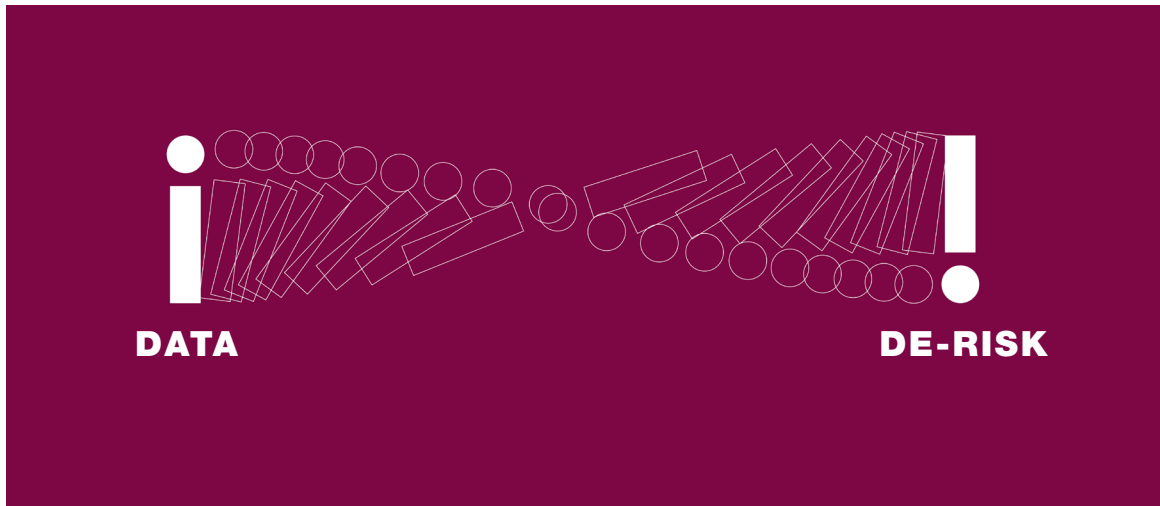


## A CHANGING CONTEXT FOR DISCLOSURE: FROM DATA TO DE-RISKING

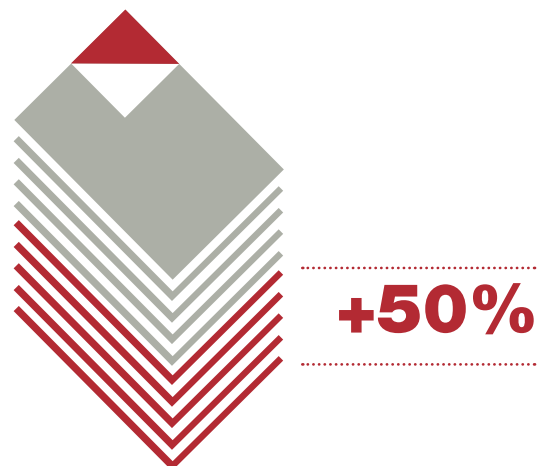


**For companies disclosing climate-related information, the rules of the game are changing. Investors, regulators and policy makers are increasingly seeking a deeper understanding of a company's climate risks and opportunities. The Task Force on Climate-related Financial Disclosures (TCFD) is heralding a step-change in regulatory engagement with the issue. Meanwhile, the Paris Agreement has provided not only the opportunity but also the obligation to go further on climate change.**

**While the pressure is on for the laggards to begin to disclose, existing disclosers and users of information can benefit from more robust, relevant and actionable information to manage risk and drive financial performance and sustainability.**

**Since 2001, CDP's mission has been to encourage companies and other organizations to disclose information regarding climate risk. We are backed by more than 800 institutional investors, who represent US\$100 trillion of assets.**

**Last year, companies representing more than 50% of the combined market capitalization of the G20 reported climate-related data to CDP.**



*This is based on the combined market cap of companies responding to CDP's investor request for climate-related data in 2015, as a proportion of the total value of the primary securities of every company on every G20 country's stock exchange.*

**CDP and our sister organization, the Climate Standards Disclosure Board (CDSB), strongly support the work of the TCFD. We believe that, with our experience over the last 15 years, we can help support the taskforce with its objectives. This thought-piece seeks to inform how climate disclosure might best evolve, and makes some suggestions as to the infrastructure that will be needed to support it.**

## **THE TASKFORCE ON CLIMATE- RELATED FINANCIAL DISCLOSURE**

**By the end of 2016, the TCFD will publish recommendations for voluntary corporate disclosures of climate-related financial information. This will help investors, lenders, insurers and other financial market stakeholders better understand the climate-related physical, regulatory and liability risks they need to disclose. Given the profile of the taskforce we expect it to be able to engage the boards, CEOs, CFOs and CIOs of both corporations and investors.**

**The TCFD was convened by the Financial Stability Board (FSB), following a request from the G20, and is chaired by Michael Bloomberg. It is modeled on the FSB's Enhanced Disclosure Task Force, which was set up to respond to the global financial crisis and improve risk disclosures by banks.**

## **WHAT SHOULD EFFECTIVE DISCLOSURE LOOK LIKE?**

### **EFFECTIVE DISCLOSURE SHOULD BE:**

- ▼ **Consistent** - in scope and objective across the relevant industries and sectors;
- ▼ **Comparable** - to allow investors to assess peers and aggregate risks;
- ▼ **Reliable** - to ensure users can trust data;
- ▼ **Clear** - presented in a way that makes complex information understandable; and
- ▼ **Efficient** - minimizing costs and burdens while maximizing benefits.

# DISCLOSURE – FROM DATA TO DE-RISKING

**Investors recognize that financial and non-financial disclosure is evolving. Future disclosure needs to reflect the changing environmental, financial and political global landscape. Such disclosure will provide a more complete picture of a company's ability to transition to a low-carbon economy. This will support investors with the actionable information they need to manage climate and financial risk – allowing them to de-risk portfolios.**

**Below, we outline how we see the future of disclosure and how policy makers, regulators, investors and corporate advocates of climate change disclosure might support its needed evolution from a focus on climate data towards one that emphasizes de-risking.**

**To that end, disclosure guidelines should be drafted that are:**

## **REGULATORY READY**

The TCFD proposals will be voluntary. As organizations that have developed voluntary reporting systems and frameworks, CDP and CDSB understand the need for regulatory 'gaps' to be filled by voluntary practice. However, we support the development of voluntary recommendations whose characteristics make them suitable for adoption into regulatory frameworks across jurisdictions and with developments over time.

Proposals for the G20 and other forums need to be drafted with national (and regional) regulatory frameworks in mind. They need to be sufficiently robust as to be amenable to legal enforceability. They must allow for consistent adoption across jurisdictions – giving multinational enterprises the consistency and clarity they seek for reporting purposes. Finally, information should be prepared with the existing mainstream reporting model in mind, to embed this information into established and trusted systems that are used to inform financial markets.

## **TO THE BENEFIT OF DISCLOSERS**

Our experience shows that if environmental disclosure frameworks are appropriately constructed, disclosing companies themselves can derive real benefits from them.

For companies beginning to disclose, the process of collecting relevant information can help illuminate exposure to material environmental risks and opportunities and drive bottom-line efficiency savings. For example, target setting can help integrate sustainability objectives into corporate strategies, and disclosing in line with trajectories towards wider societal climate targets, such as the 2°C ceiling, can reduce the risk of stranded assets and ensure companies' longer-term sustainability.

By creating corporate buy-in to the disclosure process, disclosure rates for voluntary initiatives rise, and corporate opposition to mandatory disclosure requirements is defused.

## **FORWARD LOOKING**

Existing financial and non-financial disclosures typically focus on past performance. In a world where the future is unlikely to resemble the past, such backward-looking snapshots will not provide an adequate guide to climate risk. A changing climate presents physical risks that are difficult to predict. Climate policies and technology cost curves are likely to be subject to exponential changes, rather than linear evolution. Markets will respond in unpredictable ways.

Fundamentally, the global economy is expected to undergo a transition – from almost total fossil fuel dependence to a largely decarbonized state – of unprecedented scale and speed. Backward-looking disclosures will not be sufficient enough to allow investors and other stakeholders to understand how companies are positioned to manage this transition.

Companies face challenges in making forward-looking statements; more work needs to be done by accounting standard-setters and regulators to provide the enabling environment for such disclosures.

**RELEVANT  
AND  
RESPONSIVE  
TO CHANGE**

Corporate disclosure evolves. Metrics that are appropriate now may be less appropriate in the future. Guidance, recommendations and policy must allow for new types of climate-related information to be incorporated.

This is especially the case with a fast-evolving field such as climate risk – a field that has little in the way of historical precedent to provide guidance. Our experience over the last decade and a half has shown that, as understanding increases, new indicators emerge that can provide more valuable insights into exposures and opportunities.

Regulators, investors and companies themselves need to be mindful of the ultimate objective – economy-wide decarbonization leading to alignment well below the 2°C pathway – rather than focusing on narrower targets.

**ABLE TO  
CHANGE  
CORPORATE  
BEHAVIOR**

Climate-related disclosure must be framed in a manner that allows investors and other stakeholders to better understand climate risk and opportunity, but it must also enable them to influence corporate behavior towards minimizing climate risk.

The goal, as set in the Paris climate agreement, is to reduce greenhouse gas emissions so as to hold climate change to well below a 2°C rise in average global temperatures, and ideally to significantly below that. Disclosure should help investors understand if they need to engage with companies to help them better contribute to that goal, shift investment away from risky stocks, or increase investment in those developing solutions orientated services and business models.

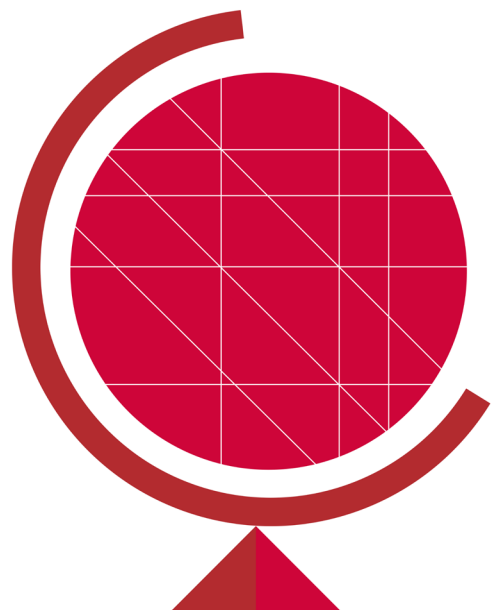
## **BUILDING A GLOBAL REPORTING INFRASTRUCTURE**

At GDP and CDSB, we believe that the evolution from a focus on climate data to the active de-risking of portfolios will help underpin the evolution of effective, actionable climate-related financial disclosure. This approach should inform guidance, recommendations and policy from policy makers, regulators, accounting bodies and investors.

But there are also practical steps to be taken to successfully implement disclosure. Considerable technological and knowledge-based infrastructure is required to help companies disclose, and to help investors and other stakeholders efficiently access and analyze the information.

The process of disclosure is made considerably more straightforward if a common platform is in place through which organizations can disclose, and if a common reporting language is adopted, alongside structured digital reporting using a standard such as XBRL. A common platform also facilitates dissemination of the information among capital markets, policy makers and regulators.

There is also a need, especially with voluntary disclosures, for quality control mechanisms. Disclosures that fail to extend beyond boilerplate declarations, which paint an incomplete picture, or are simply inaccurate or misleading, can quickly undermine the credibility of entire reporting programs.



## CONCLUSION

**With more than 15 years of experience, CDP and CDSB understand disclosure and how it is evolving. In future, companies will be better placed to understand what the data means for them and what success looks like by comparing with their global peers and best practice within and beyond sectors.**

**The last year has seen the beginnings of a leap forward in the understanding, disclosure and response to climate-related financial risk. The foundations are being laid for more material, insightful and actionable disclosure by companies of climate risks and opportunities – disclosure which we believe will help inform investment and change corporate behavior.**

**At CDP and CDSB we look forward to adopting the recommendations of the TCFD into our market led disclosure platform so that by 2018 we can have more than half the world's companies voluntarily disclosing against those recommendations. We will also be delighted to support the G20 and other governments as they move to mandate further climate disclosure requirements over time.**

