

Shaping the climate action journey for financial institutions

Navigating through the cluster of climate initiatives



PCAF
Partnership for
Carbon Accounting
Financials

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Nowadays, climate change is an ever-present topic for the financial industry. With the world heading towards more than 3°C of warming based on current policies, the requirement for urgent action is ever greater. Financial institutions are one of the major stakeholder groups responding to this emergency.

This is not only because of the financial implications of the potential 5 – 20% loss of global gross domestic product (GDP) each year¹, but also the tremendous need and opportunity to contribute to the transition to a low-carbon, resilient society.

The goal of limiting global warming to well below 2°C is clearly defined by the Paris Agreement. To trigger changes in capital flow and signals for all actors, it is key for the financial industry to acknowledge and support accelerated decarbonisation.

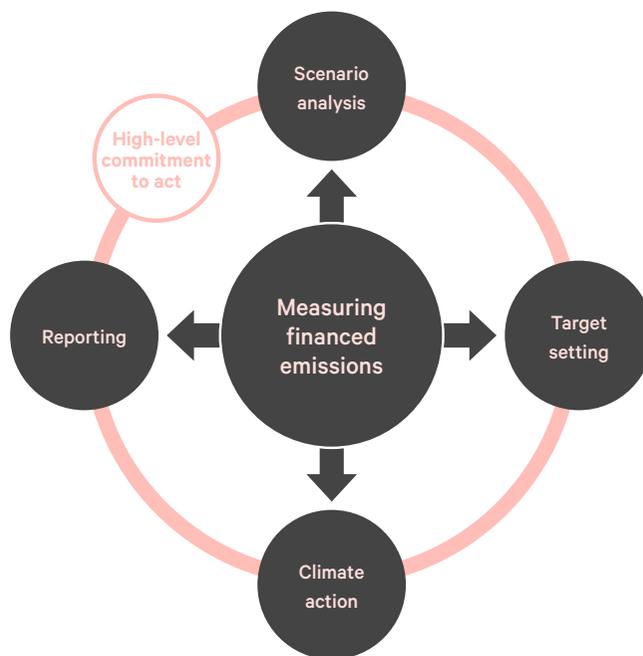
Understanding where and how to start is a logical first step. Banks and investors should be aware of the different areas of climate actions and how existing initiatives can support financial institutions (FIs) on implementation as well as complement one another. Understanding this landscape will help FIs at different levels of progress to identify the most efficient support available to scale their climate efforts.

Six main areas of climate actions

Measuring the financed emissions of a portfolio is the foundation enabling financial institutions (FIs) to perform scenario analysis, set targets, inform actions and disclose progress. These areas jointly are crucial for portfolio alignment and decarbonization.

Climate actions can be categorized into six main areas. High-level commitments and policies endorsed by c-suite executives provide a strong driving force for FIs to address climate change by taking actions.

FIs can join several climate initiatives. These are a great starting point and provide insights and guidance on various methodologies, standards and tools to decarbonize their portfolio.



The six key areas of climate actions for financial institutions

As shown in the [table](#) at the end, these initiatives have different coverage, target audience, coordinators, and status.

Some of these initiatives touch on climate-related risks. For example, Task Force on Climate-related Financial Disclosures (TCFD) focuses on the financial risks and risk management of climate change (e.g. by performing scenario analysis) as well as defining metrics and targets (e.g. GHG emissions as disclosure metrics).

The upcoming CDP questionnaire for FIs also includes questions on financed emissions and climate-related risks.

The [graph](#) maps various climate initiatives against the six areas of action. Initiatives in each area share common principles but vary in specifics. For instance, Climate Action 100+ focuses on investee engagement, whereas Climate Safe Learning Lab is a platform to share knowledge and best practices.

Existing collaborative climate initiatives supporting FIs on climate actions

as of December 31, 2019

For whom?

For whom?		Focus of Initiative	High-level Commitment to Act	Measuring Financed Emissions	Scenario Analysis	Target-setting	Enabling Action	Reporting
B Banks	I Investors	B I Banks & Investors						
B			◆					
UNEP FI Principles for Responsible Banking (PRB): Collective Commitment on Climate Action								
B			◆					
Climate Action in Financial Institutions								
I			◆					
United Nations-convened Net-Zero Asset Owner Alliance								
I			◆					
Investor Agenda								
B I								◆
Task Force on Climate-related Financial Disclosures (TCFD)								
B I				◆				
Partnership for Carbon Accounting Financials (PCAF)								
B					◆			
Poseidon Principles (for shipping sector only)								
B I					◆			
UNEP FI TCFD pilots								
B I					◆			
Paris Agreement Capital Transition Assessment (PACTA)								
I					◆			
IIGCC Paris Aligned Investment Initiative								
B I						◆		
Science Based Targets for Financial Institutions								
B							◆	
Climate Safe Learning Lab								
B							◆	
Banking Environment Initiative								
I							◆	
Climate Action 100+								
B I								◆
CDP Financial Services Questionnaire								

Other resources to support FI climate actions

Besides these initiatives, there are also standards, projects and tools, and upcoming policies and regulations offering solutions and guidance for financial institutions throughout their climate journey

Standards

Various standards support FIs to report on climate actions. The [ISO 14097 standard](#) currently under development aims to provide a framework for assessing the impact of financier's action related to climate goals, which could support financial institutions to track progress towards climate targets.

Other standards providing guidances on reporting include the [Financial Accounting Standards Board](#) (FASB), [Sustainability Accounting Standards Board](#) (SASB), [Climate Disclosure Standards Board](#) (CDSB) and [Global Reporting Initiative](#) (GRI).

Projects and tools

Many projects and tools provide data and analytical capability to support FIs on their climate journey. For example, the [Transition Pathway Initiative](#) and [Investor Energy-Climate Action Toolkit](#) (InvECAT) help FIs to perform scenario analysis, set targets and monitor climate actions taken by non-state actors.

Some platforms such as [OS-Climate](#) and [SENSES Project](#) provide analytics and visualisation for climate scenario analysis, whereas others like the [Natural Capital Finance Alliance](#) , [Carbon Delta](#), [Four Twenty Seven](#), [S&P Global/Trucost](#), [Sustainalytics](#), [Mercer/Oliver Wyman](#), [ISS ESG](#), [Woods Hole](#), etc. offer specific tools for measuring climate-related risks.

Policies and regulations

Increasingly, policies on sustainable finance are developed. [The EU Green Finance agenda](#) leads with its [Action Plan on Sustainable Finance](#), the [EU Taxonomy](#), the [EU Green Bond Standard](#) and the methodologies for [EU climate benchmarks](#) and disclosures. Through the [International Platform on Sustainable Finance](#) (IPSF) these policies will be shared internationally and scaled up to mobilize private capital towards sustainable investments. Next to this, supervisors and regulators across over 50 legislations request and provide guidance to stress test the financial sector on climate-related risks through the [Network for Greening the Financial System](#) (NGFS).

Overview of existing collaborative climate initiatives for financial institutions (part 1 of 2)

B For Banks

I For Investors

	Initiative	Coordinator	What it is about	Coverage (e.g. sector, asset class, region)	Current status (as of Oct 31, 2019)	Requirement to join
B I	<u>Collective Commitment on Climate Action</u>	UNEP FI	Pledges to align portfolio with Paris Agreement, engage with stakeholders on climate neutrality, and disclose within 1 year the set of measures the committed bank will employ.	Global	33 banks with US\$13 trillion of assets signed up	Become a signatory of PRB with CEO signature on commitment document, becoming UNEP FI financial institution member, and publicly promote the commitment. Signatories are also expected to assess, set target on, reduce, and disclose impacts.
B	<u>Climate Action in Financial Institutions</u>	Institute for Climate Economics (I4CE)	A collaborative platform for implementing the five voluntary Principles for Mainstreaming Climate Action, sharing best practices, and collaborating on innovative approaches.	Global	34 development banks and 10 commercial banks signed up	Sign a commitment letter and agree with the use of institution's logo for communication materials.
I	<u>United Nations-convened Net-Zero Asset Owner Alliance</u>	UNEP FI, PRI	Commitment to transit investment portfolios' GHG emissions to net zero by 2050 through engaging corporates and policymakers on actions, and measuring and disclosing progress every 5 years in line with Paris Article 4.9	Global	Led by 12 asset owners with over US\$2 trillion asset under management (AUM)	Sign a commitment document, including endorsement on the net zero pledge, participation, support, and communication within the alliance.
I	<u>Investor Agenda</u>	UNEP FI, PRI	An NGO-led initiative to provide investors a set of climate actions in investment, corporate engagement, investor disclosure, and policy advocacy with the aim of keeping global warming within 1.5°C.	Global	Nearly 1,200 investors are acting in at least one of the four focus areas.	Submit questionnaire forms on the website to provide feedback or participate in joint statement for specific focus areas. Sign up for Global Investor Statement to Governments on Climate Change, Climate Action 100+ or CDP for corporate engagement.
B I	<u>Task Force on Climate-related Financial Disclosures (TCFD)</u>	FSB	A disclosure framework for climate-related financial risk through four pillars – governance, strategy, risk management, metrics and targets.	Global	867 organisations signed up to be TCFD supporters	Submit information through a web-based form and have the organisation listed on TCFD website as a supporter.
B I	<u>Partnership for Carbon Accounting Financials (PCAF)</u>	PCAF Secretariat	An open and industry-led collaboration to measure and disclose GHG emissions of loans and investments.	Global with regional teams; nine asset classes with regional variation	57 financial institutions with US\$3.5 trillion assets signed up, ranging from small and local to large and global financial institutions ²	Sign a commitment letter and participate in a regional implementation team.
B I	<u>Poseidon Principles</u>	Poseidon Principles Association, supported by RMI	An assessment and disclosure framework for climate alignment for ship finance portfolios.	Global; shipping sector	12 banks with approximately US\$100 billion in shipping finance signed up	Any lenders, lessors, and financial guarantors with shipping portfolios with a formal declaration and application and submitting a self-assessment within 5 months.

table continues >>

2 30 banks committed to PCAF through the Climate Change Commitment (3Cs initiative) of the Global Alliance for Banking on Value (GABV)

Overview of existing collaborative climate initiatives for financial institutions (part 2 of 2)

B For Banks

I For Investors

	Initiative	Coordinator	What it is about	Coverage (e.g. sector, asset class, region)	Current status (as of Oct 31, 2019)	Requirement to join
B I	<u>UNEP FI TCFD-pilots</u>	UNEP FI	Implementing TCFD, focus on scenario analysis, developing pilot analytical tool and indicators for both transition and physical risks.	Global	16 global banks, 20 asset managers and owners	Identified through TCFD pool of membership and voluntary participation in pilot project.
B I	<u>Paris Agreement Capital Transition Assessment (PACTA)</u>	2 degrees investing initiative	Framework to measure alignment of financial markets with climate goals and scenarios with a 5-year time horizon. A target setting tool will be developed and added to PACTA with the reference from InvECAT.	Global with 5 regional splits; 5 asset classes; 8 sectors	Used to over 700 financial institutions globally	The tool is available online with open access.
I	<u>IIGCC Paris Aligned Investment Initiative</u>	IIGCC	An initiative to develop concepts, assess methodologies and test portfolios for the alignment with Paris Agreement.	Global; 4 asset classes	Over 40 investors with more than €11 trillion AUM participate	Become an IIGCC member.
B I	<u>Science Based Targets for Financial Institutions</u>	WRI, WWF, CDP, UN Global Compact	Under the SBTi framework, launched project to help financial institutions align their lending and investment portfolios with the ambition of the Paris Agreement.	Global; 4 asset classes; up to 9 sectors	More than 40 financial institutions publicly committed to set targets; framework to be published in 2020	Submit a Commitment Letter for Financial Institutions, seek preliminary validation for targets, and disclosure of progress.
B	<u>Climate Safe Learning Lab</u>	Climate Safe Lending Network	A confidential peer-learning space for banking professionals to explore the organisational barriers and enablers to implementing climate finance strategies.	Global	Led by a collaborating group of climate finance professionals	Become part of the network or join dedicated workshops organized by the network.
B	<u>Banking Environment Initiative – Bank 2030</u>	University of Cambridge Institute for Sustainability Leadership (CISL)	A collaboration platform for banks to join forces on taking industry-wide action on sustainability, including a new initiative, Bank 2030, which aims to build a Roadmap for the Banking Industry to 2030 that will increase the level of low carbon financing in line with the climate challenge.	Global	Eight banks have joined as members.	Contact CISL to join this initiative.
I	<u>Climate Action 100+</u>	PRI, IIGCC, Ceres, AIGCC	An investor initiative showcasing growth and influence of the world's largest emitters and mobilise corporate action on climate change.	Global; 161 listed companies	More than 370 investors with more than US\$35 trillion in AUM have signed on	Sign on to Climate Action 100+ if you are an investor or contact the coordinating partner organisation in your region.
B I	<u>CDP Financial Services Sector Disclosures</u>	CDP Financial Services Questionnaire	Extend questionnaires to focus on financing and investing initiatives. Investors receive CDP access to climate change data, deforestation, and water security to engage, make decisions, and reduce risks.	Global	Over 525 investors with assets of US\$96 trillion; over 7,000 companies with 50% of global market capitalisation	Become a CDP signatory, contact regional account manager and commit to an administrative fee with an annual rate dependant on level of assets.



PCAFA

Partnership for
Carbon Accounting
Financials

The international, industry-led initiative
to measure and disclose the greenhouse gas emissions
financed by loans and investments.

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