A quick look at

TCFD

Task Force on Climate-related Financial Disclosures

incdesign.inc April 2022

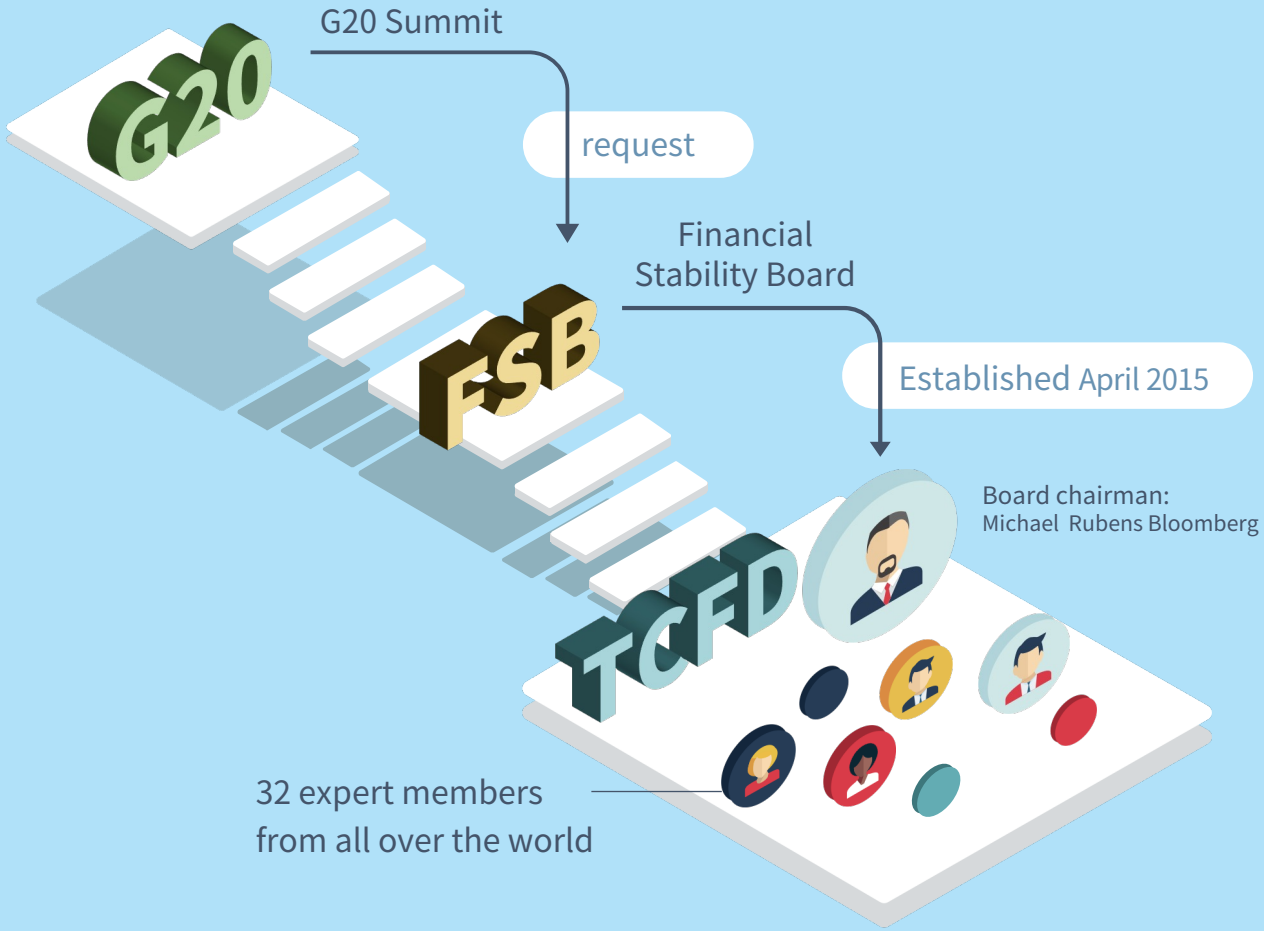
This document is intended to give those who have never heard of TCFD a rough idea of what it is all about.

It is clear that businesses will be affected by climate change in the future. Then, asset value standards will change, business systems will change, and stock prices are expected to fluctuate widely.
As a result, financial markets could be severely disrupted.
To prevent such a situation, TCFD recommends that each company consider measures now.



TCFD is an organization made up of private sector experts.

However, when we usually say, "The TCFD...",
we often refer to the "Final Report" recommended by the TCFD.





Companies must gather, analyze, and consider this information.

The TCFD requires companies to disclose information about "how they will be affected by climate change, what measures they will take, and whether they will be able to sustain their operations.

Future Climate Change



Impacts

Countermeasures

Companies



Analyze and disclose

Investors



Financial

What is the purpose of the proposal?

Corporate disclosure prevents confusion in the financial markets.

TCFD is primarily needed by investors, who will use it to make appropriate investment decisions.
As a side effect, it is also expected to help society transition to a low-carbon economy.

What companies are working on this?



All organizations and companies can adopt it on a voluntary basis.

Companies related to energy, transportation, materials and buildings, and agriculture, food and forestry products are especially encouraged to take action.
Public and private pension plans and various foundations are also required to perform.

For whom?



Investors in other word, financial markets

Lenders, insurers, and other stakeholders will refer to the report and use it to make investment decisions.

In addition, sharing awareness of the issues will help to raise their own awareness.

Who will build it?



Build a system within the company

Establish an oversight and reporting structure that includes the Board of Directors and the President and CEO, as well as the Sustainability Committee, Risk Management Committee, and Environmental Advisory Council. People from different departments are encouraged to participate.

Since when?



Some companies have already disclosed.

However, there is no need to perfect it from the beginning.

It is realistic to continue consideration and move to gradually expand it. Many companies have already disclosed or are preparing to do so.

Companies consider the opportunities and risks of climate change.

Positive as well as negative impacts can occur as a result of a changing climate.
TCFD has categorized the following indicators for organizations to consider.



Appropriate
investment decisions

opportunity

Positive change,
business opportunities

- Resource efficiency
- Market
- Energy sources
- Resilience
- Products & Services

Risks

Suffer a blow or loss,
Change in value of property

Transition risk
- Policy and Regulatory risk
- Market risk
- Technology risk
- Reputation risk

Physical risk
- Rcute risk
- Chronic risk

About Opportunities

Resource efficiency

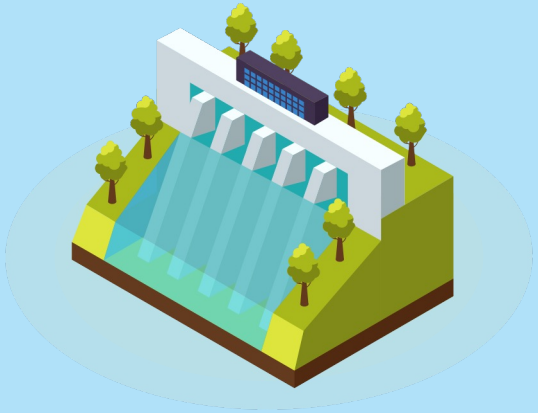


- Use of efficient transportation means and distribution processes
- Reclamation (recycling)
- Transition to high-efficiency buildings
- Reduction of water use and consumption

Markets

- Partnerships with governments and banks in new markets
- Opportunities to gain from underwriting profit and investing in green bonds and infrastructure

Energy Sources



- Use of low carbon emission energy
- Use of new technologies
- Use of support policy incentives

Resilience

- Ability to respond to risks
- Resource substitution and diversification
- Improved supply chain reliability



Products and Services



- Development of low-carbon products and services
- Ability to diversify business activities
- Responding to changing consumer preferences

What is transition risk?

Policy and Regulatory risk

1:Policies that restrict activities that adversely affect climate change
2:Policies that promote adaptation to climate change

Risk of being affected by these above.

Risk of lawsuits from asset owners, insurance companies, organizations, etc. due to inadequate disclosure of financial risks, etc.



Market risk

The risk that the balance of supply and demand for a particular commodity or service will change.

Example

- Decrease in demand due to changes in consumer behavior or preferences
- Soaring costs of raw materials



Technology risk

Risks affecting competitiveness as old systems are replaced by new technologies in the process of transitioning to a low-carbon and energy-efficient economic system.

Example

- Failure to invest in new technology
- Decreased demand for products and services
- Upfront costs for new methods and processes

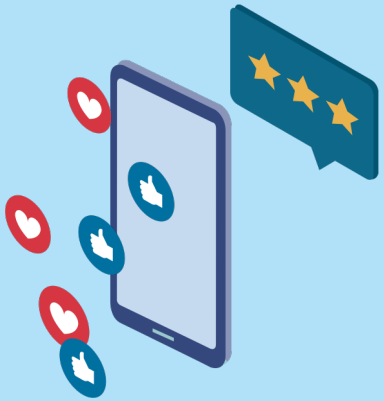


Reputation risk

Risk of changing customer and societal perceptions of the company's stance on climate change.

Example

- Increased stakeholder anxiety
- Negative impact on employee management (recruitment and retention)

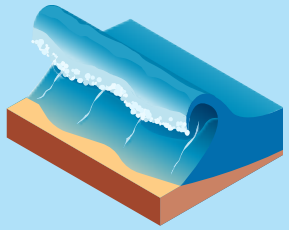


What is physical risk?

Rcute risk

Cyclones, hurricanes, floods, etc.

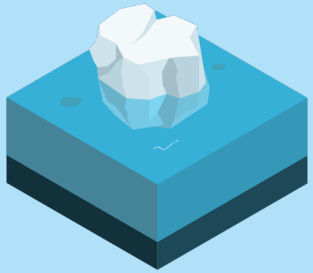
Direct risk from intensification of extreme weather events.



Chronic risk

Sea level rise, higher average temperatures, changes in precipitation patterns, etc.

Risk of long-term impact.





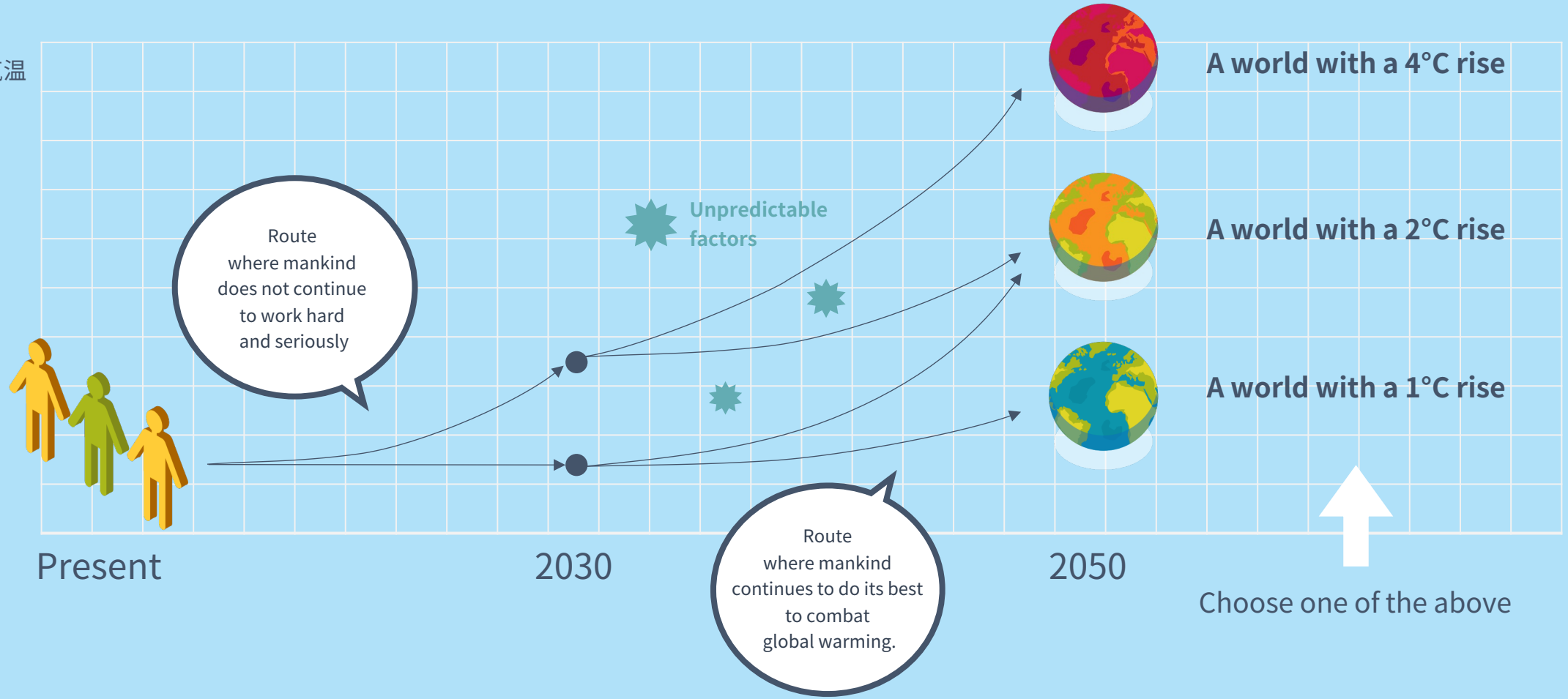
Example

- Reduction in manufacturing capacity due to transportation difficulties/supply chain disruptions
- Write-offs due to damage to real estate and assets
- Increased operating costs
- Increased insurance premiums in high risk areas



To follow the TCFD framework, a scenario analysis is necessary.

Since the future is uncertain and unknowable, measures are taken based on the assumption of "what the future will be" at first.
It is recommended that several hypotheses be prepared, preferably assuming all possible patterns.



Four basic items have been developed.

The four elements must be fulfilled to help investors understand the information, but not all elements need to be perfect from the beginning to be disclosed. TCFD is seeking to gradually enhance the quality and content of the program.

Governance

What systems are in place to examine and reflect this in corporate management?

How to get involved in the organization

Strategies

How it affects corporate management over the short, medium, and long term

And what did you think about it?

Actual / potential impact on business, strategy, and financial planning

Risk Management

How the company identifies, assesses, and seeks to mitigate the risks of climate change.

How climate-related risks are identified, assessed, and managed

Indicators and Targets

What indicators are used to determine the assessment of risks and opportunities and evaluate progress toward goals.

Indicators and targets for assessing and managing climate-related risks and opportunities

In practice, the recommended disclosures are more closely guided by industry groups (financial and non-financial sectors).

出典：https://tcfd-consortium.jp/about

Case images (excerpts)

Governance

Committee Chairman: Representative Director

Vice Chair: responsible for environment, administration and human resources

Committee members: General managers of each business unit and presidents of affiliated companies

Thoroughly discuss ESG issues and policies, and deliberate on important measures.

Risk Management

Integrated management and assessment based on our "Business Risk Management".

Indicators and Targets

The company has set a corporate goal of "2031 target" to reduce by ●%.

As of 2020, the actual result is ●%, an increase of ●% from the previous year.

We will further promote and challenge to achieve the target.

Strategies

Adopted 2°C scenario

Risks: **Policy and Regulatory Risk**

Increased regulation in Japan will lead to a large carbon tax burden

↓Response

- Save energy by installing high-efficiency equipment
- Install sensors and switches in equipment,
- Monitor energy consumption waste

Adopted 4°C scenario

Opportunities: **Products and Services**

Increased interest in renewable energy throughout society

↓Response

Started providing solar power generation systems for corporate customers.

References：SHARP Annual Report 2021（https://corporate.jp.sharp/ir/library/annual/pdf/2021/annual_2021j_int.pdf）

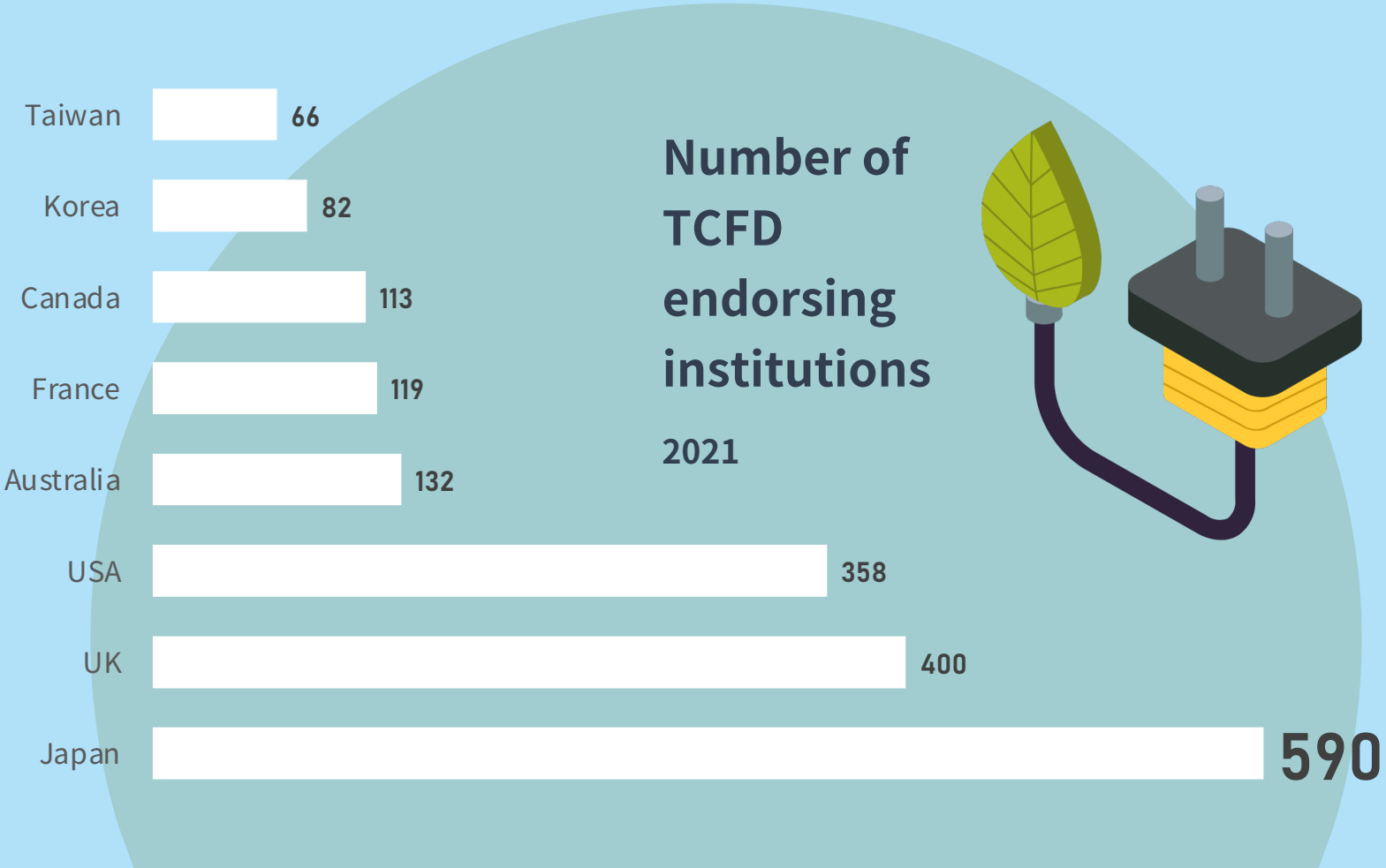
Differences from SDGs and ESG

It may seem confusing that new concepts related to the environment are constantly emerging, but the situations in which they are used and the purposes for which they are used are quite different. The TCFD can be found primarily on the IR financial disclosure page.

	SDGs Sustainable Development Goals	ESG Environment, Social and Governance	TCFD Task Force on Climate-Related Financial Disclosures
Meaning	Sustainable Development Goals	One of the perspectives in investment, a company's approach	analysis and disclosure methods (organizations that advocate)
Organization sponsored by	United Nations General Assembly	United Nations Environment Programme (UNEP) United Nations Global Compact (UNGC)	G20 Leaders' Summit Financial Stability Board (FSB)
Target	National and local governments and companies working on the project	Disclosure by the company to its stakeholders	Disclosure by the company to investors and the market
Objective	**To create a sustainable, better world**	**Stable, long-term growth of the company**	**Medium- to long-term stability of financial markets**

Approximately 2,600 organizations around the world have endorsed the program

In Japan, the Financial Services Agency, the Ministry of the Environment, the Ministry of Economy, Trade and Industry, and the Japan Stock Exchange have also officially expressed their support. (as of 2021)



Type of business of endorsing companies in Japan



financing	86
Materials & Buildings	64
Electricity, Machinery & Telecommunications	58

Principles for Effective Disclosure

FSB states that it aims to develop voluntary recommendations that promote efficient disclosure with consistency, comparability, reliability, and clarity to facilitate appropriate investment decisions.



- Present relevant information
- Clear and easy to understand
- Reliable and objective
- Consistent over time
- Specific and complete
- Provided in a timely manner
- Comparability between companies in a given sector, industry, or portfolio

References

This document is based on these pages. If you would like to learn more, please refer to the primary information.
If you have any questions or comments, we would appreciate your advising us.

Final Report Recommendations by the Climate-related Financial Disclosure Task Force (Japanese translation by Green Pacific Inc.)
https://assets.bbhub.io/company/sites/60/2020/10/TCFD_Final_Report_Japanese.pdf

TCFD Consortium
https://tcfd-consortium.jp/

Ministry of the Environment
https://www.env.go.jp/policy/tcfd.html

Final Report: Recommendations of the Climate-related Financial Disclosure Task Force (Translation by Sustainability Japan Forum)
https://www.sustainability-fj.org/susfjwp/wp-content/uploads/2019/01/ccc822ae11df3bb3f0543d9bd3c7232d.pdf

Recommendations for business strategy planning using TCFD - Practical guide to scenario analysis incorporating climate-related risks and opportunities ver. 3.0
https://www.env.go.jp/policy/policy/tcfd/TCFDguide_ver3_0_J_2.pdf

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