



JUNE 2020

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

CFA BRIEF



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HOW WE INVEST MATTERS

KEY MESSAGES

- **How we invest matters:** leading firms and organizations will invest in their ability to analyze and manage their exposure to climate risks and to seize climate-related investment opportunities.
- Risk management is essential for corporates and financial institutions, including critical longer-term risks such as climate change.
- The Task Force on Climate-Related Financial Disclosures (TCFD) provides a practical framework to implement climate risk management across an organization, from the Boardroom to the teams on the ground.
- By assessing, quantifying, and managing climate risks, organizations can improve their performance and be in a better position to disclose material information to investors.

Climate Finance Advisor's mission is to accelerate sustainable, climate-aligned investment to the benefit of society, the economy, and the global environment. Established in 2015 as a Benefit LLC, CFA is a women-owned consulting and advisory firm specializing in helping our clients develop climate finance strategies, appraise and structure climate-aligned investments, channel public and private capital to sustainable investment, and integrate climate considerations into investment decisions, financial products and services, and policies.

Established in 2015 by the G20 Financial Stability Board, the TCFD provides a framework for the management and disclosure of climate risk.

- In 2017, TCFD issued its guidance for voluntary disclosures by corporates and financial institutions on climate-related financial risks.
- TCFD outlines four areas of an organization where climate considerations should be integrated: (i) governance, (ii) strategy, (iii) risk management, and (iv) metrics and targets.
- TCFD recommends firms employ scenario analysis as a tool to evaluate the resilience of their business strategy to the impacts of a changing climate (physical risk) and to policy and financial market responses to climate change (transition risk).
- Whether or not an organization is required to disclose, TCFD's voluntary framework is a clear **roadmap for organizations to identify, assess, and manage climate risk** in terms that are relevant for investment decision-making, improving performance, and increasing long-term sustainability.

“Climate change has become a defining factor in companies’ long-term prospects. [...] Climate risk is investment risk. Indeed, climate change is invariably the top issue that clients around the world raise.”

Larry Fink, Chairman and CEO, Blackrock, 2020
Letter to CEOs (January 2020)



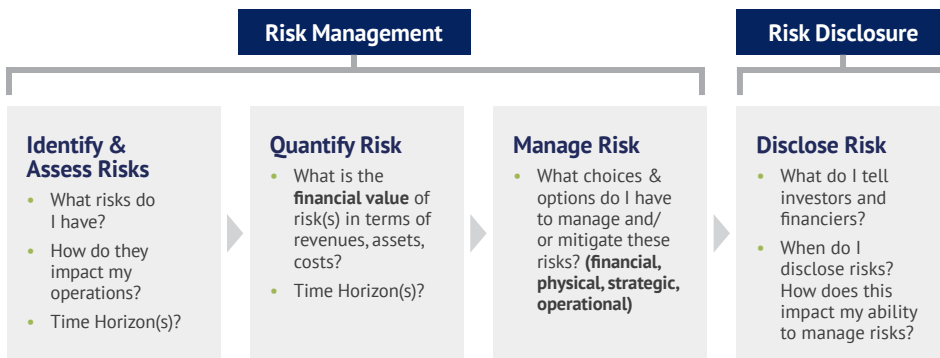
Task Force on Climate-Related Financial Disclosures

FIGURE 1.

The Four Core Elements of TCFD Recommendations

Organizations are aware that how they invest matters: with climate change come growing business risks and opportunities. TCFD recommendations provide corporates and financial institutions a roadmap for developing a climate-compatible strategy.

- While TCFD is a disclosure framework, it is particularly relevant as a roadmap for organizations to undertake proper climate-risk management.
- After all, disclosure is nearly impossible without an organization having well-thought-through processes to identify, assess, and (ideally) quantify climate-related risks.



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“[We must] ensure that every financial decision takes climate into account.”

Mark Carney, United Nations Special Envoy for Climate Action and Finance, UK Prime Minister's Finance Advisor for COP 26, at the 2020 Petersberg Climate Dialogue

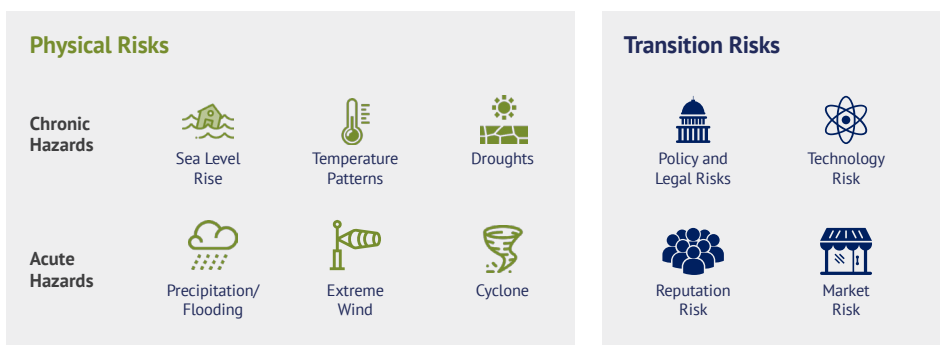
FIGURE 2.

Common Climate-related Questions in Risk Management and Disclosure

Mainstreaming climate considerations across business operations should be part of an organization's approach to sustainability. Managing climate risk and capturing climate-aligned opportunities can provide valuable inputs to overall strategy, whether to increase resilience or grow low-carbon investments.

- New tools, approaches, and skills will be needed for decision-makers to integrate climate more wholly and consistently across their organizations. Using the TCFD framework will help.
- A better understanding of an organization's operating environment, including through the application of climate scenarios, can strengthen corporate strategy and help firms forecast how climate impacts (both physical and transition) will affect performance.

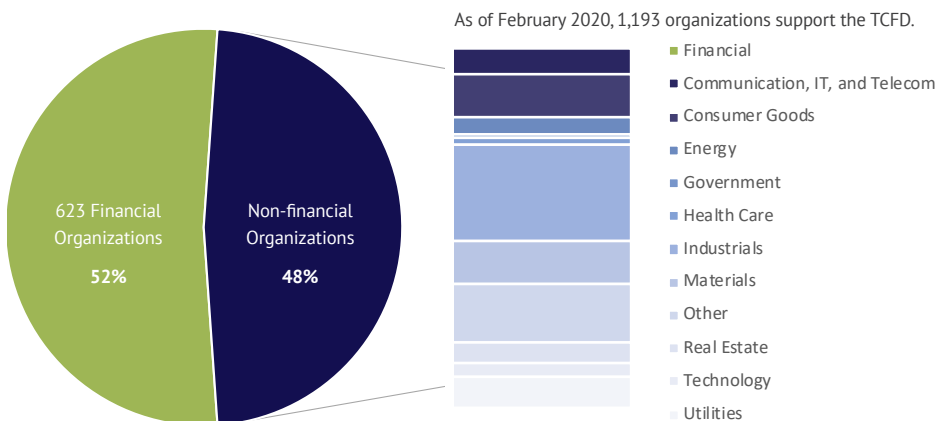
The widespread adoption of TCFD's recommendations will provide information to financial markets that will improve efficiency and help smooth the transition to climate-compatible capital allocation.



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FIGURE 3.

Climate-Related Physical and Transition Risks According to TCFD Framework



Climate Finance Advisors, based on TCFD Data

FIGURE 4.

TCFD Supporters Come from Various Sectors

More than 1,100 organizations support the TCFD framework, and several are beginning to use it for their internal climate-risk assessments. Other TCFD-related reporting and disclosure developments in recent years have included:

- As of 2020, signatories to the **Principles for Responsible Investment** will be required to publish a TCFD disclosure in order to remain a member.
- The **EU Non-Financial Reporting Directive (NFRD)** incorporates the TCFD framework in its guidelines on reporting climate-related information.
- Since April 2019, **Network for Greening the Financial System** members have pledged their support for the TCFD recommendations.

“Risk is risk. Addressing climate risk not only increases a firm’s strategic advantage, but will also unlock numerous opportunities for long-term, sustainable growth.”

Stacy Swann, CEO, Climate Finance Advisors, Benefit LLC

CFA’s TCFD Work. We bring our practitioner’s experience to help our clients better manage climate risks, pursue climate-related opportunities, and create resilient organizational strategies.

- **Benchmarking and Gap Analysis:** CFA can provide you with a comprehensive assessment against the TCFD’s framework of where and how climate considerations can be integrated into your organization’s governance, strategy, risk management, and metrics and targets.
- **Strategy:** CFA’s experts can help develop or refine your firm’s comprehensive climate strategy to both manage climate risks and capture climate-aligned opportunities.
- **Mainstreaming and Operationalizing Climate Risk Management Practices:** CFA can help you implement efficient and effective business and investment process enhancements that integrate climate considerations at the operational level.
- **Disclosure and Sustainability Reporting:** CFA can support the preparation of your organization’s TCFD or climate-related sustainability reporting.

For more information on CFA’s services, please contact CFA’s Chief Operating Officer Christina Stanton christina@climate-fa.com.