With the contribution of the LIFE Programme of the European Union

Finance ClimAct :

Session 1. Climate objectives

Climate target setting and contribution of Financial Institutions

26/10/2020

Problematics

I. What is the definition of climate impact for FIs?

II. Guiding FIs in climate target setting : framework overview.

Challenging investor impact

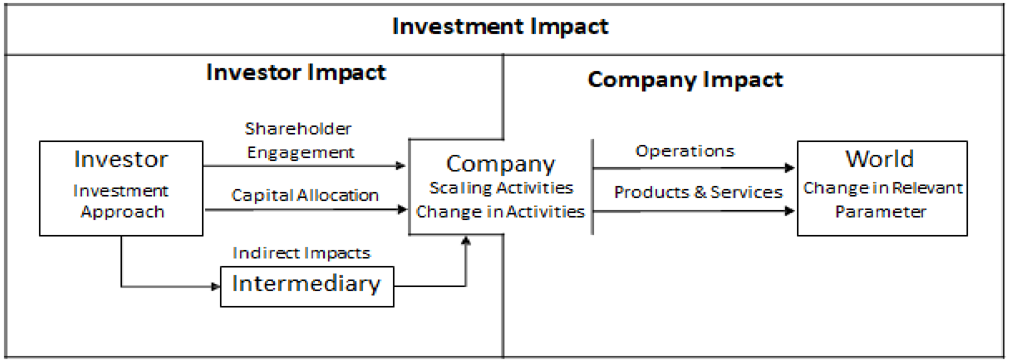
Academic literature shows that the "investor impact" notion is key to understand the Financial Institutions' (FIs) contribution to climate goals

FIs contribution to climate goals should lead to GhG emissions in the real economy

- International climate goals aim to **limit global warning** well below 2°C above preindustrial levels and pursuing efforts to limit the temperature increase **to 1.5°C above pre-industrial levels** (Paris Agreement, 2015)
- Scientific evidences show that this will require global **net anthropogenic CO2 emissions to decline by about 45%** from 2010 levels by 2030 (IPCC, 2019), this will require "massive" and "transformative" investments
- According to I**SO14097**, **FIs climate contribution** accounts for **the effects caused by their climate actions** and is **expressed in GhG emissions units i.e. in the real economy.**

Literature shows that FIs' actions could contribute to changes in the real economy through the notion of "Investor impact"

"**investor impact** [is] the change that investor activities achieve in company impact" (Kölbel et al, 2019) through various mechanisms (engagement, capital allocation, indirect impacts), as opposed to the impact of the companies in the portfolio. It is consistent with previous research (Brest et al, 2018) and the IFC's definition."



To date, there is a lack of methodological framework to help FIs set GhG reduction targets based on genuine impact indicators

	Regulatory context	Retail investors expectations	FIs voluntary approach
Observations **There is a need for FIs to be able to set targets in terms of reduction of GHG emissions in the real economy**	In France, **Article 173 VI.-A requires FIs to disclose** their **contribution to international climate** and energy transition **goals**. This contribution should be gauged regarding the targets they set and considering their **consistency with the French carbon strategy** (Stratégie Nationale Bas Carbone)	Analysis show that **40% of consumers want to have a measurable environmental impact** with their money[1], highlighting the need for FIs to set targets consistently	**Financial Institutions** (FIs) are increasingly communicating their **ambition to contribute to the reduction of GHG emissions in the real economy** (see Net zero Asset Owners Alliance, Collective Commitment to Climate Action etc.)[2]
Issue **Current practices are highlighting a lack of methodological framework**	As of June 2019, **65% of FIs in the scope of the Article 173** were **not disclosing or disclosing insufficient information** regarding their contribution to long term objectives and the related target they are setting[2]	52% of the FIs making environmental impact claims are **unable to reflect a "verifiable environmental benefit or improvement"** [3]	There is **no empirical evidence that aligning the exposure of investment/lending** portfolio with a 1.5°C pathway, which is currently the main metric use to set targets, **can serve as a proxy for measuring FIs contribution to the real economy**[4]

Problem statement

How to provide the necessary tools to steer climate action with FIs clients or investees, and guidelines on disclosing science-based targets and tracking them?

[1] *A Large Majority of Retail Clients Want to Invest Sustainably, 2DII, 2020* / [2] *"Science-Based Targets" for Financial Institutions: Position & Consultation Deck, 2DII 2020*
[3] *Bilan de l'application des dispositions du décret n°2015-1850 du 29 décembre 2015 relatives au reporting extra-financier des investisseurs , CGDD, 2019*
[3] *EU Retail Funds environmental impact claims do not comply with regulatory guidance, 2DII, 2020 / 4 Feedback on the Second Version of the Ecolabel Criteria for Financial Products, 2DII 2020*

From theory to attribution

We need to bridge the gap between FIs ambitions and current theories

WE ARE HERE

How to bridge the gap?

THE IMPACT CLAIMS MADE SET THE BAR HERE

THEORY
The asset manager has a theory about how the investment strategy will have an impact

PROGRESS
The targeted economic activities are actually progressing towards 2°C

ADDITIONALITY
The actions of the financial institutions mobilized are a key factor in the progress observed

QUANTIFICATION
The collective contribution of the finance sector can be isolated and the weight of this factor in the delivery of benefits can be estimated

ATTRIBUTION
The specific contribution of the fund manager can be determined

1. Keep collecting **evidences** on impact processes
2. Inform the market so FIs **communicate** more clearly about their ambitions
3. Develop **frameworks** to helps FIs implement actions which maximize their impact
4. Develop **new products** with more impact

As part of the Finance ClimAct project, we aim to build a framework which could help FIs bridging this gap

III Target public disclosure and tracking

8: Climate Action tracker (E4I)
Module to report actions & track deployment

9: Target setting reports (C5.1/2)
Annual report on targets set by FIs

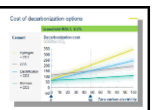
10: Commitment Observatory (WP C5.4)
Monitoring of targets set by French FIs

II Development of evidence-based decarbonisation plans

4: Climate Action guide (E4I)
Climate actions referencing and use cases

5: Climate Action planning template(E4I)
Template to describe climate actions, track outputs, evidence and outcome indicators.

6: PEPITO et STP (C7)
Sectorial Transition Pathway modelling



7: Target setting guide (C5.1/2)
Guide to set targets

Climate Target setting and contribution of FIs

Portfolio analysis with PACTA (cf. 1)

Identification of misaligned assets and companies (cf. 2)

ACT assessment request for those cie. (cf. 3)

Identification of potentials targets, actions and associated costs (cf. 4 to 6)

Climate Objectives and action plans based on impact (cf. 7)

Engagement with cie. to realign their mitigation strategy (cf. 4 & 5)

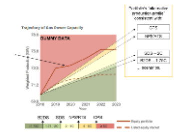
Tracking of changes in the real economy (cf. 8)

Monitoring financial sector progress on target set and tracked (cf. 9 & 10)

I Alignment analysis and identification of areas for action / cie. to target

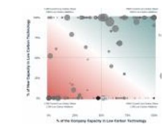
PACTA Paris Agreement Capital Transition Assessment

1 : PACTA (Portfolio)
Portfolio alignment



PACTA Paris Agreement Capital Transition Assessment

2: PACTA (Companies)
Companies alignment



ACT ASSESSING LOW CARBON TRANSITION

3: ACT
Assessment of cie. strategies and actions consistency with low carbon trajectories

Focus I | PACTA & ACT

I **Alignment analysis and identification of areas for action / cie. to target**

Data provider

Asset Resolution

- **230,000+ assets** matched with **35,000+ companies.**
- **Forward-looking database of Physical Assets Matched with Securities, covering key energy-related sectors and financial asset classes.**

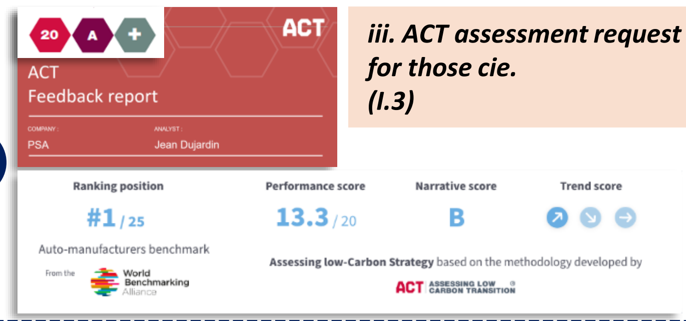
General Tools

1 PACTA Paris Agreement Capital Transition Assessment — 2° investing initiative

i. Portfolio analysis with PACTA (I.1)

ii. Identification of misaligned assets and companies (I.2)

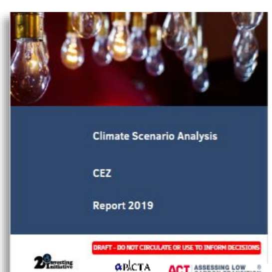
2 ACT ASSESSING LOW CARBON TRANSITION ®



iii. ACT assessment request for those cie. (I.3)

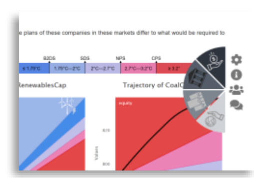
1 + 2

PACTACT Company (& sectoral) Report



- ***Holistic Transition Report***
Providing details about companies' expected production plans, 2° strategy and potential transition plans

This report will be designed as an interactive/efficient dashboard



Target setting

II **Development of evidence-based decarbonisation plans**

5: Climate Action planning template(E4I)

7: Target setting guide (C5.1/2)

4: Climate Action guide (E4I)

6: PEPITO et STP (C7)

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- Coordination of the research and reports with internal resources

RÉPUBLIQUE FRANÇAISE
Liberté Égalité Fraternité

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