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SUSTAINABLE FINANCE MONITOR

The IIF Sustainable Finance Monitor brings together our views on the global sustainable finance agenda, analysis of policy and regulatory initiatives, market trends, and the activities of the IIF Sustainable Finance Working Group (SFWG).

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Editor's Note

Dear Reader,

Despite a challenging environment for international cooperation in 2021, with a resurgent global pandemic and increasingly visible impacts from climate change, this year saw many notable steps forward on global alignment of policy frameworks for sustainable finance.

In the **disclosure** sphere, the release of updated Recommendations and Guidance from the TCFD in October helped clarify the core aspects of new disclosure items (including transition plans), while retaining the necessary flexibility in areas such as metrics and targets to ensure that approaches can continue to evolve. As a growing number of jurisdictions reference the TCFD framework within supervisory expectations and regulatory requirements, a clear transition from the TCFD's foundations to a more formal global standard is key. The launch of the IFRS-backed International Sustainability Standards Board (ISSB) at COP26 is thus an extremely important step towards a baseline for ESG disclosures, with consolidation of the Climate Disclosure Standards Board and the Value Reporting Foundation enabling the ISSB to integrate key pillars of market practice. However, there already concerns about implementation, as some jurisdictional frameworks (such as the EU's CSRD) are already 'ahead' of what an ISSB baseline may contain, while other jurisdictions – such as the UK – have already indicated that emerging disclosure items, such as transition plans, will be mandatory. Going forward, the IIF will work with its members to advocate for effective coordination, including where a specific jurisdiction's disclosure requirements could have extraterritorial consequences.

Looking to **risk management practices**, including **scenario analysis**, new high-level Principles from the BCBS (open for consultation until February 2022) will help to set a common foundation for jurisdictional expectations and approaches. Building on our "Navigating Climate Headwinds" paper,

IN THIS ISSUE:

The Big Picture
- Gearing up for 2022

Global Sustainable Finance Update
- Policy and Regulatory Developments
- Open Consultations
- Updates on Initiatives: Focus on COP26
- Research and Insights

Market Snapshot
- Focus on carbon leakage, embedded emissions, border adjustments

SFWG Update

the IIF will work with members to develop a response. However, while the BCBS Principles do address a number of key issues, more detailed guidance for supervisors – including on the relationship of climate risks to prudential tools – may be required for the risk of market fragmentation to be contained. In parallel, the work of the NGFS will continue to have significant influence on financial sector supervision, regulation, and policy, as supervisors begin to collaborate on emerging topics such as **monetary policy**, **data gaps**, **TCFD reporting**, **capacity building**, **climate litigation**, and non-climate ESG risks such as **biodiversity loss**.

In other areas – including **classification frameworks** for green or sustainability-related economic activities (such as taxonomies) – there may be much further to travel towards alignment of approaches, as public authorities and leadership coalitions explore the degree to which jurisdictional approaches could be 'interoperable.'

Alongside the work of public authorities, market-led initiatives – including on topics such as **Net Zero alignment** – continue to expand. Developments at COP26 have raised important questions regarding the role of the financial sector as catalyst and facilitator of economy-wide decarbonization, and the limits of this role in the absence of strong climate policies (e.g., around carbon pricing).

To support IIF members as they contend with these complex issues, the IIF is introducing new engagement platforms and expanding our core work programme on sustainable finance topics. Starting this month, the IIF is launching a series of new **Policy and Practitioner Expert Groups on sustainable finance**, which will address topics such as global alignment and convergence of market and official sector efforts, as well as technical aspects of **climate and environmental risk assessment, alignment methodologies, data, disclosure, and classification frameworks**. Alongside this new group structure, we are continuing to explore a broad array of new climate and sustainability-related research themes to support these groups, including through our Green Weekly Insight series, as well as new webinars. If you are interested in our practitioner expert groups but have not yet signed up, please contact Raymond Aycock (raycock@iif.com).

Thank you for your support and dedication to the IIF's work on sustainable finance. Going forward into 2022, we look forward to engaging closely with you in our evidence-based advocacy and engagement to shape the future of this critical agenda.

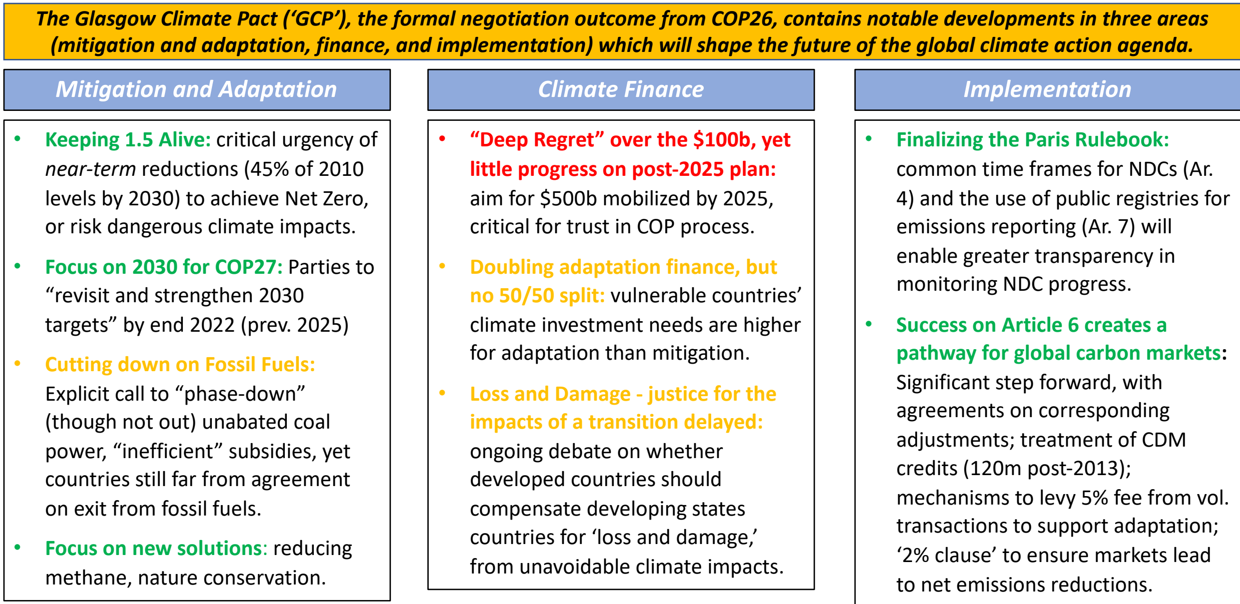
- Sonja Gibbs, Managing Director and Head of Sustainable Finance, IIF

1. THE BIG PICTURE: Gearing up for 2022[1]

Key developments in recent months – across market, policy, and standard-setting spheres – have laid the groundwork for a very busy 2022, as the financial sector contends with greater scrutiny, higher expectations, and technical challenges stemming from a broadening and deepening sustainable finance agenda.

Let's start with COP26. Glasgow delivered some notable successes – including new agreements on NDC timelines, clear recognition of the challenges of fossil fuel use, and finalization of negotiations over a new global carbon markets mechanism (see Figure 1). In parallel to the conference, a broad array of new initiatives were launched at the conference, bringing together an array of public and private-sector actors (see section 2.3 for further detail). However, the path to "keeping 1.5 alive" will require a step-change in policy ambition and a huge scaling-up of climate finance. IIF analysis of the key outcomes and implications of COP26 can be found on our website.

Figure 1: Unpacking the Glasgow Climate Pact



COP26 – Key Outcomes and Implications

- **Progress, but not enough to avert dangerous climate change:** The Glasgow Climate Pact acknowledges the urgency of emissions reductions to 'keep 1.5c alive', with accelerated timelines for updates to 2030 targets within countries' Nationally Determined Contributions (NDCs). Landmark agreements were reached on reducing methane emissions, and abating deforestation. However, current policies still orient the world towards dangerous levels of warming, and the new agreement fell short of explicitly calling to end coal use.
- **Climate finance promises reaffirmed, but flows still lacking**: Developed countries have not delivered on the '$100 billion' of climate finance for developing countries, and a post-2025 financing mechanisms remains in the balance for future COPs. While new pledges to scale up finance for adaptation were a positive outcome, outstanding questions on other financing – such as funding to address "loss and damage" – will remain on the negotiating table.

[1] Authors: Jeremy McDaniels, Senior Advisor, Sustainable Finance; Michaela Palmer, Policy Associate, Sustainable Finance.

- **A pathway forward for global carbon markets**: Negotiations on Article 6 of the Paris Agreement proved a success at COP26, with an agreement reached on implementing a new global carbon market for international transfer of mitigation outcomes.
- **Private finance is committed – yet mobilization remains complex**: The financial services industry played a key role at COP26, with new announcements from the private sector and regulators—and the launch of a new global sustainability standards board. However, while the private sector has a major role to play in decarbonizing the economy, many noted that their actions must be complemented by public policy to have a real impact on global emissions
- **Emissions reductions need to be fast and furious**: The final scorecard for COP26 is an improvement over previous COPs, but well short of outright victory. The IEA has estimated that if all COP26 commitments are met, global warming will be limited to 1.8c by 2100. But this is still too high, particularly given that current commitments for 2030 would leave global warming at 2.4c in 2100. The strength and speed of emissions reductions will need to ramp up rapidly in the coming decade to stabilize the global climate.

Across all of this, there are several open questions on the what the appropriate role for the private financial sector should be, if government policies continue to lack the necessary strength to drive economy-wide decarbonization at the speed and scale necessary to avert dangerous climate change. While a wide range of private sector financial firms signalled readiness for action in Glasgow, many also reiterated the need for stronger climate policy measures, such as carbon pricing. Ultimately, overemphasis on the role of the financial sector to address climate change risks could result in a '**second-best' environment developing,** whereby central banks regulate the financial sector to drive Net Zero transitions in the real economy to meet national GHG targets, in the absence of economy-wide tools (e.g., carbon pricing). More broadly, the development of jurisdictional approaches in parallel with global standards (and in some cases with industry-led efforts) raises fundamental questions about the relative roles of regulatory and market-led initiatives.

The direction of sustainable finance agenda going forward into 2022 may be influenced by the 'collapsing' of key dichotomies that have defined climate and environment-related strategies, as stakeholder expectations change, societal norms shift, and new scientific evidence comes to light. Three trends are key:

- **Long-term is increasingly near-term:** New frameworks for action on sustainability challenges are picking up speed, backed up increasingly heady sums – with 130 trillion behind the Glasgow Financial Alliance for Net Zero (GFANZ). Already, critics have been quick to pounce on the gap between ambition and delivery, as financial institutions seek to substantiate long-term goals with near-term actions, with clear KPIs linking strategic goals to real-world emissions reductions. Governments will also have to contend with the same compression of timeframes, with one of the major victories of COP26 being an acceleration of submission of emissions reductions targets for 2030, which are critical to ensure that long-term for 1.5 or 2c warming remain within reach.
- **Global changes are increasingly local:** While a focus on longer-term real economy transition and alignment remains critical, financial institutions also need to address the 'here and now' of climate change – and prepare for the worst, as physical impacts continue to manifest with greater frequency and severity. IIF analysis of the IPCC's latest summary of global climate science, and notable climate impacts over the course of 2021, illustrates to unsettling truths – climate change is here and now, and nowhere is safe from its impacts. Going forward, the IIF will broaden its engagement with members and experts on the physical im-

pacts of climate change, and potential risks to the financial system, to ensure that future climate risks are appropriately calibrated with the latest data and predictions for worst-case outcomes in coming years.

- **Public and private interests will need to increasingly aligned:** It will be important for financial firms to work collaboratively with public sector stakeholders, to ensure that there is a shared understanding of the role that the financial sector can best play in supporting broader public policy objectives. Clearly, finance has an important role to play in terms of climate risk management and reporting, capital allocation, advisory and structuring practices, and engagement with corporate and public clients – but this role will be limited if climate policy frameworks are not in place to shape the transition.

2. GLOBAL SUSTAINABLE FINANCE UPDATE[2]

2.1 Policy and Regulatory Developments (to November 30, 2021)

Region	Country	Description
Americas	USA	Federal Reserve Governor Lael Brainard gave a **speech on climate scenario analysis** in October. She spoke of the growing urgency of climate change and findings from the recent IPCC report, along with the utility of scenario analysis for risk management and forward-planning. Even the first generation of scenario analysis, while an early attempt, has the potential to yield valuable insights. The U.S. can learn from exercises informed by NGFS scenarios undertaken in other countries.
Americas	USA	The U.S. Department of the Treasury released a Treasury Climate Action Plan, which lays out steps the Department can take to **enhance resilience to climate change.** the plan identifies several priority action areas, including addressing climate risk across Treasury operations and property portfolio, adapting procurement so as to consider climate risk, and creating an investment approach consistent with the Department's climate objectives. In addition, the Department will use scientific climate change data to adjust policies, programs, and activities to improve its resilience to climate-related risks and impacts.
Americas	USA	Following from US Climate-related Financial Risk Executive Order 14030, The White House released a report entitled A Roadmap to Build a Climate-Resilient Economy. Intended as a **comprehensive government-wide climate risk strategy**, the report lays out a plan for "measuring, disclosing, managing, and mitigating climate-related financial risk across the economy, including to the Federal Government." Key priorities include actions to promote the resilience of the financial system, protect pensions from climate risk, integrate climate risk into budgeting, financial management, and procurement, and build climate-resilient infrastructure. The report also sets out a climate risk accountability framework, including mobilizing public and private finance, protecting vulnerable communities, and demonstrating global leadership.
Americas	USA	The Financial Stability Oversight Council (FSOC) released a **report on October 21 in response to Executive Order 14030.** FSOC identified climate change as a threat to U.S. financial stability and released findings and recommendations for handling the threat. The report recommends that agencies assess climate-related risks to financial stability through the use of scenario analysis, improve climate-related disclosures, enhance climate-related data, and build capacity and expertise on climate-related risk. Regulators should assess to what extent new regulations or guidance are needed. FSOC also announced the formation of two new committees which will advise the Council on climate risk. The report also reviews the ways in which U.S. regulatory agencies are already incorporating climate risk into their work. The SEC, for instance, is evaluating climate-related disclosures, the Federal Reserve has created committees to study climate risk, and the FHFA and FIO have requested information on climate-related financial risks from the public.

[2] Authors: Jeremy McDaniels, Senior Advisor, Sustainable Finance; Michaela Palmer, Policy Associate, Sustainable Finance, with inputs from Dr. Gabriel Webber Ziero (ECOFACT). This section draws on the ECOFACT AG Policy Outlook, the world's leading database on hard and soft law initiatives pertaining to sustainable finance and corporate responsibility. The database covers more than 30 regulatory topics addressed by regulators, supervisors, and standard setters at the international level, in the European Union, and in over 50 countries representing more than 85% of global GDP. The Policy Outlook monitors both existing and upcoming regulatory initiatives as well as changes in their interpretation. For further information on methodology and scope, please contact policy@ecofact.com

Americas	USA	The U.S. Department of Labor (DoL) proposed amendments to a rule enacted under the Trump administration concerning the **Employee Retirement Income Security Act (ERISA**). The rule required ERISA fiduciaries to make investment decisions based only on pecuniary factors, thereby excluding ESG considerations. The amended rule would remove this policy, enabling ERISA fiduciaries to consider "any factor material to the risk-return analysis, including climate change and other ESG factors" though the interests of the beneficiaries of the fund may not be subordinated to other objectives.
Americas	Canada	The Canadian Securities Administrators (CSA) issued a proposal to **introduce climate-related disclosure requirements.** The disclosure requirements are intended to align Canadian standards with the expectations of international investors, assist investors in making informed decisions, create an equal playing field for issuers, and remove the difficulty of adhering to multiple disclosure frameworks. CSA's proposed framework would apply to all reporting issuers (with some exceptions) and would require disclosure of climate-related information in line with TCFD recommendations.
Europe	EU	The European Commission adopted a **review of EU banking rules** in the Capital Requirements Regulation and Capital Requirements Directive. These updates will require banks to "systematically identify, disclose and manage sustainability risks… as part of their risk management." The package still needs to be approved by European Parliament and the European Council.
Europe	EU	The European Commission published a draft package of **reforms for the European insurance industry, including amendments to Solvency II.** The reforms aim to strengthen (re)insurers' management of climate risks by introducing a requirement for long-term climate scenario analysis (paragraph 25 of the package). As part of the Solvency II reform package (paragraph 92), the EU Commission has asked EIOPA to review evidence on the risk profile of environmentally or socially harmful investments (to be reported by 2023). If EIPOA finds a risk differential for harmful investment, a "brown penalizing factor" could be introduced. This would mean increased capital requirements for investments that are environmentally or socially harmful to counterbalance increased risk. EIOPA welcomed the European Commission's proposed Solvency II mandate that would allow the pension authority to take further action on sustainable finance, and has indicated support for assessment of prudential treatment of exposures related to assets or activities associated with environmental or social objectives.
Europe	EU	The European Insurance and Occupational Pensions Authority (EIOPA) has announced its priorities for the coming years. EIOPA will work to **integrate sustainable finance priorities** in its work, promoting the use of disclosure frameworks and climate risk management.
Europe	EU	The ESAs published a final report on draft rules for how **investors should disclose their products' EU Taxonomy-alignment under the SFDR**. The mandatory templates included in the report integrate important changes compared to the templates issued in March 2021: 1) The disclosure for a sustainable investment must specify if it is a social or environmental investment; 2) If principal adverse impacts are considered, the disclosure needs to explain how this is done; 3) The disclosure must explain if the assessment of taxonomy-alignment has been or will be subject to an audit or a third-party review; and 4) The graphs on asset allocation ask for more transparency on sovereign bonds.
Europe	EU	The ECB sent a letter to the significant institutions it supervises with information on its **upcoming climate risk stress tests**. The test will be composed of three modules: an overarching questionnaire, a peer benchmark analysis, and a bottom-up

		stress test. The results of the analysis will be integrated into the Supervisory Review and Evaluation Process but will not be used to directly inform capital requirements.
Europe	EU	The ECB has released its **final report on the supervisory review of banks' approaches to manage climate and environmental risks**. The ECB has conclude that no supervised institution is currently fully compliant with the ECB's 13 expectations on climate and environmental risk management (released earlier this year). The ECB has indicated that its plans to conduct a 'full review' of banks' management of climate and environmental risks in 2022, with a focus on inclusion in strategy, governance, and risk management. Over the longer-term, the ECB has indicated that banks might 'eventually'' face higher capital requirements linked to climate risk exposures. This reflects recent remarks from senior ECB officials on climate change and capital requirements.
Europe	Switz.	The Federal Council announced that it has adopted several measures in order to advance its standing as an international leader in sustainable finance. It recommends that financial market participants use **climate compatibility indicators** for greater product and portfolio transparency and clarity on environmental impact. The Federal Council also encouraged FIs to join net-zero alliances and use comparable sustainability definitions so as to minimize greenwashing. It instructed two federal departments to assess the extent to which the financial sector implements the Federal Council's recommendations by the end of 2022 and to work with FINMA to assess whether policies should be changed to avoid greenwashing.
Europe	Switz.	FINMA published **Guidance 05/2021 on how to prevent and combat greenwashing.** The guidance focuses on sustainability-related information at the fund level and what makes an organization's structure suitable for managing sustainable financial products. It also defines what FINMA considers to be greenwashing practices and presents examples.
Europe	UK	HM Treasury, along with the UK Department for Work & Pensions and Department for Business, Energy & Industrial Strategy published a report entitled "**Greening Finance: A Roadmap to Sustainable Investing**" in October. The paper lays out the government's plan to enact the first phase of greening the financial system – informing investors and consumers, which includes addressing data gaps and ensuring the flow of decision-useful information. New Sustainability Disclosure Requirements have been introduced which will incorporate new and existing policies. The paper also provides further details on the UK Green Taxonomy and emphasizes the importance of stewardship.
Europe	UK	The Bank of England released its approach to **greening the Corporate Bond Purchase Scheme (CBPS)**. The BoE intends to reduce the weighted average carbon intensity of the CBPS portfolio by 25% by 2025 and will aim for net zero by 2050. In order to have their bonds purchased by CBPS, firms will need to meet sustainability criteria and BoE will favor purchases from more climate-responsible firms. This plan is intended to incentivize firms to transition towards net zero and reduce their emissions.
Europe	UK	Alongside COP26, The UK government announced a suite of policies aimed at becoming the worlds' first "**Net Zero Aligned Financial Center.**" Of particular note include proposals for mandatory disclosure of climate-related **transition plans,** which will require certain financial institutions and other major companies to publish science-based transition plans from 2023. firms to publish plans for reducing their emissions and meeting net zero. An independent task force will set science-based standards for firms to avoid greenwashing.

Europe	UK	The UK has announced it will require its largest businesses to **disclose climate-related risks** and adhere to a TCFD-aligned disclosure framework. Pending approval from Parliament, the new policy will go into effect in April 2022 and will apply to over 1,300 companies and financial institutions.
Europe	UK	The UK's Independent Anti-Slavery Commissioner – Dame Sara Thornton – has **called on the government to extend the section 54 of the Modern Slavery Act to cover financial portfolios**. Her report recommends that the financial services sector should ensure that it integrates modern slavery and human trafficking risk across all its business processes, in the same way that it has approached environmental risk. The report follows a survey which found out that only a small number of financial services companies were actively managing their risk and engaging with clients and suppliers on issues relating to modern slavery and human trafficking.
Oceania	Australia	APRA and the RBA released a **joint statement on climate change financial risk**, outlining the steps they are taking to make sure the financial system is prepared to handle climate change. The regulators are building internal capacity to conduct analysis and are currently leading a bottom-up climate vulnerability assessment of five large Australian banks. APRA and RBA are also integrating climate risk into macroeconomic decision making and internal processes.
Oceania	Australia	APRA has released its final **prudential practice guide on climate change financial risks**, following consultation earlier this year. The guidance contains recommendations in the areas of governance, risk management, scenario analysis, and disclosure. On the topic of risk management, the guidance contains recommendations for banks to consider incorporating "risk exposure limits and thresholds" within risk appetite frameworks, where climate risks are found to be material.
Oceania	Australia	Reserve Bank of Australia Deputy Governor Guy Debelle has indicated that that the **increased divestment from Australian assets due to climate concerns** is a legitimate risk facing financial institutions. Though divestment hasn't seriously materialized yet, Debelle noted that the "likelihood of more significant divestment is increasing."
Intl.	G20	**G20** finance ministers and central bank governors held their fourth official meeting under the Italian G20 presidency. The communiqué contains statements regarding actions to coordinate efforts to tackle climate change and protect the environment, and promote transitions towards greener, more prosperous, and inclusive economies and societies. Ministers endorsed the **G20 Sustainable Finance Roadmap** published by the Sustainable Finance Working Group (SFWG) as well as the group's Synthesis Report.
Intl.	BIS	The BIS released a paper entitled, "**A taxonomy of sustainable taxonomies**," in which it lays out a framework to classify and compare existing taxonomies. The analysis makes clear that there is a lack of measurable sustainability performance indicators and a lack of granularity and verification. The paper's key policy messages emphasize that taxonomies should correspond to sustainability objectives and should focus on alignment with the Paris Agreement.
Intl.	IPSF	The IPSF has released its report on a '**Common Ground Taxonomy**', alongside a comparison table and consultation document. The report provides a **comparison of the EU and Chinese taxonomies**, and an overview of the methodology used for comparing and identifying commonalities and differences. The report does not contain a framework that can serve for the basis of development of other taxonomies. A Common Ground Taxonomy table provides detailed analysis of the comparison of the EU and Chinese criteria, across 80 activities across six ISIC sectors: i) Agriculture, forestry and fishing, ii) Manufacturing, iii) Electricity, gas, steam and air

		conditioning supply, iv) Water supply; sewage, waste management and remediation activities, v) Construction, vi) Transportation and Storage. A public consultation on the materials is open until 4 January 2022. Alongside these materials, the IPSF published a report that provides an overview of the **state of environmental, social, and governance (ESG) disclosure policy measures** across IPSF jurisdictions.
Intl.	NGFS	The NGFS released a progress report on the **implementation of recommendations in its Guide for Supervisors**, which shows that NGFS supervisors have made progress in integrating climate-related risks in their work. The Guide for Supervisors, published in May 2020, included five key recommendations, and the progress update was part of the NGFS's contribution to COP26. The report revolves around twelve focus areas and includes case studies to illustrate their implementation. Further progress, however, is needed, and data gaps, inconsistent methodologies, and insufficient capacity, are still challenges. At COP26, NGFS announced that it had reached 100 members, and released a 'Glasgow Declaration' indicating future work across a range of areas, including further development of Reference Scenarios, assessment of climate considerations in the context of **monetary policy**, further work on **data gaps**, TCFD **reporting** by central banks, and **capacity building** with a focus on emerging and developing economies. In addition, the NGFS indicated that it will take forward further exploratory work on topics such as **biodiversity loss** and risks associated with **climate litigation**.
Intl.	IFRS	At COP26, The IFRS Foundation announced the creation of the **International Sustainability Standards Board** (ISSB), a new global standard-setting body with a mandate to deliver a global baseline standard for disclosure of ESG information. To achieve this, the ISSB will 'consolidate' key voluntary reporting frameworks by June 2022 – including the Climate Disclosure Standards Board (**CDSB**—an initiative of CDP) and the Value Reporting Foundation (**VRF**—which houses the Integrated Reporting Framework and the SASB Standards).Alongside the announcement, the IFRS released **'prototype' climate and general disclosure requirements** developed by the Technical Readiness Working Group (TRWG), which will form the basis of a forthcoming public consultation expected in Q1 2022.
Intl.	IOSCO	the **International Organization of Securities Commissions** (IOSCO) has published its final report on 'Environmental, Social and Governance (ESG) Ratings and Data Products Providers'. The IIF submitted a response letter to the consultation in September. The report contains a set of **ten recommendations** for securities markets regulators, ESG ratings and data products providers, users of these products and services, and companies subject to these providers' review.
Intl.	TCFD	The **TCFD** published its 2021 annual status report, highlighting the growing support for the group's work and the increasing number of national regulators requiring climate disclosures. It also published a new Guidance on Metrics, Targets and Transition Plans to further increase comparability of metrics and targets disclosures. The guide aims to inform how entities' transition plans are defined.

Sources: IIF, ECOFACT.

2.2 Open Consultations

Region	Entity	Subject	Deadline
Americas	USA	The DOL has released a proposed rule under the ERISA for public comment. The rule clarifies that fiduciaries are allowed to consider climate change and other ESG factors when making investment decisions and when exercising shareholder rights, including shareholder resolutions.	December 13, 2021
Americas	USA	A proposed rule that would amend several types of funds' reporting requirements for proxy votes has been published in the Federal Register. A public comment period is open until December 14, 2021.	December 14, 2021
Americas	USA	Proposed rule 14Ad-1 is published in the Federal Register. It would require investment managers to disclose how they voted on executive compensation and "say-on-pay" matters.	December 14, 2021
Europe	EU	The EU Commission has launched an initiative to improve the quality and enforcement of corporate reporting. The initiative also aims to improve the framework that guides external auditing and supervision of this type of reporting.	February 4, 2022
Europe	EU	The EBA and the ESMA have launched a consultation on proposed guidelines for common procedures and methodologies for the supervisory review and evaluation process (SREP) under the IFD's article 45(2). The consultation document includes a question on considering ESG risks within the SREP.	February 18, 2022
Europe	France	The French Ministry of Ecological Transition announced it intends to develop a French strategy on energy and climate.	February 15, 2022
Oceania	Australia	The Australian Prudential Regulation Authority (APRA) released a consultation package in September 2021 to update the SPS 530. The updates focus on enhancements to stress testing, valuation and liquidity management practices.	February 16, 2022
Intl.	CA 100+	Climate Action 100+ announces it will release the next version of the Net-Zero Company Benchmark in March 2022, which will provide updated company assessments for investors.	December 31, 2021
Intl.	IPSF	The IPSF has requested feedback on its Common Ground Taxonomy Table. The feedback will inform the future efforts of the IPSF taxonomy working group.	January 4, 2022
Intl.	BCBS	The BCBS has launched a consultation on proposed principles for the effective management and supervision of climate-related financial risks.	February 16, 2021

2.3 Updates on Initiatives and Frameworks – Focus on COP26 Highlights

Government and Official-Sector Announcements

- **Ending Deforestation:** More than 100 countries have agreed to halt deforestation by 2030 in accordance with the Glasgow Leaders' Declaration on Forests and Land Use, and 30 financial institutions pledged to purge deforestation from their portfolios by 2025.
- **Global Methane Pledge:** The U.S. and EU launched a global pledge to cut methane emissions, which have a stronger warming effect than carbon dioxide emissions do. More than 100 countries have signed on, committing to cutting methane emissions by 30% by 2030.
- **Transition from Coal:** 44 countries have pledged to transition from coal to clean power, signing the Global Coal to Clean Power Transition Statement.
- **Ending Financing for Fossil Fuels Overseas:** 20 countries including the U.S., the UK and Canada have promised to end public financing for international fossil fuel projects which is expected to reallocate $8 billion annually to clean energy instead.
- **Mission Innovation:** A global initiative which brings together 23 governments is launching four new agendas to deliver breakthroughs in the areas of industrial technology, carbon dioxide removal, and the bioeconomy.
- **Increasing Efficiency:** Twelve countries have committed to doubling the efficiency of products for lighting, cooling, motors, and refrigeration by 2030.
- **Breakthrough Agenda:** 40 countries or jurisdictions including the U.S., India, the EU, and China have joined a UK-led pledge to coordinate on the development of clean energy. Signatories committed to accelerate the development and deployment of clean energy technologies in a number of sectors by 2030.

Notable Climate Finance Announcements

- **Climate Finance Delivery Plan:** The UK COP26 Presidency along with Germany and Canada published a plan outlining when and how developed countries will meet their goal of providing $100 billion in climate financing.
- **Japan:** Prime Minister of Japan Fumio Kishida announced $10 billion in additional climate finance for developing countries on top of the approximately $60 billion already pledged over the next five years.
- **Spain**: Prime Minister Pérez-Castejón announced a 50% increase to 1.35 billion euros in climate finance for developing countries annually beginning in 2025.
- **U.S.:** President Joe Biden promised to double the $5.7 billion annual contribution pledged earlier this year by 2024, including $3 billion to support adaptation efforts.
- **Commitments for South Africa**: Several countries pledged $8.5 billion to aid South Africa's energy transition.
- *A full list of climate finance commitments announced at COP26 can be found here.*

Private Sector and Multilateral Announcements

- **Net Zero Finance:** The Glasgow Financial Alliance for Net Zero announced that it had reached $130 trillion in assets committed to reach net zero by 2050. These commitments come from over 450 firms in 45 countries.
- **ADB Clean Energy Financing:** The Asian Development Bank (ADB) launched the Energy Transition Mechanism (ETM) in order to accelerate the move to clean energy and the move away from coal. As part of the project's pilot phase in Indonesia, the Philippines, and Vietnam, the ETM is expected to raise $2.5 to $3.5 billion to retire 2-3 coal-fired power plants per country.
- **IFC Funding Emerging Markets:** The International Finance Corporation (IFC) and Amundi announced a new $2 billion fund that aims to mobilize private investment into sustainable and green bonds in emerging markets.

- **Smart Investment Platform**: The International Finance Corporation (IFC), along with the Hong Kong Monetary Authority (HKMA), and Allianz through Allianz Global Investors launched MCPP One Planet, a global platform for Paris-Aligned climate investments that will provide up to $3 billion to private enterprises in developing economies.
- **CIF Clean Energy Initiative**: The Climate Investment Funds (CIF) Capital Market Mechanism (CCMM) initiative will raise finance for projects in clean energy and sustainable infrastructure in developing and emerging economies. Bonds will be issued in 2022 and are expected to produce $700 million annually.
- **Coal Phase Out**: A number of new countries and companies joined the Powering Past Coal Alliance, pledging to phase out coal domestically and accelerate the clean energy transition.
- **Greening Agriculture:** The World Business Council for Sustainable Development launched the Banking for Impact on Climate in Agriculture initiative in partnership with United Nations Environment Programme Finance Initiative, Partnership for Carbon Accounting Financials, and Environmental Defense Fund, which will bring together banks to align their food/agriculture/land use portfolios with Paris Agreement and net zero goals.

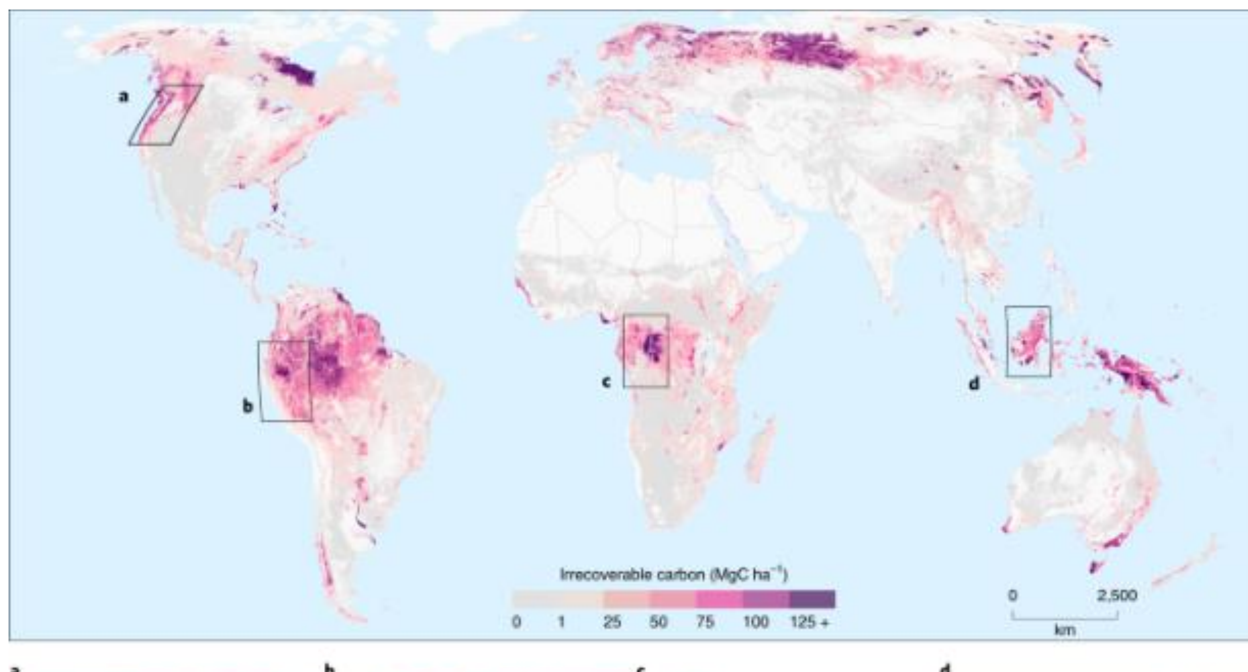
2.4 Research and Insights

Climate change signal in global agriculture emerges earlier in new generation of climate and crop models

Climate change impacts on crop yields are a major concern. New expectations based on latest-generation crop and climate models shows lower yields for maize, soybean, and rice production due to warmer weather and improved model sensitivity. Wheat, however, shows increases due to higher carbon concentrations and high-latitude gains though these increases level off mid-century. Across projections, the emergence of climate impacts occurs earlier, suggesting that crops will face climate change impacts earlier than predicted – even in the next 20 years. Even scenarios with high levels of mitigation still produce crop yields outside of historical precedent.

Mapping the irrecoverable carbon in Earth's ecosystems

New research from Conservation International maps natural places on Earth that must be protected due to their irreplaceable carbon reserves. If lost, these reserves could not be recovered in time (by 2050) to avoid the worst impacts of global warming. 139.1 ± 443.6 Gt of irrecoverable carbon remains on Earth but faces significant risks from land use, and therefore must be protected. Today, only 23% of irrecoverable carbon is within a protected area though another 33.6% is managed by indigenous or local communities. These locations are largely mangroves, tropical forests, peatlands, and old-growth forests and are concentrated on just 3.3% of Earth's land. Their protection will also have a positive effect on biodiversity preservation.



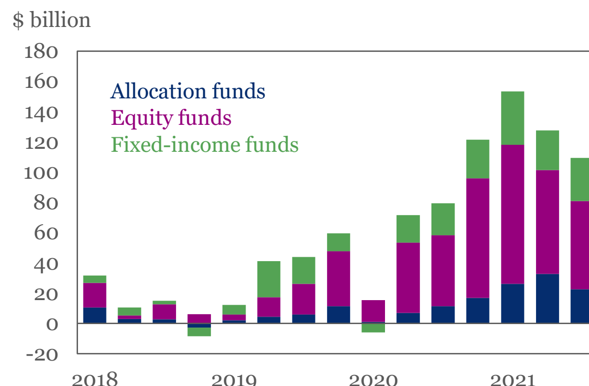
3. MARKET SNAPSHOT[3]

Slump in ESG flows: ESG funds attracted some $110 billion in the third quarter of 2021, down from around $130 billion in Q2 2021. With ESG fund flows now running at their slowest pace in a year, the slowdown has been more marked in flows into ESG equity and mixed-allocation funds. In contrast, flows into ESG fixed income funds in Q3 were slightly stronger than in Q2, though these were still below levels seen in Q1 (Chart 1). The vast majority of these flows went to mature markets. ESG fund flows to emerging market were around $4.8 billion in Q3, accounting for less 5% of total ESG flows—some 30% below average. Indeed, EM ESG fund flows over the past quarter decelerated to their slowest pace since Q3 2020. While LatAm received the largest share of ESG fixed-income flows, most ESG equity flows were directed to EM Asia (Chart 2).

Tackling carbon leakage: Given the stringent European climate policy framework and product standards, EU products face the risk of being replaced with cheaper, carbon-intensive imports—thereby undermining EU emissions reduction efforts. Adopted in July 2021 as part of the European Green Deal, the European Commission's Carbon Border Adjustment Mechanism (CBAM) aims to prevent carbon "leakage" (relocating carbon-generating activities from higher- to lower-carbon pricing jurisdictions). The CBAM is designed to create a level playing field for EU producers that are subject to EU carbon pricing and will focus on sectors at high risk of carbon leakage: cement, iron and steel, fertilizer, aluminum, and electricity. EU importers will be required to declare "embedded emissions" for these products from 2023 and start paying the CBAM tariff from 2026.

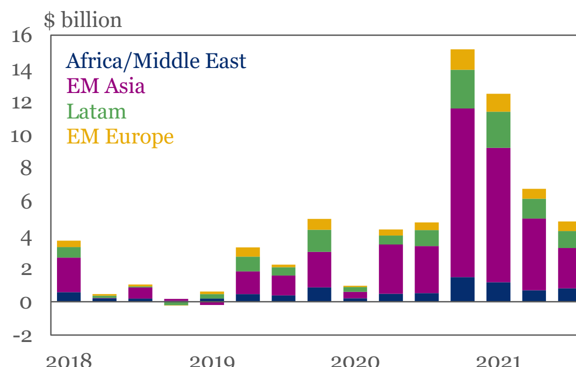
Import-embedded emissions: The EU's total imports of goods and services across all categories contain an estimated 800mn tonnes of embedded CO_2 emissions (equivalent to 25%

Chart 1: After a strong start to the year, ESG fund flows continued to lose momentum in Q3 2021



Source: Morningstar, IIF

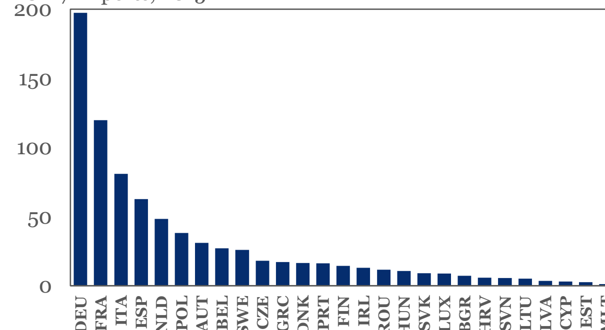
Chart 2: The sharp drop in ESG fund flows to emerging markets reflects lack of supply and data gaps



Source: IIF, Morningstar

Chart 3: Some 800 million tonnes of carbon emissions are "embedded" in EU imports every year

million tonnes, annual CO2 emissions embedded in EU-27 imports, 2015



Source: Sustainable Development Report , IIF

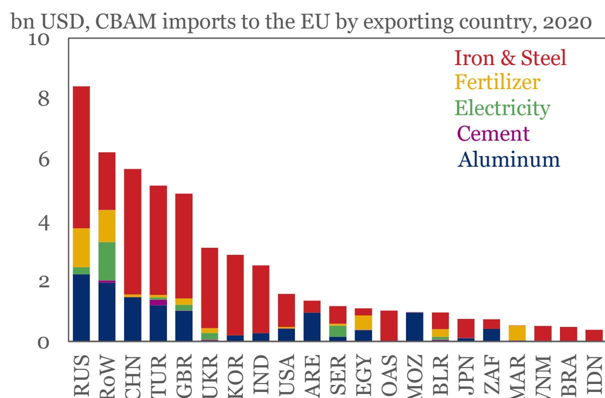
[3] Author: Paul Della Guardia, Financial Economist; Editor: Emre Tiftik, Director, Sustainability Research.

of EU territorial emissions), meaning that demand for these imports leads to the creation of carbon emissions elsewhere (Chart 3). Although many countries in the region have successfully reduced their reliance on carbon intensive activities over the past decade (see Green Weekly Insight: Carbon Efficiency 101), the EU is by far the largest such carbon emissions *exporter* (i.e. the largest importer of goods with substantial carbon footprint), followed by the U.S., Japan, the UK, China and India.

CBAM exporters to the EU: In dollar terms, imports of CBAM products into the EU from countries that are not part of the EU Emissions Trading System–which includes the EU's 27 member states, Iceland, Norway, and Liechtenstein (with Switzerland also exempt)–amounted to some $50 billion in 2020 (Chart 4). Relevant iron and steel products comprised $31bn of the total, followed by $12bn in aluminum imports, $4bn of fertilizer, $2bn of electricity, and $380mn of cement. In gross terms, Russia stands out as the country that will likely be affected the most from the upcoming carbon tariff, having exported over $8bn of CBAM products to the EU last year. China, Turkey, the UK, Ukraine, South Korea, and India also exported well over $2bn of CBAM products to the EU in 2020.

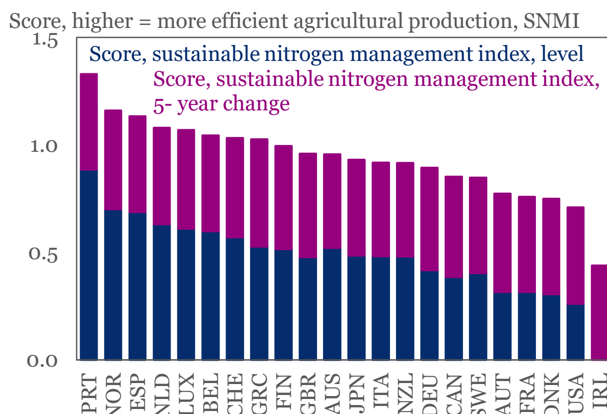
Agricultural efficiency, open sesame: Pursuing efficient agricultural production and management practices, along with incentivizing less intensive consumption patterns, is the key for achieving both food security and net zero targets. For instance, the *Sustainable Development Report* features an indicator related to SDG 2-Zero Hunger, called the Sustainable Nitrogen Management Index. The SNMI balances the efficient application of nitrogen fertilizer with maximum crop yields as a measure of the environmental performance of agricultural production. A good score means that a country is optimizing both fertilizer use and crop yields, while a poor score points to more environmental damage. SNMI scores for mature and emerging markets reveal significant cross-country variation but little difference between either group (Charts 5 and 6). The most efficient agricultural producers are the UAE, Colombia, Portugal, and Norway, and the least efficient are Ireland, Saudi Arabia, Ukraine, and the U.S.

Chart 4: Russia is the largest exporter to EU of products subject to the Carbon Border Adjustment Mechanism



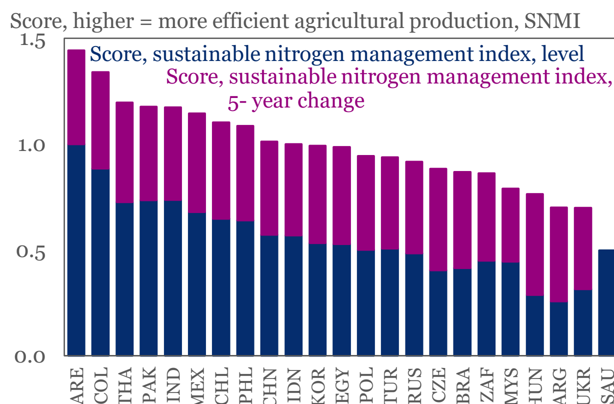
Source: Bloomberg, IIF

Chart 5: High crop yields with low fertilizer use are more environmentally efficient,…



Source: Sustainable Development Report, IIF

Chart 6: …and there is little difference between most mature and emerging markets on agricultural efficiency.



Source: Sustainable Development Report, IIF

4. IIF SUSTAINABLE FINANCE UPDATE

The IIF sustainable finance team sends regular updates on the schedule of activities for 2021. Please send any questions or requests to Raymond Aycock (raycock@iif.com).

SFWG Outputs and Sustainable Finance Research

- IIF COP26 Outcomes and Implications (11/22/2021)
- Green Weekly Insight: Net Zero – with or without nuclear? (11/18/2021)
- IIF Response to FIO Request for Information on Climate-Related Financial Risks (11/12/2021)
- Green Weekly Insight: The EU Carbon Border Adjustment Mechanism (11/10/21)
- TCFD Guidance Template: A Voluntary, Open-Source Toolkit Drawing on Observed Industry Practices (11/02/2021)
- Sustainable Finance Monitor (10/29/2021)
- Sustainable Debt Monitor: COP26 puts an ESG lens on EM investing (10/28/2021)
- Green Weekly Insight: Notes from DC: ESG Themes from our AMM (10/21/21)
- Green Weekly Insight: Sharp Slowdown in ESG Flows (10/05/21)

Upcoming Events and Webinars

- Launchpad to Net Zero: Implications of COP26 for the Global Financial Sector (12/16/2021)

Next IIF SFWG Call: December 1, 2021