

ARE COMPANIES DISCLOSING AGAINST THE TCFD'S RECOMMENDATION?

Key findings

- ▼ CDP analysis identifies that key G7 country indices alongside a Europe wide index are performing relatively equally in terms of TCFD-aligned disclosure, but German and Canadian indices are lagging behind;
- ▼ No index had more than 19% of corporates achieving 100% TCFD-aligned disclosure when disclosing through CDP's platform, identifying significant shortfalls that must be addressed;
- ▼ A key gap that spans all indices is the lack of disclosure on how climate-related information is fed into a corporate's strategy. Most notably, companies lack an understanding of climate-related scenario analysis or disclose insufficient information on their use of scenarios; and
- ▼ Companies are also performing poorly in terms of risk management, suggesting corporates do not have sufficient processes in place to identify, assess and manage climate-related risks.

Overview

At the request of the G20 Finance Ministers and Central Bank Governors, the Financial Stability Board (FSB) established the industry-led Task Force on Climate-related Financial Disclosures (TCFD). This was in response to increasing demands from investors, lenders, insurers, regulators, policymakers, and other stakeholders in the financial markets for more decision-useful, climate-related information. In 2017 the TCFD released the first iteration of their recommendations, with four key themes: Governance, Strategy, Risk Management, and Metrics & Targets.

CDP has been a vocal, long-term supporter of the TCFD since its inception in December 2015 and following the release of their final set of recommendations we committed to fully align our corporate disclosure platform with the Task Force's recommendations. In 2018 we released our TCFD aligned climate change questionnaire and between 2018 and 2020 we released a series of sector-specific questionnaire that aligned with sector-specific considerations presented in the TCFD's recommendations.

Since the release of the Task Force's recommendations, we have seen a strong shift in the policy landscape. Notable examples include: **1)** the UK Government mandating TCFD-aligned disclosures for major corporate and financial institutions listed in the UK; **2)** the International Financial Reporting Standard (IFRS) launching the International Sustainability Standards Board (ISSB) which will be releasing a TCFD-aligned climate standard which could potentially be adopted by 140+ jurisdictions around the world; and **3)** the landmark proposed rule by the United States Securities and Exchange Commission (SEC) for climate-related disclosures.

In 2019, CDP released a [Global Climate Change Report](#) which explored TCFD-aligned disclosures in CDP's 2018 corporate disclosure cycle. Most notably, it provided key insights into the potential financial implications of climate change and identified that the benefits of climate action far outstrip the costs of taking action, and the risks associated with inaction will be detrimental to the global economy.

Following on from CDP's 2019 report – we will be releasing a series of insight pieces that explores the corporate disclosures through CDP of key indexes in the G7 and a Europe-wide index. This initial insight piece aims to help set the scene of how different indexes are performing against the TCFD before we deep dive into index-specific insights.

It's important to note that this paper will review the completeness of disclosures and is not intended to act as a direct assessment of the quality of disclosures¹. Instead, we have reviewed whether companies have disclosed the fundamental information needed by stakeholders that would enable them to make informed decisions. However, in the subsequent deep-dive insights we will assess disclosures against some key topics in the TCFD, most notably the risks and opportunities and their associated potential financial impacts. The index level insights will also delve into the industry-specific performance for those within the universe, highlighting how specific industries are performing in comparison to others on key TCFD metrics.

Introduction to G7 (+1) indexes

For these TCFD focused insights, indexes from G7 countries and a Europe-wide Index (representing 17 European countries) were selected for the analysis. The aim was to not only find key indexes from the G7 but also target indexes of comparative size where possible to maximize comparability. S&P 500, TOPIX 500, FTSE 350, and STOXX Euro 600² are major indices included in the initial insights report to provide comparable insights on four different and important markets around the world. The rest of the indices are small providing insights on French, Canadian, German, and Italian markets on TCFD alignment.

These CDP TCFD insight series will focus on the corporates within each index that disclosed via CDP's 2021 Climate Change Questionnaire and will not look beyond by assessing external financial filings or mainstream reports. The number of companies responding from the respective index is mentioned in **figure 1**.

CDP's climate change information request contains questions that are aligned with the TCFD's core recommendations, covering each of the TCFD's four themes (Governance, Strategy, Risk Management, and Metrics & Targets) and their 11 recommended disclosures. To determine whether a company had responded to a TCFD recommended disclosure, it was assessed whether it provided data in response to the TCFD-aligned questions and sub-questions in the CDP Questionnaire following CDP's Climate Change Scoring Methodology³. For the high-level

¹ CDP has relied on its climate change scoring methodology 2021 to identify the key metrics that must be disclosed to score in the TCFD tagged questions

² It is worth noting that STOXX Euro 600 has about 22% of constituents from the UK

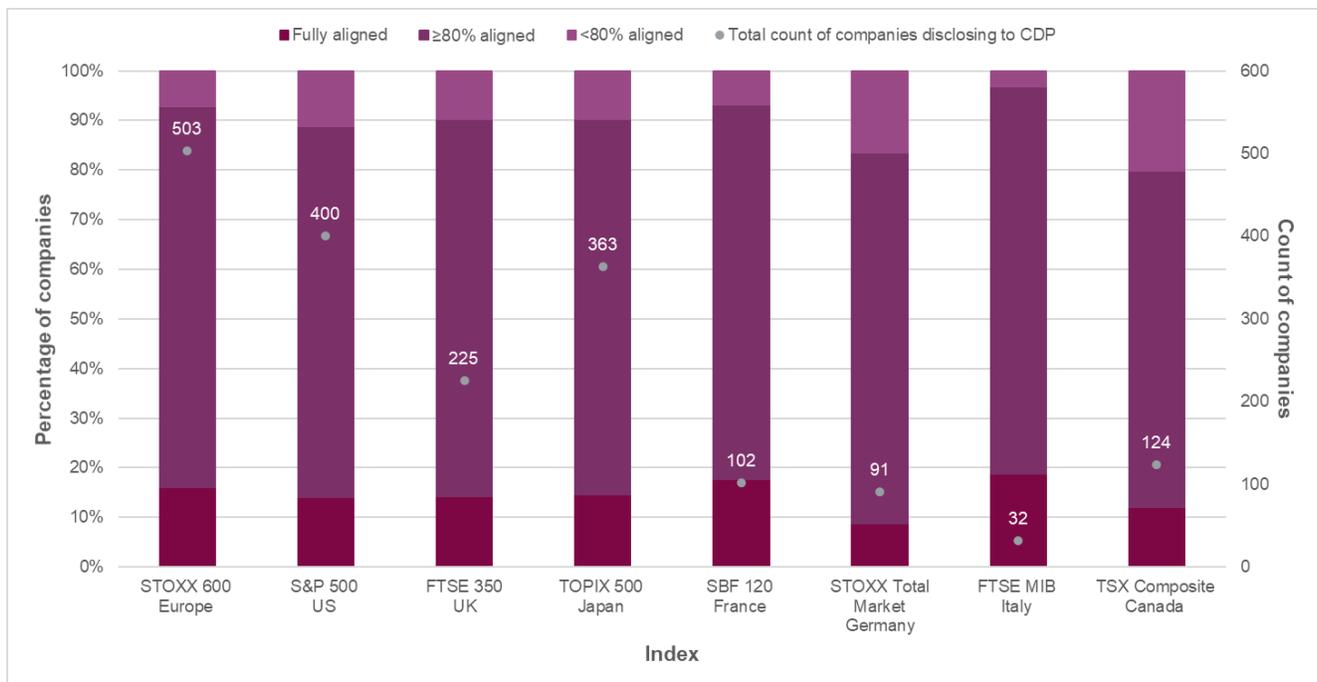
³ [CDP Climate Change 2021 Scoring Methodology](#)

figures, a total of 25 questions and sub-questions have been used from the CDP’s 2021 Climate Change Questionnaire⁴.

TCFD’s 2017 recommendations have been superseded with the updated recommendations in October 2021 and additional guidance on Metrics, Targets, and Transition Plans were shared. Companies responded to CDP’s 2021 Climate Change Questionnaire reported their climate performance for the reporting year 2020, before the above-mentioned update therefore, it cannot be fed directly in some of the new metrics however an effort to add some context in this space will be performed.

High-level assessment of performance across the G7 +1 indexes

Figure 1: Indices performance against TCFD recommendations



In the analysis of the companies disclosing through CDP’s disclosure platform for each index it’s important to note that the universe of each index and those disclosing to CDP varies. 6 companies in the Italian and 18 in the French index are leading the charge in terms of 100% disclosure against the TCFD recommendations, however these are two of the smaller indexes explored. From larger indices, European STOXX index is performing particularly well with 81 companies (16% of the sample) in the respective index disclosing in full alignment followed by TOPIX 500 with 53 companies (14.6%) and S&P500 and FTSE 350 with 56 and 32 companies respectively, representing 14% of each. Canadian and German index included in this analysis

⁴ A company disclosure is counted as fully or 100% aligned with TCFD recommendations if the information has been provided against all the 25 questions whereas ≥80%, the second grouped category includes the companies that have responded to at least 20-24 questions (80% and above), the rest of the companies are all grouped as below 80%. CDP has not performed a qualitative assessment of the responses. The full methodology is available upon request.

stood at second to last and last position in terms of the percentage of companies disclosing fully in alignment with TCFD recommendations with only 12% (15 companies) and 8.8% (8 companies) being fully aligned.

Only one company in the Italian index disclosed below 80% of the recommendations whereas the Canadian index stood last with 25 companies that is 20% of the reporting companies failing to align their disclosure to 80% on the recommendations.

Another important consideration are the companies falling short of 100% TCFD aligned disclosure but reaching a $\geq 80\%$ threshold (excluding 100%) - most indices performed similarly in this group, with no index standing out⁵. Only the Canadian TSX Composite index appears to be a strong outlier, with only 67% of companies reporting on 20-24 TCFD-aligned questions.

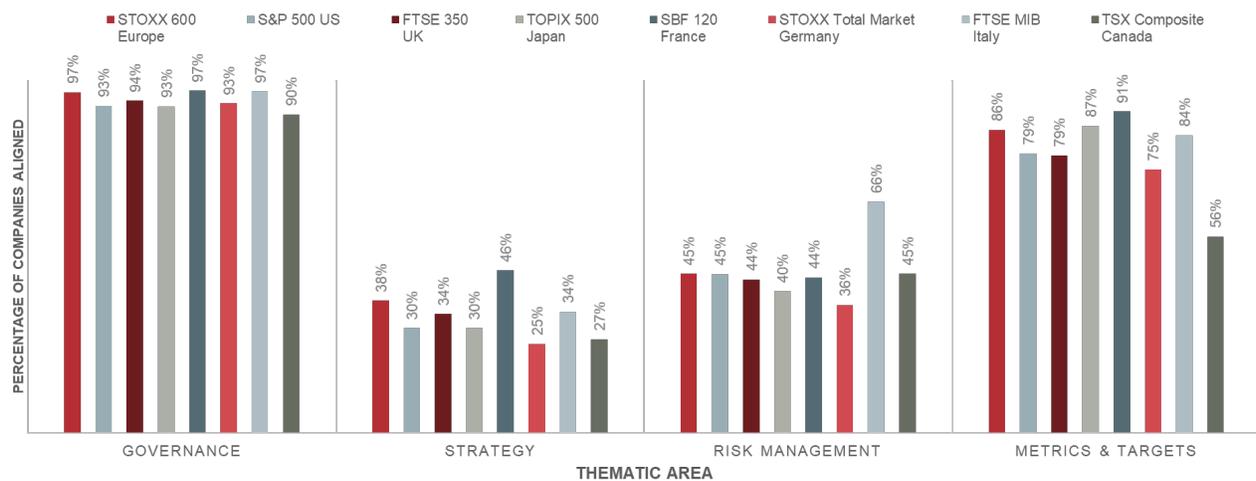
Policy and regulatory shifts have the potential to be a catalyst for corporates in how companies in specific indices are performing in terms of their TCFD-aligned disclosures. In France, Article 173 has had a significant impact on corporates and financial institutions in terms of climate disclosure. In the EU, the Non-Financial Reporting Directive (NFRD) has also been a major stimulant, impacting all EU member states. In Japan, policymakers reviewed the Corporate Governance Code and are moving to mandate TCFD disclosure for listed companies, and the UK has mandated TCFD-aligned disclosures for major listed corporations and financial institutions at the start of the 2022/23 financial year. The relatively poor performance of Canadian corporations could be linked to the differences in position between Federal and Provincial policymakers – in response to COVID-19, emergency loans for large companies were offered under LEEFF⁶ and included TCFD-aligned reporting as a recommendation. To date, it's unclear if recommending these major corporates to conduct such reporting was enough of an incentive for the companies to follow through.

It's equally as important to explore the $\geq 80\%$ rates as the analysis identifies common trends and significant gaps in disclosures against the TCFD. We will explore these issues in greater detail in the index focused insights, but a high-level lens on the four key TCFD themes; Governance, Strategy, Risk Management, and Metrics & Targets is presented in **figure 2**.

⁵ STOXX 600 and the FTSE 350 indices listed companies account for 76% of the reporting companies in this category with 386 and 171 companies respectively. TOPIX 500 and SBF 120 indexes fall only one percent behind with 75% of each index falling within the $\geq 80\%$ threshold group, with 275 and 77 count of companies. 68 German and 299 S&P 500 sample companies also reported on $\geq 80\%$ of the TCFD tagged questions that makes about 74% of each of the index.

⁶ Large Employer Emergency Financing Facility

Figure 2: Indices performance around four thematic areas



Governance of climate-related issues, both board oversight and management, are well reported across the board for all indexes with EU based indexes performing strongly. Canadian companies appear to be struggling the most, with 90% of companies disclosing through CDP’s platform disclosing the relevant governance of climate-related issues.

Disclosure of metrics and targets (GHG emissions and emissions reduction targets) are generally disclosed well, but we see a greater variance between indexes in comparison to governance. EU based companies are generally leading the charge, but German listed companies are an outlier to this trend, with only 75% of companies disclosing the necessary metrics and targets. Canadian listed companies are again proving to be laggards in this space, with only 56% of companies sufficiently disclosing against this TCFD theme. Full disclosure of GHG emissions (direct, indirect and value chain emissions) alongside targets and the ambition of such targets are vital if the real economy is to successfully transition to a net-zero economy – stakeholders need to engage with corporates to ensure they are meeting these requirements and being fully transparent in terms of methodologies, exclusions and other nuances like potential changes in boundary.

Companies are most notably performing poorly on the disclosure of how climate-related issues are integrated into their overall business strategy. The disclosure of potential substantive risks and opportunities is reasonably well disclosed in this theme, but there are significant gaps in other areas particularly scenario analysis. Companies need to be able to tie these together and integrate climate-related issues into their overarching business strategy if they wish to maintain relevance and transition to a net-zero economy. This gap in strategy is particularly concerning, and stakeholders need to engage with these major indices listed companies to understand why.

This is already a low bar in terms of ambition, expectations of investors and other stakeholders have been raised by the rise of climate transition plans⁷ and initiatives such as the [Say on Climate](#) Initiative - in this analysis CDP did not factor in the addition of climate transition plans to

⁷ CDP produced a [discussion paper](#) on climate transition plans in November 2021 and provided a clear definition, principles, and the key elements of a credible climate transition plan.

the TCFD recommendations into our high-level analysis as companies had submitted their CDP disclosures before the TCFD update was finalised. However, our data suggests over 4,000 companies believe they have a low-carbon transition plan, and of those nearly 900 describe it as an AGM item.

For insights on climate transition plan disclosure, recent CDP analysis⁸ identified that significant gaps exist with only 135 companies, or 1%, of the full CDP disclosure universe, disclosing on all 24 relevant transition plan metrics identified by CDP.

⁸ CDP Analysis Report [Are companies being transparent in their transition?](#) provides an overview of the current state of climate transition plan relevant information disclosed through CDP's 2021 Climate Change Questionnaire