TCFD Insights Series

FTSE 350

October 2022

In 2021,

64%

of companies (225) listed on the FTSE 350 index disclosed through CDP.

In 2021, 225 companies (64%) listed on the FTSE 350[1] index, representing a market capitalization of over US$2.5 trillion[2], responded to CDP's climate change questionnaire.

This insight piece investigates the disclosing organizations' alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the reported financial impacts of climate-related risks and opportunities. View CDP's TCFD Insights series for more information.

1. Financial Times Stock Exchange 350 Share Index.
2. This data reflects the FTSE 350 index as of September 1, 2020, and the companies' responses to CDP's 2021 Climate Change questionnaire.

Key findings

- Only **14%** of the 225 disclosing FTSE 350 companies provided information on all of the TCFD-related questions.
- The reported potential financial benefits of climate-related opportunities in aggregate are twice as high as the potential financial impacts of climate-related risks.
- In aggregate, it is far less costly for businesses to manage their risks than bear the potential financial impacts of the risks materializing (**US$35 billion** vs. **US$102 billion**).
- Aggregated across all disclosures, the cost of realizing climate-related opportunities is much lower than the potential financial benefits of the opportunities (**US$39.7 billion** vs. **US$118.6 billion**).
- About half of the disclosing companies reported having developed a transition plan, however, only nine companies responded to all the key indicators of a credible climate transition plan.

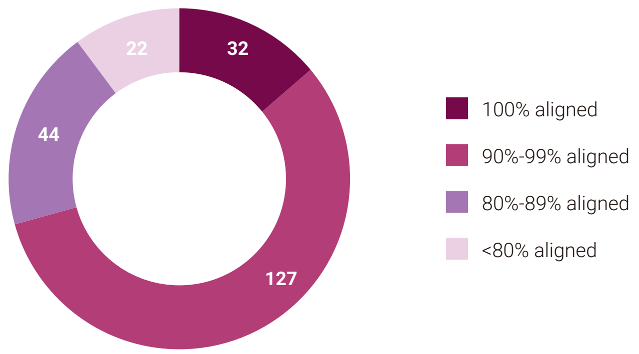
In April 2022, the UK mandated TCFD-aligned disclosure for the country's largest traded businesses, banks and insurers[3]. This will help financial decision makers understand businesses' financial exposure to climate-related risks through clear, comprehensive and consistent information. Inadequate information about risks can lead to mispricing of assets and misallocation of capital that can potentially lead to concerns about the stability of financial markets and their vulnerability to abrupt corrections.

Additionally, this insight piece looked into the disclosers' transition plans using a set of CDP indicators[4]. This is in response to the UK government's announcement to mandate transition plans for listed companies and financial institutions by 2023[5].

TCFD alignment overview

1 Over 90% of disclosing companies reported against at least 80% of the TCFD-tagged questions. However, as visualized in Figure 1, only 32 companies (14% of the sample) have fully aligned disclosures[6].

Figure 1: TCFD alignment – count of disclosing companies



3. Press release – Gov.UK.
4. The set of indicators were developed by CDP, elaborated in the report: ARE COMPANIES BEING TRANSPARENT IN THEIR TRANSITION.
5. Publication - Gov. UK.
6. A company disclosure is counted as fully or 100% aligned with TCFD recommendations if the information has been provided against all the 25 TCFD-aligned questions; 90-99% aligned are responding to 23-24 questions; 80-89% aligned are responding to 20-22; and <80% refers to the rest of companies that are responding to less than 20 questions. This doesn't represent the qualitative assessment of the response.

2

FTSE 350 companies demonstrated a high degree of alignment with governance-related disclosures whereas strategy disclosures are the least aligned.

Table 1: FTSE 350 disclosing companies' alignment with TCFD thematic areas and performance against key indicators

Thematic area	Aligned disclosures (% of sample)[7]	Key indicators	Response (% of sample)
Governance	94%	Disclosed having board-level oversight for climate-related issues	99%
Strategy	34%	Strategy or financial planning being influenced by climate-related risks and opportunities	95%
		Disclosed having developed a low-carbon transition plan	50%
		Reported using quantitative and qualitative scenario analysis	37%
Risk management	44%	Have processes to identify and assess climate-related risks and opportunities	95.5%
		Reported covering the whole value chain in their risks assessments	67.5%
Metrics and targets	79%	Disclosed having an active emissions target in the reporting year	80%
		Have targets approved by the SBTi[8]	10%
		Reported both Scope 1 and Scope 2 emissions	98%
		Reported at least one category for Scope 3 emissions[9]	90%
		Disclosing implementation of an internal carbon price	26%

7. The percentages in this column reflect the proportion of companies that are aligned with all the indicators (captured within the CDP questionnaire) within each thematic area. These include the key indicators but are not limited to them.
8. Verified with SBTi with a cutoff date of 31st December 2020.
9. The Task Force encourages organizations to disclose scope 3 emissions - subject to materiality. CDP analysis shows that a high proportion (85%) of disclosing S&P 500 companies reported scope 3 emissions however the proportion is relatively low in material categories in comparison with categories that aren't material to the nature of business such as employees commuting and business travel. CDP's Technical Note: Relevance of Scope 3 Categories by Sector responds to this need and signposts the categories that companies should be measuring and taking action to mitigate.

Climate-related risks and opportunities in focus

A vast majority of the companies identified climate-related risks and opportunities with substantial financial or strategic impact on their business.

82% identified both climate-related risks and opportunities

6% identified only climate-related opportunities

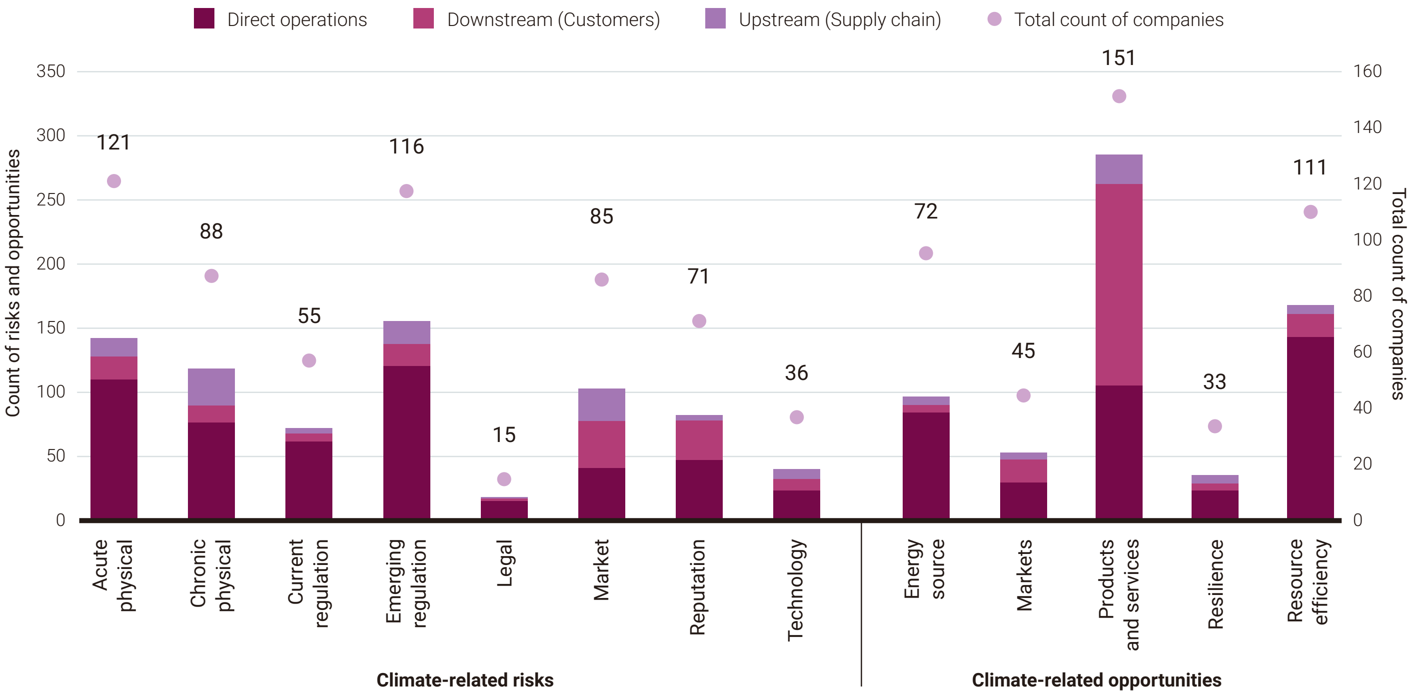
2% identified only climate-related risks

10% have not identified any climate risks and opportunities, or have not provided a response

Risks and opportunities in the value chain

The disclosures analyzed suggest that the majority of risks and opportunities reported by companies were identified in their direct operations (**Figure 2**) – a trend that was also identified in our analysis of the S&P 500 sample. This reflects the finding that one-third of the disclosing companies reported not having a process that covers their entire value chain (**Table 1**).

Figure 2: Reported climate-related risks and opportunities in the value chain stages



The most frequently reported risk types are acute physical risks (121 companies, 54% of the sample) and emerging regulations (116 companies, 51% of the sample). On the other hand, most companies reported opportunities related to products and services (151 companies, 61% of the sample) and resource efficiency (111 companies, 49% of the sample).

Financial implications of climate-related risks and opportunities

The reported benefits of climate-related opportunities are about two times higher than the potential financial impacts of risks.

The aggregated financial impact of emerging regulations was up to

US$141 bn

Up to

US$29 bn

was estimated as driven by increased severity and frequency of extreme weather events.

Up to

US$27 bn

was reported as the potential financial impact of climate-related market risks.

Out of the 90% of disclosing companies that identified climate-related risks or opportunities, **approximately one-third did not provide potential financial impact figures**[10]. A similar observation was identified in the analysis of the S&P 500 index. Aggregating the responses of this FTSE 350 sample, climate-related risks can have a potential financial impact ranging from US$221-259 billion. The reported benefits of climate-related opportunities are about two times higher – ranging from US$404-519 billion.

Financial impacts of climate-related risks

1 Top three climate-related risks based on their potential financial impact:

- **Emerging regulation:** The aggregated financial impact of this risk was up to US$141 billion, with mandates and regulation of existing products and services being the major drivers (up to US$118 billion). Many financial services companies (mainly banks) reported emerging regulations as a possible credit risk from clients unable to repay debts due to higher climate-related business costs.
- **Acute physical:** Driven by increased severity and frequency of extreme weather events, the potential financial impact was estimated to be up to US$29 billion. Figures reported by the financial services sector (mainly insurance companies) make up the highest share of this figure.
- **Market:** Up to US$27 billion was reported as the potential financial impact of climate-related market risks. Changing customer behavior represents over half of this figure. Financial services constituted the highest proportion here as well with a financial impact value of about US$7 billion. For this sector, a key risk-driver is the inability to attract co-financiers and/or investors and is estimated to cause an impact of around US$5 billion.

2 About 75% (up to US$205 billion) of the potential financial impact is assessed as “likely”, “very likely” or “virtually certain” to materialize.

3 In terms of the time-horizons reported, about 80% (up to US$218 billion) of the total potential impact figure could materialize over the short to medium term.

10. 147 and 137 companies provided financial impact figures for climate-related risks and opportunities respectively.

Financial impacts of climate-related opportunities

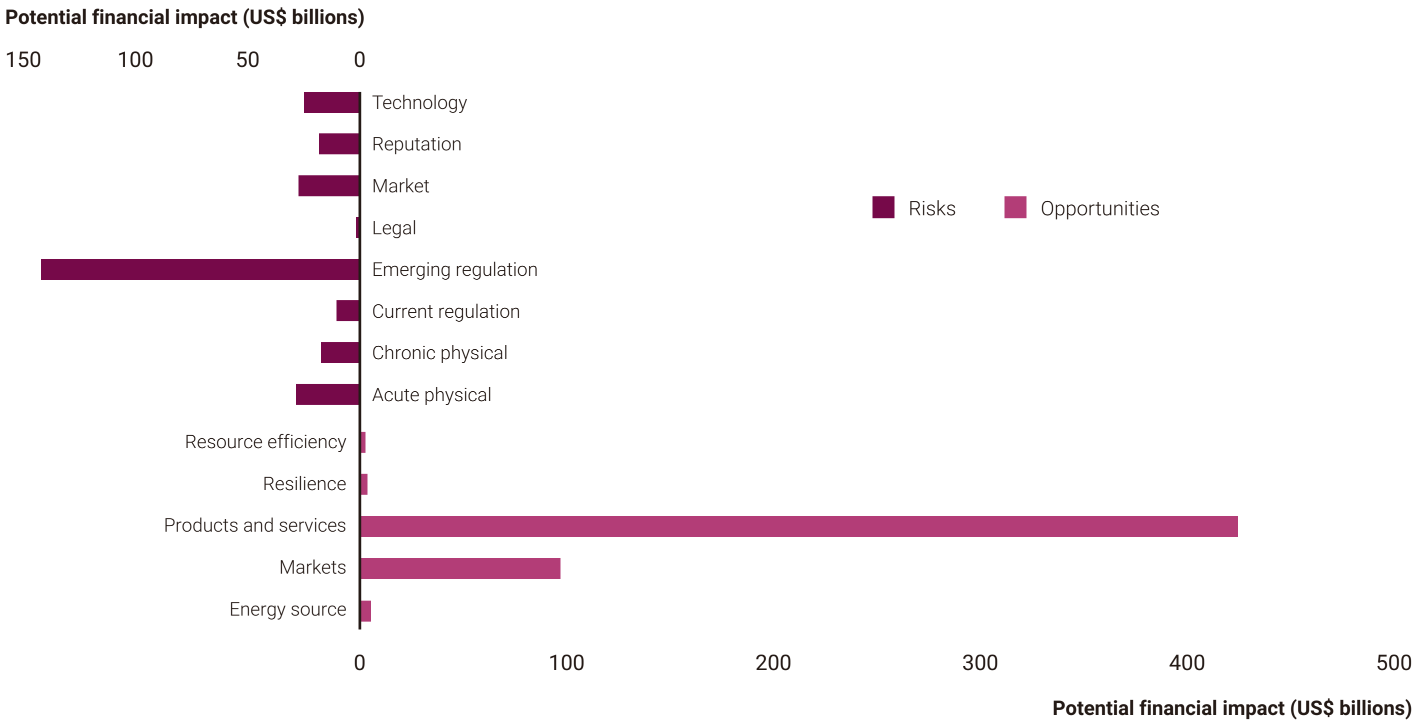
1 Top three climate-related opportunities based on their financial impacts:

- **Products and services:** The potential financial benefit was estimated to be up to US$424 billion which is significantly higher than other categories. A large share (US$341 billion) is driven by the development or expansion of low-emission goods and services. The financial services industry is prominent and makes up half of the potential financial impact value within this opportunity type.
- **Markets:** The potential financial benefit of market opportunities is up to US$96 billion where the use of public sector incentives represents about 90% (US$86 billion). The retail industry reported the highest potential financial impact within this opportunity type (US$87 billion).
- **Energy sources:** Up to US$5 billion was reported as the potential financial benefit related to energy. This was mostly driven by the use of lower-emission energy sources through structural shifts in the system (i.e., solar photovoltaics and solar power-assisted generators). Fossil fuels industry companies reported the highest potential financial impact within this opportunity category (about US$2 billion).

2 Over 97% of the reported potential financial impact was assessed as “likely”, “very likely” or “virtually certain” to materialize.

3 In terms of the time-horizons reported, 96% of the total potential impact figure could materialize over the short-term (35%) to medium-term (61%).

Figure 3: Reported potential financial impacts associated with risk and opportunity types



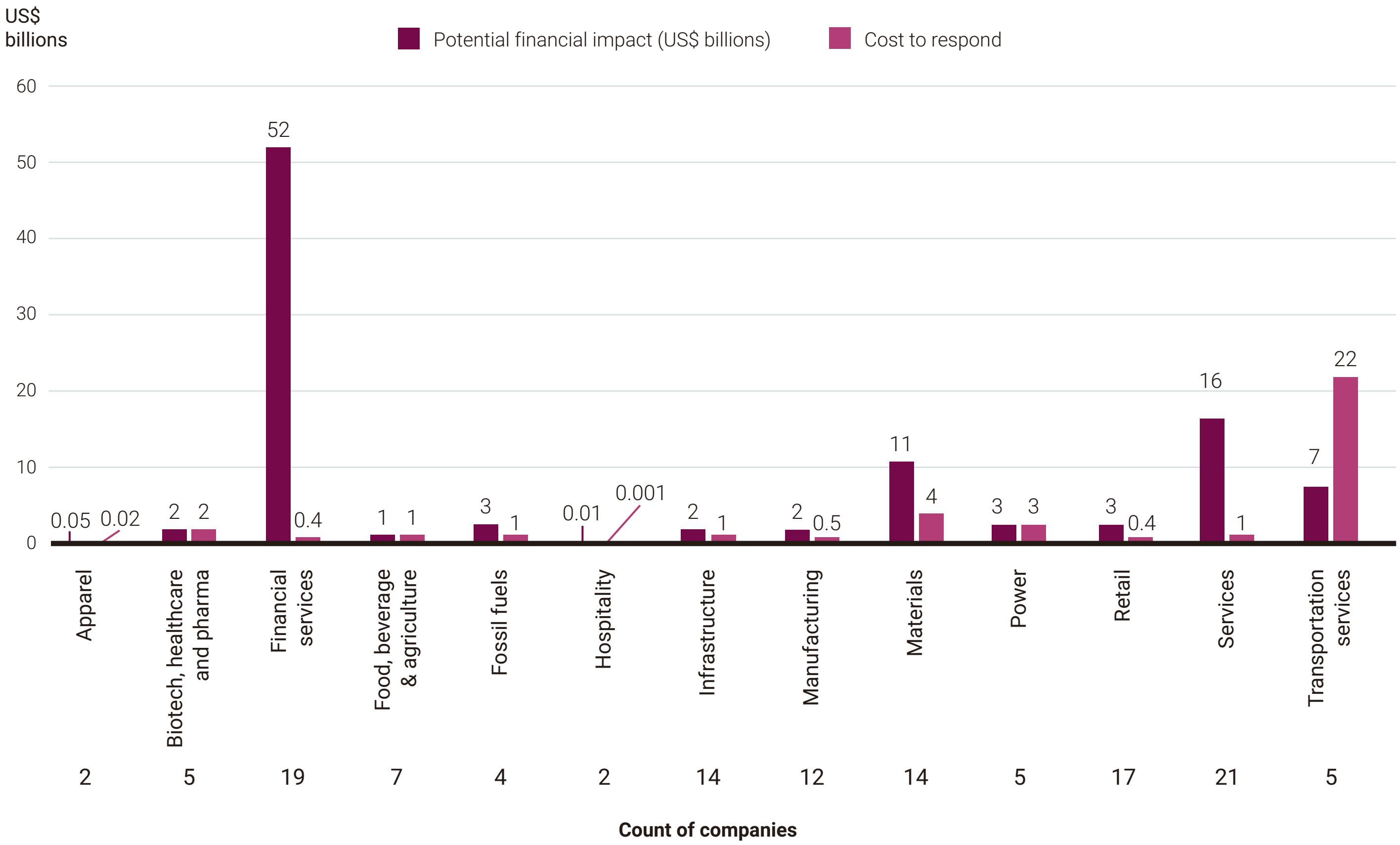
Financial impact of climate-related risks and opportunities vs response/materialization costs

The financial services industry reported the highest financial impact (of both risks and oppportunities) in comparison to other industry groups.

A subset of the companies that reported financial impact values also reported the costs to respond to risks or to realize the opportunities[11]. Significant variations are observed among industries (**Figure 4** and **Figure 5**). The financial services industry reported the highest financial impact (of both risks and oppportunities) in comparison to other industry groups. The industry also has the highest ratio of value to costs – ie the cost to realize opportunity or mitigate risk is much lower than the financial impact of the risk or opportunity materializing. This is true for most industries, with the exception of transportation services (specifically, the passenger airline business). According to the airlines' disclosure, the high costs are associated with structural changes and huge capital investments, such as adding new and fuel-efficient fleets in response to changing customer behavior and emerging regulatory requirements. However, assets in these industries are generally long-lived, so despite the significant initial investment needed for transitioning to low carbon operations, companies will benefit in the long term.

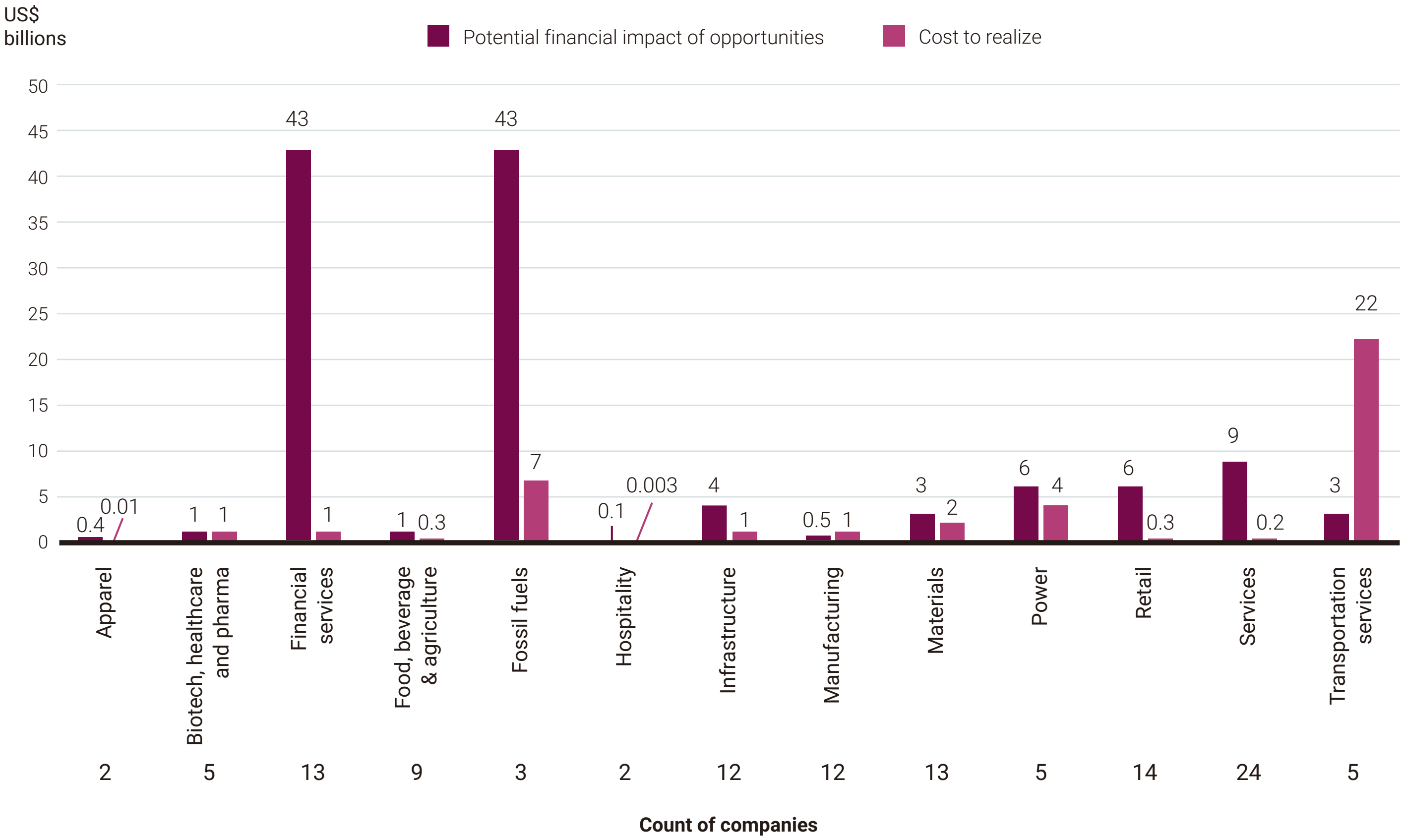
- In aggregate, it is less costly for businesses[11] to manage their risks than bear the potential financial impacts of the risks materializing (US$35 billion vs. US$102 billion).
- Similarly, when aggregated across the subset of companies[11], the cost of realizing climate-related opportunities is much lower than the potential financial benefits of the opportunities (US$39.7 billion vs. US$118.6 billion).

Figure 4: Potential financial impact of risks and associated cost to respond across different industries



11. 127 and 119 companies disclosed the cost to respond/materialize estimates along with the potential financial impact of climate-related risks and opportunities respectively.

Figure 5: Potential financial impact of opportunities and cost to realize across different industries



Climate transition plans in focus

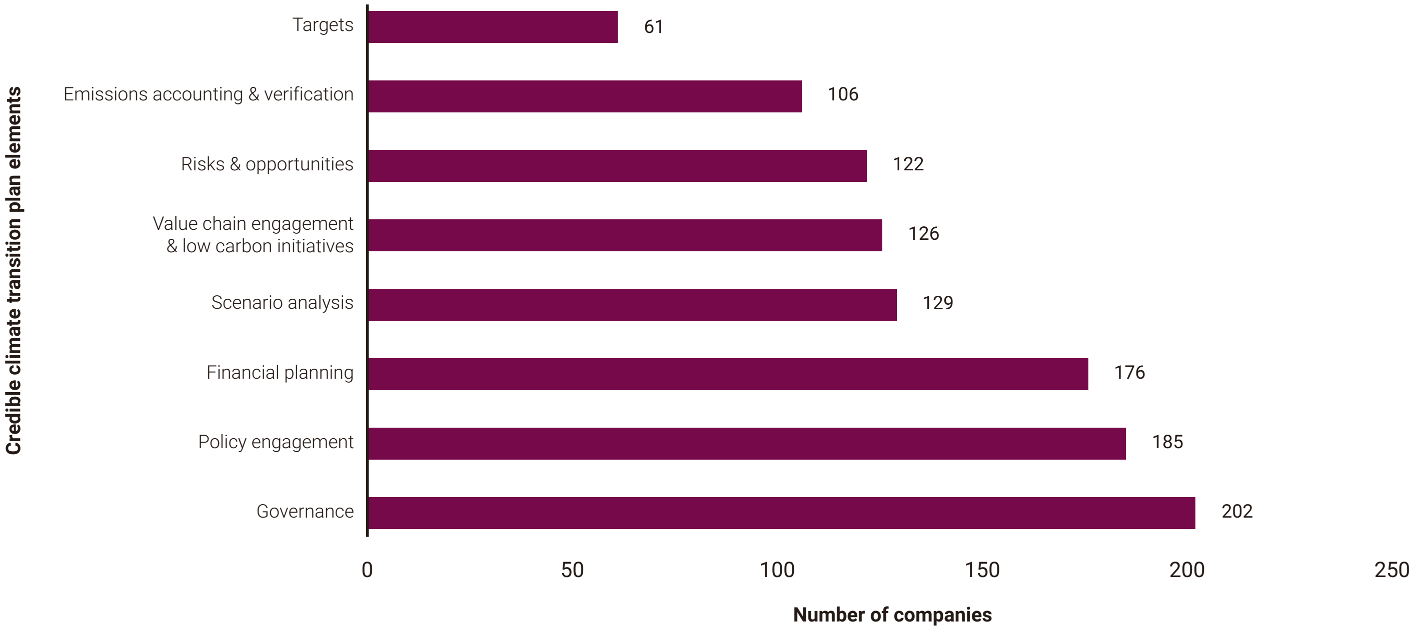
A climate transition plan is a time-bound action plan that outlines how an organization will pivot its existing assets, operations and entire business model towards a trajectory aligned with the latest and most ambitious climate science recommendations, ie halving greenhouse gas (GHG) emissions by 2030 and reaching net-zero by 2050 at the latest, thereby limiting global warming to 1.5°C.

A credible climate transition plan should reflect all of the following elements:

- Governance;
- Scenario analysis;
- Financial planning;
- Value chain engagement & low carbon initiatives;
- Policy engagement;
- Risks & opportunities;
- Targets; and
- Scope 1, 2 & 3 accounting with verification

Out of the 225 FTSE 350 companies that disclosed through CDP in 2021, only nine companies disclosed all the key indicators of a credible climate transition plan. Figure 6 shows the number of disclosures per element for FTSE 350 disclosing companies.

Figure 6: Reporting companies with 100% disclosure per credible climate transition plan element



ABOUT CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 680 financial institutions with over $130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 14,000 organizations around the world disclosed data through CDP in 2021, including more than 13,000 companies worth over 64% of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative.

Visit cdp.net or follow us @CDP to find out more.

CONTACT

Visit the CDP Help Center to get support from CDP.

Find answers in our Knowledge Base or sign in to your account to contact our support team.

CDP
4th Floor,
60 Great Tower Street,
London EC3R 5AZ
cdp.net

CDP
DISCLOSURE INSIGHT ACTION