CDP INSIGHT NOTE - CDP Data Use by Capital Markets

CDP sits at the heart of the capital market response to environmental risks. One disclosure through CDP reaches hundreds of financial institutions and our data powers a wide range of financial products, indices and ratings throughout global capital markets. Examples can be found to the right and in the following pages of this brochure.

Why financial institutions choose CDP

- We are aligned with the most up-to-date standards and scientific requirements — including the Task Force on Climate-related Financial Disclosures (TCFD).
- We provide comprehensive data sets, going far beyond what companies generally disclose in annual reports.
- We provide our data in a standardized bulk format, useful for investors doing their own analysis, developing indicators and ESG scores, or prioritizing companies for engagement.
- Our data on corporate emissions targets, trajectories and transition metrics supports portfolio alignment with emerging standards and frameworks such as the SBTI Finance Framework or other GFANZ frameworks such as NZAOA Target Setting or the IIGCC Net Zero Investment Framework.

Why this is material for companies

- The inclusion in sustainable products is often linked to a company’s disclosure status and the underlying data, with non-disclosing companies excluded categorically.
- Firms disclosing to CDP rank above average in their ability to access capital (See 2019 Millani research note).

Data use examples by stakeholder type

Investors & banks

- Environmental risk management
- ESG internal rating
- Corporate engagement prioritization
- Target setting & net-zero (e.g., 1, 2, 3)
- Investment fund creation (e.g., 1, 2)
- Reporting and disclosure (e.g., 1, 2)
- Stress testing for banks (e.g., 1)
- Sustainability-linked finance (e.g., 1, 2)

Stock exchanges

- Index construction (e.g., 1, 2, 3, 4)

Other data users and applications

- Climate initiatives – data support (e.g., 1, 2, 3, 4)
- Consulting firms – ESG advisory, report writing (e.g., 1, 2, 3)
- Fintech startups – carbon accounting (e.g., 1)
- Financial news platforms (e.g., 1)
- Fund platforms (e.g., 1, 2)
- Insurance companies – deforestation policy (e.g., 1), underwriting and alignment with environmental initiatives (e.g., 1)
- Endowments and foundations – climate risk analysis (e.g., 1)

745+ financial institutions with US$136 trillion in assets request and access CDP data on climate change, forests or water security.
The EURO STOXX Low Carbon indices are a series of products developed by Qontigo to track the risk and return profile of a range of broad stock market indices while facilitating an overall reduction in portfolio emissions. Composition of the indices is determined by adjusting the market-cap weighting of the included companies based on their respective carbon intensities, overweighting low-emitters and underweighting high-emitters. The CDP Climate Change questionnaire – and disclosed Scope 1 (direct) and scope 2 (indirect) emissions data in particular – provide the basis for this analysis and weighting.

Other Qontigo products that utilize CDP data are the "Climate Change Leaders" indices, where only CDP "A List" companies are included.

Examples of other indices using CDP data:
- Invesco Global Climate Alignment Index
- Euronext CDP Environment World
- Euronext CDP Water Eurozone Index

**CPR Invest – Climate Action Fund (Amundi)**

This fund was developed out of a 2019 joint project between CDP and Amundi, the goal of which was to create an investment fund which aligns with the United Nations Sustainable Development Goal 13 – taking urgent action to combat climate change and its impacts.

Emphasis is placed on the inclusion of firms most committed to the energy and environmental transition. Data and scores from the CDP Climate Change questionnaire form the basis for analysis and stock selection, as firms with higher CDP scores are prioritized for inclusion and firms with the worst scores on climate are excluded entirely.

Examples of other indices using CDP data:
- Aviva Investors Climate Transition European Equity Fund

**Climetrics – the climate rating for funds**

Climetrics is a climate rating that evaluates the extent to which individual investment funds support the transition to a lower carbon, climate-resilient economy. It independently rates thousands of actively managed funds and ETFs and its ratings are free-to-search, providing investors with transparency on environmental risks when comparing funds.

Scoring for Climetrics is based on the evaluated environmental impact of the respective funds, with regard to their portfolio holdings, investment policy, and governance. Underlying data analysis draws on climate change, water security and forests metrics from a range of sources including CDP disclosure data and scores, as well as CDP temperature ratings. The result is an overall score of 1-5 for each fund, which are evaluated in their performance compared to other scored funds.

Examples of other indices using CDP data:
- LGIM’s Climate Impact Pledge Dashboard

Produced by the CDP Reporter Services program

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The importance of water security and forest commodity risks has also not gone overlooked by capital markets – and for good reason. A full 69% of public companies reporting though the CDP Water Security questionnaire state that they are exposed to substantive water-related risks. Only 27% of companies disclosing through the CDP Forests questionnaire perform a comprehensive forest-related risk assessment. Now with new regulations such as the EU’s deforestation-free products initiative coming into place, the materiality of environmental risk for business is greater than ever. Some examples of CDP data use in water and forest commodity risk assessment can be found below.

Norges Bank Investment Management (NBIM)

As a manager of one of the world’s largest sovereign wealth funds, NBIM is well aware of the business risks of pollution and unsustainable water use. Already in 2009, their interest in improving the availability of corporate data led to their support in developing CDP’s water disclosure program.

Now, with a strong base of data available through CDP, NBIM uses corporate disclosure data to drive long-term returns by evaluating companies on their respective water risk exposure, management and performance. Focus is placed in this analysis on those companies with operations or value chains in sectors or regions associated with high water-related risks.

Read more on NBIM’s water management strategy and expectations for companies here.

Examples of other indices using CDP data:
Euronext CDP Water Eurozone Index

Dutch National Bank (DNB)

Dutch National Bank (DNB) uses disclosure data from the CDP Forests questionnaire to identify financial sector exposure to forest and biodiversity-related risks. This includes:

- **Physical risks**, for example the dependence on ecosystem services such as animal pollination;
- **Transitional risks**, such as the effect of new polices and agreements incentivizing sustainable business practices; and
- **Reputational risks**, relating for example to changing consumer awareness and demand for sustainable products.

Based on this analysis, DNB classifies companies into four risk categories:

**Category 1**: Companies that likely have risky products or activities in their production or value chain, but not report on these to CDP (highest risk).

**Category 2**: Companies that report on these to CDP but not want the information to be made public.

**Category 3**: Companies that report publicly but do not sufficiently address deforestation risks.

**Category 4**: Companies with risky products or activities in their production and value chains, but that take measures to address deforestation risk (managed reputational risk).

For further info on how Dutch banks are addressing forest and biodiversity-related risks, see the 2020 DNB report ‘Indebted to Nature’.

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