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# TCFD REPORTING

## Climate Scenario Analysis

Toffler Associates helps clients comply with TCFD by tailoring our climate scenario analysis to identify your company's unique climate-related risks, opportunities, and actions. This fact sheet and our case study explain how.

**Contact us to discuss how our climate scenario analysis can help you navigate climate uncertainty.**

## What is TCFD?

The Financial Stability Board, (FSB) an international organization, established the Task Force on Climate-related Financial Disclosures (TCFD) as a way for companies to consistently communicate their climate-driven financial risks and opportunities.

**The TCFD framework includes four disclosure areas:**

- governance
- risk management
- strategy
- metrics and targets

## Why should my company report on climate-related risks and opportunities?

Climate change is disruptive to business. Whether it's physical changes or transition changes related to regulation, market shifts, or consumer attitudes, these disruptions create risks and opportunities. Applying the TCFD framework, which includes scenario analysis, is valuable for any organization faced with these likely external disruptions.

## What information does TCFD require companies to disclose?

Companies report on the four disclosure areas by analyzing and quantifying their climate-related Physical Risks, Transition Risks, and Opportunities.

### PHYSICAL RISKS

Actual and potential impacts of acute extreme weather events or chronic changes to climate patterns as the result of rising global temperatures.

*Physical Risks include*

- Greater frequency and severity of extreme weather events
- Rising sea levels
- Shifts in precipitation location, volume, or seasonal patterns
- Increased mean temperatures and severe heat

### TRANSITION RISKS

Actual and potential impacts on an organization’s market, technology, policies, and reputation from the transition to a low-carbon economy.

*Transition Risks include*

- Shifting customer needs and behaviors
- Investment in technology to lower emissions
- Increased regulation or pricing of greenhouse gas (GHG) emissions
- Increased stakeholder demands and negative brand perception

### OPPORTUNITIES

Potential positive impacts as markets and needs shift in the transition to a low-carbon economy.

*Opportunities include*

- Lower resource consumption in production and distribution
- Participation in carbon markets
- New product or service opportunities from changes in consumer behaviors
- Greater energy or operational resiliency

## Who wants to know about a company's climate-related risks and opportunities?

Shareholders, institutional investors, creditors, underwriters, and even customers express interest in these disclosures. Increasingly, policymakers, and community leaders compel organizations to quantify risks and opportunities and articulate their climate change plans and policies. With extreme weather events increasing in frequency and severity, understanding the impact of climate-related physical risks, transition risks, and opportunities amounts to good business.

## What is the state of climate-related financial reporting for U.S. companies?

We are in a state of transition, with mandatory reporting on the horizon for certain types of U.S. entities. The **forces** and **anti-forces** we see at play include:

**TCFD reporting continues to grow.** Since FSB released the TCFD framework in 2017, the percentage of companies reporting on their climate-related risk has grown each year, with 29% of North American companies reporting, if not fully adopting, TCFD metrics.

**California now mandates disclosures for certain large companies.** California adopted two laws for U.S. companies doing business in the state. Companies with revenue over $500M must disclose their climate-related financial risks and risk-reducing measures starting in 2025. Companies with annual revenue over $1B must disclose Scope 1 and 2 financial risks in 2026 and Scope 3 financial risks in 2027.

**Disclosure for public U.S. companies seems imminent.** The SEC's proposed rule requiring publicly-traded U.S. companies to report on GHG emissions and material climate risks provoked intense debate when introduced in March 2022. However, a final rule is expected in Fall 2023, following the SEC's review of over 5,000 unique comments for and against the requirements.

**Globally, companies are increasingly reporting their climate-related financial risks.** The EU and the UK have made reporting mandatory for certain entities. In Asia, reporting for certain public companies is mandatory in Japan, India, and Singapore.

**Institutional investor demands for reporting have quieted.** Pressure on U.S. companies to provide climate-related financial disclosures initially came from institutional investors. Political forces have subdued the voices of the more outspoken institutional investors.

**Some states have restricted ESG reporting.** In response to those same political forces that quieted institutional investors, states including Kentucky, Florida, Utah, and Montana restricted investment strategies that consider environmental, social, and governance (ESG) impacts over maximizing investment returns.

## WHAT ACTIONS, POLICIES, AND TARGETS HELP MY COMPANY PREPARE FOR CLIMATE-RELATED UNCERTAINTY?

We build upon our 25+ years of scenario analysis experience to customize scenarios that allow companies to identify climate related risks and opportunities unique to their business.

**DEFINE**
The climate-related scenarios most applicable to your company

**EXPLORE**
The scenarios to understand the interactions across risk categories

**IDENTIFY**
The potential physical and transition risks, along with opportunities, in each scenario

**ASSESS**
The impacts of the risks and opportunities to the company

**DEVELOP**
An integrated strategy to mitigate risks and capitalize on opportunities

**DISCLOSE**
Risks and opportunities to quantify financial impacts

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### Contact us to discuss how our climate scenario analysis can help you navigate climate uncertainty.

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Schedule a Meeting