



AH: “Taxonomy, Climate Benchmarks, Ecolabel: understanding the complexity”

Official Version edited and presented by
Prof. Andreas G. F. Hoepner.

Notes: The work is based on the excellent and tireless efforts of Claudia Bolli, Manuel Coeslier, Delphine Dirat, Steffen Hoerter, Jean-Christophe Nicaise Chateau, Sara Lovisolo, Veronique Menou, Chantal Sourlas and Jean-Yves Wilmotte. Edits by Prof. Hoepner are by 'AH:' while omissions are not indicated. Andreas also gratefully acknowledges scientific support from Theodor Cojoianu, Saphira Rekker, Fabiola Schneider and Theresa Spandel..

AH: “The European Commission calls for a climate-neutral Europe by 2050.

On 28 November 2018, the Commission presented its strategic long-term vision for a prosperous, modern, competitive and **climate-neutral economy by 2050.**

... Following the invitations by the European Parliament and the European Council, the Commission's vision for a climate-neutral future covers nearly all EU policies and is in line with the Paris Agreement objective to keep the global temperature increase to well below 2°C and **pursue efforts to keep it to 1.5°C.**”

https://ec.europa.eu/clima/policies/strategies/2050_en

AH: The situation in August 2019

'Even we aimed to settle at an uncomfortable +4 degree, we would have to achieve net climate-neutral by 2100.'

Joeri Rogelj, Lead Author of IPCC's 1.5 degree report (Phone Call, August 14th 2019):

Ireland becomes world's first country to divest from fossil fuels

Bill passed by parliament means more than €300m shares in coal, oil, peat and gas will be sold 'as soon as practicable'



▲ A message to the Irish government to divest from fossil fuels is spelled out in lights in front of the lower house of parliament. Photograph: Sasko Lazarov/Photocall Ireland/Trócaire/350.org

Source: Guardian (July 2018)



Source: Irish Examiner (August 2019)

Next:

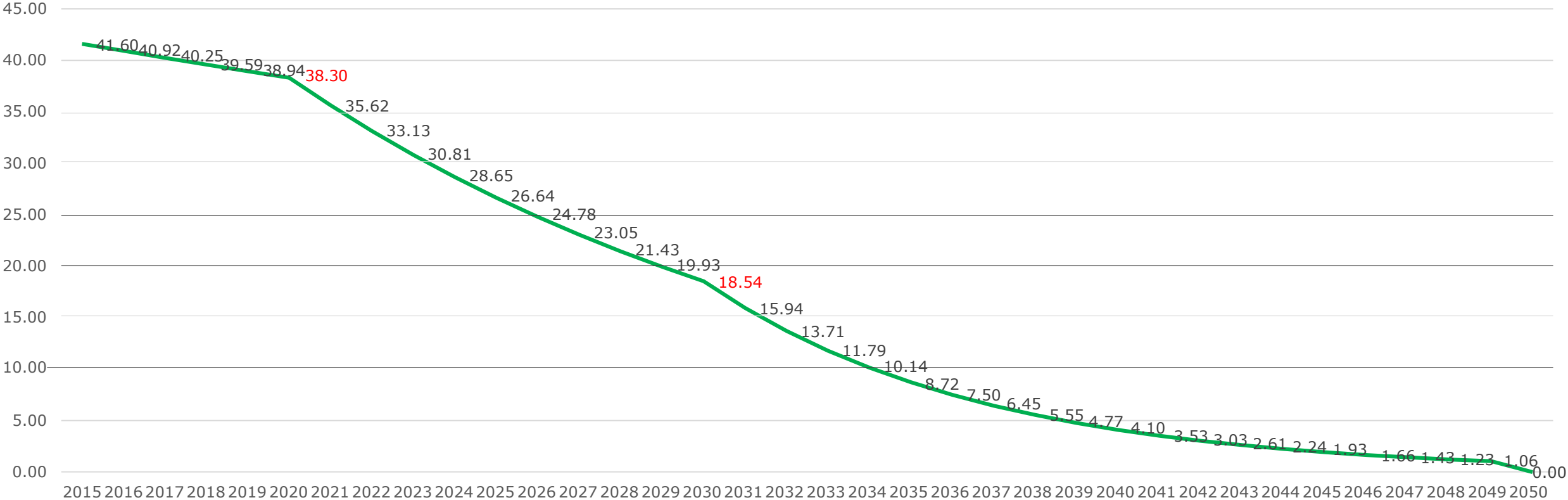


AH: What is needed?!

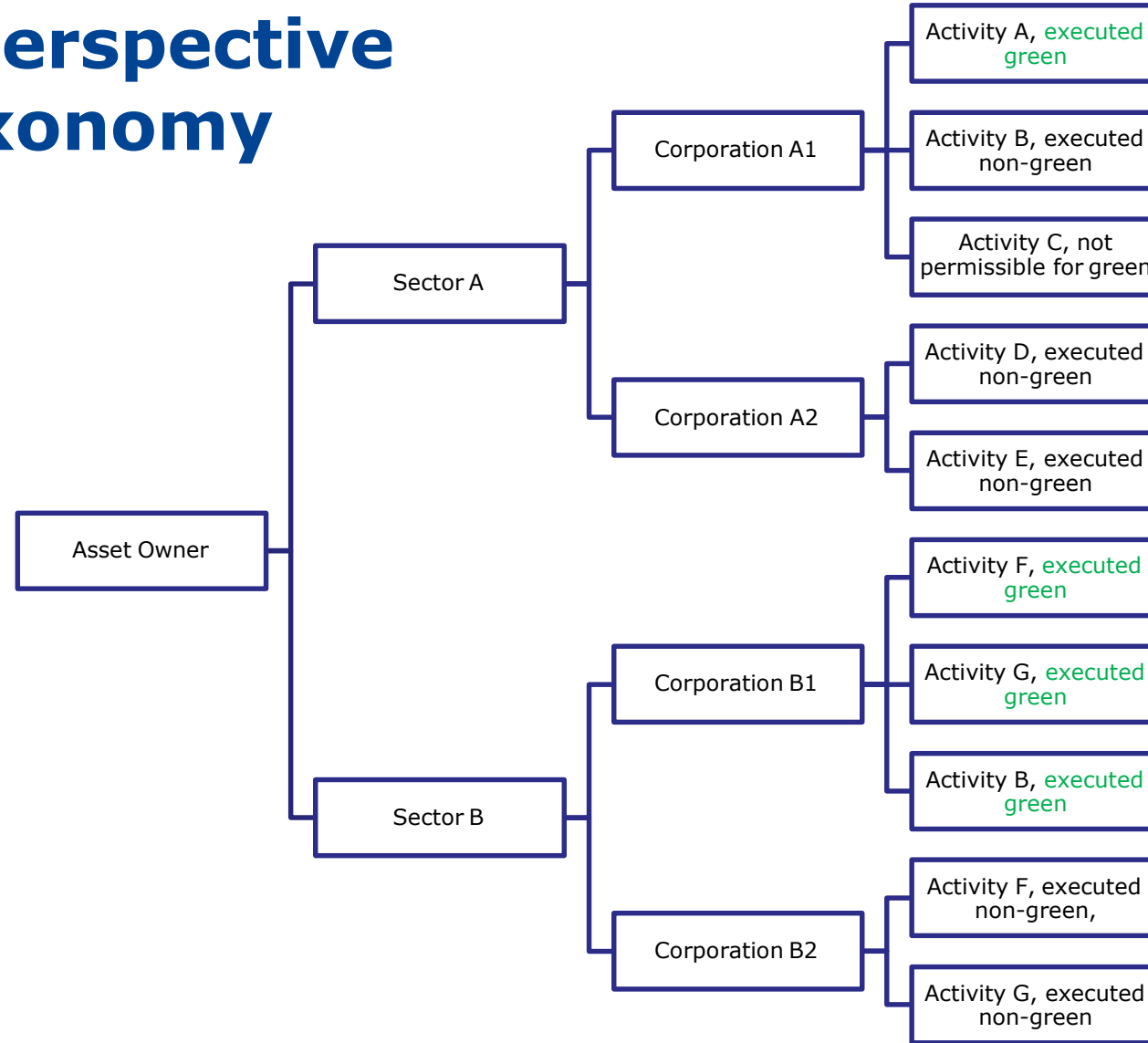
A trajectory to Net Carbon/Climate Neutral in 2050

IPCC based Trajectory to Net Carbon Neutral from Paris Agreement 1.5C scenario 'Total net GHG emissions' (in GtCO₂/yr)

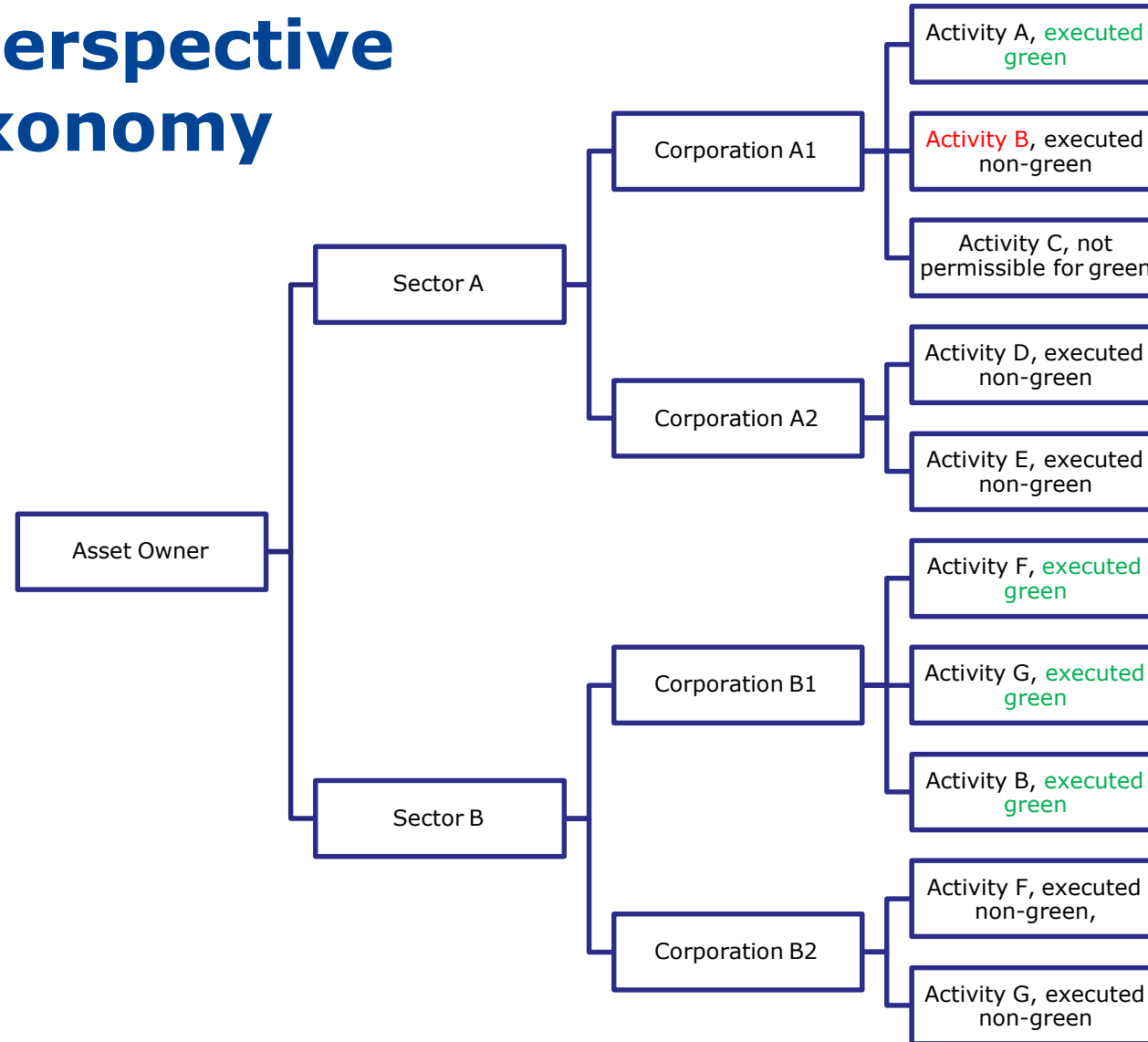
based on IPCC Special Report on Global Warming of 1.5C (Table 2.1 & 2.4, Rogelj et al., 2018)



AH: A technical perspective on Green Taxonomy



AH: A technical perspective on Green Taxonomy

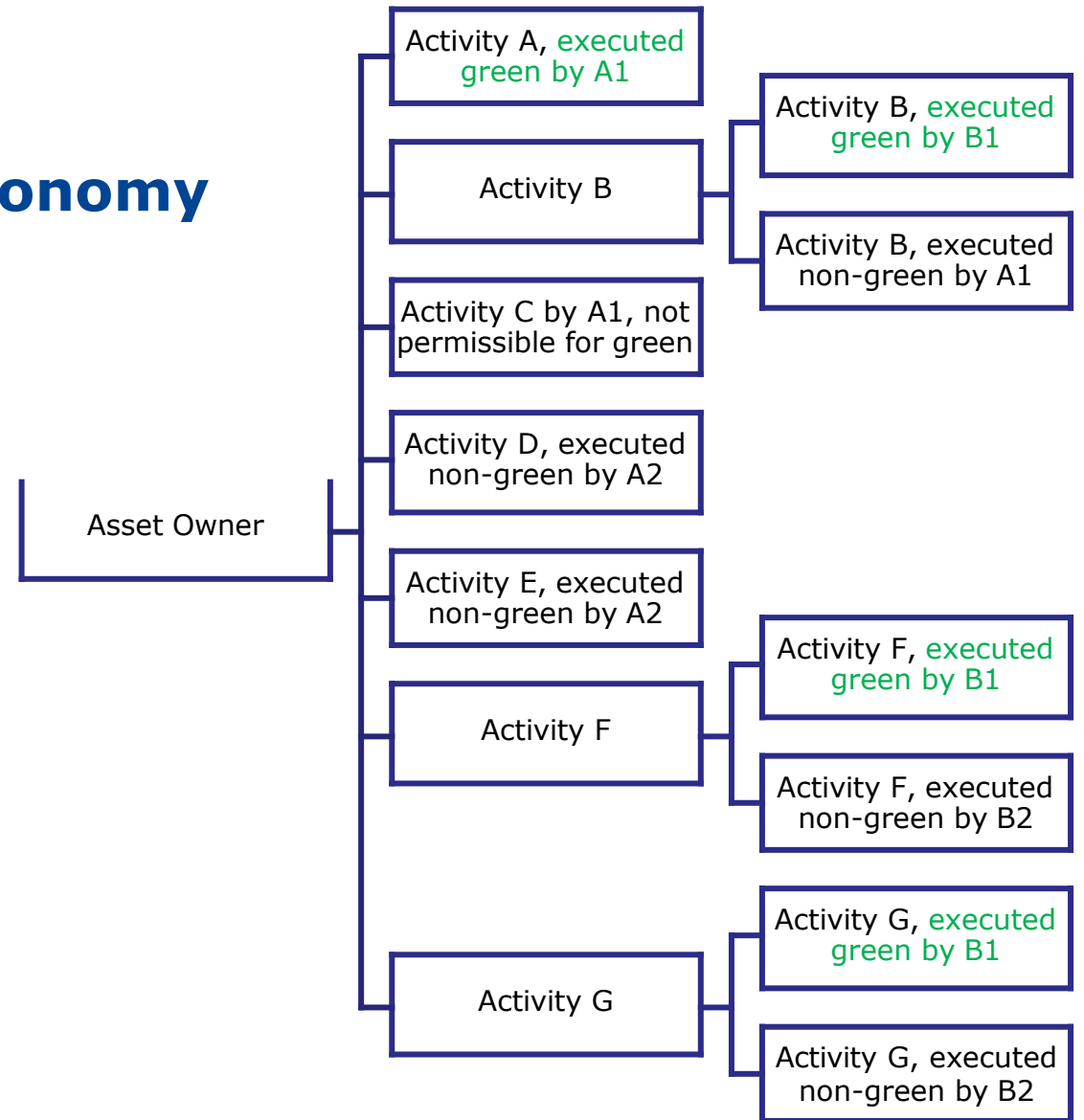


AH:
A technical perspective on Green Taxonomy
with ideal information displayed

Clearly:
Primary Market for
Corporate Fixed Income

more relevant here

than Secondary Market for
Listed Equities



Serving High Ambitions, Breaking New Ground

The amending regulation sets high ambitions by introducing:

1

Two climate benchmarks aimed at reallocating capital towards a low-carbon and climate resilient economy

2

Disclosures for all benchmarks – except interest rate and currency benchmarks – against which trillion euros in assets are managed, that will provide clarity on the ESG profile and the degree of alignment with the decarbonization goals of the Paris Climate Agreement



Climate benchmarks

Disclosure for all benchmarks



EU TECHNICAL EXPERT GROUP ON
SUSTAINABLE FINANCE

Objectives of the Climate Benchmarks

1

*Allow a significant level of **comparability of climate benchmarks** while leaving benchmarks' administrators with an important level of flexibility in designing their methodology ;*

2

*Provide investors with an appropriate **tool that is aligned with their investment strategy** ;*

3

***Increase transparency** on investors' alignment with the needs of ambitious climate scenarios*

4

Prevent greenwashing.

Recommendations for climate benchmarks

*The two climate benchmarks pursue **similar objectives** but **vary in their level of ambition**.*

*As a result, most of the recommendations are **common** to both climate benchmarks but with **different thresholds**.*

Recommendations for climate benchmarks: Minimum Standards

The TEG recommends minimum standards for the **EU Climate Transition Benchmark** and the **EU Paris-aligned Benchmark**:

Climate Scenario

IPCC 1.5°C

with no or
limited
overshoot

EU
CTB



EU
PAB



Climate benchmarks

Disclosure for all benchmarks

Recommendations for climate benchmarks: Minimum Standards

The TEG recommends minimum standards for the **EU Climate Transition Benchmark** and the **EU Paris-aligned Benchmark**:

Climate Scenario	Relative decarbonization
<p>IPCC 1.5°C</p> <p>with no or limited overshoot</p>	<p>CTB: -30% PAB: -50%</p> <p>Minimum reduction in GHG emissions intensity compared to market index</p>

EU CTB

✓

✓

EU PAB

✓

✓ ✓

Climate benchmarks

Disclosure for all benchmarks

Recommendations for climate benchmarks: Minimum Standards

The TEG recommends minimum standards for the **EU Climate Transition Benchmark** and the **EU Paris-aligned Benchmark**:

Climate Scenario	Relative decarbonization	Self decarbonization
<p>IPCC 1.5°C</p> <p>with no or limited overshoot</p>	<p>CTB: -30% PAB: -50%</p> <p>Minimum reduction in GHG emissions intensity compared to market index</p>	<p>-7%</p> <p>Minimum yearly reduction in GHG emissions intensity until 2050</p>

EU CTB

✓

✓

✓

EU PAB

✓

✓ ✓

✓

Climate benchmarks

Disclosure for all benchmarks

Recommendations for climate benchmarks: Minimum Standards

The TEG recommends minimum standards for the **EU Climate Transition Benchmark** and the **EU Paris-aligned Benchmark**: AH: 2-factor Greenwashing Protection

	Climate Scenario	Relative decarbonization	Self decarbonization	Allocation constraint
	IPCC 1.5°C with no or limited overshoot	CTB: -30% PAB: -50% Minimum reduction in GHG emissions intensity compared to market index	-7% Minimum yearly reduction in GHG emissions intensity until 2050	= or > AH: Degree of Exposure to "asset heavy" sectors compared with investable universe
EU CTB	✓	✓	✓	✓
EU PAB	✓	✓ ✓	✓	✓

Climate benchmarks

Disclosure for all benchmarks

Recommendations for climate benchmarks: Minimum Standards

The TEG recommends minimum standards for the **EU Climate Transition Benchmark** and the **EU Paris-aligned Benchmark**: AH: 2-factor Greenwashing Protection

	Climate Scenario	Relative decarbonization	Self decarbonization	Allocation constraint	Green to Brown
	IPCC 1.5°C with no or limited overshoot	CTB: -30% PAB: -50% Minimum reduction in GHG emissions intensity compared to market index	-7% Minimum yearly reduction in GHG emissions intensity until 2050	= or > AH: Degree of Exposure to "asset heavy" sectors compared with investable universe	CTB: = or > PAB: 4 * > Ratio between green revenues (%) and brown revenues (%) compared to market index
EU CTB	✓	✓	✓	✓	✓
EU PAB	✓	✓ ✓	✓	✓	✓ ✓ ✓ ✓

Climate benchmarks

Disclosure for all benchmarks

Recommendations for climate benchmarks: GHG emissions

GHG emissions should be considered using Life-Cycle Analysis with scope 3 being phased-in during a four year period

Period considered	Sectors considered	Suggested metric to be used by order of priority	Potential Reduction target
At the date of implementation	Energy (O&G), mining	Scope 3 emissions Fossil fuel reserves (volume or revenue data)	30% for CTBs 50% for PABs
Two years after implementation	Transportation, Buildings, Materials, Industrial activities	Scope 3	30% for CTBs 50% for PABs
Four years after implementation	Every sector	Scope 3	30% for CTBs 50% for PABs

AH: Double counting can be addressed by 'Footprinting Scope 1' and separately 'Benchmarking Scope 2 & 3', with at least 7% reductions on both

Recommendations for climate benchmarks: Companies' Targets

Target setting for individual companies is different from building benchmarks aligned with the financing needs of the Paris Agreement

The methodologies helping companies to set targets in line with the Paris Agreement currently:

- Lack coverage in terms of sectors considered
- Lack sufficient uptake by companies in the context of benchmark construction (Number of companies, size, diversification)
- AH: Lack accurate GHG disclosure even on Scope 1 level by the very firms that set 'so called' approved, science based targets

GHG emissions targets for companies should increasingly be used in climate benchmarks methodologies in addition to existing minimum standards (to be reviewed on a regular basis)

AH: It is crucial to understand that IPCC trajectory alignment can only be sufficiently assessed for 'self-sufficient subsets of the economy' (i.e. diversified indices).

- Analysis on sector or firm level ignore the interactions between firms and sector specific carbon budgets are usually constructed by sector insiders, who tends to give themselves a too large share of the global carbon budget.
- Hence, a firm itself cannot be 1.5 degree aligned unless it is net climate/carbon neutral. Firms can only be assessed as 'suitable, somewhat suitable or unsuitable for 1.5 degree alignment'

Recommendations for climate benchmarks: Exclusions

The report **does not recommend** excluding activities based on climate-related criteria due to the forward-looking nature of both benchmarks.

AH: The EU TEG recommends minimum requirements and not a complete methodology. Hence, it needs to leave flexibility for market players to differ and innovate.

There is **no consensus** among investors around climate exclusions. Investors have different levels of appetite when it comes to exclusions: some investors divest from thermal coal while other also exclude unconventional oil & gas and the strictest of them exclude all types of fossil fuels related activities.

The report, however, **suggests exclusions to address the 'do no significant harm' principle** (e.g. controversial weapons, UN Global Compact).

Recommendations for climate benchmarks: Reviews

*The report emphasizes the need for a **regular update** of these requirements, considering evolutions in the state of the market and the research in the field,*

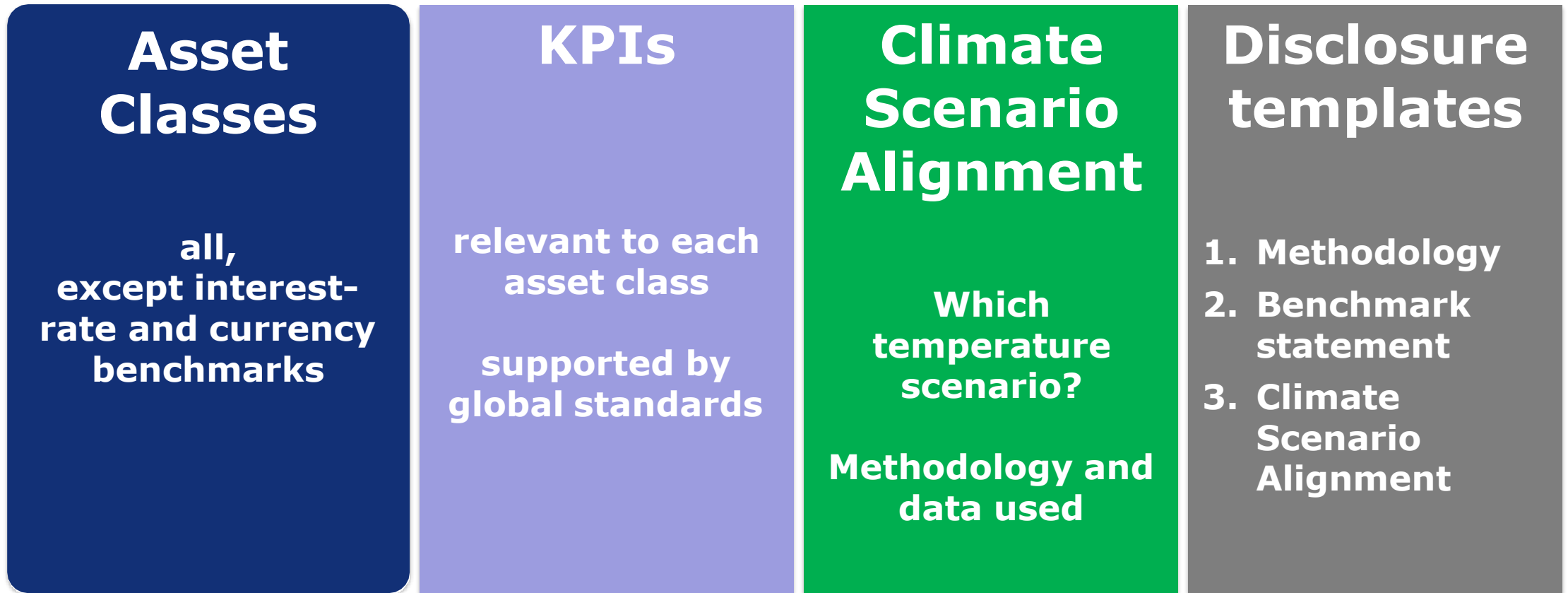
*These updates in the regulation will be key to the **success and consistency** of both climate benchmarks over time,*

*In light of the legislative text as agreed between co-legislators, the Commission shall **review the minimum standards** of the benchmarks by 31 December 2022, in order to ensure consistency with the **EU Taxonomy**.*

ESG Disclosure for all benchmarks: Overview

Benchmarks can measure the performance of asset classes.

Different ESG factors are relevant depending on the analysed asset class



Climate benchmarks

Disclosure for all benchmarks

Mandate

In-scope

- **Listed equities**
- **Corporate credit & Sec.**
- **Sovereigns, Supranat. & Agencies**
- Private Debt, Infrastructure
- Private Equities
- Hedge Funds
- Commodities

Bold: "Main" asset classes
Normal: "Other" asset classes

Out-of-scope

- Interest rate benchmarks
- Currency benchmarks

Documents

Methodology

ESG goals in benchmark constructions

Benchmark statement

ESG metrics reported

Templates

ESG factors

- Methodology
- Benchmark statement

Climate Scenario Alignment

- Separate template

Structured, publicly and freely available information provided through standard documents

Climate benchmarks

Disclosure for all benchmarks



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ESG Factors: An example on listed equities

ESG

Consolidated ESG Rating
ESG Ratings Top Ten Constituents
UNGC Violations %
International Standards Signatories %

E

Consolidated Environmental Rating
Carbon intensity
Fossil Fuel Sector Exposure %
Green Revenues %
Exposure Climate-Related Physical Risks
Exposure Climate-Related Physical Risks Methodology
Green Bonds %

S

Consolidated Social Rating
Social Violations
Controversial Weapons %
Controversial Weapons Definition
Tobacco %
Tobacco Definition
Human Rights (Index)
Income Inequality
Freedom of Expression

G

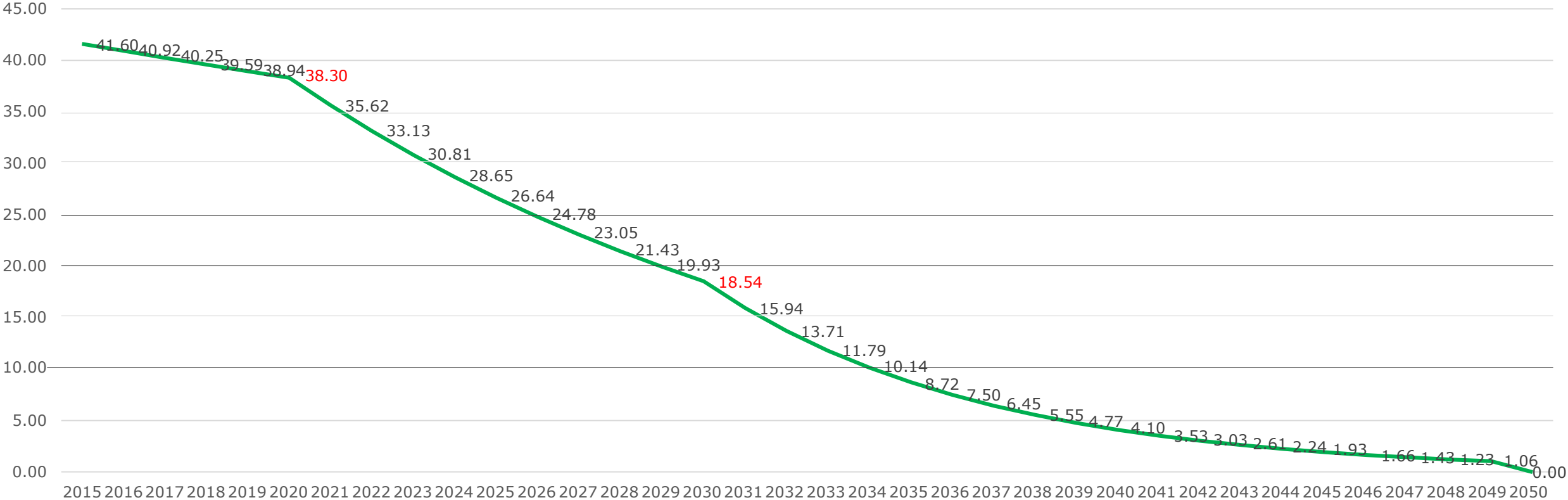
Consolidated Governance Rating
Board Independence %
Board Diversity %
Corruption
Political Stability
Rule of Law
Stewardship Policies

Green: Relevant ESG Factors to report on for listed equities benchmarks

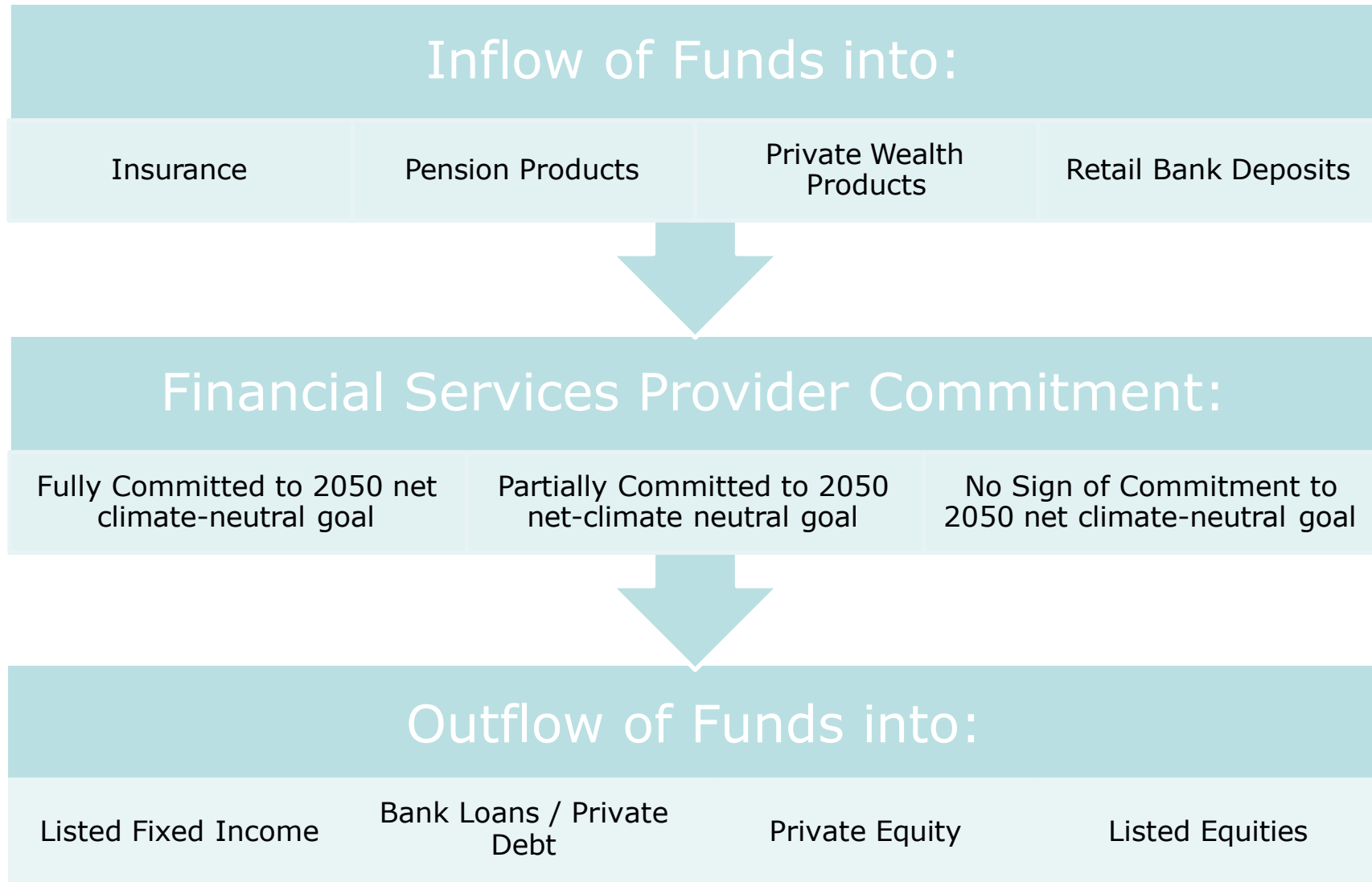
AH: Example of Climate Transition Investing trajectory to Net Carbon Neutral in 2050

IPCC based Trajectory to Net Carbon Neutral from Paris Agreement 1.5C scenario 'Total net GHG emissions' (in GtCO2/yr)

based on IPCC Special Report on Global Warming of 1.5C (Table 2.1 & 2.4, Rogelj et al., 2018)



AH: Ecolabel Assessments can take place for each combination





Thank you for your attention!

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