

# **Measure and Leverage Environmental Metrics**

## **~CDP's Engagement with Capital Markets**

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June 2022



## Agenda

- ▼ **CDP: Largest Environmental Disclosure Platform and Engagement with Private Markets**
- ▼ Analysis of Public-Private Environmental Transparency Gap
- ▼ CDP Private Markets Pilot Project : To Help Transform Private Companies With Low Carbon Maturity

# About CDP



CDP is a global environmental impact non-profit working to secure a thriving economy that works for people and planet.



CDP runs the global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts.



With the world's most comprehensive collection of self-reported data, the world's economy looks to CDP as the gold standard of environmental reporting.



Its network of investors, purchasers and policymakers around the globe, use our data and insights to make better-informed decisions.

# How We Work

CDP data informs capital markets & policy makers on environmental challenges and opportunities



# Disclosure Overview

15000

**13000+** companies reported to CDP in 2021, including public and private companies.

12000

9000

6000

3000

0

2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

■ Climate Change ■ Water Security ■ Deforestation ■ Total



Climate Change



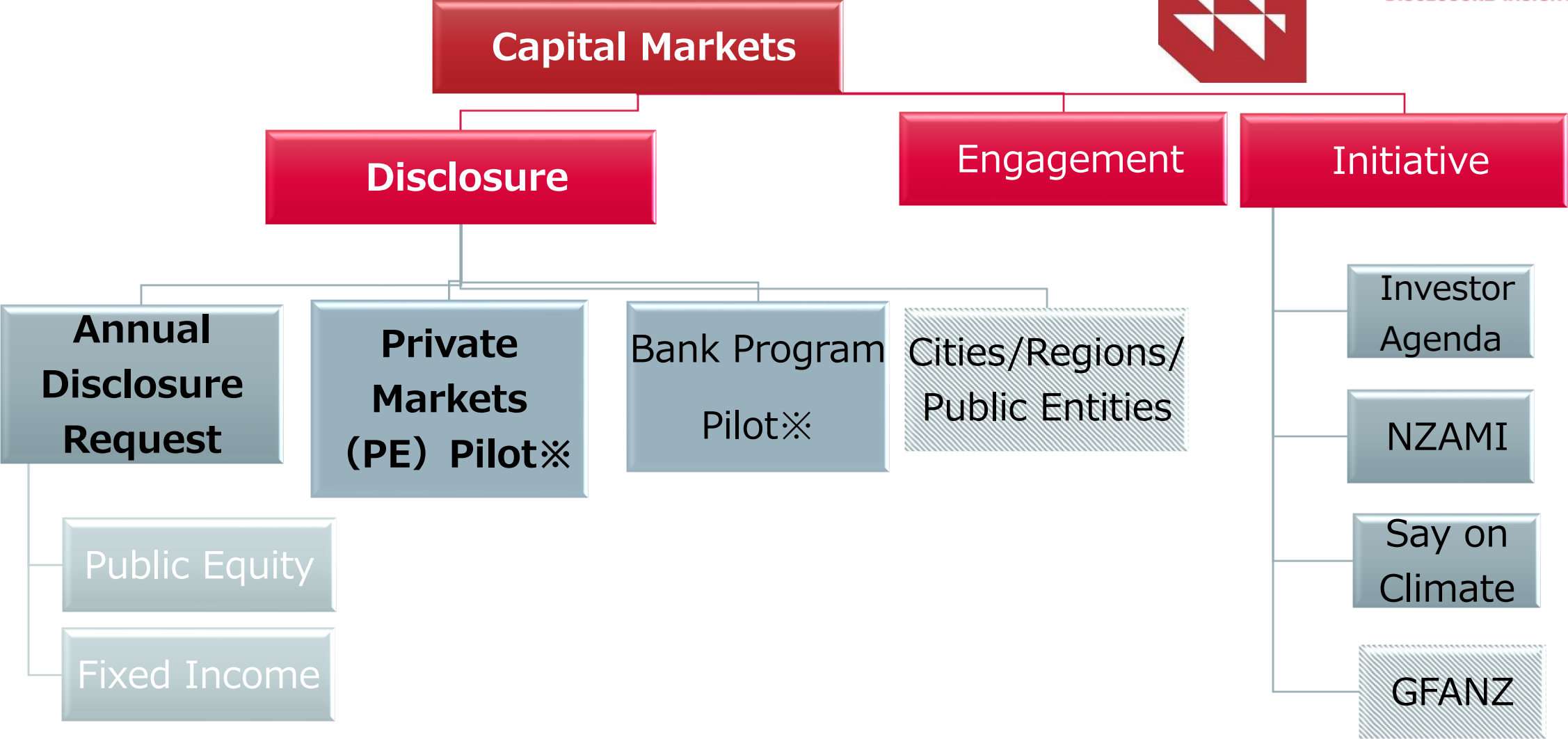
Water Security



Deforestation



# CDP Capital Markets Program



⌘ Customized program, Fee required based on # of requesting companies



# Overview Of Financial Services Questionnaire



Financial Services Questionnaire	
C0	Introduction
C1	Governance
C2	Risks and opportunities
C3	Business strategy
C4	Targets and performance
C5	Emissions methodology
C6	Emissions data
C7	Emissions breakdown
C8	Energy
C9	Additional metrics
C10	Verification
C11	Carbon pricing
C12	Engagement
<b>C14</b>	<b>Portfolio impact</b>
C15	Biodiversity
C16	Signoff
FW-FS	Forests and Water Security

## Carbon Accounting Metric by Asset Class

Metric	Portfolio emissions	Weighted average carbon	Portfolio carbon footprint	Carbon intensity	Exposure to/value of carbon-	Exposure to/value of carbon-
Asset classes	Listed equity, listed bonds, corporate loans, <b>private equity</b> , project finance, commercial	Listed equity, listed bonds, corporate loans, <b>private equity</b>	Listed equity, listed bonds, corporate loans, <b>private equity</b> , project finance, commercial	Listed equity, listed bonds, corporate loans, <b>private equity</b>	Listed equity, listed bonds, corporate loans, <b>private equity</b> , project finance, insurance	Listed equity, listed bonds, corporate loans, <b>private equity</b> , project finance, insurance

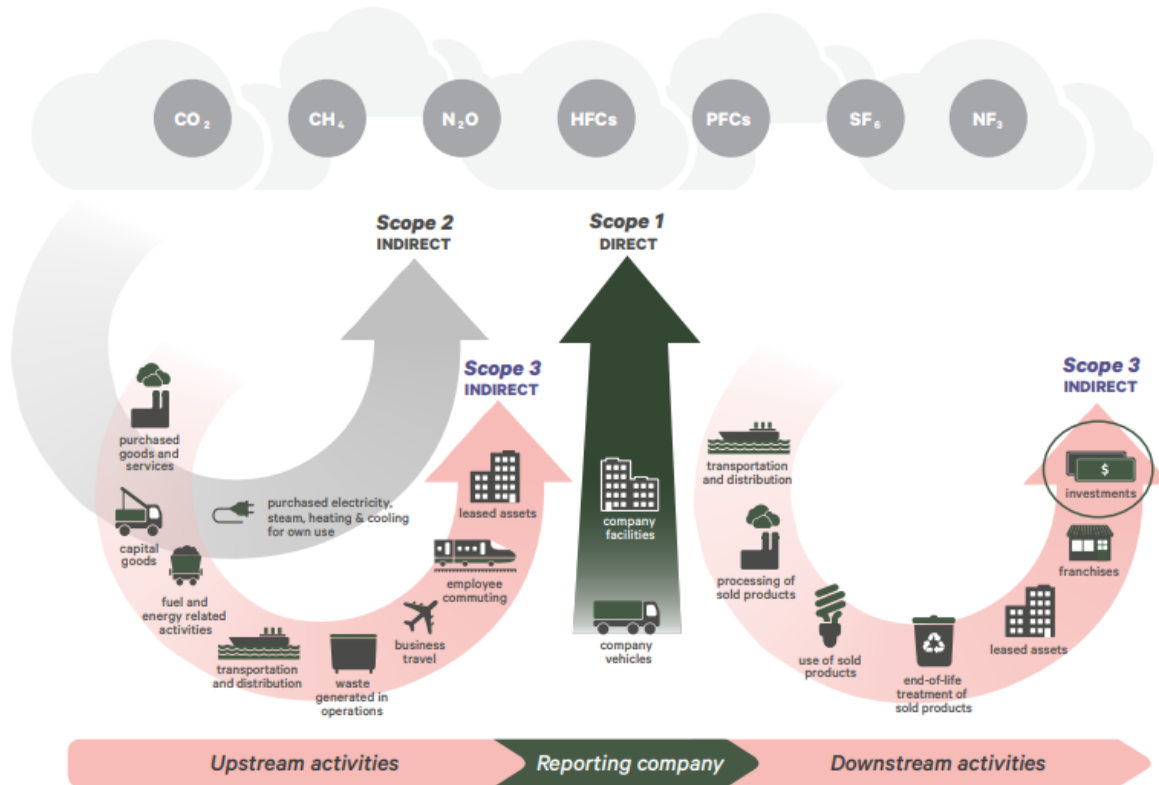
※PCAF helps financial institutions assess and disclose the greenhouse gas (GHG) emissions from their loans and investments through GHG accounting.

<https://carbonaccountingfinancials.com/files/downloads/PCAF-Standard-public-consultation.pdf>

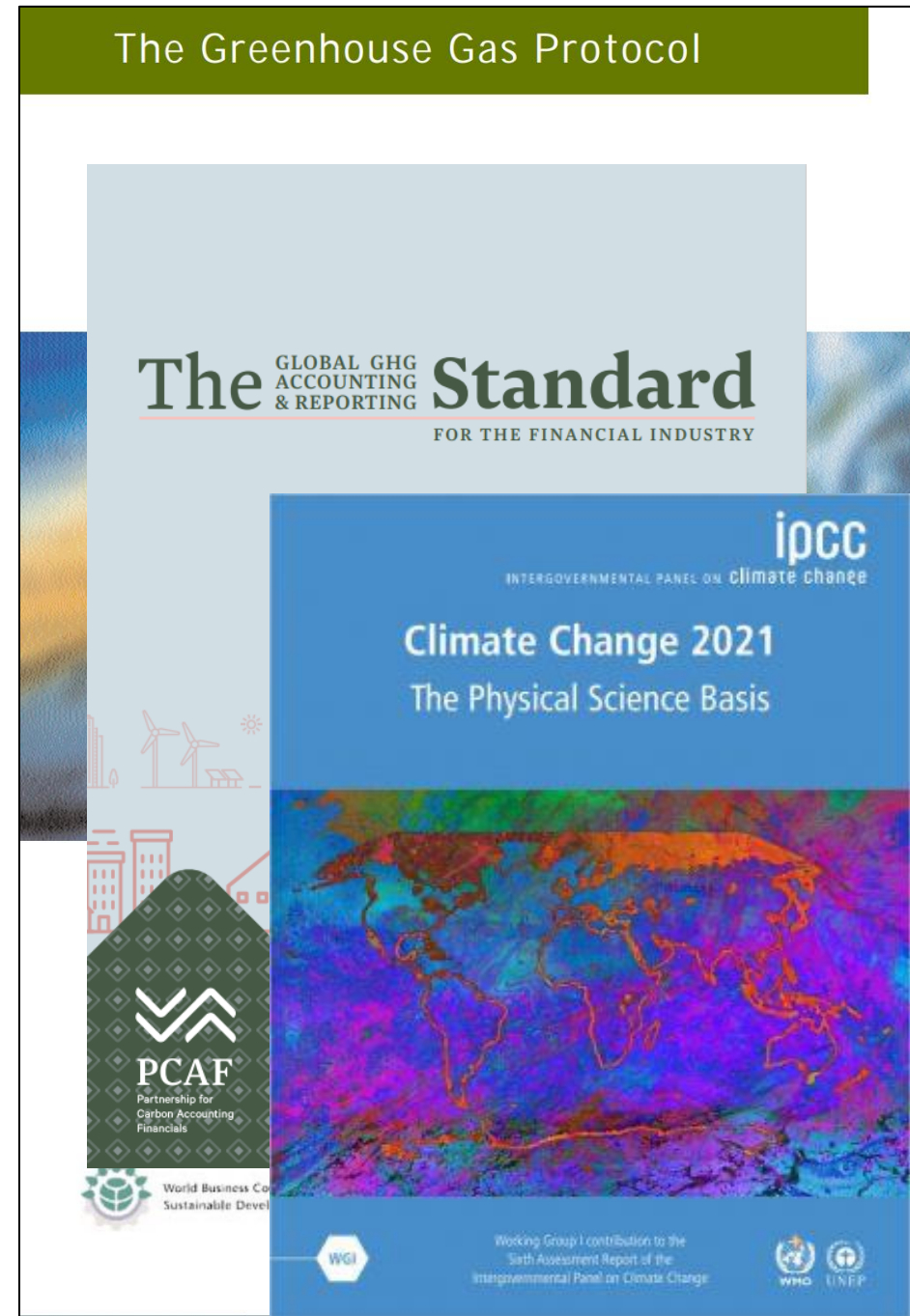
# Grounds

- ▼ IPCC Reports
- ▼ Greenhouse Gas Protocol
- ▼ Global GHG Accounting and Reporting Standard for the Financial Industry (PCAF Standard)

Overview of GHG Protocol scopes and emissions across the value chain



Source: (WRI and WBCSD, 2011)





# Response by Financial Institutions on Private Equity

(Examples from CDP FS Questionnaire 2021 cycle)



Question:C-FS14.1\_C3\_ (Scope 3 portfolio impact) - PE - Comment

## European AM

- In 2020, the Private Equity asset class generated 5,200,782 metric tons of CO<sub>2</sub>eq, or 24% of the total portfolio impact.

## European PE AM

- An analysis of the exposure to climate change risks was conducted in 2020 by an external consultant.
- The carbon intensity of the portfolio is estimated at 46 TCO<sub>2</sub>/\$M invested.

## Asian Bank

- For the unlisted equity, we prioritized the inventory of investment in high-carbon emission industries, and the Scope 3 carbon emissions are approximately 37,687 metric tons.

# Responsible Investment Forum: Tokyo 2022

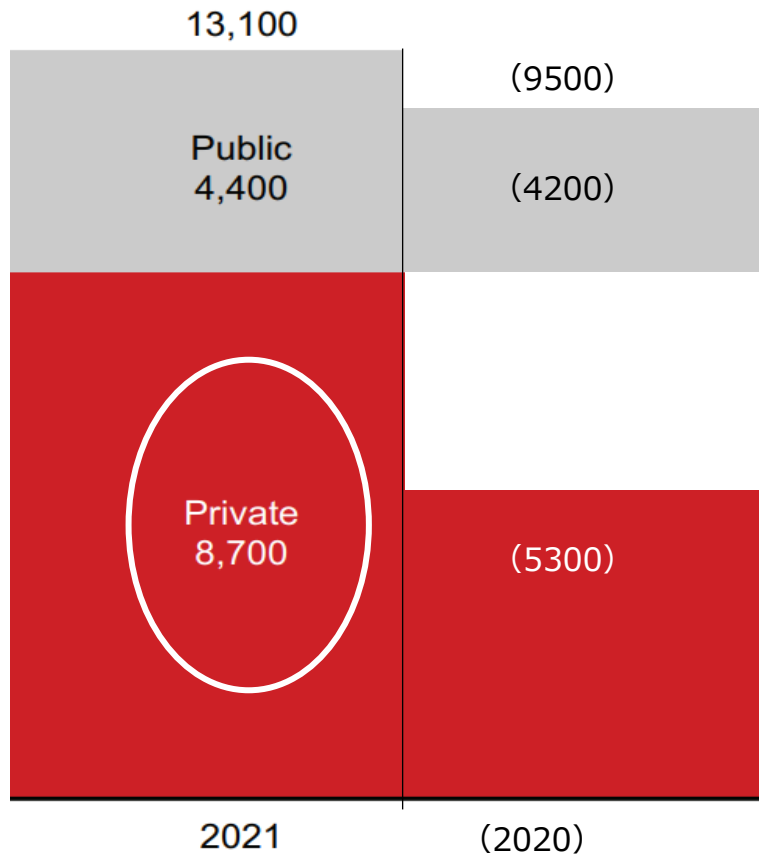
## Agenda

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- ▼ **Analysis of Public-Private Environmental Transparency Gap**
- ▼ CDP Private Markets Pilot Project : To Help Transform Private Companies With Low Carbon Maturity

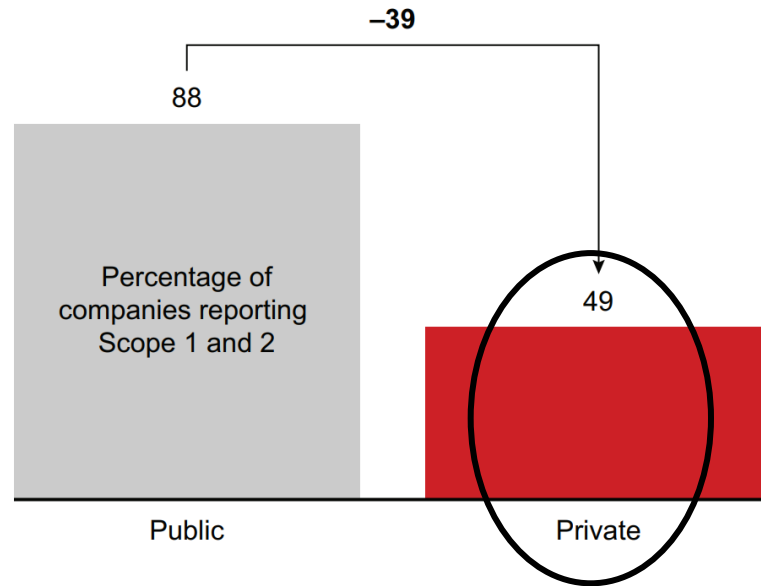
# The gap between public and private companies is wide when it comes to emissions reporting



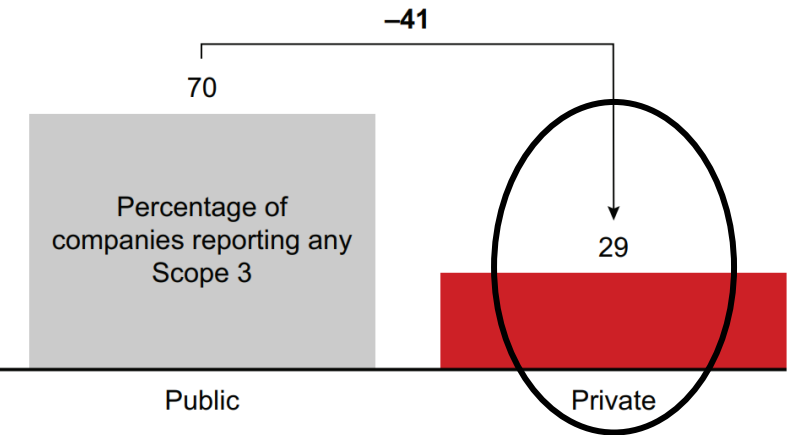
Number of companies reporting to CDP



Scope 1+2 emission



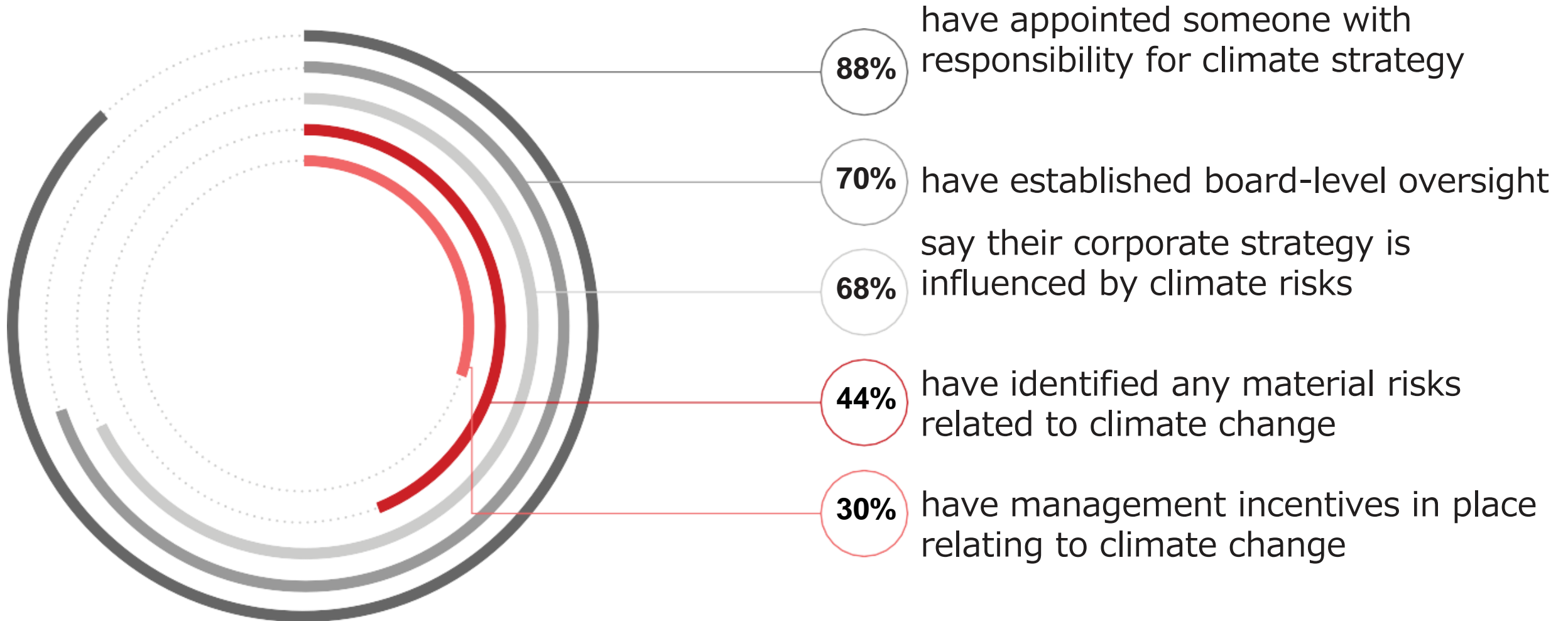
Scope 3 emissions



Scope 1+2  
Public 88% > Private 49%

Scope 3  
Public 70% > Private 29%

# Share of private companies reporting





# 'You can't manage what you can't measure'

- reporting and transparency are essential



## Reporting emissions: The gap between public and private companies

Scope	1, 2	3
Private	49%	29%
Public	88%	70%

## Public ⇒ Private

Fewer than 10% of the public companies reporting to CDP in 2016 has gone private by 2021.



But once they were in private hands, 85% of them had stopped reporting to CDP

## The reporting gap also stems from

- Resource constraints
- Capability gaps
- Lack of urgency from leadership

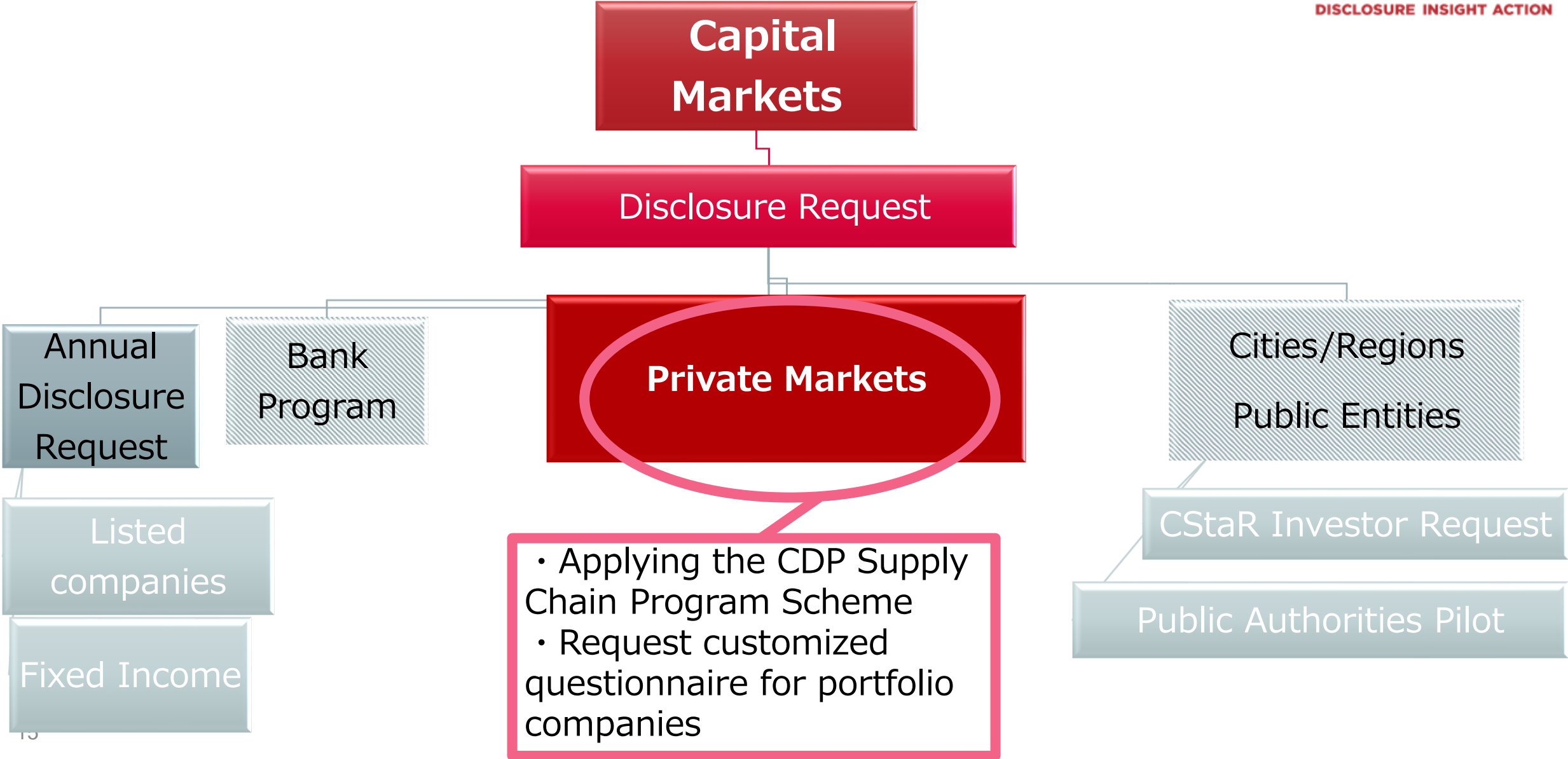
**Closing Gap** ⇒ CDP has created the first-ever standardized climate change disclosure platform specifically aimed at private markets. It includes a mechanism for modeling emissions based on reported input data

**Responsible Investment  
Forum: Tokyo  
2022**

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# CDP Capital Markets Program



# CDP Private Markets Pilot



- ▼ To **close** public-private environmental transparency gap
- ▼ By **engaging with** companies on the TCFD-aligned metrics that are now becoming mainstream across all asset classes
- ▼ Providing investors with **benchmarking data** on the private companies that already disclose to CDP



# CDP Private Markets Pilot 2021



## Investors with US\$2.3 trillion of assets demand standardized environmental data from private companies

September 08 2021

- CDP collaborates with investors to create **first ever** standardized environmental disclosure platform specifically for private markets;
- **Beach Point Capital, Collier Capital, Intermediate Capital Group, M&G, Neuberger Berman** and **Nuveen** among participating investors;
- Standardized disclosure platform will allow investors to benchmark private companies and compare like-for-like on environmental performance.

**London; September 8, 2021:** Private market investors with US\$2.3 trillion of assets including M&G, Neuberger Berman and Nuveen are, for the first time, requesting standardized environmental disclosure from over 1,000 privately held portfolio companies through [CDP](#), the non-profit global environmental disclosure platform.

A trend towards the privatization of high-carbon assets, such as BP's sale of its Alaska Oil and Gas business to Hilcorp Energy, risks diminishing transparency and performance on ESG issues since private companies do not have to comply with the reporting requirements of a listed entity.

# CDP Private Markets Pilot Offering



## Pilot project Planning

### **PHASE 1: Questionnaire Development and Consultation (June – August)**

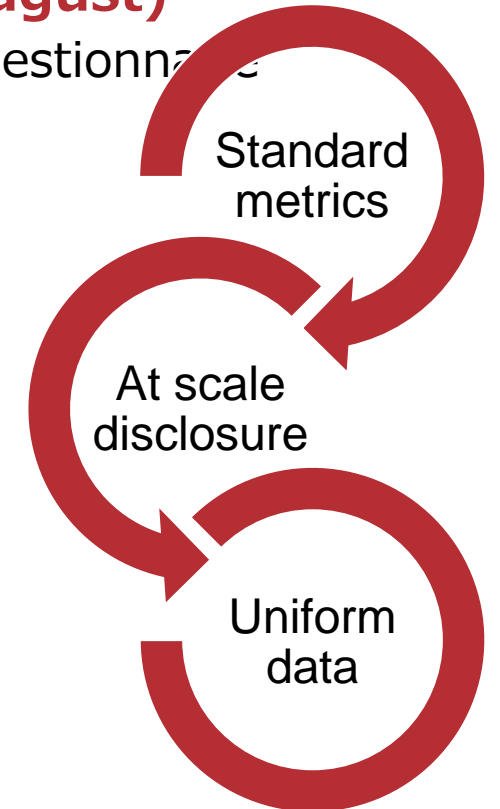
Collaboration on metric development to create a fit-for-purpose baseline questionnaire  
Alignment with CDP's SME Framework development  
Climate change, water security, deforestation

### **PHASE 2: Disclosure Cycle (September - November)**

Portfolio companies will report against customized environmental metrics  
Resources and guidance  
Emissions estimations\*

### **PHASE 3: Benchmarking and Insights (November - December)**

Raw company data and analytical outputs for portfolio assessment  
Leverage aggregated data from 7,500+ private companies\*



# Aspects of CDP Private Markets Questionnaire

Customized questionnaire for portfolio companies



## 2021 PILOT MODULES

### Introduction

Emissions Data

Targets and Performance

Governance

Risks and Opportunities

Business Strategy

Water Impacts

Deforestation Impacts

- ▼ Cross thematic—includes water and forests impacts
- ▼ Conditional logic: Size, Sector
- ▼ Aligned with TCFD, CDP SME Framework
- ▼ Baseline disclosures
- ▼ Best practice pathway

# Emissions Modeling

Carbon foot-printing capability: A hybrid approach



## Portfolio emissions based on self reported and modeled emissions data:

- ▼ Self-report Scope 1 & 2 (preferred option)
- ▼ Self-report data inputs so CDP can model emissions (for companies unable to self-report)
  1. Revenue [Scope 1]
  2. Activity/Sector, broken down by % of revenue [Scope 1]
  3. Electricity consumption (i.e., electricity bills) [Scope 2]
  4. Country/Region of operation, broken down by electricity consumption or % of revenue [Scope 2]



# Private Markets Pilot: Terms of Disclosure



- ▼ Private disclosures
- ▼ No scores
- ▼ Unique standardized disclosure framework
- ▼ Leverage emissions estimation for carbon foot-print
- ▼ CDP support on engaging with GPs and portfolio companies

# Disclosure Process: Company Response Status

## Details on requested companies



- ▼ Response rates – 6x higher than standard CDP request
  - ▼ 9/10 investors already have 60% or greater submission rate
  - ▼ Private equity response rate: 65 – 70%
  - ▼ Standard first-time CDP request response rate
- ▼ Company types
  - ▼ Average revenue: \$645 million
  - ▼ No emissions to report: 75%+ of companies
  - ▼ All Industries (services and manufacturing – top 2)

# Portfolio Report (image)



Know your portfolio and take actions

**SAMPLE REPORT**

**Portfolio Analysis**  
CDP Private Markets Pilot

**Disclosure Overview – Your Portfolio**

Organization	Reporting Start Date	Reporting End Date
Company 1	1/1/2019	12/31/2019
Company 2	1/1/2019	12/31/2019
Company 3	7/1/2020	6/30/2021
Company 4	1/1/2020	12/31/2020
Company 5	1/1/2020	12/31/2020
Company 6	1/1/2020	12/31/2020
Company 7	1/1/2020	12/31/2020

**% of companies disclosed**

Your portfolio response rate was 88%, greater than mean response rate of the 2021 pilot.

**Benchmarking: TCFD: Governance, Business Strategy**

**% of Private Companies with Board-level oversight on climate issues**

**% of private companies where climate risks have influenced strategy / financial planning**

**Portfolio Assessment**  
Disclosure on individual metrics varied across your portfolio

**Investor A Portfolio**

	Benchmark	Scope 1	Scope 2	Scope 3	Targets	SBT	Board oversight	Management	Risks	Opportunities	Strategy	Value Chain
Company 1	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice
Company 2	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice
Company 3	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice
Company 4	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice
Company 5	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice
Company 6	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice
Company 7	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice	Best practice

Legend: Best practice disclosure (dark red), Lower ambition disclosure (light red), No action taken (white).

**Emissions: Portfolio Overview**

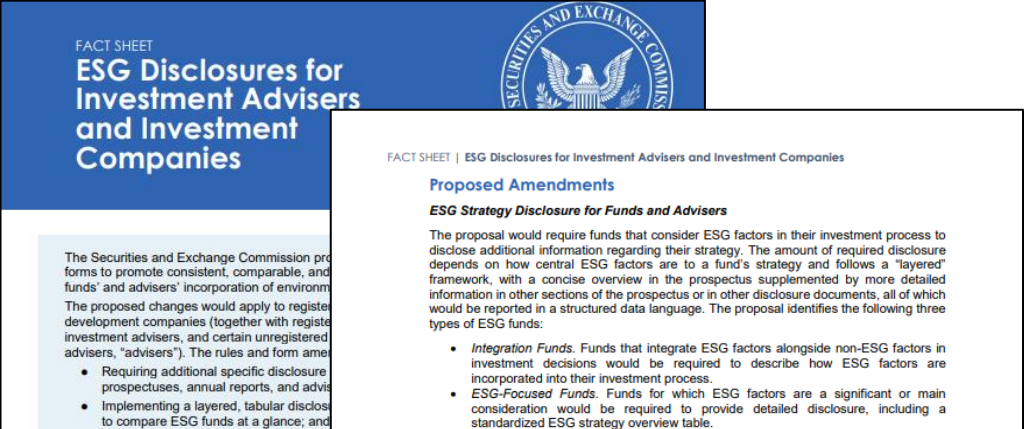
Organization	Primary Industry	Gross global Scope 1 emissions	Gross Global Scope 2, location-based	Scope 1 + 2 Emissions	Scope 3 emissions	Emissions Intensity	% Portfolio Footprint	Target Setting
Company 1	Services	48	3128	3176	Yes	11.53	2.1%	No target
Company 2	Services	358.37	50.18	408.55	No	1.23	0.3%	No target
Company 3	Services	9.55	156.59	166.14	Yes	1.65	0.1%	No target
Company 4	Services	3,954.05	1,187.47	5141.52	No	16.72	3.3%	No target
Company 5	Hospitality	9,761.02	38,139.70	47900.72	No	752.33	31.1%	No target
Company 6	Services	145	6267	6412	Yes	10.07	4.2%	No target
Company 7	Materials	33297.53	57416.26	90713.79	Yes	45.63	58.9%	No target

Legend: Emissions were modelled (light red)

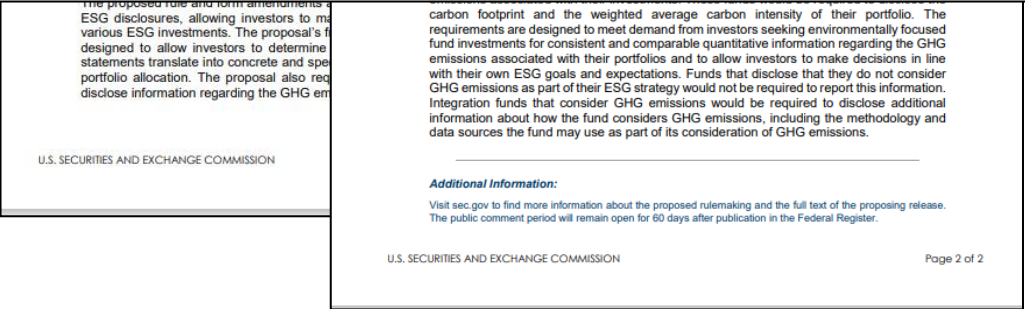
**Overview: Risk Assessment**

Company Name	Primary Sector	Primary Activity	# of climate risks reported	# of companies in sector benchmark	% of companies in sector reporting at least 1 climate risk	Water Security Risk Ranking	Diversification Risk Ranking
Company 1	Financial services	Banks	0	505	78%	None	Risk relevant
Company 2	Bars, hotels & restaurants	Fast food	1	54	75%	High	Critical
Company 3	Chemicals	Other base chemicals	0	682	65%	Critical	High
Company 4	Other services	Education services	0	100	55%	Low	Not relevant
Company 5	Specialized professional services	Other financial	0	754	32%	None	Not relevant
Company 6	Specialized professional services	Other financial	0	754	32%	None	Not relevant
Company 7	Specialized professional services	Other professional services	3	754	32%	None	Not relevant

# Moving to more transparency, more science-based



US SEC Proposes to Enhance Disclosures by Certain Investment Advisers and Investment Companies About ESG Investment Practices (May 2022, SEC)



Fundamentally, the business case for private equity to set SBTs is that it will protect asset value (Nov. 2021, SBTi)



## About CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 590 investors with over \$110 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 14,000 organizations around the world disclosed data through CDP in 2021, including more than 13,000 companies worth over 64% of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative

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