



In corporate Singapore, climate-change reporting is still in the very early stage. Overall, there are vast differences in how Singapore companies disclose using the Task Force on Climate-related Financial Disclosures (TCFD) framework. PHOTO: AFP

Businesses need to be ready for climate-change reporting

Stakeholders – particularly investors – have placed an increasing emphasis on climate change, making this all about the bottom line. **BY LAWRENCE LOH AND YVONNE YOCK**

WHILE climate change is emerging as a critical concern, our attention on the financial impacts of this change, particularly the disclosures, is still nascent. For businesses, climate change can result in unprecedented economic consequences such as business disruptions and losses in property and firm values.

It is against this backdrop of uncertainties that investors and the other financial players are seeking more information that helps them to assess risks related to climate change in their assessment of investing products. The growing demand for such information has only highlighted the gulf between what users expect and what is available in the market.

CLOSING INFORMATION GAP

To enable better flow of information by organisations on climate change, the Task Force on Climate-related Financial Disclosures (TCFD) has been established by the international Financial Stability Board to allow stakeholders to make informed decisions regarding climate-associated risks.

The TCFD framework is fast gaining traction in the Asia-Pacific. Jurisdictions such as Australia, Hong Kong, Japan, mainland China and New Zealand have either adopted this standard or are moving towards it. It is expected that the Monetary Authority of Singapore may soon consult the industry on bringing climate-related reporting, specifically, in line with the TCFD guidelines.

The TCFD framework covers four disclosure areas: governance, strategy, risk management, as well as metrics and targets. It also recommends the use of scenario-based analyses to ascertain the impacts of climate change based on temperature increase scenarios, so that businesses can assimilate these analyses into their strategic decision-making.

ASSESSING CURRENT STATUS

A global analysis of 12,000 companies in 2020 by Moody's Analytics found that only 17 per cent of the companies have reported climate-relevant information using the TCFD framework or similar, and there were wide variations in how companies reported that information.

In corporate Singapore, climate-change reporting is still in the very early stage. Our research centre conducted an initial assessment of nine listed companies that made disclosures

along the line of TCFD. These were drawn from the Sustainability Reporting Review 2021 that we had just completed in collaboration with the Singapore Exchange.

Our analysis addresses the four areas of TCFD.

First, the governance aspect covers the board's involvement in climate-related matters, including incorporating them in business plans and having management supervise the responsibilities. We surmise that companies studied tend to have no difficulty in making the necessary disclosures.

Second, in the domain of strategy, companies are expected to discuss the impact of climate-related risks and opportunities on their businesses as well as the resilience in dealing with the risks. We found that companies were generally articulative of climate-related risks they face for their strategies.

However, they did not describe the risks relative to various timeframes. Most companies did not conduct materiality analysis, which would have helped them to identify the risks that are most pertinent to their stakeholders. In assessing the resilience of the company, only a few of the companies conducted scenario analyses of high and low emissions; however, they tended to provide scant information about how they would use results from such analyses to inform their business plans.

Third, in the process of risk management, companies did fare much better. They were generally able to explain the significance of climate-related risks relative to other risks, the scope and size of climate-related risks, and actions they would take to mitigate these risks. Companies were able to discuss risk management as it involves a more structured set of actions that they had already been doing.

Fourth, in terms of metrics and targets, companies generally did a good job of disclosing them based on scope 1, scope 2 and scope 3 greenhouse gas emissions. Some companies also included metrics and targets that might not be pertinent to the climate-related risks faced by them. As the companies cut across multiple industries, there were variations in the metrics and targets relevant to each specific industry. There were also different approaches on the use of time periods, as diverse ranges were used by the companies.

On an overall basis, we found vast differences in how companies disclose using the TCFD framework. Some of the companies explained in their sustainability reports how they

applied the TCFD disclosure guidelines as a reference in their reporting, and yet other companies followed the TCFD disclosures on a detailed basis.

Only a few companies used the future climate scenario outlined in the TCFD framework to illustrate future risks and opportunities. This seems to be the weakest link now, although it is similar to what TCFD itself had highlighted: disclosures were lowest for resilience scenarios at only 7 per cent of the companies that it studied.

EXEMPLARY EXAMPLES

In our analysis, there were perhaps two companies that may be worthy of illustration in their approaches to TCFD reporting.

City Developments Limited (CDL), a prominent pioneer in sustainability reporting, has a detailed standalone TCFD segment in its integrated sustainability report. It covers the sections in each of the TCFD areas adequately and refers readers to the pertinent sections if they want to dive deeper. It also provides the strategic rationale well for the targets it set for the climate scenarios, and the justification for identifying certain components that pose climate risks. The remarkable takeaway of CDL's TCFD report is the useful degree of specificity in the disclosures going beyond general noble statements that other companies may find more convenient to write.

Singtel furnishes yet another model for consideration, even if many Singapore companies are only beginning to look at TCFD. The telecommunications firm has a detailed articulation of its climate action journey and particular alignments to the four TCFD areas. It also shares informative views on climate risks, opportunities, and financial impact. What stands out is the scenario analysis based on an overseas operating environment. Singtel has even highlighted the detailed insights from a pilot exercise. This comes across as very candid and useful.

Even while the TCFD disclosure guidelines are instructive, it is still a stretch for companies to apply them in their reports. Even while the benefit of TCFD may be less obvious, it is clear that the world of stakeholders, particularly investors, have placed an increasing emphasis on climate change. It is important to note the critical keyword in TCFD – "financial". It is all about the business bottom line.

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