Spotlight Brief

Sustainable Finance and the Net Zero Journey

Updated: May 2021

This research brief examines recent developments in the sustainable finance space and its implications for companies.

This research brief has been updated to incorporate insights from the post-GLOBE Capital roundtable. Trillions of dollars are on the table. Low-carbon infrastructure is projected to reach $90 trillion by 2030. ESG investing has expanded into a $30 trillion-plus business. Unlocking investment that will allow us to go beyond recovery and activating and accelerating sustainable finance is critical.

TABLE OF CONTENTS

**Note*: Throughout the document, values are in USD, unless specified otherwise.*

KEY GUIDEPOSTS

SUSTAINABLE FINANCE IS BECOMING MAINSTREAM: There has been significant growth in this space over the last year. Global issuance of debt that meets sustainability criteria is expected to reach a record of at least $1 trillion next year, according to some estimates. Moreover, the net zero commitments at the national, sub-national and corporate levels have exploded over the last year, thereby fueling the demand for sustainable finance. Financing the net zero transition is now a significant focus for companies and investors.

ACKNOWLEDGEMENT OF CLIMATE RISK AS A SYSTEMIC FINANCIAL RISK, AND CLIMATE POLICY DRIVERS ARE SHAPING THE SUSTAINABLE FINANCE AGENDA: Central banks are recognizing the impacts of the climate crisis, as evidenced by initiatives such as the Network for Greening the Financial System (NGFS). As climate risk becomes embedded in financial decision-making processes across governments and companies, it will build momentum towards the mainstreaming of sustainable finance. This is enabled by the significant global trend towards the adoption of climate policies and ESG regulations targeting financial institutions and companies.

SUSTAINABLE FINANCE & TRANSITION FINANCE TAXONOMIES ARE EMERGING: As the urgency and momentum towards mobilizing capital for sustainable finance increases, so does the importance of having clear classifications and definitions of what constitutes sustainable projects and activities. This is where taxonomies come in. Efforts are underway with the ISO TC 322 Sustainable Finance, the EU Taxonomy, and Canada's Transition Taxonomy (slated to release in 2021).

INCREASED DEMAND FOR DECISION-USEFUL ESG DISCLOSURE, WITH A NOTABLE SHIFT TOWARDS MANDATORY ESG DISCLOSURES: There is increasing investor demand for consistent, high-quality, comparable ESG disclosures. Amidst this spike in demand for granular disclosure, ESG reporting is becoming mandatory in specific jurisdictions, a trend that is expected to accelerate. For instance, in the US, President Biden is expected to issue an executive order requiring climate disclosure, and there are efforts by the IFRS to proceed with the harmonization of sustainability reporting standards.

IMPLICATIONS FOR CANADIAN COMPANIES:

- **ACCESS TO CAPITAL**: Companies looking for capital to finance their net zero transition plans and other sustainability efforts from global investors in regulated markets will likely need to demonstrate that they have strong ESG performance and meet relevant disclosure requirements. Canadian companies may need to ensure that their activities are classified as 'sustainable' by the regulated markets from which they are seeking capital.
- **TRANSITION TAXONOMY**: Transition finance is of particular relevance to Canadian companies. Currently, there is no widely accepted set of transition taxonomy, i.e. a classification system that would determine whether a project is eligible for transition finance. The CSA Technical Committee is coordinating efforts to develop a Transition Taxonomy for Canada, with a goal of defining transition in a way that acknowledges the natural resources sectors. It seeks to establish criteria for the Canadian market to identify projects that shift from carbon-intensive to low-carbon activities and support achievement of net zero greenhouse gas emissions by 2050. It is expected to be launched in 2021.
- **KEEPING UP WITH THE REGULATIONS**: As this is a rapidly evolving space, Canadian companies should continue to stay on top of the latest developments in sustainable finance and the ESG disclosure regulations – within Canada and across leading jurisdictions globally. Companies should consider integrating these specific regulatory risks into ESG materiality assessments and enterprise risk management processes. Investor demand for ESG disclosures and due diligence requests is expected to intensify – it will be essential for companies to proactively engage with and educate investor relations teams and executives on these risks and opportunities.

CBSR

NEW

INSIGHTS FROM ROUNDTABLE DISCUSSION

Summarized below are actionable insights from CBSR members, as discussed during the April 2021 Roundtable Session

1- INTEGRATING SUSTAINABILITY CONSIDERATIONS INTO CAPITAL ALLOCATION DECISIONS

- **IDENTIFYING AND FOCUSING ON MATERIAL ESG ISSUES**
    - Having clear guidance across the organization on material ESG issues can enhance focus, consistency and rigour.

- **ADJUSTING OR CREATING TOOLS TO EXPLICITLY INCORPORATE SUSTAINABILITY CRITERIA IN CAPITAL INVESTMENT AND OPEX DECISIONS**
    - These can include explicitly incorporating sustainability considerations (e.g. impact on, or contribution towards energy, water, waste reduction goals) within project budgets**,** capital request forms, or leveraging sustainability impact assessment tools for project-based decision-making. Members also identified a need for specialized yet simple tools that can be used to evaluate suppliers on material ESG issues.

- **CONSIDERING THE HOLISTIC FINANCIAL LIFECYCLE OF INVESTMENT**
    - Incorporating all aspects of value when making decisions, including but not limited to replacement rate, operational savings, grants, government subsidies, costs of offsets, forecasts of potential carbon monetization opportunities etc.

- **COLLABORATING WITH AND EDUCATING FINANCE TEAMS TO ALIGN ON PRIORITIES**
    - In particular, members noted that they are generally engaging with these teams on climate risks and opportunities that are most relevant to their organizations.

- **RECONCILING LONG-TERM BENEFITS VS. SHORT-TERM RETURNS**
    - ESG considerations are not generally reflected in present value index calculations, which tend to improve in scenarios with government funding.

- **NAVIGATING THE CURRENT LANDSCAPE - WHICH LACKS STANDARDIZATION AROUND MONITORING USE OF SUSTAINABLE FUNDS AND ITS ASSOCIATED IMPACTS - IS CHALLENGING**
    - There is a need for standardized taxonomy to define eligibility criteria for ‘sustainable,’ ‘green,’ ‘social,’ or ‘transition’ projects.

- **CONNECTING WITH SUPPLIERS TO PILOT AND SCALE DECARBONIZATION SOLUTIONS**
    - Examples include developing supplier engagement criteria (e.g. requiring select suppliers to set sustainability targets), partnerships on Power Purchase Agreement etc.

- **ENGAGING WITH CUSTOMERS TO ADDRESS THEIR SUSTAINABILITY PRIORITIES AND POSITIONING PRODUCTS AND SERVICES ACCORDINGLY**
    - Provide transparent data on the holistic lifecycle impact of products/services to better equip customers with this information. Such opportunities can allow companies to meet the demand for sustainable products/services as their customers set net zero targets.

- **LEVERAGE GREEN/SUSTAINABLE BONDS AND SUSTAINABILITY-LINKED LOANS TO FINANCE THE NET ZERO TRANSITION**
    - Some members noted that for sustainability-linked loans, there is perceived preference from banks for corporate targets that focus across the three pillars of ESG.

- **RESOURCE CONSTRAINTS ARE A BARRIER**
    - Organizational/team structures, staffing constraints, and lack of capacity building are notable barriers impacting the integration of sustainability consideration across companies.

2- ESG ENGAGEMENT WITH INVESTORS, INVESTOR RELATIONS/FINANCE TEAMS

- **PRIORITIZING CONTINUAL EDUCATION AND AWARENESS-BUILDING ACROSS INVESTOR RELATIONS AND FINANCE TEAMS**
    - Focusing on material ESG issues when engaging with these teams.
    - Emphasizing the rigour and effort required behind driving ESG performance.

- **USING SUSTAINABILITY REPORTING FRAMEWORKS AND STANDARDS AS STRATEGIC TOOLS WITHIN THE COMPANY (NAMELY, SASB AND TCFD)**
    - Task Force for Climate-Related Financial Disclosures (TCFD), in particular, are being used by members to inform climate and business strategy, engage relevant internal teams and identify and manage enterprise-wide risks.
    - Ensuring readiness for mandatory ESG reporting requirements, which will invariably involve collaboration across various internal teams.

- **ONGOING CONVERSATIONS WITH INVESTORS TO UNDERSTAND THEIR ENGAGEMENT PRIORITIES**
    - The majority of members noted that they have observed increased involvement of sustainability teams in direct meetings with investors and insurers.

- **ENGAGING WITH ESG DATA PROVIDERS TO UNDERSTAND THEIR INFORMATION COLLECTION PROCESSES**
    - Analyzing methodologies for ESG ratings and data providers to strategically identify opportunities to improve performance and scores/rankings.

- **TELLING A COMPREHENSIVE AND CONSISTENT ESG STORY**
    - Using standard messaging to communicate to internal teams in order to ensure everyone is clear around the 'why,' 'what,' and 'how' behind the company's ESG approach.
    - Consider the communications tools used to reach key stakeholders – use mechanisms to communicate with stakeholders in the ways they would like to be informed (e.g. excel, PDF, microsite, video etc.) to tell your story, enhance reputation, and prioritize transparency.

Research

Pg. 7-23

SECTION 1 - SUSTAINABLE FINANCE – BACKGROUND & MOMENTUM

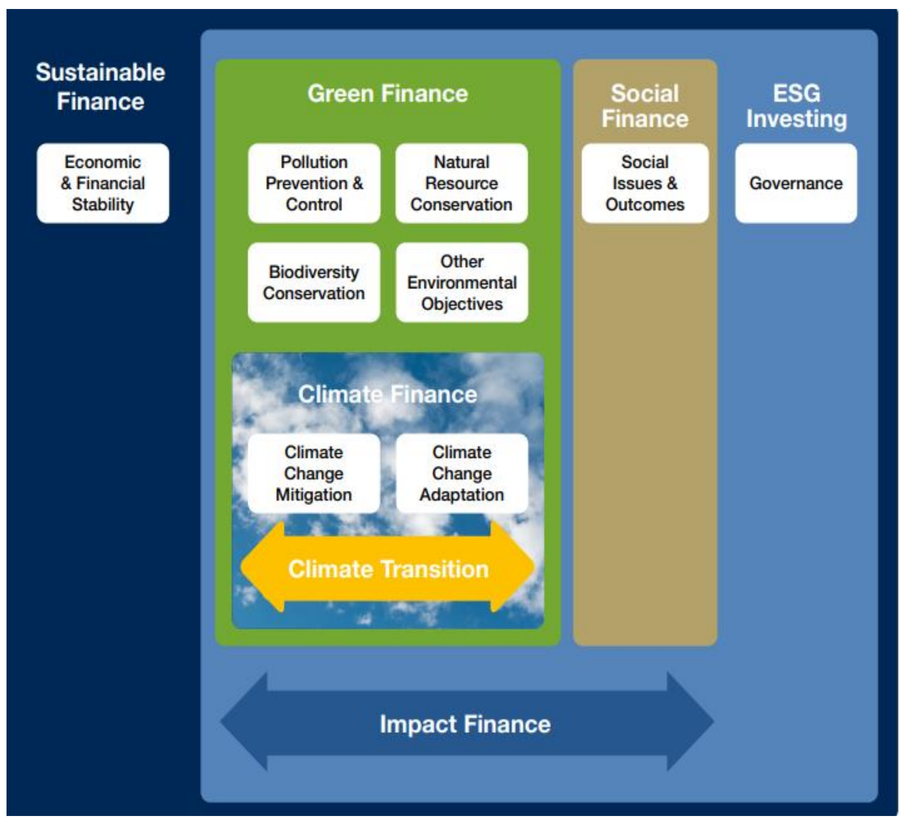
This section provides background on sustainable finance, including definitions, drivers, and recent developments. Investors, companies, and governments are uniting around the race to net zero at a phenomenal pace, and the convergence of these efforts is reshaping finance.

> *"In January of last year, I wrote that **climate risk is investment risk**. I said then that as markets started to **price climate risk into the value of securities**, it would spark a fundamental **reallocation of capital**. Then the pandemic took hold – and in March, the conventional wisdom was the crisis would divert attention from climate. But just the opposite took place, and the **reallocation of capital accelerated even faster than I anticipated**."*
>
> *– Larry Fink, Chairman and CEO of BlackRock in his 2021 Letter to CEOs*

DEFINING SUSTAINABLE FINANCE

There is no standardized definition of sustainable finance. Noted below are attempts to define it by the Canadian Expert Panel on Sustainable Finance, EU Commission, and the International Capital Market Association.

Interaction between high-level concepts, Source: ICMA Group



"Sustainable finance is viewed as capital flows (as reflected in lending and investment), risk management activities (such as insurance and risk assessment), and financial processes (including disclosure, valuations and oversight) that assimilate environmental and social factors as a means of promoting sustainable economic growth and the long-term stability of the financial system." - ***Canadian Expert Panel on Sustainable Finance***

"Sustainable finance generally refers to the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects. Sustainable finance at EU level aims at supporting the delivery on the objectives of the European Green Deal by channeling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and just economy, as a complement to public money." - ***EU Commission***

"Sustainable Finance incorporates climate, green and social finance while also adding wider considerations concerning the longer-term economic sustainability of the organizations that are being funded, as well as the role and stability of the overall financial system in which they operate." **- *International Capital Market Association***

MAINSTREAMING OF SUSTAINABLE FINANCE

THERE HAS BEEN SIGNIFICANT GROWTH IN GLOBAL SUSTAINABLE DEBT ISSUANCE

- **Global sustainable debt** issuance **exceeded $700 billion** in 2020.[1]

- **Since 2015,** the **cumulative green debt** market reflects **an average annual growth rate of 60%,** according to the Climate Bonds Initiative.[2]

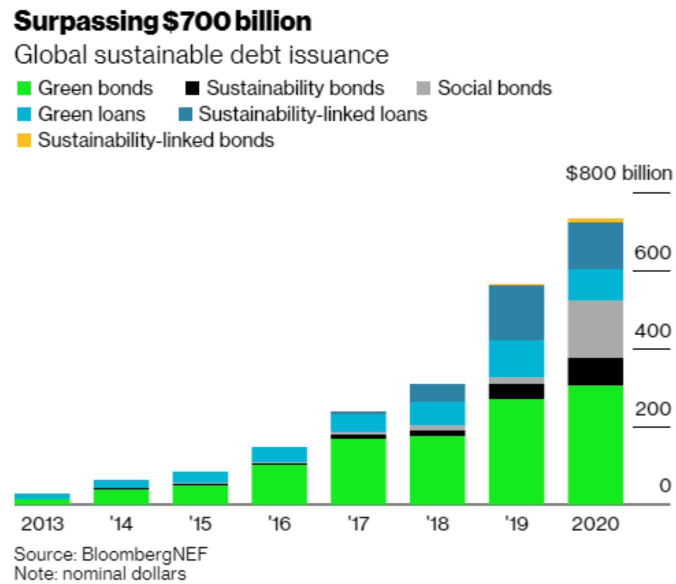
- In Canada, **ESG issuance increased to $13 billion** by mid-November 2020.[3] **Annual issuance of sustainable finance bonds** (including green, social and sustainability bonds) grew from $1.2 billion in 2014 to **$12.2 billion** in 2019.[4]

- In a survey of 800 institutional investors by RBC Capital Markets, **84% said ESG-integrated funds perform as well or better** than funds that do not screen for ESG factors.[5]

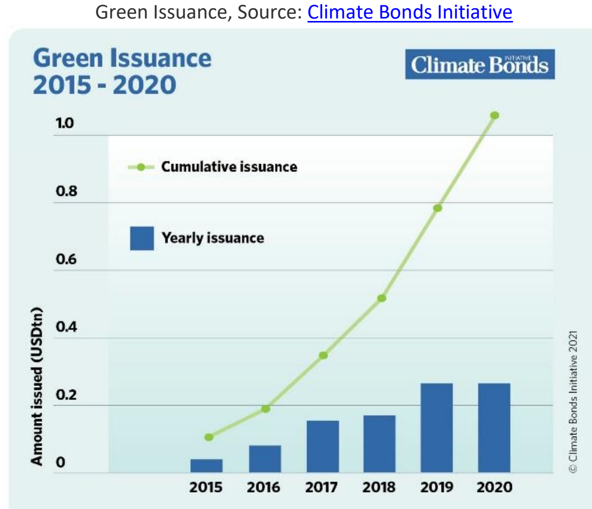
- According to some estimates, the **sustainable finance market is expected to increase by 55%** compared to the amount issued in 2020.[6]

- Global **issuance of debt that meets sustainability criteria will reach a record of at least $1 trillion next year**, according to a forecast by SEB AB.[7]

Global Sustainable Debt Issuance, Source: Bloomberg



Green Issuance, Source: Climate Bonds Initiative



INCREASE IN NET ZERO COMMITMENTS HAS ACCELERATED THE TRANSITION TOWARDS A LOW-CARBON ECONOMY AND INCREASED DEMAND FOR SUSTAINABLE FINANCE

Net zero commitments have exploded in the last year

- **Shift towards net zero greenhouse gas emission pathways is accelerating** as the number of commitments to reach net zero emissions from governments and businesses has roughly **doubled** in less than a year, as many prioritize climate action in their recovery from COVID-19.[8]

---

[1] Bloomberg, (2021). *The Sustainable Debt Market Is All Grown Up*. Retrieved from Bloomberg News. https://www.bloomberg.com/news/articles/2021-01-14/the-sustainable-debt-market-is-all-grown-up
[2] Climate Bonds Initiative (2021). *Green Issuance*. Retrieved from Climate Bonds Initiative. https://www.climatebonds.net/2021/01/record-2695bn-green-issuance-2020-late-surge-sees-pandemic-year-pip-2019-total-3bn
[3] Corporate Knights. (2021, January 4). *Climate and Carbon* . Retrieved from Canadian banks start doing the math on climate change risks: https://www.corporateknights.com/channels/climate-and-carbon/bank-of-canada-gets-serious-about-climate-change-16097656/
[4] Sustainable Finance Bonds (2020). Retrieved from IR Leader: http://publications.ciri.org/IR-Leader/2020/Volume-30/Issue-3/Sustainable-Finance-Bonds.aspx
[5] Cedric Smith, M. S.-M. (2021, March). *Sustainable finance for a Safe Climate*. Retrieved from Pembina Institute : https://www.pembina.org/reports/sustainable-finance-for-safe-climate.pdf
[6] NASTU, J. (2021, January 20). *Sustainable Finance Expected to See 55% Growth in 2021, Says Credit Agricole Group*. Retrieved from Environment + Energy Leader: https://www.environmentalleader.com/2021/01/sustainable-finance-expected-to-see-55-growth-in-2021-says-credit-agricole-group/
[7] Schwartzkopff, F. (2020, December 10). *Sustainable-Finance Debt to Top $1 Trillion in 2021, SEB Says*. Retrieved from Bloomberg: https://www.bloomberg.com/news/articles/2020-12-10/sustainable-finance-debt-to-top-1-trillion-in-2021-seb-says
[8] United Nations Framework Convention on Climate Change. (2020, Sept 21). *Commitments to Net Zero Double in Less Than a Year*. Retrieved from United Nations Framework Convention on Climate Change: https://unfccc.int/news/commitments-to-net-zero-double-in-less-than-a-year

- **Governments from 823 cities and 101 regions have made net zero pledges**.[9] By the time of COP26 this year, [countries responsible for 78% of global GDP] will have pledged to reach net zero by 2050, or 2060 in the case of China and Brazil.

- More than **20% of the world's largest companies**, worth sales of more than $14 trillion, have committed to net zero targets.[10]

- **701 companies** have set **science-based targets.**[11]

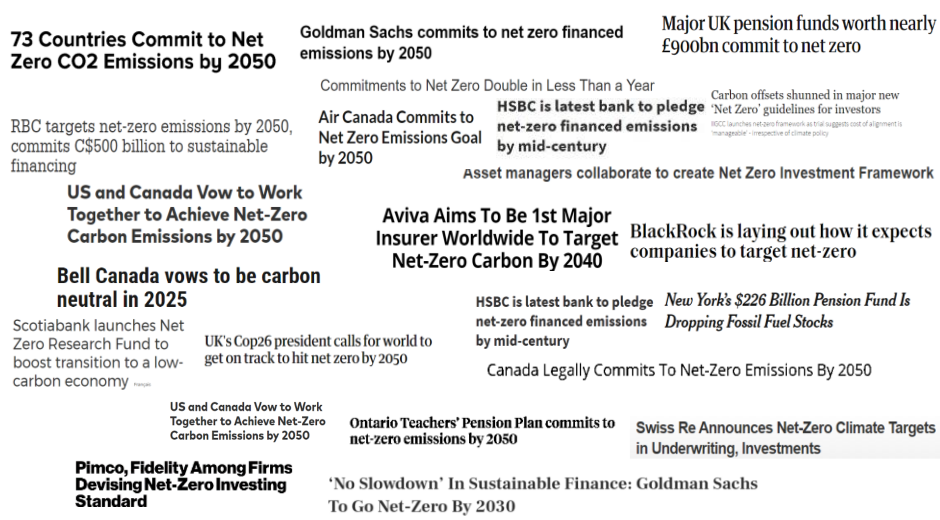
- Net Zero Asset Owner Alliance, a group of **35 institutional investors** representing **$5.6 trillion in assets**—are committed to transitioning their investment portfolios to net zero by 2050, and ensuring alignment with the 1.5 degree scenario. In April 2021, 43 banks launched the Net Zero Banking Alliance to mobilize capital towards a net zero transition.

- Net Zero Asset Managers initiative has **73 signatories** representing **$32 trillion in AUM**, 36% of the global total, following its launch in December 2020. This international group of asset managers (including BlackRock and Vanguard) have committed to supporting the goal of net zero emissions by 2050 or sooner.

- **UN's Race to Net Zero campaign** is engaging over **995 companies**, **449 cities**, **38 investors**, **21 regions**, and **505 universities**.[12]

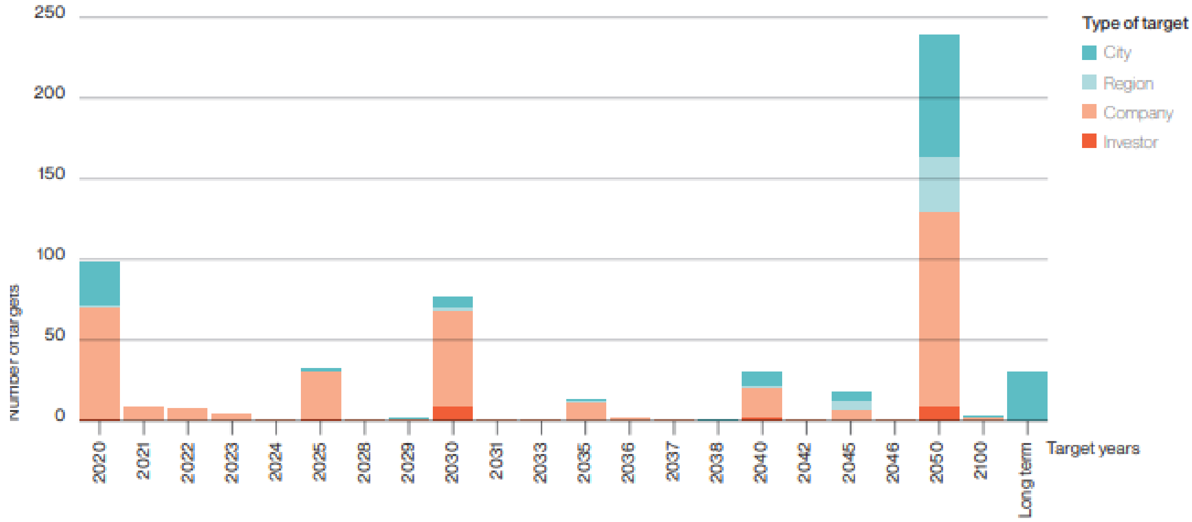
- **Climate Action 100+**, an investor engagement initiative **representing investors with $54 trillion in assets under management,** called for a focus on corporate governance on climate change, emissions target setting, and disclosure of **business plans aligning with the transition to a net zero emissions future.**

Recent net zero or sustainable finance-related headlines, 2021



[9] Data-Driven EnviroLab & NewClimate Institute. (2020, September). *Accelerating Net Zero*. Retrieved from New Climate Institute: https://newclimate.org/wp-content/uploads/2020/09/NewClimate_Accelerating_Net_Zero_Sept2020.pdf
[10] Edie (2021, March). One fifth of world's largest corporates have net-zero targets. Retrieved from Edie. https://www.google.com/search?q=One-fifth+of+world%27s+largest+corporates+have+set+net-zero+targets&rlz=1C1CHBF_enCA872CA872&oq=One-fifth+of+world%27s+largest+corporates+have+set+net-zero+targets&aqs=chrome..69i57j69i60.231j0j4&sourceid=chrome&ie=UTF-8
[11] Data-Driven EnviroLab & NewClimate Institute. (2020, September). *Accelerating Net Zero*. Retrieved from New Climate Institute: https://newclimate.org/wp-content/uploads/2020/09/NewClimate_Accelerating_Net_Zero_Sept2020.pdf
[12] United Nations Framework Convention on Climate Change. (2020, Sept 21). *Commitments to Net Zero Double in Less Than a Year*. Retrieved from United Nations Framework Convention on Climate Change: https://unfccc.int/news/commitments-to-net-zero-double-in-less-than-a-year

Net zero targets across cities, regions, companies, and investors, Source: [DataDriven Lab]



COVID-19 PANDEMIC HAS ACCELERATED THIS TREND

During the COVID-19 market downturn, ESG funds generally outperformed traditional funds and attracted a record amount of inflows.[13] In 2020, ESG raters and rankings influenced the flow of over $17 trillion into sustainable investment – a trend expected to increase.[14]

Globally, recovery spending and momentum around a green and just recovery are expected to shape the acceleration of sustainable finance. From a public sector perspective, recent research from the University of Oxford and UNEP reveals that out of the $1.9 trillion announced for COVID-19 recovery among 50 economies, only $341 billion was earmarked for green projects, underscoring key a key gap; only 2.5% of COVID recovery spending in 2020 was green.[15] While this gap exists, there are signs of encouragement. Global institutions such as the [UN, World Bank and IMF] have emphasized the importance of a green recovery. The EU broke records with its social bonds, drawing $275 billion.[16] The EU central bank has set up a climate team to mark a shift towards 'greener' monetary policy and is investing in green bonds.[17] Similarly, China is adjusting its monetary policy framework by including climate change-related factors and aiming to increase the share of green bonds.[18] In addition, the US government (Treasury Department and regulators) is planning a green finance framework.[19]

At home, the Government of Canada announced a CAD $10 billion growth plan for the Canada Infrastructure Bank (CIB) to focus on clean-energy infrastructure, driving adoption of electric buses and charging networks, and energy retrofits for buildings.[20] Moreover, moving forward, the [Institute for Sustainable Finance] housed at Queen's University, estimates a capital plan for the next 10 years that

---

[13] Esther Whieldon, R. C. (2020, August 13). *ESG funds outperform S&P 500 amid COVID-19, helped by tech stock boom*. Retrieved from S&P Global: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/esg-funds-outperform-s-p-500-amid-covid-19-helped-by-tech-stock-boom-59850808

[14] Stevens, P. (2020, June 7). *Sustainable investing is set to surge in the wake of the coronavirus pandemic*. Retrieved from CNBC: https://www.cnbc.com/2020/06/07/sustainable-investing-is-set-to-surge-in-the-wake-of-the-coronavirus-pandemic.html

[15] Climate and Environment. (2021, March 10). *Commitment to post-pandemic 'green' recovery falling short, UN-backed study finds*. Retrieved from UN News: https://news.un.org/en/story/2021/03/1086852

[16] John Ainger, J. H. (2020, October 20). *EU's Social Bonds Draw $275 Billion to Set Global Demand Record*. Retrieved from Bloomberg Markets : https://www.bloomberg.com/news/articles/2020-10-20/eu-s-first-social-bond-sale-kickstarts-sustainable-debt-bonanza

[17] Roberto A. De Santis, K. H. (2018, July). *Purchases of green bonds under the Eurosystem's asset purchase programme*. Retrieved from European Central Bank : https://www.ecb.europa.eu/pub/economic-bulletin/focus/2018/html/ecb.ebbox201807_01.en.html

[18] *China: Green finance to be key priority*. (2021, March 4). Retrieved from Hellenic Shipping News: https://www.hellenicshippingnews.com/china-green-finance-to-be-key-priority/?__cf_chl_jschl_tk__=70d3aa3322ff9203c97cf20706cb4d8f1f2aebb7-1617286575-0-AefpQWLiiTSm4GL-K73dsuB5JYIVdB2bn7-qHVW_FT57Z_5XWqf_jvvyLF_Cgfr7B91-4gJiQo8wb7G589A2S_yt3EImqa7-THgCG4xQ

[19] Dlouhy, J., Shankleman, J., & Mohsin, S. (2021, March 19). U.S. Weighs Global Climate Impact Benchmark for Wall Street. Retrieved April 12, 2021, from https://www.bloomberg.com/news/articles/2021-03-19/u-s-weighs-global-benchmark-on-climate-impact-for-wall-street

[20] Cision. (2021, February 3). *Minister McKenna sets new priorities for the Canada Infrastructure Bank*. Retrieved from Cision: https://www.newswire.ca/news-releases/minister-mckenna-sets-new-priorities-for-the-canada-infrastructure-bank-853884165.html

would keep Canada on track to meet our commitment under the Paris Agreement will **require an annual investment of at least CAD $12.8 billion per year**, representing 0.6% of Canada's GDP in 2018.[21]

ACKNOWLEDGEMENT OF CLIMATE RISK AS A SYSTEMIC FINANCIAL RISK WILL SHAPE THE SUSTAINABLE FINANCE AGENDA

As climate risk becomes embedded in financial decision-making processes across governments and companies, it will build the momentum towards mainstreaming of sustainable finance.

GLOBAL: Global central banks are recognizing the impacts of the climate crisis on economies that are already weakened by the ongoing pandemic. The Network for Greening the Financial System (NGFS) is a network of 83 central banks and financial supervisors that aims to accelerate the scaling up of green finance. It identifies climate change as a source of structural change in the economy and financial system and therefore notes that it falls within the mandate of central banks and supervisors. NGFS provides a series of recommendations to facilitate this role. Bank of Canada joined the NGFS in 2019.

Moreover, in February 2020, Mark Carney launched the COP26 Private Finance Agenda, which focuses on mobilizing private finance to support the global economy transition to net-zero greenhouse gas emissions in the lead up to the international climate change conference in November 2020.

UNITED STATES: Recent US Commodity Futures and Trading Commissions (CFTC) report explicitly identifies climate change as a potential systemic risk, meaning that it is a risk that threatens the very stability of financial markets. Two categories of climate-related risks rise to this threshold: the **physical risks** associated with more frequent severe weather events and lasting environmental changes and the **transition risks** posed by the policy and technological changes necessary to achieve a green economy.[22]

CANADA: The Bank of Canada is developing a plan to understand climate risks to the macroeconomy and the financial system and collaborating with international organizations like the IMF, Financial Stability Board, and the NGFS on sustainable finance.[23] In November 2020, the Bank of Canada and Office of the Superintendent of Financial Institutions (OSFI) announced that they are working on a pilot project with some banks and insurance companies, including RBC and The Co-operators, to develop climate scenarios that will help financial institutions better understand their climate risks and to provide support to the Canadian financial sector in enhancing climate-related risk disclosures.[24]

Recently, the Ontario Government announced that it will proceed with some fundamental changes to the Ontario Securities Commission (OSC) as recommended by the Capital Markets Modernization Taskforce. It refers to the Taskforce's recommendation that the OSC mandate companies to provide material ESG information compliant with the approach adopted by the Task Force for Climate-Related Financial Disclosures (TCFD). The OSC is planning to undertake consultations on ESG disclosure requirements later this year.[25]

[21] Cedric Smith, M. S.-M. (2021, March). *Sustainable finance for a Safe Climate*. Retrieved from Pembina Institute : https://www.pembina.org/reports/sustainable-finance-for-safe-climate.pdf
[22] Ramani, V. (2020, November 4). *Climate Change Is a Systemic Financial Risk*. Retrieved from The Regulatory Review: https://www.theregreview.org/2020/11/04/ramani-climate-change-systemic-financial-risk/
[23] Corporate Knights. (2021, January 4). *Climate and Carbon* . Retrieved from Canadian banks start doing the math on climate change risks: https://www.corporateknights.com/channels/climate-and-carbon/bank-of-canada-gets-serious-about-climate-change-16097656/
[24] Bank of Canada. (2020, November 16). *Bank of Canada and OSFI launch pilot project on climate risk scenarios*. Retrieved from Bank of Canada: https://www.bankofcanada.ca/2020/11/bank-canada-osfi-launch-pilot-project-climate-risk-scenarios/
[25] Ontario Government. (2020, February). *Modernizing Ontario's capital markets: Capital Markets Modernization Taskforce final report*. Retrieved from Ontario Government: https://www.ontario.ca/page/consultation-modernizing-ontarios-capital-markets

POLICY DRIVERS AND REGULATORY SIGNALS ARE ACCELERATING THE MOMENTUM TOWARDS SUSTAINABLE FINANCE

Stronger US climate policies will likely have implications for Canadian companies. Lack of certainty around policies that encourage capital flows towards low-carbon efforts has been a barrier so far. There are encouraging signs that recent developments may have the potential to accelerate sustainable financing (as summarized below).

US POLICY DEVELOPMENTS & SIGNALS OF SYNERGIES WITH CANADIAN EFFORTS

UNITED STATES: As part of a plan to decarbonize the US economy by 2050, President Joe Biden has pledged to require publicly traded companies to disclose their climate risks and emissions levels. As climate regulation is implemented, any business that is not already decarbonizing may risk losing market share and miss out on the time and opportunity to grow and innovate. A number of US regulators—including regional banks of the Federal Reserve and the Federal Housing Finance Agency—are beginning to conduct research conferences on climate change. The US has rejoined the Paris Agreement, set goals to achieve a carbon pollution-free power sector by 2035, and is putting the US on the path to a net zero economy. The Securities and Exchange Commission (SEC) announced that they would review how companies are disclosing the risks they face from climate change, as the agency looks to refresh its more than decade-old guidance on the issue. The SEC created a new role of Senior Policy Advisor for Climate and ESG to advise the Commission on ESG matters and coordinate the Commission's efforts related to climate risk and ESG. [26]

CANADA: In December 2020, the federal government introduced an updated climate plan (entitled, A Healthy Environment and a Healthy Economy) designed to achieve the Paris Agreement goal of net zero emissions by 2050. Moreover, the recently released Canadian Net Zero Emissions Accountability Act (Bill C-12) "*legally bind(s) the government to a process to achieve net zero emissions by 2050*." It requires the Minister of Finance to prepare an annual report on the steps the government has taken to manage financial risks and opportunities related to climate change. Also, the planned increase of the carbon price by $15 per year as of 2023 to $170 per tonne of carbon pollution in 2030 has the potential to drive more change.[27] All of this sets the stage for financing the net zero transition and mobilizing capital towards such opportunities.

To support the development of sustainable finance norms, the government had appointed the Expert Panel on Sustainable Finance in 2018, which delivered its final report a year later, providing 15 recommendations for Canada to achieve its climate & economic goals, most notably stating:

> ***"If Canada is to meet its long-term objectives, sustainable finance must become, simply, finance. In other words, climate change opportunity and risk management need to become business-as-usual in financial services and embedded in everyday business decisions, products, and services."[28]***

In response to the growing interest in ESG investing and the recommendations of the Expert Panel on Sustainable Finance, the federal government has recently committed to establishing a public-private Sustainable Finance Action Council to advise on the critical market infrastructure needed to attract and scale sustainable finance in Canada, and on standards for investments to be identified as sustainable *(see recent developments here).*The council's early focus will be on enhancing climate-related financial

[26] U.S Securities & Exchange Commission . (2021, Feb 1). *Satyam Khanna Named Senior Policy Advisor for Climate and ESG*. Retrieved from U.S Securities & Exchange Commission : https://www.sec.gov/news/press-release/2021-20
[27] Government of Canada. (n.d.). *Pricing Carbon Pollution* . Retrieved from Government of Canada: https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/climate-plan/annex_pricing_carbon_pollution.pdf
[28] Government of Canada. (2019). *Final Report of the Expert Panel on Sustainable Finance* . Retrieved from Government of Canada: http://publications.gc.ca/collections/collection_2019/eccc/En4-350-2-2019-eng.pdf

disclosures in Canada's private and public sector, aligned with TCFD recommendations, as well as prioritizing gender and diversity reporting.

US - CANADA HIGH-LEVEL MINISTERIAL DIALOGUE ON CLIMATE AMBITION: To jointly address climate change and demonstrate global leadership on the climate crisis, Canada and the United States joined to form a high-level dialogue in 2021 that aims to enhance cooperation between the two countries across three streams: increased shared ambition on strategies for achieving 2050 net zero target, policy and regulatory alignment and climate adaptation, resilience and security.

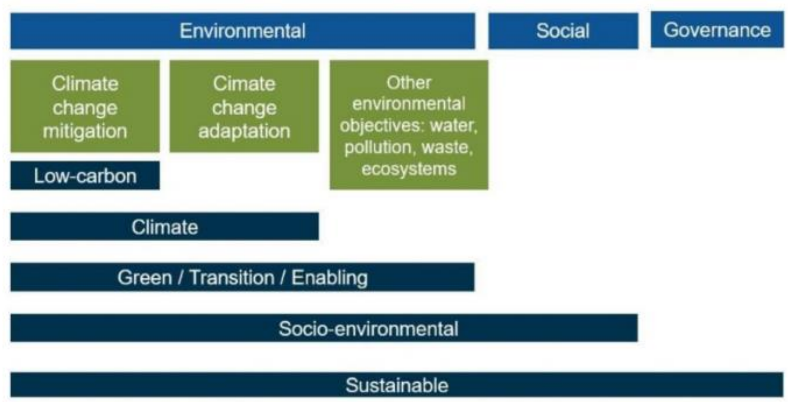
SECTION 2 - SUSTAINABLE FINANCE LANDSCAPE: TAXONOMIES & INSTRUMENTS

Currently, there is a lack of alignment on the definitions of criteria used to label sustainable finance products. This section provides an overview of the sustainable finance taxonomy efforts, as well as guidance on various sustainable finance instruments.

DEFINITIONS & TAXONOMIES

As the urgency and momentum towards mobilizing capital for sustainable finance increases, so does the importance of having clear definitions of what constitutes sustainable projects and activities.

Sustainable finance taxonomies: objectives, Source: OECD



PURPOSE OF TAXONOMIES:

- **Standardize criteria** towards a common understanding of what 'sustainable' 'green' or 'transition' means in order to determine project eligibility.
- **Accelerate the growth of sustainable finance** and provide reliable mechanisms for mobilizing finance globally.
- **To be used by investors** to express investment preferences, select holdings, design green financial products, measure impact, engage with investees.[29]

Taxonomies are definitions of sustainable finance that aim to be classification systems. However, the differences among taxonomies across different jurisdictions can create some challenges for investors and companies.

INTERNATIONAL: ISO/TC 322

The International Standards Organization (ISO) ISO TC 322 Sustainable Finance is the **technical committee** responsible for the development of standards relating to sustainable finance. The specific objectives of ISO/TC 322 will be to deliver a **set of harmonized standards for guiding sustainable operations** of **financial institutions and investees**, defining and classifying sustainable finance activities, measuring the sustainability impact, enhancing transparency, and ensuring the integrity of sustainable

[29] OECD. (2020, October). *Developing Sustainable Finance - Definitions and Taxonomies*. Retrieved from OECD: http://www.oecd.org/environment/cc/developing-sustainable-finance-definitions-and-taxonomies-brief-for-policy-makers.pdf

finance activities. **These standards will help accelerate the growth of sustainable finance** and provide **reliable mechanisms for mobilizing finance** globally. Canada is a participant.[30]

EUROPEAN UNION (EU) TAXONOMY

The European Commission launched the European Green Deal Investment Plan, to mobilize funds and create a framework to facilitate public and private investments toward a sustainable finance economy. In July 2018, the European Commission convened the technical expert group (TEG) on sustainable finance to support its Action Plan on Financing Sustainable Growth. This group was charged with creating the EU Taxonomy.

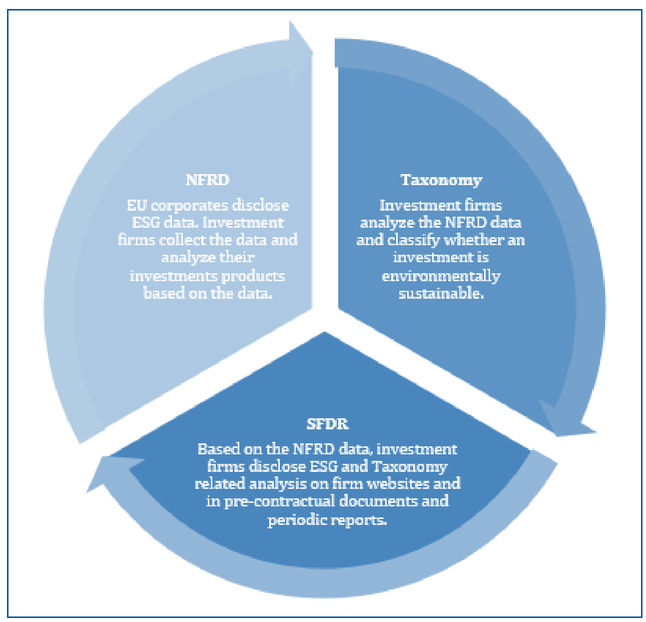
Elements of definition of 'sustainable' under EU Taxonomy, Source: White & Case

The EU Taxonomy is a **regulatory classification system under which companies may define which of their economic activities are environmentally sustainable**.

Any financial market participant can use the Taxonomy Regulation to classify their economic activities as sustainable. Reporting under the Taxonomy Regulation will be a mandatory requirement for:

- Financial market participants offering financial products within the EU and the UK
- Large public interest companies, i.e. those required to publish a non-financial statement under the Accounting Directive, as amended by the Non-Financial Reporting Directive (NFRD)[31]

EU Taxonomy Regulations, Source: FactSet



The Sustainable Finance Disclosure Regulation (SFDR) in EU, which took effect on March 10, 2021, mandates financial institutions to disclose how they assess sustainability risk and the impact of their investments. The SFDR (supplemented by the Taxonomy) requires financial market participants and financial advisors to disclose: the environmental sustainability of an investment and the provenance of any ESG claims made; the risks investments present to ESG factors; and the risks ESG factors present to investments.[32] Moreover, the Non-Financial Reporting Directive (NFRD) requires large EU public interest entities to

[30] ISO. (2020, January 9). Building a framework for a Sustainable Future. Retrieved from ISO: https://www.iso.org/news/ref2469.html
31 White & Case LLP. (2020, August 20). The EU Taxonomy: the answer to the question "what is green?". Retrieved from Lexology : https://www.lexology.com/library/detail.aspx?g=a99c3499-e1d3-474f-9a81-7b16c5ed1b6d
32 *The EU Taxonomy Regulation : An Overview* . (2021, March 31). Retrieved from FactSet Insight: https://insight.factset.com/eu-taxonomy-regulation

publish data on the impact their activities have on ESG factors. *Click here to learn more about the relationship between the SFDR, NFRD and the EU Taxonomy.*

Canadian asset managers may need to assess if their investment strategies meet these criteria in order to secure mandates from asset owners in these markets. For Canadian companies, this may impact their access to capital from investors based in regulated markets, depending on whether their activities are classified as sustainable. The expectations for corporate ESG disclosure may become more specific among investors based in regulated markets, and this may have consequences for Canadian companies looking to operate in or access capital from regulated markets.

CANADA'S TRANSITION TAXONOMY

The Canadian Standards Association (CSA) convened a Technical Committee consisting of Canada's leading financial institutions, as well as representation from a variety of natural resource-based sectors, to develop a guide to fill the gap in defining what transition means in a resource-based economy. This is a voluntary industry-led effort. The Delphi Group has been involved in this effort in an advisory capacity. The work underway will enable Canada to identify activities that are not included in 'green' or 'sustainable' taxonomies and frameworks yet remain essential to a net zero transition.

The Transition Taxonomy is expected to break down sector-specific activities that are considered to align with the transition to net zero. The development of the Transition Taxonomy is driven by the recognition that existing taxonomies such as the EU Taxonomy do not define activities that bridge current economic activities and a future net zero economy. Current taxonomies focus on the end state, sustainable activities. Defining 'transition' enables financial institutions and companies to distinguish which non-green activities are necessary as the economy transitions to net zero. This is important for a country like Canada, whose economy relies heavily on natural resource sectors. These sectors will be central to achieving the net zero ambition.

To date, 'transition' has not been defined internationally. Unlike the Green Bond Principles, there are no universally accepted 'transition' principles. Some companies have issued 'transition' instruments by using their own definition of transition (AXA has a set of transition guidelines). The aforementioned international efforts (ISO TC 322) to develop an international standard to define 'sustainable finance' would cover the definition of 'transition.' The CSA Transition Taxonomy Technical Committee, leveraging the Standard's Council of Canada (SCC) relation to the ISO, is representing Canada in the ISO TC 322 process.

***Current Status**: The Transition Taxonomy is currently in the process of being finalized and expected to be published in 2021.*

SUSTAINABLE FINANCE: INSTRUMENTS

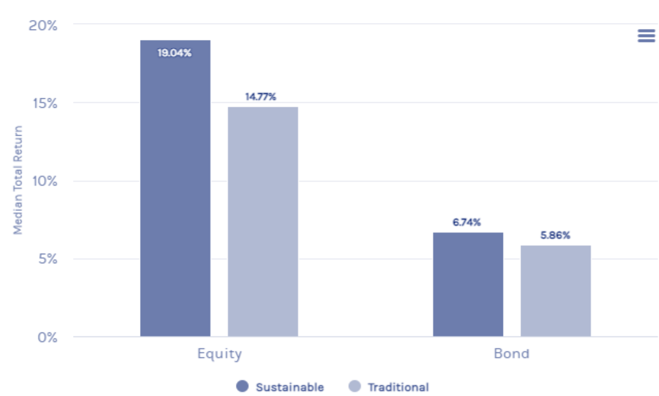
The list below encompasses various instruments that are part of the broader sustainable finance ecosystem.		
	Instruments	**Definitions**
Bonds	Green Bonds	Bonds whose use of proceeds align to a green taxonomy (e.g. the Climate Bonds Taxonomy, or the Green Bond Principles, or a bespoke green bond framework).
	Sustainable Bonds	Bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects.

	Transition Bonds	New class of bonds, the proceeds of which are used to fund a firm's transition towards reduced environmental impact. The proceeds can be used exclusively to finance eligible transition projects (as defined Axia's transition guidelines).
	ESG Bonds	Often comprised of debt instruments with principal and interest cash flows. Unlike other forms of green bonds, they can provide general use funding rather than the financing of a specific project.
	Social Bonds	Defined by funding for projects that help society, such as improving social welfare or serving disadvantaged populations.
	Sustainability-Linked Bonds	A type of ESG bonds, sustainability-linked bonds aim to further develop the key role that debt markets can play in funding and encouraging companies that contribute to sustainability (from an environmental and/or social and/or governance perspective).
Loans	Green Loans	Any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible green projects.
	Transition Loans	New class of bonds, the proceeds of which are used to fund a firm's transition towards a reduced environmental impact or to reduce their carbon emissions. These bonds require the issuer to commit to shifting to more sustainable business practices. Transition bonds do not require the project or the issuer to be classified as "green", but they are required to use the proceeds for climate transition-related activities.
	Sustainability-Linked Loans / ESG Loans	Any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivize the borrower's achievement of ambitious, predetermined sustainability performance objectives. The borrower's sustainability performance is measured using sustainability performance targets (SPTs), which include key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower's sustainability profile.

IMPACT ON COST OF CAPITAL: Green and sustainable bonds allow companies to finance sustainable projects. They can enable lower costs of capital for companies issuing bonds in sectors undersupplied in sustainable debt as some investors seek out these types of investments.[33]

*"The **evidence is mounting of the pricing benefits of green**, from the German sovereign bonds through to green product in US and European markets...the wider implications, for sovereigns, corporates and banks are increasingly obvious...**with the growth of green bond issuance**, particularly in (Asia-Pacific and Latin*

2020 Median Returns, Source: Morgan Stanley



[33] Robbs, C. (2021, February 15). *Growing Green: The Rise of Green and Sustainable Corporate Bonds*. Retrieved from BMO Capital Markets : https://capitalmarkets.bmo.com/en/news-insights/sustainable-finance/growing-green-rise-green-and-sustainable-corporate-bonds/

*America,) we **expect to see pricing signals emerge over time in regional markets**."* [34] *- Sean Kidney, CEO – Climate Bonds Initiative*

> ***Climate change** will be "a **defining factor** in companies' long-term prospects." - 2020*
>
> *"**Disclose a plan** for how (your) **business model** will be **compatible with a net-zero economy**."- 2021*
>
> *– Larry Fink, Chairman & CEO of BlackRock in his 2020 and 2021 Letter to CEOs*

SUSTAINABLE FUNDS OUTPERFORMING NON-ESG COUNTERPARTS: An analysis of more than 3,000 US mutual funds and exchange-traded funds (ETFs) shows that **sustainable equity funds outperformed their traditional peer funds** by a median total return of 4.3 percentage points in 2020.[35] Moreover, a study from HSBC found that climate-focused shares outperformed others by 7.6% during the pandemic.[36] During the same period, **sustainable taxable bond funds beat their non-ESG counterparts** by a median total return of 0.9 percentage points. Sustainable US equity and taxable bond funds also **proved less risky** than their traditional counterparts in 2020. [37]

Investment in ESG themes is expected to continue to command a premium valuation due to:

- Scope of future ESG fund flows chasing a limited number of opportunities
- Increased government sustainability goals and regulatory support
- Long-term growth trajectory of sustainability-themed businesses [38]

SECTION 3 - INCREASED INVESTOR DEMAND FOR DECISION-USEFUL ESG DISCLOSURE

This section explores the role of decision-useful, consistent, and comparable ESG disclosures in advancing sustainable finance.

ESG analysis has become an increasingly important part of the investment decision-making processes. Investor-oriented ESG disclosure frameworks like Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) have seen increased adoption over the last two years.

ESG DISCLOSURES INCREASINGLY DEMANDED, WITH A SHIFT TOWARDS GREATER REGULATORY FOCUS AND OVERSIGHT ON ESG MATTERS:

- Larry Fink, CEO of BlackRock, the world's largest asset manager, used his 2020 annual Letter to CEOs to call for SASB and TCFD disclosure from companies in which they invest. He reaffirmed this call in his 2021 Letter to CEOs.
- New Zealand became the first country in the world to make TCFD disclosures mandatory. By 2023, the majority of entities, including publicly listed companies, insurers, banks, will have to publish TCFD disclosures on a 'comply or explain' basis.
- The United Kingdom followed suit, introducing mandatory climate-related financial disclosure aligned to TCFD, beginning with certain financial institutions and listed companies. By 2023, all listed commercial companies, nearly all banks, insurers, asset managers, nearly three-quarters of occupational pension schemes and half of all UK-registered large private companies will have to publish TCFD disclosures.

[34] Climate Bonds Initiative (2020). CBI Pricing H2 Update Report. Retrieved from CBI: https://www.climatebonds.net/files/reports/cbi_pricing_h2_2020_01e.pdf
[35] Morgan Stanley. (2021, February 4). *Sustainable Finance Outperform Peers in 2020 During Coronavirus* . Retrieved from Morgan Stanley: https://www.morganstanley.com/ideas/esg-funds-outperform-peers-coronavirus
[36] Paun, A. (2020, March 27). *ESG stocks did best in COVID-19 slump*. Retrieved from HSBC: https://www.gbm.hsbc.com/insights/global-research/esg-stocks-did-best-in-corona-slump
[37] Morgan Stanley. (2021, February 4). *Sustainable Finance Outperform Peers in 2020 During Coronavirus* . Retrieved from Morgan Stanley: https://www.morganstanley.com/ideas/esg-funds-outperform-peers-coronavirus
[38] Credit Suisse ESG Research (2021, February 24). Tidal Wave Forces Behind Sustainable Finance. Retrieved from: https://www.rockyniri.org/static-files/8b00f839-6321-40bf-a13d-517b0ce62590

- Some of the largest banks in Europe may face new climate disclosures – they are expected to disclose the "Green Asset Ratio" metric to show if their firm is shifting away from financing fossil fuels and toward renewable energy. If the rule is adopted, each bank would need to disclose how much of its total loans and equity holdings is "green," based on EU taxonomy definitions.[39]
- The SEC is requesting public comments on ESG disclosure frameworks. They are evaluating disclosure rules to facilitate consistent, comparable, and reliable information on climate change.
- The Final Report of the Expert Panel on Sustainable Finance recommends pursuing a Canadian approach to implementing the TCFD recommendations.
- The CEOs of eight of Canada's largest pension plan investment managers, the Maple 8, published a statement calling for SASB and TCFD disclosure.
- The Canadian government required large employers to commit to providing TCFD-aligned disclosures in order to apply for COVID-19 relief funding.

INCREASING SYNERGY AMONG MAJOR SUSTAINABILITY REPORTING INITIATIVES

- **Statement of intent to work together:** In September 2020, the CDP, Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), and SASB released a joint statement to formally work together (along with the Climate Disclosure Standards Board). The major sustainability reporting initiatives are now demonstrating how their systems can not only work together but also with existing financial reporting systems. This is not being described as a net-new standard but as a comprehensive 'nested ecosystem.' [40]
- **The International Financial Reporting Standards (IFRS) Foundation Working Group**: Aims to propose a new set of consolidated sustainability standards and establish a sustainability standards board by September 2021. The IFRS has launched a working group with SASB, IIRC, TCFD, CDSB and WEF, International Accounting Standards Board (IASB). The group is also expected to consult with GRI and CDP.[41]
- **SASB & IIRC coming together under Value Reporting Foundation**: SASB and the IIRC also announced plans to combine later this year under the oversight of a new organization to be called the Value Reporting Foundation with a purpose of merging the two standards into a credible, international organization that maintains the integrated reporting framework, advocates integrated thinking, and sets sustainability disclosure standards for enterprise value creation.

INCREASED ESG INTEGRATION IN INVESTMENT DECISION-MAKING

ESG disclosures are an important component of the sustainable finance ecosystem. According to the BlackRock sustainable investing survey of 425 investors representing $25 trillion in assets under management, **75%** are currently, or considering, integrating ESG into their investment decisions and **65%** utilize or would consider using exclusionary screens as a mechanism for expressing their sustainability principles.

High-quality ESG disclosures are increasingly demanded from investors:

[39] Forrester, J. P. (2021, March 6). *EBA Proposes Green Asset Ratio As KPI For Banks Under EU's Sustainable Disclosure Requirements*. Retrieved from Mondaq: https://www.mondaq.com/uk/financial-services/1043580/eba-proposes-green-asset-ratio-as-kpi-for-banks-under-eu39s-sustainable-disclosure-requirements?type=related#:~:text=The%20EBA%20recommends%20a%20%22green,activities%20aligned%20with%20the%20Taxonomy
[40] Impact Management Project. (2020, September 11). *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*. Retrieved from Impact Management Project: https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf
[41] Leung, A. (2021, February 26). *Plans afoot for global sustainability standards*. Retrieved from The Asset : https://www.theasset.com/article-esg/43006/theasset.com

- In September 2020, the CFA Institute reported that the investment industry is **coalescing around SASB and TCFD standards**, stating that they are the most relevant climate-related disclosure

BIODIVERSITY: THE NEXT FRONTIER OF SUSTAINABLE FINANCE

The World Economic Forum's latest Global Risks Report ranked biodiversity loss as one of the five top risks of the next decade. In a push for the valuation of biodiversity into finance, the OECD released the Comprehensive Overview of Global Biodiversity Finance to provide a snapshot of the existing landscape. Moreover, this 2020 UNEP FI study aims to enable a better understanding of the financial mechanisms at risk from the loss of biodiversity and lay the groundwork for biodiversity-related target-setting by the finance sector. The recently released "Dasgupta Review," an independent assessment of the economic benefits of biodiversity and associated costs of biodiversity loss makes the case for incorporating natural capital in financial decision-making processes. **Click here to learn more.**

The emerging **Taskforce for Nature-related Finance Disclosures (TNFD)** is aiming to create specific guidelines for the financial sector to enable incorporation of nature-related risks into internal risk management processes. **Click here to learn more.**

standards for reporting material climate-related risks.
- In a recent survey representing Canada's largest institutional investors **($2.3 trillion of assets under management), 81% named SASB, and 75% noted TCFD** as frameworks they either use in their assessment processes or to which they report. [42]
- Climate reporting is becoming increasingly common - **79%** of Canada's TSX-listed firms now provide some level of climate disclosures.[43]

SECTION 4 - MOVING FORWARD

Sustainable finance provides the opportunity to align capital flows with net zero goals and ambitions. The sustainable finance momentum is poised to grow and become mainstream – it has become a priority across the financial sector as a result of increased pressure from investors, regulators, and external stakeholders (e.g. civil society) and the increased proliferation of net zero emission reduction targets. The finance sector plays a key role in mobilizing capital and insurance to manage climate-related risks and harness climate-related opportunities.

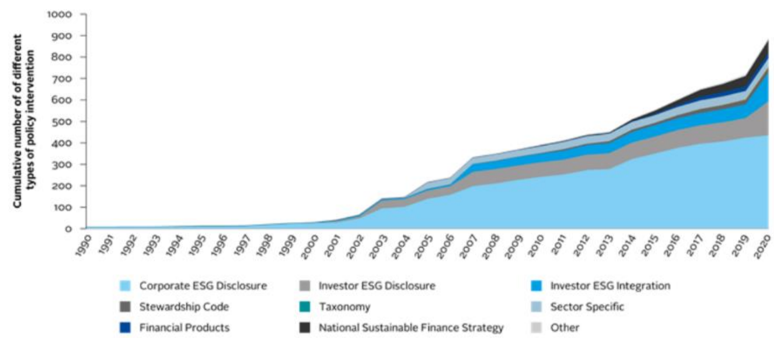
Moreover, investors, shareholders, and other stakeholders are increasingly scrutinizing a company's ESG performance. A growing number of large institutional investors today are already incorporating ESG metrics into their capital allocation and stewardship criteria. Major asset managers such as BlackRock and State Street have already indicated that their investment decisions will be driven by ESG

[42] Lombardi, M. C. (2021, February 15). *ESG Sentiment Study of Canadian Institutional Investors* . Retrieved from Millani : https://tsx.com/resource/en/2555

[43] Millani . (2020, September 8). *Millani's Annual ESG Disclosure Study: A Canadian Perspective*. Retrieved from Millani : https://corostrandberg.com/wp-content/uploads/2020/09/millani-annual-esg-disclosure-study-2020.pdf

performance. According to the United Nations Principles for Responsible Investing (UN PRI), in 2020, the **number of investor-related ESG disclosure regulations increased by 74% from 2019**, and **investor-related ESG integration policies increased by over 100%**. ESG disclosures, taxonomies, investor ESG responsibilities and demands, and national sustainable finance strategies are all essential elements for creating a global sustainable financial system. Moreover, there is expected to be increased focus on financed emissions and considerations of how ESG factors are holistically incorporated within enterprise-level decision-making processes. ESG risks and opportunities can be increasingly expected to influence how companies select potential targets, markets, and business partners. In the near term, ESG performance is expected to be incorporated into company valuations and risk assessments.

Growth in types of ESG policies, disclosures and taxonomies – 2020, Source: UN PRI



The momentum around sustainable finance will continue to surge as we look towards COP26, a key part of which is the Private Finance Agenda. Among all these emerging and rapid developments, it is clear that enhancing ESG performance and meeting net zero targets will require massive amounts of capital, collaboration and coordination among stakeholders.

UPDATED

FURTHER READING

Sustainable finance trends

The Climate Question - Does Big Money Really Believe Green is Good? - BBC Sounds – Podcast
ESG Disclosure Standards for Investment Products - CFA
Sustainable Finance for a Safe Climate - Pembina
Sustainable Finance Overview – Institute of Sustainable Finance
Ethical Debt Glossary – Blomberg
Sustainable Investment Policies – UN PRI
Network for Greening Financial System – Recommendations Report
Climate and Finance – Lessons from a Time Machine – Bloomberg
BlackRock Investment & Fiduciary Analysis for Potential Fossil Fuel Divestment
Sustainable Debt – Global State of the Market – Climate Bonds Initiative
Time for Green Finance – CDP

Growth of net zero targets

Adapting Central Bank Operations to a Hotter World – NGFS
Aligning Finance for the Net Zero Economy – UNEP FI
Nationally Determined Contributions Tracker – World Resources Institute
Stocktake of Global Net Zero Targets – Oxford Net Zero
Race to Net Zero Participation Criteria - UN

Sustainable finance & transition finance taxonomies

ESG Insider: New EU Taxonomy Helps Investors; Companies Identify Green Investments – Podcast
Momentum around Sustainable Finance Taxonomies – OECD
Canada's Transition Taxonomy – Podcast

Climate Transition Finance Handbook – ICMA
Financing Credible Transitions – Climate Bonds & Credit Suisse
Canada's Transition Angle to The Great Taxonomy Debate – Scotiabank
Sustainable Finance Disclosure Regulation (SFDR) Briefing – UN PRI

APPENDIX

LIST OF SUSTAINABLE FINANCE COMMITMENTS - SELECT FINANCIAL INSTITUTIONS

This is **not** intended to be an exhaustive list.

Institution Name	Country	Sustainable finance-related targets
Royal Bank of Canada	Canada	**CAD $500 billion by 2025** Refusal to fund oil and gas development in arctic national wildlife refuge. Net zero emissions in lending by 2050.
TD Bank	Canada	**CAD $1 billion by 2030** Lending, Investment, Green Bonds (underwriting, investment, underwriting), etc. Note: Green Bond issuance is a re-packaging of loans (i.e., lending). Net zero financed emissions by 2050.
Bank of Montreal	Canada	**CAD $400 billion by 2025** for sustainable finance, increase support for small businesses and women entrepreneurs, and commit to zero barriers to inclusion.
CIBC	Canada	**CAD$150 billion by 2027.** Mobilize capital and develop market-based solutions to support investments that address critical environmental challenges and sustainability.
Scotiabank	Canada	**CAD $100 billion by 2025** to support the transition to “a lower-carbon and more resilient economy.” Includes lending, investing, financing and advisory, as well as investments in the Bank’s direct operations and communities where it operates to reduce the impacts of climate change. Committed to net zero.
OTPP	Canada	Net zero greenhouse gas emissions by 2050 target. The company noted that it will establish concrete targets for portfolio emissions and investments in climate solutions.
CDPQ	Canada	**USD $125 million over three years** in clean technologies and seek to decarbonize its investment portfolios and achieve net zero emissions by 2050.
Citigroup	United States	**USD $250 billion by 2025** environmental finance goal to finance and facilitate climate solutions globally. Net zero emissions by 2050; plan to be released.
New York State Pension Fund	United States	**USD $20 billion** in its Sustainable Investment Climate Solutions Program and assigned dedicated staff to identify climate-related investment opportunities. First US pension fund to commit to net zero by 2040.
Goldman Sachs	United States	**USD $750 billion** by 2030 across investing, financing and advisory activities and bring commercial expertise to help our clients accelerate climate transition and advance inclusive growth.
Wells Fargo	United States	**USD $500 billion by 2030** for sustainable finance; achieve net zero financed emissions by 2050.
Bank of America	United States	**USD $1.5 trillion** in sustainable finance mobilization and deployment by 2030.

JP Morgan Chase	United States	**USD $200 billion in 2020** in environmental and economic development deals and pull back from advising and lending to the coal-mining industry. Net zero financed emissions by 2050.
California State Teachers' Retirement System (CalSTRS)	United States	**Commit USD$1 billion to $2 billion** to the private sustainable portfolio over the next couple of years. CalSTRS officials plan to commit USD$200 million to USD$500 million each year to affordable housing with its real estate team, USD$150 million annually to low-carbon solutions with its private equity team and $USD250 million to USD$500 million each year to low carbon solutions.
ING BANK	Netherlands	**Steer the over €500 billion** lending portfolio towards meeting the Paris Agreement's well-below two-degree goal. The first global bank to commit to using science-based scenarios to steer business strategy.
Société Générale	France	Reduce its overall exposure to the oil and gas extraction sector by 10% by 2025/ Financing of up to **€120 billion by 2023** for energy transition projects.
AXA	France	**Invest €24 billion by 2023,** divestment policy to completely exit the coal industry by 2030.
HSBC	UK	**USD $750 billion - USD$1 trillion by 2030** to help clients cut carbon. Net zero financed emissions by 2050.
Aviva	UK	**Net zero carbon by 2040 target;** launched climate transition fund; goal to stop insuring companies that make more than 5% of their revenue from coal and other unconventional fossil fuels by the end of this year.

DIFFERENT METHODOLOGIES FOR NET ZERO TARGET SETTING & FINANCED EMISSIONS ARE EMERGING

PACTA Paris Agreement Capital Transition Assessment

PACTA FOR BANKS

Enables banks to measure the alignment of financial portfolios with climate scenarios. It is an open-source resource and was developed by 2° Investing Initiative with backing from UN Principles for Responsible Investment (PRI).

*Click **here** to learn more.*

PARTNERSHIP FOR CARBON ACCOUNTING FINANCIALS (PCAF)

Global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose GHG emissions associated with their loans and investments (financed emissions).

*Click **here** to learn more.*

SCIENCE BASED TARGETS

SCIENCE-BASED TARGETS INITIATIVE (SBTi)

Partnership among several organizations to showcase company efforts to set targets in line with the Paris Agreement goals of 1.5 or 2°C.

A standardized definition of what constitutes 'net-zero' emissions for companies does not fully exist today, although there are organizations seeking to standardize the concept. **SBTi is developing a net zero framework (2021).**

*Click **here** to learn more.*