First steps on climate-related financial disclosures in Europe

A snapshot of 30 companies’ initial disclosures

This snapshot of 30 companies’ first steps in disclosing climate-related risks and opportunities is linked to CDSB’s First Steps report published in November 2018 of corporate disclosures of environmental and climate information under the EU Non-Financial Reporting Directive (NFRD). The full report is available at cdsb.net/NFRreview.

Analysis of 80 publicly-listed companies’ annual reports from across Europe (mainly UK, France and Germany) revealed that 62% of companies do not refer to the TCFD in their management report. Notwithstanding, there is a growing body of evidence of initial disclosures of climate-related financial information emerging. We found 30 of the top 80 European companies by market capitalisation have made statements in support of the TCFD and/or provide some specific
TCFD-aligned disclosures in their management reports. This supplementary note to the First Steps report offers a qualitative snapshot of the nature of these disclosures through a TCFD lens.

Of the 30 company reports highlighted here, 14 are financial sector companies including 12 Banks and 2 Insurance companies, and the remaining 16 are non-financial sector companies including 2 Agriculture, Food and Forest Product companies, 9 Energy companies, and 5 Materials and Buildings companies.

All 30 companies are included in the group of 513 supporters globally who have expressed their support for the TCFD (as of 26 September 2018). CDSB and several partner organisations are working with 5 of these companies through the TCFD implementation commitment. These 5 companies are members of a leading group of companies who by pledging to implement the TCFD recommendations also commit to strengthen and align climate-related corporate reporting to the investment community through a common framework.

Our highlights of initial TCFD responses begin with Axa. Axa’s 2017 Registration Document and Annual Financial Report includes a five-page overview on Responsible Investment, “Article 173”/Climate-related Financial Disclosures (TCFD). It signposts to a more detailed TCFD/Article 173 report of March 2018 on its website. Axa combined reporting on mandatory disclosures in Article 173 with voluntary TCFD disclosure requirements, illustrating that NFRD-TCFD alignment is possible in practice. TCFD requirements disclosed are done in accordance with TCFD general guidance for the financial sector and relevant supplemental guidance.

Like many other company reports, Axa used the four TCFD core elements to frame its reporting. On governance, it broadened the TCFD element to cover governance of ESG matters in addition to climate-related risks and opportunities. It lists various institutional mechanisms and related committees for governance noting, in particular, the interface between responsible investment (RI) and corporate responsibility. Under strategy, Axa highlights the five main pillars of its Global RI Policy and states its tools and methodology for ESG risks identification, with a dedicated section on investments-related climate risks identification and methodology. It identifies both energy transition and physical risks.

On risk management, it states that Axa tracks ESG and climate metrics and “factors these risks and opportunities into its investment and insurance-related processes”. It adds that “integration of ESG and climate-related risks and opportunities into [its] General Account investments is undertaken via initiatives such as ESG score tracking, exclusions, green and impact investments, engagement, public policy outreach, products and services and 2°C alignment analysis”. The report also contains various metrics and targets.

Barclays PLC’s 2017 Annual Report states its approach to ‘non-financial performance reporting’ at the beginning of the report, noting that it has integrated non-financial information into the non-financial statement in accordance with both the NFRD and the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 implementing the NFRD.

TCFD is addressed within the risk management section of the management report. Barclays echoes ING in recognising that the TCFD recommendations are “the start of a longer-term process to enhance disclosures and improve understanding of potential material financial impacts”. Similarly, Barclays reiterates that: “The principles laid out in the TCFD recommendations are an important step in providing the foundations from which companies, investors, banks and other market participants can move forward together to improve transparency and build better understanding of potential climate-related risks and opportunities”. Barclays makes its ‘initial’ disclosures aligned with the TCFD in the
Strategic Report and in the ESG Report available on its website.

In its management report, Barclays also refers to an externally-facilitated review on Barclays’ alignment with the TCFD recommendations and “its comparative performance against its peers”. This is another means by which a company may take first steps in preparing for its TCFD disclosure journey.

**BBVA** states in its 2017 Annual Report that one of its key sustainable finance 2018 deliverables is a TCFD recommendations roadmap. This presents one option of a practical first step for companies to take in TCFD implementation. BBVA aligned their ESG initiatives to the Sustainable Development Goals (SDGs) and refers to the TCFD in the context of SDG 13 on climate action. BBVA lists the 11 recommended disclosures and discloses where it already has existing processes in place to build upon. It then outlines a two-phased short-term action plan over 2017-2018 to help put in place reporting on these recommended disclosures. Intermediate steps include defining and formalising risk management processes, and formalising working groups on governance, etc.

In the management report, BBVA notes its participation as one of 16 banks in the UNEP FI-supervised pilot group, where collectively “they will analyse how climate change affects the banking industry, its governance model, strategy and risk model”. BNP Paribas’ 2017 Registration Document and Annual Financial Report also states its membership in this pilot group, as do Société Générale and Santander in their management reports.

**BP**’s climate change strategy in its Annual Report and Form 20-F 2017 includes a text box on the TCFD and states that: “Our reporting provides information relevant to each of the four TCFD recommendations”. It then signposts to which pages the information can be found. Additionally, in the activities undertaken during the year listed in the report, there is reference to the Audit Committee’s review of the TCFD, its origin, purpose, work and how BP aligns to existing reporting.

**Diageo** in its 2018 Annual Report addresses TCFD alignment under the section ‘Reducing our environmental impact’. One of its first steps taken was to conduct a “gap analysis to assess the extent to which [its] existing public disclosures on climate risk align with” the TCFD recommendations. The gap analysis drew on disclosures in the management report and in its CDP submission. It states that it is “already integrating climate-related issues into [its] mainstream business operations this year” and will continue to analyse its approach and resilience, and “build activity into [its] core business plan” for mitigation. It further states its “plan to progressively meet TCFD requirements”.

Diageo’s approach of assessing where it can build on its existing reporting and disclosure practices might be one which other companies looking at first steps in TCFD implementation may wish to explore further. It intends to review medium (defined as 3-10 years) and longer-term impacts and report on these in the future, illustrating its recognition of a TCFD reporting continuum.

**DSM** in its 2017 Integrated Annual Report is one of 20 companies in the group CDSB is working with who made a commitment to implementing the TCFD recommendations “as fully as practicable” over a three-year period. DSM flags that it is “investigating how to implement these recommendations and will provide more information in subsequent reports”.

**EDF**’s 2017 Reference Document includes a chapter on environmental and societal information. It states that it contains the information on the NFRD that the EDF Group “is obliged to publish in accordance with the provision of Article L. 225-102-1 of the French Commercial Code and the Decree of 24 April 2012 implementing the Grenelle 2, which requires companies to disclose how the social and environmental consequences of their
activities are taken into account and report on their commitments to society in favour of sustainable development”. EDF indicates that following the TCFD recommended disclosures, it has chosen to carry out an “entirely new materiality analysis” to characterise climate-linked risks and opportunities. EDF further notes that it was one of the first to adopt the TCFD recommendations. EDF discloses how its financial and non-financial communication is “already in line with the TCFD” in a paragraph signposting to relevant sections of the management report for each of the four TCFD core elements.

EDF has also embraced the idea of having a review of its TCFD disclosures: Over the next few years, it “will undertake a comprehensive alignment process of its climate change-related financial risk disclosures with the recommendations of the TCFD…to stay up-to-date with the requirements of financial markets with regard to climate change-related risks”.

Enel’s 2017 Annual Report considers exposure to climate change as one of the main risks it faces under the wider umbrella of environmental sustainability. This suggests it treats climate change as falling under the remit of environmental matters, for which there is a corresponding NFRD reporting obligation.

The Enel Group have signed a letter of support for implementation of the TCFD. To take this support forward within the business, it created a working group to develop long-term climate models, define key climate scenarios, map climate-related risks and opportunities, and focus on financial reporting related to climate change – all necessary preconditions for effective climate-related disclosure.

Enel uses scenario analysis as a tool to “assess the possible economic and financial impacts on the business and to evaluate the Group’s strategy and the related risk management and governance elements”. The core TCFD elements are considered holistically.

Eni in its 2017 Integrated Annual Report states that it is “part of the TCFD…targeted to a more transparent disclosure about risks and opportunities relating to climate change”. It identifies climate change as a strategic risk and notes that as “part of the TCFD, [it was] supporting the progress and correct transposition of recommendations issued by [the] TCFD”. Moreover, Eni, in its consolidated disclosure of non-financial information statement produced in accordance with the relevant NFRD implementing Italian Legislative Decree, states that the contents under the Path to Decarbonisation heading of its management report are drafted in accordance with the TCFD recommendations. EDF adds that it is “committed to gradual implementation” of the TCFD recommendations. Its approach to disclosure is to provide a dashboard signposting the key elements disclosed under the four TCFD core elements in reports and documents (notably in both its Integrated Annual Report and Sustainability Report).

Ferrovial S.A. and its subsidiaries’ 2017 management report state on the report cover that it ‘meets the requisites’ of the NFRD and related Spanish national legislation, ‘observes’ the TCFD recommendations and ‘aligns’ with the CDSB [Framework]. Its climate strategy refers to its commitment to implement the TCFD. To this end, it created an internal project, Ferrovial 2020 “to identify and evaluate risks and business opportunities related to climate change and the new associated regulatory framework”.

HSBC Holdings plc, in its Annual Report and Accounts 2017 refers to “the combined responsibility of all players in society to respond to climate change, rapid technological evolution and continuing globalisation to secure a prosperous future”. It emphasises that we all “have a stake in developing a sustainable economic system”. Adopting the TCFD recommendations is one of its five sustainable finance commitments in its November 2017 ESG Supplement.
In the management report, HSBC explains that its approach to TCFD for the year is “reporting qualitatively on the governance, strategy and risk management components of the TCFD”. As a next step, its “Sustainable Finance, Risk Management and Finance [business areas] will work with external experts to develop climate-related scenario analysis and related disclosures”. The initial response “represents [HSBC’s] first disclosure under the framework” and the bank recognises it is a first step and “will evolve and expand over time”.

HSBC discloses three of the four TCFD core elements with the exception of metrics and targets. Under governance, the narrative states that sustainability is a key concern of HSBC Group Management citing five presentations given in 2017. It also cross-refers to its 2016 Statement on Climate Change and both the Climate Business Council and the group-wide ESG Steering Group. On strategy, the response refers to facilitating the transition to a low carbon economy for the bank and its clients through the creation in 2017 of a Global Head of Sustainable Finance and an HSBC Centre for Sustainable Finance. On risk management, the initial response covers both physical and transition risks, and their measurement and management.

In keeping with other companies’ statements in their management reports, Iberdrola states, in its 2018 Integrated Report, its support for the TCFD recommendations and commitment to implementing them within three years. Iberdrola approaches its disclosure by summarising the four core elements of the TCFD in its “Non-financial Appendix”. It lists the 11 recommended disclosures across the four core elements of the TCFD in this Appendix and signposts where in the Annual Report and “other Public Disclosures” this information can be found. This Appendix provides an accompanying narrative on how the Group has identified climate-related risks and opportunities and has approached climate change governance. It states its climate change policies and strategies and identifies both transition and physical risks.

ING’s narrative surrounding its climate change strategy recognises where further work is needed: “As reported in our 2016 annual report, the results were not accurate enough to be published and there is still no market for measuring financed emissions. ING therefore intensified the search for the right metrics and methods...”.

Like some other companies’ reports, it adds that it will work on disclosure of climate scenarios. Iberdrola refers to a new “Adjustment Plan to validate long-term needs through an integrated process directed towards reducing future vulnerability to climate change”. On risk management, it identifies both transitional and physical risks in the medium term and cross-refers to another report section on group risk management. It refers to metrics and objectives instead of the fourth TCFD core element of ‘metrics and targets’. Under this theme, it also refers to the company’s Sustainability and Integrated Reports as a source of indicators on climate-related aspects.

ING, in its Group Annual Report 2017, sees publication of the TCFD report as a key development in 2017. ING further acknowledges the important role of the TCFD to “encourage investors to shift to more low-carbon and climate-smart options as companies become more transparent about reporting on the financial implications of climate change”.

ING includes its climate-related disclosures in a ‘Non-financial Appendix’. It lists the 11 recommended disclosures across the four core elements of the TCFD in this Appendix and signposts where in the Annual Report and “other Public Disclosures” this information can be found. This Appendix provides an accompanying narrative on how the Group has identified climate-related risks and opportunities and has approached climate change governance. It states its climate change policies and strategies and identifies both transition and physical risks.

Under the recommended TCFD disclosure c) of strategy and a) of risk management, ING states...
that “analysis is in development”. This is a key point as full adoption of TCFD will take time, and the Task Force acknowledges this in its five-year adoption and uptake curve. ING notes that “… it will take several years for companies like ING and its clients to be able to align fully with the recommendations. In fact, it is only as our clients start to disclose more completely that we can use that data for our own analyses and disclosures. However, we are not waiting for a perfect world before we take action”. It is therefore helpful for a company or group to state in its management report where on that pathway the company or group is.

**Lloyd Banking Group** in its 2017 Annual Report and Accounts\(^\text{15}\) under the Environment section welcomes the TCFD recommendations and explains it has mapped its approach to TCFD implementation. It is “developing a strategy and implementing processes to: Assess the materiality of climate risks across [its] business; Identify and define a range of scenarios, including relevant physical and transition risk; Evaluate business impacts; and Identify potential responses to manage the risks and opportunities”.

One page of its management report summarises both its “climate-related financial disclosures” with a narrative around the four core TCFD elements, and a table stating how the Group complies with the non-financial information statement required under relevant national NFRD implementing legislation (e.g. s.414CA and s.414CB of the UK Companies Act 2006). In the Non-Financial Information Statement table, Lloyds refers to environmental matters and signposts to the environmental statement where policies and standards governing its approach lie. It also cross-refers to other parts of the report, e.g. risk management. Climate is treated separately although having environment and climate matters on the same pages suggests complementarity.

The TCFD disclosures on its strategy refer to its 2017 review of how it integrates environmental sustainability into its strategy and risk management processes. It states that it is “committed to supporting the transition to a low carbon economy through [its] financial products and services, including renewable energy services”. Under governance, it refers to a subcommittee of the Board, the Responsible Business Committee and to the Sustainability Committee. On risk management, amongst other areas, it identifies the physical risk of flooding as climate risk and signposts to environmental risk management elsewhere in the report. And on metrics and targets, Lloyds discloses that it is “working to develop strategic commitments and targets in response to climate-related risks and opportunities, with different parts of the business feeding into the target setting process”. The cross-business engagement effort is also a practical first step in preparing for TCFD disclosures.

It also discloses its CO\(_2\) emissions and adds that it “will also consider the supplementary industry specific recommendations for the financial sector”. Lloyds Banking Group, like others, states its plans to undertake a TCFD review. In 2018, it will “commence a systematic review of climate-related risks and opportunities across the Group’s core divisions”.

As in the case of Enel, **National Grid**, in its 2017/18 Annual Report and Accounts\(^\text{16}\) considered climate impact under the umbrella of environmental sustainability. In the same section, National Grid expressed its commitment to implementing the TCFD recommendations. It mapped its TCFD disclosures in a ‘first response’ table. National Grid states that it has "embarked on a longer-term process to determine how we most clearly articulate our assessment of financial impacts of climate change and climate-related scenarios, including a 2°C scenario". It also referred to the TCFD’s supplemental guidance applicable to energy companies.

As a first step in addressing the governance core element, "summary papers setting out the implications of the recommendations on the Company were presented to the Audit Committee" twice during the financial year and “Management is currently formally evaluating
the governance process and roles and responsibilities of the Audit and [Safety, Environmental and Health] Committee in this area”. Under the strategy TCFD core element heading, the company signposts to where in the report it has responded to climate risk and opportunities. It also refers to its separate publication on Future Energy Scenarios, noting its basis for a range of company activities and as a starting point for regulated long-term investment.

Moreover, its approach to management of climate risks cross-references to the principal risks section of the management report. There is also narrative on both transition and physical risks. In terms of metrics and targets, National Grid states that it takes a collaborative approach to their development “speaking to our peers, investors, credit rating agencies and advisors”. This suggests a desire for information generated through the TCFD recommendations to be decision-useful.

Prudential plc’s 2017 Annual Report refers to the TCFD as part of the continually evolving climate risk landscape that is “moving up the agenda of many regulators, governments, non-governmental organisations, and investors”. Its management report refers to both protecting the environment and managing climate change risks. This presents an opportunity for more closely aligned NFRD disclosures on environmental and on the TCFD recommended disclosures on climate-related risks and opportunities. Its “long-term approach includes investing in the low-carbon economy, measuring and improving the environmental performance of our global operations and reducing the impact of our investments on the environment”.

Prudential states that it welcomes the TCFD recommendations and outlines its institutional structure for oversight of climate-related risks and opportunities. It notes that it is “in the process of refreshing [its] enterprise-wide assessment of climate-related risks, while also establishing the internal capabilities needed to make enhanced climate-related financial disclosures in future reporting period, considering the geographical and asset class breadth of [its] investment activities.

Prudential echoes other companies in their TCFD narrative suggesting that there will be a continuum of disclosures for companies, and that considerable work will take place internally to facilitate such disclosures.

RBS notes in its 2017 Annual Report and Accounts that climate change is a key influence and asserts its commitment to implementing the TCFD recommendations and pledge of support to the TCFD. It views “Adoption of the TCFD recommendations [as] an important step forward in pricing climate-related risks and opportunities as the transition to a low-carbon economy - under the terms of the Paris Agreement – progresses”.

RBS disclosed its approach to TCFD disclosure in an additional information section of its management report, with narrative provided under each of the four core elements. Under governance, it discloses board oversight of climate-related risks and opportunities through its Sustainable Banking Committee and cross-references to risk governance addressed elsewhere in its report. On strategy, RBS provides a diagram of its internal and external climate change strategy drivers. It then provides a narrative on its strategy for managing direct and indirect climate impacts.

On risk management, for example, it states that “RBS employs a continuous process for identifying and managing emerging risks, including climate-related risks”. It discusses risk management further, including “significantly reduc[ing] its credit exposure to the sectors most vulnerable to climate-related regulation and market changes”, and also cites its policy for ESG risks. Finally, it states that it “uses a range of metrics and targets to assess [its] climate related risks and opportunities” and provides some examples, cross-referencing elsewhere in the report and to its website.

Rio Tinto states in its Annual Report 2017 that it supports the TCFD recommendations “for
voluntary reporting on climate change risks and will evolve [its] reporting to align with them”. Similarly, Bankia, in its 2017 Annual Report\(^{20}\) identifies the TCFD as a ‘future line of work’ “with a view to implementing those recommendations and continuing the fight against climate change”. Symrise in its Corporate Report 2017\(^{21}\) states that it supports the TCFD recommendations and “will continue to expand its climate-based corporate reporting”. Many statements in the management report by different companies stress the evolutionary nature of TCFD disclosures and contain different levels of initial disclosure and timescales.

Santander in its 2017 Annual Report also that the TCFD recommendations incorporate for the first time “stress exercises that include different climate scenarios”. It states that it has “a Map of Uses in place to strengthen the alignment of scenario analysis for each risk type, along with continuous improvement of such uses”. It points out that the TCFD recommendations “will imply a significant advance in the reporting of risk and opportunities associated with climate change by financial institutions”. Thus, it suggests that TCFD implementation requires a step change in reporting practices.

Schneider Electric briefly mentions the TCFD in its 2017 Registration Document\(^{22}\). It refers to sustainable development as “at the heart of its strategy”. Its approach to TCFD disclosure is to provide a statement of its commitment to support the TCFD recommendations as part of its overall approach to “climate action for sustainable growth”. Crédit Agricole in its Registration Document 2017\(^{23}\) refers to TCFD in the corporate governance section of its management report under the heading Energy Transition- Climate risks, stating its pledge alongside other companies, to implement the TCFD.

Shell, in its Annual Report and Form 20-F 2017\(^{24}\), welcomes and supports the efforts of the TCFD and adds that it believes “companies should be clear about how they plan to be resilient in the energy transition”. Shell is working with the Task Force “to develop guidance on effective disclosure which, where commercially possible, will be most relevant and useful to investors”.

Shell signposts to other publications such as The Shell Sustainability Report (April 2018) complementing its 2017 Annual Report “in responding to the TCFD recommendations, including discussing the energy transition and Shell’s portfolio resilience”. This notion of resilience from the TCFD could be picked up in the NFRD Guidelines in relation to environmental matters.

Societe Generale’s 2018 Registration Document and Annual Financial Report\(^{25}\) “follows the presentation structure recommended by the TCFD”. It describes its climate strategy and management of climate-related risks including through ongoing credit risk management (and identification of risk factors in relation to physical and transition risks) and in detailing its risk management by sector policies.

Total in its 2017 Registration Document\(^{26}\) states its support for global initiatives, noting its role in bringing about greater transparency through the TCFD. Total includes a four-page narrative on the TCFD in its management report which “gives details of how the Group implements the TCFD’s recommendations, according to the four pillars and how it intends to launch an initiative for continual improvement in this field”.

Under governance, Total states that its “Board of Directors ensures that climate-related issues are incorporated into the Group’s strategy” and since “2008, these major issues for the Group have no longer been treated as one component of environmental risks, but rather on an independent basis.” This supports the finding in the First Steps report of the need for greater specificity between environmental matters and climate-related risks in the NFRD.

There are disclosures in Total’s management report on both recommended disclosure a) and b) of the governance core element. Total’s strategy for identifying climate-related risks and
opportunities is disclosed, as is the impact of such risks and opportunities. As in the case of Shell’s reporting, resilience of the organisational strategy is also addressed.

Under risk management, Total discloses its processes to identify, assess and manage risks and how climate-related risks are integrated into global risk management. Specific metrics and targets are signposted to elsewhere in the report.

Total makes use of a “TCFD Correspondence Table” with the 11 recommended disclosures, cross-referring to the information in Total’s reporting in the management report, its 2017 Climate Report, and the 2017 CDP Climate Change Questionnaire response.

In its 2017 Annual Report and Accounts, Unilever notes its public commitment to TCFD implementation and emphasises the value of adopting the TCFD recommendations as “an important step forward in enabling market forces to drive efficient allocation of capital and support a smooth transition to a low-carbon economy”. It adopts a two-pronged approach to its reporting strategy by continuing “to integrate climate-related disclosures throughout the Strategic Report narrative”, as well as including a dedicated section of its report on climate change risks and opportunities. The separate section gives it heightened focus “in recognition of the growing significance of the impacts of climate change on [its] business”.

Van Lanschot Kempen provided a brief narrative on the TCFD as part of the financial performance section of its management report. It signposted to detailed information on its website. It states that it analysed the TCFD recommendations and “found that [it] had met most of them” and those “Recommendations not yet implemented were taken up”. Galp adopt a similar approach to Van Lanschot Kempen in their TCFD disclosure stating that it ‘subscribes’ to the “TCFD initiative, disclosing the financial risks associated with climate change” and that it believes its management report “is already in line with TCFD’s main guidelines”.

Conclusion
In summary, the 30 company management reports provide an overview of the approaches to and nature of the corporate disclosures on climate-related risks and opportunities in line with the TCFD recommendations. What becomes apparent from the above snapshot is that there is great diversity in the approach taken, level of disclosures in this area, and where each company is in their TCFD reporting journey. While this makes comparisons across companies and sectors challenging, some flexibility must be allowed for companies at different stages of the TCFD adoption curve. As the body of reporting practice continues to grow and disclosures evolve, further opportunities for harmonisation should emerge. However, before processes become too embedded, now is the opportune time to ensure greater alignment between disclosures related to environmental and climate matters under the NFRD and those of the TCFD.
References


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