report back on the relevant aspect(s) of climate change once they feel they have reached consistency.



Questions to consider

**In areas where reporting is not fully consistent with the TCFD framework is this explained in a boilerplate way (for instance, all being due to a lack of data)?**

Company-specific explanations in sufficient detail are needed, and will increasingly be expected as information systems improve.

Questions to consider

**For companies reporting under the Listing Rules is it clear how the TCFD Annex (including the all-sector guidance and the supplementary guidance for relevant sectors) has been considered?**

The FCA emphasised in its comments on year one of TCFD reporting that companies should be clear about how they have taken into account the TCFD Annex and the relevant guidance within it (for specific or all sectors). In practice this will mean confirming that the Annex has been considered and including disclosures where it goes further than any particularly relevant aspects of the eleven recommended disclosures.

The Annex should also be considered as part of a company's documentation of how it has applied the TCFD framework as a whole.

What we saw in year two

- Only **8%** of companies discussed the Annex in detail.
- **48%** mentioned it briefly and **44%** did not mention it at all, despite the FCA's reminder.

Questions to consider

**Does the company set out details of a formal transition plan?**

This will be a key disclosure in many cases, and will form the basis for tracking progress in future years.

(It is possible that companies will be required to publish transition plans separately from the annual report in due course<sup>5</sup>. The TCFD has also published specific Guidance on Metrics, Targets, and Transition Plans.<sup>6</sup>)

Questions to consider

**Do the transition plan disclosures indicate which elements are primarily included because of their importance for strategic purposes, and which are primarily given in connection with wider stakeholder concerns?**

This is a vital part of making it clear why climate change is important to a company – and should drive how the importance or materiality of an issue is assessed.



<sup>5</sup> See [Transition Plan Taskforce – Setting a Gold Standard](#) and footnote 3 on the 2023 [Green Finance Strategy](#).

<sup>6</sup> [Guidance on Metrics, Targets and Transition Plans](#)



## Questions to consider

### Is the timeline to which a company is committed in relation to managing climate change made clear?

It's particularly important to make sure terms such as short-, medium- and long-term are defined. The FRC in particular has commented on this to a number of companies already<sup>7</sup>.

The connections between the climate change reporting and other parts of the annual report will also be clearer if companies explain how, for example, the timeframes discussed relate to their viability or resilience statement, and financial statement disclosures such as notes on impairment reviews.

## What we saw in year two

- **80%** of companies defined the time short-, medium- and long-term timeframes associated with climate-related risks and opportunities.
- This relatively large proportion probably reflects the regulatory focus noted above. The importance of the issue was emphasised by the range of definitions used in practice: some short-term information related to the 12 months ahead, for instance, while other companies classified up to 10 years as short-term and there was a similar range of approaches to the other time categories.

## Questions to consider

### Has progress year on year been made clear?

Many companies are still in the early stages of their climate change plans, but it will become more important as time goes on to show whether the position on a specific metric means that the business is on track for any related targets.

Matters that are currently dependent on future developments, like many transitional risks, will also need to be incorporated into plans and monitored and amended accordingly over time.

## What we saw in year two

- Only **14%** of companies set out a clear and detailed transition plan, while **38%** disclosed specific targets and milestones but without a formal, detailed plan. The rest had either only a high-level plan or no plan at all.
- **16%** of companies provided detailed discussion on progress made in the year, whereas **52%** discussed progress but only at a high level.
- **40%** of companies disclosed factors outside their control that are important to their transition plan (or specific targets and milestones). Examples of these include dependency on technologies that have not yet been fully developed, such as carbon capture and storage, or the effects of future government policies related to climate.

<sup>7</sup> [CRRT Thematic review of TCFD disclosures and climate in the financial statements – pages 41-43](#)

## Published example



ITV included in its strategic report information on areas of uncertainty around future restrictions on advertising (one of its climate-related risks), explaining the actions that are being taken but also recognising that it is not yet appropriate to put in place specific metrics or targets in this area.

## ITV plc – Annual Report and Accounts for the year ended 31 December 2022 – pg.88

### Key – Risks

 Minimal impact	 Moderate impact	 Significant impact
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### 1. Changes in the advertising sector

Context	Current policies (3°C+) (High carbon scenario impact) 	SDS (2°C+) (Low carbon scenario impact)	NZE by 2050 (1.5°C+) (Very low carbon scenario impact) 
<p>The advertising market may continue to shift to the promotion of low carbon products and sustainable communications with mounting pressure from governments, regulators, as well as from agencies and brands from within the industry. Similar to the proposed limits on advertising of high content sugar products, carbon insensitive brands and products (such as travel, cars, fast fashion, utilities and energy) may be subject to stricter advertising regulations or even outright bans.</p> <p>We may be impacted by changing regulations and major advertising brands which fail to evolve and are not resilient to change may not survive or will shrink, impacting their demand for TV advertising. As an opportunity, this could also lead to spend being moved to lower carbon/more sustainable advertising channels.</p> <p><b>Time horizon</b> Medium – Long term</p> <p><b>Impact area</b> Revenue loss</p>	<p><b>Revenue loss – minimal</b> Based on wider industry research, we have assumed that advertising regulators will continue to look unfavourably at greenwashing in advertising and companies with a high carbon footprint. Therefore, we may need to consider the reputational impacts of the adverts we broadcast and advertisers we work with.</p>	<p><b>Revenue loss – minimal</b> We have assumed that limited categories of advertising clients that <b>are considered carbon-insensitive</b> or environmentally damaging will be subject to bans on advertising of their products or services. However, we are able to replace a portion of this revenue through clients advertising low carbon alternative products.</p>	<p><b>Revenue loss – moderate</b> We have assumed that governments will introduce strict policies to influence consumption behaviours and a higher proportion of our high emitting advertising clients are subject to restrictions (including travel, cars, fast fashion and some retail brands) and we are unable to show their advertising. However, we are able to replace a portion of this revenue through clients advertising low carbon alternative products.</p>
<p><b>How are we responding</b></p> <p>There remains uncertainty around the timing and impact of advertising restrictions. In order to anticipate and prepare for the potential changes, we are:</p> <ul style="list-style-type: none"> <li>Continuing to monitor the regulatory landscape and engage with Parliamentarians and the UK government to make the case for evidence based regulation of advertising to ensure that any restrictions are both proportionate and justifiable</li> <li>Continuing to work with advertisers to seek out alternative options to replace potential lost revenue</li> <li>Developing a framework to measure the share of our advertising revenue that is aligned with our climate targets</li> <li>Measuring the revenue generated through green initiatives like Home Planet</li> <li>Working closely with Ad Net Zero and the advertising sector to support the development of industry wide approaches to the Net Zero transition</li> </ul> <p>In 2022, we partnered with eBay to become our main sponsor of Love Island to promote the importance of a shift from fast fashion to sustainable fashion. We will continue to seek out opportunities to work with brands that support our climate action efforts.</p> <p><b>Link to existing principal risk</b> Advertising market changes</p>	<p><b>Metrics</b></p> <p>Monitoring metrics in respect of this risk are still in development.</p>	<p><b>Targets</b></p> <p>We do not currently have any specific targets in respect of this risk, and will reassess the need for specific action once we have a better understanding of the relevant indicators.</p>	

# Aim for reporting that is clear and concise

## Questions to consider

### Does the company's climate reporting use an unnecessarily lengthy or complex structure?

Many companies currently include a separate statement or table summarising the recommended disclosures of the TCFD framework and noting where the company is or is not consistent with them. In the early years of reporting against the framework, these can be useful reminders of the contents of the framework and they can also help to make it clear where companies are still working towards consistency in certain areas.

The statements or tables contain varying amounts of content – depending, for example, on whether a company explains its position on consistency in the table or simply lists the recommended disclosures of the TCFD framework and links to where they and the company's position on consistency are explained. There is almost inevitably some repetition between the statement or table and other disclosures, which should be kept to a minimum.

The statements or tables also often do not link to other parts of the strategic report, as their primary purpose is to show consistency with the TCFD framework. This can make the climate reporting disconnected from the rest of the annual report.

And, even within the climate disclosures, the use of these statements or tables creates challenges around structure – content might for instance be grouped differently from the statement when it's given for other purposes.

On balance it is usually preferable to address a topic fully once and cross-refer to this content from elsewhere in the annual report if necessary – so we would encourage companies over time to integrate their judgements about consistency into the underlying content.

## What we saw in year two

- TCFD disclosures in financial services ('FS') companies could be particularly lengthy and complex, even allowing for the nature of the organisations. Structurally, for instance, **92%** of those companies explained how climate impacted their existing risk profile rather than treating it as a separate risk – reflecting to some extent the well-established protocol for FS risk reporting.
- **66%** of non-FS companies took the separate principal or emerging risk approach, and this tended to make the disclosures significantly more accessible in general, though the links to the analysis of climate-related risks (and opportunities) were still not always made.



## Questions to consider

**Where links or cross-references are used, are they sufficiently accurate or clear (either to other parts of the annual report or to a separate climate report)?**

This follows on from the previous question and is also relevant to many other areas of reporting. Cross-references to a whole report or section of a report are rarely specific enough.

Even where there is a sufficiently accurate cross reference, it can still be difficult to understand the link that is being made between two parts of a report. The connections also need to be explained well, particularly at the point where the link is made.

## Questions to consider

**Where a company has included some or all of its TCFD disclosures in a document other than the annual report, does it provide all the disclosures required under the Listing Rules?**

These include:

- The recommendations and/or recommended disclosures for which it has included disclosures in that other document;
- A description of that document and where it can be found; and
- The reasons for including the relevant disclosures in that document and not in the annual financial report.

The reasons given for taking this approach have generally focused on how it provides the opportunity to go into more detail, without explaining why this is particularly necessary for the specific company.

Where a company uses this option it also needs to take into account the wider requirements for the strategic report discussed in the next question.

Although a separate report clearly leaves scope for more information to be provided than most annual reports, it can also make it more difficult to read the annual report when there are frequent external links – which creates a risk of information being missed.

To some extent the availability of a separate report will be determined by future regulatory developments. But if it allows information that is important for reasons other than the core commercial strategy of the business to be discussed, or just more detailed information than can be accommodated in the annual report, it is certainly helpful to have it as an option.

## What we saw in year two

- **42%** of companies published a separate report. These were typically in high impact sectors such as mining and financial services. Reports ranged in length from just 7 to over 100 pages.
- Of those utilising a separate report, **24%** included all their TCFD disclosures in the separate report. Again, these companies were typically in high impact sectors such as financial services. The remaining **76%** chose to include some TCFD related information in the annual report, with the rest in other reports. In some cases this led to considerable overlap in content.

Questions to consider

**Are the right elements of a separate sustainability or climate report reflected in the annual report?**

Any content which is material to a company's strategic report needs to be included in the strategic report itself (or linked from another part of the annual report)<sup>8</sup>.

Links to information outside of the annual report are not sufficient.



<sup>8</sup> Under [Companies Act 2006 s414C](#), a company's strategic report should contain a balanced and comprehensive review of the development and performance of the business.

# Explain the nature of the information provided

## Questions to consider

### Does the reporting recognise that the reliability of data is an issue for climate change reporting?

The sources, systems and processes that companies use to produce climate change information are often less mature than their financial reporting equivalents: good reporting will make it clear where this is the case and how it is being addressed.

This can include signposting whether any data is assured, and how (including any independent assurance procedures) – and, just as importantly, where it is not.

## What we saw in year two

- **40%** of companies highlighted limitations in the climate-related data. Scope 3 was generally recognised as the most challenging area.
- **66%** of companies had metrics subjected to independent assurance procedures, typically Scope 1 and 2 data.
- The FS sector has been particularly focused on the reliability of data and there were some examples of the industry data classification system being referred to, such as the Partnership for Carbon Accounting Financials (PCAF).





## Published example

NatWest included in its climate change report information on the limitations in the data on financed emissions, showing how the PCAF data quality scoring methodology affected its disclosures.

### Current data limitations result in the use of judgements and assumptions in the estimation of financed emissions.

The PCAF Standard for financed emissions recommends applying a data quality scoring methodology to help assess data quality challenges and recognise areas for improvement. PCAF's ratings assign directly collected customer emissions data a better score while estimated or extrapolated data achieves lower scoring. **A PCAF score of 1 is typically considered to have a very low margin of error for estimation of financed emissions, while a PCAF score of 5 is typically considered to have a much larger margin of error.** Data limitations mean that sectors are generally foot-printed using a mixture of customer-specific emissions and estimated data.

The table shows the percentage of exposures in each sector for which (a) externally published emissions and production data has been used; (b) revenue estimates have been used; or (c) extrapolation has been applied to estimate emissions, and related data quality scores. Data quality scores vary across sectors based on source of data as well as level of estimation required.

System	Sector	2021						2019	
		Published emissions / Production data (%)	Data quality <sup>(1)</sup>	Revenue estimated emissions(%)	Data quality	Sector estimated emissions (%)	Data quality	Overall data quality score	Overall data quality score
Property	Residential mortgages	56	3	–	–	44	5	3.9 <sup>(*)</sup>	4.1
	Commercial real estate	16	3	–	–	84	5	4.7 <sup>(*)</sup>	5.0
	Construction	2	3	30	4	68	5	4.7	4.7
Mobility	Automotive manufacturing Scope 3	94	2	2	4	4	5	2.2	3.3
	Land transport and logistics	1	2	73	4	26	5	4.2	4.2
	Airlines and aerospace								
	of which aviation	10	1	52	4	38	5	4.1	4.5
Energy	Shipping	25	1	64	4	11	5	3.4	3.3
	Power utilities								
	of which electricity generation	68	3	8	4	21	5	3.5	3.4
	Aluminium	–	–	4	4	96	5	5.0	5.0
	Iron and steel	7	1	45	4	48	5	4.3	4.0
	Oil and gas Scope 1 and 2	20	1	23	4	57	5	4.0 <sup>(*)</sup>	4.5
	Oil and gas Scope 3	49	1	25	4	26	5	2.8 <sup>(*)</sup>	4.6
Food	Agriculture	–	–	50	4	50	5	4.5	4.5
	of which agriculture primary farming	–	–	50	4	50	5	4.5 <sup>(*)</sup>	4.4
	of which agriculture LULUCF	–	–	39	4	61	5	4.6	4.9
Manufacturing	Building materials								
	of which cement	6	2	18	4	76	5	4.7	2.1
Water and waste	Water and waste								
	of which waste	6	3	36	4	58	5	4.5	4.5

(1) Data quality score of 1 represents the use of customers reports with emissions data verified by a third-party auditor. A score of 2 represents use of data from customers reports without third-party verification and a score of 3 represents use of production data to estimate emissions.

(\*) Within the scope of EY assurance. Refer to page 10.

To estimate financed emissions by sector, we look at emissions on a customer basis. For the residential mortgages and commercial real estate sectors, we use EPC ratings to estimate emissions. For other sectors, the following approach is applied:

## Questions to consider

**If the business uses carbon offsets does it recognise that the quality of these can vary or explain how this is addressed?**

Companies might consider explaining what schemes or projects they use and how they have assessed and monitored their quality.

## Questions to consider

**Is the challenge of assembling climate change information within the timetable for the annual report addressed where this is an issue?**

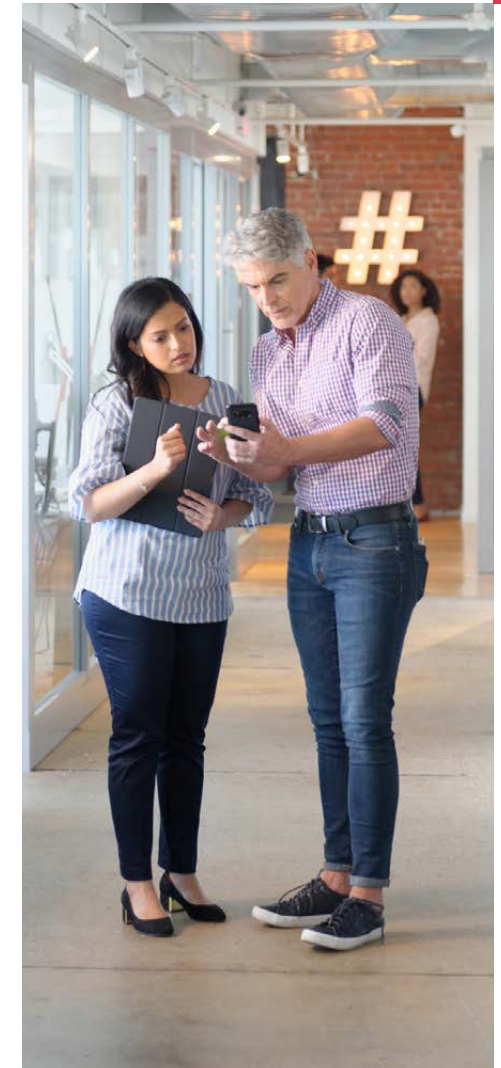
This might, for instance, include instances where the climate data is for a period ending before the rest of the annual report – in which case the reporting should include an explanation of any significant changes arising since the date of the information provided.

Providing information up to the balance sheet date can give rise to its own challenges, considering the lack of maturity of the related systems and processes noted earlier.

Where better information becomes available the comparatives in the following year's disclosures might need to reflect this, depending on how significant the changes are.

## What we saw in year two

- As noted above, Scope 3 emissions continue to be a significant issue for companies in terms of collating accurate, complete and timely data from their supply or value chain.
- **62%** of companies who reported Scope 3 emissions did so for the same period as the annual report, though in some cases this meant that estimates had to be used. The remaining **38%** used a range of approaches: some included the first six or nine months of the year, or the information for the previous year.



# Get in touch

Some of our recommendations might seem simple. Others will be more challenging for companies to implement but, together, we think they have the potential, over time, to improve many disclosures.

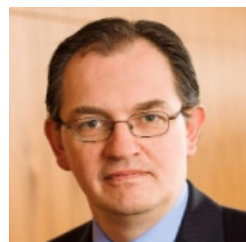
This is important, because expectations will continue to rise.

If you would like to discuss our recommendations or anything else in this report further please get in touch with your usual PwC contact or one of the team.

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