CLIMATE POLICY INITIATIVE

Views on ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation

Submission by Climate Policy Initiative

Climate Policy Initiative (CPI) is pleased to submit its view to contribute to the analytical approach in data and tracking progress with regards to Article 2.1.c.

Article 2.1.c is a key enabler for long term objectives of the Paris Agreement and underlines the need for a collective, systemic effort to achieve such objectives, identifying the financial system as a fundamental force to drive a zero-carbon economic transition which is "aligned" with the Agreement.

Given the breadth and complexity of the topic, our submission focuses on the information instruments and suggestions on how to measure collective progress using a simplified framework. We also provide our view in relation to emerging data, data gaps, and barriers and considerations to overcome the data challenges.

1. Proposed analytical framework in assessing Paris alignment of finance flows

Assessing the alignment of investments is multi-faceted, all-encompassing, and complex. To simplify the concept, our view of what data is required to assess the Paris alignment is centred around three questions:

I. How do investments flow in the financial value chain?
II. What is Paris alignment of investments and how to measure it?
III. How to collect the data for measuring the Paris alignment of investments?

I. How does investment flow in the financial value chain? Distinguishing finance flows by two segments - financial market vs real economy

The alignment of finance flows can be assessed at different points in the financial value chain (e.g. upstream at the financial market level, or downstream at the real economy level). In this analysis, we assess progress and data by two segments: by financial market segment and at the real economy. The two systems are highly interrelated but involve distinct actors and activities, thus, merit a separated lens when assessing alignment.[1]

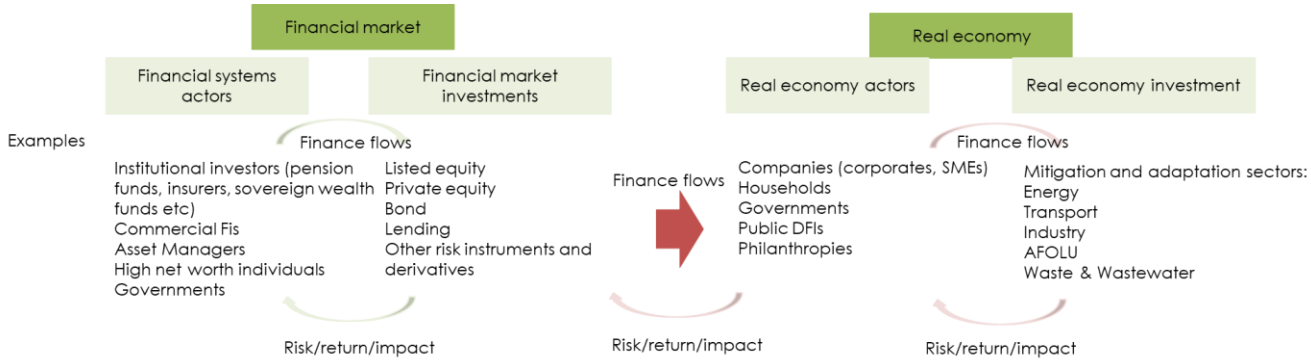
Financial market activities are vast and therefore for this analysis, we prioritise assessing the alignment of capital made available that would eventually end up in the real economy. Financial market actors would usually invest in financial assets such as bonds,

[1] OECD, 2022. Assessing the climate consistency of finance: Taking stock of methodologies and their links to climate mitigation policy objectives", Available here

equity, commodities and derivatives markets. Their activities are essential for liquidity, lowering the cost of transactions and making use of available capital for productive use. However, such market participants would rarely engage in direct investment of physical assets in the real economy. For example, institutional investors often may channel finance to dedicated funds or equity, or bonds instruments, which would eventually trickle down to corporates or project financiers who would then engage in real economy investment such as building solar power plants or manufacturing low-carbon equipment.

This differentiated view of segments is essential in understanding what data is made available by each actor in the financial markets or real economy and avoiding double counting. This approach allows for non-double counting when measuring the alignment of finance flows i.e. acknowledging that the same flow of money may change hand through flowing via financial markets to the real economy.

Figure 1: Finance flows chain via financial markets to the real economy



II. What is Paris alignment of investments and how to measure it?

Overall, a broad interpretation of Paris alignment for financial institutions involves their holistic commitment to make investments and overall organizational practices consistent with the achievement of the Paris goals, both in mitigation (temperature alignment) and adaptation (risk and resilience), through the integration of Paris targets across the investment decision chain, from strategy and sourcing through to due diligence.[2]

There is no agreed-upon or standardised approach to measure progress made by private companies and financial institutions on aligning their finance flows with Paris goals. However, broadly, it can be understood through a set of indicators that monitor how institutions are moving from intentions to actions and results. In this way, it can be tracked how institutions' targets and strategies are set, how they are translated into incentives, and integrated into due diligence and operations to ultimately drive investment decisions.[3]

Three dimensions are hereby proposed to measure and organize this progress as shown in Figure 2:

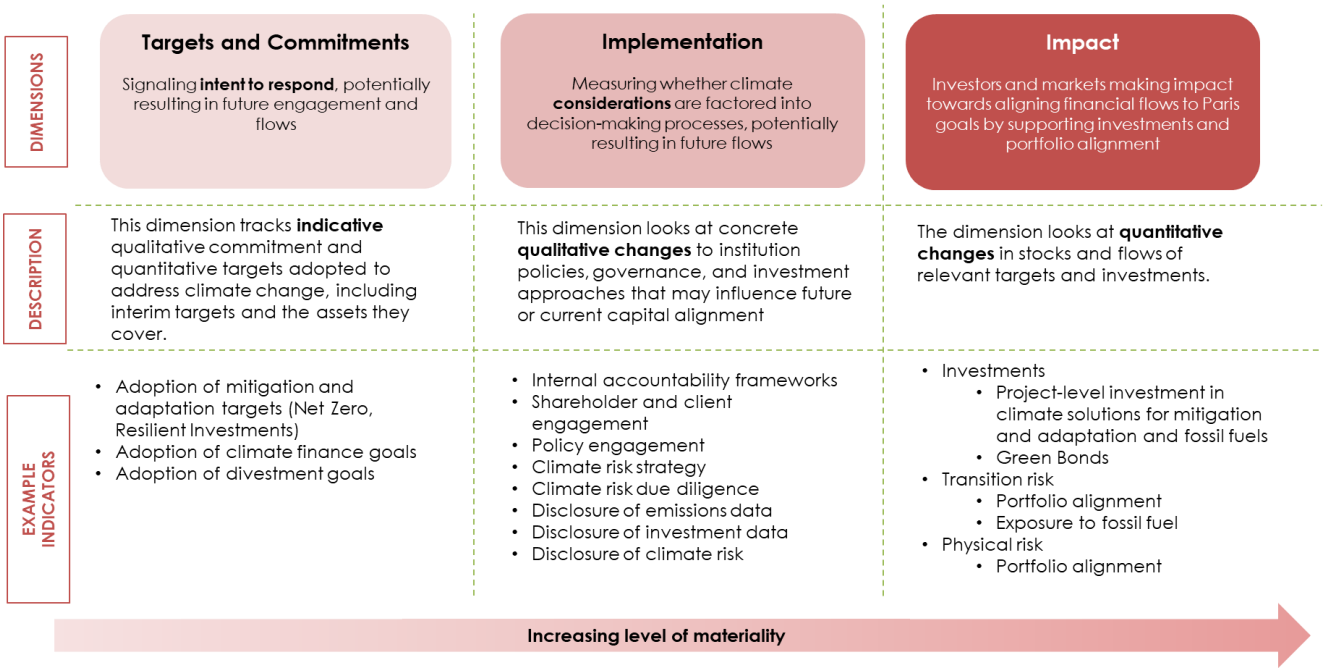
[2] CPI. 2020. A Proposed Method for Measuring Paris Alignment of New Investment. Available here
[3] CPI. 2021. Net Zero Finance Tracker Methodology. UK Dashboard. Beta Version. Available here

1. Targets and Commitments: signalling intent to respond, potentially resulting in future engagement and flows. This dimension tracks indicative qualitative commitment and quantitative targets adopted to address climate change, as well as membership in initiatives that may influence future capital alignment.

2. Implementation: measuring whether climate considerations are factored into decision-making processes, potentially resulting in future flows. This dimension looks at concrete qualitative changes to institution policies, governance, and investment approach using Taxonomy or scenario analysis and disclosure requirements that may influence future capital alignment.

3. Impact: tracking finance allocated to climate solutions via investment into productive assets/activities and capital markets. This dimension would rely on the measurement of quantitative changes in stocks and flows of relevant finance (both low and high emissions and resilient investments).

Figure 2: CPI's approach for assessing Paris alignment of financial institutions



Source- adapted from CPI's Net Zero Finance Tracker framework [4]

Data on all three dimensions of Paris alignment is necessary for holistic assessment of progress. Even though the focus of Art 2.1.c can be interpreted as focusing on 'flows', which form a part of the third dimension of impact, the information on the other two dimensions of Paris alignment by financial institutions is also important. The targets, commitments and investment decision-making done at the company or institution level influence the actual investment 'flows'. The availability of data to track investment flows

[4] City of London Corporation. 2023. From commitment to action: Tracking UK financial services' progress on the pathway to Net Zero. Available here

in the financial markets and the real economy is also dependent on the quality of targets and commitments set by the institutions, what actions are being implemented by the institutions in terms of policies, engagement, risk management and disclosures etc.

Assessing progress on each of these dimensions relies on a set of underlying indicators which require different types of data. There is a large number of initiatives, standards, frameworks, methodologies, and tools in the financial sector that assist financial actors in advancing different dimensions of the Paris alignment. These dimensions are not strictly exclusionary and often overlap in their scope. Nevertheless, good quality, granular and credible data on all the dimensions is foundational for effectively implementing Paris alignment. Therefore, data for all these dimensions and indicators is essential to ultimately track flows effectively.

Broadly, there are two categories of analysis, Taxonomy alignment and scenario analysis, which assess the Paris alignment of investment flows. It is important to link these dimensions ultimately to the Paris goals of decarbonisation and resilient development of the real economy. Two broad categories of analysis are conducted to assess if the investment flows are aligned with Paris Agreement goals and various temperature pathways, namely[5]:

Scenario analysis-: The financial actors need to showcase that their investments and portfolios are compatible over a period of time with forward-looking scenarios of temperature rise (1.5 degrees or 2 degrees). This translates into the current or projected allocation of investments in a portfolio into emission-related metrics at the activity level such as GHG emissions or carbon intensity. These metrics are then compared with carbon budgets available for the portfolio (e.g. according to its market share), for different temperature increase pathways or scenarios.

Taxonomy alignment analysis: The financial actors need to demonstrate that the investment is made into a Paris-aligned sector or solution classified as such by a standardised taxonomy. Taxonomies define a list of criteria to determine whether an investment in specific technologies or sectors contribute positively to Paris goals (climate positive) or negatively (climate-negative), or where they sit on the spectrum, as under a 'shades of green' approach. The list can be based on assumptions for technology/sector types, and/or technology-specific / sector-specific carbon performance thresholds. Companies would disclose this information as revenue,

The scenario-based analysis is relatively more flexible in measuring the alignment of investments and portfolios as they are dependent on the specific inputs, assumptions, pathways and analytical methods used for building the scenarios and portfolio-specific factors such as the sectors, geographic locations, asset classes, quality of invested assets etc.[6] Taxonomy based analyses are relatively straightforward in comparison, giving a binary outcome on alignment based on project-specific thresholds, or benchmarks.

Although both analyses can be used by the real economy and financial market actors, currently, a clear preference for certain analysis by certain actors seem to be emerging.

[5] CPI, 2020, A proposed method for measuring Paris alignment of new investment. Available here
[6] CIFOR. 2008. Climate Scenarios: What we need to know and how to generate them. Available here

This differentiated view is essential in understanding what data is needed by each category of analysis. Real economic actors like corporates and DFIs often have a preference for investing in physical assets at the project level. The taxonomies are well suited to assess if the assets or projects are aligned or non-aligned. The lists can provide clear guidance with straightforward implementation.[7]

On the other hand, the majority of financial market actors such as institutional investors or commercial banks may prefer using scenario-based approaches for assessing the Paris alignment of their investments and portfolios. The investment portfolios of these actors employ a range of financial instruments and strategies in several sectors and geographies. Assessing the alignment of such a complex portfolio needs greater flexibility and accommodation of broader elements of Paris alignment such as target setting, governance, climate risk management and emissions reduction actions.[8]

III. How to aggregate the data for measuring the Paris alignment of investment flows - distinguishing global, country level and entity-level data

After outlining how investment flows through the two segments of financial markets and the real economy, what is meant by Paris alignment of investments and what data is required to measure progress, we explore how data is being reported currently by public and private financial institutions and how this information is being aggregated. This will present us with a complete view of the data landscape and facilitate the mapping of available data, data gaps and barriers that inhibit more efficient data reporting and collection.

The public and private financial institutions report on Paris-aligned investment flows through broad types of reporting

Figure 3 demonstrates how the data reported by financial institutions get aggregated at different levels. The fundamental building blocks of the data are:

a. Data reported by private companies and financial institutions in the destination (or recipient) country
b. Data reported by private companies and financial institutions in the origin (or origin) country.

Such distinction allows to take into account jurisdictional differences in data availability and reporting, therefore, and potential issues due to the interoperability of different reporting standards and definitions across cross-border flows.

Both these types of data can be aggregated at three levels:

i. **Financial institution level:** Directly from disclosures via corporate sustainability disclosures

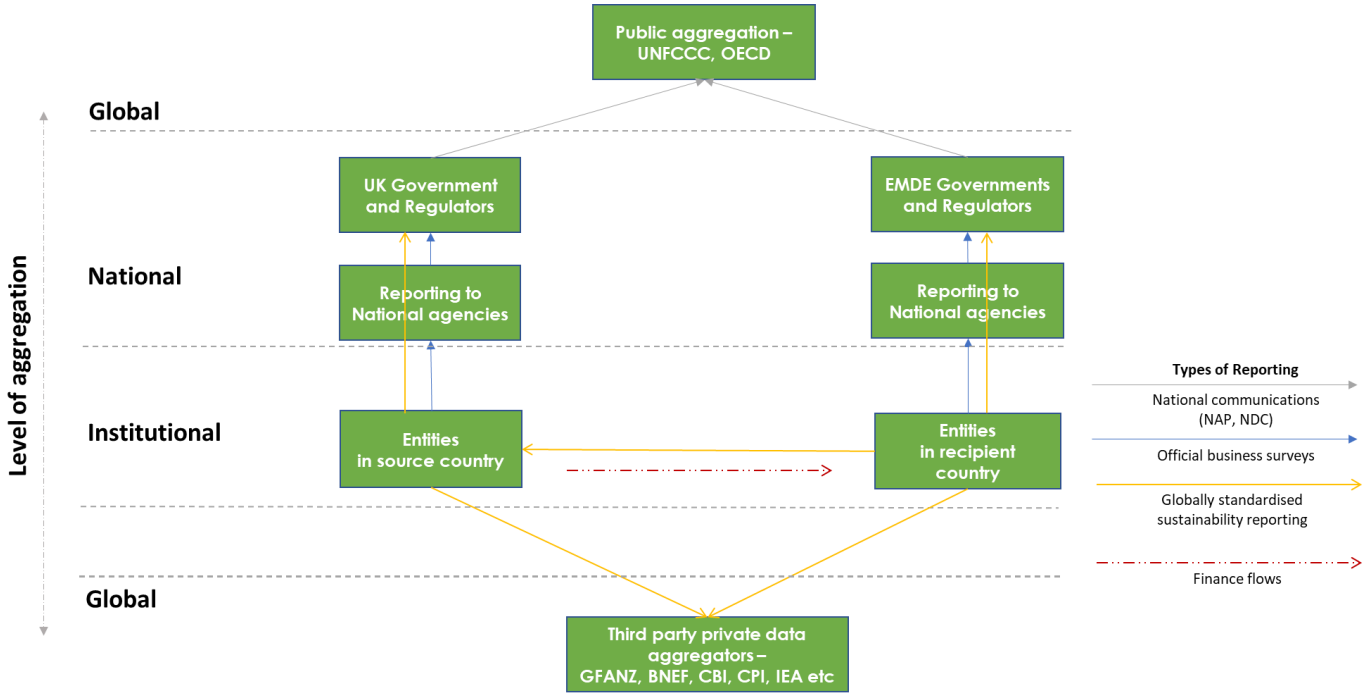
[7] New Climate Institute. 2020. Aligning investments with the Paris agreement temperature goal challenges and opportunities for Multilateral Development Banks. Working Paper. Available here
[8] TCFD. 2017. ,The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities. A Technical Supplement. Available here

ii. **Country level:** By reporting to national government, regulators, statistical agencies, trade associations etc. via business surveys

iii. **Global level:** By reporting via public datasets and processes through national communications and via private datasets by third-party aggregators such as data providers, research institutions, industry alliances etc.

Assessing the Paris alignment of finance flows is dependent on all three levels of data sources. All three levels of data collection have different mandates, strategies and objectives for data collection. Different datasets are suitable for different segments of investments, different actors, instruments, sectors, and geographies, Therefore, the relevance of these various datasets to assess the Paris alignment varies depending on the level of data availability, accessibility, granularity and potential for future amendments.

Figure 3: Types of data reporting by financial institutions and levels of data aggregation



Source: CPI analysis

2. Data aggregation barriers and potential solutions

Financial institution-level disclosures

Emerging data

Tracking Targets like net zero commitments and Implementation actions like disclosures are necessary prerequisites which ultimately lead to more impact i.e. more Paris-aligned

investments. Availability of data on investment flows and portfolio alignment, including the accuracy, timeliness, and comparability of the data, is largely driven by two these two indicators: disclosure and commitments.

The data needed to determine a financial institution's Paris alignment is largely provided through disclosures, which comprise four pillars of TCFD recommendations on governance, strategy, risk management, and metrics. A particularly key part of the data is the disclosure of financed emissions, occasionally also called portfolio emissions, which comprise the financial institution's Scope 3 emissions. This data underpins both net zero commitments, including interim portfolio targets, and real economic impacts.

Net zero commitments, which are commitments to reach net zero financed emissions by 2050 and the subsequent interim targets, drive regular disclosures of data and GHG emissions to measure progress against the targets. The net-zero commitments require institutions to create disclosures with decision-useful data, including changes in portfolio emissions and institution trajectories against Paris-aligned scenarios.

Data from the private sector and public sector varies significantly, particularly for financial flows. Overall, international climate finance flows from public financial institutions are fairly well documented, comparable, and available (although there is still much scope for improvement). For private finance sector data, there is no standardized, comparable disclosure, including climate-related financial flows, or emissions data at the global level yet. Most private sector data are compiled by third-party data providers by collecting information on announcements of projects and deals which are commercially sensitive, therefore, collected with data gaps. The post-issuance reports of sustainable or green bonds are fundamental to assessing the use of proceeds. However, each post-issuance report uses different templates and formats, with different base years and assumptions built into their scenario planning.[9]

New private sector data is emerging globally. As certain countries begin to mandate climate risk disclosure, GHG emissions, and transition plans, data will appear in geographic pockets. In the UK, for example, transition plans disclosure requirements as part of the Sustainability Disclosure Requirements (SDRs) are expected to start producing climate-related financial risk information from 2022 onward. Disclosures will include information on climate governance, strategy, risk management, and metrics and targets, and are expected to include both current and past GHG emissions, as well as forward-looking climate targets.

Data gaps

The financial institutions' climate-related disclosures have clear data gaps on several fronts:

1. Self-report emissions data cannot be trusted to be accurate, and cannot be compared across institutions without knowing the methodologies used in the calculations.

[9] Almeida, M., Lonikar, P. 2021. Post-Issuance Reporting in the Green Bond Market 2021, Climate Bonds Initiative. Available here.

2. Disclosures, even those that follow the general outline of the TCFD, may not accurately describe the climate risks facing the intuition. Even the TCFD found that only 4% of TCFD disclosures were fulfilling the TCFD recommendations.[10]
3. Current disclosures across most of the world do not require any form of verification to ensure accuracy. While some countries have been considering including transition reports and climate disclosures in the list of reports to be externally audited, there is currently no legal requirement to ensure all the information is accurate.

Adaptation-related disclosures, metrics, and targets are absent from the private sector disclosure framework. This is, in part, due to a lack of cohesion around how to best measure adaptation and resilience financing, and in part due to the fact that there is no external pressure to make such disclosures. This may change when the Task Force on Nature-based Financial Disclosures launches a final version of its framework, although it will require significant uptake within the private financial sector and corporate sectors.[11]

Regarding voluntary commitments, the data gaps are based on the voluntary nature of net zero commitments and portfolio emissions reductions. Even among institutions with GFANZ membership and/or a net zero commitment, there's no clear data on what assets under management are actually on a net-zero or Paris-aligned trajectory. As of Fall 2022, CPI estimated that only 32% of total global assets are managed by financial institutions that have committed to reach net zero by 2050.[12]

Of that 32%, it's unclear how much is currently covered by an interim target or on a net zero trajectory. Private financial institutions have included between 5% and 100% of assets under their interim targets, representing a huge spread that is not standardized across institutions, across net zero alliances, or even within net zero alliances.[13] The guidance available from the alliances is extremely variable between alliances and always provides a significant amount of leeway in target development and implementation to its members. Unfortunately, a net zero commitment does not mean that all assets under management are on a net zero trajectory. This adds to the disconnect between portfolio emissions targets, potential portfolio emissions reductions, and real economy emissions reductions.

Data Barriers

The first barrier to better institution-level disclosure is the lack of global frameworks, in particular, the lack of a global, mandatory framework for climate-related disclosures. This leads to fragmented approaches to climate risk disclosure, often based on a country-by-country approach, with no standardized methodologies for emissions accounting or comparable risk evaluations across sectors. The current system is comprised of a vast majority of countries with no disclosure requirements and a few that have some form of

[10] TCFD. 2022. TCFD 2022 Status Report. Available here
[11] TNFD. 2023. The TNFD Nature-related Risk and Opportunity Management and Disclosure Framework Beta v0.4 – Summary March 2023. Available here
[12] CPI. 2022. Private Financial Institutions' Paris Alignment Commitments: 2022 Update. Available here
[13] ibid

disclosure regulation. Where there is disclosure regulation, such as in the UK or New Zealand, such efforts are fairly nascent are need more time for companies to complete their disclosures.[14] The G20 has expressed support for a global, mandatory disclosure based on the TCFD recommendations, but little action has been taken past general support for the idea.[15]

The second issue regarding disclosure comes from the current voluntary nature of most private sector disclosures. The data included in such disclosures is self-reported, with no requirement to follow standardized accounting models like PCAF or the TCFD recommendations. Within the private finance sector, institutions have often avoided these disclosures, outside of projects for public relations purposes, by claiming such information would lead to a competitive disadvantage.[16] Again, this leads to a fragmented approach to both risk assessments and GHG emissions data. On the emissions data, companies occasionally create their methodologies for calculating portfolio emissions and disclose that amount with no explanation or transparency on the methodology.[17] This creates a system where even portfolio emissions are not comparable between two institutions.

The third issue is that disclosures are often treated as box-checking exercises. A number of institutions, particularly in countries without a strong climate platform, treat disclosures as a box-checking exercise, using boilerplate language that doesn't change over time. The TCFD 2022 Status Report found that only 4% of reporting companies disclosed in line with all 11 recommendations.[18]

Regarding commitments, there is no current or expected requirement for private financial institutions to make net zero commitments or align their portfolios with a net zero pathway. Additionally, the monitoring and evaluation of portfolio emissions reductions are sporadic at best, and there is little assessment of how initiatives in the financial realm translate to real economy emissions reductions.

Another barrier to commitments is that there is a lack of geographic inclusion around net zero commitments and alliance membership. As of early 2023, 93% of net zero targets were set by institutions in the UK, US, EU, or other developed countries.[19] There is an upward trend in commitments from private financial institutions in non-OECD countries, however. The number of institutions in developing economies committed to net zero has increased in the last two years and, while absolute numbers are comparatively small, commitments by institutions in non-OECD countries are growing at a faster rate than institutions in OECD countries.[20] Non-OECD countries have cited the requirements of

[14] OneTrust ESG. 2022. New TCFD ESG disclosure requirements in Canada and the UK. Available here
[15] Green Central Banking. 2021. G20 backs global climate reporting standard. Available here
[16] CPI. 2021. Framework for Sustainable Finance Integrity. Available here
[17] ibid.
[18] [18] TCFD. 2022. TCFD 2022 Status Report. Available here
[19] Upcoming, CPI. 2023. Net Zero Finance Tracker Data
[20] ibid.

GFANZ membership – full emissions disclosure and a viable transition plan – as a barrier to entry due to capacity and funding constraints.[21]

Country level data aggregation

Clear information about alignment of finance flows at the national level is crucial to achieving economy-wide transformation to support low carbon and green growth. Such information helps to identify gaps and opportunities, measure, and benchmark progress, and optimize the deployment of domestic budgetary resources in a way that can effectively and efficiently unlock private investment at the transformational scale needed (EFI and CPI, 2018).

Some countries carried out national climate finance tracking using methods and tools from other organizations, most notably the Climate Public Expenditure and Investment Review (CPEIR), and Private Sector Climate Expenditure and Institutional Review (PCEIR), the Investment and Financial Flows (IF&F) approaches supported inter alia by the United Nations Development Programme (UNDP) as well as Climate Budget Tagging (CBT) in their Public Financial Management System. There are also country case studies using PACTA framework, assessing portfolio of financial market participants using climate scenario analysis, climate stress-tests, and qualitative analysis of climate actions. Nonetheless, a comprehensive assessment and data collection on the alignment of finance flows in the financial market and real economy at the country level is sparse.

The **balance of payments and International Investment Position statistical series** prepared by national governments draw a series of balances between inward and outward transactions, provides a net flow of transactions between residents and the rest of the world and reports how that flow is funded. It includes transactions from both the real economy and the financial sector. Such statistical data is normally collected through official business surveys covering a range of industrial sectors such as agriculture, forest and fishing, food products, beverages, transport, electricity along with mining, petroleum, metals, financial services.

However, the current national statistical level data aggregation efforts do not cover alignment of finance flows. In theory, ongoing statistical data collection efforts, for example, could be an entry point to assess country-level finance flows alignment by expanding their mandates to collect alignment of finance flows related data. The collected information could then be aggregated at the global level to assess the collective progress of parties in implementing Article 2.1.c. This would involve building the capacity of central statistical bodies with a vision to incorporate the climate-related data points into existing data collection and aggregation channels by national statistical bodies and regulators.

[21] CPI. 2022. Private Financial Institutions' Paris Alignment Commitments: 2022 Update. Available here

Global Data Aggregation Challenges

Finance flows

Aggregated dataset on the alignment of financial flows of financial markets and the real economy at the global/regional or country level is currently challenging because of varying standards and methodologies used between different markets and different data providers. Various third-party datasets assess different parts of financial flows. For example, CPI's Global Landscape of Climate Finance tracks climate-positive flows in the real economy where data is available.

In the financial market, OECD (2022) study concluded that whilst various methodologies are emerging, due to a) lack of agreed methods on alignment b) there are multiple choices of metrics that can be used, which lead to different results c) underrepresentation of several large asset classes (e.g. private equity, real estate and infrastructure), representing large proportions of GHGs, it is not possible to assess the alignment of flows in the capital market at a granular level. The green bonds market is taking its pace, however, data on its use of proceeds in the real economy lacks standardization and granularity making it hard to assess at an aggregate level and in detail of where and which sectors. [22]

In the real economy, third-party data providers track mitigation finance flows in energy and transport sector investment more prevalently compared to other sectors such as AFOLU, industry, waste and wastewater.[23] Comparable real economy finance flows in harmful, misaligned activities are also sparse, but predominantly available in the energy sector.[24] Private sector adaptation finance is tracked with limits as it is particularly challenging due to a convergence of factors including: 1) context dependency where an investment's status as adaptation is dependent on a specific regional or local vulnerability context and 2) a lack of standards and reporting requirements so that private actors both do not have incentives to report adaptation finance and often do not have the tools to identify it as such. Virtually no private sector companies will self-identify their investments as "adaptation" but rather focus on outcomes – e.g., lower water use, more drought-tolerant crops, and risk management.

Climate scenarios

Scenarios are used to assess the alignment of financial assets. This can be done by either scaling down global and/or sectoral scenarios to the individual financial asset, country or individual physical assets. Current scenarios, however, rely on global and/or sector-specific trajectories and net zero scenarios and lack geography-specific granularity. [25]

There is no equivalent "North star" approach in global climate resilience pathways, but rather the vulnerability of assets or liabilities is assessed due to increased physical risks.

[22] Climate Bonds Initiative. 2021. Post-Issuance Reporting in the Green Bond Market 2021. Available here
[23] CPI. 2022. Global Landscape of Climate Finance: A Decade of Data. Available here
[24] CPI. 2020. Improving tracking of high emissions finance. Available here
[25] OECD, 2022. Assessing the climate consistency of finance: Taking stock of methodologies and their links to climate mitigation policy objectives", Available here

Therefore, from an adaptation and resilience perspective, available analytical methodologies and data in the private sector focus on the resilience of assets rather than solutions and pathways to address the physical risks.

There is little data and context specificity available at each country level in EMDEs whereas climate consistency would not look the same in all countries. Emerging markets and developing economies are the most exposed to acute physical risks and the ones with the poorest coverage in data and insurance penetration. [26]

Geographical location data of assets or liabilities is identified as one of the key data gaps which limit the ability to assess the vulnerability from physical risks. For example, firms' headquarters and main subsidiaries may be located in different locations than the facilities and other physical assets. In such cases, in-house models or assumptions would be used to estimate.[27]

Taxonomies

There are over 30 taxonomies in the world (in development or implemented), most are structurally similar but have different thresholds and criteria.[28] Green taxonomies are much more developed whereas taxonomies for high emissions activities are not well developed. Transitioning activities for high emissions sectors are also in their early stage. EU extended taxonomy has started to look into this area (e.g. significant harm performance). Some include traffic system-based taxonomies that define green, transition and harmful activities.

Currently, there is no globally standardized taxonomy, but regional initiatives are underway such as a taxonomy in the ASEAN (Association of Southeast Asian Nations) region. Having a generally agreed standard or best-in-class taxonomy would.

Structural data Barriers

The structural data gaps and challenges are due to various barriers, amongst others:

Frameworks, standards:

- There are more than 200 frameworks, standards, and other forms of guidance on sustainability reporting and climate-related disclosures across 40 countries.[29] The multitude of existing frameworks currently used by firms and financial institutions undermines consistency and comparability.

[26] NGFS. 2022. Final report on bridging data gaps. Available here
[27] ibid
[28] GTAG, 2023. Promoting the international interoperability of a UK Green Taxonomy, Green Finance Institute, Available here
[29] IMF. 2022. How Strengthening Standards for Data and Disclosure Can Make for a Greener Future. Available here

Taxonomies:

- Lack of standardized global taxonomies and, therefore, lack of interoperability between taxonomies in multiple jurisdictions would create reporting burden (time and cost), thus, disincentives for reporting entities.
- Lack of standardisation also makes consistent data consolidations across multiple jurisdictions difficult or unavailable, therefore, making an assessment of progress at the global level more challenging.

Scenarios:

- There are methodological discrepancies among various data providers when applying scenario analysis which can result in different alignment results for the same asset/flows (OECD, 2022). There are lack of scenarios developed for each country, therefore, scenario-based assessment of alignment would mean portfolios are assessed using a template scenario and judgment call in scaling down to individual financial assets or countries.
- Scenarios used for assessment at different sectors now need to be further developed to take into account EMDE country-specific context and pathways without which flows assessment in EMDEs would lack credibility.
- The lack of EMDE country-specific scenarios also are in part due to a lack of capacity and access to best practices in climate risk assessment and tools in developing countries as well as language barriers.

Conclusion and the way forward

Finance flow alignment assessments are complex and require a multifaceted approach and an ideal state of alignment would require a longer-term journey to improve data and overcome structural data barriers. In the process of operationalizing Art 2.1.c, parties could consider short-term priorities in paving the way to measure collective progress.

1) Consider anchoring a case for making high-quality, reliable and comparable global climate-related investment flows data available:

- Support the global collection and aggregation of a publicly available dataset on finance flows aligned with ongoing data initiatives.
- This data could be collected primarily using reporting through a taxonomy approach. It is less time-consuming compared to the scenario-based approach and may result in quick wins, whereas making portfolio alignment metrics would take significant improvements in data and methodology.

2) Consider actively contributing to efforts towards standardizing and building a common language in data and disclosures (through engagement with ISSB, IPSF, NGFS, and G-20 data initiative):

- Standardizing frameworks on assessing the alignment of finance flows and ensuring interoperability between various alignment methodologies and

taxonomies. It could be specifically focused to encourage and incentivize adoption of flows related reporting in financial statements. Alignment of flows-related reporting should be a high priority in institution-level reporting.

- Standardizing entity and data classification. Move towards globally aligned industry, and entity classification nomenclatures to guide private sector disclosures investing abroad in line with processes by the Inter-Agency Group on Economic and Financial Statistics.
- Supporting global efforts to standardize taxonomies. An entry point would be to conduct a regular comparison of green taxonomies in various jurisdictions with an overview of where taxonomies overlap, partly overlap and/or contradict.
- Standardizing disclosure processes and templates in the capital markets. This would also include standardizing entity-level sustainability disclosures such as green bonds use of proceeds and share of green revenues or green CAPEX and OPEX in standardized templates, making it machine-readable and accessible, such that the cost of data sourcing and aggregation is reduced.

3) Consider supporting and advancing data and methodology consolidation efforts across different jurisdictions to assess global progress, with a detailed view by geographies and by sectors/solutions.

- Bringing more clarity on global pathways towards climate resilience objectives to build a net zero equivalent pathway but focusing on resilience-related solutions. There are advantages to championing global approaches in climate resilient pathways, including (i) understanding solutions and taxonomies towards adaptation and resilience ii) more climate adaptation and resilience investment data across countries; as well as (iii) clarity in data points to report with regards to adaptation and resilience.
- International cooperation and capacity-building to support data capabilities in developing countries. Such efforts could ensure that international standards and best practices (TCFD recommendations, ISSB standards) relevant to alignment are made available and accessible to all countries in the world.