



A4S

**CFO LEADERSHIP
NETWORK**

GETTING STARTED WITH TCFD

Practical example: GSK



THE PRINCE OF WALES'S
CHARITABLE FUND





WHAT?

GSK is a global pharmaceutical company with £34 billion turnover in 2020. We first started looking at the Task Force on Climate-related Financial Disclosures (TCFD) framework in 2018. In 2019 we made our first voluntary disclosure against the TCFD framework in the annual report and expanded our disclosure further in the 2020 report¹.

The disclosures are structured around the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets. They include an explanation of our scenario analysis and the scenarios we have chosen. We have found the TCFD framework to be useful for analysing and reporting on the climate-related financial risks to our business and we are committed to prioritizing it.

Finance has been a powerful driver behind our TCFD work from the start and our Chief Financial Officer (CFO) has signed the A4S [net zero](#) and [TCFD](#) Statements of Support. We have set up a Finance Sustainability Champion Network within finance which aims to support GSK's goal to achieve net zero impact on climate and net positive impact on nature by 2030. Applying the TCFD framework is part of achieving this goal, along with other key areas of focus.

Our TCFD work is sponsored by three members of the Chief Executive Team – CFO, President Global Affairs and President Pharmaceutical Supply Chain. The work to date on TCFD has been a collaborative effort between multiple teams with support from these three sponsors, with finance playing an essential and valued role. Finance will continue to be a key contributor as our efforts to manage and report on our climate-related financial risks evolve and become embedded into our ways of working.

¹ See GSK Annual Report 2020 (pages 46 to 47): <https://www.gsk.com/media/6662/annual-report-2020.pdf>

WHY?

Since 2010, we have had environmental targets which focus on reducing our environmental impact on the world. The TCFD framework adds an important dimension by helping us to understand and communicate how climate change could affect our business. With this information we can better plan to mitigate those risks and identify potential business opportunities.

We decided to start adopting the TCFD framework early as we recognized that it takes time to develop meaningful analysis and report against the framework. This would also position us well for any mandatory reporting requirements (eg since 1 January 2021, premium listed companies in the UK are required to make better disclosures about how climate change affects their business, consistent with the recommendations of the TCFD) and for responding to investors, who are showing increasing interest in environmental, social and governance aspects of GSK's strategy and operations.





HOW?

Our work on TCFD has been a collaboration with finance, sustainability, and corporate reporting teams all playing an important role. We started by putting together a business case with an initial gap analysis. Then we prepared our first voluntary TCFD report, including undertaking our first climate scenario analysis, with support from a consultancy firm. Since then, we have been building on our progress, by expanding our scenario analysis and enhancing our reporting.

Finance has been involved in the process from the beginning, supporting on the gap analysis and the development of scenario analysis. With mandatory TCFD reporting requirements coming into force, finance will be required to take a leading role along with the sustainability team as part of the annual reporting process.

MAKING THE BUSINESS CASE

In 2019 our CFO demonstrated the potential value of TCFD to our Audit and Risk Committee. This is a board-level committee that signs off the annual report and makes sure that we are meeting stakeholder expectations with our reporting. In our business case, we emphasized the importance of understanding our climate-related risks and voluntarily disclosing these to investors and wider stakeholders recognizing their growing interest in TCFD.

To support our case, we also prepared a simple gap analysis to assess how we measured up against each element of the TCFD framework. This analysis used red, amber and green colour coding to show where we were already well prepared and where we needed to do more work. Our main finding was that we needed to do a scenario analysis. We expected this finding, however using a simple colour coding system helped to flag it as a priority.

PREPARING THE FIRST SCENARIO ANALYSIS

For our first scenario analysis in 2019, we brought in external consultants to help us choose our scenarios and design the analysis. They advised on which scenarios we should use and recommended tools for understanding their impact. Our internal working group was made up of finance, risk, manufacturing supply chain leads, commercial and strategy teams.

We selected two scenarios: a 'business as usual' scenario, with a global temperature increase of 3-5°C by 2100, and a 'low carbon' scenario, where the increase in temperature would be limited to well below 2°C. Our scenarios are based on public databases and models, with sources including the Intergovernmental Panel on Climate Change and the International Energy Agency. To balance the long-term nature of climate-related risks with the strategic planning timescale of our business, we analysed impact using a ten-year time frame.



This scenario analysis focused on five specific high-revenue products, which meant we could identify our climate-related risks and opportunities for the products that were most material to our business. We looked not just at our direct production but across the whole value chain.

It was valuable to have external expertise, and we also applied our own institutional knowledge to make sure the analysis was tailored to our needs. We knew what would likely have the biggest impact for us, and we also incorporated our knowledge of risk profiling carried out each year as part of our insurance coverage needs assessment program. Finance and risk management both played a key role here.

DEVELOPING METRICS AND TARGETS

Since 2010, we have been reporting scope 1 and 2 emissions from our own operations and scope 3 emissions across parts of our value chain. The work we had already done in this area informed our TCFD metrics and targets and helped us to make sure those targets were realistic. Understanding our carbon emissions was a vital foundation for our work on TCFD; we found it useful to understand our current carbon footprint when setting an ambitious reduction target.

We aim to have a net zero impact on climate and a net positive impact on nature by 2030. For our pathway to net zero emissions, we have scope 1, 2 and 3 targets accredited by the Science Based Targets initiative to reduce our carbon emissions in line with 1.5°C warming.

MAKING THE DISCLOSURES

The disclosures in our TCFD statement, which forms part of the strategic report in our annual report, document our approach to each of the four pillars. The process for preparing these disclosures was led by our corporate reporting team. Again, we took a collaborative approach, bringing people with the right expertise together from across the business to provide information and support as needed.

Our overall strategy and approach to annual report disclosures is determined by a working group including key people from finance, corporate secretariat, communications, and government affairs teams. A separate group in the corporate finance function looks specifically at financial disclosures, including those related to TCFD.

BUILDING ON OUR PROGRESS

After our first disclosure in 2019, we then expanded our product-level scenario analysis in 2020. Having built our capacity in the previous year by working with consultants, we had the tools and models we needed to analyse a new set of products internally. Once we had completed this second scenario analysis, we had analysed the potential impact of climate change on products making up around 40% of our revenues.

We now have better information about our climate-related financial risks and will be applying this to our planning and decision making. It is helping us to bring environmental considerations into long-term planning across our business.



NEXT STEPS

We are continuing to evolve our scenario analysis using capabilities we have developed previously and applying these in our planning and decision making to be a climate resilient company.

Along with TCFD reporting, finance will continue to collaborate with the sustainability and corporate reporting teams as we work towards achieving our environmental goals.

The Finance Sustainability Champion Network has identified key areas of focus for 2021 which include working groups focused on (but not necessarily limited to): TCFD, carbon pricing evolution, renewables, carbon offset projects, and integrating sustainability into the finance culture.



TOP TIPS

THINK ABOUT WHERE TO START

Be pragmatic about what your first steps could be and what will help you as you move forward. Starting with a small piece of analysis gave us a strong steer for what to do next and helped us build our business case.

USE EXTERNAL SUPPORT

Consider getting external consultants to support you as you develop your first scenario analysis. This can help you to build your capability. In the future you can then either conduct scenario analyses internally or bring in external support to help you with a specific area.

COLLABORATE

The TCFD framework has a broad scope and it is important to collaborate across business functions. No single team has all the expertise and skills that you will need. Bringing together people from different business areas can help you to get high quality information, analyses and reporting.

GET SENIOR BUY IN

Having key sponsors from different areas of the leadership team is useful. Support from the CFO helps to establish TCFD as a business priority and reinforces the critical role finance plays.

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