

ACCA response to the public consultation of the Task Force on Climate-related Financial Disclosure

This document summarizes the key questions of the online questionnaire responded to by ACCA as part of the Task Force Recommendations Report public consultation.

How useful are the Task Force's recommendations and guidance for all sectors in preparing disclosures about the potential financial impacts of climate-related risks and opportunities?

Quite Useful (rating 4 out of 5)

Comment:

The Task Force recommendations are useful and the 4 areas of governance, strategy, risk management and metrics and targets provide a practical framework for disclosure.

It is important to note that companies are likely to be at different stages in their readiness to report on the different elements of climate related financial risk identified (depending on factors including the sector in which they operate and the degree and to which climate related issues are integrated into company strategy). In many cases they will be using existing frameworks for understanding and reporting on environmental matters.

It is commendable that the Task Force recommend disclosure of the materiality process undertaken. This will enable investors to better understand why a company has chosen a particular course of action related to the 4 areas.

It could be useful to provide more guidance related to materiality assessment for highlighting climate related financial risk. This could be achieved, for example, by referring to the <IR> Framework as an existing model for disclosure. Other frameworks include the CDP the GRI, which are already used by companies for understanding environmental impacts, and could also be referred to more explicitly. Further, given that the ultimate aim is for information on material climate-related financial impacts to be included in mainstream financial filings, and recognising that the TCFD's recommendations are driven by demand from financial market participants, we would encourage the TCFD exchange views with the IASB on the matter of materiality for the purposes of the financial statements.

The Task Force recommends organizations describe how their strategies are likely to perform under various climate-related scenarios, including a 2°C scenario (see page 16 of the TCFD report). How useful is a description of potential performance across a range of scenarios to understanding climate-related impacts on an organization's businesses, strategy, and financial planning?

Quite Useful (rating 4 out of 5)

Comment:

Climate related scenario analysis will be a very useful tool and we welcome the clarity and detail of the Technical Supplement on the use of scenario analysis. In our view, it is particularly important to encourage preparers to disclose key inputs, assumptions, analytical methods, outputs and potential management responses.

To better illustrate the relevance of climate-related risks to financial reporting, we would recommend the TCFD to make reference to approaches to accounting for risk and uncertainty under current international financial reporting standards – including IFRS 9 *Financial Instruments*, IFRS 13 *Fair Value Measurement*, IAS 37 *Provisions and Contingent Liabilities* and IAS 36 *Impairment of Assets*.

Mainstreaming climate related risk will be greatly helped with 2 degree scenario analysis and should allow companies to proactively assess and manage their impacts. As mainstreaming consistent approaches to scenario analysis of climate related financial risk will take time and vary from sector to sector, further research and engagement will be required to support building this capacity. For example, these could be related to professional training, adapting existing enterprise risk management systems and the challenges related to specific sectors, will enable the delivery of effective, decision-useful disclosure that is both qualitative and quantitative.

Metrics and Targets

Q10a The Task Force is recommending that organizations disclose the metrics they use to assess climate-related risks and opportunities in line with their strategy and risk management process. For certain sectors, the report provides some illustrative examples of metrics to help organizations consider the types of metrics they might want to consider. How useful are the illustrative examples of metrics and targets?

Quite useful (4 out of 5)

Metrics must be useful and provide the best degree of information, consistency and comparability and avoid duplication.

The illustrative examples are useful. The recommendations could provide more detailed 'roadmap' information, as is already produced by CDP, to assist companies at different stages of the disclosure journey.

Q19 What additional feedback you would like to provide the Task Force on the recommendations?

The recommendations provide details of existing frameworks and the references to specific disclosure areas.

Stronger links to the <IR> Framework will assist companies to see this not as a mere disclosure exercise but an opportunity to align their own strategic objectives and footprints and avoid over-reporting of immaterial issues.

Climate related financial risk is a challenging topic. Professional accountants are well placed to support companies in its effective management and reporting. But in order for it to become truly embedded in the skills set of professional accountants, further learning, development and training will be key.

Professional accountancy bodies, such as ACCA, can play a significant role in preparing the accountants for working on this challenge. ACCA's 2016 report, 'Professional accountants - the future', an in-depth study with leaders in the profession across all sectors in 19 countries, identified key drivers of change impacting the sector and corresponding future skills quotients required to address these drivers. The recognition of issues and challenges of reporting on emerging risks was a recurring theme of the report's findings. Coordination with professional bodies and other similar institutions can provide a means to further embed new disciplines into mainstream skills of professional accountants with ongoing learning and professional development.

The global, transnational nature of the challenges addressed by the Task Force recommendations, combined with the scale of climate related risk exposure for companies operating in emerging and developing countries will require broader, ongoing engagement. As a professional accountancy body 188,000 members and 480,000 students in 178 countries, ACCA's global reach, can provide a means to deepen the engagement and reach of the Task Force's recommendations with this key stakeholder group around the world.