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HKMA Workshop on Measuring Portfolio GHG Emissions:

Navigating Financed Emissions on the Road to Net Zero Transition

November 8th, 2023

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AGENDA

- CDP Introduction
- The net zero journey
- Portfolio emissions

CDP INTRODUCTION

CDP - Global Disclosure System:

Implementing environmental best practice at scale globally

CDP

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- Mission driven environmental non-profit
- Drives efforts towards a net zero, nature-positive economy
- Maintains the world's most comprehensive database of environmental data
- Converges frameworks, standards, and laws for comparable disclosure and data

746+

Investors requested thousands of companies to disclose to them through CDP in 2022

340+

Buyers asked their suppliers to disclose through CDP

23,000+

Companies worth over 66% of global market capitalisation disclosed through CDP in 2023

How CDP works?

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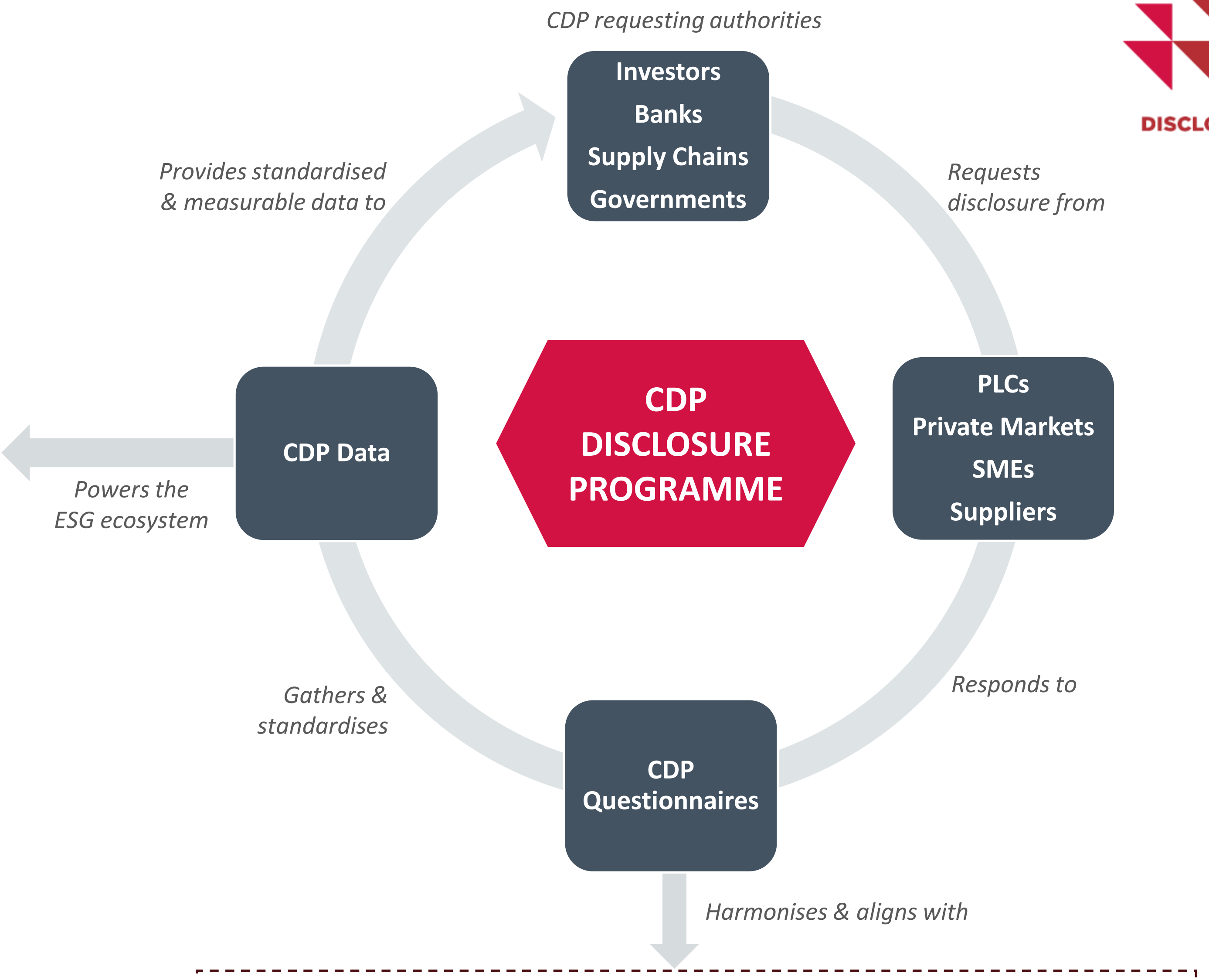
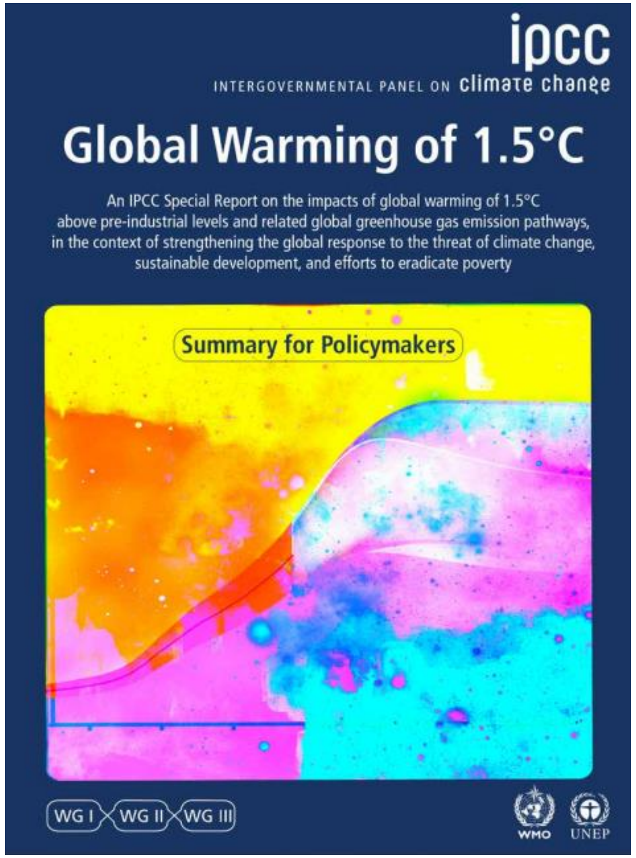


THE NET ZERO JOURNEY

What is net zero and why is it important?

What is net zero?

Net zero refers to a state by which greenhouse gasses going into the atmosphere are reduced as closed to zero as possible and any residual emissions are balanced by permanent removals from the atmosphere (e.g. by forests and oceans) by 2050.[1]



Why is net zero important?

- Limiting global temperature increase to 1.5C is crucial to avoid severe climate impacts
- Earth is already 1.1C warmer than pre-industrial levels, with rising emissions
- To achieve the Paris Agreement's 1.5C target, emissions must be reduced by 45% by 2030 and reach net zero by 2050, as stated by IPCC in 2018

1 (Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions, UN High-Level Expert Group on Net Zero Emissions Commitments of Non-State Entities)

Gap in net zero transition for financial services sector

- **Governance:** 68% of FIs have at least one board member with competence for climate-related issues
- **Strategy:** 59% of FIs have a policy framework which includes climate-related requirements that their clients/investees need to meet
- **Targets:** 29% FIs have set portfolio targets for climate change, and only 11% of those setting portfolio targets are committed to or have secured validation from SBTi

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FIs from
52+ countries
disclosed in 2022, and between them, they undertake multiple financial activities.

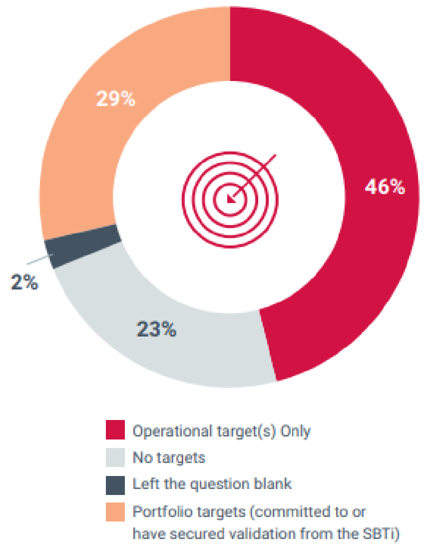
270 FIs undertake banking

148 FIs conduct insurance underwriting

208 FIs invest as asset owners

259 FIs invest as asset managers

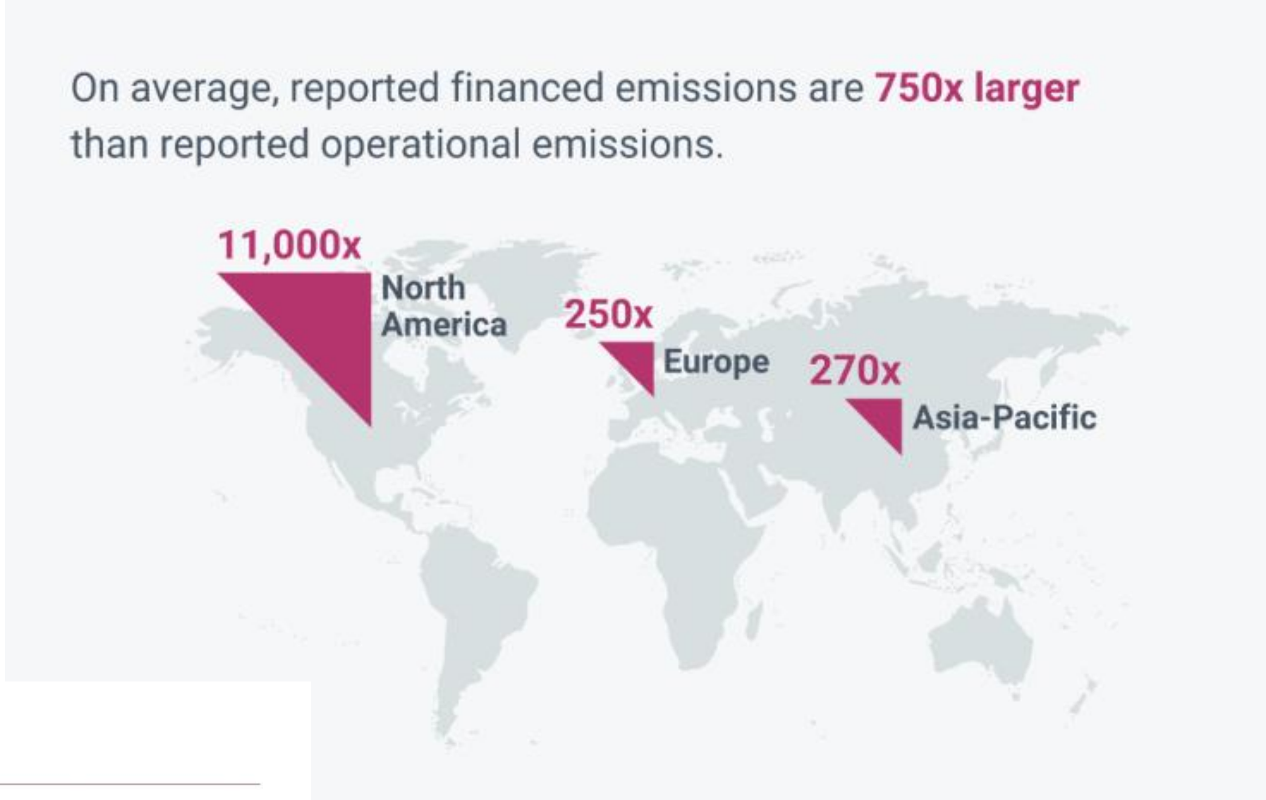
Figure 8: Did you have an emissions target that was active in the reporting year?



PORTFOLIO EMISSIONS

Net zero transition begins with managing financed emissions

Measuring and disclosing emissions associated with financial activities is an important first step for FIs in managing risks and identifying opportunities in their net zero transition.



The transition roadmap and elements

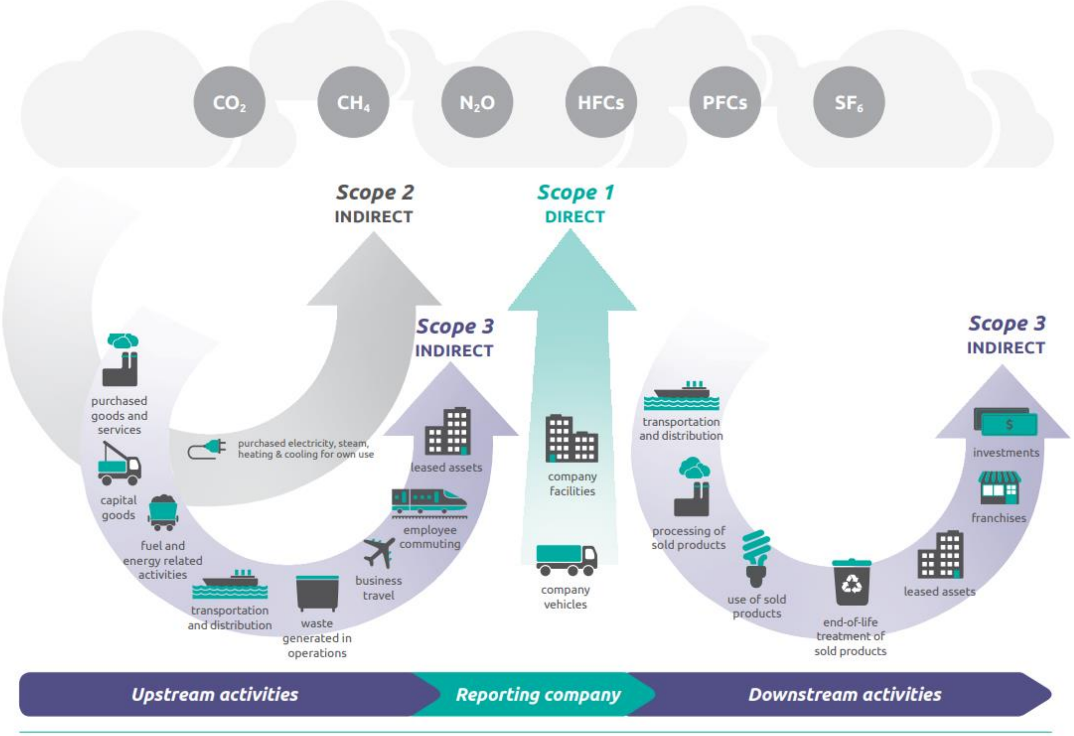
CDP's system will move the emphasis of our work up this spectrum for climate and then move the journey forward for nature.

What are portfolio emissions?

- **Portfolio emissions**: Greenhouse Gas Emissions (GHG) associated with a financial institution's portfolio through their lending, investment and underwriting activities (measured in tons CO2e)
  - Also known as *financed emissions*

- The GHG Protocol classifies portfolio emissions in Scope 3 Category 15: Investments

- Lack of globally accepted standard for measuring emissions related to (re)insurance underwriting portfolios
  - PCAF distinguishes between “financed emissions” and “insurance-associated emissions”



Why is measuring portfolio emissions important?

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- Increasing regulatory requirements
  - IFRS S2 includes reporting requirement on financed emissions
- Risk management and value creation
  - Assessing vulnerabilities and potential financial impacts
- Stakeholder expectations and reputation protection
  - Accountability and transparency

66%

Of FIs measure their portfolio impacts in 2022

What are the challenges?

Methodology challenge

- Lack of standardisation and global standard
- Unfamiliar with methodology
- Emergence of PCAF

Data challenge

- Limited data availability & inconsistencies
- Complex portfolio & different asset classes
- Proxy data to self-reported data

79%

of the FIs disclosing financed emissions through CDP referenced PCAF as their chosen methodology.

Thank You

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