

4th Floor
60 Great Tower Street
London, EC3R 5AZ
+44 (0) 20 3818 3900

info@cdp.net
www.cdp.net

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The First Global Stocktake

Call for inputs from Parties and observer States, UN Agencies and other international organizations and non-Party Stakeholders and observer Organizations, to the first global stocktake

Submission by CDP

Executive Summary

Following the first Technical Dialogues, this submission is an update to CDP's previous submission to the first Global Stocktake. The Technical Dialogues demonstrated that there remain significant ambition and implementation gaps with regards to mitigation and finance, which necessitate urgent action. CDP therefore puts forth concrete policy recommendations and actions to be taken by both Parties and non-Party stakeholders under the following areas to inform the next technical dialogue:

1. The Global Stocktake Process

- Non-Party Stakeholder action should be integrated into the GST through Biennial Transparency Reports, alongside direct submissions to the GST.
- The GST must be a collective and coordinated endeavour, undertaken by a diverse range of non-Party Stakeholders (NPS). To achieve this, capacity building for both Parties and NPS is needed to ensure all actors understand the process and the value of engaging and are included in the process.
- The GST must also feed into local processes for more ambitious climate action.

2. Mitigation

- **Environmental disclosure policies** should have environmental integrity, be comprehensive, be aligned with existing standards, have an enforcement system, and allow space for innovation.
- **Transition plans** need to centre accountability; be internally coherent; be forward-looking; be time-bound and quantitative with short, medium, and long-term goals; be flexible and responsive; and be complete.

3. Finance

- CDP's key findings from the [Time to Green Finance](#) report and supplementary data from the 2021 disclosure cycle are presented to take stock of private finance, showing that **the finance sector must green finance, and become green.**
- To **shape a sustainable financial system**, policies should be implemented to make environmental factors integral to investment criteria and corporate governance as well as financial stability considerations, and align public finances and fiscal policies to support environmental sustainability.
- CDP's [Matchmaker](#) is an example of good practice in connecting non-state actors with finance to enable them to implement plans.

4. Regional Action and Implementation

- CDP Latin America is carrying out capacity building activities to increase the participation of actors in the region in the Global Stocktake, and we present here some key data points on Brazilian cities and states as a contribution to the GST process.



Pietro Bertazzi
Global Director, Policy Engagement and
External Affairs



Amir Sokolowski
Global Director, Climate Change

1. The Global Stocktake Process

Non-party stakeholders (NPS) are key to implementing the goals of the Paris Agreement, and their actions must be captured in the Global Stocktake through a clear process, to provide an accurate stocktake of global ambition. This process must be communicated effectively with non-state actors, providing capacity support where needed.

1.1. Solutions: Integrating Non-State Actors into an Inclusive Global Stocktake

In CDP's briefing [The Paris Agreement's Global Stocktake: Integrating Non-Party Stakeholders into an Inclusive Stocktake](#), the following recommendations are put forward for the stocktaking process, to better include NPS.

- 1. Non-Party Stakeholder action should be integrated into the GST through Biennial Transparency Reports, alongside direct submissions to the GST.**
 - Communication between Parties and NPS is vital for the ambition loop. NPS climate action should not be taken stock of through any parallel processes but should be integrated into the Paris Agreement.
 - The Paris Agreement recognizes the different capacities of developed and developing country Parties and the approach taken to include non-Party stakeholders should remain flexible to ensure as many are included as possible.
- 2. The GST must be a collective endeavour, undertaken by a diverse range of non-Party Stakeholders.**
 - This includes diversity in types of NPS as well as geographical diversity. To achieve this, the UNFCCC should use training and capacity building activities on the Enhanced Transparency Framework and Biennial Transparency Reports to encourage Parties to engage NPS in these processes. Capacity building for non-Party Stakeholders is also needed to ensure actors understand the process and the value of engaging.
- 3. The GST must also feed into local processes for more ambitious climate action.**
 - The scientific messages are clear. There is no time for delaying climate action. The GST should provide a common roadmap to both Parties and NPS for enhancing the implementation of climate actions, including an indication of pathways for reporting. The link between the GST and the NDCs' ambition progression should be clearly emphasized throughout the GST cycle. NPS should be specifically highlighted to ensure outputs are directly applicable, allowing them to update commitments in line with findings, raising the ambition of all actors.

2. Mitigation

The Global Stocktake should be driven by the need to accelerate global ambition. The next few years are critical to accelerate 1.5°C-aligned action, and CDP recognizes the urgency of increasing ambition to close this gap. As the first technical dialogues highlighted, despite the progress made, there remain significant mitigation and implementation gaps, and urgent policy action is required. CDP's recommendations for disclosure and transition plans are presented

here as examples of concrete actions to be taken by Parties and non-Party Stakeholders respectively.

2.1. Solutions: Standardized Disclosure

Disclosure of comparable and consistent environmental information is the foundation for transformative action. It can help accurately account for both risks and impacts of economic activities and in so doing, support the green transition. Such information helps stakeholders including investors, large buyers, policy actors, civil society and consumers make smarter decisions and increase their expectations of companies with respect to their environmental performance. This in turn compels non-state actors to act, fortifying the ambition loop dynamic.

The first technical dialogues highlighted the need for concrete actions that are relevant to policymakers, and recognized that all actors are needed, including the private sector and subnational governments. Therefore, CDP presents our [policy recommendations for environmental-related disclosure](#).

1. Aim at environmental integrity, addressing sustainability-related financial disclosures as well as impact on people and planet, with a holistic environmental approach.

- Policy should be designed to advance the environmental agenda and to lead to real change that positively impacts people and planet. It is not possible to tackle climate without a holistic approach to the environment. The Task Force on Climate-Related Financial Disclosures (TCFD) recommendations provide a good starting point for evaluating climate-related financial risks but the low-carbon transition requires a broader focus. Climate cannot be dealt with in isolation, and it is of utmost importance to address the nature crisis in conjunction, in order to achieve meaningful and lasting results.

2. Ensure compatibility of disclosure standards, and Paris Agreement reporting processes, including the Enhanced Transparency Framework and Global Stocktake.

- If not based on, policy needs to be aligned with existing internationally agreed standards. If national standards are developed, they need to be compatible with international standards. Policymakers should rely on existing standards and reporting practices, enter into dialogue with other jurisdictions to agree on a common baseline and raise ambition at the national level with their own requirements to align with their Paris Agreement commitments, scientific findings, including those provided by the latest IPCC reports, and 2030 SDG targets. CDP supports the ISSB Standards on Sustainability-related Financial Disclosure as a global baseline for sustainability reporting, while recognizing the need for complementing disclosure to include impact on people and planet and allow capital allocation towards the ambitious environmental agenda as per the Paris Agreement, the 2030 Sustainable Development Agenda and the upcoming Global Biodiversity Framework. In that direction, CDP welcomes other developments as well, such as the EFRAG and TNFD.

3. Provide an enforcement system.

- The policy implementation should be monitored by the relevant government authority, and effective measures for non-compliance should be in place. First and foremost, it is essential for policymakers to ensure that climate change is treated as intrinsically material at the company level and highlight that non-disclosure is not permitted under any circumstance. In addition, enforcement agencies' mandates should include environmental issues. These agencies should strive to build internal expertise in the specific topics covered by regulatory requirements, also by collaborating with external actors with a focus on environmental issues.

4. Adhere to technical quality and content of the reporting process.

- To meet this criterion, reporting should not only focus on risks but also strategy, impact, sector focus, comparability of disclosures, reliability, and accuracy. It should require forward-looking information to support the low-carbon transition. Companies should be required to fully integrate environmental factors at board level, both in terms of board composition and executive compensation. This would provide companies with the expertise at the top level to push for the development and disclosure of climate transition plans. These plans should include short-, medium- and long-term targets to ensure a response to climate change with the required urgency and scale. They should also include robust, quantitative and accredited science-based targets outlining how companies will transition to the 1.5°C-aligned business model, and shareholders should be given the opportunity to vote on them at companies' AGMs.

5. Promote, facilitate and incentivise space for innovation and more mature disclosure.

- The regulation should not form a ceiling and create a tick box exercise but serve as a floor/minimum requirement that stimulates even more ambitious, broader, and deeper disclosure and action. As other regulatory and policy regimes continue to develop, other frameworks, such as the Taskforce on Nature-related Financial Disclosures (TNFD) can guide the expansion into other areas and further create a pathway into corporate reporting. CDP has been at the forefront of this movement, leveraging its fully TCFD-aligned questionnaire to build upon the TCFD recommendations, both in terms of scope (beyond climate, into forests and water and soon even further), and of kind of data gathered (focusing on impacts in addition to risks and opportunities).

2.2. Solutions: Transition Plans

Transition plans have emerged as a key tool to demonstrate that organizations are aligning with ambitious long-term climate goals, and that their business models will transition, in order to be relevant in a net-zero carbon economy. In March 2022, CDP released [Are Companies Being Transparent in their Transition?](#), reporting that of the 13,100+ organizations that disclosed to CDP in 2021 only one-third of these (4,002) reported developing a low-carbon transition plan, and less than 1% (135) reported on all 24 key indicators (available in the CDP Climate Change questionnaire) of a credible climate transition plan. A credible transition plan

should be guided by six principles, as outlined in CDP's [Climate Transition Plans: Discussion Paper](#):

1. **Accountability:** The plan has clearly defined roles and responsibilities. This includes effective governance mechanisms, where the board and C-suite executives are accountable for delivery of the plan.
2. **Internally coherent:** The plan is integrated into the overall business strategy of the organization and linked to the profit and loss statement.
3. **Forward-looking:** The plan's orientation is focused on the near-and long-term future, trending towards 2050. An emphasis on the near-term (the next five-year timeframe) is critical to achieve long term climate ambitions, which should be supported by governance mechanisms (new or existing).
4. **Time-bound and quantitative:** The plan's KPIs are quantifiable and are outlined for defined timeframes.
5. **Flexible and responsive:** The plan is reviewed and updated regularly, with a defined stakeholder (including shareholders) feedback mechanism (e.g., AGMs) in place.
6. **Complete:** The plan covers the whole organization i.e., any exclusions from the plan must not be material to the company and/or the environment (ensuring coverage of double materiality principle on exclusions).

3. Finance

The role of private finance featured in the first technical dialogues, however, in the time given, did not address its role in depth. It is, however, clear that private finance is exponentially larger than that available from public funds and stands as the key to truly unlocking an equitable transition. To facilitate future discussions, CDP's key findings from the [Time to Green Finance](#) report are presented here, followed by policy recommendations for Parties to shape a sustainable financial system, and an example of good practice in accessing private finance for non-Party stakeholders.

3.1. Taking Stock of Private Finance

Based on data disclosed through CDP in the Financial Services Climate Change Questionnaire 2020, the Time to Green Finance report covers 332 financial institutions across 6 continents, with combined assets of over US \$109 trillion, and provides an overview of the impacts of financial institutions on the economy, as well as their operational impacts. These findings have been supplemented here by additional data taken from CDP's 2021 questionnaire, which covers responses from 377 financial institutions.

1. **Almost all financial institutions' climate impact and risk is driven by the activities they finance in the wider economy, yet the data suggests that this is not yet where the focus is for a large number of institutions.**
 - In 2020 49% of financial institutions indicated they do not conduct any analysis of how their portfolio impacts the climate at all. In 2021 this fell slightly to 42%.

- Only 25% of disclosing financial institutions reported their financed emissions in 2020 – 84 financial institutions worth US\$27 trillion of assets. For those 25%, on average, reported financed emissions are over 700x larger than reported operational emissions.
- This rose to 36% of disclosing institutions reporting their financed emissions in 2021.

2. On top of providing green finance, the finance sector must become green. While there are signs of financial institutions committing to align their portfolios with a net zero carbon world, much work still needs to be done, including on scope 3 emissions.

- The analysis shows just how key portfolio alignment is for financial institutions, those that have a low-carbon transition plan are mostly already taking actions to align their portfolio.
- In 2020 45% of banks were taking actions to align lending portfolios. 48% of asset owners and 46% of asset managers were aligning investments. Only 27% of insurers were aligning underwriting portfolios, suggesting insurers' transition plans are focused on their investments.
- In 2021 more institutions were taking actions to align their portfolios, with 52% of banks, 56% of asset owners, 54% of asset managers and 30% of insurers taking action to align their portfolios to a well below 2-degree world.
- To continue to thrive, financial institutions will need to align their portfolios with a net zero carbon world; clear short- and mid-term milestones such as science-based targets for their portfolios can help them in achieving this.

3. Financial institutions definitely see opportunities for returns on financing the transition to a low carbon, deforestation free, water secure future – 76% saw opportunities in offering sustainable finance products and services in 2020.

- They highlighted opportunities including sustainability-linked loans, green and transition bonds, sustainable investment funds and insurance solutions – with potential financial impact up to US\$2.9 trillion.
- There are indications these opportunities could be realized, with potential impact outweighing the cost to pursue for most opportunities.

4. Disclosures suggest financial institutions are underestimating their climate-related risks.

- In 2020 it was more common for financial institutions to identify climate-related risks they classify as operational risks (41% of financial institutions) than credit risks (35% of financial institutions) and market risks (26% of financial institutions). This trend remained the same in 2021.
- Yet the credit and market risks identified have a much higher reported potential financial impact - up to US\$1.05 trillion between credit risks and market risks in 2020.
- It follows that some banks, asset owners, asset managers and insurance companies have not yet identified risks in their financing portfolios, which will be of a greater magnitude than those in their own operations.

- 5. Financial institutions can create a feedback loop to de-carbonize and enhance resilience of the economy as a whole; engagement with portfolio companies is a key part of this. It is more common for banks to indicate they are engaging with their portfolios on climate-related issues, compared to other industry activities.**
- In 2020 82% of banks and 67% of insurers engaged their clients on climate-related issues, most commonly to educate clients about their own climate strategies and sustainable finance products. In 2021 this remained similar, with 82% of banks and 70% of insurers engaging.
 - In 2020 46% of asset owners and 50% of asset managers engaged, most commonly as active owners. In 2021 this rose to 60% and 59% respectively.
 - For some, this will be because they use external asset managers. If investors do not have direct shareholder relationships, they should ensure their external asset managers are engaging companies, so the feedback loop is not broken.
- 6. Most financial institutions now have some board-level oversight of climate-related issues, however there are signs boards could sharpen their focus on issues that really matter.**
- Board oversight covers climate risks and opportunities in financial institutions' own operations more often than it does their financing activities, across all financial industries.
 - Boards are less likely to have oversight of their climate impact than risks and opportunities affecting their bottom line, again across all financial industries.
 - These trends are most extreme in the insurance industry – board-level oversight covers the impact of insurance underwriting on climate change at only 31% of insurers.
 - Similar trends can be seen in 2021. The use of financial incentives could improve to focus senior leaders on the issues that matter.
- 7. When it comes to incorporating climate-related considerations, insurance companies are currently more focused on their investments than the underwriting they provide.**
- On multiple topics including effective governance, aligning portfolios for net zero, engaging with the real economy and transaction due diligence, insurance companies perform much better for their investment portfolios than they do for their underwriting portfolios.
 - The industry should focus on both sides of the balance sheet as insuring the low carbon transition will be important.
- 8. Environmental impact of financing portfolios goes beyond climate change, but currently the issues of deforestation and water security are assessed by fewer institutions in making financial decisions, compared to climate change.**
- In 2020 63% assessed exposure to water risks and only 52% assessed exposure to deforestation risks, compared to 81% assessing climate.
 - In 2021 this rose to 67% assessing exposure to water risks and 55% to deforestation risks.
 - CDP intends to expand its questionnaires to include a full range of environmental factors. For financial institutions, this means covering all climate-

and nature-related risks, opportunities and impacts in their portfolios. In 2022 CDP introduced a new module on forests and water security for financial institutions.

3.2. Solutions: Shaping a Sustainable Financial System

To address current shortfalls in private finance, CDP has the following policy recommendations, contained in the [Shaping a Sustainable Financial System](#) brief.

1. Make environmental factors integral to investment criteria and corporate governance.

Embedding these environmental considerations can be achieved by ensuring that:

- a. Policymakers and financial market regulators adopt mandatory disclosure requirements for capital market actors and companies.
- b. Financial market regulators develop internationally aligned sustainable finance taxonomies.
- c. Corporate governance codes and regulations are designed to account for environmental factors.

2. Make environmental criteria integral to financial stability considerations.

This can be achieved by ensuring that:

- a. Supervisory bodies and regulators include environmental criteria in supervision and prudential regulation.
- b. The mandates of central banks and financial market regulators and supervisors explicitly integrate environmental criteria.
- c. Central banks integrate environmental factors into their own portfolio management.

3. Align public finances and fiscal policies to support environmental sustainability.

This can be achieved by ensuring that:

- a. A price on carbon is set, in line with the recommendations of the High-Level Commission on Carbon Prices.
- b. COVID-19 economic recovery addresses environmental sustainability.
- c. State-owned companies disclose their impacts, and their business model takes environmental considerations into account.
- d. Environmental factors are integrated into sovereign wealth/pension funds risk management processes.

3.3. Solutions: Connecting Actors with Finance

Alongside policy action for a sustainable financial system, more needs to be done to provide finance to implement plans and targets that have been put in place by non-state actors in order for these commitments to be achieved.

An example of an initiative that achieves this is CDP's [Matchmaker](#). Matchmaker advances implementation of climate resilient infrastructure projects through project data disclosure and stakeholder consultation. Often climate related activities in cities are isolated from economic development outreach, creating communication and information barriers between cities and potential investors. Matchmaker bridges this divide by working with cities to highlight projects in flood control, waste management, sustainable transportation, renewable energy, water management, and energy efficiency. **Matchmaker serves as a clearinghouse for cities to showcase planned projects to the finance sector and better position them to mitigate against and adapt to climate change.**

In 2022 CDP produced an [Infrastructure Snapshot Report](#) which presents an analysis of 192 US cities representing roughly 25% of the US population that disclosed to CDP-ICLEI Track in 2021. **Nearly 200 pending projects with a value of \$30 billion were disclosed** and represent a portion of the true magnitude of infrastructure investment needed across the nation. CDP looked at five project sectors (buildings and energy efficiency, transportation, resilience-related projects, renewable energy, and water management) spotlighting examples of innovative projects that can be replicated and scaled nationally, building on the prior CDP Infrastructure Snapshot which looked at regional trends.

Much of the analysis is framed in terms of the opportunities presented by the Bipartisan Infrastructure Law (BIL), highlighting funding that is available relative to project data being reported to CDP-ICLEI Track. The analysis also aims to center equity in the climate infrastructure development process by highlighting key Federal initiatives and case studies that elevate equitable approaches to climate mitigation and resilience. Given the scale of federal investment, it is critical that resources are targeted to the right sectors and geographies, informed by on-the-ground data. Hence, we see CDP's disclosure and [Matchmaker](#) engagement as providing a critical map and blueprint for where and how to best leverage investment for local governments.

4. Regional Implementation

4.1. Latin America - Brazil

CDP started to work in Latin America in 2010. Since then, we had an exponential growth in companies, cities and states reporting through our platform. In April 2022, CDP Latin America began a project, financed by the Climate and Society Institute (iCS), to develop the Global Stocktake agenda and ensure that Brazilian NPS were participating in it.

So far, the project has conducted the following engagement activities:

- I. hold 3 GST-focused events for Brazilian stakeholders; including organize a GST-focused event in the UNFCCC Latin America and the Caribbean Climate Week (LACCW) 2022 with iCS and ICM;
- II. produce several publications to share with relevant stakeholders, including a translation of CDP's recent policy brief on the Global Stocktake, and two GST-focused articles, including an upcoming fact sheet explaining the Global Stocktake.

CDP is also participating actively on the process of strategy review of Alianças para Ação Climática (ACA) Brasil, a key organization in NPS' climate action. **Tracking progress and enhancing transparency and credibility of NPS**, a key function of the Marrakech

Partnership, has been identified as **a key aspect for ACA Brasil**, representing a key opportunity to communicate the GST process to Brazilian stakeholders.

Additionally, CDP Latin America has gathered datapoints on Brazilian cities and states as a contribution to the GST process. CDP considers such subnational stakeholders to be of critical importance as NPS participation in the GST from the Global South. **Brazilian cities and states, being part of the country with the largest GHG emissions in Latin America, must be integrated in the process.**

Below are some key data points arising from the project so far. **What can be highlighted is the improvement in disclosure efforts by these stakeholders, but several gaps in terms of climate action.** In general, CDP numbers for Brazilian states and cities have been growing in the last decade, but 2021 data shows that a lot of improvement is still to be made. Lack of climate finance is one of the major barriers Brazilian subnational governments need to overcome to deliver climate actions.

Regarding adaptation efforts, both cities and states are lacking concrete adaptation measures, such as Climate Risk and Vulnerability Assessment (CRVA) and adaptations plans. Brazilian cities have even worse numbers for mitigation actions, such as an GHG inventory or a climate action plan. This is mainly explained by the **lack of resources and technical expertise of a large number Brazilian municipalities**, which makes it difficult for them to develop these instruments (and reinforces the need for climate finance). States have higher numbers of GHG inventories, but there is still room for improvement, especially when we consider the adoption of emission reduction targets and decarbonisation pathways.

4.1.1. Cities

In 2021, 94 Brazilian cities disclosed their environmental data to CDP Latam. They represent 56,1 million citizens, 26% of all Brazilian population.

1. Climate Risks and Vulnerabilities

- In 2021, 25 cities disclosed they have a Climate Risk and Vulnerability Assessment (CRVA), however, only 14 presented the document. 304 risks were disclosed last year.
- The most significant risks were related to drought and water scarcity, at same time rainstorms and flash floods can be a problem due to lack of drainage infrastructure; also, biological hazards, as vector-borne diseases, extreme hot days and wildfires.

2. Adaptation Actions

- Brazilian cities disclosed 288 adaptation actions. Many adaptation actions are water-related, rainwater capture/diversifying water supply and community engagement, education and campaigns.
- Many cities disclosed mapping, monitoring, and risk management as adaptation actions, linked to commonly reported flood and landslide risks. The municipality of São José do Rio Preto, as example, disclosed monitoring activities and contingency plans to address emergencies.
- Tree planting and/or creation of green space and land restoration were also common adaptation actions mentioned.

3. Greenhouse gas emissions

- 25 cities disclosed they have a GHG inventory but only 20 presented the document.
- 4 Brazilian cities submitted emissions reduction targets aligned to science-based targets: Salvador, São Paulo, Rio de Janeiro and Curitiba.

4. Mitigation Actions

- 9 cities provided their Climate Action Plan, document that addresses both mitigation and adaptation actions to the city.
- 207 mitigation actions were disclosed in 2021.
- Mainly reported actions were related to green areas; Improve fuel economy, biofuels and reduce CO2 from bus and/or light rail, and other actions related to energy supply diversification and energy consumption.

4.1.2. States

21 out of the 27 Brazilian states answered CDP questionnaire in 2021.

1. Mitigation

- 14 states (66,7%) responded to have a region-wide emissions inventory, but only 12 of those actually reported it. 5 (23,8%) do not have one and 2 (9,5%) did not answer.
- 9 states (42,9%) have answered positively to having a region-wide plan to reduce GHG emissions, but only 3 gave additional information about it. 2 (9,5%) said to be developing one and 5 (23,8%) intend to start working on this in the next 2 years. 2 (9,5%) do not have one and 3 (14,3%) did not answer.
- 7 states (33,4%) have some kind of GHG reduction target in place. 10 (47,6%) do not have one and 4 (19%) did not answer.

2. Adaptation

- 8 states (38,1%) affirmed to have a climate change adaptation plan, but only 4 provided details about it. 11 (52,4%) answered negatively and 2 (9,5%) did not answer.
- 6 states (28,6%) responded to have a Climate Risk and Vulnerability Assessment (CRVA), all of them provided details about it. 11 (52,4%) intend to undertake one in the next 2 years. 1 state (4,8%) is currently developing one and 3 (14,3%) did not answer.