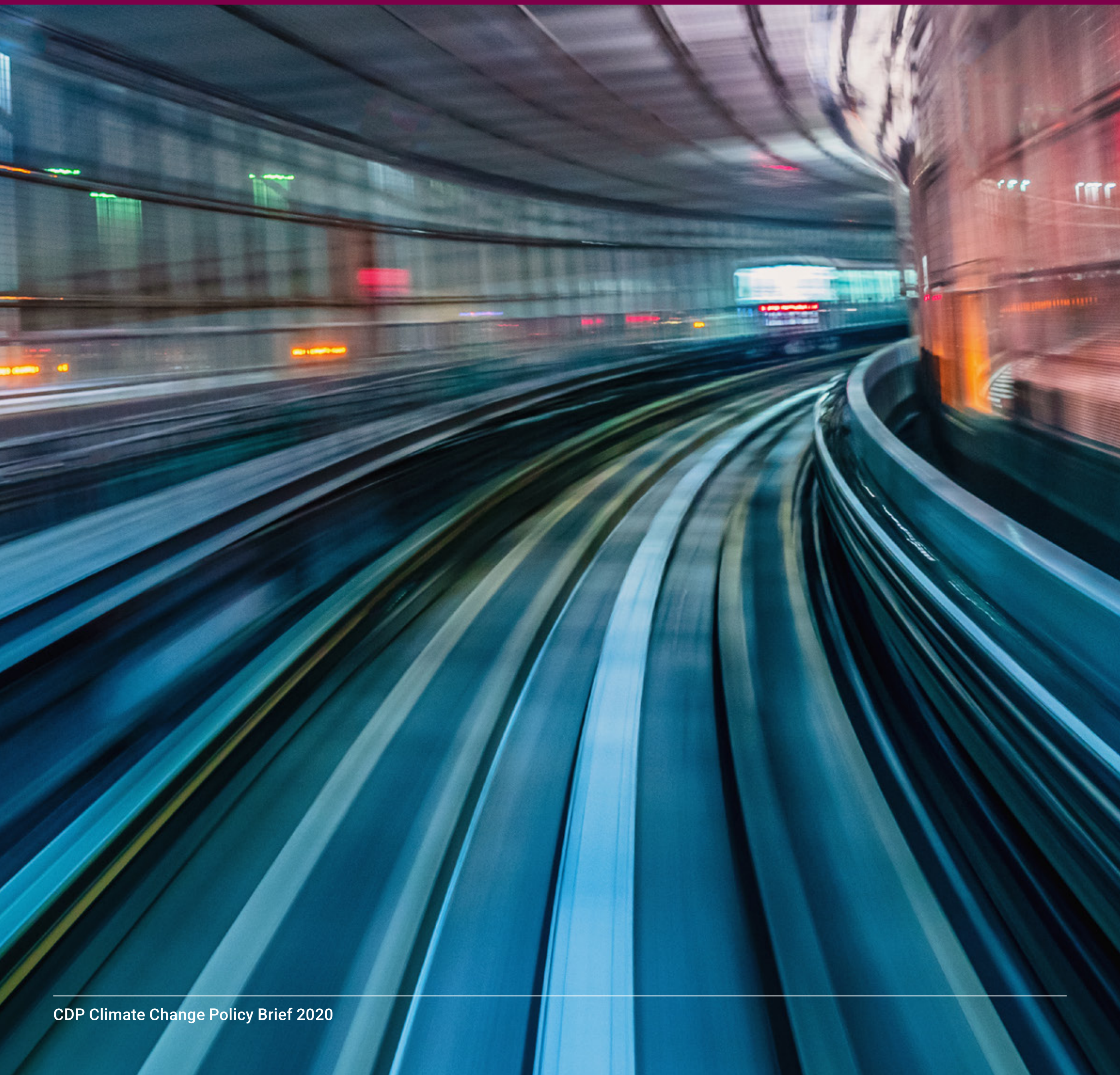
THE TIME FOR ACTION IS NOW

Recommendations for policymakers to incentivize corporate climate action



CDP Climate Change Policy Brief 2020

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FOREWORD

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2020 has been a year like no other. The COVID-19 pandemic has devastated lives, livelihoods, and communities. We are currently grappling with a crisis that is turning economies upside down, while simultaneously dealing with the increasing impacts of the climate and ecological emergency. Whilst this pandemic caught the world off guard, we have long been aware of the damage the climate crisis will wreak. As we approach this critical decade of climate action, we must not squander the time we have left. Governments must act to secure a more resilient, healthy, and sustainable future – and they must act now.

Last year, the United Nations Environment Program released a report with a stark message: Global emissions must reduce by 7.6% year on year, starting in 2020, if we are to remain on track to limit global warming to 1.5°C. Failure to do so means subsequent year on year reductions will require even deeper decarbonization[1].

We know what we must do, and we know when we need to achieve it by. Faced with the uncertainty from the ongoing pandemic - it's important to take stock of the groundswell of actions by non-state actors thus far. At CDP, we work with thousands of companies, investors, governments, and NGOs to drive sustainable economies. And we have seen that the momentum behind climate action is unstoppable.

Over 9,600 companies have disclosed through CDP in 2020, 14% more than in 2019. Over 1,000 companies, with a combined market capitalization of US$15.4 trillion, have committed to set Science-Based Targets – emissions reductions targets that bring them in line with the aims of the Paris Agreement. Investors worth US$27 trillion are working with us to urge companies responsible for causing 25% of global emissions to take science-based climate action.

The launch of the Race to Zero campaign earlier this year has inspired a host of non-state actors to take ambitious climate action. In total, commitments under the Race to Zero now cover just over half of global GDP, a quarter of global CO2 emissions and a third of the population[2].

Governments are waking up to the urgency, too. Since the UK became the first G7 country to pass a net-zero emissions law in July 2019, more and more countries have been raising their climate ambition. We are seeing strong signals of ambition coming from the EU and China, with the EU Commission proposing a new 2030 Climate Target in August and China's 2060 net-zero target announced at the UN General Assembly in September 2020. Since then, Japan and South Korea have also committed to net-zero emissions by 2050, while the Philippines have announced a moratorium on new coal power plants.

These are hugely encouraging signs from governments. However, we need long-term ambition to be backed up by action in the short-term. Strengthened Nationally Determined Contributions should be announced by governments as soon as possible.

We know that governments and non-state actors working on climate action can each inspire the other and unlock 'ambition loops'. But we are running short of time: The decisive decade has already begun. The postponement of COP26 to November 2021 is no excuse for inaction – to the contrary – governments must take action as soon as possible. We therefore propose three recommendations for governments to implement to ensure the net-zero transition remains firmly underway. We need governments and non-state actors to go further, faster, together.

Nicolette Bartlett
Interim Executive Director, CDP

Pietro Bertazzi
Global Director, Policy Engagement, CDP

1. UNEP (2019): Emissions Gap Report 2019. https://www.unenvironment.org/resources/emissions-gap-report-2019
2. UNFCCC (2020): Race to Zero. https://unfccc.int/climate-action/race-to-zero-campaign

EXECUTIVE SUMMARY

- With over 1000 companies now committing to set Science-Based Targets, and 300 business leaders having joint the Business Ambition for 1.5 campaign, it's clear the real economy is stepping up and that support for limiting warming to 1.5°C is increasing. This will require governments to do the same.

- Targets and long-term emission reduction strategies are a critical driver of corporate action on climate change. Governments should therefore strengthen their Nationally Determined Contributions (NDCs) and long-term strategies as soon as possible. Both NDCs and long-term strategies must be in line with 1.5°C and national policies must be aligned and swiftly implemented.

- To ensure progress towards these targets and to manage climate risk, companies and financial institutions must disclose their progress to stakeholders. They are already doing so through CDP: In 2019, almost 70% of publicly listed companies disclosing to CDP provided information on at least 80% of the recommended disclosures suggested by the Task Force on Climate-related Financial Disclosures (TCFD).

- However, to ensure a level playing field and transparency from all economic actors, disclosure should be mandatory. Requirements that embed the TCFD Recommendations within national jurisdictions would create multiple economic benefits, help to accelerate the zero-carbon and climate-resilient transition, and ensure management of risks is embedded within the real economy.

- Those governments that can, should go further: Alongside mandatory TCFD disclosure, governments should use regulatory powers to encourage the development and disclosure of companies' climate transition plans, to ensure that financial sector stakeholders understand and invest in company transitions towards net-zero.

- Nature can and must play a role in climate mitigation and adaptation strategies, but corporate uptake of Nature-based Solutions (NbS) remains low. To capitalize on the co-benefits between nature and climate, governments must recognize and incentivize the role and participation of non-state actors in driving Nature-based Solutions and contributing to ecosystem resilience.

RECOMMENDATIONS FOR POLICYMAKERS

1 Strengthen Nationally Determined Contributions (NDCs) and long-term strategies and ensure that they are in line with limiting warming to 1.5°C

- These plans should be submitted to the UNFCCC at least 9-12 months ahead of COP26 and need to be backed up by comprehensive and aligned national and sectoral policies and plans.

2 Ensure that climate risks are transparently managed across the economy, while transitioning to net-zero

- Mandate environmental disclosure from companies and financial institutions to ensure they are managing climate risks, using the TCFD recommendations where appropriate[3]. Governments that can, should go further: Require an annual vote of a company's climate transition plan at AGMs.

3 Capitalize on nature co-benefits and drive action to reduce deforestation through supply chains

- Provide strong signals, consistent guidance and outline the business case for companies to incorporate Nature-based Solutions (NbS). Mainstream NbS into legislation and regulatory frameworks, improve criteria, metrics, and measurement of NbS and biodiversity. Prevent forests and other high-biodiversity areas from being converted into agricultural land, by requiring due diligence on these issues from companies.

3. TCFD (2017): Recommendations of the Task Force on Climate-related Financial Disclosures. https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

RECOMMENDATION 1

STRENGTHEN NDCS AND LONG-TERM STRATEGIES AND ENSURE THAT THEY ARE IN LINE AND WITH LIMITING WARMING TO 1.5°C

These plans should be submitted to the UNFCCC at least 9-12 months ahead of COP26 and need to be backed up by comprehensive, aligned national and sectoral policies and plans.

Why are we asking governments to urgently strengthen their climate plans?

2020 is a critical year for increasing climate ambition to limit warming to 1.5°C. The 2019 UNEP Emissions Gap report warns that unless global greenhouse gas emissions decrease by 7.6% every year to 2030, the world will miss the 1.5°C temperature goal of the Paris Agreement. By 2030, emissions must be 55% lower than in 2018 to put the world on the least-cost pathway to limiting global warming to 1.5°C[4]. Urgent government action is crucial to ensure that no more time is lost.

The Paris Agreement sets out that Nationally Determined Contributions (NDCs) need to be strengthened every 5 years. With the postponement of COP26 to November 2021, the UNFCCC is now calling on countries to submit NDCs "9-12" months ahead of COP26[5].

Policy is a major driver of actions taken by companies to manage climate impacts[6]. Ambitious NDCs and long-term strategies let business and investors know of long-term investment potential in a sustainable future. By setting more ambitious NDCs, governments are sending strong signals to companies and investors to encourage them to ramp up their climate action, too.

What momentum are we seeing from non-state actors to encourage government efforts?

Over 300 global companies, worth over US$3.6 trillion in market capitalization have already joined the Race to Zero via the Business Ambition **for 1.5°C** campaign, an urgent call-to-action for companies to set emission reduction targets in line with a 1.5°C future, backed by a global network of UN agencies, business and industry leaders. Led by the Science-Based Targets initiative, comprising of CDP, UN Global Compact, WRI and WWF, companies joining the campaign commit to set science-based emissions reduction targets across their entire value chain that are consistent with keeping global warming to 1.5°C above pre-industrial levels.

These companies are not only proving that a 1.5°C-compliant business model is possible, there is also evidence that they will be best-placed to thrive as the global economy transitions to a net-zero future by 2050[7].

Investors are also joining the race to net-zero emissions: A nearly US$20 trillion strong group of 137 financial institutions, including AXA Group, Legal & General Investment Management, Nikko Asset Management Co and Generation Investment Management, is asking companies to commit to climate action in line with 1.5°C and a net-zero future by committing to set Science-Based Targets and join the 'Business Ambition for 1.5°C' campaign.

Investors also need to set net-zero goals themselves. The Science Based Targets initiative's new framework allows financial institutions – including banks, investors, insurance companies, pension funds and others – to set science-based targets to align their lending and investment activities with the Paris Agreement.

To help investors assess, communicate and reduce the impact of their portfolios and products on global temperature, CDP's temperature ratings dataset provides temperature pathways for global companies, based on emission reduction targets covering all relevant emissions in a company's value chain. The ratings reflect the global temperature increase likely to occur if global emissions are reduced at the same speed as the company's emissions, based on its stated target ambition, giving investors a clear, science-based standard for taking and measuring climate action.

This decisive climate action by business and investors further ripples through supply chains: We saw a significant 24% jump in the number of companies asking their suppliers to report environmental data this year as companies who have set targets are increasingly calling on their suppliers to work with them to achieve their targets.

4. UNEP (2019): Emissions Gap Report 2019. https://www.unenvironment.org/resources/emissions-gap-report-2019
5. Costa Figueira, Joana (2020): UNFCCC calls on countries to submit Paris Agreement plans ahead of COP26. http://www.climateaction.org/news/unfccc-calls-on-countries-to-submit-paris-agreement-plans-ahead-of-cop26
6. CDP (2019): Accelerating Corporate Climate Action: The Role of Policy. https://www.cdp.net/en/policy-and-public-affairs/policy-briefings/accelerating-corporate-climate-action
7. SBTi (2020): Business Ambition for 1.5. https://sciencebasedtargets.org/business-ambition-for-1-5c/

Our ambition in CBRE's UK Advisory Business to be net zero by 2030 includes our scope 3 emissions, and we can only achieve this by engaging our suppliers. As the first real estate advisor to become a CDP supply chain member, we are calling on our suppliers in the sector to drive transparency and emissions reductions.

James Lloyd, Procurement Director at **CBRE**

How can corporate and government climate action reinforce each other and create 'ambition loops'?

If governments set similar ambitions and align their short and long-term strategies to this net-zero goal, an 'ambition loop' – a virtuous circle of action can be achieved, in which governments and business respond constructively to each other's signals and together take climate action to the next level[8]. The example of the European Union (see box) highlights how ambitious targets by corporates and governments are already creating such synergies.

Corporate and government action in the EU

The EU is currently in the process of strengthening its 40% GHG reduction target set in 2014, with the Commission originally proposing an increase to 50% or 55% reduction on 1990 levels in the next ten years. The corporate sector shows that more ambition is possible: The SBTi has approved the targets of over 200 European companies so far - if just these 200 targets are achieved, reductions in GHG emissions equivalent to 6% (250 MtCO2e) of the EU's annual total emissions (4,483 MtCO2e in 2017) will be delivered[9].

These companies are therefore already contributing significantly towards achieving the cuts needed for the Commission's proposed reduction. Many companies are also publicly expressing their support for more government ambition:

Our economy and industry can manage this. And they want it too. Just yesterday, 170 business leaders and investors – from SME's to some of the world's biggest companies – wrote to me calling on Europe to set a target of at least 55%[10].

Ursula von der Leyen, President of the EU Commission, recognizing a letter sent to the EU by business and investors – many of whom have themselves set ambitious emissions reductions targets – expressing their support for urgent climate action[11].

8. UNGC, WMB & WRI (2018): The Ambition Loop. https://ambitionloop.org/
9. Wolfrum, Mirjam (2020): The EU can and must cut emissions by more than 55% by 2030. Euractiv. https://www.euractiv.com/section/climate-environment/opinion/the-eu-can-and-must-cut-emissions-by-more-than-55-by-2030/
10. Von der Leyen, Ursula (2020): State of the Union Address. https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655
11. CLG (2020): Business and investor CEO letter on EU 2030 GHG emissions targets. https://www.corporateleadersgroup.com/corporate-leaders-group-europe/business-and-investor-ceo-letter

Governments should be encouraged by the strength of momentum displayed by non-state actors. And governments are starting to act: China, Japan and South Korea have all announced their net-zero intention in 2020. But to really accelerate action **we need all governments to send the signal that limiting warming to 1.5°C is the aim, and strengthen both their shorter term NDCs and long-term strategies in line with this goal**, as part of their obligations under the Paris Agreement.

Building back better

Economies have been hit hard by the impacts of COVID-19. Yet multiple studies have shown that economic recovery and climate action go hand in hand. A recent study in nature suggests that a green recovery could avoid 0.3°C of warming, giving the world a "good" chance of staying below 1.5°C[12]. Moreover, modelling commissioned by the We Mean Business coalition shows that green recovery plans produce the best results for GDP, employment, and emission reductions[13].

The WRI suggests that we should "conceive of COVID-19 recovery and NDCs in terms of building blocks in the same larger structure: green recovery elements provide some of the necessary, near-term foundation for the commitments in NDCs"[14].

12. Forster, Piers M. et al (2020): Current and future global climate impacts resulting from COVID-19. Nature Climate Change 10, 913-919. https://www.nature.com/articles/s41558-020-0883-0
13. Cambridge Econometrics & We Mean Business (2020): Assessment of Green Recovery Plans after COVID-19. https://www.wemeanbusinesscoalition.org/wp-content/uploads/2020/10/Green-Recovery-Assessment.pdf
14. Waskow, David et al (2020): NDC Enhancement and COVID-19 Recovery: Building Blocks for a Sustainable Future. WRI. https://www.wri.org/news/ndc-enhancement-and-covid-19-recovery-building-blocks-sustainable-future

WHAT IS A SCIENCE-BASED TARGET?

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

- Science-based targets (SBTs) provide companies with a clearly defined pathway to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions.
- They ensure that companies are taking shorter term action to reduce emissions at a pace that is consistent with keeping warming to 1.5 degrees, well-below 2 degrees or 2 degrees.
- SBTs undergo a Target Validation and are given a temperature rating by the **Science-Based Targets Initiative (SBTi)**.
- They can be thought of in a similar way to NDCs set by governments – the shorter term action companies need to take to reach the longer term goal.

How do Science-Based Targets and net-zero 2050 targets fit together?

In contrast to Science-Based Targets, corporate 'net-zero' 2050 targets do not currently have a standard definition or commonly agreed requirements, leading to a growing number of high emitting companies stating they will be net-zero in the long term while pursuing a high carbon near-term business models. Some plans may include growing emissions and relying on future unproven tech solutions and/or large amounts of offsets, using long term promises to avoid the short-term action we need to keep a 1.5°C target within reach.

The SBTi which is run by CDP, WRI, WWF and UN Global Compact – along with the We Mean Business Coalition and supporting organizations are now working with companies on science-based net-zero targets, through encouraging companies to sign the **Business Ambition for 1.5** pledge. This pledge aims to align as many large businesses as possible with setting a short to medium term, science-based 1.5°C target and being net-zero well before 2050.

Net-zero for corporates

A recently released paper by the SBTi outlines high-level concepts for how corporates can reach net-zero emissions at the global level, kicking off a process which will result in being able to validate net-zero targets under the SBTi and becoming a standard that can be used for corporate net-zero target setting[15].

The first set of criteria will be ready by the end of this year, with a stakeholder consultation taking place during the first quarter of next year. Final criteria will be released in 2021, launching at COP26. In parallel CDP will continue to drive the adoption of net-zero targets by corporates, by asking them to sign the Business Ambition for 1.5 pledge. They must also set a Science-Based Target, which is the short-term target needed to reach the long-term goal and crucial for the following reasons:

- **To incentivize short-term reductions:** Pathways that limit warming to 1.5°C, assume peaking of emissions before 2020, followed by a deep decarbonization phase, until net-zero emissions are reached around 2050. Decarbonization trajectories in the earlier years (e.g. between 2020 and 2030) are typically steeper than decarbonization trajectories in the later years (e.g. between 2040 and 2050);
- **To maximize accountability:** According to research conducted by Harvard University, the average tenure amongst CEOs in companies with large capitalization (S&P 500) was around 7 years in 2017, while less than 15% of S&P companies have had their CEOs for 15 years or more[16]. Considering this mismatch, companies setting long-term net-zero goals will also need to set quantitative medium-term goals that gives certainty to investors, customers, and other stakeholders that companies are progressing towards their goal to reach net-zero emissions independent of current leadership.

15. CDP (2020): Foundations for science-based net zero target setting in the corporate sector. CDP. https://sciencebasedtargets.org/wp-content/uploads/2020/09/foundations-for-net-zero-full-paper.pdf
16. Marcec, Dan et al (2018): CEO Tenure Rates. https://corpgov.law.harvard.edu/2018/02/12/ceo-tenure-rates/

RECOMMENDATION 2

ENSURE THAT CLIMATE RISKS ARE TRANSPARENTLY MANAGED ACROSS THE ECONOMY, WHILE TRANSITIONING TO NET-ZERO

Mandate environmental disclosure from companies and financial institutions to ensure they are managing climate risks, using TCFD recommendations where appropriate[17]. Governments that can, should go further: Require an annual vote of a company's climate transition plan at AGMs.

Why mandate disclosure?

With strengthened NDCs and long-term strategies, companies will be in a good position to understand governments' direction of travel. Companies and financial institutions must ensure that they are also setting net-zero targets, whilst managing physical and transition climate risks. Climate-related disclosure is therefore a critical tool to both measure and manage progress and to inform stakeholders.

Corporate disclosure of comparable, consistent, and quantifiable information on climate risk is the foundation for transformative action to eliminate it. Such information helps stakeholders including investors, large buyers, policy actors, civil society and consumers make smarter decisions and increase their expectations of companies with respect to sustainability. This in turn compels companies to act.

To ensure a level playing field and the systematic monitoring of risk throughout the economy, governments need to mandate disclosure, including, where appropriate, mandating the adoption of the recommendations of the Taskforce for Climate-related Finance Disclosure (TCFD). The TCFD's 11 recommended disclosures and underlying principles are a useful, universally and internationally accepted framework to promote greater comparability of disclosures and aid investors in their decision-making and capital allocations. Implementing the TCFD recommendations will deliver the quality of climate-related financial information that investors need for decision-making and ensure that companies' exposure to climate risk can be assessed, reduced and managed.

Which governments are already considering TCFD-aligned disclosure?

More and more governments around the world are realizing the advantages of TCFD-aligned disclosure.

- In September 2020, **New Zealand** announced it will become the first country worldwide to implement mandatory TCFD reporting for large banks and insurers – a step that would ensure that around 90% of assets under management in New Zealand fall under TCFD reporting as soon as 2023[18].
- In November 2020, the **UK** became the first G20 country to set out its intention to mandate TCFD-aligned climate-related disclosures across the economy with most measures in place by 2023 and full coverage by 2025[19]. These measures are laid out within a newly published 'Roadmap' and initial steps have already been taken following the publication of the Green Finance Strategy in 2019: The Financial Conduct Authority has recently consulted on a proposal to enhance climate-related disclosures by premium listed issuers by 2021[20] and the Department for Work and Pension is introducing TCFD-aligned disclosure for occupational pension schemes[21]. The Prudential Regulatory Authority also stated that firms should have fully embedded their approaches to managing climate-related financial risks by the end of 2021[22].
- Already in May 2020, the **Canadian** government made TCFD-reporting a requirement for large companies to access COVID-19 emergency loans under its Large Employer Emergency Financing Facility (LEEFF)[23].
- In the **EU**, a range of legislative and non-legislative measures refer to the TCFD recommendations, suggesting that the EU is moving in the direction of mandatory disclosure. Most importantly, in June 2019, the European Commission published new non-binding guideline[24] on corporate climate-related information reporting as part of its Sustainable Finance Action Plan[25]. These guidelines aim to help companies implement the requirements from both the TCFD and the EU's Non-Financial Reporting Directive (NFRD)[26], initially published

17. TCFD (2017): Recommendations of the Task Force on Climate-related Financial Disclosures. https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf
18. Ministry for the Environment New Zealand (2020): Mandatory climate-related financial disclosures. https://www.mfe.govt.nz/climate-change/climate-change-and-government/mandatory-climate-related-financial-disclosures
19. HM Treasury (2020): A Roadmap towards mandatory climate-related disclosures. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf
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23. Prime Minister of Canada (2020): Prime Minister announces additional support for businesses to help save Canadian jobs. https://pm.gc.ca/en/news/news-releases/2020/05/11/prime-minister-announces-additional-support-businesses-help-save
24. European Commission (2019): Guidelines on reporting climate-related information. https://ec.europa.eu/info/publications/non-financial-reporting-guidelines_en#climate
25. Prime Minister of Canada (2020): Prime Minister announces additional support for businesses to help save Canadian jobs. https://pm.gc.ca/en/news/news-releases/2020/05/11/prime-minister-announces-additional-support-businesses-help-save
26. Non-Financial Reporting Directive (2014): https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095

in November 2014 and currently under review[27]. The final report of the Technical Expert Group on the EU taxonomy[28] refers that the NFRD should also include obligations for companies to disclose their taxonomy alignment by environmental objective, consistent with investor disclosure obligations.

Other countries are also starting to explore pathways towards TCFD implementation: In **Brazil**, the Central Bank has recently unveiled a new sustainability agenda, which contemplates the mandatory adoption of the TCFD Recommendations by 2022[29]. At the recent TCFD Summit hosted by **Japan**, the Japanese Financial Services Agency raised the option of using soft law, in the form of the Corporate Governance Code to increase TCFD-aligned disclosure[30].

Are companies ready for mandatory TCFD recommendations?

Through CDP's disclosure platform, companies and financial institutions are already disclosing TCFD-aligned information. To determine to what extent they are doing so, we conducted an analysis of over 2,500 publicly listed companies that responded to CDP's information request in 2019 sent on behalf of investors – worth over US$ 41 trillion in market capitalization. We found that a large number of companies are already disclosing climate-related information through CDP in a way that is aligned with the TCFD recommendations:

69%

(over 1700 companies) are disclosing information on at least 80% of the TCFD's 11 recommended disclosures through CDP;

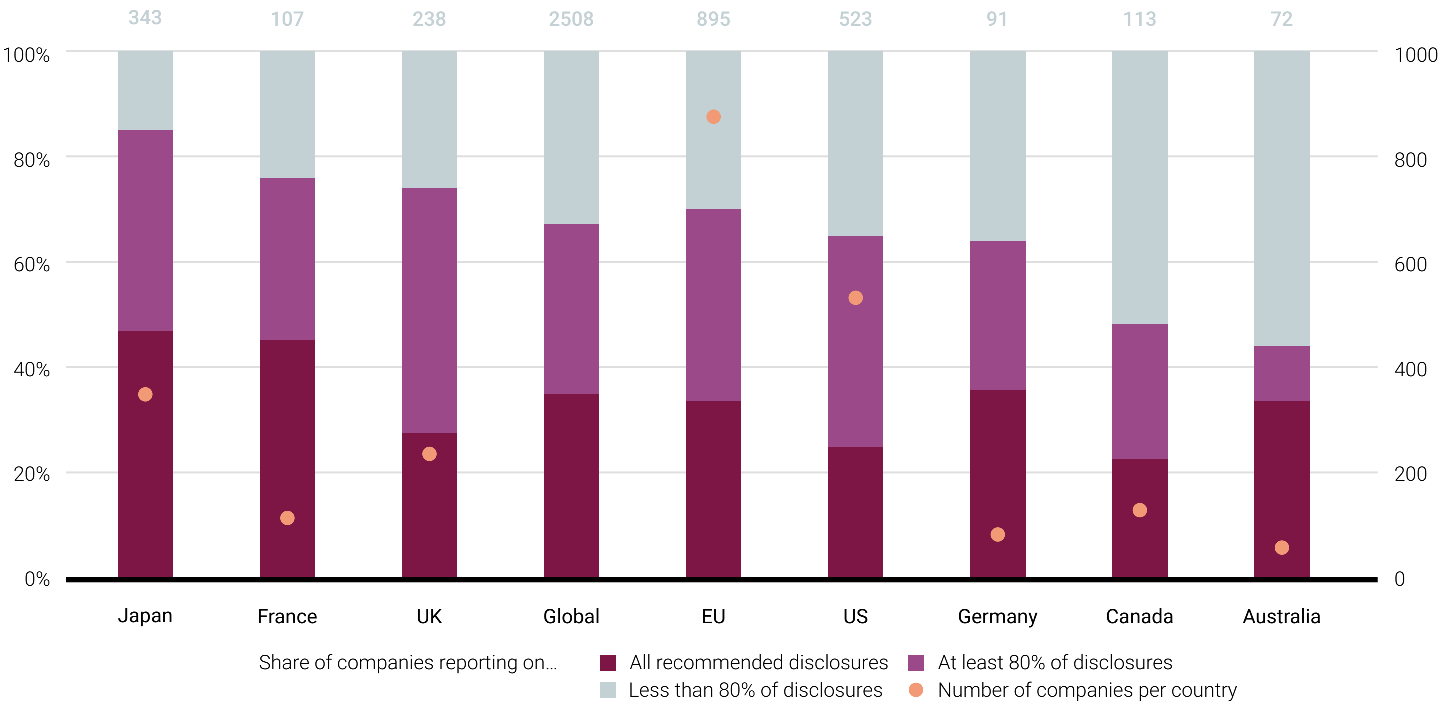
35%

of companies provide information on *all* recommended disclosures and

34%

respond to the majority (9-10) of the recommended disclosures[31].

The state of TCFD-aligned disclosure through CDP



27. European Commission (2020): Public consultation launched by the European Commission on the revision of the Non-Financial Reporting Directive. https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive/public-consultation
28. European Commission (2020): Technical report: Taxonomy: Final report of the Technical Expert Group on Sustainable Finance. https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf
29. Financial Post (2020): Brazil central bank unveils sustainability agenda, will play greater role in policy. https://financialpost.com/pmn/business-pmn/brazil-central-bank-unveils-sustainability-agenda-will-play-greater-role-in-policy
30. TCFD Summit (2020): Livestream. https://www.youtube.com/watch?v=o3kMJNlmfac&feature=youtu.be
31. CDP (2020): CDP disclosure and the TCFD recommendations. A series of 9 Fact Sheets. https://www.cdp.net/en/policy-and-public-affairs/tcfd-overview

Which areas are falling short?

However, the analysis also reveals strong regional and sectoral differences. In jurisdictions such as Australia and Canada, companies are falling behind, while companies in Japan, France and the UK – where mandatory disclosure has been on the horizon - are pushing ahead. When it comes to sectoral differences, Power Generation and Materials sectors lead the way in disclosing on all recommendations whereas Retail, Healthcare and Hospitality are behind the curve.

Disclosure is inconsistent across the four TCFD areas, with companies less likely to disclose on recommendations around scenario analysis and targets:

42% of companies are disclosing information about scenario analysis.

79% of companies disclose at least one of the targets they set to manage climate-related risks and opportunities, and their performance against these, with 48% setting at least either one absolute emission target or one emission intensity target.

11% set an approved Science-Based Target.

This shows that companies are still falling behind on reporting their forward-looking plans, a key element of the TCFD recommendations, and we are pleased to note that the TCFD plans to focus its attention in this area in 2021[32].

To ensure that all sectors are managing financial risks related to climate change and assessing forward-looking metrics it is critical that governments implement mandatory climate-related disclosure.

Can regulation provide the answer?

Mandating the TCFD recommendations is a key step to ensure that companies across all sectors consistently disclose their climate-related information and that the benefits of disclosure are realized globally. CDP's Roadmap for adopting the TCFD Recommendation highlights possible avenues for inclusion of the recommendations into national legislation in the G7 jurisdictions, building up on existing market momentum[33].

Regulatory requirements to implement TCFD recommended disclosure create multiple economic benefits and help to accelerate the transition to net-zero:

- **Financial stability:** Transparency in financial markets leads to appropriate pricing of risk;
- **Mainstreaming zero-carbon finance:** Pricing climate risks into markets will enhance financial flows towards zero-carbon investments, unlocking political deadlock in talks and driving impact;
- **Level playing field:** Voluntary disclosure means some large corporations with high climate-related risk do not report;
- **Quality of reporting:** Regulation provides a minimum quality level, which enables assessment of investment performance by pension funds and savers;
- **Consistency and comparability of information:** Clear requirements for how to report means that the information is useful to governments, investors, banks, savers, pension beneficiaries and other decision-makers[34].

32. FSB (2020): 2020 Status Report: Task Force on Climate-related Financial Disclosures. https://www.fsb.org/2020/10/2020-status-report-task-force-on-climate-related-financial-disclosures/
33. CDSB & CDP (2019): Roadmap for Adopting the TCFD Recommendations. https://www.cdsb.net/sites/default/files/roadmap_for_adopting_the_tcfd_recommendations.pdf
34. CDSB & CDP (2019): Roadmap for Adopting the TCFD Recommendations. https://www.cdsb.net/sites/default/files/roadmap_for_adopting_the_tcfd_recommendations.pdf

BEYOND TCFD: REQUIRE ANNUAL DISCUSSION OF CLIMATE TRANSITION PLANS AT AGMS

As CDP's analysis, as well as the 2020 TCFD status report have highlighted[35], there is still a lack of focus on forward looking metrics when it comes to corporate disclosure. Companies need further guidance and an impetus to disclose on forward looking metrics that outline the steps they are taking to transition to a zero-carbon economy.

We propose that for governments who are well on the way to mandating disclosure, they must emphasize forward looking indicators, and use regulatory powers to encourage the development and disclosure of transition plans.

Capital markets need to understand whether the companies they are investing in are taking the requisite action to meet their climate targets. We believe that shareholder votes on climate transition plans at Annual General Meetings (AGMs) will increase companies' accountability towards their shareholders for their climate plans and be essential to achieve the Paris Agreement. Such votes should therefore be a regulatory requirement.

Governments should encourage investors to base their assessment on the set of principles laid out by the Oxford Martin Net Zero Carbon Investment Initiative, according to which companies should:

- Commit to a timeframe to reach net-zero emissions in line with the Paris goals;
- Demonstrate that they will be able to continue to be profitable once they reach net-zero emissions; and
- Set quantitative mid-term targets to be able to demonstrate progress against their long-term goals'[36].

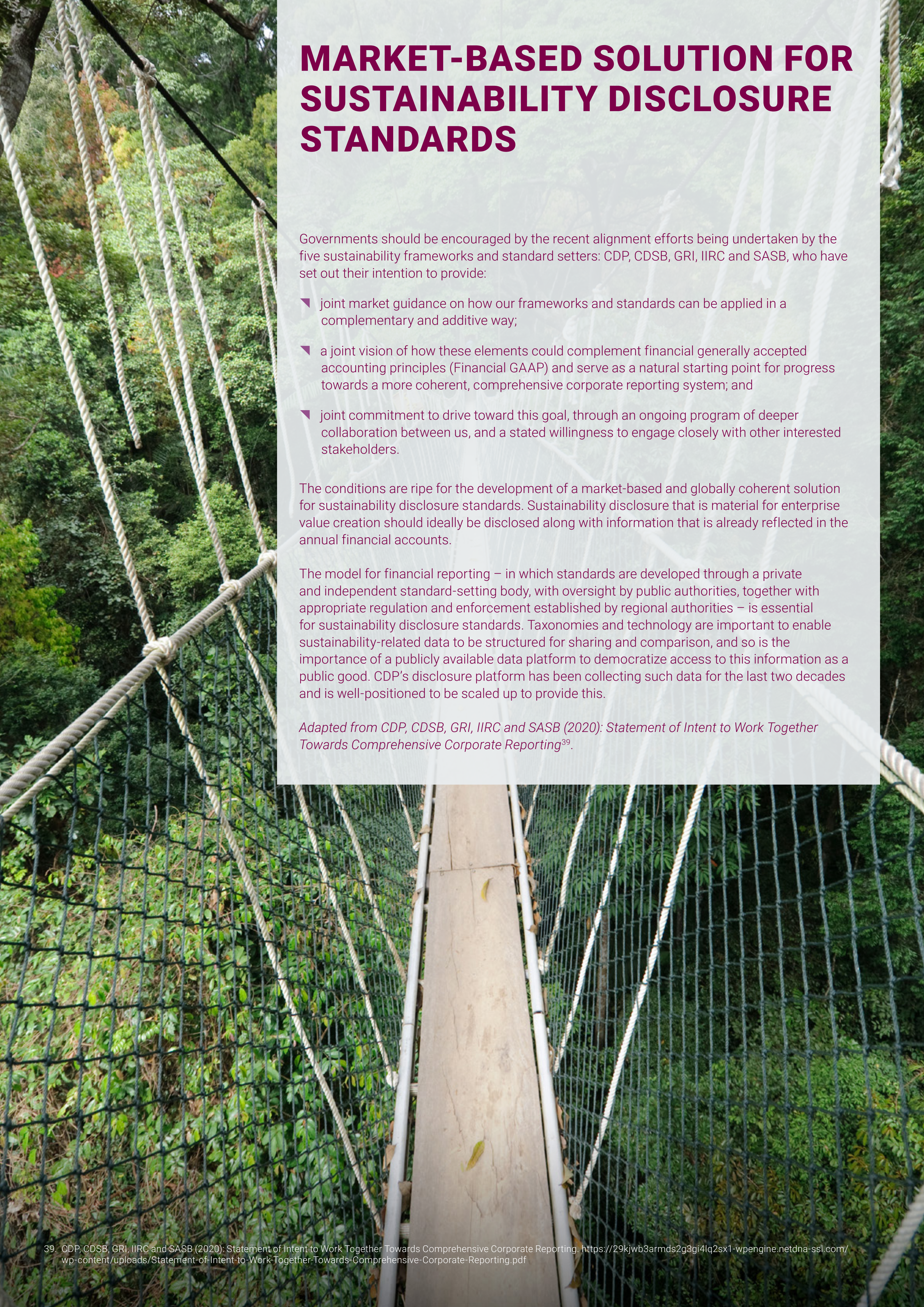
Investors and companies are already starting to take steps in this direction. For instance, Spanish airports operator Aena is set to become the first company in the world to give shareholders an annual vote on its effort to tackle the climate crisis[37].

> As an increasing number of firms disclose their assessment of climate risks, investors should have the opportunity to opine on the quality of these disclosures and so called 'transition plans'…[A] vote on the adequacy of a company's preparedness for the transition to a net zero world… would embed the critical link between responsibility and accountability[38].
>
> **Mark Carney,** former Governor of the Bank of England

Transition Plan: A plan on how to transition the company to a business model that is compatible with a net-zero economy. The transition plan defines how the business model, its associated products and production methods, growth strategy, and capital investments need to develop over time to respond to climate-related risks and capitalize on opportunities.

* The above is CDP's working definition of a transition plan. We welcome engagement on this topic. Further work around transition plans will be published in 2021.

35. FSB (2020): 2020 Status Report: Task Force on Climate-related Financial Disclosures. https://www.fsb.org/2020/10/2020-status-report-task-force-on-climate-related-financial-disclosures/
36. Oxford Martin School (2018): The Oxford Martin Principles for Climate-Conscious Investment. https://www.oxfordmartin.ox.ac.uk/carbon-investment/
37. Keating, Cecilia (2020): Reports: Airport group Aena agrees to annual shareholder vote on climate. Business Green. https://www.businessgreen.com/news/4022196/reports-airport-group-aena-agrees-annual-shareholder-vote-climate
38. FT (2020): Billionaire Chris Hohn forces first annual investor vote on climate policy. https://www.ft.com/content/07e4aa70-a99e-40ea-9b66-2eac47ade0d6



MARKET-BASED SOLUTION FOR SUSTAINABILITY DISCLOSURE STANDARDS

Governments should be encouraged by the recent alignment efforts being undertaken by the five sustainability frameworks and standard setters: CDP, CDSB, GRI, IIRC and SASB, who have set out their intention to provide:

- joint market guidance on how our frameworks and standards can be applied in a complementary and additive way;
- a joint vision of how these elements could complement financial generally accepted accounting principles (Financial GAAP) and serve as a natural starting point for progress towards a more coherent, comprehensive corporate reporting system; and
- joint commitment to drive toward this goal, through an ongoing program of deeper collaboration between us, and a stated willingness to engage closely with other interested stakeholders.

The conditions are ripe for the development of a market-based and globally coherent solution for sustainability disclosure standards. Sustainability disclosure that is material for enterprise value creation should ideally be disclosed along with information that is already reflected in the annual financial accounts.

The model for financial reporting – in which standards are developed through a private and independent standard-setting body, with oversight by public authorities, together with appropriate regulation and enforcement established by regional authorities – is essential for sustainability disclosure standards. Taxonomies and technology are important to enable sustainability-related data to be structured for sharing and comparison, and so is the importance of a publicly available data platform to democratize access to this information as a public good. CDP's disclosure platform has been collecting such data for the last two decades and is well-positioned to be scaled up to provide this.

Adapted from CDP, CDSB, GRI, IIRC and SASB (2020): Statement of Intent to Work Together Towards Comprehensive Corporate Reporting[39].

39. CDP, CDSB, GRI, IIRC and SASB (2020): Statement of Intent to Work Together Towards Comprehensive Corporate Reporting. https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf

RECOMMENDATION 3

CAPITALIZE ON NATURE CO-BENEFITS AND DRIVE ACTION TO REDUCE DEFORESTATION THROUGH SUPPLY CHAINS

Provide strong signals, consistent guidance and outline the business case for companies to incorporate Nature-based Solutions (NbS). Mainstream NbS into legislation and regulatory frameworks, improve criteria, metrics, and measurement of NbS and biodiversity. Prevent forests and other high-biodiversity areas from being converted into agricultural land, by requiring due diligence on these issues from companies.

Nature-based Solutions and climate change: what is the link?

The world's ecosystems, if managed correctly, can provide effective Nature-based Solutions to climate change. NbS is an umbrella term to describe a wide range of ecosystem-based options to mitigate climate change and ensure the sustainability of ecosystems. They can be understood as actions that "incorporate the natural environment that mimic or work in concert with natural processes to provide clean water, clean air, flood, fire and drought risk reduction, and other benefits[40]" and, more broadly, as "actions to protect, sustainably manage and restore natural or modified ecosystems, which address societal challenges (e.g. climate change, food, and water security or natural disasters) effectively and adaptively, while simultaneously providing human well-being and biodiversity benefits[41]."

Conservation, restoration, and the management of ecosystems can play a crucial role in climate change mitigation. Research has shown that Nature-based Solutions can provide over a third of emissions reductions needed by 2030[42]. At the same time, such practices can be important for climate change adaptation, buffering societies from the impacts of climate change and reducing disaster risk. With this dual role, nature can and must play a critical role in climate mitigation and adaptation strategies.

15%

of companies

that responded to CDP's Forest Questionnaire in 2019 are implementing some form of Nature-based Solutions

40%

of companies

do not have a system to control, monitor, or verify compliance with their no conversion and/or no deforestation commitments

What role do companies play?

Companies have a huge role to play in protecting and restoring our ecosystems and nature. At the same time, adopting Nature-based Solutions can play a key role in companies' journeys towards net-zero emissions – as part of a comprehensive, science-based emissions-reduction strategy.

Promising innovations can be seen from first movers: Central Arkansas Water (CAW) is preparing a US$31 million municipal green bond, believed to be the first to buy and protect forests in order to secure clean drinking water[43].

While NbS have been gaining increased attention over the last years, overall corporate uptake remains low: of the 543 companies that responded to CDP's 2019 Forests Questionnaire, 84 (15%) are implementing some form of Nature-based Solutions, with forest conservation activities being the most common, followed by reforestation and support to forest conservation and management[44]. Figures for water-related NbS are even lower: Only 6 companies – out of 2433 that responded to CDP's water questionnaire in 2019 – reported implementing Nature-based Solutions, although the number rose to 9 in 2020.

Companies similarly still need to improve their disclosure of environmental due diligence. Of the 301 companies that report having forest-related commitments or policies in response to CDP's forest questionnaire in 2020, more than one third (40%) have no system in place to control, monitor, or verify compliance with their no conversion and/or no deforestation commitments. This due diligence gap may be of concern to both consumers and policymakers and makes it harder for these stakeholders to assess company progress against their publicly made commitments.

40. The Nature Conservancy (2019): Strategies for Operationalizing Nature-Based Solutions in the Private Sector. https://www.nature.org/content/dam/tnc/nature/en/documents/NBSWhitePaper.pdf
41. IUCN (2016): Nature-based Solutions to address global societal challenges. https://portals.iucn.org/library/node/46191
42. Griscom, Bronsom W et all (2017): Natural climate solutions. PNAS October 2017, 114 (44) 11645-11650. https://www.pnas.org/content/114/44/11645
43. Environmental Finance (2020): First green bond to secure drinking water by buying forests proposed. https://www.environmental-finance.com/content/news/first-green-bond-to-secure-drinking-water-by-buying-forests-proposed.html
44. CDP (2020): Unlocking Nature's Potential. Policy Brief. https://www.cdp.net/en/reports/downloads/5168

How can policymakers capitalize on these co-benefits and ensure due diligence?

The low corporate uptake of NbS suggests that the private sector presents a largely untapped opportunity for the implementation of NbS that benefits business, society, and the planet.

Increased corporate environmental transparency is urgently needed to understand how companies impact nature within their supply chains, as well to provide the private sector with the right incentives to step up climate action, including the increased adoption of NbS and shifting investment towards sustainable practices. Moreover, the criteria, metrics, and measurement of NbS and biodiversity must be improved, with Science-based Targets for nature outlining the direction of action[45].

Institutional arrangements to facilitate public-private partnerships for the implementation of Nature-based Solutions should be fostered at all jurisdictional levels. Intra-governmental dialogue and mainstreaming environmental targets will foster awareness and institutional stability across policy spaces, enabling companies to be more confident in their business planning.

Environmental due diligence regulation that includes clear regulation and legally binding agreements aimed at halting all deforestation and forest degradation can help to address this. The UK's consultation on due diligence on forest risk commodities[46] is a step in the right direction. However, to effectively prevent deforestation, such laws need to go beyond illegal activities and apply to all relevant businesses, regardless of size.

Mainstream Nature-based Solutions into legislation and regulatory frameworks

NbS must be mainstreamed into legislation and regulatory frameworks within the NDCs, the Post-2020 Global Biodiversity Framework, and the SDGs[47]. Situating NbS as a cross-cutting policy tool would not only streamline efficient implementation of projects and more accurate measurement of their impacts impacts, but also reduce unintentional, or even potentially negative, impacts on nature on the way to reaching net-zero emissions.

CONCLUSION

The time for action is now. To make sure that the world transitions to net-zero by 2050 at the latest, we urge policymakers to take the following three actions:

In 2020 governments must send a clear signal to companies that their ambition is in line with the 1.5°C temperature target of the Paris agreement, and enhance their NDCs. In 2021 we need governments to regulate environmental disclosure to embed climate risk management in the economy and require companies to ensure their transition is on track, whilst ensuring credible Nature-based Solutions play their critical role in climate adaptation and mitigation.

45. SBTN (2020): Science-based targets for nature. Initial Guidance for Business. https://sciencebasedtargetsnetwork.org/resources/guidance/
46. DEFRA (2020): Due diligence on forest risk commodities. https://consult.defra.gov.uk/eu/due-diligence-on-forest-risk-commodities/
47. IUCN (2019): Nature-based Solutions in Nationally Determined Contributions. https://www.naturebasedsolutionsinitiative.org/wp-content/uploads/2019/09/NBS_in_Nationally_Determined_Contributions_final_web.pdf

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About CDP
CDP is a global 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 over US$106 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 9,600 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2020. This is in addition to the hundreds of 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 is a founding member of the We Mean Business Coalition.

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