



GOVERNANCE & ACCOUNTABILITY INSTITUTE'S

# TO THE POINT™



Timely News, Insights & Perspectives on Corporate Sustainability, Responsibility & Citizenship

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- *Corporate Responsibility,*
- *Corporate Sustainability,*
- *Community Affairs, and*
- *Sustainable Investing.*

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*Researchers, Consultants & Strategists*

Tel 646.430.8230

Email [info@ga-institute.com](mailto:info@ga-institute.com)

Web [www.ga-institute.com](http://www.ga-institute.com)

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## **Critical Developments for CDP Responders in 2018 & 2019 — CDP Introduces Additional Alignment With FSB Task Force on Climate-Related Financial Disclosures Recommendations**

**By Hank Boerner – Chair & Chief Strategist, G&A Institute**

***Corporate ESG Data, Data, Data - they're now everywhere and being digested, analyzed and applied to corporate equity analytics and portfolio decision-making.***

Whether your public company actively participates in the annual round of organizing responses to the ever-more comprehensive queries from leading ESG / sustainability / CR rating agencies or not, you should know that there is a **public ESG profile** of your company that investors (asset owners, managers and analysts) are examining and applying to their work.

If *you* don't tell the story of your firm's intentions, strategy, actions and progress in its sustainability journey, someone else will (and is).

And if you have *not* embarked on the journey yet... and there is not much to disclose and report on... you are building the wrong kind of moat for the company. That is, one that will ever-widen and impair access to capital and could affect the cost of capital. And over time, perhaps put the company's issues on the divestiture list for key investors.

And, of course, the corporate reputation could be affected in the wrong ways.

This might sound a bit dramatic, but what is happening in the capital markets these days can be well described as a dramatic shift in focus and actions, with corporate *ESG strategies, actions, programs, achievements, and disclosure* becoming of paramount importance to a growing body of institutional and retail investors.

## **Consider These Important Developments**

- The influential **Barron's** editors, reaching hundreds of thousands of investors every week, beginning in Fall 2017 made coverage of corporate sustainability and sustainable investing a mainstay of the magazine's editorial content. The coverage has continued apace in each issue.
- **Morningstar**, the premier ranker of mutual fund performance, added *sustainability* to the analysis of funds and ETFs with guidance from **Sustainalytics**, one of the major ESG rating firms (and Morningstar made



**Significant:** *According to the Harvard Law School Forum on Corporate Governance and Financial Regulations, two-thirds of investor-submitted proxy resolutions focused on having the company follow through on the 2-degrees scenario (testing) were withdrawn and company boards and managements agreed to the demand for climate risk reporting.*

a significant investment in the ratings firm).

- **SustainableInvest**, headed by **Henry Shilling**, former leader on sustainability matters for the influential **Moody's Investor Service**, notes that in 2Q 2018 as the peak of the proxy voting season was ending, 2018 voting was notable for the high level of "E" and "S" proposals — some achieving majority votes in shareholder voting at such firms as **Anadarko Petroleum**, **Kinder Morgan** and **Range Resources**. He reported that Assets Under Management in 1,025 sustainable funds analyzed added \$14 billion during 2Q and ended in June at US\$286 billion; more than \$1 billion was new net cash inflows, demonstrating investor interest in the products.

## About the FSB / TCFD Impact on Corporate Sector & Financial Services Sector

The **Financial Stability Board (FSB)**, an organization founded by the central bankers and financial leaders of the **G-20** nations after the 20-8 financial crisis, created a **Task Force on Climate-related Financial Disclosures** ("TCFD") to develop climate-related financial disclosures for adoption by financial services sector firms and by publicly-traded companies in general.



The 32-member Task Force, headed by **Mayor Michael Bloomberg**, announced its financial recommendations for companies and investors in June 2017.

### The Essence of the Recommendations

Corporate boards and managements should focus on the risks and opportunities present and in the future taking into account a global temperature risk of 2-degrees Centigrade (3.5-F), and in the future, 4-C and even 6-C global temperature rises.

The risks presented are not just to the affected companies but to the financial sector institutions investing in the company, institutions lending funds to the company, carriers insuring the company, and other players in the financial sector doing business with public companies.



The risks and opportunities related to climate change should be thoroughly analyzed using the scenario testing that the company typically uses. (An example would be projecting future pricing, regulations, technologies, and “what ifs” for an oil and gas industry company.)

Companies should consider in doing the scenario testing and analyzing outcomes their firm’s corporate governance policies and practices; established strategies for the long-term; risk management policies and resources; establishing targets; and, should put in place metrics for measuring and managing climate risk. Then, the next step is examining results – and disclosing this to investors and other stakeholders.

## Key Player:

### CDP and Its Considerable Wealth of Corporate, Institutional & Public Sector Data

The CDP – formerly known as the **Carbon Disclosure Project** – was founded almost two decades ago (2000) as a United Kingdom-based not-for-profit charity at the urging of the investment community, to gather corporate “carbon” data.



## Timing

CDP was created soon after the start of regular meetings of the “**Conference of the Parties**” (or “**COP**”), organized by the **United Nations** as the **Climate Change Conferences** (also known as the “**UNFCCC**”).

In the mid-1990s, the **Kyoto Protocol** emerged; that legally-bound nations to their pledge to reduce Greenhouse Emissions (GHGs). The U.S.A. did not sign on to the global protocol during the tenure of **President George W. Bush**, and the agreement reached in Paris at the COP meeting in 2015 (at “COP 21”) was finally agreed to by **President Barack Obama**. (Note, this was by Executive action, not by the usual approval of the United States Senate, as applies to treaties and international agreements).

And so then began the process of withdrawal under **President Donald Trump** soon after he took office.

The U.S.A. is now the prominent holdout (among the community of **197** nations signed on) in the global effort to address global warming before the danger point is passed. In Paris, the COP agreed that the threshold was 2-degrees Centigrade or less as compared to levels in the pre-industrial era.

*Today, a growing universe of investors and many other stakeholders are increasingly focused on the role of carbon emissions in the framing of questions about what to do as scientists charted the warming of Earth’s climate.*



*ESG / environmental data is critical to the mission of determining “what to do” and then implementing measures to address climate change challenges.*

## The Critical Role of CDP

CDP over almost two decades since its founding has become the premier repository of corporate data related to climate change – with more than **6,000** companies’ data collected and shared in organized ways with the investment community. (That includes the ESG data of half of the world’s public companies by market cap.)

The CDP emissions data focused has broadened over 16 years to now include water, supply chain, forestry (for corporates) and environmental data from more than 500 cities and some 100 states and regions available to investors.

## Key User Base

- There are 650-plus institutional investors with US\$87 trillion in Assets Under Management using CDP data.
- Corporate Supply Chain members (such as **Wal-Mart Stores**) collect data from their suppliers through CDP—a universe of 115 companies with over \$3.3 trillion in combined purchasing power.

*When the TCFD recommendations were being developed, CDP announced a firm commitment to align with the task force recommendations.*

Following their release of the FSB Task Force recommendations in July 2017, CDP held public consultations on a draft version of the TCFD-aligned framework. The current 2018 Climate Change questionnaire that corporations received from CDP is fully aligned with the TCFD recommendations on climate-related disclosures related to *governance, risk management, strategy, and metrics and targets*.

CDP notes that the TCFD recommendations are *already aligned* with the majority of CDP’s longstanding approach to climate change disclosure, including most of the recommendations for climate-related governance, strategy, risk management as well as metrics and target disclosure.

However, this year CDP did modified some questions and added a few new ones — the most impactful being on the climate-related scenario analysis to ensure complete alignment.

Some modifications include for 2018:

The Governance section now asks for more information about oversight of climate change issues and [asks] why a company does not have board-level oversight (if applicable). CDP also requests information about the main individual below the board level with the highest responsibility — and how frequently they report up to the board.

Next, in the Risks and Opportunities section, CDP now asks for the climate-related risk & opportunity identification, and



assessment process.

As in past years, questions are posed in the Business Strategy module to allow companies to disclose whether they have acted upon integrating climate-related issues into their strategy, financial planning, and businesses.

CDP has also added a question for high impact sectors on their low carbon transition plans, so data users can gauge and further understand the sustainable and strategic foresight that these companies aim to achieve.

CDP also added a new question on scenario analysis, explaining that scenario analysis is a strategic planning tool to help an organization understand how it might perform in different future states.

A core aim of the TCFD recommendations is for companies to improve their understanding of future risks and develop suitable resilience strategies.

Finally, the TCFD recommendations highlighted five (5) sectors as the most important. In 2018, CDP rolled out sector-specific questions for the four non-financial sectors that the TCFD highlighted (these are **energy, transport, materials, and agriculture**).

TCFD also highlighted the **financial sector** – looking forward, in 2019, CDP is planning to release a financial sector-specific climate change questionnaire.

The TCFD resources for investors and corporate managers are embodied in three documents – (1) the Main Report; (2) an Implementation Annex; (3) the Technical Supplement for Scenario Analysis. These are available at: [www.fsb-tcf.org](http://www.fsb-tcf.org)

## G&A Institute Perspectives

Our team has been assisting corporate managers in organizing their response to the CDP annual survey and we've tracked over the years the steady expansion of information requested of companies by CDP (and other ESG ratings providers).

Our advice to companies not reporting yet: **get started!** The CDP staff members are very cooperative in assisting new corporate reporters in understanding what data are being sought (and why) and providing answers to questions.

CDP's founding **CEO Paul Simpson** cautions: "Big companies: get better at telling those who hold the purse strings how climate risks could affect your bottom line."

***And so, our mission at G&A includes helping corporate issuers tell a better sustainability and ESG story, including the story told in the data sets communicated to 650-plus institutional investors by CDP!***

CDP data is everywhere, we advise clients, including for example being part of the volumes of ESG data sets that **Bloomberg LP** shares on its terminals (through the terminal ESG Dashboard).







On the supply chain side, we point out that more than **US\$3 trillion** is the collective spend of companies now addressing their supply chain sustainability factors and environmental impacts (customers see suppliers as part of their own CDP footprint).

Corporate leaders in this effort include **Apple, Honda** and **Microsoft**, CDP points out.

## Resources

- CDP's Technical Notes on the TCFD are available  
at: [https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/guidance\\_docs/pdfs/000/001/429/original/CDP-TCFD-technical-note.pdf?1512736184](https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/guidance_docs/pdfs/000/001/429/original/CDP-TCFD-technical-note.pdf?1512736184)
- The "A" List of CDP naming the world's business leaders on environmental performance (160 firms) is  
at: <https://www.cdp.net/en/scores-2017>
- The CDP USA Report 2017, focused on key findings on Governance, ESG and the Role of the Board of Directors is available  
at: <https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/002/891/original/CDP-US-Report-2017.pdf?1512733010>
- There's an excellent interview with CDP CEO/Founder Paul Simpson  
at: <http://www.ethicalcorp.com/disruptors-paul-simpson-atypical-activist-who-woke-c-suites-climate-risk>
- You can check out Henry Shilling's SustainableInvest.com  
at: <https://www.sustainableinvest.com/second-quarter-2018-sustainable-funds-investing-review/>