

# PROGRESS REPORT OF THE UK-CHINA PILOT STUDY GROUP TO MITIGATE CLIMATE RISK THROUGH LEARNING ON TCFD-ALIGNED DISCLOSURE

CDP  
UK PACT China Programme



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# ABOUT THE UK PACT CHINA PROGRAMME

United Kingdom Partnering for Accelerated Climate Transitions (UK PACT) is a programme funded by the United Kingdom (UK) Government. UK PACT supports countries that strive to overcome barriers to clean growth and have high emissions reduction potential to accelerate their climate change mitigation efforts.

China's leaders recognize that green finance is essential to meet China's climate ambitions. Through its International Climate Finance portfolio, the UK government is committed to working with China to cut emissions and achieve a more sustainable future. Benefitting from an increasingly receptive political space, UK PACT looks for opportunities to align green finance and Environmental, Social and Governance (ESG) standards with international standards.

The UK PACT China programme is aligned with the Chinese government and seeks to further China's green financial markets by focusing on the following areas:

- ▼ **Harmonization:** aligning Chinese and international green finance taxonomies.
- ▼ **Transparency:** through disclosure of climate-related financial risks and ESG uptake.
- ▼ **Innovation:** developing innovative green financial products and services.
- ▼ **Capacity building: domestically,** accelerating implementation of national green finance policies at local levels, and **internationally,** for Chinese financial institutions (FIs) using green investment tools and approaches.

As a global disclosure platform, CDP is well placed to implement this project. The consortium aims to support the policy makers in formulating international-standard-aligned regulations in China, building up the capacity of disclosure for Chinese listed companies and FIs; and producing communication mechanisms and knowledge products to facilitate the adoption of gold standards of disclosure. Together with local partners in the consortium, CDP set up bilateral meetings and pilot working groups, organized workshops and virtual roundtables, and conducted research to achieve the projects goals.



# WHY FOCUS ON TCFD?

Financial markets need clear, comprehensive, high-quality information on the impacts of climate change. This includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies. The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information.

In 2017, TCFD released its recommendations, providing a global framework for companies and other organizations

to develop more effective climate-related financial disclosure through their existing reporting processes. TCFD structured its 11 recommendations around four thematic areas that represent the core elements of how organizations operate. The four overarching recommendations are supported by key climate-related financial disclosures that build out the framework with information that will help investors and others understand how reporting organizations think about and assess climate-related risks and opportunities. See **Figure 1**.

**Figure 1 | TCFD recommendations and supporting recommended disclosures**

 <b>Governance</b>	 <b>Strategy</b>	 <b>Risk Management</b>	 <b>Metrics and Targets</b>
<p><b>Disclose the company's governance around climate-related risks and opportunities.</b></p>	<p><b>Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.</b></p>	<p><b>Disclose how the company identifies, assesses and manages climate-related risks.</b></p>	<p><b>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</b></p>
<p>a) Describe the board's oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the company has identified over the short, medium and long term.</p>	<p>a) Describe the company's processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management's role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the company's businesses, strategy and financial planning.</p>	<p>b) Describe the company's processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the company's overall risk management.</p>	<p>c) Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets.</p>

**2,600**  
TCFD  
supporters  
globally

As of October 6, 2021, TCFD had over 2,600 supporters globally, including 1,069 FIs, responsible for assets of \$194 trillion. Additionally, CDP has seen a significant increase in the number of TCFD supporters in China during 2021, in the context of China's national carbon neutrality targets. As of December 22, 2021, there were 36 Chinese organizations signed up to support TCFD, among which 26 joined in 2021.

**1,069**  
Financial  
institutions  
supporting  
TCFD

As support from the private sector has grown, governments around the world have begun to codify aspects of the TCFD recommendations into policy and regulation, using TCFD's work as a foundation for climate-related reporting requirements. In addition to the support of dozens of regulators and supervisors; Brazil, the European Union (EU), Hong Kong, Japan, New Zealand, Singapore, Switzerland and the UK have announced requirements for domestic organizations to report in alignment with the TCFD recommendations.

Responsible  
for assets of  
**\$194**  
trillion

In China, the national goal of carbon neutrality by 2060 has called for more climate action from policy makers, regulators, FIs and corporates. In July 2021, the People's Bank of China launched the **'Guidelines for Financial Institutions Environmental Information Disclosure'** (金融机构环境信息披露指南), which has a similar framework to TCFD recommendations, to provide FIs with instructions and suggestions for disclosure principles, format, frequency and contents.

**36**  
Chinese  
organizations  
signed up to  
support TCFD

TCFD provides a clear and complete framework for both FIs and corporates to disclose their environmental information. Chinese FIs and corporates can make use of TCFD recommendations in response to national regulations.

**26**  
Chinese  
organizations  
joined in 2021



# UK-CHINA PILOT GROUP STUDY ON TCFD

In response to UK PACT's focuses, especially **transparency** and **capacity building**, CDP established a UK-China pilot group in September 2021, providing a communication platform to exchange ideas about TCFD-aligned disclosure and learn about advanced practices among participants. The goal of this pilot group is convening stakeholders in environmental high impact industries to leverage learning and grow international dialogues towards quality disclosure aligned to TCFD and international standards.

Three UK companies and six Chinese companies took part in two webinars under this TCFD-themed pilot group study in October and December 2021. Representatives from financial services (FS) and information and communications technology (ICT) sectors shared their advanced experience in adopting and implementing TCFD recommendations, while Chinese participants exchanged ideas and questions about TCFD-aligned disclosure. See the participant list in **Figure 2**.

**Figure 2 | Participants of the UK-China pilot group on TCFD-aligned disclosure**

Company Name	Sector	Country
Standard Chartered (SC)	FS	UK
Fidelity International (Fidelity)	FS	UK
BT Group (BT)	ICT	UK
Bank of China (BoC)	FS	China
Postal Savings Bank of China (PSBC)	FS	China
Hua Xia Bank (HXB)	FS	China
Industrial Bank (IB)	FS	China
Xiaomi	ICT	China
ZTE	ICT	China

Additionally, six members of the pilot group have disclosed their environmental information through CDP in 2021: Standard Chartered, Fidelity International, BT Group, Postal Savings Bank of China, Xiaomi and ZTE.

# SHARING FROM UK PARTICIPANTS

Many UK companies have already adopted the TCFD framework to disclose their environmental information, while most Chinese FIs and corporates are still exploring their way to a greener future in response to the national carbon neutrality goal. From sharing sessions in the two webinars, participants gained understandings of best practice in TCFD-aligned disclosure from the perspective of FIs, investors and corporates.

- ▼ As a financial institution, **Standard Chartered** was one of the first companies to become supporters of the TCFD recommendations. It has released a dedicated TCFD report for three consecutive years, since 2019. In the latest report, Standard Chartered not only covers the four pillars of TCFD disclosure recommendations, but also elaborates on the toolkit used to manage the climate-related risks in its portfolio. In terms of governance, it incorporates climate-related performance into the incentive structure of executive directors and relevant teams' compensation. It aims to provide more financing to sustainability-related areas, reduce direct and financed emissions, as well as effectively manage the financial risks associated with climate change in formulating its strategies. Standard Chartered has embedded climate risks as a material cross-cutting risk since 2020, and takes credit risk, operational risk, country risk, reputational risk, compliance risk, etc, into consideration in the overall risk management framework. It also outsources tools, expertise and data from external experts such as Munich Re, Baringa and S&P Trucost in assessing the physical and transition risks as a financial institution. Lastly, Standard Chartered discloses specific metrics, targets and progress statuses in reducing Scope 1 and 2 emissions and financed emissions in certain high-impact industries, as well as those accelerating sustainable finance.
- ▼ In the investors' opinion, **Fidelity International** indicated that most large asset managers around the world have joined the Net Zero Asset Managers Initiative, which requires annual reporting on progress against net-zero objectives via the TCFD or other reporting mechanisms. Therefore, they are likely to assess investees' environmental performance, such as decarbonization goals, net-zero commitments, and GHG emissions, from corporate annual reports or TCFD-aligned reports. It is important for these investees to disclose environmental information on an annual basis and under a widely recognized framework, so that their environmental information is comparable for investors.
- ▼ From the corporate perspective, **BT Group** has advanced their reporting in line with TCFD recommendations, fully including the four thematic areas: Governance, Strategy, Risk Management, Metrics and Targets. Their robust management system has helped them mitigate risks and drive down the environmental footprint of their operations. Additionally, clearly structured environmental disclosure under the TCFD framework has helped BT earn a continuous A-score for the CDP climate change questionnaire since 2016.

# LEARNINGS FOR CHINESE PARTICIPANTS

Chinese companies' awareness and understanding of environmental information transparency has been gradually improving in recent years, especially after the announcement of national carbon neutrality goals. Disclosure might be an ideal beginning for Chinese companies before setting carbon-related targets. In fact, three Chinese FIs (i.e., BoC, PSBC, HXB) in the pilot group have been TCFD supporters since 2021, while three Chinese participants (i.e., PSBC, Xiaomi, ZTE) disclosed their climate-related information through CDP's questionnaires in 2021. As mentioned above, TCFD provides a clear and complete framework for both FIs and corporates to disclose their climate-related information. Chinese FIs and corporates can refer to TCFD recommendations in response to national regulations on environmental disclosure.

- ▼ For Chinese FIs, the most challenging areas of implementation might relate to TCFD recommendations on **strategy** and **metrics and targets**. Due to the business type, usually FIs are not directly or immediately influenced by climate change in their daily operations. However, climate-related risks and opportunities exist in their portfolios, which cannot be easily identified and measured. As a starting point for TCFD-aligned environmental disclosure, Chinese FIs should readjust their portfolios, and identify assets exposed to climate-related risks and opportunities. The clarified range of portfolios makes it possible to calculate the related metrics and targets. After this is established, it will become easier to decide on **governance** and **risk management**.
- ▼ For ICT companies, it might be complicated to manage climate-related risks and opportunities in their supply chains (**risk management**) due to the large number of suppliers. Concerning the other three TCFD recommendations, they are difficult to manage, however it is feasible if the disclosure boundary is clear enough. It is highly recommended for corporates at the beginning to identify climate-related risks and opportunities existing in their value chain (**governance**), collecting information and data from operational sites and suppliers, as well as communicating with their stakeholders including investors, purchasers, or clients through disclosure.



# HOW CAN CDP HELP?

CDP is a not-for-profit that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The world's economy looks to CDP as the gold standard of environmental reporting with the richest and most comprehensive dataset on corporate and city action.

Since 2018, CDP's climate change questionnaire has been fully aligned with the TCFD recommendations. CDP provides a global platform for disclosing entities to collect and organize data and provides it in a structured form for the market. The data disclosed through the CDP platform provides the investment community with high-quality, consistent, comparable, TCFD-aligned data at scale. CDP's 2021 climate change questionnaire contains over 25 TCFD-aligned questions, which form the basis of the analysis above. These questions are contained within the **governance, risks and opportunities, strategy, targets and emissions** modules.

TCFD-aligned disclosure is recognized by more FIs than CDP around the world, while we have seen an average 10% annual increase in the number of FIs submitting through the CDP climate change questionnaire since 2018. It is the time to green finance. For more information, please contact CDP local teams or CDP's main office in London, UK.



## CDP CONTACTS

### Ling Zhu

Capital Markets Manager, CDP China  
ling.zhu@cdp.net

### Jinting Ma

Senior Project Officer, CDP China  
jinting.ma@cdp.net

### Ji Yeon Kim

Corporate Engagement Manager, CDP WW  
jijeon.kim@cdp.net

### Keenya Hofmaier

Corporate Engagement Officer, CDP WW  
keenya.hofmaier@cdp.net

### Percy Patrick

Grants and Compliance Officer, CDP WW  
percy.patrick@cdp.net

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### COLLEAGUES FROM UK PARTNERS:

Simon Connell, Standard Chartered  
Aela Cozic, Fidelity International  
Penny Guarnay, BT Group

### CHINESE PARTNERS:

Bank of China  
Postal Savings Bank of China  
Industrial Bank  
Huaxia Bank  
Xiaomi  
ZTE

### COLLEAGUES FROM CDP:

Keenya Hofmaier  
Ji Yeon Kim  
Percy Patrick  
Jinting Ma  
Ling Zhu

## CDP Worldwide

4th Floor  
60 Great Tower Street  
London EC3R 5AZ

Tel: +44 (0) 20 3818 3900  
www.cdp.net

## CDP 中国

北京市朝阳区  
建国路93号  
万达广场A座1902室

电话: +86 (0)10 5820 3150

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## 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 over 590 investors with \$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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