



WHAT YOU NEED TO KNOW ABOUT TCFD

On June 28, 2017, the **Task Force on Climate Related Financial Disclosures (TCFD)** launched a [set of recommendations](#) providing a framework for voluntary climate-related financial disclosures by businesses and investors. The recommendations were supported by the CEOs of 100 leading companies with combined market caps of more than US\$3.5 trillion and financial institutions with more than US\$25 trillion assets under management. Mark Carney, speaking as Chair of the Financial Stability Board (FSB), explained that the TCFD recommendations were built “for the market by the market.”



TCFD | TASK FORCE ON CLIMATE-RELATED
FINANCIAL DISCLOSURES

What is the TCFD?

In the wake of the 2007-2008 financial crisis, the G20 embarked on a set of ongoing reforms to build a financial system that is simpler, safer, and fairer for strong, stable, and sustainable growth. These reforms included a request that the FSB establish an industry-led task force to develop consistent and effective financial disclosures especially focused on climate risk to be included in the mainstream financial filings of organisations across sectors and regions.

Learn more: [TCFD's website](#) | [TCFD's overview video](#)

Why Climate-Related Financial Disclosures?

Climate change is a systemic threat to the foundations of continued growth and, as such, it is also a principal business risk. The physical impacts of climate change (such as rising sea levels), and the relevant policy responses (such as cap and trade systems) affect the long-term value of assets and future income streams. Valuations that do not take these two considerations into account risk a severe shock to the global financial system when the actual financial impacts become apparent.

Considering the Paris Agreement and the common aim of keeping a global temperature increase well below 2°C, the path forward is expected to include a shift toward a low-carbon economy. To protect the global financial system from severe shocks during this transition, the impact of climate change should be incorporated into financial decision-making allowing for the proper pricing of related risks as well as the identification of future opportunities worth approximately US\$1 trillion per year.¹

The disclosures recommended by the TCFD will help minimise uncertainty and support better informed investment, lending, and insurance underwriting decisions that factor in the full extent of climate risks. Essentially climate-related disclosures aim to provide for the proper valuation of companies reflecting probability and risk, and allocate capital to those areas of future opportunity.

¹ International Energy Agency, *World Energy Outlook Special Briefing for COP21*, 2015.

What are the core elements of the recommendations?

The recommendations are structured around four areas – Governance, Strategy, Risk Management, and Metrics and Targets – each with a set of key climate-related financial disclosures.

Of particular interest is the TCFD’s emphasis on adopting forward-looking scenario analysis for stress testing organisational resilience in the face of climate risk.

Recommendations and Supporting Recommended Disclosures

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

Source: Task Force for Climate Related Financial Disclosures, *Recommendations of the Task Force on Climate Related Financial Disclosures*, 2017, p. 14.

An Opportunity for Hong Kong

The TCFD recommendations signal a transformation in the market understanding of climate-related risks and opportunities. Considering Hong Kong’s position as a regional and global financial hub, the recommendations provide an opportunity to enhance competitiveness, attract ‘green’ capital, and improve market positioning in the transition to a low-carbon future.

For corporations, the TCFD recommendations promote a long-term, strategic approach to managing and mitigating climate risks. The focus on climate resilience encourages business to set forward-looking targets, and adopt the appropriate governance structures to oversee progress towards these goals. The benefits of measuring and communicating the financial implications of climate-related actions and strategies include:



Attracting Investment



Identifying opportunities for innovation in low-carbon products and services



Greater resilience in the face of uncertainty arising from climate risks



Improved reputation as an organisation that is contributing to the transition to a low-carbon economy

What is BEC doing?

- BEC provided feedback on the draft of the TCFD recommendations initially released in December 2016. Read it [here](#).
- BEC is organising workshops and training on climate risk assessments and the risk management, including the TCFD approach. Please see BEC's [Events](#) and [Institute of Environmental Education](#) schedules.
- With BEC's launch of its [Low Carbon Hong Kong: Supporting Business to Set Targets](#) report, BEC's Climate Change Business Forum (BEC CCBF) is supporting members in the development of strategies and long-term targets consistent with a maximum 2°C temperature rise. This will be through sectoral working groups focused on transport, and property and construction, which are due to begin work in October 2017, as well as BEC CCBF AG. For details, please contact maya@bec.org.hk or jonathanho@bec.org.hk
- BEC assists organisations in the calculation of carbon emissions arising from their operations and activities in accordance with internationally recognised standards. For details, please contact alan@bec.org.hk.
- BEC advises listed companies on ESG-related investor engagements to facilitate dialogue on environmental, social and governance matters; better meet shareholder expectations; and improve the management of ESG risks to support sustainable long-term value creation at your organisation. For details, please contact nadira@bec.org.hk or albee@bec.org.hk.



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Learn more about
BEC's work



Click [here](#) for BEC's submission to TCFD



Click [here](#) for BEC's Low Carbon HK Report

About Business Environment Council Limited 商界環保協會有限公司

Business Environment Council Limited ("BEC") is an independent, charitable membership organisation, established by the business sector in Hong Kong. Since its establishment in 1992, BEC has been at the forefront of promoting environmental excellence by advocating the uptake of clean technologies and practices which reduce waste, conserve resources, prevent pollution and improve corporate environmental and social responsibility. BEC offers sustainable solutions and professional services covering advisory, research, assessment, training and award programs for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy.

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