Climate-Related Financial Disclosure in Supporting SDGs

Shami Syauqina Balqis Noor Shahidan[1], Nur Ashikin Mohd Saat[2]*

[1,2]*Department of Accounting and Finance, School of Business and Economics, Universiti Putra Malaysia*

**Corresponding Author*

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Abstract: - This paper focused on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) on the key information that must be disclosed in the climate-related financial report in order for the report to be useful and the organization's environmental, social, and economic impacts to be appropriately governed. To support and implement the United Nations 2030 Sustainable Development Goals (SDGs) Agenda, the TCFD listed governance, strategy, risk management, and metrics and targets as the primary topics that must be presented in the climate-related financial report. Various TCFDs, United Nations and significant research on SDGs, sustainable reporting, and climate-related financial disclosures were referenced to critically review the TCFD's recommendations, as well as the benefits and implementation issues of the recommendations. It was decided that the TCFD's guidelines are vital and useful for monitoring organisations' climate-related operations. The TCFD recommendations guidelines must be tightened to avoid the dangers of information inaccuracies and needless lawsuits; only then can the proposal to adopt it as reporting rules benefit diverse impacted parties.

Keywords: Task Force Climate-related Financial Disclosure (TCFD), Sustainability Development Goals (SDGs), Strategy, Governance, Risk Management.

I. Introduction

In 2015, the United Nations General Assembly voted to establish 17 Sustainable Development Goals (SDGs), which serve as a worldwide call to action to eliminate poverty, promote peace and prosperity, combat climate change, and safeguard the environment by 2030 (United Nations, 2015). These 17 objectives are interconnected, which means that when one area changes, it affects other areas as well.

From the standpoint of corporate reporting and accountability, one of the few things that can be done to promote the SDGs is for organizations to publish their sustainability reports (Tsalis et. al, 2020). According to Greer (2017), there is no standardized definition of sustainability reporting since there are several frameworks that might aid organizations in assessing and reporting their Environmental, Social, and Governance (ESG) concerns in corporate reporting. These frameworks will assist companies in communicating to the public their methods for building long-term value and the company's success. It also serves as a tool for organizations to analyze and report on their contribution and effect toward attaining the SDGs.

The Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) to produce guidelines on how to prepare climate-related financial disclosure in order to help organizations better understand their climate-related risks (TCFD, 2022(a)). Governance, strategy, risk management, and metrics and targets are the four suggestions that TCFD has released to help prepare this disclosure. By putting these suggestions into practice, organizations may better align non-financial risks with well-established enterprises and engage in activities that serve the SDGs (Silva & Figueiredo, 2020).

TCFD's recommendations are forward-looking since its goals are to help the financial sector understand how climate-related problems and opportunities may influence an organization's projected cash flow, assets, and liabilities (Greer, 2017; Popescu et. al, 2021). Implementing TCFD guidelines yields essential information that helps the financial industry to analyze firm risk profiles and make successful capital allocation choices. These suggestions have also been prepared for companies of all sizes, investors, assurance providers, and national governments, since they will help them make better analyses and choices (TCFD, 2022(b)).

II. Critical Practice and Empirical Insights

2.1 Four Recommendations from TCFD to Prepare Climate-Related Financial Disclosure

The Task Force has prepared four recommendations that may be implemented by all organizations from all industries to help them in creating a quality climate-related financial report (Recommendations of the Task Force on Climate-related Financial Disclosures, 2017). The key principles of how businesses work have been utilized to construct these guidelines to enable more effective disclosure.

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The first recommendation concerns **governance.** Organizations must declare their governance on climate-related risks and opportunities (TCFD: 4 key points from the recommendations, 2020). The board's supervision of climate-related risks and opportunities, as well as management's participation in analyzing and managing the risks and possibilities, are examples of governance that might be revealed in climate-related financial disclosure (Recommendations of the Task Force on Climate-related Financial Disclosures, 2017).

The second recommendation is a **strategy**. Organizations must disclose relevant information on climate-related risks and opportunities that influence or may affect their company, as well as the resilience of the organization's strategy for dealing with such risks and opportunities and the implications for financial planning (TCFD: 4 key points from the recommendations, 2020). Organizations must disclose the risks and opportunities they have uncovered, the impact on their company, strategy, and financial planning, as well as the resilience of their strategy under various climate scenarios (Recommendations of the Task Force on Climate-related Financial Disclosures, 2017).

The third recommendation is **risk management**. Organizations are required to describe how they identify, evaluate, and control climate-related risks (TCFD: 4 key points from the recommendations, 2020). It is advised that organizations disclose their procedures for identifying and managing climate-related risks as well as their procedures for integrating such procedures into their overall risk management (Recommendations of the Task Force on Climate-related Financial Disclosures, 2017).

The final recommendation is to use **metrics and targets.** The measurements disclosed will be used to analyze the relevant climate-related risks and opportunities (TCFD: 4 key points from the recommendations, 2020). Examples of disclosure include a corporation revealing metrics used to analyze risks and opportunities that are aligned with its strategy and management approach. Organizations should calculate their GHG emissions using the GHG Protocol methodology and publish their Scope 1 and Scope 2 GHG emissions, as well as Scope 3 if necessary. They should also publish their defined objectives for managing climate-related risks and opportunities, as well as their actual performance, in the disclosure (Recommendations of the Task Force on Climate-related Financial Disclosures, 2017).

2.2 Advantages in Adopting TCFD

Strategic planning

When a company implements TCFD, it may reap several benefits. The first benefit of using TCFD is that organizations may establish better strategic planning. TCFD will assist organizations in identifying climate-related risks and their exposure in the short, medium, and long term on the company, suppliers, and rivals. (Task Force on Climate-Related Financial Disclosures, 2022 (b)). This disclosure will also emphasize the link between non-financial and financial information, allowing firms to create a more comprehensive approach to improve corporate performance (The benefits of Sustainability Reporting to organizations, 2019). Organizations that use TCFD will be able to make more informed decisions about when and where to invest their money (Eccles & Krzus, 2019; Task Force on Climate-Related Financial Disclosures, 2022 (b)).

Reputation

The second benefit is that using TCFD will help the organization's reputation. Businesses, investors, and consumers will have more confidence and trust in the organization if it provides climate-related financial disclosure based on TCFD since it can encourage more openness from a climate-related standpoint (Heuer, 2017). Increasing transparency here will help the general public understand the organization's commitment to sustainability (Frost, 2019; David & Giordano-Spring, 2022). The corporation will have a better reputation in the public's eyes by demonstrating that it is serious about resolving this problem. When businesses disclose information relating to climate change, they are more likely to earn sustainability accreditations and certifications, which will improve their reputation. This will provide investors an understanding of the organization's fundamental worth and tangible and intangible assets (The benefits of Sustainability Reporting to organizations, 2019).

Cost savings

The third benefit is cost savings. When organizations disclose their sustainability initiatives, they will be able to clearly identify the cost savings and prospective cost savings that the activities cause, allowing them to plan to lower their costs even more (Frost, 2019). When a business identifies costs that may be cut further, it increases its efficiency in utilizing its resources, resulting in a rise in the momentum of sustainability and external brand effect (The Business Benefits of Sustainability Reporting in Singapore, 2013). The preparation of climate-related financial disclosure will aid in the reduction of borrowing costs (Edwards et al., 2020). For example, these days, investors are requesting greater charges from municipalities that are more exposed to climate-related hazards because they think it is fair to them because they are the ones who are assuming the risks (Edwards et al., 2020).

Employee's morale

The last benefit is that TCFD adoption will boost staff morale. People like employees will feel significant in the business since they can see their efforts are having a real impact on the outcomes after viewing the published climate-related report, which will also be read by internal users (Frost, 2019). The fact that their company cares about the environment and the community and is taking meaningful effort to address it will give employees a sense of pride as well (The benefits of Sustainability Reporting to organizations, 2019). Additionally, because employees feel pleased to work for their company, retention rates will increase. In 2013, EY consultants and the Boston College Center for Corporate Citizenship conducted a study poll and discovered that there was a 30% rise in reporting that witnessed an increase in employee loyalty as a result of the publication of the climate-related financial disclosure (The benefits of Sustainability Reporting to organizations, 2019).

2.3 Challenges when Adopting TCFD

Legal risk

Aside from the benefits that organizations will get from implementing TCFD, there will be a few hurdles that they will confront. The first barrier in implementing TCFD is legal risk. According to a law firm, the more information an organization discloses to the public, the more likely it may face legal action, especially if the information published contained a mistake or substantial misrepresentation that caused someone to lose money (Eccles & Krzus, 2017). Some legal counsel has also expressed worry that scenario analysis may be seen as a forecast, which could lead to lawsuit if the information presented is proven erroneous. Nonetheless, fear of legal action should not be the primary reason why organizations choose not to report climate-related hazards (Eccles & Krzus, 2017).

Different users' needs

The second problem with TCFD is that meeting the demands of various target audiences at the same time will be more challenging. Providing TCFD requires organizations to work harder to provide the right information for the right user because they have varying expectations, as opposed to a traditional financial report where the target audience the organisation must provide information to is investors (A Practitioner's View of Sustainability Reporting: Challenges and Solutions, 2018). Organizations must devise methods to separate the information that audiences will get in order to guarantee that they receive the correct information and interpret it correctly. Organizations, for example, should make it easy for users to know which parts of the report they need to pay attention to based on the user's category, such as investors and workers (A Practitioner's View of Sustainability Reporting: Challenges and Solutions, 2018).

Four TCFD Recommendations (Governance, Strategy, Risk Management, Metrics and Targets) Implementation Issues

The third concern is one that the organization encounters when implementing the TCFD's four recommendations (TCFD recommendations – implementation status and a roadmap for decision makers, 2020). Because climate is deeply embedded in organizational systems, addressing it independently in governance disclosures is tricky. Second, because scenario analysis assumptions contain sensitive organizational facts, disclosing them in strategy is complicated. Next, because climate change is a component of the risk assessment process in risk management, it is unnecessary to disclose the information separately. Finally, it has been established that standardized measures are still insufficient in several businesses (TCFD recommendations – implementation status and a roadmap for decision makers, 2020).

III. Conclusion

The Task Force on Climate-related Financial Disclosure has made critical suggestions on governance, strategy, risk management, and metrics and targets to hold organizations accountable for their environmental, social, and economic impacts. Among the benefits to the organizations of implementing TCFD recommendations include improved strategic planning, improved reputation, cost savings, and increased staff morale. However, if these guidelines are not followed properly, the organizations may be sued, it may be more difficult to meet the demands of many target audiences at the same time, and misrepresentation and inadequacy of information may lead to incorrect decision making by various vested parties.

As we strive to accomplish the SDGs by 2030, it is clear that developing TCFD is critical to ensuring the organization's sustainability and resilience. When organizations prepare this climate-related disclosure, they may recognize, adapt to, and mitigate climate-related challenges, which will help them perform better in the future (TCFD: 4 key points from the recommendations, 2020). It will also promote awareness among investors and the general public to make better adjustments that will contribute to the achievement of the SDGs. Thus, while many organizations have begun to give climate-related financial disclosure voluntarily, it is

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past time to make TCFD disclosure a mandatory report that organizations must create in order to deliver a better quality and comprehensive report to society.

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