CASE STUDY

Aligning a Consumer Goods Company with the TCFD Sustainability Recommendations

THE CLIENT:
A consumer goods company

The Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for more effective management of climate change risks in financial markets. The TCFD recommends the use of scenario analysis to assess climate-related risks and opportunities and asks businesses to report on the extent to which adequate governance, strategy, risk management, and metrics and targets are in place to address climate issues. The sustainability team at this consumer goods company wanted to identify a provider of transition and physical risk analytics to help the team assess the firm’s exposure to climate-related risks and report in line with TCFD recommendations.

USERS:
The sustainability team
Pain Points

Climate change means we may face more frequent or severe weather events, such as floods, droughts, and typhoons if action isn't taken. These events bring physical risks that can have a negative impact on businesses and the overall economy. At the same time, global action to help alleviate climate change may result in transition risks, as carbon taxes and other policies look to impose a price on carbon emissions. There is a complex interplay between physical and transition risks that may impact the financial performance of companies across sectors and geographies.

The sustainability team at this consumer goods company identified an opportunity to use the TCFD recommendations as a means to evolve their internal understating of climate-related issues and enhance external disclosure. As a company that operates manufacturing assets around the world, the sustainability team recognized the importance of considering the impact of both transition and physical risks and wanted to better understand the firm’s resiliency under different climate change scenarios.

The firm contacted Trucost to learn more about its capabilities. Trucost assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors and helps companies and financial institutions report in line with voluntary and mandatory reporting requirements.
The Solution

Trucost met with the company’s sustainability team and discussed a number proprietary climate analytical tools that are used to explore the interplay between physical and transition risks under different climate change scenarios.

- **Transition Risk Assessment:** The Trucost Corporate Carbon Pricing Tool captures policy transition risks by assessing the potential increase in operating costs and the effect on margins due to carbon pricing policies around the world.

- **Physical Risk Assessment:** The Trucost Climate Change Physical Risk analytics evaluate asset- and company-level exposure to seven climate change hazards, including heatwaves, cold waves, droughts, hurricanes, wildfires, river flooding, and sea level rise.

Trucost explained that the results of the assessments would be delivered in a summary report that could be used by the company for external disclosure in line with TCFD recommendations.

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**Understand Transition Risk**

Trucost’s Corporate Carbon Pricing Tool assesses the gap between current carbon prices and where they need to be to achieve the goals of the Paris Agreement. It does this by distilling global data on carbon regulations and providing financial risk trajectories. The tool enables companies to set a range of estimated internal carbon prices aligned to regional policy trends, informed by robust quantitative analytics. The company is also now considering setting an internal carbon price to strengthen its commitment to managing climate-related issues.

This capability could help the company understand the current and potential future financial implications of carbon regulation on operating costs and margins. The company would be able to compare the carbon pricing risk exposure across different operating sites and locations and stress test its business against rising...
carbon prices in key markets. This could help them prioritize low-carbon innovation in the locations where it matters most.

**Evaluate Physical Risk**

This capability, which was launched by Trucost at the end of 2019, could help the company quickly assess asset- and company-level exposure to physical risks under low, moderate, and high future climate change scenarios. By geo-locating the company’s assets on climate change hazard maps, Trucost would be able to identify locations that were vulnerable to climate risks, such as wildfire and sea level rise. The results could be aggregated so that the company could assess physical risk exposure by hazard type, location, and business division.
Key Benefits

The company recognized that climate change is a growing concern that could impact the financial performance of its business. As such, the sustainability team recommended that TCFD-alignment was important not just for reporting, but also in managing business risk and building resilience to climate change. The sustainability team felt the Trucost solutions provided a number of important benefits, including the ability to:

- **Better understand potential exposure to transition risks** by examining the current and potential future financial implications of carbon regulation on operating costs and margins.
- **Anticipate the impact of physical risks** on operating sites and the possible implications for more vulnerable locations.
- **Use the findings to engage with internal business divisions and operating sites** on their preparedness for policy changes and strategies for climate change adaptation.
- **Inform TCFD-aligned reporting**, risk management, and resilience.
- **Report to stakeholders** on estimates of financial risks, in line with TCFD recommendations.
- **Identify transformative solutions** for a more sustainable global economy, including low-carbon innovation in the locations where it matters most.

*Click here to learn more about turning climate risk into climate opportunity with TCFD reporting*