



NET-ZERO ASSET OWNER ALLIANCE

Transition Financing Track – All Members Call

30 August 2023





Agenda

1. **Market insights by Anthropocene Fixed Income Institute**
 - **Conoco Philips**
 - **Japanese Transition Bonds**
 - **Bond Holder Disclosure**
2. **NZAOA TSP V4 drafting: Carbon Removals section**
3. **European Commission: Regulation on the transparency and integrity of ESG Rating activities**

TSP V4 drafting: Carbon Removals section

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Context and process




Context:

The MRV Track is currently developing the 4th version of the Target Setting Protocol (TSP V4), which will be published in Q1 2024. Each of the Tracks can input on their sections.

Process:

- The Track Leads inform the members about the proposed changes (today) - comments/feedback is welcomed
- Legal review and full membership consultation in October (as per our Standard Operating Procedures)
- Publication: Q1 2024

TSP V4 drafting: Carbon Removals section

-  No material changes
-  Addition to original text
-  New items

Current version – TSP v3




1. Prioritise deep and rapid decarbonisation across all sectors, particularly the carbon-intensive industries.
2. Track progress against net-zero goals and ensure accountability such that the employment of carbon removals does not deter or detract from decarbonisation efforts and/or ambition on a wider scale.

Not part of TSP v3

Proposed changes – TSP v4

1. **Decarbonize:** Prioritise deep and rapid decarbonisation across all sectors, particularly the carbon-intensive industries.
2. **Oversight:** Track progress against net-zero goals and ensure accountability such that the investee companies' employment of carbon removals only acts as complementary to decarbonisation efforts and contributes to high-ambition 1.5°C no or low overshoot science-aligned climate pathways.
3. **Net in Net-Zero:** In the same spirit, alliance members, in their Net-Zero efforts, *shall only* use high-quality carbon removals²⁵ to address hard to abate emissions outside their own financed emissions, and in addition to their own 1.5°C no or low overshoot science-aligned mitigation efforts.
4. **Close the Climate Solution financing gap:** Contribute to closing the climate solutions financing gap by financing existing and new technologies that ensure long-term emissions avoidance and removal.
5. **Promote the development of Carbon Markets:** Promote the development of carbon markets, supporting scalable, transparent, liquid, and reliable high-quality carbon markets. Therefore, the Alliance highly encourages its members to contribute to a high-quality, liquid, well-functioning, and well-regulated carbon removal market as such a market is important for accelerating decarbonisation efforts.

TSP V4 drafting: Carbon Removals section

-  No material changes
-  Addition to original text
-  New items

Current version – TSP v3

Investee companies

Alliance members **shall** encourage investee companies to prioritise abatement.

Alliance members

Therefore, Alliance members **shall not** use carbon removals for their own sub-portfolio or sector target achievement at this time or at any time before 2030 (when this Protocol comes to term). Nevertheless, members are highly encouraged to contribute to a liquid

Carbon permanence

Alliance members are encouraged to invest in projects and technologies of durable CO₂ avoidance and removal to scale future markets rapidly.

Proposed changes – TSP v4

Investee companies

Alliance members **shall** encourage investee companies to deliver their interim-term abatement targets and support their use of carbon removals for residual emissions in line with sector-specific science aligned pathways.

Alliance members

To achieve their Net-Zero targets, Alliance members **shall only** use high quality removals for residual emissions outside their own Scope 3 financed emissions, and in addition to their own 1.5°C no or low overshoot science-aligned decarbonisation efforts.

In other words, for their Net-Zero targets, Alliance members may use such removals for residual emissions falling under Scopes 1 and 2, and for the Scope 3 categories such as business travel.

Carbon removals may also be applied towards residual emissions for assets wholly owned by the investor (e.g., cases in which the Alliance member is both the investor and the investee company).

Carbon permanence

While carbon removals with long-lived storage must be prioritised, the Alliance does, however, acknowledge the challenges facing long-lived storage due to their early stage of development, including limited supply and high costs.

Whilst the long-term focus **shall** remain on long-lived carbon removals, short-lived carbon storage could help buy time as investments in technology ramp up.

European Commission:
Regulation on Transparency and Integrity of ESG Rating Activities

Are you / colleagues working on this legislative proposal and would share views?

European Commission legislative proposal (1/2)

Regulation on the Transparency and Integrity of ESG Rating Activities

Content of the EU's legislative proposal by DG FISMA June 13, 2023: COM(2023) 314 final, 2023/0177(COD)

- Environmental, social and governance (ESG) ratings provide an opinion on a company or financial instrument's sustainability profile or characteristics, exposure to sustainability risks or impact on society and/or the environment. They offer information to investors and financial institutions, e.g. on investment strategies and risk management.
 - The ESG ratings market currently suffers from a lack of transparency and the European Commission is proposing a regulation to improve the reliability and transparency of ESG ratings activities. Prevention of conflicts of interest shall increase integrity of ESG rating providers' operations. Moreover, the proposal requires ESG rating providers offering services to investors and companies in the EU to be authorized and supervised by the European Securities and Markets Authority (ESMA). This shall ensure quality and reliability of their services to protect investors and ensure market integrity. This initiative also aims to achieve that credit rating agencies incorporate relevant ESG risks in credit ratings, which assess the creditworthiness of a company or financial instrument.
- **Are you or any of your colleagues working on this topic and would share views with the Secretariat a/o NZAOA members?** Please contact anna.irmisch@un.org.

European Commission legislative proposal (2/2)

Regulation on the Transparency and Integrity of ESG Rating Activities

Links to the legislative proposal by EU's DG FISMA from June 13, 2023:

- [Proposal for a Regulation on the Transparency and Integrity of ESG Rating Activities](#)
- [Impact assessment accompanying the proposal](#)
- [Summary of the impact assessment accompanying the proposal](#)
- [Timeline of the legislative proposal and stakeholder's feedback](#)

Related IOSCO background and open UK FCA consultation:

- IOSCO called 2021 for [oversight of ESG Ratings and Data Product Providers](#), the UK Financial Conduct Authority is running a [consultation](#) on a Draft Code of Conduct for ESG Ratings and Data Products Providers, *open for feedback until October 5, 2023*.
- **Are you or any of your colleagues working on these topics and would share views with the Secretariat a/o NZAOA members?** Please contact anna.irmisch@un.org.

