Q&A for investors to support signing the 2018 Global Investor Statement to Governments on Climate Change

This Q&A compendium has been prepared for investors by way of background to support signing the 2018 Global Investor Statement to Governments on Climate Change. The Q&A will not be shared with governments.

As was the case in 2017, by signing the 2018 Global Investor Statement, investors are only committing to the statement and not the Q&A.

The Q&A has been prepared by seven investor organisations including the Asia Investor Group on Climate Change (AIGCC, Asia), CDP, Ceres (North America), the Investor Group on Climate (IGCC, Australia/New Zealand), the Institutional Investor Group on Climate Change (IIGCC, Europe), and The Principles for Responsible Investment (PRI), and UNEP-FI.
1. What are the climate-related priority areas that we are asking governments to focus on and why?

i. **Achieve the Paris Agreement’s goals**
   - Update and strengthen nationally-determined contributions to meet the emissions reduction goal of the Paris Agreement, starting the process now in 2018 and completing no later than 2020, and focusing swiftly on implementation
   - Formulate and communicate long-term emission reduction strategies in 2018
   - Align all climate-related policy frameworks holistically with the goals of the Paris Agreement
   - Support a just transition to a low carbon economy.

ii. **Accelerate private sector investment into the low carbon transition**
   - Incorporate Paris-aligned climate scenarios into all relevant policy frameworks and energy transition pathways
   - Put a meaningful price on carbon
   - Phase out fossil fuel subsidies by set deadlines
   - Phase out thermal coal power worldwide by set deadlines.

iii. **Commit to improve climate-related financial reporting**
   - Publicly support the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the extension of its term
   - Commit to implement the TCFD recommendations in their jurisdictions, no later than 2020
   - Request the FSB incorporate the TCFD recommendations into its guidelines
   - Request international standard-setting bodies incorporate the TCFD recommendations into their standards.

2. Why is achieving the Paris Agreement’s goals important for investors?

The implementation of the Paris Agreement that came into force in November 2016 is currently falling well short of the agreed 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.” Indeed, the full implementation of current Nationally Determined Contributions (NDCs) would lead to an unacceptably high temperature increase in the range of 2.9 to 3.4°C relative to pre-industrial levels.

This is of great concern for investors as global warming at that scale would have large and detrimental impacts on global economies, society and investment portfolios, now and into the future. This gap needs to be urgently addressed by policy makers. It is important for our long-term planning and asset allocation decisions, as well as our response to the TCFD recommendations, that governments work closely together to incorporate Paris-aligned scenarios into their policy frameworks and energy transition pathways. This will help to ensure that policy, business and investor actions are coordinated and steered in the right direction to collectively achieve the Paris Agreement goals.

---

3. Why do governments need to take action to accelerate 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. A recent survey of institutional investors identified policy barriers as one of the key obstacles to scaling up investment in low carbon solutions. Expert analysis further illuminates the need for new policies and measures in order to bridge the financing gap at the speed and scale required, even as renewable energy increasingly outcompetes high carbon energy sources around the world.

To strengthen investor confidence to further invest in the low carbon economy, it is therefore vital that global policy makers deliver strong and continued support for climate action, including through fostering closer alignment of climate-related policy frameworks to achieve the Paris Agreement goals, putting a meaningful price on carbon, phasing out fossil fuel subsidies and phasing out thermal coal.

4. Why do governments need to commit to improve climate-related financial reporting?

For investors to price the low carbon transition process and the physical risks associated with climate change effectively, we need companies to report reliable and decision-useful climate-related financial information. 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.

That is why investors welcome the recommendations of the Financial Stability Board’s (FSB) Task Force on Climate-related Financial Disclosures (TCFD) and are taking practical steps to assist their implementation around the world.

In order for the TCFD recommendations to be effective and universally adopted across jurisdictions, it is vital that governments also publicly express their support for the recommendations and agree to extend the term of the TCFD. Governments can also work together to encourage international standard setting bodies to implement the TCFD recommendations, including incorporation into official FSB guidelines. Finally, governments can commit to improving climate-related financial reporting standards in their jurisdictions at the national level. All of these actions would help to solidify new norms and improve disclosure.

---

3 http://www.g20.utoronto.ca/2016/160724-finance.html
standards of climate-related financial impacts, at the international and national level.

Explanatory notes

1. **Nationally Determined Contributions (NDCs)** – NDCs are at the heart of the Paris Agreement and the achievement of its long-term goals. NDCs embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. The Paris Agreement requires each Party to “prepare, communicate and maintain successive NDCs that it intends to achieve”.

2. **Long-term emission reduction strategies** – In accordance with Article 4, paragraph 19, of the Paris Agreement, all governments should “strive to formulate and communicate long-term low greenhouse gas emission development strategies.” The COP invited governments to communicate, by 2020, long-term low greenhouse gas emission development strategies. This is an important undertaking for investors, as long-term strategic planning by governments will reaffirm the direction of public policy with respect to climate change and hence investors’ ongoing assessment and response to manage the portfolio implications of climate-related risks and opportunities. It is thus highlighted as a priority area for action in the global statement to governments, as only 8 countries have so far submitted and communicated their long-term emission reduction strategies through the UNFCCC process.

3. **Align climate-related policy frameworks** - While some countries are implementing cross-cutting climate-energy frameworks, 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. 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 towards low carbon opportunities.

4. **Energy transition pathways** – The pathways that underpin an energy transition that is consistent with the Paris Agreement goals, including the scale and scope of investments required in low-carbon technologies in power generation, transport, buildings and industry (including heating and cooling) to facilitate a low carbon transition in a cost-effective manner. Around two-thirds of global greenhouse gas (GHG) emissions stem from energy production and use, making energy markets central to efforts to combat climate change.

5. **Climate-related scenarios / Paris-aligned scenarios** – In response to the need to mitigate and adapt to the effects of climate change, investors are increasingly applying climate-related scenarios to their investment portfolios to evaluate the investment impact of different outcomes as a tool to help manage the low carbon transition portfolio exposures accordingly. The FSB TCFD recommendations included a “need to take into consideration

---

6 [https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs#eq-1](https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs#eq-1)

7 [https://unfccc.int/process/the-paris-agreement/long-term-strategies](https://unfccc.int/process/the-paris-agreement/long-term-strategies)

8 [https://www.iea.org/publications/insights/insightpublications/PerspectivesfortheEnergyTransition.pdf](https://www.iea.org/publications/insights/insightpublications/PerspectivesfortheEnergyTransition.pdf)

different climate-related scenarios, including a 2° Celsius or lower scenario\textsuperscript{10} (in alignment with the Paris agreement). There are a range of sources used for climate-related scenario analysis, with some governments, corporations and investors developing their own methodologies and scenarios, while others refer to those constructed by international organisations, in particular the International Energy Agency\textsuperscript{11} (IEA)\textsuperscript{12}.

There have been some concerns expressed about the underlying assumptions embedded into some of these scenarios in terms of energy transition pathways, assumptions around carbon capture and storage (CCS) and the alignment of these scenarios with the Paris Agreement goals\textsuperscript{13}. For this reason, it is important for investors that governments ensure there is alignment with the scenarios that are being utilised by different parties to the Paris Agreement goals, and to encourage transparency across the public and private sector in terms of the assumptions and outcomes from scenario analysis assessments. Such alignment with the Paris Agreement goals will ultimately improve the measurement, mitigation and disclosure of climate-related risks and opportunities across governments, investee companies and portfolios in a coordinated, consistent and transparent way.

6. **Financial Stability Board (FSB)** – The FSB promotes international financial stability by “coordinating national financial authorities and international standard-setting bodies as they work toward developing strong regulatory, supervisory and other financial sector policies.” It seeks to foster a level playing field by encouraging coherent implementation of these policies across sectors and jurisdictions\textsuperscript{14}. The G20 and FSB established the Task Force on Climate-related Financial Disclosures as an “industry led” effort, supported (but not led by) the FSB. The FSB has not formally incorporated the TCFD recommendations that were released in mid 2017 into its frameworks and guidelines for other international standard setting bodies (SSBs).

It is important for investors that the momentum behind these efforts continue and that the FSB remain involved with the TCFD, to underpin its ongoing credibility across the business and investment communities. The investor statement to global leaders thus requests, at a minimum, that the existence of the TCFD be extended under the umbrella of the FSB, and that the FSB also be requested by government leaders to consider the implications of the TCFD recommendations for its guidelines and frameworks to promote financial stability.

7. **International standard setting bodies (SSBs)** – The SSBs play a crucial role in providing the governance architecture that oversees how the financial system functions at the international level. The role that the SSBs can play in integrating climate-related risks into the financial system is vital, not only from the perspective of increasing the legitimacy among finance sector regulators and industry participants, but also for providing the necessary governance and guidance frameworks that is required to support this shift\textsuperscript{15}.

---

\textsuperscript{10} FSB TCFD (2017) Final report and Technical Supplement
\textsuperscript{11} https://www.iea.org/publications/scenariosandprojections/
\textsuperscript{13} http://priceofoil.org/2018/04/04/off-track-the-iea-and-climate-change/
\textsuperscript{14} http://www.fsb.org/about/
\textsuperscript{15} UNEP Inquiry (2017) A Review of International Financial Standards as they relate to Sustainable Development
This is why the investor statement to governments includes a recommendation to request that SSBs respond to the TCFD recommendations and investigate how these can be incorporated into their guidelines and frameworks. Some of the SSBs that would need to consider the TCFD recommendations include the banking and regulation standards (Basel III and the Banking Committee on Banking Supervision); corporate governance standards (G20/OECD principles of corporate governance); securities regulation and standards (International Organisation of Securities Commissions or IOSCO); Insurance regulations and standards (International Association of Insurance Supervisors or IAIS); institutional investment regulations and standards (fiduciary duty and prudent person rule, International Organisation of Pension Supervisors or IOPS and OECD Core Principles of Private Pension Regulation); and Accounting and financial reporting standards (IASB International Financial Reporting Standards and IAASB International Standards on Auditing).

8. **Thermal coal phase out** – Expert analysis shows that to meet the Paris Agreement goals of limiting the increase in global temperatures by 2 degrees Celsius, while striving to limit the increase to 1.5 degrees, a coal phase-out is needed by 2030, in the Organisation for Economic Co-operation and Development and in the European Union; by 2040, in China; and by 2050, in the rest of the world.\(^\text{16}\)

Governments are responding by making efforts to phase out thermal coal, with the Powering Past Coal Alliance Declaration being launched in 2017, with 26 countries and 8 subnational governments supporting the “phasing out of existing traditional coal power and placing a moratorium on any new traditional coal power stations without operational carbon capture and storage, within our jurisdictions”\(^\text{17}\).

The **Investor Agenda** on climate change was also recently launched that sets out four key actions in relation to ‘investments’, one of which is ‘phasing out investments in thermal coal (specifically thermal coal mining and coal-fired power generation)’. Many of the world’s leading institutional investors are already progressing their efforts in this regard and responding to the risks associated with thermal coal-based assets by taking action in a number of ways – one of which is to phase out investments in thermal coal assets.

9. **Just transition** – Recognition of the need to transition to a low carbon economy in a sustainable and economically inclusive way by providing appropriate support for workers and communities\(^\text{19}\), as well as ensuring that the benefits of gaining access to cleaner energy sources are shared by all.\(^\text{20}\)

---

18 According to International Energy Agency (IEA) estimates, coal supplies a third of all energy used worldwide and makes up 40% of electricity generation, with thermal coal accounting for nearly two thirds of CO2 emissions from power generation and one third of total energy-related CO2 emissions.
About the organisations that co-authored this Q&A

The 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

CDP is an international non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of US$87 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 6,300 companies with some 55% of global market capitalization disclosed environmental data through CDP in 2017. This is in addition to the over 500 cities and 100 states and regions who disclosed, making CDP’s platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP, formerly Carbon Disclosure Project, is a founding member of the We Mean Business Coalition. For more information visit www.cdp.net or @CDP

Ceres is a sustainability nonprofit organization working with the most influential North American investors and companies to build leadership and drive solutions throughout the economy. The Ceres Investor Network on Climate Risk and Sustainability comprises more than 150 institutional investors, collectively managing more than $24 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. For more information, visit www.ceres.org and @CeresNews

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand investors, with total funds under management of over $2 trillion, focusing on the impact that climate change has on the financial value of investments. The 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

The Institutional Investors Group on Climate Change (IIGCC), is the pre-eminent European forum for investor collaboration on climate action and the voice of investors taking action for a prosperous, low carbon, future. It has 153 mainly mainstream investors across 12 countries with over €21 trillion assets under management (including nine of the top ten largest European pension funds or asset managers). IIGCC’s mission is to mobilise capital for the low carbon transition by working with business, policy makers and investors to encourage public policies, investment practices and corporate behaviours that will address the long term risks and opportunities associated with climate change. Members consider it a fiduciary duty to ensure stranded asset risk or other losses from climate change are minimised and that opportunities presented by the transition to a low carbon economy – such as renewable energy, new technologies and energy efficiency – are maximised. See www.iigcc.org and @iigccnews

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 2,000 signatories including asset owners, investment managers and service providers from over 50 countries including the G20, representing US$70 trillion. Visit www.unpri.org and @PRI_News

The United Nations Environment Programme – Finance Initiative (UNEP FI) is a partnership between United Nations Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 200 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today’s environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them. Visit www.unepfi.org and @UNEP_FI

All seven organizations are partners of The Investor Agenda: Accelerating Action for a Low-Carbon World.
2 See for example the OECD Progress Report on Approaches to Mobilising Institutional Investment for Green Infrastructure (2016)