



FINANCIAL SECTOR NET ZERO COMMITMENTS

Contributing to enhanced environmental integrity and credibility

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Wednesday 5 April 2023

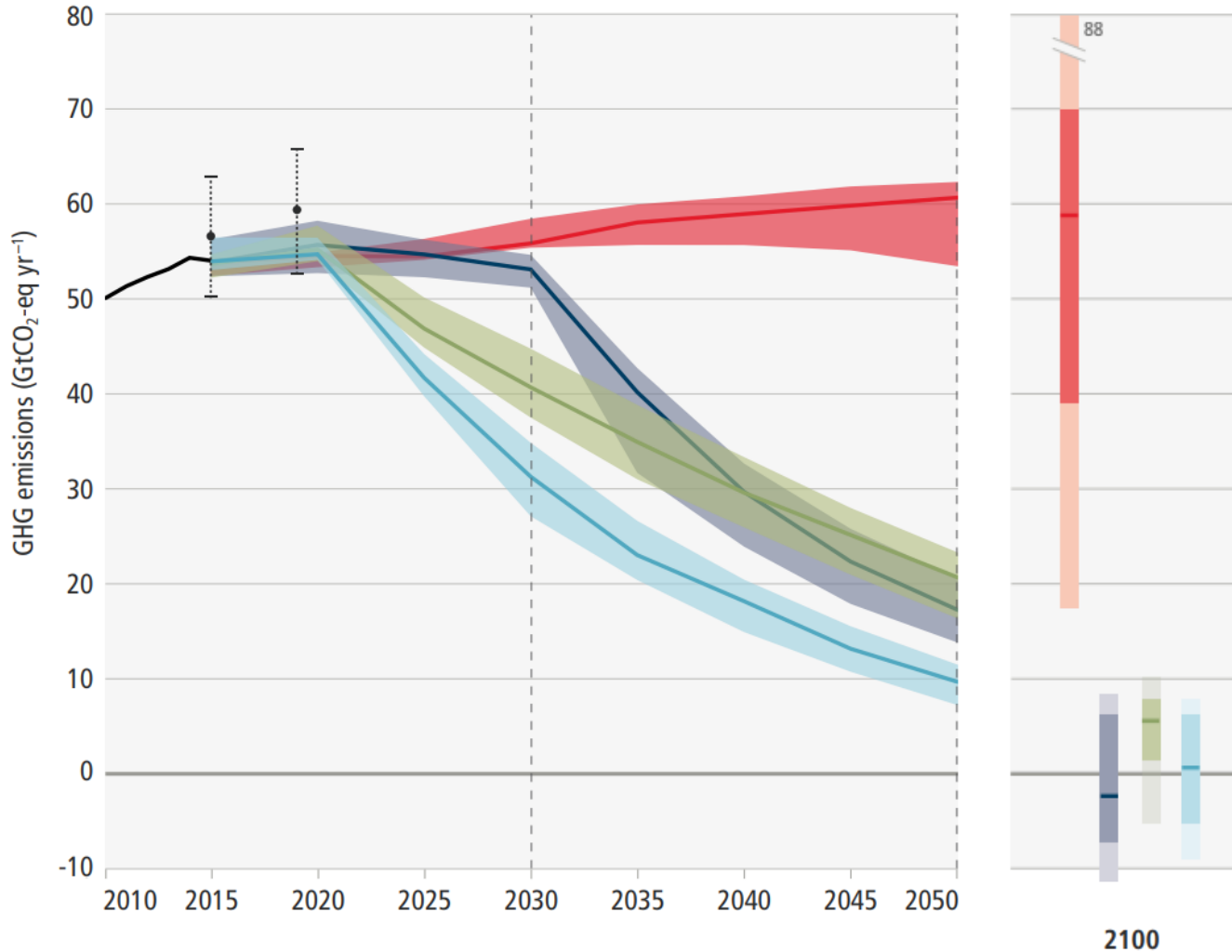
Coalition of Finance Ministers HP5 Transition Finance Workshop



A NEED FOR AMBITIOUS AND CREDIBLE CLIMATE ACTION



Ambitious near-term climate mitigation action needed



Modelled pathways:

- Trend from implemented policies
- Limit warming to 2°C (>67%) or return warming to 1.5°C (>50%) after a high overshoot, NDCs until 2030
- Limit warming to 2°C (>67%)
- Limit warming to 1.5°C (>50%) with no or limited overshoot
- Past GHG emissions and uncertainty for 2015 and 2019 (dot indicates the median)

Projected global GHG emissions from NDCs announced prior to COP26 make it likely that warming will exceed 1.5°C and make it harder after 2030 to limit warming to below 2°C.



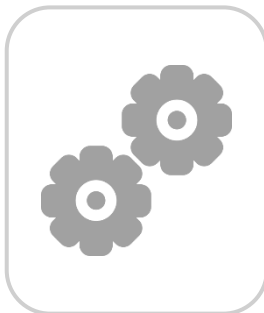
Finance and the Paris Agreement goals



Climate **mitigation** and **resilience** dependent on making **finance** consistent with these public policy goals (Paris Agreement Article 2.1c)



Finance-related indicators needed at national and international levels to **assess progress** in both the **financial sector** and the **real economy**

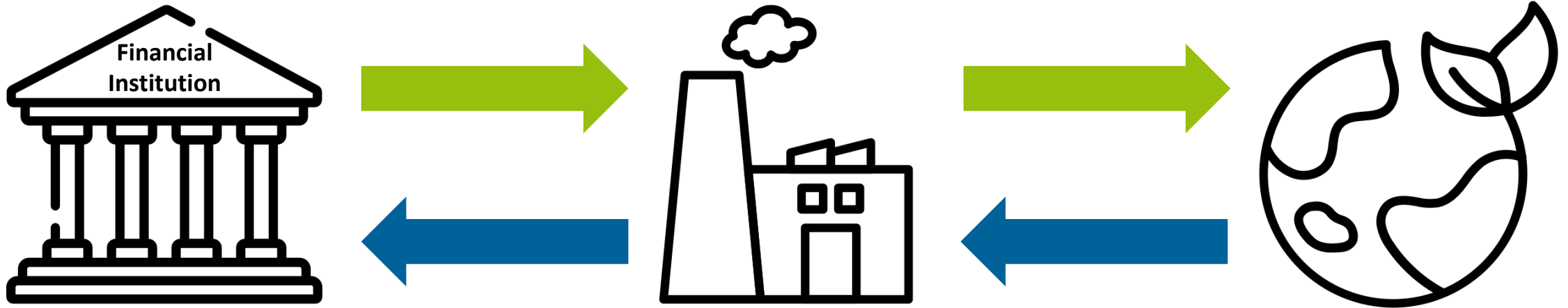


Increasing number of climate-related **metrics** and **methods** to assess finance but **lack of consistency**, data and evidence in terms of impacts



Environmental and financial integrity go hand in hand

Environmental integrity (contribution to climate change, real economy impacts, consistency with climate science)



Financial integrity (vulnerability to climate change, data and information transparency, efficient market pricing)

Source: Partly adapted from [LSE Grantham Research Institute on climate change and the environment \(2022\), Aligning financial and monetary policies with the concept of double materiality: rationales, proposals and challenges](#)



Finance and net zero: who is doing what?

- Dynamic landscape of interrelated climate-related coalitions, frameworks and methodologies
- Further initiatives by data providers and standard setters
- Developments in individual jurisdictions
- Demand from and oversight by international processes: UNFCCC, G20, G7

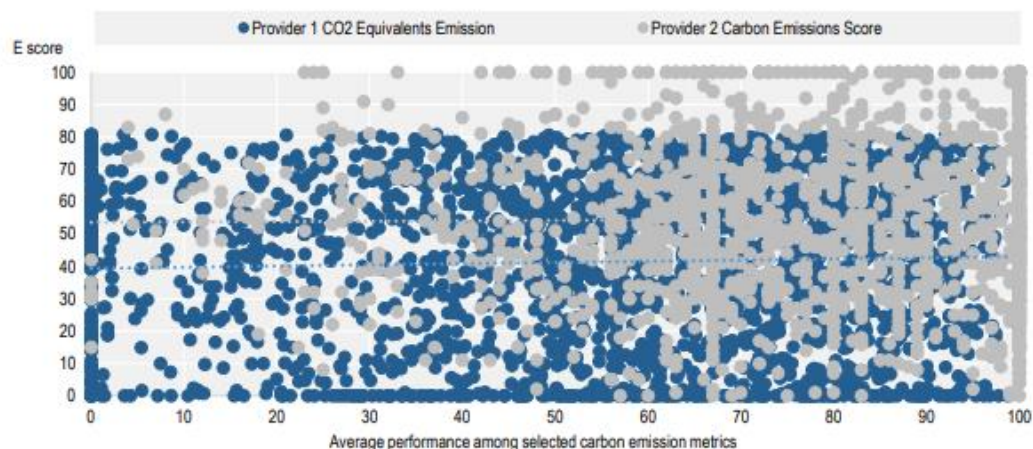
Starting year	Examples of initiatives	Coalition	Framework	Methodology
Prior to 2015	GHG Protocol			
	Carbon Disclosure Project			
	Institutional Investor Group on Climate Change			
2015	Task Force on Climate-Related Financial Disclosures			
	Science Based Targets			
	Partnership for Carbon Accounting Financials			
2016	right. based on science XDC model			
2017	Transition Pathway Initiative			
	Climate Action 100+			
	Network for Greening the Financial System			
2018	Carbon Risk Real Estate Monitor			
	FTSE x Beyond Ratings' method			
	Paris Agreement Capital Transition Assessment			
2019	Climate Safe Lending Network			
	Net-Zero Asset Owner Alliance (Inaugural 2025 Target Setting Protocol)			
	IIGCC Paris Aligned Investment Initiative (Net Zero investment framework)			
2020	Carbone 4 2-infra			
	CDP-WWF temperature rating			
	S&P Sustainable1 (formerly Trucost) Paris Alignment			
2021	Glasgow Financial Alliance for Net Zero (Financial institution net-zero transition plan framework)			
	MSCI Implied Temperature Rise			
2022	SBTi Financial Institutions Net Zero Expert Advisory Group			



Making sense of a currently confused landscape?

Key carbon emission metrics are not correlated with E pillar of ESG scores

Comparison of carbon emission metrics across two providers by environmental pillar score (0-100 score)



Note: Comparison of metrics for Greenhouse gas emissions for two different providers. The data has been standardised between 0 and 100.
Source: MSCI, Refinitiv, OECD calculations

Source: [OECD \(2022\), "ESG ratings and climate transition: An assessment of the alignment of E pillar scores and metrics"](#)

Climate-alignment assessments of corporates differ significantly across providers

Figure 4.1. Results of long-term alignment assessments for selected corporates

Sector	Region	Provider A	Provider B	Provider C	Provider E	Provider D
Airlines	Asia	Not aligned	Not aligned	Not available	2 Degrees	Not aligned
Airlines	Pacific	Not aligned	Not aligned	1.5 Degrees	Not aligned	Not aligned
Airlines	North-America	Not aligned	Not aligned	Not aligned	Not aligned	2 Degrees
Autos	Asia	1.5 Degrees	2 Degrees	Not aligned	Not aligned	Not aligned
Autos	Europe	1.5 Degrees	2 Degrees	Not aligned	Not aligned	Not aligned
Autos	North-America	1.5 Degrees	2 Degrees	Not aligned	Not aligned	Not aligned
Shipping	Europe	Not aligned	1.5 Degrees	Not aligned	Not aligned	Not aligned
Shipping	Asia	Not aligned	Not available	Not available	Not aligned	Not aligned
Shipping	Asia	Not aligned	1.5 Degrees	Not available	Not aligned	Not available
Steel	Latin-America	Not aligned	2 Degrees	Not available	2 Degrees	Not available
Steel	Asia	Not aligned	Not aligned	Not available	2 Degrees	Not aligned
Steel	Europe	Not aligned	2 Degrees	Not aligned	Not aligned	Not aligned
Chemicals	Africa	Not aligned	Not available	Not available	Not available	Not aligned
Chemicals	Asia	Not aligned	Not available	Not aligned	Not aligned	Not aligned
Chemicals	Europe	Not aligned	Not available	Not aligned	Not aligned	Not aligned
Cement	Latin-America	Not aligned	2 Degrees	Not available	Not available	2 Degrees
Cement	Europe	2 Degrees	2 Degrees	Not available	Not aligned	Not aligned
Cement	Africa	Not aligned	Not aligned	Not available	Not aligned	Not aligned
Aluminium	Middle-East	Not available	Not aligned	Not available	Not available	Not aligned
Aluminium	Europe	Not aligned	2 Degrees	Not available	Not aligned	Not aligned
Aluminium	North-America	Not aligned	Not aligned	Not available	Not aligned	Not available
Power Utilities	Asia	2 Degrees	Not aligned	2 Degrees	Not available	Not aligned
Power Utilities	North-America	Not aligned	1.5 Degrees	Not aligned	Not available	2 Degrees
Power Utilities	Pacific	2 Degrees	Not aligned	Not aligned	Not available	Not aligned

Source: [Noels and Jachnik \(2022\) Assessing the climate consistency of finance: Taking stock of methodologies and their links to climate mitigation policy objectives](#)

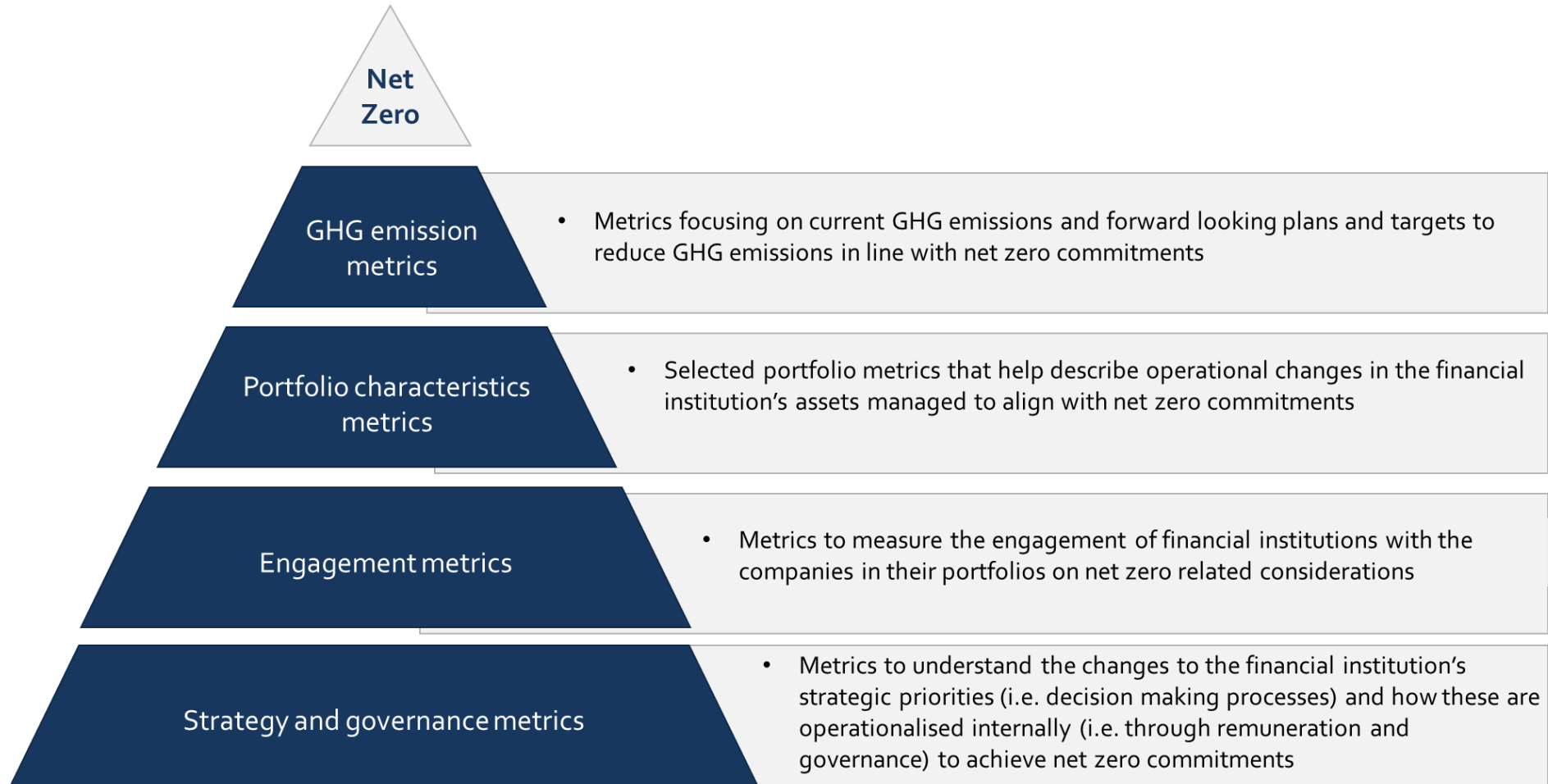
Note: Results are latest available assessments for alignment in 2050. ITR results are assigned to the relevant category as this illustration aims to show the level of alignment and exact temperature results come with a higher level of uncertainty. 'Not aligned' means not aligned with a 2 degrees or below scenario as assessed by the methodology provider. 'Not available' means either not enough data to apply the methodology or no methodology available for that sector by the provider.
Source: Authors' calculations based on data from five selected providers.



CONSIDERATIONS RELATING TO METRICS, DATA AND METHODOLOGIES



A combination of metrics needed to assess and incentivise financial sector progress towards net zero





A currently limited coverage of the range of asset classes found within financial portfolios

- Not all asset classes covered by existing frameworks, methodologies and metrics
- Current data availability, metrics and assessments heavily biased towards listed companies
- Negatively impacts the policy relevance and integrity of portfolio-level assessments

Listed equity

Private equity

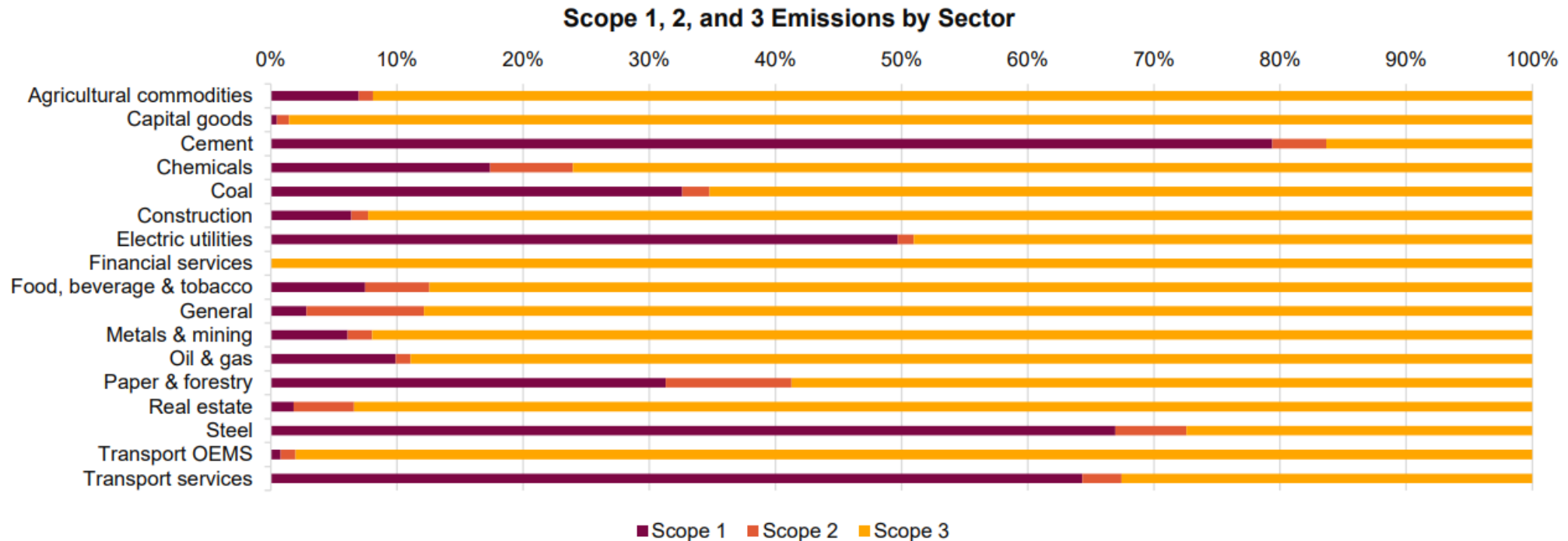
Real estate

Sovereign bonds

- Covered
- Developing
- Underdeveloped



GHG emissions data, scope and estimations



Source: [CDP \(2022\), Technical Note: Relevance of Scope 3 Categories by Sector](#)

- Financial sector GHG metrics depend 99% on GHG data of investees and borrowers
- Scope 3 emissions are key to many real economy sectors but prone to high data and integrity challenges



A need for a series of GHG and non-GHG metrics to ensure integrity and credibility

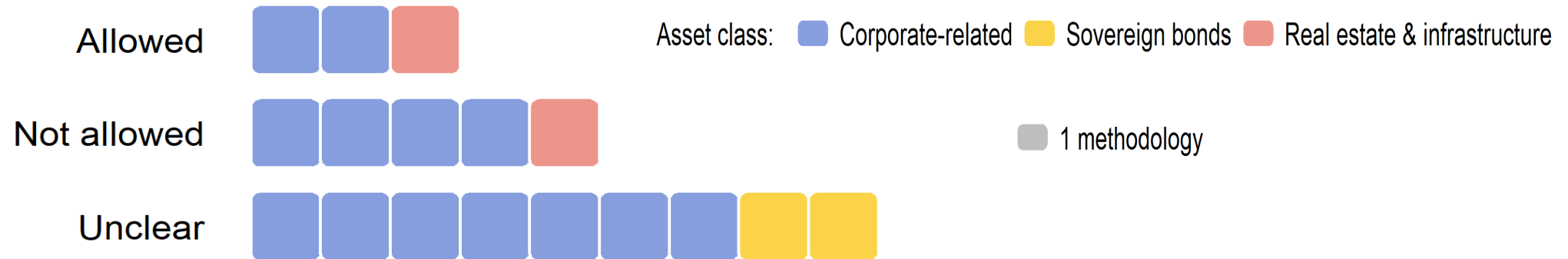
<p>Absolute emissions contraction</p>	<p>+ Predictable emissions reductions, less data intensive, applicable to all asset classes</p> <p>- Could disincentivise business growth, increased GHG performance can be due to decreased output</p>
<p>Rate of change in absolute emissions</p>	
<p>Sectoral decarbonisation approach</p>	<p>+Independent of entity size, business growth and price changes, applicable to non-homogenous sectors and companies</p> <p>- Data intensive, difficult to assess the PA consistency of projections for economic denominators</p>
<p>GHG emissions divided by physical output</p>	
<p>Economic Intensity Contraction</p>	<p>+Independent of entity size, business growth and price changes, applicable to non-homogenous sectors and companies</p> <p>-Volatile with macroeconomic conditions, difficult to assess the PA consistency of projections for economic denominators</p>
<p>GHG emissions divided by economic output</p>	

Further non-GHG based metrics are needed too, including to link more closely to real-economy impact



Data, transparency and credibility lacking in relation to the reliance on offsets

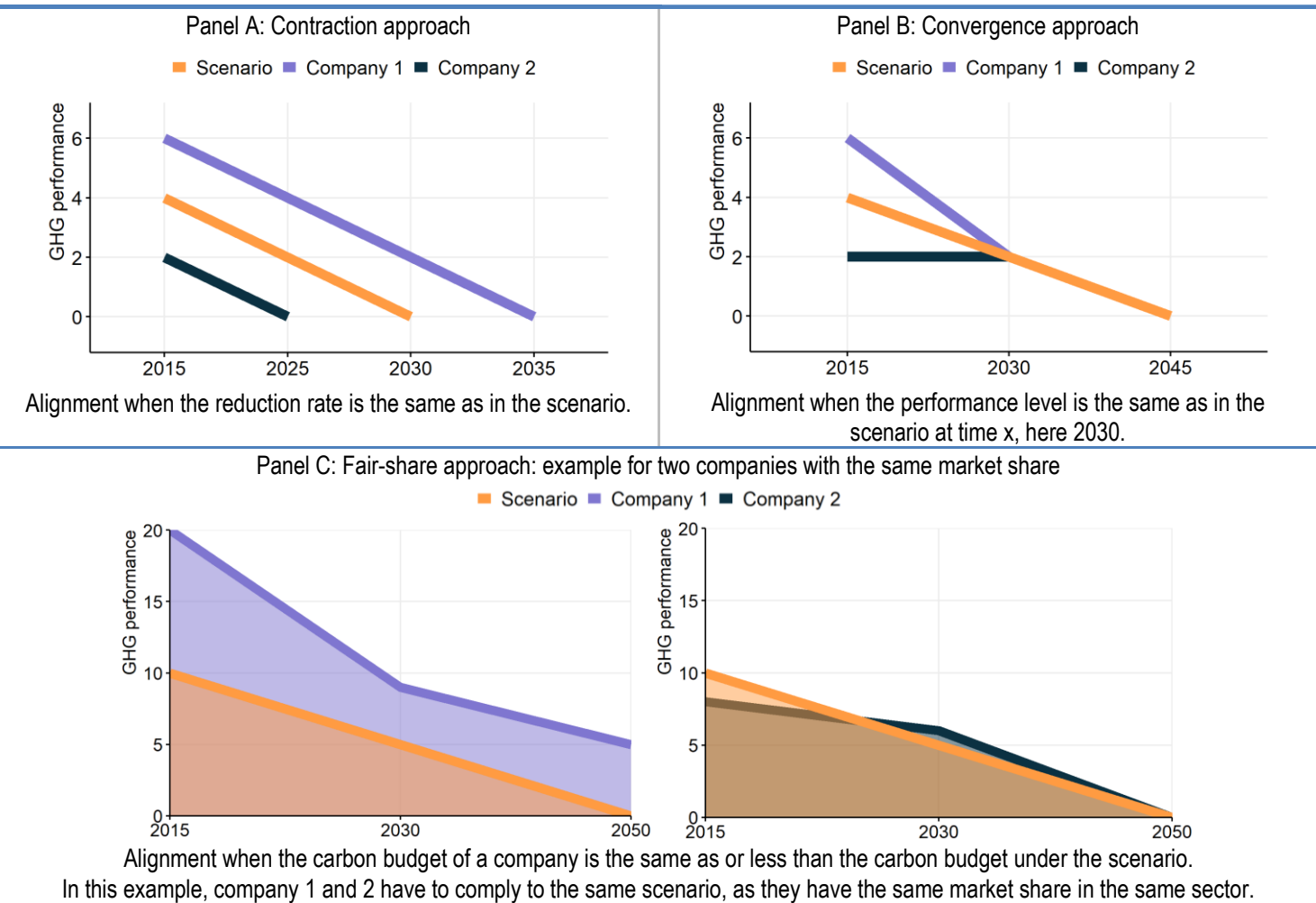
Treatment of offsets by climate alignment assessment methodology providers



- Methodologies explicitly excluding the use of offsets tend to find less alignment with the Paris Agreement
- Offset data from underlying investees remain opaque



GHG target setting and assessments depend on climate scenario downscaling assumptions





Reflections on data needs and the way forward

- Assessing a financial institution or portfolio requires coverage of and data on the range of relevant assets and asset classes
- Rise of reporting requirements in different jurisdictions and further disclosure initiatives will progressively enhance climate-related data availability
- Data disclosure and platforms need to come with clear qualifiers on methodologies, scope and coverage gaps to avoid misleading interpretations and greenwashing
- Data, buy in and participation from emerging and developing economies needed
- Range of issues require further attention to strengthen data integrity for markets and policy makers, e.g. asset class coverage gaps, scope 3 and financed emission estimation, reliance on offsets, impact of choice of climate scenario



Interested in further insights?

Check out the presentations and summary from our 22 February 2022 [Workshop on Metrics for Climate Transition and Net-Zero GHGs in Finance - Supporting climate policy goals and avoiding greenwashing](#)

Workshop Summary March 2023

Metrics for Climate Transition and Net-Zero GHGs in Finance

Supporting climate policy goals and avoiding greenwashing

Key takeaways

- The rise of financial sector initiatives supporting net-zero GHGs has brought welcome commitments from financial institutions to transition, but real-economy decarbonisation impacts remain unclear.
- Credibly measuring the progress of investors and financial institutions towards climate transition and net-zero emissions requires the identification and development of a series of precise complementary metrics, grounded in the latest climate science.
- However, current inconsistent climate performance assessment results, based on disparate methodologies and nascent metrics, pose a challenge in terms of environmental and financial market integrity.
- Transparency and granularity are key elements of credible metrics and assessments to address greenwashing risks.
- Climate mitigation performance metrics are needed for each and all asset classes, and underlying real-economy actors and activities, to avoid blind spots within financial institution's portfolios.
- Efforts to track progress need to place further emphasis on assessing near-term action, in addition to tracking long-term GHG targets.
- Remaining methodological and data challenges complicate aggregate assessments, within a given asset class, and even more so across asset classes, thereby increasing greenwashing risks.
- Embedding metrics and assessments of progress within broader existing frameworks can strengthen the credibility and integrity of net-zero tracking and climate-alignment initiatives.
- Coordination is needed to promote interoperability and complementarity across national, regional and global initiatives to facilitate and enhance international-level efforts to assess progress.

This note summarises discussions that took place on 22 February 2023, under Chatham House Rule, during an OECD-hosted workshop on [Metrics for Climate Transition and Net-Zero GHGs in Finance: Supporting climate policy goals and avoiding greenwashing](#). The genesis of the workshop was primarily informed by the OECD working paper [‘Assessing the climate consistency of finance: Taking stock of methodologies and their links to climate mitigation policy objectives’](#) (published in October 2022). This summary was authored by Jolien Noels and Raphaël Jachnik from the OECD Environment Directorate. Its content should not be interpreted as reflecting views or opinions of individual presenters, panellists and participants of the workshop, nor of the institutions they represent.

The workshop was hosted by the OECD Research Collaborative on Tracking Finance for Climate Action, based on funding provided by a range of OECD member countries. It is part of a series of Research Collaborative workshops related to assessing progress towards Article 2.1c of the Paris Agreement. This workshop also contributes to a series of three OECD workshops on “Climate Science, Policy, Regulation and Practice” funded by ADEME and Institut de la Finance Durable in the context of the Finance ClimAct initiative, supported by a grant from the LIFE program.



EXTRA SLIDES



Countries and companies net-zero targets are vague

Setting the agenda in research

Comment



Industries such as aviation do not have clear road maps for tackling carbon dioxide emissions.

Three ways to improve net-zero emissions targets

Joeri Rogelj, Oliver Geden, Annette Cowie & Andy Reisinger

Vague claims by countries and companies will lull the world into missing its climate goal.

Five years ago, the United Nations Paris climate agreement set a ceiling for global warming at well below 2 °C, ideally 1.5 °C relative to pre-industrial levels. World leaders also agreed to balance greenhouse-gas emissions in the second half of the century, so that the sum of all greenhouse gases emitted from human activities is zero. In response, ever more countries, institutions and companies are announcing net-zero targets¹. Recent examples include the United States, China, the European Union, the technology firm Microsoft and an alliance of European airports. These welcome signs of intent come with difficulties.

Plans are hard to compare, and definitions loose. The details behind 'net-zero' labels differ enormously. Some targets focus solely on carbon dioxide. Others cover all greenhouse gases. Companies might consider only emissions under their direct control, or include those from their supply chains and from the use or disposal of their products. Sometimes the targets do not aim to reduce emissions, but compensate for them with offsets.

Important questions are being overlooked. Should some sectors, such as electricity generation, reach net zero earlier to counterbalance harder-to-abate sectors including heavy industry? Is it fair to expect emerging economies to reach net zero on the same schedule as long-industrialized ones? Without careful attention to such issues, individual achievements risk being too weak to deliver the collective climate goal of the Paris agreement.

Critics could argue that vague targets are better than none. But the stakes are too high to take comfort in mere announcements. Everyone need not make the same choices. But without more clarity, strategies behind net-zero targets cannot be understood; nor can their impact be evaluated.

Nature | Vol 591 | 18 March 2021 | 365

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Scope

- What global temperature goal does this plan contribute to?
- What is the target date for net zero?
- Which greenhouse gases are considered?
- How are greenhouse gases aggregated?
- What is the extent of the emissions (territories, time frames or activities)?
- What are the relative contributions of reductions, removals and offsets?
- How will risks be managed around removals and offsets?

Fairness

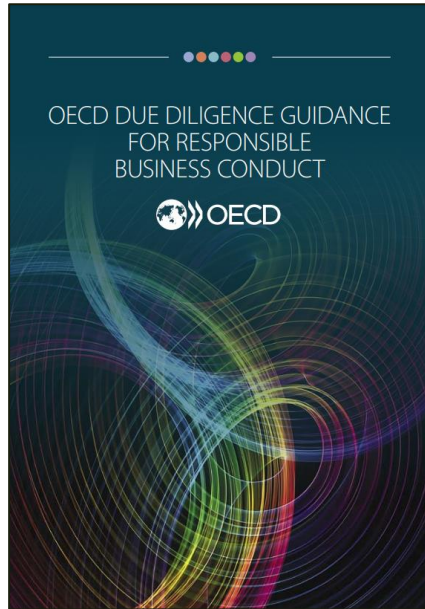
- What principles are being applied?
- Would the global climate goal be achieved if everyone did this?
- What are the consequences for others if these principles are applied universally?
- How will your target affect others' capacity to achieve net zero, and their pursuit of other Sustainable Development Goals?

Road map

- What milestones and policies will support achievement?
- What monitoring/review system to assess progress and revise the target?
- Will net zero be maintained, or is it a step towards net negative?

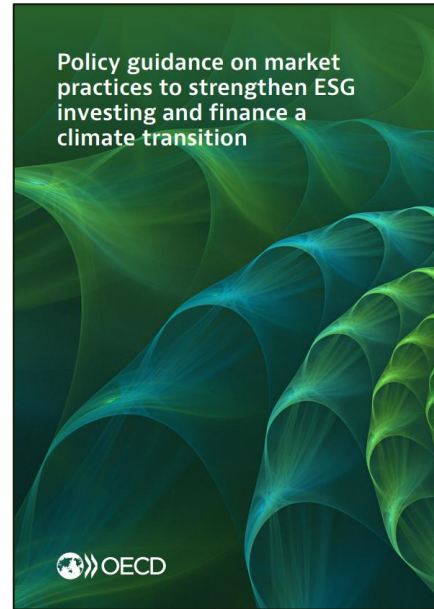


Complementary work streams at the OECD



Responsible Business Conduct for climate action

Source: [OECD \(2018\), Due Diligence Guidance for Responsible Business Conduct](#)



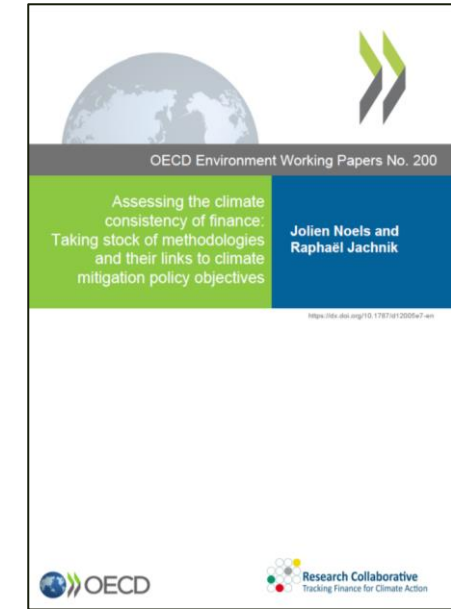
Financial market practices for transition finance

Source: [OECD \(2022\) Policy guidance on market practices to strengthen ESG investing and finance a climate transition](#)



Credible corporate plans for transition finance

Source: [OECD \(2022\) Guidance on Transition Finance: Ensuring Credibility of Corporate Climate Transition Plans](#)

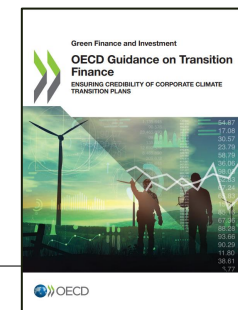


Assessing the climate alignment of finance

Source: [Noels and Jachnik \(2022\) Assessing the climate consistency of finance: Taking stock of methodologies and their links to climate mitigation policy objectives](#)



Elements of credible corporate transition plans



1. Setting temperature goals, net-zero, and interim targets
2. Using sectoral pathways, technology roadmaps, and taxonomies
3. Measuring performance and progress through metrics and KPIs
4. Providing clarity on use of carbon credits and offsets
5. Setting out a strategy, actions, and implementation steps, including on preventing carbon-intensive lock-in
6. Addressing adverse impacts through the Do-No-Significant-Harm (DNSH) Principle and RBC due diligence
7. Supporting a just transition
8. Integration with financial plans and internal coherence
9. Ensuring sound governance and accountability
10. Transparency and verification, labelling and certification