



Gargiulo + Partners



# The State of Climate Risk Disclosure: A Survey of US Companies

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By Richard Mahony and  
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It has been a good year for bad weather. To date, 2019 has brought record-shattering heat in much of Europe, torrential rain in the US Midwest and a dramatic loss of ice in the Arctic.<sup>1</sup>

It was also a year when investors felt the effects of climate change in an unexpected place – their financial returns. Battered by California wildfires, an investor-owned utility sought Chapter 11 protection, becoming the nation’s first climate-related bankruptcy. And at about the same time, the US Supreme Court declined a request by a major oil producer to block state investigations of its climate actions, making lengthy litigation against the company more likely.

These events set the stage for the June 2019 update from the Task Force on Climate-related Financial Disclosures (TCFD) on the state of corporate climate reporting. Its report examined current disclosure practices and identified challenges associated with implementing the recommendations of the TCFD’s groundbreaking 2017 report, which offered detailed guidance to companies on how to report decision-useful information on their climate-related risks and opportunities.

The 2019 report provided a mixed assessment. While the Task Force found some signs of adoption, it expressed concern that “not enough companies are disclosing decision-useful climate-related financial information.” It summarized its findings as follows<sup>2</sup>:

- Disclosure of climate-related financial information has increased since 2016, but is still insufficient for investors
- More clarity is needed on the potential financial impact of climate-related issues on companies
- Of companies using scenarios, the majority do not disclose information on the resilience of their strategies
- Mainstreaming climate-related issues requires the involvement of multiple functions

The TCFD update identified several areas where climate-related financial disclosures need improvement: wider use of scenario analysis, greater standardization of metrics and more clarity on the financial impact of climate-related issues.<sup>3</sup>

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1 See: “Europe warming faster than expected due to climate change,” [Science Daily](#), August 28, 2019; NOAA [Climate Report](#), June 2019; and [Arctic Sea Ice Minimum](#), NASA, September 2019

2 Task Force on Climate-related Financial Disclosures 2019 Status Report, page iv

3 Task Force on Climate-related Financial Disclosures 2019 Status Report, page 51

## What is the TCFD?

The **Task Force on Climate-related Financial Disclosures** (TCFD) was created to address the need for better information on climate risks to support informed investment, lending and insurance underwriting decisions. In June 2017, the TCFD released its report and presented recommendations in four areas (governance, strategy, risk management, and metrics and targets), supported by 11 recommended disclosures to help investors and others understand how reporting companies assess climate-related risks and opportunities. The recommendations were designed to:

- Be adoptable by all organizations
- Solicit decision-useful, forward-looking information on potential financial impacts of climate change
- Bring the “future” nature of climate-related issues into the present through scenario analysis
- Have a strong focus on risks and opportunities related to the transition to a lower carbon economy

Since the report was released, nearly 800 public and private-sector organizations have announced their support for the TCFD and its work, including global financial firms responsible for assets in excess of \$118 trillion.<sup>4</sup>

For more information on the 2017 TCFD report and its potential effects, please see our earlier whitepaper: **“Preparing for Climate Risk Disclosure: Practical Suggestions for Public Companies.”**

In light of these findings, we wanted to know more about how US companies were approaching climate risk disclosure. Specifically, we wanted to examine:

- What is the extent of adoption, and what are the issues preventing companies from making more detailed disclosures?
- How many companies are using scenario analysis – a relatively new tool – to model their climate risks and inform their discussions with investors?
- To what extent are companies organizing to address climate disclosure, across their legal, operations, sustainability and investor relations functions?

In partnership with the Society for Corporate Governance (Society), we conducted a survey of its members on these issues. The results confirmed many of the observations made by the TCFD in its update, while also providing new insights into how companies are addressing the challenges associated with climate risk disclosure.

The TCFD has said climate risk disclosure is a journey for every company and over time the amount of decision-useful information available to investors will grow. Our survey results confirm that assertion.

We also interviewed executives at several companies that have led the way in climate disclosure to learn more about their experience. They offered constructive insights and valuable advice. (See pages 8-10.)

<sup>4</sup> Task Force on Climate-related Financial Disclosures 2019 Status Report, page i

This paper is a follow up to an earlier piece we wrote shortly after the TCFD's 2017 report.<sup>5</sup> There, we ventured several predictions about the likely effects of the report. While in some areas prevailing practice has not kept pace with our expectations, several of our observations proved prescient. Here is a summary of notable developments:

**Investors are demanding more information from companies on climate risks.** More than 340 investors with nearly \$34 trillion in assets under management formed the [Climate Action 100+ initiative](#) to urge large emitters of greenhouse gases to implement the TCFD recommendations.

**Credit rating agencies are flexing their analytic muscles on climate risk and starting to incorporate it in their credit models, as we expected.** Both Moody's and Standard & Poor's have acknowledged that corporate, state and municipal issuers could face credit downgrades if they fail to adequately address climate risks.<sup>6</sup>

**Climate risk information has not been included in corporate financial filings** to the extent we expected two years ago; most of it continues to be found in separate sustainability, CSR or community engagement reports. The TCFD's 2019 update report noted that "information aligned with the recommended disclosures was more likely to be disclosed in sustainability reports than in financial filings or annual reports."<sup>7</sup>

**Board-level dialogue on climate has become more commonplace.** We called that one. As found by both the TCFD update and our survey of Society members, corporate boards are today more engaged on climate issues.

**Regulators are becoming more outspoken on the need for climate risk disclosure.** In April 2019, a group of central banks from five continents formed the Network for Greening the Financial System. It called for internationally consistent climate disclosures and "encouraged all companies issuing public debt or equity as well as financial sector institutions to disclose in line with the TCFD recommendations."<sup>8</sup> More recently, Canadian securities regulators issued guidance to assist companies in identifying and improving their disclosure of material climate risks.<sup>9</sup>

Even the US Securities and Exchange Commission, which until now had been quiet on climate disclosure, opened the door slightly. In August, it called for comments on changes to Regulation S-K, the central repository for non-financial statement disclosures. The step seems certain to add momentum to the discussion around climate risk disclosure.<sup>10</sup>

Corporate issuers would appreciate greater clarity regarding how to make adequate climate disclosures. Our survey results indicate many are grappling with how best to provide useful information to investors about risks that are complex and interrelated.

<sup>5</sup> ["Preparing for Climate Risk Disclosure: Practical Suggestions for Public Companies"](#)

<sup>6</sup> ["Climate Change Becomes an Issue for Credit Rating Agencies,"](#) Inside Climate News, August 5, 2019

<sup>7</sup> Task Force on Climate-related Financial Disclosures 2019 Status Report, page 9

<sup>8</sup> NGFS, "A call for action: Climate change as a source of financial risk," April 17, 2019

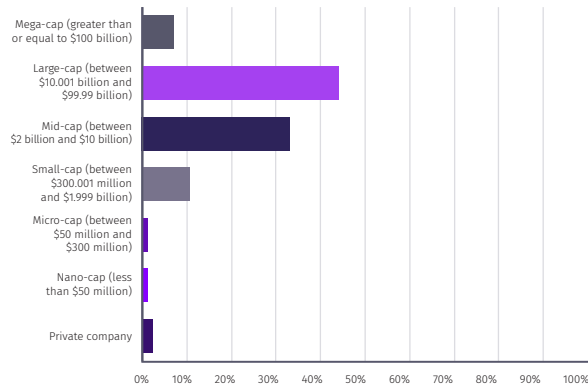
<sup>9</sup> ["Reporting of Climate-change Related Risks,"](#) Canadian Securities Administrators, CSA Staff Notice 51-358, August 1, 2019

<sup>10</sup> For more information on how the revised rule could affect climate disclosure see: [Joint Statement of Commissioners Robert J. Jackson Jr. and Allison Herren Lee on Proposed Changes to Regulation S-K,](#) US Securities and Exchange Commission, August 27, 2019

## Survey Results

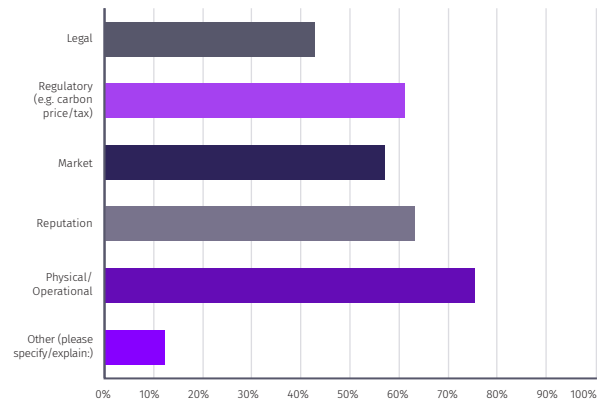
We surveyed the members of the Society for Corporate Governance, the leading association dedicated to advancing corporate governance practices among US companies. The organization is intimately familiar with critical regulatory and investor issues, and it represents a broad cross-section of large, mid- and small-cap, and privately held US companies. More than half of the respondents were from companies with a market capitalization greater than \$10 billion. About a third were mid-size companies, defined as those with a market capitalization of between \$2 and \$10 billion.<sup>11</sup>

### Survey Respondents, by Market Capitalization



Companies recognize that climate change is a business risk. In our survey, two-thirds of the respondents said they consider whether climate change issues present risks to their business. Risks to their facilities and operations were seen as the leading risk, cited by 75% of respondents, followed by reputation, regulatory and market risks.

### Climate Risk, by Type

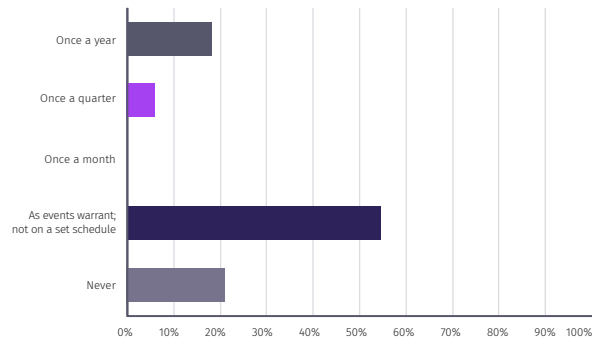


In its 2019 update, the TCFD said scenario modeling is a challenge for many companies and few have used it in their climate disclosures so far. Our survey suggests companies are beginning to use this tool, however, with 44% of respondents acknowledging they use scenario modeling or stress testing to assess climate risks. This is encouraging and suggests more companies could begin this process in the near future and meaningful disclosures could follow.

Board engagement is crucial for identifying and managing climate risks and opportunities and was a key recommendation of the TCFD report. Our survey indicates that boards mainly review climate risks on an as-needed basis. About 24% review the issues on a quarterly or annual basis, while a fifth of respondents said their board never discusses climate issues.

<sup>11</sup> An online survey was distributed to Society members in early July, and 85 responses were received. The survey was designed to assess respondents' general attitudes and practices regarding climate disclosure and is not intended to represent the views of all SCG members

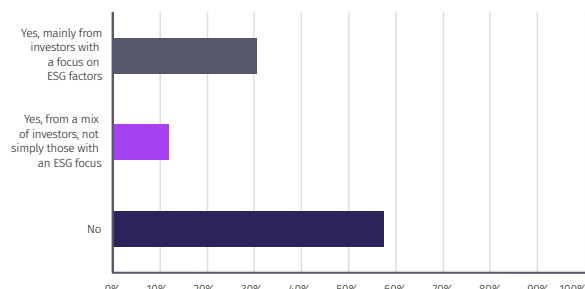
### Frequency of Board Discussions on Climate Risk



Tying executive compensation to progress on climate goals is beginning to emerge among some companies, but it is far from a common practice. In our survey, just six percent of respondents said their board linked compensation to climate objectives.

Much has been written about increasing investor interest in climate risk and their heightened engagement with companies on climate issues. Our survey paints a more nuanced picture. More than half the respondents said they have not had inquiries from investors regarding the company’s exposure to physical or transition risks related to climate change. Among companies that received such inquiries, most (31%) were from investors with a focus on ESG factors, while non-specialized investors comprised just twelve percent of inquiries. These findings suggest there could be a disconnect between investors and corporate issuers on the importance of climate change issues.<sup>12</sup>

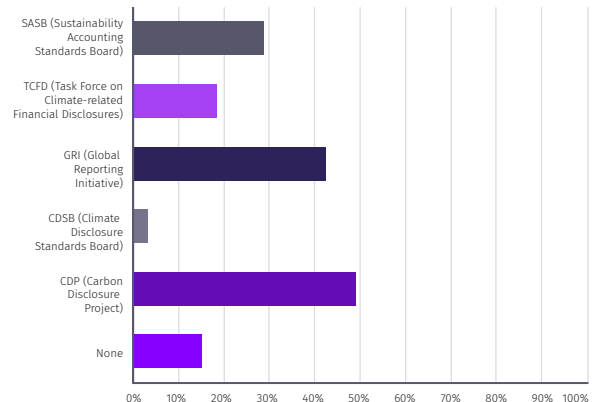
### Investor Inquiries on Climate Risk



Even while climate-related financial disclosure using the TCFD guidelines may be slow to emerge, companies are using many of the existing frameworks to present emissions and environmental data, as well as other information on ESG issues. Many of the respondents indicated their companies are now reporting using CDP, GRI, SASB and other standards.

John Truzzolino of DFIN, a contributor on our earlier TCFD whitepaper, said: “These reporting frameworks are designed to address specific ESG issues, and the growing adoption of the TCFD recommendations is likely supported by the fact that the TCFD is mapped against these existing disclosure frameworks. More generally, we are also seeing increased discussion of ESG issues in annual proxy statements.”<sup>13</sup>

### Use of Reporting Frameworks

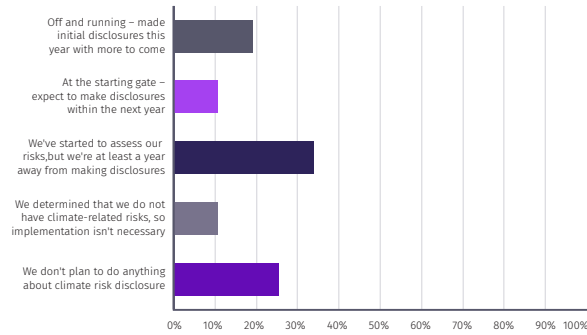


Companies are at varying stages in their implementation of the TCFD recommendations. A few of the respondents (19%) said they have already made disclosures about climate risk and expect to continue in the future. However, a larger number (34%) said they have begun the risk assessment process and are at least a year from making disclosures, a finding that underscores the complexity of the task. Another 11% expect to begin their disclosures within the coming year, while a quarter of the respondents said their companies did not plan to do anything about climate risk disclosure.

12 This disconnect has also been observed on ESG issues more broadly, as noted in this report from PwC: [“Mind the Gap: The Continued Divide Between Investors and Corporates on ESG”](#)

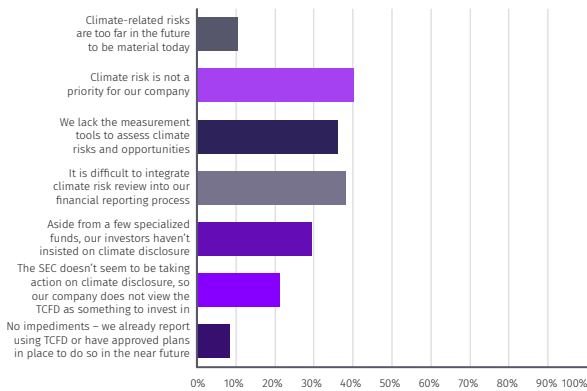
13 See: [DFIN Guide to Effective Proxies, ESG and HCM Edition, 2019](#)

### Self-Assessment of TCFD Implementation



Our survey also asked respondents to identify the impediments to TCFD implementation. Their answers suggest there are several barriers, including a lack of measurement tools for assessing climate risks and opportunities and difficulty integrating climate risk with the financial reporting process. Faint interest from investors and the SEC were also seen as hindering progress on climate reporting.

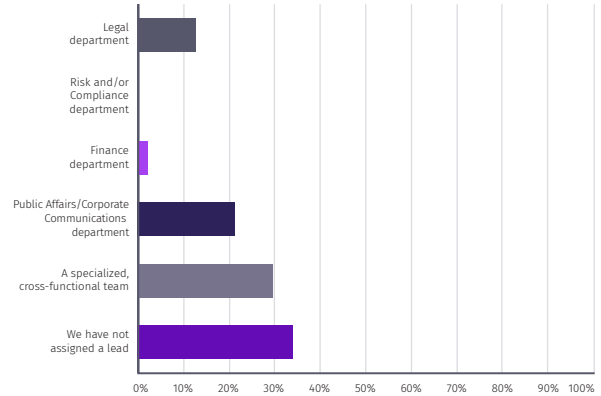
### Impediments to TCFD Implementation



An important question for companies is how to organize their internal activities to assess and report climate risks. Many of the companies that are leading the way on climate disclosure have set up cross-functional teams (see page 9). Our survey indicated

this is the preferred approach, followed by the Public Affairs or Corporate Communications function playing the lead role.

### Organizational Structure for Climate-Risk Disclosure



Granville Martin of the Society for Corporate Governance said: “Many of our members tell us they are incorporating environmental and social issues - including climate considerations – in their enterprise risk management (ERM) process, which facilitates senior management and board oversight. Recent guidance from **COSO and the WBCSD** provides a helpful template to companies just getting started.”<sup>14</sup>

The TCFD update, the survey of Society members and our own work with corporate clients in the past year suggest companies will continue to enhance their disclosure of material climate-related risks and opportunities. All these reference points underscore the fact that climate risk affects companies in many industries, not simply those in energy-intensive sectors. That means investors have more exposure, too. We will be watching these developments with interest.

14 See: “**Guidance for Applying Enterprise Risk Management (ERM) to Environmental, Social and Governance (ESG)-related Risks,**” from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD)

## Practical Steps for Companies

What should companies do to move ahead on climate risk disclosure? Our paper suggests governance professionals and boards can take these steps:

- **Assemble the right internal team.** Gathering information and assessing its materiality likely will involve a cross-section of professionals from finance, legal, operations, and communications.
- **Get expertise where needed.** The internal team can benefit from outside advisors with knowledge of climate impacts, best industry practices, investor communication and related areas. The [TCFD Knowledge Hub](#) has useful resources, too.
- **Engage with investors.** Speak to them to explain your approach to climate risk and to understand what information they find most useful.
- **Make a start.** Climate risk disclosure is an iterative process that companies will refine over time. Start where you are and build from there.

## Lessons from Early Adopters

We spoke to executives at several companies that are leading the way on climate risk disclosure to learn more about their approaches. Michael Rubio is general manager for ESG policy & engagement at Chevron; Steve Lippman is the ESG engagement lead at Microsoft; and at Citi, Val Smith is the Chief Sustainability Officer and Shelley Dropkin is Deputy Corporate Secretary and General Counsel for Corporate Governance.

### Why did you take the initiative to produce a climate report ahead of others in the industry?

**Val Smith, Citi:** We had been reporting on environmental issues for a long time, beginning with greenhouse gas emissions in 2002, so when the TCFD Recommendations came out, we did an internal mapping and realized we had a lot of alignment

in terms of what we were tracking and disclosing. But we were not yet doing climate scenario analysis, and we thought it would be a useful exercise both for us and for the broader field. We also had a high comfort level with disclosure, and we knew how to get started because of our history of reporting on similar matters.

**Michael Rubio, Chevron:** We had a long history of reporting on climate-related information in our Corporate Responsibility Report. In early 2017, we issued our first standalone report on how we address climate-related risks. While it was well received, we heard from investors and key stakeholders that the recently released (in 2017) TCFD framework was the most useful way to disclose climate risks and opportunities. Therefore, in early 2018 and in less than a year of issuing our first climate report, we published a TCFD-aligned climate report. It's a good framework; it sets out the governance, strategy, risk management and metrics and actions.

**Steve Lippman, Microsoft:** We don't do a separate TCFD report. Instead, we've had extensive disclosure of our climate risks through our CDP filing. Microsoft has been a CDP respondent since the second year of CDP, so around 15 years of annual reporting. We appreciate the fact that CDP is supported by so many investors, and we work to make sure that our disclosures are meeting its standards.

### What has been the response from investors?

**Michael Rubio, Chevron:** Chevron's report was very well received. Importantly, our subsequent engagement with investors provided a great opportunity to learn where we could further improve our climate report. Feedback was centered on two areas: Governance: investors wanted to know more about how our Board provides oversight on climate-related risks; and the second was additional reporting on our company's metrics and actions. In our 2019 update, we were able to address both.



**Val Smith, Citi:** Our TCFD report has been very positively received. We were the only US bank to participate in the pilot project sponsored by the United Nations Environment Programme Finance Initiative on scenario analysis, and we were the first major US bank to publish a TCFD report. What we learned in this pilot project became the focus of our report.

### What was your internal structure for preparing the climate report?

**Michael Rubio, Chevron:** We have an energy transition team within the company. They are the lead convener and coordinator of the document and work together with our ESG policy and engagement team, legal, health and environmental safety, and strategic planning teams. They worked with the entire enterprise to put the report together, and I would highlight, it takes a tremendous amount of resources to do so.

**Val Smith, Citi:** Our central Sustainability function coordinates both the reporting and the implementation of the TCFD recommendations. It's a matrix-like function. The Risk function is our partner in both; they lead the effort to conduct the risk analysis and are very involved in preparing the report. We had a lot of reviewers, involving Risk, Legal, Public Affairs, and Investor Relations, as well as banking and industry specialists.

**Steve Lippman, Microsoft:** Our Environmental Sustainability team prepares our CDP report and works closely with our Enterprise Risk Management function which now includes among its ongoing analyses the physical risks arising from climate change. In terms of communication with investors, a year ago we moved a stakeholder engagement role from our corporate responsibility team into the corporate secretary's office to focus on ESG communications with our investors.

### What were some of the challenges in preparing a report?

**Michael Rubio, Chevron:** There are still many important items that are yet to be defined with respect to strategic planning and metrics that go into a climate report. For example, there isn't one scenario that everyone can use to test their business model. We felt it was important to use a trusted third-party entity like the International Energy Agency and use their Paris-aligned scenario to show that our asset base is resilient even in a significantly lower carbon scenario like the Sustainable Development Scenario. Second, in developing metrics, do you consider emissions on an operated or equity basis? We chose to adopt metrics that were based on an equity basis because we believe it's a true representation of a company's emissions.

### Can you discuss the role of your board of directors in climate reporting?

**Michael Rubio, Chevron:** Our board is very engaged. We benefit greatly from having a diverse and well-informed group of independent directors, and they are very focused on the energy transition and the impacts of climate-related risks and opportunities. The board is also involved in the development of the climate report and ultimately approves the document before it is published.

**Steve Lippman, Microsoft:** Our board has a regulatory and public policy committee, and its charter specifically includes oversight of corporate responsibility topics, so we have that formal governance structure and the board receives regular updates on our climate strategies and other environmental initiatives.

### Has the board tied climate goals to executive compensation?

**Steve Lippman, Microsoft:** Yes, and you can see in our proxy how we talk about it. It's not specific to climate goals, but the language in the CD&A identifies ESG performance as part of executive compensation evaluation and awards.

**Michael Rubio, Chevron:** Yes, our board has set GHG metrics tied not only to the variable pay for executive compensation but to that of nearly all of our approximately 45,000 employees. We felt it was important to incentivize the whole organization in achieving these metrics, as great ideas come from all levels within the company; this is also a reason why we decided to highlight the important work of our employees in our 2019 Update to the Climate Change Resilience Report.

### What advice do you have for other companies?

**Michael Rubio, Chevron:** Engage with investors and key stakeholders to learn what is important to them and what they would like to see in a TCFD-aligned report. It's through meaningful engagement that you receive helpful information and insight. Our first climate report was in 2017, and we greatly benefited from engagements with investors and their shared view that it would be a journey. Your first report doesn't need to be the best, but it has to be a good and honest effort.

**Steve Lippman, Microsoft:** Do what makes sense for your company and own your own story. In other words, look at the TCFD not as a mandate but as

thoughtful guidance from experts. Consider your business circumstances to determine how material a risk climate change is for you and approach reporting those risks consistently with how your company approaches other disclosures.

**Val Smith, Citi:** My most basic advice is just get started. Once you dive in you might find that there's already content you've been measuring and maybe even reporting. You may be farther along than you think. We want to help demystify the TCFD process and recommendations. They seem so daunting, especially scenario analysis, but some of the information included in the TCFD Recommendations is related to what companies are already doing.

**Shelley Dropkin, Citi:** Another piece of advice I would give to companies is to get organizational agreement early. Be sure to involve various constituents – Public Affairs, Regulatory Reporting, IR – anyone involved in disclosure to regulators and the public. Everyone should understand what's going on, what's been done, and what the potential impacts of the disclosure are, both good and bad. Making everyone aware and getting buy-in early is essential.

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## About Gargiulo + Partners:

Gargiulo + Partners is a strategic communications firm that helps clients shape and deliver clear messages to shareholders, financial analysts and other stakeholders. The firm advises clients on the contents of their proxy materials and other financial reports. Authors Richard Mahony and Diane Gargiulo are senior director and president, respectively, of Gargiulo + Partners.

The authors gratefully acknowledge the valuable contributions of Heidi DuBois and Granville Martin of the Society for Corporate Governance and John Truzzolino and Ron Schneider of DFIN.

## About the Society for Corporate Governance (the “Society”):

The Society for Corporate Governance is a non-profit organization comprised of governance professionals and business executives who are responsible for supporting boards and executive management in matters such as board practices, regulation and legal matters, compliance, and shareholder relations. The Society seeks to be a positive force for responsible corporate governance, providing news, research and “best practice” advice to its members and the broader governance community.

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