

CDP & financial risk disclosure by global companies

FEEM workshop Methodologies and Tools to Evaluate the Financial Impact of Climate-Related Risks and Opportunities

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How we work



CDP is an **international non-profit** organization.

We run the **global environmental disclosure** system for companies, cities, states and regions.

>550 Institutional Investors
(= **CDP Investor Signatories**)

&

>120 large purchasing
organisations



> 9600 Companies



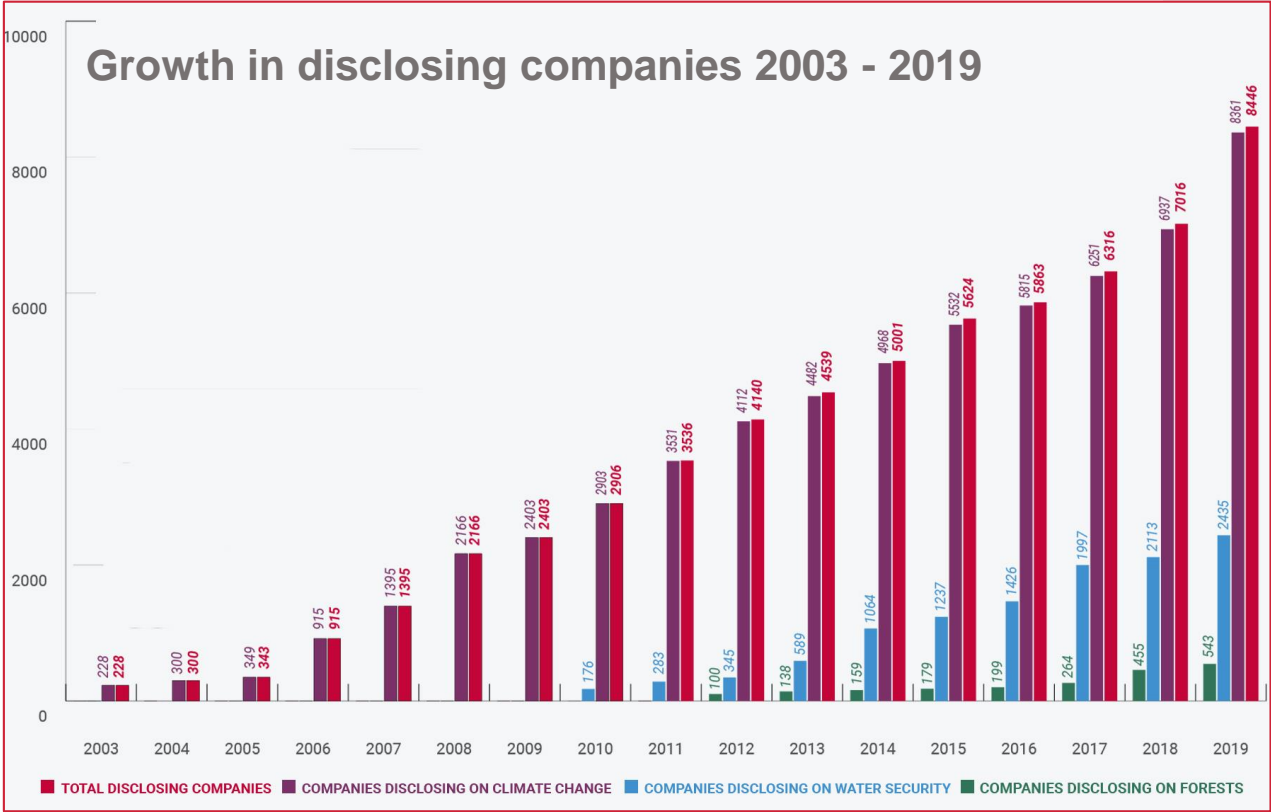
CDP provides data back to investors
and purchasing organisations



Companies provide data

Steady growth in companies disclosing to CDP

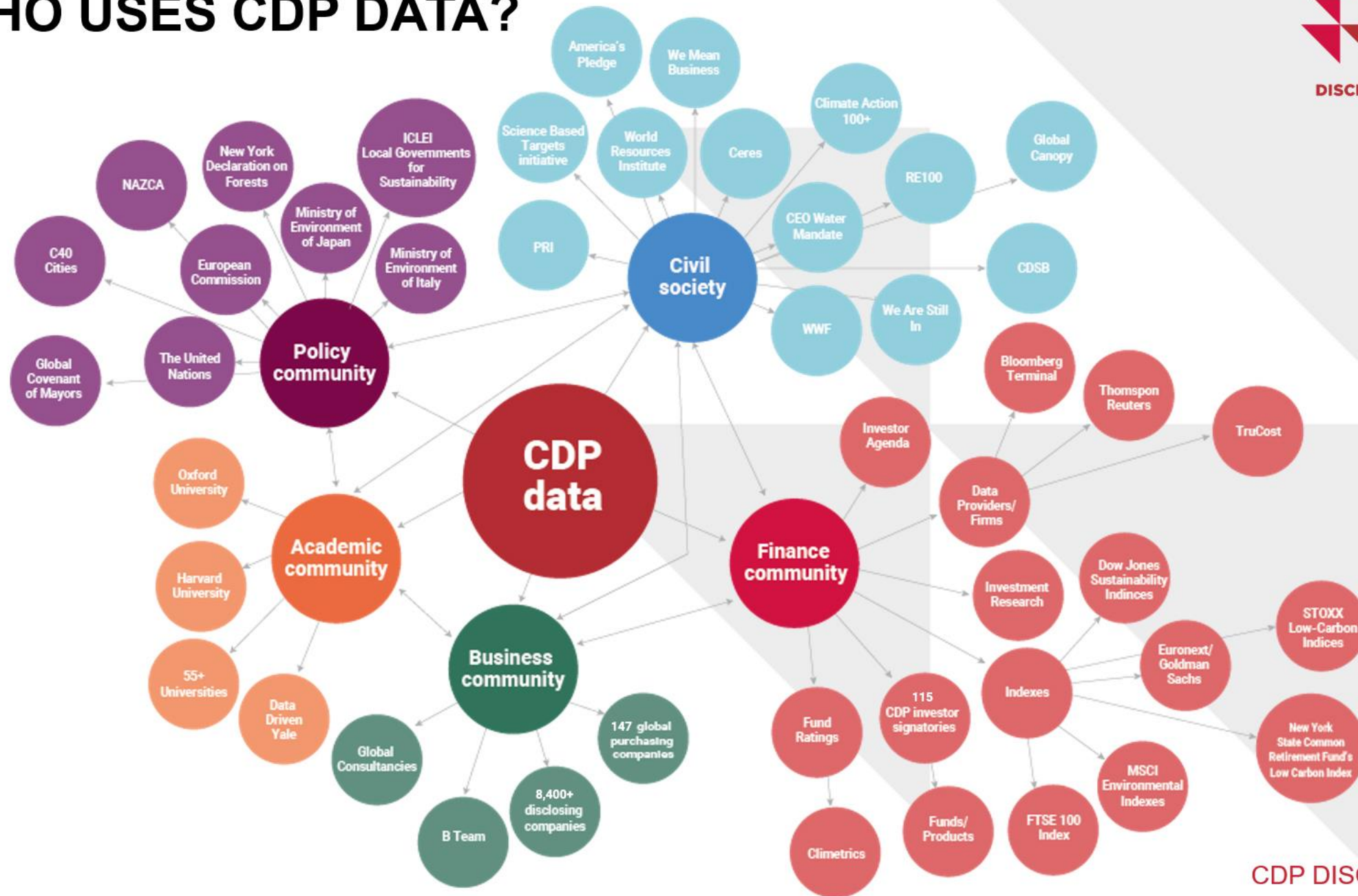
14% increase in 2020 despite the COVID-19 pandemic



2020 disclosure:

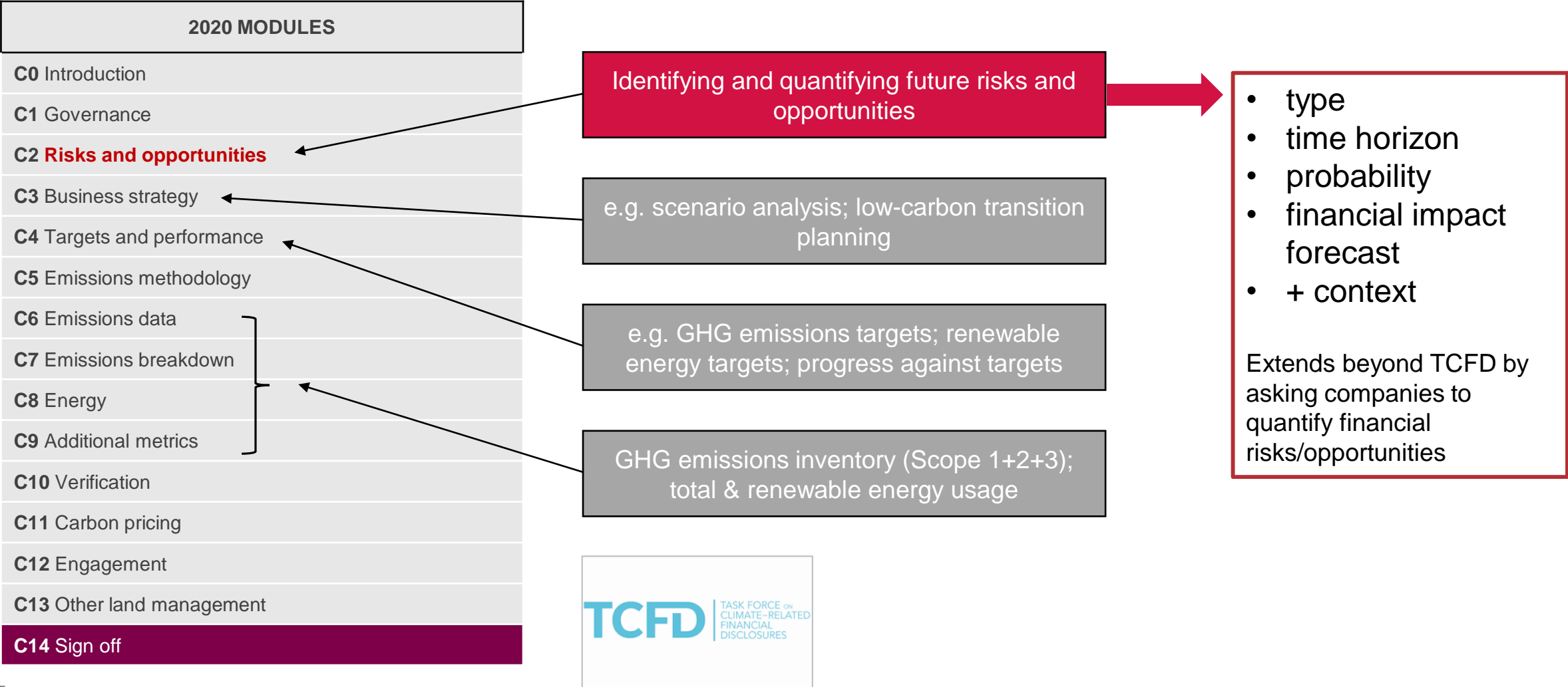
- Over **9,600 companies** representing more than 50% global market cap disclosed environmental data through CDP.
- a **14% increase** from 2019

WHO USES CDP DATA?



Questionnaire structure – Climate change

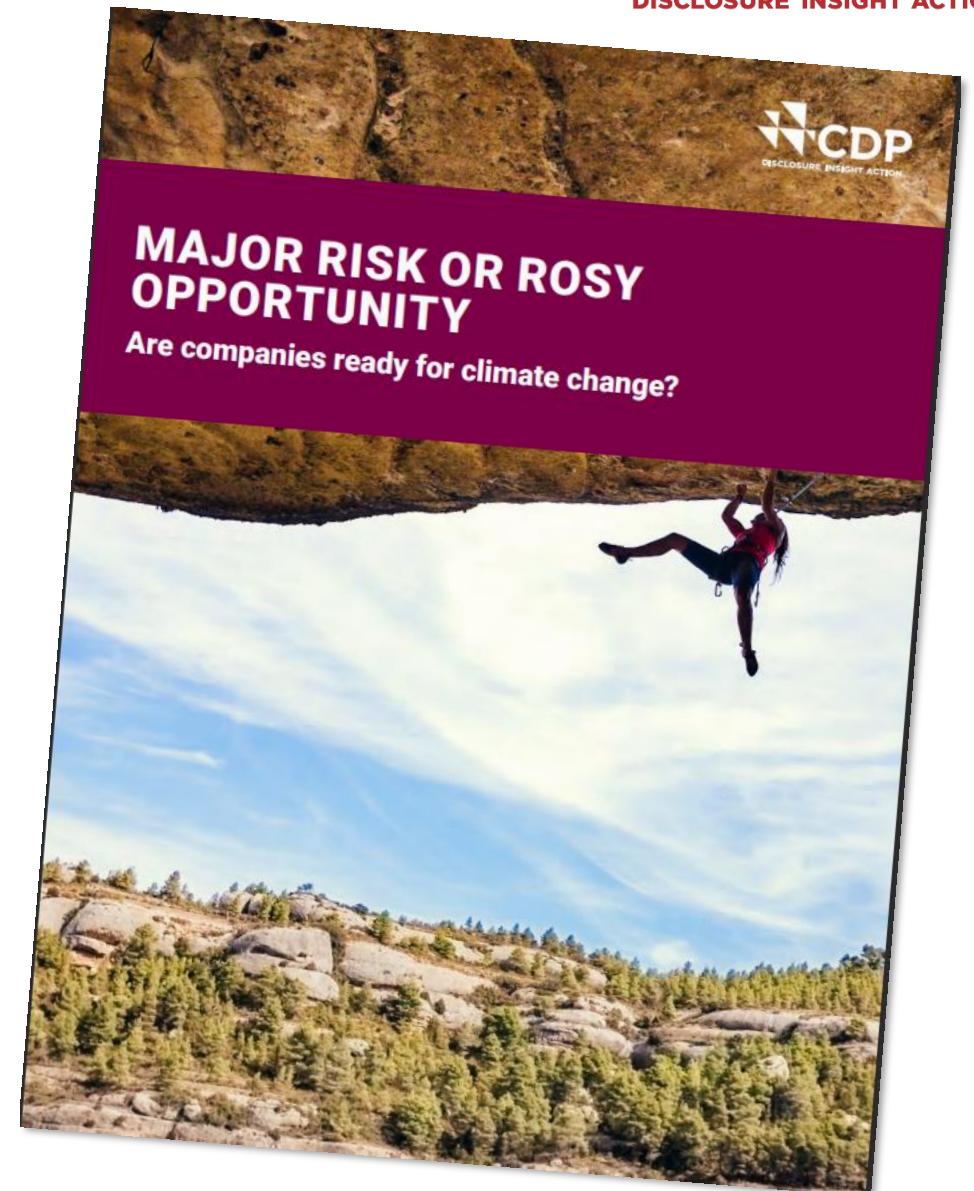
We collect both quantitative and qualitative climate information



Analysis of risks and opportunities disclosure

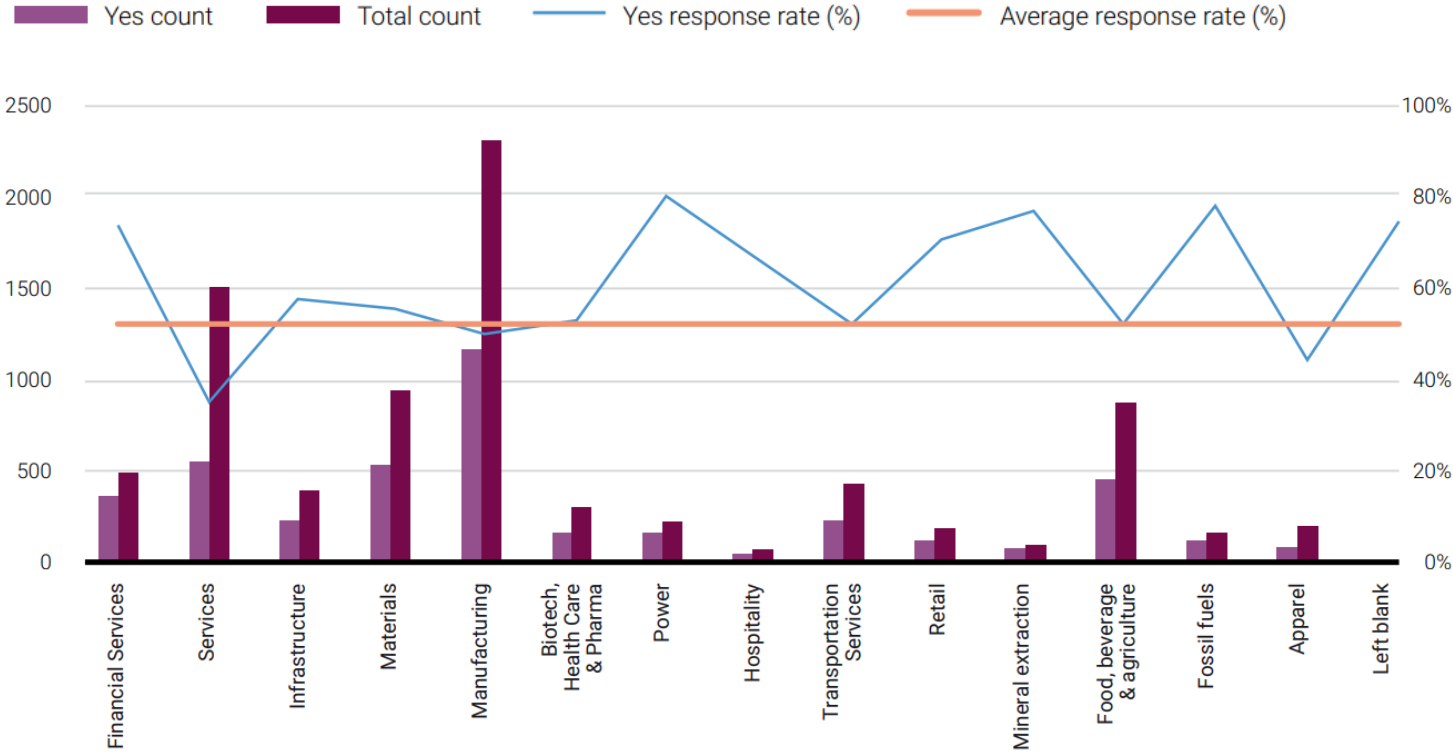
First insights into financial risk disclosure (2018)

- ▶ >6700 companies analysed for their response on risks & opportunities linked to climate change
- ▶ Largest 500 companies analysed separately
- ▶ About half of all companies disclosing to CDP in 2018 identified risks and opportunities which could have a **substantive impact** on their business.
- ▶ 32% reported that they **did not identify** either risks or opportunities.



Financial risk disclosure in numbers

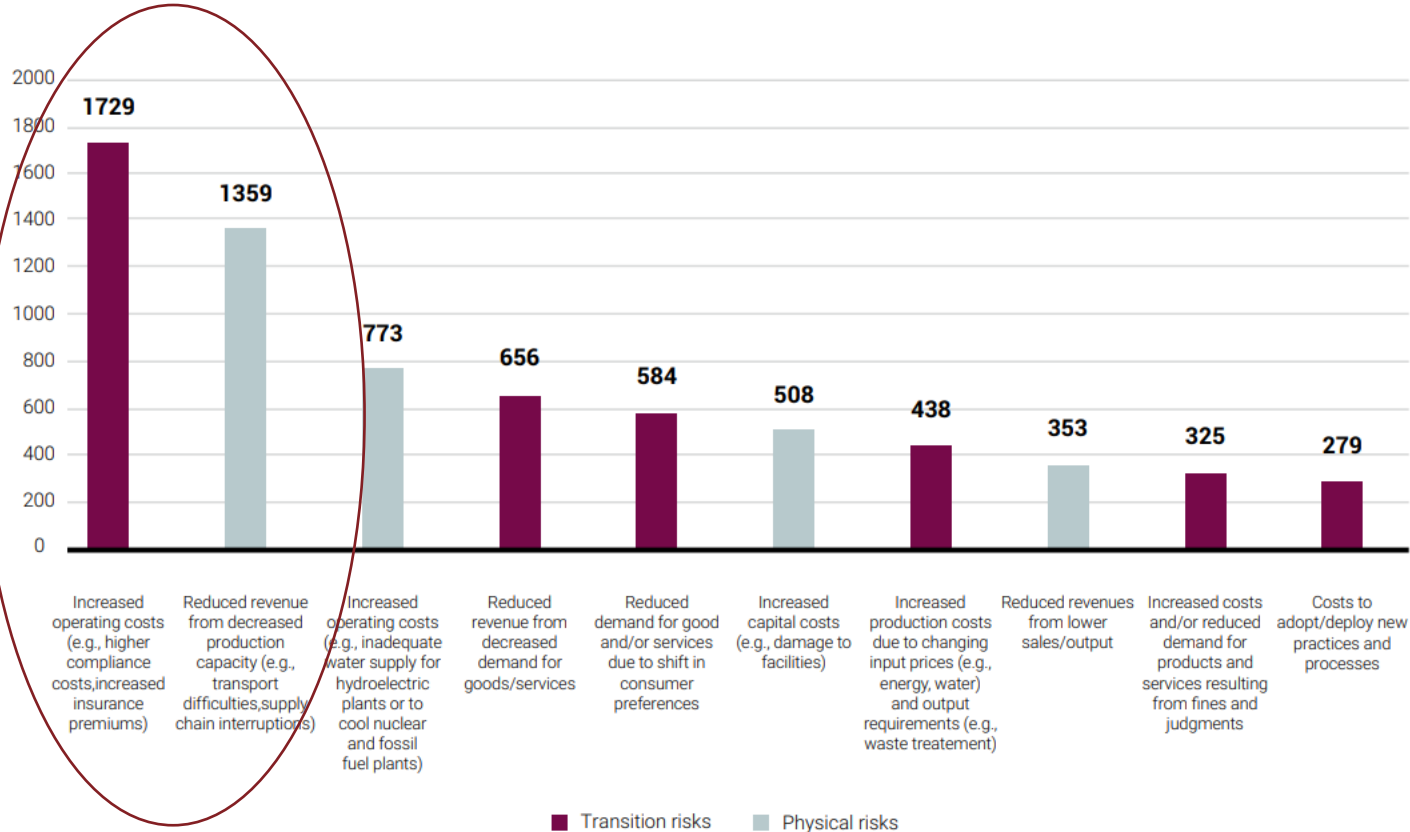
Companies reporting material risks (full sample)



- 53% of companies reporting to CDP identify inherent climate-related risks with the potential to have a **substantive** financial or strategic impact on their business
- Companies in the power, retail, mineral extraction and fossil fuels industries have much higher proportion of companies identifying substantive risks, at nearly **80%**.
- Less than half of the companies operating in the **apparel and services** industries reported risks that could have a substantive impact.
- Almost double the number of transition risks versus **physical risks** being reported overall.

Financial risk disclosure in numbers

Top 10 reported financial impact drivers – company count



Excursion: Stranded asset risk

134 companies identify the potential for “write-offs and early retirement of existing assets (e.g., damage to property and assets in “high-risk” locations)” due to *physical risks*

168 identify the potential “write-offs, asset impairment, and early retirement of existing assets” due to *policy changes*.

The majority of these companies are in the financial services, manufacturing, power, services, materials and infrastructure industries.

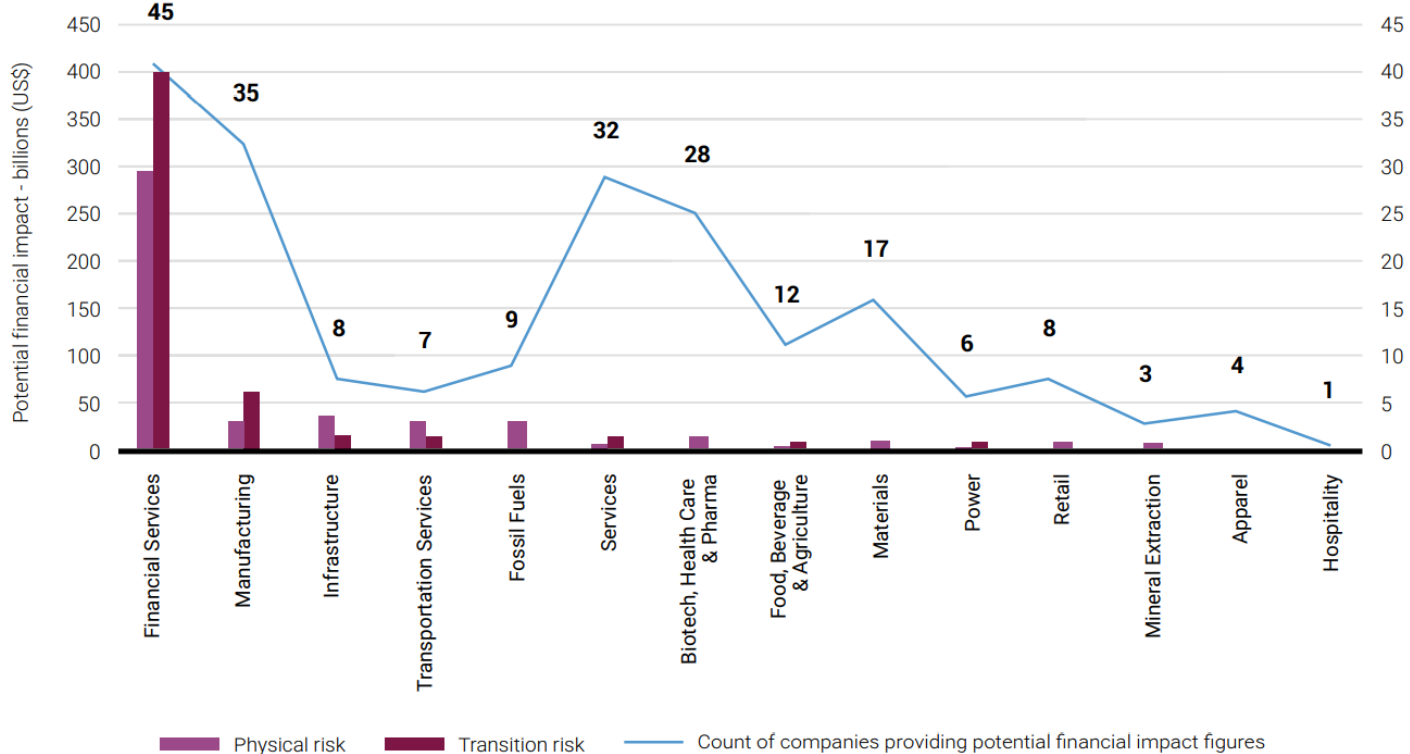
Only eight fossil fuel companies disclosed potential financial impact drivers associated with stranded assets (five transitional, three physical impacts)

In the world’s 500 largest companies, the amount reported to CDP which are linked to stranded assets totals US\$252 billion.

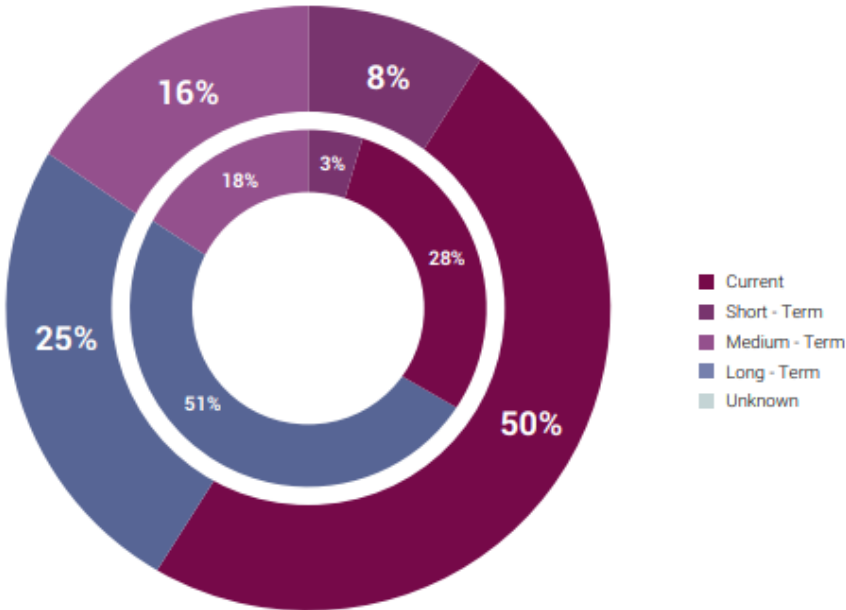
Financial impact & time horizon of risks (G500)



Impact by industry and risk type



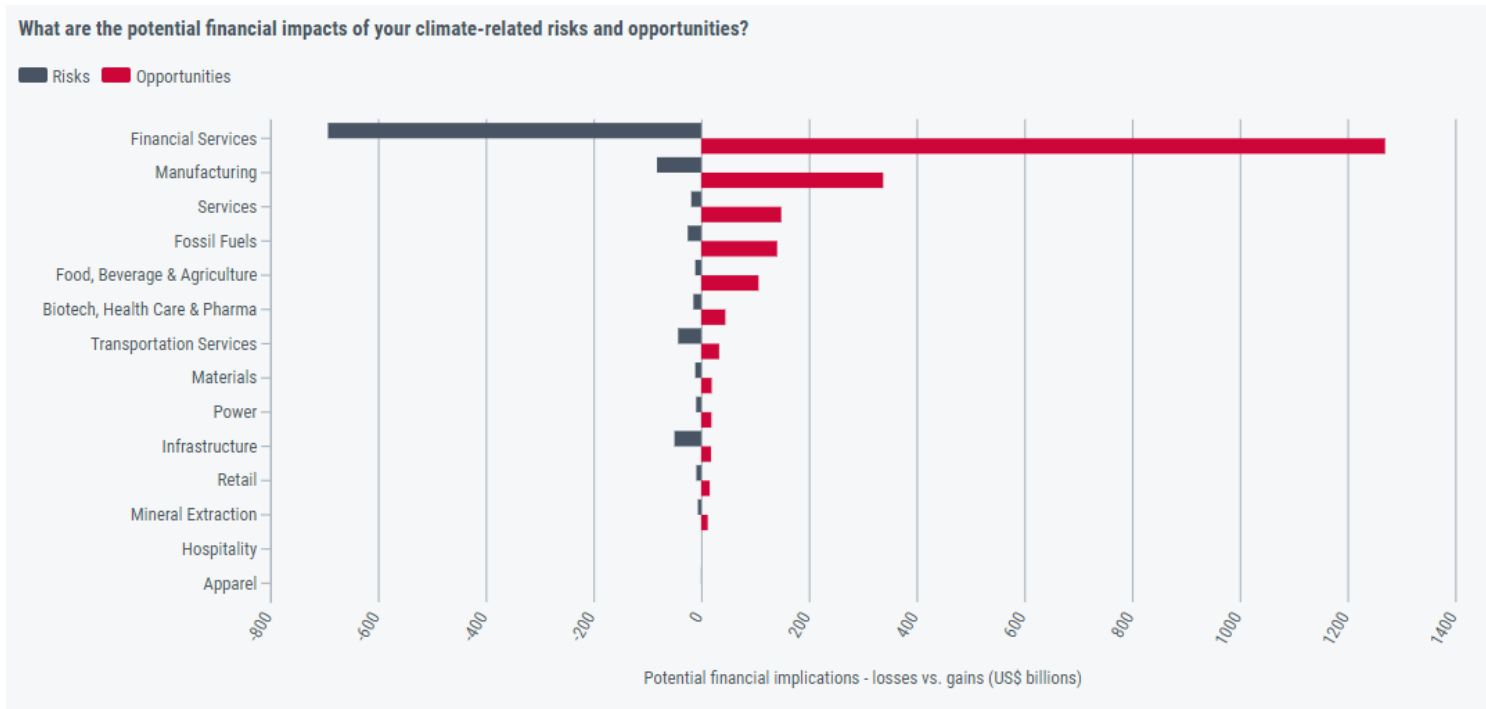
By time horizon and risk type



Outer pie = transition risks
 Inner pie = physical risks

Risk versus opportunity reporting

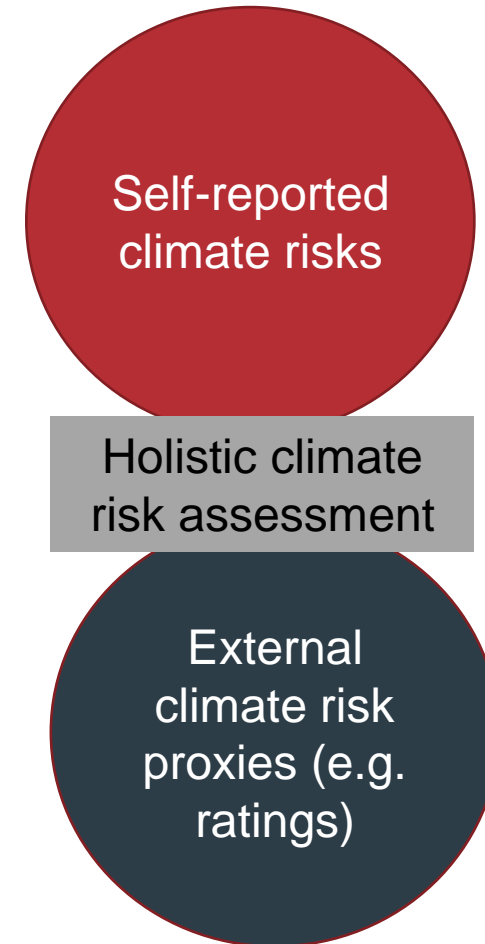
A lack of balanced disclosure



- ▶ Companies may have the tendency to report much higher financial opportunities than risks from climate change.
- ▶ Investors and users of self-reported risk disclosure data should be aware of this tendency.
- ▶ Unbalanced risk and opportunity disclosure may be an opportunity for corporate engagement by investors.

Summary thoughts on financial risk disclosure

- ▼ CDP collects **self-reported, primary climate risk data** from companies
- ▼ Many companies seem **willing to disclose material financial risk information**
- ▼ The data are **granular**, including on risk type, time horizon, probability, magnitude
- ▼ **CDP Investor Signatories have free* access**
- ▼ Data users be aware that **risk reporting in its infancy**, no standardisation in methods
- ▼ Data users be aware of **unbalanced reporting**

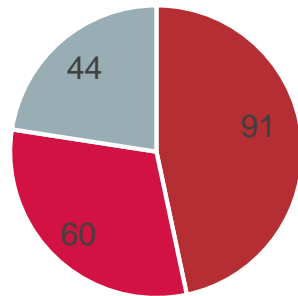


2020 risk disclosure - Italy

Risk disclosure stats for 59 Italian companies

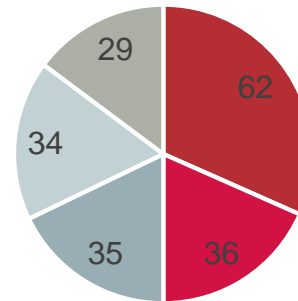


Time horizon of all reported risks (n = 195)



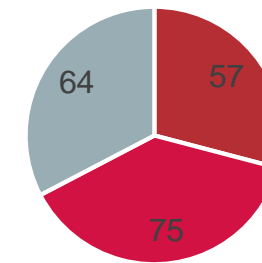
■ Medium-term ■ Short-term ■ Long-term

Expected magnitude of all reported risks



■ Medium ■ Low
■ Medium-high ■ High
■ Medium-low

Ability to quantify reported risks



■ No, we do not have this figure
■ Yes, a single figure estimate
■ Yes, an estimated range

Likelihood of risk materialising	Number of risks reported
Likely	54
More likely than not	34
About as likely as not	32
Unlikely	26
Very likely	23
Virtually certain	9
Unknown	7
Very unlikely	6
Exceptionally unlikely	4

Total estimated financial impact from climate change risks: **€18,2 billion**

Source: CDP