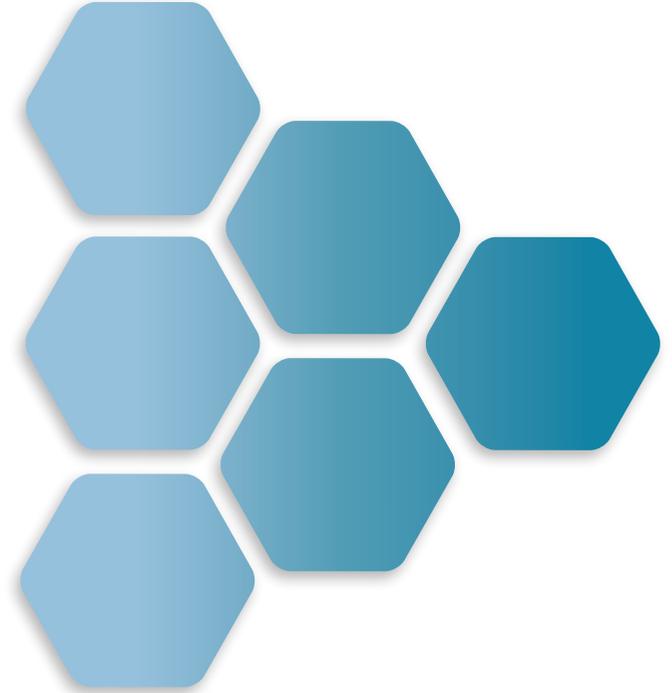




ACCOUNTING FOR
SUSTAINABILITY

IMPLEMENTING THE TCFD RECOMMENDATIONS

Practical Example: Tesco



TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

WHAT IS THE TCFD?

The Financial Stability Board's **Task Force on Climate-related Financial Disclosures (TCFD)** was set up by the Bank of England Governor and Chair of the Financial Stability Board (FSB), Mark Carney, and is chaired by Michael Bloomberg. It was established to develop recommendations for more effective climate-related financial disclosures that:

- Could promote more informed investment, credit and insurance underwriting decisions
- Would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks

One of the recommendations of the TCFD is to perform scenario analysis to assess potential business implications of climate related risks and opportunities.

Recommendations of the TCFD



HOW A4S SUPPORTS THE TCFD

The Prince's Accounting for Sustainability Project (A4S) supports the adoption of the TCFD recommendations. To do this, we work with key stakeholder groups to build awareness and provide access to the skills and knowledge required for implementation. Some of our activity has included:

- Providing a platform for CFOs, Pension Fund Chairs and Accounting Body CEOs to signal their commitment to support the recommendations and work with their peers in a united effort to improve disclosure across sectors and regions – see [A4S Statements of Support for the TCFD recommendations](#).
- Running implementation workshops for finance teams around the world to provide practical steps that can be taken to embed the recommendations within organizations.
- Publishing a '[TCFD Implementation: Top Tips for Finance Teams](#)' booklet, based on the experiences of early adopters of the TCFD recommendations shared during the A4S TCFD workshop series.
- Providing insight into how corporates have implemented the TCFD recommendations by publishing detailed case studies (including this one) on the steps taken, challenges faced and barriers overcome.

TESCO: OUR WORK ON THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES' RECOMMENDATIONS

WHAT?

As a leading retailer, with 440,000 colleagues, Tesco serves millions of customers every week, in our stores and online. We own 6,800 stores around the world. In 2018 we embarked on a journey to implement the recommendations of the TCFD. This meant disclosing against the Governance, Strategy, Risk Management, and Metrics and Targets sections of the TCFD recommendations. As part of this, we also implemented scenario analysis. These disclosures have been made in our 2019 Annual Report for the first time.

We wanted to ensure that this was not only a reporting exercise. It was crucial that the results from scenario analysis were able to drive business decisions. Equally, we recognize that the process for disclosure will be developed each year as we receive external feedback and work out our priorities internally.

WHY?

We wanted to use this opportunity to explore how our business will be impacted by a changing climate and to provide our decision makers with future looking insight.

As well as this, we saw increasing interest from our investors and other stakeholders. We see the current trend in investor interest in long term success continuing, and want to ensure that we are well prepared for these questions.

The TCFD gives us a comparable framework to ensure that we are moving in the same direction as the rest of the market. We also acknowledge that mandatory disclosure in our jurisdiction in the UK is likely in the foreseeable future, and due to the widespread adoption and interest in the TCFD, any regulation is likely be based on the recommendations.

HOW?

We started with the [TCFD Recommendations Report](#) and performed a gap analysis to help us understand where we were and where we needed to get to.

Importantly, we collaborated as much as possible. We used our external networks, external consultants and professional bodies advice to ensure we were moving in the right direction. We also simplified where possible by prioritizing areas that are material to our business.

We have summarized the key steps and key decisions we made on the next page.



THREE TIPS TO IMPLEMENTING TCFD RECOMMENDATIONS

Manjula Chummun

Head of Finance - Sustainability,
Tesco

Click this box to watch the video

MOBILIZING A PROJECT TEAM

We didn't have a huge team to dedicate to the project, so we looked for passionate people in the business. We set up a project team consisting of people from both the environment and finance teams. We then approached the rest of the business for support and input into the project.

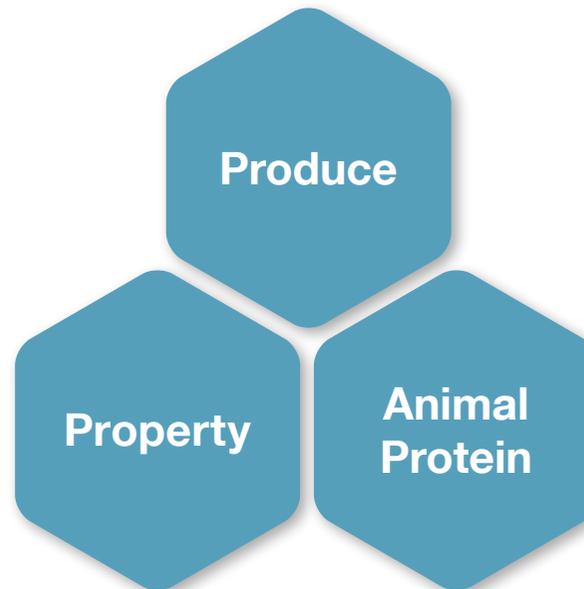
THE RIGHT PEOPLE IN THE RIGHT PLACES

Having CFO sponsorship in the process was key. He was able to engage with other executive team members to explain the importance of this initiative. We also had a champion from the finance team leading the project. Finance leadership is essential in driving a project of this nature, to assess and validate assumptions and other inputs for scenario analysis modelling. Finance has also led on the reporting of TCFD disclosures in our [2018/19 Annual Report](#). The environment team has been leading the process of embedding the scenario analysis results into the decision making process.

For more information on the impact of the CFO and the champion on our culture, see our case study for the A4S Essential Guide to Finance Culture.

FIRST STEPS

We had the option to simply meet the disclosure recommendations and write a short entry in the Annual Report, but instead we wanted to use the opportunity to gain some valuable insight and change the business. Our first step was to produce a gap analysis of our current disclosures against the recommendations of the TCFD. Once we had this we created a road map to help us work towards full disclosure.



DATA

Having access to the right data was crucial, in particular for our scenario analysis. We spent time in assessing the data requirements for the project to make sure we had the required information. We then used external consultants' support to assess the quality of the internal data available, and to help us to choose the most relevant external inputs.

WHAT WE LOOKED AT

As part of our disclosures we wanted to perform scenario analysis as recommended by the TCFD. Given the size and complexity of Tesco, we decided to look at the most material areas of our business being impacted by climate change. This ensured a focused approach that resulted in key insights for various business areas.

As a global supermarket, our largest impacts (positive and negative) were very likely to be in our supply chain. We have assessed our UK business – our biggest market – the produce and animal protein categories as well as our property estate. These are our key commercial categories, with complex international supply chains. The results of our scenario analysis will inform our long-term strategic business planning.

NEXT STEPS

At the time of writing, we have completed disclosure in our 2018/19 Annual Report. The next step is to engage with the business further on the results. We want to ensure that the results of our disclosures are influencing decisions at the top level and the operational level. We are working towards embedding climate-related factors into our central risk management processes as we don't see these risks as any different to any other business risk.

OUR DISCLOSURE

Here is an extract of our disclosure from our Annual Report 2019:

Annual Report
2019
(Page 177)

Implementing the TCFD Recommendations Practical Example:

Task Force on Climate-related Financial Disclosures

Tesco has publicly committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We recognise climate change as the biggest environmental threat the world faces, and one which could pose particular challenges to our business including our supply chain and operations. Disclosing these climate related risks is an important step in demonstrating our understanding of these risks and efforts to mitigate them. In addition to enhancing business resilience, it also enables us to take advantage of any opportunities it may offer.

This year represents our first disclosure to address the TCFD recommendations and we expect this to develop and evolve over time to reflect our analysis.

Governance.

Climate change is one of the Foundations underpinning our Little Helps Plan and climate impacts from our supply chain are also considered within the Products pillar of the Plan. The Little Helps Plan outlines Tesco's commitment to tackle social and environmental challenges facing the business, our customers and our communities. The Board's Corporate Responsibility Committee is responsible for managing our impacts on climate change, as well as the risks that climate change may pose to our business. The Committee meets three times during the year and receives regular updates on our Little Helps Plan commitments and performance.

Strategy.

Our Little Helps Plan sets our commitments to and our progress towards mitigating the climate change impacts of our own operations and supply chain, as set out on page 31. In addition to addressing our impacts on the climate, we also aim to anticipate and respond to any risks and opportunities to our business posed by the changing climate.

In order to better understand the resilience of our business to short and long-term climate risks and opportunities, Alan Stewart, the Chief Financial Officer, commissioned scenario analysis in line with the TCFD recommendations. This year we are assessing the UK business – our biggest market – prioritising our estate as well as produce and animal protein categories. These are our key commercial categories, with supply chains around the world.

We are assessing the risks and opportunities we may face in 2030 under two climate scenarios. We use the scenarios developed by the Intergovernmental Panel on Climate Change and other credible organisations to assess Tesco's exposure to physical climate risks such as rising temperatures, shifts of precipitation patterns and extreme weather events. We have focused on agricultural production by country and product. Beyond physical risks, we are also assessing any risks and opportunities arising from a transition to a low-carbon world aligned with the Paris Climate Agreement. Our focus is on material risks for Tesco arising from market and policy shifts in energy and agriculture.

The results of our scenario analysis will inform our long-term strategic business planning.

Risk management.

The identification and management of climate-related risks follows our established risk management process. Key elements of the risk management process are set out on page 59.

Metrics and targets.

In May 2017, we announced new science-based targets for our own operations, aligned with the Paris Agreement's aspiration to limit global warming to 1.5 degrees. We are on track to reduce absolute carbon emissions from our operations from 2015/16 levels by 35% by 2020, 60% by 2025 and 100% by 2050. To help us meet our targets, we have committed to source 100% of our electricity from renewable sources by 2030. We also announced science-based climate change targets for our manufacturing and agricultural suppliers. Climate change metrics and targets are disclosed in the Little Helps Plan section on page 31.



Taken from Tesco Annual Report 2019

TOP TIPS

Get the buy-in of your CFO

We used the CFO as a champion on the TCFD in communications with the other executives. Having him supporting the project allowed us to get buy in throughout the organization and gave the project team credibility. The project touched all areas of our business so it was really important that all of the executives understood our goals.

Talk to other businesses who are further along the journey

We learned a lot from other companies who were further in their TCFD development than we were. We picked up the phone and spoke directly to some of them, and this helped us take the first step. In having these discussions, we realized that nobody has all of the answers, and other companies had similar challenges to ours. The key is to build on their learnings and collaborate as much as possible.

Get started

This type of project can easily be delayed by waiting for the “perfect” data or “perfect” scenarios. However, we found that the easiest way is to work with the data and expertise that is already in place, and simplify the disclosures or scenarios where there are data gaps. After the initial disclosure, the data, disclosures and scenarios can be developed further, but the key is to get started.

Engage with your professional body

We were lucky to be part of networks where other organizations could share their learnings but we recognize that this may not be available to all companies. However, there is a lot of work from professional bodies, in particular accounting bodies, which aims to support members on implementing the TCFD recommendations. For example, see [ICAEW's](#) and [CPA Canada's](#) resources.

THE A4S CFO ESSENTIAL GUIDE SERIES

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Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Executive Management*
- Finance Culture
- Incentivizing Action*

TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Management Information and Reporting*
- Capex

MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting

ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance
- Implementing the TCFD recommendations

*coming soon

www.accountingforsustainability.org/guides



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