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TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD): AN OVERVIEW 2022

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INTRODUCTION:

The Task Force on Climate-Related Financial Disclosures (TCFD) was founded in December 2015 with the objective of creating a set of voluntary disclosures for financial risks associated with climate change. The adoption of these disclosures by businesses would be ideal as it would assist as well as educate investors and other members of the public about the risks associated with climate change.

In 2017, Michael Bloomberg, the then chairperson of TCFD, started advising businesses on how to disclose important data about financial risks associated with climate change.

The goal of the industry-led TCFD is to identify and disclose climate-related risks and opportunities in order to encourage better informed credit, insurance, and investment underwriting decisions. The proposals take into account the demands from existing frameworks for reporting on climate change that are both voluntary and required (including CDP, CDSB, GRI, IIRC, and SASB).

The organization was founded by the Financial Stability Board (FSB) to support disclosure cooperation among enterprises impacted by climate change. According to the organization's website, the disclosure suggestions are grouped under four headings that stand for important facets of how firms operate: governance, strategy, risk management, and measures and targets.

INDIA'S ADOPTION OF TCFD

India does poorly in terms of TCFD adoption, even though two-thirds of G20 nations (including France, Japan, Australia, Canada, and the EU) have started the process explicitly or informally. Despite being required to publish business responsibility reports (which only cover a small portion of TCFDs) for the top 1000 listed organizations in India, the Securities and Exchange Board of India (SEBI) does not incentivize businesses to go above and beyond this minimal need by proactively sharing information in accordance with other standards including CDP, GRI, DJSI, and IR.

A MARKET-LEADING STANDARD FOR CLIMATE-RELATED DISCLOSURE

The TCFD has been a market-leading standard for climate-related disclosure since its establishment. These suggestions have been accepted by numerous nations and governing organizations to encourage business adoption and action. Additional advice and suggestions for financial institutions, including asset managers and owners, were released by the TCFD in 2021. As implementation of the ISSB is facilitated by G20 authorities, more governments may make TCFD disclosures a requirement (The International Sustainability Standards Board). At COP26, the ISSB was established with the goal of creating globally comparable sustainability data for the capital markets.

The goal of these climate disclosures is for businesses to explain to investors how climate capabilities have been incorporated into business strategy in order to drive climate action, even though companies may look at understanding the impact of the climate on their business in order to meet regulatory requirements. The financial risk of climate change can affect a company's income, expenses, assets, liabilities, capital, financing, and, ultimately, value. Therefore, there is a chance to strategically employ climate analysis to identify the dangers and opportunities that climate change could provide for their company and how the company should respond to them.

THE FOUR PILLARS OF TCFD

TCFD is made up of 11 recommended disclosures divided into 4 pillars. The 4 pillars are:



Beyond these core recommended disclosures, in 2021 the TCFD published additional sectoral supplemental guidance for banks, insurance companies, asset owners, asset managers and nonfinancial groups.

AS A METRICS FOR ESG

The TCFD is specifically created to address climate risks, fitting neatly into the category "E" of ESG reporting. However, the S of Social and the G of Governance are mentioned in this paradigm.

The four disclosure pillars of the Task Force expressly call for governance to be seen in the context of climate threats and opportunities. TCFD is essentially concentrating on how governance connects to and directs organizations' approaches to the "environment" part of TCFD. Although TCFD is largely silent on social aspects of ESG reporting, the reporting guidelines allow for some flexibility in how disclosures are phrased, so businesses may opt to disclose issues like operational resiliency or climate justice if they so want.

Increasing transparency makes markets more efficient and economies more stable and resilient.

- Michael R. Bloomberg.

CONCLUSION

The Task Force is encouraged by companies' advancements in disclosing financial data related to climate change in a way that is consistent with the TCFD recommendations and by regulators' and standard-setters' support in using the recommendations as a foundation for developing laws, regulations, and standards on financial disclosure related to climate change. Due to their emphasis on financial materiality and support from some of the biggest investors in the world, SASB and TCFD will continue to be priority reporting frameworks. Furthermore, it anticipates that the increasing regulatory pressure will accelerate the implementation of TCFD, particularly in the UK and Europe. Therefore, businesses can use the guidelines with confidence in their sustainable reporting. It's crucial to keep in mind that ESG reporting is a process, and investors will recognise and bring value changes.





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