Benchmarking for the new horizon: how TCFD disclosures open the door to measuring corporate climate progress

A major decarbonisation and energy transformation is needed to align with global efforts to prevent the worst impacts of climate change and limit global warming to well below two degrees. The Climate and Energy Benchmark (CEB) of the World Benchmarking Alliance (WBA), using the Assessing low-Carbon Transition methodologies, provides an accountability mechanism that will measure corporate progress against the Paris Agreement and the related SDGs to get the planet where it needs to be. The horizon by which this alignment needs to happen is coming ever closer, and climate smart business decisions and allocation of capital to low-carbon energy are crucial to achieve the Paris goals. The recommendations of the Taskforce on Climate-related Financial Disclosures or 'TCFD' are driving companies to better communicate the financial impact of climate-related risks and opportunities. This in turn can enable Paris-aligned corporate climate action and investment decisions. Much progress has been made, with Japanese companies showing leadership, but the TCFD's 2019 Status Report found that much more is needed. The Investment Association has set a three-year deadline for UK-listed companies to disclose how the climate emergency will impact their business. The Network for Greening the Financial System, comprising 36 central banks, recommends climate disclosure in line with the TCFD recommendations.

The TCFD's ultimate purpose is to enable its stakeholders in the financial community to understand exposure to climate-related risks and opportunities, to which it proposes transparency through climate-related disclosures as a key solution. The Assessing low-Carbon Transition or 'ACT' assessments aim to understand how companies are contributing to and aligning their business models, investment strategies, products, and client, supplier and policy relations to the low-carbon transition. The CEB uses these assessments to create a ranking, showing company and industry-level progress towards alignment with the transition and the Paris goals. All of these driving forces are critical to the climate action movement, as they represent different components that are required to achieve the transformation. TCFD disclosures provide transparency on the climate-related risks and opportunities of companies as well as financial institutions, to inform financial decision-making; ACT assesses how operations and strategies align with the low-carbon transition and contribute to the Paris goals, with the goal of driving climate action by companies; and the WBA's CEB assesses companies on their progress and holds them accountable.

Many risk experts and business leaders are increasingly understanding the seriousness of the risks posed by climate change. The World Economic Forum's January 2020 Global Risks Report ranked climate as the top global impact in terms of risk, which transparency through corporate and financial disclosure can help to address. The CEB shares the TCFD's vision of driving boardroom action on climate change and recognises that collaboration and systems thinking is key to achieving the end goal. This overview explains the how the goals of the CEB support those of the recommendations of the TCFD.

The ambition of the CEB

The CEB's ambition is to support achievement of the Paris Agreement and the SDGs by giving decision makers insight into the transformation of high-emitting companies to align with a low-carbon economy. To do this, the benchmark independently and objectively measures the climate-related performance of companies across industries that have a major impact on climate change, and with the potential to contribute to limiting global warming to well below two degrees.

The CEB's aim is twofold: first, to incentivise companies to align their strategies and operations with a well-below two-degree pathway and reduce climate-related risks and leverage opportunities. Second, to create a race to the top by rewarding companies that are best positioned on the pathway towards a low- carbon economy and hold laggards accountable for not taking the right steps.

Achieving the ambition: providing insights on the Paris alignment and climate-related risks and opportunities of industries and companies to key decision makers

Together with its partners CDP and ADEME, Agency for ecological transition, the CEB aims to become a leading information and engagement tool for key decision makers around the globe; amongst others, the financial industry including investors. For this reason, the CEB is reflective of the TCFD recommendations, giving insight into climate-related risks and opportunities, as well as into companies' and industries' alignment with the Paris Agreement goals. The benchmarks are free and publicly available to all.

Supporting the uptake of the TCFD recommendations

The CEB, driven by the extensive corporate, investor and other stakeholder networks of the WBA, CDP and ADEME, is a global initiative with global reach. The companies in scope are among the largest and most influential in the world. The ACT sector methodology development process will consider TCFD alignment, thereby promoting the implementation of the TCFD recommendations around the world.

Managing what is measured

TCFD disclosure is recommended in annual reports and includes disclosure of climate risk management practices and processes, which can stimulate improved management and climate action. To achieve the Paris Agreement, it is crucial that significant progress in climate action is demonstrated by keystone companies between 2020 and 2030. Therefore, the CEB's findings are published in 12 – 18-month cycles. This will enable the measurement of progress - on both a company and industry level - in managing climate-related risks and contributing to the Paris goals, building on the integration of TCFD recommendations into company disclosure.

450 keystone companies have been identified to be included in one of the CEB benchmarks by 2023, across high-emitting sectors. The first benchmark was published in December 2019, ranking 25 keystone companies in the automotive industry. The second benchmark will rank 50 keystone electric utilities and is due to be published in July 2020. From 2021 additional sectors will be benchmarked, including oil and gas.

Delivering a TCFD-relevant benchmark: invitation to investors to join

The benchmarks operationalise the methodologies from the Assessing low-Carbon Transition or 'ACT' initiative, developed by CDP and ADEME. Strong complementarity between the ACT methodologies and the TCFD recommendations has been identified, as the frameworks reinforce one another. The TCFD recommendations and the CEB, operationalising ACT, align in many areas and have some justifiable differences in other areas.

Although clearly distinct, the aims of both align well and in fact mutually reinforce each other. ACT relies on data that the TCFD promotes being publicly available through corporate reporting. In turn, the financial industry will be able to better understand corporate climate-related risks and opportunities if they have access to ACT ratings and assessments through the CEB, as ACT constitutes a standardised and independent assessment framework on company and industry-level strategic positioning to the low-carbon transition. As such, no notable incompatibility or disagreement was found between the CEB/ACT and the TCFD.

In fact, several **points of convergence** were found:

CEB, using ACT as its methodology	**TCFD**
Purpose	
Both the CEB, with ACT, and the TCFD recommendations can be used by companies to inform and drive their internal climate performance strategy.	
An ACT assessment and the CEB's results provide a tool to check the climate-related performance of companies in high-emitting industries (largely the same as those that the TCFD recommendations provide explicit guidance on). An ACT assessment and the CEB's results might reveal practices of insufficient disclosure according to the TCFD recommendations and incentivise a company to improve its disclosure practices.	The TCFD prompts companies (and financial institutions) to publicly disclose climate-related information that should enable external parties to assess the climate performance of businesses.
Scope	

ACT and the CEB speak to many - but not all - of the TCFD recommendations. In particular, ACT assesses a company's transition plans, climate change scenario testing, and business model transformations. ACT and the CEB focus on the outcomes and impact of management practices and processes, such as the low-carbon transition plan and scenario testing, rather than the practices and processes themselves.	The TCFD structured its recommendations around four thematic areas that represent core elements of how organizations operate: governance, strategy, risk management, and metrics and targets.
The CEB covers the highest emitting sectors. Within its seven systems approach, the WBA covers the sectors and industries in the TCFD. Coal mining (only) companies are not seen by WBA as transformational for the Agenda 2030 goals, but coal is addressed on the demand side by assessing its major users including Electric Utilities, Steel and others.	The TCFD recommendations are applicable to financial and non-financial sectors, but give specific guidance for the likely most climate-relevant sectors and industries: Energy; Transportation; Materials and Buildings; Agriculture, Food and Forest Products; and Financials.
Stakeholders	
The CEB supports financial decision making, accounting for climate-related risks and opportunities. It also supports climate smart decision making by companies themselves, as well as by policy makers, civil society, consumers and employees.	TCFD disclosures support financial decision making, accounting for climate-related risks and opportunities.
Approach	
The TCFD recommendations have been integrated within the CDP climate change questionnaires since 2018 and these constitute a substantial part of the ACT data request. The use of TCFD recommendations in a company's disclosure practices should be done prior and in complement to an ACT assessment.	

Overall, the TCFD and the CEB, using ACT as its methodology, strongly complement each other. There are no areas of substantive misalignment, but there are some differences in the nature and focus of ACT and the TCFD. The differences found are largely justified by the differences in purpose, scope, and stakeholders articulated by each of the initiatives to achieve their goals.

Notably, the TCFD's ultimate purpose is to enable its stakeholders to understand financial exposure to climate-related risks and opportunities, to which it proposes transparency through climate-related disclosures as a key solution. The CEB and ACT aim to understand the impact of an organisation on sustainable development and the Paris goals: how companies are contributing to and aligning their business models, investment strategies, products, and client, supplier and policy relations to the low-carbon transition.

Some of the differences therefore are:

Purpose

The CEB, through ACT, and the TCFD recommendations serve different but complementary purposes:

- ACT is an assessment, operationalised by the CEB, to create a company benchmark to drive corporate climate action.
- The TCFD provides recommendations for mainstream disclosure on climate-related risks and opportunities.

Stakeholders

- TCFD recommendations are designed to support decision making by stakeholders in the financial community.
- The CEB addresses a broader stakeholder community, which includes the financial community and the companies themselves as well as policy makers, civil society, consumers and employees.

Scope

- The TCFD is focused on the financial impact of climate-related risk and opportunities on an organisation.
- The findings of the CEB, through ACT, do not translate directly into financial impact reporting, but can nonetheless inform climate smart financial decision making.
- The CEB, through ACT, focuses mainly on transition impacts, while the TCFD offers a broader set of general climate-related disclosures, besides transition risks - including on physical risks.
- The CEB assesses a company's influence on its suppliers or clients and its policy influence, which outside the scope of the TCFD recommendations.
- While ACT assesses each company's climate change scenario testing, the CEB through ACT does not itself assess companies against different climate scenarios, but rather assesses their alignment to a company-specific low-carbon pathway, calculated through the Sectoral Decarbonisation Approach.

For more information, please consult:

https://www.worldbenchmarkingalliance.org/climate-and-energy-benchmark/
https://actinitiative.org/
https://www.cdp.net/en/
https://www.ademe.fr/en