TCFD is more than a mandate, it’s a signal for the direction of travel

From April 2022, a key policy update will make reporting on the Task Force on Climate-Related Financial Disclosures (TCFD) mandatory by law in the UK, compelling over 1,300 UK companies to disclose information in alignment with the guidelines.

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The specific impact this will have for investors is yet to be quantified, but the policy change is expected to act as a force for good when it comes to ensuring good decisions around climate risk for institutions, while also fostering better climate disclosure policies across the economy more generally.

The broad consensus in the investment market is that mandatory TCFD reporting will have a positive impact on net zero strategies. This is because the interim goals of corporates are more likely to be set with ambition and action, rather than passive long-term targets for distant years ahead. Reporting on these targets is also more likely to hold these companies accountable for their ambitions, further fostering action.

This *latest TCFD update*, coupled with additional legislative shifts, will also help encourage vital conversations around climate-related risk; a particularly important consideration for new investments and acquisitions. Businesses will want to invest in climate resilient assets or otherwise be aware of the risks and future proof them during the hold period. At Longevity Partners, we have witnessed an increased interest from clients on this topic, which is undoubtably driven through regulatory requirements such as this.

The introduction of these types of policies means corporate complacency will no longer be side-lined, but actively penalised by the market. Investors and their beneficiaries who are known to continue work with laggards will be likely experience disinvestment and may be stripped of capital from institutions at higher levels too. Investors must therefore take initiative in reviewing their portfolio on this basis, ensuring that it sufficiently aligns with up-to-date climate-risk disclosure - not just to maintain their own reputable position in the market, but also to avoid future risk.

Corporate reputational risk is also dependent on asset type. In the property sector for example, student accommodation, office spaces, and residential homes have all demonstrated they want action to be taken towards sustainability through climate-resilient buildings. The aim is that this new requirement to report will publicly expose corporates – especially those that elicit the largest environmental footprint – and encourage the implementation of long-term strategies. Overall, this will help instil a proactive rather than reactive approach to climate-related scenarios amongst large businesses, putting the onus on them to act, and on investors to keep sustainability at the forefront of their decision making.

In turn, the drive towards better climate resilience will accelerate improved change as businesses receive CAPEX to future-proof their investments. Mandatory reporting will reveal the climate strategies and targets of corporates and therefore impact investor-investee relations too. Client questionnaires have increased investor focus on action against risk, helping to streamline the reporting process as both parties have a better understanding of climate-related targets and the importance of disclosure. Additionally, questionnaires provide investors with an indication as to what extent corporates prioritise mitigating their climate impact, which helps establish the dynamics of the working relationship from the outset.

Alongside the introduction of the legislation, increased pressure put on businesses by investors to be actively climate conscious is likely to increase the uptake of TCFD considerations in the future. *Insight from BlackRock*, one of the world's largest asset managers, supports this as they have forecasted ESG specific funds will grow from $25 billion in 2019 to over $400 billion by 2028.

However, one area that the TCFD is not positioned to help with is investment into SMEs, who are exempt from reporting at this level. And yet, investment in the SME market is a significant portion of sustainability funding and in many cases, it is these businesses that require greater support. SMEs that are proactive in their climate-related efforts are likely to benefit from increased public relations and customer retention in the years ahead too. Investors will need to identify those who are and those who are not being rigorous with their approach now.

Whilst SMEs are not yet required to report on their climate footprint by law, the rising emphasis placed on indirect emissions, or Scope 3 emissions reporting, is likely to turn heads towards their climate-related efforts and strategies. The TCFD plays a part in facilitating this; while it does not directly demand action from small- and medium-sized businesses, it encourages important conversations outside of its mandates and is indicative of the level of action required from all players. The onus may still be on large corporates, but businesses of all sizes play a part in climate discourse and action.

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