



How are companies adopting the TCFD?

Starting the climate-related reporting journey can be daunting. Companies might find themselves questioning what kind of information they need to collect, which standards to follow and how to kickstart the process.

In Malaysia, several companies have already begun to report according to the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD). Among these include Sunway Group Bhd, which is among the first few Malaysian companies to support the TCFD; CIMB Bank Bhd, which joined the TCFD Banking Pilot (phase II); and Sarawak Energy Bhd.

The TCFD was formed by the Financial Stability Board in 2015 to develop consistent climate-related financial risk disclosures.

All three companies are in vastly different industries. But one thing in common is that these companies are using this climate reporting opportunity to also assess climate-related risks to their own businesses.

"For CIMB, TCFD is not so much about disclosure but more about starting to assess climate-related risks at an overall portfolio level. We joined the Banking Pilot because we needed to quickly upskill ourselves and learn how to model our risks," a CIMB spokesperson tells *Capital Markets Malaysia* in an email interview.

"Joining the pilot group is useful because it gives us access to climate experts and a structured way to learn about all the different elements, models, tools and data sources. By working with the experts and other banks, we get to learn together while creating tools and methodologies for the industry."

A similar point is echoed by Ong Pang Yen, executive director of the chairman's office at Sunway Group.

"The TCFD is a tool designed to help businesses evaluate the adverse impact of climate change to its business, as well as the continuing viability and sustainability of the business. Adopting the TCFD is one of the ways that we can help ourselves understand and prepare better for climate change risks," says Ong via an email interview.

The TCFD, which encourages companies to report according to the four main pillars of governance, strategy, risk management and metrics and targets, also encourages companies to conduct a scenario analysis. This entails studying how a company's assets and operations may be affected if global temperatures rise by 2-degrees Celsius.

Studying this information can inform a company's risk management strategies.

"Sunway subscribes to such an approach in terms of risk management, as we assess the Value at Risk arising from climate change. It is always good to be well prepared for any potential risks," says Ong.

Disclosure, he adds, is not the end goal and companies should not stop there. "It is a means to an end, and that end is to help businesses prepare well to stay relevant, viable and sustainable in the face of all the inevitable challenges and change in circumstances that might be coming our way."

Why should companies follow the TCFD?

Conducting climate-related reporting through standards like those by the TCFD could help Malaysian companies have a framework or guideline to assess their climate-related risks and opportunities. This is critical, given that all businesses will be affected by climate-related risks eventually.

"It is critical for Malaysian companies to understand the climate-related risks and opportunities to their businesses, so a proper strategy and action plan can be developed and implemented to address the risks and create new opportunities. It's all about improving business resilience," says Mohamad Irwan Aman, head of the sustainability division at Sarawak Energy, in an email interview.

Another driving factor for companies to take this step is that providers of capital, both debt and equity, are increasingly demanding for climate-related financial disclosures from companies. This includes banks and institutional investors.

Regulators in various parts of the world are also pressuring companies to conduct climate-related reporting.

“Without this reporting, the capital providers are unable to properly assess the risk of their lending or investment. Malaysian companies need to start preparing for this demand, especially since it’s something that cannot be done overnight,” says CIMB.

How did they start?

Understandably, preparing the disclosures can be a tedious job as a lot of data has to be collected and interpreted, shares Ong.

“However, once the system was well established and put in place, the subsequent progressions were made easier. The real challenge is how you are able to analyse, crunch the data and learn from it,” he adds.

Sunway Group set up a Board Sustainability Committee last year to oversee and manage material ESG-related matters, including the Group’s sustainability strategy. In turn, the sustainability department provides the Board with information and assists in integrating the Group’s sustainability strategies into business operations. The annual sustainability report is compiled according to the TCFD recommendations.

As for CIMB, its sustainability team works closely with its risk management team to conduct climate-related assessments.

“If you take a step back and think about climate risks, there are a few stages. One is the source of risk, which includes physical and transition risks, which are transmitted through various transmission channels that impact our performance as a whole,” says CIMB.

The modelling of the sources of risks is done by the sustainability team, while the rest are conducted with the risk management team, who also performs scenario analysis and stress testing.

Prior to reporting according to the TCFD, CIMB only assessed climate risks at the transaction and client level in each individual deal. With TCFD, the company can now look at climate risks on a portfolio level.

CIMB suggests that companies can start by understanding the climate-related risks they may face on a qualitative basis first and identify the largest sources of risks. Then, they can use modelling tools to get a quantitative assessment. The final step is to disclose the results.

Not everything has to be done in one go as well. Sarawak Energy started by reporting their Scope 1 emissions, which are emissions from direct activities of the company.

“In our 2019 Sustainability Report, we included climate scenario analysis as well as transition and physical climate-related risks. Moving forward, we will be fully guided by the TCFD in our climate-related financial disclosures,” says Mohamad Irwan.

Quantifying Scope 2 (indirect emissions from production of energy) and Scope 3 (all other indirect emissions) was more challenging. “We overcame it by conducting a proper analysis of the data captured and performing a third-party assurance on the data and results,” adds Mohamad Irwan.

What are the challenges?

When asked which of the TCFD recommendations is the easiest to implement, CIMB and Ong gave the answer of governance. It provides the structure through which the objectives are defined, says Ong, and governance begins during the initial phase of every project.

CIMB adds that it already had an extensive governance framework. When it adopted the TCFD, it included the Board’s oversight to cover climate-related risks and opportunities. At the same time, the management’s roles were redefined to incorporate climate-related risks and opportunities.

To CIMB, strategy is the most challenging portion, as it has to determine its short, medium and long-term horizons, the potential issues that could arise in these timelines and what it can do to mitigate them.

“These descriptions are ever changing in this constantly evolving financial market. Not only do we need to agree on our set of climate scenarios, we also have to be consistent with our methodologies on the quantification and assessment of climate-related impacts. Not to mention, we have a diverse customer base from different industries and sectors,” says CIMB.

The last point is a challenging factor as many of its clients have not conducted climate risk assessments of their own businesses. “Without the companies’ own assessment, it is very difficult for us as a bank to perform our own risks assessment at a granular level,” says CIMB.

Meanwhile, Mohamad Irwan finds that getting the buy in on governance and setting the metrics and targets are more challenging compared to the other recommendations.

“It is very important for companies to understand how TCFD can support their corporate vision and help them understand their climate-related risks and opportunities. Addressing these can create value for the business as a whole,” says Mohamad Irwan.

This point is echoed by CIMB, who points out that support from top management is crucial.

“Enhanced governance by the Board of Directors sends a signal from the top down that adopting sustainability is more than just a strategy or a goal. It should be the way we work and the way we do business,” says CIMB.

Afterall, insights gleaned from this reporting has to be integrated with the company’s strategies and risk management.

“My advice is for companies to start with measuring and capturing their climate-related data and perform an analysis to understand the impact and trends. Then, they need to start linking the results with company bottom lines and operations. Only then can the company understand the real business case or value in embarking on climate-related financial disclosures,’ says Mohamad Irwan.