TCFD: Climate risk and opportunities - an asset management perspective

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AIMA

Content & context

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With you today

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Why it’s so important that your get your reporting right

61%

of global investors use sustainability disclosures to assess how companies manage risks and opportunities.[1]

41%

of FTSE 350 corporate reporting did not link sustainability disclosure to strategy, risking it as greenwashing, even if unintentional.[2]

3/4

of businesses in European Economic Area are impacted by CSRD[3]

$68tr

The value of assets held by financial firms, as a part of Climate Action 100+, that have committed to implement the TCFD recommendations.[4]

[1] PwC’s 2022 Global investor survey
[2] PwC FTSE 350 reporting trends
[3] Carbon Trust
[4] 2022 TCFD status report (2022)

- Globally, **ESG reporting regulations are increasing** and in key jurisdictions, **assurance requirements** on disclosures have been proposed.
- **The landscape is complex and fast evolving**, and for Financial Services firms, the number of ESG metrics that will be required to be reported is significant.
- Understanding the overlaps and interdependencies between regulations will be key, as will having a **clear strategic approach and narrative** to reporting to avoid inconsistency and leaving value on the table.
- ESG reporting requirements **impact functions across businesses**, and in particular are leading to increased finance and CFO ownership.
- **New reporting frameworks are significantly more pervasive** than previous requirements. This will require transformation of existing reporting processes, operating model, governance and IT infrastructure, as well as organisation-wide training and upskilling.
- Many companies are finding that **ESG Reporting requirements are identifying strategic gaps** and are prompting strategic change - particularly alignment of corporate and sustainability strategies.
- Strategic engagement with the reporting landscape can **create value** for businesses

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Regulatory landscape overview

How do we connect different reporting requirements

TCFD is just one part of the current ESG Reporting requirements driving action in our clients. Regulators are implementing different requirements across the globe, making it challenging for international asset managers to react - and keep consistency in their reporting messaging.

EU
- CSRD
- SFDR
- ESRS
- EU Taxonomy
- CSDDD

UK
- TCFD
- UK SDR
- UK Green Taxonomy

US (SEC)
- Enhancement and Standardization of Climate-Related Disclosures (proposed)
- ESG Disclosures for Investment Advisers and Investment Companies (proposed)

Global Standards
- ISSB

Global Influences
- GRI
- GHG Protocol
- TCFD / TNFD
- SASB
- WEF Stakeholder Capitalism Metrics

CSRD = Corporate Sustainability Reporting Directive

ESRS = European Sustainability Reporting Standards

CSDDD = Corporate Sustainability Due Diligence Directive

TCFD = Task Force on Climate-Related Financial Disclosures

SDR = Sustainability Disclosure Requirements

GRI = Global Reporting Initiative

SFDR = Sustainable Finance Disclosure Regulation

ISSB = International Sustainability Standards Board

SASB = Sustainability Accounting Standards Board

Journey of TCFD and UK requirements

The UK Government unveiled a roadmap towards mandatory TCFD disclosure on 9 November 2020, with various follow-up regulations being finalised by UK Government agencies and the FCA to require TCFD reporting by UK listed companies, pension funds, insurers and asset managers.

2015 2016 2017 2018 2019 2020 2021 2022 2023

December 2015

Under Mark Carney, the **FSB** establishes a Task Force for Climate Related Disclosures

December 2016

TCFD presents their first draft recommendations for consultation

June 2017

TCFD announces their first recommendations, promoting transparency leading to better climate-risk management.

One hundred CEOs sign a statement of support

September 2018

TCFD publishes their first status report, sharing areas of improvement

June 2019

TCFD releases their second status report and forms an industry advisory group to assist in developing practical guidance for conducting climate-related scenario analysis

February 2020

The number of TCFD signatories supassess 1,000, a huge feat, demonstrating the acknowledgement of climate related financial risks

October 2020

FCA: Consultation on 'comply or explain' TCFD regime for premium listed companies closes

November 2020

HMT: Announcement of plans to make TCFD mandatory by 2025 latest

FCA: Confirms it will introduce change to Listing Rule for TCFD reporting

1 January 2021

FCA*:* Beginning of reporting period for TCFD disclosures for premium listed companies for 1 January 2022 reports

June 2021

FCA publishes its TCFD consultations; asset managers, life insurers, and FCA-regulated pension providers outlining the next steps for TCDF disclosures

October 2021

DWP published their final report requiring occupational pension schemes to publish a TCFD aligned report by the end of 2022, or 2023 for smaller schemes. A report will need to be published annually, 7 months after scheme end

December 2021

PRA's deadline for banks, building societies and insurance companies to embed climate risks, including TCFD disclosures

FCA publishes final TCFD requirements for asset managers, life insurers and FCA regulation pension providers

January 2022

FCA's TCFD phase one implementation for asset managers - reporting required by 30 June 2023 (at fund and entity level) based on 2022 information and activities

January 2023

FCA's TCFD phase two implementation for asset managers - reporting required by 30 June 2024 based on 2023 information and activities

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Deeper dive into climate reporting

Climate change and disclosure is here to stay

Investors believe there are real business challenges and opportunities that come with climate change, and have set in motion a greater evolution in ESG transparency — pushing for alignment to quickly evolving standards for disclosure and scenario analysis

- Across industries, companies are quickly coalescing around new guidelines from the **Task Force on Climate-related Financial Disclosures (TCFD)**, which outline a framework for disclosing and stress testing a company's climate resiliency approach

- The Financial Conduct Authority (FCA) supports the UK's commitments to implement the TCFD's recommendations and its wider ambitions for sustainability disclosures, working towards mandatory TCFD-aligned disclosures by 2025.

- The Task Force recommended and the FCA put forward this reporting requirement to increase transparency on climate-related risks and opportunities and enable investors and consumers of this information to make informed decisions, as well as push the UK government's own climate goals.

- Leading companies are focused on proactively identifying risks and opportunities posed by climate change, deeply embedding into enterprise risk management and new product/service offerings. They are not just working towards meeting TCFD guidelines but are using them to structure their organizations and strategies to better respond to climate change going forward.

Taking action on climate is increasingly becoming table stakes — regardless of our trajectory toward a 2°C or 4°C world — it has the potential to not just disrupt a company's operations, but will have systemic impacts on employees, customers, and supply chains

TCFD is the leading climate disclosure framework globally

The Task Force on Climate-related Financial Disclosures (TCFD) issued guidance for climate risk disclosure in 2017 — and quickly become the standard for how companies should orient around climate risk, and how they should disclose on it publicly.

01
Insufficient disclosure

The TCFD is an advisory body set up by the G20 to address concerns around insufficient disclosure of climate-related risks and opportunities for businesses.

02
Led by industry leaders

The TCFD is chaired by Michael Bloomberg and consists of 31 industry leaders, including representatives from Blackrock, Aviva Investors, and UBS Asset Management

03
Informed investment decisions

The TCFD recommendations aim to enable better understanding of exposures to climate risks and opportunities.

04
Broad support

Since 2017 the Task Force has released Implementing Guidance, Guidance on Specific Recommendations, and annual Status Reports highlighting the progress made in companies' climate risk disclosure.

4,000 organisations support TCFD

Includes 1,500 financial institutions responsible for assets of $220t

$26tn combined market capitalisation[1]

100+ jurisdictions represented

8+ TCFD-aligned official reporting requirements (e.g., UK, EU, ISSB, Brazil, Singapore)

[1]**Source:** TCFD 2022 Status Report

What's coming with TCFD

Climate risk disclosures are gaining widespread support.

The G7 made an announcement in June 2021 **to mandate climate risk reporting** in line with the TCFD framework recommendations.

The UK has already mandated TCFD reporting for premium listed companies on a 'comply or explain' basis from 1 January 2021. With all other listed, FS and large private businesses taking effect from 2022.

The G20 finance ministers and central bank governors will work towards a "baseline global reporting standard" for climate and biodiversity-related financial disclosures. July 2021 saw a **statement of the G20's Support of TCFD Framework**

US SEC has an open consultation on climate reporting and the use of TCFD in corporate reporting March 2022

The ISSB Technical Readiness Working Group (TRWG) have said they are **proposing that all standards are based on TCFD 4 pillar framework. March 2022**

Switzerland set to make TCFD mandatory in 2024, with the Finance Ministry set to prepare legal text on mandatory reporting by the end of summer 2022.

New Zealand: TCFD reporting for large issuers and financial institutions **mandatory** from 2023

Hong Kong: Steering group aims to **align listed firms' climate-related disclosures with TCFD** recommendations by 2025.

Singapore: TCFD Climate reporting comply and explain from 2023, **mandatory 2024.**

Other countries that have TCFD-aligned official reporting requirements include Brazil, Japan and the EU, where the EC noted that reporting standards under CSRD should take into account existing frameworks, including the TCFD.

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The UK rules and implementation challenges

What are the FCA's new rules?

The rules for FCA regulated asset managers are wide reaching - and are likely to impact you if you can perform discretionary investment management or provide investment advice in the UK. Scoping out which of your activities are in scope can be complex.

Compliance timeline

- The FCA's rules apply to the **majority of regulated asset managers** that operate funds, manage funds or advise funds.
- The rules have **two differing compliance timelines**

If you have assets under management in **excess of £50bn** you must report by **June 30, 2023**

Or, if your assets under management is **above £5bn** you must report by **June 30, 2024**

The disclosures must then be published on an **annual basis** thereafter.

- Whilst there is scope to report on a firm's own reporting period, it is expected **most firms will publish their reports based on a calendar year**, since the first report must start from January 1 2022 / 2023
- The disclosures must be easily and readily available on the **firm's website**.

Scope of the rules

- Funds **and segregated mandates / investment advice provided from the UK on a recurring basis.**
- From a fund perspective, the rules include all alternative investment funds managed by UK alternative investment fund managers, regardless of domicile.
- Otherwise, the rules are UK-centric - **entities and funds outside the UK are not yet in scope of the rules**. However, the upcoming Overseas Fund Regime proposals in the UK might change this…

What will you need to disclose in the UK?

The UK regime is broadly based on the global approach to TCFD reporting. However, there are some key differences that we set out below, meaning you need to specifically focus on your UK report, as well as any group-wide reporting.

Entity-level disclosure requirements

- You must report on a UK-regulated entity basis annually. Whilst you can rely on group reporting, you must **point out differences** between the UK and group-wide reporting.
- The report will disclose how the firm takes climate related risks and opportunities into account when managing and administering **investments** on behalf of its clients overall, rather than specific to each in scope product.
- The entity-level report also considers **climate-related considerations** at entity level.
- A senior manager in the business must confirm within the entity report that it complies with the FCA's rules.
- The disclosures must be easily and readily available on the firm's website.

Product-level disclosure requirements

- A separate product-level report will need to be provided **for each product** in scope of the rules. Depending on product type, this might need to be publicly available or available on request.
- The product report should consider **how climate-related risks are considered** when investment decisions are made and must, like the entity-level report, align with the TCFD recommendations.
- In addition, the product-level report must include information about **scope 1, 2 and 3** greenhouse gas emissions, total carbon emissions, total carbon footprint and weighted average carbon intensity of the fund.
- Firms should also make disclosures on governance, strategy and risk management insofar as they are **materially different to disclosures** made at entity level or where firms consider that more detailed information would be decision useful to clients and consumers.

Deeper dive - product disclosures

As covered on the previous page, the FCA's rules apply to a wide range of products managed or advised from the UK. Below we set out some more information on what types of products are in scope that you might be managing or advising on in the UK.

Investment funds, such as:

- UK regulated fund (e.g. UK UCITS)
- Alternative investment funds (AIFs) managed by a UK alternative investment fund manager (AIFM) - *regardless of fund domicile*

The TCFD product report must be publicly available, and included within a fund's annual report and accounts (or a link to the report on the entity's website) ***unless*** it is an unregulated AIF, when the report is to be made available on request.

Portfolio management activities, such as:

- Acting as the delegated investment manager to a fund or in relation to a separate account
- investment advice or management for unlisted securities, but only where this is provided on a recurring or ongoing basis

TCFD product report made available on request to satisfy the client's own climate reporting requirements.

Implementation complexity

We've set out below the implementation complexities we have seen in our clients reporting under these rules this year. Whilst the overall approach is TCFD-aligned, the UK nuances mean new considerations. In addition, a number of firms are considering and reporting on climate-related risks for the first time, requiring more senior management oversight.

Managing complex overlaps
Overlap between FCA proposals and other regulatory change (e.g. SFDR PAI disclosures and SDR) - but with some key differences

Approach to different investment strategies and asset classes
Need to make information "decision-useful" for investors, which could be challenging when managing multiple diverse strategies

Data and scenario testing
Gaps in data coverage for key metrics, particularly makes it challenging to disclose scope 1, 2 and 3 data for investments or to complete quantitative scenario testing

Metrics and targets
Firms need to consider the disclosures they want to make around targets and transition planning, particularly if they are early in their approach.

Product scope
The product scoping is not straightforward - a number of mandates advised from or managed from the UK could be in scope of the rules.

Disclosure strategy
Need to make sure the 'story' in your TCFD report matches your overall firm-wide purpose and strategy for ESG activities

Skills and resourcing
Need to upskill existing staff and recruit new staff to confirm an appropriate skill set to fully consider climate issues at entity and investment levels.

Client demand
Clients may want information on your management of climate change that you cannot easily provide.

4

How asset managers organise to respond

Responding is a cross-functional effort

Multiple teams have a role to play in responding to new regulatory requirements related to sustainability

Investment Teams
- Manage portfolios in line with sustainability mandates and regulation, while delivering returns
- Document sustainability policies for investments

Risk management
- Measure risk driven by sustainability-related events
- Work with IT to track any adverse impacts from sustainability factors on products

Product development
- Develop products that meet client needs and satisfy new regulatory requirements

Sales & Marketing
- Answer client demands, upskilling on the sustainability topics and regulations
- Beware of greenwashing risk

Legal & Compliance
- Responsible for compliance with regulatory requirements
- Monitor adherence to policies

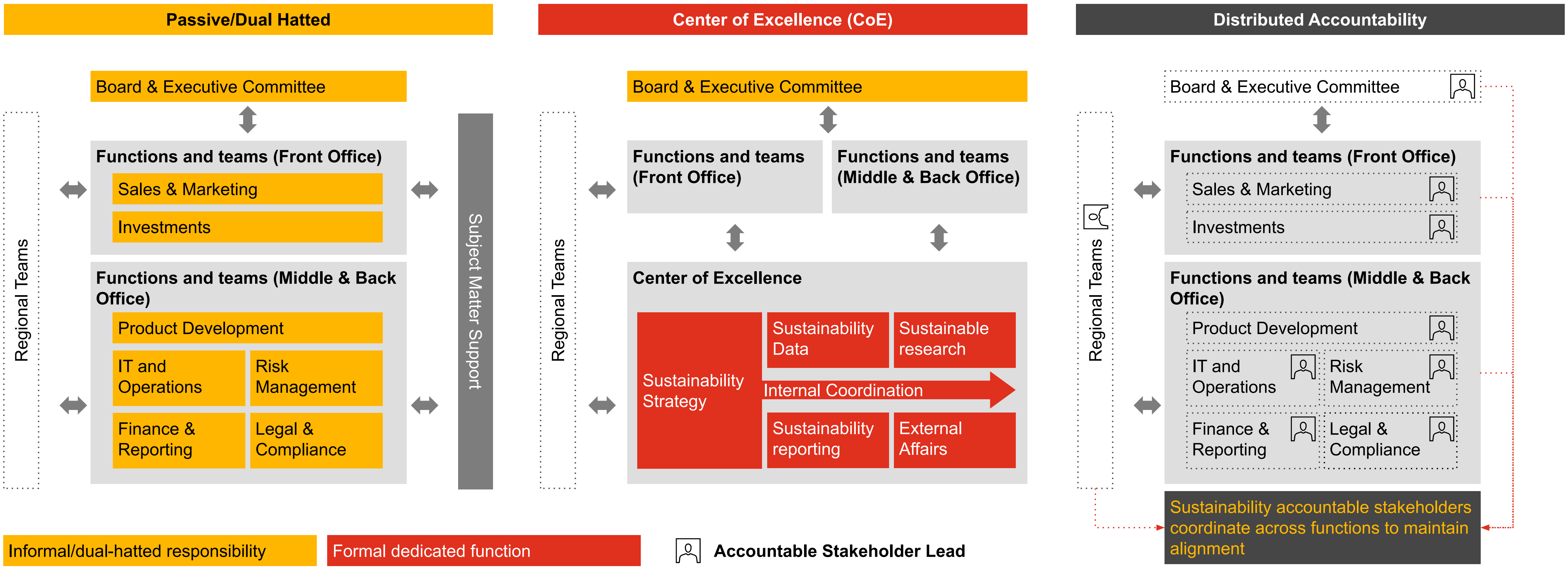
Executive Committee
- Provide oversight and assign accountability

IT & Operations
- Establish the foundational tech and data architecture to produce disclosures
- Ensure “one version of the truth” in sustainability data for all teams

Finance & Reporting
- Update reporting processes for inclusion of new data
- Review internal control measures for sustainability data

Three high-level operating model archetypes

Different ways of integrating sustainability into the organizational design



Source: PwC Strategy& Analysis

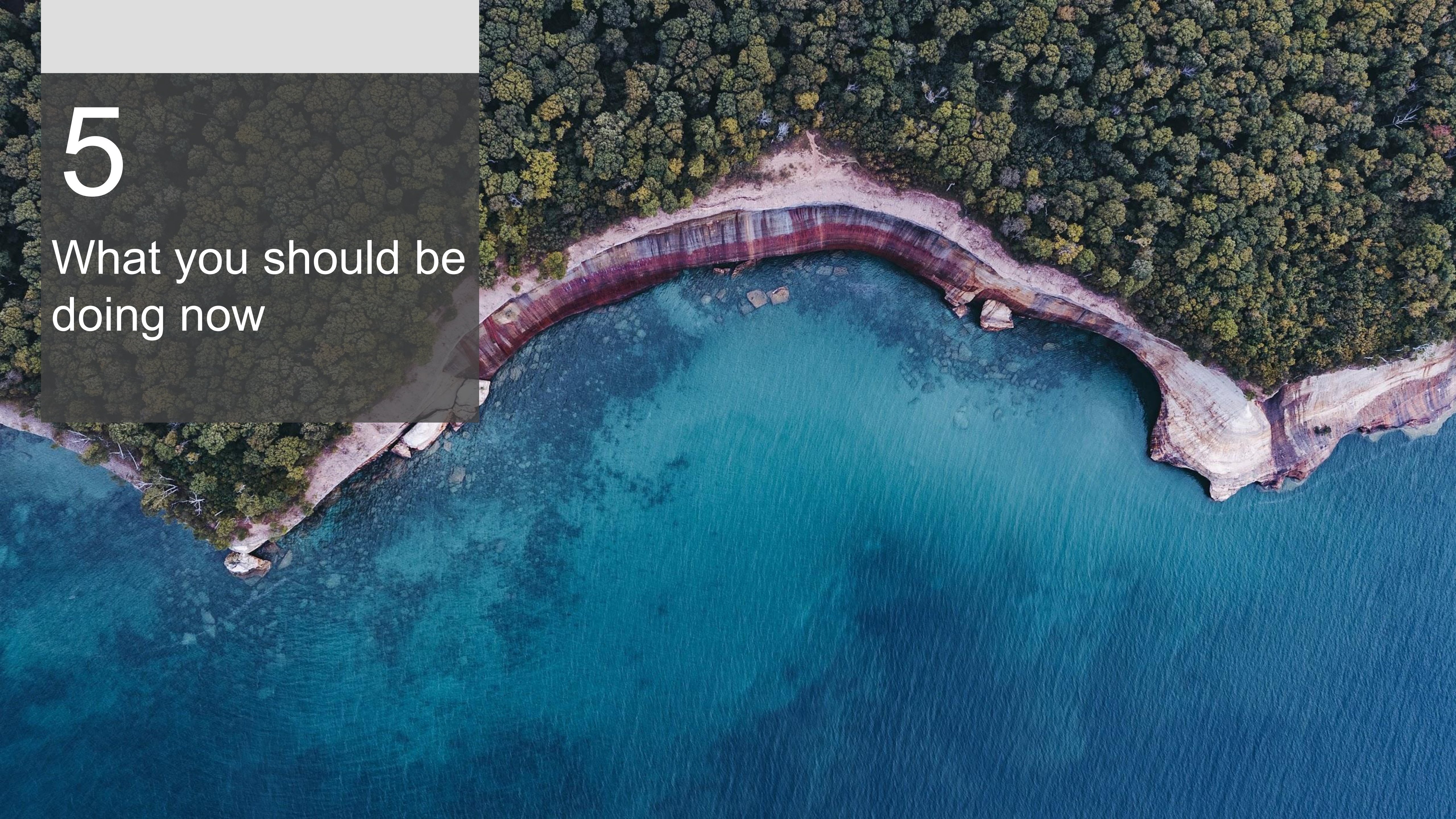
A firm's sustainability ambition impacts the recalibration of its operating model

The need for coordination across a firm varies depending on the aspiration level

	Sustainability Ambition		
	Low	**Medium**	**High**
Description	Companies looking to meet the minimum compliance requirements or to begin positioning themselves as a participant in the ESG space	Companies seeking to attract/retain customers via “green” product offerings and leverage existing capabilities in the new context	Companies with a strong Sustainability mandate, driven by customer demand and executive buy-in, that view sustainability as a differentiating factor
Impacts to recalibration of operating model	Set up a central coordination function to meet compliance requirements Additional tasks for dual hatted employees are a risk	Organization should not only meet compliance requirements, but also drive sustainability capabilities through a central team dedicated to sustainability operations and supporting/ upskilling the firm as needed.	Embed sustainability SMEs within functional teams to enhance real time innovation and compliance. Differences per strategy are recognized. Central team provides standards and consistency in approaches and confirm firm-wide compliance.
Potential operating model fits	Central Coordination function	Center of Excellence (CoE)	Distributed Accountability

5

What you should be doing now



To finish - what are the questions ***you*** should take away and ask within your organisations?

Regulatory horizon scanning

- How are you keeping abreast of current, proposed, and future reporting requirements?

Reporting ambition and narrative

- What is your reporting ambition? Do you want to be compliant, leading, or somewhere in between?
- Amidst the various reporting requirements, what is the ESG story you are wanting to tell?
- How do you control messaging consistency across different reporting requirements at entity and product level?

Governance & accountability

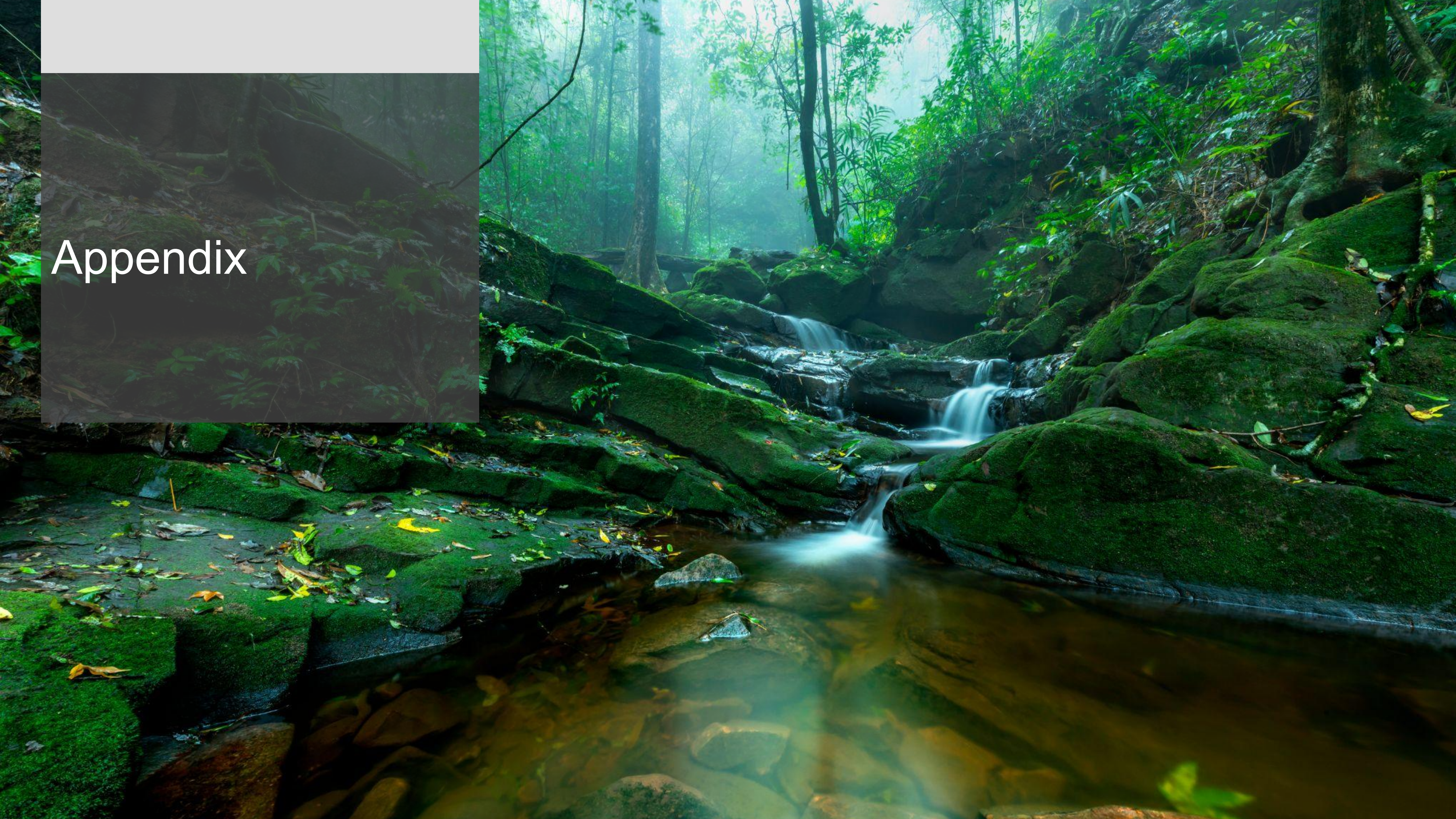
- Who 'owns' various externally published ESG data across the organisation (e.g. product level vs corporate level)
- Who will retain oversight and drive sustainability reporting going forward?

Skills and resources

- What skills do you have in house to respond to these challenges, and what external support do you need?
- What review and challenge do you want for your reporting (e.g. by Internal Audit, external assurance, external advisory)?

Q&A

Appendix



TCFD Framework Guidance for the Financial Sector

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organisation's governance around climate-related risks and opportunities	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	Disclose how the organisation identifies, assesses and manages climate-related risks	Disclose the metrics and targets used to assess and manage climate-related risks and opportunities where such information is material.
Recommended disclosures	**Recommended disclosures**	**Recommended disclosures**	**Recommended disclosures**
a) Describe the Board's oversight of climate-related risks and opportunities	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	a) Describe the organisation's processes for identifying and assessing climate-related risks	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes
b) Describe management's role in assessing and managing climate related risks and opportunities	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	b) Describe the organisation's processes for managing climate-related risks	b) Disclose Scope 1 & 2 and if appropriate Scope 3 GHG emissions and the related risks.
	c) Describe the resilience of the organisation's strategy taking into account different climate scenarios including a 2 degree scenario or lower	c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	c) Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets

Additional sector guidance available	Governance		Strategy			Risk Management			Metrics & Targets		
	a)	b)	a)	b)	c)	a)	b)	c)	a)	b)	c)
Banks			✓			✓			✓		
Insurance Companies				✓	✓	✓	✓		✓		
Asset Owners				✓	✓	✓	✓		✓	✓	
Asset Managers				✓		✓	✓		✓	✓	

Find out more here.