CDP'S PUBLIC RESPONSE TO THE TCFD'S JULY 2021 CONSULTATION ON METRICS AND TARGETS

A momentous opportunity for environmental reporting

Environmental disclosure is at the very heart of change necessary to combat climate change, land degradation and biodiversity loss. However, over time and through careful education, engagement, and the realization that data facilitates more informed decision making it has become increasingly in demand by stakeholders. With the understanding that such considerations affect value, both physically and reputationally, it has become a necessary, expected business norm in many areas. CDP is proud to be a pioneer of environmental disclosure.

But CDP is, happily, far from being alone in the field. It has long been a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) and, in 2018, updated its disclosure platform to align with its recommendations and facilitate more widespread market adoption. This means that in 2020 alone, over 9,600 companies prepared TCFD-aligned disclosures through CDP in a comparable and consistent way that is relevant and accessible to the market.

CDP is obviously not alone in supporting this scale up. Different bodies and standards, each coming from different backgrounds and enhancing the overall picture (with CDP often a home or foundation for many). The last ten years seem to have arrived at a watershed moment- and are looking in the right direction: since COP21, and again with the release of the TCFD's recommendations in 2017, we have seen a significant shift in corporate environmental reporting. The TCFD is being mainstreamed, even being acknowledged in a G7 communique.

In fact, a significant gear change was the announcement by the IFRS to develop a climate-related standard, based on the TCFD. Once released, this climate standard could potentially be adopted by 140+ countries, essentially making TCFD aligned disclosures mandatory around the world.

So this is a momentous time for the reporting landscape in general and for the TCFD in particular. This is an internal moment as well: TCFD is now updating its recommendations in response to the evolving reporting landscape and latest climate science and we continue to be a strong supporter of the Taskforce. Part of this support is the input we were glad to have been asked to provide.

CDP has always advocated for a higher level of ambition to aid in the transition to a low-carbon economy in light of the latest climate science. That will not change here, and we believe the TCFD has shown itself to be more than a willing partner in mainstreaming and raising ambition.

Our feedback identifies key considerations and gaps that CDP believes the TCFD would now be able, and should, accommodate into their final update following this public consultation. While we have provided detailed feedback to the consultation further on in this document, we present here our narrative of how this opportunity for change can be harnessed and, especially given recent news regarding accelerated natural emissions, put to the best possible use.

A vital note regarding CDPs overarching approach to several of these questions would be suitable. Specifically, we would address the issue of ‘materiality threshold’ in principle here, as it underscores our thinking on environmental reporting in general: Climate change poses a complex, non-linear, systemic threat. Our understanding of this threat is an evolving matter, with links being discovered in hitherto unexpected places. Often the impact of a specific effect is vastly disproportionate.

As this is the case, CDP holds that a ‘materiality threshold’ is near impossible to determine in advance and runs the risk of obscuring true impacts of climate change: how would new, data driven links, be addressed and our knowledge and capacity to act improved, if we are assuming, in advance, that no link is there. Therefore, CDP believes climate risk is fundamentally relevant to all companies. We seek to drive transparency within our stakeholders, through our system and believe all climate metrics should be disclosed and made available to an organization’s stakeholders

From recommendation to leadership

With plenty of governments and regulators now moving towards TCFD-aligned mandatory disclosure, the TCFD has the capacity for ambition. It is no longer the shy one in the room, attempting to convince the willing to follow. It takes on a new role and with it, new responsibility.

This is clearly recognized and reflected in the recommendations draft and we would like to highlight the importance of the decision to include a requirement to disclosed financed emissions in line with the PCAF standard (as CDP does), an important decision and a route to increase standardization and comparability from financed emissions. This should not be watered down.

This alignment is more than just the avoidance of duplication of effort. It recognizes the scope needed to effectively take action. CDP applauds this and encourages a broadening not only of scope, but of direction and guidance:

- First, the science is and has been clear about the difference between a 1.5 and a 2 degree world. The ‘paris cosmos’ has, mostly, moved to 1.5. CDP would strongly advocate that the TCFD amends the recommendations relating to scenario analysis and targets, ratcheting ambition up from a 2C to a 1.5C world. The TCFD has a pivotal role in ramping up corporate climate action, alongside regulation, and the IPCC special 1.5 report makes clear that the science demands these adhere to a 1.5 world.

- Second, and following directly on the above, we support the TCFD inclusion of interim targets, however we would advise that the TCFD unequivocally require that mid-term to long-term targets must be supported by interim targets. These, as we mention, must align with a 1.5c world.

From the ambition to the pathway: some recommendations on the 'how'

High level ambition is often only realized through the dedication to the details of the commitment. Such elaboration of the elements a commitment must follow has been the purview of the SBTi, who have also had the opportunity to share their position. CDP, as a founding partner to the Science-based Targets Initiative, we would like to echo the SBTi's response, particularly on portfolio alignment (link). We would also like to take the opportunity to highlight a few key takeaways from the SBTi response.

In general TCFD recommendations on portfolios should be science-based, practical to implement, and aim to drive greater transparency and consistency in the use of portfolio alignment tools. Two key issues have been identified that may make it difficult for these recommendations to achieve these goals:

- The TCFD recommends that benchmarks are built on intensity units, and not absolute emissions. This means that the majority of companies would be assessed using economic intensity (as only a small number of companies have relevant physical intensity outputs on which to assess them, e.g. power, steel, cement, etc.). For all other companies, the TCFD advocates for the use of economic intensity, which the SBTi has ruled out as a credible approach as it can create the wrong incentives for companies and can yield incoherent results. **This means that, as they are measured for the economic growth, growing companies could end up increasing emissions**. This can end up taking us further away from the objectives of the Paris agreement, with companies being theoretically aligned. We would advocate for the recommendation to use physical intensity targets based on science or absolute reduction targets.
- Again following directly on the previous point, while the TCFD recommends the use of only single scenarios to benchmark companies, the SBTi has mostly used multiple scenarios to create a much more stable and credible average based on many possible scenarios. The choice of scenario can be one of the most sensitive parameters to determining the ultimate alignment of a company, and therefore advocating for a single scenario approach may lead to greater divergence between method developers. In other words, **single scenario benchmarks are highly sensitive to normative choices, leaving the field open to significant bias**.
  We understand the complexity of the issue and the impossibility of always using other scenarios and recommend the following: scenario recommendations should aim for robustness, but give a second option if the first option is not possible, i.e. use a scenario envelope and if that is not possible, use a single scenario benchmark. CDP and the SBTi have conducted a significant amount of research and analysis on the IPCC and other scenarios and would be more than happy to offer a solution to this by making all of our work publicly available via an open-source database with emissions trajectories, scenario envelope etc.

In addition to these, two other underlying issues need to be underscored: **reporting formats** and **carbon pricing**.

The first, regarding the reporting formats, comes from real world experience. There is an increasing number of companies producing and releasing standalone TCFD reports - although valuable, we believe this is counterproductive to the effective use and impact of TCFD reports. Where they are meant to be accessible and comparable in order to promote a cycle of ambitious 'race to the top' and raise awareness among stakeholders, they become, when standalone, less comparable and significantly more burdensome to acquire and utilize meaningfully.

This mainstreaming is core to the remit of the TCFD, which is meant to see climate-related financial information disclosed in mainstream reports and/or financial filings. We would suggest the TCFD to account for this when updating the Recommendations, ensuring that they bring disclosers back to the need for this information to be integrated into mainstream reports/financial filings. We believe that CDP's disclosure platform and questionnaires are designed to help companies collect substantive climate-related issues, using the CDSB Framework, these issues can then be filtered to ensure only material information is integrated into mainstream reports. But through CDP or not, it is undeniable that a separate TCFD report increases reporting burden for the disclosers, and increases the analysis needed by stakeholders and data users.

From pathways to future necessary expansions

With the raising of ambition in terms of climate, and the responsibility associated with the near mandatory status of these recommendations, TCFD is also a place where 'climate' and associated causes for change and impact are defined, not just reflected.

Put differently: with many governments starting to require TCFD-aligned mandatory disclosure, an important step forward, it must also be a stepping-stone to wider environmental disclosure which goes beyond just climate information and financial and risk-based data.

The understanding that the linkages between climate, water security, deforestation and nature are undeniable has long since become commonplace. To achieve net zero, all must be addressed in tandem – for example forests are a vital carbon sink, this is clearly demonstrated in the IPCC's SR15 report that identifies the linkages and tradeoffs between different SDGs and how time will exacerbate the tradeoffs. CDP would advocate for the TCFD to acknowledge this in their work, even if not directly incorporated into the recommendations themselves. The TCFD can bolster the work of other key initiatives in this space such as the TNFD.

Such an expansion is not overstepping. It is in the heart of what TCFD set out to do and was initiated for: the risks are being identified over time, and reporting requirements should reflect this. We are excited at this iterative process and the opportunity to strengthen the environmental reporting landscape, of which TCFD is such a central feature.

Mapping the draft TCFD recommendations to CDP's 2021 Climate Change Questionnaire

CDP has explored the proposed changes to the TCFD's recommendations put forward in this consultation and have conducted an initial mapping exercise to CDP's 2021 general climate questionnaire. We will be conducting further mapping for the TCFD's sector specific guidance for the financial sectors and non-financial groups. Please note, this mapping exercise is an initial exploration and has not been finalized and CDP will have to consider any changes to the final updated version of the TCFD's recommendations, supporting guidance and direct engagement with the TCFD Secretariat following this public consultation.

Guidance for All Sectors

Governance Recommended Disclosures		
a)	CDP Climate Change Questionnaire 2021	C1.1a, C1.1b
b)	CDP Climate Change Questionnaire 2021	C1.2, C1.2a

Strategy Recommended Disclosures		
a)	CDP Climate Change Questionnaire 2021	C2.1a, C2.2, C2.3, C2.3a, C2.4, C2.4a
b)	CDP Climate Change Questionnaire 2021	C2.3a, C2.4a, C3.1, C3.2a, C3.3, C3.4, C3.4a
c)	CDP Climate Change Questionnaire 2021	C2.3a, C2.4a, C3.1, C3.1b, C3.2, C3.2a

Risk Management Recommended Disclosures		
a)	CDP Climate Change Questionnaire 2021	C2.1, C2.2, C2.2a
b)	CDP Climate Change Questionnaire 2021	C2.1, C2.2
c)	CDP Climate Change Questionnaire 2021	C2.1, C2.2

Metrics and Targets Recommended Disclosures		
a)	CDP Climate Change Questionnaire 2021	C1.3a, C4.2, C4.2a, C4.2b, C4.5a, C5.1, C5.2, C5.2a, C6.1, C6.2, C6.3, C6.4a, C6.5, C6.10, C9.1, C11.3
b)	CDP Climate Change Questionnaire 2021	C5.1, C5.2, C5.2a, C6.1, C6.2, C6.3, C6.4a, C6.5, C6.10
c)	CDP Climate Change Questionnaire 2021	C4.1, C4.1a, C4.1b, C4.2, C4.2a, C4.2b, C4.2c

Final notes on CDP's consultation response

The TCFD's public consultation has a conditional logic system in place meaning responders are only provided with questions deemed relevant for them. For CDP's submission through the official consultation, we are disclosing as a 'User'. However, CDP has valuable insights and input for the Financial Services space, particularly on portfolio alignment. As such, we have created this publicly available version of our response which contains wider feedback. We have removed the questions that focus on data preparers, this is because there is significant overlap between questions for data preparers and users and our response would have been duplicative.

CDP has provided responses to free text responses where required. For checkbox style questions, we have highlighted our selections in yellow.

1. Where is your organization headquartered? Please specify country: United Kingdom

2. Which one of the following *best* describes your organization? Please select ONE only.

a. Financial services (e.g., bank, insurer, asset owner, asset manager, credit rating agency, index provider, stock exchange)
b. Non-financial company (e.g., energy, transportation, materials, and buildings, agriculture, food, and forest products group)
c. Data/Methodology provider
d. Government/Public sector
e. Industry/Trade association
f. Standard setter or framework
g. Non-Governmental Organization (NGO)
h. Academia/Education/Research
i. Other (please specify): ______________________

5. Please select your primary industry from the list below Please select ONE only.

a. Agriculture
b. Automobiles and components
c. Chemicals
d. Coal and consumable fuels
e. Conglomerate
f. Construction materials
g. Consumer discretionary
h. Containers and packaging
i. Food, beverage and tobacco
j. Healthcare
k. Industrials
l. Metals and mining
m. Oil and gas
n. Paper and forest products
o. Professional services
p. Real estate / Construction
q. Information technology
r. Telecommunication services
s. Transportation
t. Utilities
u. Other (please specify): NGO

6. What is your role / position? Please select ONE only.

a. Academic/industry expert
b. Administration
c. Board member
d. Compliance
e. Corporate reporting
f. Corporate strategy
g. Executive member
h. Finance
i. General management
j. Government/regulatory affairs
k. Investment/asset management
l. Legal
m. Risk
n. Sustainability
o. Technology
p. Underwriting/insurance
q. Other (please specify): ____________________

7. Which of the following most closely aligns with your role? Select all that apply.

a. I am a preparer of climate-related financial disclosures either at a non-financial company or financial institution
b. I am a user of climate-related financial disclosures (e.g., an investor, lender, or underwriter)
c. Neither of the above

20. **Which of the proposed cross-industry, climate-related metrics and financial impacts would your organization find useful for preparers to disclose?**

	Not at all useful	Not very useful	Somewhat useful	Very useful
Cross-industry, climate-related metrics				
Absolute **Scope 1 and 2** GHG emissions				X
Relevant, material categories of Absolute **Scope 3** GHG emissions				X
Shadow/internal **carbon price(s)**				X
Proportion of assets and/or operating, investing, or financing activities **materially exposed to physical risks**, based on key categories of commonly accepted risks				X
Proportion of assets and/or operating, investing, or financing activities **materially exposed to transition risks,** based on key categories of commonly accepted risks				X
Proportion of assets and/or operating, investing, or financing activities **aligned toward climate-related opportunities**, based on key categories of commonly accepted opportunities				X
Amount of senior management **remuneration** impacted by climate considerations				X
Amount of **expenditure or capital investment** deployed toward climate risks and opportunities				X
Climate-related financial impacts (e.g., those impacted by cross-industry, industry-specific, and company-specific metrics)				
Impact of any material climate-related risks or opportunities on **financial performance** (e.g., cost, profitability, operating cash flow, impairment)				X
Impact of any material climate-related risks or opportunities on **financial position** (e.g., assets and liabilities)				X

21. **Is there anything additional you would like to tell us about your responses above?**

CDP advocates that the TCFD follows the criteria set out by the SBTi for GHG emissions – all companies should disclose Scope 3 GHG emissions, and if total Scope 3 emissions represent more than 40% of Scope 1+2+3 then they should be considered material and covered by a target. The TCFD should provide further guidance on how a company should determine relevant, material scope 3 categories. The SBTi criteria state that the Scope 3 categories included in a target must make up 67% or more of total Scope 3 emissions.

CDP acknowledges that the TCFD does not recognize itself as a standard setter, however the TCFD does have a vital role to play, particularly as the recommendations get adopted into national laws and regulations – as such, CDP would advocate for the TCFD to highlight that a recognized standard is needed for Scope 3 emissions, one that identifies relevant, material Scope 3 categories at a sectoral level. Without this, companies have the ability to self-define material categories – analysis into corporate disclosure through CDP identifies that to date, companies have been focusing on largely low-impact Scope 3 categories, most notably employee commuting and business travel.

In addition, we believe the recommendations and guidance needs to be clearer in the space of carbon pricing. There are two types of carbon price: internal and external. External carbon prices are those found in regulations, such as carbon taxes, emissions trading schemes, and cap and trade. Companies exposed to these should report details on their exposure. Internal carbon prices are an internal strategic planning tool and can materialize as shadow prices, internal trading, internal fees, as examples – the TCFD's recommendations should not focus strictly on shadow prices, as all forms of internal carbon prices can be impactful, depending on their implementation. The TCFD needs to add clear definitions for these separate forms of carbon prices and how to disclose each type separately to avoid confusion for disclosers and users alike.

Finally, with internal carbon prices, the financial figure is not the only important indicator. Without the wider context, data users and stakeholders will be unable to assess the effectiveness and impact of this internal carbon price on a company's business strategy, financial planning, and transition to a low-carbon business model. This wider context needs to incorporate the objective for its use, degree of influence it has on decisions, GHG emissions in scope, the type of price. Ideally companies would report on its impact over time.

22. There are different benefits that users may derive from the preparers' disclosure of proposed cross-industry, climate-related metrics and climate-related financial impacts. How useful are disclosures of cross-industry, climate-related metrics and climate-related financial impacts in fulfilling the benefits described below?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Ability to deliver on my organization's climate ambition (i.e., one set by the Board and Senior Management)				X
Better decision making (e.g., investment, lending, insurance underwriting)				X
More effective engagement with my value chain (e.g., with beneficiaries and counterparties)				X
Compliance with regulatory mandates				X
Compliance with investor reporting requests				X
Satisfying customer pressures				X
Other (please specify): ______________________				

23. Is there anything additional you would like to tell us about your responses above?

The disclosure of the climate-related metrics and financial impacts by prepares help address all of the above for CDP and its stakeholders. In 2020, CDP saw over 9,500 companies respond to CDP's TCFD aligned climate change questionnaire. The disclosed data is made available to our stakeholders including investors, supply chain members, policy makers, regulators, NGOs and other stakeholders – helping them assess their strategy, decision making, engagement and compliance.

In order for investors to meet their own climate-related targets and manage their own impact, they require cross-industry climate-related metrics and financial impacts to understand their investments more fully and inform their investment decisions and/or engagement activities. Investor signatories of CDP make these disclosure requests of companies annually, and companies can comply with these requests by reporting through CDP.

24. As part of which activities is your organization using climate-related metrics and financial impacts for decision-making? Select all that apply.

a. Strategic planning and goal setting
b. Risk identification and assessment
c. Financial planning and budgeting (e.g., capex, opex)
d. Operating and business unit plans
e. Board and Senior Management understanding of issues
f. Other (please specify): ______________________

25. Is there anything additional you would like to tell us about your response above?

CDP wants to see a thriving economy that works for people and planet. We believe that assessment and disclosure of data is vital for organizations to identify issues and take action. At CDP, we analyze environmental information disclosed through our platform every year, creating products and services to help companies on their journey. We use our data to identify gaps, evolve our questionnaire to ratchet up ambition to align with the latest climate science. Our data is incredibly important for prioritizing engagement, identifying high-impact companies using emissions or financial thresholds – this allows us to prioritize engagement, providing extra support to companies that are most in need. We also use our data in direct engagement, especially with senior management and executives to signpost where an organization is, what can be considered as best practice, and where things need to go in the future for the transition to a low-carbon economy.

26. If all organizations disclosed the proposed climate-related metrics and financial impacts, how much would that improve the comparability of climate-related disclosures?

a. A lot
b. A little
c. Not at all

27. Is there anything additional you would like to tell us about your responses above?

It would be necessary, but not sufficient on its own in terms of comparability. Disclosers should be reporting climate-related financial metrics and financial impacts using consistent and credible standards such as PCAF for financed emissions.

28. **Should the proposed cross-industry, climate-related metrics and climate-related financial impacts be subject to a materiality assessment?**

	Should be disclosed based on materiality assessment	Should be disclosed irrespective of materiality	I'm not sure
Cross-industry, climate-related metrics			
Absolute **Scope 1 and 2** GHG emissions		X	
Relevant, material categories of Absolute **Scope 3** GHG emissions		X	
Shadow/internal **carbon price(s)**			
Proportion of assets and/or operating, investing, or financing activities **materially exposed to physical risks**, based on key categories of commonly accepted risks			
Proportion of assets and/or operating, investing, or financing activities **materially exposed to transition risks,** based on key categories of commonly accepted risks			
Proportion of assets and/or operating, investing, or financing activities **aligned toward climate-related opportunities**, based on key categories of commonly accepted opportunities			
Amount of senior management **remuneration** impacted by climate considerations			
Amount of **expenditure or capital investment** deployed toward climate risks and opportunities			
Climate-related financial impacts (e.g., those impacted by cross-industry, industry-specific, and company-specific metrics)			
Impact of any material climate-related risks or opportunities on **financial performance** (e.g., cost, profitability, operating cash flow, impairment)			
Impact of any material climate-related risks or opportunities on **financial position** (e.g., assets and liabilities)			

29. **Is there anything additional you would like to tell us about your responses above?**

CDP believes climate risk is material to all companies. We seek to drive transparency within our stakeholders disclosing through our system by focusing on the metrics that matter for this reason we believe that all climate metrics should be disclosed.

CDP's position on the materiality of GHG emissions aligns with that of the GHG Protocol, in recognizing that a materiality threshold on emissions is a predefined and accepted negative bias and is not compatible with the GHG Protocol's principle of completeness. The GHG Protocol Corporate Standard (page 8) states*: "Sometimes it is tempting to define a minimum emissions accounting threshold (often referred to as a materiality threshold) stating that a source not exceeding a certain size can be omitted from the inventory. Technically, such a threshold is simply a predefined and accepted negative bias in estimates (i.e., an underestimate). Although it appears useful in theory, the practical implementation of such a threshold is not compatible with the completeness principle of the GHG Protocol Corporate Standard"*. However, indicators and metrics beyond GHG emissions are also critical.

Climate change poses a significant, non-linear, systemic threat and the threshold of materiality and therefore, CDP believes all of the mentioned metrics should be disclosed and made available to an organization's stakeholders.

30. **Which types of organizations should implement and disclose a shadow carbon price? Select all that apply.**
    a. Banks
    b. Insurers
    c. Asset owners
    d. Asset managers
    e. Other financial-sector participants (e.g., rating agencies, financial data aggregators)
    f. Companies in the Energy Group (i.e., oil and gas, coal, electric utilities)
    g. Companies in the Transportation Group (i.e., air freight, passenger air, maritime transportation, rail transportation, trucking services, automobiles)
    h. Companies in the Materials and Buildings Group (i.e., metals and mining, chemicals, construction materials, capital goods, real estate and management)
    i. Companies in the Agriculture, Food, and Forest Products Group (i.e., beverages, agriculture, packaged foods and meats, paper and forest products)
    j. Companies in other non-financial sectors (e.g., retail and consumer goods, professional services, information technology, telecommunication services)
    k. NONE of the above
    l. ALL of the above

31. **Is there anything additional you would like to tell us about your response above?**

As communicated earlier, note that internal carbon prices can take many forms and should not be restricted to shadow prices only. It's also important to look beyond just the financial figure, but the wider context as to what it applies to, how it is implemented and the internal carbon prices strategic impact.

CDP recognizes that internal carbon pricing can be an incredibly effective strategic planning tool for companies irrespective of sector. However, it is also important to note that as a strategic tool, companies should have the freedom to assess whether an internal carbon price would be relevant and help the organization deliver on their business strategy – an internal carbon price can also be implemented differently in reflection of strategic priorities and differences in business activity. In reflection of this, companies should have the freedom to identify whether an internal carbon price will help them transition their business model, whether they plan to implement one, and if they have implemented one – provide details on price and wider context considerations.

32. **Are there any modifications or additional metrics you would recommend as cross-industry, climate-related metrics to improve comparability?**
    a. No suggested modifications or additional metrics
    b. Yes

33. **Please explain the suggested modifications and / or additional metric(s) you would recommend.**

CDP believes two metrics are missing that has been proposed in the SBTi FI framework and subsequently proposed in the TCFD technical annex on portfolio alignment, namely:

1. Proportion of assets and/or operating, investing, or financing activities whose ambition is aligned to the Paris Agreement (based on the presence of an approved SBT)
2. Implied temperature rise of a given asset, portfolio, or financing activity

TCFD PROPOSED SUPPLEMENT GUIDANCE FOR THE FINANCIAL SECTOR

We would like to ask a few questions about the proposed supplemental guidance for the financial sector. ***Please refer to Section C.3 Proposed Updates to All Sector Guidance and Supplement Guidance and the Portfolio Alignment Technical Supplement for definitions and more details.***

35. See Section C.3, subsection Scope 3 Emissions for the Financial Sector: Financed Emissions
What methodology does your organization leverage for estimation of financed emissions?

a. Partnership for carbon accounting financials (PCAF) methodology
b. Weighted average carbon intensity (WACI) methodology
c. Another methodology (please specify): ______________________
d. We do not currently disclose financed emissions

36. Is there anything additional you would like to tell us about your response above?

CDP asks financial institutions that disclose through our reporting framework to disclose their financed emissions, and our framework is aligned with the PCAF standard. CDP's 2020 report The Time To Green Finance was the largest study of financed emissions using self-disclosed data, and found that only 25% of financial institutions currently report the emissions associated with their lending and investing. For those that did report, financed emissions were over 700x larger than operational emissions on average. But even amongst those that report, disclosures were not always directly comparable because of a number of factors, including different methodologies used. CDP believes the PCAF standard is the most advanced and clearest methodology for calculating financed emissions and so enthusiastically welcomes the proposed update to include it within the TCFD's guidance for financial institutions. Making this recommendation should make disclosures of financed emissions more comparable and encourage more financial institutions to report the emissions associated with their loans and investments as governments and regulators are moving towards TCFD-aligned mandatory disclosure in some cases. CDP can act as an accountability mechanism, in tracking the reporting of financed emissions over time.

CDP also asks financial institutions that disclose through our reporting framework to disclose WACI. In 2020, only 9% of banks disclosing reported WACI, compared to 15% of asset owners, 12% of asset managers and 12% of insurers (who disclose for their investment portfolios). Therefore, CDP welcomes the expansion of the recommendation to disclose WACI from investors to other types of financial institution to improve transparency of carbon intensities of financing portfolios.

37. **What are the key challenges your organization is facing or may face in disclosing financed emissions? Select all that apply.**
   a. Lack of internal expertise and / or resources
   b. Lack of buy-in across organization
   c. Hard to get relevant data
   d. Selection/application of methodologies
   e. Not required to disclose
   f. Other (please specify): ______________________
   g. No challenges

38. **Is there anything additional you would like to tell us about your responses above?**

CDP asks financial institutions that disclose through our reporting framework to disclose their financed emissions. CDP's 2020 report The Time To Green Finance was the largest study of financed emissions using self-disclosed data, and found that only 25% of financial institutions currently report the emissions associated with their lending and investment. This shows there are clearly challenges in disclosing financed emissions.

One of the most obvious is that financial institutions are not required to disclose financed emissions by any regulation. The TCFD could help to close this gap by including the explicit requirement to disclose financed emissions in line with the PCAF standard. Governments and regulators are now moving towards TCFD-aligned mandatory disclosure, so including the requirement within the TCFD recommendations is likely to be a step to it being included in mandatory disclosure regimes. CDP supports mandatory disclosure and believe that TCFD should be ambitious in its developments.

Another challenge in disclosing financed emissions is the availability of high-quality emissions data, which is required as an input for financed emissions calculations. Data availability and quality remains low, especially for assets in emerging markets, as well as smaller and privately held companies. CDP is trying to assuage data challenges for the market by driving structured, comparable disclosure on emissions, and by providing high quality modelled emissions for the largest and most polluting companies globally, along with a public methodology of estimation techniques. It could be helped further by governments mandating disclosure from companies.

39. **There are different benefits derived from disclosure of financed emissions. How useful are disclosures of financed emissions in fulfilling the benefits described below?**

	Not at all useful	Not very useful	Somewhat useful	Very useful
Ability to deliver on my organization's climate ambition (i.e., one set by the Board and Senior Management)				X
Better decision making (e.g., investment, lending, insurance underwriting)				X
More effective engagement with my value chain (e.g., with beneficiaries and counterparties)				X
Compliance with regulatory mandates				X
Compliance with investor reporting requests				X
Satisfying customer pressures				X
Other (please specify): ______________________				

40. **Is there anything additional you would like to tell us about your responses above?**

Disclosure of financed emissions is very useful in fulfilling many of the benefits listed. To take one example, the French Energy and Climate Act requiring financial institutions to disclose their alignment with the Paris goals will mean financial institutions will have to undertake financed emissions accounting, before measuring and disclosing alignment.

In addition to those benefits listed, others include the ability to set targets related to financing portfolios and measuring transition risks in lending and investment portfolios. Target setting protocols such as the Science Based Targets initiative framework for the financial sector recommend financed emissions to be calculated to help guide the setting of Paris aligned targets. Other target setting protocols such as those released by the Net Zero Asset Owners Alliance, the Net Zero Banking Alliance and the Paris Aligned Investment Initiative have the calculation of financed emissions as a similar pre-cursor. Financed emissions is a good indicator of transition risk in lending and investment portfolios because companies and assets responsible for more emissions will be impacted most by the transition to a net zero carbon economy. CDP's 2020 report The Time To Green Finance found only 25% of financial institutions currently calculate financed emissions and at the same time concluded that "some banks, asset owners, asset managers and insurance companies have not yet identified risks in their financing portfolios, which will be of a greater magnitude than those in their own operations." This did not show causation but is a sign financial institutions would be better able to measure risks if calculating financed emissions.

In light of all these benefits, CDP enthusiastically welcomes the proposed update to include disclosure of financed emissions following the PCAF standard as a specific requirement within the TCFD's guidance for financial institutions.

41. **See Section C.3, subsection Portfolio Alignment Technical Supplement**
Is your organization using portfolio alignment tools, and if so for what purposes? Select all that apply.

a. Target setting
b. Impact reporting
c. Capital allocation optimization
d. Informing counter-party engagement
e. Product development
f. Transition risk quantification
g. We are not using portfolio alignment tools

42. **Is there anything additional you would like to tell us about your response above?**

CDP is a founding partner in the Science Based Targets initiative. The Science Based Targets initiative framework for the financial sector makes use of a portfolio alignment tools, both binary target measurement and Implied Temperature Rise – in the target setting methods used in the protocol. The implied temperature rise method involves measuring the temperature alignment of financing portfolios and setting a target to re-align them in line with a temperature goal. You can read the Science Based Targets initiative's response to this consultation for further information on their use of Implied Temperature Rise and its benefits for financial institutions.

In addition to being used in target setting, Implied Temperature Rise can give insights into the transition risks of financing portfolios. CDP is engaging financial institutions using our Temperature Ratings tool to provide insights on transition risk.

43. In your opinion, what are the key challenges that need to be addressed across climate data and analytics in order to support the usefulness and adoption of portfolio alignment tools? Select all that apply.

a. Data availability
b. Data standardization
c. Data quality
d. Challenges specific to Scope 3 GHG emissions data
e. Climate scenario development or application
f. Other (specify): ________________

44. Is there anything additional you would like to tell us about your response above?

There are many alternative methods for generating portfolio tools and metrics with no clear consensus on how to best interpret and compare the resulting outputs, especially the implied temperature rise metric. As most tools remain commercial "black-box" models, the comparison and assessment of these various approaches has been difficult.

45. What key benefits does use of portfolio alignment tools have to your organization?

Portfolio alignment tools are ideally suited for forward-looking climate risk analysis and portfolio target setting. Specifically:

- Company analysis (provides insights into level and quality of corporate disclosures)
- Corporate engagement
- Portfolio assessment and target setting
- Reporting portfolio temperatures to relevant stakeholders

47. Are there outstanding questions related to the usefulness, challenges, and/or design of portfolio alignment tools not covered in the Portfolio Alignment Technical Supplement to which answers are needed in order for your organization to better incorporate such tools inyour management processes?

While welcoming the TCFD's Portfolio Alignment Technical Supplement and the clarity it brings on these nascent methods, CDP shares outstanding questions and concerns raised in the Science Based Targets initiative's public response to this consultation.

In summary:

- Implementing recommendation 5 could lead to an even greater divergence in the resulting temperature rise outcomes due to selection of single scenarios, rather than applying a more stable multiple scenario approach.
- Implementing recommendations 6 and 9 will lead to an over reliance on economic intensity-based approaches to construct benchmarks, which can dis-incentivize the action needed to preserve the global carbon budget.
- Recommendation 16 proposes that forward-looking projections of company performance not be based solely on targets. We believe target setting should remain central and be prioritized for any future performance assessments. Third party validated targets with annual reporting will ensure that these targets can incentivize the necessary real-world reductions.

48. TCFD is proposing a number of changes to the supplemental guidance for the financial sector. For each of the following, please tell uswhether your organization supports the proposed changes.

Proposed changes	Yes	No	I'm not sure
Banks, asset managers, asset owners, and insurers should disclose **exposure to carbon-related assets**	X		
The **term "carbon-related assets" should be expanded** to refer to those assets tied to the four Non-financial groups identified by the Task Force in its 2017 Final Recommendations (i.e. energy, transportation, materials and buildings, and agriculture, food, and forest products groups)	X		
Banks, asset managers, and asset owners should disclose **financed emissions**	X		
If banks, asset managers, and asset owners disclose financed emissions, should they use the **PCAF's methodology and WACI, if relevant, or a comparable methodology**	X		
(Re)insurance underwriters should disclose **WACI for their commercial property and specialty lines** of business that cover tangible properties and goods	X		
All financial institutions should **disclose alignment of their portfolios with the goals of the Paris Agreement** and incorporate forward-looking alignment metrics into their target-setting framework and management processes	X		

49. Please provide any additional comments you have on the TCFD proposed supplemental guidance for the financial sector.

With the inclusion of the proposed new table 3A in the guidance for financial institutions there is now a slight mismatch between the 'Total Carbon Emissions' formula in the old table 3C and the 'financed emissions' formula for listed equity and bonds in the new table 3A, even though these are the same thing. The formula in the new table uses enterprise value as a denominator while the formula in the old table uses market capitalization as a denominator. This mismatch could cause confusion for financial institutions and should be resolved. CDP would suggest resolving it by using enterprise value as the denominator throughout as this is in line with the PCAF standard.

In the proposed supplemental guidance, under "Strategy a)" it's recommended for Banks, Insurers, Asset Owners and Asset Managers to "describe concentrations of exposure to carbon-related assets". But when it comes to Metrics and Targets a) it is only recommended for Banks to "provide the amount and percentage of carbon-related assets relative to total assets". Is it expected that the Metrics and Targets recommendation will be expanded to cover Insurers, Asset Owners and Asset Managers given the first proposed change in the table above? CDP would also encourage that guidance is provided for insurance companies when disclosing their exposure to carbon-related assets to promote data consistency across the sector. In addition to exposure, CDP suggests asking insurance companies to disclosure insured premiums derived from carbon related assets.

TCFD PROPOSED GUIDANCE ON CLIMATE-RELATED TARGETS

52. How useful is it to your organization for preparers to disclose quantitative targets across cross-industry, climate-related metrics?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Absolute **Scope 1 and 2** GHG emissions				X
Relevant, material categories of Absolute **Scope 3** GHG emissions				X
Shadow/internal **carbon price(s)**		X		
Proportion of assets and/or operating, investing, or financing activities **materially exposed to physical risks**, based on key categories of commonly accepted risks		X		
Proportion of assets and/or operating, investing, or financing activities **materially exposed to transition risks,** based on key categories of commonly accepted risks		X		
Proportion of assets and/or operating, investing, or financing activities **aligned toward climate-related opportunities**, based on key categories of commonly accepted opportunities				X
Amount of senior management **remuneration** impacted by climate considerations				X
Amount of **expenditure or capital investment** deployed toward climate risks and opportunities				X

53. Please provide any additional comments you have on the TCFD proposed guidance on climate-related targets.

Emissions reductions targets are vital if we are to avoid the most catastrophic impacts of climate change. Key considerations when setting targets should be: The ambition of targets should align with 1.5C low-carbon scenario, companies should provide a minimum frequency for interim targets, targets should cover 100% of scope 1 and 2 emissions and target should be relevant and cover all material emission sources (scopes 1, 2 and 3).

CDP does not believe targets focusing on carbon prices are useful and would suggest targets focus on emissions reductions. The likes of internal carbon pricing can act as a catalyst to drive change and realize an emissions reduction target – with this in mind CDP believes that the TCFD should focus on emissions targets and not widen the net to other metrics having targets which could cause confusion or distract from the important of emissions reduction targets.

59. How useful to your organization would it be for preparers to disclose transition plans?

a. Not at all useful
b. Not very useful
c. Somewhat useful
d. Very useful

60. Is there anything additional you would like to tell us about your response above?

CDP is constantly working towards enabling a low-carbon future, and we see from our data that corporates must plan for this transition now. CDP's disclosure system aims to outline reporting metrics aligned with key elements of a transition plan, and metrics that could be incorporated into a standalone transition plan to be shared with stakeholders.

Though many industry initiatives related to transition planning (CA100+, Race to Zero, etc) have the same principles are common, their suggested elements of transition plans may not be the same across each framework.

All of CDP's work is built upon such disclosures, and transition plans are an area of focus within climate-related reporting.

61. There are different benefits derived from disclosure of transition plans by preparers. How useful are disclosures of transition plans in fulfilling the benefits described below?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Ability to deliver on my organization's climate ambition (i.e., one set by the Board and Senior Management)				X
Better decision making (e.g., investment, lending, insurance underwriting)				X
More effective engagement with my value chain (e.g., with beneficiaries and counterparties)				X
Compliance with regulatory mandates				X
Compliance with investor reporting requests				X
Satisfying customer pressures				X
Other (please specify): ______________________				

62. **Is there anything additional you would like to tell us about your responses above?**

CDP published a policy brief with recommendations for regulatory mandates associated with transition planning to ensure that climate risks are transparently managed across the economy while transitioning to net-zero. Mandates for environmental disclosure from companies and financial institutions are necessary to ensure they are managing climate risks, using the TCFD recommendations where appropriate. Additionally, some governments should go further by requiring an annual vote of a company's climate transition plan at AGMs. Say on Climate is a critical campaign that demonstrates an uptake in ambition for transition plan approvals. Though approvals at the highest strategic level within the organization are critical, companies should incorporate accountability mechanisms for shareholders to scrutinize plans and progress, holding c-suite and senior management positions accountable to encourage the implementation of rigorous and viable transition plans, as well as performing against that plan as it is implemented.

To build upon "better decision-making" above, the "cost of capital" should also be included with the types of risks better understood through transition plan disclosures.

63. **How useful are climate-related metrics for structuring and tracking progress of a transition plan?**

	Not at all useful	Not very useful	Somewhat useful	Very useful	I'm not sure
Cross-Industry					
Absolute **Scope 1 and 2** GHG emissions				X	
Relevant, material categories of Absolute **Scope 3** GHG emissions				X	
Shadow/internal **carbon price(s)**				X	
Proportion of assets and/or operating, investing, or financing activities **materially exposed to physical risks**, based on key categories of commonly accepted risks				X	
Proportion of assets and/or operating, investing, or financing activities **materially exposed to transition risks,** based on key categories of commonly accepted risks				X	
Proportion of assets and/or operating, investing, or financing activities **aligned toward climate-related opportunities**, based on key categories of commonly accepted opportunities				X	
Amount of senior management **remuneration** impacted by climate considerations				X	
Amount of **expenditure or capital investment** deployed toward climate risks and opportunities				X	
Financial Sector					
Financed emissions and / or WACI				X	
Portfolio alignment metric				X	

64. **Is there anything additional you would like to tell us about your responses above?**

The metrics listed in the previous question are very useful, however CDP believes additional metrics should be considered. The emphasis on financial metrics and forward-looking projections is the most important element of a plan. CDP would emphasize that additional metrics should be tracked in terms other than emissions – such as R&D measured in terms of capital expenditure and operational expenditure, and product mix.

CDP suggests including explicit recommendations to disclose an energy management plan. While emissions, assets, and capex are mentioned alongside risks/opportunities, there is no clear guidance to disclose a fossil fuel-based or low-carbon energy plan. CDP also suggests disclosing a plan for the use of offsets, which a critical piece to understand when evaluating the rigor and ambition of a low-carbon transition pathway.

Interim targets are another critical element of a transition plan that should be included. CDP would specify that targets and emissions should be verified by a third-party (such as the SBTi).

The ACT (Assessing low-Carbon Transition) framework should be added to the list of organizations providing guidance on recommended items to include in a transition plan. The ACT framework and sectoral methodologies provide a rigorous accountability framework designed to support companies with delivering low carbon transition strategies and actions aligned with the Paris Agreement mitigation goal. ACT also includes all 5 recommendations outlined in Table E1 (p.51) of the TCFD guidance on transition plans. The initiative is global in scope, it was co-founded by CDP and ADEME (French Agency for the Ecological Transition) and is a voluntary initiative of the UNFCCC secretariat Global Climate Agenda supporting corporate climate accountability. The target section of the framework builds on SBTi guidance, and all sectoral methodologies are aligned with the CDP questionnaire.

The ACT initiative also includes a “Step-by-Step” approach that supports the development of a company’s climate strategy to ensure completeness and robustness. The approach achieves two objectives: 1) The active contribution of the company to climate change mitigation: this primarily includes the minimization of direct GHG emissions and indirect upstream and downstream value chain GHG emissions. The company’s contribution to climate change mitigation in other forms such as the company’s influence on external stakeholders is also included. 2) The transformation of the company in the context of the low-carbon transition: this consists of identifying changes that will impact the company in the context of the transition, in terms of regulation, markets, resources and performance standards, and then taking these changes into account in the design of the strategy. More information can be found on the website: https://actinitiative.org/.

CDP would advocate for including governance metrics that would indicate feedback mechanisms are in place for the plan, and where relevant put to a shareholder vote at AGMs. When shared with stakeholders, transition plans can act as an important accountability mechanism, with stakeholders being able to view a company’s strategy, targets, and other key data points, assess progress and vote where necessary on their concerns. This allows stakeholders to make more informed decisions with their engagement prioritization and capital.

CDP suggests including a piece on climate-related lobbying and policy alignment. Companies should disclose their engagement with policy-makers on climate-related legislation, and if their other policy engagements and/or trade association participation are consistent with this position. We would also advocate for clear identification of strategy and actions implemented in coordination with suppliers and/or customers to reduce emissions from the value chain, and emissions reductions from these initiatives should be quantified.

CDP reporting can serve as the disclosure platform for transition plans since our reporting questionnaires collect information on all the metrics above.

65. For what types of organizations should TCFD recommend disclosure of a transition plan (as defined in Strategy Recommended Disclosurec))? Select all that apply.

a. If an organization operates in a **jurisdiction with an emissions reduction commitment**
b. If an organization has **made an emissions reduction commitment**
c. If an organization seeks to **meet emissions reduction expectations from financial market participants**
d. None of the above
e. Other (please specify): all organizations

66. Is there anything additional you would like to tell us about your response above?

All companies (regardless of size) should develop a transition plan. A transition plan is “a plan on how to transition the company to a business model compatible with a net-zero carbon economy”. All companies need to be able to demonstrate that their business model will be compatible with a net-zero carbon economy.

67. How helpful would it be for organizations to have more guidance related to disclosure of climate adaptation aspects of their strategy?

a. Very helpful
b. Moderately helpful
c. Not helpful
d. I’m not sure

69. **Please provide any additional comments you have on the TCFD proposed guidance on climate-related transition plans.**

CDP would advocate that the TCFD increases its level of ambition with regards to transition plans. On page 58 of the draft, "An organization should release a transition plan if it has material climate-related transition risks or has an emissions reduction target" should be replaced with "An organization must release a transition plan if it has material climate-related transition risks or has an emissions reduction target".

CDP would recommend that the TCFD aligns the definition of transition plans with that of Oxford Martin School's Principles for Climate-Conscious Investment. As it stands, the TCFD's draft focuses on minimizing risks/maximizing opportunities and only references reducing emissions, without referring to an end state (i.e. net zero). Oxford Martin School's definition is underpinned by the importance of transitioning the business model to reach net zero emissions across all GHG scopes and the business model is still profitable once reached and in a net zero carbon world.

CDP's definition of a transition plan is focused on the actions a company will take to achieve its targets, and financial projections to illustrate the company will be profitable in a net-zero world. As such, the level of ambition of the company should be clearly identified – currently there is some reference to "2C or lower" scenarios in the Strategy section, but the TCFD should clearly encourage organizations to use the most ambitious scenario available (net zero). A transition plan is achieved through the company successfully aligning its business model with a net-zero carbon economy, so reducing its value chain emissions is a critical piece to this alignment as well as wider metrics such as risk reduction and realizing opportunities. It is important to emphasize that a transition plan should be embedded within the business strategy and not separate from the business plan. Elements of the transition plan should be consistent with all other information reported by the company. Other gaps we believe should be incorporated into the TCFD's inclusion of transition plans include lobbying alignment and ensuring feedback/accountability mechanisms are in place (be they through AGMs or other routes) that will enable stakeholders to review and assess progress on a company's transition plan.

Development of a transition plan should include scenario analysis. Scenario stress testing is an important management tool for preparing for low-carbon transition and for businesses likely to be strongly affected by climate change impacts (both direct and indirect), it has even greater importance and investors are increasingly calling for scenario analysis and stress testing to be implemented to enable companies to calculate the value-at-risk that such changes could pose to the business. The new TCFD-aligned GeSI-CDP Scenario Analysis Toolkit15 allows companies to analyze their impact of four distinct climate-related future scenarios on the company's bottom line, specifically referencing 3 key recommendations of the TCFD. Furthermore, the TCFD Guidance on Scenario Analysis provides full and updated information to companies on how to undertake the process and identify the most relevant future pathway(s).

CLOSING SECTION

70. **Please provide the name of your organization.**
Note, this information will not be shared in the summary of responses or otherwise made public. It is used to help TCFD understand who is completing the survey.

Organization name: CDP

72. Please share a few more details with us. *If you wish to remain anonymous, you may leave the following fields blank.*

a. Name: Nicolette Bartlett
b. Job title: CDP, Executive Director