CDP
DISCLOSURE INSIGHT ACTION

ACCELERATING CORPORATE CLIMATE ACTION: THE ROLE OF POLICY

Briefing for policymakers

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OVERVIEW

Corporate climate action has stepped up over the past decade, but the world is not yet on track to meet the goals of the Paris Agreement. Policy and regulation can play a vital role in accelerating companies' efforts. CDP has analyzed climate-related information disclosed by some of the world's biggest companies, and, based on these insights, provided recommendations to policymakers, financial regulators and supervisors on what actions to take to accelerate the transition to a low-carbon economy.

The signing of the Paris Agreement and the 2030 Agenda for Sustainable Development in 2015 heralded a new era in global co-operation to tackle climate change and achieve sustainable development, whilst ensuring that no one is left behind. These international frameworks were agreed upon by governments, yet business and other non-governmental actors also played a vital role. They were able to bolster government confidence to sign these frameworks by showing widespread support for addressing these global challenges and demonstrating the action already underway to do so.[1]

This success showed that when governments and business respond constructively to each other's signals, a virtuous circle, or 'ambition loop' can be achieved.[2] As the world moves into implementing the goals of the Paris Agreement, it is essential that key stakeholders continue to engage in dialogue.

CDP has been collecting information from business about their environmental impacts since 2001. The latest analysis of this information – 'Major risk or rosy opportunity: Are companies ready for climate change?[3] – looked at what the universe of almost 7000 companies who disclosed data through CDP's platform were doing to manage climate change. In addition, this analysis looked at a sample of 366 of the world's biggest companies, worth over $28 trillion in market capitalization[4], who responded to CDP's information request in 2018. The research on this sample looked particularly at the potential financial implications of climate change on these companies (for key findings, see page 6).

This brief, which consists of two parts, focuses firstly on the results of further qualitative analysis CDP has undertaken of these same 366 companies analyzed for the publication 'Major risk or rosy opportunity' with a view to understanding what impact climate-related policy has on their business. It focuses on these 366 companies' responses to the question: 'Have you identified any climate-related risks or opportunities with the potential to have a substantive financial or strategic impact on your business?'

The second part of this briefing takes a closer look at the third recommendation we are making to policymakers: to ensure a conducive policy environment for globally standardized climate-related disclosure, mandating, where appropriate, the adoption of the recommendations of the Taskforce for Climate-related Finance Disclosure (TCFD).

We are diving deeper into this recommendation because measuring something is the first step to managing it, so the adage goes. This also applies to the case of businesses managing climate-related impacts. To support policymakers in establishing a conducive environment for the management of climate risk, we examine the question: 'How ready are companies for disclosure regulation?'.

To explore the answer to this question we look at quantitative data from across the universe of companies who disclose climate-related information to CDP. We broaden out the qualitative data analysis in part one, to a sample of 2,376 companies who disclosed to CDP in 2018 in response to the climate change information request sent by us on behalf of their investors, in order to provide a temperature check and a holistic overview of corporate preparedness for mandatory environmental disclosure. We chose this sample under the assumptions that these larger companies are likely to be the first to be subject to disclosure legislation.

1. We Mean Business (2015): The Business Brief: Shaping a catalytic Paris Agreement. https://www.wemeanbusinesscoalition.org/blog/the-business-brief-shaping-a-catalytic-paris-agreement/
2. The Ambition Loop. https://ambitionloop.org/
3. CDP (2019): Major Risk or Rosy Opportunity: Are Companies ready for climate change? Global Climate Change Analysis https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities
4. A sample of the world's 500 biggest companies by market capitalization (G500), 366 of whom reported to CDP in 2018. Full details can be found in the appendix of the Global Climate Change Analysis 2018: https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities

KEY FINDINGS

Part 1: What do companies disclose about the impacts of climate-related policy?

- Policy, *both current and anticipated*, is a major driver of actions taken by companies to manage climate change impacts;
- The costs of managing policy-related risks are lower than the potential financial impacts for the majority of industries;
- Policy can create financial opportunities, by driving demand for products & services and revealing cost savings;
- Policy uncertainty is a risk, but the anticipation of policy is a powerful opportunity driver.

Part 2: How ready are companies for disclosure regulation?

- Companies consider enhanced emission reporting regulations a low impact transition risk;
- Almost a quarter of companies respond to all TCFD-aligned questions within CDP's information request. A further 50% are responding to almost all of them;
- Disclosure and corporate action go hand in-hand. Four times as many companies have set a science-based target within the group of companies who respond to all TCFD-aligned questions, than within the group of companies who don't;
- Companies identify a variety of opportunities that can arise from reporting legislation.

Policymakers and business are taking action, but to achieve the goals of the Paris Agreement a step change is needed.

RECOMMENDATIONS FOR POLICYMAKERS

This brief is intended to encourage policy discussion and is based on the analysis of corporate climate-related information disclosed through the CDP platform. We propose a set of policy recommendations that policymakers, financial regulators and supervisors should adopt to accelerate corporate climate action and effectively respond to the signals businesses have sent out through their response to CDP[5]:

1 Submit enhanced Nationally Determined Contributions (NDCs) by 2020[6], that are in line with the Paris Agreement's goals, and are consistent with long term strategies and national policies.

- Over 50% of 366 companies analyzed disclose that policy could present an opportunity to their business. 25% of the companies analyzed view uncertainty around policy as a financial or strategic risk driver. NDCs can provide clarity for business[7], by setting a clear direction of travel towards low-carbon economies, particularly when consistent with long term strategies and other national policies.

2 Ensure a conducive policy environment for globally standardized climate-related disclosure, mandating, where appropriate, the adoption of the recommendations of the Taskforce for Climate-related Finance Disclosure (TCFD).[8]

- By disclosing through CDP, the 2376 companies in our larger sample analyzed, along with all companies who disclose to CDP, are already taking the first steps towards providing high quality, consistent, comparable, TCFD-aligned data at scale. Disclosure requirements that embed the TCFD Recommendations within national jurisdictions would create multiple economic benefits, help to accelerate the low-carbon and climate-resilient transition[9], and ensure management of risks is embedded within the real economy.

3 Set a price on carbon that is consistent with achieving the Paris Agreement's goals, as per the work of the High-Level Commission on Carbon Prices.[10]

- Carbon pricing is the most commonly reported driver of policy-related opportunities within the 366 companies analyzed. And whilst carbon pricing is also the most commonly disclosed policy-related transition risk, companies are highly likely to report they are taking steps to manage that risk by taking action to reduce emissions. Recognizing the benefits of a carbon price and anticipating future regulation, a third of the 366 companies analyzed have already set an internal carbon price, with a further 20% planning to do so in the next two years. To achieve the global temperature target of the Paris Agreement, the High-Level Commission recommends carbon prices of at least US$40–80/tCO2 by 2020 and US$50–100/tCO2 by 2030[11] within the global economy.

5. The policy recommendations are not an exhaustive list of signals set out in the data analyzed. We welcome and invite comment and feedback. Please contact government@cdp.net to discuss.
6. UNFCCC: Nationally Determined Contributions (NDCs). https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs#eq-2
7. GRI & CDP (2019): Engaging Business in the NDCs: Policy Recommendations on the Role of the Private Sector and Reporting. https://www.globalreporting.org/SiteCollectionDocuments/2019/NDCs%20Policy-062019-CDP.pdf
8. Taskforce on Climate-related Financial Disclosures. https://www.fsb-tcfd.org/
9. CDSB & CDP (2019): Roadmap for Adopting the TCFD Recommendations. https://www.cdsb.net/sites/default/files/roadmap_for_adopting_the_tcfd_recommendations.pdf
10. Carbon pricing Leadership Coalition: High-Level Commission on Carbon Pricing. https://www.carbonpricingleadership.org/highlevel-economic-commission-1
11. Report of High-Level Commission on Carbon Pricing (2017): https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices

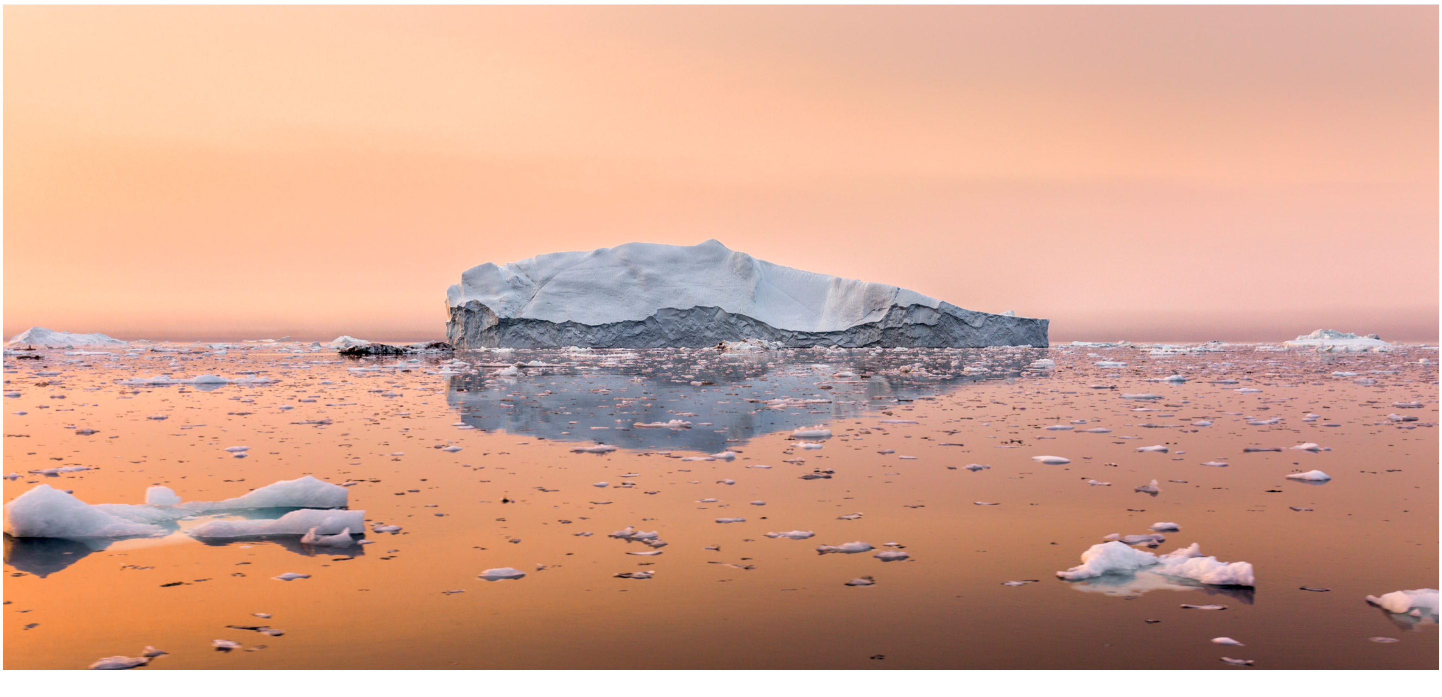
Key findings from 'Major risk or rosy opportunity: Are companies ready for climate change?'[12]

- The 215 biggest global companies report almost US$1 trillion at risk from climate impacts, with many likely to hit within the next 5 years;
- Companies report potential US$250 billion in losses due to the write-offs of assets;
- Climate business opportunities resulting from the transition towards a low-carbon economy could amount to ~ US$2.1 trillion, the majority of which are highly likely or virtually certain;
- The potential value of sustainable business opportunities is almost seven times the cost of realizing them: The combined potential financial impact of opportunities amounts to US$2.1 trillion, whereas the costs to realize only amount to US$311bn.

CDP & the TCFD Recommendations

CDP's climate change questionnaire is aligned with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) – a body established in 2015 by G20 Finance Ministers and Central Bank Governors within the Financial Stability Board (FSB), and its chair at the time, Mark Carney, Governor of the Bank of England. This group is concerned with the financial stability ramifications of climate change resulting from the potential mispricing of assets and misallocation of capital.

The TCFD was created as a private sector led taskforce to develop recommendations on climate-related financial disclosures. These recommendations were made in 2017 and now the focus is on adoption of these recommendations by companies and investors. CDP provides the global platform for disclosing entities to collect and organize data and provide it in a structured form to the market. The data disclosed through the CDP platform provides the investment community with high quality, consistent, comparable, TCFD-aligned data at scale.



12. CDP (2019): Major Risk or Rosy Opportunity: Are Companies ready for climate change? Global Climate Change Analysis https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities

WHAT DO COMPANIES DISCLOSE ABOUT THE IMPACTS OF CLIMATE-RELATED POLICY?

How does climate-related policy impact the world's biggest companies? Analysis of the financial or strategic risks and opportunities disclosed by the 366 companies in our sample of the world's biggest companies has revealed the following key policy-related findings:

Policy, *both current and anticipated*, is a major driver of actions taken by companies to manage climate change impacts.

The vast majority (82%) of the 366 analyzed companies identified potential risks from climate change, disclosing both transition and physical risks. Transition risks can be directly or indirectly caused by policy and regulation. Overall, two thirds of the companies (66%) reported potential risks linked to policy and regulation.

Explicit examples include the increased risks related to increased pricing of greenhouse gas emissions; regulations of products and services; and emission reporting obligations; while a number of risks that companies identify as market or reputational risks are also policy related.

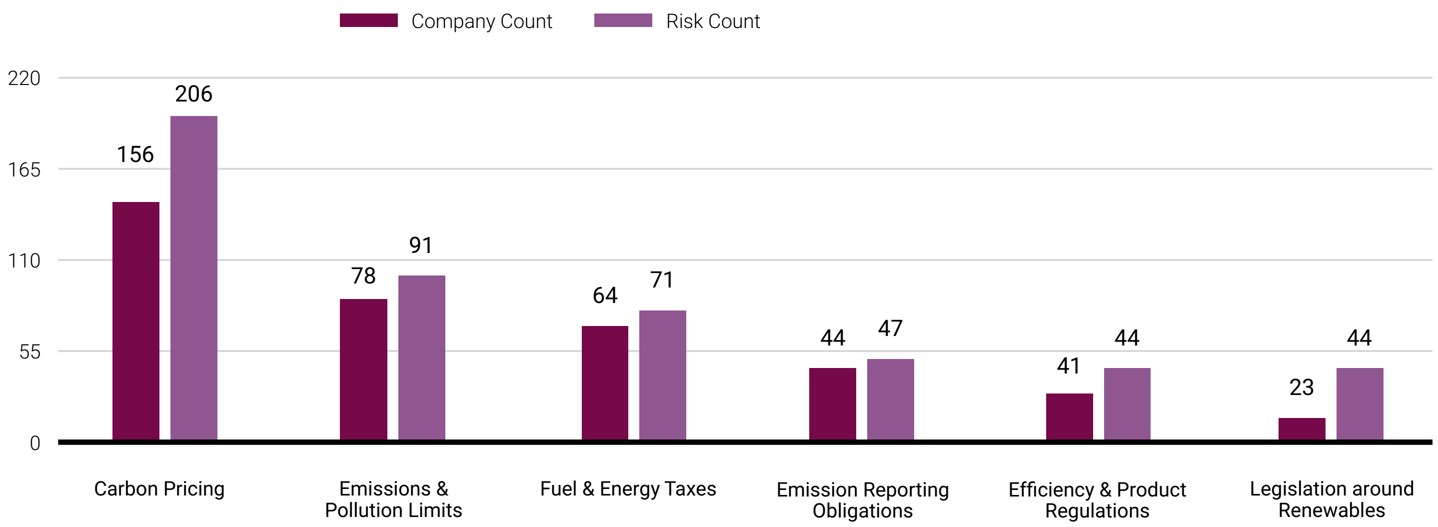
Reporting on these potential risks is an important first step in the journey towards climate-risk management. It means companies are highlighting that they have a system in place for identifying these risks and disclosing them to investors and other stakeholders.

Of those companies that identify policy risks, almost all (91%) also take the necessary second steps: They state that if a policy or regulation is having, or could have, a financial or strategic impact on their company, they are managing that risk by measuring and disclosing their activities - in response to potential reporting regulation - and/or reducing their climate impact in response to other regulation.

Carbon pricing is the most commonly reported policy-related transition risk, but of the 156 companies in our sample who identify this risk, more than two thirds (111 companies) are managing the anticipated impact of current or future legislation by implementing efficiency and/or emission reductions measures.

In addition, there is a positive correlation between companies who identify and respond to potential shifts in policy and companies who are transitioning their business strategy to align with the low-carbon economy. The companies who report policy-related risks and are managing them are almost twice as likely to have approved targets through the Science Based Targets initiative[13] than those who do not report potential policy risks. By setting emission reduction targets that are in line with meeting the goals of the Paris Agreement, these companies could ensure that they are prepared for shifts in policy towards meeting these goals.

Frequently reported Policy Risks



13. Science Based Targets initiative: https://sciencebasedtargets.org/

The costs of managing policy-related risks are lower than the potential financial impacts for the majority of industries.

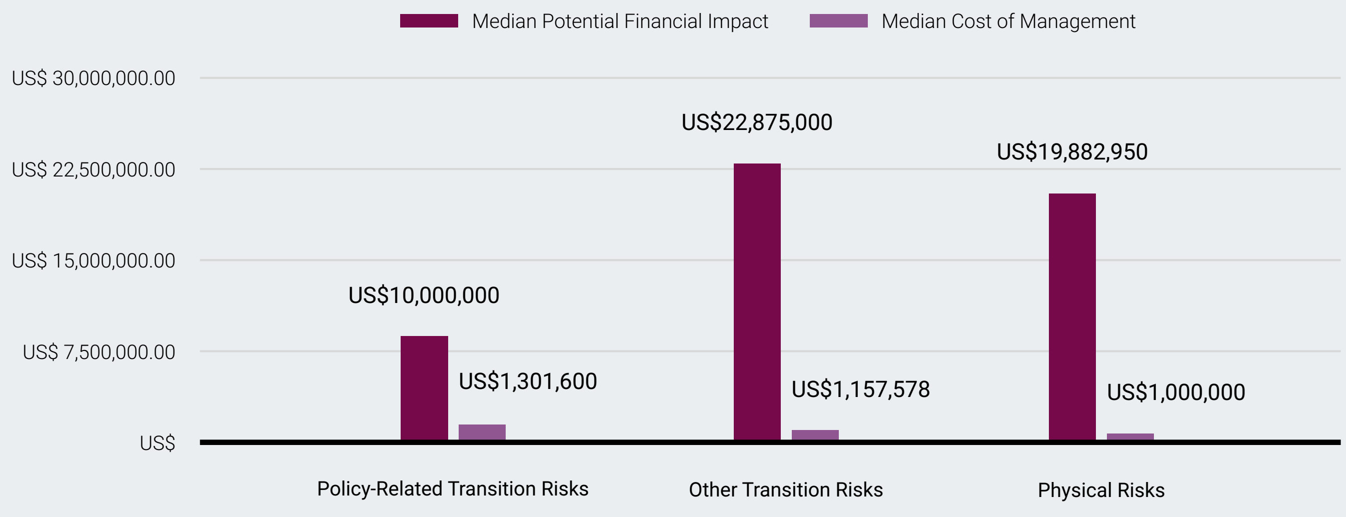
Companies were asked to report for the first time in 2018 on the potential financial implications of risks and opportunities. Of the 366 companies within the sample analyzed for this part of the policy brief, 215 companies reported financial implications of risks, while 225 companies reported financial implications of opportunities.

Looking at the 366 companies analyzed, the key findings are:

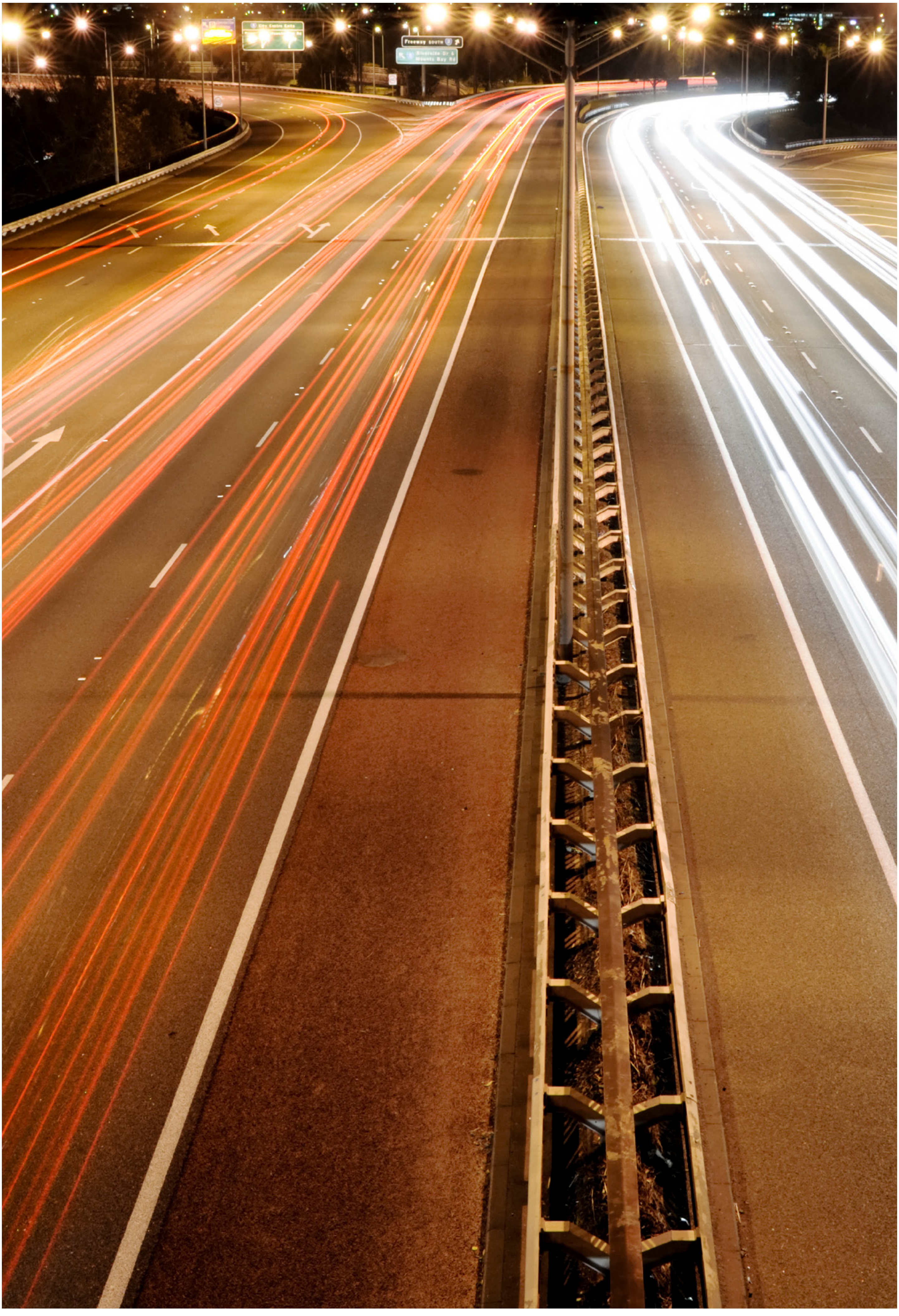
- Whereas the potential financial impact for all risks combined, as disclosed through CDP, is close to $1 trillion, these risks can be managed for less than 1/3 of the potential total cost.
- Looking exclusively at policy-related risks, the overall cost of managing them is over 50% lower than the potential financial impact ($153 billion vs $390 billion).
- While on average, policy-related risks cost slightly more to manage than other types of risks, for the majority of companies, the potential financial impact of policy-related risks is actually lower: Policy-related risks have the lowest *median* potential financial impact ($10 million for policy risks vs $22.9 million for the other transition risks, and $21.9 million for all risks).[14]
- The costs of management are very similar, albeit slightly higher for policy-related risks ($1.3 million), compared to the remaining transition risk ($1.2 million) and physical risks ($1.0 million).

Whilst it is clear that there are financial implications from policy-related transition risk, it is important to keep in mind this statement from the Bank of England's KnowledgeBank in relation to transition risk: "It's not that policies stemming from deals like the Paris Climate Agreement are bad for our economy – *in fact, the risk of delaying action altogether would be far worse.*"[15] To ensure that transition risks are properly managed, that opportunities can fully be realized, and that taking action is not delayed, enabling policy environments around climate-related financial disclosure are crucial.

Potential Financial Impacts and Costs of Management



14. The five industries for which this is not the case are apparel, infrastructure, manufacturing, power, retail and services.
15. Bank of England Knowledge Bank: Climate Change: What are the risks to financial stability? https://www.bankofengland.co.uk/knowledgebank/climate-change-what-are-the-risks-to-financial-stability


City Centre Exits
Freeway SOUTH
Riverside Dr &
Mounts Bay Rd

Policy can create financial opportunities, by driving demand for products & services and revealing cost savings.

Policy can present significant opportunities with the potential to have a substantive financial or strategic win for companies. More than half (53%) of the companies analyzed identify opportunities related to climate and environmental regulations, as well as national and international climate frameworks, such as the Paris Agreement.

The numbers related to these opportunities are significant: Of the 225 companies who disclosed potential impact figures to CDP within this sample, the total potential win amounts to $2.1 trillion, with the potential win linked to policy and regulations amounting to $1.0 trillion.

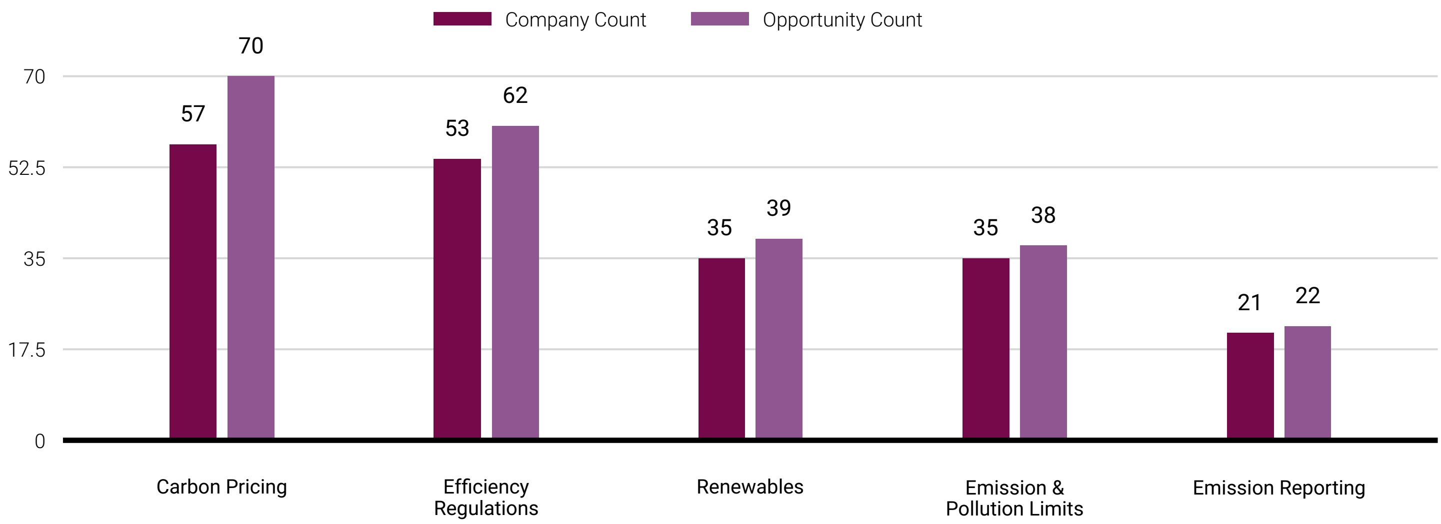
Companies in our sample identify different types of opportunities that can result from both existing and future regulations:

A third of the 366 of the world's biggest companies (34%) reporting to CDP believe that regulations can drive demand for their low - carbon products and services, or the innovative solutions for climate change adaptation they can provide. For example, companies disclose that they will benefit because they are active in a specific, low carbon, industry or sell low-carbon products for which demand will rise.

Almost a quarter of companies (23%) identify opportunities that can result in an improved financial situation. For example, stricter efficiency regulations encourage investments in product and building efficiency that result in energy savings, and subsequently lower operational costs. In jurisdictions where carbon pricing legislation is in place, these investments can lead to further savings through lower carbon costs (taxes and allowances), or additional revenue streams through the selling of carbon credits.

Both of these trends result in some companies (13%) reporting they might realize a competitive advantage. Businesses with strong voluntary environmental commitments already comply with – or can easily adapt to – future regulations, giving them a considerable advantage while other companies would need time to adapt. Others have long specialized on the kind of products and services that are required for the transition towards the low-carbon economy and expect their market share to rise as demand increases.

Regulations driving opportunities



Policy uncertainty is a risk, but the anticipation of policy is a powerful opportunity driver.

Approximately a quarter of the companies analyzed list uncertainty or a lack of regulation as a key risk. In some cases, companies find themselves unable to plan and account for risks related to carbon pricing, with legislation pending or under review with regards to retraction.

Particularly around renewable energy, a lack of clarity about rules and incentives, and in some cases a retraction of these, is identified as a financial or strategic risk to companies. Some companies are working together in sustainability industry groups to drive constructive changes in regulation.[16]

In contrast, when companies are sure – or relatively certain – about the implementation of climate policy, many can see potential financial or strategic opportunities. Indeed, around one quarter of all companies identify opportunities that they expect to materialize if or when future regulation is implemented, or current regulations are strengthened.

16. RE100, The Climate Group & CDP (2018): RE100 Progress and Insights. Moving to truly global impact. Influencing renewable electricity markets. http://media.virbcdn.com/files/fd/868ace70d5d2f590-RE100ProgressandInsightsAnnualReportNovember2018.pdf

HOW READY ARE COMPANIES FOR DISCLOSURE REGULATION?

This section explores the key findings to the question 'How ready are companies for disclosure regulation?'. We begin with an assessment of the risks related to enhanced emission reporting legislation, as identified by the 2,376 companies who disclosed to CDP in 2018 in response to the climate change information request sent by us on behalf of their investors. We chose this sample under the assumptions that these larger, mostly publicly listed, companies are likely to be the first to be subject to disclosure legislation.

Companies consider enhanced emission reporting regulations a low impact transition risk.

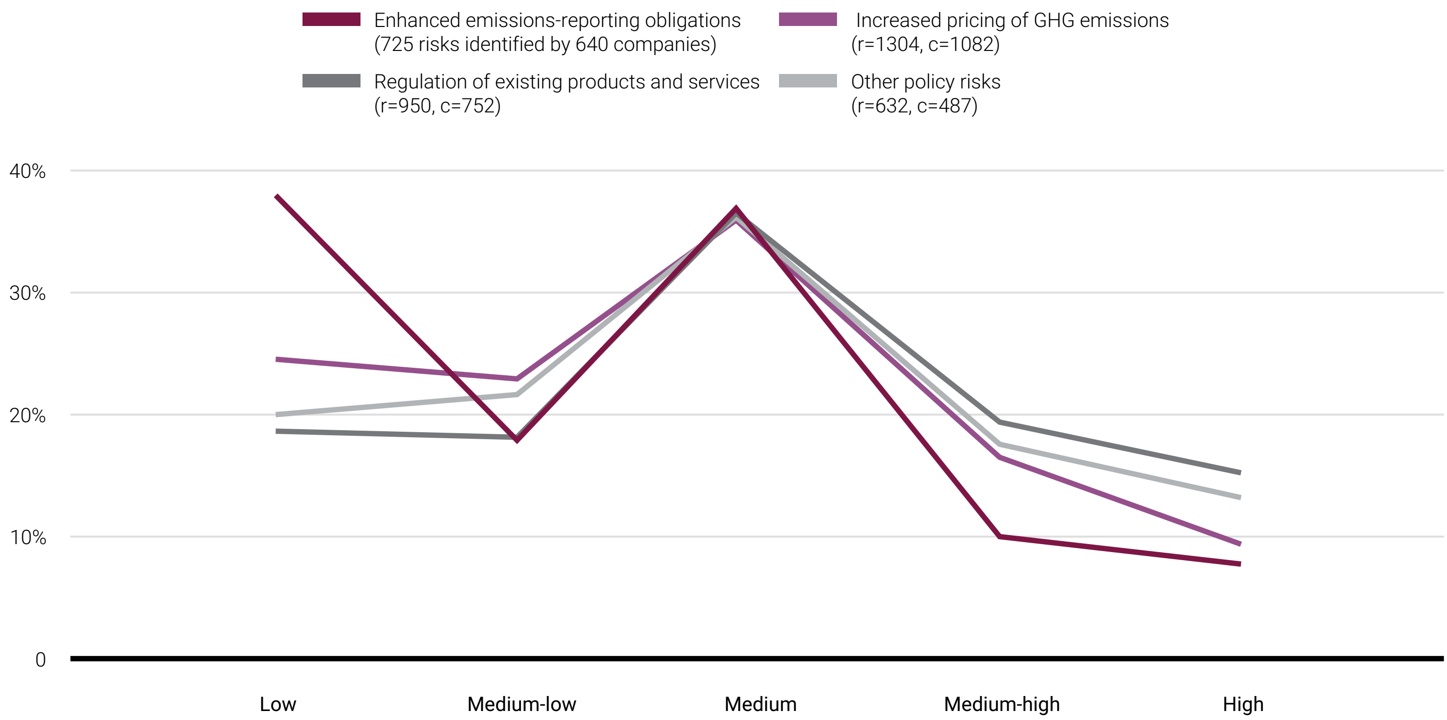
Of the 1754 companies that have identified climate-related transition risks, 452 companies have identified a total of 531 risks related to emission reporting legislation. This makes enhanced emissions reporting the 3rd most frequently identified transition risk. While these companies foresee a high likelihood of additional emissions reporting legislation affecting them in the near future, they consider the impacts of such legislation to be low. Here are the key trends:

- **Companies believe the likelihood of enhanced emissions reporting legislation is high:** For 51% of companies, implementation of enhanced emission reporting legislation is 'virtually certain' or 'highly likely', while a further 33% believes it to be to 'likely' or 'more likely than not'.

- **They anticipate this regulation happening sooner rather than later:** Almost 60% of companies classify increased emission reporting legislation either as a current or short-term risk, only 10% consider it be a long-term risk.[17]

- **However, the impact of this regulation is assessed to be low:** Not only do most companies (38%) consider enhanced carbon reporting obligations to be a low impact risk, they also believe its impact to be lower than that of all other policy-related transition risk.

Companies and their anticipated magnitute of impact of different piolicy risks



17. Companies have very different definitions of what the medium or long-term means – a rough approximation of an average across the sample would be ~5 years for the medium-term and ~10 years for the long-term.

A large number of companies are already disclosing climate-related information in a way that is aligned with the TCFD recommendations.

Enhanced emissions reporting vary from region to region and take many different shapes and forms. The analysis on the previous page does not allow for specific insights into the type of disclosure regulation companies might be ready for.

However, the recommendations issued by the Task Force on Climate-related Financial Disclosure (TCFD) in 2017 can serve as the fundament for such legislation.[18] Large multinational companies by their nature operate globally, and the TCFD provides a set of recommendations, which if applied consistently by all national governments, could minimize the reporting burden on companies.

CDP's climate change information request contains questions that are aligned with the TCFD's core recommendations, covering each of the four thematic areas around which the TCFD is structured: Governance, Strategy, Risk Management and Metrics & Targets, and the eleven supporting recommended disclosures.[19]

Companies responding to all TCFD-aligned questions within the CDP information request are already providing the information the TCFD recommendations call for. This information can support the generation of decision-useful climate information, and ensure full alignment with the TCFD recommendations, if also then integrated into mainstream financial reports.[20]

An analysis of the responses of the same 2376 companies shows that a large number of companies are indeed already disclosing this information:

29%

of companies provide information on all TCFD recommended disclosures through CDP.

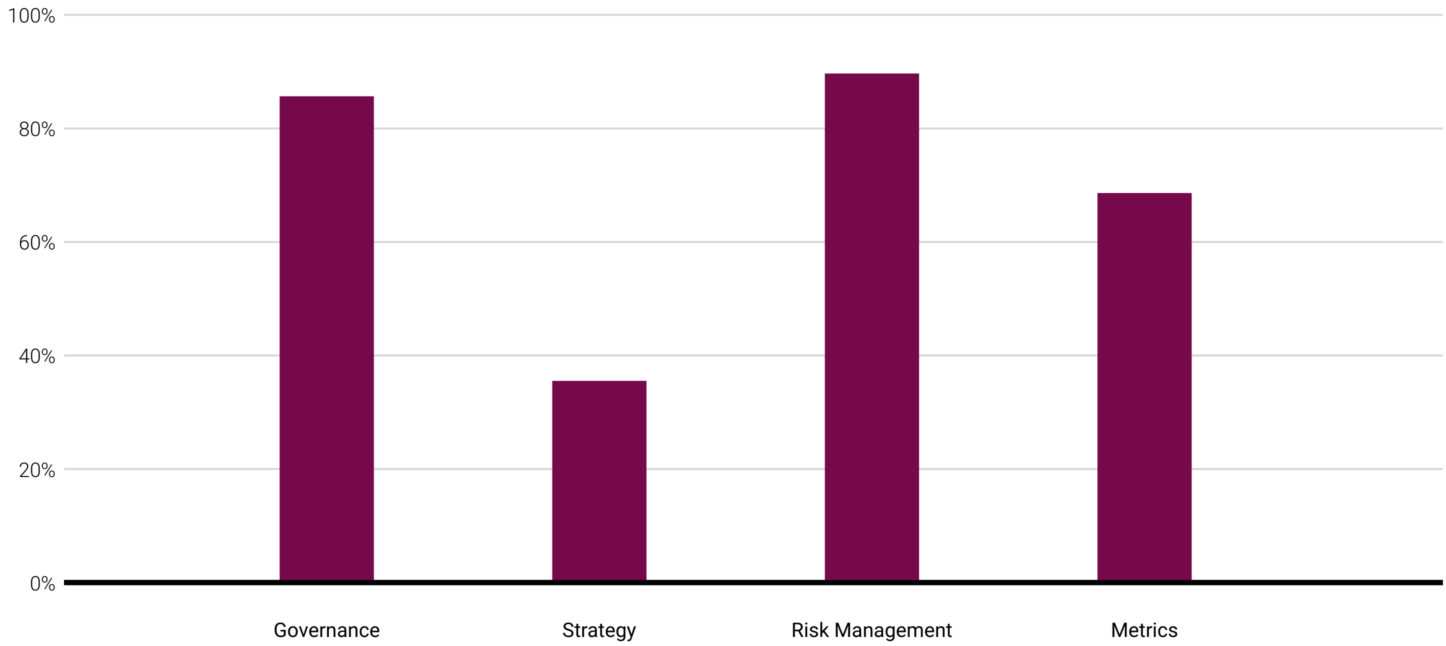
45%

respond to almost all the TCFD-aligned questions, giving no response to either one or two of the questions.

74%

of companies are therefore already disclosing information in response to almost all of the TCFD-aligned recommendations within the CDP questionnaire.

Share of companies responding to all questions under each of the TCFD's thematic areas



18. CDSB & CDP (2019): Roadmap for Adopting the TCFD Recommendations. https://www.cdsb.net/sites/default/files/roadmap_for_adopting_the_tcfd_recommendations.pd
19. CDP (2019): Technical Note on the TCFD. https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/guidance_docs/pdfs/000/001/429/original/CDP-TCFD-technical-note.pdf?1512736184
20. 119 companies (5%) in our sample report that they are indeed already publishing this information in accordance with the TCFD recommendations in mainstream reports.

Where are the gaps?

The graph on page 12 illustrates that disclosure rates differ across the four areas of the core TCFD recommendations. While almost all companies provide information on the Governance and Risk Management recommended disclosures, fewer companies disclose information on Metrics & Targets and particularly Strategy.

Disclosure on Strategy is particularly low, because we see fewer companies disclosing information on the resilience of their strategies under different climate-related scenarios, with only 39% of companies providing a response.

This suggests that two years after the launch of the TCFD recommendations, conducting and disclosing on climate-related scenario analysis still needs to become standard business practice. However, an early look at 2019 disclosure figures suggests a clear trend towards more disclosure, with 46% of the same companies disclosing on scenario analysis in 2019.

TCFD-aligned disclosure and science-based targets go hand in hand

Targets is the second area where we see fewer companies disclosing: Only 74% of companies disclose at least one of the targets they set to manage climate-related risks and opportunities, and their performance against these.

On the other end of the spectrum however, we observe a strong correlation between disclosing on all four core TCFD recommendations and setting ambitious targets, that set companies up for taking the necessary climate action: Four times as many companies have set a science-based target within the group of companies who respond to all TCFD-aligned questions, than within the group of companies who don't.

This strong correlation between disclosure and ambitious targets suggests corporate climate disclosure and action go hand in hand, providing further weight to CDP's recommendation to policymakers to ensure a supportive policy environment for climate-related disclosure.

Some sectors are leading on TCFD-aligned disclosure, but not all sectors are equally prepared

Companies do not disclose consistently well across sector. Leading on consistent disclosure across all TCFD areas are the power, material, fossil fuels and infrastructure sectors – all sectors in which more than 30% of companies provide information on all TCFD recommended disclosures. Sectors falling behind the curve are retail, mineral extraction, services and hospitality with full disclosure rates below 22%.

Mandating the TCFD recommendations is a key way to ensure that companies across all sectors consistently disclose their climate-related information and that the benefits of disclosure are realized globally.

Companies identify a variety of opportunities that can arise from reporting legislation.

The companies disclosing to CDP often have years of experience doing voluntary disclosure and recognize the benefits. Around 250 companies in our sample also identify opportunities specifically related to mandatory emissions reporting. While the opportunities related to enhanced emissions reporting legislation are reported to CDP in a qualitative way, we have drawn out some examples of best practices and opportunities companies are already identifying:

- **Improved management of climate risks**
- **Efficiency savings & emission reductions through better understanding & managing environmental impacts**
- **Increased transparency & accountability**
- **Increased demands for products & services**
- **Reputational benefits & better access to capital**
- **Staff moral & motivation**

> In the UK, the introduction of mandatory GHG reporting in companies listed on the main market of the London Stock Exchange has encouraged greater accountability and transparency and has provided us with greater understanding of opportunity and risk in our investment decision. Jupiter supports the extension of the UK's mandatory GHG reporting to all large UK companies, as well as broader mandatory sustainability reporting for listed companies globally.

Jupiter Fund Management

> Morgan could potentially benefit from opportunities driven by changes in regulation such as reporting obligations which could make Morgan's customers more aware of energy conservation opportunities and thus more likely to invest in efficiency measures thus increasing demand for our products.

Morgan Advanced Materials

> We have been collecting and analyzing our manufacturing consumption data since 1998 and have long-standing emissions reduction programs in place. We have also begun capturing carbon emissions data associated with movement of our finished goods. These actions have also prepared us to minimize any costs associated with cap and trade schemes and fuel/energy taxes. Regulatory emissions reporting under EU ETS and voluntary emissions reporting to USEPA Energy Star and CDP have helped engage the organization and drive program development.

Colgate Palmolive Company

TIME FOR ACTION

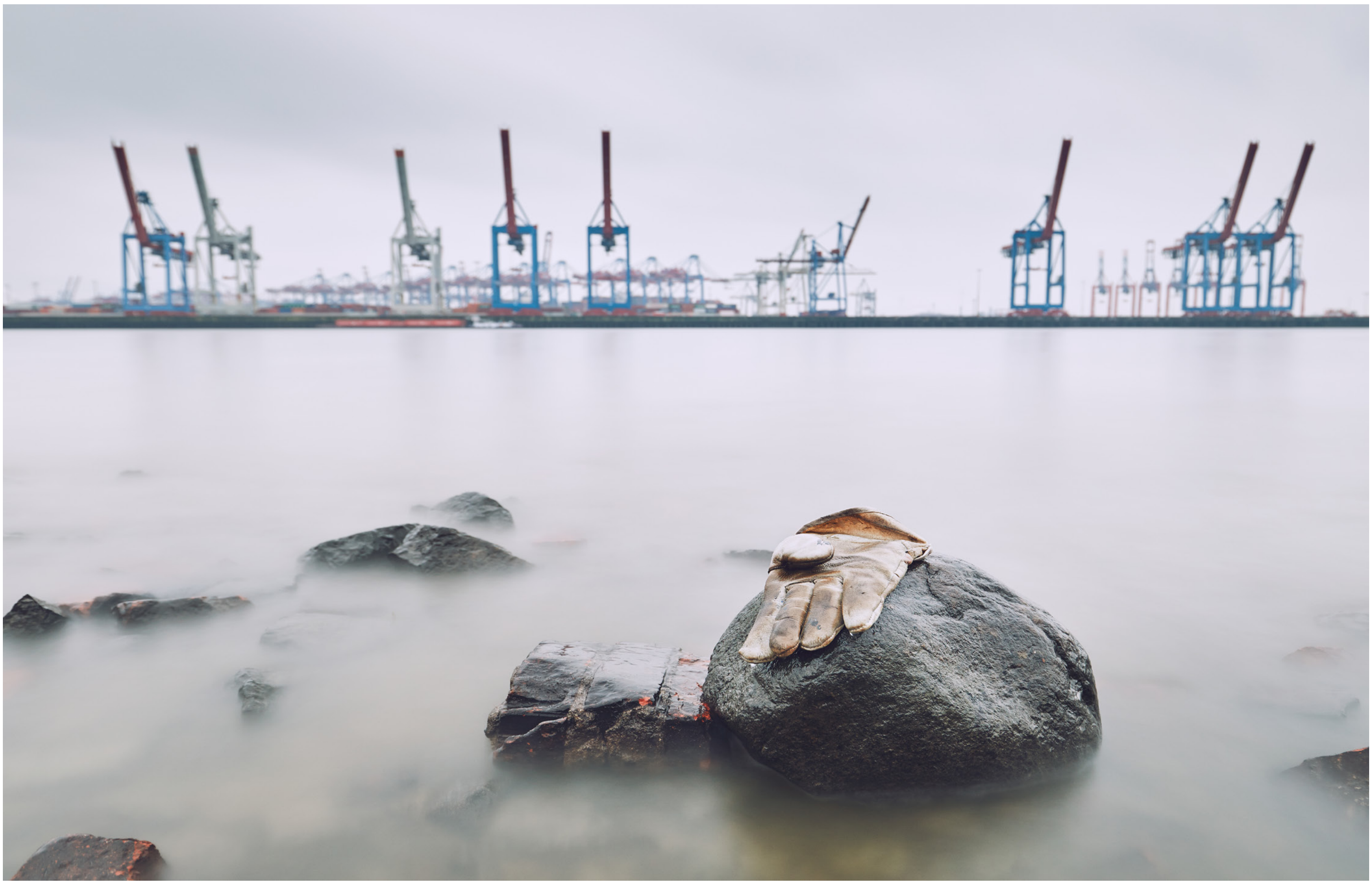
Policymakers and business are taking action, but to achieve the goals of the Paris Agreement a step change is needed.

The companies analyzed for this brief are disclosing that policy, both current and anticipated, is driving action to manage climate change in the private sector, while at the same time creating opportunities. However, too little is happening too slowly: The 2018 report by the Intergovernmental Panel on Climate Change (IPCC) highlights that unprecedented, significant and immediate action is needed to meet the goal of the Paris Agreement and limiting global warming to 1.5 °C above pre-industrial levels will require cutting global emissions in half by 2030.[21] The recent UNEP emissions gap reports that emissions must fall 7.6% annually from 2020 – 2030 in order to do this.[22]

But the action currently taken by companies, government and across societies falls short of what is needed to do this.

According to the latest study by Climate Action Tracker, even if all governments fully implemented their NDCs, the world would be on a pathway towards a 3.0 °C increase in temperature.[23] Both companies and governments need to scale up action to reach the goals of the Paris Agreement. Over 600 companies globally are already taking the necessary action by setting science-based emissions reductions targets, through the Science-Based Targets Initiative, that are aligned with the goals of the Paris Agreement.[24] Indeed, over 100 companies are now ratcheting up their own ambition and demonstrating leadership by committing to ensure that their targets are aligned with limiting global temperature rise to 1.5°C above pre-industrial levels.[25]

It is now time for governments to step up their action and leadership too.



21. IPCC (2018): Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development and efforts to eradicate poverty. https://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf\
22. UNEP (2019): Emissions Gap Report 2019. https://www.unenvironment.org/resources/emissions-gap-report-2019
23. Climate Action Tracker: The CAT Thermometer. https://climateactiontracker.org/global/cat-thermometer/
24. Science Based Targets Initiative: Business Ambition for 1.5°C. https://sciencebasedtargets.org/business-ambition-for-1-5c/
25. UN Global Compact: Business Ambition for 1.5°C https://www.unglobalcompact.org/take-action/events/climate-action-summit-2019/business-ambition

METHODOLOGY AND DEFINITIONS

For the first part of this policy brief, CDP analyzed the responses of the 366 of the 500 biggest companies that disclosed to CDP in 2018, focusing on the replies to the question: Have you identified any climate-related risks or opportunities with the potential to have a substantive financial or strategic impact on your business?

300 companies identified a total of 809 transitional risks, of which 57% were classified as 'policy & legal' risks, as opposed to 'market', 'reputation' and 'technology' risks. For the purposes of this analysis, we analyzed all transition risks to identify those that are primarily related to policy or regulation, creating a broader sample that includes some risks that were originally identified by companies as 'market' or 'reputational' risks, while excluding purely legal risks. We refer to this broader sample as 'policy-related' risks. In addition, 326 companies identified a total of 1174 opportunities. As with policy-related risks, we looked specifically for references to regulation and policy in all opportunities identified to determine those that are primarily policy-related.

For the second part of the brief, we looked at the 2376 companies around the world who responded to the CDP information request in 2018 sent on behalf of their investors, focusing exclusively on the risks and opportunities related to enhanced emission reporting obligations these companies listed in response to the same question. In this sample, 452 companies identified a total 531 risks – some of which were again originally classified as market or reputational risks, but clearly refer to emission reporting legislation. In both cases, we then undertook further qualitative and quantitative analysis of those policy-related risks and opportunities to identify the trends and figures presented in this analysis.

For the analysis of companies' TCFD readiness we focused on the same 2376 companies. To determine whether a company has responded to a TCFD-aligned question[26], we largely followed CDP scoring methodology.[27] We did not conduct any qualitative assessments of the responses. The full methodology is available upon request.

Physical and Transition Risks

The TCFD Recommendations divide climate-related risks into two categories:

- Risks related to the transition to a lower-carbon economy.
- Risks related to the physical impacts of climate change.

Transition risks result from transitioning to a lower-carbon economy and may entail policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption.[28]

26. CDP (2019): Technical Note on the TCFD. https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/guidance_docs/pdfs/000/001/429/original/CDP-TCFD-technical-note.pdf?1512736184
27. CDP (2019): Climate Change 2019 Question level guidance. https://guidance.cdp.net/en/guidance?cid=C1.1b&ctype=ExternalRef&idtype=RecordExternalRef&incchild=1&microsite=1&o-type=ORS&page=1&tags=
28. TCFD (2107): Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures. https://www.fsb-tcfd.org/publications/final-recommendations-report/

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About CDP
CDP is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of US$96 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 7,000 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2018. This is in addition to the over 750 cities, states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP, formerly Carbon Disclosure Project, is a founding member of the We Mean Business Coalition.

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