HM Treasury TCFD Report November 2020:

A Roadmap Towards Mandatory Climate-related Disclosures

Risk implications to UK companies of Task Force on Climate-related Financial Disclosures (TCFD)[1]

Climate-related demands for UK companies and organisations are accelerating, changing the shape of reporting and risk management across all sectors. The UK Government is the first among the G20 to publish its proposed timeline for mandatory reporting. Whilst not yet written into law and subject to further consultation, the HM Treasury November 2020 report communicates the forthcoming TCFD process and key milestones.

Here we set out in brief the proposed TCFD timeline and the requirements to which Marsh clients must respond as the UK transitions to a lower-carbon economy. It is a useful starting point for you to consider the implications of the Interim Report on your strategic, financial, operational planning, risk and governance arrangements in order to develop a plan of action for the coming months. Activities should include developing a corporate roadmap for TCFD, incorporating climate risk into ERM and resilience frameworks, and establishing and testing reporting mechanisms in advance of the proposed deadlines.

What does the HM Treasury report say?

On the 9 November 2020, HM Treasury released its Interim report[2] on the UK's approach to implementing key recommendations of the TCFD. It provides roadmaps and guidance to private and listed companies (table 1) across all industries and business sizes on recommended activities leading up to proposed mandatory climate related disclosures by 2025.

[1] The TCFD was established by the Financial Stability Board (FSB) in 2015 and consists of 31 members from across the G20 countries. In 2017, the TCFD issued their recommendations. https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

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Table 1: Corporate timelines for mandatory TCFD disclosure. [2]

		Key Timelines:		
Type of Company	**Definition**	**2021**	**2022**	**2023 onwards**
Listed Commercial	• All premium listed commercial companies, and all issuers of standard listed shares (excluding listed funds) on the Financial Conduct Authority (FCA's) official list.	• 66% must report by law in 2021.	• 100% must report by law in 2022.	• 100%
Large Private	• Meeting at least two of the following criteria: − Annual turnover over £25.9 million. − Balance sheet over £12.9 million. − Average number of employees over 250.	• N/A	• 50% must report by law in 2022.	• To be confirmed, pending consultation due end-2022.
Banks and Building Societies	• All UK PRA*-regulated banks, building societies, PRA-designated investment firms, and their groups.	• Approximately 60% must report by law in 2021. • Remaining 40% "expected to".	• Near 100% must report by law in 2022.	• 100%
Insurance	• Includes all UK PRA-regulated insurance and reinsurance firms and groups.		• Approximately 90% must report by law by 2022.	
Asset Managers	• Comprises UK-authorised asset managers, defined as: − Markets in Financial Instruments Directive (MiFID) investment firms who provide portfolio management services. − Alternative Investment Fund Managers (AIFMs), including small authorised AIFMs that have managing permissions. − UCITS** management companies; and UCITS funds without an external management company.	• Planned consultation in 2021.	• 75% must report by law in 2022.	• Increases to approximately 100%.
Life Insurers and FCA Regulated Pension Schemes	• Comprises life insurers and FCA-regulated pension scheme providers.		• 90% must report in 2022.	
Occupational Pension Schemes	• Comprises all occupational pension schemes that are regulated by Department for Work and Pensions (DWP).	• Approximately 40% must report in 2021.	• Approximately 70% by 2022 onwards.	• 85% must report by 2025.

***PRA:** Prudential Regulation Authority
****UCITS**: Undertakings for Collective Investment in Transferable Securities

Some banks, building societies and insurance companies are also listed commercial companies or large private, and may fall within the scope of the proposals of one or both of those categories. There is also likely to be some overlap in coverage between asset managers, life insurers, FCA-regulated pension schemes, and firms that will be covered by disclosure expectations either as listed issuers, or at the group level as insurance companies under the PRA's supervisory expectations.

What will TCFD disclosure involve?

The TCFD framework incorporates 11 recommended disclosure areas for companies across four pillars: (1) Governance; (2) Strategy; (3) Risk Management; and (4) Metrics and Targets. Each pillar has its own recommended disclosures; the Risk Management component of TCFD incorporates:

1. The organisation's processes for **identifying and assessing** climate-related risks.
2. The organisation's processes for **managing** climate-related risks.
3. The processes for **integrating** the identification, assessment, and management of climate-related risks into the organisation's overall risk management.

To report effectively, TCFD will require underlying risk management procedures to address emerging **physical** climate risks, (i.e. risks related to the impact on physical assets) and **transition** climate risks, (i.e. risks related to the transition to a lower-carbon economy encompassing both a company and its supply chain).

[2] Interim Report of the UK's Joint Government-Regulator TCFD Taskforce, HM Treasury, November 2020. https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcfd-taskforce-interim-report-and-roadmap

How do we build TCFD into our risk management and resilience frameworks?

Updating your risk register and risk management processes for TCFD should involve identifying, analysing, controlling, and monitoring through an enterprise risk management (ERM) framework. As with any emerging risk, it is critical to take a broad view with input to ensure that threats and opportunities are appropriately assessed, and consequences considered for your business model. Risk factors should then be consistently managed, monitored and reported, whilst also being incorporated into the company's resilience framework.

How does TCFD relate to Environmental, Social and Governance (ESG) reporting?

A strong TCFD disclosure and strategy speaks volumes about a company's commitment to thriving in a lower-carbon economy. Increasingly, investors and rating agencies are using ESG criteria to evaluate companies, drawing upon publicly accessible documentation, (e.g. annual report, website, and in due course TCFD disclosure). Companies are fast incorporating ESG factors into their business model because customers, consumers, employees, suppliers, and insurers[3] are judging organisations based on these credentials.

What are the insurance implications of TCFD and ESG?

Insurance can typically cover climate-related physical risks to assets today, (e.g. flood, subsidence, wind). However, this gives no certainty on the future physical risks at particular sites under different climate change scenarios. Marsh is increasingly providing both baseline (i.e. today) and climate-conditioned (i.e. under different warming scenarios) modelling to support such financial risk calculations. Other areas of risk, such as supply chain performance and management liability, will continue to evolve in discussion between clients, Marsh, and (re)insurers.

Whilst operationalising ESG and TCFD may be a complex exercise, they also provide an opportunity for companies to develop and begin working towards a sustainable future. Marsh is discussing with clients at various stages of this journey, and we stand ready to brief your business on TCFD and ESG, develop your corporate roadmap, incorporate climate risk into ERM and resilience frameworks, and establish and test your reporting mechanisms. Whether working towards the proposed deadlines or more urgent requirements of your stakeholders, we can support you in achieving this ambition and help you to drive maximum longer-term business benefit from it.

Should you have any further questions, please contact your local Marsh representative or:

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[3] In June 2020, we saw the release of the first ESG guide for the global insurance industry developed by the United Nations (UN) Environment Programme's Principles for Sustainable Insurance Initiative, "Managing environmental, social and governance risks in non-life insurance business." The intent of these principles is to provide a common aspiration and global framework for the insurance industry to manage ESG issues in respect to risk assessment and insurance underwriting.