Q&A for investors to support signing the letter on climate change to governments of G7 and G20 nations

A Q&A compendium for investors to support signing the letter on climate change to governments of G7 and G20 nations.

This Q&A has been prepared by six investor organisations including the Asia Investor Group on Climate Change (AIGCC, Asia), CDP, the Investor Group on Climate (IGCC, Australia/New Zealand), the Institutional Investor Group on Climate Change (IIGCC, Europe), Ceres Investor Network on Climate Risk (INCR, North America), and The Principles for Responsible Investment (PRI).

1. What are the climate-related priority areas that we are asking governments to focus on and why?

i. **Continue to support and implement the Paris Agreement including the implementation of NDCs and 2050 climate plans to achieve the goals of that agreement** – This is vital for investors to move forward with some certainty about policy implementation and realisation of the Paris Agreement's goals that would, in turn, help to safeguard the long-term value of investment portfolios.

ii. **Drive investment into the low carbon transition through aligning climate-related policies, phasing out fossil fuel subsidies and including carbon pricing where appropriate** – This would help to level the playing field and encourage the necessary acceleration in public and private sector investment flows to support and enable climate mitigation and adaptation in developed and developing countries.

iii. **Implement climate-related financial reporting frameworks, including supporting the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) recommendations** – This would provide greater visibility and international comparability of climate-related financial information to make more reliable and accurate assessments of the risks and opportunities of investment portfolios across jurisdictions.

2. Why is the implementation of the Paris Agreement important for investors?

With the Paris Agreement having come into force in November 2016, it is now essential for governments to implement clear and credible plans and policy measures to achieve the nationally-determined contributions (NDCs), and that the outcomes and progress of these be monitored and communicated over time. [1]

At the international level, this would provide a sound basis against which to assess the likelihood of achieving the Paris Agreement's goal of "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels." At the national level, it would provide greater visibility for investors about the leaders and laggards and highlight where further effort might be needed.

The implementation of NDCs and the monitoring of outcomes over time are vital for investment planning and long-term decision-making processes. Policy implementation, combined with clear and credible reporting of progress over time, would provide the private sector with greater certainty as to how the policy trajectory is evolving. This would, in turn, affect investors' ability to assess climate-related risks and opportunities, to measure and disclose portfolio exposure to the low carbon transition and to invest in opportunities that would support a low carbon, more energy efficient and climate resilient world across the developed and developing nations.

3. What specific actions are investors asking governments to take to implement the Paris Agreement?

- **Ratify the Paris Agreement, and where already ratified, continue to support and implement the Paris Agreement** – Countries that ratify the Paris Agreement will be better able to attract investment in low- and zero- carbon solutions, and through this will help accelerate the implementation of the agreement.
- **Submit NDCs in 2017** – The NDC process is essential for monitoring the pace of implementation and progress over time. As such, it provides valuable insight for investors on the climate-related policy risks and opportunities at the national and international levels.
- **Implement and strengthen future NDCs** – This would provide investors with greater visibility and assurance about a country's implementation efforts and their ability to deliver on the Paris Agreement's goals. This would include participation in the implementation framework via the UNFCCC process, including the work program and progress tracker initiatives that have been established to monitor and report progress over time.[2]
- **Develop 2050 climate plans in 2017** – NDCs will be more successful if complemented by longer-term target setting to help ensure companies and investors can prepare for, and support, the low carbon transition process. Investors would be better placed to effectively price and invest in long-term assets such as green bonds, private equity, infrastructure, timberland and agriculture that will all provide crucial support for the low carbon transition.
- **Communicate annual progress out to 2050** – In addition to the 5 yearly formal reporting processes through the UNFCCC, annual updates on key climate-related actions and outcomes would provide investors with reliable, time critical information about climate-related policy outcomes that would support more robust decision-making and strategic planning[3].

4. Why do governments need to take action to drive investment into the low carbon transition?

It is widely acknowledged that there is a clear and pressing need to scale up financial flows to enable the low carbon transition process[4]. Expert analysis illuminates the need for new policies and measures in order to bridge this financing gap at the speed and scale required, even as renewable energy increasingly outcompetes high carbon energy sources around the world.[5]

It is imperative that the public and private sector work closely together with a sense of urgency to get the signaling and incentives right to shift the trillions of capital required in the most effective and efficient manner.

5. What specific actions are we asking governments to take to help drive investment into the low carbon transition?

- **Support a doubling of global investment in low carbon assets into developed and developing countries by 2020** – Institutional investors can work in partnership with policy makers to help attract the investment needed to support the transition to a low

carbon economy in a way that would underpin financial stability, resilience and inclusiveness for developed and developing countries.

- **Include carbon pricing in climate-energy action plans** – Long-term investors would benefit from having a stable, reliable and economically meaningful carbon pricing that would help redirect investment commensurate with the scale of the climate change challenge. Carbon pricing would help investors to more accurately price current and future climate-related risks and opportunities into asset valuations.
- **Agree on a timetable for phasing out fossil fuel subsidies** – In some countries, the continued reliance on fossil fuels and the subsidies that underpin these industries perpetuate a lack of investment in renewable energy and energy efficiency measures, including (for example) improvements to grid infrastructure that would support the smooth and reliable integration of renewable energy into base load power supply.
- **Implement climate-energy action plans and align policies in 2017** – While some countries are implementing cross-cutting climate-energy frameworks[6], there is a need for greater alignment and more joined up planning across government mandates including the energy, infrastructure, industry, climate and financial policy setting bodies and agencies.[7] Such alignment would help to provide more consistent signals and incentives for institutional investors to embark on parallel transition planning efforts that would ultimately improve financial resilience and bolster capital flows to towards low carbon opportunities.
- **Prioritise and implement the recommendations of the G20 Green Finance Synthesis Report** – Implementation of the synthesis report's recommendations would provide investors with greater clarity on climate-related policy signals and frameworks, encourage the development of voluntary principles for green finance, expand learning networks and building market capacity, support the development of green bond markets, facilitate knowledge sharing on environmental and financial risks and improve the measurement of green finance activities and their impacts[8].

6. Why is the implementation of climate-related financial reporting frameworks important for investors?

One of the essential ingredients for managing the transition to a low carbon economy effectively is having access to reliable, consistent and comparable information about the exposure to climate-related risks and opportunities.

Robust disclosure plays a critical role in enabling financial markets to price risks correctly and helps ensure that capital is put to good use. If climate risks are not fully evaluated and disclosed, ill-informed investment and corporate decisions would continue to drive up the cost of the transition for policy-makers, investors, businesses and – ultimately – for consumers and communities.

To this end, efforts have been underway for some years within the private and public sectors across a number of jurisdictions to improve the financial reporting standards of listed entities around climate-related risks and opportunities[9]. Some countries and national stock exchanges have adopted mandatory reporting regimes[10] with varying degrees of compliance and success, while others have clarified how climate-related financial disclosure is required under existing legal frameworks.[11] Other jurisdictions are stepping up guidance on voluntary reporting, not least

in response to the work of the Financial Stability Board (FSB) Task Force on Climate-Related Financial Disclosures (TCFD), which is helping to elevate the issue amongst corporations, investors, regulators and international standard setting bodies (SSBs).

7. What specific actions are we asking from governments to support the implementation of climate-related financial reporting frameworks?

- **Commit to implementing national climate-related financial reporting frameworks by supporting the TCFD recommendations** – To create a more level playing field and prevent competitive disadvantage, it is essential that national reporting frameworks converge to enable the useful comparison of corporate risk profiles, to facilitate fully informed decision-making and to reduce the reporting burden for entities operating across multiple jurisdictions.[12]
- **Clarify the mandate of national financial regulators to evaluate and require disclosure of material climate-related financial information** – Clarifying the purview of national financial regulators to explicitly mandate, enforce and evaluate the quality of climate-related financial disclosures in alignment with the TCFD recommendations would help to encourage and facilitate alignment with disclosure standards across jurisdictions.
- **Request that the international financial standard setting bodies (SSBs) respond to the FSB TCFD recommendations** – Financial standards play a key role in providing the governance architecture that oversees how national regulations evolve and how the financial system functions, as well as helping to reinforce and solidify new and emerging industry norms on financially significant issues such as climate change. Encouraging the SSBs to respond to the TCFD recommendations would help investors to position for any future changes to financial standards in a way that is consistent across jurisdictions.
- **Prioritise knowledge sharing on scenario analysis and transition planning** – The TCFD's recommendations on climate scenario analysis could be bolstered if global leaders prioritised the development and utilisation of open source platforms for sharing knowledge, tools and expertise. This would help to improve the uptake and consistency in terms of the application of scenario analysis techniques as they emerge and are applied, as well as improve the cost effectiveness and alignment of the resulting information for end-users.

About the organisations that co-authored this Q&A

Asia Investor Group on Climate Change (**AIGCC**) is an initiative to create awareness among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. AIGCC represents the Asian voice in the evolving global discussions on climate change and the transition to a greener economy. For more information, visit www.aigcc.net and @AIGCC_update

Investor Group on Climate Change (**IGCC**) is a collaboration of Australian and New Zealand institutional investors and advisors, managing over $1 trillion in assets under management and focusing on the impact that climate change has on the financial value of investments. IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change. For more information, visit www.igcc.org.au and @IGCC_Update

CDP, formerly the Carbon Disclosure Project, is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. CDP represents institutional investors with assets of US$100 trillion, helping to leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts; whilst also providing insights into corporate environmental performance for investors. Over 5,800 companies with some 60% of global market capitalisation disclosed environmental data through CDP in 2016 alongside 500 cities and 100 states and regions, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. Please visit www.cdp.net or follow us @CDP to find out more.

Institutional Investors Group on Climate Change (**IIGCC**) is a collaborative forum for 137 organisations in 9 European countries who between them manage assets in excess of €18 trillion. Its membership spans everything from belief-based funds to mainstream investors, from pension funds to fund managers and private equity houses. Its mission is to provide investors with a common voice to encourage public policies, investment practices and corporate behaviour which address long-term risks and opportunities associated with climate change. For more information, visit www.iigcc.org & @iigccnews

Ceres is a non-profit organisation mobilising investors and businesses to take action on climate change, water scarcity and other sustainability challenges. Ceres coordinates the Investor Network on Climate Risk (**INCR**, North America), a group of over 120 institutional investors managing more than $15 trillion assets focused on addressing the risks and opportunities of climate change. Ceres also engages with 100-plus companies, many of them Fortune 500 firms, on sustainable business issues. For more information, visit www.ceres.org and @CeresNews

The United Nations-supported Principles for Responsible Investment (**PRI**) is the world's leading initiative on responsible investment. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles for incorporating environmental, social and governance issues into investment practices. In implementing the principles, signatories contribute to developing a more sustainable global financial system. The principles have 1,700 signatories including asset owners, investment managers and service providers from over 50 countries including the G20, representing US$65 trillion. For more information, visit www.unpri.org and @PRI_News

AIGCC, IGCC, IIGCC and INCR collaborate regularly as members of the Global Investor Coalition on Climate Change . All of the groups (along with UNEP FI) co-sponsor the Investor Platform for Climate Action

[1] UNFCCC, "Taking the Paris Agreement forward," See: http://unfccc.int/paris_agreement/items/9485.php
[2] UNFCCC, "Taking the Paris Agreement forward" http://unfccc.int/paris_agreement/items/9485.php
[3] For an example of the industry led efforts to track the progress of countries against their NDCs see: http://climateactiontracker.org/indcs.html
[4] http://www.g20.utoronto.ca/2016/160724-finance.html
[5] Estimates from the IEA, OECD, World Bank and World Economic Forum indicate that over the coming 15 years, the world will need to invest around US$90 trillion in sustainable infrastructure assets– more than twice the current stock of global public capital. "Mapping The Gap: The Road From Paris," Bloomberg New Energy Finance et al., See: https://www.ceres.org/resources/reports/mapping-the-gap-the-road-from-paris/view. The Ceres "Clean Trillion" report (2014) set out 10 recommendations for investors, companies and policymakers to increase annual global investment in clean energy to at least $1 trillion by 2030. Source: Ceres report, Investing in the Clean Trillion, 2014, available at www.ceres.org.
[6] http://unepinquiry.org/wp-content/uploads/2016/09/The_Financial_System_We_Need_From_Momentum_to_Transformation.pdf
[7] See for example the OECD Progress Report on Approaches to Mobilising Institutional Investment for Green Infrastructure (2016)
[8] http://unepinquiry.org/wp-content/uploads/2016/09/Synthesis_Report_Full_EN.pdf
[9] UNEP Inquiry, CalPERS, Rob Lake (2015) Financial Reform, Institutional Investors and Sustainable Development: A review of current policy initiatives and proposals for further progress, UNEP Inquiry Working Paper 15/07
[10] http://www.sseinitiative.org
[11] https://www.federalregister.gov/documents/2010/02/08/2010-2602/commission-guidance-regarding-disclosure-related-to-climate-change; http://www.osc.gov.on.ca/en/NewsEvents_nr_20101027_csa-guidance-environ-disc.htm.
[12] 192 companies and investors have signed a CDSB commitment to "Report climate change information in mainstream reports as a fiduciary duty", agreeing to "produce and use climate change information in mainstream corporate reports out of a sense of fiduciary and social responsibility, in order to support the efficient allocation of capital." http://www2.cdsb.net/fiduciarystatement/statement; https://www.wemeanbusinesscoalition.org/take-action/report-climate-change-information-mainstream-reports-fiduciary-duty.