

Training

Transparency & Corporate Reports



Taskforce on Climate-related Financial Disclosures (TCFD)



What is the TCFD?

- ▶ The Task Force on Climate-related Financial Disclosures was established to develop recommendations for more effective climate-related disclosures that:
 - promotes more **informed investment** , credit, and insurance underwriting decisions and
 - in turn, enables stakeholders to **understand** better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to **climate-related risks** .
- ▶ More than 3000 organizations from 92 countries.



Source : TCFD_Overview



TCFD

Where is the TCFD?



**Industry-Led
Task Force
with
Geographically
Diverse
Members and
Supporters**



Source : *TCFD_Overview_Booklet_Digital*

Potential Finance Implications of Climate Change

Risk Drivers³

Physical: rising temperatures, higher sea levels, and more destructive natural catastrophes

Transition: climate policy changes, innovations in technology, and shifts in consumer preferences

Potential Economic Effects

- Business disruption
- Lower productivity
- Reconstruction, reinvestment, and replacement
- Higher commodity and energy prices

Potential Financial Effects

- Lower property values and asset devaluations
- Lower corporate profits and household wealth
- Financial market losses (equities, bonds, commodities)
- Credit market losses (residential and corporate loans)

- ▶ Extreme Weather Events and Gradual Changes in Climate
- ▶ Transition to a Low-Carbon Economy
- ▶ Climate Change Is a Financial Risk
 - Revenues
 - Expenditures
 - Assets and Liabilities
 - Capital and Financing





Governance

- ✓ Within the company, who is responsible for assessing and managing climate-related risks and opportunities?
- ✓ Are these issues addressed in the Council? How often?

Strategy

- ✓ How can the company measure the impact of climate-related risks and opportunities on its financial strategy and planning?
- ✓ How resilient is the company's strategy under various climate scenarios, including scenario 2?

Risk management

- ✓ How does the company identify and manage climate-related risks?
- ✓ How does this approach fit into the company's overall risk management?

Indicators and objectives

- ✓ What are the company's emissions in Scopes 1, 2 and 3?
- ✓ What other indicators are relevant to assess climate-related risks and opportunities?
- ✓ What goals does the company set to reduce its climate-related risks and opportunities?



TCFD

Risks & Opportunities

Risks



Transition

Policy and Legal

- Carbon pricing and reporting obligations
- Mandates on and regulation of existing products and services
- Exposure to litigation

Technology

- Substitution of existing products and services with lower emissions options
- Unsuccessful investment in new technologies

Market

- Changing customer behavior
- Uncertainty in market signals
- Increased cost of raw materials

Reputation

- Shift in consumer preferences
- Increased stakeholder concern/negative feedback
- Stigmatization of sector



Physical

- Acute: extreme weather events
- Chronic: changing weather patterns and rising mean temperature and sea levels

Opportunities



Resource Efficiency

- Use of more efficient modes of transport and production and distribution processes
- Use of recycling
- Move to more efficient buildings
- Reduced water usage and consumption



Energy Source

- Use of lower-emission sources of energy
- Use of supportive policy incentives
- Use of new technologies
- Participation in carbon market



Products & Services

- Development and/or expansion of low emissions goods and services
- Development of climate adaptation and insurance risk solutions
- Development of new products or services through R&D and innovation



Markets

- Access to new markets
- Use of public-sector incentives
- Access to new assets and locations needing insurance coverage



Resilience

Strategic Planning Risk Management

Financial Impact

Income Statement

Cash Flow Statement

Balance Sheet



REVENUES



EXPENDITURES



ASSETS & LIABILITIES

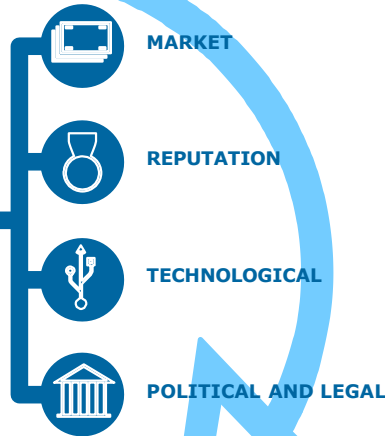


CAPITAL & FINANCING



TCFD Climate Climate Related Risks

TRANSITION RISKS



PHYSICAL RISKS

ACUTE

CHRONIC

Generated by events, including increased severity of extreme weather events such as cyclones, hurricanes, or floods.

Long-term changes in weather patterns that can cause sea level rise or chronic heat waves.

Risk associated with property damage, materials and supply chain disruption impacts.

Risk to financial changes in wa security temperature ex facilities, transpo

Example of physical risk identified

DIRECT OPERATIONS CHANGE IN WEATHER PATTERNS *SHORT TERM*

PROBABILITY
HIGH

MAGNITUDE
HALF

The latest **IPCC report** warns of the irreversible effects of climate change if effective action is not taken over the next decade, limiting warming **to the agreed target of 1.5°C** .

A change in the temperature pattern would directly affect the workers, requiring greater air conditioning in the spaces so as not to harm their health and comfort ; but it could also do so, in an important way, in the production of drugs, affecting the conservation of raw materials and the manufacture of final products.



It is necessary to understand how this increase in temperatures is affecting and will affect our operations and our business in each of the locations and links in the value chain in order to determine contingency plans and minimize the risks and possible derived costs.



TYPE OF IMPACT FOR THE BUSINESS:

Increase in operating costs, reduction in margins, impossibility of manufacturing, damage to the health and comfort of workers



Example of transition risk identified

DIRECT OPERATIONS EMERGING LEGISLATION
MEDIUM TERM

PROBABILITY
HIGH

MAGNITUDE
HALF

The European Union **Emissions Trading Scheme** (or EU ETS) is a main pillar of EU climate policy. It is also the largest multilateral greenhouse gas emissions trading scheme in the world. It currently covers approximately 50% of the emissions generated in the EU and it is not ruled out to expand the number of sectors and activities that are affected by a regulated system, both from the European level and as a result of the taxation in this regard that the future Law will propose of Spanish Climate Change.

It is a good practice to begin to **internalize this price of carbon** to anticipate what the associated cost may be, as well as being a measure of responsibility and promoting efficiency.



TYPE OF IMPACT FOR THE BUSINESS:

Increased costs, reduced margins.



Example of identified opportunity

DIRECT OPERATIONS PRODUCTS AND SERVICES
MEDIUM TERM

PROBABILITY
HIGH

MAGNITUDE
HALF

The increase in risks associated with climate change will also generate **new opportunities** in terms of the volume, distribution and diversity of products required due to the greater number of people exposed to these risks. In the same way, the perception of risk will also increase, so it will also be necessary to assess solutions focused on prevention, which may lead, if effective, to increases in revenue. Understanding these new needs can clearly position us in a situation of advantage over our competition.

The fight against Climate Change also opens the door to innovation in the product portfolio, such as:

- New vaccines in new geographical areas
- Increased demand for repellents in the face of new pests
- Medications associated with respiratory problems
- Skin treatments due to atmospheric conditions
- Vitamin supplements due to reduced food quality (among others)



TYPE OF IMPACT FOR THE BUSINESS:

Attracting new customers, access to new markets, increased revenue, differentiation from competitors.



CDP



CDP: Why is it important for companies?

1. What is CDP?

Formerly the Carbon Disclosure Project (CDP) is a not-for-profit charity that runs the global disclosure system for investors and companies

2. What is the aim of CDP?

To benchmark company performance for climate, forest commodities, and water against their peers while also highlighting best practice through their A-List scores.

3. Why is CDP relevant?

Climate change is identified as an urgent issue for investors, with the World Economic Forum placing climate risk as the top risk for the world's economy. CDP is backed by \$110tn in investor assets wishing to understand more about the steps and progress companies are making.

4. How can CDP benefit a disclosing company?

- Identify strengths & gaps in your current strategy
- Benchmark performance against peers
- 75% of responding companies feel CDP improves their reputation
- Proactively address investor queries by disclosing
- Disclosing helps address other emerging standards such as TCFD



13,000+ Companies responded in 2021

Increased by 35% since 2020

Over 64% of global market cap responds to CDP



Investor Partners and Supply Chain Members Represent:

\$110tn
\$5.5tn

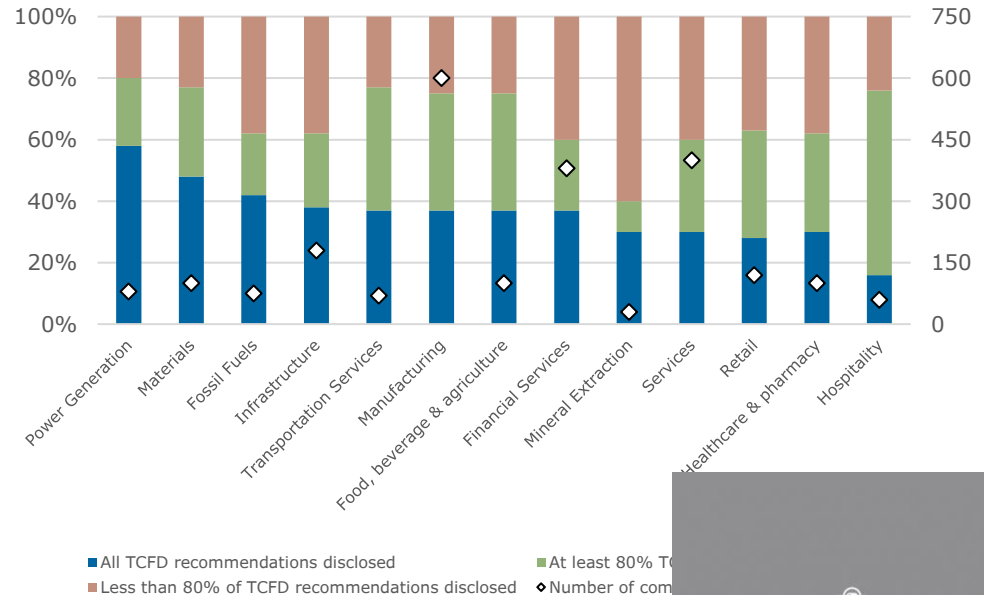


How CDP integrates with TCFD

PDC-TCFD
alignment

- ▶ CDP's questionnaires aligned with TCFD's recommendations in 2018
- ▶ More than 25 TCFD-aligned questions within the **Governance, Risks & Opportunities, Strategy, Targets and Emissions** modules
- ▶ CDP has the largest TCFD-aligned environmental database in the world
- ▶ Gaps identified within a companies CDP response will also identify areas to align with TCFD
- ▶ Water and Forests questionnaires have also been structured to align with TCFD recommendations structure

TCFD Alignment in CDP Responses by Sector



The chart on the right highlights which sectors have the highest proportion of companies in their sector that are disclosing TCFD related information



CDP: The A-list

CDP Top scorers

- ▶ CDP A-list represents the top scorers in each questionnaire.
- ▶ Companies must also fulfill some additional criteria:
 - ▶ The disclosure must be made public
 - ▶ Must report verified scope 1 & 2 figures
 - ▶ Pass CDP screening assessment

The A-list 2021

- ▶ Climate Change: 200 companies
- ▶ Water Security: 118 companies
- ▶ Forests: 24 companies

**CDP 2021 Company
scores & A list**
(CDP website)

Coca-Cola
EUROPACIFIC
PARTNERS

Telefonica

ESTÉE
LAUDER
COMPANIES

DANONE

JTI

**DS
Smith**

L'ORÉAL

**LA
BANQUE
POSTALE**

**Dixons
Carphone**

Givaudan

edf

ferrovial

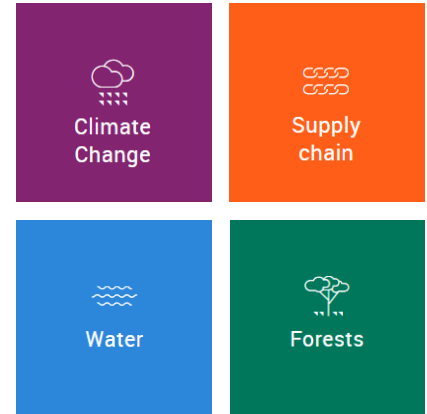
RICHEM



CDP: Questionnaire Context

Investor / Client led disclosure

- ▶ Disclosure in 3 areas – Climate, Water, Forests
- ▶ In 2018, CDP introduced industry-specific questionnaires
- ▶ Companies are requested to respond by **investors** (for the regular questionnaires) or **customers** (for the supply chain questionnaire)
- ▶ CDP's questionnaires are fully aligned with the recommendations of the TCFD
- ▶ CDP's 2021-2025 strategy focuses on aligning to the requirements of transitioning to a 1.5 °C world and expanding its scope to cover wider environmental issues
- ▶ The information disclosed by companies is not audited by an external independent party



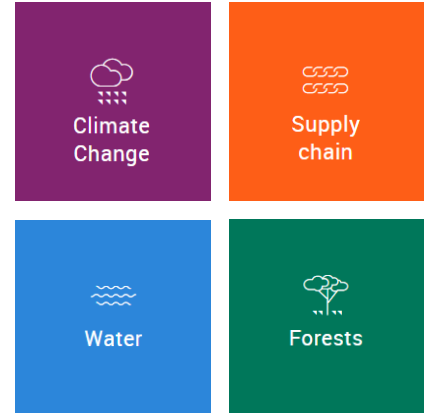
- Palm oil
- Timber



CDP: Questionnaire Context

General / Sector Specific questionnaires

- Agricultural commodities
- Capital goods
- Cement
- Chemicals
- Coal
- Construction
- Electrical utilities
- Financial services
- Food, beverage & tobacco
- Metals & mining
- Oil & gas
- Paper & forestry
- Real estate
- Steel
- Transportation OEMS
- Transportation OEMS - EPM
- Transportation services
- All other sectors - **GENERAL**



CDP Questionnaire Structures



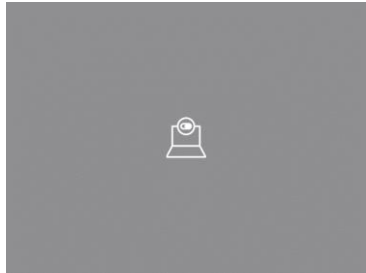
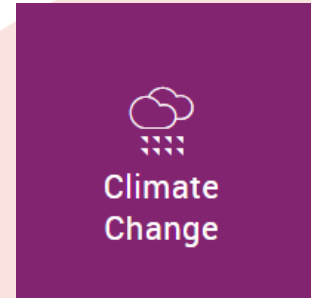
Climate Questionnaire



- Most respondents of the 4 questionnaires

Questions split into 15 sections

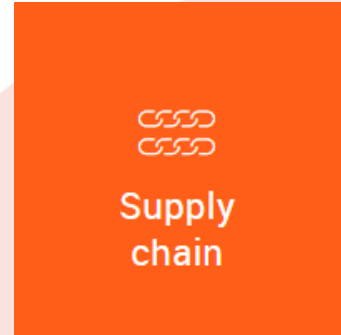
- C0 Introduction
- C1 Governance
- C2 Risks and opportunities
- C3 Business strategy
- C4 Targets and performance
- C5 Emissions methodology
- C6 emissions data
- C7 emissions breakdown
- C8 Energy
- C9 Additional metrics
- C10 Check
- C11 Carbon pricing
- C12 Engagement
- C15 Biodiversity – **NEW for 2022**
- C16 Sign off



Supply Chain Questionnaire



- The same questionnaire as Climate Change, with additional questions:
 - Allocating emissions to customers
 - Collaborative opportunities
 - share exchange
 - Product level data
- Questionnaires are private and the emissions by customer are only shared with the requesting companies.
- Many choose to also submit the Climate Change questionnaire to obtain a public score

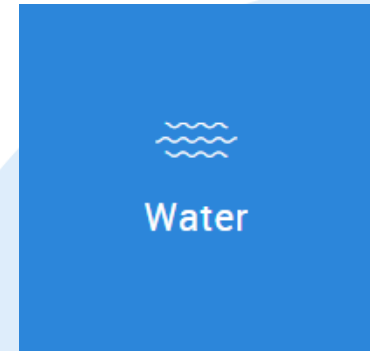


Water Questionnaire



Questions split into 12 sections

- W0 Introduction
- W1 Current state
- W2 Business impacts
- W3 Procedures
- W4 Risks and opportunities
- W5 Facility-level accounting
- W6 Governance
- W7 Business strategy
- W8 Targets
- W9 Linkages and tradeoffs
- W10 verification
- W11 Signoff



Forests Questionnaires



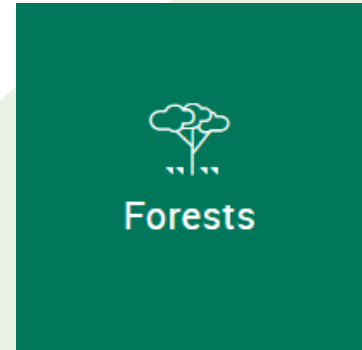
- The youngest questionnaire, launched in 2012
- Companies can select which commodities they want to respond to

Questions split into 15 sections

- F0 Introduction
- F1 Current state
- F2 Procedures
- F3 Risks and opportunities
- F4 Governance
- F5 Business Strategy
- F6 Implementation
- F7 Linkages and tradeoffs
- F8 Check
- F9 Barriers and challenges
- F10 Sign off

6 commodities

- **Timber**
- **Soy**
- **Palm oil**
- **Cattle**
- **Rubber**
- **Mining**



CDP Scoring System



CDP Scoring System

Disclosure

Questions scored on the *complete and transparent disclosure* of information.

Answering “no” or “don't know” is acceptable and will receive full disclosure points in most cases.

Awareness

Questions scored to identify if you are *aware of the implications of climate change issues* on the business

Requires an explanation when selecting “no”.

Management

Questions scored based on your *implementation of specific management actions* to address climate change.

This may include having an emissions reduction target.

Leadership

Questions to identify if you are *taking ambitious action and implementing best practice* to address climate change.

Companies scoring 80% or more at the Leadership level are awarded the A-List status.



External link

Scoring
(CD



CDP Scoring System

4 tier system

	Climate change	Water Security	Forests	Score Band
Disclosure	0-44%	0-44%	0-44%	D-
	45-79%	45-79%	45-79%	D
Awareness	0-44%	0-44%	0-44%	C-
	45-79%	45-79%	45-79%	C
Management	0-44%	0-44%	0-44%	B-
	45-79%	45-79%	45-79%	B.
Leadership	0-79%	0-79%	0-79%	A-
	80-100%	80-100%	80-100%	A



Disclosure Timeline



2022 Disclosure Timeline

Next steps

- **March:** 2022 CDP Scoring Methodologies released by CDP
- **April:** Begin preparing responses
- **April:** CDP's ORS system goes online
- **July 27th:** CDP deadline

CDP SCORE REPORT – CLIMATE CHANGE 2021



CDP disclosure cycle 2022
C0 Introduction
C1 Governance
C2 Risks and opportunities
C3 Business strategy
C4 Targets and performance
C5 Emissions methodology
C6 Emissions data
C7 Emissions breakdown
C8 Energy
C9 Additional metrics
C10 Verification
C11 Carbon pricing

C0 Introduction

Introduction

(C0.1) Give a general description and introduction to your organization.

Response options

This is an open text question with a limit of 5,000 characters.

Please note that when copying from another document into the ORS, formatting is not retained.

C0.1 - Scoring criteria

Disclosure scoring criteria

Not scored



and our climate experts. and our partners for positive change.

EcoAct , an atos company, it is an international advisory consultancy and projects developer that works with clients to meet the demands of climate change. We work with many large and complex multinational organizations to offer solutions to their sustainability challenges.



EcoAct UK

+44 (0) 203 589 9444
ukoffice@eco-act.com

EcoAct Spain

+34 935 851 122
contact@eco-act.com

EcoAct France

+33 (0)1 83 64 08 70
contact@eco-act.com

EcoAct USES

+1 917 744 9660
usaoffice@eco-act.com

EcoAct Turkey

+90 (0) 312 437 05 92
turkeyoffice@eco-act.com

EcoAct Kenyan

+254 708 066 725
info@climatepal.com

