

PRESS RELEASE

CLIMATE METRICS CAN PLAY KEY ROLE IN RACE TO NET-ZERO IF THEY IMPROVE

BRUSSELS, 27 JANUARY 2021



Forward-looking metrics could have a key role to play in the race to Net-Zero ahead of COP 26 with improvements on GHG emissions data, standardised climate scenarios and clear transition pathways for the key economic sectors. Today, Eurosif responded to the Financial Stability Board TCFD consultation on forward-looking metrics.

Ahead of the COP 26 later this year, the race is on to reach climate neutrality objective of Net-Zero by 2050. Asset owners and asset managers are starting to use forward-looking climate metrics and different methodologies to ensure a gradual alignment of their investment portfolios with this net-zero objective.

To ensure these metrics become decision useful for investors, a number of steps will need to improve:

1. Better data on GHG Emissions

The accuracy of forward-looking metrics depends entirely on the quality of GHG emissions data underpinning them. While aiming for perfection is good, it would already be good to get standardisation around the relevance of Scope 1, 2, 3 and possibly for different economic sectors.

2. Climate scenarios and transition pathways

Since these metrics are inherently forward-looking, the relevance of these metrics depends on the climate scenarios and transition pathways used to compute the results. Technically accurate metrics based on unrealistic or flawed scenarios and transition pathways for certain key sectors (energy, transportation, manufacturing, real estate, agriculture) will not be decision useful.

3. Make use of the right metrics

Not all forward-looking metrics are equally decision-useful to investors. In general, we would avoid metrics that look to combine carbon intensity or carbon footprint with economic values such as the value of investments or revenues. These metrics could artificially drive investors towards shares of companies with traditionally low carbon business models (e.g. pharmaceuticals vs transport), while neglecting shares in high-emitting sectors. However, it is exactly the transition of these high-emitting sectors that will determine whether or not we will achieve the race to net-zero. To avoid this, we recommend that company-specific forward-looking climate metric should compare between companies within the same industry and versus the industry-specific transition pathway to achieve net-zero.

Quote from our Executive Director, Victor van Hoorn

"It is very positive that the TCFD is looking more closely at the use of forward-looking climate metrics by financial markets. These tools could help investors in guiding their investment decisions that would help reach net-zero by 2050. Financial markets, however, need to keep in mind that these tools predict an uncertain future. To really increase the trust in these tools, further work needs to be done on widely-shared credible climate scenarios in line with the Paris Agreement that incorporate clear and realistic transition pathways for the high-emitting sectors whose transition determine whether we have a chance of reaching carbon-neutrality".

Brief summary of our most relevant answers.

Please refer to our original consultation document attached for an elaboration of our answers to each question (Qx)

- 1. Target Group - (Q1)** In the long term, we believe that all types of financial organisations should disclose forward-looking climate-related metrics. **(Q2)** It is also important to point out that given the heavy reliance on ESG data providers, it will be crucial that they ensure transparency on their methodologies and scenarios used in the provision of their services and ESG data solutions.
- 2. The usefulness and challenges of various metrics - (Q3)** We believe that the disclosure of forward-looking climate-related metrics will yield more transparency to financial markets on climate-related risks if asset managers and investors integrate them into their investment decision-making process. **(Q4)** However, we are not yet at this stage of development. Lastly, we want to underline that understanding the scenarios and pathways used to stay within a 1,5 degree Celsius are vitally important as they determine the relevance and quality of the forward-looking metrics.
- 3. Implemented temperature rise (ITR) - (Q7)** The disclosure of transparent company-specific metrics would provide useful information to investors as it would (1) send a signal to financial markets that a company is seriously considering the effects of climate change and (2) the methodology used by a company would show how realistic a company's strategy and plans are with the prospects of a net-zero economy in 2050. This in itself would be very valuable information for investors.

Contact

For any questions or comments, you can contact Eurosif's executive director Victor van Hoorn on victor.vanhoorn@eurosif.org or our PR and Communication Associate Delphine De Potter on delphine.depotter@eurosif.org.