



Introduction to the Transition Risk Analysis Support Toolkit

DNA Economics

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Purpose

Support organisations to embark on climate-related risk and opportunity analysis and disclosure journey and/or improve the quality of disclosures

- Toolkit resources are intended to support organisations to start using the TCFD recommendations as soon as possible to:
 - Analyse third-party TCFD-aligned information to assess climate risks and opportunities to influence investment decisions
 - Analyse own organisation exposure to climate risks and opportunities and put in place systems and processes to increase the resilience of businesses and portfolios to climate change
 - Disclosure climate-related financial information to enable clients, investors, regulators and other stakeholders to better understand the resilience of business and investment operations to climate change
- The components included in the Toolkit were selected based on engagement with the asset owner and asset manager communities and their stakeholders. Included components address blockages to the implementation of the recommendations of the TCFD in the short term.
- The Toolkit is targeted at asset owners and asset managers that are starting out or are in the early stages of their TCFD disclosure journeys. That said, most of the Toolkit components will be useful to organisations in any sector in South Africa that are looking to start disclosing TCFD-aligned information or are looking to improve the quality of their disclosures.
- The Toolkit will also help stakeholders better understand the challenges faced by asset owners and asset managers when undertaking climate-related financial disclosure. It will also enable them to better understand and interrogate disclosures from these and other types of organisations.

Elements

The Toolkit consists of nine elements targeted at different stages of the disclosure journey

Four Toolkit elements are targeted at organisations that want to start their disclosure journey or want to build their capacity to interrogate the disclosures of third parties.

- 1. *Climate Risk Due Diligence Guide for Asset Owners*** provides a quick and easy entry point into the issue of climate-related financial risk and opportunity analysis and disclosure for asset owners. The key component of Element 1 is a set of 11 questions (with guidance on how to interpret responses) that can be used to assess the climate competency of asset managers. While the guide includes background information and resources that enable a richer discussion between asset owners and their asset managers, the questions in isolation provide a **practical tool to allow asset owners with limited knowledge of climate issues to undertake climate due diligence on asset managers with minimal effort**. *While aimed at asset owners, this element will also be useful to asset managers that wish to understand the information required by asset owners.*
- 2. *Financial Sector Good Practice TCFD-aligned Disclosure Examples*** showcases examples of detailed and useful TCFD disclosures. The TCFD recommendations are intended to create a flexible disclosure standard built around iterative improvements, and as such the examples are not intended to define the 'correct' way to disclose information, but rather to provide an **indication of what good disclosure looks like**. Examples are presented according to the four key TCFD recommendation disclosure pillars. *This element is targeted at asset managers to encourage and guide better disclosure but will also assist asset owners and other stakeholders to recognise good disclosure.*
- 3. The *Carbon Price Trajectory Tool*** provides a simple spreadsheet tool that can be used to consider how **international carbon prices may influence South African carbon prices** to 2050. The Tool was developed as part of the process to develop the project output *Transition Risk in TCFD Reporting - An Example Transition Risk Disclosure Based on an Illustrative South African Portfolio* and is populated with actual local and international carbon prices. *The Tool is intended primarily to assist asset owners to interrogate the carbon price assumptions of asset managers and other service providers but will be useful to any organisation (including asset managers) that want to interrogate the carbon price assumptions used in third-party TCFD-aligned disclosures.*
- 4. *Resources to Support Climate-Related Financial Disclosures***. This element is a **filterable MS Excel database of resources** to support climate-related financial disclosure. The resources are organized to allow searches by theme and TCFD disclosure pillar. While primarily focused on transition risk, the database also includes resources that deal with the physical impacts of climate change. *The database is aimed at organisations that are looking for guidance on how to start their TCFD disclosure journey but does also include guidance and data sources for organisations that want to improve the quality and scope of their disclosures.*

Elements

The Toolkit consists of nine elements targeted at different stages of the disclosure journey...(2)

Five Toolkit elements target organisations that are at the early stages of disclosure and/or want to improve the quality of their disclosures

5. ***South Africa's International and Local Climate Commitments*** discusses South Africa's climate commitments **and their implications for sectors and companies** to help inform financial sector decision-making. **This element is intended to support asset managers and other organisations to develop assumptions for use during climate-related financial risk and opportunity analysis. It will also assist asset owners and others to interrogate the assumptions used in TCFD-aligned disclosures.**
6. ***Quantifying Greenhouse Gas Emissions from Investments***. This element **provides investors with guidelines on how to obtain or estimate greenhouse gas emissions data for companies** to help guide portfolio assessments and investment decision-making. In addition to the standard guidance provided by the GHG Protocol for calculating emissions, an additional fallback method is proposed to estimate emissions in circumstances where sufficient information is not available to use the official GHG Protocol guidance. The element includes a guidance document and an accompanying spreadsheet tool. **This element is targeted at asset managers that are quantifying portfolio emissions for the purposes of analysis and disclosure.**
7. ***Using Scenarios to Understand Transition Risk*** introduces scenarios and motivates for **using scenarios to improve the quality of climate-related financial disclosures**. It is intended as background reading for readers who wish to access the more advanced material on the use of scenarios in climate-related risk and opportunity analysis developed as part of this project. **This element is targeted at asset managers and other disclosers who wish to improve the quality of their TCFD-aligned disclosures.**
8. ***The Just Transition in Climate-Related Financial Disclosures*** motivates for the **inclusion of Just Transition considerations in climate-related financial disclosures** on the basis that neglecting it could create reputation risk with material financial impacts. **This element is targeted at asset managers and other disclosers who wish to improve the quality of their TCFD-aligned disclosures.**
9. ***Climate Commitments at the Company Level*** considers the evolution of climate targets and discusses **how companies can develop credible climate targets in line with the recommendations of the TCFD**. It also considers how targets can act as an indicator of how companies are managing transition risk. **This element is targeted at asset managers and other disclosers who wish to improve the quality of their TCFD-aligned disclosures.**

Overview of toolkit

Indicative level of effort required

Toolkit elements

Informed engagement on climate issues and due diligence of service providers with little effort

1. Climate risk due diligence guide for asset owners

2. Financial sector good practice examples

3. Carbon price trajectory tool

4. Database of resources

Embarking on climate-related risk and opportunity review and/or disclosure journey with limited effort

Improving quality of disclosures requires significant effort

5. SA commitments and policy

6. Calculating greenhouse gas emissions

7. Intro to scenario analysis

8. Just Transition briefing note

9. Company-level climate commitments

Training material

Links to recorded training sessions

- Proposed transition risk analysis support toolkit – training pilot I (16 November 2021): <https://youtu.be/ucPrelst2o0>
- Proposed transition risk analysis support toolkit – training pilot II (1 December 2021): <https://youtu.be/7Vk7Jpl4V4g>
- Transition risk analysis workshop: asset managers I (26 January 2022): <https://youtu.be/NrrfRgc0C0I>
- Transition risk analysis support toolkit – training session II (26 January 2022): <https://youtu.be/U3Ke453nvrq>
- Transition risk analysis workshop: asset managers I (27 January 2022): <https://youtu.be/69xdyTKOdnM>
- Transition risk analysis support toolkit – training session II (27 January 2022): <https://youtu.be/SXmEyFertcY>
- Transition risk analysis workshop: asset managers I (1 February 2022): <https://youtu.be/xASWUD7VeCE>
- Transition risk analysis support toolkit – training session II (1 February 2022): <https://youtu.be/5KRguR761e0>
- Transition risk analysis workshop: asset managers I (3 February 2022): https://youtu.be/8i9sfKn_w2Q
- Transition risk analysis workshop: asset managers I (8 February 2022): <https://youtu.be/-sLdQPjz3fg>
- Transition risk analysis support toolkit – training session II (8 February 2022): <https://youtu.be/4WPBb46I6oE>
- Transition risk analysis workshop: asset managers I (10 February 2022): <https://youtu.be/VJ-8xsYfT4w>
- Transition risk analysis support toolkit – training session II (10 February 2022): <https://youtu.be/RrlalXFQsfc>



The Toolkit elements, this document and other project outputs, are available at:
www.dnaeconomics.com/pages/sa_climate_disclosure/



For more information about this project, please see the project introduction [here](#)

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