



Green
Finance
Initiative



中国金融学会绿色金融专业委员会
Green Finance Committee, China Society for Finance and Banking



CITY
OF
LONDON

UK-CHINA CLIMATE AND ENVIRONMENTAL INFORMATION DISCLOSURE PILOT ACTION PLAN

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is jointly published by the City of London Corporation's Green Finance Initiative and the Green Finance Committee.

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Participants



Environment Agency
Pension Fund

Pilot coordinator



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Introduction

High quality and timely information about climate and environmental risks are central to greening financial markets. Building on the strategic partnership between the UK & China at the G20 and industry levels on green finance, a new pilot involving 10 financial institutions on The Taskforce of Climate-related Financial disclosures (TCFD) and environmental risks was announced on 15th December 2017 at the bilateral Economic and Financial Dialogue (EFD) between the two governments. The pilot will run for three years, provide a platform for experience sharing and information exchange amongst financial institutions and market regulators. A progress report including pilot disclosures by participating financial institutions will be published annually at the bilateral Dialogue.



Background

Under the partnership of the City of London Green Finance Initiative and China Green Finance Committee, 10 financial institutions have agreed to set up a pilot to report against the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations and, where financially material, wider environmental risks. The pilot will involve representatives from the Peoples' Bank of China and the Bank of England and was endorsed by the UK & Chinese governments at the 9th UK – China Economic and Financial Dialogue on 15th December 2017, a high-level bilateral platform between the UK Chancellor Philip Hammond and Chinese Vice-Premier Ma Kai.

The pilot will run for at least three years from 2018 – 2020. It is co-chaired by the City of London GFI and China GFC, the UN Principles of Responsible Investment is the pilot coordinator. Additional technical support is provided by a wide range of knowledge partners including CDP, UNEP-FI, Bloomberg Beijing Office and Syntao.

Above, Pilot announced at the UK – China Economic and Financial Dialogue December 16th 2017

Objectives

The pilot will seek to support enhanced information disclosure market practice in both countries. In China, introducing environmental risk disclosure for listed companies is a key recommendation in the guidelines for “Establishing the Green Financial System” that was publicly endorsed by President Xi Jinping and issued by seven government ministries in August 2016. On December 26, China Securities Regulatory Commission (“CSRC”) made an announcement, explicitly requiring listed companies to disclose their key environmental information in their annual and semi-annual reports. The move is an important milestone of environmental information disclosure by listed companies under the joint promotion of the Ministry of Environmental Protection (“MEP”) and CSRC.

In the UK, the government has endorsed the TCFD recommendations and an industry led taskforce published on 27th March 2018 detailed policy recommendations to the UK government on how this could be implemented. By establishing a leading industry group, the pilot will aim to support the policy initiatives in both countries.

It will seek to achieve this by:

- Raising awareness of the TCFD recommendations and the Chinese framework for environmental risk reporting through conferences, workshops, participation of financial institutions and output reports
- Building understanding and capacity on how to undertake TCFD and environmental risk reporting through workshops, publications and use of off-the-shelf tools.
- Piloting TCFD and environmental risk disclosures in a report published at the annual UK – China Economic and Financial Dialogue in the autumn.
- Promoting the transition to a green economy, raise the level of disclosure of environmental information by enterprises, including borrowing enterprises, listed companies and bond issuers, and promote investment institutions to allocate funds to green industries more effectively, and reduce investment in polluting and high-carbon industries.
- Help financial institutions identify, quantify and avoid all kinds of environment-related financial risks, enhance the ability of financial institutions to resist risks, and thus enhance the robustness of the financial system.

The business case for TCFD and environmental risk disclosure

1. Translating non-financial information into financial metrics.

Climate and environmental risks are the result of market failure and as such not reflected in prices. TCFD provides a coherent and comparable framework through which climate science, technological change & government policy can in time be translated into metrics that financial institutions can measure, assess and manage.

2. A means to improve risk management.

Financial institutions could have capital at risk as a result of the energy transition. The credit rating agency Moody's has identified 11 sectors, with \$2 trillion of rated debt, with immediate or emerging climate-related risk ². Research at a leading central bank has identified \$26 trillion in capital re-allocation needed by 2040 ³ to deliver the objective of the Paris Agreement of limiting warming well below two degrees.

The low carbon energy transition is also driving new market opportunities. The TCFD recommendations provide a useful overarching framework for asset owners to assess the potential impairment to portfolios and identify new investment opportunities.

3. Forward looking analysis.

Conventionally, carbon and environmental disclosure has relied on historical data. Yet, some environmental problems, notably climate change, are non-linear in nature and will grow over time. Scenario analysis, which is already commonly used to inform investment and lending decision making, can be applied to climate and environmental problems to assist financial institutions understand how portfolios or loan books could be affected over a longer time horizon.

4. A comparable framework for

assessing climate and environmental risks and emerging new market opportunities. The TCFD recommendations were developed by experts from 31 countries including representatives from the UK and China. They have been endorsed by 238 companies, including 150 financial institutions representing \$81.7 trillion

5. Flexibility for organisations with different strategies, sizes and geographic markets, with practical guidance for high-impact sectors and on forward-looking disclosures. This combination of flexibility and practical utility makes broad-based implementation more achievable, meaning more companies in investment portfolios can disclose on climate change in a consistent manner to their investors.

² Moody's Investors' Service (November 2015) Environmental risk heat map

³ Unpublished research



Above,
Pilot workshop
in Beijing 23rd
July 2018

Pilot reporting action plan

As part of this initiative, participating financial institutions are encouraged to pilot TCFD and where financially material environmental risk reporting. The recommended scope and complexity of the pilot would evolve over the course of the three years. This is summarised in the tables below:

Plan and Timetable for the Pilot Work of Environmental Information Disclosure by Chinese Financial Institutions

Firstly, determine best practices of domestic and foreign financial institutions in information disclosure.

As the basis for the pilot work of environmental information disclosure by financial institutions, the current status and practices regarding environmental information disclosure by major financial institutions both at home and abroad should be examined, and the principles, content frameworks and measurement methods followed in the disclosure should be summarized and comparatively analyzed, to draw conclusions.

Secondly, conduct comparative analysis of the recommendations and requirements on environmental information disclosure at home and abroad, and determine the contents of environmental information disclosure in combination with the actual situation of financial institutions in China.

In this process, it is necessary to strengthen the interpretation and analysis of disclosure contents both at home and abroad. According to CBRC's self-evaluation indicators for green credit, CSRC's



hierarchical disclosure system for environmental information of listed companies (requiring key sewage companies for forced disclosure and other companies to implement the principles of "Comply or Explain"), TCFD's recommendations, Defra's guidelines on voluntary reporting, accounting and reporting standards for enterprises with greenhouse gas emissions, the criteria and contents for featured disclosure of financial institutions should be determined.

Thirdly, propose the framework of environmental information disclosure for financial institutions in China in light of the indicators and project definitions in the Scope 1-3.

Targeted screening and setting should be conducted according to the actual situation of financial institutions. Especially for the projects and indicators including "investment and financing" and "supply chain" closely related to financial institutions, the environmental information disclosure framework, indicators and requirements should be built.

Fourthly, formulate action plans on information disclosure, and disclose such plans.

Action Plan for Pilot Commercial Banks
(see Table 1 for details)

By 2019, the environmental impact of 2018 green credit (based on the approach of CBRC) will be disclosed. On the basis of CBRC's measurement methods, basic data will be sorted out, and qualified data will be disclosed gradually.

By 2020, relevant environmental risk information of power, cement and electrolytic aluminium industries (based on the scenario analysis or stress testing methods) will be disclosed according to the situation of pilot institutions.

By 2021, pilot financial institutions will be encouraged to further expand the industries covered by environmental information disclosure according to their business characteristics and optimize environmental risk analysis methods and disclosure indicators. Additionally, efforts will be made to increase the number of financial institutions engaging in environmental information disclosure.

Action Plan for Environmental Information Disclosure by Pilot Commercial Banks in China

Phase I (2018-2019)

Goals	Qualitative Indicators	Quantitative Indicators
<p>Pilot banks, according to their own situation, disclose the environmental impact of 2018 green credit (based on the approach of CBRC). On the basis of CBRC's measurement methods, basic data will be sorted out, and qualified data will be disclosed gradually.</p>	<ol style="list-style-type: none"> 1. Governance: Describe the role of board of directors and senior management of commercial banks in green finance development 2. Strategy: Describe the development strategy of commercial banks for green credit in the strategic development planning, to significantly enhance the green development of commercial banks 3. Policy system: Describe the measures of commercial banks for improving the green credit policy and promoting the green adjustment of credit structure 4. Risk management: Describe the environmental risk management process and measures of commercial bank 5. Green finance innovation 6. Practical cases 7. Research results 8. Annual results 	<ol style="list-style-type: none"> 1. Balance of green credit 2. Proportion of green credit 3. Equivalent emission-reduction standard coal 4. Emission-reduction carbon dioxide equivalent 5. Emission-reduction chemical oxygen demand 6. Emission-reduction ammonia 7. Emission-reduction sulfur dioxide 8. Emission-reduction nitrogen oxides 9. Water saving 10. Green operation indicators: including green office, vehicle energy consumption 11. Green credit training hours/man-time 12. Carbon emissions: direct greenhouse gas emissions, indirect greenhouse gas emissions, waste statistics, etc. <p>Note: Pilot banks may make differential disclosure, as the case may be.</p>

Phase II (2020)

Goals	Qualitative Indicators	Quantitative Indicators
<p>Pilot banks select power, cement, electrolytic aluminium and other industries to analyze and evaluate environmental impacts and risks in light of their own circumstances, and make corresponding disclosures.</p>	<p>As mentioned above.</p> <p>Further refine the content of the above qualitative disclosure.</p> <p>Analyze and evaluate environmental impacts and risks, and tentatively carry out scenario analysis and stress testing on environmental impacts and risks for high-emission industries such as power, and disclose relevant environmental conditions according to own situation. It may include:</p> <ol style="list-style-type: none"> 1. Internal and external factors that may cause environmental risks to banking operations; 2. Environmental risk analysis and assessment ideas, methods and tools; 3. A bank's ability to withstand environmental factors, and environmental risk management measures adopted by the bank; 	<p>As mentioned above.</p> <p>Add industry-specific information about environmental impact and risk scenario analysis and stress testing. It may include:</p> <ol style="list-style-type: none"> 1. Structural adjustment targets for key emission industries such as power; 2. Stress testing methods, models and conclusions regarding the impact of environmental factors on credit risk of power and other industries. 3. Measurement of environmental benefits from credit structure adjustments in the power and other industries.

Phase III (2021)

Goals	Qualitative Indicators	Quantitative Indicators
<p>Pilot banks are encouraged to expand the scenario analysis and stress testing on environmental impacts and risks according to their own business characteristics, and make corresponding disclosures; further improve the analytical methods; and make efforts to increase the number of financial institutions participating in the disclosure of environmental information.</p>	<p>As mentioned above</p> <p>Further improve the disclosure contents of qualitative indicators.</p>	<p>As mentioned above</p> <p>Further expand the scope of industries for environmental impact and risk analysis and stress testing, and make corresponding disclosures.</p>

Action plan for asset management institutions

The first phase is the preparatory phase (details are shown as follows), to start the disclosure of some contents, and the disclosure will be gradually expanded in the second and third phases.

1. Cooperate with third-party agencies to collect basic data and establish an indicator system on the environmental impact of assets held by the asset management institutions and the analytical methods for the impact of environmental risks on the valuation of asset holdings and the probability of default (such as stress testing methods).

2. Establish and improve the system of research, investment and risk control.

3. Develop the investment strategies and fund products that include environmental factors.

4. Provide responsible investment report according to the requirements of applicable international and regional responsible investment organizations.

5. Work out and estimate the environmental disclosure indicators and disclosure format for investment portfolios.

6. Assist regulatory authorities/associations in working out and establishing the guidelines or framework for disclosure of environmental information by asset management institutions.

7. Evaluate the relationship between public disclosure of environmental information and fiduciary duty, and provide research support and advice to relevant regulators and associations.

Phase II (2020)

Year 1 (2018)	Year 2 (2019)	Year 3 (2020)
<p>Implementing TCFD</p> <ul style="list-style-type: none"> ○ Define the governance processes to address climate risks and the establishment of oversight committees if and when needed ○ Establish processes related to initiating Risk Management and Risk Identification in the organisation <p>Reporting TCFD</p> <ul style="list-style-type: none"> ○ Disclose the Governance processes to address climate risks and the establishment of oversight committees if and when needed ○ Disclose initial steps taken to identify available metrics assessing risks and opportunities 	<p>Implementing TCFD</p> <ul style="list-style-type: none"> ○ Incorporate climate risk into risk identification and assessment process ○ Identify and where possible disclose useful metrics assessing risks and opportunities ○ Identify climate-related scenarios and consider how these might affect the organisation <p>Reporting TCFD</p> <ul style="list-style-type: none"> ○ Disclose the organisation Governance approach and oversight committees established with clear responsibility lines ○ Disclose processes in place to define a climate risks Strategy and relevant early recommendations ○ Disclose the processes implemented to identify Risk Management and risk identification in the organisation ○ Disclose processes to initiate climate-related scenarios analysis and consider how these might affect the organisation in the long term ○ Disclose sectoral engagement work in this field 	<p>Implementing TCFD</p> <ul style="list-style-type: none"> ○ Define organisation targets based on identified metrics ○ Incorporate climate risk into risk identification and assessment process ○ Integrate scenario planning <p>Reporting TCFD</p> <ul style="list-style-type: none"> ○ Disclose the organisation Governance approach and any relevant updates ○ Disclose climate risks Strategy and relevant recommendations ○ Disclose the organisations Risk Management and risk identification findings within the organisation ○ Disclose how organisation is integrating scenario assessments with its investment processes and how these might affect the organisation, disclose sectoral engagement work in this fields ○ Disclose metrics used for assessing the climate-related risks and opportunities ○ Disclose sectoral engagement work in this field

*Adapted from TCFD Secretariat presentation "Beginning the Journey" March 2018



Next steps

In order to deliver against the above objectives and action plan, the pilot will organise a series of conferences and workshops to provide a platform for peer exchange and for building capacity. A progress report will be published on at the UK – China Economic and Financial Dialogue in Autumn 2018.

Above, Joint City of London Green Finance Initiative and China Green Finance Committee meeting in London



Annex

Key reference documents for the pilot

Annex: Implementing the Recommendations of the TCFD

<https://www.fsb-tcfd.org/publications/final-implementing-tcfd-recommendations/>

PRI climate risk indicators (based on TCFD) for participants who are PRI signatories

<https://www.unpri.org/report/reporting-for-asset-owners-and-investment-managers>

Environmental Key Performance Indicators: reporting guidelines for UK business

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/69281/pb11321-envkpi-guidelines-060121.pdf

UNEP – FI Banking Industry Guidance to Adopt TCFD

<http://www.unepfi.org/publications/banking-publications/extending-our-horizons/>

Seven Ministries and Commissions : Guidelines on building a green financial system

http://www.zhb.gov.cn/gkml/hbb/gwy/201611/t20161124_368163.htm

CBRC: Key evaluation indicators for green credit implementation

http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/FC5E38D62BE54E3D836E441D6FC2442F.html

CBRC Guidelines on green credit

http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/127DE230BC31468B9329EFB01AF78BD4.html



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