

UNFCCC Standing Committee on Finance call for evidence: information and data for the preparation of the 2020 Biennial Assessment and Overview of Climate Finance Flows¹

Contribution from The Institutional Investors Group on Climate Change

1. **Methodological issues relating to measuring, reporting, and verifying climate finance flows**
 - a. **Definitions and approaches used by governments, financial institutions, private sector or civil society to report climate-related finance flows provided, mobilized or received**
 - b. **Methodologies to develop metrics and indicators used to report on climate-related finance impacts or outcomes, particularly by sectoral activity**

(i) Tracking green investment by institutional investors via the Climate Investment Coalition

IIGCC is a founding partner of the [Climate Investment Coalition](#) (CIC), a global public private partnership aiming to mobilise ambitious green financial investments. CIC is tracking investment in climate solutions following an initial \$50 billion commitment by Danish pension funds towards green investments made at Climate Action Summit in September 2019. In November 2020, the Danish pension industry announced that \$8 billion has been invested in the green transition since Danish pension funds committed in 2019². In 2021, IIGCC will work with institutional investors across Europe to encourage further commitments to be made and track the increase in investment annually.

Whilst the EU taxonomy mitigation and adaptation criteria are still under development, CIC has developed operating definitions in the meantime, with the view to adapting to the EU taxonomy over time. Therefore, CIC currently uses green investment categories that align with the current language and reporting mechanisms utilised by investors in order for calculations to be accurate and streamlined as possible. Currently, only whole assets are included in the assessment. This means that such assets must be substantially 'green'. When the EU taxonomy is in place, CIC expects to start evaluating proportions of investments, such as companies that have some activities that can be classed as green. Currently, investors submit data annually from new investments (US\$ invested) in the following asset classes: listed equity, unlisted equity, green bonds and debt, green energy infrastructure, energy-efficient real estate. Investors also provide concrete examples of green investments³.

(ii) Mobilising investment in climate solutions, target setting, and measuring impact via the Paris Aligned Investment Initiative

IIGCC and a group of over 70 investors published a draft Net Zero Investment Framework in August 2020. The Framework recommends that investors "set an initial goal for allocation to climate solutions representing a % of revenues or capex from AUM, increasing over time, in line with investment trajectories based on a net zero pathway. This should be based on the EU taxonomy

¹ https://unfccc.int/sites/default/files/resource/Call_for_evidence_2020BA_30Oct.pdf

² https://595bd991-da46-4da7-8255-95d24fd29a16.filesusr.com/ugd/17262d_ee9a78461ca7490ebde311e4819c145d.pdf

³ <https://www.climateinvestmentcoalition.org/best-practice>

mitigation criteria to the extent possible”⁴. As part of a second phase of work IIGCC is conducting through the Paris Aligned Investment Initiative and IIGCC’s corporate programme, IIGCC will aim to understand the investment trajectories required in different sectors, across different activities, and via different technologies, in order to meet global net zero emissions by 2050. These investment pathways will then be translated into green revenue targets (based on EU taxonomy criteria) for institutional investors to adopt.

(iii) CA100+ Benchmark

IIGCC is a founding partner of Climate Action 100+, an investor engagement initiative working to ensure the world’s largest polluters take necessary action on climate change. In September the initiative outlined details of a new ‘Climate Action 100+ Net Zero Benchmark,’ which will help standardise what constitutes a ‘net zero aligned’ business strategy and how to measure company alignment with a 1.5°C transition pathway.

The benchmark will provide comprehensive analysis on which companies are leading the transition to net zero emissions, alongside a range of 30 indicators in total, used by investors to inform investment and corporate engagement strategies. Alignment indicator number 6: Capital allocation alignment, assesses a company’s capital expenditures and disclosure of capital expenditure in relation to climate change.

- Sub-indicator 6.1 – The company is working to decarbonise its future capital expenditures.
 - a. The company explicitly commits to align future capital expenditures with its long-term GHG reduction target(s).
 - b. The company explicitly commits to align future capital expenditures with the Paris Agreement’s objective of limiting global warming to 1.5° Celsius.
- Sub-indicator 6.2 – The company discloses the methodology used to determine the Paris alignment of its future capital expenditures.
 - a. The company discloses the methodology it uses to align its future capital expenditure with its decarbonisation goals, including key assumptions and key performance indicators (KPIs).
 - b. The methodology quantifies key outcomes, including the share of its future capital expenditures that are aligned with a 1.5° Celsius scenario, and the year in which capital expenditures in carbon intensive assets will peak.

2. Data on climate-related finance flows (2017-2018)

IIGCC does not hold any additional data in relation to this section.

3. Assessment of the effectiveness of climate finance flows, including drivers, impact results, meeting needs, and access

⁴ <https://www.iigcc.org/download/net-zero-investment-framework-consultation/?wpdmdl=3602&refresh=5f8e46e4d7cf91606305508> (page 12)

(iv) Green investment case studies from the Climate Investment Coalition

The Climate Investment Coalition collects case studies of investments made by institutional investors⁵. The case studies included an analysis of the expected or actual impact of the investment. For example, Danish pension fund, Industriens Pension, invested in Atlas Renewable Energy. The company operates 12 sites in Latin America with a combined target capacity of 1.2 GW which would provide more than 890,000 families with green energy and reduce the CO2 emissions by around 750,000 tonnes. Another case study provided on the CIC website is an investment made in 2020 by Dutch pension fund, PKA, of DKK 2.1 billion in Dutch state green bonds. The green bonds focus on sustainable projects such as renewable energy, energy efficiency, environmentally friendly transport, climate adaptation and sustainable water management.

- 4. Information relevant to making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilience development (Article 2, paragraph 1(c) of the Paris Agreement)**
- a. Information on emerging methodologies relevant to tracking consistency with the long-term goal outlines in Article 2, paragraph 1(c), of the Paris Agreement;**

(v) Net Zero Investment Framework

In August 2020, IIGCC published a draft Framework asset owners and asset managers can use to implement net zero investment strategies and contribute to the goals of the Paris Agreement through 'Paris-aligned' portfolios. The Net Zero Investment Framework was a product of the collaboration of over 70 investors, with over \$16 billion in AUM, who together make up IIGCC's Paris Aligned Investment Initiative⁶.

The Net Zero Investment Framework⁷ sets out the actions and methodologies investors need to become Paris-aligned investors and also to do this through reducing emissions in the real economy. This involves 1) decarbonising portfolios through emissions reductions in underlying assets, 2) increasing investment in what we call 'climate solutions' which are the sectors, companies, & technologies required to support mitigation.

The Net Zero Investment Framework draws on a wide range of levers investors have available to them. This includes actions investors can take at the governance & strategy level, the targets and objectives investors should set, recommendations for asset allocation, specific recommendations for the alignment of different asset classes⁸, stakeholder engagement and policy advocacy.

IIGCC released the Framework for public consultation and received 90 formal responses. The final Framework will incorporate feedback from this process and will be published in early 2021.

⁵ To access all case studies, see <https://www.climateinvestmentcoalition.org/best-practice>

⁶ <https://www.iigcc.org/our-work/paris-aligned-investment-initiative/>

⁷ <https://www.iigcc.org/download/net-zero-investment-framework-consultation/?wpdmml=3602&refresh=5fbf925e2072c1606390366>

⁸ The Net Zero Investment Framework currently covers four asset classes: listed equity, corporate fixed income, real estate, sovereign (and municipal) bonds

b. Available datasets that integrate climate change considerations into insurance, lending, and investment decision-making processes that include information relevant to tracking consistency with the long-term goal outlined in the Paris Agreement;

(vi) Recommended methodologies in IIGCC's Net Zero Investment Framework

IIGCC's Net Zero Investment Framework covers four asset classes to date: listed equity, corporate fixed income, sovereign (and municipal) bonds, real estate. As part of the work to develop the Framework, over 25 methodologies were assessed. The methodologies were assessed against the following criteria: impact, rigour, practicality, accessibility, accountability.

Following careful consideration, the Net Zero Investment Framework considers the following methodologies most relevant to measuring and undertaking Paris-alignment for investors:

- Governance & strategy: TCFD
- Target setting (portfolio level): EU Taxonomy
- Sovereign bonds: Germanwatch Climate Change Performance Index
- Listed equity & corporate fixed income: Transition Pathway Initiative, Science Based Targets Initiative, Climate Action 100+ benchmark, EU Taxonomy
- Real estate: Carbon Risk Real Estate Monitor (CRREM)

c. Information on ongoing activities related to managing investment portfolios, regulatory frameworks, disclosures and integration of climate risk in investments;

(vii) Phase II of PAII

Work of the Paris Aligned Investment Initiative will continue and the second phase will focus on:

- Expanding the scope of the Framework to include two additional asset classes: infrastructure, private equity
- Exploring how investors can align to the adaptation and resilience goals of the Paris Agreement
- Exploring how investors can increase investment in climate solutions
- Addressing analytical gaps where further development of methodologies and approaches is required to support implementation of the Framework.
- Supporting implementation of the Framework by asset owners and asset managers

(viii) Guidance of investors on scenario analysis

In 2019, following a series of roundtables with producers of scenarios (IPCC, IEA), data/service providers, and investors leading in this area, IIGCC produced *Navigating climate scenario analysis – a guide for institutional investors*⁹ to support investors conduct scenario analysis and fulfil a key

⁹ <https://www.iigcc.org/resource/navigating-climate-scenario-analysis-a-guide-for-institutional-investors/>

recommendation of the TCFD. This guidance sets out a five-step framework to help asset owners and managers use scenario analysis and understand how climate changes drives financial impact across their portfolios.

(ix) Guidance for investors on physical climate risk

In May 2020, IIGCC launched new guidance for investors to help identify, assess and manage physical climate risks and opportunities across their portfolios. The guidance, developed with Acclimatise and Chronos Sustainability, is intended as a practical tool to support investors in this process. *Addressing Physical Climate Risks: Key Steps for Asset Owners and Asset Managers*¹⁰ provides short practical guidance, outlining five key steps for investors to take when starting to identify, assess, monitor and manage physical climate risk. *Understanding physical climate risks and opportunities*¹¹ provides more detailed guidance which brings together useful case studies, frameworks and resources for investors who are making a start on assessing physical risk.

(x) Investor expectations of companies on physical climate risk

In addition to adding an adaptation and resilience element to the Net Zero Investment Framework in 2021, IIGCC is supporting investors to identify, measure and manage physical climate risk in their portfolios. IIGCC is currently developing a set of investor expectations for companies on climate-related physical risk, with the aim to increase engagement with companies and enhance the quality of assessment and standardisation of disclosure. IIGCC will then support investors to trial the investor expectations with a set of companies and consider further implementation as well as developing more specific expectations for certain sectors.

d. Metrics for assessing progress in making investment portfolios of international financial institutions, institutional investors and other financial actors consistent with a pathway towards low GHG emissions and climate-resilient development;

(xi) Main metrics in the Net Zero Investment Framework

For institutional investors committing to achieving net zero portfolios by 2050, IIGCC's Paris Aligned Investment Initiative recommends an approach to target setting that seeks to enable a range of possible investment strategies that contribute to achieving net zero global emissions to be reflected (such as activist strategies where investors may purposefully invest in high carbon assets and use shareholder rights to influence transition).

The PAII aims to avoid an approach to target setting that incentivises investors to take actions that reduce their impact simply to meet a specific number in a given year. For example, divesting from a

¹⁰ <https://www.iigcc.org/download/addressing-physical-climate-risks-and-opportunities/?wpdmdl=3384&refresh=5ece1dec0018e1590566380>

¹¹ <https://www.iigcc.org/download/understanding-physical-climate-risks-and-opportunities-a-guide-for-investors/?wpdmdl=3388&refresh=5ec7c4d6de27b1590150358>

company where their engagement is generating results. For this reason portfolio level targets are defined as reference targets.

The PAI currently recommends the following types of targets, that should be set in line with science-based net zero pathways. It is emphasised that, depending on the structure of the portfolio and investment strategy, a wide range of plausible numeric targets may be consistent with the global net zero goal. Investors will be expected to justify how their target is consistent with the global goal of net zero emissions and based on science-based pathways. Please see the Net Zero Investment Framework for more information on the recommended metrics and targets (a final version will be released in January 2021 in which there may be some amendments to recommended metrics and targets)

At portfolio level:

1.a) Set an initial emissions intensity reduction goal and <10-year reference target (CO₂e intensity) covering equity, fixed income, real assets in line with a net zero by 2050 pathway,

And/or

1.b) Set a reference target for total absolute CO₂e emissions reductions expected to be achieved by the assets in their portfolio over <5 years that is consistent with emissions reductions needed over time according to net zero emissions pathways,

And

2. Set an initial goal for allocation to climate solutions representing a % of revenues or capex from AUM, increasing over time, in line with investment trajectories based on a net zero pathway.

At the asset level:

3. Investors should set a 5-year goal for increasing the % AUM invested in net zero or aligned assets,

And

4. Investors should set a minimum coverage threshold of emissions in material sectors to be either net zero or aligned to a net zero pathway, OR the subject of direct or collective engagement and stewardship actions. The % threshold will be confirmed in the final version of the Framework.