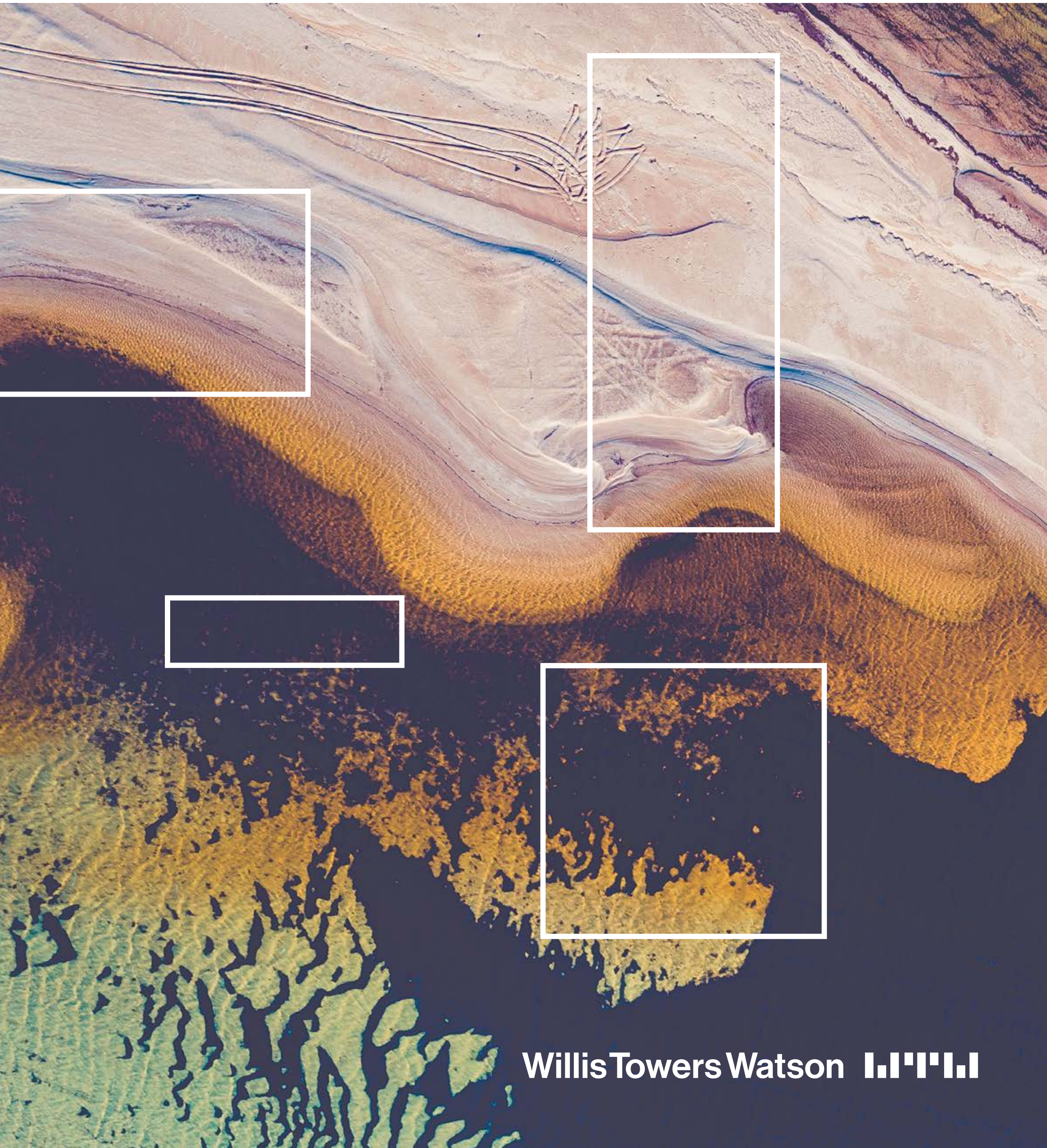
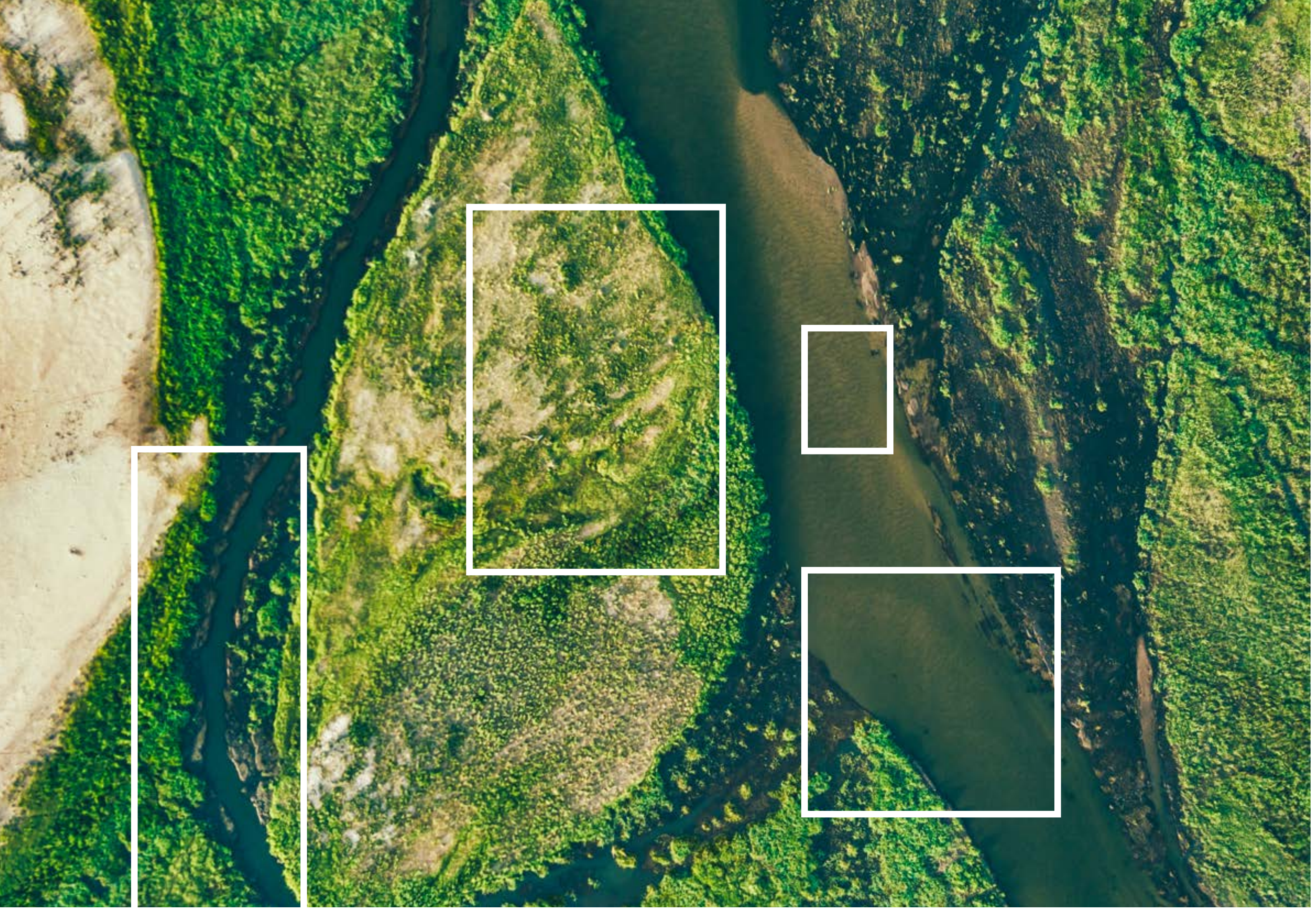
TCFD: is UK plc readying itself for climate-related financial disclosures?

Willis Towers Watson TCFD Pulse Survey – Volume 1 (October 2020)





Introduction to TCFD

The private sector Task Force on Climate-related Financial Disclosures (TCFD), chaired by Michael Bloomberg, was established in 2015 by the Financial Stability Board to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities.

Since publication of its final recommendations in 2017, TCFD has quickly become the go-to framework for disclosing climate-related Governance, Strategy, Risk Management, Metrics and Targets. It is now supported by over 1,000 organisations globally, including financial institutions representing nearly $140 trillion dollars of assets.

In July 2019, the UK's Green Finance Strategy set an expectation for mainstream climate disclosure by 2022 and established a joint taskforce with UK regulators, chaired by Government, to examine the most effective way to approach disclosure, including the appropriateness of mandatory reporting. A number of other countries have already taken action on climate disclosure or are exploring pathways to make climate reporting mandatory.

In line with Government's 2022 expectation, the Financial Conduct Authority (FCA) has recently closed a consultation for UK premium listed companies to implement TCFD on a 'comply or explain' basis. The Department for Work and Pensions (DWP) has also consulted on mandatory TCFD for the UK's larger occupational pension schemes.

Willis Towers Watson's TCFD Pulse Survey

Willis Towers Watson, a leading global advisory, broking and solutions company, launched the Climate and Resilience Hub earlier this year to help organisations manage their climate related risks and seize the opportunities of an orderly transition to a low carbon, resilient economy.

Building on our long-standing survey and benchmarking expertise in areas such as executive compensation, rewards and benefits, the Hub is working closely with corporates, financial institutions, regulators and other stakeholders around the world to provide practical insights into a rapidly evolving policy landscape and emerging practice on climate-related issues.

As part of this, the TCFD Pulse Survey seeks to complement existing initiatives examining the status of disclosures by understanding companies' readiness and intentions to report on TCFD. On the back of the FCA's consultation, our initial focus is on UK premium listed companies. This first summary note highlights emerging insights from responses received in July and August from companies in scope of the FCA's consultation. The findings were discussed during a webinar on TCFD readiness, co-hosted with the FCA and Chapter Zero, the Directors' Climate Forum, in early October 2020.

Companies that have participated in the first phase are receiving a more detailed report, allowing benchmarking of responses. The second phase of the survey remains open for those companies who would still like to participate.

Survey highlights

UK companies are generally not well prepared for TCFD; financial companies more so	**70%** have yet to publish a TCFD disclosure or to begin the process of preparing their response.	**63%** are still in the exploratory phase of considering how climate-related risks and opportunities will impact business strategy and financial planning.
But climate is increasingly seen as a risk management and financial issue	**66%** state that either the risk management or finance function leads, or co-leads, responses on climate-related risks and opportunities	**87%** see investors as the key audience for climate disclosures.
Common challenges exist	**70%** are concerned about defining the metrics used for TCFD reporting.	Only **10%** are likely to include climate-related metrics and targets into remuneration policy in the next 12 months.

Summary findings

Three key trends emerge from this initial set of survey responses.

1. UK companies are generally not well prepared for TCFD; financial companies more so

The survey indicates many companies have more to do to effectively respond to the proposed TCFD requirements. Seventy per cent of respondents have either yet to publish a TCFD disclosure or to begin the process of preparing their response. Moreover, many of the 30% of companies that have either disclosed under TCFD, or are in the process of preparing their disclosure, acknowledge they are on a journey and need to become more granular in their approach. The roughly 70/30 split is reinforced in the 71% of companies surveyed that have either no set date or no immediate plans to report.

It's a similar story when drilling down into preparedness in the four core elements of TCFD reporting – governance; strategy; risk management; and metrics and targets. In all four cases, companies that are still deciding or formulating how to address the requirements make up the largest portion of respondents. Areas such as the impact of climate-related scenarios on strategy and the choice of metrics are among the darkest grey areas for organisations right now.

What we do see, however, is that, in general, financial companies are further ahead on TCFD – as indeed, we should acknowledge, are many of the high environmental impact companies, which largely fell outside our initial sample. For example, all the financial sector companies in our survey have specifically assigned someone to lead on climate risks and resilience; the majority of non-financials haven't. As shown in Figure 1 below, around one third of financial firms have already disclosed, with the balance either actively discussing TCFD or in the process of preparing a TCFD response. For non-financial companies, less than 10% have disclosed and almost 50% respondents have yet to have any meaningful discussions to date. This, we feel, reflects the increasing attention placed by financial regulators on climate-related issues, as evidenced by the Prudential Regulation Authority's (PRA) recent 'Dear CEO Letter', and increasing pressure from investors for disclosure in the financial sector.

2. But climate is increasingly seen as a risk management and financial issue

Progress on TCFD disclosure is one thing; mindset is another. On the latter, there seems to be a shift taking place from companies regarding climate as a matter of good corporate citizenship to a risk management and financial issue – something that is also evident in some other recent studies we have reviewed. Growing demand for enhanced climate disclosure, including from some of the world's leading institutional investors, is undoubtably playing its part.

This comes through notably in companies' audience priorities for TCFD. Investors lead the way with 87%, followed by regulators and clients. Employees and society in general sit further down the pecking order. A further indicator of the shift taking place is that 66% of our survey respondents state that risk management or finance functions lead, or co-lead, on climate-related risks and opportunities. In some cases, this is in partnership with other areas of the firm, particularly colleagues in the sustainability function. Ensuring the right people are around the table is an important first step in forming a co-ordinated, and comprehensive response.

Once again, there are differences worth highlighting between financial and non-financial companies. For example, regulators are a prime target audience for 94% of financial sector businesses, compared with 52% of other companies (Figure 2) – a further sign of the impact that regulatory activity is having on the financial sector. Moreover, a larger proportion of financial companies say they manage climate as a financial risk and consider it a key strategic issue for the business, factors also reflected in comparative levels of board discussion of the financial impact of climate issues. Also, of those appointed by financial companies to lead on TCFD, the large majority (82%) report directly to either the board, CEO or CFO – much higher than in non-financial sectors at present.

Figure 1: Current status of TCFD disclosure (financial versus non-financial companies)

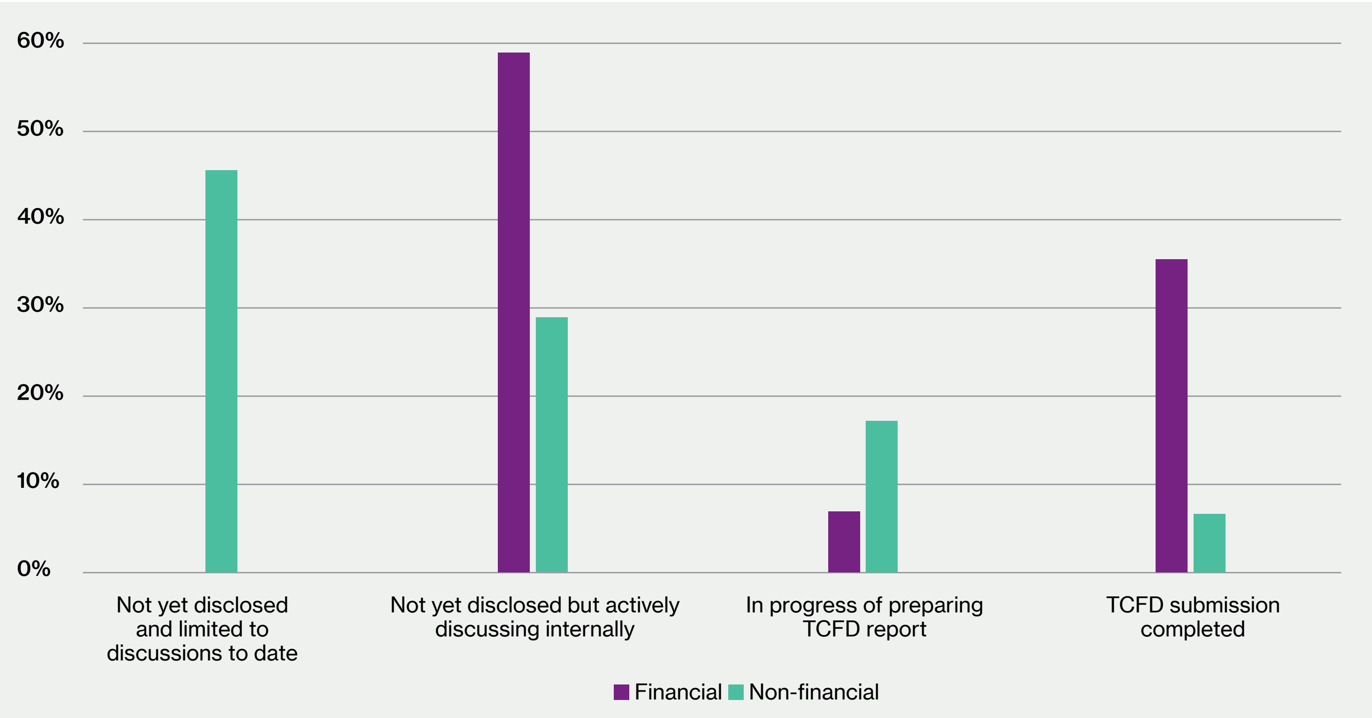


Figure 2: Perceived key audiences for TCFD disclosures

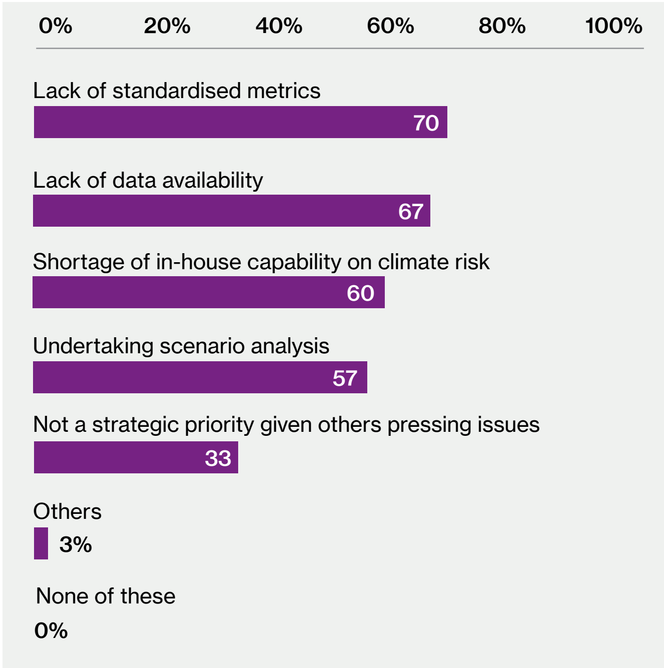
3. Common challenges exist

Companies are generally supportive of the TCFD objectives, even if the state of readiness is varied. Top of the league of key challenges is the lack of standardised metrics closely followed by a lack of data availability. A shortage of in-house capability on climate risk and challenges with scenario analysis are also high in the list. (Figure 3).

Closely linked to these challenges are areas where companies expect to need the most support for TCFD implementation. Perhaps unsurprisingly, given the specialist nature of the work involved, three quarters of companies see scenario modelling for both physical and transition risk as a key area where advice and support would be welcome.

However, some other facets of action on climate reporting that our survey suggests will need attention are remediable from within. For example, 73% of companies currently lack any audit measures to verify disclosures. And when it comes to creating a wider culture of climate disclosure and responsibility, the extension of climate objectives into remuneration policies, for example, is currently rare – and 47% of companies outside the financial sector say climate-related remuneration is not on their agenda at all for the foreseeable future. With increasing regulatory and investor pressure, it will be interesting to see for how long that continues to be the case.

Figure 3: Perceived obstacles to achieving TCFD disclosure



Contacts

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