Climate Transition (i.e. Paris-Aligned) Investing:

absolutely sustainable.

Andreas G. F. Hoepner

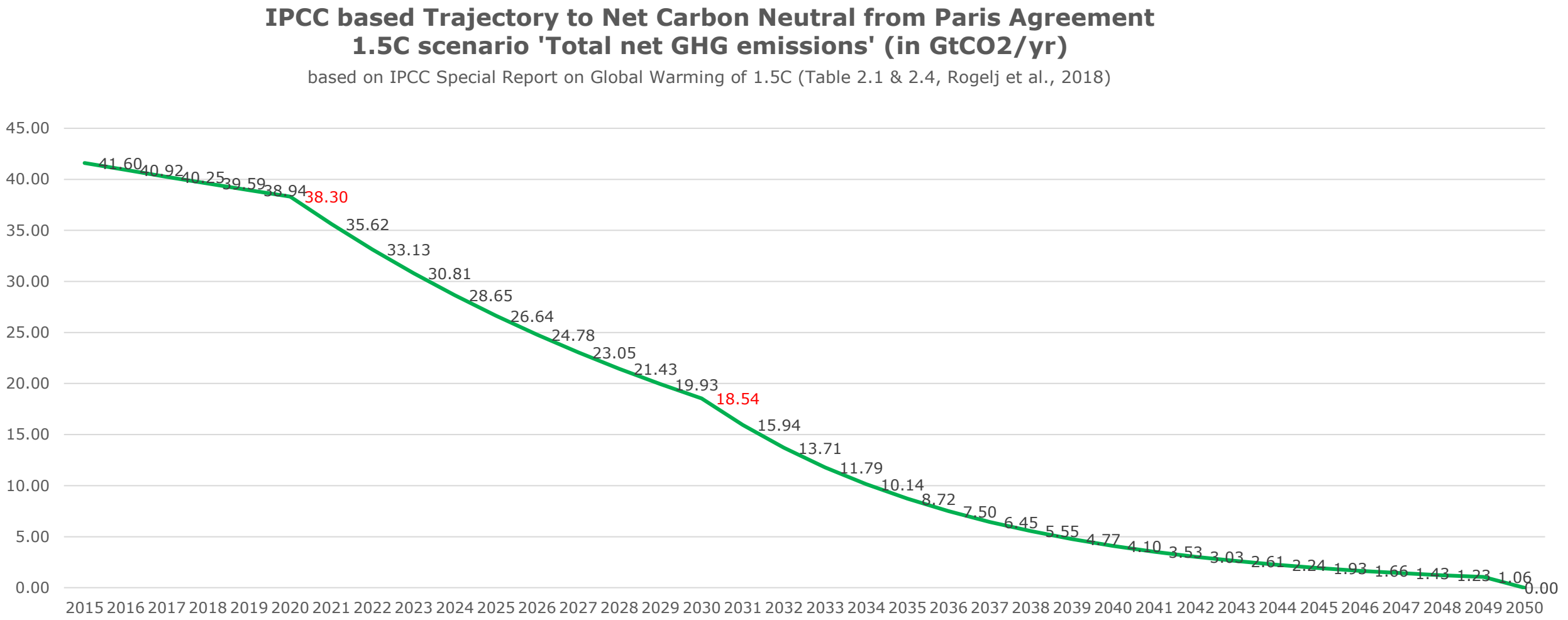
Notes: The underlying EU TEG work is based on the excellent and tireless efforts of Claudia Bolli, Manuel Coeslier, Delphine Dirat, Steffen Hoerter, Jean-Christophe Nicaise Chateau, Sebastien Lieblich, Sara Lovisolo, Veronique Menou, Cesare Posti, Chantal Sourlas and Jean-Yves Wilmotte. Andreas also gratefully acknowledges scientific support on the EU TEG work from Theodor Cojoianu, Saphira Rekker, Fabiola Schneider and Theresa Spandel.

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**. The **Net Zero 2050 target was agreed** by all member states except Poland on December 12th 2019. 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

What is needed?!
A trajectory to Net Carbon/Climate Neutral in 2050



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Key Objective of the Climate Benchmarks (1/3)

(5) The benchmark methodology of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks should be linked to the commitments laid down in the Paris Agreement. It is therefore necessary to use the 1,5°C scenario, with no or limited overshoot, referred to in the Special Report on Global Warming of 1,5°C from the Intergovernmental Panel on Climate Change (IPCC)[6] ('IPCC scenario'). That IPCC scenario is in line with the Commission's objective to reach net zero greenhouse gas (GHG) emissions by 2050, set out in the European Green Deal. To be in line with the IPCC scenario, investments should be reallocated from fossil-fuels dependent activities to green or renewable activities and the climate impact of those investments should improve year after year.

Source: European Commission Ref. Ares(2020)1993773 - 08/04/2020

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Absolutely Sustainable Investing =

1. ***Reduce GHG emissions vs. Market Benchmark*** *in a given year*
   (Relatively more sustainable investing as practiced in 2019)

   +

2.

3.

4.

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2. ***Reduce GHG emissions year on year*** *by at least 7% p.a..*

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3. *Reach* ***Net Zero GHG emissions by 2050****.*

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Differentiation of climate benchmarks

*The two climate benchmarks **vary in their level of ambition**.*

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

*Specifically, the Paris-Aligned Benchmark (PAB) **use exclusions**, while the Climate Transition Benchmark (CTB) does not.*

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	✓

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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
	IPCC 1.5°C **with no or limited overshoot**	**CTB: -30%** **PAB: -50%** **Minimum reduction in GHG emissions intensity (GHG/EVIC) compared to market index**
EU CTB	✓	✓
EU PAB	✓	✓ ✓

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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
	IPCC 1.5°C **with no or limited overshoot**	**CTB: -30%** **PAB: -50%** **Minimum reduction in GHG emissions intensity (GHG/EVIC) compared to market index**	**-7%** **Minimum on average per annum reduction in GHG emissions intensity until 2050**
EU CTB	✓	✓	✓
EU PAB	✓	✓ ✓	✓

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Recommendations for climate benchmarks: Minimum Standards

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

2-factor Greenwashing Protection

	Climate Scenario	Relative decarbonization	Self decarbonization	Equity Allocation Constraint
	IPCC 1.5°C with no or limited overshoot	**CTB: -30%** **PAB: -50%** Minimum reduction in GHG emissions intensity (GHG/EVIC) compared to market index	**-7%** Minimum on average per annum reduction in GHG emissions intensity until 2050	**= or >** Degree of Exposure to "asset heavy" sectors compared with investable universe [Equities Only]
EU CTB	✓	✓	✓	✓
EU PAB	✓	✓ ✓	✓	✓

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	Climate Scenario	Relative decarbonization	Self decarbonization	Equity Allocation Constraint	Activity Exclusion
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EU CTB	✓	✓	✓	✓	
EU PAB	✓	✓ ✓	✓	✓	✓

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Key Objective of the Climate Benchmarks (2/3)

(8) A decarbonisation based only on Scope 1 and Scope 2 (GHG) emissions could lead to counterintuitive results. It should therefore be clarified that the minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks should not only consider direct emissions from companies, but also emissions assessed on a life-cycle basis and thus including Scope 3 (GHG) emissions. However, due to the insufficient quality of the data currently available for Scope 3 GHG emissions, it is necessary to set out an appropriate phase-in timeline. That phase-in timeline should be based on the list of economic activities set out in Regulation (EC) No 1893/2006.

Source: European Commission Ref. Ares(2020)1993773 - 08/04/2020

Key Objective of the Climate Benchmarks (2/3)

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+

4. *Integrate* ***Scope 3 GHG emissions.***

5.

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GHG emissions: Scope 3 is Key!

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

Period considered	NACE Level 2 (L2) Sectors considered	Suggested metric to be used by order of priority	Potential reduction target
At the date of implementation	At least energy (O&G), mining (i.e. NACE L2: 05, 06, 07, 08, 09, 19, 20)	Scope 3 emissions, Fossil fuel reserves (volume or revenue data)	30% for CTBs, 50% for PABs
Two years after implementation	At least transportation, construction, buildings, materials, industrial activities (i.e. NACE L2: 10-18, 21-33, 41-43, 49-53, 81)	Scope 3	30% for CTBs, 50% for PABs
Four years after implementation	Every sector	Scope 3	30% for CTBs, 50% for PABs

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

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Key Objective of the Climate Benchmarks (3/3)

Article 12

Transparency requirements for estimations

In addition to the requirements laid down in Annex III to Regulation (EU) 2016/1011, administrators of EU Climate Transition Benchmarks or of EU Paris-aligned Benchmarks shall comply with the following requirements:

(a) administrators of EU Climate Transition Benchmarks or of EU Paris-aligned Benchmarks that use estimations that are not based on data provided by an external data provider, shall formalise, document and make public the methodology upon which such estimations are based, including:

(i) the approach that they have used to calculate GHG emissions, and the main assumptions and the precautionary principles underlying those estimations;

(ii) the research methodology to estimate missing, unreported, or underreported GHG emissions;

(iii) the external data sets used in the estimation of missing, unreported or underreported GHG emissions;

Source: European Commission Ref. Ares(2020)1993773 - 08/04/2020

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5. *Use the* ***Precautionary Principle*** *in GHG data estimations****.***

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Related Special Issue Deadlines: JBE 30/11/20 & AF 15/07/22

Journal of Business Ethics

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Call for Papers - Corporate GHG Emissions' Estimation, Reporting, Accountability and Integrity

Submission deadline: **November 30, 2020**

Guest Editors

Timo Busch, School of Business, Economics and Social Science, University of Hamburg

Charles H. Cho, Schulich School of Business, York University
* corresponding Editor

Andreas G. F. Hoepner, Smurfit Graduate Business School, University College Dublin

Giovanna Michelon, Department of Accounting and Finance, University of Bristol

Joeri Rogelj, Grantham Institute for Climate Change and the Environment, Imperial College London [1]

"[T]he consequences for climate policy and for sharing the responsibility of reducing global CO_2 emissions can only be drawn in combination with judgments about equity, fairness, the value of future generations

CALL FOR PAPERS

Special Issue of *Accounting Forum*

European Commission

Accounting for the EU Green Taxonomy[1]

Guest Co-Editors:

Lucia Alessi[a], Theodor Cojoianu[b,c], Andreas G. F. Hoepner[b,d,e], Giovanna Michelon[f]

[a] Joint Research Centre of the European Commission, Italy
[b] Michael Smurfit Graduate School of Business, University College Dublin, Republic of Ireland
[c] School of Management, Queen's University Belfast, United Kingdom
[d] EU Technical Expert Group on Sustainable Finance, European Commission
[e] Mistra Financial Systems, Stockholm School of Economics, Sweden
[f] School of Accounting and Finance, University of Bristol, United Kingdom

The current global greenhouse gas (GHG) emissions trajectory indicates that the world is likely to experience catastrophic consequences due to climate change, unless swift action is taken towards funding green solutions and the defunding of fossil fuel activities (IPCC, 2018). There is wide scientific consensus that achieving a net zero carbon economy by 2050 is the key to stabilizing the rise in global temperatures under 1.5°C (IPCC, 2018; Matthews & Caldeira, 2008; UN, 2019).

In this respect, accounting for green economic activities is an essential enabler for policymakers, investors, companies, scientists and other stakeholders to gain a nuanced understanding on the most effective ways to transition to a net zero carbon economy in a timely manner. For example, traditional GHG accounting for corporate activities and both voluntary and mandatory GHG disclosure initiatives have yet to ensure robust GHG reporting practices of companies based on which investors and policymakers could act upon in a meaningful way (e.g. Liesen et al., 2017). The pro-bono academic initiative www.ClimateDisclosure100.info finds that only 21 listed companies worldwide report on 100% of their organizational boundary when disclosing their GHG emissions.

In seeking to solve these challenges, the Technical Expert Group on Sustainable Finance set up by the European Commission has proposed a Taxonomy of environmentally sustainable economic activities from a climate change mitigation and adaptation perspective (Slevin et al., 2020). This new approach de-emphasizes aggregate company level emissions on Scope 1, 2 or 3, and instead, focuses on the teasing out of the environmentally sustainable activities out of the numerous activities that companies undertake. The EU Taxonomy will be further developed by the Platform on Sustainable Finance.[2]

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"Thank you for your attention.
I would love to learn from your questions and comments."

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