Beyond Alignment:
Monitoring the Financing of the Energy Transition

Strategies, Actions and Metrics

November 28th, 2019

2° Investing Initiative and Beyond Ratings warmly thank participants and speakers for their presence at the launch of the Climate Tech Compass (beta version) event.

This event marked the launch of the *Climate Technology Compass*, an innovative webtool that allows the user to investigate technology transition pathways for different countries and sectors that are compatible with a 2°C climate target. The functionalities and methodology of the tool were presented as well as a case study on the China power sector in China. The launch was complemented by two panel discussion, in which we were delighted to feature key experts working on the financing of the energy transition in financial institutions, NGOs as well as governments:

- **Financing the Transition:** How can we accelerate the energy transition through innovative investment strategies and products?
- **Monitoring the Transition:** What are the indicators and tools available to track progress and ensure our actions are taking us towards greater alignment with the Paris Climate Goals?

Speakers: Julien Touati *(Meridiam),* Sagarika Chatterjee *(UNPRI)*, Olivier Irisson *(BPCE Groupe)*, Quentin Savinaud *(Standard Chartered)*, Sebastien Godinot *(WWF)*, Romain Poivet *(ACT),* Anne-Laurence Roucher *(Mirova),* Sylvain Vanston *(AXA)*

We thank all the panellists for their participation and their valuable contributions to the discussion.

The Climate Technology Compass was presented by Emeric Nicolas and Ruben Haalebos from Beyond Ratings, the panel discussions were moderated by Simon Messenger and Emmeline Stein from 2°ii.

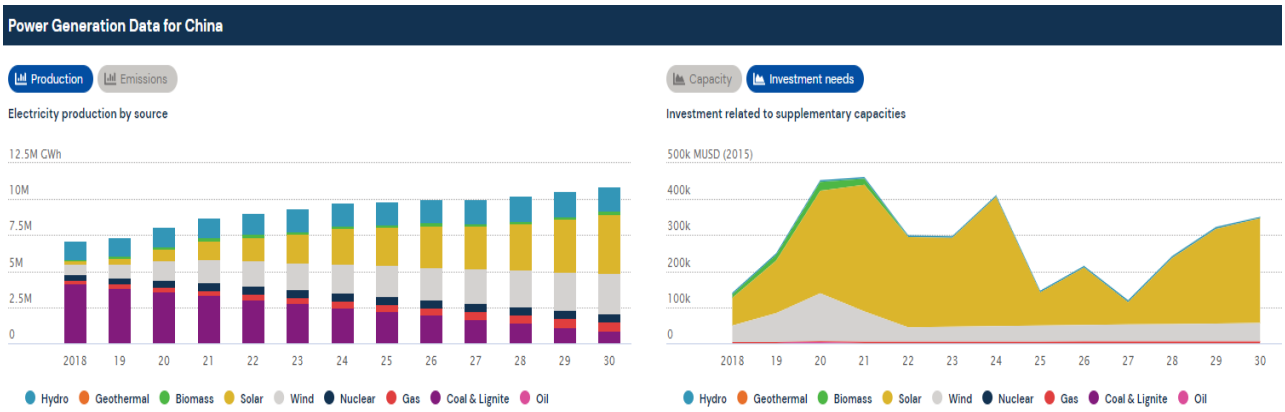
The Climate Technology Compass

The Climate Technology Compass allows the sectoral breakdown of any national emissions target, as well as mapping the associated technology transition and investment needs. The development of this tool was funded by Climate-KIC.

By **leveraging bottom-up** (asset-level data) **and top-down** (national climate budget) **approaches**, the tool identifies technology roadmaps that are granular enough to be integrated into investor and government decision making. These **new metrics on risk and opportunities can therefore guide investment strategies** and accelerate climate action of investors and governments. Governments can **assess and update current levels of political ambition (NDCs)** using this tool, whereas financial institutions can obtain a granular view of the **opportunities and risks associated with a low-carbon transition**.

Model Outputs: The tool enables you to consult indicators such as expected demand and production, emissions, technology mix and carbon intensity of the sector. These outputs are available for 101 countries and the following sectors: power generation, cement, steel, agriculture, automotive, shipping, aviation and real estate. We currently have results available for a 2°C aligned climate scenario, as well as the current National Determined Contributions (NDCs).

Case study: Power Generation in China The graphs below visualise some of the outputs the tool provides for the power sector in China. For more information, please visit the website of the Climate technology Compass.



Methodology: Using Beyond Rating's CLAIM© methodology, national carbon budgets consistent with specific climate goals are identified. Based on marginal abatement cost curves the carbon budget is allocated to different sectors and, building on 2°ii's asset-level database, technology roadmaps are identified.

Further information and Feedback: You can find the Climate Technology Compass website under https://climatetechcompass.org/ and through 2°ii's PACTA website, https://www.transitionmonitor.com/. As the website is currently still a beta-version, we would very much appreciate if you had the time to give us your feedback on the tool. Either contact us directly (EMAIL) or fill out a questionnaire that you can find here (LINK).

Panel 1 - Financing the Transition: How can we accelerate the energy transition through innovative investment strategies and products?

Panellists: Sagarika Chatterjee (UNPRI), Sebastien Godinot (WWF), Olivier Irisson (BPCE), Quentin Savinaud (Standard Chartered), *panel moderated by* Simon Messenger *(2°ii)*

Key discussion points:

Innovative Investment Strategies and Products

- Standard Chartered and BPCE highlighted business opportunities as well as investment risks and disruptive potential in the low-carbon transition for FIs, discussing the work of BPCE (green bonds) and Standard Chartered (SDG money market fund, transition bonds, sectoral approach with focus on oil & gas and automotive industry)
- Thinking about impact of operations on GHG emissions is still quite new for many FIs and initial engagement with the topic was described as frustrating, partly due to the lack of coherence and clarity around 'climate impact'
- BPCE questioned risk as a useful lens to drive the energy transition, noted the link to risk appetite and its variability

Policy work on EU level and UNPRI's 'Inevitable Policy Response'

- **Inevitable Policy Response:** FIs will be exposed to different types of risk in a low-carbon transition depending on the policy response taken – no or a delayed policy response will expose FIs to climate disruption, an abrupt and unpredictable policy will expose FIs to transition risk. UNPRI's 'Inevitable Policy Response' project was presented by UNPRI and provides policy forecast scenarios to encourage FIs to prepare for the transition and take early action.
- **Policy on EU level:** Acceleration of work since the publication of the EU sustainable finance action plan in 2018 and work in the following areas: Disclosure (requirements to disclose impact and risk, develop coherence among different reporting strategies), Retail Investing (initial requirement for financial advisors to ask retail investors about their sustainability preferences, more work to be done), development of requirements for European Supervisory Regulators to integrate climate risk into their mandate

To go further:

UNPRI Inevitable Policy Response: https://www.unpri.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787.article (report to be released December 9th);

EU Sustainable Finance Action Plan : https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

Panel 2 - Monitoring the Transition: What are the indicators and tools available to track progress and ensure our actions are taking us towards greater alignment with the Paris Climate Goals?

Panellists: Romain Poivet (ACT), Sylvain Vanston (AXA), Anne-Laurence Roucher (Mirova) – *panel moderated by Emmeline Stein (2dii)*

Key discussion points:

Current status of measuring impact and metrics used

- Mirova currently work on traditional asset classes as well as smaller, more pioneering projects with the aim to generate good financial return as well as impact. They work with *Carbone 4* measure impact: information is gathered company by company and includes scope 1, 2 and 3 emissions.
- AXA recently joined Net Zero Asset Owner Alliance and set net zero target by 2050. They work with Carbon Delta on 1.5°C target setting. Developed quantitative 5-step methodology to check ESG alignment
- ACT methodology presented, a rating methodology of companies' climate impact to that takes a holistic view of a company's operational impacts and dependencies, as well as of its supply chain

Challenges to impact measurement and monitoring

- Significant estimates and methodological biases used to aggregate at portfolio level present challenge to impact measurement
- Not all data needed to estimate impact is accessible and the range of diverging methodologies is difficult to communicate internally and can cause confusion on target setting
- Pushback observed from industry against sustainable finance legislation, attributing this to a misunderstanding regarding the goals of the policy maker.

Desirable future development

- More collaboration between different players to exchange best practices and standardize approaches.
- Importance of engagement with governments to drive policy.
- Need for more interactive methodologies (such as ACT)

To go further:

ACT Project: https://actproject.net/

AXA recent announcements: https://www.axa.com/en/newsroom/press-releases/axa-launches-a-new-phase-in-its-climate-strategy-to-accelerate-its-contribution-to-a-low-carbon-and-more-resilient-economy

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2 Degrees Investing Initiative

- Founded in 2012, 40 employees, 4 countries, 40 research partners in the public, private and philanthropic sector, and over € 3 million re-granted to research partners to date.
- Global non-profit Think Tank for developing climate and long-term risk metrics and related policy options in financial markets
- Mission to align financial markets with goals of Paris Climate Agreement, with 2°C scenario analysis tool for financial portfolios, applied by over 200 financial institutions and three financial supervisory authorities to date

Websites: https://2degrees-investing.org ; www.transitionmonitor.org

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Beyond Ratings

- Based in Paris, France, the company provides innovative services to assist the financial sector in the transition towards sustainable trajectories & new financial rating standards that systematically and transparently incorporate ESG criteria into credit risk analysis.
- BR provides standard research and tailored services, leveraging in-house research, advanced quantitative analytics and risk scoring for over 175 countries and 10,000 companies.
- Now part of the Information Services Division (ISD) of London Stock Exchange Group (LSEG), FTSE Russell?

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Climate-KIC

- EU's leading climate innovation initiative supported by the European Institute of Innovation and Technology, brings together partners from business, academia and the non-profit sector and aims to accelerate the low-carbon transition

Website: https://www.climate-kic.org/