Key Takeaways from TCFD Summit 2020

1. Introduction

Japanese government is aiming for a “positive cycle of environmental protection and economic growth” supported by a growing number companies from across different sectors. This could be achieved through innovation for “beyond zero” which envisions a carbon free future for the global economy and even a reduction of accumulated CO2 in the atmosphere.

The intensity of the wildfires and droughts that we experience today is a dramatic reminder of the need for urgent action on climate. The COVID-19 crisis has only exacerbated our systemic vulnerabilities and the urgent need to establish a sustainable society. Prime Minister Suga acknowledged the growing number of companies and investors worldwide who are shifting towards sustainable business models.

Under the theme of moving from divestment to engagement, the TCFD Summit 2020, focused on the assessment and evaluation of opportunities alongside risks. In its second edition held online, the Summit saw positive reactions complemented by an active discussion.

The takeaways summarized achievements since last year, shared recommendations from investors, businesses, and public sector leaders in aligning disclosure with TCFD recommendations, and highlighted new commitments and initiatives going forward, as explored in the event.

2. Achievements related to TCFD

- Since the first Summit last year, more than 500 new organizations have advocated for TCFD, thereby increasing the number of supporting organizations above 1,400 worldwide with a combined market capital of $12.6 trillion. Japan has taken the lead in driving the discussions with more than 300 supporters and as the host of the TCFD Summit.

- Japan's TCFD Consortium is the world's largest organization that acts as a bridge between financial institutions and non-financial institutions. Advocating for transparency as a key foundation for a more resilient global economy and effective capital markets, the Consortium constitutes a strong model that contributes to the global TCFD community, including through the publication of the TCFD Guidance 2.0 with best practices.
● There is worldwide progress in the quantity and quality of disclosures aligned with TCFD, including industry specific guidance developed by WBCSD and guidance for investors developed by UNEP FI and PRI. Those efforts constitute a strong foundation for productive dialogue between industrial and financial institutions.

3. Important recommendations

● First, the following points were made regarding the establishment of TCFD practice:

  ➢ Disclosure aligned with TCFD has become widely recognized as a standard. Yet, the key challenge for companies consists of moving away from static disclosures to managing climate related risks through effective governance mechanisms that allow for the full integration of risks and opportunities.

  ➢ Investors should encourage companies to actively disclose rather than focusing on the judgement of the risk information.

  ➢ In the COVID-19 context, collaborative efforts between companies, investors and governments will be critical to addressing unexpected challenges in enhancing reporting.

  ➢ Investors should include materiality of each industry in their long-term investment decisions, while companies continue to build mechanisms that allow them to identify and integrate associated risks and opportunities in management strategy. Disclosure is a step-by-step process, we should therefore not expect it to be perfect from the outset. Sharing a sense of urgency among sectors who face the same materiality is another step, although each company may have a unique strategy and transition plan to address their materiality.

  ➢ Making a scenario analysis and sharing its learnings with the management team have produced positive effects for the company, which is another benefit of TCFD disclosure.

● Secondly, the following suggestions were made to further utilize TCFD disclosure:
Forward-looking companies that set net-zero targets and develop products and services supporting a more resilient future will survive. Today, climate action is a competitive advantage and no longer a cost.

Focus should be made on how climate and sustainability-related information is used in the investor-corporate relationship. We must create a capital market that recognizes and rewards sustainable businesses, attracting more financial capital at a lower cost to drive the transformations across critical systems.

Transition towards a low-carbon society is an opportunity and TCFD disclosure can help companies demonstrate innovation and progress.

Private funds are indispensable for innovating and transitioning towards a decarbonized society. To accelerate progress, we need a framework allowing investors to evaluate strategic allocation decisions through TCFD disclosure.

For the reduction of CO2 on a global basis, a simultaneous promotion of Transition, Green, and Innovation, as well as Finance for these projects will be critical. We need to explore how the concept of TGIF can be applied in disclosure.

Finally, to further enhance disclosure, it was suggested to look for a pathway to mandatory implementation applicable in each jurisdiction toward COP26 in November 2021. As there can be various ways of approaching mandatory implementation that requires substantial disclosure, it will be key to pursue innovative approaches in addition to legislation.

4. Commitments

The following commitments were made by investors, managers and government agencies from around the world to enhance the development of disclosure:

Research shows an increase in corporate value in scenarios towards a decarbonized society allowing asset owners to expect stable investment returns over the long run if market sustainability is improved. Therefore, asset owners should continue to prioritize climate action and further engage in sustainability.
Asset managers recommend strengthening disclosure for increased transparency and active engagement by investors who are fiduciary to their clients.

The business community believes that disclosure aligned with TCFD recommendations will promote mutual understanding between companies and investors, thereby spurring investment in technological development and invigorating business activity.

The European Commission continues to provide firm support to TCFD recommendations, which provide authoritative guidance on how companies should report climate information.

Japanese government will contribute to the de-carbonization of the world by presenting a picture of “a positive cycle of environmental protection and economic growth” and continue to promote TCFD disclosure, which is designed to use the power of finance to support companies that work on climate change solutions.

5. Next Steps

- At the first summit, we called for continued efforts on climate related disclosure to bring together a wide range of stakeholders, including industry, the financial community, governments, regulators and international organizations. We have been supporting TCFD and focusing on implementation efforts to accelerate the “positive cycle of environmental protection and economic growth” on a global scale.

- The road to COP26, or Glasgow in November 2021 has already begun. Clearly, TCFD will play an important role in achieving a carbon-free society. We look forward to next year’s TCFD Summit to share further contributions as the TCFD community continues to make progress for another year.