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Disclosure: TCFD Publishes Report on Climate-Related Financial Disclosure

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Disclosure

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On October 13, the Task Force on Climate-Related Financial Disclosures (TCFD) published its **2022 Status Report**. The TCFD was established by the Financial Stability Board to give guidance on climate-related financial disclosure. The report marks five years since the TCFD published its final recommendations and it assesses progress made since then. The TCFD reviewed disclosure from over 1,400 companies across eight industries and five regions to assess the state of climate-related financial disclosure practices.

According to the report, the average number of recommended disclosures addressed per company has steadily increased each year for the past five years, from 1.4 in 2017 to 4.2 in 2021 fiscal year reporting. However, while 80% of companies disclosed in line with at least one of TCFD’s eleven recommended disclosure categories for fiscal year 2021, only 43% disclosed in line with at least five of the recommended categories. Certain geographical distinctions were evident, with 60% of European companies disclosing across the 11 recommended disclosures for 2021 whereas 29% of North American companies disclosed in all eleven areas. The report also revealed distinctions between industries. Companies in the energy industry boasted the highest average percentage of disclosure of the eight industries reviewed while the technology and media industry had the lowest average percentage of disclosure in 2021. The TCFD’s 11 recommended disclosures address a variety of topics including governance, strategy, risk management, metrics and targets.

Michael Bloomberg, Chair of the Task Force, stated that: “The 2022 TCFD Report underscores the increasing adoption of climate-related financial disclosures since the Task Force’s 2017 recommendations – as well as the urgent need for greater progress on this front and in the global fight against climate change. Climate risks are also financial risks, and more measurement and disclosure are crucial to building a more sustainable and resilient economy and a safer future.”

Taking the Temperature: The TCFD's report confirms that, in general, companies increasingly are reporting climate-related financial information, although the extent of disclosure varies across jurisdictions and industries. And the TCFD disclosure framework is one of the most influential reporting standards (if not the most) as numerous regulators and large institutional asset managers have coalesced around its recommendations as the appropriate basis for issuer disclosure. For instance, the SEC's proposed rule regarding climate change disclosure states that it intends to consider the TCFD recommendations in formulating the agency's final rule, and BlackRock, State Street and Vanguard each have urged issuers to make disclosure based on the TCFD framework. Nonetheless, well-intentioned issuers confront numerous challenges to making enhanced climate disclosure. For instance, there still is no consensus concerning the standards and metrics companies should use for measuring Scope 1, 2 or 3 greenhouse gas emissions; multi-national companies confront different materiality standards in the U.S. and Europe, with the latter having adopted the concept of "double materiality" whereby an issuer's external impact is deemed material even if not impactful on the issuer itself; it is often difficult to obtain information necessary to make accurate disclosure, especially if the information has to come from third parties; and more generally climate change is a dynamic situation and companies risk having to deviate from prior good faith disclosure of plans or correct past disclosure of historical information such as GhG emissions in light of real-time developments or improvements in GhG measurement. All of which counsels for thoughtful disclosure with an emphasis on current initiatives or impacts. These could include a board's ongoing efforts to assess risks and opportunities associated with climate transition or increase climate-related board expertise, or discussion of the financial impact of physical assets as a result of climate-related events. The basis for any predictions of future outcomes or disclosure of amounts of GhG emissions or emissions reductions needs to be carefully described along with the limitations on the accuracy of any such statements.