Interview with CDP “Climate Disclosure – a first step to step change”

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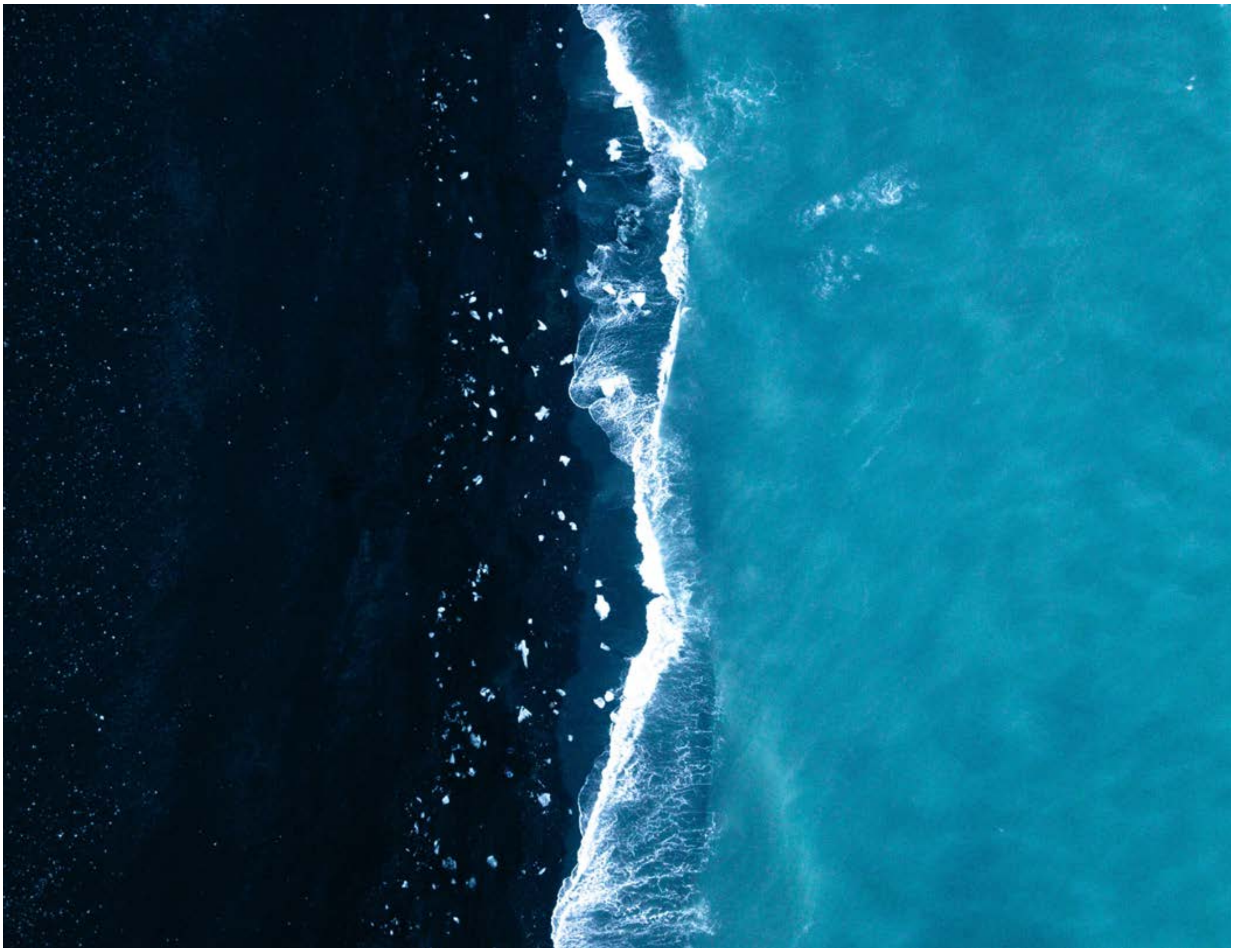
CDP
CDP (formerly the Climate Disclosure Project) is a global, environmental non-profit established in 2000 with the goal of linking environmental integrity with fiduciary duty through engagement, measurement and disclosure. Its global disclosure system helps investors, companies, cities, states and regions to manage and report risks and opportunities associated with their environmental impact. CDP’s vision is for a thriving economy that works for people and planet.

The 2020 edition of the SAM Yearbook focuses on corporate perceptions of risk and what steps are being taken to identify, measure, and internalize those risks by companies via tools like impact evaluation.

The climate emergency provides a powerful example of the critical need for companies to uncover and evaluate the risks (both seen and unseen) embedded in their operations and products. These risks can have serious negative consequences (impact) for the environment and society. The debate over climate change has radically shifted in the past decade, moving from a potential scenario in strategic planning to an existential threat for not just individual companies but entire industries.

Over the past two decades, CDP has been a champion and pioneer in pushing companies, investors, municipalities, and governments to measure and understand their environmental impact. In the process, it has developed an impressive array of protocols, tools and methods to help these stakeholders in collecting, measuring, benchmarking, and disclosing carbon emissions and other environmental indicators. As a result, CDP has built an influential reputation and network that strengthens its ability to drive change.

Foteini Arpatzoglou of S&P Global ESG Research, recently sat down with CDP's Faye Bennett-Hart, Associate Director, Reporting at CDP, to discuss CDP's founding mission, current strategy, and future vision for reducing environmental damage and achieving net-zero carbon emissions.



Foteini Arpatzoglou: For those who are less familiar with CDP's work, can you describe your mission?

Faye Bennett-Hart: CDP wants to help build a thriving, sustainable economy that operates in the best interest of people and planet. We focus investors, companies, and cities on actions they can take to prosper in this economy. Disclosure is the main tool – it helps companies and governments measure and understand their environmental impacts and opportunities, and helps them to make informed, strategic action on a global scale. For investors, it provides powerful information for channeling their investments to environmentally responsible companies around the world.

Companies, cities, states, and regions report their environmental disclosures through CDP's climate change, water security, and forests questionnaires. This information provides the basis for environmental transparency and action.

It's a hugely exciting transformational time. This year, over 525 investors with US $96 trillion in assets requested companies disclose through CDP on climate change, water security, and forest management. Over 8,400 companies responded to this call, an increase of 20% on the previous year.

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FA: Who are your stakeholders and how do they use and benefit from your data and services?

FBH: CDP partners with organizations and companies that provide research, data products, indices, and ratings to companies, investors and consumers. Having the best data available helps companies and governments improve strategic planning and capital investment decisions and helps investors make informed comparisons between companies.

CDP scores are displayed on Bloomberg terminals and CDP data is used across a variety of investment products and strategies. We are also involved in helping index providers construct sustainable indices that base selection on the key environmental challenges of climate change, water security, and deforestation. In this way, we make sure the people making critical financial decisions can access the information they need about environmental risks in a useful, timely format. This helps them future-proof their growth as we transition to a low carbon economy.

FA: What do you see as the biggest challenge in transitioning to a sustainable economy?

FBH: In order to transition to the low carbon economy there needs to be a step change across all areas of business and particularly within the financial sector. For this reason, CDP is launching Financial Services specific questions in its questionnaire in 2020.

Financial institutions need to disclose in their own right based on their direction emissions and CDP already works with major investors as signatories towards this goal. But the focus is turning towards the emissions they indirectly finance elsewhere in the economy through investments and lending. This is an important change that signals an understanding of the need to urgently shift to a more sustainable low carbon economy.

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FA: Tell us more about your collaboration with RobecoSAM and more specifically how this strengthens and advances CDP's mission?

FBH: CDP has collaborated with RobecoSAM for over 6 years. Our research frameworks reinforce each other, cementing disclosure as a fundamental business norm and driving further positive change. We also work together to ensure as much alignment as possible when our frameworks request similar data points.

Alignment means that developments in environmental reporting, such as the Task Force on Climate-related Financial Disclosure (TCFD) recommendations or Scope 3 emissions are approached in a consistent manner.

For companies, this means that there is consistency across our data collection frameworks that facilitates understanding and reduces the effort expended by companies that report against both.

For investors, it is crucial that data becomes more readily available, more reliable, and more comparable in order to make informed investment decisions. Making environmental reporting comparable and consistent in this way significantly strengthens our efforts to prepare companies for a more resilient future.

FA: How effective are disclosures at reducing company emissions and environmental footprint – does more disclosure really lead to more accountability and company action?

FBH: CDP was founded in 2000 on the premise that environmental disclosure leads to action. Since then, the importance and demand for environmental disclosure has increased significantly such that for many companies it is a mandatory requirement and central to their business planning. Though that was our goal, it seemed a long way off when we started. In the early years just over 200 companies reported but that figure has continued to rise over the years and in 2019 over 8,400 companies, 800 cities, 120 states and regions responded to CDP questionnaires. Increasingly, key economic decision-makers are using our data to plan for life in a low-carbon economy.

Companies serious about climate change are not just disclosing, they are acting on other fronts as well. CDP is part of the We Mean Business coalition which has created a platform for companies to tackle key environmental issues through a number of initiatives. Since its launch in 2014, more than 1,000 companies, representing every economic sector and geography, have made over 1,700 commitments to ambitious climate action. Meanwhile, over 700 companies have committed to setting a science-based target for reducing their emissions in line with the Paris climate agreement.

As well as driving climate action, disclosures also appear to drive improvements in other areas of business. In a survey in October 2018, 70% of CDP responding companies said that reporting to CDP improves their reputation and nearly half said that reporting to CDP helps their organization to be more competitive. There is also strong evidence of positive outperformance over the past 8 years (2011-2019) from indices that integrate CDP score data compared to standard benchmarks.

FA: Emission and pollution volumes differ between industries (for example, oil and gas, agriculture and textiles will have larger footprints than banking and insurance). How are disclosures having an impact on actual emissions within industries? Have you identified any interesting trends?

FBH: Operational emissions are smaller in banking and insurance than oil and gas sectors, but they are only a small part of the picture. Emission volumes in these

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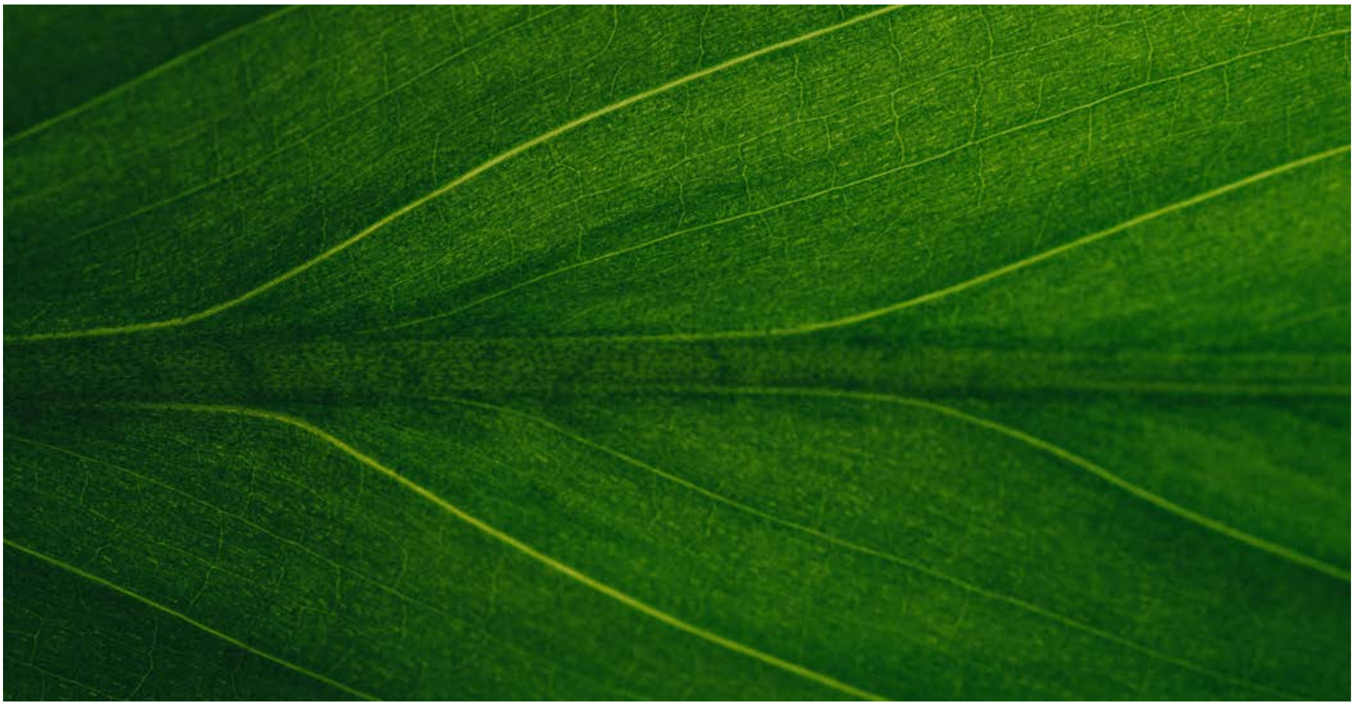

"It's critically important that financial institutions consider the environmental impact of projects that they finance, underwrite, or manage."

sectors are much larger than is currently reported once financed emissions' are accounted. In 2020, this will be the focus of new questions for the finance sector in CDP's climate change questionnaire.

In 2018 only 15% of financial institutions reported their indirect emissions to CDP, and we estimate that the total Scope 3 emissions would increase a hundredfold if all financial institutions currently reporting to CDP included Scope 3 financed emissions. Therefore, it's critically important that financial institutions consider the environmental impact of projects that they finance, underwrite, or manage.

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Disclosure of the risks and opportunities of climate change from financial companies has improved through the CDP questionnaire since its alignment with Task Force on Climate-related Financial Disclosures (TCFD) recommendations from 2018 onwards. However, there is still much more that companies need to do to address risks and realize opportunities. Our recent research on CDP climate change data revealed that 215 of the biggest global companies report almost US $1 trillion at risk from climate impacts, with many losses likely to hit within the next 5 years. Furthermore, the potential value of sustainable business opportunities is almost 7x their cost (US $311 billion in costs, US $2.1 trillion in opportunities).

FA: How is increasing public awareness, investor activism, and initiatives like the Task Force for Climate-Related Disclosure (TCFD) influencing company reporting and behavior?

FBH: In the last year, CDP has seen a 20% increase in the number of companies disclosing, so it is likely that the recent increased public awareness and investor activism has contributed to driving up the numbers. The TCFD has brought climate reporting much higher up the agenda for companies and CDP provides a clear structure of reporting against TCFD recommended disclosures.

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CDP understood the step change that the launch of these disclosures would have on the climate reporting landscape which is why we committed to aligning with the TCFD recommendations in 2018. By 2020 all TCFD sectors will be represented in the CDP climate change questionnaire. In addition to Financial Services (including banking, insurance, asset owners and asset managers), our 2020 questionnaire will also cover the Real Estate, Construction, and Capital Goods sectors.

Whilst expanding the questionnaire, CDP also collaborated with several other frameworks including global sustainability standard-setters like GRI, SASB, CDSB, and IIRC, to clearly show the overall alignment with TCFD and each respective framework.[1]

[1] GRI-Global Reporting Initiative, SASB-Sustainability Accounting Standards Board, CDSB-Climate Disclosure Standards Board, IIRC-International Integrated Reporting Council

FA: How is CDP data being used by investors interested in ESG and impact investments?

FBH: Investors use CDP data in a number of different ways including for determining in which companies to invest for the long term. Global asset managers with operations and investments on the ground worldwide use CDP response data to understand how exposed a particular business is to an environmentally changing world and what it is doing to adapt.

Other investors use our data to calculate the carbon footprint of their portfolios. Once the highest emitters have been identified, investors can then more efficiently focus their efforts on driving down overall impact to align with the Paris Agreement through, for example, engagement activities with company management.

CDP data is also used in investor ESG research and risk management. As mentioned previously, CDP data is integrated into the Bloomberg platform and forms the basis for constructing various fund ratings and investment products. To give an idea of the value of CDP disclosure, independent research conducted recently found that businesses that disclosed through CDP had a 19% increase in access to capital than the average company.

FA: Is it realistic to think we will reach the UN's goal for global temperatures by 2050?

FBH: Yes, it's definitely possible, but it won't be easy. The process requires a seismic shift from "business-as-usual" and for companies to act fast. A vast body of research has been done that supports and guides companies and governments on the way forward. Moreover, success in reducing global warming and transitioning to a low carbon economy will require the work of each and every economic sector. But the work won't go unrewarded – it will bring huge opportunities for companies that act now in planning for the long term. How fast companies act will make the difference between extinction, surviving, and thriving in the future.