The green shoots of TCFD reporting

An analysis of the first 50 companies to report under the Listing Rules

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pwc

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Introduction

This is a significant moment in climate-related reporting. Although already widely used on a voluntary basis, the UK is the first major economy to mandate climate-related disclosures in line with the Taskforce on Climate-related Financial Disclosures ('TCFD') framework, which came into effect for premium listed companies from 1 January 2021. Exposure Drafts of the first standards on climate and sustainability reporting from the International Sustainability Standards Board (ISSB) have also been recently published, with the aim of establishing a more consistent and formal overall framework for reporting in these areas. The rigour required in companies' disclosures is set to increase, making the new TCFD reporting not only an important milestone, but also a test case for the challenges that lie ahead.

Investors and other stakeholders are also making their rising expectations clear. **PwC's global investor survey** showed that investors want companies to:

- Focus on the ESG issues that are most important to their business – 79% of investors agree that how a company manages ESG risks and opportunities is an important factor in investment decision making.
- Show how ESG factors affect their business model (84%), how ESG is embedded directly into their core strategy (82%) and show a link between ESG risks and opportunities and financial performance (75%).

This report sets out PwC's initial findings following a review of the first 50 disclosures by FTSE 350 companies under the new Listing Rules requirement to report against the 'TCFD' framework.

82%
of investors believe that companies should embed ESG directly into their corporate strategy

79%
of investors agree that how a company manages ESG risks and opportunities is an important factor in investment decision making

Key highlights

ESG reporting was already a growing part of FTSE 350 reporting in the UK and, with the new TCFD disclosures, our research shows that ESG information – including climate change disclosures – now constitutes around 30% of the length of the average strategic report (up from 20% last year). 78% of companies we reviewed now specifically mention 'climate change' in their financial statements – a significant increase on the 22% of the FTSE 350 we observed last year.

Companies are responding in significant ways to the pressure that is being exerted by investors, regulators and other stakeholders. But we found that many can do a better job of spelling out the key messages in critical areas of the TCFD framework. In particular:

Risks and responses – Many companies could be clearer about their assessment of the most important climate-related risks and opportunities for their business, and how they are responding to them. Climate change affects companies in different ways, over different time periods and to different extents, and the TCFD framework recognises that one size does not fit all when it comes to reporting. The assessment of risks and opportunities should drive climate-related disclosures but too often the connections are not being made.

Financial impact – Most companies could provide better information about their estimates of the actual or potential financial impacts of climate change. There is little or no quantification of the issue in many reports, especially considering that the financial disclosures are so fundamental to the TCFD framework. And when financial information is given in the financial statements it is often a brief statement that climate change is 'not material'.

Listing Rules requirements – We also looked at how companies are dealing with the new Listing Rules requirement to report on the extent to which disclosures are consistent with the TCFD framework. We found a range of approaches to this, with some including a separate 'consistency statement' while others integrate the information within the TCFD disclosures themselves. Whatever the approach, many companies need to be clearer on the areas where they are or are not yet consistent with the framework, which can involve considerable judgement.

28%
of companies link their metrics and targets with climate-related risks and opportunities

8%
of companies quantify the estimated financial impact of climate risks in their strategic report

50%
of companies acknowledge in their reporting that they have more work to do on their TCFD disclosures in future periods

The FCA Listing Rules to report against the TCFD framework, on a broadly 'comply-or-explain' basis, was always going to be challenging, given that the TCFD framework was not designed as a set of compliance criteria and relies, for instance, on significant judgement and supporting guidance. As market practice develops we hope that the observations in this document will help companies to get more from the TCFD framework, and at the same time comply with the technical requirements, while providing shareholders and other stakeholders with the information they need.

Our findings

Risks and responses – striking the right balance

Climate change affects companies in different ways and to different extents, and the TCFD framework recognises that one size does not fit all when it comes to reporting.

Companies need to take a proportionate approach to reporting, depending on the impact climate change will have on their business.

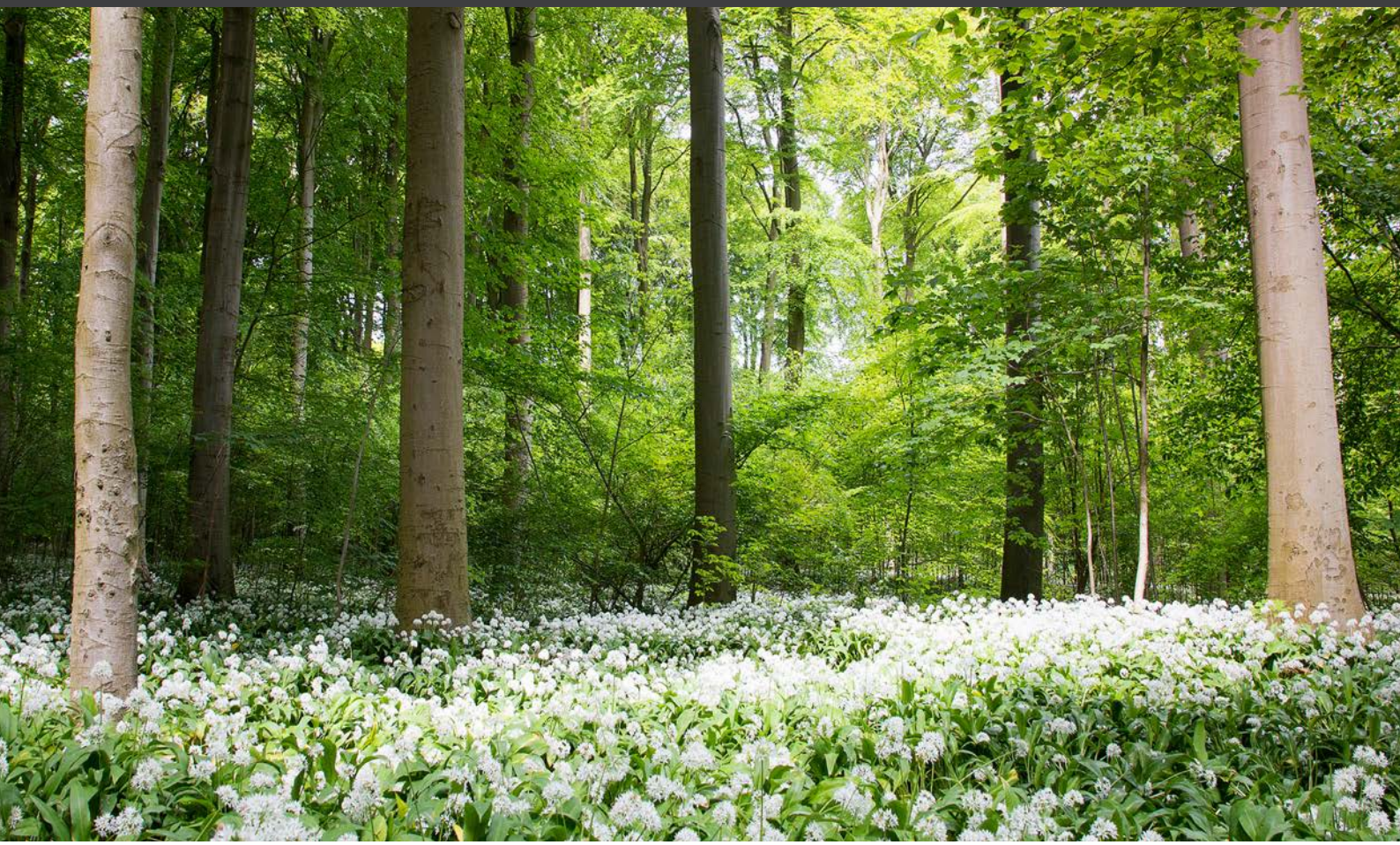
Investors, among other stakeholders, have understandably focused on companies in sectors identified by the TCFD as 'high-impact'[1] for climate change. Such businesses may be expected to be well progressed in their approach to managing climate change and therefore would be expected to be in a relatively strong position to report on it.

Climate change is more likely to be seen as a strategic matter – a principal risk or opportunity – and financially material for these businesses. TCFD disclosures are expected to reflect this.

There's also a large group of businesses that do not fit within high-impact sectors, and it can be more challenging for them to take a proportionate approach to disclosure. On one hand, they want to show they're committed to playing their part in tackling climate change, but on the other, they don't want to imply the risks or opportunities are expected to be strategically material.

As a result, we've seen these businesses often develop lengthy disclosures that look similar to those of a 'high impact' business, without explanation of how and why the issue is important to them. This does not necessarily mean that the disclosures are greenwashing. The actions being taken can be making a genuine contribution – it's just the reason for making them is not sufficiently clear. It's important that the disclosures *are* clear, because a company's assessment of its risks and opportunities determines its approach to the rest of the TCFD framework.

[1] Banking, Insurance, Energy, Materials and Buildings, Transportation, Agriculture, Food and Forest Products, Technology and Media, Consumer Goods



Risks and opportunities: business assessment

4%
State whether climate change is material in their financial statements

86%
List climate change as a principal risk or embed it into existing principal risks

32%
Provide a detailed disclosure of the risk assessment process carried out

28%
Clearly link risks and opportunities with metrics and targets

What have we seen so far?

A lack of consistency across the reporting

- While only 4% report whether climate change is material in their financial statements, 86% list climate change as a principal risk or embed it into existing principal risks. A number of companies also publish substantial climate or sustainability reports separately, which implies that there are significant risks or opportunities to be managed. We encourage companies to be clear about how their approach and the related judgements are consistent across the various disclosures.

Little focus on the processes used to assess and manage risks (and opportunities)

- Only 32% of companies provide a detailed disclosure of the risk assessment process carried out, and few detail the outcomes. Disclosures can therefore appear unclear about the material risks and opportunities to the company, the related timeframes and how climate change could impact the business model, strategy and financial planning.

Disclosures not driven by the assessment of risks and opportunities

- By structuring reporting under the four pillars of the TCFD framework, companies often miss the opportunity to build a coherent story across each pillar, with only 28% clearly linking risks and opportunities with metrics and targets. The best disclosures start with the assessment of risks and opportunities and relate the rest (including any scenario analysis and metrics and targets) back to this.

Key takeaway: A proportionate approach to reporting – one that is based on a solid understanding of the risks and opportunities climate change poses and the subsequent judgements made – will enable companies to tell a clear and consistent story to stakeholders.

Reporting example

Strategy: United Utilities Group PLC, 2021 (Extract)

As part of the **FRC's Lab report** in October 2021 they identified the following example from United Utilities Group PLC which, 'provides a graphic representation of its assessment of risks sensitive to climate change, highlighting those reported to the board as principal risks.

The assessment is based on one scenario across all risks and estimates the likelihood and financial impact for two time periods.'

Below is the outcome of a special risk assessment on the risks identified as sensitive to climate change.

Likelihood and impact are as predicted at 2050 and 2100 using the accepted most likely emission pathway RCP 6.0.

CONTROL EFFECTIVENESS

The effectiveness of controls at 2025 to mitigate the climate-related risk at 2050.

- Largely insufficient
- Somewhat sufficient
- Mostly sufficient

RISK TYPE

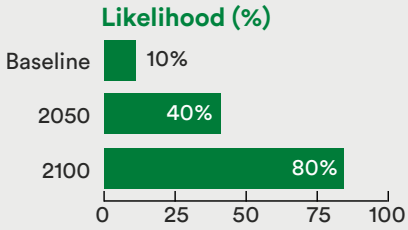
- C — Chronic physical risk – changing trends in weather patterns, such as rising temperatures, sea level, rainfall
- A — Acute physical risk – chance of severe weather events, such as storms, heat waves and floods.
- * — Indicates the most significant event-based risks reported to the board (see pages 108 to 109)

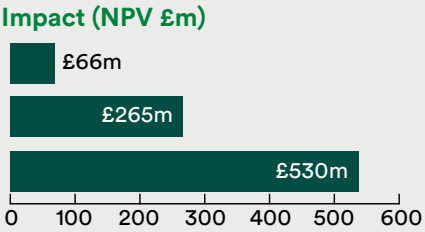
Water sufficiency event

C

When temperatures rise, higher water usage, evapo-transpiration and lower average summer rainfall from associated dry periods, causes supply pressures.

The most likely impact assumes weather patterns similar to 2018 happening twice in five years at 2050, and four times in five years by 2100.





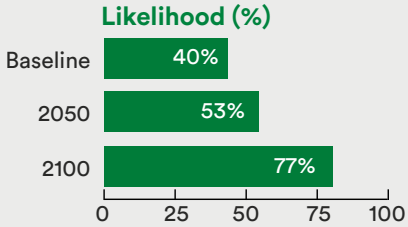
Controls

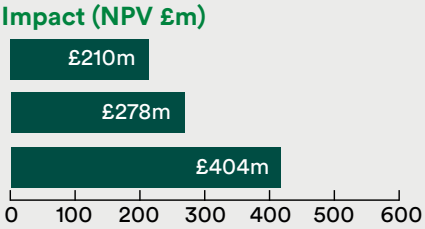
- Development of new sources of water, particularly boreholes.
- Water trading between different regions of the UK.
- Leakage reduction.
- Encourage and inform customers about using less water.
- Installation of more meters on domestic properties.

Failure of wastewater network (sewer flooding)*

C A

Increased rainfall (storm) events can result in severe sewer flooding. The frequency of such events is forecast to almost double with climate change. For a storm with a return period of one in 50 years or greater, 15 per cent of our region is currently at risk of internal flooding. By 2050 it is expected 20 per cent of our region would be impacted, rising to 29 per cent by 2100. The cost of an internal flooding incident is assumed to stay constant.





Controls

- Increase sewer capacity and build storm water holding tanks.
- Implement and encourage sustainable drainage solutions.
- Use technology to monitor and better control flows in the sewer system.
- Install flood protection devices to at-risk properties.

Reporting example

Outcome of risk assessment: AstraZeneca PLC, 2021 (Extract)

AstraZeneca PLC concludes that climate risk is not expected to have a material impact on its current business model, and is therefore not a principal risk.

This follows a clear and comprehensive review of the possible physical and transitional risks to the business.

Outcome of the physical and transitional assessments

In many cases mitigation measures are already in place to address the risks and opportunities presented by climate change, including those posed by the transition to a low-carbon economy and the provision of net-zero healthcare.

For more information, see the Risk supplement available on our website, www.astrazeneca.com/annualreport2021.

As a result of the analysis, the risk 'Failure to meet regulatory expectations on environmental impact, including climate change' is managed as a standalone risk to the Group's risk landscape. Based on current assessments, climate risk is not expected to have a material impact on our current business model. Therefore climate change is not seen as a Principal Risk for the Group and is not disclosed as a Principal Risk in the earlier Risk Overview section. This TCFD statement has been shared with the Board and Audit Committee.

Risks and opportunities: business response

34%

Give a clear plan and/or response to physical and transitional risks identified

38%

Set out specific timings for their transition plan

56%

Disclose milestones/interim targets for their emission commitments

What have we seen so far?

Risks and opportunities need to be clear first

- The lack of clarity around risks and opportunities noted in the previous section makes it difficult for businesses to articulate their responses to the climate-related risks identified.

Lack of clarity on the nature of the responses

- Almost every report refers to a 'transition plan', which should explain the strategy for reaching the company's climate goal. However the majority focus instead on outlining targets to reduce emissions.
- While some of these plans address a strategic risk or opportunity, others don't. There's a clear opportunity here for companies to demonstrate how the remaining strategic risks and opportunities are being addressed.
- Many climate-related targets are for the medium to long-term, yet only 56% of companies disclose interim milestones.

Defaulting to emissions for metrics and targets

- Many companies express their climate-related metrics and targets in terms of emissions only. Where there are other strategically significant underlying drivers, companies should consider reporting on these too. For example, the percentage of raw materials sourced from water stressed regions will be key to managing climate change. This will also help to show how the metrics and targets address any strategic risks and opportunities.

Key takeaway: Once companies have reported on their relevant risks and opportunities, they need to articulate the nature and purpose of their responses. These should also reflect the appropriate timescales.

Reporting example

Risks and impact: Weir Group PLC, 2021 (Extract)

Weir Group PLC provides an overview of the risks, clearly identifying the expected time horizon, likelihood, magnitude (including the financial impact and cost of response) alongside the company's response to the risk.

KEY

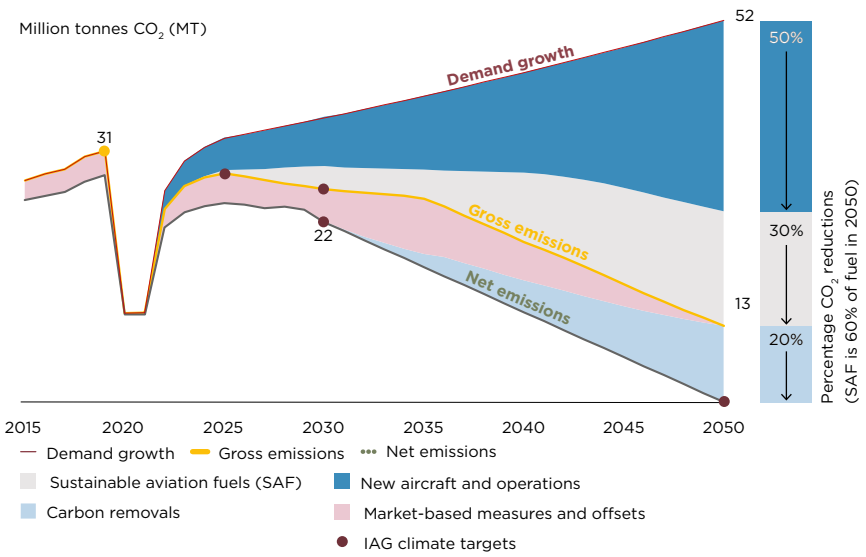
Time horizon[1]	Short	Medium	Long	
Likelihood	Unlikely	About as likely as not	Likely	Very Likely
Magnitude[2]	Low	Medium	High	

Heading/ Description	**CHANGING CUSTOMER BEHAVIOUR** Decreased revenues due to reduced demand for products and services from declining mining sectors
Category	Transition – market
Financial Impact[3]	c.£100 million per annum revenue
Explanation/ management response	Weir sells products and services to customers producing fossil fuels and certain minerals which are projected to decline during the transition to a low-carbon economy. While the impact of existing policies under a Business as Usual (BAU) scenario is already anticipated in forecasts, a faster transition under a Well Below 2 Degrees (WB2C) scenario may accelerate these declines and negatively impact Weir's revenue. During 2021, we modelled the difference between BAU and WB2C scenarios for coal, oil sands and iron ore in a study with WTW. The study identified a potential recurring annual revenue decrease of £100 million by 2031, without taking account of any mitigation. This potential impact would develop over a number of years, not as a one-off event.

Reporting example

Metrics: International Consolidated Airlines Group, S.A. 2021, (Extract)

International Consolidated Airlines Group, S.A. has committed to a 2050 net zero target, outlines its transition plan, specific targets and the underlying assumptions to the plan.



IAG is working to increase the contribution of gross emissions reductions to the net zero target. Each roadmap version reflects this.

% of expected emissions reductions in 2050	**2021 version**	2020 version	2019 version
New aircraft and operations	**50%**	45%	39%
SAF	**30%**	25%	18%
Carbon removals	**20%**	30%	43%

Current transition plan targets:

Base year	Target year	Target
2020	2020	Net zero CO_2 emissions for all British Airways UK domestic flights from 2020 onwards. Achieved in 2020 and 2021.
2019	2025	11 per cent improvement in gross fuel efficiency. From 89.8g CO_2/pkm in 2019 to 80g CO_2/pkm in 2025.
2019	2030	10 per cent SAF. Equivalent to approximately 1 million tonnes of fuel in 2030.
2019	2030	20 per cent reduction in combined net Scope 1 and 2 CO_2 emissions. From 27.6 MT in 2019 to 22 MT.
2019	2030	20 per cent reduction in net Scope 3 CO_2 emissions. From 8.1 MT in 2019 to 6.5 MT.
2019	2050	Net zero Scope 1, 2 and 3 emissions. Use of removals to mitigate any residual Scope 1 and 2 emissions.
Operating company-specific climate targets for sustainability-linked loans		
2019	2025	88.3g CO_2/pkm in 2025 for British Airways, an 8 per cent reduction compared to 2019.

In January 2021, British Airways was the first airline worldwide to receive a loan linked explicitly to achievement of ESG targets.

Financial impact – the 'F' in TCFD

The financial impact of climate change on businesses is at the core of the TCFD framework, as emphasised by the **TCFD Guidance** on linking climate metrics to financial disclosures. While recognising that these disclosures will continue to evolve, for the companies we reviewed, relatively few disclosures include quantified financial information.

Where financial information is disclosed in the front half of the annual report, it is often in the context of scenario testing, although there is often a lack of clarity about the relevance to the financial statements.

Where climate-related financial information is given in the financial statements, it is often a brief statement that climate change is 'not material' with little commentary to explain how this conclusion has been reached. Where climate change is mentioned in the financial statements, it is typically included in the accounting policy notes and impairment reviews.

Our observations and recommendations below tackle this key component of reporting against the TCFD framework in more detail.

We've found that while many companies provide extensive climate-related disclosures in the front half, their conclusions as to why the issue is 'not material' for the financial statements could be made clearer.

It is important that companies make these judgements on a consistent basis as they develop cash flow forecasts, whether for TCFD reporting or the financial statements. For instance, a company may conclude that climate change is not expected to cause a material impairment charge even if the cash flow forecasts that were used for the impairment test included capital expenditures and operating costs related to addressing climate risk. This information might itself be useful to users of the accounts but would rarely be disclosed because it did not result in an impairment charge. Equally, climate change might be expected to be quantitatively material and affect the financial statements in the future, but because of the time horizon or severity it may not have an effect on the current period's balance sheet.

The materiality challenge

> **"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements…**
>
> IAS 1 – Presentation of Financial Statements

Reporting the ‘F’ in TCFD

78%

Mention ‘climate change’ in their financial statements

26%

Of the companies who mention ‘climate change’ in their financial statements have provided detailed disclosures.

8%

Quantify physical and transitional risks in their strategic report

10%

Of companies that quantify physical and transitional risk in their CDP submissions reflect them fully in their annual report.

What have we seen so far?

Brief, high-level disclosures

While 78% of companies refer to climate change in their financial statements, the disclosures are often brief and high level. This information can often be found in the accounting policies note, with brief references in other notes. Climate change is particularly relevant to impairment reviews, particularly in some sectors, although little information is provided about the assumptions used related to climate risk.

A lack of quantified financial impact disclosures

- Only 8% of companies, usually in high risk sectors, quantify the financial impact of physical and transitional risks. It is possible to provide ‘financial’ information on a qualitative basis, but it will typically be substantially less meaningful than quantified disclosures.

Quantified information provided elsewhere

- 63% of companies with CDP submissions provide quantified financial information on their climate-related risks and opportunities. This, however, is not usually reflected in the financial statements – with only 10% explaining how the two relate.

Interpretation of material financial impact

- Where there are financial disclosures in the TCFD reporting, they tend to focus on the materiality of climate change to the current balance sheet. However, the TCFD framework is clear that companies should also consider the potential impact of climate-related issues on future financial performance and position, but there is little disclosure of this.

The relationship between the front half and the financial statements

- The front half of the annual report often includes significant content on climate change with little or no mention of this in the financial statements. There can be valid reasons for this but they are often not provided.

Key takeaway: Where it is necessary, based on the assessment of risks and opportunities, companies will often need to provide more quantified financial information on the impacts of climate change in the front half narrative of future reports to meet the expectations of the TCFD framework in full. Careful consideration will therefore need to be given to the consistency, or otherwise, between the front half and back half.

Reporting examples

Impairment: Associated British Foods plc, 2021 (Extract)

Associated British Foods plc includes sensitivity analysis in the impairment note to PPE and quantifies how a change in the carbon pricing assumption would impact the carrying value.

In our sugar business in Spain, we have seen a significant increase in revenues reflecting strong demand and higher prices, although the operating profit margin was impacted by lower volumes from the northern beet crop, as well as a one-off charge from a court arbitration. As in prior years, management has conducted an impairment assessment using projections over five years. Our current view for yield and sugar content from beet sugar and our lower estimated margins due to expected increases in raw refining volumes in the future has resulted in a non-cash exceptional charge of €136m to write down the book value of property, plant and equipment and operating intangibles from €193m to €57m (2020 – no impairment of plant, property and equipment but there was a €26m impairment of goodwill). €134m of the impairment charge relates to property, plant and equipment and the remaining €2m relates to operating intangibles. Estimates of long-term growth rates beyond the forecast period were 2% (2020 – 2%). The carrying value is sensitive to assumptions around beet crop area, discount rate and long-term carbon pricing (where climate change is addressed by creating financial incentives for companies to lower their emissions), and sugar price. A sensitivity of +/- 5% on long-term beet area affects carrying value by +/- €18m, and a movement in carbon pricing of +/- €5 per tonne changes carrying value by +/- €3m. Applying sensitivity of +/- 1% to the sugar price will change the carrying value by €9m. Increasing the discount rate used from 11.7% (2020 – 12.1%) to 11.9% reduces carrying value by €3m.

Key judgements: Euromoney Institutional Investor PLC, 2021 (Extract)

Euromoney Institutional Investor PLC includes sensitivity analysis in the impairment note explaining the possible financial impact of climate change that has been considered and the related headroom.

2 Key judgemental areas adopted in preparing these Financial Statements

Investments

Investments are impaired where the carrying value is higher than the recoverable value of the investment, assessed as the greater of the fair value less costs of disposal and the net present value of future cash flows prepared on a value in use basis. The recoverable value of the Company's investments has been determined taking into account the future budgeted cash flows attributable to the relevant businesses, discounted using the weighted average costs of capital. The pre-tax nominal discount rates ranged from 10.2% to 10.6%, depending on the CGU (2020: 9.3% to 11.1%). No impairment charge has been recognised for the year ended 30 September 2021 (2020: £206.7m recognised due to a reduction in forecast cash flows). For the recoverable amount to fall to the carrying value, the pre-tax nominal discount rates would need to increase by 2.8 percentage points

The impairment review also modelled the potential impact of further downside being faced by the Group's events businesses. In particular, for the division most dependent on events revenue (FPS), given the estimation uncertainty in the budgets around the speed and quantum of the recovery of physical events and the return to international travel due to climate change, probability weighted scenarios have been used. The budget cashflows from 2022 to 2024 have been tapered. The budget is given a higher weighting in earlier years reflecting higher certainty in the near term cashflows; with weightings for 2024 showing 60% allocated to the budget reflecting the recovery of international events and 40% allocated to a scenario reflecting the risk to international travel due to climate change. The scenario for the risk associated with climate change assumes a 67% drop on international revenue on each budgeted cash flow year. No impairment for the Company is shown with these scenarios, as the headroom is £353m.

Investments held in the Statement of Financial Position at 30 September 2021 were £1,226.8m (2020: £1,019.0m).

Listing Rules reporting – statement of consistency with the TCFD framework

In this section, we focus on how the Listing Rules requirements have been addressed from the point of view of technical compliance.

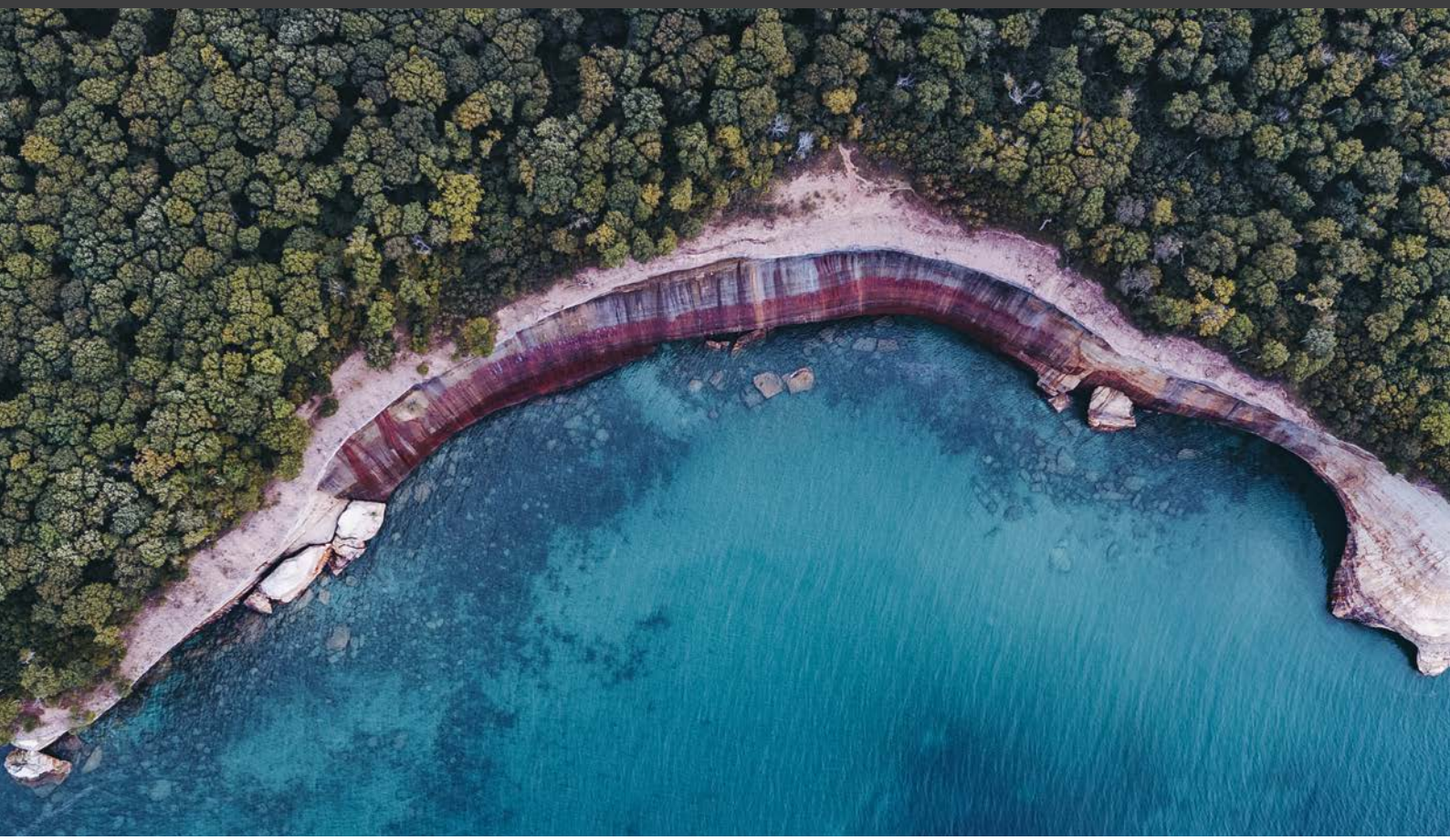
For periods beginning on or after 1 January 2021, premium listed companies have been required under the FCA Listing Rules to report climate-related disclosures in line with the TCFD framework, on a broadly 'comply-or-explain' basis. This was always going to be challenging, given that the TCFD framework was not designed as a set of compliance criteria and relies, for instance, on significant judgement and supporting guidance.

This has resulted in a range of approaches to the reporting requirements. For instance, some have included a separate 'consistency statement', while others have integrated information on their status against the framework within the TCFD disclosures themselves.

Equally, judgement has had to be applied to decide whether a company is or is not sufficiently progressed in its processes and disclosures to claim 'consistency' with the TCFD framework. Dealing with climate change will be an ongoing process, meaning that processes and disclosures will often develop and flex going forward. At what point does this mean that the current position is or is not fully consistent with the framework?

The Listing Rules also permit information to be provided outside the annual report (subject to explaining why this has been done) but the Companies Act requires all material information connected with climate change to be included in the annual report itself. This has given rise to discussions within companies in a number of cases about what does and does not need to be in the annual report where a company has a substantial separate climate or sustainability report.

We look at these issues next. It is likely that practice in this area will continue to develop as the first round of reporting is reviewed by the regulators and other stakeholders, and as reporting evolves in light of technology and digitisation opportunities.



Listing Rules reporting

68%

Provide an explicit statement of consistency with the TCFD framework

38%

State full consistency with the TCFD framework

50%

Acknowledge in their reporting that they have more work to do on their TCFD disclosures in future periods

46%

Include information outside the annual report

What have we seen so far?

Lack of clarity on consistency with TCFD framework

- It is not always immediately clear whether a company believes its disclosures are – or are not – consistent with the TCFD framework. The most straightforward way for a company to do this is to include a separate consistency statement that refers to the TCFD's eleven recommended disclosures, explaining what has been achieved in the year and where further information will be provided in the years to come. A separate table or statement detailing this is not a technical requirement, but provides a clear overview for the reader.

Quality of explanations where inconsistent with the TCFD framework

- With some exceptions, reports generally do not explain in any detail why the company is not yet consistent with the framework or what their future plans are. There should be 'full, clear and meaningful explanations[1]' as to why certain disclosures have not been included. Companies should of course also avoid giving the impression they have done more than they actually have. Importantly, where a company has made a judgement based on its risk assessment that an element of the TCFD framework is not appropriate to them (for instance quantitative scenario testing) this is consistent with the framework if it is explained.

Use of other reporting channels

- The majority of TCFD reporting is included within the annual report, almost always in a specific section of the strategic report. However, a significant number of companies cross-refer to a separate report and a small number include most of the relevant disclosures in a separate TCFD or sustainability report. Companies should note that under the Listing Rules a reason needs to be given for taking this approach, and this is rarely explained clearly. As a reminder, all material information must be included in the annual report to comply with the Companies Act. This could be as part of principal risk or other related reporting if the TCFD disclosures are outside the annual report.

Key takeaway: The Listing Rule requirements call for the exercise of considerable judgement in many cases and companies should seek feedback on their TCFD reporting from regulators and other stakeholders on the approaches taken in year one of the new reporting.

[1] **FCA Primary Market Technical Note 802.1**

Reporting example

Compliance Statement: Standard Chartered plc, 2021 (Extract)

Standard Chartered plc sets out clearly the current status of each recommended disclosure supported by their future priorities.

Governance		
Board oversight of climate-related risks and opportunities	**Current status** • In 2021, we held Board-level and Management Team training on our approach to net zero and Board-level training, delivered by Imperial College London, on climate scenarios to support the Board with their review and challenge of climate related regulatory stress testing. • The Board reviewed and approved our approach to reaching net zero carbon emissions from our financing by 2050 and associated interim targets. • The Board received regular Climate Risk updates via the Board Risk Committee (BRC) and reports from the Group Chief Risk Officer. • First-generation Climate Risk reporting and Management Level Risk Appetite metrics were shared with the BRC and approved by the Group Risk Committee which has oversight of Climate Risk.	**Future priorities** • We aim to enhance Climate Risk training to our subsidiary boards, building on initial training delivered in 2020. • Results of management stress tests will be reviewed and challenged by the BRC and will strengthen the Board's oversight of the impact from Climate Risk on our business, financial performance and operations and strengthen business strategy and financial planning.
Management's role in assessing and managing climate related risks and opportunities	**Current status** • The Group Chief Risk Officer (CRO) has Senior Management Responsibility for Climate Risk and is supported by the Global Head, Enterprise Risk Management who has day-to-day oversight, and has appointed the Climate Risk Management Forum that oversees the delivery of the Group's commitment to manage climate related financial and non-financial risks. • In 2021, we established a robust governance structure to support our net zero approach through the Net Zero Steering Group chaired by the Group Head, Conduct, Financial Crime & Compliance. • We aim to strengthen business segment, country, and regional Climate Risk governance and continue to keep the Management Team updated through the Group CRO reports and Management Information report to the GRC.	**Future priorities** • We will continue to exercise appropriate oversight and governance of our approach to net zero at Board and Management Team level. • We aim to strengthen business segment, market, and regional Climate Risk governance and continue to keep the Management Team updated through the Group CRO reports and Management Information report to the GRC.

Looking ahead

Our recommendations on how to enhance reporting

As identified in our analysis, there are a number of areas where reporting will need to evolve to come closer to the original intentions behind the TCFD, build greater trust in companies' climate disclosures and help prepare companies for future regulatory reporting requirements. These include:

- Greater clarity on the strategic risks and opportunities connected with climate change for the business and how they are being responded to.
- Enhanced disclosure around the financial impact of strategic risks and opportunities, ensuring proportionality and consistency with the financial statements.
- Better information on transition plans, with clear milestones, outlining the actual and potential impacts on the company's strategy, business model and financial planning.
- Explanations of why information that is not considered to represent a strategic risk or opportunity, is disclosed.
- Inclusion of a broader range of underlying metrics and targets, not just emissions data.
- More detail on the status of the company's consistency with the TCFD framework.
- All material information in separate TCFD and sustainability reports also to be included in the annual report.

Appropriate assurance over metrics, especially emissions data, will also be important. **PwC has identified** this as one of the key pillars to building trust in climate reporting.

TCFD marks a step change in ESG reporting and paves the way for enhanced reporting in the future. Companies should take a proportionate approach to regulation – focused on quality of insight, rather than quantity – to ensure they give stakeholders the information they need.

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